TOLA ASSOCIATES
TAX & CORPORATE ADVISORS

Pakonomics

February 2025

LEADING FIRM
Legal500
ASIA PACIFIC
2025

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 value of the national currency stands at PKR 280.3/USD as of March 26th, 2025. Over the past week, the USD to PKR parity rate has shown a slight declining trend whereby the PKR has devalued.

According to the valuation of Tola Associates ("TA"), the value of PKR is 251.1/USD after incorporating the Jul-Feb period of FY25's Current Account Deficit ("CAD").

The Monetary Policy Committee ("MPC") of the State Bank of Pakistan ("SBP") decided to maintain the policy rate at 12%, in its last meeting held on March 10th, 2024. The MPC stated that *"Inflation in February 2025 turned out lower than expectation, mainly due to a drop in food and energy prices. Notwithstanding this decline, the Committee assessed the risks posed by the inherent volatility in these prices to the current declining trend in inflation."*

Moreover, if the currency parity had been adjusted earlier, inflation in FY23 would have been 26.31% instead of 29.2%. In FY24, it could have dropped to 8.7% rather than 23.41%, and in FY25, deflation of -6.23% could have occurred instead of 7.22%. This highlights how timely adjustments could have significantly mitigated the inflationary pressures.

According to the Pakistan Bureau Statistics ("PBS"), Pakistan's LSM sector showed a contraction of 1.22% in Jan 2025 on a Year-on-Year ("Y-o-Y") basis vs. Jan 2024.

According to the SBP, the remittances sent by Overseas Pakistani workers have increased by 3.7% to $3.12 billion in Feb 2025 vs. $3.00 billion in Jan 2025 on a M-o-M basis.

As per the data published by the Federal Board of Revenue ("FBR"), the FBR collected PKR 7.342tr worth of tax revenue in the Jul-Feb of FY25 and has failed to achieve its eight months target by PKR 606 billion.

The Net foreign currency reserves held by the SBP stood at $11.15 billion as of 14th March 2025.

The Broad Money (M2) stock from 1st July 2024 to 14th March 2025 has contracted to a PKR 180 billion, compared to PKR 1,096 billion last year in the same period.

According to the Pakistan Bureau of Statistics ("PBS"), the pace of Consumer Price Index ("CPI") inflation has slowed down to 1.5% on a Y-o-Y basis in Jan 2025 vs. 23.1% same month last year.

Pakistan's net FDI has surged by 41.0% or $471 million to $1,618 million provisionally during the Jul-Feb period of FY25, as compared to $1,148 million during the same month of FY24.

The total Net Foreign Investment surged by 11.8% or $148 million to $1,407 million on a Y-o-Y basis in Jul-Feb period of FY25 as against the amount of $1,259 million in the same period of FY24.

Pakistan reported a Current Account Surplus of $691 million during the Jul-Feb period of FY25, compared to CAD of $1,703 million in the same period of FY24.

