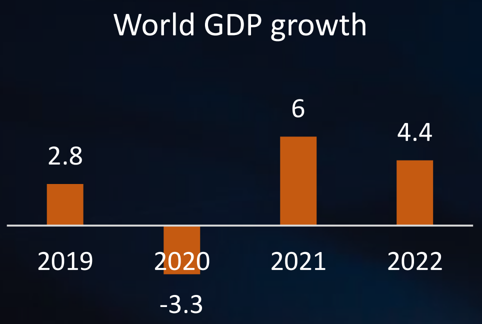
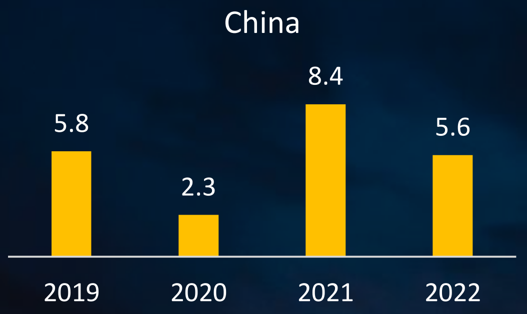
Economy & Federal Budget FY21-22 Highlights

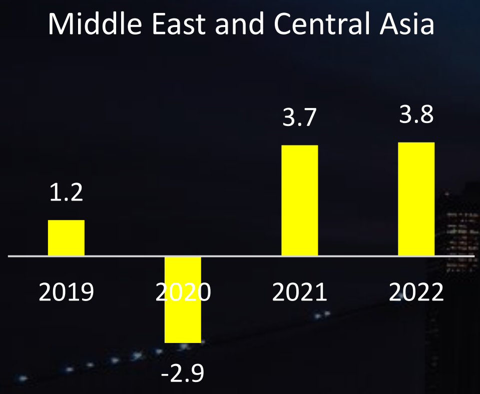
The need for speed: By vaccinating rapidly, Pakistan economy recovery at full-throttle.

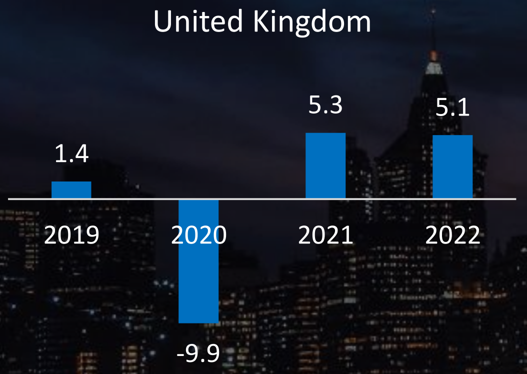
FY: Fiscal Year

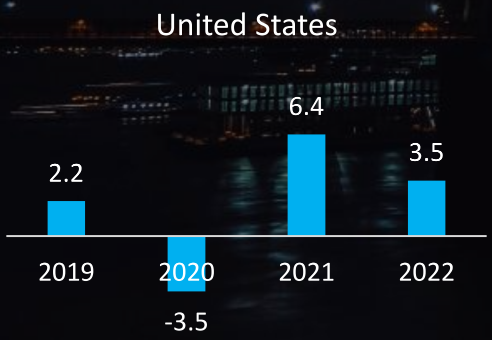
IMF GDP Forecasts

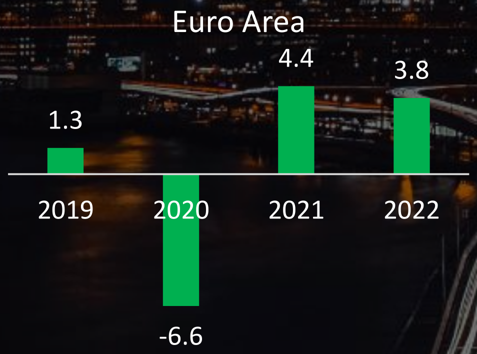












GDP Growths in %

Global Economic Review

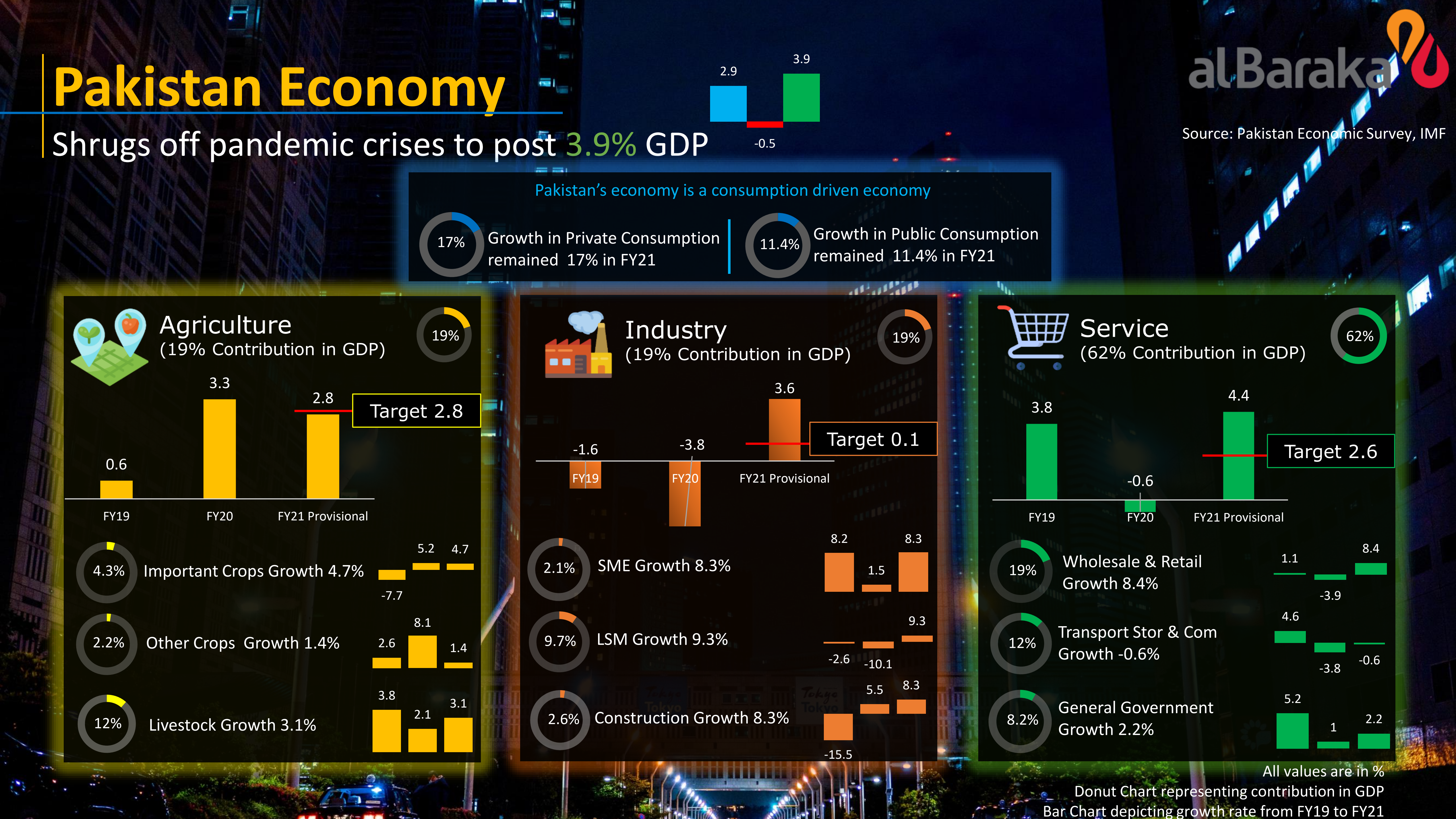
To address the dual crisis i.e. health and economic, countries all over the world responded swiftly with a variety of policy measures; mostly in the form of monetary and fiscal interventions for the economy and health measures for the pandemic.

The objective was to salvage the economies from potential welfare loss by compensating unemployed masses as well as businesses with the provision of necessary assistance.

Since the economic activity was at a standstill, these interventions helped economies in managing the supply lines intact. On the monetary side, the central banks adopted expansionary policy stances, quickly provided liquidity support and supported credit extension to a wide array of borrowers.

Simultaneously, on the fiscal side, governments helped households and businesses in the form of transfers, furlough payments, wage subsidies and liquidity support. These measures were supplemented with other aspects of social safety nets like unemployment insurance and nutrition assistance. All these actions contributed significantly to lessen the economic impact of COVID-19.

Source: Pakistan Economic Survey



Pakistan Economy
Shrugs off pandemic crises to post 3.9% GDP
2.9
-0.5
3.9
alBaraka
Source: Pakistan Economic Survey, IMF
Pakistan's economy is a consumption driven economy
17%
Growth in Private Consumption remained 17% in FY21
11.4%
Growth in Public Consumption remained 11.4% in FY21
Agriculture
(19% Contribution in GDP)
19%
0.6
3.3
2.8
Target 2.8
FY19
FY20
FY21 Provisional
4.3%
Important Crops Growth 4.7%
-7.7
5.2
4.7
2.2%
Other Crops Growth 1.4%
2.6
8.1
1.4
12%
Livestock Growth 3.1%
3.8
2.1
3.1
Industry
(19% Contribution in GDP)
19%
-1.6
-3.8
3.6
Target 0.1
FY19
FY20
FY21 Provisional
2.1%
SME Growth 8.3%
8.2
1.5
8.3
9.7%
LSM Growth 9.3%
-2.6
-10.1
9.3
2.6%
Construction Growth 8.3%
-15.5
5.5
8.3
Service
(62% Contribution in GDP)
62%
3.8
-0.6
4.4
Target 2.6
FY19
FY20
FY21 Provisional
19%
Wholesale & Retail Growth 8.4%
1.1
-3.9
8.4
12%
Transport Stor & Com Growth -0.6%
4.6
-3.8
-0.6
8.2%
General Government Growth 2.2%
5.2
1
2.2
All values are in %
Donut Chart representing contribution in GDP
Bar Chart depicting growth rate from FY19 to FY21

Major Achievements

Highlighting the economic Performance during FY21

Prior to COVID-19, the working Population was 55.74Mn. This number declined to 35.04Mn due to COVID. Due to timely decisions by government , the working population reached to 52.56Mn

V- Shaped economy Recovery

First 9M of FY2021 recorded highest period wise LSM growth of 8.99 percent since FY2007

Current Account posted a surplus of 0.8 billion during July-Apr FY2021 for the first time in 17 years

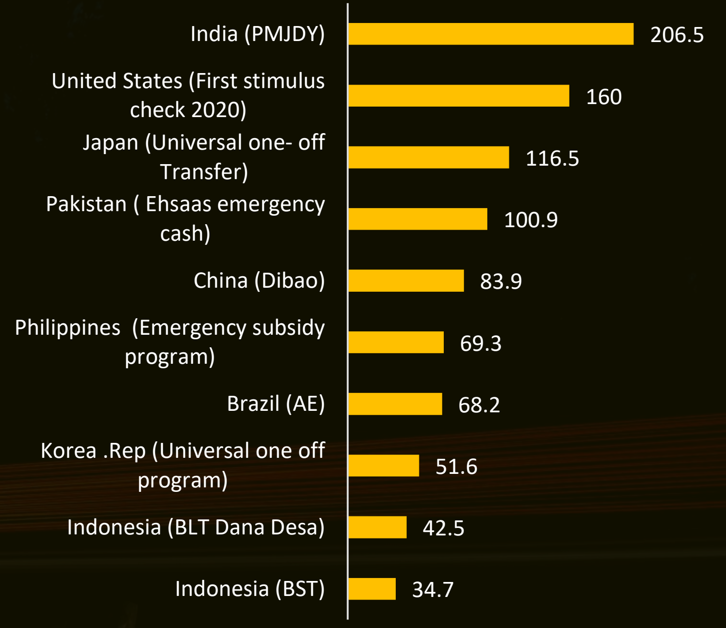
Significant Performance pertaining to FATF, Pakistan has been added into Amazon Seller list

Pakistan Stock exchange earned the title of being the best Asian stock market and fourth best performing

Under Ehsaas Emergency Cash Programme , PKR 179.3 Billion has been disbursed. Approx 14.8mn families have been benefited from the programme.

