



KPMG Taseer Hadi & Co.
Chartered Accountants

Investment in Pakistan



Investment in Pakistan

Foreword

Investment in Pakistan is a publication prepared by KPMG Pakistan to provide information on a number of subjects relevant for investment planning or doing business in Pakistan.

The guide includes an overview of the economy and a summary of performance of identified sectors which could be of interest for investors and provides a summary of the rules, regulations and tax laws applicable in Pakistan. Although covering many relevant areas, it should not be considered as exhaustive since it has not been designed to provide complex and detailed information required for decision-making in relation to investments.

This publication incorporates the regulations effective as of 31 October 2019.

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Glossary



BOI	Board of Investment
CY	Calendar Year
FCY	Foreign Currency
FDI	Foreign Direct Investment
FY	Financial Year Ended
GDP	Gross Domestic Product
GoP	Government of Pakistan
MSME	Micro Small and Medium Enterprises
PSDP	Public Sector Development Programme
PSX	Pakistan Stock Exchange
PTA	Pakistan Telecommunication Authority
SBP	State Bank of Pakistan
SECP	Securities & Exchange Commission of Pakistan
USD	United States Dollar
2017-18	Fiscal year ended 30 June 2018
2018-19	Fiscal year ended 30 June 2019
2019-20	Fiscal year ended 30 June 2020

Table of Contents

	Overview of the Economy	1
	Sector Profiles	17
	Forms of Business Presence	43
	Taxation	51
	Foreign Exchange	67
	Labour Laws	71





1. Overview of the Economy

Pakistan – an outline	
Official name	Islamic Republic of Pakistan
Capital city	Islamabad
Population (in million)	Total: 207.8, Male: 109.03, Female: 103.77, Transgender: 0.02
Population by Religion	Muslim 96.3%, Christian 1.6%, Hindu 1.6%, Others 0.5%
Literacy rate	62.3% (approx.) – Male: 72%, Female: 50%
Currency	Pakistani Rupee [1 Rupee = 100 Paisa]
Per capita income	USD 1,497.3
Life expectancy	66.6 years
Major cities	Islamabad, Karachi, Lahore, Peshawar, Quetta, Rawalpindi, Hyderabad, Faisalabad, Multan and Sialkot
Major airports	Islamabad International Airport, Quaid-E-Azam International Airport, Allama Iqbal International Airport, Peshawar International Airport and Quetta Airport
Major seaports	Karachi Port, Port Muhammad Bin Qasim and Gwadar Deep Sea Port
Climate	Sub-tropical
Language	Official: English & Urdu (national & spoken); and regional languages include Punjabi, Pashto, Sindhi, Saraiki and Balochi

Source: Pakistan Economic Survey 2018-19

Geographic details

- Pakistan is strategically located at the crossroads of Asia, sharing borders with China as its neighbour in the North, India in the East and Iran and Afghanistan in the West.

Geographic coordinates

- Pakistan is divided into four provinces viz., Khyber Pakhtunkhwa, Punjab, Sindh and Balochistan. Azad Jammu and Kashmir and Gilgit-Baltistan have their own respective political and administrative machinery, however some of their portfolios are under Federal Government care.¹

Source:

- The Constitution of Pakistan*
- Pakistan Tourism Development Corporation*
- <https://www.everyculture.com/>

Landscape

- The landscape of Pakistan ranges from high mountains in the north (Karakoram, Hindu Kush and Himalayas), over dissevered highlands to Punjab, with its opulent alluvial plains. Balochistan's barren desolation and the hot and dry deserts of Sindh then follow, amalgamating into the Makran coast's extensive golden beaches.²
- In addition to being known for a number of mountains, including K-2, which is the second-highest mountain in world, Pakistan also has several lakes and rivers, including the Indus River, which is 1,800 miles (2,896 kilometres) long. Pakistan also has several deserts, in Punjab and Sindh. Pakistan is also home to Jaulian's monastery forming part of what some consider to be the world's oldest university. In the north, leading from China, through Jammu and Kashmir, is a famous ancient silk road.³

Climate

- Pakistan's coastal dry and hot climate becomes increasingly cooler towards the north-eastern highlands. Winters are commonly cold and dry. March commences the summer season, which at its expiration reflects temperatures as high as 50° C in certain parts of Pakistan. The June-September monsoons deposit an average rainfall of approximately 38 cm (15 in) in the river basins and nearly 150 cm (60 in) in the northern expanses.

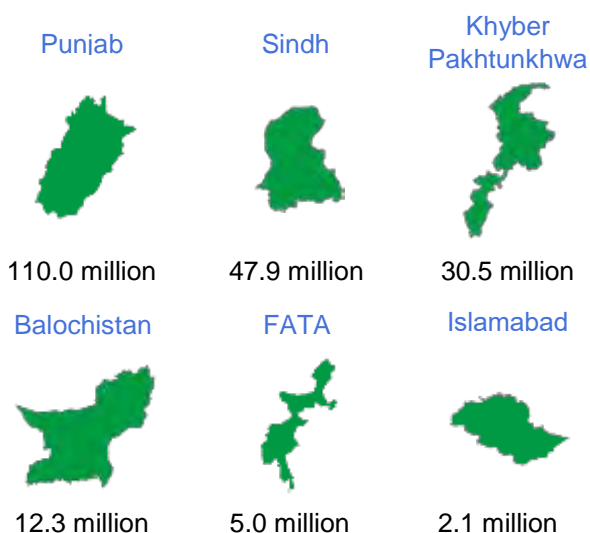
Source: <https://www.nationsencyclopedia.com>

Population census 2017

Cities	Population (in million)
Karachi	16.1
Lahore	11.1
Faisalabad	7.9
Rawalpindi	5.4
Gujranwala	5.0
Peshawar	4.7
Multan	4.3
Hyderabad	2.3
Islamabad	2.2
Quetta	2.0
Others	146.8
Total	207.8

Source: Pakistan census 2017 – Pakistan Bureau of Statistics

- National Institute of Population has projected that the population would reach to 212.8 million as at 30 June 2019.



Source: Pakistan census 2017 – Pakistan Bureau of Statistics

Industrial snapshot



Major exports

Textile goods, rice, cotton, chemicals and pharmaceuticals, leather and fruits

Major imports

Petroleum, industrial machinery, chemicals, transport equipment, iron, steel, edible oil and electrical good

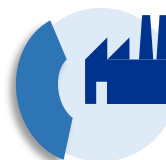


Natural resources

Land, natural gas reserves, petroleum, coal, iron ore, salt, limestone, gold and marble

Key industries

Textiles, cement, fertilizer, steel, electric goods, mining and IT



Agricultural snapshot

Important Crops

Wheat, Rice, Sugarcane, Maize, Gram and Cotton



27.8% of the total land area of 79.6 million is cultivated



Federal Government

- The structure of federal government is based on three main pillars i.e. Executive, Legislative and Judiciary branch.

Executive branch

- The Constitution of the Islamic Republic of Pakistan, 1973 provides for a federal parliamentary system with a 'President' as the head of state and a popularly elected 'Prime Minister' as the head of government.
- Prime Minister (PM) is assisted by his Federal Cabinet Ministers heading various ministries, divisions, and by his Advisors.
- The Federal Cabinet consists of PM Secretariat, Cabinet Division and Establishment Division.
- Ministries and Divisions comprise of various autonomous and semi-autonomous bodies.
- Other offices and bodies having important roles in the federal structure include the Attorney General, the Auditor General, the Federal Land Commission, the Federal Public Service Commission, Election Commission of Pakistan, and the Wafaqi Mohtasib (Ombudsman) and various Regulatory Authorities.

Legislative branch

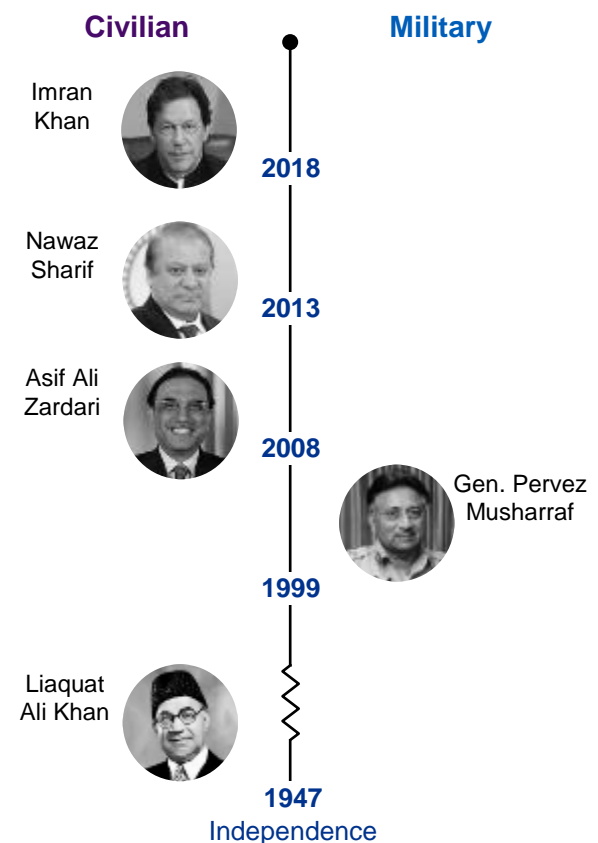
- The Parliament consists of two Houses: the Senate of Pakistan (Upper House) and the National Assembly of Pakistan (Lower House).
- The Senate is a permanent legislative body and symbolizes a process of continuity in the National affairs. It consists of 96 members (23 each from KPK, Punjab, Sindh and Balochistan and 4 from the Federal Capital).¹
- The National Assembly has a total membership of 336 elected through adult suffrage (266 general seats, 60 women seats and 10 minority seats).¹
- In 2018, the 25th amendment to the Constitution merged the Federally Administrative Tribal Areas (FATA) under KPK province and reduced the seats of senate from 104 to 96 and of National

Assembly from 342 to 336, however the existing members of the Senate from FATA shall continue till expiry of their respective terms of office and the members of the National Assembly elected in the last general elections shall continue till its dissolution.

Judiciary branch

- Judiciary includes the Supreme Court, Provincial High Courts, District & Sessions Courts, Civil and Magistrate Courts exercising civil and criminal jurisdiction. Some Federal and Provincial Courts and tribunals such as Services Court, Income Tax & Excise Court, Banking Court and Boards of Revenue's Tribunals are established in all provinces as well.
- The Federal Shariat Court of Pakistan is a court which has the power to examine and determine whether the laws of the country comply with Shari'a law. It consists of 8 Muslim judges appointed by the President of Pakistan after consulting the Chief Justice of this Court. Of the 8 judges, 3 are required to be Ulema who are well versed in Islamic law. The judges hold office for a period of 3 years, which may eventually be extended by the President.

Change of governments in last 20 years



1. The Constitution of Pakistan

Economy

- The economy of Pakistan is currently going through a restructuring phase. Since taken charge in 2018, the present government has made concerted efforts to introduce economic and structural reforms to address long standing issues. These issues include trade imbalance, widening fiscal and current account deficits, rising debt liabilities, depletion of foreign exchange reserves, unplanned domestic and international borrowings and meek tax to GDP ratio.
- On one hand, the government secured financial support of USD 9.2 billion from friendly countries; whilst on the other hand, the government has entered into a USD 6 billion IMF loan program for 3 years in order to address immediate liquidity issues.
- The government has taken several measures and policy actions, particularly on the macro-economic front, to restore long term sustainable growth. Curtailment of non-essential imports, adjustment of exchange rate, rationalization of duties and tax rates, broadening of tax base, documentation of economy, removal of subsidies and revising energy tariffs are some of those reforms. However, implementing these reform measures had their adverse but hopefully short-term effects; which the country has witnessed in 2018-19 in terms of slowdown in economy, lower GDP growth, higher rate of inflation and surge in unemployment. Nonetheless, for laying foundation for robust and balanced growth and restoring investors' confidence, these stern measures seem inevitable.

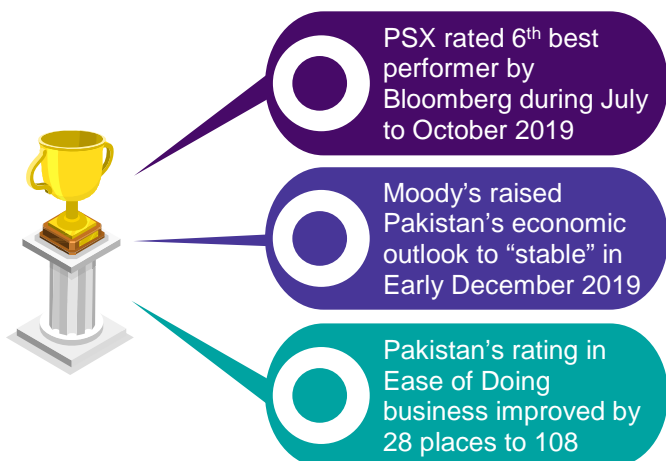
Fiscal operations				
	Actual (PKR billions)		% of GDP	
	2018*	2019*	2018*	2019*
A. Total revenue	3,582	3,584	10.3	9.3
Tax revenue	3,076	3,162	8.9	8.2
Non-tax revenue	506	422	1.5	1.1
B. Total expenditure	5,077	5,482	14.6	14.3
Current	4,075	4,798	11.8	12.4
Development	993	656	2.9	1.7
Net lending	9	28		
C. Statistical discrepancy	-15	24		
Fiscal balance (A – B – C)	(1,480)	(1,922)		
Financing	1,480	1,922		
External	524	525		
Domestic	956	1,397		

Source: The State of Pakistan Economy (SBP's third quarterly report 2019)

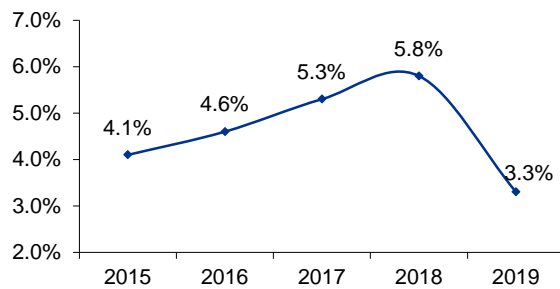
*July to March

GDP

- Pakistan posted GDP of PKR 38,558 billion, thus witnessed a GDP growth rate of 3.3% in 2018-19 (5.5% in 2017-18) against target growth of 6.2%.
- The target was based upon sectoral growth projections for agriculture, industry and services at 3.8%, 7.6% and 6.5% respectively. However the actual growth in agriculture turned out to be 0.8%. The under-performance of agriculture sector hinged upon reduction in the area of cultivation, lower water availability and drop in fertilizer off take. The growth in the industrial sector remained at 1.4% particularly due to decline by 2.1% in the large scale manufacturing sector and by 1.9% in mining and quarrying sector. Service sector is another major vital sector to GDP growth which recorded provisional growth of 4.7%.
- Private consumption comprised 82.1% of GDP and contributed 5% to GDP growth in 2018-19; Government expenditure contributed 1.7% to GDP growth. Whilst consumption based growth remained strong; increase in imports bill offset the GDP growth by 3.2%. Exports contributed a meek 0.9% in GDP on the back of increased global demands and improvement in availability of energy.

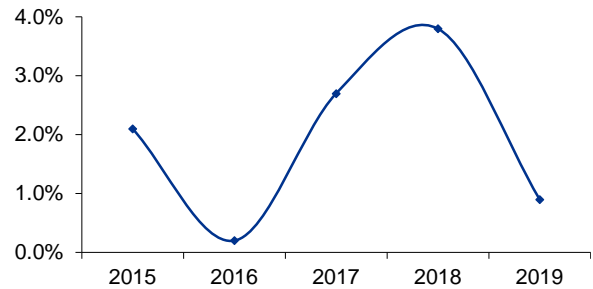


GDP growth 2015 – 2019



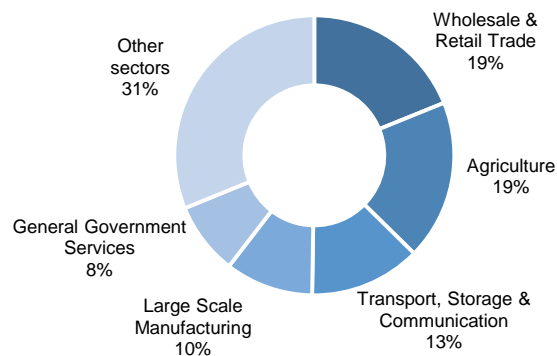
Source: Pakistan Economic Survey 2018-19

Growth in Agriculture sector 2015 – 2019



Source: Pakistan Economic Survey 2018-19

Sectoral share in GDP 2018-19



Source: Pakistan Economic Survey 2018-19

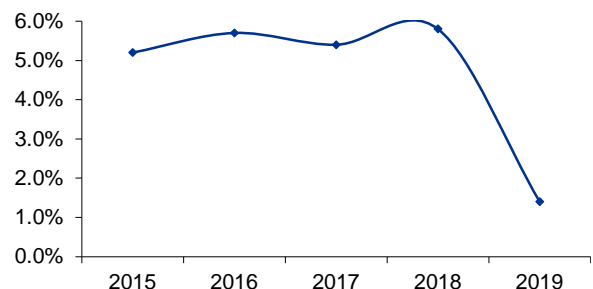
Industrial

- Industrial sector plays a crucial role in the economy of Pakistan. Manufacturing is the most important sub-sector of the industrial sector contributing 13.5% to 13.8% in GDP for almost decades. The underperformance of major crops, power slippages, global commodity price shocks, and contraction in demand of domestic consumer goods hindered the growth of manufacturing sector.
- Industrial sector noted a growth of 1.4%. The mining and quarrying sector has witnessed a negative growth of 1.9% mainly due to reduction in production of natural gas and coal while the large-scale manufacturing sector showed a decline of 2.06%.

Agriculture

- Agriculture sector plays a central role in the economy of Pakistan. It mainly comprises of five sub sectors including livestock, fisheries, major crops, minor crops and forestry.
- Agriculture sector contributes 18.5% to GDP. According to the 6th Population and Housing Census of Pakistan 2017, the country's population is growing at the rate of 2.4% per annum. This rapid increase in population is raising demand for agricultural products.
- Cotton, rice and sugarcane which are the major crops of the country witnessed negative growth as production of these crops declined by 17.5%, 3.3% and 19.4% respectively. This has partly been off-set by positive growth in wheat and maize which grew at the rate of 0.5% and 6.9% respectively. Livestock sector has shown a growth of 4%. The growth recorded for forestry is 6.47% which was mainly due to increase in production of timber.

Growth in Industrial sector 2015 – 2019



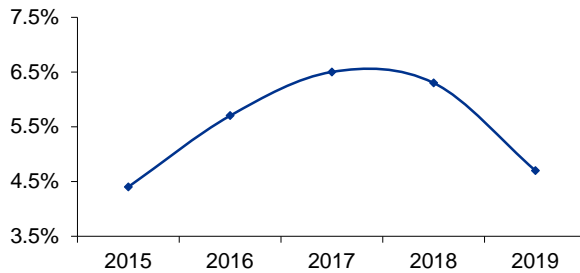
Source: Pakistan Economic Survey 2018-19

Services

- Service sector has played a vital role in sustaining economic activities in Pakistan. Services sector contains six sub-sectors: Transport, Storage and Communication, Wholesale and Retail Trade, Finance and Insurance, Housing Services, General Government Services and Other Private Services.

- The share of the services sector has increased from 58.6% of GDP in 2014-15 to 61.2% in 2018-19. The service sector is the largest growing sector of the economy and the share of employment in services sector is increasing as compared to other sectors.

Growth in Service sector 2015 – 2019



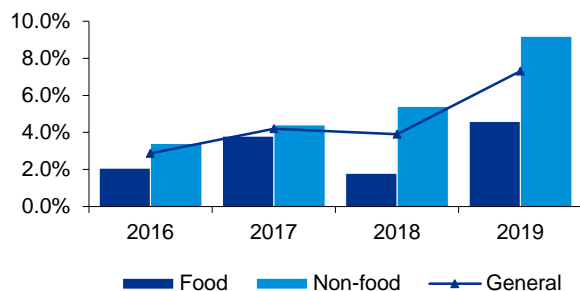
Source: Pakistan Economic Survey 2018-19

Inflation

- Pakistan's annual inflation rate increased to 11.1% in October 2019 as compared to 12.6% in the previous month and 6.8% during corresponding month of last year.
- Inflation on month-on-month basis is recorded at level of 1.0% in October 2019 as compared to 0.8% in the previous month and 2.3% during corresponding month of last year.

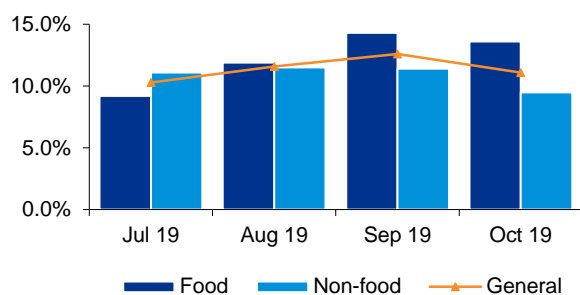
Source: Inflation Monitor, SBP, October 2019

Yearly Inflation 2016 – 2019



Source: State Bank of Pakistan

Monthly Inflation July – October 2019



Source: State Bank of Pakistan

Public debt

- Public debt stood at PKR 32,708 billion at the end of June 2019 with an increase of PKR 7,755 billion as compared to PKR 24,953 billion at the end of June 2018. Devaluation of PKR against international currencies increased the value of external public debt.

Pakistan's Public Debt Profile

Total debt and liabilities		
(PKR billion)	2018	2019
1. Government Domestic debt	16,416	20,732
2. PSEs domestic debt	1,068	1,394
3. External debt (a+b+c+d)	10,953	15,631
a) Government External debt	7,796	11,055
b) Non-Government External debt	1,979	3,120
c) Debt from the IMF	741	921
d) Intercompany external debt from direct investor board	437	535
Pakistan's total debt (1+2+3)	28,437	37,757
Total public debt (1+3a+3c)	24,953	32,708
4. External liabilities	622	1,710
5. Domestic liabilities	820	756
Total liabilities (4+5)	1,442	2,466
Pakistan's total debt & liabilities	29,879	40,223

Source: State Bank of Pakistan

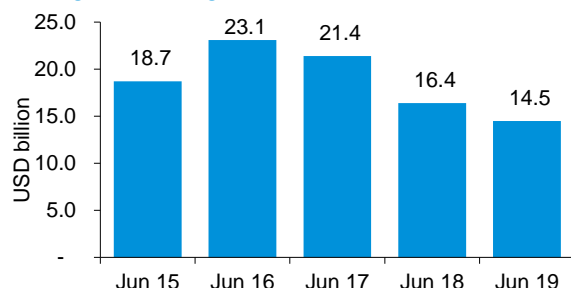
*Gross public debt minus government deposits with banking system.

Foreign reserves

- Foreign exchange reserves stood at USD 15.4 billion as of 31 October 2019. This was more than the total reserves of USD 14.0 billion as of 31 October 2018. Out of this SBP reserves were USD 8.2 billion, whereas reserves held with commercial banks were USD 7.2 billion as at 31 October 2019.
- To address these issues, GoP has finalised a three year bailout package worth USD 6 billion in a bid to revive sustainable growth to the country's economy and improve the standards of living.
- The current government has also sought help from friendly countries for financial relief and has finalised a USD 6 billion assistance package for a period of three years with Saudi Arabia. USD 3 billion in short loan and

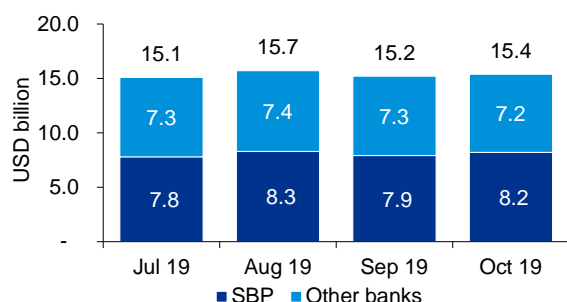
USD 3 billion in the form of deferred payment on oil imports. Similarly, UAE government provided USD 1 billion whereas China has given USD 2.2 billion. These measures and inflows have strengthened Pakistan's foreign exchange reserves and reduced external vulnerabilities to certain extent.

