TOLA ASSOCIATES
TAX & CORPORATE ADVISORS

Pakonomics

April 2024

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 Monetary Policy Committee ("MPC") decided to keep the policy rate unchanged at 22 percent in its MPC meeting on 29th April 2024. The said Committee observed significant improvements in inflation and the external position due to macroeconomic stabilization measures, despite moderate economic recovery.

The MPC further stated that inflation remains at elevated levels, and that global commodity prices have stabilized amid resilient global growth. Recent geopolitical events add uncertainty, and upcoming budget measures may impact near-term inflation in a negative manner. The MPC emphasized maintaining the current monetary policy to achieve the target inflation range of 5-7 percent by September 2025.

In the inter-bank market, the prevailing value of the national currency stands at PKR 278.30/USD as of May 27th, 2024. Over the past 30 days, the USD to PKR parity rate has exhibited a mixed trend, albeit indicating a gradual recovery. It would be highly commendable if Pakistan could successfully secure upcoming IMF loan tranche in the coming months.

According to the Pakistan Bureau Statistics ("PBS"), Pakistan's LSM sector showed a growth of 2.04% in March 2024 on a Year-on-Year ("Y-o-Y") basis vs. March 2023. After a contraction in the initial months of FY24, the LSM sector has witnessed a positive trend in four consecutive months.

The cumulative inflow of deposits in the Roshan Digital Accounts ("RDA") reached $7.83 billion at the end of April 2024.

As per the SBP, the remittances sent by Overseas Pakistani workers have decreased by almost 5.0% to $2.81 billion in April 2024 vs. $2.95 billion in March 2024 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 673 billion in the tenth month of FY24, and has failed to meet the monthly target by PKR 34 billion.

The Net foreign currency reserves held by the SBP stood at $9.56 billion as of 17th May 2024.

The Broad Money (M2) stock from 1st of July 2023 to 12th May 2024 has expanded to PKR 2,400 billion, compared to PKR 2,026 billion last year in the same period.

As per the PBS, the Consumer Price Index ("CPI") inflation has surged to 17.3% on a Y-o-Y basis in February 2024 vs. 36.4% last year.

Further, as per the PBS, Pakistan's exports have increased by 9.1% to $25.28 billion in FY24's period of Jul-April compared to $23.17 billion in the same period of FY23.

Pakistan's net FDI has surged by 14.0% or $188.5 million to $1.54 billion provisionally during the Jul-April period of FY24, as compared to $1.35 billion during same period of FY23.

The total net Foreign Investment surged by 93.1% times or $318 million to $659 million on a Y-o-Y basis in Jul-April FY24 as against the amount of $341 million in same period of FY23.

The country has posted a Current account deficit ("CAD") of $202 million during the months of Jul-April FY24.

Economy At a Glance

Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	March	↑	2.04%	(26.35) %
Central Government Debt	March	↑	PKR 65.37 Trillion	PKR 57.12 Trillion
Credit to Private Sector	Jul – 12th May	↓	PKR 60.68 Billion	PKR 73.42 Billion
Roshan Digital Account	April	↑	US$ 171 Million	US$ 136 Million
Worker's Remittances	April	↑	US $2,812 Million	US $2,198 Million
Currency in Circulation	Jul – 12th May	↓	PKR (155) Billion	PKR 1,335 Billion
Net Government Sector borrowing	Jul – 12th May	↑	PKR 5,378 Billion	PKR 3,385 Billion
National CPI (Base Year 2015-16)	April	↓	17.3%	36.4%
FBR Tax Collection	Jul-April	↑	PKR 7,380 Billion	PKR 5,638 Billion
Foreign Exchange Reserves with SBP	As of 17th May	↑	$9.56 Billion	$4.93 Billion
Foreign Direct Investments	Jul-April	↑	$1,458 Million	$1,349 Million
Trade Deficit in Goods	Jul-April	↓	US$ (19,639) Million	US$ (23,535) Million
Current Account Deficit	Jul-April	↓	$(202) Million	$(3,920) Million

1. Large Scale Manufacturing

According to the PBS, Pakistan's LSM sector showed an increase of 2.04% in March 2024 on a Y-o-Y basis vs. March 2023. However, on a M-o-M basis, the overall output growth decreased by 9.35%, compared to the month of February 2024. Likewise, the cumulative LSM growth exhibited a negative trend, with a 0.10% decline in the Jul-Mar of FY24 vs. the same period of last FY23. Out of 22 major industries, only 11 industries posted a surge in production during the Jul-Mar period of FY24 as compared to FY23 for the same period. These include food, beverages, wearing apparel, Leather Product, wood product, Coke & Petroleum Products, chemicals, pharmaceutical, Rubber product, furniture, and machinery and equipment. However, the output in Tobacco, textile, paper and board, non-metallic mineral products, iron & steel products, fabricated metal, electrical equipment, automobiles, Computer Optical products, other manufacturing section and other transport equipment has decreased during the Jul-Mar 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 12.19% and 7.27% respectively, whilst the garment sector showed a growth of 5.41% in the period of Jul-Mar FY24. While, the cement industry has witnessed a contraction of 4.14%.