Around 350 Million plantation during July-Mar FY21 and about 100,000 daily wagers have been employed

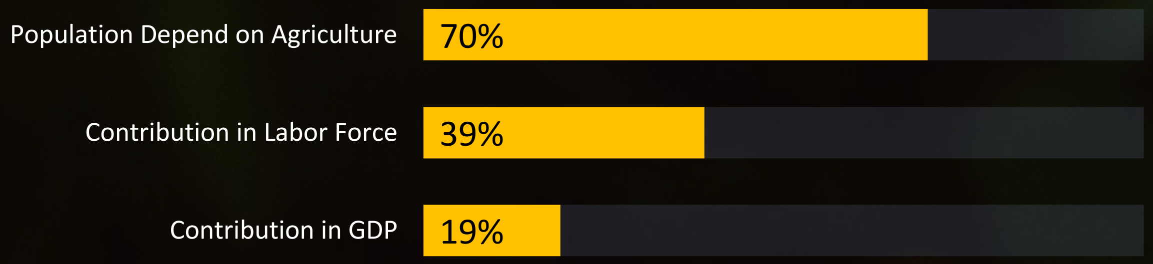
Top 10 Cash transfer programmes by actual coverage (million people)



Source: Pakistan Economic Survey, World Bank

Agriculture Sector

Agricultural sector is indispensable to the country’s economic growth, food security, employment generation and poverty alleviation particularly, at the rural level. It contributes 19.2 percent to the GDP and provides employment to around 38.5 percent of the labour force. More than 65-70 percent of the population depends on agriculture for its livelihood. Agricultural growth rate has been constrained by shrinking arable land, climate change, water shortages, and large-scale population and labour shift from rural to urban areas. Increasing agricultural productivity, therefore, requires adoption of new approaches. With strong forward and backward linkages with the secondary (industrial) and tertiary (services) sectors, it can play a pivotal role to spur economic growth. However, this sector has remained prone to several challenges like climate change, variance in temperature, water shortage, and changes in pattern of precipitation along with increase in input prices.



Source: Pakistan Economic Survey

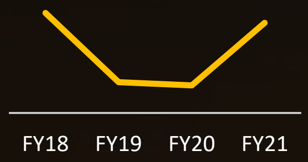
Agriculture- Important Crops

4.65%

The growth of important crops is 4.65% during FY21

22%

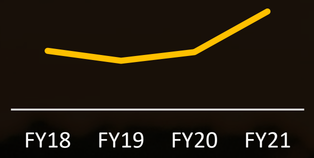
Sugarcane production increased by 22% to 81 Mn tonnes from 66.38Mn Tonnes.



The crop experienced a significant increase in area under cultivation and yield. It was mainly due to favourable weather conditions, better management, timely availability of quality inputs and higher economic returns

13.6%

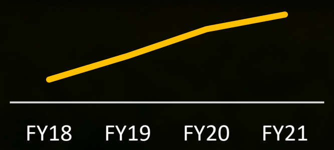
Rice production increased by 13.6% to 8.4 Mn tonnes from 7.4Mn Tonnes.



The increase in crop was essentially due to rising unit prices and higher demand for the country's rice in export markets.

7.4%

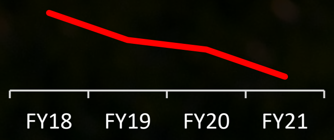
Maize production Increased by 7.4% to 8.5 Mn ton from 7.88 Mn tons



The production increase was largely due to increase in area, availability of improved variety of seed, and better economic returns

23%

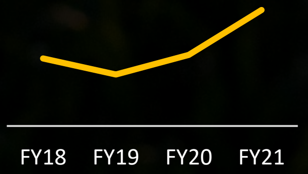
Cotton production Decreased by 23% to 7 Mn Bales from 9.1Mn Bales



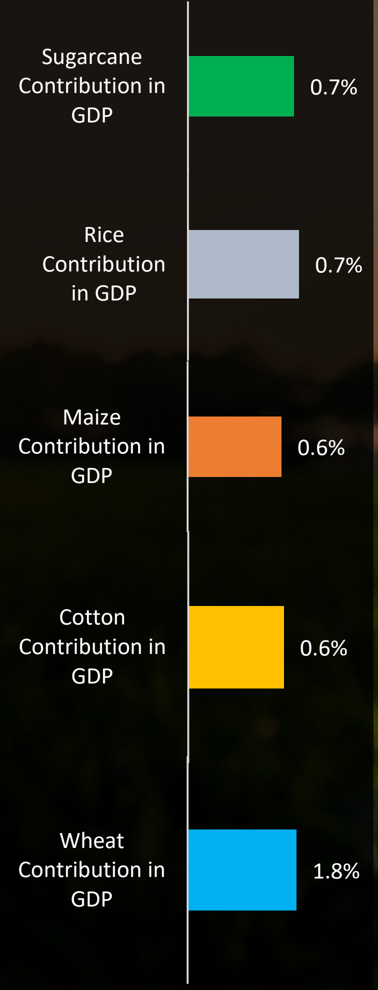
Acreage of cotton crop is shrinking due to non-profitability of the crop as compared to maize, paddy and sugarcane. Other factors contributing to the decline are i) biotic stresses of white fly and pink bollworm, ii) abiotic stresses like climate change, heat stresses and extreme rainfalls iii) poor agricultural practices and unnecessary use of pesticides.

8.1%

Wheat production Increased by 8.1% to 27 Mn tons from 25 mn tons



This was primarily due to the increase in cultivated area, along with the shift of policies towards supporting wheat crop through increase in MSP for the crop. The MSP in 2020-21 increased from Rs 1,400 to Rs 1,800 per 40 Kg, a 29 percent hike.



Source: Pakistan Economic Survey

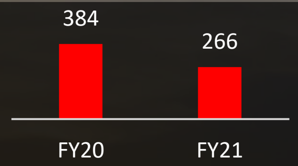
Agriculture- Other Crops

11.69% Other Crops having a share of 11.69% in agriculture value addition

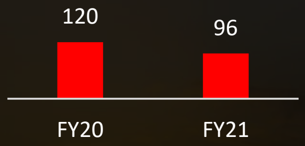
2.24% Other Crops contributed in GDP by 2.24%

1.41% Other Crops showed growth during FY21 by 1.41%

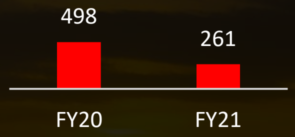
-31% Bajra production decreased by 31% YoY



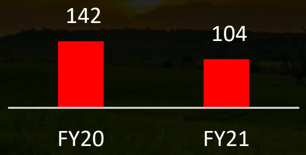
-20% Jowar production decreased by 20% YoY



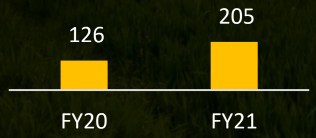
-48% Gram production decreased by 48% YoY



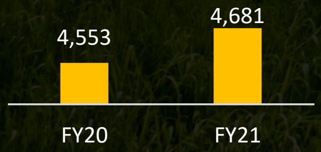
-27% Chillies production decreased by 27% YoY



62% Moong production Increased by 62% YoY



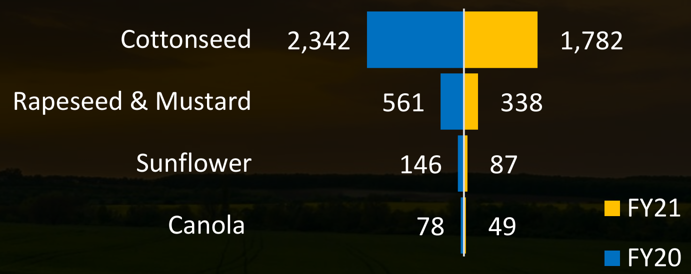
3% Potato production Increased by 3% YoY



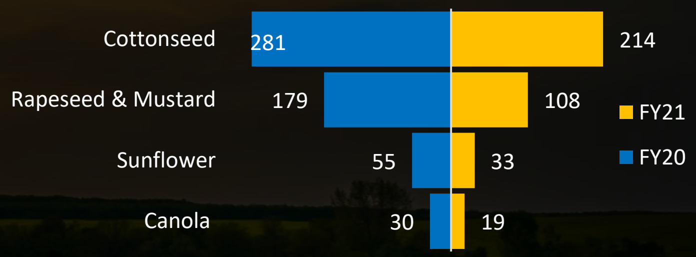
Oilseeds

11% Local oil production only cater 11% demand of oil in Pakistan while remaining quantity was imported (2.917Mn tons)

Seeds Production (000 Tonnes)



Oil Production (000 Tonnes)



Government Initiative

For promotion of oilseed crops, Ministry of National Food Security & Research (MNFS&R) is executing a mega project "National Oilseed Enhancement Programme" with a total cost of Rs 10.964 billion under the National Agriculture Emergency Programme. Under this programme, a subsidy of Rs 5,000 per acre for seed/inputs for canola, sunflower and sesame and 50 percent on purchase of oilseed machineries is being provided to oilseed growers

PKR10.9Bn
Oil Seed Enhancement Program

PKR 5,000
Subsidy per acre for seeds

Source: Pakistan Economic Survey

Agriculture - Livestock

60% Livestock having a share of 60.07% in agriculture

11.5% Livestock having a share of 11.53% in GDP

3% Livestock achieved growth of 3.06% in FY21

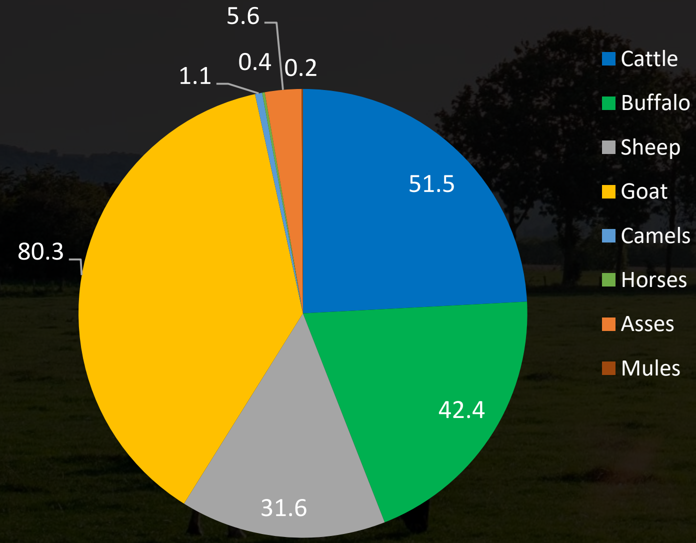
24% Cattle contribution in Livestock population

38% Goat contribution in Livestock population

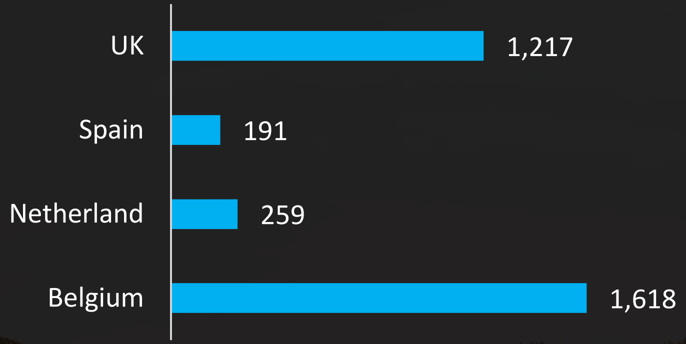
20% Buffalo contribution in Livestock population

15% Sheep contribution in Livestock population

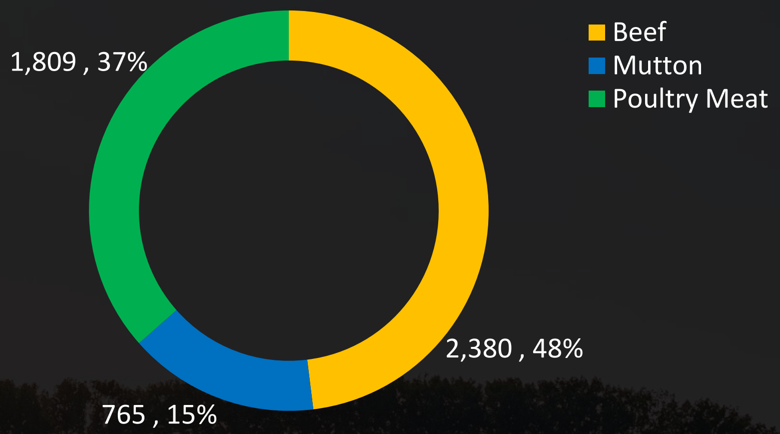
Livestock Population in Mn Nos.



