TOLA ASSOCIATES
TAX & CORPORATE ADVISORS

# PAKONOMICS

## November 2022

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## HIGHLIGHTS:

- As per the State Bank of Pakistan ("SBP") Governor, Pakistan is expecting inflows worth USD 18 to 20 billion from multilateral and bilateral creditors in the Jan-June period of the current fiscal year to overcome the persistent liquidity crunch. The current level of net reserves is barely adequate to support import cover of one and a half month.
- In the Inter-bank market, the National currency value stood at a level of PKR 226.5/USD as of 28th of December 2022 closing against the US dollar. Since October's first week, the currency parity has appreciated significantly against the greenback from 239.4/USD in last week of September 2022.
- Pakistan's Large-Scale Manufacturing ("LSM") growth contracted by 7.75% during October 2022 vs. the last year. Likewise, on a Month-on-Month comparison ("M-o-M"), the LSM growth decreased by 3.62% compared to the previous month of September 2022 (Base Year 2015-16).
- The cumulative inflows of deposits in the Roshan Digital Accounts ("RDA") reached $5.44 billion at the end of November 2022.
- As per the State Bank of Pakistan ("SBP"), the remittances sent by Overseas Pakistani workers decreased by 4.85% to $2.11 billion in November 2022 vs. $2.22 billion in October 2022 on a M-o-M basis.
- According to the official statistics, the Federal Board of Revenue ("FBR"), the FBR has collected tax revenue worth PKR 537 billion in November 2022, and achieved the target for the month.
- The net foreign currency reserves held by the SBP stood at $6.12 billion as of 16th December 2022.
- The Broad Money (M2) stock from 1st of July 2022 to 10th December 2022 has contracting to PKR 275 billion as compared to a contraction of PKR 56 billion last year in the same period.
- According to the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation surged by 23.8% on a year-on-year ("Y-o-Y") basis in November 2022 vs. 11.5% last year.
- As per the PBS, Pakistan's Exports increased by 0.29% to $2.39 billion in November 2022 vs. $2.38 billion in October 2022 on a M-o-M basis.
- Pakistan's net FDI has depreciated by 51% or $455 million to $430 million provisionally during Jul-Nov FY23, as compared to $885 million during Jul-Nov FY22.
- The total Foreign Investment declined by almost 27% or $145 million to $397 million on a Y-o-Y basis in Jul-Nov FY23 as against the amount of $543 million in Jul-Nov FY22
- The country has posted a Current account deficit ("CAD") of $3.10 billion in FY23's Jul-Nov period.

The outlook of the economy of Pakistan is as follows;

### ➢ ECONOMY AT A GLANCE

| Economic Indicators | Period | Status | Current Year | Last Year |
|---|---|---|---|---|
| LSM (Base Year 2015-16) | October | ↓ | (7.75)% | 5.33% |
| Central Government Debt | October | ↑ | PKR 50.15 Trillion | PKR 40.28 Trillion |
| Credit to Private Sector | Jul – 10th Dec | ↓ | PKR 119 Billion | PKR 513 Billion |
| Roshan Digital Account | November | ↓ | US$ 141 Million | US$ 239 Million |
| Worker's Remittances | November | ↓ | US $2,108 Million | US $2,460 Million |
| Currency in Circulation | Jul – 10th Dec | ↓ | PKR 235 Billion | PKR 325 Billion |
| Net Government Sector borrowing | Jul – 10th Dec | ↑ | PKR 1,141 Billion | PKR (137) Billion |
| National CPI (Base Year 2015-16) | November | ↑ | 23.8% | 11.5% |
| FBR Tax Collection | Jul-Nov | ↑ | PKR 2,668 Billion | PKR 2,330 Billion |
| Foreign Exchange Reserves with SBP | As of 16th Dec | ↓ | $6.12 Billion | $16.25 Billion |
| Foreign Direct Investments | Jul-Nov | ↓ | $430 Million | $885 Million |
| Trade Deficit in Goods | Jul-Nov | ↓ | US$ (14.28) Billion | US$ (20.62) Billion |
| Current Account Deficit | Jul-Nov | ↓ | $(3,099)Million | $(7,234)Million |

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## 1. LARGE SCALE MANUFACTURING:

According to the PBS, Pakistan's LSM sector showed a contraction of 7.75% in October 2022 on a Y-o-Y basis vs. October 2021 as per the new base year 2015-16. Similarly, on a M-o-M basis, the overall output growth declined by 3.62%, compared to the month of September 2022. During the Jul-Oct period of the Fiscal year 2022-23, the growth rate of large industries contracted by 2.89%.

