TOLA ASSOCIATES
TAX & CORPORATE ADVISORS

PAKONOMICS

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HIGHLIGHTS:

- "The impact of the COVID-19 pandemic could very well have pushed back Pakistan's hard-won progress on socioeconomic indicators. Pakistan has done remarkably well in this context, with the recognition that this focus must persist if the country aims to move from stability towards growth", says United Nation in its recent Economic report on Pakistan.
- Financial year 2020-21 come to an end with three remarkable achievements, largest-ever remittances of $29.4 billion, highest-ever merchandise exports of $25.63 billion, and lowest current account deficit of 0.6% of Gross domestic product (GDP) in recent years as per SBP data.
- According to The Economist magazine, Pakistan's latest economic growth trend for fiscal year 2020-21 reported at 4.7%.
- Pakistan's Large Scale Manufacturing (LSM) growth stood at 14.57% during July-May 2021 vs. Last year. Whereas, the LSM growth plunged by almost 4% in May 2021 on month-on-month-basis compared to the previous month of April.
- The Roshan Digital Account's inflows of deposits stood at $1.562 billion till end of June 2021.
- According to the SBP, on month-on-month basis, Pakistan's Overseas Worker's Remittances surged by 8% from $2.49 billion in May 2021 to $2.68 billion in June 2021.
- According to official statistics, FBR has collected tax revenue of PKR 4,732 billion in July-June 2020-21 vs. PKR 3,997 billion last year. This reflects FBR's tax revenue collection grew by 18.38% or PKR 735 billion vs. last year.
- The foreign currency reserves held by the SBP, after accounting for external debt repayments, were recorded at $18.05 billion, up $845 million compared with $17.20 billion recorded on July 9th.
- The Broad Money (M2) stock since 1st of July to 25th May 2021 stood at PKR 2,859 billion vs. PKR 2,800 billion last year.
- According to the Pakistan Bureau of Statistics ("PBS"), CPI inflation surged by 9.70% on a year-on-year basis in June 2021 vs. 8.60% last year.
- According to the Pakistan Bureau of Statistics, the country's exports have surged by 61.10% to $2.69 billion June 2021 vs. $1.67 billion in May 2021 on a month-on-month basis.
- During Fiscal year 2020-21 Pakistan's net FDI depreciated by 28.87% or $751 million to $1.847 billion as compared to $2.598 billion last year.
- According to SBP, total Foreign Investment of the country has increased by 122% to $4.61 billion during July-June 2020-21 compared to $2.07 billion last year.
- The country posted a current account deficit for consecutive seventh months which stood at its peak $1,644 million in June 2021 which leads to Current Account Balance for outgoing fiscal year 2020-21 at $1,852 million deficit.

The outlook of the economy of Pakistan is as follows;

➢ ECONOMY AT A GLANCE

Economic Indicators	Period	Status	Current Year	Last Year
LSM	**May**	↑	**36.84%**	**(24.80%)**
Total Debt and Liabilities	**March**	↑	**45.47 Trillion**	**42.8 Trillion**
Credit to Private Sector	**Jul - 25th June**	↑	**PKR 594 Billion**	**PKR 186 Billion**
Roshan Digital Account	**Sept - June**	↑	**US$ 1,562 Million**	**-**
Worker's Remittances	**June**	↑	**US $2.68 Billion**	**$2.47 Billion**
Currency in Circulation	**As of 25th June**	↑	**PKR 7.00 Trillion**	**PKR 6.19 Trillion**
Net Government Sector borrowing	**Jul - 25th June**	↓	**PKR 1,785 Billion**	**PKR 2,430 Billion**
National CPI (Base Year 2015-16)	**June**	↑	**9.70%**	**8.60%**
FBR Tax Collection	**Jul-June**	↑	**PKR 4,732 Billion**	**PKR 3,997 Billion**
Foreign Exchange Reserves with SBP	**Mid of June**	↑	**$18.05 Billion**	**$16.20 Billion**
Foreign Direct Investments	**Jul – June**	↓	**$1.84 Billion**	**$2.59 Billion**
Trade Deficit in Goods	**Jul - June**	↑	**US$ (31.05) Billion**	**US$ (23.15) Billion**
Current Account Deficit	**Jul-June**	↓	**$(1,852) Million**	**($ 4,449) Million**

1. LARGE SCALE MANUFACTURING:

According to Pakistan Bureau of Statistics (PBS), Pakistan's Large-Scale Manufacturing (LSM) grew by almost 37% in May 2021 on-year-on-year-basis. Whereas, LSM declined by 4% on-month-on-month basis, May was the fourth consecutive month in which the sector have a downward trend on a month-on-month basis amid the fourth wave of Covid-19. Overall growth in LSM stood at 14.57% during July-May 2020-21 compared to a negative growth of 10.32% in the same period last year.

