# Pakonomics

## May 2023

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# Highlights

According to the Annual Plan report released by the Ministry of Planning, Pakistan aims to achieve a growth rate of 3.5% in the Fiscal Year 2023-24 ("FY24"). The report outlines specific growth targets for the agriculture, industry, and services sectors, which are set at 3.4%, 3.4%, and 3.5% respectively.

The SBP has raised the policy rate by 100 bps, from 21% to 22%, in an urgent Monetary Policy Committee's ("MPC") meeting. The SBP stated that the reason for this interest rate hike is due to high inflation expectations.

In the Inter-bank market, the National currency value stood at a level of PKR 285.99/USD as of 27th of May 2023. After reaching the historic level of 298.93/USD on 11th May 2023, the PKR has been stable against the USD in the ongoing month.

Pakistan's Large-Scale Manufacturing ("LSM") growth contracted by 21.07% during April 2023 vs. the last year. Likewise, on a Month-on-Month ("M-o-M") comparison, the LSM growth decreased by 9.78% compared to the previous month of March 2023.

The cumulative inflow of deposits in the Roshan Digital Accounts ("RDA") reached $6.22 billion at the end of May 2023.

As per the SBP, the remittances sent by Overseas Pakistani workers decreased by 4.35% to $2.10 billion in May 2023 vs. $2.21 billion in April 2023 on a M-o-M basis.

According to the official statistics of the Federal Board of Revenue ("FBR"), the FBR has collected tax revenue worth PKR 571 billion in April 2023 and missed the target set for May by PKR 49 billion. Moreover, FBR collected PKR 7 billion collection up to 26th June 2023.

The Net foreign currency reserves held by the SBP stood at $3.53 billion as of 16th June 2023.

The Broad Money (M2) stock from 1st of July 2022 to 2nd June 2023 has reached to PKR 2,468 billion, compared to an expansion of PKR 1,902 billion last year in the same period.

As per the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation surged by 38.0% on a year-on-year ("Y-o-Y") basis in May 2023 vs. 13.8% last year.

As per the PBS, Pakistan's exports increased by almost 3.0% to $2.20 billion in May 2023 vs. $2.14 billion in April 2023 on a M-o-M basis.

Pakistan's net FDI has depreciated by 20.7% or $345 million to $1.32 billion provisionally during Jul-May FY23, as compared to $1.66 billion during Jul-May FY22.

The total net Foreign Investment declined by 82.3% or $1.36 billion to $294 million on a Y-o-Y basis in Jul-May FY23 as against the amount of $1.66 billion in Jul-May FY22.

The country has posted a Current account deficit ("CAD") of $2.943 billion during FY23's Jul-May period.


# Economy At a Glance

| Economic Indicators | Period | Status | Current Year | Last Year |
|---|---|---|---|---|
| LSM (Base Year 2015-16) | April | ↓ | (21.07)% | 14.92% |
| Central Government Debt | April | ↑ | PKR 58.60 Trillion | PKR 43.07 Trillion |
| Credit to Private Sector | Jul – 2nd June | ↓ | PKR 25 Billion | PKR 1,425 Billion |
| Roshan Digital Account | May | ↓ | US$ 121 Million | US$ 189 Million |
| Worker's Remittances | May | ↓ | US $2,103 Million | US $2,333 Million |
| Currency in Circulation | Jul – 2nd June | ↑ | PKR 1,114 Billion | PKR 748 Billion |
| Net Government Sector borrowing | Jul – 2nd June | ↑ | PKR 3,384 Billion | PKR 2,609 Billion |
| National CPI (Base Year 2015-16) | May | ↑ | 38.0% | 13.8% |
| FBR Tax Collection | Jul-May | ↑ | PKR 6,210 Billion | PKR 5,349 Billion |
| Foreign Exchange Reserves with SBP | As of 16th June | ↓ | $3.53 Billion | $8.23 Billion |
| Foreign Direct Investments | Jul-May | ↓ | $1.32 Billion | $1.66 Billion |
| Trade Deficit in Goods | Jul-May | ↓ | US$ (25.83) Billion | US$ (43.41) Billion |
| Current Account Deficit | Jul-May | ↓ | $(2,943) Million | $(15,160) Million |

# 1. Large Scale Manufacturing

According to the PBS, Pakistan's LSM sector showed a contraction of 21.07% in April 2023 on a Y-o-Y basis vs. April 2022. Likewise, on a M-o-M basis, the overall output growth declined by 9.78%, compared to the month of March 2023. Moreover, during the Jul-April period of the Fiscal year 2022-23, the growth rate of large industries contracted by 9.39%.

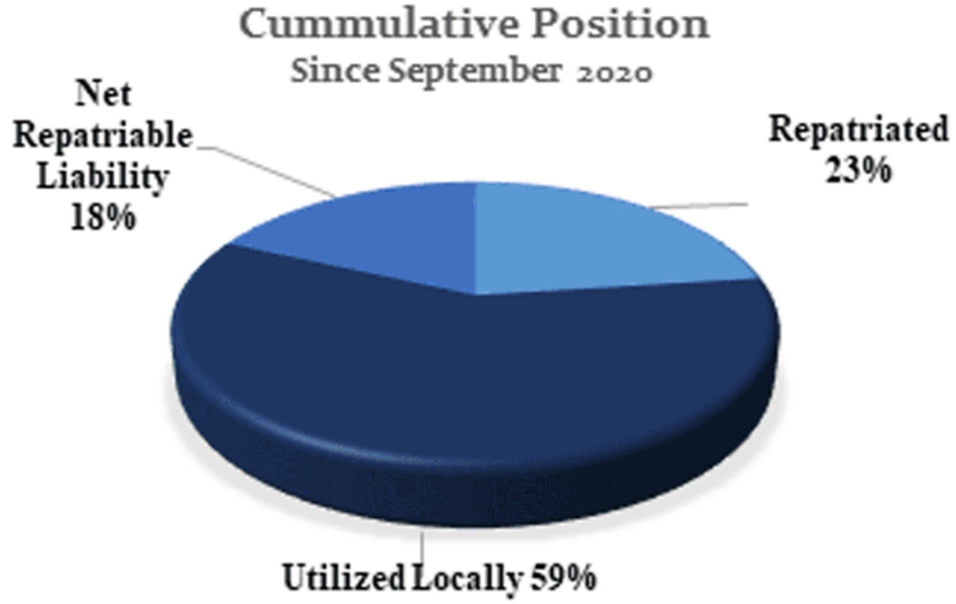
Out of 22 major industries, only 4 industries posted a surge in production during the Jul-April months of FY23 as compared to FY22 for the same period. These include wearing apparel, leather products, furniture, and other manufacturing section. However, the output in Food, beverages, tobacco, textile, coke and petroleum, pharmaceutical, Rubber, wood products, Non-Metallic Mineral Products, Fabricated Metal, Computer, electronics and Optical products, Electrical Equipment, Machinery and Equipment, Automobiles, Chemical, iron and steel products, transport equipment, and Paper and board has decreased during Jul-April period of FY23 months under review, compared to the preceding year FY22 for the same period, data from the PBS has revealed. Sector-wise, important groups such as cotton yarn, and cotton cloth contracted by 20.53% and 11.38%, while the garment sector showed growth of 27.36% in the period of Jul-April 2022-23. Whereas, the cement industry declined by a rate of 13.84%.

