TOLA ASSOCIATES
TAX & CORPORATE ADVISORS

Pakonomics

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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

In the inter-bank market, the prevailing value of the national currency stands at PKR 278.45/USD as of August 28th, 2024. Over the past 3 months, the USD to PKR parity rate has exhibited a constant trend indicating a gradual recovery.

According to the valuation of Tola Associates ("TA"), the value of PKR is 256.71/USD after incorporating the July-2024 month's Current Account Deficit ("CAD").

As per the Pakistan Bureau Statistics ("PBS"), Pakistan's LSM sector showed a contraction of 0.03% in June 2024 on a Year-on-Year ("Y-o-Y") basis vs. June 2023.

The cumulative inflow of deposits in the Roshan Digital Accounts ("RDA") reached $8.41 billion at the end of July 2024. Whereas, net repatriable liability stood at $1,458 million.

According to the SBP, the remittances sent by Overseas Pakistani workers have decreased by 5.16% to almost $3.0 billion in July 2024 vs. $3.16 billion in June 2024 on a M-o-M basis

As per the data published by the Federal Board of Revenue ("FBR"), the FBR collected PKR 659 billion worth of tax revenue in the first month of FY25 and has successfully achieved its monthly target of PKR 656 billion.

The Net foreign currency reserves held by the SBP stood at $9.29 billion as of 16th August 2024.

The Broad Money (M2) stock from 1st of July 2023 to 9th July 2024 has contracted to PKR 1,131 billion, compared to a negative of PKR 708 billion last year in the same period.

As per the PBS, the Consumer Price Index ("CPI") inflation has surged to 11.1% on a Y-o-Y basis in July 2024 vs. 28.3% last year.

Further, as per the PBS, Pakistan's exports have increased by 11.7% to $2.30 billion in FY25's month of July compared to $2.06 billion in the same month of FY24.

Pakistan's net FDI has surged by 63.7% or $53 million to $136 million provisionally during the July month of FY25, as compared to $83 million during the same month of FY24.

The total net Foreign Investment surged by 189 times or $200 million to $305 million on a Y-o-Y basis in July of FY25 as against the amount of $106 million in the same period of FY23.

The country reported a current account deficit ("CAD") of $162 million in July month of FY25, compared to $741 million in the same month of FY24. Additionally, the CAD is projected at $3,707 million for the entire FY25.