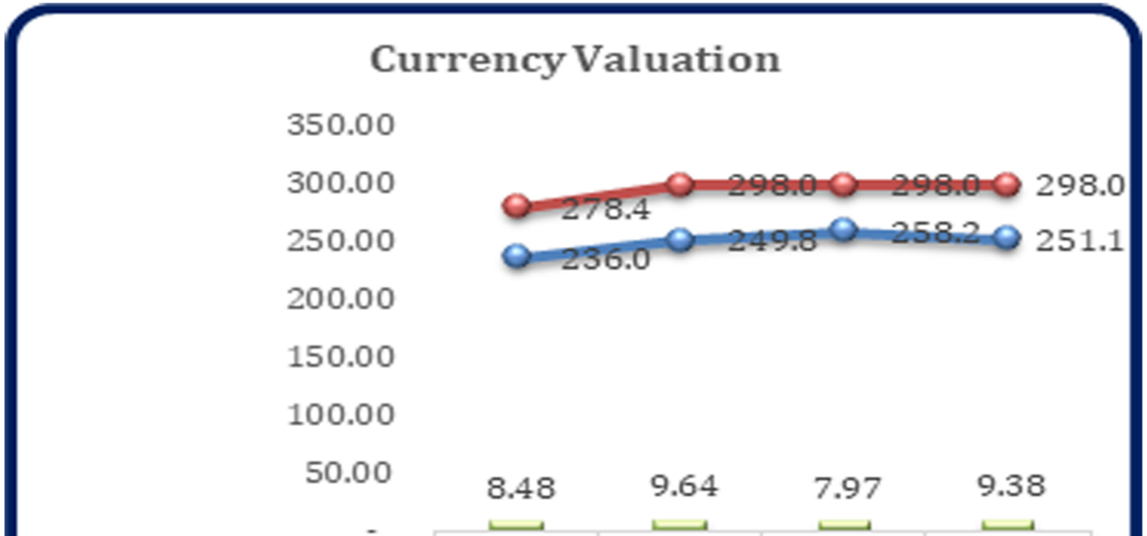
ECONOMY AT A GLANCE

Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	January	↓	(1.22) %	1.11 %
Central Government Debt	January	↑	PKR 72,123 Billion	PKR 64,840 Billion
Credit to Private Sector	Jul – 14th March	↑	PKR 476 Billion	PKR 128 Billion
Worker's Remittances	February	↑	US $3,119 Million	US $2,250 Million
Currency in Circulation	Jul – 14th March	↑	PKR 692 Billion	PKR (439) Billion
Net Government Sector borrowing	Jul – 14th March	↓	PKR 295 Billion	PKR 3,403 Billion
National CPI (Base Year 2015-16)	February	↓	1.5%	23.1%
FBR Tax Collection	Jul-Feb	↑	PKR 7,342 Billion	PKR 5,692 Billion
Foreign Exchange Reserves with SBP	As of 14th March	↑	$11.15 Billion	$8.02 Billion
Foreign Direct Investments	Jul-Feb	↑	$1,618 Million	$1,145 Million
Trade Deficit in Goods	Jul-Feb	↑	US$ (15,801) Million	US$ (14,840) Million
Current Account Deficit	Jul-Feb	↓	$691 Million	$(1,730) Million

1. VALUATION OF THE PAKISTANI RUPEE PARITY

According to the valuation of TA, the value of PKR is 251.1/USD after adjusting the Jul-Feb FY25 month's CAD. The PKR value has been kept artificially undervalued at PKR 280.3/USD, as the present value of PKR currency is 251.1/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 million in FY24; (c) The third scenario provide PKR value based on the Government's CAD projection of 0.9% of GDP; (d) and the last scenario is calculating the PKR value based on the adjusted CA projection of the Government adjusted for the Jul-Feb FY25).** 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	9.64	7.97	9.38
Actual	236.0	249.8	258.2	251.1
SBP/Govt. Proj.	278.4	298.0	298.0	298.0

**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")

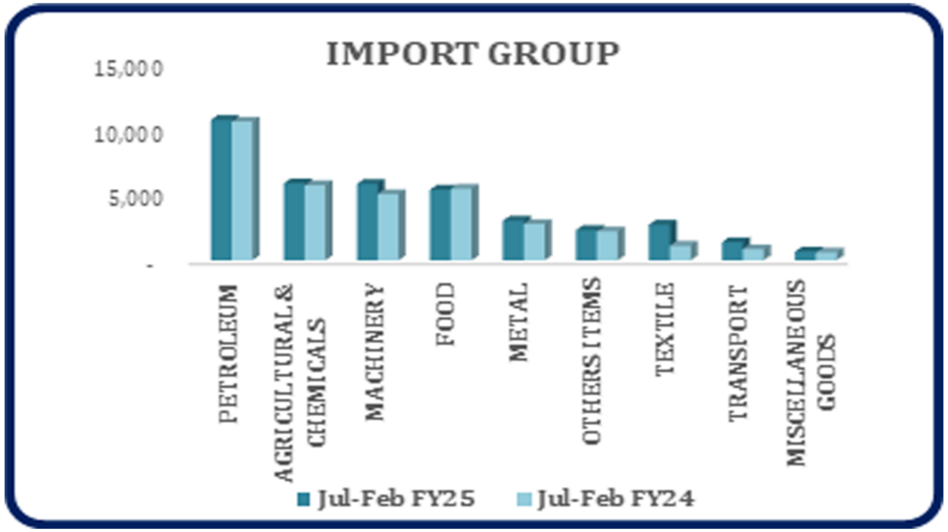
The Current Account ("CA") stood at a $(12) million deficits in month of February 2025, a decrease of 97.0% compared to the previous month of Jan 2025. On a cumulative basis, the CAD has declined to a $691 million surplus, a 350 times reduction compared to a CAD of $1,730 million during the Jul-Feb period of the previous FY24. This sustainable CAD in FY25 is attributed to strong remittance inflows.

