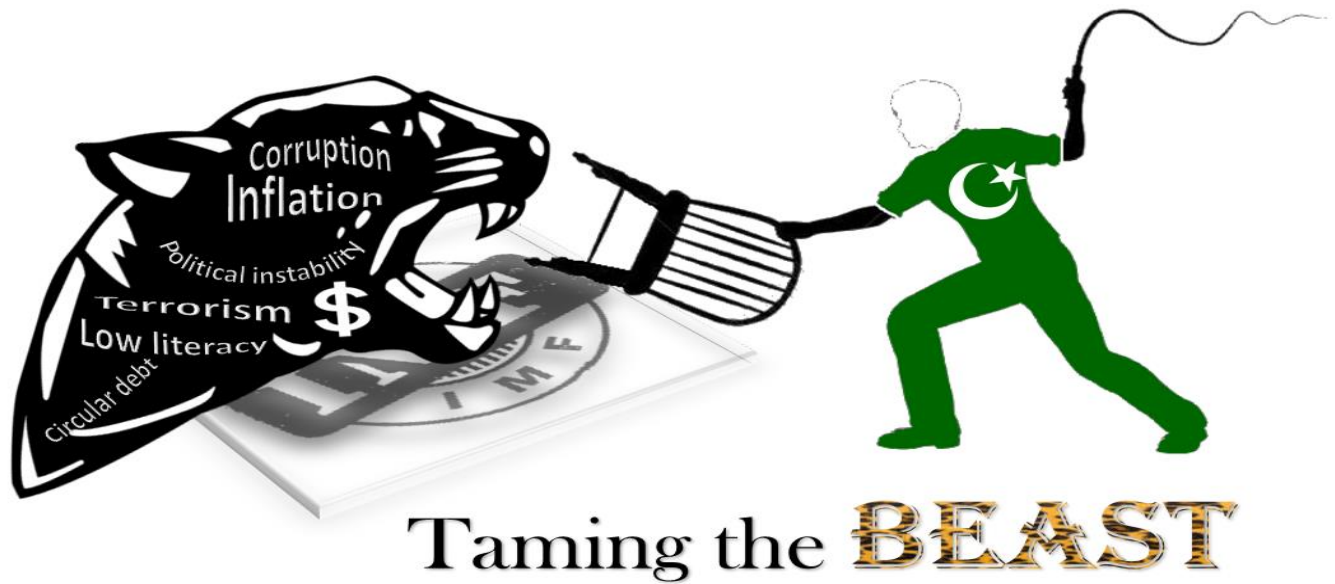


PAKISTAN'S ECONOMIC OVERVIEW



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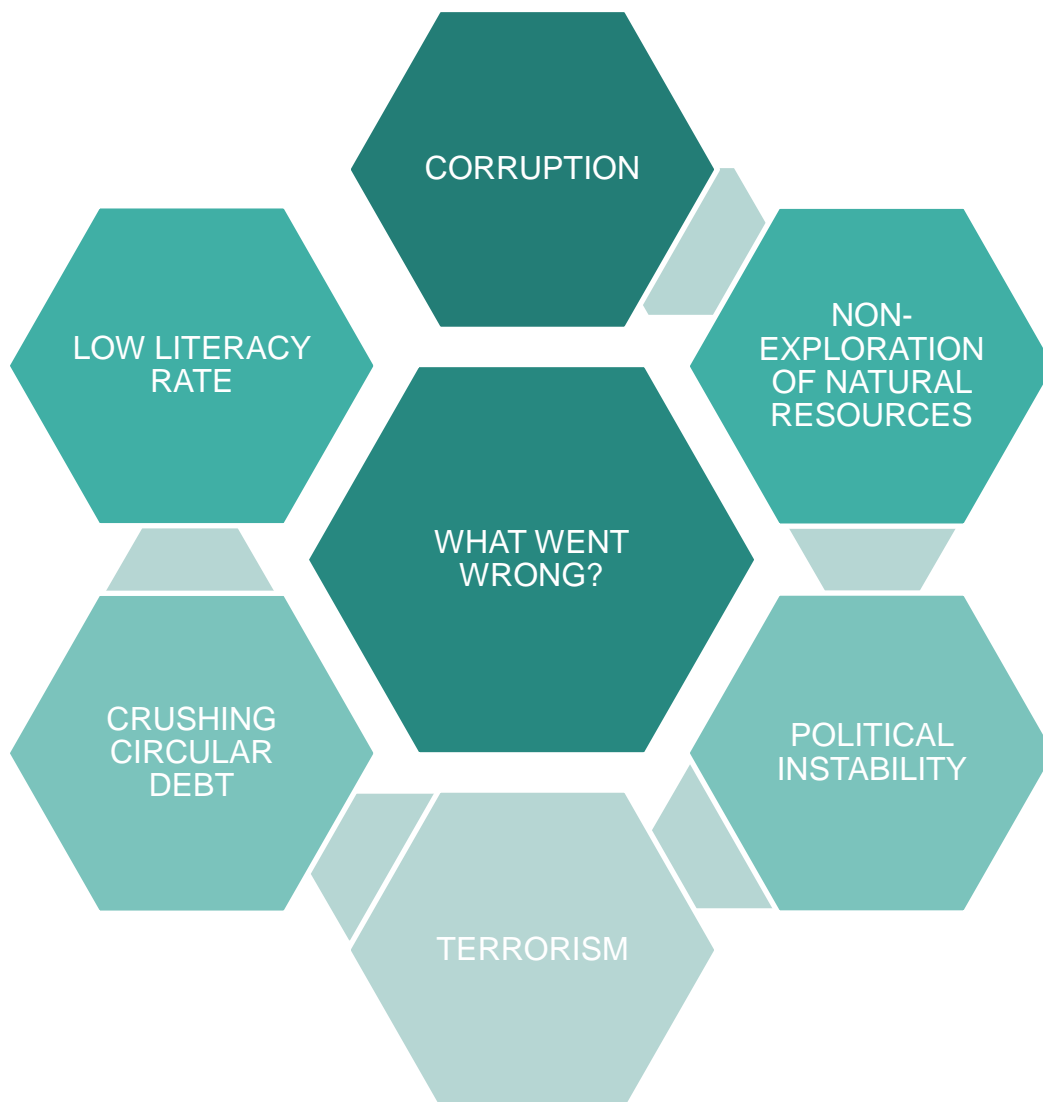
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PAKISTAN'S ECONOMIC OVERVIEW

*The Dawn of a Revolutionary Change “Tabdeeli”
or a Complete Failure?*

Pakistan! Truly a nation gifted to us through the sacrifice of blood, sweat and tears of our ancestors. Since the inception on the faithful day of August 14, 1947, Pakistan's economy was held in high regard. The struggle for independence set the tone for this resilient nation which was destined for greatness! However, somewhere along the road we went astray. From being a nation who would propel swiftly to excellence in the face of adversity, we started to struggle for the survival of our economy and the nation.

But what went wrong? The illustration below lists amongst the various reasons; only the core reasons which as per our analysis were the undoing of this country's economy.



In the midst of the negativities illustrated above, the economy struggled to survive to this very day and during July 2018, the general elections which were dubbed as “deciding the fate of this economy” were held. A political party, whose paradigm is built around revolutionary change or “*tabdeeli*” this economy needs, came into power.

Currently it has been 10 months since the new government came into power but is the shift needed by this economy being orchestrated? Our analysis of the current economic affairs aims to give a glance of the current economic affairs and what to expect in the future.

KEY ECONOMIC INDICATORS

The table below gives an overview of the key economic indicators of Pakistan for the financial year ended 2018, interim period of 2019 and the forecasted figures for the financial year ended 2020.