Fishery Products Exports to European Union (Quantity in MT)



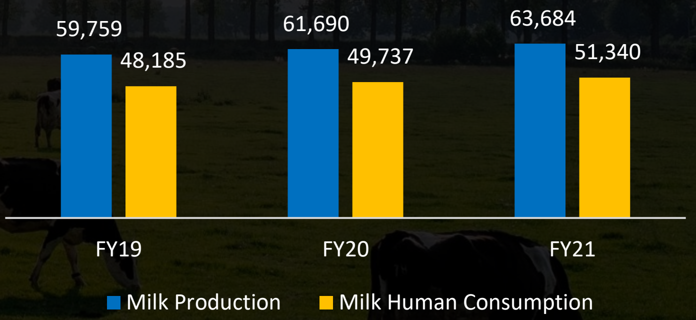
Meat in 000 Tones



More processing Plants are coming

Since resumption of exports to the EU countries, several consignments of fish, cuttlefish and shrimps have been sent by 02 companies to the EU. These were cleared successfully after 100 percent laboratory analysis at EU borders. For further enhancement of seafood export to EU countries, six more processing plants are in pipeline and their cases for approval are under process with EU authorities.

Milk Production and Consumption



Source: Pakistan Economic Survey

Manufacturing

12.8% Manufacturing Sector having a share of 12.79% in GDP

9.7% LSM contribution in GDP is 9.73%

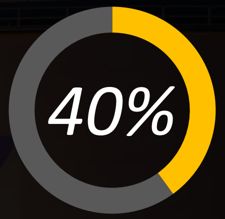
16% Manufacturing sector employs 16.1% of the country's labor force

5.9% Textile Sector Production increased by 5.9% in LSMI	Major jump originated from woolen segment production that may be associated with the projections of early onset of winter season by international agencies. Likewise, pandemic has proved as a blessing in disguise for garments manufacturers as there is a flurry of export orders from European and American markets for Pakistan's garment sector due to the severe impact of COVID-19 on our regional countries.
11.7% Food & Beverages & Tobacco Sector Production increased by 11.7% in LSMI	Sugar, cigarette and wheat milling came up with significant growth which boosted the overall sector. Sugar production increased due to early crushing of sugarcane owing to the domestic shortage and subsequent need for imports provided conducive environment via keeping the last year's FED intact and continued fight against smuggled alternatives which increased the cigarette production. Further, government has increased the wheat support price and subsidized the inputs which pushed up wheat production and wheat milling units
12.7% Coke & Petroleum Production increased by 12.7% in LSMI	Production of petrol, furnace oil and diesel grew significantly as demand spurred from resumption in transportation activities accompanied by robust sales of automobiles. Comparatively lower prices of retail fuels during the period pushed up the petroleum sales by 14 percent hence encouraged the petroleum production. In the wake of gas shortages, furnace oil use for electricity generation has increased the fuel's demand
12.6% Pharmaceuticals Production increased by 12.6% in LSMI	Panic buying of medicines and escalated prices contributed to this encouraging situation.
23.4% Automobile Production increased by 23.4% in LSMI	Reduced interest rates, stable exchange rate and huge investments by the new and existing players are having positive impact on this segment as well as enhancing competition. Automobile sector is still working below its potential thus offering a lucrative opportunity for manufacturing sector.
11.7% Chemicals Production increased by 11.7% in LSMI	Chemicals grew by 11.65 percent as compared to 11.35 percent increase last year.

Source: Pakistan Economic Survey

Small & Medium Enterprises

In Pakistan, SME sector contributes an estimated 404 percent to GDP and it holds tremendous potential to create a positive impact on Pakistan's economy. To enable SMEs in Pakistan to play their due role in economic development, Small and Medium Enterprises Development Authority (SMEDA) has taken various initiatives towards fostering growth of SMEs through a broad service portfolio spread across various SME sectors and clusters. The organization has an all-encompassing mandate of fostering growth of the SME sector through its portfolio of services including business development services, infrastructure development through establishing common facility centers, industry support for productivity enhancement and energy efficiency, human capital development through its training programs and SME related projects with national and international development partners.



SMEs Contribution in GDP

SMEDA support to SMEs during COVID-19

SMEDA has been committed to support SMEs during COVID-19 and has launched a comprehensive program of online SME clinic & webinars, training sessions, helpdesks and virtual meetings with key public and private stakeholders to facilitate businesses in such a critical time.

PKR 301.34 Mn Investment Facilitation by SMEDA

4,778 SME Facilitation by SMEDA

SMEDA One Window (SOW): A Step towards Creating a Hassle Free Business Environment for SMEs

SMEDA has launched a program, SMEDA One Window (SOW) that aims to link SMEs and startups with national and provincial regulatory authorities for compliance with regulations especially at the start-up stage. The SOW model is based on developing an entrepreneurial ecosystem by identifying regulatory requirements, designing services that fit all types of enterprises, offering subsidies in the service fee and providing guidance on requirements according to the business ownership structure. It consolidates current federal and provincial government procedures into simplified processes through one window service that directly benefits enterprises that fall under key ownership/legal structure including sole proprietorship, partnership registration with registrar of firms, limited liability partnership and private limited company registration with SECP. Smaller enterprises, which suffer disproportionately from the burden of compliance, will also be beneficiaries of this process of administrative simplification of starting and running the business. Since launch of SOW in September 2020, around 72 applications have been received while Letter of Intent (LOI) has been issued to 58 applicants.

Source: Pakistan Economic Survey

Gross Fixed Capital Formation -GFCF

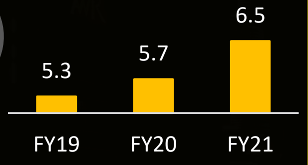
Gross fixed capital formation (GFCF), also called "investment", is defined as the acquisition of produced assets (including purchases of second-hand assets), including the production of such assets by producers for their own use, minus disposals. The relevant assets relate to assets that are intended for use in the production of other goods and services for a period of more than a year.

GFCF

Private and Public Including General government being two components of GFCF

13.8%

In PKR Trillion



13.%

Private GFCF increased by 13.8% YoY in FY21

38.1%

Public GFCF increased by 38.1% YoY in FY21

Private GFCF

17%

Agriculture GFCF increased by 17% on account of increase in imported agriculture machinery and increase in value of stock in the livestock sub-sector.

21%

Slaughtering GFCF increased by 21%YoY in FY21

16%

Wholesales GFCF increased by 16%YoY in FY21

12%

Housing GFCF increased by 12%YoY in FY21

Public GFCF

8%

Electricity Generation & Distribution and Gas Distribution showing 8% growth (Rs 246.6 vs. 228.8 billion due to WAPDA and companies being more proactive)

275%

Manufacturing increased by 275% (Rs 32.3 vs. 8.6 billion mainly owing to Pak Arab Refinery)

18%

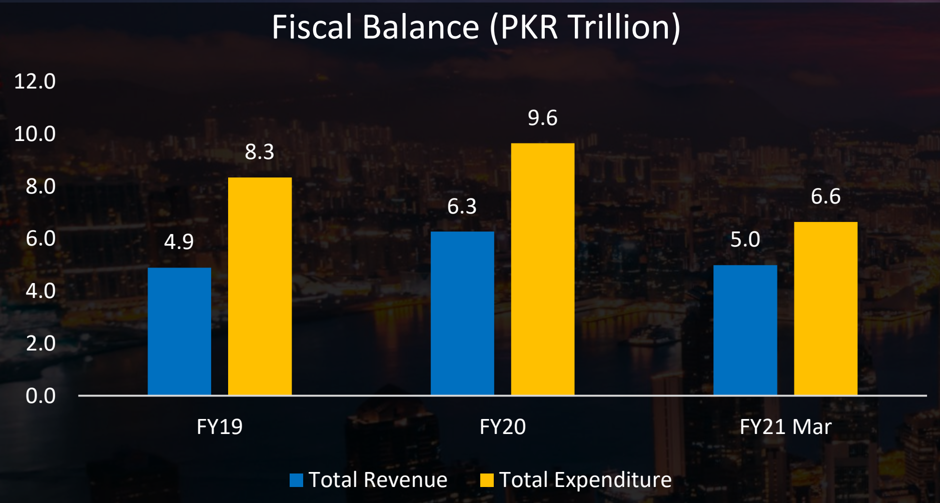
Construction with 18% growth (Rs 4.9 vs. 4.2 billion due to Capital Development Authority & Lahore Development Authority taking up bigger infrastructure projects)

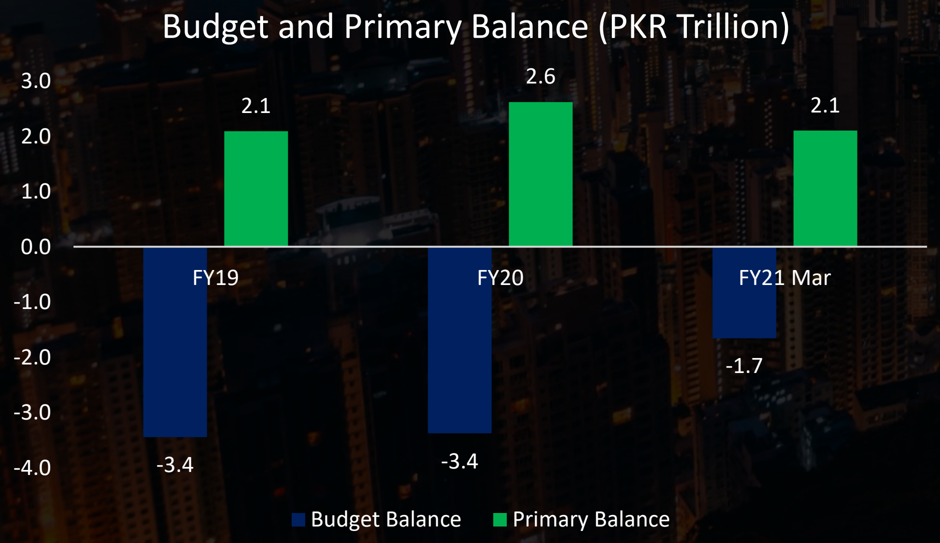
230%

Transport & Comm with 230% growth (Rs 126.4 vs. 38.4 billion due to increase spending on Port Qasim Authority, Pakistan Civil Aviation Authority, National Highway Authority and National Logistics Cell)