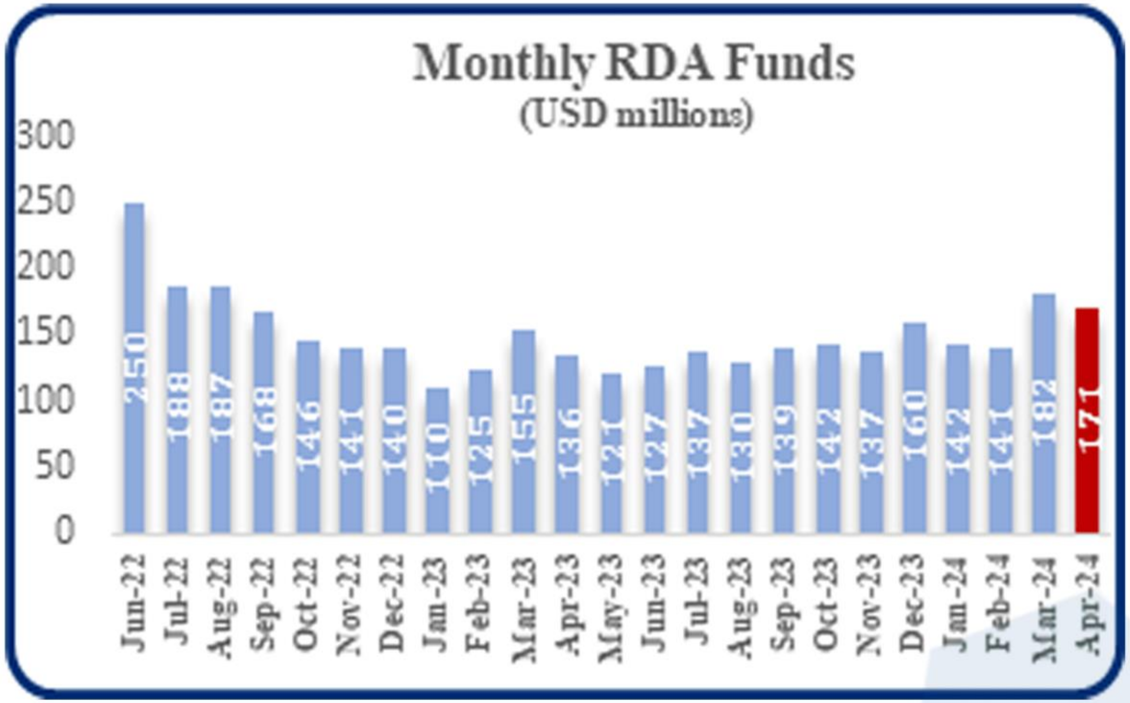
LSM (%)	Weight	Mar-24	Feb-24	Mar-23	Jul-Mar FY24
Textile	18.2	5.23	(4.68)	(30.71)	**(8.27)**
Food	10.7	(5.80)	(0.77)	(42.45)	**1.69**
Coke & Petroleum Products	6.7	(12.82)	(16.85)	(16.06)	**4.85**
Chemicals	6.5	11.60	17.24	(15.66)	**7.95**
Wearing Apparel	6.1	18.18	18.74	(8.78)	**5.41**
Pharmaceuticals	5.2	(0.50)	9.96	(27.09)	**23.19**
Non-Metallic Minerals Products	5.0	(3.48)	(26.09)	(20.80)	**(3.89)**
Beverages	3.8	(27.29)	(9.89)	5.36	**(3.43)**
Iron and Steel Products	3.4	(10.77)	(1.43)	(5.07)	**(2.20)**
Automobiles	3.1	3.38	24.85	(67.20)	**(37.41)**
Tobacco	2.1	35.65	(31.10)	(49.69)	**(33.59)**
Electrical Equipment	2.0	(3.27)	2.09	(24.46)	**(0.10)**
Paper & Board	1.6	6.46	(5.03)	(16.92)	**(1.96)**
Leather Products	1.2	7.37	11.21	(6.70)	**5.32**
Other Transport Equipment	0.7	17.06	(7.74)	(49.49)	**(10.00)**
LSM Growth for March 2024 (Y/Y)					**2.04 %**
LSM Growth of March 2024 vs. Feb 2024 (M/M)					**(9.35) %**
LSM Growth Jul-March FY24					**(0.10) %**

