TOLA ASSOCIATES
TAX & CORPORATE ADVISORS

Pakonomics

Oct 2023

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") and Pakistani authorities have successfully achieved a staff-level agreement for the first review under the Stand-By Arrangement ("SBA"). Moreover, upon approval, Pakistan is set to receive SDR 528 million (approximately USD 700 million) in financial support.

Furthermore, the aforesaid agreement focuses on fiscal consolidation, energy sector reforms, a return to a market-determined exchange rate, and state-owned enterprise and governance reforms. The overarching goal is to attract investment, promote job creation, and enhance social assistance.

In the Inter-bank market, the National currency value stood at a level of PKR 285.52/USD as of 28th November 2023. The USD to PKR parity rate has appreciated since reaching the IMF staff level agreement on 15th November 2023, barring small amount of depreciation in previous two sessions.

Pakistan's Large-Scale Manufacturing ("LSM") grew by 1.01% during September 2023 vs. September 2022. However, on a Month-on-Month ("M-o-M") comparison, the LSM growth has declined by 3.56% compared to the previous month of August 2023.

The cumulative inflow of deposits in the Roshan Digital Accounts ("RDA") reached $6.9 billion at the end of October 2023.

As per the SBP, the remittances sent by Overseas Pakistani workers increased by 11.54% to $2.46 billion in October 2023 vs. $2.21 billion in September 2023 on a M-o-M basis.

As per the official statistics of the Federal Board of Revenue ("FBR"), the FBR has collected tax revenue worth PKR 707 billion in the fourth month of FY24. Moreover, the FBR has exceeded its Jul-Oct target by PKR 66 billion.

The Net foreign currency reserves held by the SBP stood at $7.18 billion as of 17th November 2023.

The Broad Money (M2) stock from 1st of July 2022 to 11th November 2023 has contracted to PKR 3.2 billion, compared to PKR 198 billion last year in the same period.

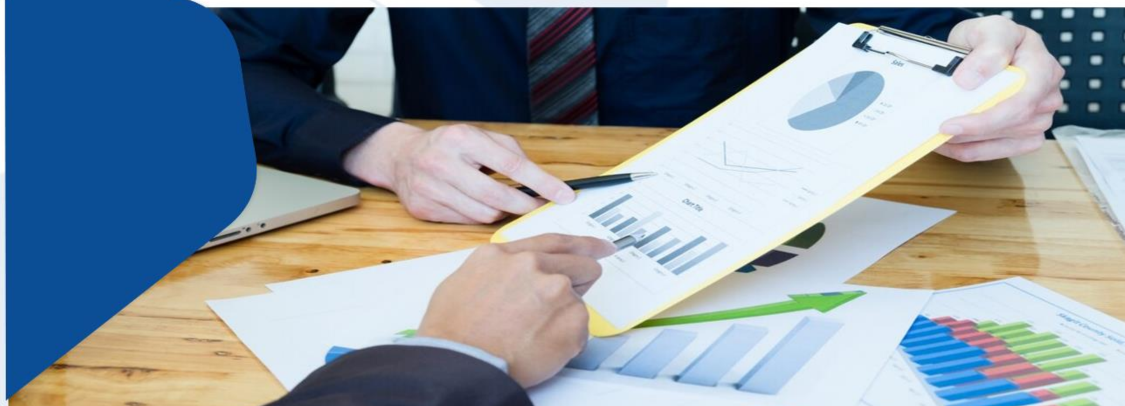
As per the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation has eased down to 26.9% on a year-on-year ("Y-o-Y") basis in October 2023 vs. 26.6% last year.

As per the PBS, Pakistan's exports have increased by 0.50% to $9.60 billion in Jul-Oct FY24 vs. $9.55 billion in Jul-Oct FY23 on a cumulative basis.

Pakistan's net FDI has appreciated by 7.1% or $35 million to $525 million provisionally during the Jul-Oct period of FY24, as compared to $490 million during same period in FY23.

The total net Foreign Investment surged by almost 13.0% or $61 million to $536 million on a Y-o-Y basis in Jul-Oct FY24 as against the amount of $475 million in same period of FY23.

The country has posted a Current account deficit ("CAD") of $1,059 million during the months of Jul-Oct FY24.



Economy At a Glance

Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	September	↑	1.01%	(2.85)%
Central Government Debt	September	↑	PKR 62.29Trillion	PKR 49.46 Trillion
Credit to Private Sector	Jul – 11th Nov	↓	PKR (176) Billion	PKR (44) Billion
Roshan Digital Account	October	↓	US$ 142 Million	US$ 146 Million
Worker's Remittances	October	↓	US $2,463 Million	US $2,216 Million
Currency in Circulation	Jul – 11th Nov	↓	PKR (472) Billion	PKR 239 Billion
Net Government Sector borrowing	Jul – 11th Nov	↑	PKR 2,139 Billion	PKR 498 Billion
National CPI (Base Year 2015-16)	October	↑	26.9%	26.6%
FBR Tax Collection	Jul-Oct	↑	PKR 2,748 Billion	PKR 2,159 Billion
Foreign Exchange Reserves with SBP	As of 20th October	↑	$7.18 Billion	$7.83 Billion
Foreign Direct Investments	Jul-Oct	↑	$525 Million	$490 Million
Trade Deficit in Goods	Jul-Oct	↓	US$ (7,491) Million	US$ (11,356) Million
Current Account Deficit	Jul-Oct	↓	$(1,059) Million	$(3,107) Million