Source: Pakistan Economic Survey

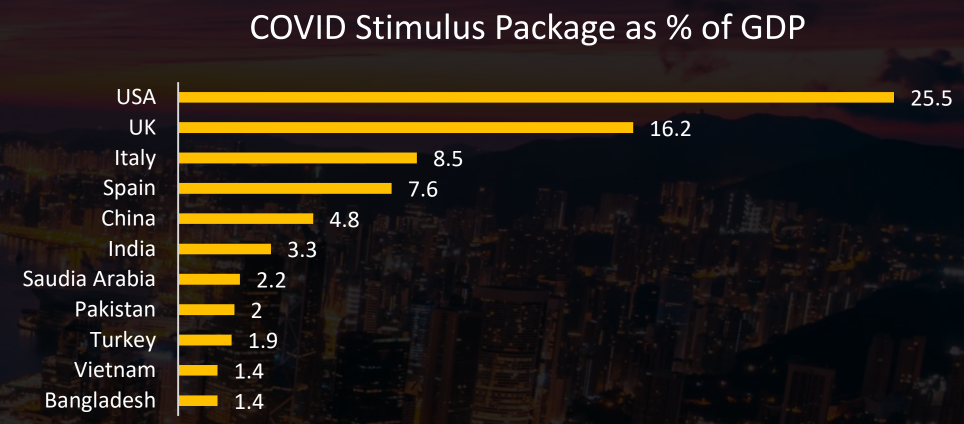
Fiscal Development





3.5%
Fiscal Deficit % of GDP

1%
Primary Balance % of GDP



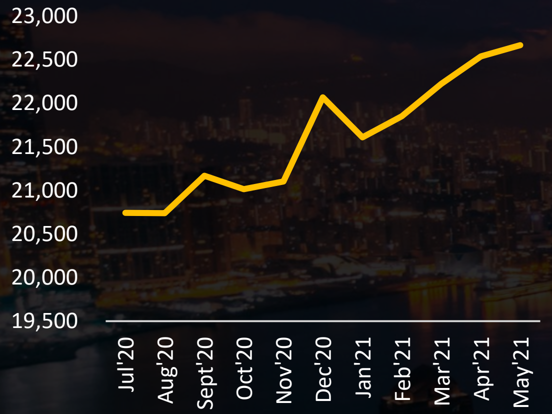
The fiscal sector has witnessed significant challenges due to additional expenditures made to lessen the negative impact of COVID-19. However, the government's fiscal consolidation efforts provided significant support in maintaining fiscal discipline, increasing revenues and controlling expenditures, thus the fiscal sector continued to perform better.

Presently, the fiscal policy measures are mainly focused on relief measures to support businesses and to protect vulnerable segments of society. Simultaneously, the government is focused on containing the fiscal deficit at a manageable level and keeping the primary balance at a sustainable level. The fiscal performance during the first three quarters of FY2021 is satisfactory. However, challenges to fiscal performance still persist which largely depend on the domestic and international evolution of COVID-19 and its perils for the economy. Nevertheless, effective revenue mobilization and prudent expenditure management strategy would be supportive in coping with these challenges

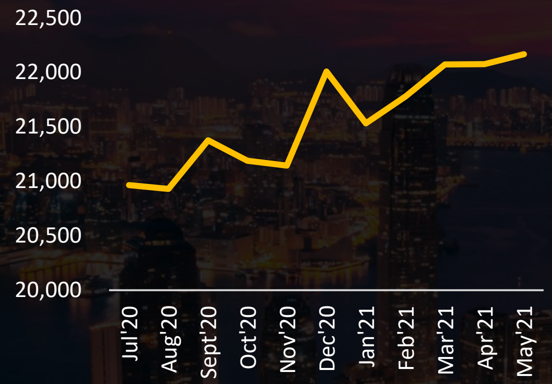
Source: Pakistan Economic Survey

Money and Credit

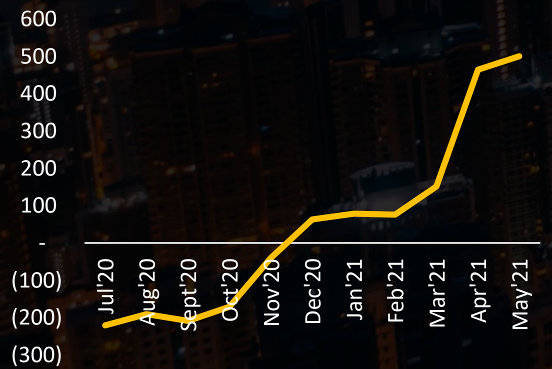
Broad Money (M2)



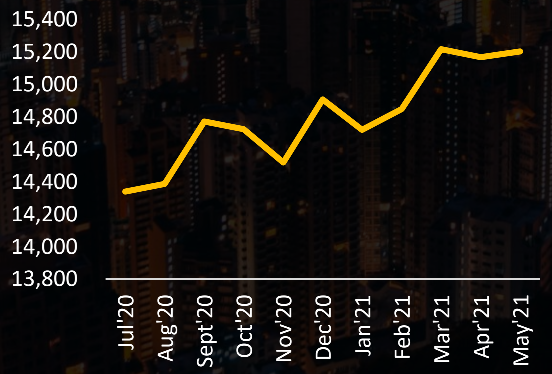
Net Domestic Assets of Banking



Net Foreign Assets of Banking

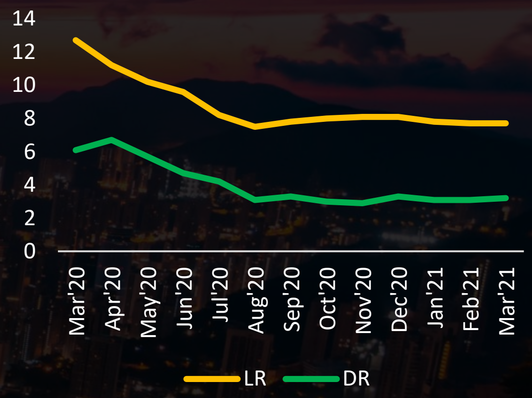


Net Government Sector Borrowing



After the COVID-19 outbreak, the State Bank of Pakistan proactively reduced the policy rate by a cumulative 625 bps from 13.25 percent to 7.0 percent, within almost 3 months between March and June 2020. The target of monetary policy was shifted towards supporting growth and employment during the pandemic. During FY2021, SBP has continued with an accommodative monetary policy stance with 7.0 percent policy rate which has supported the economic recovery while keeping inflation expectations under control and safeguarding financial stability

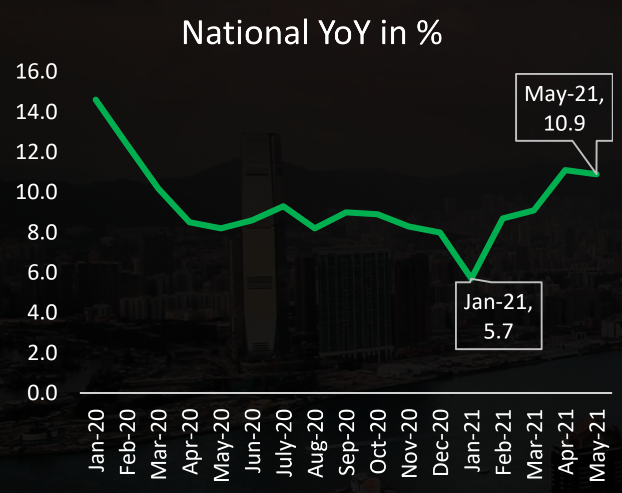
Lending and Deposit Rates (Weighted Average)

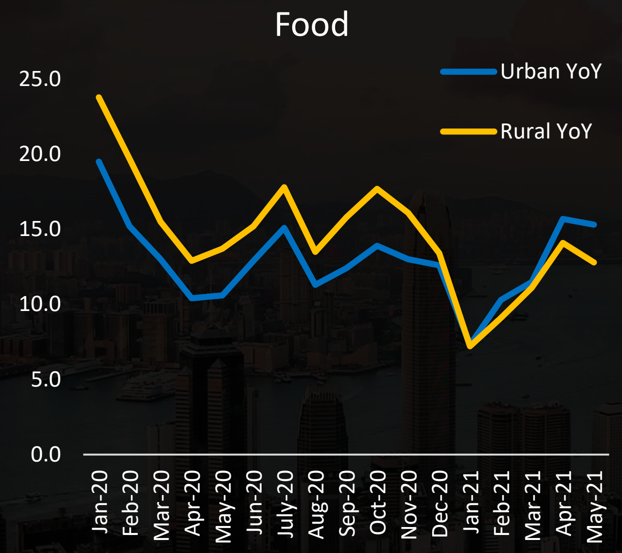


During the period 1st July-30thApril, FY2021 Broad money witnessed an expansion of Rs 1,664.8 billion (growth of 8.0 percent) against Rs 1,698.1 billion (growth of 9.5 percent) during the same period last year. Growth in money supply mainly contributed by Net Foreign Assets (NFA) of the banking system, which increased by Rs 950.2 billion against an expansion of Rs 931.1 billion last year, reflecting an improved balance of payment position. Whereas, Net Domestic Assets (NDA) of the banking system observed an expansion of Rs 714.6 billion during the period under review compared to an expansion of Rs 767.0 billion during same period last year.

Source: Pakistan Economic Survey

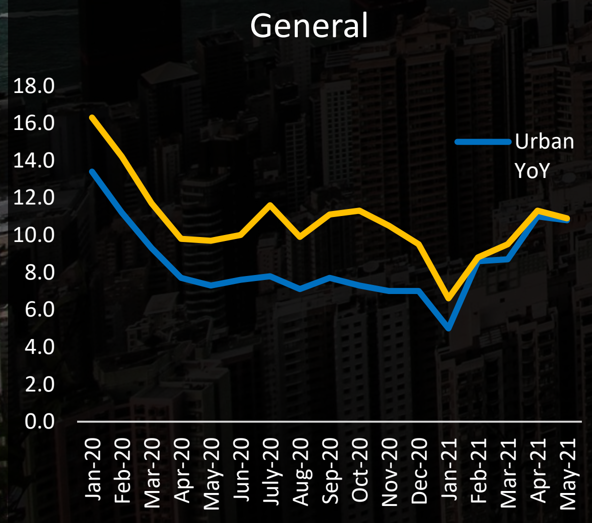
Inflation

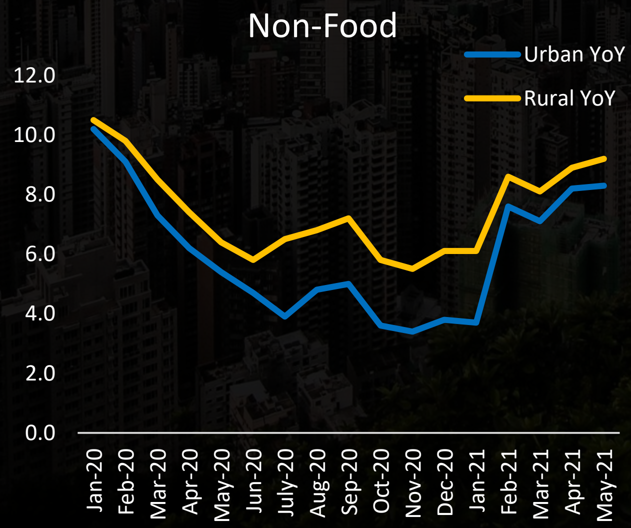


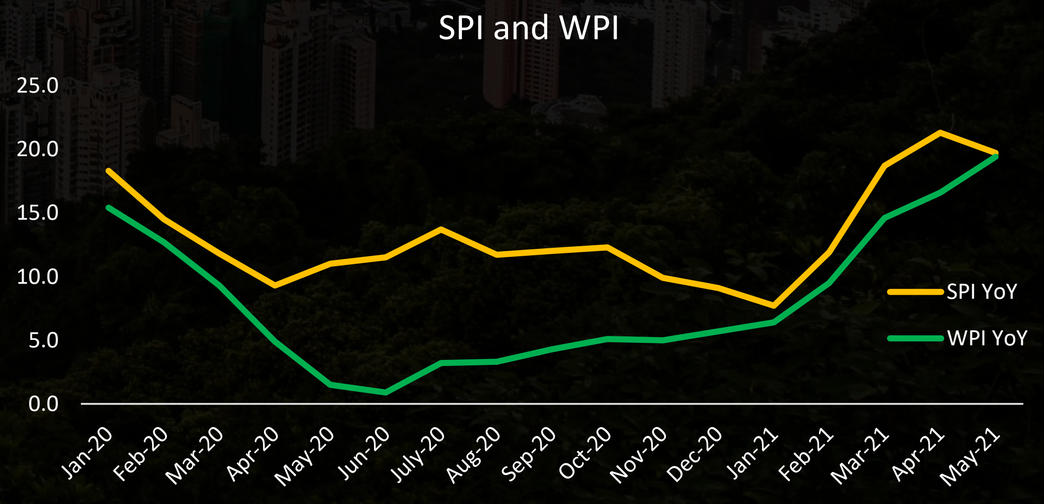


The Consumer Price Index (CPI) inflation for the period July-May FY2021 was recorded at 8.8 percent against 10.9 percent during the same period last year. The other inflationary indicators like the Sensitive Price Indicator (SPI) was recorded at 13.5 percent against 14.0 percent last year. Wholesale Price Index (WPI) was recorded at 8.4 percent in July-May FY2021 compared to 11.1 percent last year.

