Pakonomics
June 2023

TOLA ASSOCIATES
TAX & CORPORTE ADVISORS

Phone:
+92 21-35303294-6

Address:
408, 4th Floor, Continental Trade
Centre, Clifton Block-8, Karachi

Mail & Website:
connect@tolaassociates.com
www.tolaassociates.com

Highlights

The International Monetary Fund ("IMF") has recently published a comprehensive country report subsequent to the Executive Board's endorsement of a noteworthy nine-month Stand-By Arrangement ("SBA") for Pakistan, valued at SDR 2.25 billion (equivalent to USD 3 billion).

Moreover, the IMF anticipates a measured upswing in Pakistan's real GDP, foreseeing a projected growth rate of 2.5% for FY24. Conversely, the IMF forecasts Pakistan's inflation to reach 25.9% during the same period.

In the Inter-bank market, the National currency value stood at a level of PKR 286.45/USD as of 27th of July 2023. After reaching the historic level of 298.93/USD on 11th May 2023, subsequent stabilization of the PKR, the USD to PKR parity has witnessed some level of volatility in the past ten trading sessions.

Pakistan's Large-Scale Manufacturing ("LSM") growth contracted by 14.37% during May 2023 vs. May 2022. Contrary, on a Month-on-Month ("M-o-M") comparison, the LSM growth increased by 5.88% compared to the previous month of April 2023..

The cumulative inflow of deposits in the Roshan Digital Accounts ("RDA") reached $6.35 billion at the end of June 2023.

As per the SBP, the remittances sent by Overseas Pakistani workers increased by 3.86% to $2.18 billion in June 2023 vs. $2.10 billion in May 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 7,145 billion in FY23 against the target of PKR 7,640 trillion and missed the target by PKR 496 billion.

The Net foreign currency reserves held by the SBP stood at $8.19 billion as of 21st July 2023.

The Broad Money (M2) stock from 1st of July 2022 to 15th July 2023 has contracted to PKR 638 billion, compared to contraction of PKR 622 billion last year in the same period.

As per the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation surged by 29.4% on a year-on-year ("Y-o-Y") basis in May 2023 vs. 21.3% last year.

As per the PBS, Pakistan's exports increased by almost 7.01% to $2.36 billion in June 2023 vs. $2.20 billion in May 2023 on a M-o-M basis.

Pakistan's net FDI has depreciated by almost 25% or $480 million to $1.45 billion provisionally during Jul-June FY23, as compared to $1.94 billion during Jul-June FY22.

The total net Foreign Investment declined by 77% or $1.43 billion to $427 million on a Y-o-Y basis in Jul-June FY23 as against the amount of $1.86 billion in Jul-June FY22.

The country has posted a Current account deficit ("CAD") of $2.56 billion during FY23's Jul-June period.

Economy At a Glance

Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	May	↓	(14.37)%	19.41%
Central Government Debt	May	↑	PKR 58.96 Trillion	PKR 44.64 Trillion
Credit to Private Sector	Jul – 15th July	↓	PKR (170) Billion	PKR (27) Billion
Roshan Digital Account	June	↓	US$ 127 Million	US$ 250 Million
Worker's Remittances	June	↓	US $2,184 Million	US $2,761 Million
Currency in Circulation	Jul – 15th July	↓	PKR (168) Billion	PKR 485 Billion
Net Government Sector borrowing	Jul – 15th July	↓	PKR (300) Billion	PKR (124) Billion
National CPI (Base Year 2015-16)	June	↑	29.4%	21.3%
FBR Tax Collection	Jul-June	↑	PKR 7,145 Billion	PKR 6,125 Billion
Foreign Exchange Reserves with SBP	As of 14th July	↓	$8.19 Billion	$8.58 Billion
Foreign Direct Investments	Jul-June	↓	$1.45 Billion	$1.94 Billion
Trade Deficit in Goods	Jul-June	↓	US$ (27.60) Billion	US$ (48.35) Billion
Current Account Deficit	Jul-June	↓	$(2,557) Million	$(17,481) Million

1. Large Scale Manufacturing

According to the PBS, Pakistan's LSM sector showed a contraction of 14.37% in May 2023 on a Y-o-Y basis vs. May 2022. Contrary, on a M-o-M basis, the overall output growth increased by 5.88%, compared to the month of April 2023. However, during the Jul-May period of the Fiscal year 2022-23, the growth rate of large industries contracted by 9.87%.

Out of 22 major industries, only 4 industries posted a surge in production during the Jul-May 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-May 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 21.38% and 11.93%, while the garment sector showed growth of 25.56% in the period of Jul-May 2022-23. Whereas, the cement industry declined by a rate of 12.36%.