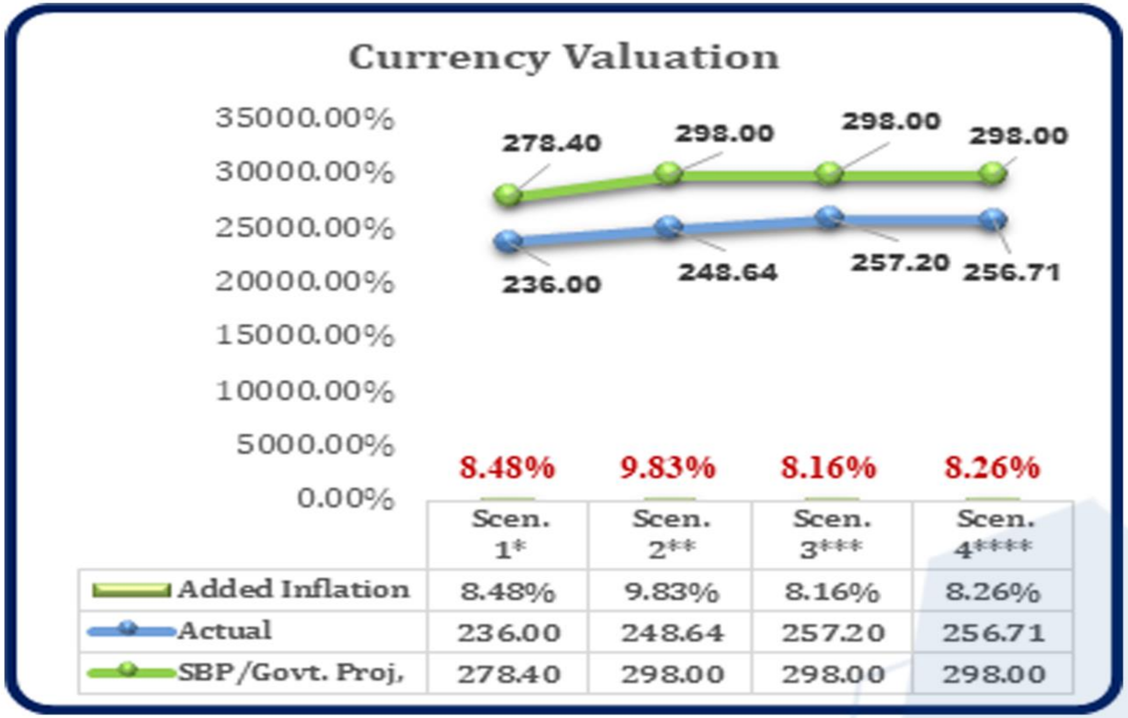
ECONOMY AT A GLANCE

Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	June	↑	(0.03) %	(17.66) %
Central Government Debt	June	↑	PKR 71,246 Billion	PKR 62,881 Billion
Credit to Private Sector	Jul – 11th Aug	↓	PKR (402) Billion	PKR (188) Billion
Roshan Digital Account	July	↑	US$ 161 Million	US$ 137 Million
Worker's Remittances	July	↑	US $2,995 Million	US $2,029 Million
Currency in Circulation	Jul – 11th Aug	↑	PKR 13 Billion	PKR (442) Billion
Net Government Sector borrowing	Jul – 11th Aug	↑	PKR 318 Billion	PKR (94) Billion
National CPI (Base Year 2015-16)	July	↓	11.1%	23.8%
FBR Tax Collection	July	↑	PKR 659 Billion	PKR 538 Billion
Foreign Exchange Reserves with SBP	As of 16th Aug	↑	$9.29 Billion	$8.05 Billion
Foreign Direct Investments	July	↑	$136 Million	$83 Million
Trade Deficit in Goods	July	↑	US$ (1,971) Million	US$ (1,637) Million
Current Account Deficit	July	↓	$(162) Million	$(741) Million

1. VALUATION OF THE PAKISTANI RUPEE PARITY

According to valuation of TA , the value of PKR is 256.71/USD after adjusting the July-2024 month's CAD. The PKR value has been kept artificially higher at PKR 278.4/USD, otherwise the present value of PKR currency is 230/USD.

The graph depicts four scenarios: **(a) First scenario provides PKR valuation as of June 30, 2024; (b) Second scenario illustrates the valuation of PKR valuation based on the actual CAD, i.e $665 billion CAD in FY24; (c) The third scanario provide PKR value based on the Governments projection of 0.9% of GDP; (d) and the last scenario is calculating the PKR value based on the adjusted CAD projection of the Government(adjusted for the July 2024).** A 10-rupee depreciation will result in a 2% increase in inflation, or vice versa. For the currency valuation on the basis of IMF's projected GDP [Click Here]



	Scen. 1*	Scen. 2**	Scen. 3***	Scen. 4****
Added Inflation	8.48%	9.83%	8.16%	8.26%
Actual	236.00	248.64	257.20	256.71
SBP/Govt. Proj.	278.40	298.00	298.00	298.00

*Actual CAD of FY24
**If CAD restricted to FY24's level i.e 0.16% of GDP
*** If CAD restricted to its targeted value of $3.707 billion. i.e $3.7 billion
****Actual CAD cumulated in the Projection (adjusted monthly basis)

2.CURRENT ACCOUNT DEFICIT ("CAD")

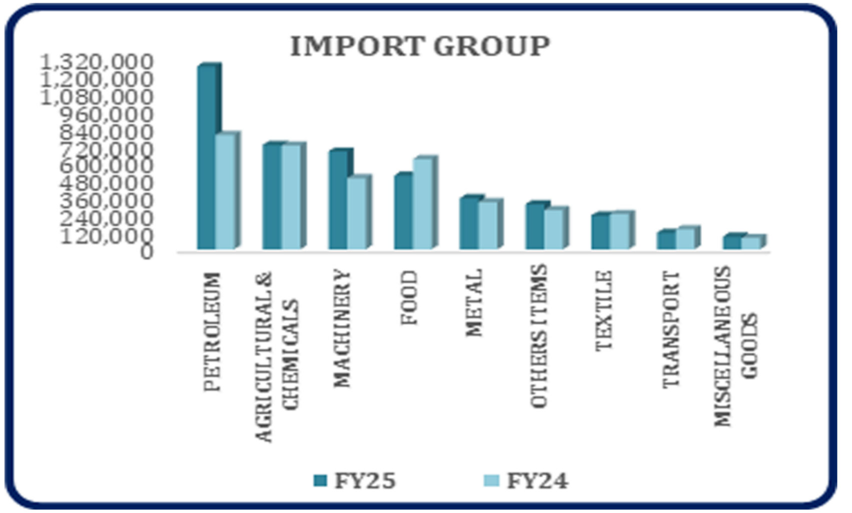
Pakistan has recorded a CAD of $162 million in July 2024, the first month of FY25. This figure slightly exceeded market expectations and the 12-month average, but it remained well within the targeted limit. Whereas, on a Y-o-Y basis, the CAD has declined 78%, when compared to a CAD of $741 million in the month of July of the previous FY24. This sustainable CAD is due to a strong inflow of remittances. Additionally, the CAD is projected at $3,707 million for the entire FY25.

