



KPMGTaseer Hadi & Co.
Chartered Accountants

Economic Brief 2021

12 June 2021





Foreword

Economic Brief 2021 is a publication prepared by KPMG Pakistan to provide information and commentary on the performance of Pakistan's economy during FY21.

This publication includes an overview of the economic performance of Pakistan during FY21, our analysis and commentary on key macro economic indicators. This publication is primarily based on the Pakistan Economic Survey 2020-21 released on 10 June 2021.

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Glossary

8m21	July to February	IPO	Initial Public Offering
9m21	July to March	LSM	Large Scale Manufacturing
10m21	July to April	PKR	Pakistani Rupees
11m21	July to May	PSX	Pakistan Stock Exchange
ADB	Asian Development Bank	SBP	State Bank of Pakistan
CAGR	Compound annual growth rate	SEZ	Special Economic Zones
CPEC	China-Pakistan Economic Corridor	SME	Small & Medium Enterprise
CPI	Consumer Price Index	SOEs	State Owned Enterprises
ECNEC	Executive Committee of the National Economic Council	USD	US Dollar
FATF	Financial Action Task Force	UN	United Nations
FDI	Foreign Direct Investment	bn	Billions
FY	Financial Year	mn	Millions
GDP	Gross Domestic Product	tn	Trillions
GoP	Government of Pakistan	YoY	Year on Year
IMF	International Monetary Fund		
IT	Information Technology		
GSM	Global System for Mobile Communication		

Year of Recovery

Amid significant challenges and massive uncertainty, Pakistan witnessed a V-shaped economic recovery on the back of broad-based growth across all sectors. The provisional GDP growth rate for FY21 is estimated at 3.9%, higher than the original target of 2.1%.

The higher than expected GDP growth is due to the exceptional performance in agriculture, LSM, construction and exports sectors. The current account balance is in surplus, fiscal deficit is manageable with the primary balance in surplus, the PKR is stable and foreign exchange reserves are relatively healthy.

The policy rate remained unchanged at 7% which kept the business sentiment positive. Tax collection witnessed decent growth owing to the revival of domestic economic activity.

Inflows of foreign exchange through the Roshan Digital Account crossed the USD 1bn mark while remittances posted historically high growth and reached USD 24bn during 10m21.

Pakistan entered the international capital market after a 3-year gap by successfully raising USD 2.5bn through Euro bonds.

During the year, all three major credit rating agencies, Moody's, Fitch and Standard & Poor's, reaffirmed their sovereign credit Ratings for Pakistan.

Due to its impressive growth, PSX earned the best Asian stock market title and fourth best-performing market across the world in 2020.

Key Steps Taken by the Government

The FY21 began in the midst of the most severe global health crisis experienced in modern history. Pakistan's economy was also impacted which required measures for supporting the economy by saving lives and livelihoods. The Government took several important policy decisions: monetary and fiscal measures, smart lockdowns, rapid vaccination etc. National Command and Operating Centre as a single organization was made responsible to take key decisions in collaboration with the provinces. Due to the government's timely decision making, COVID-19 positivity ratio is on a declining trend.

Besides, virus containment measures, the government has implemented a comprehensive set of measures including the largest ever economic stimulus package of PKR 1,240bn, a construction package, an expansion of the social safety net to protect the vulnerable segments of society and a supportive monetary policy stance along with targeted financial initiatives. These measures helped the economy in lessening the negative impact of the pandemic.

Under Ehsaas Emergency Cash Programme, PKR 179.3bn has been disbursed and 14.8mn families have benefited. World Bank recognizes Ehsaas Emergency Cash among the top 4 social protection interventions globally in terms of number of people covered.

IMF has acknowledged that the government policies have been critical in supporting the economy and saving lives and livelihoods. The resumption of the stalled USD 6bn loan programme has also been announced.

KPMG Analysis (Cont'd)

Outlook for FY22

- The indicators show a visible improvement. The start of vaccination has raised hopes of a turnaround later this year. Social protection systems are also evolving specially to cover all vulnerable segments.
- Business confidence has returned, and economic activity is slowly getting back to normal. It is expected that macroeconomic stabilization measures and structural reforms supported by international development partners will help the economy to move onto a higher and sustainable growth trajectory.
- During FY22 it is expected that the economy will grow by approx. 5% and will accelerate further over the medium term.
- Inflation is expected to touch double digits due to the potential expansionary policies.
- SBP policy rate appears to have bottomed out and is anticipated to increase in order to tackle the inflationary trend. However the extent of increase is not expected to be significant in order to maintain the growth momentum.
- Remittances are expected to grow further due to measures undertaken as part of anti-money laundering regulations in accordance with FATF recommendations which has resulted in a shift from informal to formal channels. Further, efforts under the Pakistan Remittances Initiative and the gradual re-opening of businesses in major host countries will also play a part.
- PKR is not expected to depreciate significantly against the USD due to a healthy balance of payments.
- Exports are expected to show better performance since Pakistan's major export destinations, China, UK, USA, France, Italy, Spain and Germany, are among the countries opening borders after recovering from the pandemic.