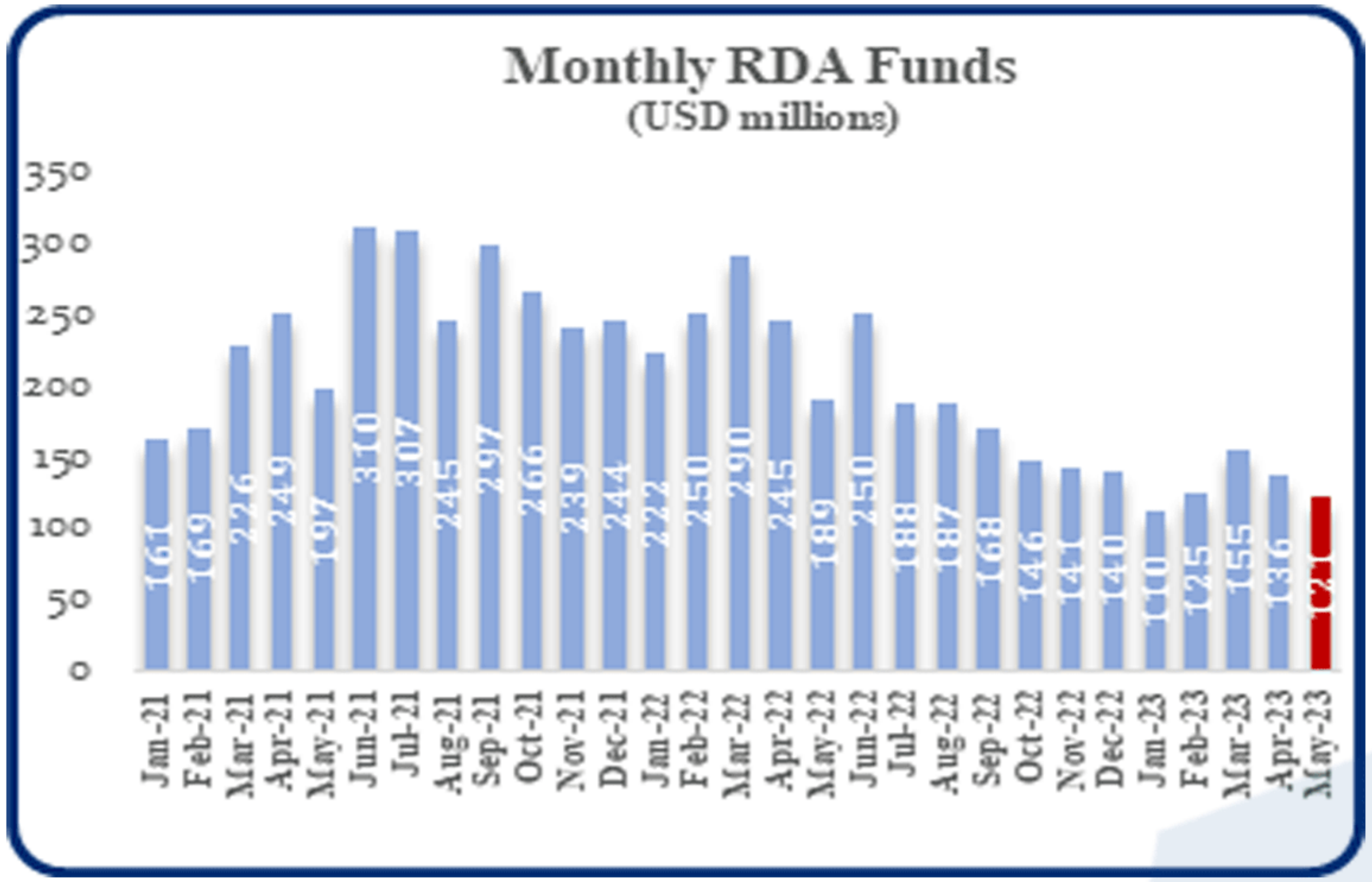
| LSM (%) | Weight | April-23 | Mar-23 | April-22 | Jul-April 2022-23 |
|---|---|---|---|---|---|
| Textile | 18.2 | (33.32) | (30.74) | 7.60 | **(17.86)** |
| Food | 10.7 | (5.94) | (42.46) | 2.69 | **(8.53)** |
| Coke & Petroleum Products | 6.7 | (20.38) | (16.06) | (5.07) | **(11.24)** |
| Chemicals | 6.5 | (7.87) | (16.75) | 13.67 | **(6.43)** |
| Wearing Apparel | 6.1 | 2.10 | 11.03 | 107.63 | **27.36** |
| Pharmaceuticals | 5.2 | (31.95) | (28.10) | 35.33 | **(24.26)** |
| Non-Metallic Minerals Products | 5.0 | (24.50) | (22.19) | (12.60) | **(11.76)** |
| Beverages | 3.8 | (10.07) | 1.39 | 5.04 | **(3.83)** |
| Iron and Steel Products | 3.4 | (10.16) | (5.07) | 13.83 | **(4.65)** |
| Automobiles | 3.1 | (75.52) | (67.97) | 29.53 | **(45.58)** |
| Tobacco | 2.1 | (61.57) | (49.69) | (3.05) | **(27.45)** |
| Electrical Equipment | 2.0 | (28.11) | (24.50) | (3.57) | **(13.05)** |
| Paper & Board | 1.6 | (25.38) | (19.85) | 10.12 | **(7.10)** |
| Leather Products | 1.2 | (0.86) | (6.85) | (4.81) | **2.15** |
| Other Transport Equipment | 0.7 | (49.33) | (48.40) | (14.65) | **(39.58)** |
| LSM Growth for April 2023 (Y/Y) | | | | | **(21.07)%** |
| LSM Growth of April 2023 vs. March 2023 (M/M) | | | | | **(9.78)%** |
| LSM Growth for July-April 2022-23 (Y/Y) | | | | | **(9.39)%** |

***(Source: PBS)***


# 2. Roshan Digital Account ("RDA")

The cumulative inflow of deposits under the RDA have reached $6.22 billion since its announcement in September 2020. Out of the $6.22 billion, approximately $3.66 billion or almost 59% have been utilized locally and 23% or $1.43 has been repatriated from the total received amount of RDA. Some 575,024 accounts have been opened from 175 countries in more than two and a half years.