(Source: PBS)

2. Roshan Digital Account ("RDA")

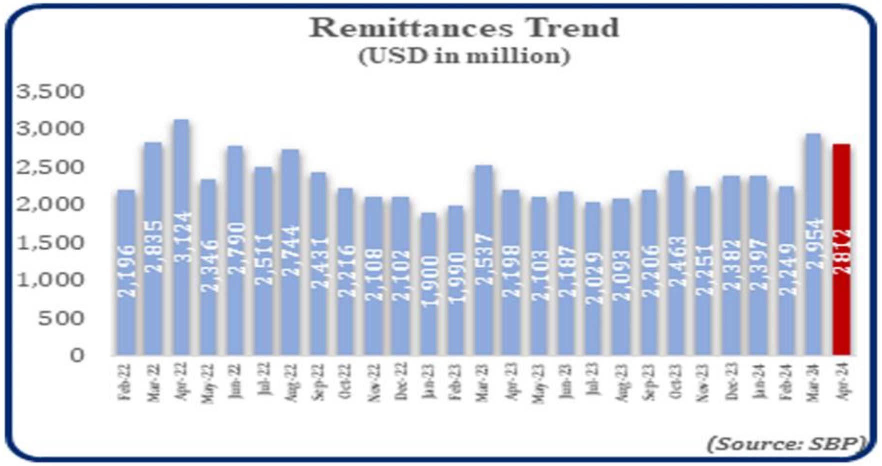
The cumulative inflow of deposits under the RDA has reached $7.83 billion since its announcement in September 2020. Out of the $7.83 billion, approximately $4.93 billion or almost 63% have been utilized locally and 20% or $1.59 billion have been repatriated from the total received amount through the RDA. A total of 689,650 accounts have been opened from 175 countries in the span of more than three years.

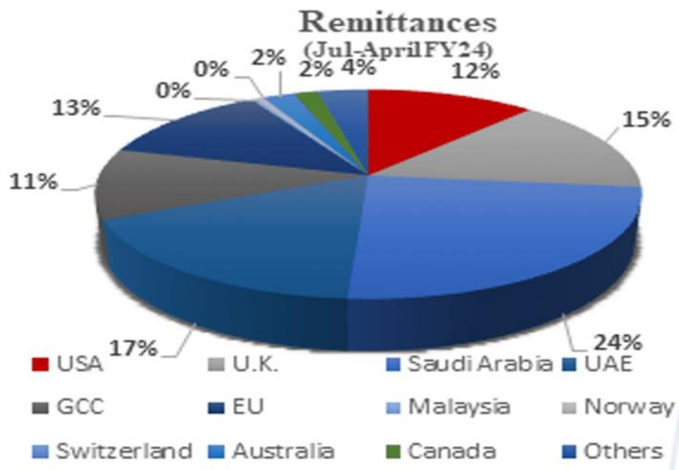
(Source: SBP)



3. Worker's Remittances

As per the SBP, the remittances sent by Overseas Pakistani workers have decreased by almost 5.0% to $2.81 billion in April 2024 vs. $2.95 billion in March 2024 on a M-o-M basis. Similarly, on a Y-o-Y comparison, the remittance inflows went up by 28.0% when compared to $2.20 billion received a year ago in the same month. Notably, on a cumulative basis, the pace of growth of workers remittances has gone up almost by 3.5% in FY24 as compared to Jul-April period of FY23, when it had contracted by 12.0%. A descriptive analysis has revealed that remittance inflows during the Jul-April period of FY24 were coming mainly from four major countries: Saudi Arabia, UAE, UK, and the USA. With more than a 24.0% share in the overall home remittances flows, Saudi Arabia remained a significant contributor. Moreover, the inflows from Saudi Arabia have recorded a growth of 5.5% and stand at $5.78 billion in Jul-April period of FY24 vs. $5.49 billion during same period of FY23. An amount to the tune of $2.85 billion, or an almost 12.0% share, was received from the US, showing a growth of 8.0% in Jul-April of FY24 vs. Jul-April period of FY23. Worker remittances from the UK increased by 4.0%, although it contributed almost 15.0% or $3.56 billion in the Jul-April period of FY24 over the same period of FY23. On the other hand, remittance growth from UAE increased at a rate of 5.4%, while its share is almost $4.21 billion or 17.7% share in the total remittances.