Way Forward

In order to achieve the desired growth, we propose the following key steps:

- The manufacturing sector should continue to be incentivized in order to achieve sustainable growth and provide large scale employment opportunities.
- The perennial issue of circular debt needs to be tackled by reducing subsidies and restructuring inefficient distribution companies.
- Comprehensive reforms should be undertaken in the agriculture sector covering selection of cash crops, enhancing yield, developing commodity markets and development of food grain silos.
- A strategic financial inclusion drive should be launched to enhance the financial inclusion of a large segment of the population which is currently unbanked.
- Maximum benefit should be availed from inclusion of Pakistan in Amazon's sellers list by focusing on training of Pakistani merchants and upgrading the payment mechanisms in order to upgrade the entire E-Commerce sector.
- Private sector logistic companies should be incentivized in order for them to scale up businesses and develop international partnerships for effective delivery.
- Pakistan Post being the initial delivery partner identified by Amazon should be restructured primarily in the areas of automation and efficient parcel deliveries.
- Targeted incentives should be given to the IT sector in order to maximize the huge export potential.
- Banking sector should be incentivized to provide lending to the SME and Agriculture sectors.

Macroeconomic Highlights

Favorable GDP Growth

Pakistan's economy witnessed a V-shaped recovery in FY21. The provisional GDP growth rate is 3.9% which exceeds the target of 2.1%



Current Account Surplus



Pakistan's current account deficit has been in a positive trend in the last 3 years. Going from USD 13.6bn in FY19, to USD 4.7bn in FY20, and a surplus of USD 0.8bn in 10m21. This is due to increasing remittances and growing exports.

Higher Remittances

Remittances have grown with a CAGR of 4% in the last 5 years. During the period 10m21, remittances grew by 29% when compared with 10m20 to reach USD 24.2bn.



Lower Inflation



Average CPI for 11m21 was 8.8%, as compared to average inflation of 10.9% during the same period last year. IMF projects the inflation to be at 8.7% in FY22.

Reduction in Fiscal Deficit

The provisional fiscal deficit was reduced to 7% of the GDP during FY21, compared to 8.2% for last year. Tax revenue grew by 11.9% to reach PKR 3.8tn, while non-tax revenue declined by 7.3% to reach PKR 1.2tn.

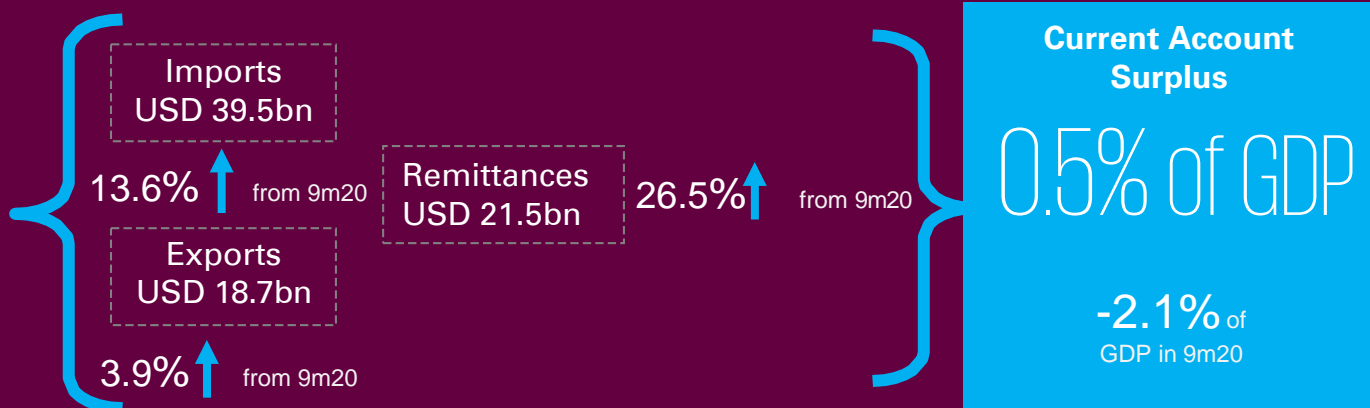
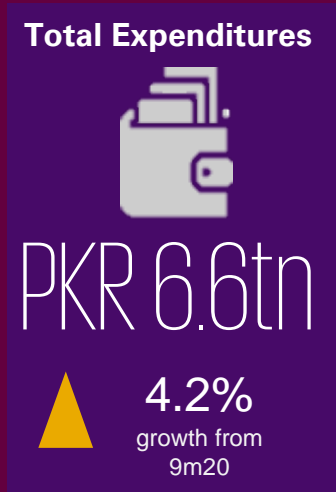


Stable Credit Rating



After Moody's review, the rating remains B3. This is due to an overall positive outlook of the economy. Pakistan entered the international capital market after a 3-year gap by successfully raising USD 2.5bn through Euro bonds.

