Pakonomics
Sep 2023

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Highlights

The State Bank of Pakistan's ("SBP") recent annual report on Pakistan's economy, provides projections for FY24. These projections include expectations of 2% to 3% GDP growth, a fiscal deficit ranging from 7% to 8% of GDP, a decrease in the current account deficit up to the range of 0.5% to 1.5% of the GDP, the inflation ranging between 20% and 22%, remittances estimated at $25.5 billion to $26.5 billion, export of goods between $28 billion and $29 billion, and imports of goods within the range of $50 billion to $52 billion.

The report also expresses optimism about the Large Scale Manufacturing ("LSM") sector's performance and highlights positive signs in the agriculture sector, particularly in cotton and rice production.

In the Inter-bank market, the National currency value stood at a level of PKR 280.57/USD as of 27th October 2023. The USD to PKR parity rate has been in a mixed trend since reaching the 276.83 level on 16th October 2023.

Pakistan's Large-Scale Manufacturing ("LSM") showed a growth after 13-month long period. As such, the LSM sector grew by 2.52% during August 2023 vs. August 2022. Likewise, on a Month-on-Month ("M-o-M") comparison, the LSM growth has increased by 8.44% compared to the previous month of July 2023.

The cumulative inflow of deposits in the Roshan Digital Accounts ("RDA") reached $6.76 billion at the end of September 2023.

As per the SBP, the remittances sent by Overseas Pakistani workers increased by 5.34% to $2.21 billion in September 2023 vs. $2.09 billion in August 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 815 billion in the third month of FY24, achieving its monthly target.

The Net foreign currency reserves held by the SBP stood at $7.50 billion as of 20th October 2023.

The Broad Money (M2) stock from 1st of July 2022 to 8th October 2023 has contracted to PKR 247 billion, compared to a contraction of PKR 4.80 billion last year in the same period.

As per the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation surged by 31.4% on a year-on-year ("Y-o-Y") basis in September 2023 vs. 23.2% last year.

As per the PBS, Pakistan's exports decreased by 3.63% to $6.91 billion in Jul-Sept FY24 vs. $7.17 billion in Jul-Sept FY23 on a cumulative basis.

Pakistan's net FDI has appreciated by 15% or $52.5 million to $402 million provisionally during the first quarter of FY24, as compared to $350 million during same period FY23.

The total net Foreign Investment surged by 29% or $92 million to $412 million on a Y-o-Y basis in Jul-Sept FY24 as against the amount of $320 million in same period of FY23.

The country has posted a Current account deficit ("CAD") of $947 million during the months of Jul-Sept FY24.

Economy At a Glance

Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	August	↑	2.52%	(0.16)%
Central Government Debt	August	↑	PKR 63.97 Trillion	PKR 49.57 Trillion
Credit to Private Sector	Jul – 8th Oct	↓	PKR (291) Billion	PKR (94) Billion
Roshan Digital Account	September	↓	US$ 139 Million	US$ 168 Million
Worker's Remittances	September	↓	US $2,206 Million	US $2,431 Million
Currency in Circulation	Jul – 8th Oct	↓	PKR (655) Billion	PKR 256 Billion
Net Government Sector borrowing	Jul – 8th Oct	↑	PKR 1,328 Billion	PKR 701 Billion
National CPI (Base Year 2015-16)	September	↑	31.40%	23.20%
FBR Tax Collection	Jul-Sept	↑	PKR 2,023 Billion	PKR 1,516 Billion
Foreign Exchange Reserves with SBP	As of 20th October	↑	$7.50 Billion	$7.44 Billion
Foreign Direct Investments	Jul-Sept	↑	$402 Million	$350 Million
Trade Deficit in Goods	Jul-Sept	↓	US$ (5,317) Million	US$ (9,159) Million
Current Account Deficit	Jul-Sept	↓	$(947) Million	$(2,258) Million

1. Large Scale Manufacturing

According to the PBS, Pakistan's LSM sector finally showed a growth of 2.55% in Aug 2023 on a Y-o-Y basis vs. Aug 2022, after thirteen long months of consecutive negative growth. Likewise, on a M-o-M basis, the overall output growth increased by 8.44%, compared to the month of July 2023. The cumulative LSM growth exhibited a similar trend, with a 0.50% increase, marking its return to positive territory for the first time since June 2022.