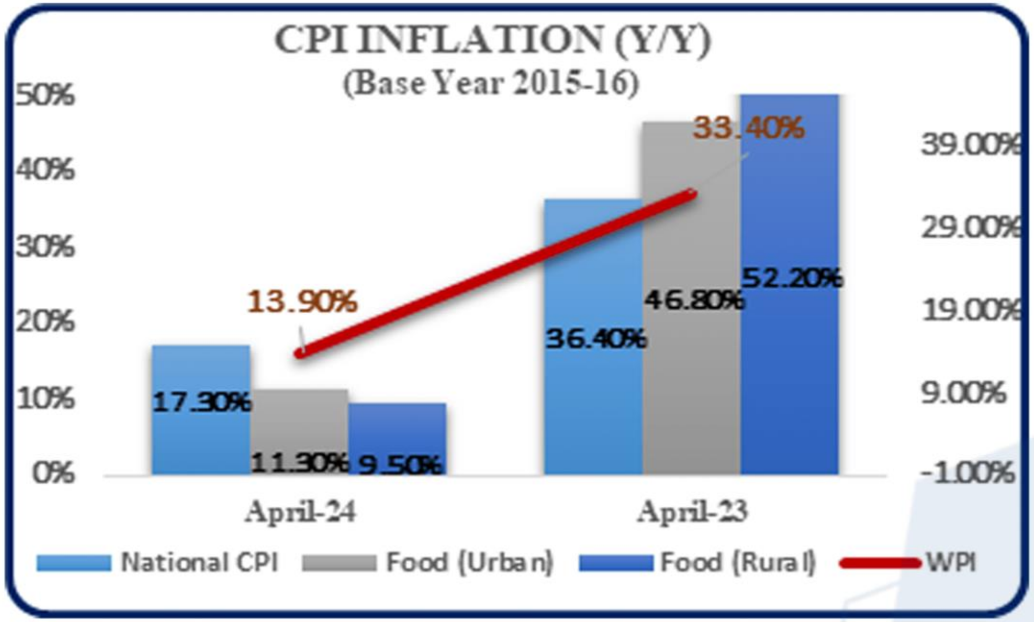


4. Consumer Price Index Inflation

Pakistan saw a gradual decline in inflation for the fourth consecutive month, marking its lowest inflation rate in nearly two years. The monthly rate of inflation eased down to 17.3% in April 2024 on a Y-o-Y basis in Pakistan, the lowest level of inflation recorded since May 2022. Further, inflation is now below the key policy rate after over three years. In the previous month (March 2024), the CPI stood at 20.7%. Moreover, the average inflation in Jul-April period of FY24 amounted to 25.97%. Further, the wholesale price index ("WPI") stood at 13.9% on a Y-o-Y basis, which was recorded at 14.8% in the previous month. This further increases the chances of reducing inflation in the coming months. Whereas, on a monthly basis, the National CPI has recorded a decline of 0.4%. Similarly, the Food inflation in urban and rural areas decreased by 1.3% and 2.6%, respectively, compared to March 2024. Moreover, in April 2024, the Core inflation, which is calculated by excluding energy and food items, rose by 13.1% and 19.3% in urban and rural areas on a Y-o-Y basis, respectively.

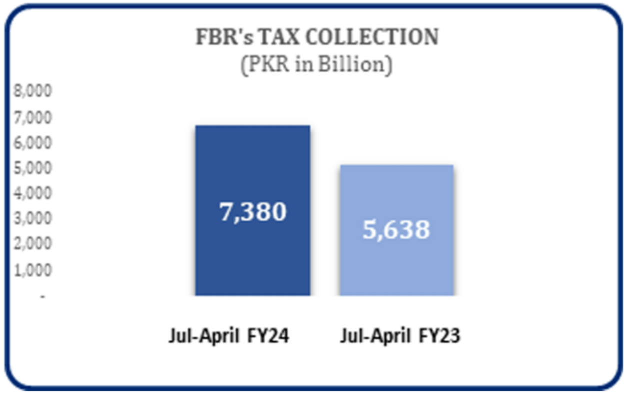
Group	Weight (%)	% Change over	
		March-24	April-23
Food	34.58	(2.36)	9.67
Non-perishable	29.60	(1.38)	6.75
Perishable	4.99	(7.33)	28.51
Utility	23.63	(1.81)	35.67
Health	2.79	0.26	18.61
Transport	5.91	2.83	12.48
Education	3.79	4.64	15.40
Restaurants & Hotels	6.92	1.14	19.47