Economic Snapshot (July – March 2021)



Average Inflation

8.3%

Vs 11.5%
in 9m20

7%

▼ 625bps slashed
in FY20

Current Policy Rate

Income per Capita USD

1,542.5

▲ 14% growth
from 9m20

1.4bn

▼ 36.4%
decline from 9m20

FDI (USD)

Demographics

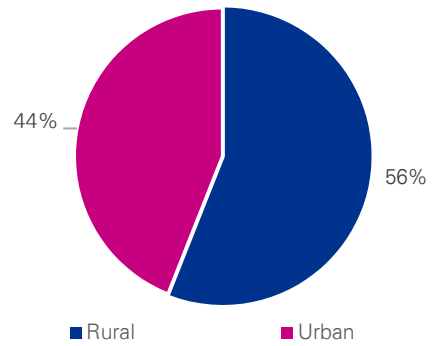
Population growth 1.8%



Total population 215.3 million

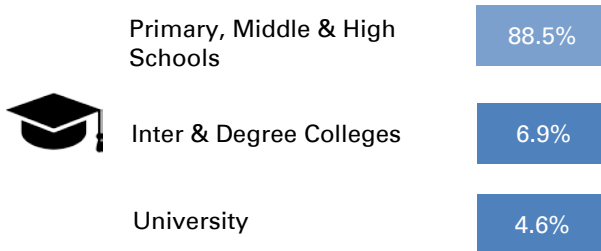
Source: Pakistan Economic Survey,

Urban vs Rural Population Breakdown



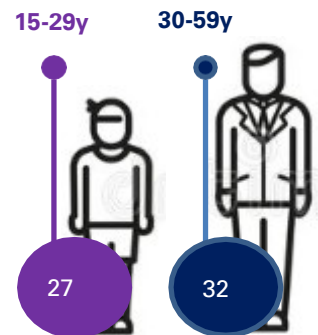
Source: Pakistan Economic Survey,

Enrolment in Educational Institutes (%)



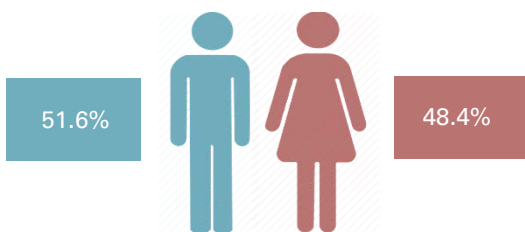
Source: Pakistan Economic Survey

Population Composition (%)



Source: Pakistan Economic Survey

Gender ratio (%)



Source: Pakistan Economic Survey

Labor force



Source: Pakistan Economic Survey

Gross Domestic Product

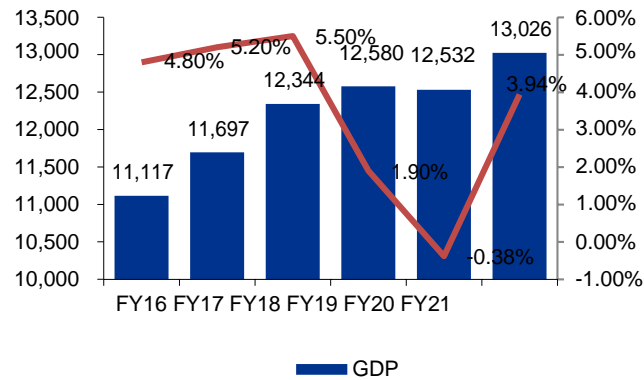
GDP

- GDP growth rate for FY21 is expected to reach 3.9%(P) against negative 0.4% in same period last year.
- GDP growth rate surpassed the targeted rate of 2.1%. Higher growth was due to robust growths of 2.8%, 3.6% and 4.4% in agriculture, industrial and services sectors respectively.
- Investment to GDP ratio clocked in at 15.2% in FY21 compared to 15.3% in the last fiscal year.
- Private Consumption proved a significant contributor to GDP. It witnessed a healthy growth of 16.8% in FY21 compared to 4.4% in FY20. This can be attributed to higher growth in workers remittances and cash transfer to low segments of the society through Ehsaas Cash Emergency Program.

Agriculture Sector

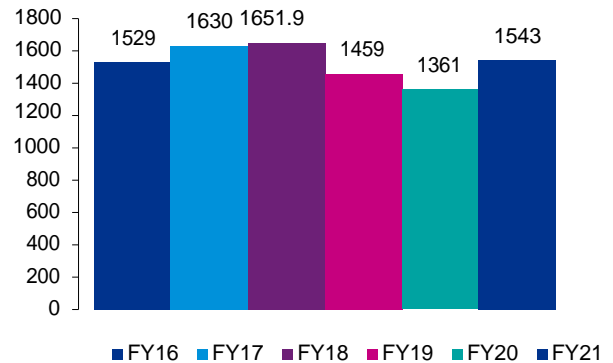
- The agriculture sector recorded a steady growth of 2.8% in FY21, slightly higher than last year. This can be attributed to the crop sector experiencing a steady growth of 2.5% due to the increase in the growth of major crops (wheat, rice, maize, sugarcane, cotton) by 4.7%.
- Livestock, which accounts for a 60% share in agriculture sector, also showed a robust growth of 3.1%.
- Wheat Production reached an all time high of 27.3mn tones surpassing last year's production by 8.1%.
- Agriculture Transformation Plan introduced by the Prime Minister has incentivized the farmers and will help boost future output.
- During 9m20, the agriculture lending institutions issued PKR 953.7bn worth of loans showing a year on year increase of 4.6%.