1. Large Scale Manufacturing

According to the PBS, Pakistan's LSM sector showed a positive growth of 1.01% in September 2023 on a Y-o-Y basis vs. September 2022. After thirteen long months of consecutive negative growth, this is only the second month that the LMS sector has witnessed growth. However, on a M-o-M basis, the overall output growth decreased by 3.56%, compared to the month of August 2023. Moreover, cumulative LSM growth exhibited a positive trend, with a 0.68% increase in the first quarter vs the same period of last FY23.

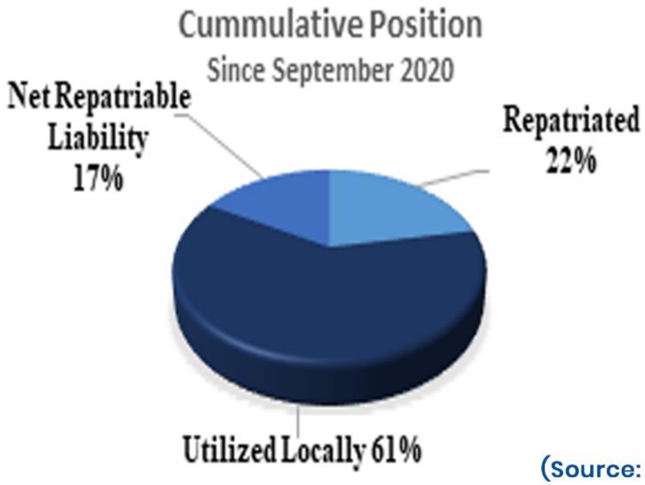
Out of 22 major industries, only 11 industries posted a surge in production during the Jul-Sept period of FY24 as compared to FY23 for the same period. These include food, beverages, wearing apparel, Coke & Petroleum Products, chemicals, pharmaceutical, leather product, non-metallic mineral products, machinery and equipment, fabricated metal and other manufacturing section. However, the output in Tobacco, rubber products, textile, wood products, iron & steel products, paper & board, fabricated metal, computer, electronics and optical products, electrical equipment, automobiles, other transport equipment, and furniture has decreased during the Jul-Sep 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 29.83% and 17.31% respectively, whilst the garment sector showed a growth of 39.86% in the period of Jul-Sep FY24. Moreover, the cement industry has witnessed a growth of 15.38%.

LSM (%)	Weight	Sept-23	Aug-23	Sept-22	Jul-Sept FY24
Textile	18.2	(21.76)	(16.20)	(2.50)	**(19.99)**
Food	10.7	1.38	7.95	(3.07)	**5.16**
Coke & Petroleum Products	6.7	17.00	30.81	(24.36)	**13.82**
Chemicals	6.5	1.70	(1.17)	9.56	**1.95**
Wearing Apparel	6.1	47.94	41.21	52.20	**39.86**
Pharmaceuticals	5.2	29.53	41.81	(22.50)	**41.28**
Non-Metallic Minerals Products	5.0	(3.51)	11.98	(1.00)	**10.77**
Beverages	3.8	10.05	8.35	(11.14)	**2.85**
Iron and Steel Products	3.4	(1.74)	(2.17)	(6.96)	**(2.20)**
Automobiles	3.1	(22.88)	(39.31)	(52.34)	**(45.97)**
Tobacco	2.1	(56.99)	(38.46)	(10.78)	**(38.43)**
Electrical Equipment	2.0	(3.92)	(15.81)	(1.97)	**(12.11)**
Paper & Board	1.6	(5.96)	(0.49)	(8.15)	**(7.21)**
Leather Products	1.2	5.76	1.53	4.99	**(1.70)**
Other Transport Equipment	0.7	3.15	(24.01)	(45.01)	**(12.50)**
LSM Growth for Sept 2023 (Y/Y)					**1.01%**
LSM Growth of Sept 2023 vs. Aug 2023 (M/M)					**(3.56%)**
LSM Growth Jul-Sep FY23					**0.68%**