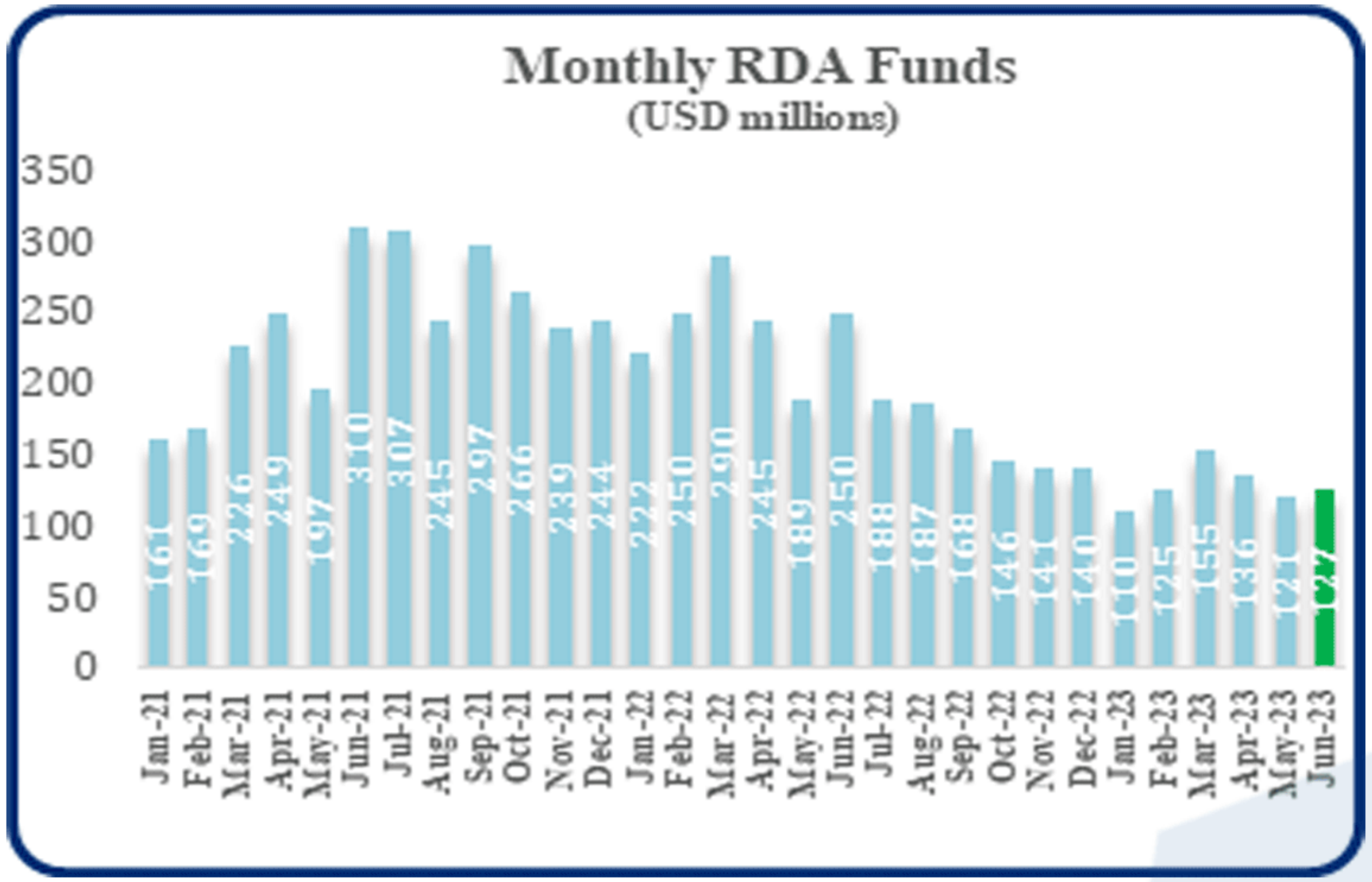
LSM (%)	Weight	May-23	April-23	May-22	Jul-May 2022-23
Textile	18.2	(25.97)	(33.32)	0.56	**(18.58)**
Food	10.7	9.50	(5.94)	(5.33)	**(7.54)**
Coke & Petroleum Products	6.7	(21.85)	(20.38)	8.08	**(12.23)**
Chemicals	6.5	(14.21)	(7.87)	12.77	**(7.20)**
Wearing Apparel	6.1	12.86	2.10	158.53	**25.56**
Pharmaceuticals	5.2	(38.61)	(31.95)	45.77	**(26.15)**
Non-Metallic Minerals Products	5.0	0.53	(24.50)	10.44	**(10.77)**
Beverages	3.8	(5.34)	(10.07)	(11.60)	**(4.13)**
Iron and Steel Products	3.4	(5.83)	(10.16)	19.24	**(4.76)**
Automobiles	3.1	(68.6)	(75.52)	47.77	**(47.70)**
Tobacco	2.1	(22.37)	(61.57)	(3.00)	**(28.08)**
Electrical Equipment	2.0	(24.64)	(28.11)	7.03	**(14.24)**
Paper & Board	1.6	(5.80)	(25.38)	22.90	**(6.92)**
Leather Products	1.2	(0.31)	(0.86)	(6.68)	**1.92**
Other Transport Equipment	0.7	(34.95)	(49.33)	(8.75)	**(39.62)**
LSM Growth for May 2023 (Y/Y)					**(14.37)%**
LSM Growth of May 2023 vs. April 2023 (M/M)					**5.88%**
LSM Growth for July-May 2022-23 (Y/Y)					**(9.87)%**

(Source: PBS)

2. Roshan Digital Account ("RDA")

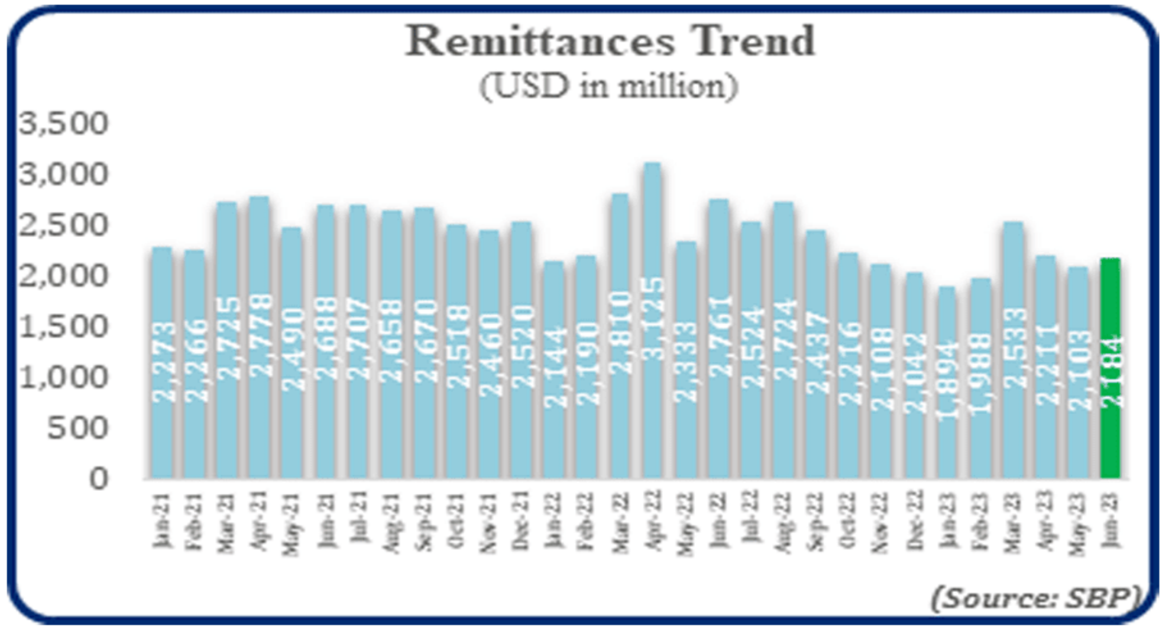
The cumulative inflow of deposits under the RDA have reached $6.35 billion since its announcement in September 2020. Out of the $6.35 billion, approximately $3.77 billion or almost 60% have been utilized locally and 23% or $1.45 has been repatriated from the total received amount of RDA. Some 585,885 accounts have been opened from 175 countries in more than two and a half years.