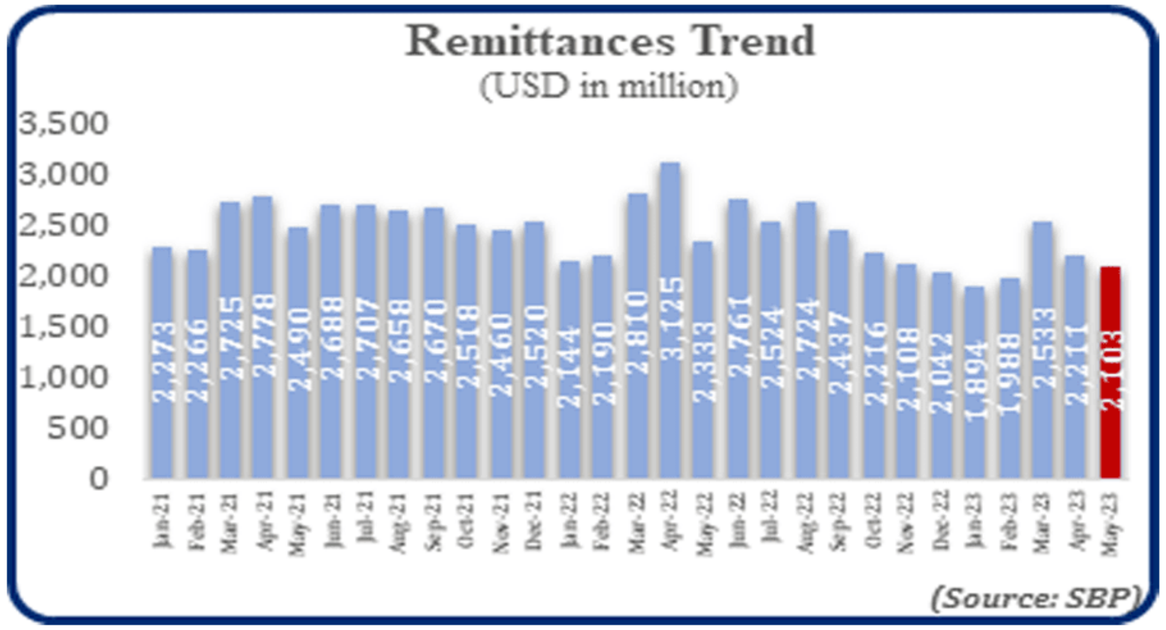


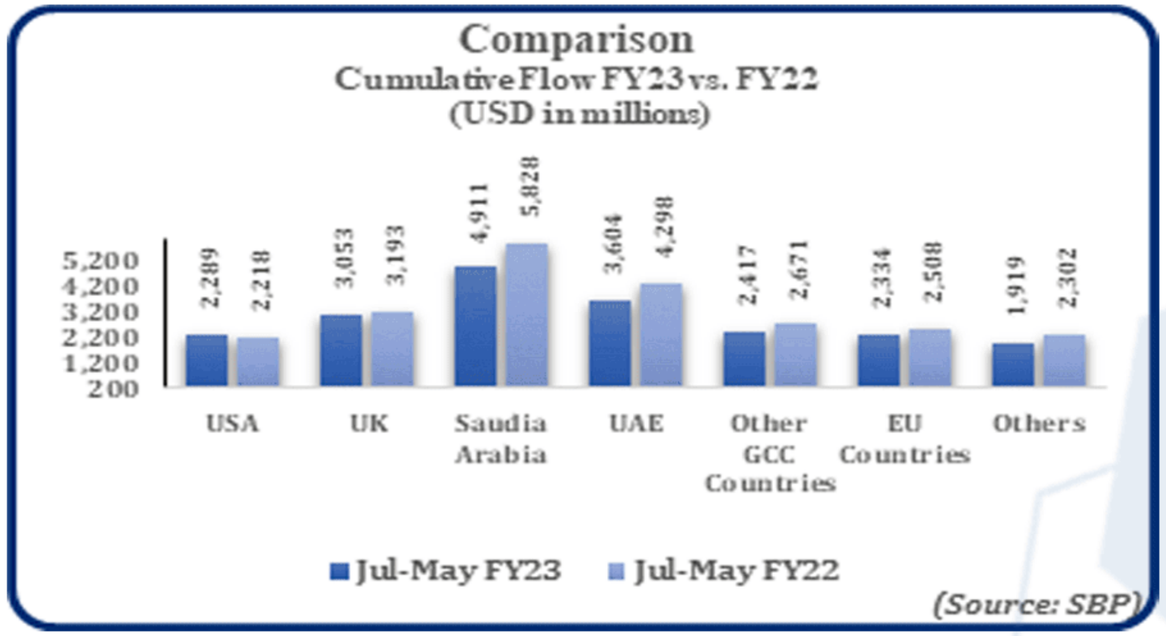



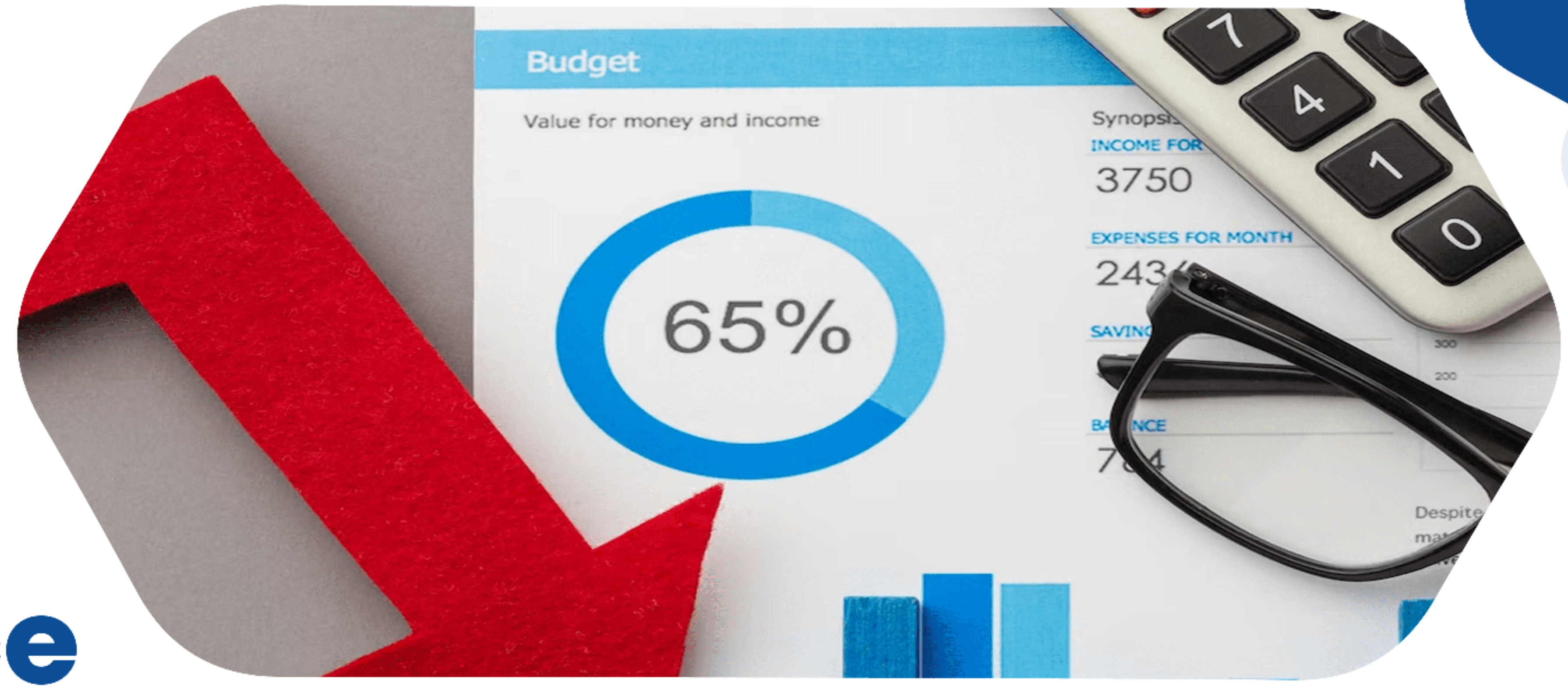

(Source: SBP)

# Worker's Remittances

As per the SBP, the remittances sent by Overseas Pakistani workers decreased by 4.35% to $2.10 billion in May 2023 vs. $2.21 billion in April 2023 on a M-o-M basis. Similarly, on a Y-o-Y comparison, the inflows went down by 10.38% when compared to $2.35 billion received a year ago in the same month. In addition to that, during the Jul-May period of FY23, the inflows declined by 12.8% to $24.83 billion compared to $28.49 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 July-May period of FY22, when it grew by 6.60%. A descriptive analysis has revealed that remittance inflows during the Jul-May period of FY23 were coming mainly from four major countries: Saudi Arabia, UAE, UK, and the USA. With almost a 24% share in overall home remittances flows, Saudi Arabia remained a significant contributor. However, inflows from Saudi Arabia have recorded a negative growth of 16.30% and stand at $5.92 billion in Jul-May period of FY23 vs. $7.07 billion during same period of FY22. An amount to the tune of $2.82 billion, or an 11.38% share, was received from the US, showing an increase of 0.88% in Jul-May of FY23 vs. Jul-May period of FY22. Worker remittances from the UK decreased by 8.05%, although it contributed almost 15.0% or $3.71 billion in the Jul-May period of FY23 over the same period of FY22. On the other hand, remittance growth from UAE declined at a rate of 19.17%, while its share is almost $4.32 billion or 17.40% share in the total remittances.