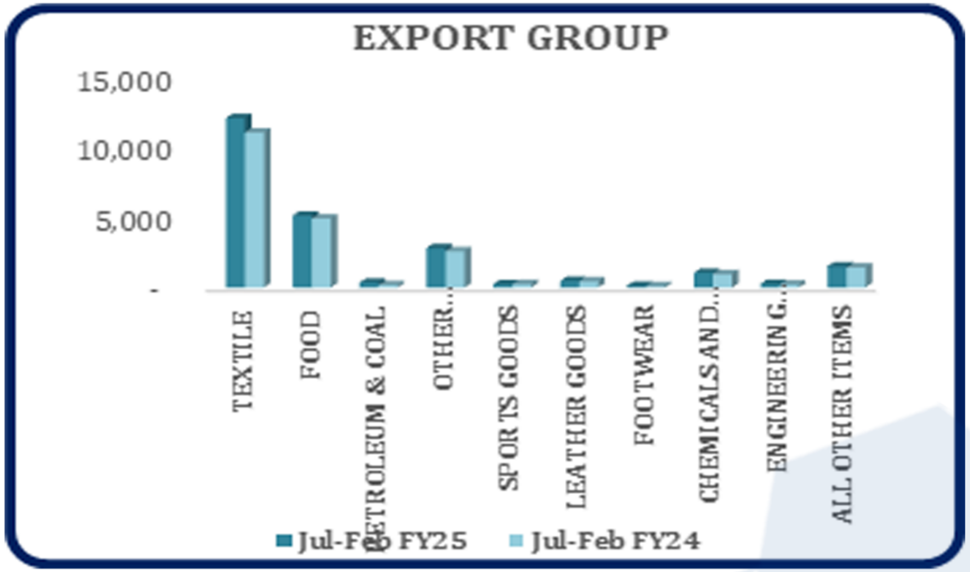
	Month wise Comparison			Commulative Comparison		
CAD	Feb-25	Jan-25	Feb-24	Jul-Feb FY25	Jul-Feb FY24	Jul-June FY25 Proj.
i. Balance of Trade in Goods	**(2,430)**	**(2,451)**	**(1,835)**	**(16,505)**	**(14,053)**	**(24,941)**
Exports of Goods	2,593	2,992	2,531	21,820	20,357	32,341
Imports of Goods	5,023	5,443	4,366	38,325	34,410	57,283
ii. Balance of Trade in Services	**(304)**	**(332)**	**(88)**	**5,459**	**5,150**	**(2,738)**
Exports of Services	709	692	677	7,709	6,886	8,169
Imports of Services	1,013	1,024	765	(2,250)	(1,736)	10,907
iii. Balance on Primary Income	**(571)**	**(751)**	**(425)**	**(5,822)**	**(5,137)**	**(7,648)**
iv. Balance on Secondary Income	**3,293**	**3,135**	**2,419**	**25,268**	**19,196**	**31,620**
Secondary Income Credit	3,340	3,191	2,461	25,707	19,495	N/A
Worker Remittances	3,119	3,003	2,250	23,969	18,084	30,278
Secondary Income Debit	(47)	(56)	(42)	(439)	(299)	N/A
CAD (i + ii + iii + iv)	**(12)**	**(399)**	**71**	**691**	**(1,730)**	**(3,707)**

(Source: SBP)

3. BALANCE OF TRADE IN GOODS

According to the PBS, Pakistan's trade deficit increased by 34.6% to $2.32 billion in Feb of FY25, compared to $1.72 billion in the same period of FY24, amidst a double-digit growth in imports. Moreover, the exports decreased by 3.6% to $2.49 billion during the second month of 2nd half of the ongoing FY compared to $2.58 billion in the same month of last FY. Further, the imports increased by 11.7% to $4.81 billion in Feb of FY25 compared to $4.31 billion in the same period of FY24. Additionally, on a M-o-M basis, exports decreased by 15.6% compared to $2.95 billion in Jan 2025. Furthermore, the country's trade deficit increased by 0.5% compared to $2.31 billion in Jan 2025. On a cumulative basis, exports surged to $22.07 billion in the Jul-Feb period of FY25 compared to almost $20.36 billion in the same period last year. Similarly, the trade deficit increased by 6.5% to $15.80 billion in the Jul-Feb period of FY25 compared to $14.84 billion in same period of FY24. The graph below illustrates the import and export data categorized by groups for FY25 and FY24 during the corresponding periods of Jul-Feb.