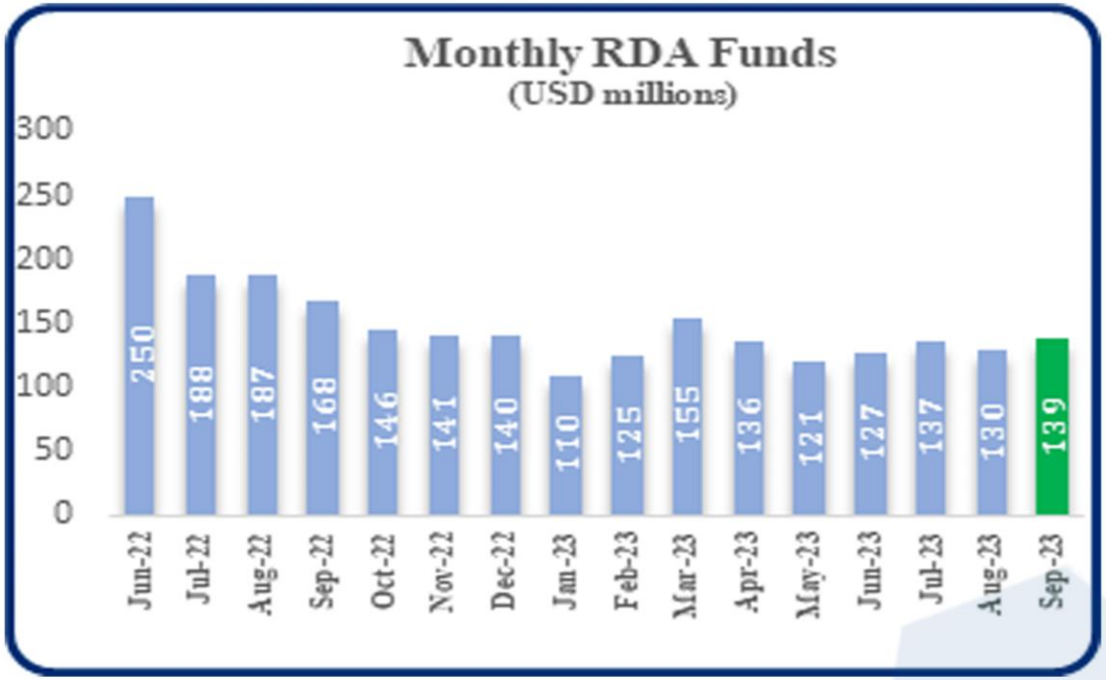
Out of 22 major industries, only 9 industries posted a surge in production during the first two months of FY24 as compared to FY23 for the same period. These include food, wearing apparel, Coke & Petroleum Products, chemicals, pharmaceutical, rubber products, non-metallic mineral products, machinery and equipment, and other manufacturing section. However, the output in beverages, tobacco, textile, wood products, leather product, iron & steel products, paper & board, fabricated metal, computer, electronics and optical products, electrical equipment, automobiles, transport equipment, and furniture has decreased during the Jul-Aug period of the FY24 months under review, compared to the preceding Fiscal Year for the same months, data from the PBS has revealed. Sector-wise, important groups such as cotton yarn, and cotton cloth contracted by 29.85% and 17.37%, while the garment sector showed growth of 36.25% in the period of Jul-Aug FY24. Moreover, the cement industry increased by a rate of 31.22%.

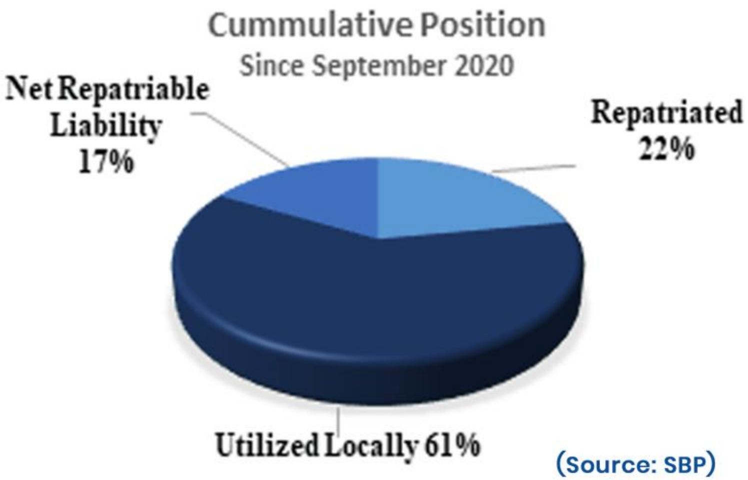
LSM (%)	Weight	Aug-23	July-23	Aug-22	Jul-Aug FY24
Textile	18.2	(16.20)	(22.00)	(5.01)	**(19.07)**
Food	10.7	7.95	10.00	(5.59)	**7.08**
Coke & Petroleum Products	6.7	30.81	(2.26)	(26.73)	**12.30**
Chemicals	6.5	(1.17)	(5.91)	4.24	**2.15**
Wearing Apparel	6.1	41.21	30.84	74.32	**36.25**
Pharmaceuticals	5.2	41.81	(54.22)	(28.91)	**47.82**
Non-Metallic Minerals Products	5.0	11.98	35.18	(5.90)	**20.64**
Beverages	3.8	8.35	(6.70)	(15.54)	**(0.07)**
Iron and Steel Products	3.4	(2.17)	(2.66)	10.28	**(2.42)**
Automobiles	3.1	(39.31)	(66.11)	(30.28)	**(53.89)**
Tobacco	2.1	(38.46)	53.97	(18.16)	**(20.75)**
Electrical Equipment	2.0	(15.81)	(22.38)	(7.02)	**(19.25)**
Paper & Board	1.6	(0.49)	(15.43)	(9.47)	**(7.78)**
Leather Products	1.2	1.53	(1.98)	4.09	**(0.26)**
Other Transport Equipment	0.7	(24.01)	(19.01)	(39.39)	**(22.78)**
LSM Growth for August 2023 (Y/Y)					**2.52%**
LSM Growth of Aug 2023 vs. July 2023 (M/M)					**8.44%**
LSM Growth Jul-Aug FY23					**0.50%**

(Source: PBS)

2. Roshan Digital Account ("RDA")

The cumulative inflow of deposits under the RDA have reached $6.76 billion since its announcement in September 2020. Out of the $6.76 billion, approximately $4.12 billion or above 60% have been utilized locally and almost 22% or $1.50 billion have been repatriated from the total received amount under the RDA. Some 617,730 accounts have been opened from 175 countries in the span of three years.