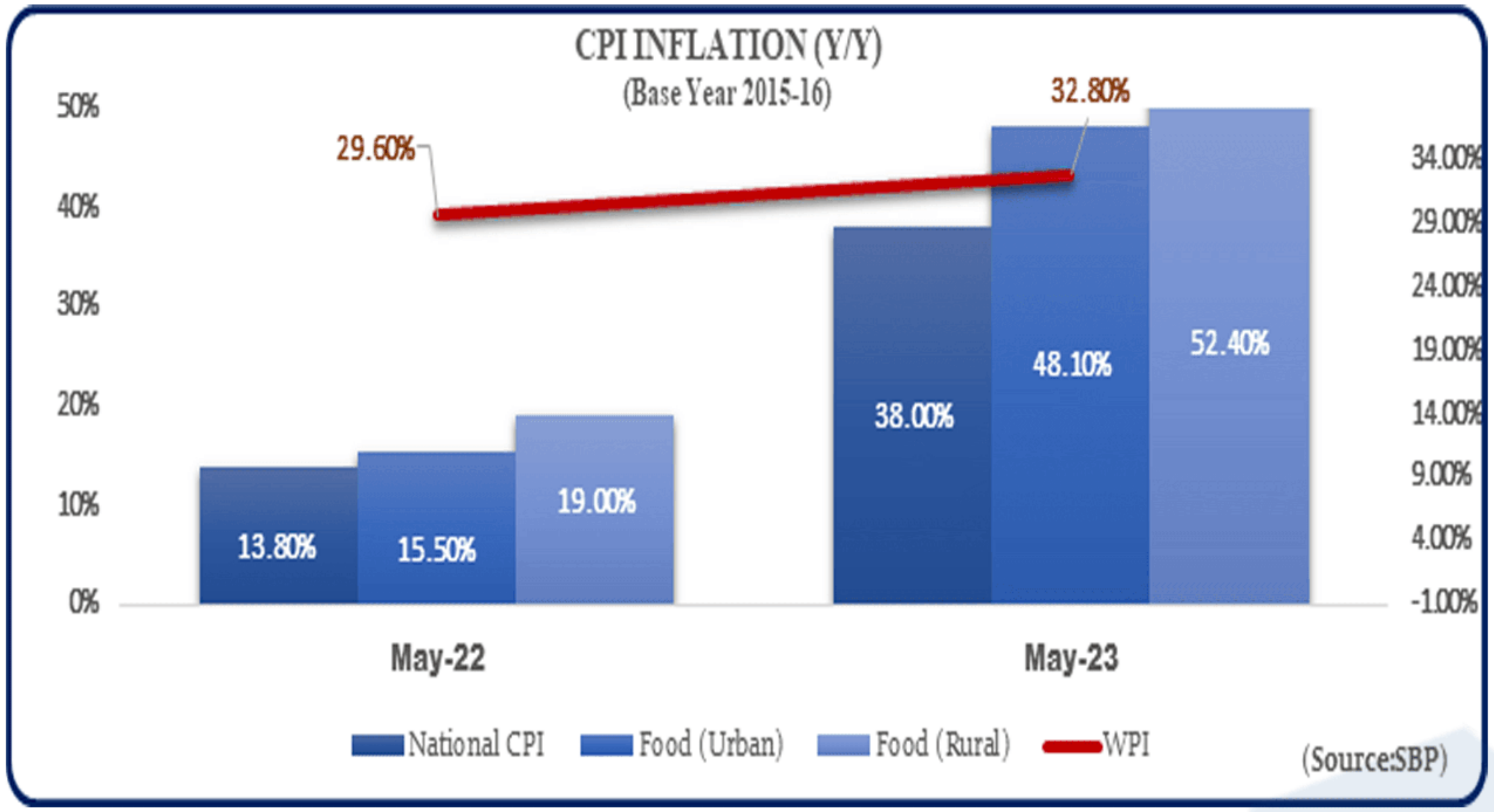




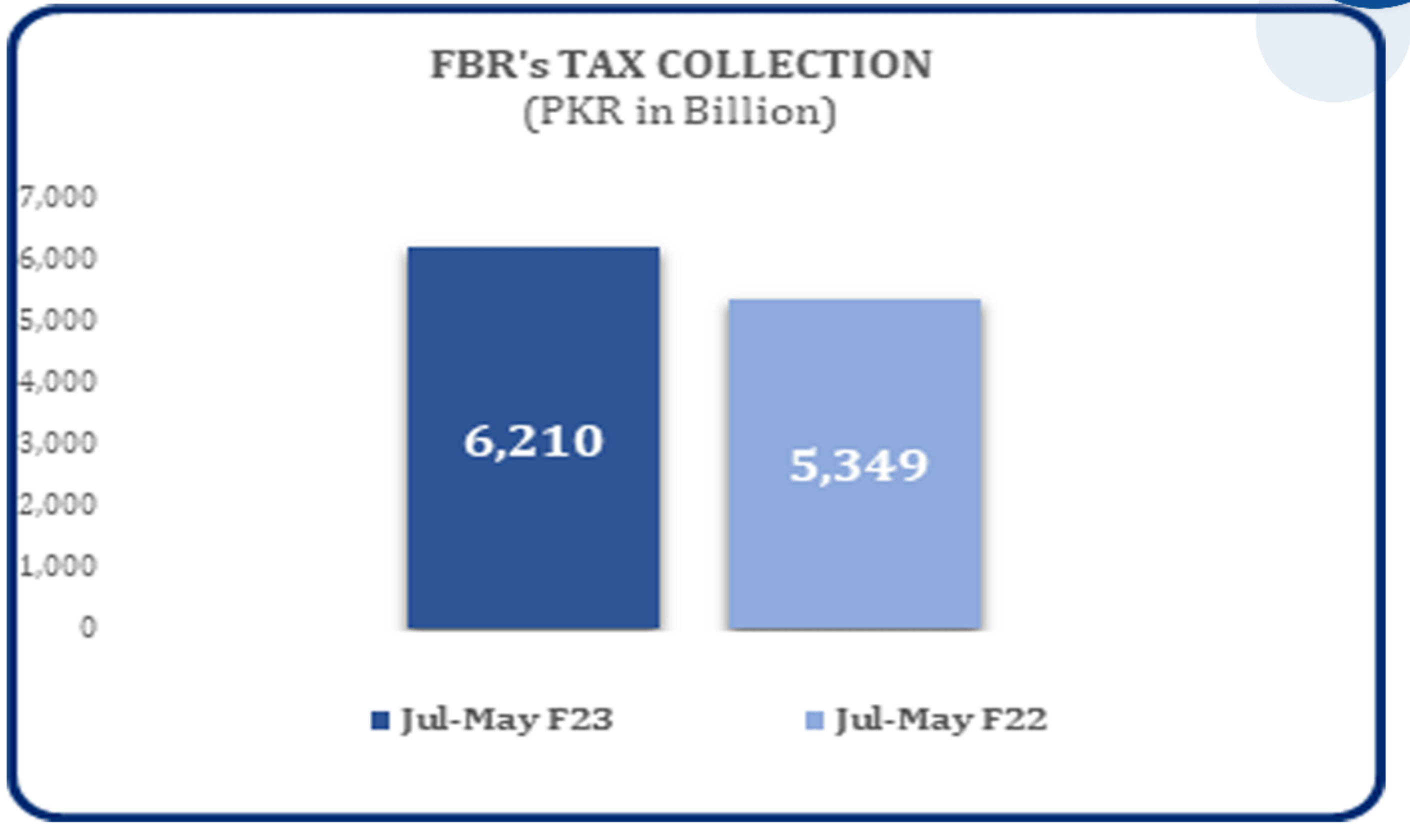

# Consumer Price Index Inflation

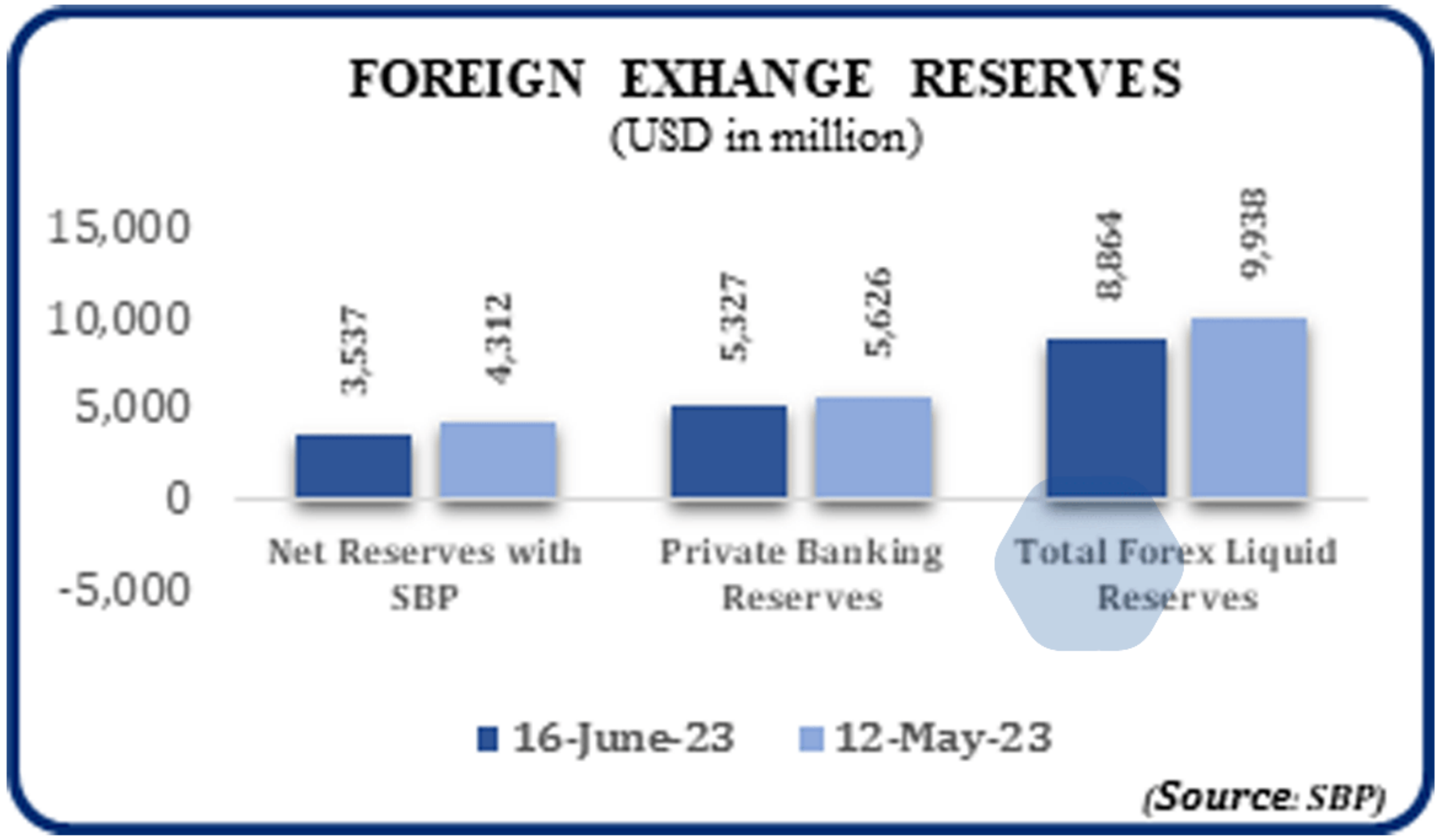
The monthly rate of inflation spiked to 38.0% in May 2023 on a Y-o-Y basis in Pakistan, making it the highest year on year inflation rate in Pakistan's history. In the previous month (April 2023), the CPI stood at 36.4%. The current inflation hike is mainly due to high costs of non-perishable food items and supply shocks. Food inflation in Urban and rural areas accelerated by nearly 48.1% and 52.4% in month of May 2023. In addition to that, the wholesale price index ("WPI") stood at 32.8% on a Y-o-Y basis, while in April 2023, the WPI had been recorded at around 33.4%. Whereas, on a monthly basis, the National CPI has recorded a rise of 1.6%. Similarly, the Food inflation in urban and rural areas increased by 1.9% and 1.4%, respectively, compared to April 2023. Furthermore, in May 2023, the Core inflation, which is calculated by excluding energy and food items, increased by 20.0% and 26.9% in urban and rural areas on a Y-o-Y basis, respectively.