Out of 22 major industries, only 7 industries posted a surge in production during the first quarter of FY23 as compared to last FY22 same period. These include wearing apparel, leather products, iron and steel products, Paper and board, furniture, other manufacturing section and Chemicals. However, the output in Food, beverages, tobacco, textile, coke and petroleum, pharmaceutical, Rubber products, wood products, Non-Metallic Mineral Products, Fabricated Metal, Computer, electronics and Optical products, Electrical Equipment, Machinery and Equipment, Automobiles, and other transport equipment has decreased during Jul-Oct period of FY23 months under review, compared to the preceding year FY22 same period, data from the PBS has revealed.

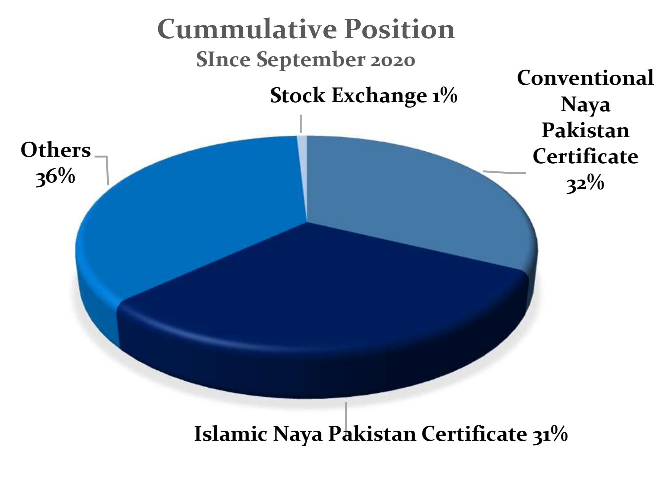
Sector-wise, important groups such as cotton yarn, and cotton cloth contracted by 6.75% and 2.92%, while garment showed growth of 58.98% in the period of Jul-Oct 2022. Whereas, the cement industry declined by rate of 17.64%.

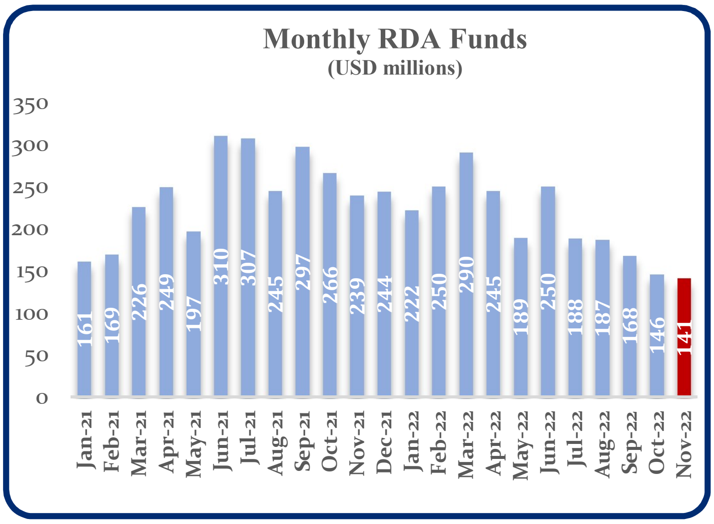
| LSM (%) | Weight | Oct-22 | Sept-22 | Oct-21 | Jul-Oct 2022-23 |
|---|---|---|---|---|---|
| **Textile** | **18.2** | (24.62) | (2.5) | 4.74 | **(8.82)** |
| **Food** | **10.7** | (4.88) | (3.2) | 1.35 | **(5.75)** |
| **Coke & Petroleum Products** | **6.7** | (15.04) | (24.4) | 14.99 | **(17.86)** |
| **Chemicals** | **6.5** | (7.68) | 9.7 | (1.86) | **0.96** |
| **Wearing Apparel** | **6.1** | 34.14 | 52.2 | 20.73 | **51.98** |
| **Pharmaceuticals** | **5.2** | (18.56) | (22.5) | (9.15) | **(26.46)** |
| **Non-Metallic Minerals Products** | **5.0** | (10.06) | (1.0) | (10.0) | **(12.15)** |
| **Beverages** | **3.8** | (1.17) | 11.6 | 4.30 | **(1.96)** |
| **Iron and Steel Products** | **3.4** | (8.45) | (7.0) | 20.24 | **1.26** |
| **Automobiles** | **3.1** | (30.56) | (53.2) | 41.75 | **(31.27)** |
| **Tobacco** | **2.1** | 5.42 | (10.8) | 3.82 | **(22.90)** |
| **Electrical Equipment** | **2.0** | 7.75 | (2.0) | (20.89) | **(1.20)** |
| **Paper & Board** | **1.6** | (8.07) | 58.5 | 9.86 | **(3.12)** |
| **Leather Products** | **1.2** | 2.82 | 5.0 | 0.06 | **6.96** |
| **Other Transport Equipment** | **0.7** | (41.82) | (43.2) | (3.89) | **(42.38)** |
| **LSM Growth for Oct 2022 (Y/Y)** | | | | | **(7.75)%** |
| **LSM Growth of Oct 2022 vs. Sept 2022 (M/M)** | | | | | **(3.62)%** |
| **LSM Growth for July-Oct 2022-23 (Y/Y)** | | | | | **(2.89)%** |