4. LARGE SCALE MANUFACTURING

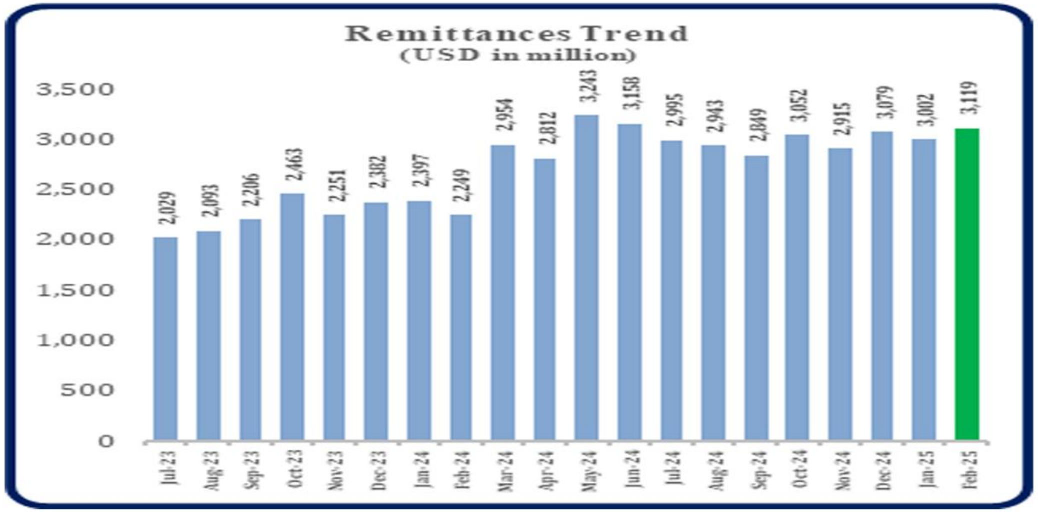
According to the PBS, Pakistan's LSM sector showed a contraction of 1.2% in Jan 2025 on a Y-o-Y basis vs. Jan 2024. In contrast, on a M-o-M basis, the overall output growth increased by 2.1%, compared to the month of Dec 2024. Additionally, the cumulative LSM growth exhibited a negative trend, with a 1.8% contraction in the Jul-Jan of FY25 vs. the same period of last FY24. Sector-wise, important groups such as cotton yarn, cotton cloth, and garment sector showed a growth by 8.7%, 0.8% and 10.4% respectively, whilst the Cement industry showed a contraction of almost 7.7% in the Jul-Jan period of FY25.

LSM (%)	Weight	Jan-25	Dec-24	Jan-24	Jul-Jan FY25
Textile	18.2	1.72	1.42	(6.93)	2.08
Food	10.7	(7.72)	(6.07)	(2.70)	(2.67)
Coke & Petroleum Products	6.7	19.59	9.10	(2.42)	2.47
Chemicals	6.5	(12.49)	(5.42)	19.19	(3.50)
Wearing Apparel	6.1	15.05	0.28	14.08	10.39
Pharmaceuticals	5.2	2.66	1.71	16.58	1.96
Non-Metallic Minerals Products	5.0	(4.41)	(10.24)	(9.87)	(12.18)
Beverages	3.8	(2.65)	17.38	(2.38)	0.19
Iron and Steel Products	3.4	(11.52)	(11.27)	1.04	(11.96)
Automobiles	3.1	28.76	47.72	18.84	45.74
Tobacco	2.1	27.64	(26.14)	(58.35)	20.24
Electrical Equipment	2.0	(11.40)	(14.18)	3.12	(18.00)
Paper & Board	1.6	1.21	3.96	(3.92)	1.36
Leather Products	1.2	1.55	2.36	9.20	0.72
Other Transport Equipment	0.7	33.78	39.48	8.07	31.09
LSM Growth for Jan 2025 (Y/Y)					**(1.22) %**
LSM Growth of Jan 2025 vs. Dec 2024 (M/M)					**2.09 %**
LSM Growth Jul-Jan FY25					**(1.78) %**

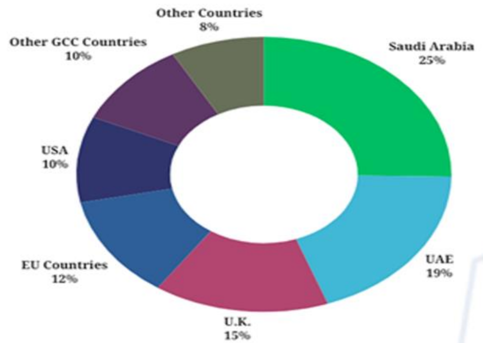
(Source: PBS)

5. Worker's Remittances

As per the SBP, the remittances sent by Overseas Pakistani workers have increased by 3.7% to $3.12 billion in Feb 2025 vs. $3.00 billion in Jan 2025 on a M-o-M basis. In contrast, on a Y-o-Y comparison, the remittance inflows went up by 38.6% when compared to $2.25 billion received a year ago in the same month. Further, on a cumulative basis, remittances increased by almost 32.6% to $23.97 billion in the Jul-Feb period of FY25, when compared with $18.80 billion for the same period last year.