# 5. FBR Tax Revenue Collection

As per the Finance Minister, FBR collected PKR 7 billion worth of tax revenue till 26th of June 2023. Moreover, the FBR has collected tax revenue worth PKR 572 billion in May 2023, recording a shortfall of PKR 49 billion in the monthly target set for May of PKR 621 billion. Moreover, overall tax revenue collection shortfall has accumulated to PKR 990 billion during the Jul-May period. When compared with the tax collection of last year during the same period, the tax collection grew by 16.10% or PKR 861 billion. The FBR still needs PKR 990 billion more to reach the revised tax revenue target for FY23. Reaching the revised revenue target seems unlikely in the remaining month. In our humble view, FBR's tax revenue collection may reach around PKR 7,100 billion in the FY23



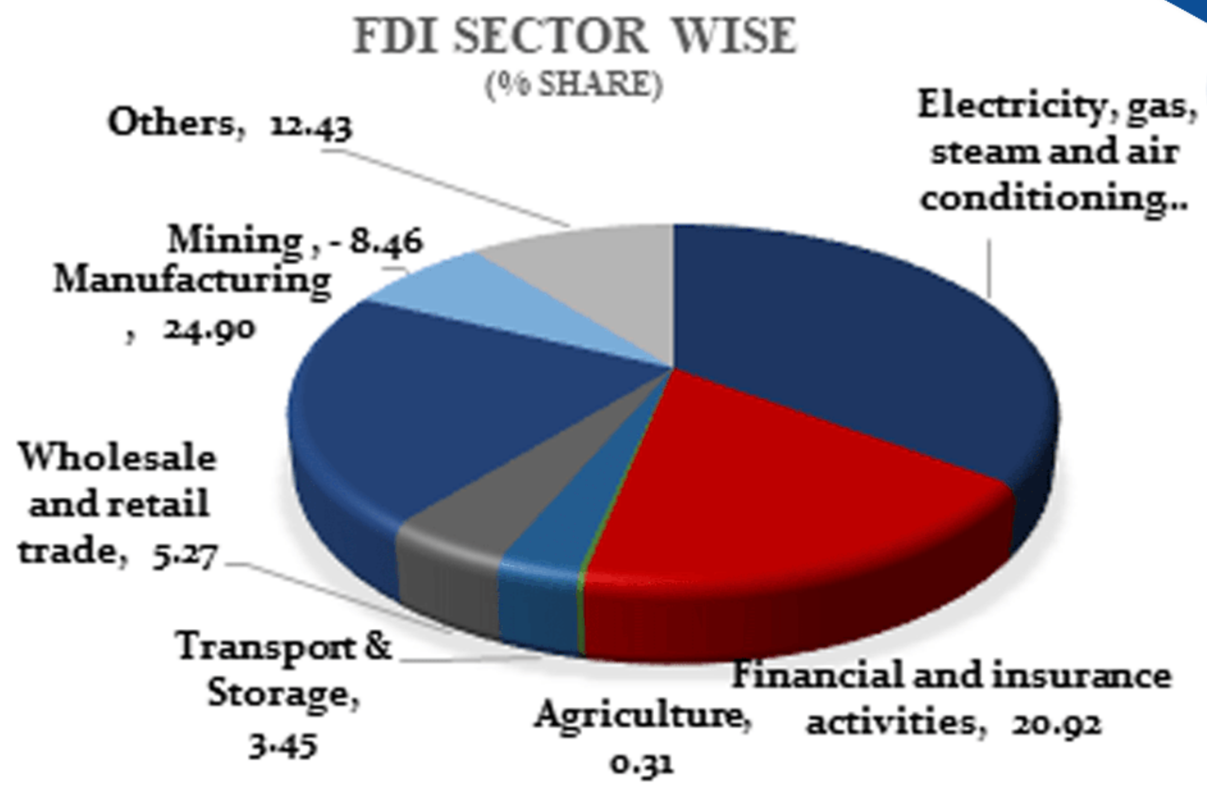

# 6. Foreign Exchange Reserves

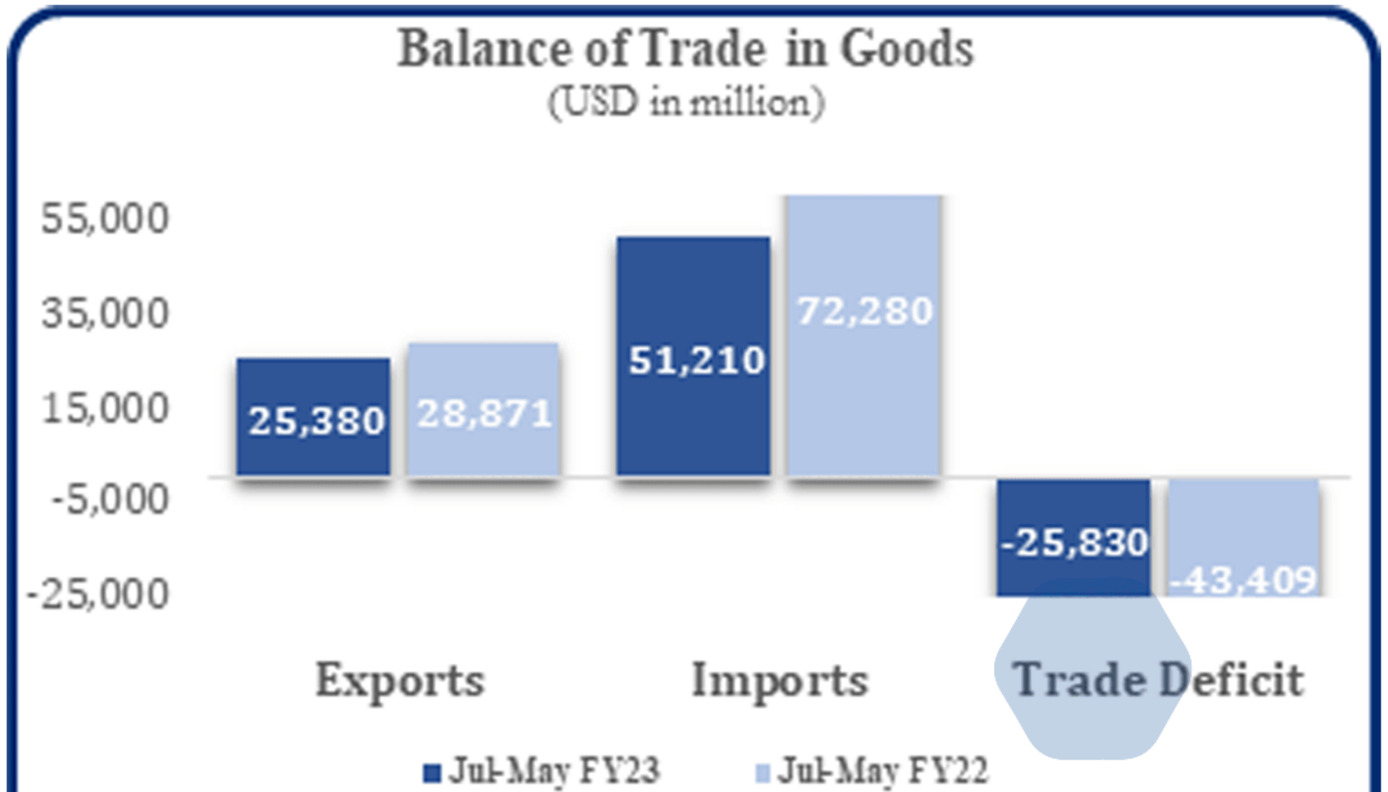
The Net reserves of the SBP stood at $3.53 billion as of 16th June 2023, decreasing by 12.0% or $482 million compared to last week's reserves of $4.02 billion on 9th June 2023. Moreover, when compared to last month reserves (which were then $4.31 billion), the Net reserves have gone down by 18.0%, amidst external debt repayments.

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 EFF programme of the IMF and the issuance of the $1 Billion Pakistan International Sukuk Bond issuance), the Net foreign exchange reserves have been declining.

# 7. Foreign Direct Investment

Pakistan's net FDI has depreciated by 20.7% or $345 million to $1.32 billion provisionally during Jul-May FY23, as compared to $1.66 billion during Jul-May FY22. Whereas, the total net Foreign Investment declined by 82.3% or $1.36 billion to $294 million on a Y-o-Y basis in Jul-May FY23 as against the amount of $1.66 billion in Jul-May FY22. This Pie chart shows the percentage share of flows in different sectors of the Economy in the period of Jul-May FY23.



(Source: PBS)