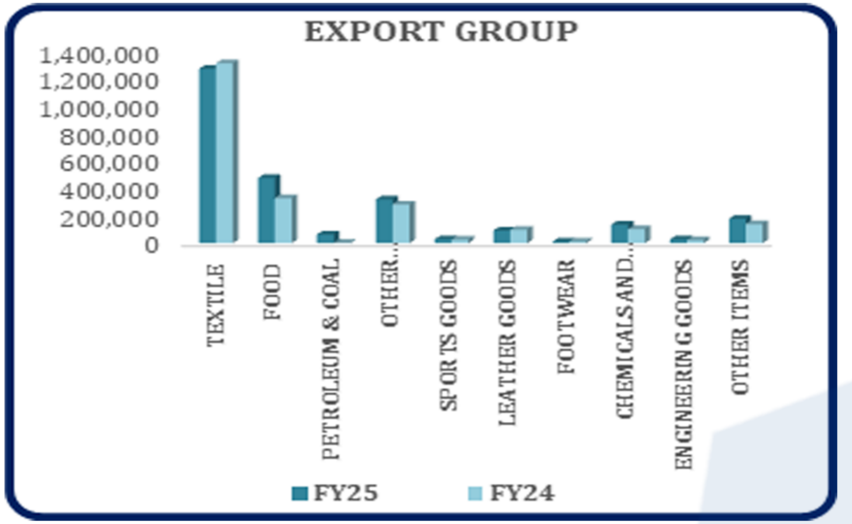
CAD	July FY24	July FY25	Jul-June FY25 P
i. Balance of Trade in Goods	**(2,024)**	**(2,428)**	**(24,941)**
Exports of Goods	2,118	2,391	32,341
Imports of Goods	4,142	4,819	57,283
ii. Balance of Trade in Services	**(261)**	**(159)**	**(2,738)**
Exports of Services	588	622	8,169
Imports of Services	849	781	10,907
iii. Balance on Primary Income	**(583)**	**(727)**	**(7,648)**
iv. Balance on Secondary Income	**2,127**	**3,152**	**31,620**
Secondary Income Credit	2,161	3,245	N/A
Worker Remittances	2,029	2,995	30,278
Secondary Income Debit	34	93	N/A
CAD (i + ii + iii + iv)	**(741)**	**(162)**	**(3,707)**

(Source: SBP)

3. BALANCE OF TRADE IN GOODS

As per the PBS, Pakistan's trade deficit has surged by a margin of 21.14% to $1.97 billion during the starting month of July of FY25 vs. $1.63 billion the same period of FY24 amidst a substantial hike in imports. Further, exports increased by 11.8% to $2.31 billion in FY24's overall period compared to $2.06 billion in the same period of FY23. Moreover, imports increased by almost 16.0% to $4.28 billion in the July of FY25 when compared with $3.70 billion in the same period of FY24. Additionally, on an M-o-M basis, exports have shrunk by 9.8% when compared with $2.56 billion in June 2024. Moreover, the country's trade deficit has decreased by a margin of 18.8% when compared to $2.40 billion in June 2024 on a M-o-M basis. The graph below illustrates the export and import data categorized by groups for FY25 and FY24 during the corresponding month of July.





4. LARGE SCALE MANUFACTURING

According to the PBS, Pakistan's LSM sector showed a decline of 0.03% in June 2024 on a Y-o-Y basis vs. June 2023. Likewise, on a M-o-M basis, the overall output growth decreased by almost 5.0%, compared to the month of May 2024. Additionally, the cumulative LSM growth exhibited a positive trend, with an almost 1.0% growth in the Jul-June of FY24 vs. the same period of last FY23. Out of 22 major industries, only 10 industries posted a surge in production during the Jul-June period of FY24 as compared to FY23 for the same period. These include food, wearing apparel, Leather Product, wood product, Coke & Petroleum Products, chemicals, pharmaceutical, furniture, and machinery and equipment, and other manufacturing. However, the output in Beverages, Tobacco, textile, paper and board, rubber product, non-metallic mineral products, iron & steel products, fabricated metal, electrical equipment, automobiles, Computer Optical products, and other transport equipment has decreased during the Jul-June 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 8.7% and 5.34% respectively, whilst the garment sector showed a growth of 8.24% in the FY24. Lastly, the cement industry has witnessed a contraction of 4.54%.