S.No.	Particulars	2020 (forecast)	2019 (as on April 2019)	2018
1.	Population	208,362,334	204,596,442	200,813,818
2.	GDP Growth Rate (%)	4.5	3.9	5.2
3.	Inflation (%)	6.5	8.8	5.8
4.	Current Account Balance (% of GDP)	(3.0)	(5.0)	(6.1)
5.	Current Account Balance (USD Million)	(1,200)	(1,973)	(6,321)
6.	Interest Rate (%)	8.5	12.25	7.5
7.	Dollar Parity (PKR:\$)	146	149	122
8.	Unemployment rate (%)	5.9	6	5.8
9.	Government Debt (Rs. In billion)	28,000	35,000	29,000

(Source: Asia Development Bank, State Bank of Pakistan, Trading Economics and other such forums)

At a glance, it is clear that the vital signs of the economy of Pakistan have deteriorated during the interim period of 2019. Particular economic indicators which have raised many eye brows is the crumbling GDP growth rate in the current interim period, the steep decline in the dollar parity against the Pakistani rupee and the resultant immense inflationary burden.

It was certainly a shell shock for the people of Pakistan as the artificial economic bubble in which we were operating since the past 25 years burst. It is imperative to say here that bursting of this bubble was inevitable. Managing the exchange rate through means other than the market forces of demand and supply, which resulted in the increase in circular debt of the Economy was an unsustainable practice. The incumbent government had made it clear that the exchange rate would be managed through market forces rather than maintaining them artificially and this had a domino effect on the inflation and GDP growth rate, as Pakistan being an import/trade oriented economy, which can clearly be seen in the table illustrated above.

What is the Way Forward?

Upon reviewing the key economic indicators, it can be rightly concluded that the economy of Pakistan is under great strain and it is for us to decide whether we have to carry on this way? The answer is definitely negative. There is definitely a need for revolutionary change or as the incumbent government calls it "*tabdeeli*". However, what is the way towards such change? What measures are being taken to turn this economy around by those in the driving seat? This section of the document aims to summarize those measures and provide our analysis on them in light of the current scenario.

Increase in Interest Rates

A more immediate remedial action taken by the Federal Government was to naturally increase the interest rates in a more recent development by 150 bps. This was carried out to counter the high inflation i.e. more than 8% in the current fiscal year, being faced currently by the Economy. A higher cost of borrowing would render reduction in borrowing by the general population and resultantly reduce the demand of products in the Economy. This would in turn have a trickle-down effect on inflation as the market forces of demand and supply come into play. Though, this measure was frowned upon by many it was theoretically speaking the most economically viable decision taken by the Federal Government. The main reasons for increase in the inflation rate are the increase in oil prices internationally and the devaluation of rupee against the dollar. It is forecasted that the inflation rate for the next year would be reduced to 6.5% however, there is a lot to be done before that can be achieved.

Efforts to Increase Tax Base

A major problem for Pakistan, as also discussed in our previous publication titled, “Synopsis on Assets Declaration Ordinance, 2019” has been the low number of tax payers. According to the statistics presented by the advisor to the Prime Minister on Finance, Revenue and Economic Affairs and the Chairman Federal Board of Revenue there are only 2 million tax payers in Pakistan. This accounts for only 1 percent of the total population of the country which is at an alarming level.

The burden of a massive population of more than 200 million people being borne by only 1 percent of its population is neither justified nor feasible in the long term and has resulted in harassment of those tax payers in order to meet the ever increasing revenue targets.

In an attempt to improve this number, like the previous government, this government also decided to introduce an undeclared assets declaration ordinance which has been discussed in detail in our previous publication (please visit our website to view the same). In addition to the above, another law namely the “Benami Transactions (Prohibitions) Act, 2017” was promulgated which strictly prohibited the holding of benami assets and set out the penalty of confiscation of such assets if found to exist. However, for reasons best known to the Federal Government, it was never implemented in its true spirit in the past.

In continuation to the above, during a recent interview the Chairman FBR was heard addressing the people to avail the benefits of this law and provided a clear warning that after the deadline the government aims to use data provided by 28 countries under the bilateral agreements and initiate proceedings under the Benami Transactions (Prohibitions) Act, 2017 i.e. possibly confiscate such “benami assets.”

DID YOU KNOW?

Only 40,000 people of the 341,000 having an industrial connection of electricity and gas are registered under the Sales Tax Act, 1990 & only 50% of the companies registered with SECP are paying taxes.