Out of 15 industries that are part of LSM segment, 10 posted a surge in production during the 11 months under review. These include textile, food, beverages and tobacco, coke and petroleum products, pharmaceuticals, chemicals, non-metallic mineral products, automobiles, iron and steel products, fertilizer and paper and board.

Textile sector, which accounts 20% of weightage average in LSM remains the single largest export earning sector of Pakistan, has maintained robust production for the past many months after local firms secured significantly higher number of export orders as the pandemic peaked in regional countries including India.

LSM (%)	Weight	May-21	April-21	May -20	July-May 2020-21	Y/Y growth Cumulative
Textile	**20.92**	48.25	191.29	(30.72)	15.64	**4.03**
Food, Beverages & Tobacco	**12.4**	14.45	8.73	0.67	11.71	**2.58**
Coke & Petroleum Products	**5.5**	4.15	85.76	(18.19)	16.22	**0.86**
Non-Metallic Mineral Products	**5.4**	48.40	27.32	(37.99)	26.08	**3.20**
Iron & Steel Products	**5.4**	39.74	843.22	(31.16)	14.14	**0.53**
Automobiles	**4.6**	409.37	2953.06	(79.82)	47.81	**2.02**
Fertilizers	**4.44**	13.27	11.96	3.80	6.99	**0.45**
Pharmaceuticals	**3.6**	15.18	5.81	3.56	12.15	**1.02**
Paper & Board	**2.3**	14.77	30.66	(16.52)	3.24	**0.13**
Electronics	**2**	283.09	275.75	(81.81)	(5.76)	**(0.19)**
Chemicals	**1.7**	28.94	91.64	(14.65)	18.78	**0.47**
Leather Products	**0.9**	64.77	100.1	(53.80)	(29.07)	**(0.42)**
Engineering Products	**0.4**	88.39	72.41	(57.58)	(15.63)	**(0.03)**
Rubber Products	**0.3**	(25.42)	(14.92)	(11.84)	(14.05)	**(0.07)**
Wood Products	**0.6**	126.52	168.6	(90.40)	(37.76)	**0.00**
LSM Growth for May 2021 (Y/Y)						**36.84%**
LSM Growth for May 2021 vs. April 2021(M/M)						**(3.93)%**
LSM Growth for July-May 2021 (Y/Y)						**14.57%**

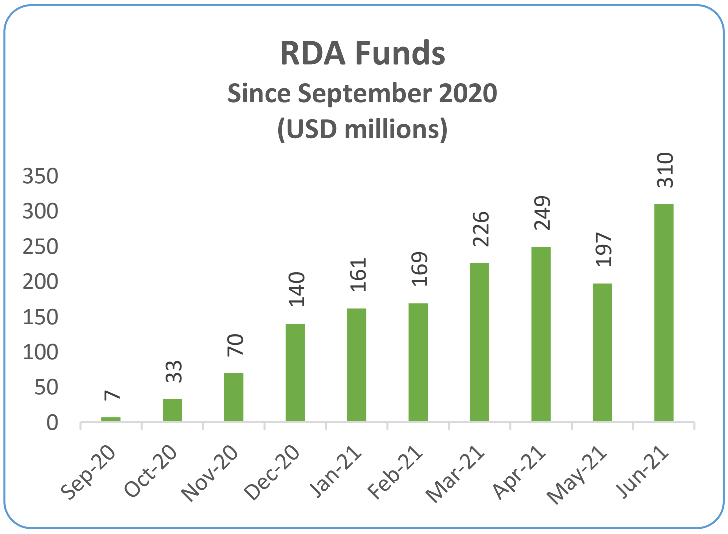
(Source: PBS)

2. Roshan Digital Account:

Roshan Digital Account (RDA) has fetched foreign inflows amounted to $1.562 billion during the first ten months since the scheme was unveiling in September 2020. The RDA has been achievement of the SBP, encompassing 171 countries and 181,556 accounts till June 2021.