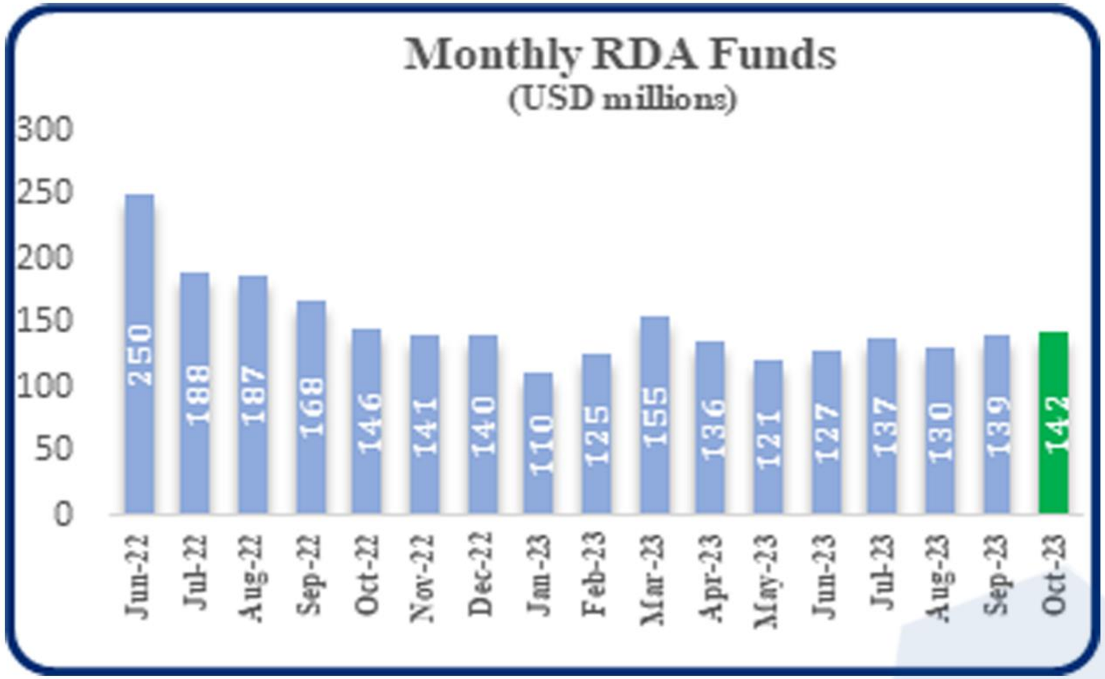
(Source: PBS)

2. Roshan Digital Account ("RDA")

The cumulative inflow of deposits under the RDA have reached $6.98 billion since its announcement in September 2020. Out of the $6.98 billion, approximately $4.22 billion or above 61% have been utilized locally and 22% or $1.52 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.

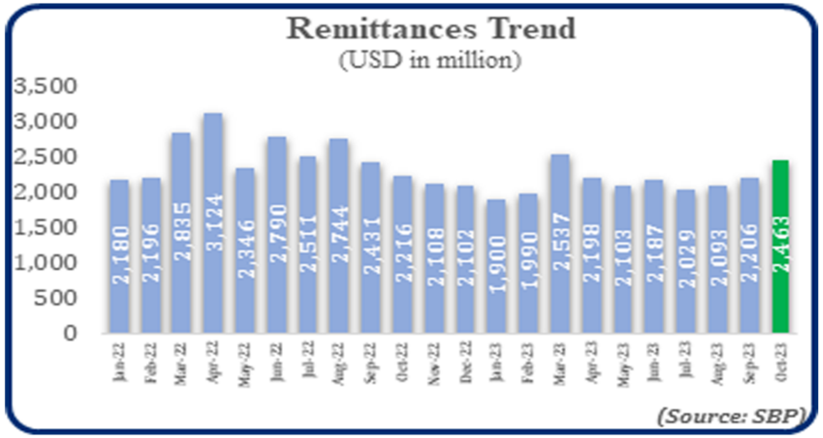


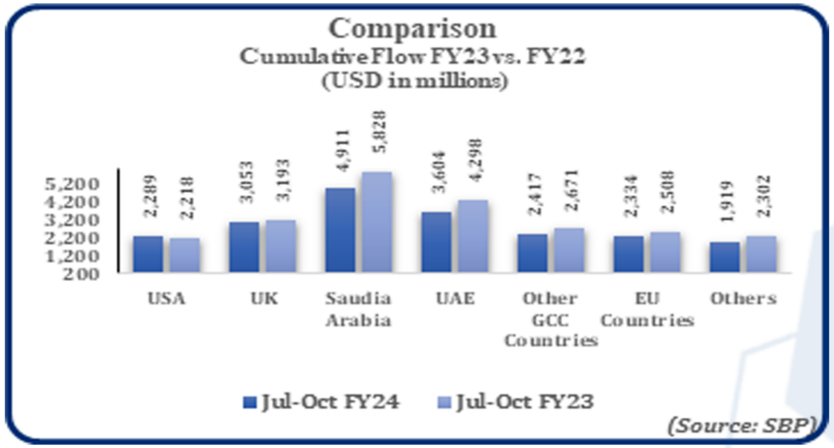
(Source: SBP)