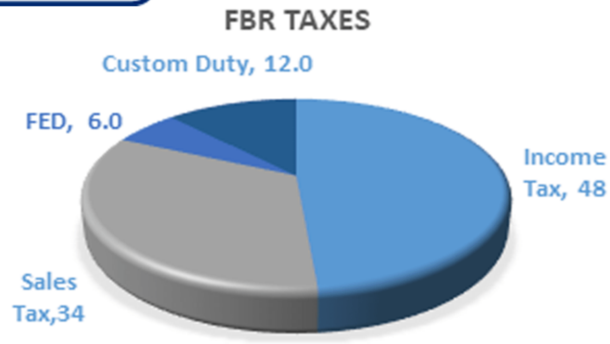
(Source: PBS)

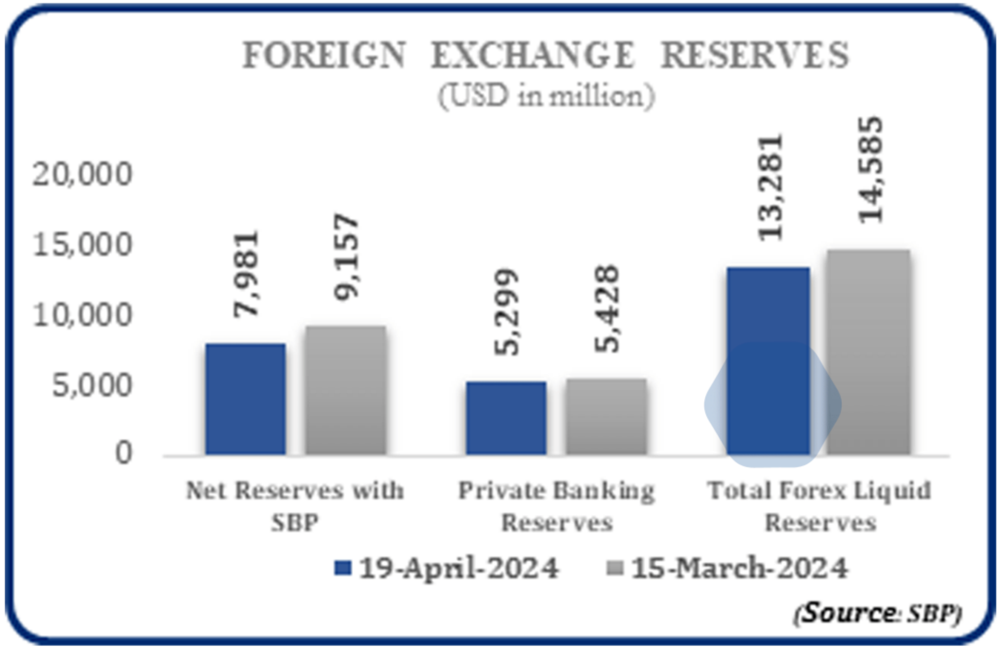


5. FBR Tax Revenue Collection

As per the data published by the FBR, the FBR collected PKR 673 billion worth of tax revenue in the month of April in FY24 and has failed to achieve its monthly target. Moreover, the FBR has not surpassed the Jul-April period target which was set at PKR 7.41tr and has collected only PKR 7.38tr. However, the FBR has demonstrated a substantial growth of over 31.0% or PKR 1.74tr in comparison to the same period of FY23. As per Mr. Shahbaz Rana's article titled ***"Govt tightens noose on non-filers"*** published on 1st May 2024 in the Express Tribune, out of the total of PKR 7.38tr, income tax collection surged to PKR 3.52tr, and accounts for nearly 50% of the total tax collection, in the Jul-April of the FY24. A key factor behind the higher collection of income taxes is greater collection from the banks due to huge profitability has increased amidst record interest rate at 22%. Further, sales tax has remained the weakest area, with its collection reaching over PKR 2.50 trillion. The following chart and graph illustrate the performance of the FBR in the FY24.