Roshan Digital Account (USD Million)	Cumulative Sept-June	Jun-21	May-21
	(Provisional)		
Funds Received	**1,562**	**310**	**197**
Naya Pakistan Certificates	**1,050**	**233**	**142**
Conventional	621	156	86
Islamic	429	77	56
Stock Exchange	**16**	**3**	**2**

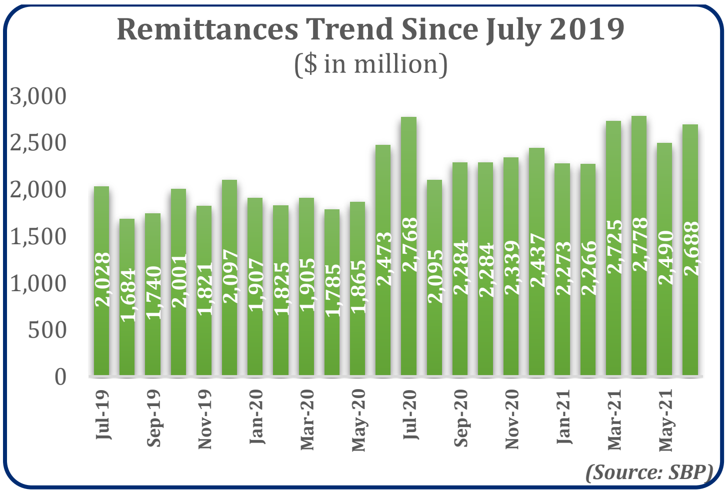
(Source: SBP)

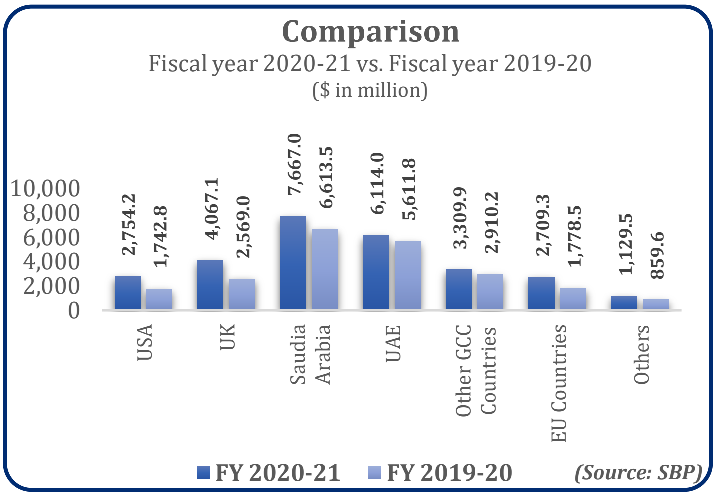


3. WORKER'S REMITTANCES:

According to the SBP, Pakistan's Overseas Worker's Remittances surged by 11.70% to $2.68 billion in June 2021 vs. $2.49 billion in May 2021 on-month-on-month basis due to seasonal pre-Eid related inflows helped to further boost remittances level during June. Flows also continued their exceptional streak, remaining above $2 billion for a record 13th straight month. On a cumulative basis, remittances rose to a historic annual high of $29.4 billion during FY21 compared to $23.13 billion in the same period of FY20, depicting an increase of $ 6.24 billion. The substantial growth achieved in FY21 is the fastest rate of expansion since FY03. Our Descriptive analysis revealed that remittance inflows during FY21 were mainly sourced from four major territories including Saudi Arabia, UAE, UK and the USA. With 26% share in overall home remittances inflows, Saudi Arabia remained the largest contributor. Remittances inflows from Saudi Arabia mounted up by 16% to $7.66 billion in FY21. Some $2.754 billion arrived from the US in FY21 compared to $1.743 billion in FY20, showing an increase of 58%. Workers' remittances from the UK and UAE surged by 58.3% and 9%, respectively. Pakistan received remittances amounted to $4.067 billion from the UK and $6.11 billion from UAE during the last fiscal year.