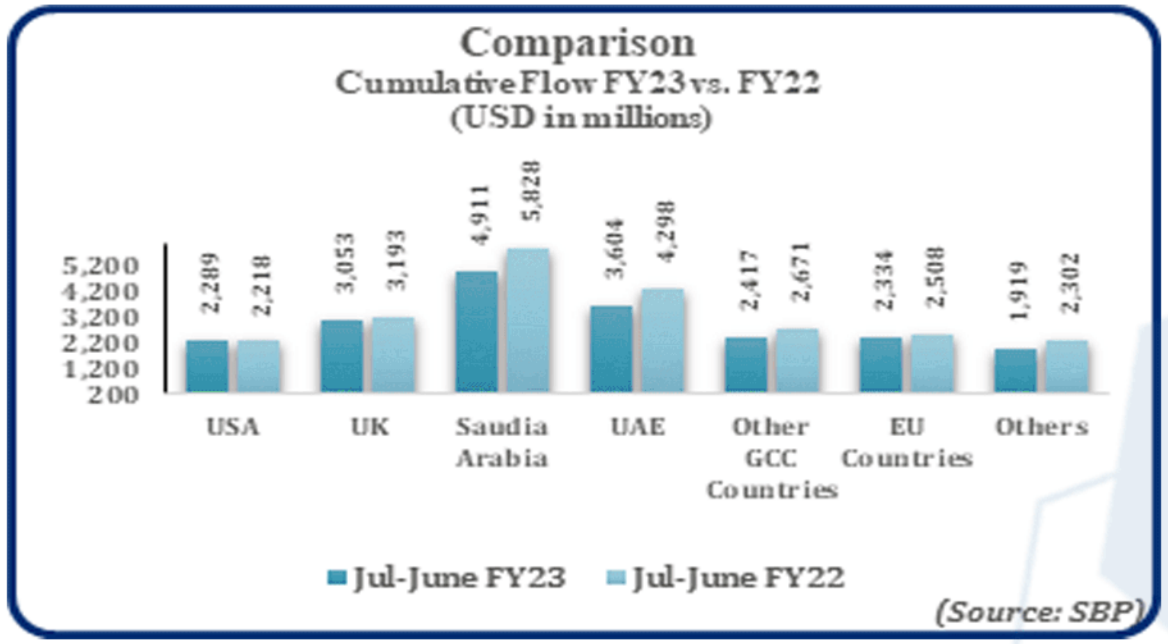
(Source: SBP)

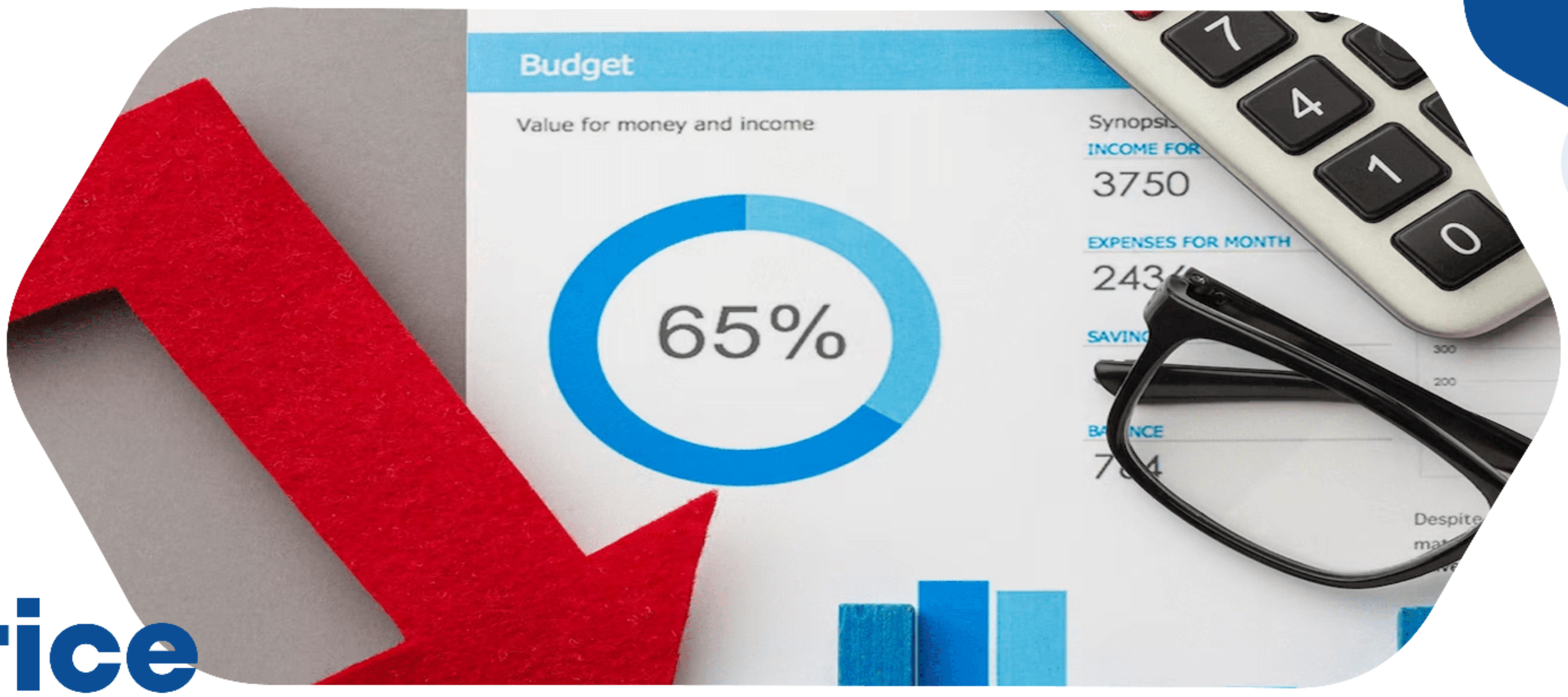


3. Worker's Remittances

As per the SBP, the remittances sent by Overseas Pakistani workers increased by 3.86% to $2.18 billion in June 2023 vs. $2.10 billion in May 2023 on a M-o-M basis. Moreover, on a Y-o-Y comparison, the inflows went down by 21.7% when compared to $2.79 billion received a year ago in the same month. In addition to that, during whole period of FY23, the inflows declined by 13.6% to $27.02 billion compared to $31.28 billion received a year ago in the FY22. Notably, on a cumulative basis, the pace of growth in FY23 is in negative as compared to July-June period of FY22, when it grew by 6.2%. A descriptive analysis has revealed that remittance inflows during the Jul-June 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 16.9% and stand at $6.45 billion in Jul-June period of FY23 vs. $7.75 billion during same period of FY22. An amount to the tune of $3.09 billion, or an 11.43% share, was received from the US, showing an increase of 0.1% in Jul-June of FY23 vs. Jul-June period of FY22. Worker remittances from the UK decreased by 9.7%, although it contributed 15.0% or $4.05 billion in the Jul-June period of FY23 over the same period of FY22. On the other hand, remittance growth from UAE declined at a rate of 20.5%, while its share is almost $4.65 billion or 17.2% share in the total remittances.