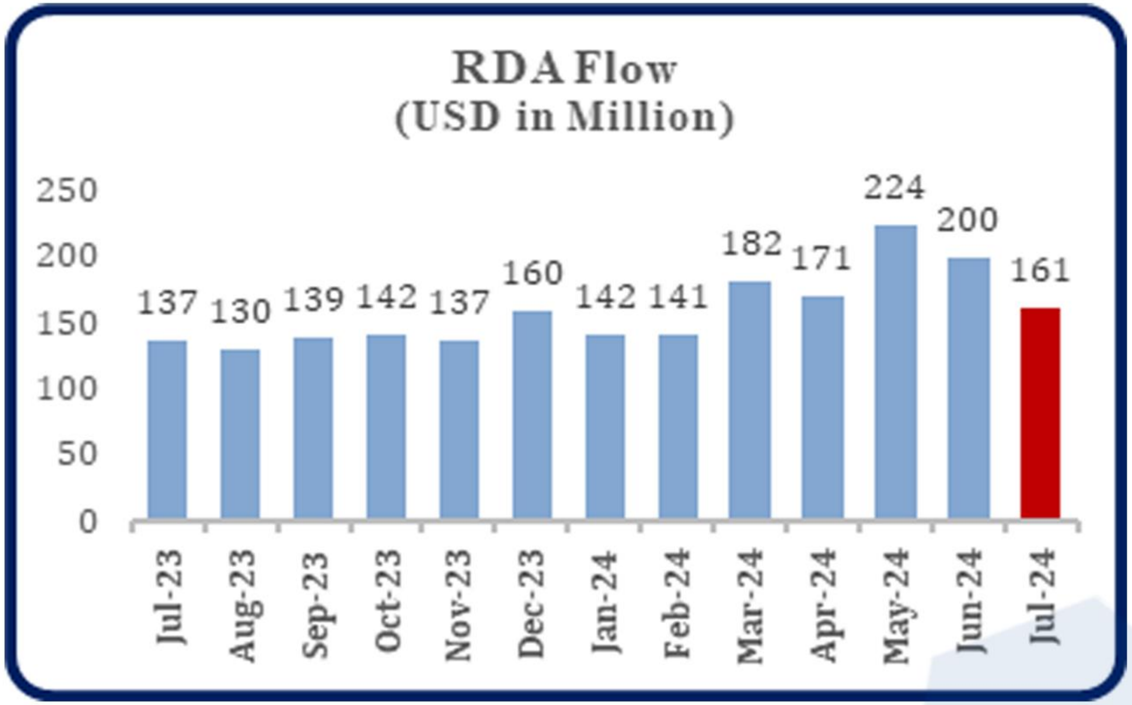
LSM (%)	Weight	June-24	May-24	June-23	Jul-June FY24
Textile	18.2	4.20	7.81	(19.81)	**(5.23)**
Food	10.7	2.25	(0.91)	5.79	**1.73**
Coke & Petroleum Products	6.7	28.30	17.17	(28.80)	**9.81**
Chemicals	6.5	(1.13)	(2.86)	(7.13)	**5.26**
Wearing Apparel	6.1	(2.46)	(15.77)	11.92	**8.24**
Pharmaceuticals	5.2	(1.09)	(2.31)	(46.77)	**15.72**
Non-Metallic Minerals Products	5.0	(14.48)	(8.10)	(24.32)	**(5.31)**
Beverages	3.8	12.01	(0.35)	(25.50)	**(2.10)**
Iron and Steel Products	3.4	(11.80)	(13.77)	(9.01)	**(4.42)**
Automobiles	3.1	37.44	43.85	(71.82)	**(25.03)**
Tobacco	2.1	(3.17)	25.56	(44.01)	**(23.01)**
Electrical Equipment	2.0	(21.16)	(13.07)	(26.17)	**(9.47)**
Paper & Board	1.6	11.82	(0.63)	(26.98)	**(0.43)**
Leather Products	1.2	7.53	5.50	(0.94)	**5.66**
Other Transport Equipment	0.7	9.28	16.38	(49.81)	**(4.02)**
LSM Growth for June 2024 (Y/Y)					**(0.03) %**
LSM Growth of June 2024 vs. May 2024 (M/M)					**(4.70) %**
LSM Growth Jul-June FY24					**0.92 %**

(Source: PBS)

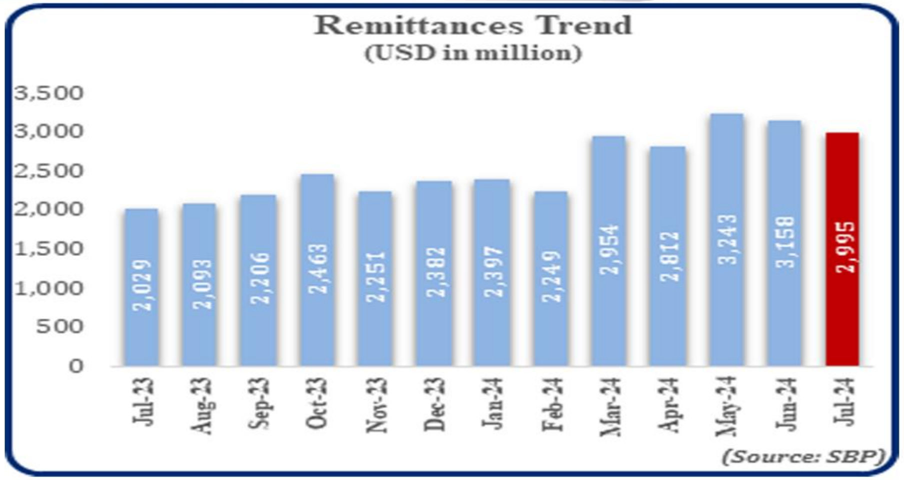
5. ROSHAN DIGITAL ACCOUNT ("RDA")

The cumulative inflow of deposits under the RDA has reached $8.41 billion since its announcement in September 2020. Out of the $8.41 billion, approximately $5.33 billion or almost 64% have been utilized locally and 19% or $1.62 billion has been repatriated from the total amount received through the RDA. A total of 723,598 accounts have been opened from 175 countries in the span of almost four years.