Remittances Share Jul-Feb FY25

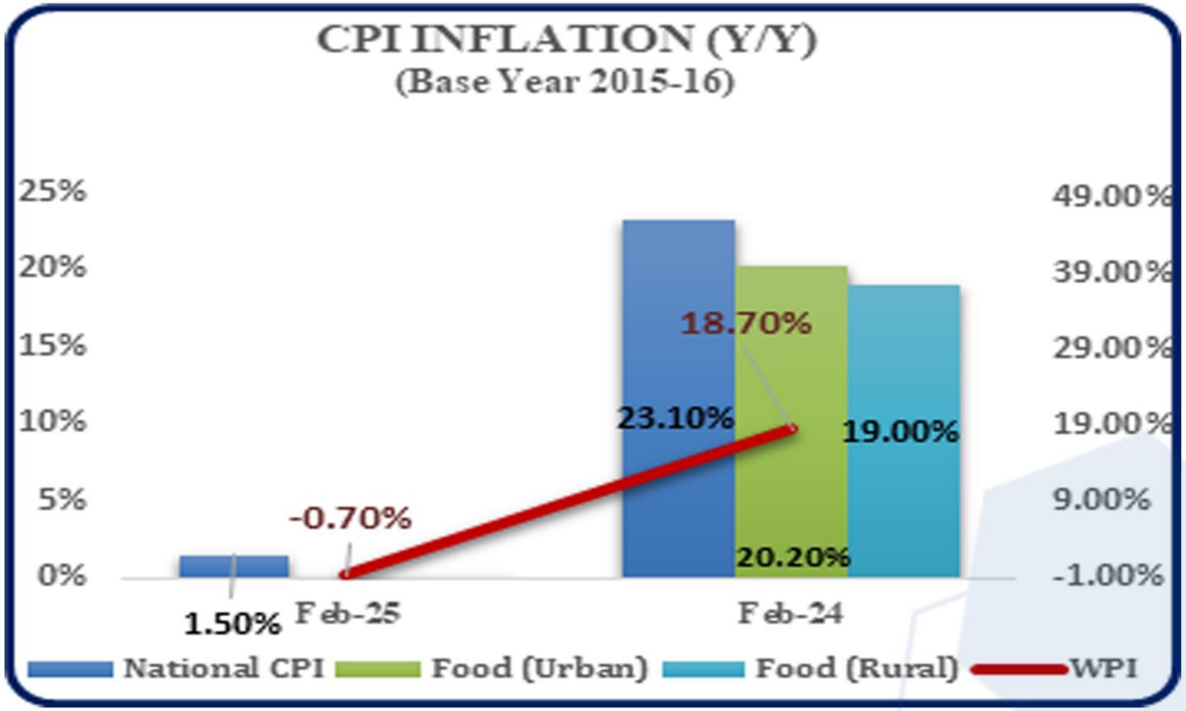


Group	Weight (%)	% Change over	
		Jan-25	Feb-24
Food	34.58	(2.65)	(4.15)
Non-perishable	29.60	(0.60)	(1.54)
Perishable	4.99	(15.96)	(20.30)
Utility	23.63	(0.33)	(0.57)
Health	2.79	0.56	14.34
Transport	5.91	0.31	(1.08)
Education	3.79	0.44	10.87
Restaurants & Hotels	6.92	0.32	7.60

(Source: PBS)