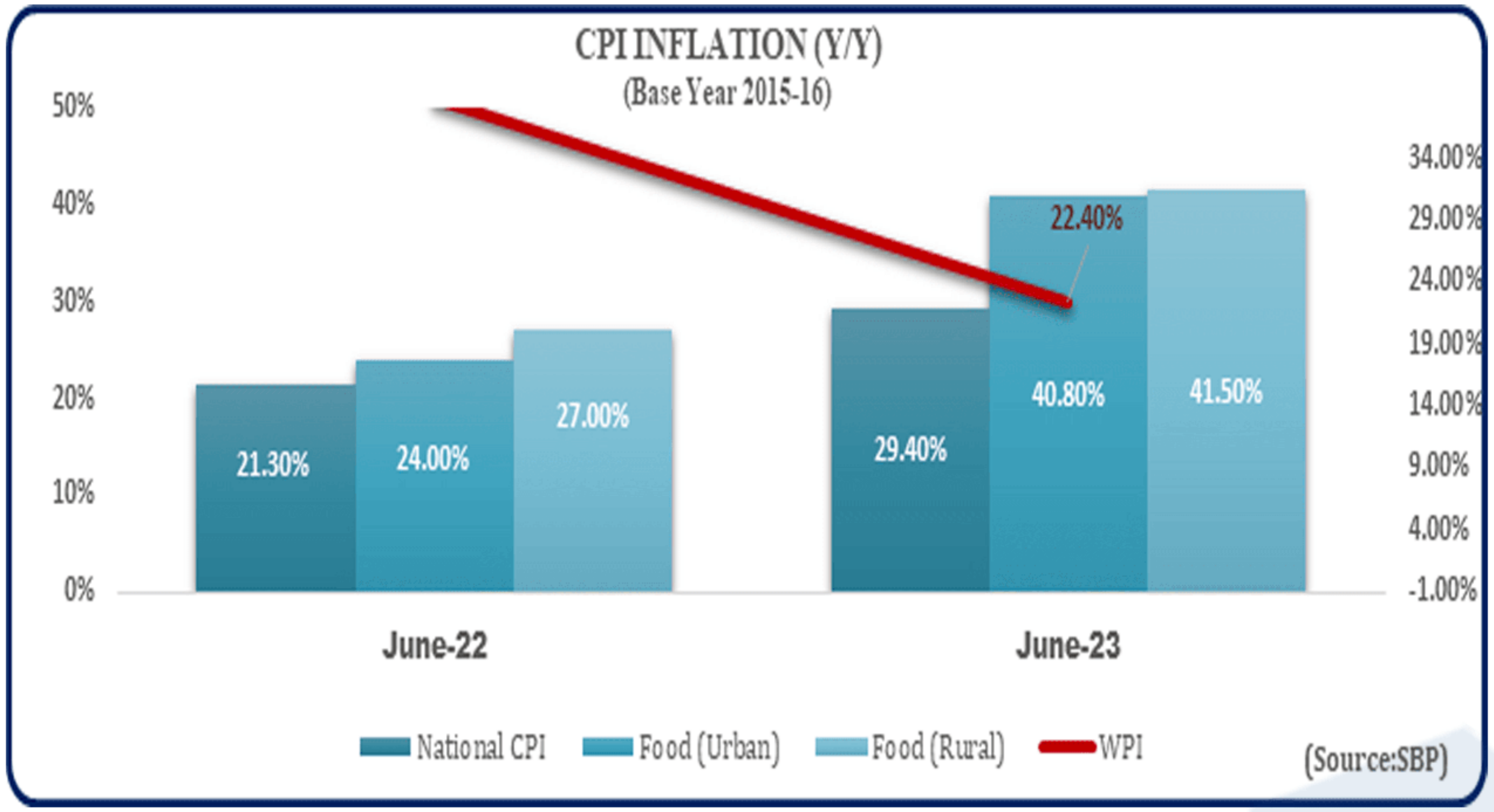






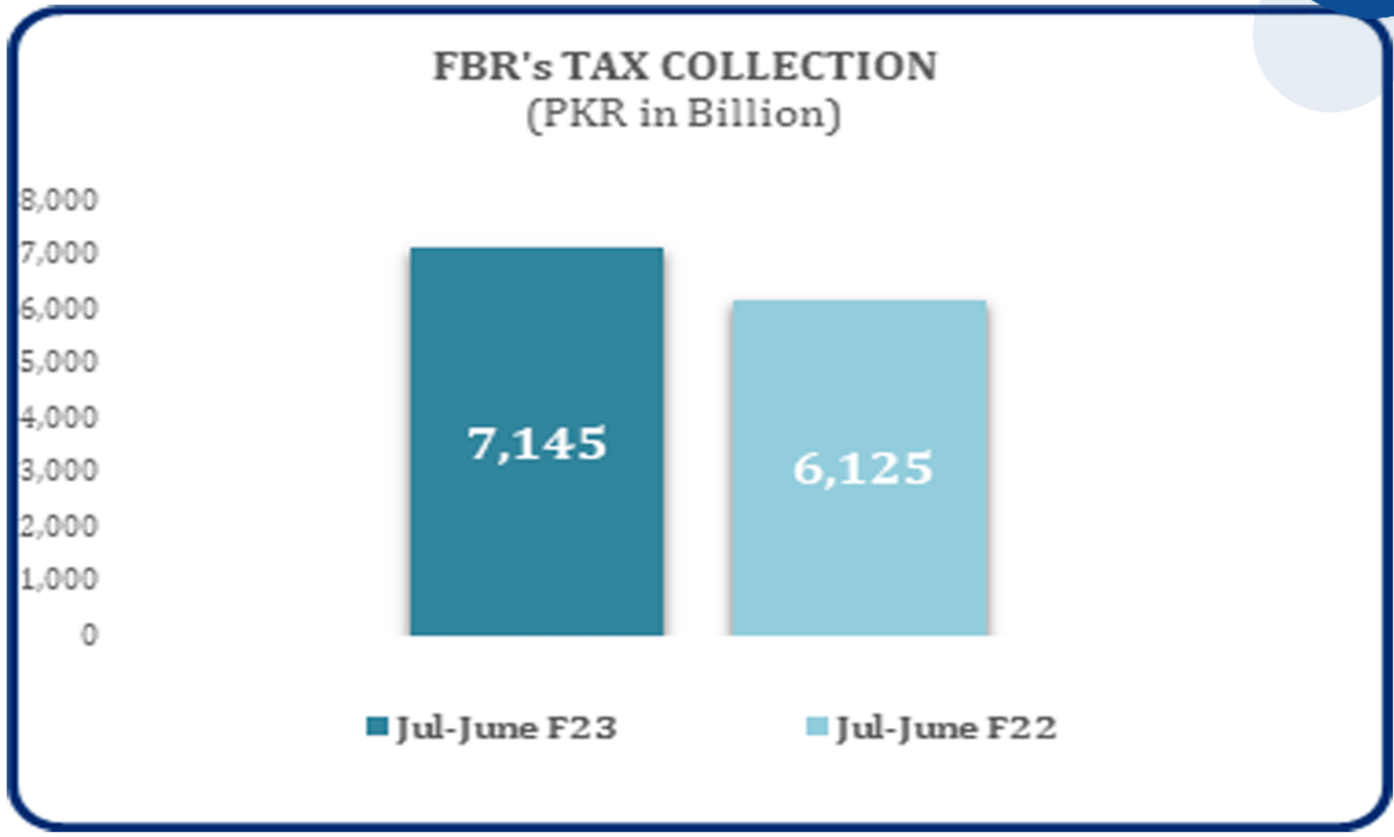
4. Consumer Price Index Inflation

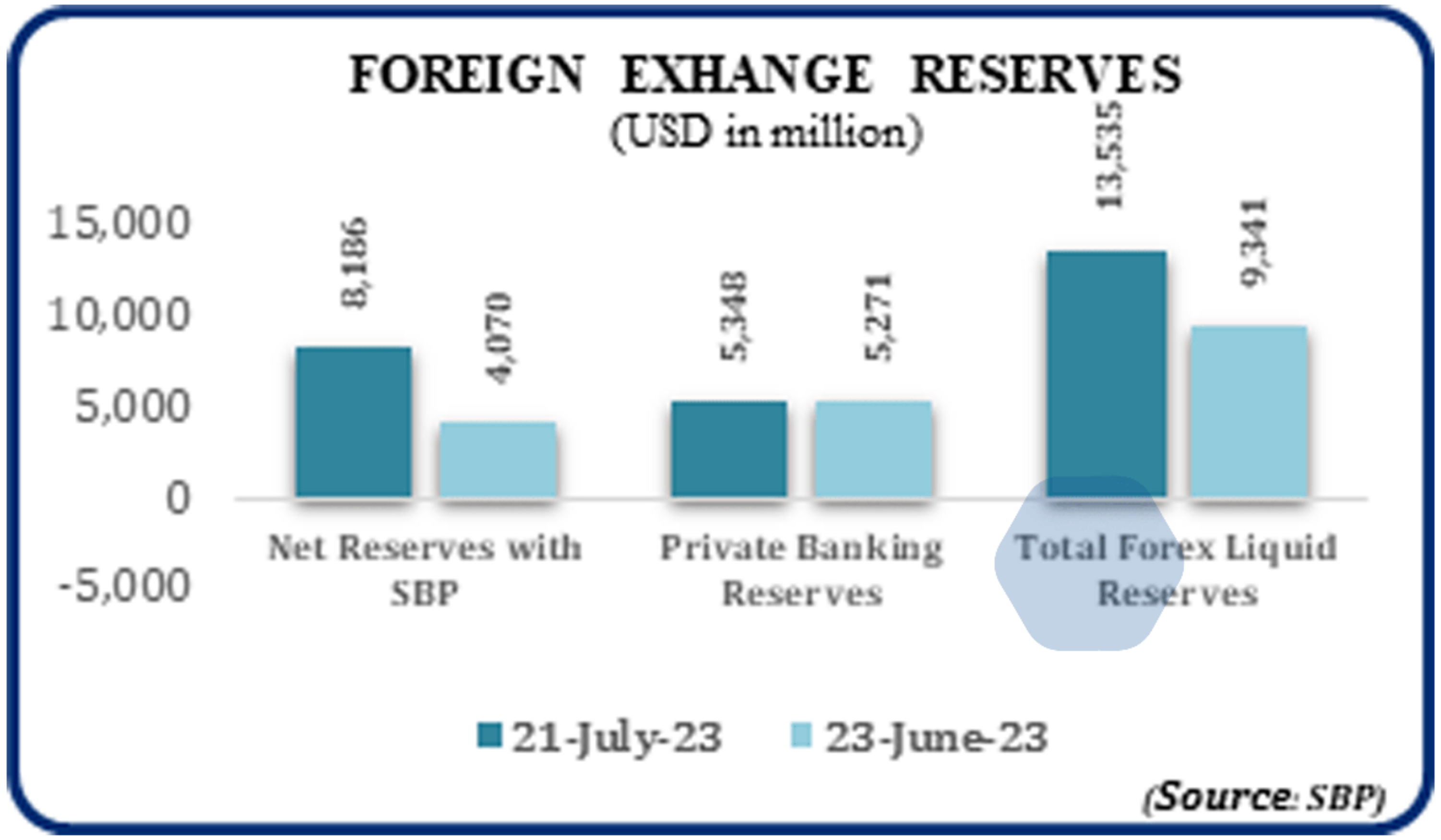
The monthly rate of inflation eased down to 29.4% in June 2023 on a Y-o-Y basis in Pakistan, declining for the first time in seven months. In the previous month (May 2023), the CPI stood highest ever in Pakistan's history at 38.0%. Moreover, Food inflation in Urban and rural areas also declined by 40.8% and 41.5% in month of June 2023. In addition to that, the wholesale price index ("WPI") stood at 22.4% on a Y-o-Y basis, while in May 2023, the WPI had been recorded at around 32.8%. Whereas, on a monthly basis, the National CPI has recorded a decline of 0.3%. Similarly, the Food inflation in rural also declined to 1.6%, while food inflation in urban areas increased by 0.1%, compared to May 2023. Furthermore, in June 2023, the Core inflation, which is calculated by excluding energy and food items, increased by 18.5% and 25.2% in urban and rural areas on a Y-o-Y basis, respectively.