***(Source: PBS)***

## 2. Roshan Digital Account ("RDA"):

The cumulative inflows of deposits under the RDA reached $5.44 billion since its announcement in September 2020. Out of the $5.44 billion, approximately two-thirds, $3.43 billion or 63% have been invested in the Naya Pakistan Certificates ("NPCs"). Some 498,934 accounts have been opened from 175 countries during the span of over two years.

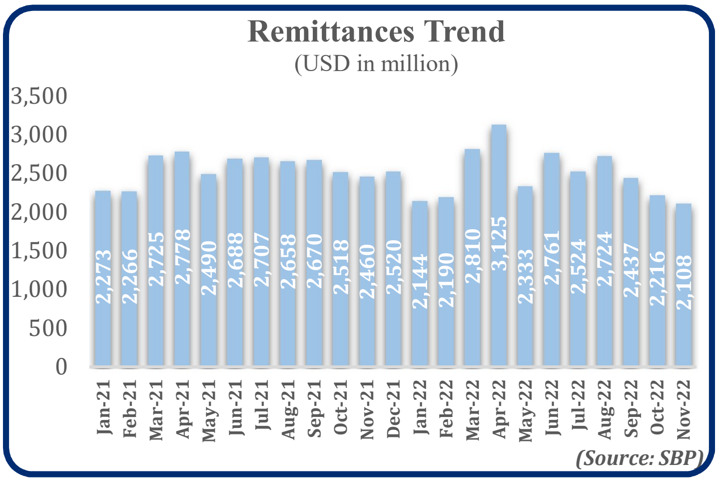


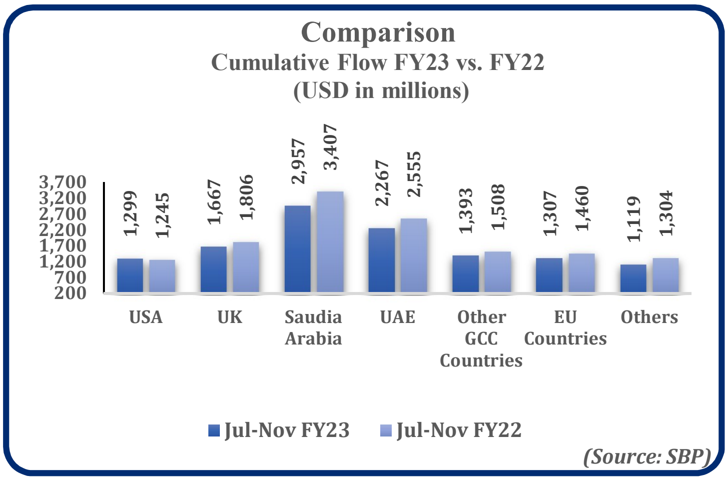




***(Source: SBP)***

## 3. WORKER'S REMITTANCES:

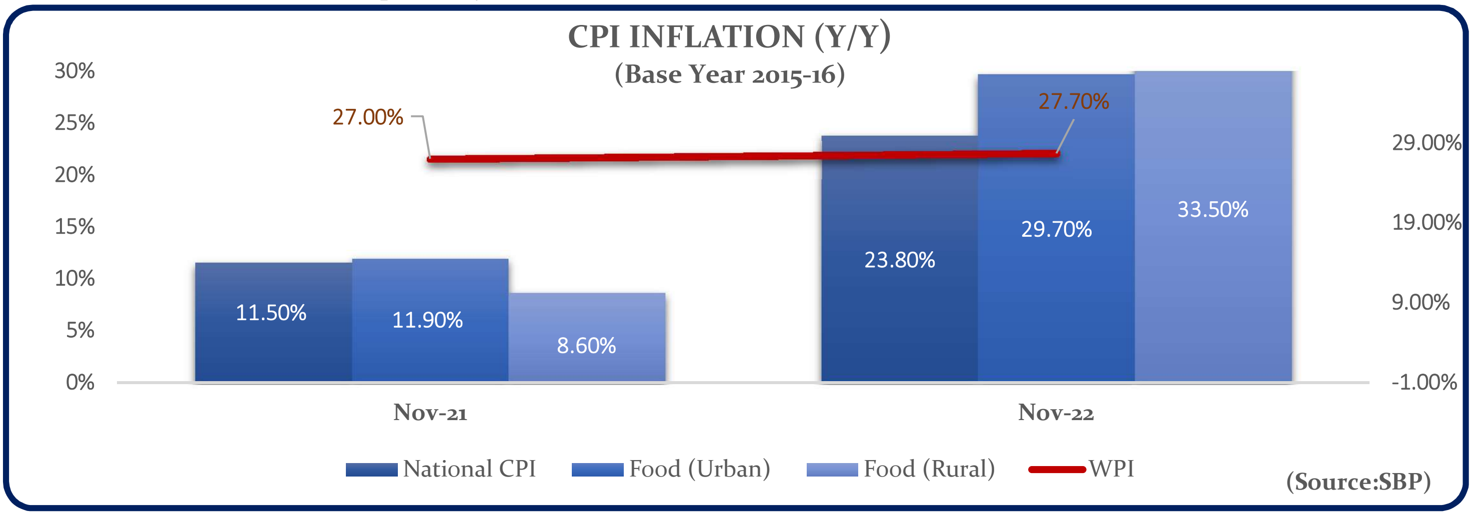
According to the SBP, the remittances sent by Overseas Pakistani workers decreased by 4.85% to $2.11 billion in November 2022 vs. $2.22 billion in October 2022 on a M-o-M basis. Similarly, on a y-o-y comparison, the inflows went down by 14.29% when compared to $2.46 billion received a year ago in the same month. In addition to that, in Jul-Nov period of FY23, inflows declined by 9.60% to $12.0 billion compared to $13.29 billion received a year ago in the same period. Notably, on a cumulative basis, the pace of growth in FY23 is in negative as compared to the last FY22's Jul-Nov period, where it grew by almost 13%. A descriptive analysis has revealed that remittances inflows during the Jul-Nov period of FY23 were coming mainly from four major territories: Saudi Arabia, UAE, UK, and the USA. With a 24.6% share in overall home remittances flows, Saudi Arabia remained a significant contributor. However, inflows from Saudi Arabia have a negative growth of 20% to $2.96 billion in July-Nov period of FY23 vs. $3.41 billion during same period of FY22. An amount to the tune of $1.30 billion, or a 10.82% share, was received from the US, showing decrease of almost 6.12% in Jul-Nov of FY23 vs. Jul-Nov period of FY22. Worker remittances from the UK decreased by 4.67% and although it's contributed almost 14% or $1.67 billion in first five months of FY23 over same period of FY22. On the other hand, remittance growth from UAE declined at a rate of 20.47%, while its share is $2.27 billion or 18.90% in the total remittances.