Foreign exchange reserve 2015 – 2019



Source: State Bank of Pakistan

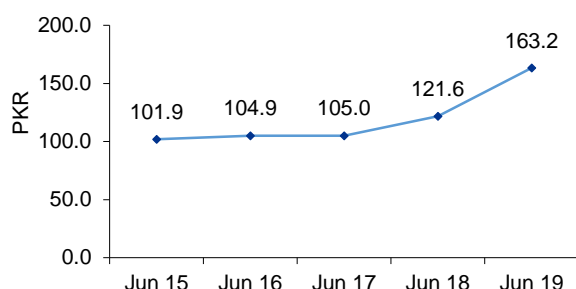
Foreign exchange reserve July – October 2019



Source: State Bank of Pakistan

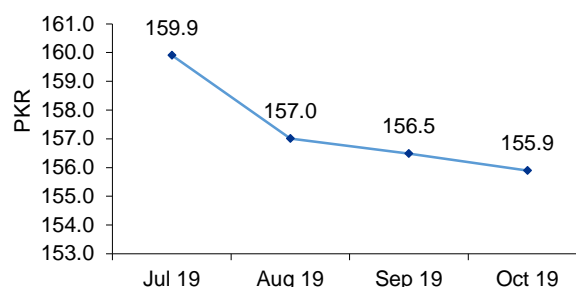
- The Pak rupee also remained under pressure during the year, despite a decline in the current account gap, it stayed at a high level. Responding to the resulting payment pressures, the PKR depreciated by 17.5% against the USD during the last twelve months ended 31 October 2019.

PKR vs USD 2015 – 2019



Source: State Bank of Pakistan

PKR vs USD Jul 2019 – Oct 2019

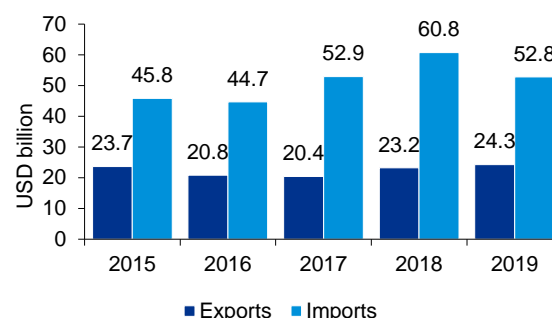


Source: State Bank of Pakistan

Balance of Payments

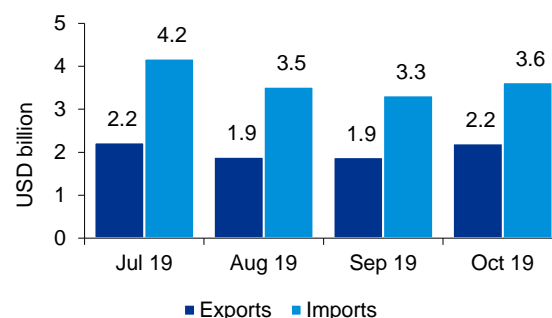
- Balance of payments remained under stress due to rising imports of capital equipment and fuel during 2018-19.
- Current account deficit has seen containment in 2018-19 which reduced to USD 13.8 billion as compared to USD 19.9 billion in 2017-18 showing a contraction of 30.7%.
- During the first four months of 2019-20 current account balance amounted to USD 1.5 billion as compared with USD 5.6 billion during the same period in 2018-19.

Exports and Imports 2015 – 2019



Source: State Bank of Pakistan

Exports and Imports July – October 2019



Source: State Bank of Pakistan

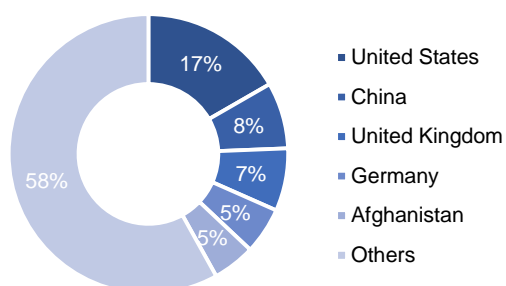
Exports

- Exports during 2018-19 amounted to USD 24.3 billion compared to USD 24.8 billion in 2017-18. The current government is focusing on making the exports a driver of sustainable economic growth. It is endeavouring to improve competitiveness and efficiency of the industry especially export oriented sectors and import substituting production, reducing structural anomalies and improving trade by increasing institutional efficiencies and reducing cost of doing business. SBP has maintained low rates for export refinancing schemes and fixed investment to allow export sector industries to make investments on competitive basis.

Imports

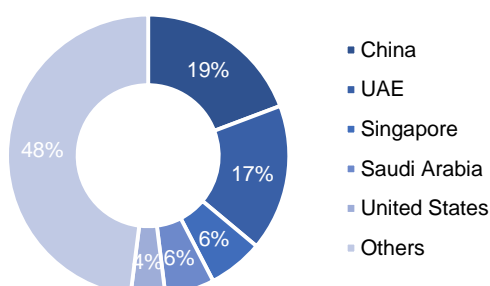
- Imports decreased by 6.8% to USD 52.8 billion in 2018-19 as against USD 56.6 billion in 2017-18. The reduction in imports is due to decrease in imports of furnace oil, machinery & electric equipment, palm oil and textiles. Like exports, Pakistan's imports are also concentrated to few countries.
- Overall trade deficit has decreased by 10.4% during 2018-19 to USD 28.5 billion from USD 31.8 billion in 2017-18.

Major export destinations during 2018-19



Source: State Bank of Pakistan

Major import sources during 2018-19



Source: State Bank of Pakistan

Major Exports by Commodity group

Major exports		USD million	
	2019	Jul – Oct 2019	
Textile group	13,579	4,633	
Food group	4,644	1,443	
Chemicals & Pharmaceuticals	1,230	340	
Petroleum group	676	189	
Sports goods	519	176	
Other exports	3,602	1,439	
Total exports	24,223	8,220	
% Growth	(2.2)%	3.4%*	

Source: State Bank of Pakistan

*Growth compared with Jul – Oct 2018

Major Imports by Commodity group

Major imports		USD million	
	2019	Jul – Oct 2019	
Petroleum group	13,929	3,752	
Agri. & Other Chemical	8,394	2,632	
Machinery group	6,769	2,109	
Food group	4,751	1,374	
Metal group	3,907	1,176	
Other imports	15,018	3,611	
Total imports	52,768	14,656	
% Growth	(6.8)%	(22.9)%*	

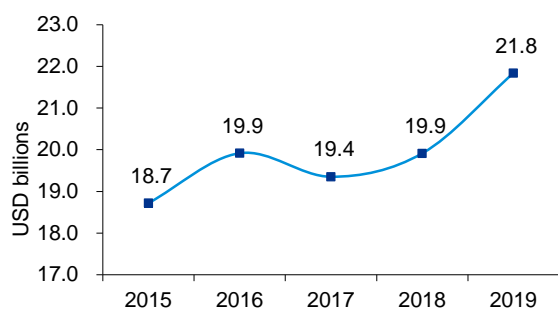
Source: State Bank of Pakistan

*Growth compared with Jul – Oct 2018

Workers' Remittances

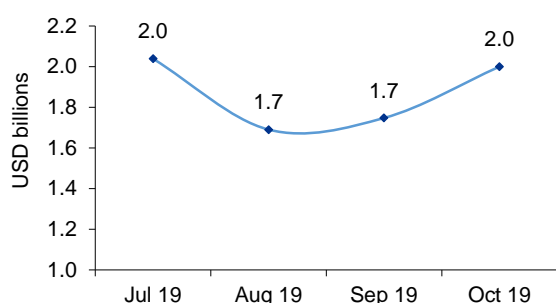
- Workers' remittances from abroad have been considered a key source of balance of payment support. During 2018-19 remittances recorded at USD 21.8 billion against USD 19.9 billion in 2017-18; hence registered a growth of 9.7%. The major remittances are from Saudi Arabia, UAE, USA and UK.

Workers remittances during 2015 – 2019



Source: State Bank of Pakistan

- Worker's remittances during first four months of 2019-20 amounted to USD 7.5 billion.

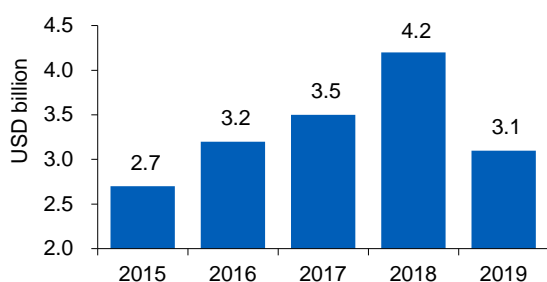


Source: State Bank of Pakistan

Foreign direct investment (FDI)

- FDI plays an important role vis-a-vis technology development, assisting human capital formation, contribution to international trade integration, helping in creating a more competitive business environment and promoting enterprise development.
- During 2018-19, foreign investment was on low growth trajectory. It dropped by 51.9% to USD 1.7 billion as compared to USD 3.5 billion in 2017-18. However during first four months of fiscal year 2019-20, FDI increased by 238.7% to USD 650.0 million as compared to USD 191.9 million during the same months in 2018-19.

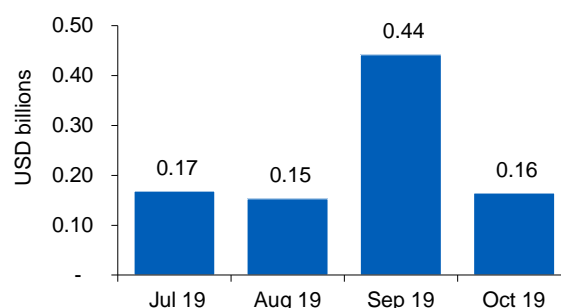
Total FDI inflows 2015 – 2019



Source: State Bank of Pakistan

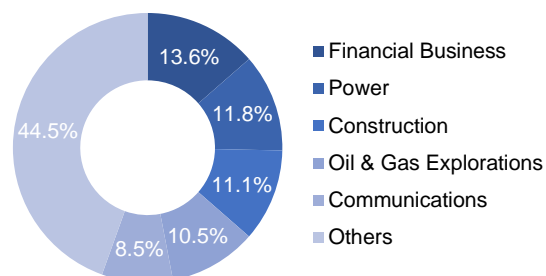
- FDI from China remained at 33.4% of overall inflows as compared to 50.4% in the preceding year. However, China continued to dominate direct investment followed by Norway and UK. A considerable decline in investment from Malaysia has been observed in this period.

Total FDI inflows July – October 2019



Source: State Bank of Pakistan

Sector wise FDI inflows during 2018-19



Source: State Bank of Pakistan

Country wise FDI inflows during 2017 – 2019

USD million	2017	2018	2019
China	1,265.7	2,110.0	1,033.0
Norway	95.5	138.4	225.8
United Kingdom	248.1	318.4	225.0
Netherlands	496.9	116.6	191.0
Hong Kong	23.0	184.4	186.6
U.A.E	235.9	105.5	160.2
United States	194.0	188.0	127.5
Japan	65.2	68.9	118.8
Switzerland	130.4	99.2	94.6
Korea (South)	13.9	22.3	92.0
Others	682.4	833.7	636.2
Total	3,451.0	4,185.4	3,090.9

Source: State Bank of Pakistan

Workforce

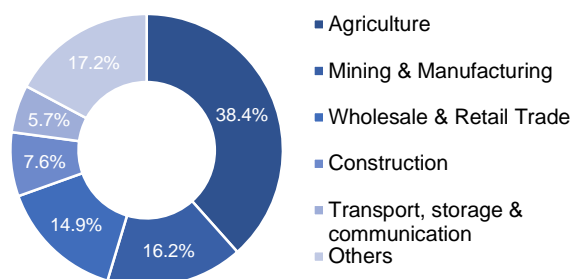
- Pakistan is blessed with energetic youth and this workforce can be a productive asset of the country if properly trained through skill development programmes. According to labour force survey 2017-18, the total labour force in the country was approximately 65.5 million; out of which 61.7 million people were employed.
- The working population is approximately 135 million; 68% of total population. Young population is considered as the wealth of the nation in terms of human resource.

Social Indicators	(Million)			
	2013	2014	2015	2018
Population	183.6	186.2	189.2	207.8
Working age population	132.1	132.2	134.9	147.9
Un-employment rate	6.2	6.0	5.9	5.8

Source: Pakistan Economic Survey 2018-19

Note: Labour Force Survey has not been conducted for 2016 and 2017 due to Population Census

Sector wise employment share



Source: Pakistan Economic Survey 2017-18

FATF – Pakistan's status

- In June 2018 Pakistan was placed in the grey list due to strategic deficiencies in its anti-money laundering and terrorism financing regime and given 15 months to implement the action plan agreed with the FAFT to counter money laundering and terror financing.
- In 'Mutual Evaluation Report' released on 2 October 2019, the APG said out of the FATF's 40 recommendations on curbing

money laundering and combating the financing of terrorism, Pakistan was fully compliant on one, largely compliant on nine, partially compliant on twenty six and non-compliant on four recommendations.

- In the recent review during mid of October 2019, measures taken by the country have been reviewed and it was recognized that the country is steadily implementing the action plan however due to remaining deficiencies in completing the agreed action plan, FATF decided to keep the country in grey list till the next review planned in February 2020.

China Pakistan Economic Corridor (CPEC)

- China's One Belt One Road (OBOR) initiative has obvious commercial benefits not only for itself but also for Southeast Asia. OBOR focuses on connectivity and cooperation among countries – primarily between China and the rest of Eurasia – consisting of two main components: the land-based "Silk Road Economic Belt" and the 21st century "Maritime Silk Road". This connectivity will create new inroads into several ASEAN nations.
- The "One Belt, One Road" initiative envisages a path by land from China through Central Asia to Europe, with the maritime route flowing through Southeast Asia, the Indian Ocean, the Middle East, and Africa to Southern Europe. By building essential infrastructure and boosting financial and trade links, the belt and road aims to enhance commerce and spread prosperity across 60 plus countries.
- CPEC is the flagship and most actively implemented project of OBOR where Pakistan and China have successfully launched 41 projects on the ground, costing more than USD 34.5 billion. Chinese and Pakistani workforce, in a large number, is employed to ensure timely completion of the infrastructure projects and launch new projects like ML-1, Eastbay Expressway and Airport at Gwadar. Pakistan and China are also executing a Cross-border Fibre optic project (Khunjerab-Rawalpindi).
- The CPEC has a potential to revolutionize the regional cooperation in the fields of socio-economic development, trade, shipping, road and railway transportation, communications,

industry and banking. It would also encourage tourism in the region.

- Main components of the corridor includes development of Gwadar (including the port & city and the region's socio-economic development), Energy (Coal, Hydel, Wind, Solar, LNG, and Transmission), Transport Infrastructure (Road, Rail, and Aviation), Investment & Industrial Cooperation (Gwadar Free Zone and special economic zones) and other projects of mutual interest.

Total number of projects along with estimated cost

Sector	No. of Projects	Estimated Cost USD million
Energy	22	21,027
Infrastructure	8	12,623
Gwadar	9	824
Other projects	2	41

Source: China Pakistan Economic Corridor (www.cpec.gov.pk)

- It is expected that the investment on the corridor will transform Pakistan into a regional economic hub. The corridor will boost confidence for investors and attract investment not only from China but other parts of the world as well. The importance of CPEC to China is reflected by its inclusion as part of China's 13th five-year development plan.

Key highlights of CPEC

- CPEC offers an opportunity to provide China and Pakistan with greater access to markets in Middle East, Central Asia, Europe and beyond, and providing cheaper trade route alternatives. Oil from the Middle East could be offloaded at Gwadar and transported to China through the corridor, cutting short the earlier adopted trade route.
- When fully operational, Gwadar will promote the economic development of Pakistan and become a gateway for Central Asian countries, including Afghanistan, Uzbekistan, linking Sri Lanka, Iran and Xinjiang to undertake marine transport.
- Gwadar port holds great strategic and economic significance for Pakistan. Located at cross junction of international sea shipping and oil trade routes, Gwadar can act as an international trade hub for Pakistan as it would connect Central Asia, South Asia and Middle East. Healthy progress is being made since the port was handed over to China Overseas Holding Company in 2013. Along with Gwadar port; the building up of Gwadar city, Gwadar power generation plants and International airport are important projects to fully reap the benefits of CPEC.
- Over USD 26 billion worth of energy infrastructure will be constructed by private consortia to help alleviate Pakistan's chronic energy shortages. A combined energy of 13,530 MW is expected to be derived out of the total energy projects to be implemented under CPEC.
- An extensive road infrastructure will be constructed in the form of 1,100 km motorway between cities of Karachi and Lahore.
- Karakoram Highway between Rawalpindi and Chinese Border will be completely reconstructed and overhauled.
- A network of pipelines to transport liquefied natural gas and oil will also be laid as part of the project, including a pipeline between Gwadar and Nawabshah to transport gas from Iran.
- Pakistani officials predict that CPEC will result in the creation of upwards of 700,000 jobs during 2015 to 2030, and add 2% to 2.5% points to the country's annual economic growth.
- Tourism which currently makes up an insubstantial part of our earnings is believed to be elevated by opening of this economic corridor.
- In agriculture, the cooperation between the countries would be extended in all areas from provisions of seeds, fertilizers and pesticides to establishing processing facilities for vegetables and fruits, cold chain logistics, livestock breeding, irrigation equipment and planting and harvesting machinery. Plan also includes establishing meat processing plants, vegetable processing plants, grain processing plants, fertilizer plants and cotton processing plants. Establishing a three level warehousing system is also included in the plan.

- Fibre-optic connectivity between China and Pakistan is also in consideration in CPEC. Plan envisages a terrestrial cable across the Khunjerab Pass to Islamabad and submarine lading station in Gwadar, linked to Sukkur. This will enable broadcasting of digital HD television with expended bandwidth called Digital Television Terrestrial Multimedia Broadcasting.

Special Economic Zones in Pakistan

- Development of the Special Economic Zones (SEZ) is one of the main gains from CPEC. It is a driving force for economic growth and taking the fruits of CPEC to the lesser developed regions of Pakistan. The aim is the transformation of trade corridors into Economic Corridors. After implementation of the early harvest projects, the ground is set to generate positive socio-economic impacts of CPEC by enhancing Industrial Collaboration.
- This will help create efficient and competitive industrial clusters to attract investment and to diversify exports.
- There is huge potential for cooperation in the fields of engineering, automotive industry, information technology, chemicals, construction materials, textiles, agro-based industry, fisheries, marbles, small and medium enterprises particularly cottage industries.
- Pakistan's side has prepared feasibilities and bankable documents to develop these SEZs in line with the modern trends, taking input from the Chinese development model.

USD4 billion investment will be made by the Chinese utility company Shanghai Electric for Thar Coal block one



Source: The Nation e-paper (<https://nation.com.pk/21-Oct-2019/shanghai-electric-to-invest-in-power-plants-in-thar>)

- Under CPEC, the following 9 sites have been identified for developing special economic zones:

SEZ	Province	Area in acres
Rashakai Economic Zone , M-1, Nowshera	KPK	1,000
China Special Economic Zone Dhabeji	Sindh	1,530
Bostan Industrial Zone	Balochistan	1,000
Allama Iqbal Industrial City (M3), Faisalabad	Punjab	3,000
ICT Model Industrial Zone, Islamabad	Federal	200 – 500
Industrial Park on Pakistan Steel Mills Land at Port Qasim	Federal	1,500
Special Economic Zone at Mirpur	AJK	1,078
Mohmand Marble City	KP (FATA)	N/A
Moqpondass SEZ	Gilgit-Baltistan	250

Source: China Pakistan Economic Corridor (www.cpec.gov.pk)

Thar Coal Project

- Thar Coal Mining Project has been undertaken by Sindh Engro Coal Mining Company (SECMC), a joint venture between Sindh government and Engro Energy Limited, aside partnerships with Thal Limited, Habib Bank Limited, Hub Power Company and China Machinery Engineering Corporation. Its foremost assignment is Pakistan's first Thar-coal based power plant (660-MW capacity), which was expected to start functioning and supply power to the national grid by December 2018. It is the largest private investment under CPEC. Engro Energy connected the power plant with the national grid for back-feed power supply in August 2018.
- Pakistan's mounting energy requirements outstrip its energy supply, which includes an unsustainable power generation mix, where oil-based power (32%) constitutes high production costs. Furthermore, heavy dependence on fuel imports not only contributes to perpetual diminution of the national exchequer, but also endangers the fuel supply chain. An assessed 6,000MW deficit subsists. Against this backdrop, SECMC has been shaped to develop a

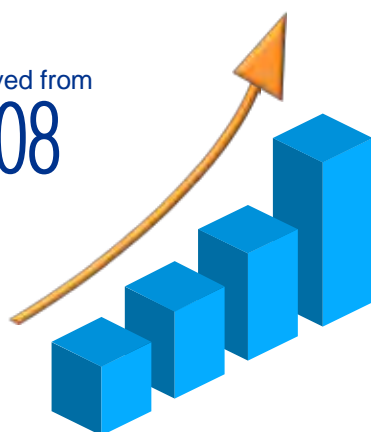
technically and commercially viable project in Thar block-II to bring indigenous energy security to Pakistan, whose total reserves are deemed sufficient to support 5,000MW of energy for 50 years (175 billion tons of lignite coal) and sufficient to greatly diminish Pakistan's energy crisis. Aside bridging energy supply with demand and reducing dependency on imported coal; chiefly for industrial uses.

Pakistan: Ease of doing business

Pakistan has improved its ranking by climbing up 28 notches in World Bank's annual Doing Business Report 2020. The report measures the performance in ease of doing business in 190 countries.

Pakistan moved from

136 to 108



Source: Doing Business 2019 - World Bank

Pakistan improved in six areas measured by Doing Business including starting a business, dealing with construction permits, getting electricity, registering property, paying taxes and trading across borders - reflecting the country's development of an ambitious reform strategy including the establishment of national secretariat and Prime Minister's reform steering committee. Pakistan made starting a business easier by expanding procedures available through the online one-stop shop.

In addition to improvements in property registration, obtaining a construction permit became easier after the Sindh Building and Control Authority and the Lahore Development Authority streamlined approval workflows and improved the operational efficiency of their one-stop shops. The launching of online portals for new commercial connections made getting electricity easier, and tariff changes are

announced in advance. Moreover, tax compliance became easier through online payment modules for value added tax and corporate income tax, and a lower corporate income tax rate. Pakistan made trading across borders easier by enhancing the integration of various agencies into an electronic system and by improving coordination of joint physical inspections at the port.

Pakistan is among the
Top 10
improvers



Source: Doing Business 2019 - World Bank

Regulatory Framework for Investors

Pakistan's investment policy has been formulated to create an investor-friendly environment with a focus on further opening up the economy and marketing the potential for direct foreign investment. Various incentives have been offered to attract foreign investment including full repatriation of capital, capital gains, dividends and profits. Furthermore, according to various economic commentators, Pakistan has one of the most liberal investment policy regimes and public-private partnership frameworks in the entire South Asian region.

Legal protection to foreign investment

Foreign investment in Pakistan is fully protected by following Acts:

- Foreign Private Investment (Promotion & Protection) Act, 1976.
- Protection of Economic Reforms Act, 1992.

Investment policy

In order to protect and stimulate investment (both local and foreign) in Pakistan, the 'Investment Policy 2013 has been designed to provide a comprehensive framework for creating a conducive business environment for the attraction of FDI in the country.

Guiding Principles of the Investment Policy

The following basic principles provide the gist of investment policy:

- **Reducing the cost of doing business in Pakistan**

To facilitate market entry for investors, BOI has been aiming to reduce cost of doing business in Pakistan. Investment opportunities and information vital to start business in Pakistan and online visa registration has been introduced.