5. FBR Tax Revenue Collection

As per the data published by the FBR, the FBR collected PKR 7.145 trillion worth of tax revenue in FY23. Moreover, the FBR has collected tax revenue worth PKR 933 billion in June 2023, recording the highest collection in a month. However, the FBR still remained short of meeting the annual tax target. Despite the implementation of additional taxes amounting to nearly Rs800 billion, which included a mini-budget introduced earlier this year. When compared with the tax collection of last year during the same period, the tax collection grew by 16.65%. As per Mr. Shahbaz Rana's article titled "Despite slapping extra taxes, FBR misses target by Rs496b" published on 28th June 2023, in the Express Tribune, out of total collection, income tax collection amounted to PKR 3.26 trillion, whereas sales tax collection tally raised to PKR 2.58 trillion."





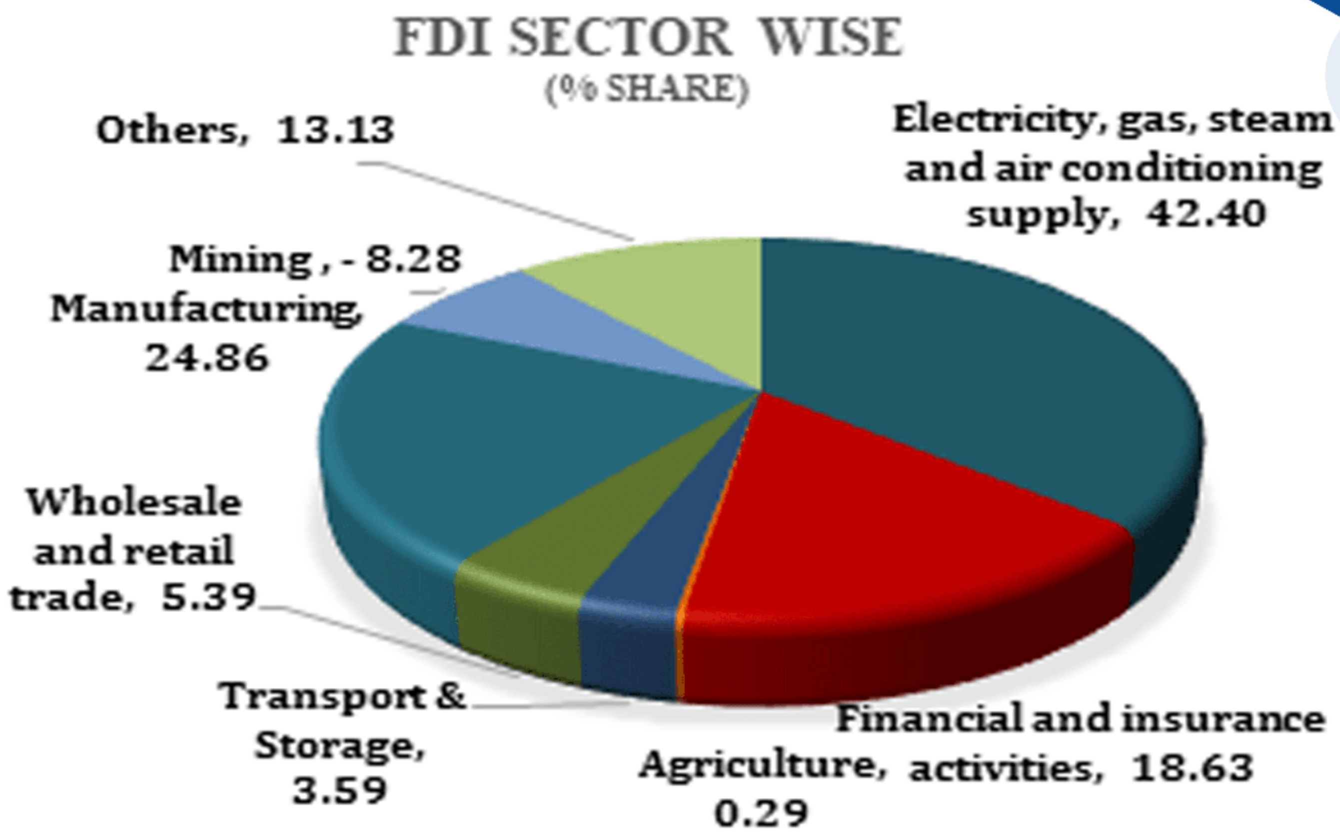
6. Foreign Exchange Reserves

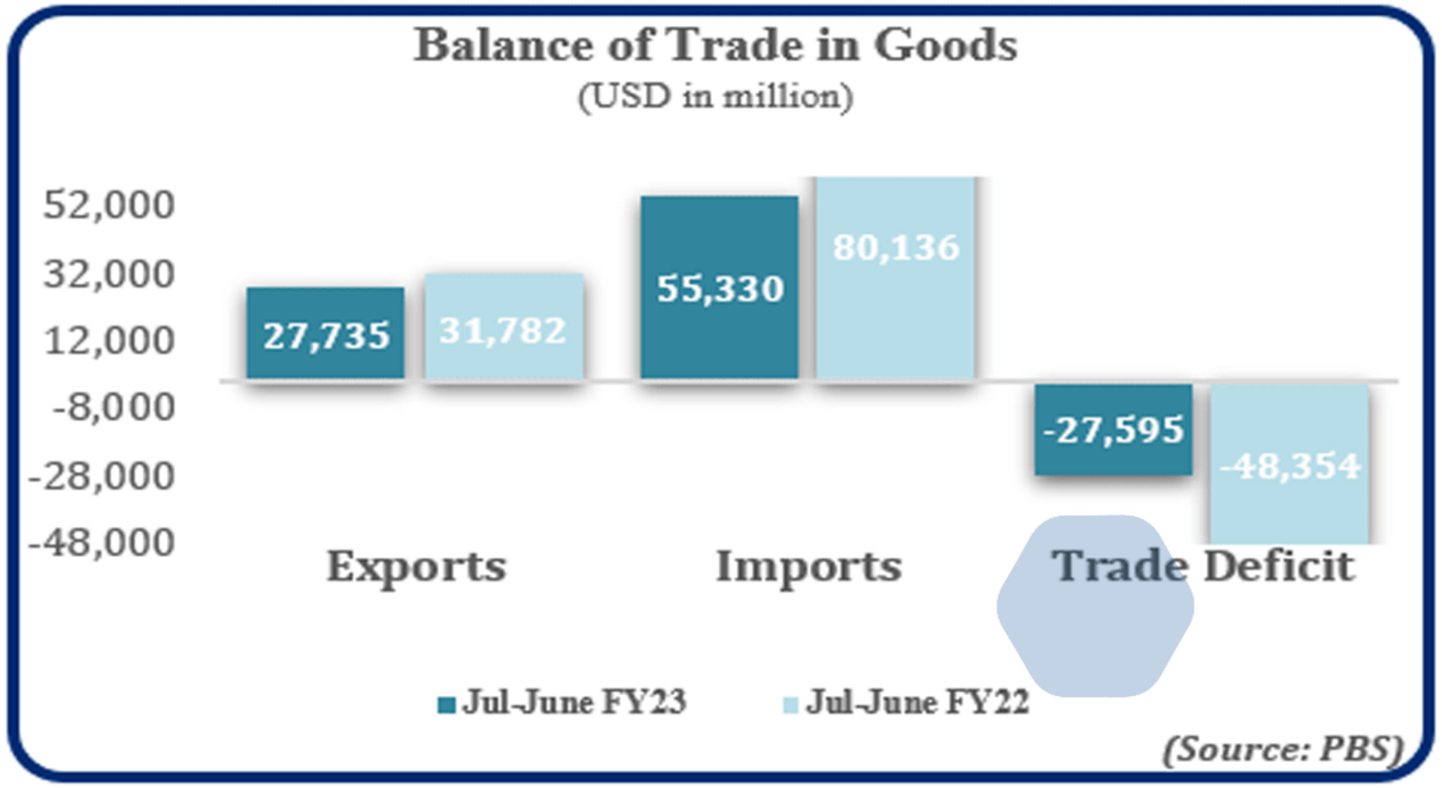
The Net reserves of the SBP stood at $8.19 billion as of 21st July 2023, decreasing by 6.20% or $541 million compared to last week's reserves of $8.73 billion on 14th July 2023.