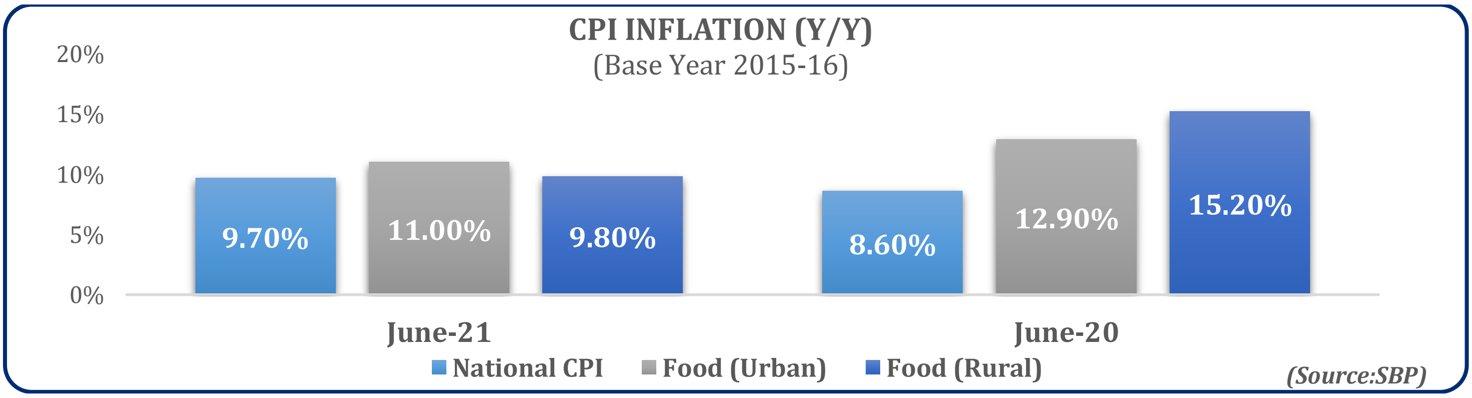
On year-on-year basis, Pakistan's Overseas Worker's Remittances surged by 8.68% from $2.47 billion in June 2020 to $2.68 billion in June 2021. On a month-on-month basis, country's remittances surged by 9.21% from Saudi Arabia, 2.98% from UK, 6.95% from USA, 6.13% from UAE and 14.01% from other GCC countries. Remittances also play an important role in narrowing the current account gap in fiscal year 2020-21 where the foreign direct investment remains dried.



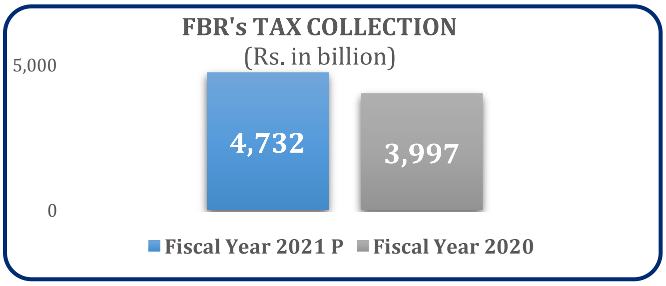


4. CONSUMER PRICE INDEX ("CPI") INFLATION:

Despite attaining a growth rate nearly 4%, the inflation rate remains high throughout the fiscal year 2020-21 and reached a peak of 11.1% in the month of April 2021 on a year on year basis. However the month of June has brought some relief from a significant dip in the rate of inflation to a single-digit rate of 9.7%. On month-on-month basis, National CPI decrease by 0.2%, similarly Food urban and rural both decreases by 1.9% and 0.8% respectively vs. the month of May 2021.



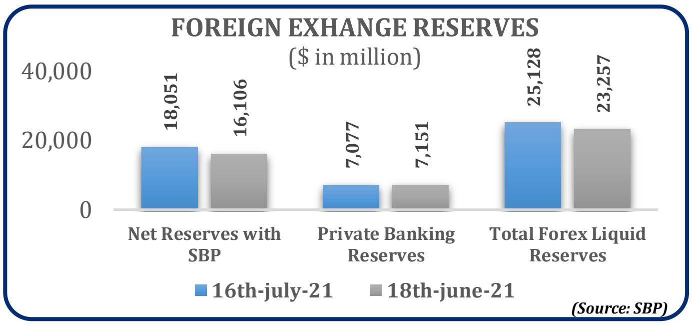
5. TAX REVENUE COLLECTION:



According to FBR's official statistics, FBR provisionally collected tax revenue of PKR 4,732 billion in Fiscal year 2020-21 vs. PKR 3,997 billion last year. FBR's tax revenue grew by 18.38% or PKR 735 billion vs. last year. FBR has successfully achieved the revised revenue collection target of PKR 4,691 billion (previously 4,963 billion) for Tax Year 2020-21. The net collection for the month of June was PKR 568 billion representing an increase of 26% over PKR 451 billion collected in June 2020.