At the beginning of FY2021, a major contribution to increase in inflation in both urban and rural baskets came from food groups mainly due to the extended monsoon season. The government realizing the significance of supply disruption started establishing Sahulat/Bachat Bazar in all parts of the country. The rise in the prices of global agrarian products and other commodities especially oil contributed to domestic inflation as well. As far as oil prices are concerned, the government did not pass on the burden of price increase to the general public proportionately in order to maintain price stability.



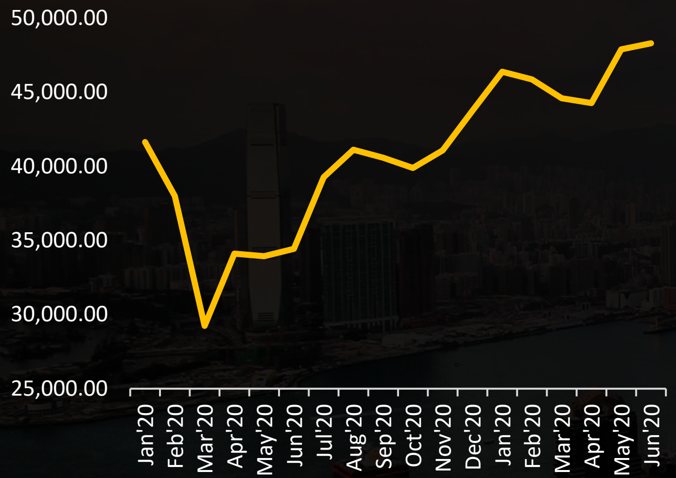




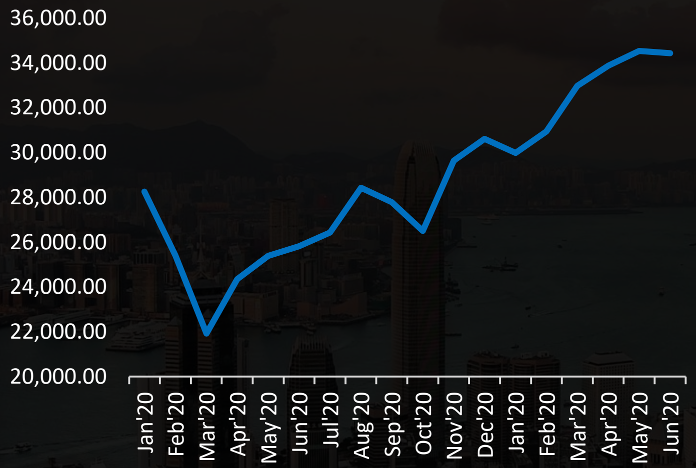
Source: Pakistan Economic Survey

Capital Market

KSE 100



DOW Jones



S&P 500

Nasdaq

During FY2021, Global equity markets, which plummeted in March 2020, rebounded when governments around the globe injected big stimulus money into their economies.

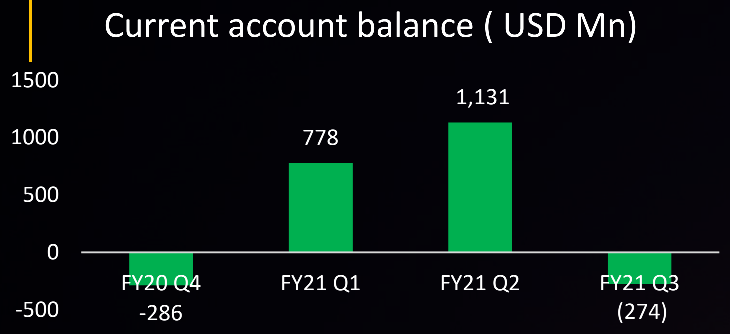
Pakistan Stock Exchange (PSX) also successfully powered through the initial COVID-19 induced economic downturn and earned the title of being the 'best Asian stock market and fourth best-performing market across the world in 2020.'

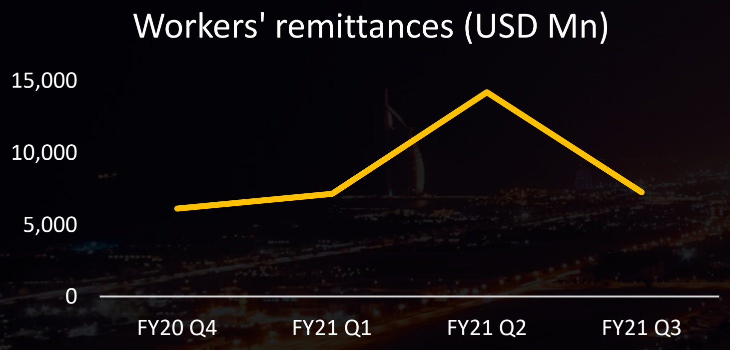
During July-May FY2021, the benchmark KSE-100 index improved from 34,889 points to 47,896 points, gaining 13,006 points in the said period. As of May 31, 2021, the total market capitalization of the Pakistan Stock Exchange was Rs 8,267 billion. An increase of 26.6 percent was witnessed in market capitalization, compared with the June 30, 2020 market capitalization of Rs 6,529 billion. Though the third wave of COVID-19 dragged the KSE-100 index down in March and April of FY2021, reforms introduced by the SECP and the government's pro-growth policies are helping the capital market to withstand the pressure.

The distinguishing feature of this year is the significant number of IPOs that took place. Despite the COVID-19 outbreak, Pakistan Stock Exchange witnessed five IPOs between July 2020 and March 2021. These five are: The Organic Meat Company, TPL Trakker, Agha Steel Industries, Engro Polymer & Chemicals Limited and Panther Tyres Limited

Source: Pakistan Economic Survey

Trade & Payments





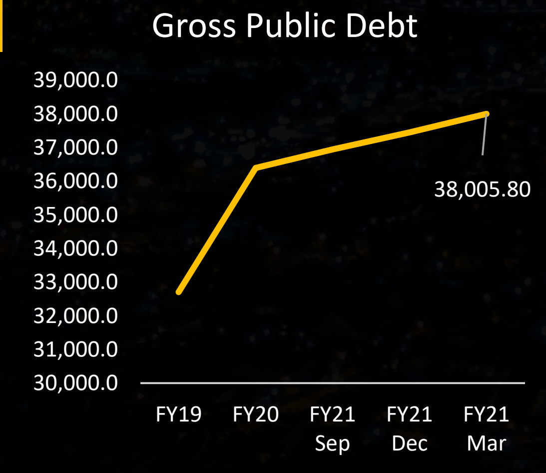
Amidst the uncertain and precarious global economic environment, where the global economy was lurching under the impact of the unprecedented COVID-19 shock, Pakistan's external sector has appeared as a key buffer for resilience.

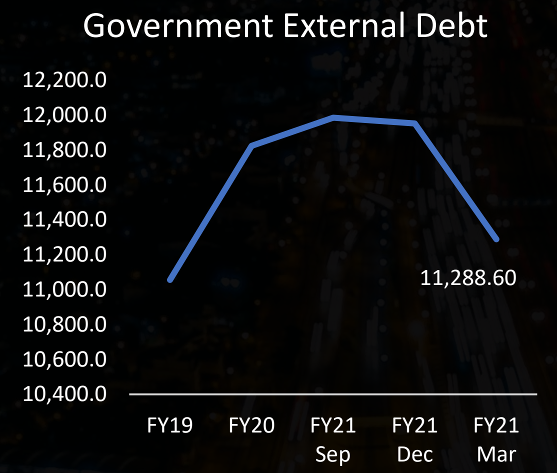
The comfortable external balance position of Pakistan has been supported by surplus current account balance on the back of robust flow of remittances and a sustained recovery in exports. Furthermore, improvements in the services and primary income account also provided a cushion to turn the current account deficit of $ 4.7 billion in FY2020 into a surplus of $ 773 million during July-April FY2021.

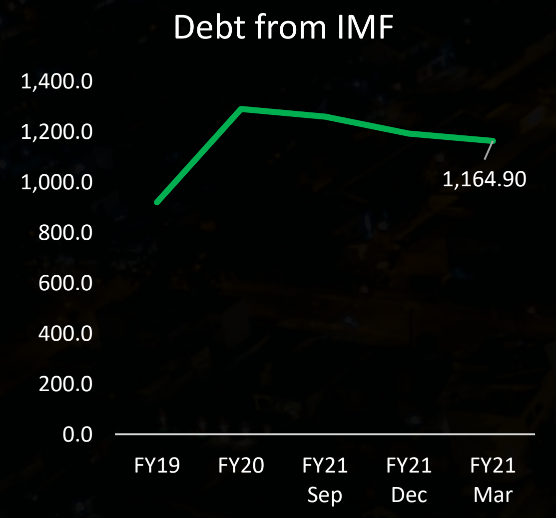
The inflow of workers' remittances in Pakistan has been rising consistently since FY2018 and the trend continued in FY2021 with a meritorious growth of 29.0 percent and reached $ 24.2 billion during July-April FY2021. Export of goods grew by 6.5 percent during July-April FY2021 and stood at $ 21 billion as compared to $ 19.7 billion in the same period last year. Import of goods grew by 13.5 percent to $ 42.3 billion as compared to $ 37.3 billion last year. Consequently, the trade deficit increased by 21.3 percent to $ 21.3 billion as compared to $ 17.6 billion last year