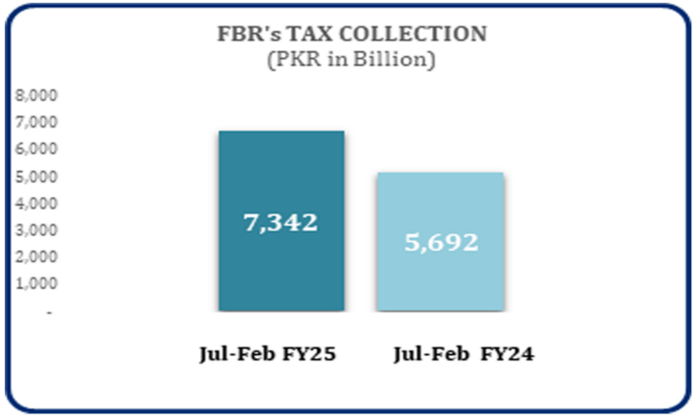
6. CONSUMER PRICE INDEX INFLATION

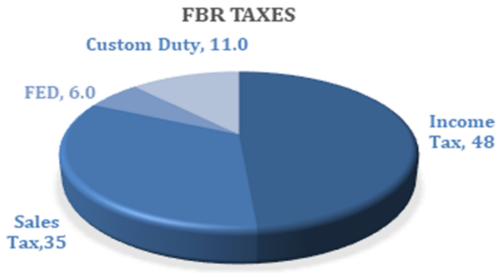
Pakistan's headline inflation declined to 1.5% Y-o-Y in February 2025, down from 2.4% recorded in Jan 2025. The inflation has mainly decreased due to last year's base effect. Further, inflation has been below the key policy rate for the 11th consecutive month. Additionally, the average inflation in the Jul-Feb period of FY24 amounted to 5.9%. Moreover, on a monthly basis, the National CPI has recorded a decline of 0.8%. Contrastingly, the Food inflation rate contracted to 1.8% and 2.5%, for the urban and rural areas, respectively compared to Jan 2025. Lastly, in Feb 2025, the Core inflation, which is calculated by excluding energy and food items, rose by 7.8% and 10.4% in urban and rural areas on a Y-o-Y basis, respectively.

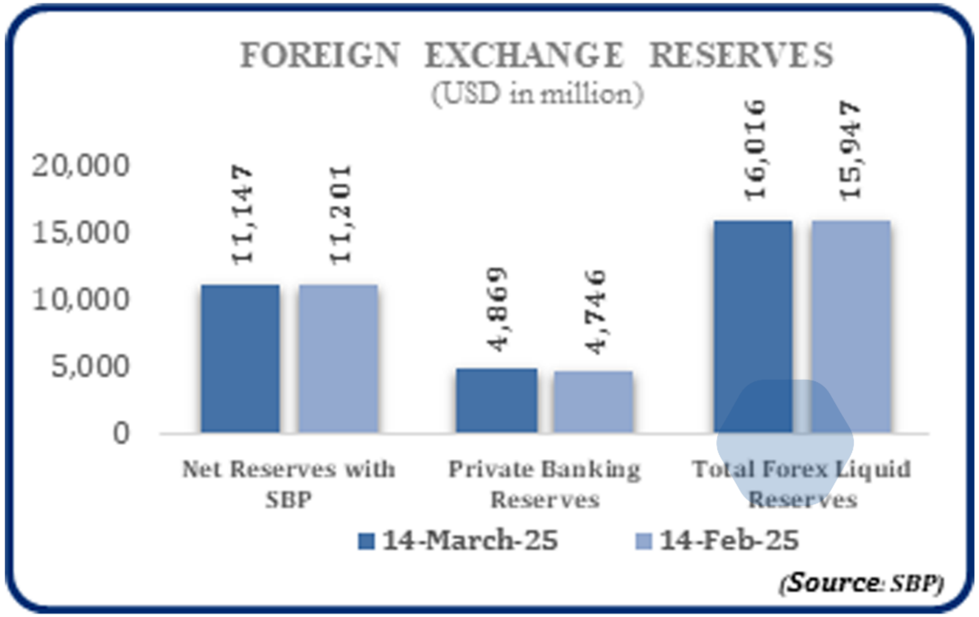


7. FBR TAX REVENUE COLLECTION

As per the data published by the FBR, the FBR collected PKR 7.324 trillion worth of tax revenue in the Jul-Feb period of FY25 and failed to achieve its target by PKR 606 billion. The tax collection surged to PKR 845 billion in Feb 2025, whereby still the FBR failed to achieve January month's target by PKR 138 billion, according to Shahbaz Rana's article in The Express Tribune titled ***'Tax shortfall reaches Rs606b'.***