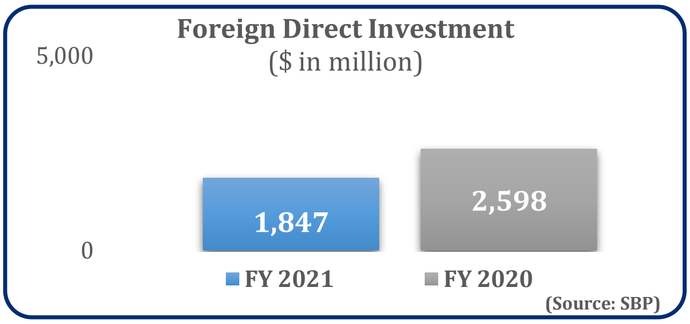
6. FOREIGN EXCHANGE RESERVES:

SBP reserves stood at $18.05 billion as of 16th July 2021. The country's forex reserves had been rising by $845 million or 4.9% from $17.20 billion in the previous week boosted by inflows from Eurobonds, "During the week ended July 16, SBP received proceeds of $1,040.8 million against Pakistan Eurobonds," the central bank said.

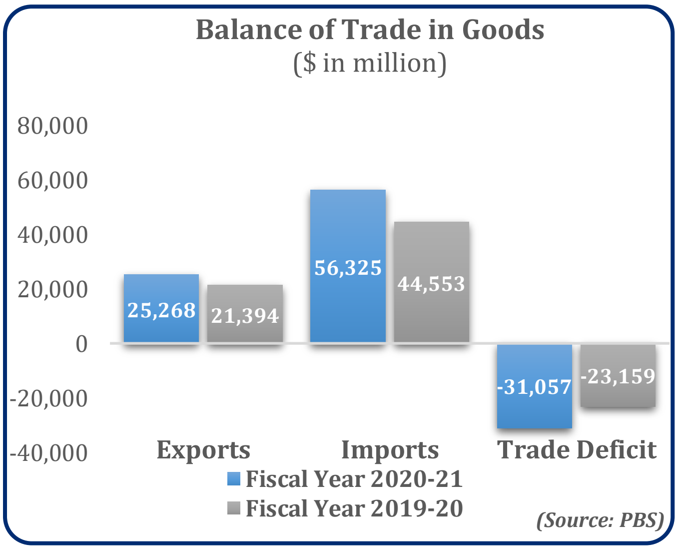


7. FOREIGN DIRECT INVESTMENT:

During Fiscal year 2020-21, Pakistan's net FDI depreciated by 28.87% or $751 million to $1.847 billion as compared to $2.598 billion last year. During June 2021, Pakistan's Net FDI stood at $135.4 million provisional compared to $174.8 million in June 2020 last year. According to SBP, total Foreign Investment of the country has increased by 122% to $4.61 billion during July-June 2020-21 compared to $2.07 billion last year.



8. BALANCE OF TRADE IN GOODS:



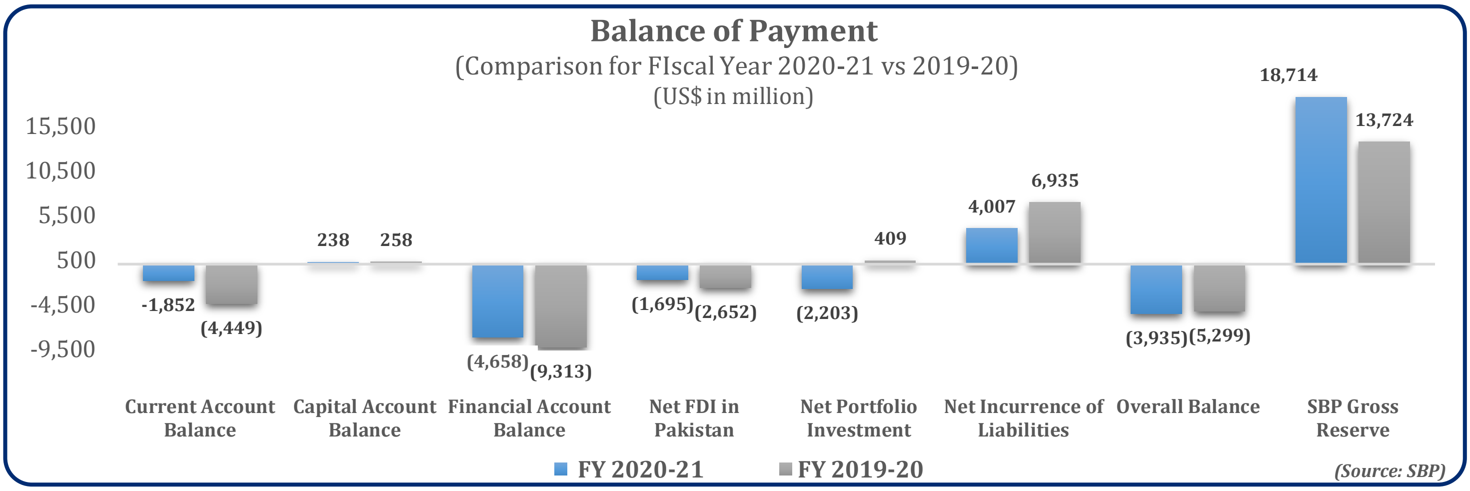
According to the PBS, country's exports rose by 61.10% to $2.69 billion in June 2021 vs. $1.67 billion in May 2021 on a month-on-month basis. Pakistan's total export growth appreciated by 18.11% to $25.268 billion in fiscal year 2020-21 vs. $21.39 billion last fiscal year.