- **Reducing the processes of doing business**

BOI is moving towards one-window operations. The aim is to offer constructive policy parameters for removing unnecessary regulations and minimizing the cost of business by streamlining the regulations.

- **Ease of doing businesses with creation of industrial clusters and SEZs**

Introduction of industrial cauterization with promulgation of SEZ Act, 2012, BOI has endeavoured to establish forward and backward linkages in the market with supply chain availability. Adequate business infrastructure coupled with BOI one window facilitation services to make doing business easy.

- **Linkages of trade, industrial and monetary policies for greater convergence**

Linkages of macro and micro economic policies will bring all stakeholders (Line Ministries, Provincial Governments, Regulators and other relevant departments) in unison for greater convergence on important nation public policy agenda to enhance transparency, predictability and consistency in the system.

Investment Protection

BOI is cognizant that the role of the government is to eliminate or reduce the level of risk and provide tools to mitigate them. Investment Policy 2013 reinforces the commitment to investors regarding security and safety of their investments.

Investor rights

- All foreign investors in relation to the establishment, expansion, management, operation, and protection of their investments shall be accorded fair and equitable treatment without discrimination.
- Pakistan has signed Bilateral Investment Treaties (BITs) with more than fifty countries across the world.
- The Multilateral Investment Guarantee Agency (MIGA) of the World Bank provides political risk insurance (guarantees) for projects in a broad range of sectors in developing member countries, covering all regions of the world.

Right to due process of law

There are currently two main pieces of legislation dealing with arbitration in Pakistan:

- The Arbitration Act, 1940
- Recognition and Enforcement (Arbitration Agreements and Foreign Arbitral Awards) Act, 2011

Intellectual Property Rights Protection

- The Intellectual Property Organization (Cabinet Division) established in 2005 and has upgraded IPR policies.
- Statutory penalties for violations are enhanced, particularly for copyright and patent infringements and other measures have been taken to enforce the policies.

Investment Package				
Policy parameters	Manufacturing Sector	Non-Manufacturing Sectors		
		Agriculture	Infrastructure & Social	Services Including IT & Telecom
Government permission	Not required except for below four specific industries: <ul style="list-style-type: none"> - Arms & ammunitions - High Explosives. - Radioactive substances - Security Printing, Currency and Mint. 	Not required except specific licenses from concerned agencies		
Remittance of capital, profits, dividends etc.	Allowed	Allowed		
Upper limit of foreign equity allowed	100%	100%	100%	100%
Custom duty on import of plant, machinery and equipment	5%	0%	5%	0-5%
Tax Relief (Initial depreciation allowance, % of plant, machinery & equipment cost)	25%	25%		
Royalty & Technical Fee	No restriction on payment	Allowed as per guidelines Initial lump-sum up to USD100,000 – Max rate 5% of net sales –Initial period 5 years		

Source: www.boi.gov.pk

Key sectors and respective regulatory bodies	
Sector	Licensing Authority
Banking company	State Bank of Pakistan
NBFCs	Securities Exchange Commission of Pakistan
Pharmaceutical	Drug Regulatory Authority of Pakistan
Mining & Quarrying	Licensing from Provincial government
Oil & Gas	Oil and Gas Regulatory Authority
Power	National Electric Power Regulatory Authority
Telecom	Pakistan Telecommunication Authority
Electronic media	Pakistan Electronic Media Regulatory Authority

Useful web links

- Ministry of Finance
www.finance.gov.pk
- State Bank of Pakistan
www.sbp.org.pk
- Board of Investment
www.boi.gov.pk





2. Sectors Profile



This chapter aims at identifying key business sectors in Pakistan, considering their investment determinants in the light of current market as well as the opportunities they hold.



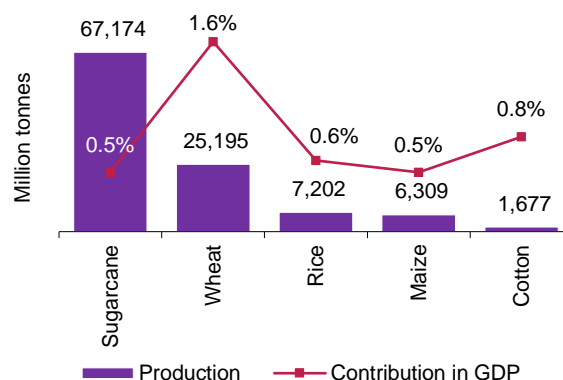
Agriculture

- Agriculture has been the most critical sector of Pakistan's economy. Majority of the population, directly or indirectly, earns their livelihood from this sector.
- The sector grew by 0.9%, much lower than the target of 3.8% set at the beginning of the year. This under-performance was primarily due to scarcity of water resources, which led to a drop in both the cultivated area and in fertilizer offtake.
- In Pakistan, rice is an important food as well as cash crop. After wheat, it is the second main staple food crop and second major exportable commodity after cotton. During July 2018 to March 2019, rice cultivation area decreased by 3.1% to 2.8 million hectares compared to 2.9 million hectares of same period last year. The production stood at 7.2 million tonnes against the target of 7 million tonnes and remained short of 3.3% to 7.5 million tonnes against the same period last year.

Important Crops

- During July 2018 to March 2019, cotton production remained moderate at 9.8 million bales, a decrease of 17.5% over the last year's production of 11.9 million bales, and 31.5% against the target of 14.4 million bales.
- Sugarcane is a high-value cash crop. Its production accounts for 2.9% in agriculture's value addition and 0.5% of overall GDP. During July 2018 to March 2019, sugarcane crop production declined by 19.4% to 67.2 million tonnes compared to 83.3 million tonnes achieved last year.

Production of Important Crops 2018-19



Source: Pakistan Economic Survey 2018-19

Livestock and Poultry

- Livestock's share in agriculture is much more than the combined share of all other subsectors of agriculture, accounting for 60.5% of agricultural value addition and 11.2% to the overall GDP during July 2018 to March 2019. The gross value addition of livestock has increased from PKR 1,384 billion (2017-18) to PKR 1,440 billion (2018-19), showing an increase of 4.0% over the same period last year.
- Poultry meat production during July 2018 to March 2019 was to the tune of 1.5 million tonnes, which contributed 34% of the total meat (4.3 million tonnes) production in the country. The current investment in Poultry Industry is more than PKR 700 billion.

Forestry

- During the period from July 2018 to March 2019, the share of forestry subsector in agriculture was 2.1% whereas it contributed 0.3% in GDP.
- This sub-sector posted a positive growth of 6.5% due to increase in timber production in Khyber Pakhtunkhwa.

Fishery

- Fishery, as a sub-sector, plays a significant role in the national economy and is considered to be a source of livelihood for the coastal population.
- Fisheries' share in GDP is 0.4% but has a greater value addition in export earnings.
- During July 2018 March 2019 a total of 130,830 tonnes of fish and fish preparation was exported against 137,819 tonnes in same period previous year. Pakistan's major export market includes China, Thailand, Malaysia, Hong Kong, South Korea, Egypt, Bangladesh, UK, Middle East, Sri Lanka and Japan that earned USD 293.9 million.

Sector snapshot

Sectors	Growth (%)		
	2017	2018	2019
Crops	1.2	4.7	(4.4)
Livestock & poultry	3.0	3.6	4.0
Forestry	(2.3)	2.6	6.5
Fishery	1.2	1.6	0.8

Source: Pakistan Economic Survey 2018-98

Prime Minister's Agriculture Emergency Program

- The present government's resolution is to enhance agriculture productivity. In this connection Prime Minister's Agriculture Emergency Program has been initiated which primarily focuses on projects below:

Sr. No.	Project Name	Cost (PKR billion)
i.	Productivity enhancement of wheat	
	Wheat project	19.3
	Rice project	11.4
	Sugarcane project	3.9
ii.	Oilseeds enhancement program	10.2
iii.	Conserving water through lining of watercourses	179.7
iv.	Enhancing Command Area of Small & Mini Dams in Barani Areas	27.7
v.	Water Conservation in Barani Areas of Khyber Pakhtunkhwa	13.0
vi.	Shrimp Farming	4.8
vii.	Cage Fish Culture	6.9
viii.	Trout Farming in Northern Areas of Pakistan	2.3
ix.	Save & Fattening of Calf	5.3
x.	Backyard Poultry Program	0.3

Source: Pakistan Economic Survey 2018-19

Useful web link

- Government of Pakistan Ministry of Finance www.finance.gov.pk



Automotive

Sector overview

- The sector has recorded a 37.2% growth rate in production and a 37.4% growth rate in sales between 2015 and 2018. However, during 2018-19 the production and sales declined by 3.9% and 4.2% respectively as compared to 2017-18.
- The factors which impacted this vibrant sector were currency depreciation, policy rate hikes and uncertainty regarding filer versus non filer issue.



12 Listed automobile assembling companies*



PKR 208 Billion*
Market Cap

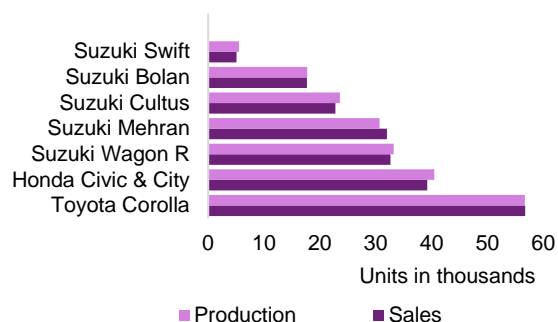


PAT PKR 15 Billion*

Source: Pakistan Stock Exchange

*As at 30 September 2019

Sales and production of cars in 2018-19



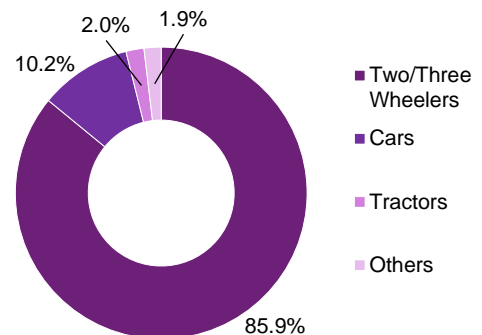
Source: Pakistan Automobile Manufacturers Association

Industry sales for 2018-19

Tractor	Units Sold	Growth
Massey Ferguson Tractor	32,018	(25.0)%
Fiat Tractor	17,993	(35.4)%
Orient IMT Tractor	394	15.5%
Truck		
Isuzu Truck	2,801	(27.8)%
Hino Truck	1,808	(53.3)%
Master Trucks	1,219	(21.9)%
Bus		
Hino Bus	442	32.3%
Master Bus	274	(10.5)%
Isuzu Bus	219	79.5%

Source: Pakistan Automobile Manufacturers Association

Vehicle production 2018-19



Source: Pakistan Automobile Manufacturers Association

1300cc and above cars have
shared on average 49% of the
total market for the last five years



Source: Pakistan Automobile Manufacturers Association



Construction

Sector overview

- Construction Sector is one of the sectors identified by the Government of Pakistan which adds the fuel to economic growth. A spurt in activity in this sector unleashes a chain reaction in other allied industries.
- Construction as a sub sector contributes 13.5% in industrial sector and in GDP its share is 2.5% during July 2018 to March 2019 against the share of 2.8% in corresponding period last year.
- Construction activities have witnessed downturn of 7.6% during July 2018 to March 2019 against the growth of 8.2% in the same period last year, due to conservative construction-related expenditure reported in rest of the economic activities.
- Most of the development in the past few years has been in highways & motorways, flyovers & bridges, and buildings.
- Recent uptick in the construction of power & energy projects was witnessed from 2016 onwards in CPEC related projects but since most of them are at the maturing stage, the spending in this sector is gradually declining.
- The government has recently announced Naya Pakistan Housing Scheme to construct 10 million houses across the country for the uplift of the poor strata of the society and to bring them into the national mainstream. This will likely escalate the construction related industries specially cement and also generate new jobs.

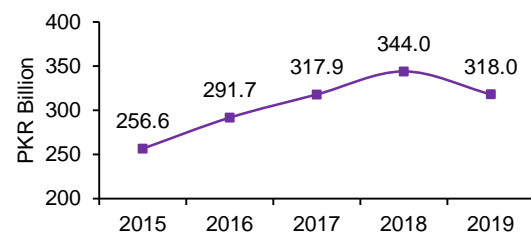
- The country imported USD 93.6 million of construction and mining machinery during July 2018 to May 2019, which is lower by 48% or USD 87.4 million compared to the same period in 2017-18.

Industry Snapshot

Contribution to GDP	2.5 % during 2018-19
Imports of construction & mining machinery	USD 199.6 million in July 2018 – March 2019
Employed labour force	4.7 million in 2017-18

Source: Pakistan Economic Survey 2018-19

GDP from construction



Source: State Bank of Pakistan

Useful web links

- State Bank of Pakistan
www.sbp.org.pk
- Government of Pakistan Ministry of Pakistan
www.finance.gov.pk

Education

Sector overview

- Social and economic development of a country is considered to have a strong association with education. Therefore a country needs to invest in human capital to achieve sustainable economic development.
- Pakistan is committed to promote education, increase literacy rate, build teachers' capacity, and enhance facilities in all educational institutes
- Government is encouraging and facilitating private investors to invest in the education sector for its promotion as a national cause.
- The government's intent is to meet Sustainable Development Goals (SDGs), which aims to ensure inclusive and equitable quality education and promote lifelong learning opportunities for all citizens; through tangible improvements in country's education system.
- Under the Public Sector Development Program (PSDP) 2018-19, the government had initially allocated PKR 35.8 billion to HEC for implementing 178 development projects of Public Sector universities. However, with rationalization of PSDP by Ministry of Planning, Development & Reform (PD&R), the size of the PSDP allocation was revised to PKR 30.9 billion for only 136 ongoing development projects of Universities. These projects includes Construction of new academic buildings, Strengthening of ICT Infrastructure, Faculty Development, Procurement of Laboratory Equipment and other approved components.
- The Federal Public Sector Development Program 2018-19 has allocated an amount of PKR 3.1 billion for 6 on-going and 3 new projects of the Ministry of Federal Education & Professional Training. An amount of PKR 2.4 billion has also been provided for 15 on-going & new education related projects to Finance and Capital Administration & Development Divisions.
- The overall educational situation, based on key indicators such as likely enrolments, number of institutes and number of teachers, has shown slight improvement during 2018-19 as described below:
 - i. **Number of enrolments** were 50.6 million during July 2018 to March 2019 as compared to 48 million during the same period last year.
 - ii. **Number of institutes** are projected to increase by 1.6% during July 2018 to March 2019, leading to an increase of 4.8% in aggregate enrolment.
 - iii. **Number of teachers** during 2017-18 was 1.8 million compared to 1.7 million during last year showing an increase of 1.6%. This number of teachers is estimated to increase by 2.9% to 1.8 million during the year 2018-19.

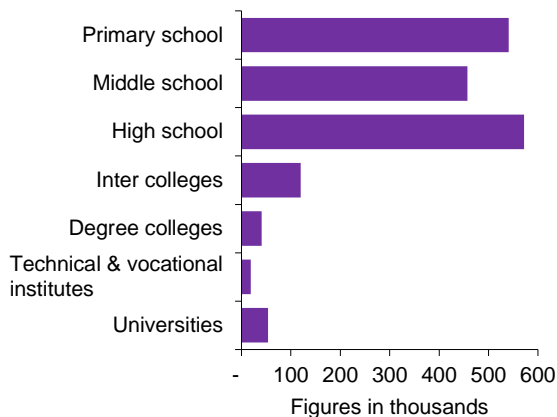


- Public expenditure on education as a percentage of GDP was 2.4% during July 2018 to March 2019 as compared to 2.2% in the same period last year.
- According to the Labour Force Survey 2017-18, following are the literacy rate trends:

Labour Force Survey		
	2014-15	2017-18
Literacy Rate	60.7%	62.3%
Literacy - Male	71.6%	72.5%
Literacy - Female	49.6%	51.8%
Literacy - Rural	51.9%	53.3%
Literacy - Urban	76.0%	76.6%

Source: Pakistan Economic Survey 2018-19

Number of teachers by level in 2018-19*



Source: Pakistan Economic Survey 2018-19

*2018-2019: Estimated

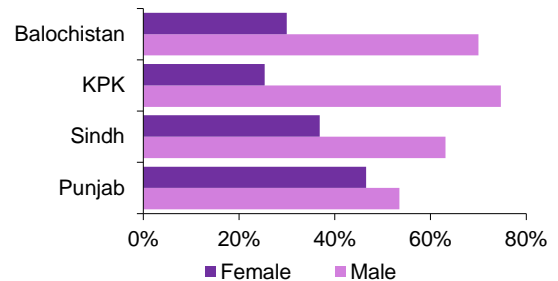
Number of Mainstream Institutions in thousands			
Description	2017	2018	2019
Primary	168.9	172.2	174.9
Middle	49.1	46.8	47.8
High	31.6	30.9	31.2
Higher Secondary	5.1	5.2	5.3
Degree Colleges	1.4	1.6	1.7
Technical & Vocational	3.8	3.7	3.8
Universities	0.2	0.2	-

Source: Pakistan Economic Survey 2018-19

Technical and Vocational education

- National Vocational & Technical Training Commission and Ministry of Federal Education and Professional Training have developed a broader framework to uplift Technical and Vocational Education and Training (TVET) sector in Pakistan.

Gross enrolment rate in 2018-19*



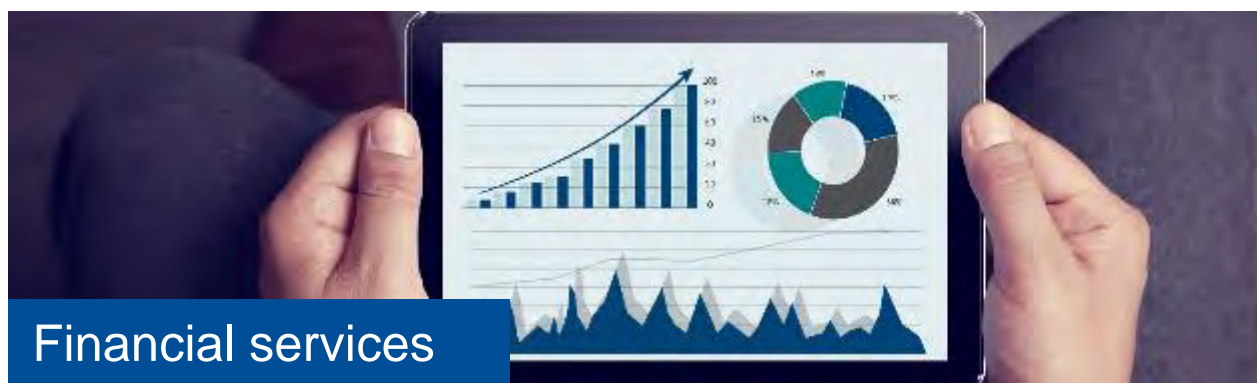
Source: Pakistan Economic Survey 2018-19

*2018-2019: Estimated

Useful web links

- Government of Pakistan Ministry of Finance
www.finance.gov.pk





Sector overview

- During July 2018 to March 2019, financial services sector posted growth of 5.1%.
- While the central banking has declined by 12.5%. Scheduled banks, non-scheduled banks and insurance activities have posted positive growth of 5.3%, 24.6% and 12.8%, respectively during July 2018 to March 2019.

Banks

- Banking sector has shown a moderate growth of 7.3% in total assets in CY2018 compared with 15.9% in CY2017. The sector had total assets of PKR 19,682 billion in CY2018, up from PKR 18,342 billion in CY2017. The total profit after-tax of this sector was recorded at PKR 110 billion in CY2018.
- As at 30 June 2019, the Net Domestic Assets (NDA) of the banking sector registered an expansion of PKR 3,099.9 billion (19.1% growth) compared to PKR 2,226.8 billion (15.9% growth) as at 30 June 2018.
- However, the Net Foreign Assets (NFA) of the banking sector contracted by PKR 1,298.7 billion as at 30 June 2019, whereas as at 30 June 2018 it contracted by PKR 810.5 billion.
- Prudent risk based regulations have helped the banking sector to maintain a strong solvency profile. CAR improved to 16.2% at the end of CY2018; well above the required minimum of 11.9% and a global benchmark of 10.5%.



20 Listed commercial banks*



PKR 1,188 Billion*
Market Cap

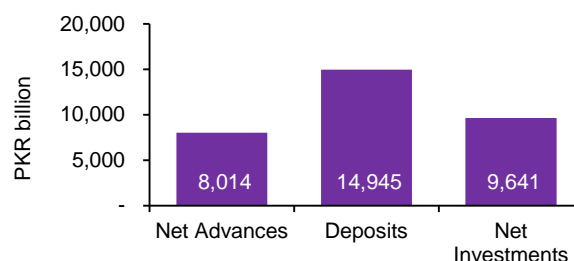


PAT PKR 165 Billion*

Source: Pakistan Stock Exchange

*As at 30 September 2019

Banking snapshot as at 30 September 2019



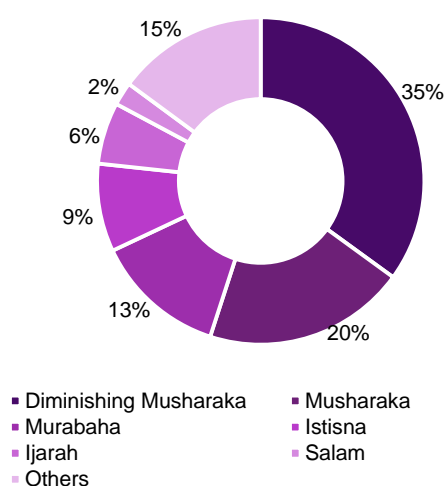
Source: State Bank of Pakistan

- The industry's number of Branchless Banking (BB) accounts increased to 51.8 million from 38.5 million, showing a 34.5% growth during 2018-19. Similarly, the number of BB transactions increased to 842.2 million from 532.7 million, showing an increase of 58.1%.
- The Islamic Banking Industry (IBI) has developed significantly since its re-launch in 2001-02. IBI assets posted a growth of 17% and stood at PKR 2,658 billion in CY2018, compared to PKR 2,272 billion (22.6% growth) in CY2017. IBI deposits increased by

16.9% to reach to PKR 2,203 billion in CY2018 against PKR 1,885 billion (a 19.8% growth) in CY2017.

- The market share of IBI assets and deposits in the overall banking industry was recorded at 13.5% and 15.5%, respectively in CY2018 compared with 12.4% and 14.5%, respectively in last year.
- As of 30 September 2019, there are 5 full-fledged Islamic banks, 16 conventional banks and 1 specialised bank providing Shariah compliant products and services in Pakistan.

Composition of Islamic financing and related assets as at 30 September 2019



Source: State Bank of Pakistan

Microfinance

- On a YoY basis, the sector was able to expand its retail business network to 4,239 adding 566 new business locations as of December 2018 compared to last year.
- At the close of quarter ended December 2018, around 44 institutions reported provision of microfinance services.
- During 2018-19, besides initiatives aimed at enhancing financial inclusion. State Bank provided active guidance to Microfinance Banks (MFBs) to further strengthen their internal controls and deterrence towards Money Laundering, Terrorist Finance and other related unlawful activities.

Microfinance banking indicators (PKR Billion)

Indicators	September 2019	Growth in %
No. of branches	1,369	23.0
Number of borrowers	3,598,060	19.9
Gross loan portfolio	209	20.9
Deposits	240	18.2
Number of depositors	34,515,172	8.0
Equity	45	18.5
Assets	344	25.6
Borrowings	21	56.4
NPLs	4.7%	n/a

Source: State Bank of Pakistan

Note: Growth is compared with September 2018

Banking Sector – Financial position as at 30 September 2019 (PKR in million)

Commercial banks	Assets	Advances	Deposits	Equity
Large Banks (Assets more than PKR 900 billion)	12,270,541	4,141,370	8,520,674	944,101
Medium Size Banks (Assets from PKR 150 to PKR 900 billion)	6,157,459	2,505,621	4,406,637	341,855
Small Banks (Assets less than PKR 150 billion)	1,012,591	217,193	399,561	92,786
Islamic Banks	1,748,833	882,503	1,430,030	99,504
Total	21,189,425	7,746,688	14,756,903	1,478,247

Source: Respective Banks Financial Statements

Note: Financial statements of Summit bank Limited and Silkbank Limited were not published till the date of our publication, and accordingly their results are not included in the table above.