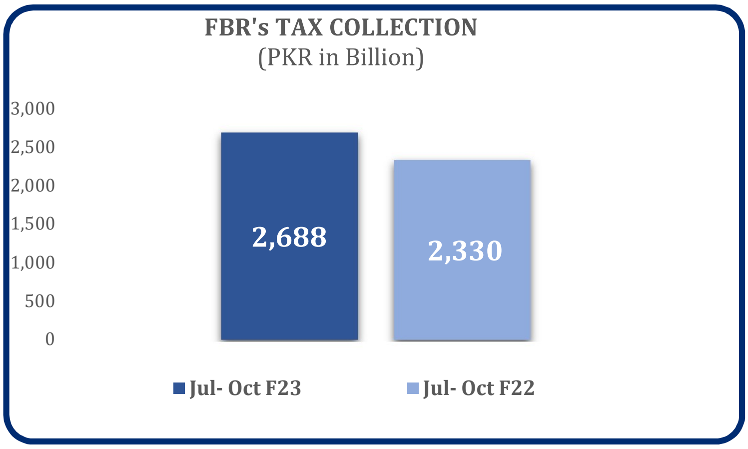




## 4. CONSUMER PRICE INDEX INFLATION:

The monthly rate of inflation has eased to 23.8% in November 2022 on a Y-o-Y basis. In the previous month the CPI was recorded at 26.6%. On an average Jul-Nov period of the fiscal year 2022-23, Pakistan's inflation rate recorded around 25.1 percent. Food inflation in Urban and rural areas also decreased to 29.7% and 33.5%, respectively in November 2022. In addition to that, the wholesale price index ("WPI") stood at 27.7% on a Y-o-Y basis. WPI inflation rate also coming down, which was 32.6% in previous month, indicating the chances of clipping the inflation down in coming months. Whereas, on a monthly basis, the National CPI has recorded a rise of 0.8%. Similarly, the food inflation in rural areas increased by 0.5 percent, while no food inflation has been witnessed in urban areas, compared to October 2022. In November 2022, the Core inflation, which is calculated on the basis of excluding energy and food items, rose by 14.6% and 18.5% in urban and rural areas on a Y-o-Y basis, respectively.



## 5. FBR TAX REVENUE COLLECTION:

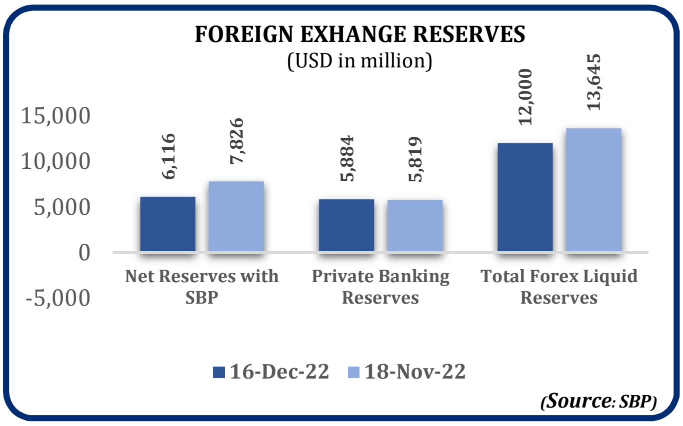



As per the official statistics published by the FBR, the FBR has collected tax revenue worth PKR 537 billion in Nov 2022 and achieved both, its monthly target and Jul-Nov target. Targets were achieved despite the import cut and zero sales tax on petroleum products. When compared with previous year tax collection in Jul-Nov period, taxes grew by 15.38% or PKR 350 billion. As per Mr. Shahbaz Rana's article titled "FBR beats Rs2.68tr tax target" published on 1sr Dec 2022 in the Express Tribune, of the PKR 2.68tr, FBR collected PKR 1.1tr in income tax and having a share of 43%, and around two-thirds of total sales tax was collected at the import stage. The share in total taxes at the import stage has dropped below 45% to Rs1.2tr.