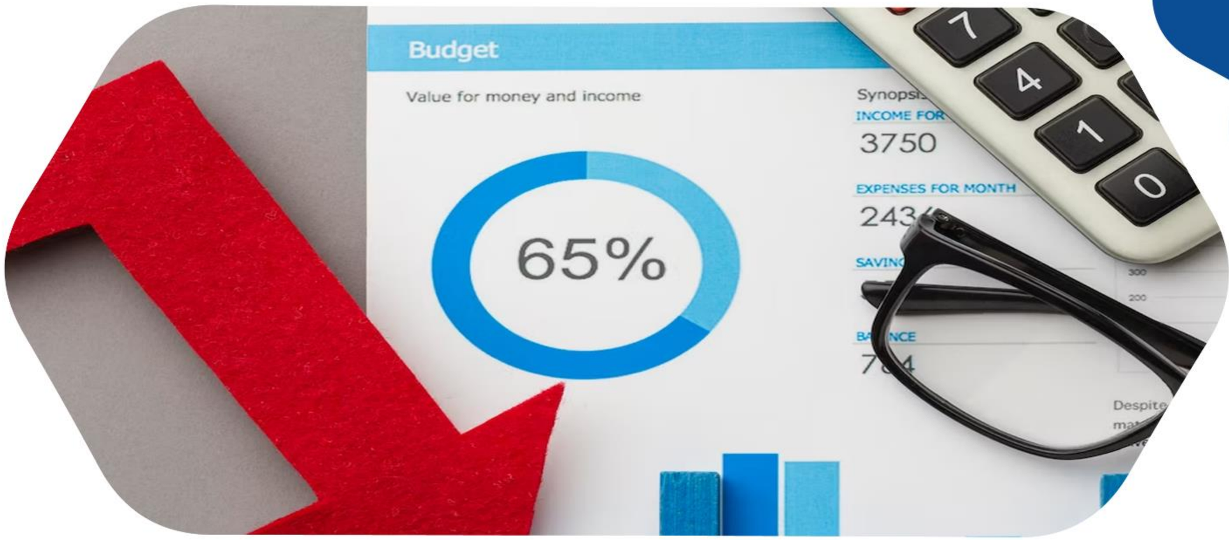


3. Worker's Remittances

As per the SBP, the remittances sent by Overseas Pakistani workers have increased by 11.54% to $2.46 billion in October 2023 vs. $2.21 billion in September 2023 on a M-o-M basis. Moreover, on a Y-o-Y comparison, the remittance inflows went up by 10.58% when compared to $2.25 billion received a year ago in the same month. Notably, on a cumulative basis, the pace of growth for remittances has contracted by 13.3% in FY24 as compared to July-Oct period of FY23, when it contracted by a 6.3%. A descriptive analysis has revealed that remittance inflows during the July-Oct period of FY24 were coming mainly from four major countries: Saudi Arabia, UAE, UK, and the USA. With more than 24% share in the overall home remittances flows, Saudi Arabia remained a significant contributor. However, the inflows from Saudi Arabia have recorded a negative growth of 15.7% and stand at $2.13 billion in July-Oct period of FY24 vs. $2.79 billion during same period of FY23. An amount to the tune of $1.13 billion, or an almost 12.0% share, was received from the US, showing a contraction of 7.0% in July-Oct of FY24 vs. July-Oct period of FY23. Worker remittances from the UK decreased by almost 7.0%, although it contributed 14.53% or $1.28 billion in the July-Oct period of FY24 over the same period of FY23. On the other hand, remittance growth from UAE declined at a rate of 21.2%, while its share is almost $1.50 billion or 17.0% share in the total remittances.