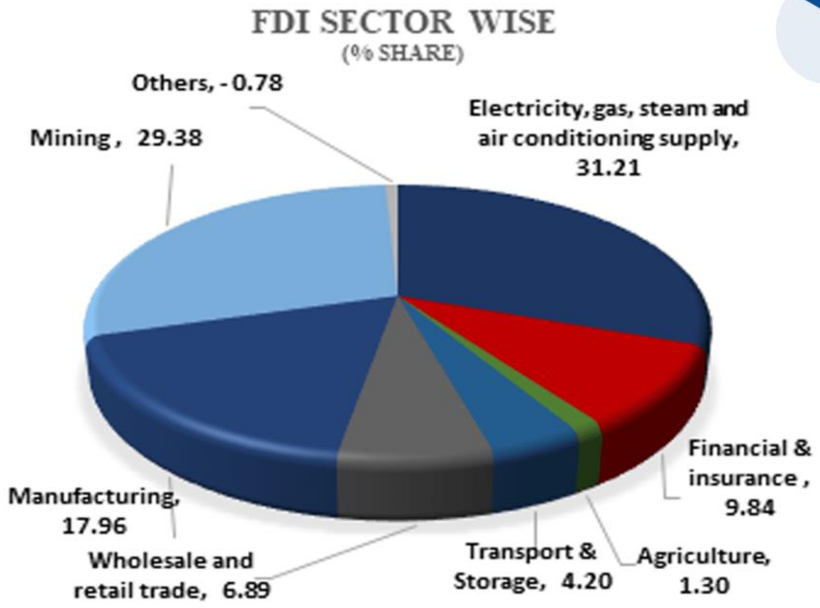


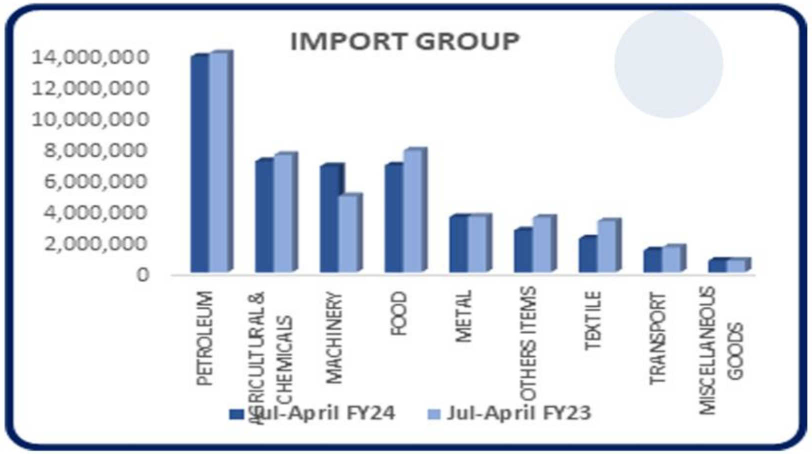
6. Foreign Exchange Reserves

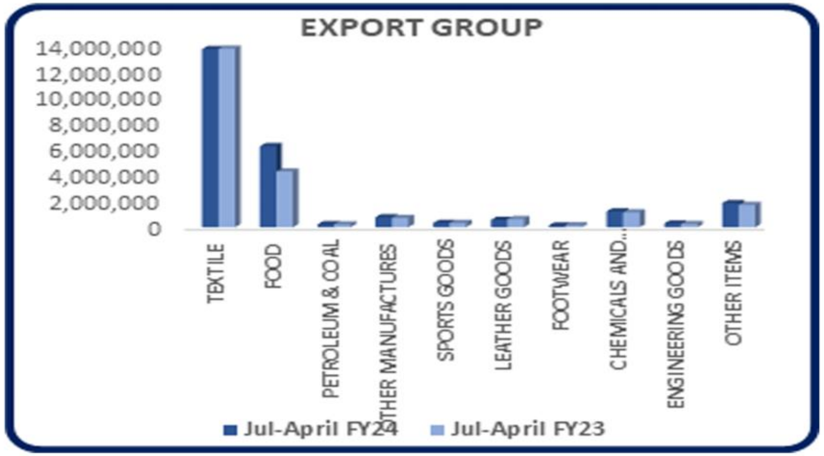
The net foreign exchange reserves of the SBP stood at $9.16 billion as of May 17th, 2024, representing a decrease of 0.9%, or $21.5 million, compared to last week's reserves of $9.13 billion on April 10th, 2024. Moreover, when compared to the reserves of the previous month (which were $7.98 billion on March 19th, 2024), the Net reserves have gone up by almost 15.0%. The boost in foreign reserves is mainly credited to the acquisition of the second and final installment totaling $1.1 billion from the IMF. Thereby, Pakistan's foreign exchange reserves have reached its highest level in 22 months, exceeding the IMF projection for the end of June 2024.

7. Foreign Direct Investment

Pakistan's net FDI has surged by 14.0% or $188.5 million to $1.54 billion provisionally during the Jul-April period of FY24, as compared to $1.35 billion during same period FY23. Whereas, the total net Foreign Investment surged by 93.1% times or $318 million to $659 million on a Y-o-Y basis in Jul-April FY24 as against the amount of $341 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-April FY24.