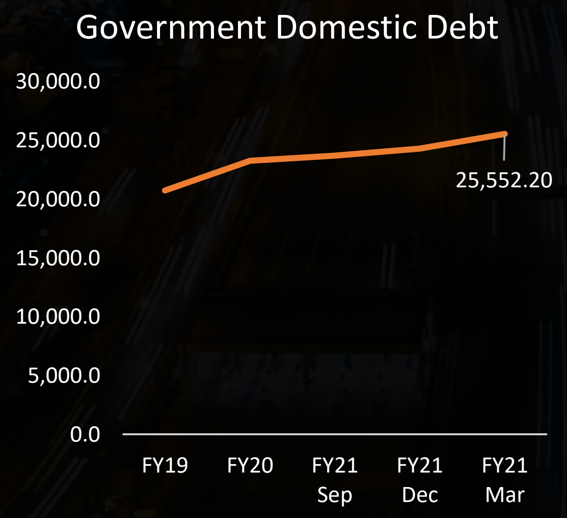
Source: Pakistan Economic Survey

Public Debt







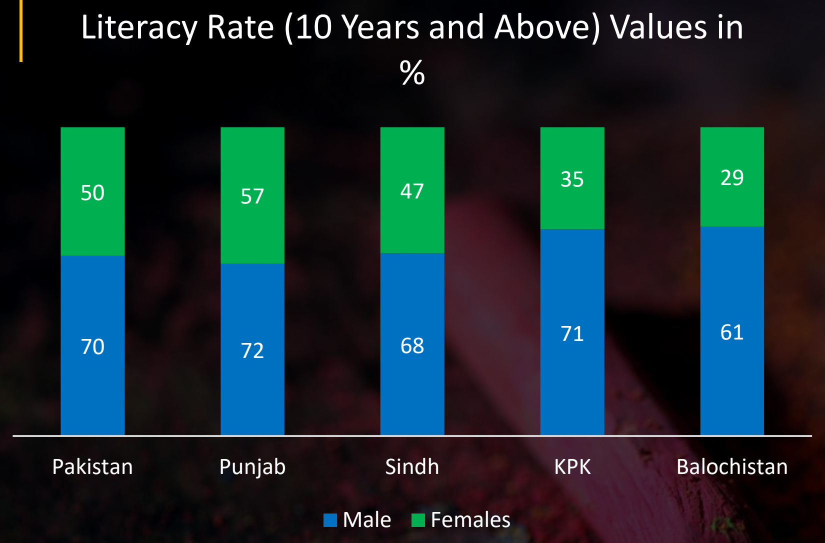


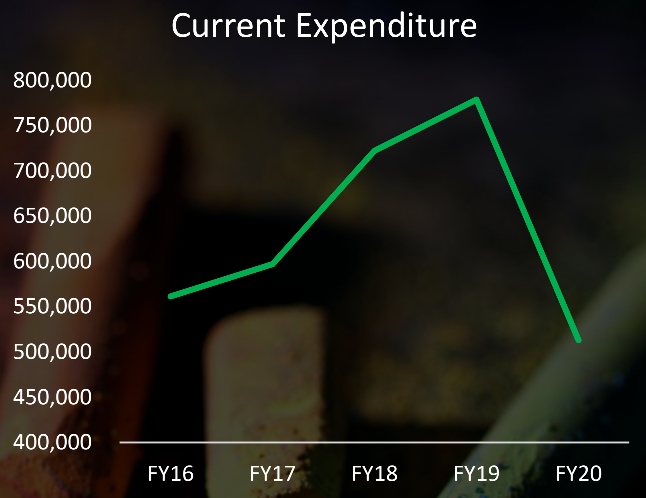
Total public debt was recorded at Rs 38,006 billion at end March 2021. Domestic debt was recorded at Rs 25,552 billion while external public debt was recorded at Rs 12,454 billion or $ 81.6 billion at end March 2021. Pakistan has been able to contain the growth in its public debt portfolio despite a very challenging macroeconomic situation around the globe due to the pandemic. In fact, Pakistan witnessed one of the smallest increases in its public debt. Global public debt to GDP Ratio increased by 13 percentage points, from 84 percent in 2019 to 97 percent in 2020, whereas, Pakistan's Debt-to-GDP ratio witnessed minimal increase of 1.7 percentage points and stood at 87.6 percent at end June 2020 compared with 85.9 percent at end June 2019. The Debt-to-GDP ratio of Pakistan is expected to reduce and will remain below 84 percent at the end of current fiscal year.

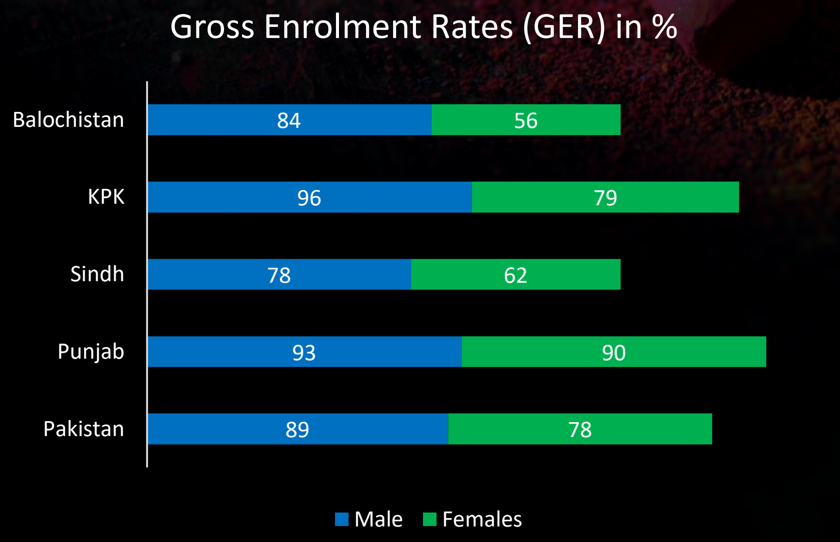
Total interest servicing was recorded at Rs 2,104 billion during first nine months of current fiscal year against its annual budgeted estimate of Rs 2,946 billion. Out of this total, domestic interest payments were Rs 1,934 billion and constituted around 92 percent of total interest servicing during first nine months of current fiscal year which is mainly attributable to higher volume of domestic debt in total public debt portfolio.

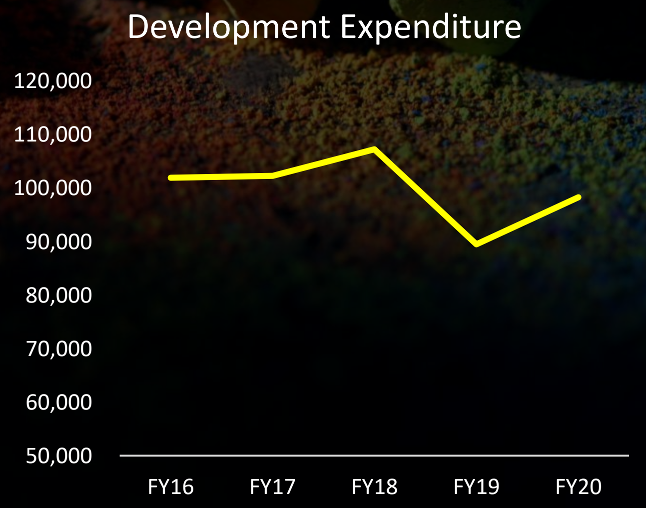
Source: Pakistan Economic Survey

Education









Present government is committed to achieve Goal 4 of SDGs i.e., “Quality Education”; which stipulates equitable education, removal of discrimination, provision and up-gradation of infrastructure, skill development for sustainable progress, universal literacy, numeracy and enhancement of professional capacity of teachers.

A Single National Curriculum (SNC) has been designed with the vision of one system of education for all, in terms of curriculum, medium of instruction and a common platform of assessment, so that all children have a fair and equal opportunity to receive high quality education.

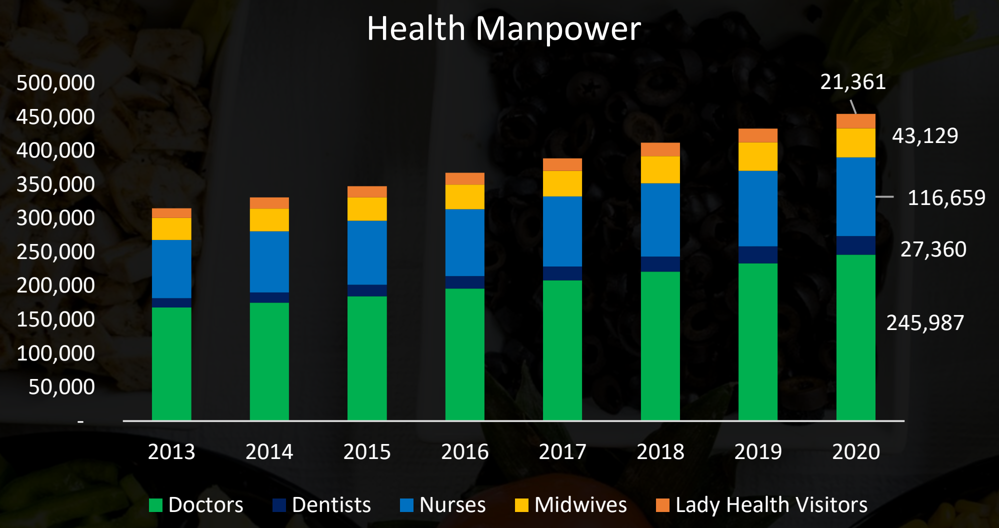
The COVID-19 pandemic has not only created a health crisis in the country but also adversely affected other sectors including education sector. In order to mitigate the learning losses of students during the closure of educational institutes, the government has launched initiatives like Tele School and Radio School to provide distance learning and addressed provision of education to the children of far flung and remote areas during the pandemic

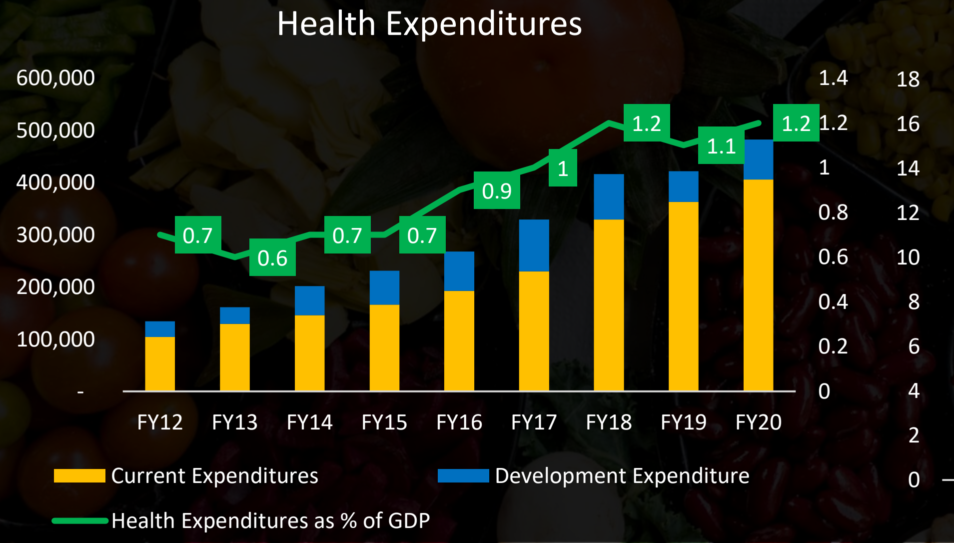
Source: Economic Survey

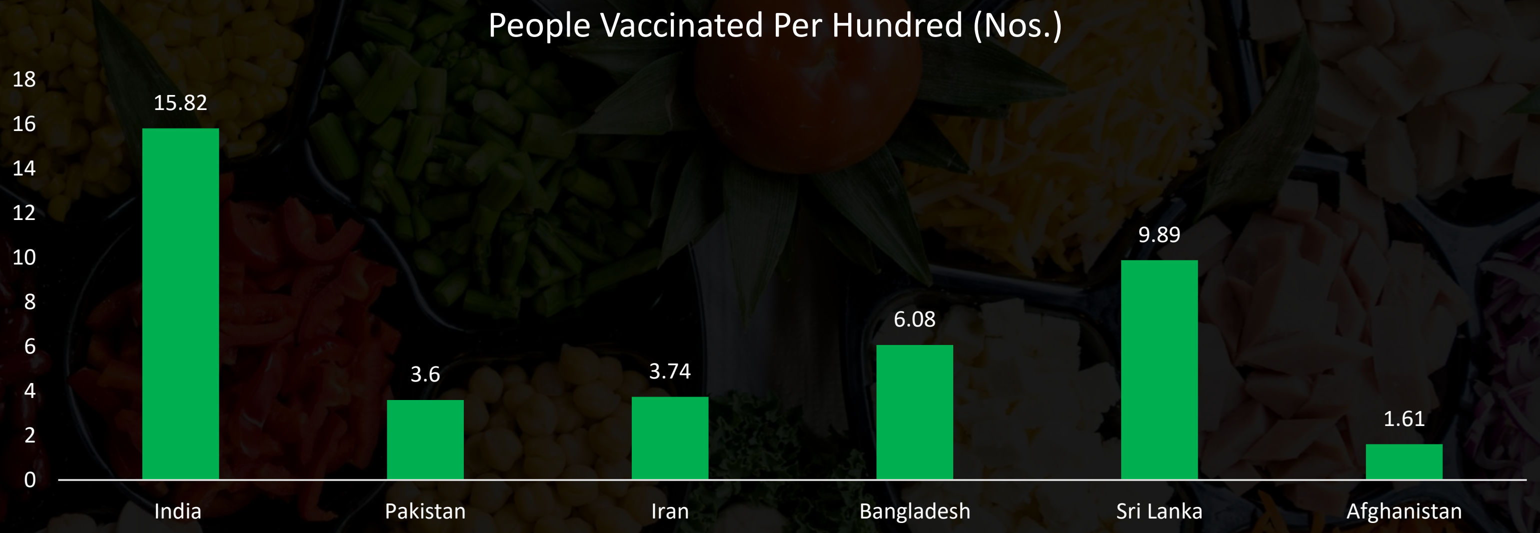
Health & Nutrition

The COVID-19 pandemic has tested the country's health infrastructure and identified the need for more investment in the health sector especially for diagnostic facilities, disease surveillance, disease prevention and spread, training of health personnel and their protection from the pandemic, vaccine development, up-grading health care infrastructure, emergency rooms, intensive care units, isolation wards and public awareness. In order to make substantial progress on Goal 3 of SDGs (Good Health and Wellbeing), the Government of Pakistan has given priority to strengthen the health sector to further resolve and address the outbreak of the COVID-19 pandemic. The health-related expenditure increased by 14.3 percent from Rs 421.8 billion (1.1 percent of GDP) in 2018-19 to Rs 482.3 billion (1.2 percent of GDP) in 2019-20.