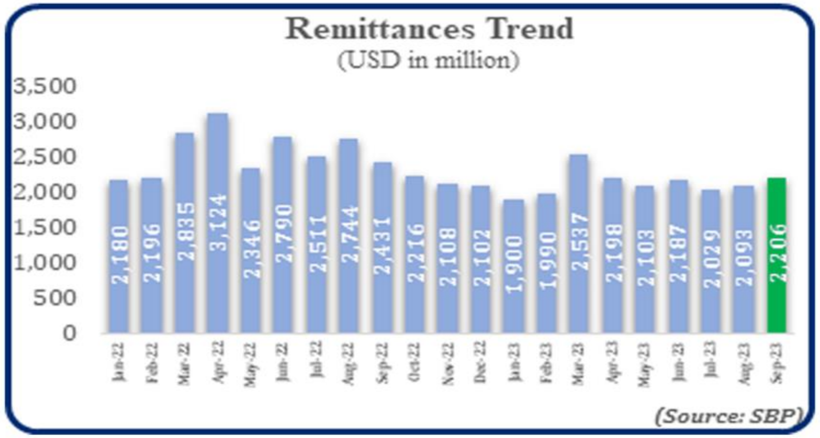


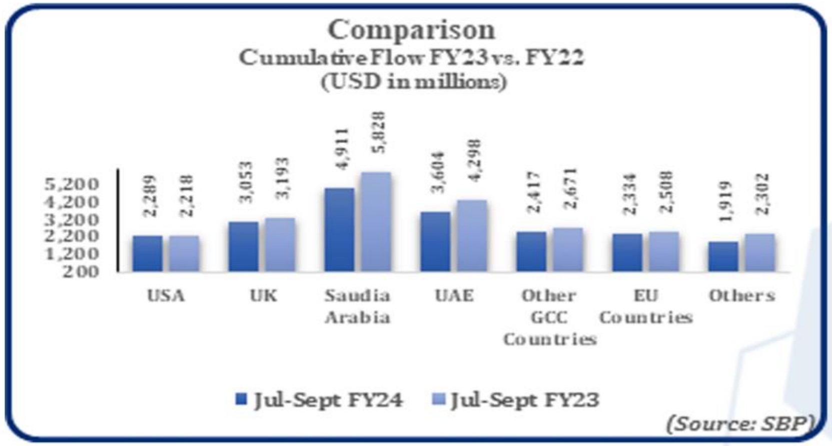


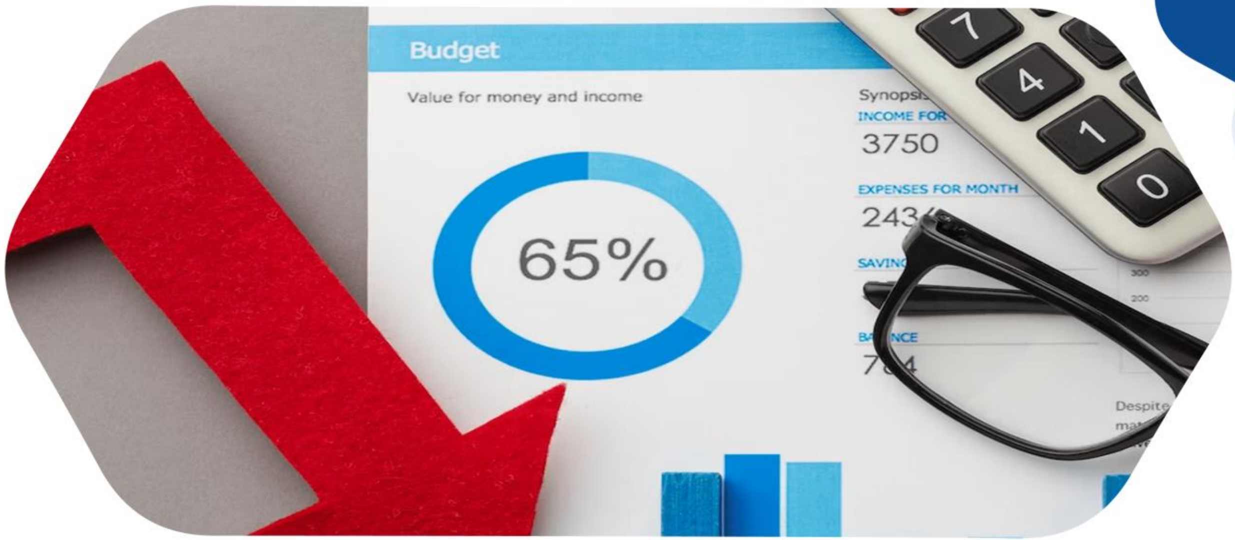
(Source: SBP)