## 6. FOREIGN EXCHANGE RESERVES:

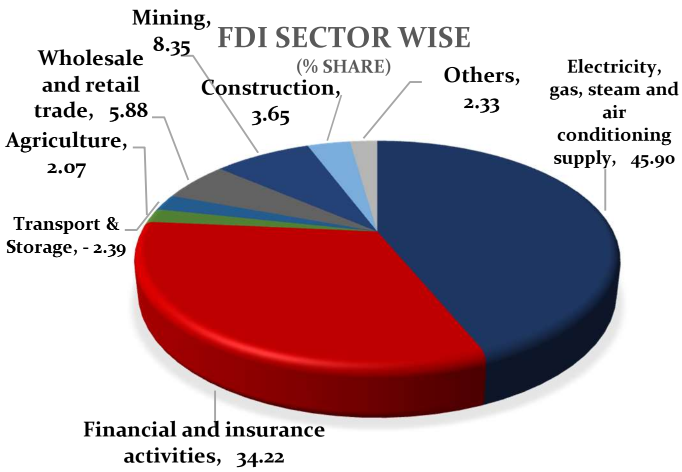
The net reserves of the SBP stood at $6.12 billion as of 16th Dec 2022, decreasing by 8.7% or $584 million compared with last week's $6.70 billion on 9th Dec 2022. Moreover, when compared to last month reserves which was then $7.83 billion, went down by 21.8%.

Since reaching the $17.34 billion mark in the first week of Feb 2022 (on the back of the receipt of $1.05 billion under the Extended Fund Facility programme of the IMF and Pakistan International Sukuk Bond issuance of $1 Billion), the Net foreign exchange reserves are on the verge of declining.

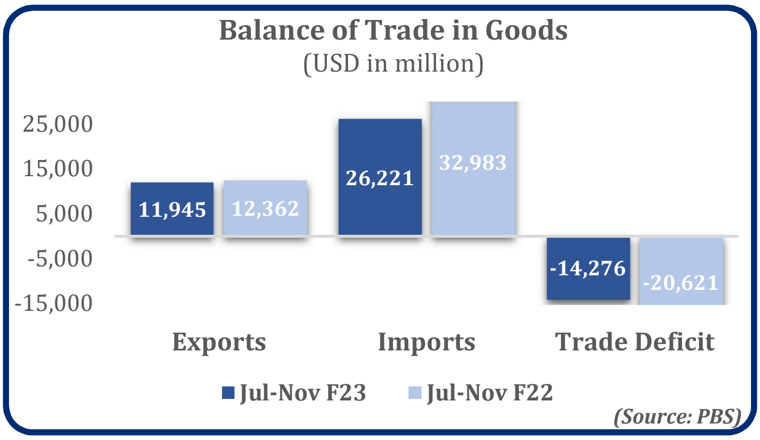



## 7. FOREIGN DIRECT INVESTMENT:

Pakistan's net FDI has depreciated by 51% or $455 million to $430 million provisionally during Jul-Nov FY23, as compared to $885 million during Jul-Nov FY22. Whereas, the total Foreign Investment declined by almost 27% or $145 million to $397 million on a Y-o-Y basis in Jul-Nov FY23 as against the amount of $543 million in Jul-Nov FY22. This Pie chart shows the percentage share of flows in different sectors of the Economy in the Jul-Nov FY23.