8. Balance Of Trade In Goods

As per the PBS, Pakistan's trade deficit has shrunk by a good margin of almost 16.6% to $19.64 billion during the period of Jul-April of FY24 vs. $23.54 billion the same period of FY23 amidst a steep reduction in the import bill. As far as exports are concerned, the same increased by 9.1% to $25.27 billion in FY24's period of Jul-April compared to $23.17 billion in the same period of FY23. Moreover, imports have decreased by 3.83% to $44.92 billion in the Jul-April FY24 when compared with $46.71 billion in the same period of FY23. Additionally, on a M-o-M basis, the exports have decreased by 8.4% to $2.35 in April 2024 from $2.57 billion in March 2024. However, the country's trade deficit has widened by a margin of 9.83% to $2.51 billion in April 2024 from $2.28 billion in March 2024 on a M-o-M basis. The graph below illustrates the export and import data categorized by groups for FY24 and FY23 during the corresponding period from July to April.

9. CURRENT ACCOUNT DEFICIT ("CAD")

In April 2024, Pakistan experienced a notable surplus in its Current Account, transitioning to a significant surplus of $491 million, marking a surplus for 4 consecutive months despite a high trade deficit in goods. Whereas, on a Y-o-Y basis, the CAD has declined by 266 times, when compared to a CA surplus of $134 million in the same month of the previous FY23. Pakistan must put in significant efforts to address its external sector if Pakistan's aims to keep the CAD in a region below $1 billion. The reduction in Pakistan's CAD can be attributed to the stability of the PKR, which has controlled import costs and food inflation, along with a curtailment of imports, resulting in a more balanced trade position.

CAD	Jul-April FY23	Jul-April FY24
i. Balance of Trade in Goods	**(22,566)**	**(17,684)**
Exports of Goods	23,200	25,669
Imports of Goods	45,766	43,353
ii. Balance of Trade in Services	**(545)**	**(1,906)**
Exports of Services	6,367	6,442
Imports of Services	6,912	8,348
iii. Balance on Primary Income	**(4,552)**	**(6,138)**
iv. Balance on Secondary Income	**23,743**	**25,526**
Secondary Income Credit	23,993	25,906
Worker Remittances	23,043	23,850
Secondary Income Debit	(250)	(380)
CAD (i + ii + iii + iv)	**(3,920)**	**(202)**

(Source: SBP)

10. DEBT PROFILE

The total gross public debt, comprising of the Government's domestic debt, external debt, and IMF debt, has surged to PKR 67.52 trillion, marking a substantial 14.0% increase compared to the same month of the previous Fiscal Year. This accounts for 63.8% of the GDP, a decline from the previous 74.8%. Concurrently, domestic debt stands at PKR 43.43 trillion, reflecting a growth rate of almost 23.8%, while external debt has reached PKR 20.7 trillion, with the growth decreasing by 0.48% as of March 2024. These figures underscore the significant escalation in the country's debt burden, signaling challenges in debt management and fiscal sustainability.

Pakistan's Total Debt & Liabilities			
(PKR in billion)	March-24	March-23	% change
Domestic Debt	43,432	35,077	23.82
% of GDP	**41.04**	**41.43**	
External Debt	21,942	22,047	(0.48)
% of GDP	**20.74**	**26.04**	
Gross Public Debt	65,374	57,124	14.44
% of GDP	**61.78**	**67.48**	
Nominal GDP	105,817	84,658	