However, country's trade deficit widened by 34.10% to $31.057 billion during the fiscal year 2020-21 compared to $23.159 billion during the same period of 2019-20, says PBS. The trade gap has been widening since December 2020, the surge in trade deficit is mainly due to constantly rise in import bills. Government had to import wheat and sugar to meet domestic demand shortfall. Similarly, surging demand for Pakistani export something jacked up the imports of raw materials and machinery to raise capacity and meet the growing demand.

9. BALANCE OF PAYMENT:

($ in million)	June 2021 (Provisional)	May 2021 (Revised)
Current account Balance	**(1,644)**	**(650)**
Capital Account Balance	**25**	**9**
Financial Account Balance	**(3,201)**	**(1,227)**
Net FDI in Pakistan	(128)	(191)
Net Portfolio investment	(573)	(41)
Net incurrence of Liabilities	**2,157**	**785**
Overall Balance	**(1,618)**	**(371)**
SBP Gross Reserve	18,714	17,525

Pakistan's Current Account deficit has increased by a large 153% from revised deficit of $650 million in May 2021 to $1,644 million in June 2021 due to the back of mammoth imports coupled with a rise in global oil prices. On a cumulative basis, deficit of 1.85 billion came despite the fact that the current account remained in surplus in the first 11 months (July 2020 to May 2021) of the previous fiscal year. Current Account deficit particularly rise due to imports jumped 23% while the pace of increase in exports remained sluggish. "Pakistan's external position is at its strongest in many years," remarked the SBP in a tweet on Monday. "In line with SBP's projections, the current account deficit in FY21 fell to only 0.6% of GDP, which is the lowest in 10 years, with exports and remittances at all-time highs". In our humble view worsening trade deficit will be the biggest contributor to the current account deficit in on going fiscal year. Whereas, oil was becoming costlier, hence the country should brace itself for a lofty import bill.



10. OUTLOOK:

- The Monetary Policy Committee of SBP will meet on last week of July at SBP Karachi to decide about monetary policy, a statement said on last Friday. SBP is expected to leave its benchmark interest rate for its sixth straight monetary policy meeting to support economy as the Delta variant of Covid-19 tightens its grip on the country.
- As per SBP quarterly report, "The economic momentum is expected to accelerate further during FY22". The optimistic outlook is premised on the expanding vaccine roll-out and relatively unhindered continuation of economic activity despite Covid-19.
- IMF would conduct its sixth and seventh review of the programme simultaneously in September. The government has asked its economic team to step up efforts to manage economy in next three months for retaining the IMF programme.
- Federal finance minister Mr. Tarin said he was optimistic about good revenue results in July and August and then talk to the IMF over its programme. "We will prove that our strategy of revenue generation is better than the one prescribed by the Fund," the minister said, adding it would be even better than last year.
- The government had projected Rs600 billion as petroleum development levy in the last budget given the risk of higher oil prices. In case of higher prices and lesser collection of petroleum development levy the government might opt for other revenue measures to bridge the shortfalls.
- Looking forward, import growth will likely to surpass growth in exports by an even wider margin in Fiscal Year 2021-22 due to the higher oil prices, expansionary fiscal policy and resumption of economic activity. In this backdrop the rupee is likely to remain under duress this fiscal year.
- Overall, there is a strong likelihood that the rate of inflation in the CPI will start rising once again. The people will be back to making ends meet with even greater difficulties. The government will need to take strong administrative and policy measures if the rate of inflation is to be restricted to a single-digit rate in 2021-22.