Non-Banking Financial Companies (NBFCs)

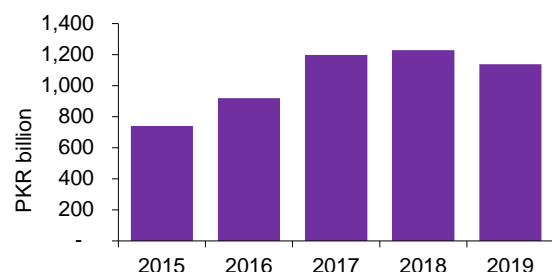
Total assets of NBFCs as at 30 September 2019

NBFCs	No. of Entities	PKR billion
Asset Management Companies / investment Advisors	23	36.9
Mutual Funds and Plans	209	605.7
Pension Funds	19	26.5
Discretionary and Non-Discretionary Portfolios	-	209.7
Real Estate Investment Trust & Management Companies	1	47.0
Leasing Companies	7	10.5
Modarabas	28	52.9
Investment Banks & Non-Bank Micro Finance Companies	37	187.6

Source: Securities & Exchange Commission of Pakistan

- The industry shows a negative growth in total assets which decreased from PKR 1,228.5 billion in June 2018, to PKR 1,137.9 in June 2019 (a 7.4% decline).

Growth in total assets of NBFCs 2015-19

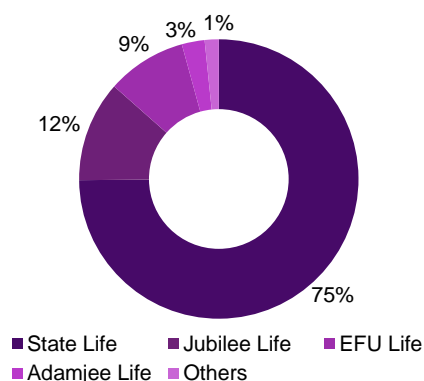


Source: Securities & Exchange Commission of Pakistan

Insurance

- As at September 2019, the sector comprises of 9 life insurers including 2 family takaful operators, 41 non-life insurers including 3 general takaful operators, and 1 state-owned national reinsurer.

Market share of life insurance as at 30 September 2019



Source: Insurance Association of Pakistan

Minimum Capital Requirements	PKR in million
Life insurance / family takaful operator	700
Non-life insurance /general takaful operators	500

Source: Securities & Exchange Commission of Pakistan

Useful web links

- State Bank of Pakistan
www.sbp.org.pk
- Securities and Exchange Commission of Pakistan
www.secp.gov.pk
- Government of Pakistan Ministry of Finance
www.finance.gov.pk
- Insurance Association of Pakistan
www.iap.net.pk



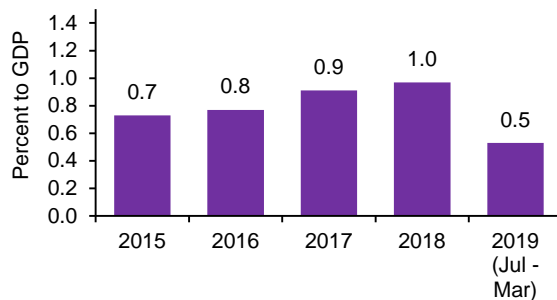


Healthcare

Sector overview

- The Economist Intelligence Unit (EIU) in its quarterly report for 2019 has forecasted that Pakistan's health indicators are likely to remain meagre, notwithstanding government efforts to increase access to health services. Average life expectancy was forecasted to rise slowly, from 66.3 years in 2018 to 67.1 in 2023. Infant mortality was deemed to fall more sharply, from 50.4 deaths per 1,000 births in 2018 to 42.6 per 1,000 in 2023.

Healthcare Spending as percentage of GDP



Source: Pakistan Economic Survey 2018-19

- Cumulative health expenditures by the Federal and Provincial governments during July 2018 to March 2019 increased to PKR 203.7 billion, which is 3.3% higher than the corresponding period of the previous year.
- The pharmaceutical sector reported a decline of 8.40% during July 2018 to March 2019, as opposed to a 4.50% growth in the corresponding previous period. It also suffered due to a substantial delay in regulatory amendments in prices. This pricing issue was in addition to weakening of the local currency, which added to the misery of an import reliant sector.



12 Listed pharmaceutical companies*



PKR 163 Billion*
Market Cap



PKR 11 Billion*
PAT

Source: Pakistan Stock Exchange

*As at 30 September 2019

Healthcare manpower - March 2019

Doctors	220,829
Dentists	22,595
Nurses	108,474

Source: Pakistan Economic Survey 2018-19

Healthcare facilities - March 2019

Hospitals	1,279
Dispensaries	5,671
Basic health units	5,527
Rural health centres	686

Source: Pakistan Economic Survey 2018-19

Useful web links

- Government of Pakistan Ministry of Finance
www.finance.gov.pk
- Economic Intelligence Unit
www.eiu.com



Industrial & commercial machinery

Sector overview

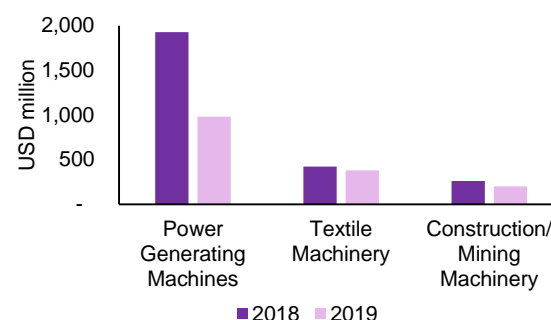
- Pakistan's industrial sector accounted for about 20.3% of GDP in 2018-19, compared to 20.6% in 2017-18. The government's support to Industrial sector aims to increase the manufacturing activity and help to augment exports of value added products.
- The overall industrial sector has shown a provisional growth of 1.4% during July 2018 to March 2019 as compared to 4.9% in the same period previous year. The insubstantial growth mainly results from a decline by 2.1% in large scale manufacturing sector and by 1.9% in mining and quarrying sector.
- Major sectors using industrial machinery are manufacturing, mining, gas distribution, engineering, construction and fertilizer.
- During July 2018 March 2019, the machinery group with a 16.5% share in overall imports waned by 29.9% to USD 4.604 billion, pushing down the import bill. Import of power generating machinery dropped by 49% during July 2018 to March 2019, as compared to the same period last year. A sharp pull back in power generating machinery drove most of the decline in machinery import bill. Furthermore, early harvest of CPEC projects and cut in PSDP spending added to the low machinery import bill.
- The import of agriculture machinery has recorded a growth of 10.9% during July 2018 to April 2019.

Industry snapshot

Machinery imports	Up to USD 4.6 billion in July 2018 March 2019
Market players	<ul style="list-style-type: none"> ■ Ados Pakistan Limited ■ Descon Engineering ■ Heavy Mechanical Complex ■ Pakistan Mining and Exploration Inc. ■ Siemens Pakistan.

Source: Pakistan Economic Survey 2018-19

Machinery import 2018 to 2019



Source: Pakistan Economic Survey 2018-19

Useful web link

- Ministry of Finance Pakistan
www.finance.gov.pk

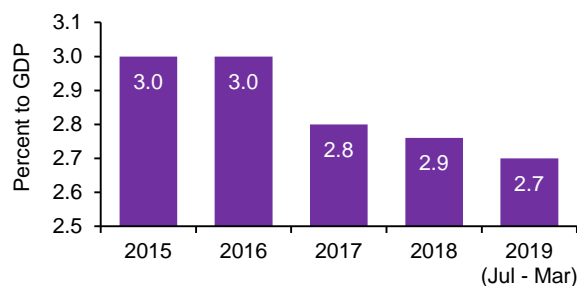


Mining & quarrying

Sector overview

- Pakistan is endowed with huge reserves of minerals covering an outcrop area of 600,000 square kilometres. There are 92 known minerals of which 52 are commercially exploited with a total production of 68.5 million metric tons per year.
- The mineral potential of Pakistan is widely recognized to be excellent but this sector has been developed inadequately over the past years.
- The sector has declined by 1.9% during July 2018 to February 2019 as against the growth of 7.7% last year. The overall decline in the sector was slightly set off by the increased outputs of lime stone, rock salt, gypsum and chromite.
- This sector is lagging behind despite huge potential, due to lack of infrastructure at mines sites, low level of technology installed and semi-skilled labour, low financial support and lack of marketing. The quarry wastage in Pakistan reaches 75% as compared to the international standard of up to 45%.

Mining and quarrying contribution in GDP 2015 – 2019



Source: Pakistan Economic Survey 2018-19

Extraction of principal minerals 2018-19

Mineral	Unit	Figures in million
Limestone	Tonnes	73.5
Marble	Tonnes	8.4
Rock salt	Tonnes	4.1
Coal	Tonnes	3.3
Gypsum	Tonnes	2.6
Natural gas	MMCFT	1.4
Crude oil	JSB	32.7

Source: Pakistan Economic Survey 2018-19

- The country has the world's second largest salt mines, fifth largest copper and gold reserves and second largest coal deposits, as well as estimated billions of barrels of crude oil.
- Mountains and rocks of KPK contains huge prospects of different metallic /non-metallic minerals and various precious/semi-precious gemstones minerals.



10.1 million
Labour force in mining & quarrying sector

- Pakistan has got huge potential for investment in the mineral sector. There are greater opportunities for private sector and direct foreign investments in the sub sectors; mining, processing and trading/exports. Key investment opportunities in the core minerals are as follows:

Mineral	Estimated reserves	Production / extraction in 2018-19
Dimension stone	297 billion tonnes of marble and granite reserves	3.82 million tonnes of quarry
Copper and Gold	1,600 million tonnes of gold reserves	350,000 tonnes a year of copper and 900,000 ounces of gold
Chromite	2.5 million tonnes	0.3 million tonnes
Coal	3.5 billion tonnes	0.002 billion tonnes
Gypsum	5 to 6 billion tonnes	0.002 billion tonnes

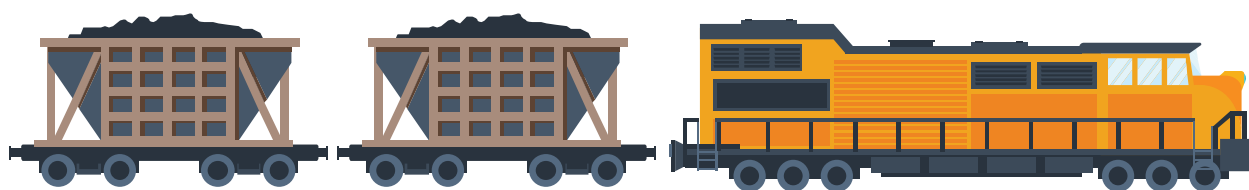
Source: Ministry of Planning Development & Reform

Gemstone

- Northern parts of Pakistan has been endowed with extensive reserves of gemstones, including rare gemstones varieties such as pink topaz of Katlang Mardan is unique and famous around the world.
- Pakistan produces world's top quality emeralds, aquamarine, tourmaline, rubies, quartz, topaz, garnet, garnet and variety of other gemstones.
- Pakistan's share in world market was 0.03% in year 2017 which is very less as compared to its gemstones production capacity.

Useful web link

- Ministry of Planning Development & Reform www.pc.gov.pk
- Government of Pakistan Ministry of Finance www.finance.gov.pk





Oil and Gas

Sector overview

- Pakistan has become an investment destination in respect of oil and gas sector due to surge in energy demand. Moreover, the GoP is providing an investment platform for the oil and gas sector to attract local and foreign investors. As a result of these financial and structural reforms, this sector has already emerged as one of the most attractive for investment in the country.
- During 2018-19, foreign direct investment in oil and gas exploration stood at USD 326 million compared to USD 379.8 million during 2017-18.

Companies	Retail market share in sales % 2018-19
Pakistan State Oil	42.1
Attock Petroleum Ltd.	10.5
Hascol	10.4
Shell Pakistan	8.2
Others	28.8

Source: Jcr-vis Credit Rating Company Limited

- Middle East remains Pakistan's top crude supplying region with Saudi Arabia and UAE holding dominant market share. However, the return of Iranian crude to market is set to dilute share among Middle Eastern suppliers.

 **12** Listed oil & gas exploration and oil refinery companies*

 **PKR 1,307 Billion***
Market Cap

 **PAT PKR 231 Billion***

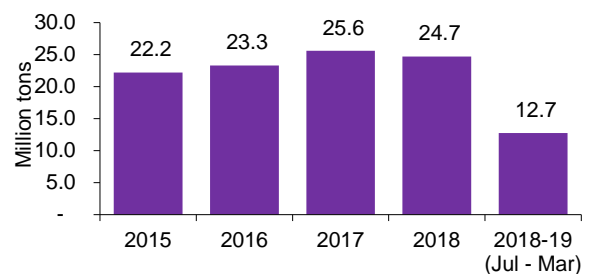
Source: Pakistan Stock Exchange

*As at 30 September 2019

Oil

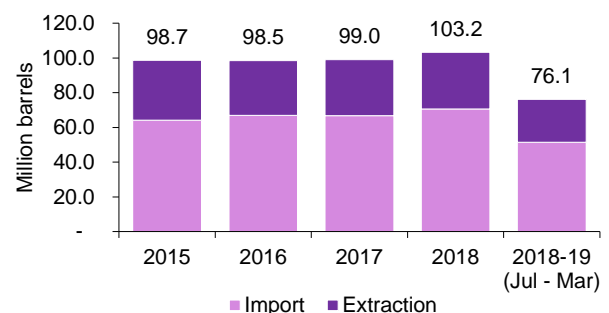
- The production of crude oil remained 24.6 million barrels during July 2018 to March 2019 compared to 21.8 million barrels during the corresponding period last year.

Oil/petroleum consumption 2015 – 2019



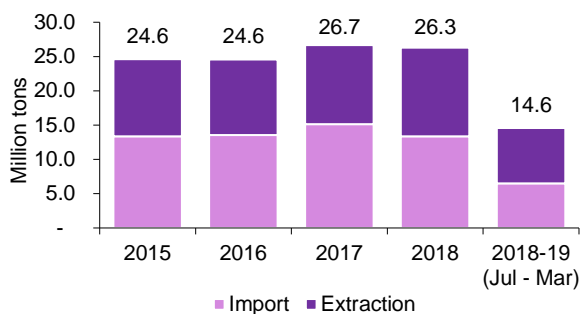
Source: Pakistan Economic Survey 2018-19

Crude oil supplies 2015 – 2019



Source: Pakistan Economic Survey 2018-19

Petroleum production 2015 – 2019



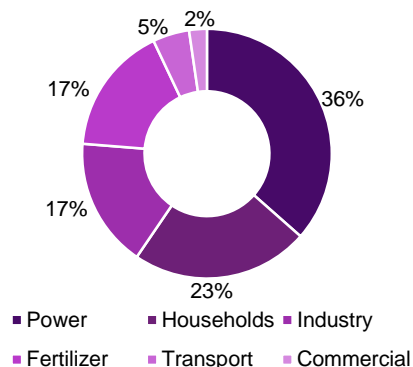
Source: Pakistan Economic Survey 2018-19

- Pakistan's consumption of petroleum products to increase at a compound annual growth rate of 3.4%, from an estimated 29 million TOE in 2018 to 34.3 million TOE in 2023.

Gas

- Natural gas is an environment friendly fuel which contributes around 38% towards total primary energy supply mix.
- Pakistan has an extensive gas network of over 12,971 km transmission, 139,827 km distribution and 37,058 services gas pipelines to cater the requirement of more than 9.6 million consumers across the country.
- The average natural gas consumption was about 3,865 million Cubic Feet per day during July 2018 to February 2019.
- During July 2018 to February 2019, Sui Northern Gas Pipeline Ltd. (SNGPL) and Sui Southern Gas Company Ltd. (SSGCL) have laid 69 km gas transmission network, 3,232 distribution and 1,366 km services lines, and connected 165 villages / towns to gas network.

Natural gas consumption sector wise (July 2018 to March 2019)



Source: Pakistan Economic Survey 2018-19

- During July 2018 to February 2019, 428,305 additional gas connections including 425,404 domestic, 2,770 commercial and 131 industrial were provided across the country. It is expected that gas will be supplied to approximately 430,695 new consumers during the fiscal year 2018-19.
- GoP is pursuing its policies for enhancing indigenous gas production as well as imported gas to meet the increasing demand of energy in the country. At present, the capacity of two Floating Storage and Regasification Unit (FRSU) to Re-gasified Liquefied Natural Gas (RLNG) is 1,200 MMCFD and accordingly RLNG is being imported to mitigate gas demand-supply shortfall.
- For viable growth of this sector, the government has approved the provision of RLNG to this sector with fiscal incentives of gas infrastructure development cess and sales tax.

Useful web links

- Oil and Gas Regulatory Authority
www.ogra.org.pk
- Government of Pakistan Ministry of Finance
www.finance.gov.pk





Power

Sector overview

- During July 2018 to March 2019, the installed capacity in the system remained 34,282 MW compared to 33,433 MW during the same period last year.
- The generation increased from 82,011 GWh to 84,680 GWh, posting a growth of 2.1% during the period under discussion.
- The installed capacity mix contains hydro 8,239 MW, thermal 22,740 MW, nuclear 1,295 MW and renewable energy projects 1,760 MW.
- During July 2018 to March 2019, electricity generation through thermal remained 54,195 GWh compared to 55,593 GWh while hydro was 22,539 GWh compared to 20,904 GWh in the same period last year.
- As at June 2019, electricity demand-supply gap reaches up to 8,561 MW, which is more than 34.6% of total national demand. By 2028, demand-supply gap during peak hours is expected to reach around 13,488 MW, thus requires additional capacity to fulfil the demand.
- The GoP is emphasizing on the utilization of indigenous and environmentally clean energy generation resources and due to this, the promotion of alternative and renewable technologies is amongst the top priorities of the government. They have already taken several initiatives to create an encouraging environment for the sustainable growth of the clean energy sector.
- The GoP is also planning to shift electricity generation from the costly diesel and furnace oil to coal in order to generate cheaper electricity.
- A task force on Power sector has been formed to propose immediate, medium and long-term policy interventions with the aim to provide indigenous, affordable and sustainable energy. NTDC has prepared and submitted Indicative Generation Capacity Expansion Plan (IGCEP) 2018-40 to NEPRA – this plan is a part of the Integrated Energy Plan and will include power supply and demand plans till 2047.
- China-Pakistan Economic Corridor (CPEC) is another major breakthrough in the development of the country's energy sector, under which financial outlay of around USD 35 billion has been made for Energy sector projects including power generation and transmission projects to be implemented in IPP mode.



13 Listed companies*



PKR 264 Billion*
Market Cap

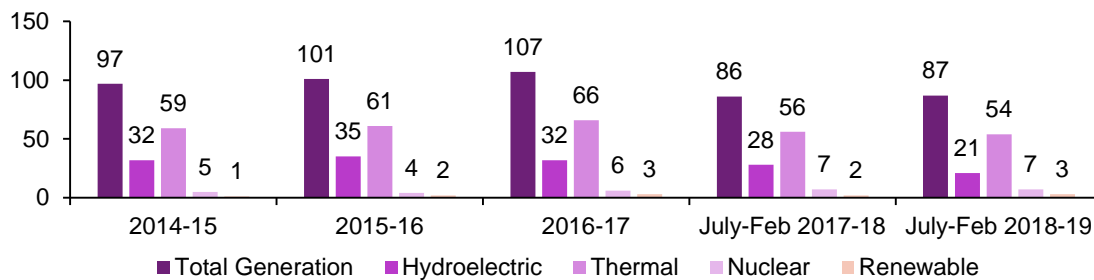


PAT PKR 55 Billion*

Source: Pakistan Stock Exchange

*As at 30 September 2019

Composition of installed power generation capacity (GW) 2015 – 2019



Source: Pakistan Economic Survey 2018-19

Hydro

- Pakistan is blessed with enormous hydro and coal potential, which, if carefully exploited, can ensure our future energy security on long-term basis. During July 2018 to March 2019 hydroelectric had a share of 25.8% in total electricity generation as compared to 24.4% in same period of previous year.
- There are six new hydro projects under construction with a combined capacity of 10,751 MW. These projects are planned to be completed by 2024.
- Further, there are nine upcoming IPP projects with a combined capacity of 5,112 MW which are expected to be completed by the end of 2028.

Coal

- Pakistan has large indigenous coal reserves estimated at over 186 billion tons which are sufficient to meet the energy requirements of the country on long-term basis and could be an inexpensive source for power generation.
- Annual domestic coal production is estimated around 5.5 million tons during 2018-19. About 15.5 million tons of coal is estimated to be imported in 2018-19 to meet the supply and demand gap of coal.
- The country's first large-scale coal mine (3.8 million tons per annum) along with integrated power generation plant (2x330 MW) has been made operational at Thar coalfield.
- Despite several renewable energy projects, the bulk of new energy generation capacity under CPEC will be coal-based plants. Four of the coal-based projects have already been completed and are in operation.

- There are an aggregate of five projects under construction that will produce power of 5,940 MW.

Project Name	Installed capacity (MW)
SSRL Thar Coal Block-I 6.8 mtpa & Power Plant	1,320
HUBCO Thar Coal Power Project	330
ThalNova Thar Coal Power Project	330
Imported Coal Based Power Project	330
Thar Mine Mouth Oracle Power Plant	1,320

Source: www.cpec.gov.pk

- The Ministry of Water and Power submitted before the PAC that Thar coal projects in Thar Block, Sindh, would bring 3,960 MW in the national grid, imported coal 4,260 MW, hydro 2,714 MW, solar 900 MW and wind would add 300 MW into the system.

Wind

- The government has recently reversed a three-year old ban on investing in solar and wind placed by its predecessor and has finalised the Alternative Energy Policy 2019 under which as much as 30% electricity generation capacity will be from solar and wind and in the next five years they aim to install an additional 18,000 MW.
- CPEC has contributed to the 300 MW of clean wind energy to the national grid through its four early harvest wind power projects.
- During the fiscal year 2018-19, five wind power projects of 298 MW capacity were

completed and are now supplying electricity to the national grid.

- The Gharo-Keti Bander wind corridor, in the South of Pakistan, having an approximate potential of 50,000 MW, is the most attractive for investors at this point due to good resource potential as well as its close proximity to major load centres and the National Grid.

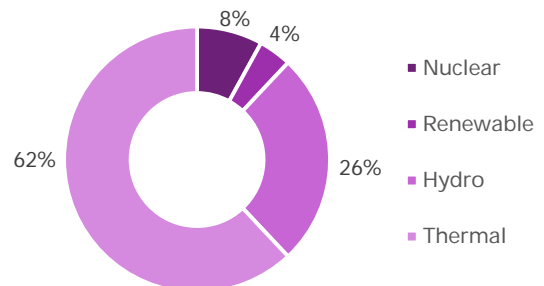
Solar

- The Quaid-e-Azam Solar Park, Bahawalpur, the first ever DC installation in Pakistan, is currently producing up to 12% more power than the energy production requirements set by NEPRA. The plant is giving an average yield of 169 GW hour against the annual target of 153 GW hour to meet 153 million units production requirement.
- The Alternative Energy Development Board (AEDB) is pursuing 28 solar photovoltaic power projects that would have a cumulative capacity to produce 956.52 MW of clean energy. “Energy purchase and implementation agreements have been signed for three solar power projects including Apollo Solar Pakistan Limited (100 MW), Crest Energy Pakistan Limited (100 MW) and Best Green Energy Pakistan Limited (100 MW) located at Quaid-e-Azam Solar Park.
- Out of the above 28 projects, seventeen solar power projects with cumulative capacity of 484 MW are at different stages of project development.