3. Worker's Remittances

As per the SBP, the remittances sent by Overseas Pakistani workers increased by 5.34% to $2.21 billion in September 2023 vs. $2.09 billion in August 2023 on a M-o-M basis. Moreover, on a Y-o-Y comparison, the remittance inflows went down by 11.30% when compared to $2.50 billion received a year ago in the same month. Notably, on a cumulative basis, the pace of growth for remittances has contracted by almost 20% in FY24 as compared to July-Sept period of FY23, when it contracted by a 3.7%. A descriptive analysis has revealed that remittance inflows during the Jul-Sept period of FY24 were coming mainly from four major countries: Saudi Arabia, UAE, UK, and the USA. With almost a 24% share in the overall home remittances flows, Saudi Arabia remained a significant contributor. However, inflows from Saudi Arabia have recorded a negative growth of 22.1% and stand at $1.52 billion in Jul-Sept period of FY24 vs. $1.95 billion during same period of FY23. An amount to the tune of $767 million, or a 12.1% share, was received from the US, showing a contraction of 11.6% in Jul-Sept of FY24 vs. Jul-Sept period of FY23. Worker remittances from the UK decreased by 13.2%, although it contributed 15.0% or $947 million in the Jul-Sept period of FY24 over the same period of FY23. On the other hand, remittance growth from UAE declined at a rate of 30.6%, while its share is almost $1.02 billion or 16.2% share in the total remittances.