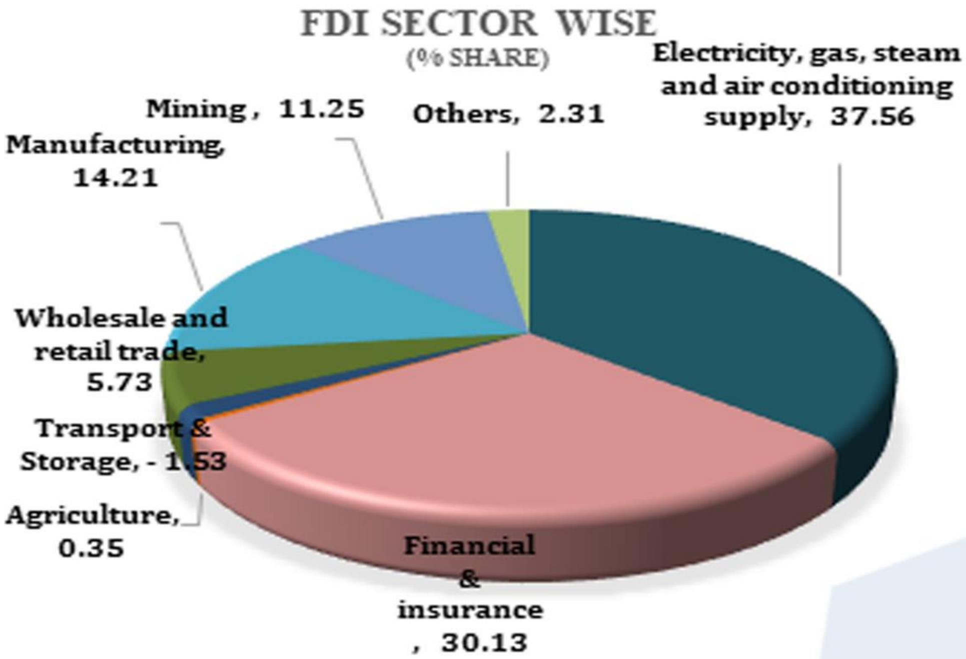


8. FOREIGN EXCHANGE RESERVES

The Net foreign exchange reserves of the SBP stood at $11.15 billion as of March 14th, 2025, representing an increase of 0.4%, or $49 million, compared to last week's reserves of $11.10 billion on March 7th, 2025. Moreover, when compared to the reserves of the previous month (which were $11.20 billion on Feb 14th, 2025), the Net reserves have gone down by 0.5% or $55 million.

9. FOREIGN DIRECT INVESTMENT

Pakistan's net FDI has surged by 41.0% or $471 million to $1,618 million provisionally during the Jul-Feb period of FY25, as compared to $1,148 million during the same month of FY24. Whereas the total Net Foreign Investment surged by 11.8% or $148 million to $1,407 million on a Y-o-Y basis in Jul-Feb period of FY25 as against the amount of $1,259 million in the same period of FY24. This Pie chart shows the percentage share of net inflows in different sectors of the Economy in the Jul-Feb period of FY25.



10. DEBT PROFILE

The total central Government debt, comprising of the Government's domestic debt and external debt, has surged to PKR 72.12 trillion in Jan 2025, marking a substantial increase of 11.2% compared to the same month of the previous Fiscal Year. 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)	Jan-25	Jan-24	% change
Domestic Debt	50,243	42,624	17.87
% of GDP	**40.47**	**40.19**	
External Debt	21,880	22,216	(1.51)
% of GDP	**17.62**	**20.95**	
Gross Public Debt	72,123	64,840	11.23
% of GDP	**58.09**	**61.14**	
Nominal GDP	124,150	106,045	17.07