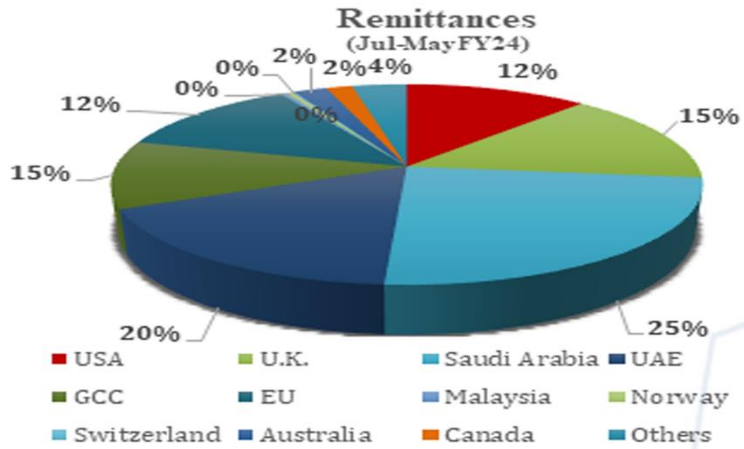
(Source: SBP)



6. WORKER'S REMITTANCES



As per the SBP, the remittances sent by Overseas Pakistani workers have decreased by 5.16% to almost $3.0 billion in July 2024 vs. $3.16 billion in June 2024 on a M-o-M basis. In contrast, on a Y-o-Y comparison, the remittance inflows went up by 47.6% when compared to $2.03 billion received a year ago in the same month. A descriptive analysis has revealed that remittance inflows during the first month of FY25 were coming mainly from four major countries: Saudi Arabia, UAE, UK, and the European Union ("EU") countries. With more than a 25.0% share in the overall home remittances flows, Saudi Arabia remained a significant contributor. Moreover, the inflows from Saudi Arabia have recorded a growth of 56.4% and stand at $761 million in July month of FY25 vs. $487 million during the same period of FY24. An amount to the tune of $351 million, or an almost 12.0% share, was received from the EU countries, showing a growth of 23.8% in July month of FY25 vs. same period of FY24. Worker remittances from the UK increased by 44.7%, although it contributed almost 15.0% or $443 million in the July period of FY25 over the same month of FY24. On the other hand, remittance growth from the UAE increased at a rate of 93.7%, while its share is almost $611 million or 20.4% share in the total remittances.