It is clear that the government is seriously considering the matter of increasing the tax base, but are the measures taken sufficient? We understand that these measures alone would not nearly be sufficient unless penal action is taken against the tax evaders and trust of the general population in the taxation authorities is re-established, which has long been lost.

Austerity Measures

Since the incumbent Federal Government took charge of their office, “austerity” had been regarded as one of the top matters in their agenda. The reason behind this can better be explained by the commonly heard proverb “Cut your coat according to your cloth”. The crushing circular debt of Rs. 35,000 Billion and devaluation of our currency by more than 20% during the current fiscal year has mostly been the result of biting more than we could chew amid the corruption looming largely from top to bottom.

Owing to the same, the Federal Government has decided to further cut public expenditure, especially in the upcoming fiscal year which has been dubbed as “the stabilization phase” by the advisor to the Prime Minister on Finance, Revenue and Economic Affairs. This cut in public expenditure currently is already being reflected in the negative impact on the GDP Growth rate as it fell from 5.2% to 3.2%. However, it is forecasted that the GDP Growth rate would recover to 4.5% during 2020 as the austerity measures would be countered with incentives provided to the general population in order to increase the GDP per capita. One of such initiatives taken is the “Kamyab Jawan” program, the objective of which is to empower the youth of Pakistan and would help increase the GDP per capita by providing cheaper loans with easier repayment plans in the midst of high inter bank borrowing rates. Apart from improving the GDP per capita, this initiative aims to improve the unemployment rate which is currently at 6% and is expected to be reduced to 5.9% in the upcoming fiscal year which has been a problem for the Economy since inception.

However, it is still unclear how such initiatives would impact the GDP Growth rate. The upcoming fiscal budget would make things more clear regarding this matter.

Deferral Payment Facility on oil imported

In order to relieve the burden on the foreign exchange reserves and the exchange rate parity of the Pakistani rupee, the crowned prince of Saudi Arabia has extended his support to the Government and provided a \$ 3.2 billion deferral payment facility against the oil imported from the kingdom of Saudi Arabia. This credit facility would cover a period of three years with approximately \$275 million a month which would positively impact the exchange rate parity of the Pakistani Rupee against the Dollar.

A glimpse of the positive impacts was seen on the day this announcement was made as the rupee appreciated in value against the dollar by approximately 1 rupee. It is forecasted that the rupee would be valued at Rs. 146 per dollar during the fiscal year ended 2020 which signals the amount of hard work required to be put in during the road to recovery by the Federal Government.

Exploration of Natural Resources

As stated previously in this document, a major problem for the Economy of Pakistan has been the lack of efforts to explore the cache of natural resources on our lands whether it be coal, oil, gas, gold and so on. Whether becoming a victim of political agendas or just procrastination on part of the government, these natural resources have not been explored to their true potential.

Recently, efforts have commenced to make amends for past ways by the federal government as duties were waived on import of drilling equipment in a bid to woo the foreign oil exploration companies to enter Pakistan. These efforts were rather successful as ExxonMobil commenced its drilling off the coast of Karachi, namely the Kekra-I site. It seemed more like a fairy tale story as unofficial reports started to circulate dubbing these potential oil reserves as “the largest in Asia”. However, these efforts went in vain as the potential oil reserves were declared unfit for exploration for various scientific reasons. The drilling work was more of a mountain in labor and mouse being the result. It remains unclear though as to whether this oil exploration mission also became a victim of international politics, particularly with China, Saudi Arabia and the United States of America having keen interest in Pakistan or was it just sheer bad luck. We may never know but the important point is we made an effort.

Had the oil reserves been found and being as large as originally described, it would have completely shifted the direction of our economy. A significant amount of foreign exchange reserves and the deficit in the balance of trade is due to the import of oil. The dollar to Pakistani rupee exchange parity would have had a significantly positive impact as well as the balance of trade. Furthermore, inflation would have been reduced too, as discussed above; the increase in international oil prices was one of the major reasons for the high inflation rate of Pakistan. However, all hope is not lost as failure is the first step to success and there are likely to be more of such efforts in the future.