# 8. Balance Of Trade In Goods

As per the PBS, Pakistan's trade deficit shrunk by a good margin of 40.5% to almost $25.83 billion during the period of Jul-May of FY23 vs. the same period of FY22 amidst a steep reduction in import bills. As far as Exports are concerned, the same has decreased by 12.1% to USD 25.38 billion in FY23's period of Jul-May compared to USD 28.87 billion in same period of FY22. Whereas, on a monthly basis, the exports increased by almost 3.0% to $2.20 billion in May 2023 from $2.14 billion in April 2023. However, the country's trade deficit went up by a healthy value of 147 times to $2.13 billion in May 2023 from $860 million in April 2023 on a M-o-M basis.

# Balance Of Payment

Pakistan's economy has experienced a surplus in its current account balance consecutively for three months, following the month of March 2023, totaling a $255 million in May 2023 This represents a considerable improvement from the huge deficit of $1,506 million recorded in May of the previous fiscal year. The current level of CAD is quite feasible and represents a positive development for the country's economic outlook. On a cumulative basis from July to May in the ongoing FY23, the CAD has declined by $12.22 billion, to $2.94 billion, compared to a relatively large deficit of $15.17 billion in the same period last year. If the Government is successful in keeping the CAD bill below $500 million mark in the last month, then the overall CAD position could decrease to just under the projected value of Ministry of Planning which is USD 3.72 billion in FY23.

| (USD in millions) | FY23 P (Jul-May) | FY22 (Jul-May) |
|---|---|---|
| Current account Balance | (2,943) | (15,160) |
| Capital Account Balance | 25,810 | 29,758 |
| Financial Account Balance | 2,513 | (8,405) |
| Net FDI in Pakistan | (13) | (1,460) |
| Net Portfolio investment | 1,023 | (14) |
| Net incurrence of Liabilities | (2,554) | 9,335 |
| Overall Balance | 5,331 | 6,950 |
| SBP Gross Reserve | 3,765 | 9,619 |