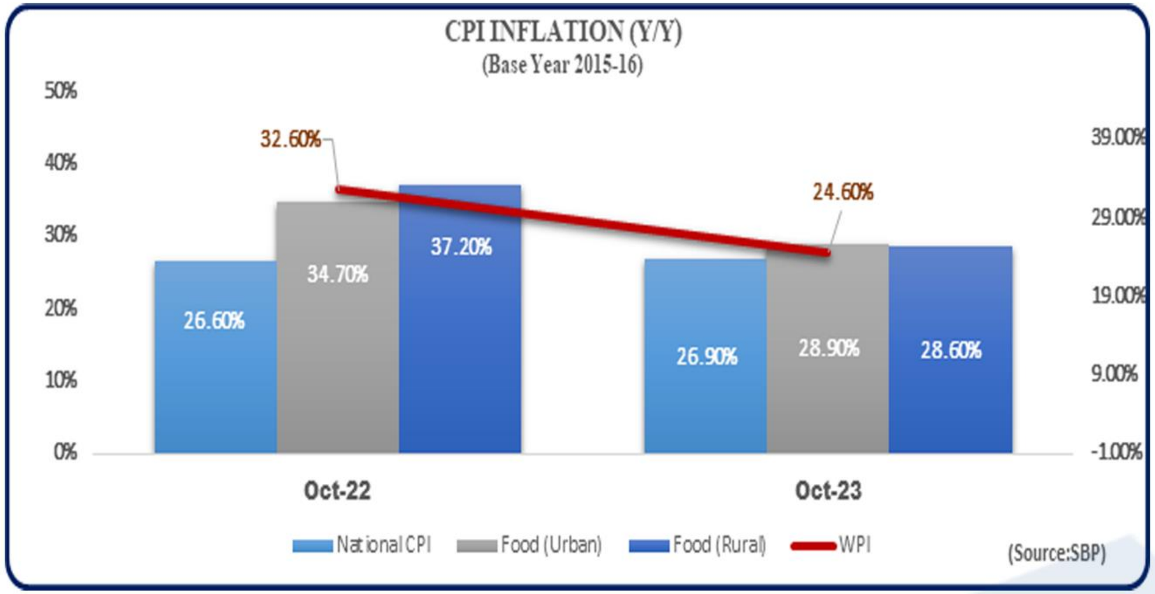






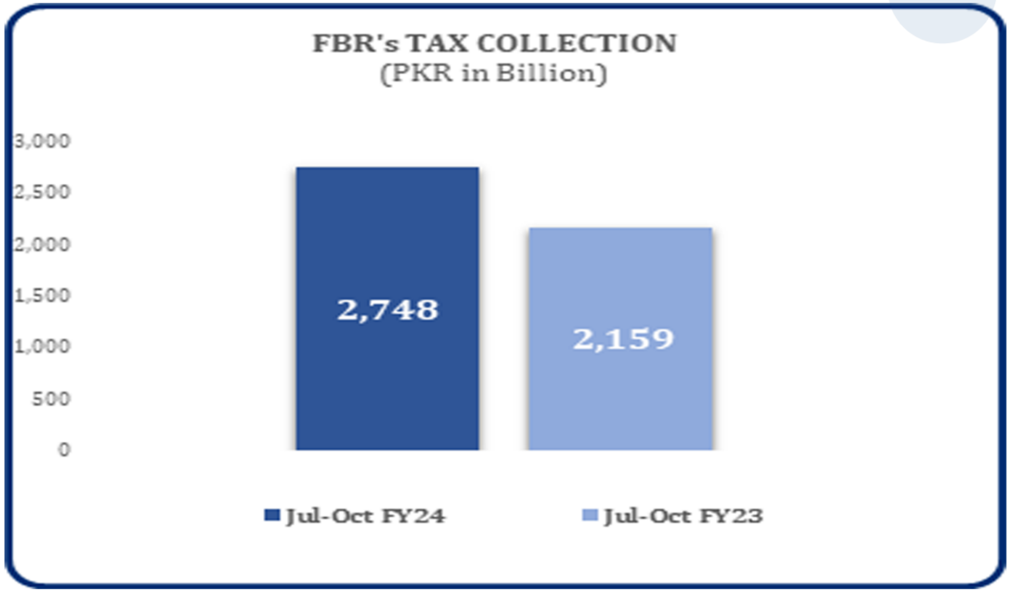
4. Consumer Price Index Inflation

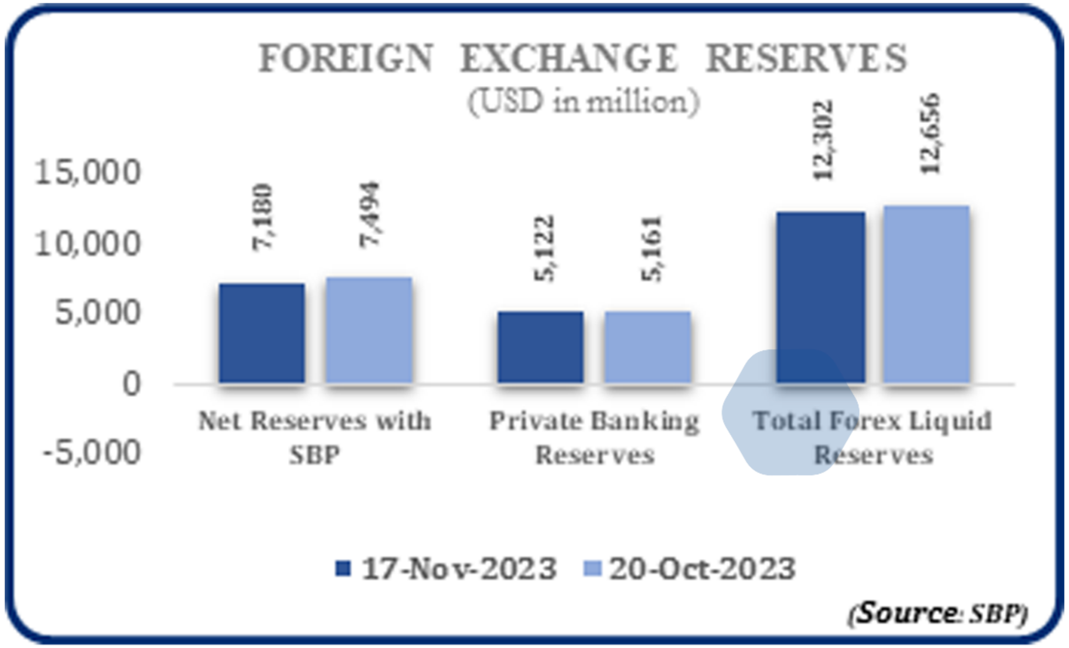
The monthly rate of inflation has eased down to 26.9% in October 2023 on a Y-o-Y basis in Pakistan. The inflation rate has persisted due to a hike in the prices of non-perishable food items and utility bills as compare to last year's same month. Moreover, in the previous month (September 2023), the CPI stood at 31.4%. However, Food inflation in Urban and rural areas declined to 28.9% and 28.6% in month of October 2023. In addition to that, the wholesale price index ("WPI") stood at 24.6% on a Y-o-Y basis, while in September 2023, the WPI had been recorded at around 26.4%. Whereas, on a monthly basis, the National CPI has recorded a rise of 1.1%. Similarly, the Food inflation in rural and urban areas has also risen by 0.6% and 0.7%, compared to September 2023, respectively. Furthermore, in October 2023, the Core inflation, which is calculated by excluding energy and food items, increased by 18.5% and 26.7% 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 707 billion worth of tax revenue in the fourth month of FY24. Moreover, the FBR has surpassed Jul-Oct period target which was set at PKR 2,682 billion. Moreover, the FBR has effectively exceeded the tax revenue goal for Jul-Oct FY24 and collected PKR 2,748 billion. Moreover, it has demonstrated a substantial growth of 27.3% in comparison to the same period of FY23. As per Mr. Shahbaz Rana's article titled "FBR beats target, collects Rs2.75tr in Jul-Oct" published on 1st Nov 2023 in the Express Tribune, out of the total of PKR 2,748 billion, income tax collection reached PKR 1.23 trillion, showing a substantial increase of PKR 335 billion or 38% in the first four months of the current fiscal year. Persistent challenges in tax collection have remained due to a skewed emphasis on indirect taxation, which has disproportionately affected the economically-disadvantaged.