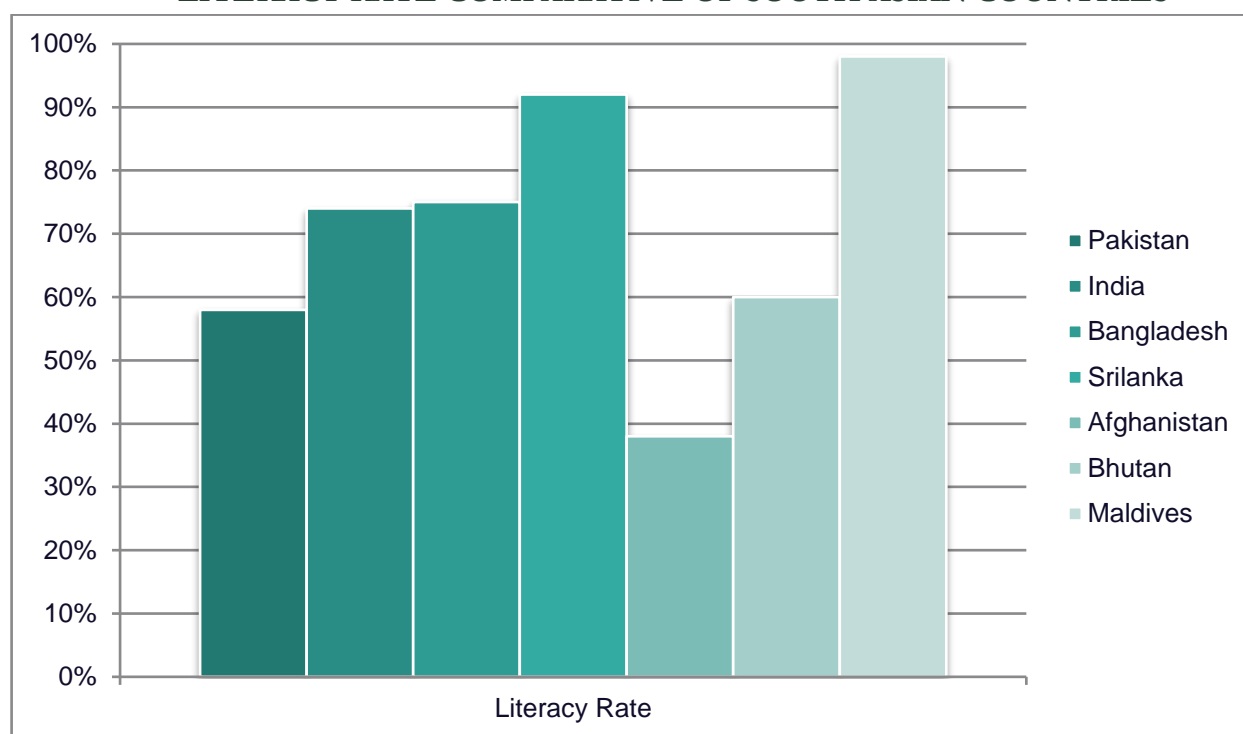
In addition to the above, there have also been active efforts in the Thar coal fields of Sindh which would prove fruitful. All in all, we must take initiative and utilize our huge cache of unexplored natural resources before they become obsolete.

Educating the Uneducated

Another problem with the Economy of Pakistan has been suffering since inception is the low literacy rate in the Country. To be “literate” by definition in Pakistan means “any person who can read and write” from a more recent report, only 58% of the population of Pakistan is literate despite undemanding benchmark. Coupled with this, “brain drain” has also been one of the reasons for the undoing of our Economy. Young brains who have received quality education in various fields decide to move abroad in order to pursue their future careers due to the very reasons discussed above which have brought us to our downfall.

Hence a major challenge for the incumbent government is to not only improve the literacy rate of the Country but also put a cork on the leakage of well-educated brains. The Federal Government aims to improve the literacy rate to 70% as the foundation of their efforts was laid down upon announcing the Prime Minister House to be developed in to a state of the art university. The national curriculum has not been revised for the past decade and the Federal Government is currently in the process of reviewing the same and establishing a uniform curriculum across the Country. Despite the claims, we have yet to see any promising development in the sector of Education and Professional training. Educating the youth of Pakistan would be shaping the future of our Country and further negligence in this sector would move us 10 steps backwards rather than a step forward.