Pakistan formally launched the coronavirus vaccination drive on 03 February 2021. China has donated 1.5 million doses of the Sinopharm vaccine, which has an efficacy of 79 percent. Till 2nd June, 2021, a total of 13.0 million doses of vaccine have been received by the Government of Pakistan and 8.3 million doses have been administered as on 5th June, 2021. The government is fully committed to increase the health coverage and provision of good nutrition to meet the emerging demand and to develop the effective human capital.



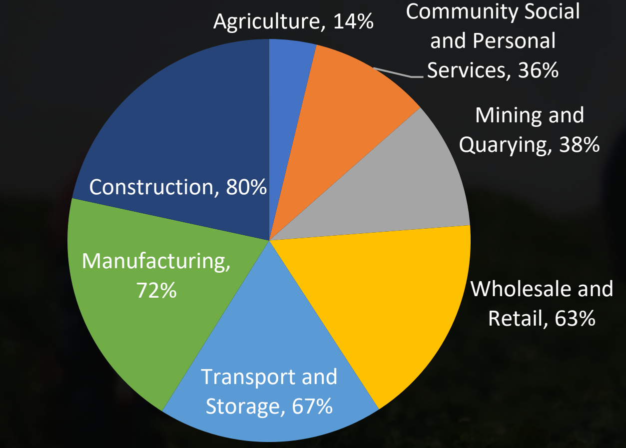




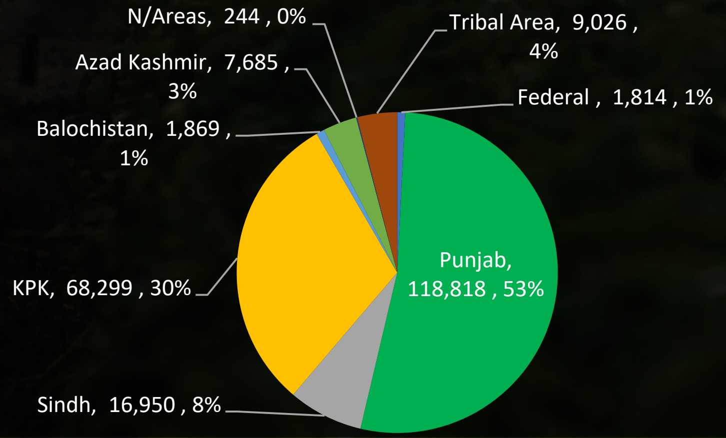
Source: Pakistan Economic Survey

Population, Labor Force & Employment

Incidence of Population Faced job lost/decrease in income by industry due to COVID-19



Pakistani Workers Registered for Overseas Employment During the Period 2016-20



According to the National Institute of Population Studies (NIPS) estimated population of Pakistan is 215.25 million with a population growth rate of 1.80 percent in 20201 and population density of 270 per Km2. Pakistan has an extraordinary asset in the shape of youth bulge, which means that the largest segment of our population consists of young people. The population falling in the age group of 15-59 years is 59 percent, whereas 27 percent is between 15-29 years. This youth bulge can translate into economic gains only if the youth have skills consistent with the requirements of a modern economy. The government has started different programmes for improving employment opportunities for youth such as "Prime Minister's Youth Entrepreneurship Scheme" and "Prime Minister's Hunarmand Programme-Skills for All" etc.

According to the "Special Survey for Evaluating Socio-Economic Impact of COVID-19 on Wellbeing of People" conducted by the Pakistan Bureau of Statistics, population working were 55.74 million, prior to COVID-19. This number declined to 35.04 million which indicates people either lost their jobs or were not able to work. The government announced package for construction sector and provided industrial relief, etc. Thus opening of these sectors, in which daily wagers were working along with fiscal stimulus and monetary measures, helped economy to recover. Thus according to the survey in August-October FY2021, 52.56 million resumed jobs.

Initiative taken by Government during FY21 to reduce the adverse impact on COVID-19 and generate Employment

- Construction Package (Boosted 40 Sectors of SMEs and LSM
- Bundal Island Project (would attract upto 5 Mn tourists and can create 150,000 jobs)
- Ravi River Urban Development Programme (cost 5 Tr and create jobs for 40 industries)
- Textile Industry Package (Government has recreated half a million jobs)
- Export processing zones (create jobs and bring new techonology)
- IT Parks Packages (contributing 2 bn dollars each years)
- SBP Rozgar Scheme (around 1,848,945 employees prevented from layoffs of 3,331 business)

Source: Pakistan Economic Survey

Federal Budget 2021-22

During the last three years of the present Government, it has faced numerous economic challenges, aggravated by the Covid 19 Pandemic. The Government has successfully progressed from recovery and stabilization to sustainable growth. The Government's priorities are as follows:

- Inclusive and sustainable economic growth
- Pro-poor initiatives and social safety net through the Ehsaas Programme's vertical and horizontal expansion
- Reduction in inflation and price control and monitoring
- Increased development spending for more job creation
- PM’s initiatives including Kamyab Jawan and Kissan Programmes
- Impact mitigation of Covid-19, and the continuation of the Stimulus Package
- Circular debt financing and power subsidies
- Revenue mobilization without new taxes
- Support of the Housing Sector and the Construction Industry through Naya Pakistan Housing Scheme and SME support programs
- Facilitating expatriates remittances and savings through Roshan Digital Account
- Pakistan Remittances Initiatives and other schemes

Source: MOF , FBR

Federal Budget 2021-22

Fiscal Deficit & Financing of Budget 2021-22

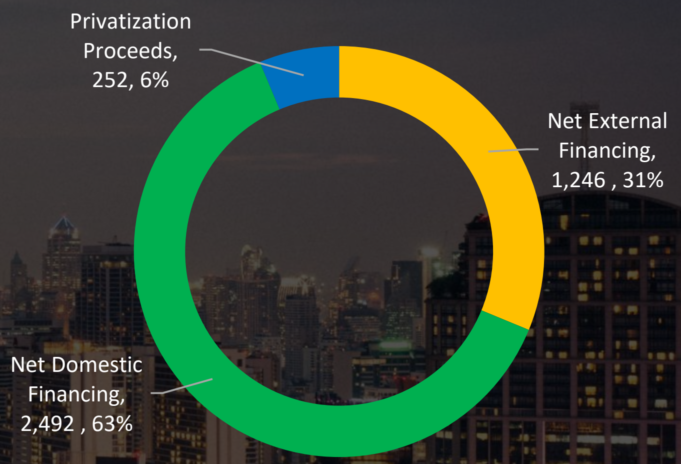
Fiscal Deficit		Financing	
A) Federal Revenue (Net)	4,497	A) Net External Financing	1,246
B) Total Federal Expenditures	8,487	Multilateral & Bilateral Sources	369
i) Current Expenditure	7,523	Commercial Sources	877
ii) Development and Net Lending (a+b)	964	B) Net Domestic Financing	2,492
a) Federal PSDP	900	National Saving Schemes and Others	74
b) Net Lending	64	Bank (Govt. Securities)	2,417
C) Federal Deficit (A-B)	-3,990	C) Privatization Proceeds	252
		Total Financing (A+B+C)	3,990

PKR 30 Billion
Subsidy for Naya Pakistan Housing

PKR 3 Billion
Subsidy for Markup Naya Pakistan

PKR 100 Bn
Provision for Disaster/Emergency /COVID

Finanicng the Deficit



Expenditures Breakup

Source: MOF , FBR

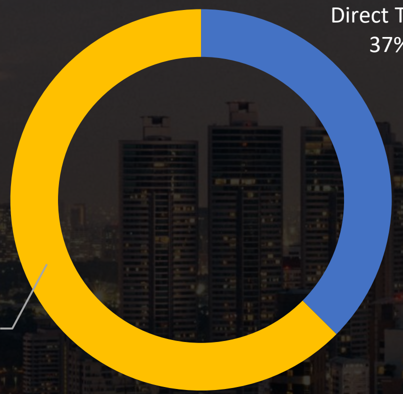
Federal Budget 2021-22

Taxes, Expenditures & Subsidies

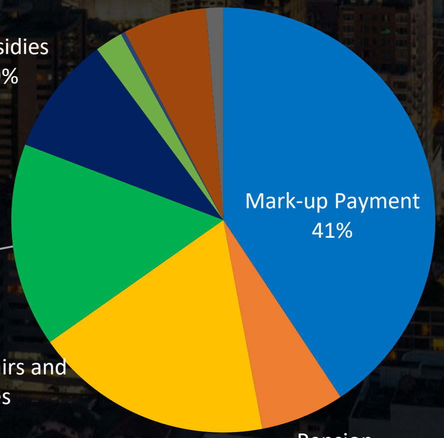
Classification	2020-21	2021-22
FBR TAXES (I + II)	**4,963,000**	**5,829,000**
Direct Taxes	2,043,000	2,182,000
Income Tax	2,032,557	2,171,839
Workers Welfare Fund	3,969	8,054
Workers' Profit Participation Fund	3,750	1,545
Capital Value Tax	2,724	562
Indirect Taxes	2,920,000	3,647,000
Customs Duties	640,000	785,000
Sales Tax	1,919,000	2,506,000
Federal Excise	361,000	356,000

Current Expenditures Breakup	2020-21	2021-22
Current Expenditure	**6,345,502**	**7,523,248**
Mark-up Payment	**2,946,135**	**3,059,682**
Mark-up on Domestic Debt	2,631,000	2,757,176
Mark-up on Foreign Debt	315,135	302,506
Pension	**470,000**	**480,000**
Military	359,000	360,000
Civil	111,000	120,000
Defence Affairs and Services	**1,289,134**	**1,370,000**
Grants and Transfers	**904,644**	**1,167,518**
Grants to Provinces	85,000	106,250
Grants to Others	819,644	1,061,268
Subsidies	**209,000**	**682,000**
Pay and Pension	**-**	**160,000**
Provision for Contingencies & Fund	**50,000**	**25,000**
Running of Civil Government	**476,589**	**479,048**
Provision for Disaster / Emergency/ Covid	**-**	**100,000**