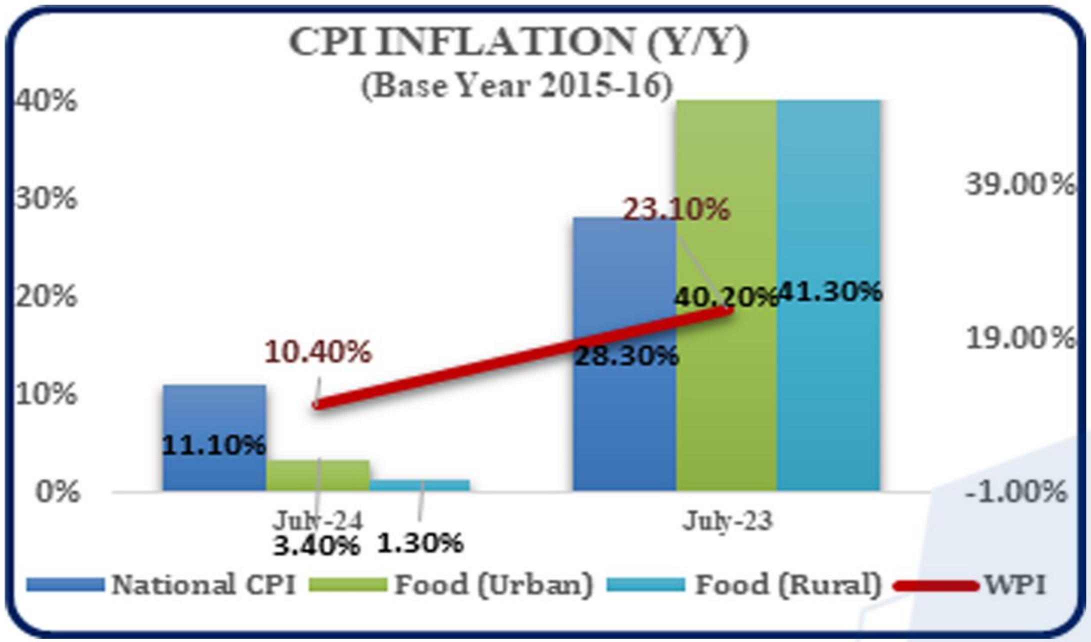


7. CONSUMER PRICE INDEX INFLATION

Pakistan saw a gradual decline in inflation, on a Y-oY basis, after witnessing an inflation hike for the first time in the past six month, amidst a high base effect. The monthly rate of inflation clocked up at 11.1% in July 2024 on a Y-o-Y basis in Pakistan. Further, inflation has been below the key policy rate for five consecutive months. In the previous month (June 2024), the CPI stood at 12.6%. Further, the wholesale price index (“WPI”) stood at 10.4% on a Y-o-Y basis, which was recorded at 10.6% in the previous month. This further increases the chances of inflation surging in the coming months. Whereas, on a monthly basis, the National CPI has recorded a surge of 2.1%, which is the highest in last eight months. Similarly, the food inflation in urban and rural areas increased by 4.5% and 3.6% in the urban area and rural area, respectively. Moreover, in July 2024, the Core Inflation, which is calculated by excluding energy and food items, rose by 11.7% and 16.9% in urban and rural areas on a Y-o-Y basis, respectively.

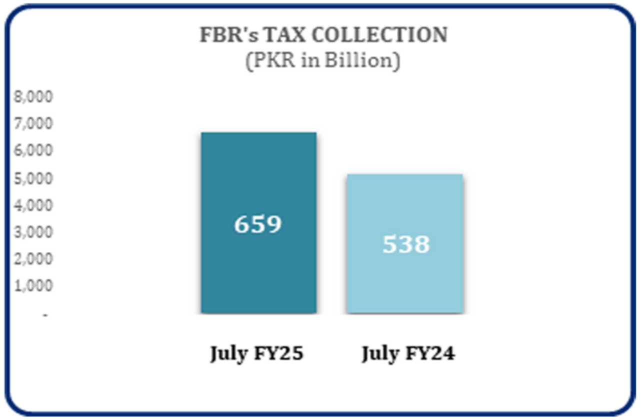
Group	Weight (%)	% Change over	
		June-24	July-23
Food	34.58	4.67	1.56
Non-perishable	29.60	3.26	(2.34)
Perishable	4.99	13.01	29.23
Utility	23.63	0.07	25.30
Health	2.79	1.60	19.13
Transport	5.91	1.40	12.18
Education	3.79	0.08	15.94
Restaurants & Hotels	6.92	1.05	11.18

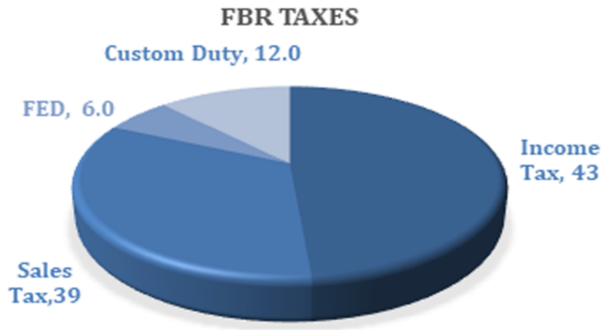
(Source: PBS)