Real GDP in (PKRbn) & Growth Rate (%)



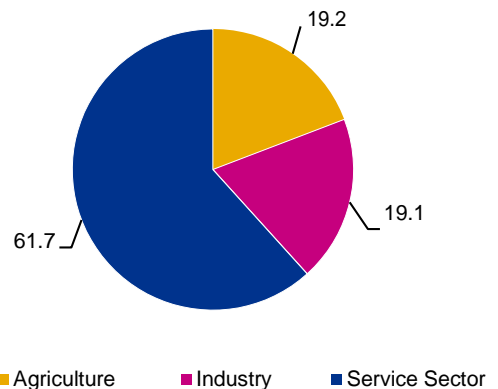
Source: Pakistan Economic Survey

Per Capita Income (USD)



Source: Pakistan Economic Survey

Sectoral Contribution



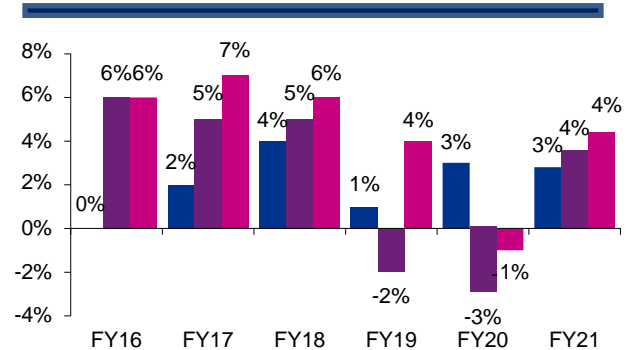
Source: Pakistan Economic Survey

Gross Domestic Product (Cont'd)

Agriculture Sector (Cont'd)

- Like many other sectors, agriculture was hit hard by COVID-19. To curtail its impact, SBP instructed lending institutions to allow borrowers to defer principal payment for up to one year. SBP also allowed regulatory space to banks so that they can reschedule/restructure loans for borrowers who cannot service markup or need deferment.

Sector-wise Growth (%)



Industrial Sector

- The Industrial Sector recovered this year with a healthy growth of 3.6% following last years' negative growth.
- The Quantum Index of Manufacturing (QIM) posted a robust growth of 9.3% as the Governments initiatives to support the sector proved fruitful.

■ Agriculture ■ Industry ■ Service Sector

Source: Pakistan Economic Survey



Services Sector

- The services sector recovered in FY21 posting a growth of 4.4%. This led to an increase in its share in GDP to 62%.
- Positive growth of 8.4% was seen in wholesale & retail sector, mainly attributable to increase in marketable surplus. However, the transport, storage and communication segment has declined by 0.6%
- Positive growth in services sector is attributed to the GoP's PKR 1.24tn stimulus package to support the economy.