Nuclear

- The Pakistan Atomic Energy Commission (PAEC) is tasked with generating electricity through nuclear power. Presently, there are five nuclear power plants operating in two sites in the country; one unit in Karachi namely, Nuclear power plant (KANUPP) and four units at Chashma (Mianwali). The gross capacity of these nuclear power plants is 1,430 MW and during July 2018 to March 2019, they supplied about 7,267 units of electricity to the national grid.

Share in electricity generation July 2018 to March 2019



Source: Energy Report 2018-19

Useful web links

- National Transmission and Despatch Company
www.ntdc.com.pk
- National Electric Power Regulatory Authority
www.nepra.org.pk





Telecom and IT

Telecommunication

- The telecommunication market in Pakistan is open and deregulated, offering level playing field to operators.
- The import bill of telecommunication group decreased by 16.1% to USD 1,172 million in 2018-19. The import of mobile handsets decreased by 19.4% in 2018-19 as compared to 19.0% increase in 2017-18 due to enhanced import duties.

- In terms of overall investment in the telecom sector, the momentum started in 2013 for the up-gradation of telecom networks for 3G and 4G services has continued and stood at USD 670.3 million as of June 2018.
- During 2015 to 2019, sector has attracted over USD 2.6 billion FDI whereas a total of about USD 4.5 billion have been invested by telecom players in Pakistan.



11 Listed technology and communication companies*



PKR 62 Billion*

Market Cap

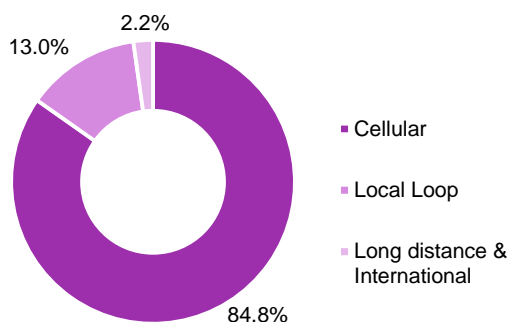


PAT PKR 10 Billion*

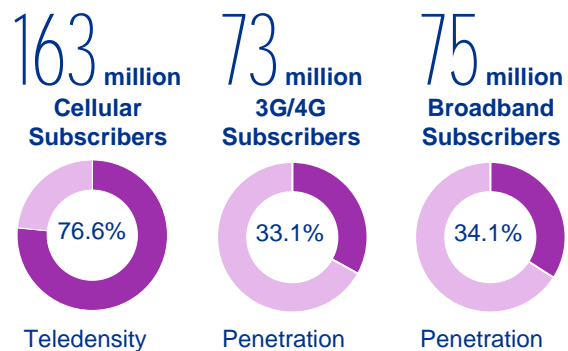
Source: Pakistan Stock Exchange

*As at 30 September 2019

Share of total investment in telecom 2017-18



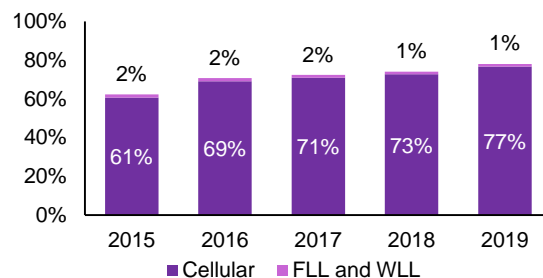
Source: Pakistan Telecommunication Authority



Source: Pakistan Telecommunication Authority

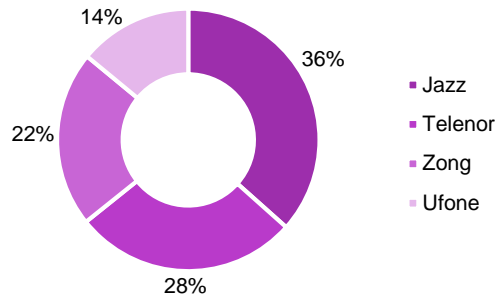
Note: Above presented position is as of September 2019

Teledensity – Historical view



Source: Pakistan Telecommunication Authority

Wireless telecom subscriber's market share as at 30 September 2019



Source: Pakistan Telecommunication Authority

- Mobile connections are forecast to grow at an annual average rate of 6.8% in 2019-23, and fixed lines are expected to decline at an annual average rate of 7.4%. Internet user penetration will grow at an annual average rate of 4.8%.
- The demand for low priced smartphones is expected to grow rapidly. Pakistan's mobile phones penetration rate stood at an estimated 70.3% in 2016 where as smartphones made up about 35% of total mobile phone shipments, leaving ample scope for growth.

Information Technology (IT)

- Pakistan's IT exports are estimated to have crossed USD 3,300 million a year at present. In addition, export remittances earned by MSMEs and freelancers are estimated to be USD 500 million, whereas annual domestic revenue exceeds USD 1,000 million.
- Startups like careem, daraz, zameen.com, rozee.pk and their success is bringing investment into Pakistan as evident from the recent acquisition of daraz and easypaisa by Alibaba. Traditional investors from other Pakistani sectors like textile, fertilizers are also taking special interest in the startup ecosystem.

10,000+
IT graduates per
year



300,000+
IT Professionals

4th Ranked
Globally for Freelance
development



Source: Pakistan Board of Investment

Key points for investors

- Zero income tax on IT & ITeS exports
- Zero Income tax for PSEB registered IT start-ups
- 100% foreign ownership of IT & ITeS companies
- 100% repatriation of profits to foreign IT & ITeS investors
- Tax holiday for venture capital funds till 2024.

Useful web links

- Government of Pakistan Ministry of Pakistan
www.finance.gov.pk
- Pakistan Telecommunication Authority
www.pta.gov.pk
- Board of Investment
www.invest.gov.pk



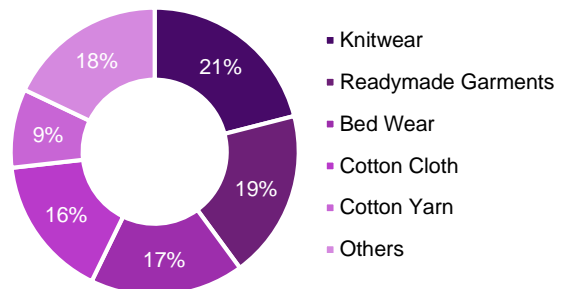


Textile

Sector overview

- Textile being the most significant manufacturing sector of Pakistan has the longest production chain, with inherent value adding potential at each processing stage - from cotton to ginning, spinning, fabric, dyeing and finishing, made-ups and garments.
- The sector contributes nearly 25% of industrial value-added and provides employment to about 40% of industrial labour force.
- Excluding seasonal and cyclical fluctuations, textile products have maintained an average share of about 59% in national exports. Pakistan is the 4th largest producer and 3rd largest consumer of cotton globally, but its comparative advantage diminishes due to export of low value added textiles products.

Textile products export composition during 2018-19



Source: State Bank of Pakistan

- The spinning sector is the backbone in the ranking of textile production. At present, it comprise 517 textile units (40 composite units and 477 spinning units) with 13.4 million spindles and 198,801 rotors installed and 11.3 million spindles and 126,583 rotors in operation with capacity utilization of 84.6% and 63.7%, respectively.
- There are 21 filament yarn units having a capacity of 100,000 tons and the industry is supported by PTA plant which has 500,000 tons capacity.



136 Listed companies*



PKR 280 Billion*

Market Cap



PAT PKR 42 Billion*

Source: Pakistan Stock Exchange

*As at 30 September 2019

Sector snapshot

Total export for 2018-19	USD 13,579 million (56% of total Pakistan exports)
Cotton cloth exports	USD 1,630.3 million
Employment	40% of industrial labour force

Source: State Bank of Pakistan & Pakistan Economic Survey 2018-19

Useful web link

- Government of Pakistan Ministry of Finance
www.finance.gov.pk



Sector overview

- In 2018, tourism contributed 7.1% to Pakistan's GDP. It includes foreign and domestic travel and tourism spending or employment in the equivalent economy-wide concept in the published national income accounts or labour market statistics.
- There are multiple indicators showing that this industry will contribute more going forward. Growth in air travel and hotel occupancy are among the top indicators of travel and tourism industry growth.
- Pakistan has become the member of Shanghai Cooperation Organization. One of its main objective is Tourism and Environmental protection.
- During 2018, 84% of spending by Pakistani's in travelling was for leisure purposes.
- To cater the needs of local and foreign tourists visiting renowned high mountain peaks, glaciers, beautiful valleys and historical places such as Mohenjo Daro, Thatta, Taxila, Harappa there exist an immense opportunity to enhance the hotel and Infrastructure network and facilities.



- It is estimated that investments in tourism will generate over half a million new direct and induced jobs over the next five years therefore the government is giving prime importance to tourism.
- During CY2018, contribution of travel and tourism was 6.3% of the total employment and World travel & tourism council has estimated that the sector will generate approximately 4.9 million jobs by 2029.



4.9 Million Jobs
in Travel & Tourism by 2029

Source: The World Travel & Tourism Council – Pakistan 2019

- In March 2019, Special Assistant to Prime Minister on Overseas Pakistanis, said that the federal government was planning to set up an endowment fund with the collaboration of all the provinces to market their tourist attractions. The special assistant who also holds the office of Chairman National Tourism Coordination Board (NTCB) said, all the stakeholders were unanimous over the idea of retaining foreign tourists' confidence through destination branding.

Useful web link

- The World Travel & Tourism Council
www.wttc.org
- Government of Pakistan Ministry of Finance
www.finance.gov.pk



Transportation

Sector overview

- A modern transport facility plays an important role in the economic development of a country. Pakistan, taking advantage of its strategic location and with a reasonable transport infrastructure, is developing an efficient and well-integrated infrastructure by connecting remote areas of the country into one road and one Asia chain.
- The road network of Pakistan is about 270,971 km and carries over 96% of inland freight and 92% of passenger traffic.

Industry snapshot

Road network	270,971 km
High type roads	201,100 km
Low type roads	69,872 km
Railway network	7,791 km
International airports	International – 16 Domestic - 32
Seaports	3 (Karachi Port, Port Qasim and Gwadar Port)

Source: Pakistan Economic Survey 2018-19

Roads

- Road infrastructure has a profound and enduring effect on the economic growth of Pakistan. National Highway Authority (NHA) being the lead agency has constructed and rehabilitated roads all over the country to bring about qualitative improvement in standard of living.
- Recently, Green Line Bus service is under construction in Karachi to provide effective and efficient transport service.

- Through CPEC, NHA is connecting Khunjab to Gwadar. Currently, there are on-going CPEC projects worth PKR 700,000 million related to NHA.
- The present NHA network comprises of 47 national highways, motorways, expressways, and strategic roads. Current length of this network is 12,743 Km.
- NHA's existing portfolio consists of 38 on-going projects with an allocation of PKR 176,637 million in PSDP 2018-19.
- CPEC is the flagship and most actively implemented project of Belt & Road Initiative (BRI) where Pakistan and China have successfully launched 22 projects on the ground, costing more than USD 28,500 million.

Railways

- Pakistan Railway is a single major mode of transport in public sector contributing to economic growth and providing national integration. Pakistan Railways comprises of total 470 locomotives (458 Diesel Engine and 12 Steam Engines) for 7,791 kilometres length of route.
- Ministry of railways is taking new initiatives to improve performance of Pakistan Railways and will take necessary steps in the coming years to increase share in the overall transport sector of Pakistan from 4% to 20%.

Railway passengers	2016-17	2017-18	2018-19*
	In million		
Passengers carried	52.4	54.9	39.9
Passenger traffic kms	22,475	224,903	18,745

Source: Pakistan Economic Survey 2018-19

Note: * July 2018 to February 2019

Ports and Shipping

Pakistan National Shipping Corporation (PNSC)

- At present, PNSC fleet comprises of 11 vessels of various type/size (5 Bulk carriers, 2 LR-1 product tankers and 4 Aframax tankers) with a total deadweight capacity (cargo carrying capacity) of 831,711 metric tons i.e. highest ever carrying capacity since its inception.
- In order to expand business and to cater the growing need of country's requirement of liquid and dry imports, it is planned to acquire more oil tankers and dry cargo ships into PNSC fleet.

Karachi Port Trust (KPT)

- The business at KPT is continuously progressing due to increased international trade with regional and international countries. During July 2018 to March 2019, the total volume of cargo handled was 35.3 m tons.

Port Qasim Authority

- Port Qasim is the deepest seaport of Pakistan and first industrial and commercial port of Pakistan operating under landlord concept and plays a vital role in the economic development of the country, catering for around 40% seaborne trade of Pakistan.
- The Port Qasim Authority achieved good results in the first nine months of the year posting a total growth of 7% percent in total traffic. The port operational performance July 2018 to March 2019 stood at 36.58 million tonnes, showing an increase of 7% over the corresponding period of last nine months of 2017-18.

Gwadar Port

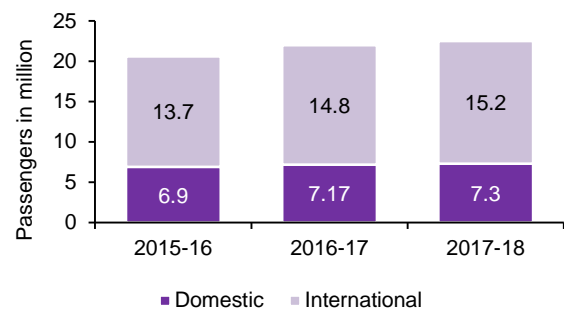
- Gwadar is the first port on the south-western Arabian Sea coastline, in the Balochistan province of Pakistan. It is about 635 km from Karachi and 120 km from the Iranian border by road.
- The port operator had invested more than USD 40 million for port facilities up-gradation. This is now fully operational and

receiving commercial vessels on regular basis since March 2018.

Aviation and Airline

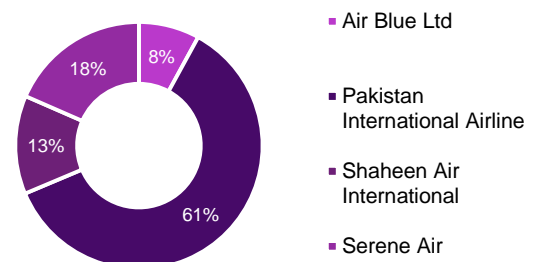
- In Pakistan, aircraft movements on an average grew by 7.1% and passenger traffic by 6.3% (PCAA Statistics) in the last five years and it is expected that air traffic will grow even more in view of economic progress and socioeconomic stability being pursued by the present government.
- There are three major domestic players in Pakistan; Pakistan International Airlines (PIA) being the national carrier, Serene Air and Air Blue.

Passenger traffic handled at Pakistan airports



Source: Pakistan Civil Aviation Authority

Travelling passengers volume through domestic airlines



Source: Pakistan Civil Aviation Authority

Note: CAA has suspended Shaheen Airline's operations in October 2018

Useful web link

- Government of Pakistan Ministry of Finance
www.finance.gov.pk
- Pakistan Civil Aviation Authority
www.caapakistan.com.pk





3. Forms of Business Presence

Choice of Investment Vehicle

A foreign investor / company, depending on the needs, can set up a Liaison Office, Branch Office or incorporate a Pakistani company as either a wholly owned subsidiary or joint venture with a Pakistani / Overseas partner i.e. if purpose is promotion of product(s), provision of technical advice and assistance, exploring the possibility of joint collaboration and export promotion in such case a Liaison Office should be preferred; or in case of execution of a one-off contract, in such case, branch may be a better option; or in case of long term presence, in such case, investor may consider incorporating a limited liability partnership or a company.

Any entity established/incorporated in Pakistan is required to get itself registered under the tax laws.

The formation of four common types of investment vehicles are discussed below:

Liaison office (LO)

Liaison Office is established by a foreign company for promotion of product(s), provision of technical advice and assistance, exploring the possibility of joint collaboration and export promotion. However LO cannot undertake any commercial/trading activities and is required to meet its operational expenses through remittances from its parent company through normal banking channel and converted to local currency account. A foreign company desirous of setting up a LO in Pakistan is required to obtain permission from the Board of Investment (BOI) by submitting an application on a specified format. The permission for opening of liaison office is granted by the BOI for an initial period of one year. Subsequent to initial permission, extension on an application is granted for a period of one to five years after reviewing the performance of the entity during the initial period.

Branch office (BO)

A foreign entity can operate in Pakistan by establishing a BO. A BO is set up specifically to execute contracts awarded to the foreign entity; accordingly activities are restricted to the extent stated in the signed agreement/ contract. BO cannot indulge in commercial / trading activities.

Revenue generated / profit earned from BO activities can be repatriated to the Head Office, subject to payment of applicable taxes. Such repatriation should be in compliance with the procedures mentioned in the Foreign Exchange Regulations of the State Bank of Pakistan (SBP) through an authorized dealer (banker) under normal banking channels and tax regulations.

All expenses incurred on BO activities are required to be met either out of funds transferred from abroad through normal banking channel and converted into Pak Rupees and deposited into the local currency bank account of the branch or from the amounts received through execution of the agreement / contract.

Incorporating a company

The companies incorporated in Pakistan are regulated by the Companies Act, 2017 (Companies Act) read with Companies (Incorporation) Regulations, 2017 (Regulations), administered by the Securities and Exchange Commission of Pakistan (SECP) through its Company Registration Offices (CRO).

Types of companies

The Companies Act mentions the following types of companies:

- Company limited by shares
- Company limited by guarantee
- Unlimited company

From a practical perspective, the limited liability company with share capital would be the type of company preferred by non-residents interested in investing in Pakistan.

A company incorporated in Pakistan, may either be a

- Private Company,
- Single Member Company; or
- Public Company. A public company can also be a listed company.

In addition to the foregoing, a non-resident may also establish a limited liability partnership firm.

Companies are required to get themselves registered under the tax laws.

Private Company

A private company can be formed by two or more members and may commence its business immediately after its incorporation, unless a licence is required for the business activity.

A private company, through its Articles of Association:

- restricts its members to transfer shares
- limits the number of its members to fifty
- prohibits any invitation to the public to subscribe for its shares or debentures.

Single-Member Company

An individual is entitled to obtain corporate status by forming a single member company and avail privileges of limiting the liability. The introduction of the concept of a single member company has facilitated sole proprietorships to obtain corporate status, giving them the privilege to limit the liability of their proprietors.

All the shares are vested with single member and a sole director, however, in case of a body either corporate, government or an institution / authority is a single member, it shall nominate non-member director in case of death of the single member it shall either be wound up in accordance with the provisions of the Act; or converted into private company.

A single member company is required to appoint a qualified company secretary and to write “SMC” in addition to “Private Limited” with its name.

Public Company

A public company can be formed by three members or more. It is entitled to commence business after obtaining a Commencement of Business Certificate from the Registrar of Companies and license from the relevant authority if so required.

A public limited company should have a minimum of three members however there is no restriction with regard to maximum number of members and transferability of the shares.

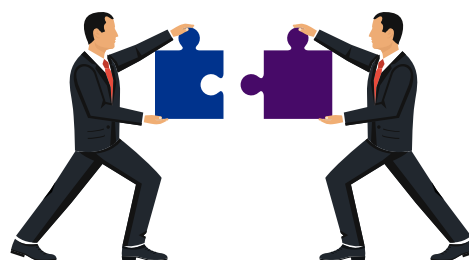
Public companies have an option to get their securities listed on a stock exchange. For listing of securities on stock exchange, companies are required to follow the Listing Regulations. Minimum number of members for listing of a company is seven.

A listed company may buy back its own shares, subject to conditions specified in the Listed Companies (Buy-Back of Shares) Regulations, 2019.

Limited Liability Partnership

Limited Liability Partnership Act 2017 (LLP Act) was promulgated on 3 May 2017, under the LLP Act two or more persons can establish a lawful business. Every limited liability partnership should have the acronym ‘LLP’ as the last letters of its name.

Limited liability partnership, under the LLP Act, is a body corporate and is a legal entity separate from its partners.



Websites of companies

All public companies, listed and unlisted, are required by SECP to maintain a functional website which contains detailed information about the company, its objectives, governance structure, election of directors, financial position as well as all material information to benefit its members, potential investors and the general public.

Listed companies are required to place their financial statements and reports on their websites at least 21 days before holding the AGM. Whereas quarterly accounts should be placed within:

- a) thirty days of the close of first and third quarters; and
- b) sixty days of the close of its second quarter

Other Corporate Legislations, Regulations and Rules

Apart from Companies Act, there is a host of other Corporate Legislations, Regulations and Rules in force regulating different aspects of corporate entities. Key of them are enumerated as follows:

Banking Companies Ordinance, 1962

The Banking Companies Ordinance, 1962 specifies various regulations for banking companies, including:

- Licensing of banking companies
- Forms of business in which banking companies may engage and certain restrictions and prohibitions
- Requirement as to minimum paid-up capital and reserve
- Cash reserve
- Maintenance of liquid assets
- Deposits
- Annual accounts, audit and submission of returns
- Remittance of profits
- Suspension of business and winding up of banking companies

Prudential regulations

The SBP has introduced specific Prudential Regulations for Corporate / Commercial Banks, Small and Medium Enterprises Financing, Consumer Financing, Housing Finance, Micro Finance Banks / Institutions and Agriculture Financing.

The Prudential Regulations cover Risk Management, Corporate Governance and Operations.

Following are the important conditions prescribed in these prudential regulations for Corporate / Commercial Banks:

- Limit on exposure to a single person
- Limit on exposure against contingent liabilities
- Minimum conditions for taking exposure
- Limit on exposure against unsecured financing facilities
- Linkages between financial indicators of the borrower and total exposure from financial institutions
- Exposure against shares / TFCs and acquisition of shares
- Classification and provisioning for assets
- Payment of dividend
- Margin requirements
- Corporate governance, Board of Directors and management
- Credit rating
- Know your customer (KYC)
- Anti-money laundering measures
- Window dressing

Non-Banking Finance Companies (NBFCs)

NBFCs include companies licensed by the SECP to carry out any one or more of the business, namely; leasing, investment finance services, housing finance services, venture capital investment, discounting services, asset management services, investment advisory services and any other form of business Federal Government may specify.

Non-Banking Finance Companies and Notified Entities Regulations, 2008

These regulations have been promulgated to apply to NBFCs carrying out:

- Asset Management Services
- Leasing
- Discounting Services
- Housing Finance Services
- Investment Advisory Services
- Investment Finance Services;
- Notified entities being managed by such NBFCs.
- Private equity and venture capital fund management services; and
- Real estate investment trust management services.

Private Funds Regulations, 2015

The Regulations have been promulgated for the regulation of Private Equity and Venture Capital Fund Management Services and the registration and regulation of the Private Funds and connected matters.

A private fund is required to be established and launched by the Private Fund Management Company duly licensed by the Commission for managing Private Funds.

In a private fund:

- Total number of eligible investors should not exceed 30. The regulations define the eligible investor as a person who offers a minimum sum of PKR 3 million for investment in a private fund.
- Minimum equity should at least be PKR 30 million.
- Units are not listed on any Exchange.

Real Estate Investment Trust (REIT) Regulations, 2015

These regulate the activities of REIT Management Company (RMC) along with registration and regulation of REIT schemes and for matters connected therewith and incidental thereto.

REIT Scheme means a listed closed-end fund registered under these Regulations for investment in a real estate project:

The REIT Schemes are of following types:

- Development REIT Scheme - for construction of properties. The proposed construction period should not be more than 5 years.
- Rental REIT Scheme - for renting out completed projects. The project must have a successful tenant occupancy record for at least the last twelve months period with more than 80% occupancy at the time of application.
- Hybrid REIT Scheme - which has a Developmental component as well as a Rental component.

Real estate shall be within the territorial limits of Islamabad, Rawalpindi, Karachi, Lahore, Peshawar, Quetta, or any other city as may be approved by the SECP.