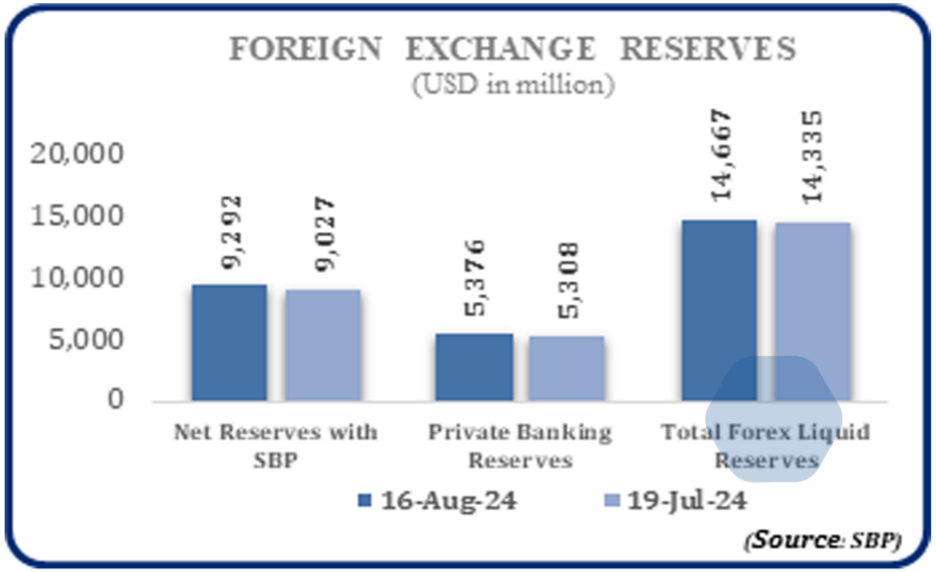


8. FBR TAX REVENUE COLLECTION

As per the data published by the FBR, the FBR collected PKR 659 billion worth of tax revenue in the first month of FY25 and has successfully achieved its monthly target of PKR 656 billion. Nonetheless, the FBR has to collect over 1 trillion every month FY25 to achieve the massive PKR 12,970 billion tax target demonstrated a substantial growth of 39.4% in comparison to the previous FY24's total tax collection which was PKR 9,306 period of FY23. As per Mr. Shahbaz Rana's article titled “FBR exceeds target of Rs656b” published on 1st August 2024 in the Express Tribune, out of the total of PKR 656 billion, income tax collection surged to PKR 284 billion, and accounts for 43% of the total tax collection, in the first month of the FY25. Further, sales tax has remained the weakest area, with its collection reaching over PKR 256 trillion. The following chart and graph illustrate the performance of the FBR in FY24. Moreover, The FBR collected PKR 38 billion in Federal Excise Duty (“FED”). Lastly, the collection on account of customs duties ended up at PKR 82 billion.





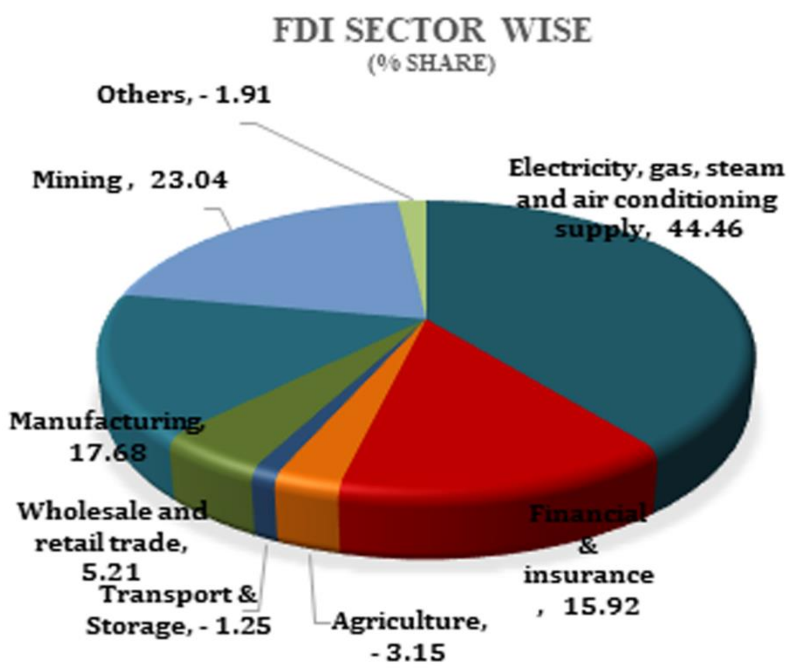


9. FOREIGN EXCHANGE RESERVES

The net foreign exchange reserves of the SBP stood at $9.29 billion as of August 16th, 2024, representing an increase of 0.2%, or $19 million, compared to last week's reserves of $9.27 billion on August 9th, 2024. Moreover, when compared to the reserves of the previous month (which were $9.03 billion on July 19th, 2024), the net reserves have gone up by 2.9%. The boost in foreign reserves is mainly credited to the acquisition of the second and final installment totaling $1.1 billion from the IMF. Therefore, Pakistan's foreign exchange reserves have reached its highest level in 22 months, exceeding the IMF projection for the end of June 2024.

10. FOREIGN DIRECT INVESTMENT

Pakistan's net FDI has surged by 63.7% or $53 million to $136 million provisionally during the July month of FY25, as compared to $83 million during the same month of FY24. Whereas, the total Net Foreign Investment surged by 189 times or $200 million to $305 million on a Y-o-Y basis in July of FY25 as against the amount of $106 million in the same period of FY23. This Pie chart shows the percentage share of net inflows in different sectors of the Economy in the month of July 2024.



11.DEBT PROFILE

The total central Government debt, comprising of the Government's domestic debt and external debt, has surged to PKR 68.91 trillion in June 2024, marking a substantial 13.0% increase compared to the same month of the previous Fiscal Year. This accounts for almost 65.0% of the GDP, a decline from the previous 72.0% due to high nominal GDP in FY24 compared to FY23. Concurrently, domestic debt stands at PKR 47.16 trillion, reflecting a growth rate of almost 22.0%, while external debt has reached PKR 21.75 trillion, with the growth decreasing by 1.3% as of June 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)	June-24	June-23	% change
Domestic Debt	47,160	38,810	21.52
% of GDP	**45.0%**	**45.8%**	
External Debt	21,754	22,031	(1.26)
% of GDP	**20.5%**	**26.0%**	
Gross Public Debt	71,246	62,881	13.30
% of GDP	**67.2%**	**74.3%**	
Nominal GDP	106,045	84,658	