## 8. BALANCE OF TRADE IN GOODS:

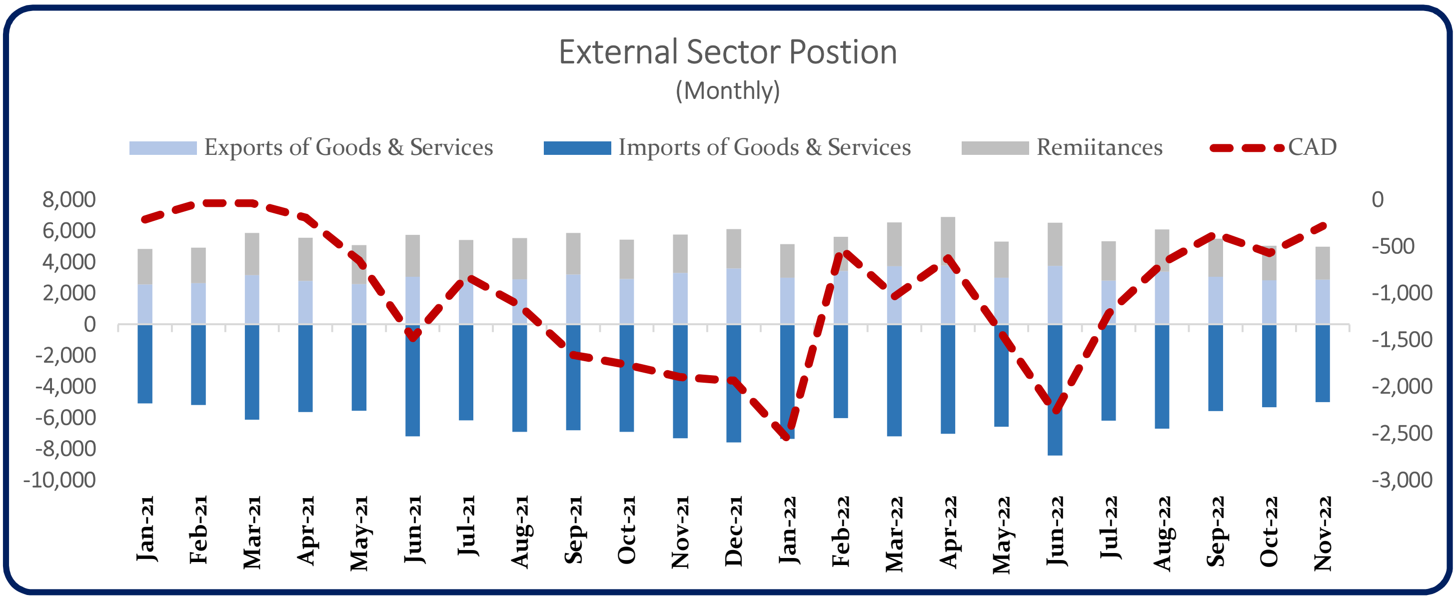



As per the PBS, Pakistan's trade deficit shrunk by a good margin of 31% to $14.28 billion during the period of Jul-Nov of FY23 vs. same period of FY22 amidst a steep deduction in import bills. As far as Exports are concerned, it went down by marginally 3.4% to USD 11.95 billion in FY23's period of Jul-Nov compared to USD 12.36 billion in same period of FY22. However, on a monthly basis, the exports increased by 0.29% to $2.39 in November 2022 from $2.38 billion in October 2022. Addionally, the country's trade deficit rose by a large margin of 20% to $2.79 in November 2022 from $2.33 in October 2022 on a month on month basis.

## 9. BALANCE OF PAYMENT:

Pakistan's CAD has narrowed to a sustainable level of $276 million in November 2022 as compared to a deficit of $1.93 billion in the last FY22's November month, latest data released by the State Bank of Pakistan ("SBP") showed. This is the fifth consecutive month where CAD has narrowed down amidst a notable decline in the import bills. On a cumulative basis from July to November in the ongoing FY23, the CAD declined by $4.14 billion to $3.1 billion, compared to a relatively large deficit of $7.23 billion in the same period last year. If the Government is successful in keeping the CAD bill below USD 1 billion mark monthly, then overall CAD position could decrease to approximately USD 10-12 billion in FY23.

| (USD in millions) | FY23 P (Jul-Nov) | FY22 (Jul-Nov) |
|---|---|---|
| Current account Balance | (3,099) | (7,234) |
| Capital Account Balance | 59 | 82 |
| Financial Account Balance | (1,107) | (6,009) |
| Net FDI in Pakistan | (263) | (834) |
| Net Portfolio investment | 31 | 302 |
| Net incurrence of Liabilities | 31 | 5,763 |
| Overall Balance | 1,973 | 1,184 |
| SBP Gross Reserve | 7,853 | 16,142 |
| | | *(Source: SBP)* |