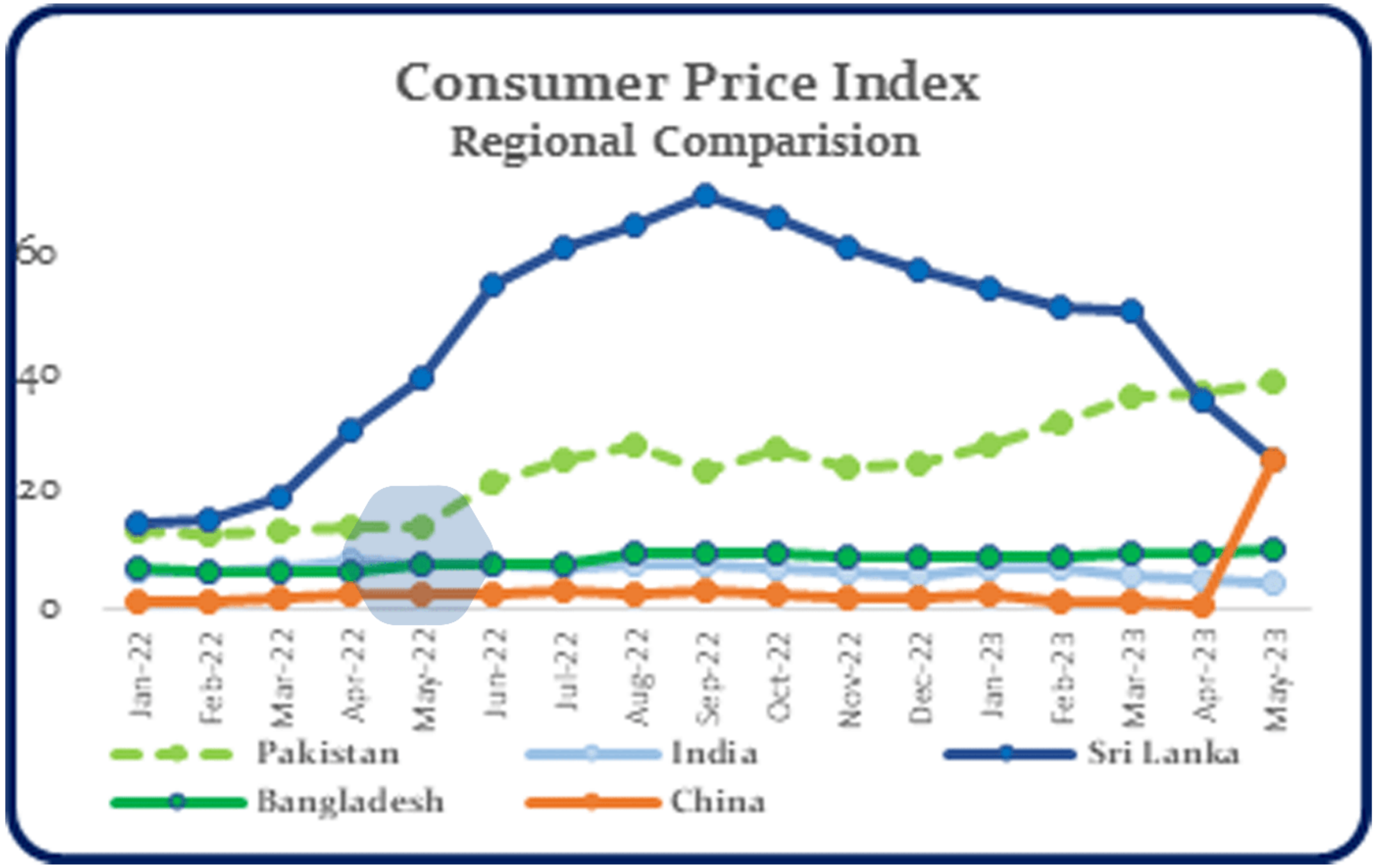
*(Source: SBP)*

# Regional Analysis

Compared to other countries in the region, Pakistan and Sri Lanka have experienced double-digit inflation on a Y-o-Y basis, whilst Bangladesh and India have shown signs of recovery with inflation gradually decreasing. The Pakistani economy is facing a fragile situation, which is reflected in the rising CPI. However, the Sri Lankan rupee has been relatively stable against the US dollar, resulting in a decline in CPI in Sri Lanka over the last four months. Similarly, India's stable currency has limited the impact of rising inflation on their economy. Moreover, China, with its stable currency parity, has a lower CPI, and thus the effects of volatility in prices are not significantly visible in their country.

| Country | CPI (%) | Local Currency Units per USD (As of 27th June) | Currency Appreciation (Depreciation) % Change Y-o-Y |
|---|---|---|---|
| Pakistan | 38.00 | 285.99 | (37.75) |
| India | 4.25 | 81.99 | (3.83) |
| Bangladesh | 9.94 | 108.13 | (16.62) |
| China | 0.20 | 7.22 | (7.74) |
| Sri Lanka | 25.20 | 308.00 | 13.48 |

*(Source: Trading Economics)*



# Outlook

Amidst a notable decline in Pakistan's exports during the FY23, there are promising indications that a substantial resurgence awaits in the upcoming FY24. Forecasts suggest a remarkable USD 30 billion in export revenues, a development that holds particular significance given the prevailing global trade slowdown. This anticipated revival in Pakistan's export sector not only signifies a positive turnaround but also highlights the potential for the country to capitalize on emerging opportunities in international markets. Additionally, the annual report sets a target inflation rate of 21% and a current account deficit target of 1.7% of the GDP, equivalent to approximately $6.5 billion, for the upcoming FY24, commencing in July 2023.

After experiencing a significant downturn and reaching a meager figure of $1.32 billion during the July-May period of the FY23, net FDI in Pakistan is poised to rebound vigorously. The previous decline can be attributed to prevailing risk perceptions surrounding the country. However, the outlook for FDI inflows in the upcoming FY24 is highly promising, with projections indicating a substantial surge to nearly $2.8 billion. This anticipated increase in FDI surpasses even the levels witnessed during 2021-22.

On June 9, 2023, the Finance Ministry of Pakistan unveiled the Annual Budget for the FY24. However, the budget estimates have been revised by the Finance Ministry chaired by the Honorable Finance Minister Mr. Ishaq Dar. For the Fiscal Year starting next month, Pakistan will raise a further 215 billion rupees in new taxes and cut 85 billion rupees in spending, as well as a number of other measures to shrink the fiscal deficit. That will revise Pakistan's revenue collection target to PKR 9,415 billion rupees from PKR 9,200 billion and put total spending at 14.480 trillion rupees from PKR 14,640 in FY24.t

During the ongoing challenging times, there are limited ways-out available; and one practical approach to deal with the economic downturn would be to reduce non-essential imports, which the incumbent government has accomplished effectively. Moreover, the Government should provide more incentives to encourage the production of essential food items and enhance productivity in the large manufacturing industries. Furthermore, the Government should redirect its policy focus toward targeted subsidies and implement necessary reforms to diversify the economy's structure and create a more robust and resilient economy for Pakistan.

To stabilize and recover the economy, the Government needs to implement measures and announce a strategic plan for sustainable economic growth and increasing foreign reserves instead of relying on friendly countries for bailout packages. Effective policy measures could include, inter-alia: (a) Limiting the primary deficit in the budget; (b) Implementing tax reforms to broaden the tax base; (c) Implementing structural reforms in commodity-producing sectors; (d) Working on comparative trade policies to enhance national exports; (e) Reducing interest rates to stimulate economic activity and minimize debt servicing.