LITERACY RATE COMPARATIVE OF SOUTH ASIAN COUNTRIES



(Source: Various economic forums)

As summarized in the illustration above, it can clearly be seen that Pakistan is lagging behind almost all of the Economies in South Asia in terms of literacy rate. Maldives being the highest of the lot having an outstanding literacy rate of 98% which is followed by Sri Lanka having literacy rate of 92%. There is no doubt that such a high literacy rate is crucial for an economy's success. The Federal Government's aim to achieve a literacy rate of 70% although seems realistic but we are yet to see strong measures which would pave the way towards it. It is to be appreciated that literacy, population, poverty, unemployment are all inter related. A poor man is in a dilemma to create resources to firstly feed his family or to educate his children. Soon a child is able to execute some work as "Chotta" (helper) he is supposed to contribute to the family resources rather than attend to his education. Therefore, solving this dilemma for the poor masses will no doubt go a long way in increasing the literacy rate.

Addressing Corruption and Embedding Accountability

Since inception, corruption has been eating out the economy from within. It is a cancerous disease which our economy has been infected with and there is no knowing when it would stop. The incumbent government has set out to rid the Country of this disease but we understand this cannot be done in the short term; there is a lot of ground to cover up. The leakages created within the economy through corruption within are more harmful than any other negativity within the Economy. Bold and unpopular decisions would be required to counter the corruption in the systems of the Economy. Without them, any other measures taken would go in vain like filling water in a bucket which is leaking from the bottom.

Improvements in the Energy Sector

The energy sector of Pakistan has been one of the most neglected ones in recent years and the victim of copious amounts of corruption. It is that which had led to the down fall of, amongst others, the textile industry of Pakistan, more specifically in Punjab. The large amounts of un-announced load shedding coupled with the usual faulty breakdowns resulted in many textile industries to close down their units and shift them to somewhere more viable such as Bangladesh. This had a domino effect on our economy's balance of trade as a wave of deindustrialization led to shift towards a trading economic structure.

The economic Survey 2017-18 unfolds that Pakistan's installed capacity to generate electricity has surged up to 29,573MW by February 2018 which stood at 22,812MW in June 2013, showing the growth of 30 percent. The efforts to restore the dignity of the energy sector of our country's economy are still underway as the incumbent government has shifted its focus on removing power theft and reducing other wastage down the supply chain of energy through improvement in efficiency. Various programs were initiated under the umbrella of K-Electric Limited and WAPDA whereby "kundas or illegal connections" were removed and the culprits brought to justice. This helped in increasing the revenue generated by the energy sector and improved the financial health of the companies operating in the sector whether private or government owned. Another issue revolving around the energy sector which had broken its back bone was the crippling circular debt against the fuel being consumed for the purpose of generating energy. According to a more recent report, this circular debt is accumulating at the rate of Rs. 38 Billion per month which is the incumbent government aims to nullify by the end of December, 2020. The measures through which they aim to achieve this are; focusing particularly on reducing wastage and instilling an efficient supply chain which has been lacking for a while.

However, without prejudice to the above it is our humble opinion that it is now time to explore more renewable sources of energy as the first world countries are in process of doing. The world is our incubator and use of carbon based fuels is damaging this incubator severely to the point where life may no longer be sustainable.

It is high time we as a nation address global warming at a national level and join hands with the world in order to rid ourselves of carbon based fuels. The Federal Government should invest in hydro power plants, wind turbines and solar power plants moving forward as a means of a more sustainable source of energy.

Improvements in the Transportation and Communication Sector

Improvement in transport and related infrastructure is another crucial ingredient on the road to prosperity for Pakistan. Whether it is local transport or national and international, unless significant improvements are not reflected in it then the road forward would be very bumpy!