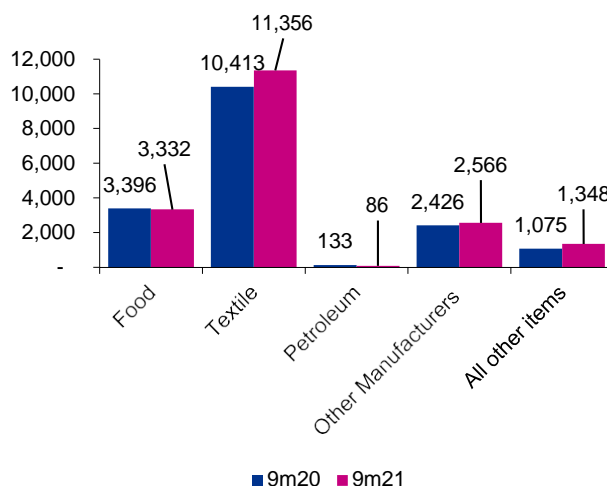


Current & Fiscal Account

Current Account Surplus

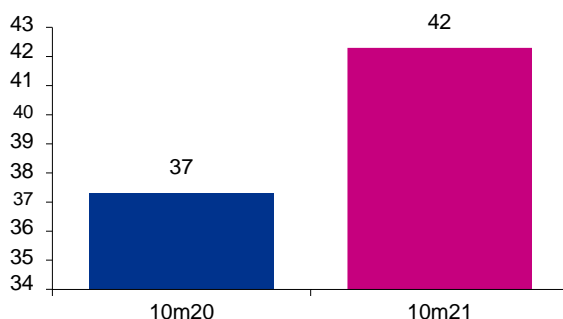
- For the first time in almost 17 years the current account posted a surplus of USD 0.8bn for 10m21 as a result of a strong inward flow of remittances and a sustained increase in exports.
- Current account surplus was contributed mainly by the workers' remittances which posted a growth of approx. 29% owing to the increased use of formal channels as opposed to informal channels of remittance. This shift was observed in the wake of Anti Money Laundering regulations imposed by Pakistan in accordance with FATF recommendations.
- Trade deficit widened from USD 17.6bn to USD 21.3bn primarily due to increase in total imports.
- The imports of goods stood at USD 42.3bn in 10m21 as compared to USD 37.3bn in the same period last year, thus, registering an increase of 13.5%.
- The total exports of goods stood at USD 21bn in 10m21, as compared to the USD 19.7 bn in the same period last year thus showing a growth of approx. 6.5%.
- Crude oil import is an important component of the current account and trade balance. The crude oil imports in 10m21 increased to 48mn barrels as compared to 39 Mn barrels for 9m20, hence contributing a greater amount to the total import bill of Pakistan.
- As of 10m21, Pakistan's liquid foreign exchange reserve stands at USD 22.7bn as compared to USD 18.9bn in FY20, indicating a growth of 20%.
- The inflows of foreign exchange through Roshan Digital Account, increased remittances, Increased exports and financial support from International Financial Institutions, led to the appreciation of the PKR by 9.5% in 10m21.

Exports by category (USDmn)



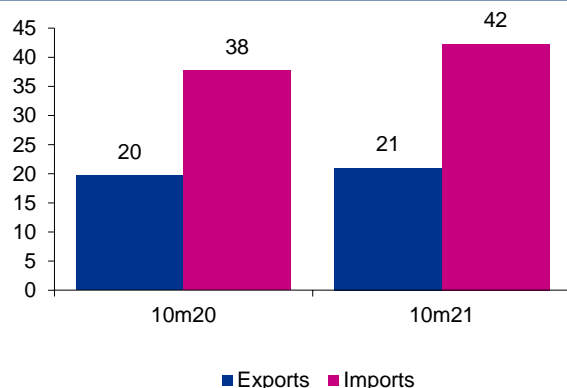
Source: Pakistan Economic Survey

Imports value (USDmn)



Source: Pakistan Economic Survey

Trade Deficit (USDmn)



Source: Pakistan Economic Survey

Current & Fiscal Account (Cont'd)

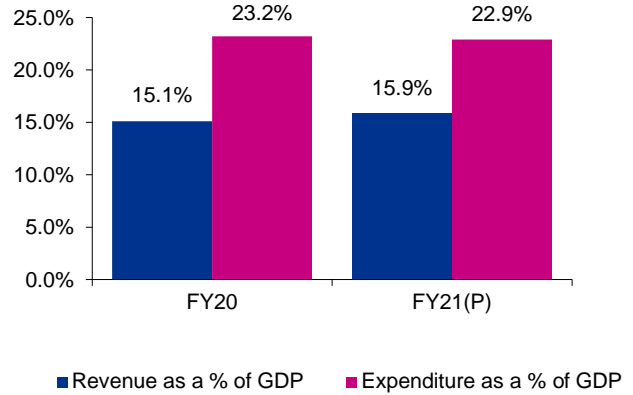
Fiscal Deficit

- The fiscal position significantly improved during FY21 of current fiscal year. Fiscal deficit was contained to 7% of GDP, against 8.1% during the same period last year. The primary balance posted a surplus of PKR 451.8bn during 9m21 against the surplus of PKR 193.5bn in the same period last year.
- This improvement was primarily attributable to a significant increase in revenue collection that outpaced the expenditure growth. Tax revenues grew by 14.4% to PKR 3,780bn during 10m21 against PKR 3,303bn in the comparable period last year.
- Non tax revenues declined by 7.3% to PKR 1,227bn during 9m21 compared to PKR 1,324bn in 9m20 mainly due to absence of a one-off renewal fee for GSM licenses from telecommunication companies.
- Tax collection through various policy and administrative reforms are providing impetus to tax collection.