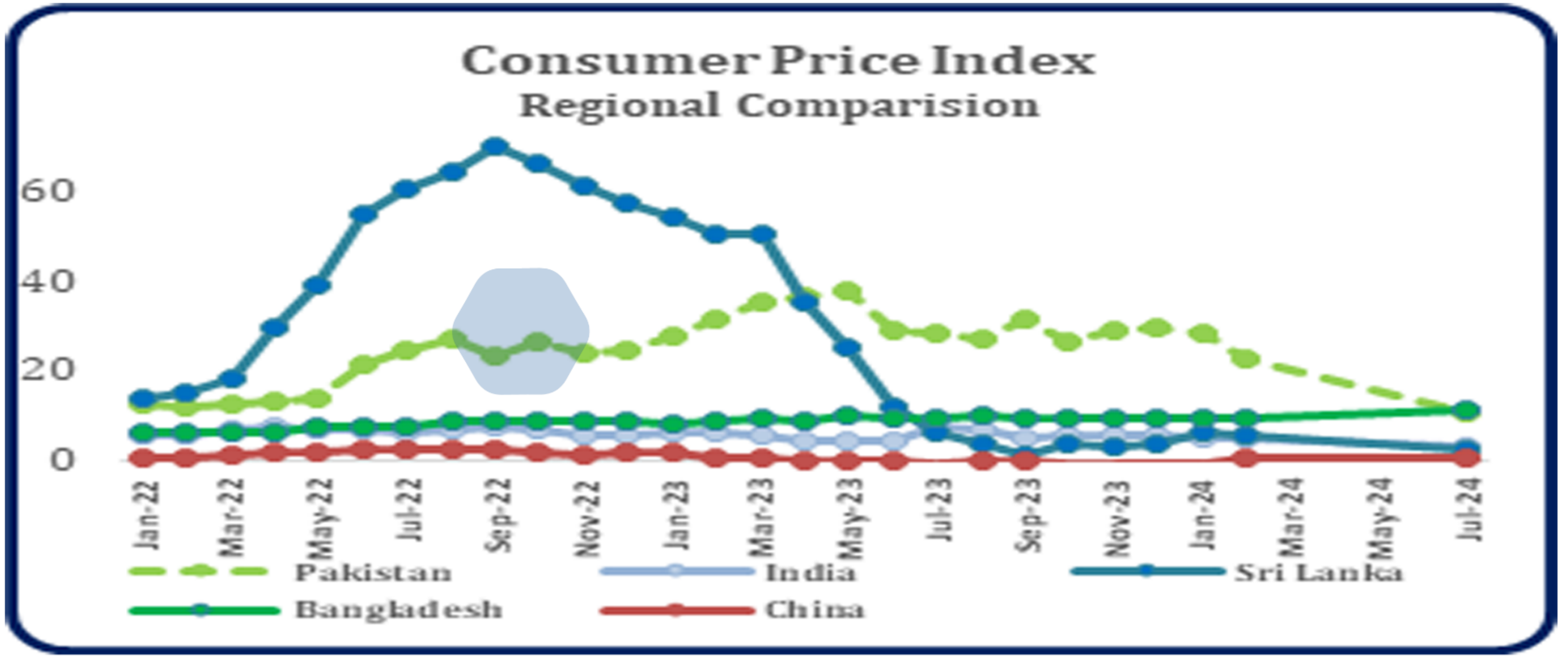
(Source: SBP & MOF)

12. REGIONAL ANALYSIS

Compared to other countries in the region, Pakistan and Bangladesh have experienced double-digit inflation on a Y-o-Y basis. The Pakistani economy has exhibited a constant trend against USD in the last few months, which is why July's CPI rate is slightly lower. If the Government wants to curtail inflation, they need to follow a homegrown recipe, otherwise, inflation might exceed the targeted value of 12.0% for the FY25. Whereas, Bangladesh is suffering from a political crisis and inflation may hike in the coming months. Regarding the Sri Lankan economy, inflation has seen a slight increase to 2.4% since inflation was recorded at 1.7% in the previous month. This is attributed, in part, to the statistical base effect, and is further supported by a weak 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. The inflation in India is now recorded at 3.5% in July 2024. Furthermore, China has encountered a slight, but a constant rise in prices after months of deflation. The inflation rate was recorded at 0.5% in July 2024. The impacts of price volatility are relatively inconspicuous in China despite subdued consumer demand.

Country	CPI (%)	Local Currency Units per USD (As of 28th Aug)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	11.1	278.45	7.5
India	3.54	83.93	(1.6)
Bangladesh	11.7	119.60	(9.7)
China	0.5	7.13	2.2
Sri Lanka	2.4	301.18	7.0

(Source: Trading Economics)



Outlook

Typically, the IMF's strategies provide short-term stabilization, but Pakistan has often faced significant challenges under these programmes. If the Home-Grown Plan is executed effectively in FY25, it could lead to a substantial improvement in the country's economic standing, potentially resulting in a current account surplus. Such a shift would signify a major step towards economic self-sufficiency and stability, aligning with the broader goals outlined by the Government's economic policymakers. If the Home-Grown Plan is not executed and the IMF's policies are followed instead, the result would be inflationary pressure of more than 20 percent.
Why do we need the IMF? DAWN

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.

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.