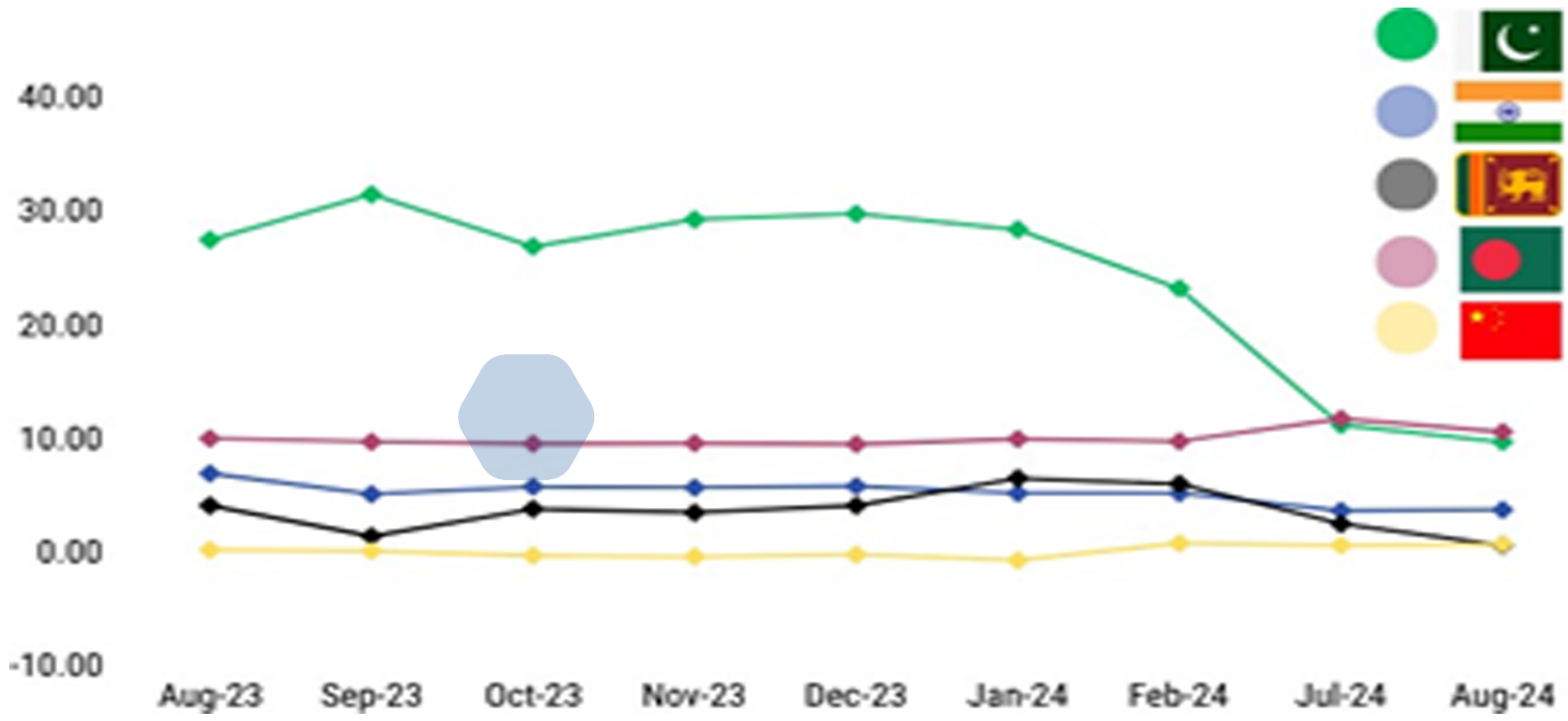
(Source: SBP & MOF)

11. REGIONAL ANALYSIS

Compared to other countries in the region, the Pakistani economy has experienced a slight decline against the USD over the past month. Additionally, a high base effect has contributed to maintaining a single-digit inflation rate over the last seven months. After months of political crisis, inflation in Bangladesh has gradually come down at 9.3% after double digit inflation for the last six months. In Sri Lanka, CPI has dipped to a deflation rate of 4.2%, as the rate of deflation increased from -4.0% when compared to last month, influenced by the statistical base effect and weak aggregate demand in the country. Meanwhile, India's inflation has dropped down to 3.6% from 4.3%, primarily driven by declining prices of food articles and food products. Additionally, China has again experienced a decrease in prices following months of low inflation, with deflation recorded at 0.7% in Feb 2025.

Country	CPI (%)	Local Currency Units per USD (As of 26th Mar)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	1.5	280.3	(0.81)
India	3.6	85.7	(2.83)
Bangladesh	9.3	121.8	(11.27)
China	(0.7)	7.3	(0.19)
Sri Lanka	(4.2)	297.6	1.41

(Source: Trading Economics)



Outlook

Pakistan's economic outlook reflects cautious optimism, as inflation experienced a remarkable decline, dropping to 1.5% in February 2025. Over the past year, inflation fell dramatically from 29.7% in November 2023 to 11.2% by May 2024 and reached just 1.5% in February 2025, a record drop within a single year. However, the inflation outlook remains vulnerable to several risks, including additional fiscal measures to address revenue shortfalls, a potential resurgence in food inflation, and rising global commodity prices. Despite these challenges and the anticipated phasing out of the favorable base effect, the Committee assessed that the current monetary policy stance is appropriate for stabilizing inflation within the target range.

With the staff-level agreement reached between the IMF and Pakistan, meeting the agreed quantitative performance criteria, indicative targets, and structural benchmarks remains crucial. Any shortcomings in meeting these commitments could heighten risk and uncertainty, jeopardizing the rupee's newfound stability in 2024. Ultimately, this will serve as a decisive test of the SBP's economic management in the months ahead

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 minimizing debt servicing.