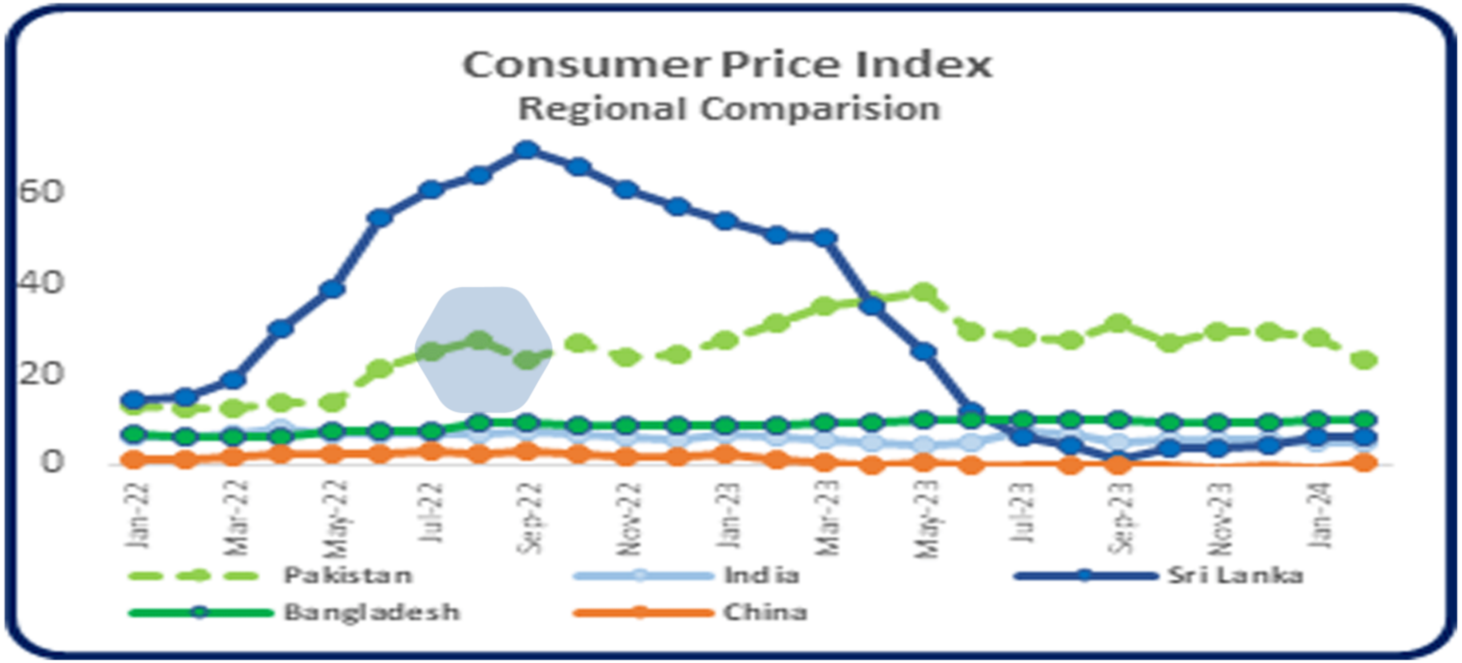
(Source: SBP & MOF)

11. REGIONAL ANALYSIS

Compared to other countries in the region, Pakistan has experienced double-digit inflation on a Y-o-Y basis. The Pakistani economy has been slightly stable recently due to currency stability in the last few months, which is reflected in the April's CPI rate, and the same trend might continue in the coming months amidst a gradual rise in the parity value of the PKR and political stability. Regarding the Sri Lankan economy, inflation has seen a moderate increase since inflation was recorded at 0.9% in the previous month. This is attributed, in part, to the statistical base effect, and is further supported by a stronger aggregate demand in the nation. 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 January 2024. The inflation in India is now recorded at 4.8% in April 2024. Furthermore, China has encountered a rise in prices after consecutive months of deflation. After a 0.1% inflation, the inflation rate was recorded at 0.3% in April 2024 in China. The impacts of price volatility are relatively inconspicuous in China despite subdued consumer demand.

Country	CPI (%)	Local Currency Units per USD (As of 28th May)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	17.3	278.40	2.40
India	4.8	83.18	(0.72)
Bangladesh	9.7	117.32	(3.38)
China	0.3	7.27	(4.87)
Sri Lanka	1.5	300.45	(1.50)

(Source: Trading Economics)



Outlook

To secure significant fiscal leeway in the forthcoming budget, Pakistan should contemplate reducing the policy rate. A reduction of 1% in the interest rate could potentially increase the fiscal space by Rs464 billion, underscoring the notable influence of interest rate modifications on fiscal adaptability and budgetary allotments.

Moreover, lower interest rates facilitate increased borrowing for investments, fostering industrial growth and economic expansion. A decrease in the interest rates will reduce the cost of capital financing, making it more affordable for businesses to expand operations and invest in new ventures, thus stimulating industrial activity and overall economic development.

Furthermore, it is still unclear as to when the IMF and Pakistan will reach a Staff Level Agreement ("SLA") for the next reform programme. As such, there is an inevitable concern about the speed and the extent to which consensus will be reached on difficult reforms. These include, inter-alia, higher and / or effective taxation of agriculture and retail trade; privatization of selected SOEs; moving towards sharing of subsidies and grants by Federal and the Provincial governments including the possibility of privatization or provincialization of DISCOs. During the process of discussion on the package of reforms as part of the new IMF programme, there will be higher uncertainty and likely drying up of inflows, leading, thereby to a potential drawdown of the already low reserves.

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.