6. Foreign Exchange Reserves

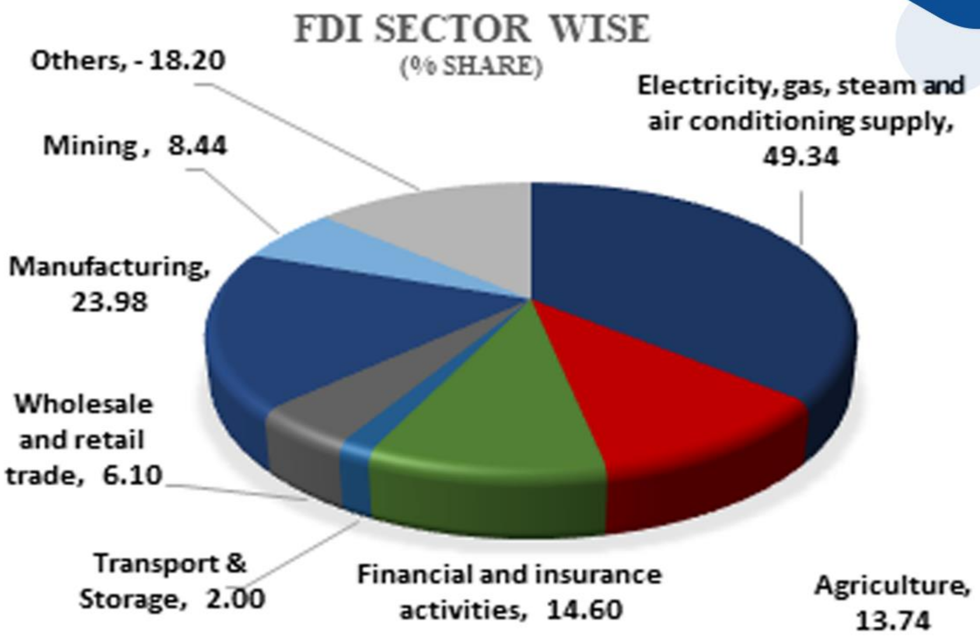
The Net reserves of the SBP stood at $7.18 billion as of 17th November 2023, decreasing by 2.9% or $217 million compared to last week's reserves of $7.40 billion on 10th November 2023.

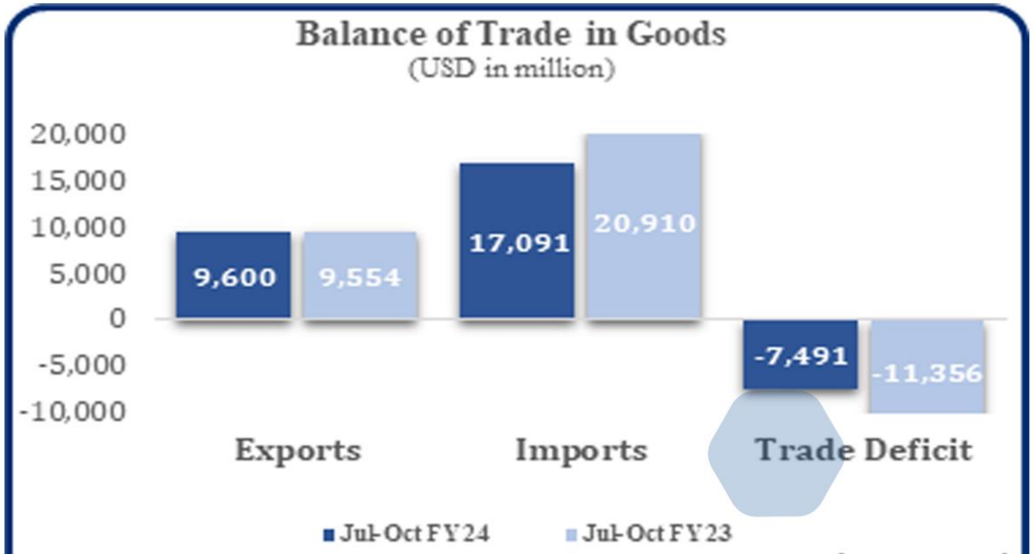
Moreover, when compared to the reserves of the previous month (which were $7.50 billion on 20th October 2023), the Net reserves have gone down by 4.20% amidst external debt repayments, as per the SBP.