Moreover, when compared to last month reserves (which were then $3.53 billion), the Net reserves have gone up by 146 times, as Pakistan received $2 billion from Saudi Arabia, $1.2 billion from the IMF under the $3bn SBA and $1 billion from the United Arab Emirates, as per the SBP statement.

7. Foreign Direct Investment

Pakistan's net FDI has depreciated by almost 25% or $480 million to $1.45 billion provisionally during Jul-June FY23, as compared to $1.94 billion during Jul-June FY22. Whereas, the total net Foreign Investment declined by 77% or $1.43 billion to $427 million on a Y-o-Y basis in Jul-June FY23 as against the amount of $1.86 billion in Jul-June FY22. This Pie chart shows the percentage share of flows in different sectors of the Economy in the period of Jul-June FY23.





8. Balance Of Trade In Goods

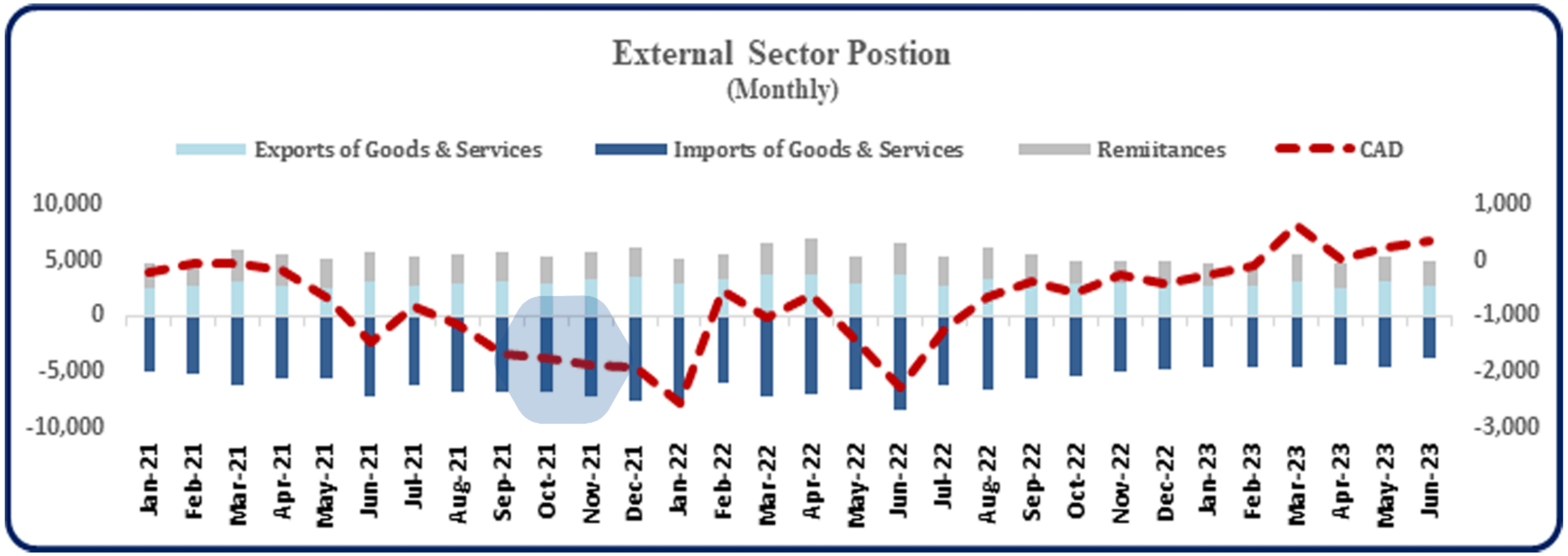
As per the PBS, Pakistan's trade deficit shrunk by a good margin of almost 43% to $27.60 billion during the period of Jul-June of FY23 vs. the same period of FY22 amidst a steep reduction in import bills. As far as exports are concerned, the same have decreased by 12.73% to USD 27.74 billion in FY23's period of Jul-June compared to USD 31.78 billion in same period of FY22. Whereas, on a monthly basis, the exports increased by almost 7.1% to $2.36 billion in June 2023 from $2.20 billion in May 2023. Moreover, the country's trade deficit went down by a healthy value of 12.45% to $1.86 billion in June 2023 from $2.13 million in May 2023 on a M-o-M basis.