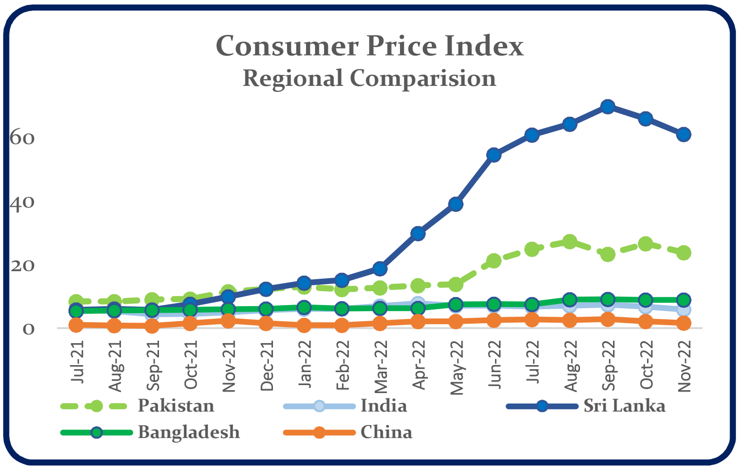



## 10. Regional Analysis:

On a Y-o-Y basis, double digit inflation was observed only in Pakistan and Srilanka. Whereas, the Bangladesh and Indian economy are gradually stimulating and inflation is declining over there. However, Pakistan economy has faced an unforeseen flood situation that is why CPI is on the rise, while parity remain stable unlike in past months. Whereas, the Sri lankan rupee is relatively losing momentum against the greenback in last week of November, therefore, a rise in CPI has been reported in Srilanka. On the other hand, India also had a stable currency, and, hence, the impact of rising inflation didn't haunt their economy too much. Similarly, China has lower CPI and the impact of volatility in prices is not quite visible in their country due to their stable currency parity

| Country | CPI (%) | Local Currency Units per USD (As of 28th Dec) | Currency Appreciation (Depreciation) % Change Y-o-Y |
|---|---|---|---|
| **Pakistan** | 23.8 | 226.5 | (27.1) |
| **India** | 5.9 | 82.7 | (11.0) |
| **Bangladesh** | 8.9 | 105.4 | (23.1) |
| **China** | 1.6 | 6.99 | (9.8) |
| **Sri Lanka** | 61.0 | 363.0 | (79.0) |

*(Source: Trading Economics)*



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## OUTLOOK:

- The economy of Pakistan will head towards 2023 with a gloomy economic outlook and troubles lurking around every corner, which the incumbent regime will find difficult to stabilize amidst the political unrest.
- The 9th review of the $7 billion loan tranche of IMF has been stalled. With the central bank's net foreign exchange reserves plunging to their eight year low to slightly above $6 billion amid drying foreign inflows, concerns over the government's capacity to timely make its foreign debt payments without an early restoration of the IMF funding programme are resurging on the delay in the disbursement of the new tranche of $1.2 billion. We hope that the IMF will show some space in performance criteria in this difficult time for Pakistan's economy.
- In this havoc like situation, Pakistan badly needs to streamline its taxation system to attain a likely tax target worth of 7.47 trillion rupee for the next fiscal year and to meet other financing need for the rest of the financial year 2022-23. The Government needs to correct the fractured system of taxation and should remedy the inequity of taxes in Pakistan. Otherwise, it may be difficult for Pakistan to meet its tax target by June 2023.
- Among very few options in this difficult time, the practical way forward in the recession period will be to cut down on non-essential imports, which the current regime has done brilliantly. Furthermore, the government needs to raise the incentives for the production of essential food items and productivity in the manufacturing industries. Furthermore, the Government should consider shifting their policy focus to targeted subsidies and for the implementation of crucial reforms to diversify the structure of the Pakistan's economy in order to build a resilient economy.
- The Government should take measures to help the economy to stabilize and recover, and announce a strategic plan for sustainable economic growth and building foreign reserves instead of looking at friendly countries for bailout packages. Effective policy measures should be such as, *inter-alia*: (a) Limit the size of primary deficit in the budget; (b) Effective Tax reforms to broaden the tax base; (c) Structural reforms in the commodity producing sectors; (d) Need to work on comparative trade polices to enhance National Export; (e) Reduce interest rate to boost Economic activity and limit the debt servicing.