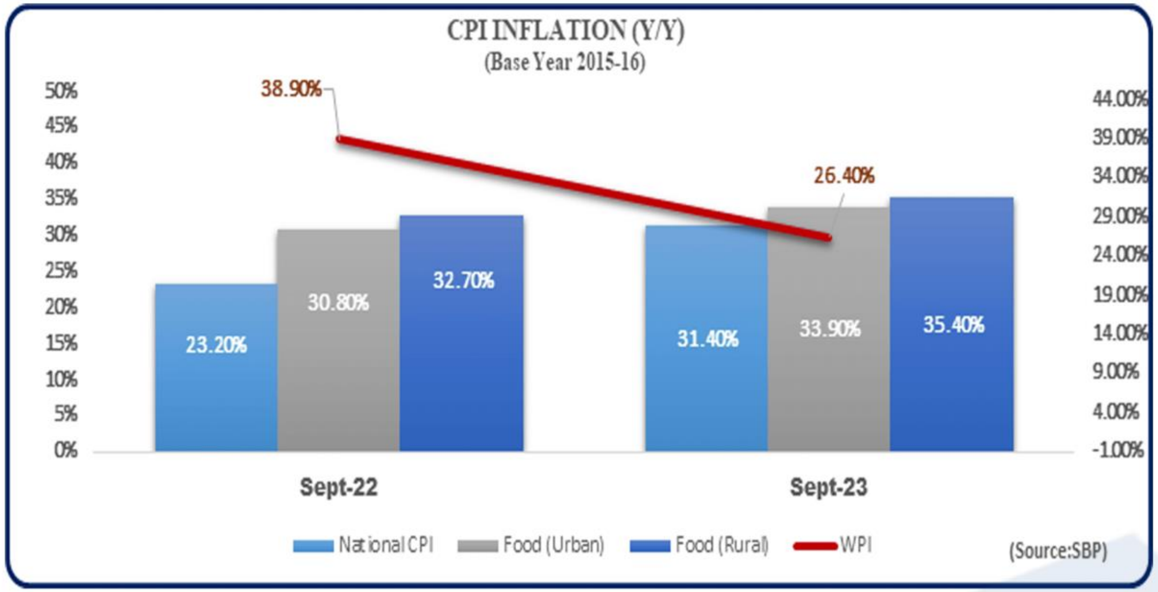






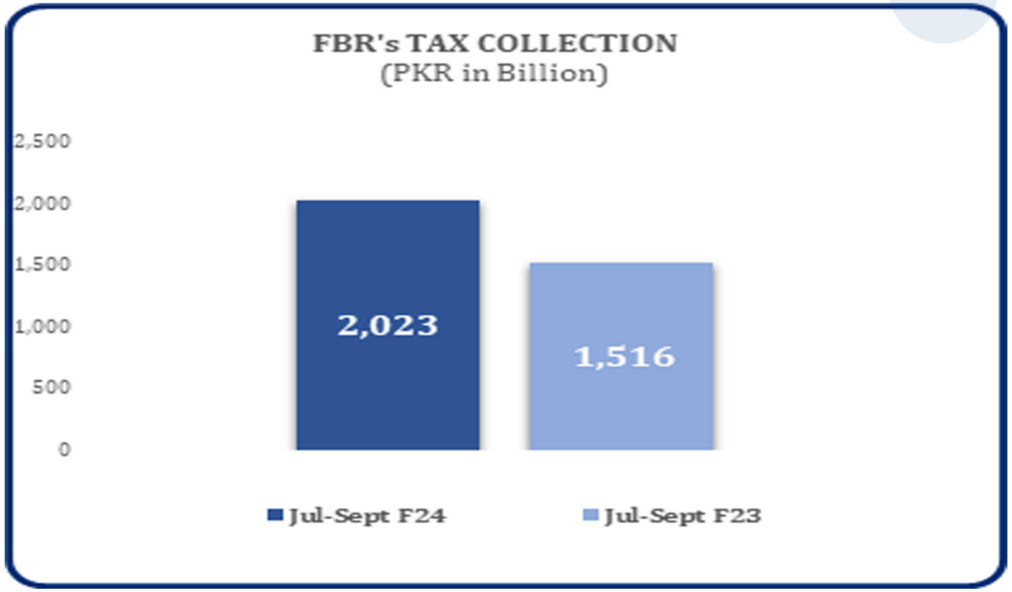
4. Consumer Price Index Inflation

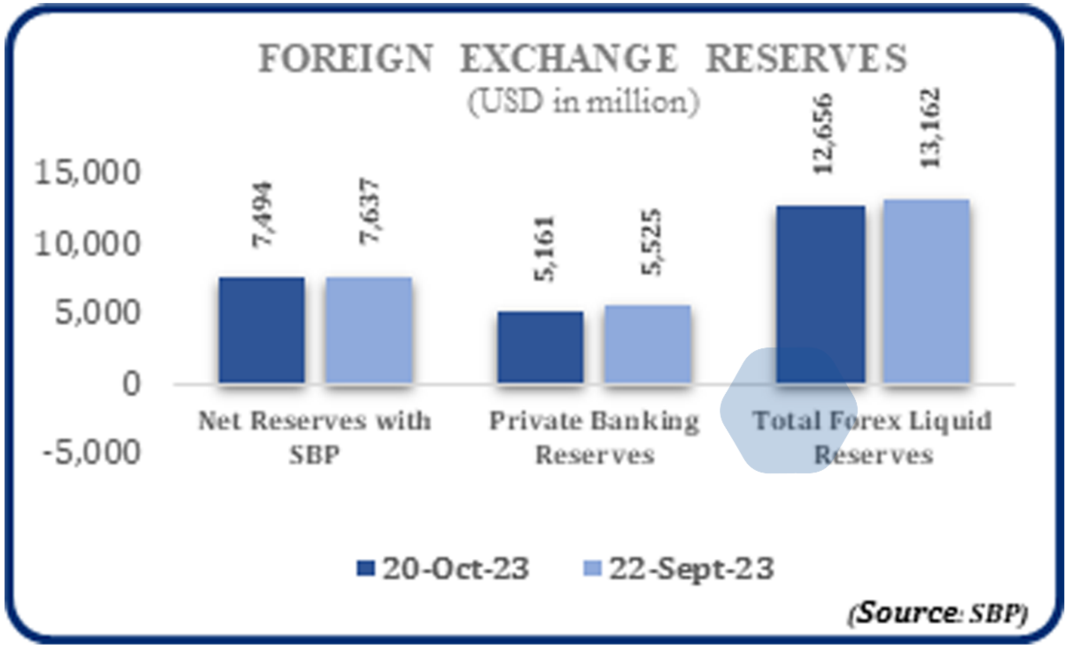
The monthly rate of inflation elevated to 31.4% in September 2023 on a Y-o-Y basis in Pakistan. The inflation rate has persisted due to a hike in the prices of non-perishable food items. In the previous month (Aug 2023), the CPI stood at 27.4%. However, Food inflation in Urban and rural areas declined to 33.9% and 35.4% in month of September 2023. In addition to that, the wholesale price index ("WPI") stood at 26.4% on a Y-o-Y basis, while in August 2023, the WPI had been recorded at around 24.3%. Whereas, on a monthly basis, the National CPI has recorded a rise of 2.0%. Similarly, the Food inflation in rural and urban areas has also risen by 1.8% and 1.5%, compared to Aug 2023, respectively. Furthermore, in Aug 2023, the Core inflation, which is calculated by excluding energy and food items, increased by 18.6% and 27.3% 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 815 billion worth of tax revenue in the third month of FY24. Moreover, the FBR has surpassed first quarter target which was set at PKR 1,977 billion. Despite the prevailing economic challenges in the nation, the FBR has effectively exceeded the tax revenue goal for Jul-Sept FY24 and collected PKR 2,023 billion. Moreover, it has demonstrated a substantial growth of 33% in comparison to the same period of FY23. As per Mr. Shahbaz Rana's article titled "Tax collection beats target by big margin" published on 29th Sept 2023 in the Express Tribune, out of the total of PKR 2,023 billion, income tax collection reached PKR 925 billion, showing a substantial increase of PKR 324 billion or 54% in the initial three months of the current fiscal year. Persistent challenges in tax collection have persisted due to a skewed emphasis on indirect taxation, which has disproportionately affected the economically disadvantaged.