Public Debt

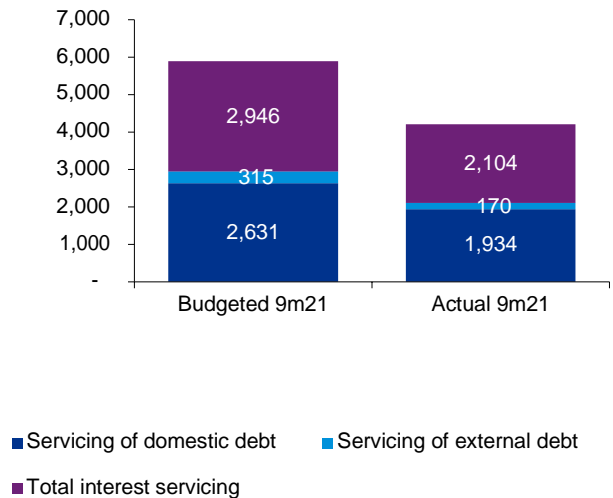
- The debt to GDP ratio for Pakistan is expected to reduce to 84% or lower by the end of FY21 as compared to 87.6% at the end of FY20.
- The government plans on reducing debt burden by creating primary surpluses, maintain low inflation, promoting growth and following an exchange rate regime based on economic fundamentals.

Fiscal Deficit



Source: Pakistan Economic Survey

Public Debt Servicing

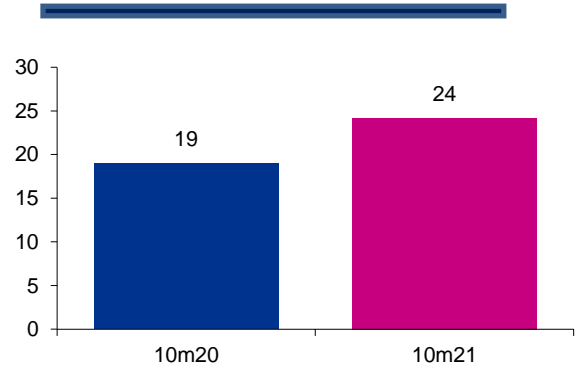


Source: Pakistan Economic Survey

Remittances

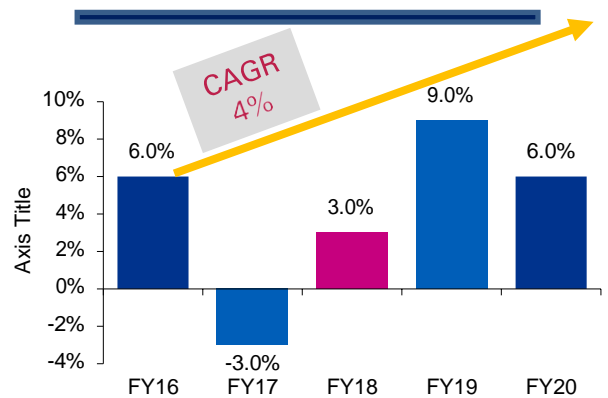
- Remittances have historically provided strong support in sustaining current account balance against trade deficit in Pakistan.
- Over the last five years, remittances have grown by a CAGR of approximately 4%.
- Remittances stood at USD 24.2bn in 10m21 as compared to USD 19bn in 10m20, achieving a growth of 29%.
- In 10m21, significant YoY growth was witnessed as a result of the Pakistan Remittance Initiative (PRI) and the increased remittances that resulted from the reopening of business in host countries like Middle East, UK and USA.
- The Pakistan Remittance Initiative is aimed towards taking all the necessary steps and actions to enhance the flow of remittances in the country.
- Furthermore the government has taken various measures for encouraging and facilitating remittances These include special tax exemptions, supplementary grants, incentive schemes and favorable changes in charges/rates.
- As a multiplier effect, an increase in the remittances in FY21 is expected to decrease poverty, unemployment and potentially increase households' access to healthcare services thus improving their standard of living.

Worker Remittances (USD bn)