REIT Management Company ("RMC") intending to undertake REIT management services, prior to applying for license, should have a paid up capital of PKR 50 million. RMC shall hold or arrange through Strategic Investor, minimum 25% units of the REIT Scheme in an account marked as blocked throughout the life of the REIT Scheme till its winding up and these units shall not be sold, transferred or encumbered, provided that the same can be transferred with the relevant conditions.

Strategic Investors, each one of them shall hold not less than 5% units of the REIT Scheme at all times: Provided that the strategic investor and the RMC may, after three years of launch of REIT Scheme, transfer their holding of the REIT Scheme to another Strategic Investor with the approval of the Commission.



Modaraba Companies and Modarabas (Floatation and Control) Ordinance, 1980

No Modaraba can be floated unless an authorization is obtained from the Registrar of Modaraba Companies under the provisions of this Ordinance.

No Modaraba shall undertake a business which is opposed to the injunctions of Islam and the Registrar shall not permit the floatation of a Modaraba unless the Religious Board has certified in writing that the Modaraba is not a business opposed to the injunctions of Islam.

Modaraba companies may be 'Multi-purpose modaraba' or 'Specific purpose modaraba' and can either be for a fixed period or for an indefinite period.

Insurance Ordinance, 2000 and Insurance Rules, 2002

Insurance Ordinance regulates the formation and activities of insurance companies. Insurance rules are issued in conjunction with Insurance Ordinance and contain detailed operational and reporting guidance and procedures.

A 'public company' or a 'body corporate' incorporated under the laws of Pakistan (not being a private company or the subsidiary of a private company) can commence insurance business after obtaining the permission from the Commission in the prescribed manner.

The Ordinance divides the Life Insurance business into following classes:

- Ordinary life business
- Capital redemption business
- Pension fund business
- Accident and health business

Non-life Insurance business is divided into following classes:

- Direct and facultative reinsurance business:
- Fire and property damage business
- Marine, aviation and transport business
- Motor third party compulsory business
- Liability business
- Workers' compensation business
- Credit and surety ship business

- Accident and health business
- Agriculture insurance including crop insurance
- Miscellaneous business
- Treaty reinsurance business
- Proportional treaty business
- Non-proportional treaty business

An insurer carrying on life insurance business shall at all times maintain at least one statutory fund in respect of its life insurance business.

Reinsurance between statutory funds maintained by one insurer is prohibited.

Takaful Rules 2012

These rules have been promulgated under the Insurance Ordinance, 2000.

Takaful refers to Islamic way of insurance. Takaful business can only be carried out by 'Registered Insurer' authorized in this behalf by the Commission. A Registered insurer registered to transact life insurance business shall be eligible for conducting 'Family Takaful' whereas Registered Insurer registered to transact non-life insurance business shall be eligible to transact 'General Takaful'. Window Takaful Operator means registered Insurer authorized by the Commission to carry out both Takaful Business as well as Conventional Insurance Business.

A Takaful operator carrying out Family Takaful business shall set up one or more statutory funds which are further divided into sub-funds including Participant Takaful Fund, Participant Investment Fund and Operator sub-fund.

A Takaful operator carrying out General Takaful business shall set up one or more Participant Takaful Fund and Operator Fund.

A Takaful operator is required to appoint a Shariah Advisor who shall be responsible for:

- Approval of products including related documentation
- Approval of Participant Takaful Fund policy including risk management and rating procedures
- Approval of investment policy and individual investments by the Operator
- Approval of re-insurance and re-takaful arrangements

A Takaful Operator is also required to appoint a Shariah Compliance Auditor to conduct audit for each accounting period.

The rules also stipulate regulations to Takaful Operators for investment in immovable properties, investment in joint stock companies, mutual funds, redeemable capital and placement of excess funds with banks and Islamic financial institutions.

Listing of companies and securities regulations

A company that seeks to offer its shares to the public and wishes to apply for a listing on the stock exchange must comply with the provisions of Listing of Companies and Securities Regulations as are contained in the Rule Book of Pakistan Stock Exchange Limited, in addition to compliance with the provisions of the Companies Act.

The Listing Regulations require that no company shall be listed unless:

- It is registered as a public limited company
- Its minimum paid-up capital is PKR 200 million
- It has made a public issue which is subscribed by not less than 500 applicants.

Offer of capital by companies / modarabas to the General Public:

In case of offer of capital by the issuing company through IPO or offer for sale, the allocation to General Public shall be as under:

For companies seeking listing:

- In case post-issue paid-up-capital of the company is above PKR 500 million, the allocation of capital to the general public, excluding premium amount and Pre-IPO placement, if any, shall be at least PKR 125 million or 12.5% of the post-issue paid-up-capital, whichever is higher. Such company, will however, be required to subsequently enhance the quantum of public shareholding to 25% within next four years of its listing.

For existing listed companies:

- In case of an already listed company, the size of offer of capital shall not be less than PKR 100 million.
- The listed companies having existing free float less than the required level i.e., 25% of the total issued shares and 5 million free float shares; are required to enhance their free float up to both these levels within the given timeframe.

Substantial acquisition of voting shares and takeover of listed companies

In order to provide fair and equal treatment to all the investors as well as a transparent and efficient system for substantial acquisition of voting shares and takeovers of listed companies and matters ancillary thereto or connected therewith, SECP has promulgated the following legal framework:

- The Securities Act, 2015 (Part IX); and
- The Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations, 2017.

Takeover laws and regulations are intended to minimize price manipulation and insider trading. Following is the summary of some important sections of the Part IX of the Securities Act:

Acquisition of more than 10% voting shares of a company but up to 30%

Any person who acquires voting shares in a listed company as a result of which his aggregate holding exceeds 10% of the voting shares, must disclose the aggregate shareholding to the said company and to the stock exchange on which those shares are listed, within two working days of,

- a) the receipt of intimation of allotment of voting shares; or
- b) the acquisition of voting shares, as the case may be

Any additional acquisition by the above person during the next 12 months needs not be disclosed until such time as the shareholding does not cross 30%.

Simply, the disclosure is triggered on crossing the 10% voting rights threshold of a listed company. Any further purchases in the 12 months thereafter, up to 30% of the voting rights need not be disclosed.

Additional acquisition of voting shares – beyond 30% (Substantial Acquisition)

When the acquirer plans to cross the 30% threshold or gain control of a listed company, he is required to make a public announcement of offer to acquire additional voting shares or control of such company; before making the announcement, such person shall make requisite disclosures as mentioned above.

Other Provisions

In addition, following are the important provisions of takeover laws:

- disclosures by the target company on possibilities of its acquisition to the stock exchange.
- timing of public announcement of intention and of offer to purchase shares of the target company beyond the specified threshold, appointment of manager to the offer, contents of public offering documents, etc.
- procedures for withdrawal of public announcement of intention and of offer for purchase of shares.
- size of offer, minimum offer price, mode of payment to shareholders on acquisition of shares.
- form / nature of security for performance of obligation under the public offer.
- obligations of acquirer, board of directors of the target company, manager to the offer.
- other procedural matters including penal provisions, reporting requirements, and powers of SECP in the area of substantial acquisitions.

Competition Law

The Competition Act, 2010 requires that where an undertaking intends to acquire the shares or assets of another undertaking, or two or more undertakings intend to merge the whole or part of their businesses, and meet the pre-merger notification thresholds stipulated in regulations prescribed by the Competition Commission, such undertaking or undertakings shall apply for clearance from the Competition Commission of the intended merger.

The Competition Act, 2010 is part of the broader competition policy framework of the Government of Pakistan (GoP) through which it endeavours to engender free competition in all spheres of commercial and economic activity. The crucial objective of the Act is to enhance economic efficiency and to protect consumers from anti-competitive behaviour.

Briefly, the law prohibits situations that tend to lessen, distort or eliminate competition such as actions constituting an abuse of market dominance, competition restricting agreements and deceptive market practices. Although essentially an enabling law, it briefly sets out procedures relating to review of mergers and acquisitions, enquiries, imposition of penalties, grant of leniency and other essential aspects of law enforcement.

Code of Corporate Governance

The objective of Code of Corporate Governance is to establish and ensure a framework of good corporate governance practices for the companies.

SECP has issued corporate governance frameworks for designated classes of companies for mandatory compliance including listed companies, public sector companies and insurance companies. Besides, corporate governance principles for non-listed companies have also been issued for guidance and voluntary compliance.

Code of Corporate Governance broadly covers the matters relating to composition, responsibilities, power and functions of Board, meetings of the Board, qualifications of CFO and head of internal audit, frequency of financial reporting, internal audit, external auditors, audit committee, and corporate and financial reporting framework.





4. Taxation

Income tax

The Income Tax Ordinance, 2001 (hereinafter referred to as “the Ordinance”) is the tax code of Pakistan with effect from 1 July 2002, which governs the taxation of income. The procedures thereof are mainly contained in the Income Tax Rules, 2002. The financial policies and taxation measures are annually announced in accordance with the policies of Government and a Finance Act to this effect is promulgated.

Summary of significant tax exemptions and concessions under the Ordinance

1. Industrial undertakings including corporate dairy farming

- Tax credit against tax payable for a period of five years is available to companies formed for establishing and operating a new industrial undertaking including corporate dairy farming where at least 75% equity is raised through issuance of new shares for cash consideration and some other specified conditions are fulfilled.
- Tax credit will be computed as proportion of tax assessed before allowance of any tax credit. The proportion will be worked out as ratio of equity raised through new issuance of shares to amount invested in setting up the new industrial undertaking.
- Similar tax credit is available to existing companies for undertaking new project or expansion of plant and machinery already installed in an industrial undertaking including corporate dairy farming.
- Income of a foreign expert shall be exempted from tax if such expert is engaged with the prior approval of Textile Ministry to support in filling the productivity gap.

2. Special Economic Zones

- Profits and gains from business set up in Gwadar Free Zone Area are exempt from tax upto 30 June 2039.
- Profits and gains from an 'industrial undertaking' set up in Gwadar Export Processing Zone are exempt from tax for a period of 10 years beginning from the month in which commercial operation is commenced.
- Income chargeable under the head “Capital gains” derived from an industrial undertaking set up in any Export Processing Zone is exempt from tax.
- Business losses can be carried forward beyond six subsequent tax years from the year in which arisen in case of an 'industrial undertaking' set up in any Export Processing Zone.
- Income derived by a zone enterprise in Special Economic Zone is exempt from tax for a period of 10 years from the date of commencement of commercial operations.
- Income of the developer of a Special Economic Zone is also exempt from tax for a period of 10 years starting from the date of signing of the development agreement.
- Advance tax on electricity consumption will not to be collected from a manufacturer cum exporter situated in Karachi Export Processing Zone.

3. Power Generation

- Profits and gains derived from an electric power generation project is exempt from tax under specified conditions with no sunset date.
- No withholding of tax from dividend paid to Transmission Line Projects.

- Collection of tax at import stage and withholding of tax on supply stage are not applicable on import and subsequent supply of various items with dedicated use of renewable sources of energy like solar and wind, even if locally manufactured, which include induction lamps, SMD, LEDs with or without ballast with fittings and fixtures, wind turbines including alternator and mast, solar torches, tubular daylighting devices such as solatube, lanterns and related instruments, PV modules with or without related components including invertors, charge controllers and batteries

4. IT related business

- Income from export of computer software or specified IT services and specified IT enabled services are exempt from tax upto 30 June 2025 on the condition that at least 80 percent of export proceeds are remitted to Pakistan in foreign exchange through normal banking channels.
- Profit and gains derived by a 'start-up' as specifically defined which offers technology driven products or services are exempt from tax for the tax year in which a start-up is certified by Pakistan Software Export Board and the following 2 tax years.
- No tax is to be withheld at source from payments made to a start-up for supply of goods, rendering of services or execution of contracts.
- The rate of withholding tax on commission received by a person running online market place will be 5% instead of 12%.

5. Oil & Gas

- Profit and gains derived by a refinery, set up by 30 June 2023 with minimum production of 100,000 barrels per day, are exempt from tax for a period of 20 years beginning from the month in which commercial production is commenced.
- Profit and gains derived by LNG Terminal Operators and Terminal Owners are exempt from tax for a period of 5 years from date of commencement of commercial operations.

- Alternative Corporate Tax is also not payable by LNG Terminal Operators and LNG Terminal Owners.

6. Coal mining projects in Sindh

- Profit and gains derived from a coal mining project in Sindh supplying coal exclusively to power generation projects are exempt from tax.
- Dividend received by shareholders from Coal Mining and Coal based Power Generation Projects in Sindh is exempt from withholding tax.
- No tax is to be withheld at source from payments made by a Coal Mining and Coal based Power Generation Projects in Sindh to any resident person or permanent establishment of any non-resident person for sale or supply of goods, or providing or rendering of services during project construction and operations.

7. Greenfield Projects

- Profits and gains of a company from a green field industrial undertaking incorporated on or after first day of July 2019 are exempt from tax and minimum tax for a period of five years, if such industrial undertaking is not formed by the splitting up or reconstitution of an undertaking already in existence or by transfer of machinery or plant from an undertaking established in Pakistan before the commencement of the new business.

8. Housing and construction

- Any income other than capital gain on stock and shares of public company, PTC vouchers, modaraba certificates, or any instrument of redeemable capital and derivative products held for less than 12 months derived by a REIT (real estate investment trust) Scheme is exempt from tax on the condition that at least 90 percent of its income is distributed to the unit-holders in cash.
- Tax payable on profits and gains derived from low cost housing projects is to be reduced by 50 percent on specified conditions.

- Gain on sale of immovable property to a Rental REIT is exempt from tax upto 30 June 2021.
- Gain on sale of immovable property to a Developmental REIT Scheme for development and construction of residential building is exempt from tax upto 30 June 2020.

9. Modarabas, mutual funds, venture capital companies and special purpose vehicles

- Income other than capital gain on stock and shares of public company, PTC vouchers, modaraba certificates, or any instrument of redeemable capital and derivative products held for less than 12 months derived by mutual funds is exempt from tax based on distribution of at-least 90% of its profit in cash.
- Income of Modaraba (other than from manufacturing or trading activities) is exempt from tax based on distribution of at-least 90% of its profit in cash.
- Income of Modaraba (other than from dividend, supply of goods, rendering of services, execution of contracts and exports) is taxable at reduced rate of 25 percent.
- Profits and gains derived by Venture Capital Company, Venture Capital Fund and Private Equity and Venture Capital Fund are exempt from tax upto 30 June 2024.
- No withholding of tax at source in case of Venture Capital Company from receipt of dividend, profit on debt and brokerage and commission.
- Capital gains derived from sale of shares or assets by a private limited company to a Private Equity and Venture Capital Fund is chargeable to tax at the rate of 10% of such gains.
- Any distribution received by a taxpayer from a mutual fund, a REIT Scheme or a Private Equity and Venture Capital Fund out of their capital gains is exempt from tax.
- Withholding tax provisions that are generally applicable on payments for profit on debt, supply of goods, rendering or

providing of services, execution of contracts, brokerage and commission and on use of machinery will not apply on special purpose vehicles for the purpose of securitization or issue of Sukuks.

10. Profit on debt (Interest income)

- Profit on debt received by a non-resident person on a security issued by a resident person shall be exempt from tax if (i) lender and borrower are not associates, (ii) security is widely issued outside Pakistan for raising loan to be used in Pakistan, (iii) profit is paid outside Pakistan and (iv) the security is approved by Federal Board of Revenue. However, the last condition is not applicable in case of Sukuk issued by The Second and the Third Pakistan International Sukuk Companies Limited.
- Profit on debt payable to a non-resident person is exempt from tax in case of Federal Government approved projects. Further, profit on foreign exchange loans against export letter of credit that are utilized for manufacturing goods for export purposes is also exempt from tax.
- Profit on moneys borrowed under a loan agreement or in respect of foreign currency instrument approved by the Federal Government derived by any non-resident person is exempt from tax.
- Profit on debt derived by Pakistani citizens residing abroad, foreign nationals and foreign entities from foreign currency accounts held with authorized banks in Pakistan or on specified certificate of investment is exempt from tax.
- Profit on debt payable by an industrial undertaking in Pakistan on specified foreign currency debts approved by the Federal Government is also exempt from tax.
- Tax is to be withheld at a reduced rate of 10 percent on profit on debt payable to non-resident having no permanent establishment in Pakistan. Tax so deducted shall be final tax if profit is paid on debt instruments, government securities including treasury bills and Pakistan Investment Bonds and the investments are exclusively made through a Special Rupee

Convertible Account maintained with a bank in Pakistan.

- Minimum tax on turnover and withholding tax on profit on debt are not applicable to non-residents excluding local branches or subsidiaries or offices of foreign banks, companies, associations of persons or any other person operating in Pakistan in respect of their receipts from Pak Rupee denominated Government and corporate securities and redeemable capital, listed on a registered stock exchange where investments are made exclusively from foreign exchange remitted in Pakistan through Special Rupee Convertible Account maintained with a bank in Pakistan.

11. Inter-corporate Dividend and profit on debt

- Inter-corporate dividend within the group companies entitled to group taxation is exempt from tax and is also not liable for withholding of tax on the condition that group's tax return has been filed for the latest completed tax year.
- Inter-corporate profit on debt within the group companies entitled to group taxation is not liable for withholding of tax on the condition that group's tax return has been filed for the latest completed tax year.

12. Film-making

- Tax payable by foreign film-makers from making films in Pakistan shall be reduced by 50 percent.
- Tax payable by resident companies deriving income from film-making shall be reduced by 70 percent.

13. Foreign source royalty, commission, fee for technical services

- Income derived by a company by way of foreign sourced royalty, commission or fees and income derived by any other taxpayer by way of foreign sourced fee for technical services under an agreement is exempt from tax provided such income is received in Pakistan in accordance with the law for the time being in force regulating payments and dealing in foreign exchange.

Tax year

"Tax Year" means the period of 12 months ending on 30 June in respect of which assessment of income will be made. Where the accounting period (income year) of a person is different from the normal tax year or the person has been allowed by the Commissioner Inland Revenue to use a period of 12 months other than the normal tax year, such a tax year will be called "Special Tax Year" and will be denoted by the calendar year relevant to normal tax year in which the closing date of the special tax year falls e.g. 12 months period ended on 31 December 2018 will be denoted as tax year 2019.

Legal status of the tax payer

A tax payer under the Ordinance may have any of the following status for charge of tax:

- Individual
- Company or Association of Persons (AOP)
- Federal Government, Foreign Government, a political sub-division of a Foreign Government or Public International Organization

The term "Association of Persons" includes a firm, a Hindu undivided family, any artificial juridical person and a body of persons formed under a foreign law.

Residential status

The total income chargeable to tax under the Ordinance is determined with reference to the residential status of the taxpayer as follows:

- A resident person is chargeable to tax in Pakistan for both Pakistan source income and foreign source income.
- A non-resident is chargeable to tax in Pakistan only to the extent of Pakistan source income.

Residency test

Individual

An individual is considered to be a resident in respect of a tax year if:

- his aggregate stay in Pakistan is 183 days or more during that tax year; or
- his aggregate stay in Pakistan is 120 days or more during that tax year and his aggregate

stay in Pakistan is 365 days or more during preceding four tax years; or

- he is an employee or official of the Federal Government or a Provincial Government, posted abroad in the tax year.

Company

A company is considered resident for a tax year if it is incorporated or formed by or under any law in force in Pakistan or the control and management of its affairs is situated wholly in Pakistan at any time in the year or if it is a Provincial Government or a Local Government in Pakistan.

Association of persons

An association of persons is considered resident for a tax year if the control and management of its affairs is situated wholly or partly in Pakistan at any time in the year.

Heads of income

Total income of a taxpayer can be charged to tax under any of the following heads:

- Salary
- Income from property
- Income from business
- Capital gains
- Income from other sources

Salary

Salary received by an employee in a tax year, other than exempt salary, shall be chargeable to tax in that year under the head "Salary". For the purposes of computing salary liable to tax, the value of perquisites, allowances and benefits are determined in accordance with the prescribed rules. Salary income is subject to progressive tax rates depending on the amount of salary exceeding PKR 600,000, ranging from 5% to 35%.

Foreign source income

If an individual, due to his employment becomes resident in Pakistan and his presence in Pakistan is for a period or periods not exceeding three years, his foreign source income will not be taxed, unless such income is derived from a business established

in Pakistan or it is brought in to or received in Pakistan.

Foreign source income of a resident (who is a citizen of Pakistan but was not resident in any of the four tax years preceding the tax year in which he became resident) shall be exempt from tax for two years, that is to say, in respect of the tax year in which he became resident and the following tax year.

Any foreign source salary received by a resident individual is exempt from tax, if the individual has paid foreign income tax in respect of the salary. Any foreign source salary earned by an individual (who is a citizen of Pakistan) during the tax year in which he leaves Pakistan and remains abroad, is exempt from tax.

Income from property

Income from property includes rent received or receivable for a tax year, other than exempt rent, by the owner of land or a building as a consideration for the use or occupation of the said property. Specified deductions are allowed to a company and to specified individuals and AOPs in computing income under the head income from property.

Income from business

Income from business or profession is taxed under the following regimes:

- Normal Tax Regime (NTR)
- Final Tax Regime (FTR)
- Minimum Tax Regime (MTR)

Normal Tax Regime

Under the NTR, taxable income of the taxpayer is determined after deducting admissible expenses and allowances. Some of the important allowances are discussed below:

- *Depreciation allowance*

The Ordinance provides for depreciation to be allowable on the assets used in a business during a tax year. A transfer or export of the asset out of Pakistan shall be treated as a disposal of that asset and the cost of the asset shall be deemed to be the consideration received for such asset.

■ *Initial allowance*

In respect of plant and machinery, which has been placed into service in Pakistan for the first time in a tax year, a deduction namely “initial allowance” is available at the rate of 25% of the cost of plant and machinery.

■ *First Year Allowance (FYA)*

FYA of 90% of cost, in lieu of the initial allowance of 25% is allowed on plant, machinery and equipment installed and used by any industrial undertaking set up in specified rural and underdeveloped areas or installed for generation of alternate energy by an industrial undertaking set up anywhere in Pakistan.

■ *Intangibles and pre-commencement expenditure*

An amortization deduction is allowed for the cost of intangibles having useful life of more than one year, used wholly or partly for deriving income from business.

Amortization of pre-commencement expenditure is allowable at the rate of 20%.

■ *Head office expenditure*

Head office expenditure is allowed to a non-resident operating through a branch in Pakistan. This expense is generally allowed in the ratio of Pakistan turnover to global turnover of the entity.

■ *Apportionment of expenses*

The rules provide that expenditure incurred for a particular class of income can only be allocated to that class. Further any common expenditure, deductions and allowance incurred for deriving income under more than one head shall be allocated to each class on any reasonable basis taking account of relative nature and size of activities to which they relate.

■ *Tax liability*

The standard tax rate for companies other than banking companies for tax year 2019 and onwards is 29%. The tax rate for banking companies is 35%. Whereas, a small company, as defined in the Ordinance, will be taxed at 24% for tax year 2019 which will be reduced by 1% every tax year upto tax year 2023 i.e. for tax year 2023 and onward it is 20%.

The total income of a Modaraba, (other than from dividend, supply of goods, rendering of services, execution of contracts and exports) is taxable at 25%.

Final Tax Regime (FTR)

Under the FTR, the tax deducted or collected at source is deemed to be final tax in respect of income from sources chargeable under FTR. The amount chargeable to tax on gross receipt basis cannot be reduced by:

- Any deductible allowance; or
- Set-off of any loss; or
- Any tax credits available under the Ordinance.

Following is a brief overview of the sources of income, which are chargeable to tax under FTR.

Dividends paid by a company

Every person who receives dividend, other than dividend exempt from tax, from a company is chargeable to tax at different rates ranging from 7.5% to 25% on gross receipt basis depending upon the status of the payer and payee of the dividend.