9. Balance Of Payment

Pakistan's economy has experienced a surplus in its current account balance consecutively for the fourth month, following the month of March 2023, achieving a surplus $344 million in June 2023 This represents a considerable improvement from the huge deficit of $2,321 million recorded in June 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 June in the FY23, the CAD has declined by $14.92 billion, to $2.56 billion, compared to a relatively large deficit of $17.48 billion in the same period last year. The government's ability to secure the CAD at a sustainable level is a significant achievement with positive implications for Pakistan's economy. A sustainable CAD position means that the country is now able to manage its trade balance more effectively,

(USD in millions)	FY23 P (Jul-June)	FY22 (Jul-June)
Current account Balance	(2,557)	(17,481)
Capital Account Balance	205	374
Financial Account Balance	1,610	(11,261)
Net FDI in Pakistan	(316)	(1,702)
Net Portfolio investment	1,012	55
Net incurrence of Liabilities	(1,959)	12,226
Overall Balance	6,318	4,219
SBP Gross Reserve	4,557	10,064

(Source: SBP)

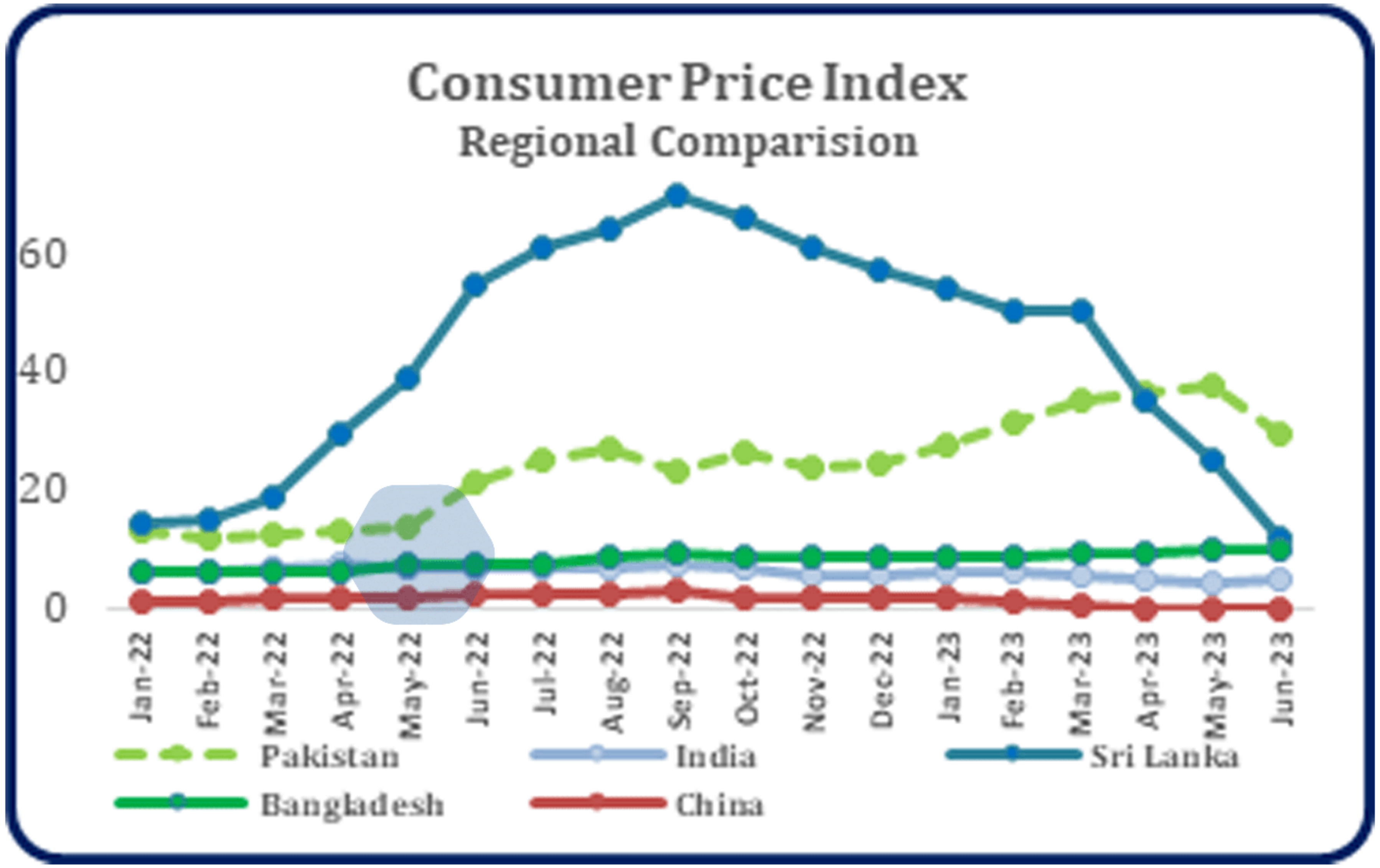


10. Regional Analysis

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 July)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	29.4	286.45	(21.36)
India	4.81	82.00	(2.70)
Bangladesh	9.74	108.48	(14.66)
China	0.00	7.15	(6.04)
Sri Lanka	12.0	308.00	8.12

(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 $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 the international markets. Additionally, the annual Planning report by Ministry of Planning sets a target inflation rate of 21% and a CAD target of 1.7% of the GDP, equivalent to approximately $6.5 billion, for the ongoing FY24.

The IMF has stressed the importance of the SBP continuing its monetary tightening measures to recalibrate expectations, as inflationary pressures are anticipated to endure in the upcoming year. The implementation of a more stringent monetary policy stance is deemed crucial to effectively tackle the existing inflationary challenges and to steer inflation back within the targeted range of 5-7% by the conclusion of FY25.

The resolution of whether the IMF program can adequately extricate Pakistan from its present economic challenges remains pending and will unfold in the months ahead. Undoubtedly, the IMF initiative can play a pivotal part in extending financial assistance and implementing necessary structural changes. However, for a comprehensive recovery, Pakistan must prioritize substantial tax reforms.

The Reform and Resource Mobilization Commission ("RRMC") has proposed equitable tax revenue measures worth PKR 1.5 trillion, and reforms in its interim report. Those measures for reforms must be implemented in letter and spirit.

After experiencing a significant downturn and reaching a meager figure of $1.45 billion during the FY23, the 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.

In our humble view, we foresee the possibility of inflation potentially declining to 21%. This decline is contingent upon the reduction in prices of petroleum products, palm oil, and coal, thereby lowering production costs and fostering a more stable economic climate. Such a decrease in inflation has the potential to yield positive outcomes, including a 3 to 4% reduction in interest rates, leading to substantial interest expense savings of approximately PKR 1.2 trillion rupees. This, in turn, can create fiscal space for Pakistan and aid in curbing the fiscal deficit. Consequently, Pakistan could find itself in a more advantageous position compared to economies grappling with twin deficits and grappling with negative interest rates.

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.