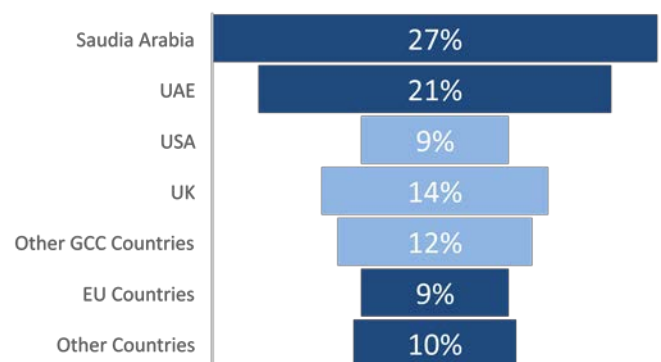
Source: Pakistan Economic Survey

YoY % Growth in Remittances



Source: Pakistan Economic Survey

% Share in Remittances 10m21

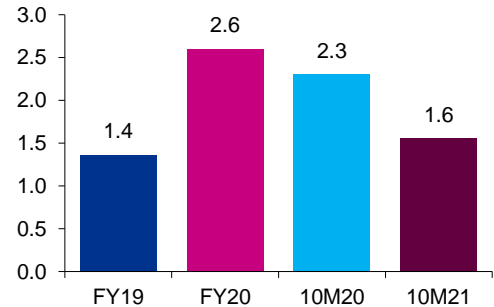


Source: Pakistan Economic Survey

Foreign Direct Investment

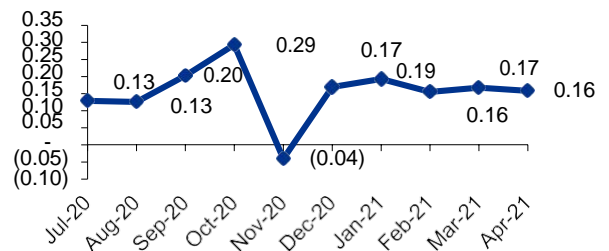
- Net Foreign Direct Investment stood at USD 1.6bn in 10m21, compared to USD 2.3 bn in the same period, reflecting a decline of 30%.
- In April this year, FDI witnessed a growth of 4.6% compared to the same month in the previous year.
- FDI in Pakistan has decreased due to an increase in gross outflow, which reflected the repayment of intercompany loans by firms in communication, electrical machinery and power sectors.
- For the period 8m21, FDI in the telecom industry was USD 101.1mn. The telecom operators have invested USD 363.9mn during this period. The main driver behind this investment is the cellular mobile sector which has invested USD 253.5mn.
- The power sector was the largest receiver of FDI (55%) followed by financial business (15%).
- FDI contributed by China represented 47% of the total FDI. This huge chunk is mainly on account of CPEC related projects.

Foreign Direct Investment (FDI) – (USDbn)



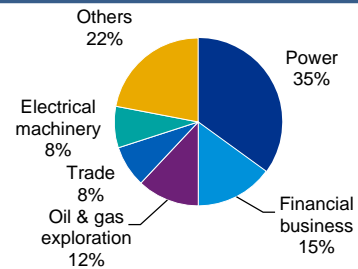
Source: SBP

10m21 Monthly FDI (USDbn)



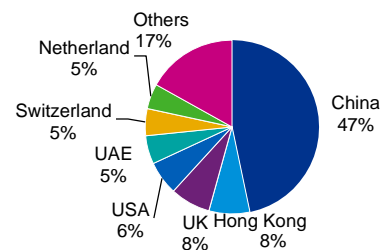
Source: SBP

Sector-wise share in FDI (%)



Source: Pakistan Economic Survey

Country-wise share in FDI (%)



Source: Pakistan Economic Survey

Monetary Policy

Inflation

- Average inflation rate in Pakistan stood at approx. 8.6% for 11m21 compared to 11.2% in the same period last year. This sharp decline in headline inflation can be attributed to the Government's periodic monitoring of prices and supply of essential items. Inflation in perishable food items rose by a mere 0.1% vs 34.7% during same period last year.
- Inflation witnessed a sharp increase in the first two quarters of the outgoing fiscal year as food prices especially of non-perishable items remained high. However in 3QFY21, Government's intervention lead to curtailment of inflation to 7.8% vs 12.4% in the same period last year

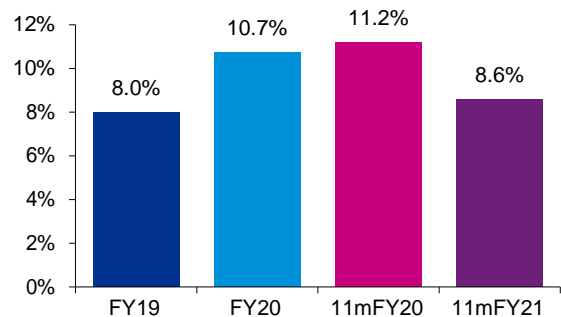
Policy Rate

- The declining inflation rate has given room to SBP to keep the policy rate unchanged at 7% during the outgoing fiscal year. This ensured that the businesses were able to bear the turbulences caused by COVID-19.

Currency

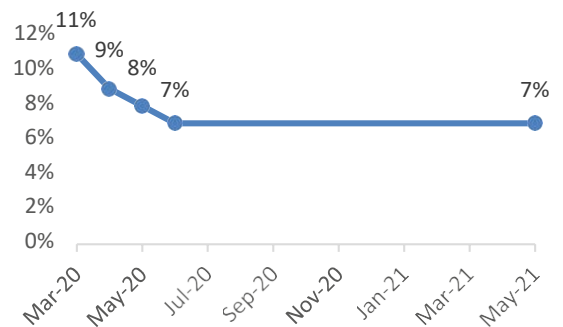
- During 9m21, PKR remained steady against the USD due to the present government's implementation of market-based exchange rate system which has brought transparency to the system. The PKR reached 152.5 per USD by the end of March 2021, effectively appreciating the rupee by approx. 10% since June of last year.
- The country's total FX reserves increased to USD 20.6bn by the end of March 2021, witnessing a 9.1% growth over June end of last year. SBP's reserves increased by USD 1.4bn whereas commercial bank's reserves rose by USD 355.8mn.