Keeping in view of the same, the incumbent government has paid particular attention to improvement in the transportation and communication sector. With initiatives such as digitization of the Pakistan Postal Service, plans to launch 20 new trains during the year 2019 and reinstating the local city railway networks of Karachi the tone set by the incumbent government has been rather positive. These measures although are in the right direction but the damage already done to the transportation and communication sector of the Economy is enormous.

Furthermore, the task of revival of the national flag carrier which has been struggling for its survival has been specifically taken up by the Federal Government. With the appointment of the new CEO Mr. Air Marshal Arshad Malik and his five year revival plan there lies hope to completely turn around a company on its dying breath. Whilst explaining PIA's financial health, the CEO said the current operational losses are at Rs3 billion per month but this bleeding would be successfully plugged. The accumulated losses have risen to Rs431.1bn, while loans/borrowings have touched Rs247.7bn. PIA's 550 weekly international flights were brought down to 110 as foreign carriers took away their business.

The measures reportedly taken by the newly appointed CEO includes major cost cutting initiatives such as operating longer international flights on the shortest routes. Furthermore, improving the efficiency within the organization has been the aim of the 5 year revival plan as old aircrafts are being planned to be replaced with newer models whose maintenance cost would be comparatively lower.

The results of these measures have proven to be somewhat fruitful as PIA reportedly broke even in operating profit for the quarter ended March 31, 2019. However, it should be noted that these figures have not yet been audited. All in all, the problems within the transport and communication sector are numerous and one must decide where the cleansing would begin. This has been the case currently with the incumbent government, though there are far more vigorous challenges which lay ahead.

Conclusive Remarks

We, as a nation, have always been resilient and this wave of revolutionary change “tabdeeli” which has catapulted itself to power would not be able to succeed if we don’t decide individually whether we want to amend our ways or not? We will have to drive in a queue without waiting for the road marking and lines to be painted. Change happens from person to person and successful change can never be enforced. Once we decide that we are willing to adopt this change, success and prosperity will follow.

We understand that the measures taken by the Federal Government although are neither decisive nor revolutionary but they are steps in the right direction in some aspects. When it comes to matters such as the educational sector or addressing corruption and infusing accountability, these require a complete paradigm shift from the previous seventy years of the existence of the Country. Being hopeful and with a positive mindset we feel change would come although not at the pace of a revolutionary change and if god wills this Economy will prosper.

In the words of the father of our nation we would conclude our Economic Overview, 2019

“With faith, discipline and selfless devotion to duty, there is nothing worthwhile that you cannot achieve!”

- Muhammad Ali Jinnah

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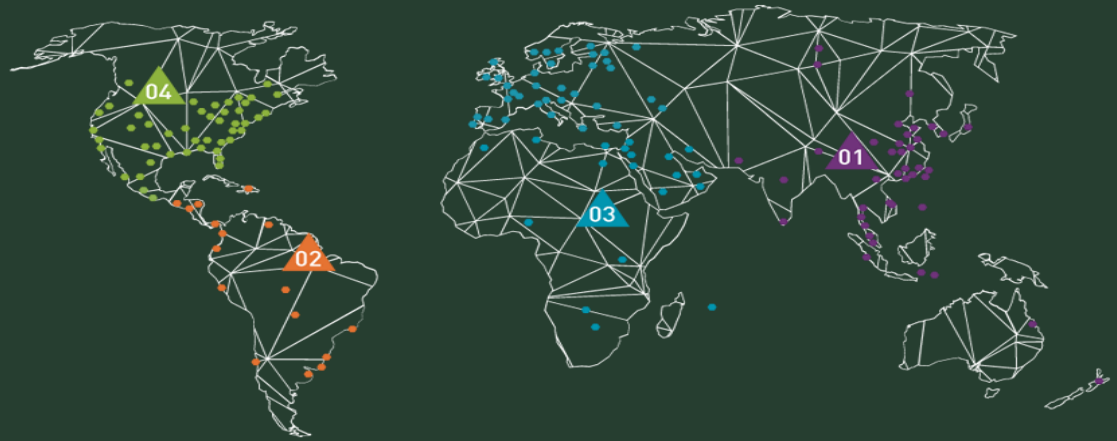
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