6. Foreign Exchange Reserves

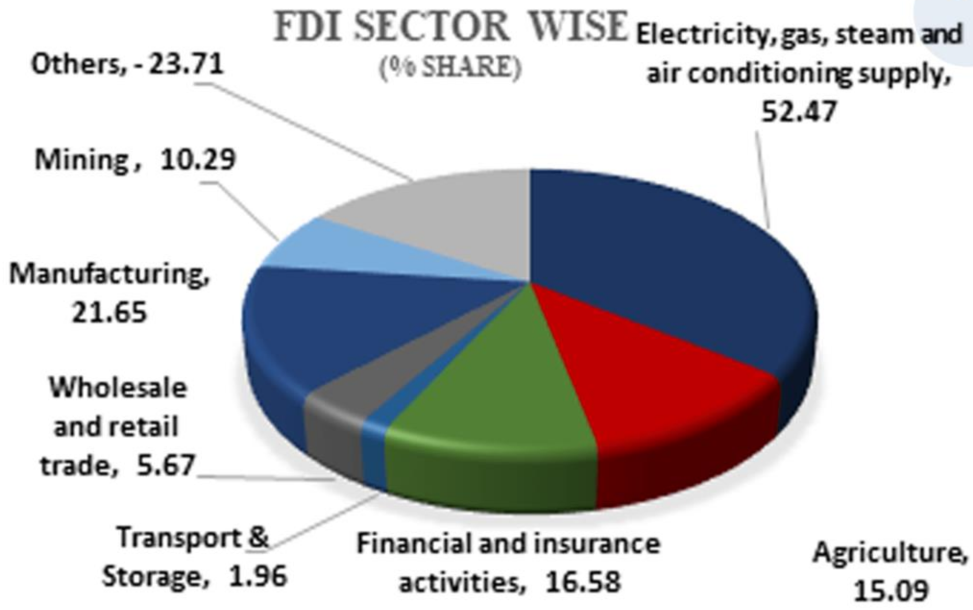
The Net reserves of the SBP stood at $7.50 billion as of 20th October 2023, decreasing by 2.85% or $220 million compared to last week's reserves of $7.71 billion on 13th October 2023.

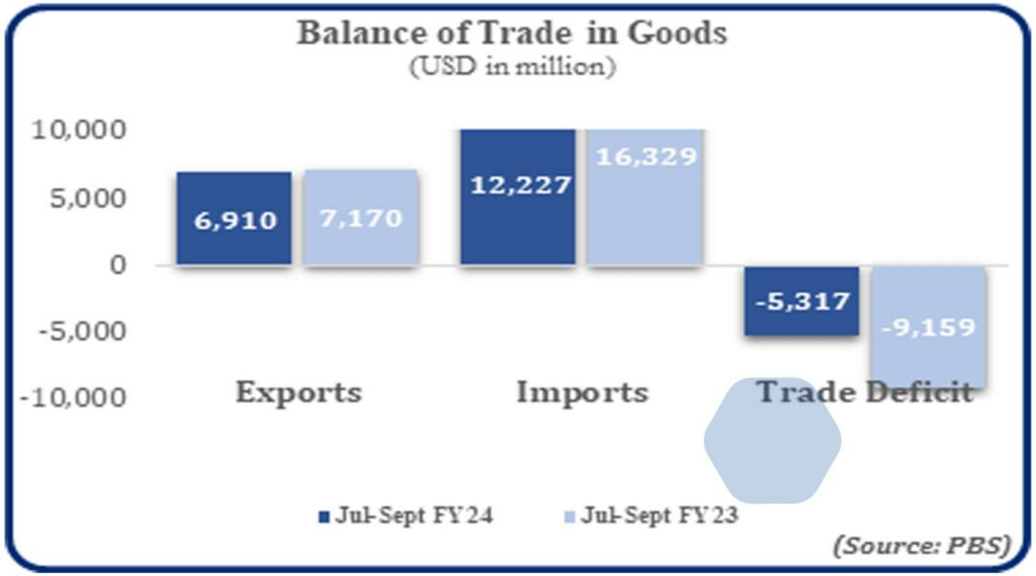
Moreover, when compared to last month reserves (which were $7.64 billion on 22nd September 2023), the Net reserves have gone down by almost 2% amidst external debt repayments, as per the SBP.

Moreover, Pakistan has, in the previous month, received $2 billion from Saudi Arabia, $1.2 billion from the IMF under the $3 billion SBA, and $1 billion from the United Arab Emirates, as per the SBP statement.

7. Foreign Direct Investment

Pakistan's net FDI has appreciated by 15% or $52.5 million to $402 million provisionally during the first quarter of FY24, as compared to $350 million during same period FY23. Whereas, the total net Foreign Investment surged by 29% or $92 million to $412 million on a Y-o-Y basis in Jul-Sept FY24 as against the amount of $320 million in same period of FY23. This Pie chart shows the percentage share of flows in different sectors of the Economy in the period of Jul-Sept FY24.