Royalty, fee for technical services and fee for offshore digital services

Where a non-resident person receives any Pakistan-source royalty, fee for technical services or fee for offshore digital services, tax shall be charged on the gross amount at the rate of 15% on royalty or fee for technical services and at the rate of 5% on fee for offshore digital services. However, the following receipts are not chargeable under FTR:

- Any royalty, where the property or right giving rise to the royalty is effectively connected with a permanent establishment in Pakistan of the non-resident person.
- Any fee for technical services or fee for offshore digital services, where the services giving rise to the fee are rendered through a permanent establishment in Pakistan of the non-resident person.
- Any royalty or fee for technical services, which is exempt under the Ordinance.

Any Pakistan source royalty, fee for technical services or fee for offshore digital services received

by a non-resident person to whom presumptive taxation does not apply will be treated as “Income from Business” attributed to the permanent establishment in Pakistan of the non-resident person

Shipping and air-transport income of non-residents

Every non-resident person carrying on the business of operating ships or aircraft as the owner or charterer is chargeable to tax as follows, unless the income is exempt from tax:

- In case of shipping income, 8% of the gross amount received or receivable, or
- In case of air transport income, 3% of the gross amount received or receivable.

Income of exporters

The Ordinance provides that tax shall be deducted or collected at the rate of 1% on foreign exchange

proceeds arising from export or from sale to an exporter under inland back to back letter of credit or any other prescribed arrangement and at the rate of 5% on indenting commission which will be treated as final tax.

Income from prizes and winnings

The gross amount of every prize on a prize bond and cross word puzzle is subject to withholding tax at 15%, whereas gross amount of winning from a raffle, lottery, prize on winning a quiz, prize offered by companies for promotion of sale, is subject to withholding tax at 20% which would be considered as final discharge of tax liability.

Minimum Tax Regime (MTR)

All persons who fall under the MTR will be required to compare the tax liability computed under NTR with the tax collected / deducted at source. If the tax liability under NTR is higher than the tax collected / deducted at source, then tax liability computed under NTR will become due otherwise tax collected / deducted at source will be their minimum tax.

Income of commercial importers

The Ordinance provides for collection of advance tax at import stage by Collector of Customs at 5.5% from industrial undertakings and companies, and at 6% from every other importer on import of goods

based on the value of goods as determined under the Customs Act, 1969. The tax so collected shall be minimum tax on income of importer arising from imports except where goods are imported by an industrial undertaking as raw material, plant, machinery, equipment and parts for its own use.

Sale of goods and execution of contracts

The gross receipts on account of sale of goods and execution of contracts are also covered under MTR. The tax rate on certain supplies and execution of contracts are given below:

Where the recipient is a resident

- Payment on account of sale of rice, cotton seed oil or edible oil at 1.5%. Payment on account of supply of fast moving consumer goods by distributors at 2% for company and 2.5% for persons other than company. Payment on account of sale of any other goods to companies at 4% and to persons other than companies at 4.5%. However, sale of own manufactured goods by a company falls outside the ambit of MTR. Sale of goods (whether own manufactured or otherwise) by a listed company is also excluded from MTR.
- Payment on account of execution of contracts to companies at 7% and to persons other than companies at 7.5%, excluding contract for sale of goods or rendering of or providing of services. However, tax deducted on payments for execution of contracts by a listed company is excluded from MTR.

Where the recipient is a non-resident

- On execution of a contract or sub-contract under a construction, assembly or installation project in Pakistan, including a contract for the supply of supervisory activities in relation to such project at 7%.
- On execution of any other contract for construction or services rendered relating thereto at 7%.
- On execution of a contract for advertisement services rendered by Television Satellite Channels at 7%.

Income of service providers

Tax deducted from payments made for services rendered by resident persons as well as permanent

establishment of non-resident persons is treated as minimum tax. The rate of tax deduction on payment for services rendered by companies is 8% whereas for services rendered by other persons it is 10%.

However, reduced rate of 2% apply to permanent establishment of a non-resident person providing transport services and reduced rate of 3% apply to resident persons providing transport services and some other specified services. Reduced rate of 1.5% apply to resident electronic and print media for advertising services.

Brokerage & commission income

Tax shall be deducted or collected from gross amount of brokerage and commission at the rate of 10% from advertising agents, at the rate of 8% from life insurance agents where commission received is less than PKR 500,000 per annum and at the rate of 12% from other agents.

Services to an exporter / export house

Income of a resident person or permanent establishment of a non-resident person arising on account of rendering / providing of services, such as stitching, dyeing, printing, embroidery, washing, sizing and weaving to an exporter or an export house is subject to tax at 1%.

Insurance / re-insurance premium

Insurance / re-insurance premium received by a non-resident insurance / re-insurance company is taxable at 5% of gross amount thereof.

Minimum tax based on turnover

If no tax is payable or paid, by any resident company, and an individual or an AOP having turnover of PKR 10 million or above, for a tax year or the tax payable or paid by the person for a tax year is less than 1.5% of the amount representing the person's turnover from all sources for that year (other than FTR turnover), the aggregate of the person's turnover for the tax year, shall be treated as the income of the person and shall be taxed as described in the following table:

Where no tax is payable or paid	An amount equal to 1.5% of turnover.
Where tax payable or paid is less than 1.5% of turnover	An amount representing the difference between tax payable or paid and 1.5% of turnover.

Exemptions and reduced rate of minimum tax have been provided for certain persons. Furthermore, minimum tax paid can be carried forward for set off against future tax liability for five tax years, immediately succeeding the tax year for which the amount was paid.

Alternative Corporate Tax (ACT)

A company is required to discharge its liability at higher of corporate tax or ACT. Corporate tax means higher of tax payable at corporate rate or minimum tax. ACT means tax at the rate of 17% of accounting profit before tax as disclosed in financial statements net of certain specified adjustments.

ACT in excess of corporate tax can be carried forward for set off against future tax liability for ten years, immediately succeeding the tax for which the ACT was paid.

ACT is not applicable on banking companies, insurance companies, and companies engaged in exploration and production of petroleum or other mineral deposits.

Super Tax

'Super tax for rehabilitation of temporarily displaced persons', is payable by a banking company at the rate of 4% its income for tax year 2019 to 2021 and by person other than a banking company, having income equal to or exceeding PKR 500 million at the rate of 2% of its income for tax year 2019.

"Income" has been specifically defined for the purpose of charging super tax.

Treatment of previous years' losses

Loss under a head of income, except speculation loss and capital loss, can be set off against income under any other head except income under the head salary and income from property only for that year in which loss was sustained. In case of a business loss, which cannot be fully set off in a tax year, it can be carried forward up to six tax years immediately succeeding the tax year in which the loss was first computed. Business losses can be carried forward indefinitely for industrial undertaking set up in Export Processing Zones. Foreign losses can be set off only against foreign income.

Unabsorbed tax depreciation and initial allowance on tangible assets and unabsorbed amortization of intangibles can be carried forward to succeeding years, until completely set off if the business income of a person for a tax year is less than PKR 10

million. However, if such income is PKR 10 million or more then the unabsorbed tax depreciation, initial allowance and tax amortization shall only be adjusted to the extent of 50 percent of the person's business income.

In case of speculation and / or capital losses, unabsorbed losses can be carried forward up to six tax years and can only be adjusted against income from the same head in which the loss was sustained and not against income under any other head.

Group relief

A subsidiary company may surrender its assessed loss in proportion of share capital held by its holding company, excluding capital loss, for the tax year (other than brought forward losses and capital losses) to its holding company or its subsidiary or between another subsidiary of its holding company (collectively referred to as 'group') provided that the holding company shall directly hold at least:

- 55% of the subsidiary's share capital, where one of the group companies is listed, or
- 75% of the subsidiary's share capital, where none of the group companies is listed.

Loss surrendered by the subsidiary may be claimed by the holding company or another subsidiary for set off against its business income in the tax year and the following two tax years, subject to the conditions specified in the Ordinance.

Moreover, the subsidiary shall not be allowed to surrender its assessed losses for set off against income of the holding company for more than three tax years; and where the surrendered losses are not adjusted against holding company's income in the said three tax years, the subsidiary company shall carry forward the unadjusted losses.

In case the holding company disposes of shares in the subsidiary during the specified five years that breaches the prescribed minimum shareholding criterion, the holding company shall offer the amount of profit, in the year of disposal, on which taxes have not been paid due to set off of losses surrendered by the subsidiary company.

Group taxation

Subject to fulfilment of certain rules and specified corporate governance requirements holding companies and subsidiary companies, both incorporated under the Companies Ordinance, 1984

and belonging to a 100% owned group, may opt to be taxed as one fiscal unit. In such cases, Computation of income and tax payable shall be made on the basis of consolidated group accounts. The group companies shall give irrevocable option for group taxation as one fiscal unit. The relief would not be available for losses prior to the formation of the group.

Capital gains

Income arising on disposal of capital asset by a person in a tax year, other than a gain that is exempt from tax under the Ordinance, is chargeable to tax under the head "capital gains".

Capital asset means property of any kind, but does not include stock in trade, consumable stores, raw materials held for the purpose of business and property on which depreciation or amortization is allowed.

The gain arising on disposal of a capital asset shall be reduced by 25% if it has held by a person for more than one year.

Special provisions are available for taxation of capital gains on disposal of immovable property and capital gains on sale of securities which have been summarized in the following paragraphs.

Capital gains on disposal of immovable property

Capital gains arising on disposal of immovable property shall be chargeable to tax at the following rates:

S. No.	Amount of gain	Rate of tax
1	Where gain does not exceed Rs. 5 million	5%
2	Where gain exceeds Rs. 5 million but does not exceed Rs 10 million	10%
3	Where gain exceeds Rs. 10 million but does not exceed Rs 15 million	15%
4	Where gain exceeds Rs. 15 million	20%

However computation of taxable gain on disposal of open plot and constructed property have been provided separately for open plots and constructed property on the basis of holding period as under:

S. No.	Holding period of open plot	Holding period of constructed property	Taxable Gain
1	Not exceeding one year	Not exceeding one year	100%
2	Exceeds one year but does not exceed eight years	Exceeds one year but does not exceed four years	75%
3	Exceeds eight years	Exceeds four years	0%

Capital gains on sale of securities

Capital gains arising from disposal of securities shall be chargeable to tax at the following rates:

S. No.	Holding period of security	Tax year 2018, 2019 and 2020	
		Security acquired before 01 July 2016	Security acquired after 01 July 2016
1	Less than 12 months	15%	15%
2	12 months or more but less than 24 months	12.5%	15%
3	More than 24 months but security was acquired on or after 1 July 2013	7.5%	15%
4	Security was acquired before 1 July 2013	0%	0%

“Security” means share of a public company, voucher of Pakistan Telecommunication Corporation, Modaraba Certificate, an instrument of redeemable capital, debt securities and derivative products.

Income from other sources

Income of every kind received in a tax year if not included in any other head, shall be chargeable to tax under the head “Income from Other Sources”. Incomes included under this head are dividend, royalty, profit on debt, ground rent, etc.

In computing income from other sources, a deduction shall be allowed for any expenditure paid by the person in the year to the extent to which the expenditure is paid in deriving income chargeable to tax under this head.

Modes of payment of tax

A taxpayer makes payment of tax at four stages, as follows:

- deduction / collection at source (withholding tax)
- advance payment of tax on quarterly basis
- payment of tax along with the return of total income
- payment of tax on demand as a result of amendment in assessment.

Withholding of tax

Under the Ordinance, virtually every amount received by a person is subject to withholding tax. Such withholding tax is treated as an advance tax in cases where income is chargeable under normal law and as a full and final discharge of tax liability, where income falls under FTR. Prescribed persons which mainly include companies, and individuals and AOPs having turnover of PKR fifty million or above in any of the preceding tax years are treated as withholding tax agents who are required to withhold tax from specified payments.

Under recently introduced Tenth Schedule to the Ordinance, for persons not appearing in the Active Taxpayers List, the rate of withholding tax shall be increased by hundred percent of the specified rates. Detailed mechanism has been provided for provisional assessment of such persons and either finalization of such provisional assessment or abatement of such provisional assessment on subsequent filing of tax returns etc. by the relevant person.

Advance payment of tax

Advance tax is payable on a quarterly basis whereby advance tax due for a quarter shall be computed on the basis of estimate of tax payable for the year.

Filing of income tax returns

The Ordinance specifies the persons who are required to file Income Tax Return on the specified dates.

It is mandatory for companies and AOPs to file return of income and withholding tax statements electronically.

Further, individual taxpayers are also required to e-file the return of income in certain cases. A wealth statement and its reconciliation shall also accompany the return of income in case of resident individuals.

It has recently been made mandatory for a resident individual having foreign income of not less than ten thousand US dollars or foreign assets with a value of not less than one hundred thousand US dollars to furnish a specified foreign income and assets statement.

Avoidance of double taxation and unilateral relief

Pakistan has entered into agreements for avoidance of double taxation with a number of countries, including those where the conventions are restricted to the taxation of income from international air / shipping traffic.

Pakistan tax code provides that the beneficial provisions of such agreements will have overriding effect over the local law.

Foreign Tax Credit

A resident taxpayer shall be entitled to tax credit in respect of foreign source income chargeable to tax in Pakistan, if foreign income tax has been paid in respect of foreign source income equal to the lesser of:

- The foreign income tax paid, or
- Pakistan income tax payable in respect of the net foreign source income.

A credit shall be allowed under this provision only, if the foreign income tax is paid within two years, after the end of the tax year in which the foreign income to which the tax relates was derived by the resident tax payer.

Anti-avoidance

In order to avoid evasion of revenue through various tax avoidance techniques, following provisions have been introduced:

- In respect of transactions between associates, the Commissioner may distribute, apportion or allocate income, deductions or tax credit between the persons as is necessary to reflect the income that the persons would have derived in an arm's length transaction.
- The Commissioner may re-characterise a transaction or an element of a transaction that was entered into as part of a tax avoidance scheme.
- The Commissioner may disregard a transaction that does not have substantial economic effect.
- The Commissioner may re-characterise a transaction where the form of the transaction does not reflect the substance.

Thin Capitalization

The concept of thin capitalization has been brought in Pakistan tax legislation so as to refrain foreign companies from injecting debt instead of equity in their subsidiaries formed in Pakistan. Thin capitalization rules apply to Foreign Controlled Resident Company (FCRC), in which 50% or more of the underlying ownership is held by a non-resident person (either alone or together with an associate), other than the financial institution or banking company.

Where foreign debt to foreign equity ratio of a FCRC, at any time during a tax year, exceeds 3:1, profit on debt paid by the company in that year on the part of the debt exceeding 3:1 ratio will not be allowed as deduction, while computing income of the FCRC. This rule is also applicable to the Pakistan branch of a foreign company.

Thin capitalization is inapplicable, if interest on foreign debt is chargeable to tax under the Ordinance and does not enjoy any exemption or reduced rate applicability.

Controlled Foreign Company

Income attributable to Controlled Foreign Company (CFC) shall be included in the taxable income of the resident person. CFC has been specifically defined for this purpose.

Disposal outside Pakistan of assets located in Pakistan

Any gain from disposal or alienation outside Pakistan of an asset located in Pakistan of a non-resident company shall be taxable in Pakistan under the general provisions of law and if not covered under general provisions, then under special provisions recently introduced for this purpose.

Advance ruling

The FBR may, on application in writing by a non-resident taxpayer issue to the taxpayer an advance ruling setting out the Commissioner's position regarding the application of the Ordinance, to the transaction proposed or entered into by the taxpayer.

Where the taxpayer has made a full and true disclosure of all aspects of the transaction relevant to the ruling and the transaction has proceeded in all material aspects as described in the taxpayer's application for the ruling, the ruling shall be binding on the Commissioner with respect to its application of the transaction.

Where there is any inconsistency between a circular and an advance ruling, the advance ruling shall prevail.

Taxation of special industries

The Ordinance contains special provisions for determination of total income of banking companies, Insurance business, oil, natural gas and other mineral deposits concerns as follows:

- Income, profits and gains of a banking company shall be taken to be the balance of the income, from all sources before tax, disclosed in the annual accounts required to be furnished to the SBP subject to specified adjustments including provision for bad debts allowable up to 1% of total advances and up to 5% of advances for consumers and small and medium enterprises.
- The profits and gains of any taxpayer carrying on insurance business shall be computed separately from any other business and as per the rules for computation of total income given in the Fourth Schedule to the Ordinance. The computation of profit and gains of a life insurance business shall be the current year's surplus appropriated to profit and loss account, net of certain adjustments. The profit and gains of general insurance business shall be taken to

be the balance of the profit disclosed by the annual accounts, net of certain adjustments.

- The profits and gains from the exploration and production of petroleum including natural gas and from refineries setup at Dhodak and Bobi fields, pipeline operations of exploration and production companies, and manufacture and sale of liquefied petroleum gas (LPG) and compressed natural gas (CNG) shall be computed in accordance with the rules contained in Fifth Schedule to the Ordinance. A business undertaking in any of these categories qualifies to be taxed separately from other business operations, if such business undertaking is carried out as a result of an agreement with the Government.

Tax considerations for Mergers and Acquisitions

The buyer and seller may need to consider following tax aspects:

Treatment of gain on disposal of assets / issue of shares

No gain or loss shall be taken to arise on disposal of assets from one company to another company and no gain or loss shall be taken to arise on issue, cancellation, exchange or receipt of shares as a result of operation of a Scheme of Arrangement and Reconstruction under Sections 282L and 284 to 287 of the Repealed Companies Ordinance, 1984 (now section 279 to 282 of the Companies Act 2017) or Section 48 of the Banking Companies Ordinance, 1962, if the conditions stipulated in the tax laws are satisfied.

Treatment of capital gain

In case of share deal, where individual shareholders (sellers) receive cash in consideration of sale of their investments in the target company that result in gain (capital gain) in the hands of the sellers:

- if the target company is a listed company, capital gain is taxed at zero percent if security was acquired before 1 July 2013. In case otherwise, capital gain shall be taxable at the rates applicable for given tax year keeping in view the period of holding.
- if the target company is an unlisted company and the holding period of investment in the hands of the sellers is:

- less than one year: gain on sale of shares is 100% taxable at rate applicable keeping in view type of seller.
- more than one year: 25% of the gain is exempted from tax and 75% is taxable at rate applicable on seller.

Treatment of carry forward losses

Any assessed loss (excluding capital losses) for the tax year (i.e. not including brought forward losses) of an amalgamating company or companies shall be set off against business profits and gains of the amalgamated company, and vice versa, in the year of amalgamation. Any unadjusted loss shall be carried forward up to six tax years succeeding the year of amalgamation. The set off is subject to continuation of the business of the amalgamating company for at least five years.

In the case of amalgamation of banking companies or non-banking finance companies, modarabas or insurance companies, accumulated business losses, except speculation business losses of an amalgamating company or companies, shall be set and carried forward against business profits and gains of the amalgamated company and vice versa for up to six tax years immediately succeeding the tax year in which the loss of the amalgamated company or amalgamating company or companies were first computed.

Indirect taxes

Sales tax on supply of goods

Sales tax law is governed by the Sales Tax Act, 1990 (the Act). Sales tax is generally applicable at 17% ad-valorem on import and supply of taxable goods and it operates in Value Added Tax (VAT) mode. In certain cases, fixed sales tax and upfront value addition sales tax schemes are in place, where input tax adjustment / refund may or may not be admissible. Thus, sales tax is charged, collected and paid against taxable supplies made by a registered person in the course or furtherance of any taxable activity carried on and on goods imported into Pakistan.

The fiscal policies and taxation measures are generally announced annually in accordance with the policies of the Government. The FBR is the regulatory authority.

Two conditions are essential to create a charge of sales tax:

- Taxable supply
- Taxable activity

Taxable supply means sale or transfer of ownership of moveable properties or goods, which are not specifically exempt. Supplies made by an importer, manufacturer, wholesaler, dealer, distributor or retailer are covered under this term.

Zero rating

Goods exported outside Pakistan are charged to sales tax at the rate of zero percent. Certain specified goods and persons are also subject to levy of sales tax at the rate of zero percent. An exporter / supplier in respect of zero-rated supplies is entitled to claim refund of input tax paid against taxable purchases.

Exemptions

Sixth Schedule to the Act as well as certain exemption notifications allow exemption of sales tax on specified goods. In case of industry-specific exemptions, the exemptions are subject to fulfilment of certain specified conditions, which are largely related with import of plant, machinery and equipment, either imported for installation and/or for BMRs. In respect of exempted goods, the supplier is not entitled to claim refund for input taxes paid.

Reduced Rates

Certain goods specified under Eight Schedule to the Act are subject to reduced rates of sales tax ranging from 5% to 14%. Imports of capital goods by the specified industrial segments can be made at reduced rate of 5%, subject to fulfilment of prescribed conditions.

Registration

Following persons engaged in making taxable supplies in Pakistan (including zero rated supplies) in the course or furtherance of any taxable activity, are required to be registered under the Act:

- A manufacturer having annual turnover from taxable supplies exceeding PKR 3 million during the last twelve months, not having industrial utility connection, located in residential area, and not having total labour force of more than 10 workers.

- A retailer (excluding small retailers who are required to pay sales tax through electricity bills)
- An importer
- A wholesaler including dealer and distributor.
- Service providers rendering or providing services in Federal territorial jurisdiction i.e. Islamabad

Manufacturers not fulfilling the prescribed criteria as mentioned above are not required to be registered and therefore, are not required to charge sales tax on supplies made by them. There is no threshold for importers, wholesalers, distributors or dealers and service providers. .

Making of taxable supplies without obtaining registration, tantamount to non-compliance and exposes the supplier to penal action under the Act. Tax authorities may also affect compulsory registration of the supplier of taxable goods.

Determination of tax liability

A registered person is entitled to claim input tax paid on goods used or to be used for taxable supplies made by him against output tax liability. However, the Federal Government is empowered to specify goods in respect of which input tax cannot be claimed. In certain cases, a registered person is not allowed to adjust input tax in excess of 90% of the output tax arising in a reporting month. However, excess input tax can be carried forward to next tax period and shall be refunded in accordance with the specified time limits, if it remains unadjusted in consecutive tax periods.

Returns

A registered sales tax supplier (supplier) is mandatorily required to furnish electronically the monthly sales tax return, indicating the purchases and the supplies made during the reporting month. The amount of tax due is worked out in the said return, which is required to be deposited also within due date, as prescribed.

The return is filed as per following procedure:

- The registered supplier enter data of supplies and debit/credit notes by 10th day of the month following the reporting month in Annexure 'C' and Annexure 'I' respectively, of the monthly sales tax return. The system provides intimation of these declarations to the respective sales tax

registered buyers (buyer) to validate their respective input tax and debit/credit notes.

- In case supplier has not filed his monthly sales tax return of the related period, the buyer would be informed but would be allowed provisional adjustment of input tax against invoices. However, if the supplier fails to file his return by the 10th of the next month, the input tax would be adjusted or recovered and in case the supplier files his monthly return subsequently, the buyer would be informed that the objection on related invoices stands settled, and input tax will be allowed in next return
- Similarly, in case buyer fails to declare withholding sales tax in his return, the supplier shall be allowed provisional adjustment. However, in case the withholding sales tax is again not declared in the return of the buyer by 10th of next month, the adjustment allowed to supplier would be reversed and in case buyer declares withholding tax subsequently, the supplier shall be informed of settlement of objection raised, and reduction in output tax in respect of withholding will be allowed in next return.
- The payment of sales tax due in the monthly return is required to be made by 15th day of the month following the reporting month. Thereafter, the completed sales tax return is to be filed electronically on web-portal by 18th day of the same month.

Sales tax on services

Sales tax on wide range of taxable services is applicable in all the Provinces of Pakistan as well as within Islamabad Capital Territory (ICT). Generally, the incidence of Provincial sales tax on services is based on the point of renderence / provision of taxable services; however, such sales tax may also be applicable on the basis of origination, execution, consumption, or termination of the service. Standard rate of Provincial / ICT sales tax on taxable services is 13% within Province of Sindh, 15% within Provinces of KPK and Balochistan, and 16% within Province of Punjab and ICT. However, certain small service segments are subject to reduced rates of sales tax which generally range from 3% to 10%.