Furthermore, Pakistan has, earlier in July 2023, 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 7.1% or $35 million to $525 million provisionally during the Jul-Oct period of FY24, as compared to $490 million during same period FY23. Whereas, the total net Foreign Investment surged by almost 13.0% or $61 million to $536 million on a Y-o-Y basis in Jul-Oct FY24 as against the amount of $475 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-Oct FY24.





(Source: PBS)

8. Balance Of Trade In Goods

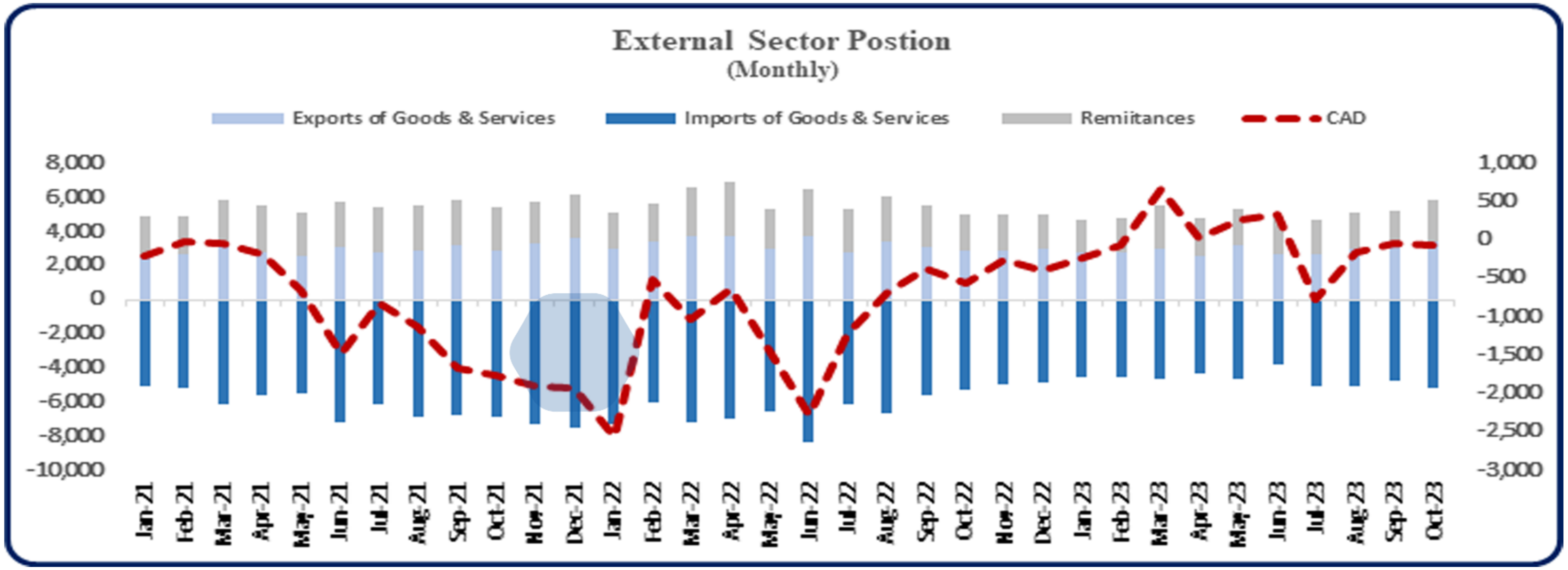
As per the PBS, Pakistan's trade deficit shrunk by a good margin of almost 34% to $7.50 billion during the period of Jul-Oct of FY24 vs. the same period of FY23 amidst a steep reduction in the import bill. As far as Exports are concerned, the same increased by 0.5% to $9.60 billion in FY24's period of Jul-Oct compared to $9.55 billion in same period of FY23. Moreover, imports have contracted by 18.3% to $17.09 billion in the initial four months of FY24 when compared with $20.91 billion in the same period of FY23. Additionally, on a monthly basis, the exports have increased by 8.64% to $2.69 in October 2023 from $2.48 billion in September 2023. Furthermore, the country's trade deficit has declined by a massive margin of almost 43% to $2.17 in October 2023 from $2.17 in October 2023 on a M-o-M basis.

9. Balance Of Payment

Pakistan's economy has experienced a current account deficit ("CAD") in the initial four months of FY24, after achieving a surplus consecutively for the last fourth months of FY23. Following the current account deficit in September 2023 of just $46 million, the CAD was recorded at a minor deficit of only $74 million in the month of October 2023. Whereas, on a year-on-year basis, the CAD reduced by 91.0%, when compared to a CAD of $849 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 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-Oct)	FY23 (Jul-Oct)
Current account Balance	(1,059)	(3,107)
Capital Account Balance	38	52
Financial Account Balance	(3,617)	(2,132)
Net FDI in Pakistan	(512)	(452)
Net Portfolio investment	(14)	32
Net incurrence of Liabilities	2,583	1,152
Overall Balance	(2,067)	845
SBP Gross Reserve	7,521	8,972

(Source: SBP)