8. Balance Of Trade In Goods

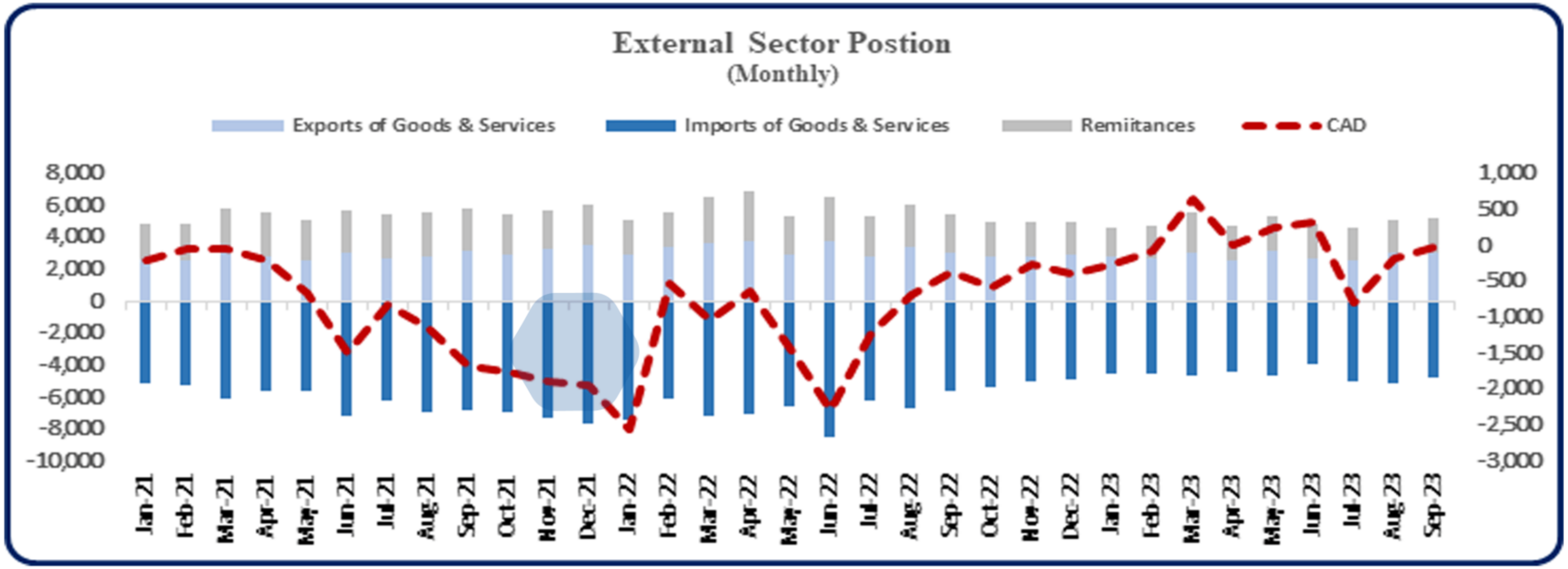
As per the PBS, Pakistan's trade deficit shrunk by a good margin of almost 42% to $5,317 billion during the period of Jul-Sept of FY24 vs. the same period of FY23 amidst a steep deduction in the import bill. As far as Exports are concerned, the same decreased by 3.63% to $6.91 billion in FY24's period of Jul-Sept compared to $7.17 billion in same period of FY23. Moreover, imports have contracted by 25.12% to $12.23 billion in the first quarter of FY24 when compared with $16.33 billion in the same period of FY23. Additionally, on a monthly basis, the exports increased by 4.65% to $2.48 in September 2023 from $2.37 billion in August 2023. Furthermore, the country's trade deficit declined by a massive margin of of almost 30% to $1.52 in September 2023 from $2.16 in August 2023 on a M-o-M basis.

9. Balance Of Payment

Pakistan's economy has experienced a current account deficit in the initial three months of FY 24, after achieving a surplus consecutively for the last fourth months of FY23. Following the deficit in August 2023 of $164 million, the CAD was recorded at a minor deficit of only $8 million in the month of September 2023. Whereas, on a year-on-year basis, the CAD reduced by 98%, when compared to a CAD of $360 million in the same month of the previous Fiscal Year. Pakistan must put in significant efforts to address its external sector if Pakistan's aims to reduce the CAD in the range of $6-6.5 billion as targeted by the Ministry of Planning. Failure to do so could have adverse implications for Pakistan's overall economic well-being. The reduction in Pakistan's CAD can be attributed to the stability of the PKR, which has controlled import costs and inflation, along with a curtailment of imports, resulting in a more balanced trade position.

(USD in Millions)	FY24 P (Jul-Sept)	FY23 (Jul-Sept)
Current account Balance	(947)	(2,258)
Capital Account Balance	35	34
Financial Account Balance	(3,611)	(229)
Net FDI in Pakistan	(394)	(322)
Net Portfolio investment	(9)	30
Net incurrence of Liabilities	2,901	90
Overall Balance	(2,239)	2,018
SBP Gross Reserve	7,693	8,045

(Source: SBP)