Sales tax is also applicable in reverse charge mode under all the Provincial sales tax laws on services, where the recipient of taxable services in a particular tax jurisdiction is required to withhold and pay sales tax in case where the service provider is

a non-resident / non-existent within the afore-said tax jurisdiction.

Withholding sales tax regimes are also applicable under Provincial sales tax laws of Sindh, Punjab, KPK, and Baluchistan, where the withholding agents (recipient of taxable services) are held responsible to deduct and pay the sales tax amount at the prescribed rates in accordance with tax jurisdiction where the services are rendered or provided. However, certain categories of service segments have been provided immunity from applicability of withholding sales tax.

Registration

The persons engaged in rendering or providing taxable services in the jurisdictions of the respective Provinces are required to seek separate Provincial sales tax registration in accordance with provisions of the respective Provincial / ICT legislations.

Determination of tax liability

A service provider shall be entitled to claim input tax credit for tax paid on account of taxable purchases and utilities like telephone, gas and electricity consumed proportionately for furtherance of taxable activity, against its output liability, subject to any conditions, limitations or restrictions prescribed under the Act or the allied Rules. In order to claim the input tax, registered person must hold a tax invoice for the purchase of goods or services used or consumed in providing or rendering of taxable services. If the registered person did not deduct or adjust the input tax in the relevant period, he may claim such input tax deduction for adjustment in the tax returns for any of the six succeeding tax period.

However, input tax credits are not admissible on the taxable services acquired which are subject to reduced rates of Provincial / ICT sales tax. Similarly, the service providers who avail the benefit of reduced sales tax on the taxable services rendered or provided are not allowed to claim or adjust any input tax. Besides this, input tax credits are also not admissible on goods purchased or services acquired, not having direct nexus with the taxable services provided or rendered by the registered service-provider.

Returns

Under Provincial / ICT sales tax laws, the registered service providers are generally required to file the monthly sales tax return through the respective web-

portals of the Provincial/Federal sales tax authorities. The monthly return is required to be filed by 18th day of the month following the reporting month, followed by the payment of tax due for the month by 15th day thereof.

Federal excise duty

Federal Excise Duty (FED) is levied on specified goods imported or manufactured in Pakistan and specified services provided and rendered in Pakistan including excisable services originated outside Pakistan, but rendered in Pakistan at varied rates as prescribed under the Federal Excise Act, 2005.

Generally FED is charged on the value or retail price or ad-valorem basis; however it is charged on some items on the basis of weight or quantity. Zero-percent FED rate is applicable for exported good or specified goods. The goods which are subject to levy of FED inter-alia include edible oils, aerated water and concentrates, juices & syrups, tobacco & cigarettes, cement, oil seeds, sugar, liquefied gases, transportation vehicles, etc.

The limited number of services liable to levy of FED inter-alia include advertisements, air-travel, domestic air-cargo, shipping agents, telecommunication, insurance, non-fund services of banks and financial institutions, terminal and port operators, franchise services, services by stockbrokers, etc. The standard rate of FED is 16%, applicable in VAT mode.

FED is however not applicable on such taxable services, where Provincial sales tax is charged or paid. Thus, the applicability of FED on services under Federal Excise Act is restricted to the excisable services rendered or provided within the capital city Islamabad.

The services not covered under Federal Excise Act are taxed within the jurisdiction of Islamabad through the ICT Sales Tax legislation.







5. Foreign Exchange

Foreign exchange regulations

Foreign exchange dealings are regulated under the Foreign Exchange Regulation Act, 1947. Foreign currencies are made available to persons / companies doing business in Pakistan for all purposes under the rules which have been clearly defined by State Bank of Pakistan (SBP). There are no restrictions on availability of foreign currency for imports (except for import of banned items or for imports from Israel). Business houses can buy foreign currencies for all other commercial transactions like payments for export claims, commission payment to foreign agents on exports, royalty, franchise / technical fees and dividends (as subsequently described in detail), software licenses / maintenance / support fee, advertisement abroad in newspapers and magazines, business travel etc.

Foreign investment in Pakistan enjoys full protection and repatriation facilities. The Foreign Private Investment (Promotion and Protection) Act, 1976 provides guarantees for repatriation of foreign investment to the extent of original investment, profits earned on such investment, and appreciation of capital.

Issuance of share certificates to foreign investors

SBP has given general permission to non-residents to purchase shares of Pakistani companies quoted on the stock exchange irrespective of the nature of their business, and shares of those private companies which are engaged in manufacturing, power generation and approved segments of service sectors. This facility is available to the following categories of non-residents, subject to payment being made in foreign currency and the price being not less than breakup value as certified by a practicing Chartered Accountant in the case of unlisted shares and the market price in case of quoted shares:

- A Pakistan national resident outside Pakistan.

- A person who holds dual nationality including Pakistan nationality, whether living in or outside Pakistan.
- A foreign national, whether living in or outside Pakistan.
- A firm (including a partnership) or trust or mutual fund registered and functioning outside Pakistan, excluding entities owned or controlled by a foreign government.

Remittance of dividend

Companies are required to nominate a bank through which they would like to make remittance of dividends to non-resident shareholders. On receipt of nomination of a bank from the company, SBP authorizes the concerned bank to effect remittance of dividends to the non-resident shareholders of the company without its prior approval.

Royalty and technical fee

Manufacturing sector

The SBP has laid down certain conditions for remittance of Royalty and Technical Fee by the manufacturing sector to facilitate the execution of agreements for transfer of technology. The local firm would designate any of the Authorized Dealers (Banks) in foreign exchange in Pakistan, through whom payments will be made.

Non-manufacturing sector

Payment of royalty, franchise / technical fee by the non-manufacturing sector opened for foreign direct investment like International Food Franchises is permissible, subject to the maximum limit of USD 100,000 as the initial lump-sum payment, irrespective of number of outlets, and maximum 5% of net sales. The initial period for which such fees will be allowed should not exceed five years.

Financial sector

Remittance of royalty / franchise and technical fee or commission / service charges for the financial sector may be allowed by the SBP, on case-to-case basis, in respect of foreign collaborator's branded financial products / services. The one-time lump sum up-front royalty / technical fee / franchise fee should not exceed USD 500,000. Continuing payments should not exceed 0.25% of customers billing.

Private Sector Borrowings from Abroad (PSBA)

PSBA are foreign currency loans raised by eligible borrowers in the private sector in Pakistan from foreign lenders in convertible foreign currencies in the form of commercial credit, supplier's credit, buyer's credit, working capital loans, inter-company loans, issuance of foreign currency bonds, structured loan facilities and FCY financing under Islamic arrangement.

Common terms and conditions of PSBA

Companies incorporated under the Companies Act, 2017 and the Independent Power Producers (IPPs) are eligible to raise PSBA only from the lending institutions/lenders, who comply with the international standards (Financial Action Task Force Guidelines) of 'Anti Money Laundering (AML)' & 'Combating Financing of Terrorism (CFT)'. However financial intermediaries (such as banks, financial institutions etc., individuals, trusts, non-profit organizations and non-governmental organizations are not eligible to raise PSBA.

These loans may be raised from internationally recognized reputable sources such as foreign banks, international capital markets, multilateral financial institutions (such as IFC, ADB, etc.), government owned development financial institutions etc.

These loans may be secured by any collateral/charge created on moveable or immovable property owned by the eligible borrowers/or their sponsors subject to compliance of Prudential Regulations and other applicable instructions.

Registration of PSBA

All PSBAs over USD 1 million or equivalent in other convertible currencies are required to be

registered with Exchange Policy Department of the SBP.

PSBA for project financing

Project financing can be raised for meeting capitalized costs of the projects such as expenses relating to establishment of new projects, import of plant & machinery, modernization/ expansion of existing projects, buying/acquiring patents/ operating licenses/trademarks, procurement of technical expertise and repayment of existing PSBA in all sectors including Small & Medium Enterprises (SME) and infrastructure projects. The maturity of such loans should not be less than three years.

The borrowing cost ceiling includes spread over relevant benchmark rate, loan related insurance premium, and other loan related fees payable in foreign currency; except the commitment fee, cost & expenses and fees payable in local currency. The cost ceiling is given as under:

Maturity Period	Borrowing cost ceiling excluding relevant benchmark rate
Three years to five years	350 basis points
More than five years	600 basis points

Conversion of PSBA for project financing into equity

With the approval of SBP, outstanding amount of PSBA Project Loans can be converted into equity either after completion of the project or after 3 years, whichever is later.

PSBA for working capital

The working capital can be raised for meeting the foreign currency component of working capital requirements of companies established/operating in Pakistan. The maturity of these loans shall range between six months and one year, which may be rolled over for a minimum period of six months.

The borrowing cost ceiling includes spread over relevant benchmark rate, loan related insurance premium and other loan related fees payable in foreign currency except commitment fee, cost & expenses and fees payable in local currency. The cost ceiling is given as under:

Maturity Period	Borrowing cost ceiling excluding relevant benchmark rate
Six months to one year	200 basis points

Terms applicable to foreign contractors and foreign companies operating in branch mode

The branches of foreign companies; or contractor or construction companies working in Pakistan with the permission of Board of Investment (BOI) can only borrow interest free loans from their sponsors/parents.

In case of contractor or construction companies loan will be repaid upon conclusion of contracted work/ project.

PSBA for bridge financing

The bridge financing will be raised only for meeting the financing gap arising from outstanding project payments and delays in disbursements from committed FCY equity or PSBA for project financing. The maturity of the PSBA under this category shall range between six months and one year.

The borrowing cost ceiling is given as under:

Maturity Period	Borrowing cost ceiling excluding relevant benchmark rate
Six months to one year	200 basis points

The loan amount received under this category can be retained in the special foreign currency account.

PSBA mobilized through Securitized Instruments, Issuance of Bonds & Financing under Islamic Arrangement

The loan under this category is to be mobilized through securitized instruments, issuance of bonds and financing under Islamic arrangement will require prior approval of the SBP.

PSBA will be used for establishment of new projects, import of plant & machinery, modernization/expansion of existing projects, buying/acquiring patents/operating licenses/trademarks, procurement of technical expertise

and repayment of existing PSBA in all sectors including SME and infrastructure projects.

Foreign Currency Trade Financing from Abroad (FTFA)

FTFA refers to credits extended for imports/exports directly by the overseas suppliers/buyers, banks and financial institutions to finance letters of credit and other overseas contractual obligations.

The eligible borrowers and lenders have been discussed under common terms and conditions of PSBA, above.

Registration of FTFA

All import loans under FTFA will be registered with SBP; however, with respect to export FTFA's, loans over USD 1 million or equivalent will be registered with the SBP.

Borrowing Cost Ceiling under FTFA is as under:

Maturity Period	Borrowing cost ceiling excluding relevant benchmark rate
Two years to five years	350 basis points

Export Loans under FTFA

The exporters with firm commitments/contract with the overseas buyers may obtain FTFA in convertible currencies from eligible lenders to the extent of the value of firm commitment/contract. The tenure of such loans will be the period generally fixed for repatriation of export proceeds plus a further period of 60 days. The exchange risk will be borne by the borrower.

Borrowing cost ceiling for export loans under FTFA is as under:

Maturity Period	Borrowing cost ceiling excluding relevant benchmark rate
Up to 240 days	200 basis points

Financial Sector Borrowings from Abroad (FSBA)

'FSBA' refers to foreign currency borrowings from abroad by the eligible borrowers operating

in the financial sector of Pakistan. The FSBA are only allowed in convertible currencies.

Registration of FSBA

All FSBA, except overdraft facilities, over USD one (1) million or equivalent shall be registered with the SBP.

Credit Lines/Overdrafts established by Authorized Dealers with Correspondents/Overseas Branches.

Authorized dealers may obtain short-term loans and credit lines from their overseas branches and correspondents to meet liquidity shortage in domestic foreign exchange market or to meet their Nostro funding requirement. The maximum maturity of such loan/credit line will be seven days.

The borrowing cost ceiling for such short-term loans and credit lines is as under:

Maturity Period	Borrowing cost ceiling excluding relevant benchmark rate
Up to seven days	100 basis points

FSBA by authorized dealers/banks and branches/subsidiaries of foreign banks in Pakistan for liquidity management purpose

The purpose of FSBA by authorized dealers/banks and the branches and subsidiaries of foreign banks shall be for liquidity management.

The maturity of FSBA under this category shall be from three months to one year. However, the subject loan can be rolled over for a minimum period of three months.

The borrowing cost ceiling for FSBA is as under:

Maturity Period	Borrowing cost ceiling excluding relevant benchmark rate
Three months to one year	350 basis points

The borrowing limit under this category is up to 100% of its unimpaired capital of the borrower as per its latest audited financial statements subject to compliance of other applicable rules and regulations, FSBA.

Long term FSBA by authorized dealer

The SBP, on an application by authorized dealer (bank), on merit, on a case to case basis, may allow the bank to borrow funds from abroad for a period longer than one year or for a purpose other than the liquidity management.

FSBA by Micro Finance Banks/Institutions in Pakistan

The purpose of FSBA by Micro Finance banks/institutions shall be the financing of their loan portfolio only. The minimum maturity of the loan will be two years.

Cost of borrowing

The cost of borrowing will be negotiable which shall be competitive with the prevailing rate in local market. In case if cost of borrowing from international institutions is higher than LIBOR + 5% in such case borrowers are required to submit local quotes of interest rate from local lending institutions.

FSBA by other Financial Institutions i.e. NBFIs, DFIs, PSO & PSPs, Leasing Companies, House Building Finance Companies & Insurance Companies.

In case if financial institutions such as NBFC etc. require to borrow funds from abroad, then it needs to obtain prior permission of SBP. The permission will be granted on merit on a case to case basis.

Guarantees on behalf of residents of Pakistan in favour of non-residents

Prior approval of the SBP is required for giving any guarantee or undertaking or opening of a letter of credit/Standby Letter of Credit, the issuance/opening of which may involve payment to a non-resident either in foreign currency or Rupees.

Guarantees on behalf of non-residents in favour of residents of Pakistan

Prior approval of the SBP is required for giving guarantees or undertakings in favour of residents in Pakistan by or on behalf of non-residents or against overseas guarantees or collaterals lodged outside Pakistan.



6. Labour Laws

Overview

The Labour Laws in Pakistan were initially inherited at the time of independence of Pakistan in 1947. It was since then that the Labour & Employment Laws of Pakistan had been modified and developed further from time to time keeping in view with the social and economic agenda of different governments in various eras, industrial evolution, change in social-economic dynamics due to increase in population and work force, increased literacy, awareness, global changes, Government labour policies and most importantly because of and in compliance with International Labour Organization (ILO) Conventions ratifications. Pakistan since its inception has ratified around 36 ILO Labour Conventions.

Since the evolution of the State, the Labour Laws remained concurrent subject to which both Federal as well as the respective provincial governments can do the necessary amendments as per their requirements. However, this scenario altogether changed in April 2010 after the promulgation of the 18th Amendment in the Constitution of Pakistan; the Labour & Employment subjects have now been devolved to the respective provinces.

The Labour subjects which have been transferred to the respective provinces include:

- Welfare of Labour
- Trade Unions
- Labour exchanges, employment information bureaus
- Training establishments
- Safety of labour in mines, factories and oil-fields
- Unemployment Insurance

Interestingly, the Labour and Employment Laws of Pakistan are mostly focused on the labour side whereas there is no separate and well defined Labour & Employment Law for 'Officers'.

Objectives of the Labour Laws in Pakistan

- To promote and realize standards and fundamental principles and rights at work.
- To create greater opportunities for women and men to secure decent employment and income.
- To enhance the coverage and effectiveness of social protection for all.
- To strengthen tripartism and social dialogue.

The Constitution of Pakistan, 1973, which is the Supreme Law of the Land contains a range of provisions with regards to labour rights mentioned therein in Part II, Chapter 1: Fundamental Rights and Principles of Policy with its five relevant Articles laying the foundation for the Labour Laws:

- **Article 11** of the constitution prohibits all forms of slavery, forced labour and child labour.
- **Article 17** provides for a fundamental right to exercise the freedom of associated form unions.
- **Article 18** prescribes the right of its citizens to enter into any lawful profession or occupation and to conduct any lawful trade or business.
- **Article 25** lays down the right to equality before the law and prohibition of discrimination on the grounds of sex alone.
- **Article 37(e)** makes provision for securing just and humane conditions of work ensuring that children and women are not employed in

vocations unsuited to their age or sex and for maternity benefits for women in employment.

Salient features and key statutory liabilities of the employers according to the Labour and Employment Law for Industrial and Commercial Establishments in Pakistan

The salient features and the key statutory liabilities of the employers according to the Labour and Employment Law in Pakistan as enforced can be briefly categorized into the following key areas:

I. Minimum Wage

There is a National as well as Provincial minimum wage ceilings / slab law and regulations for skilled and unskilled workers, etc. (updated and revised annually based on the recommendations of the Minimum Wage Board) employed in various industrial and commercial establishments. All the employers are bound to follow the same in lieu of minimum wage payment to their employees.

Furthermore, as per law it is also mandatory that the wages should be paid by the employer to its employees only via cross cheque or bank account transfer.

II. Social Security

The Social Security law introduces a scheme of social security for providing benefits to certain employees or their dependents in the event of sickness, maternity, employment injury, or death. The employer is required to make the contribution for all the covered employees to the Social Security Institution at the prescribed rates.

III. Old Age Benefits

The Employees Old Age Benefit law is a welfare law, which requires for compulsory insurance of employees by industrial, commercial and other establishments, as defined in the law. It is also mandatory for the employer and the insured person, in each calendar month, to make the contributions as per their defined contribution percentage to the Employees Old Age Institution. The Institution in return manages the Employees Old Age Fund wherein all the contributions are being

deposited and invested for distribution of pensions and grants accordingly.

An Insured Person is entitled to avail any of the following benefits as per his / her entitlement:

- **Old-Age Pension** is paid on a monthly basis to the insured person who is entitled for pension at the prescribed rates on the event of his /her retirement.
- **Old-Age Grant** is paid to insured person who retires but does not meet the minimum threshold for pension.
- **Survivor's Pension** is paid to the spouse in the event of death of insured person.
- **Invalidity Pension** is paid to insured person in case of permanent disability.

IV. Workmen Compensation

The Workmen Compensation law requires an employer to compensate its employees or their legal heirs for injuries or death by accident arising out of and during the course of employment. The law prescribes the different nature and percentage of compensation in the event of death or in case of injuries which caused either full or partial disablement to the person on either temporary or permanent basis.

V. Workers' Welfare Fund

The Workers Welfare Fund (WWF) is established mainly to provide financing to the projects connected with the establishment of housing estates or construction of houses, flats or development of plots for the workers and financing of other welfare measures including education, training, re-skilling and apprenticeship for the welfare of the workers.

Every Industrial Establishment meeting the defined income threshold as per law shall be required to make contribution to the WWF as per the prescribed rate.

VI. Workers' Profit Participation Fund

The Workers Profit Participation Fund (WPPF) law requires the companies, which met certain criteria, to establish a fund for

participation of workers in the profits of companies and contribute therein from the profit for the year at the rate prescribed in the law.

A worker's share in the fund depends on the category of his / her average monthly salary ceiling / slab.

VII. Terms and conditions of employment relating to the employees

In every industrial or commercial establishment, terms and conditions of the employment of workers and other incidental matters shall be regulated in accordance with the Standing Orders which inter-alia cover following matters:

- Classification of worker into categories defined in the law as permanent, probationer, badly, temporary, apprentice and contract worker
- Employment cards to be given to the workers
- Terms and conditions of service to be given in writing
- Publication of working times, holidays, pay days and wage rates
- Group Incentive Scheme, Compulsory group insurance of workers against natural death, disability or injury arising out of contingencies not covered by the Workmen's Compensation law
- Payment of compulsory bonus in case the employer is making profit
- Terms and conditions governing stoppage of work, closure of establishment, termination of employment, payment of gratuity, procedure for retrenchment, disciplinary procedures and other termination benefits, etc.

VIII. Health and safety measures at work place

The Labour Laws provide for various sector-wise Health & Safety enactments at workplace including Hazardous Occupations Rules, Boiler Acts, etc. and also covers the detailed general Health & Safety matters

under the Chapter-III of the Factories Act(s) , including cleanliness, ventilation, temperature, disposal of waste, dust and fumes, overcrowding, lightening, drinking water, latrines and urinals, compulsory vaccination and inoculation, canteen facility, precautions in case of fire, fencing on machinery, working on or near machinery in motion, employment of young persons near dangerous machinery, etc.

On the other hand, the Labour Inspectors are required to be appointed by the provincial governments who are responsible for inspection and proper enforcement of these regulations at the workplace.

IX. Wages, working hours, overtime, holidays and leaves

The Labour Laws also govern and provide guidelines relating to following matters regarding the work and employment of persons employed in factories, shops, commercial, industrial and other establishments in areas such as:

- Daily and weekly working hours
- Overtime and double wage for overtime
- Weekly holidays, compensatory holidays, annual holidays and festival holidays
- Casual leaves, sick leaves, Annual leaves, maternity leaves
- Maintenance of records of leaves
- Restrictions on double employment
- Wages during leaves and holidays
- Termination of employment
- Prohibition of employment of children
- Others

X. Labour Union, CBA and Federation

The Industrial Relations in Pakistan are regulated and governed by the Federal and respective Provincial Industrial Relations Acts which define trade union as a combination of workmen whose primary

purpose is to promote and defend workers' rights and interests in an industry or establishment.

Workers have the right to form or join a trade union subject to reasonable restrictions of law without previous authorization; however, they can become members of only one union at a time. If a worker joins more than one union at a time, his earlier membership will stand cancelled.

A trade union can apply for registration to the office of Registrar of trade union in a province. Collective Bargaining Agent is a trade union, which is the elected agent of workers in an establishment.

XI. Employees Associations

As per law those employees who do not fall within the category of the workmen in any industrial and commercial establishment such as Officers etc., shall not form or be member of any CBA or Trade Union; however by virtue of the Constitution and guaranteed Fundamental Rights, the law grants them the freedom to form lawfully and be the member of the Association of their similar fellow category of employees for the protection of their rights and interests subject to reasonable restrictions of law at any time accordingly.

XII. Statutory restrictions and bindings on employers and employees for doing unfair labour practice(s) and their respective rights and duties for healthy, harmonious working conditions and avoidance of any industrial disputes as per the Industrial Relations Law

The Industrial Relations Law as enforced in the country is mainly categorized and governed by the Federal as well as the respective Provincial Industrial Relation Act(s).

The Federal Industrial Relations Law / Act regulates and governs the "Trans-Provincial Establishments" whereas the respective Provincial Industrial Relations Law / Act(s) regulates and governs the "Provincial Establishments".

It provides comprehensive procedural law including adjudication procedures in case of

any industrial disputes as well as prohibits categorically any form and mode of unfair labour practice(s) on part of the employer or the employee.

Similarly, it also provides the comprehensive details of the rights and duties of both the employer and the employee for harmonious, healthy and progressive industrial relations and working conditions necessary for the growth and progress of any establishment accordingly.

XIII. Labour Judiciary and Legal Forums for complaints and adjudication

The pyramid of labour and employment related judiciary for industrial and commercial establishments in Pakistan is based apart from the lower tier of the Directorate of Labour Conciliation and Arbitration proceedings, mainly revolves around respective "Special Courts" such as Provincial Labour Courts, Provincial Labour Appellate Tribunals, National Industrial Relations Commission, Provincial High Courts, and then ultimately to the Supreme Court of Pakistan being the ultimate competent jurisdiction.

Similarly, there are some other respective Adjudication Labour Forums such as Authority under the Payment of Wages Act, Commissioner for Workmen Compensation, EOBI Adjudicating Authority, and Social Security Courts, etc., which are providing justice to both the employers as well as the employees / workmen in case of any industrial dispute, compliant or infringement of any legally secured right and obligation.



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