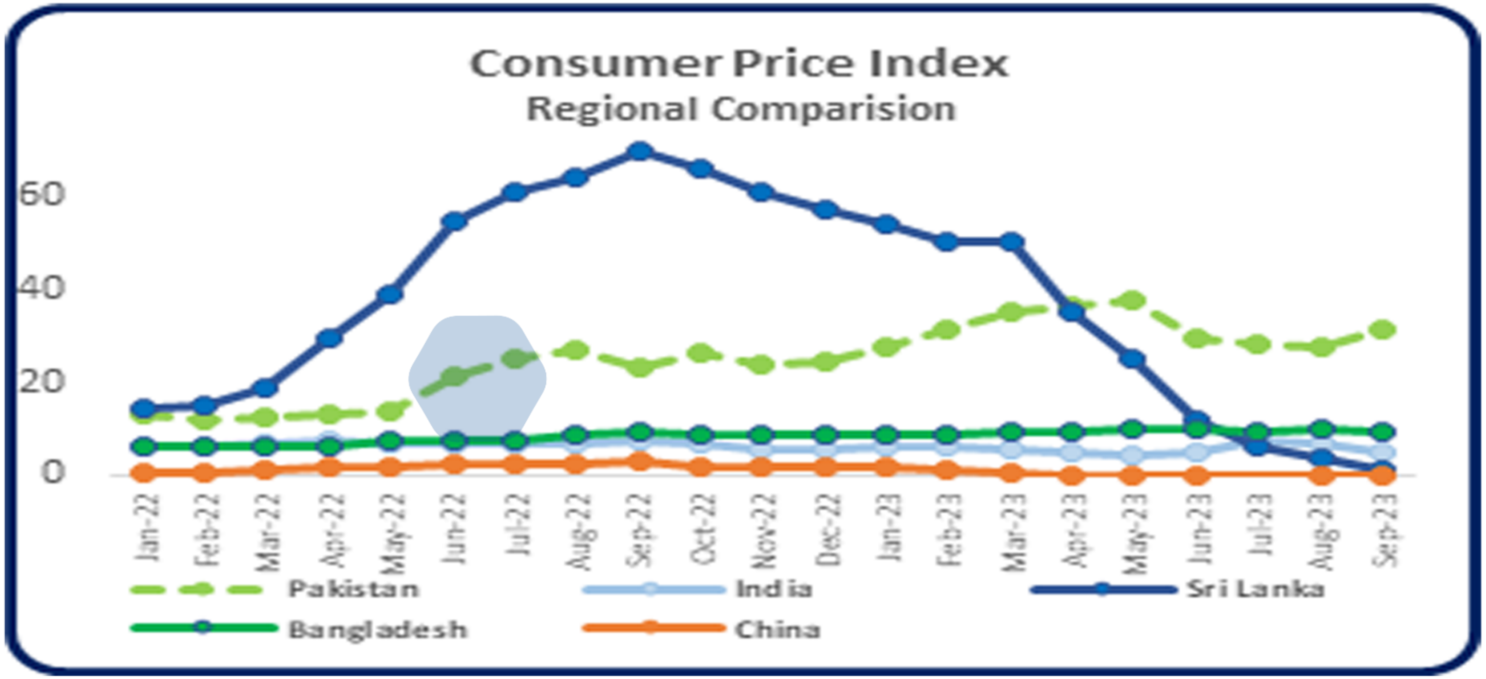


10. Regional Analysis

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 to an all-time low at 1.5%. 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. As far as Sri Lankan Economy is concerned, from June, its inflation has significantly decreased. This is attributed, in part, to the statistical base effect, and is further supported by a stronger Sri-lankan rupee currency and better harvests. 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 deflation after a 0% 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 28th Nov)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	26.7	285.52	(27.50)
India	4.9	83.30	(2.08)
Bangladesh	9.9	110.00	(8.48)
China	(0.2)	7.16	(0.24)
Sri Lanka	1.5	329.00	9.37

(Source: Trading Economics)



Outlook

According to the outlook of the SBP Annual Report for 2023-24, the impact of the recent monetary tightening and other contractionary measures are 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.

During their meeting with the Pakistani government, the IMF emphasized a tentative economic recovery while underscoring external risks. Key focus areas comprise of fiscal consolidation, strengthening the social safety net, energy sector reforms, adopting market-determined exchange rates, implementing proactive monetary policies, bolstering financial sector resilience, and undertaking reforms in state-owned enterprises and governance. The authorities aim to enhance resilience in the face of external risks and achieve balanced economic growth.

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. In his assessment and outlook on stabilizing the economy, M. Amayed Ashfaq Tola, President of Tola Associates, commended the SBP for its decision not to increase interest rates, recognizing the adverse impact higher rates have had on the economy. However, in his view, Mr. Amayed stated that he believes that there was a justification for a reduction in interest rates by 50 to 100 basis points in the latest Monetary Policy Committee (MPC) meeting convened on October 30th, 2023.To view the entire comment, you may click on the following link: Click Here

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. Further, the Federal Government has already levied a windfall income tax on the foreign exchange income of banks at 40%, vide SRO 1588(I)/2023, on 21st November 2023. You can access our comments on the said windfall income tax by clicking the following link: Click Here

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.