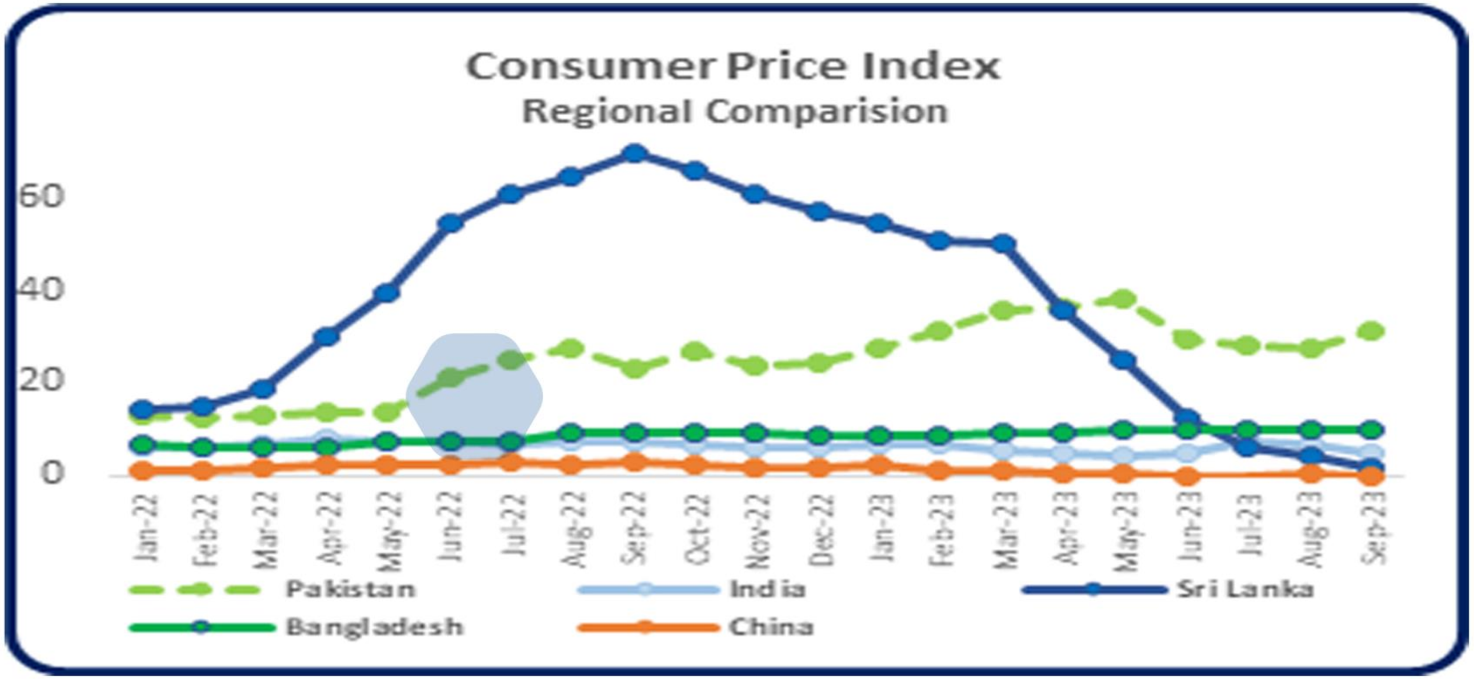


10. Regional Analysis

Compared to other countries in the region, Pakistan has experienced a double-digit inflation on a Y-o-Y basis, whilst Sri Lanka has shown signs of recovery with inflation rapidly declining. The Pakistani economy is slightly stable due to currency stability, which is reflected in the declining CPI, and the same trend might continue in the coming months amidst a rise in the parity value of the PKR. On the other hand, the Sri Lankan rupee has been relatively stable against the US dollar, resulting in a decline in CPI in Sri Lanka over the last six months. In addition to that, India's stable currency has limited the impact of rising inflation on their economy, despite their food inflation surging which elevated their inflation rate in September 2023. Furthermore, China encountered zero percent price increase after a 0.1% rise in inflation rate, illustrating that the impacts of price volatility are relatively inconspicuous in their nation despite subdued consumer demand. Nevertheless, this situation could potentially give rise to challenges in terms of job generation and impede the pace of economic activity in China.

Country	CPI (%)	Local Currency Units per USD (As of 27th Oct)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	31.40	280.57	(26.67)
India	5.02	83.25	(1.20)
Bangladesh	9.63	110.00	(8.63)
China	0.00	7.32	(0.71)
Sri Lanka	1.30	326.25	10.12

(Source: Trading Economics)



Outlook

According to the SBP Annual Report's outlook for 2023-24, the impact of the recent monetary tightening and other contractionary measures is anticipated to limit domestic demand. Furthermore, improvements in the supply situation, driven by increased production of vital crops and the resumption of imports, are expected to ease inflationary pressures in FY24. Along with these domestic supply improvements, factors such as a high inflation base from the previous year and a subdued trend in non-energy global commodity prices are projected to contribute to reducing inflation to a range of 20.0% to 22.0% in FY24. However, unforeseen climate events, adverse developments in global commodity prices, particularly in oil, and external economic challenges pose significant upside risks to this outlook.

Moreover, the SBP foresees a fiscal deficit ranging from 7.0% to 8.0% in FY24. Despite this projection, higher interest payments are expected to hinder significant reductions in government spending during FY24. However, non-interest expenditures are anticipated to remain under control due to reduced subsidies and grants. A modest economic recovery is likely to boost revenue collection in FY24. To increase revenues during this fiscal year, the government plans to raise the Petroleum Development Levy (PDL) to PKR 60 per liter and implement higher tax rates for top income brackets, builders, developers, property, and introduce additional GST on unregistered businesses.

Given the current economic circumstances, there is a pressing need to lower the interest rates to further support Pakistan's economic recovery. Pakistan's LSM sector has, for the first time in 13 months, posted a positive growth on a year on year basis. Such positive growth in the LSM sector is essential for directly raising the GDP growth rate, and indirectly stimulating activity in sectors like transport, wholesale and retail trade, and finance. It will also imply higher demand for inputs like electricity and gas and contribute to reducing the high level of unemployment in the country.

Emerging from a notable downturn that led to a modest $1.45 billion FDI in the FY23, Pakistan's net FDI is now set for a robust resurgence. The prospects for FDI inflows in the ongoing FY24 are remarkably promising, with forecasts pointing to a substantial surge to approximately $2.8 billion. This projected upswing in FDI even surpasses the levels witnessed in 2021-22. For a concise overview of investment opportunities in Pakistan and the conducive business environment, including valuable tax insights, designed to attract potential investors keen on contributing to Pakistan's growth story, you can read the 5th Edition of our publication "Doing Business in Pakistan – A compendious study on statutory stipulations" by clicking on the link below.

Doing Business in Pakistan (5th Edition)

Link: https://cutt.ly/VweWRmpY

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.