Average Annual Inflation (%)



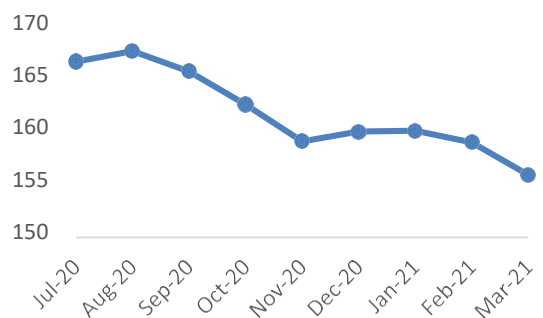
Source: Pakistan Bureau of Statistics

Policy Rate (%)



Source: Pakistan Bureau of Statistics

PKR/Dollar

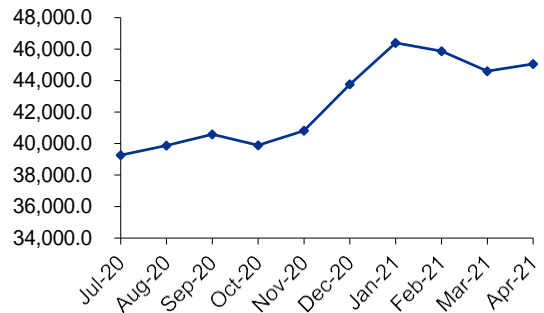


Source: Pakistan Bureau of Statistics

Pakistan Stock Exchange

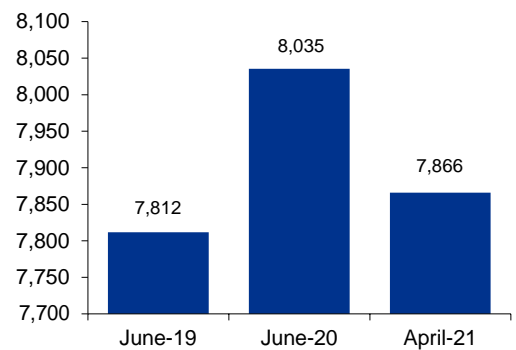
- The turnover of KSE100 index on Pakistan Stock Exchange (PSX) during 10m21 was PKR 49.8bn, compared to PKR 41bn in the same period of FY20. The index averaged 42,604 points during 10m21, compared to 35,087 points during the same period in the previous year.
- During 11m21, the benchmark KSE-100 index increased from 34,889 points to 47,896 points, gaining 13,006 points. As of May 31, 2021, the total market capitalization of PSX was PKR 8,267bn.
- PSX witnessed the following IPOs in FY21:
 - 1) The Organic Meat Company
 - 2) TPL Trakker
 - 3) Agha Steel Industries
 - 4) Engro Polymer & Chemicals Limited
 - 5) Panther Tyres Limited

KSE100 Index Performance



Source: Pakistan economic Survey

Total Market Capitalization as at (PKRbn)



Source: Pakistan Economic Survey

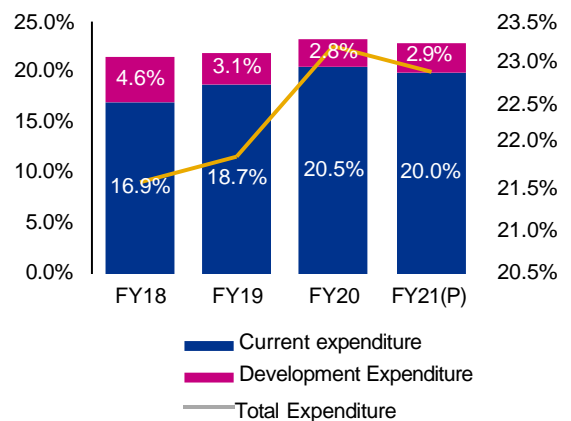
Key Developments

Government Programmes

- The government introduced the Roshan Digital Account initiative in September 2020. It helped to ease the process for foreign Pakistani nationals in sending remittances to the country. This initiative has helped increase foreign investment drastically and has helped the country's Balance of Payments
- The government's ongoing schemes helped counter the loss in active labor after Covid-19's impact. These schemes are:
 - Prime Minister's Kamyab Jawan Youth Entrepreneurship Scheme is to support the youth in pursuit of establishing or expanding their businesses.
 - The National Agricultural Emergency Program aimed at increased output in the agriculture industry. This helped sustain and improve the output in the last two years
- The Ehsaas program has been going extremely well. Over the course of two years, Ehsaas has received widespread global acclaim at numerous international events hosted by the UN, ADB, World Bank, UNDP and others. The Ehsaas program has helped mitigate the rising poverty levels, and has shown immense socio-economic benefits for country.
- The Construction incentive program announced in April 2020 has given a major boost to the industry in FY21. Other previous initiatives like Naya Pakistan Housing Scheme and Ravi Pakistan housing scheme are projected to complete 5 million new houses since their inception. This impact has helped the country's economy by enabling the ancillary industries attached to the construction industry to thrive. Achieving a roll-on effect which has provided sustainable growth.



Fiscal Spending (% of GDP)



Source: Pakistan Economic Survey





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