FBR Taxes Breakdown

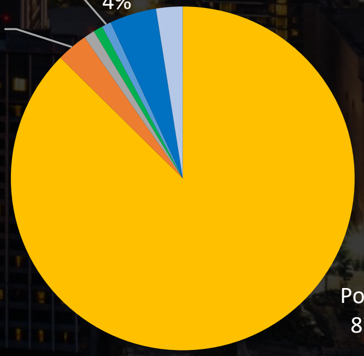


Expenditures Breakup



Subsidies Breakup	2020-21	2021-22
Power	139,500	596,000
WAPDA/ PEPCO	129,000	245,000
KESC	10,500	85,000
PHPL & IPPs	-	266,000
Petroleum	10,000	20,000
PASSCO	7,000	7,000
Utility Stores Corporation	3,000	6,000
Others	49,500	53,000
Wheat Subsidy to GB	6,000	8,000
Metro Bus	2,000	1,000
Fertilizer Plant	6,000	6,000
Others	5,500	5,000
Naya Pakistan Housing Authority	30,000	30,000
Mark-up Subsidy Naya Pakistan	-	3,000
Total	209,000	682,000

Subsidies Breakup



Source: MOF , FBR

The Budget Strategy for FY 2021-22

The Budget 2021-22 is a growth budget it is based on a well thought out strategy to boost the economic growth earlier outlined in the Medium Term Budgetary Strategy Paper for FY 2021-22 to FY 2023-24, which gave a clear roadmap of the strategic priorities, revenue and spending policies of the Government, and was approved by the Federal Cabinet in April, 2021. The main priorities of the Federal Government for FY 2021-22 are:

- Sustainable economic growth
- The Prime Minister Special Initiatives
- Optimal mobilization of revenue
- Increased Development Funding
- Expeditious disposal of refund claims

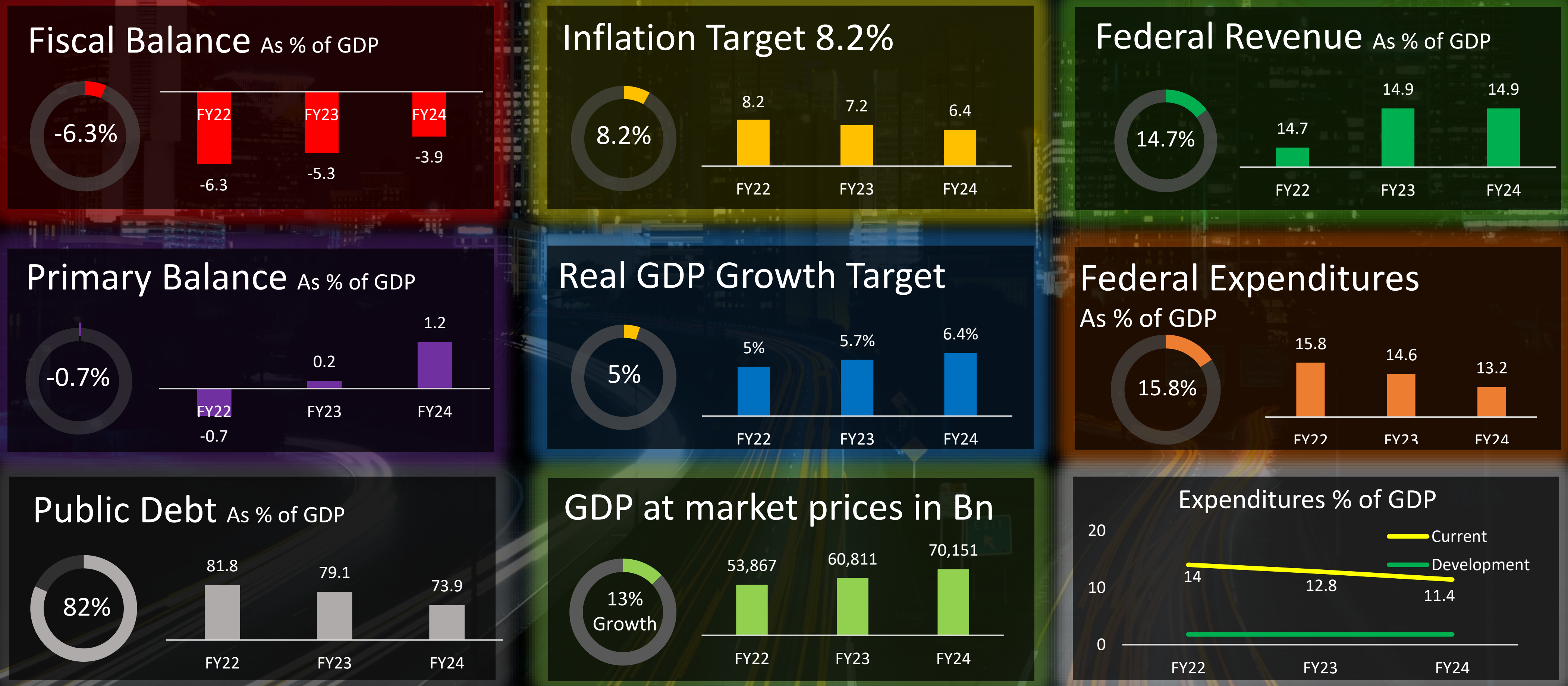
Main Objectives of Budget 2021-22

- Striking a balance between fiscal deficits due to Covid 19 and boosting growth of the economy
- Keeping primary balance at a sustainable level
- Protection of social spending under the Ehsaas Program to support vulnerable segments of the society
- Resource mobilization with required changes in tax structure
- Successful continuation of the IMF program
- Carrying forward of Stimulus Package
- Keeping development budget at an adequate level to stimulate sustainable economic growth coupled with policy support
- Funding of crucial Housing initiatives including Naya Pakistan Housing project to boost the construction sector
- Funding for special areas i.e erstwhile FATA, Azad Jammu & Kashmir and Gilgit Baltistan to ensure their development
- Continuation of special initiatives led by the Prime Minister like Kamyab Jawan, Sehat Card, Billion tree Tsunami, etc.
- Austerity and control of non-productive expenditure
- Rationalization of subsidy regime to provide targeted subsidy to the deserving segments of the society
- Revisiting of the NFC award. Moreover, persuading the provinces to fulfill their funding commitments made at the time of the merger of erstwhile FATA

Source: Federal Budget FY22

Federal Budget 2021-22 Snapshot

Key Medium Term Macroeconomic & Budgetary Indicators



Source: Federal Budget FY22

Federal Budget 2021-22

Relief Measures

CD : Custom Duty
ACD : Additional custom Duty
RD: Regulatory Duty

Relief for Common Man

- Reduction of ACD on goods falling under 2436 tariff lines pertaining to 20% customs duty slab from 7% to 6%.
- Extension in exemption from customs duties on import of COVID-19 related items for further six month.
- Exemption of CD &ACD on Inputs of Ready-To-Use Supplementary Foods (RUSF) and Ready-To-Use Therapeutic Food (RUTF).
- Exemption of CD & ACD on 06 life-saving drugs.
- Enhance the value of unsolicited gifts through post or courier from Rs.20,000 to 30,000.
- Exemption of CD & ACD on import of grain storage hermetic bags and cocoons.
- Rationalization of tariff structure on auto sector

Relief Measures for Industries

- The minimum annual threshold of turnover from all supplies for cottage industry is proposed to be increased from Rs. 3 million to Rs. 10 million
- The threshold of shop area in case of furniture outlet/showrooms is proposed to be increased from 1000 square feet to 2000 square feet for inclusion in tier1 retailer.
- Public limited companies are proposed to be excluded from the purview of section 8B.
- A separate section introduced for allowing extension of time for furnishing of return
- Exemption is proposed to be granted to art and printing paper for publication and printing of Holy Quran.
- Exemption on import of CKD kits for electric vehicles by manufacturers granted by Tax Laws (Amendment) Ordinance, 2021 is proposed to be incorporated in the Sixth Schedule.
- To facilitate international athletes, exemption to goods temporarily imported by athletes/sportsmen granted by Tax Laws (Amendment) Ordinance, 2021 is proposed to be incorporated in the Sixth Schedule.
- Tax exemption to auto disable syringes granted vide Tax Laws (Second Amendment) Ordinance, 2021 is proposed to be incorporated in the Sixth Schedule.
- To facilitate farmers and encourage storage of grain, tax exemption on locally manufactured silos is proposed to be granted till 30.06.2026
- In order to address litigation issue, fixed tax on SIM cards is proposed to be deleted with effect from 1st July, 2020.

Source: MOF , FBR

Federal Budget 2021-22

Export Facilitation Measures

- To ease of doing business, a new Uniform Export Facilitation Scheme is being proposed. The existing schemes shall be phased out in next two years
- Bond to Bond Transfer of goods through WeBOC without prior approval of the Collector is being proposed to be allowed.
- Reduction of RD on export of molasses, skin and hides to boost positive image of the country with our important trading partners across the world.

Revenue Measures

- The sale of goods through online market place is proposed to be brought into the sales tax net by deeming the online market place as supplier in respect of third party sales through their platform.
- For specified goods, it is proposed that it may be made mandatory for manufacturers of such goods to obtain brand license for each separate brand or SKU.
- The rate of sales tax on potassium chlorate is proposed to be increased from Rs. 80 per kg to Rs. 90 per kg in addition to 17% standard rate.
- To ensure collection of due taxes, sales tax on sugar is proposed to be levied on retail price by including the said product in Third Schedule.

Source: MOF , FBR

Budget impact on Sectors

Automobile Sector – Positive

- Rising prices of locally manufactured small cars is a major concern for low earning families. Accordingly it is proposed that small cars upto engine capacity of 850cc may be exempted from value added tax besides reducing sales tax rate from 17% to 12.5%.
- In case of local supply of locally manufactured Electric Vehicles (EV) i-e, small cars or SUVs with battery capacity up to 50 kwh and Light Commercial Vehicles (LCV) with battery capacity up to 150 kwh, the Bill proposes to levy sales tax at reduced rate of 1% whereas import of the same is excluded from minimum value addition tax with 25% reduction in custom duty till 30.06.2026.
- In addition, the Bill proposes to reduce sales tax on Hybrid Electric cars with capacity up to 1800 cc to 8.5%
- The Bill further proposes to reduce levy of minimum tax on turnover from 1.5% to 0.25% in case of persons engaged in sale and purchase of used vehicles while also abolishing withholding of income tax on purchase of used vehicles from general public. However, the collection of advance tax is proposed to be made from the original purchaser who sells it without registration, at the rates ranging from Rs. 50,000 to Rs. 200,000.
- Exemption from value addition tax on import of electric vehicles, CKD kits for small car, 2-3 wheelers, HCVs and all these vehicles in CBU conditions was granted vide Tax Laws (Amendment) Ordinance, 2021 is proposed to be incorporated in the Twelfth Schedule.

Reduce Sale Tax
17% to 12.5%
For upto 850cc

Local Electric Vehicles sales tax of 1%

CKD kits for EVs taxed at 1% of Custom duty

Reduce Minimum tax on turnover from 1.5% to 0.25%

CD : Custom Duty
ACD : Additional custom Duty
RD: Regulatory Duty

Telecommunication - Positive

The Bill proposes several relief measures for this sector, some of them were being demanded for long, such as grant of ‘industry’ status for tax purposes. These measures will help to attract investment in telecom infrastructure and reduce the cost of doing business and consequential relief to the public.

- Grant of industry status which will resolve several anomalies in taxation of this sector. Also, it will make it possible for telecom companies to import plant and machinery without collection of advance tax after obtaining exemption certificate from the Commissioner.
- Reduction in rate of withholding tax on receipts from 8% at present to 3%. As the sale tax is also minimum tax, this will entail a reduction of 62.5% in effective tax rate on income for those with low profits.
- Reduction in rate of federal excise duty on telecom services from 17 percent to 16 percent. This will however only be relevant for services rendered in Islamabad as services rendered in provinces are subject to provincial sales tax.
- Abolition of fixed sales tax on SIM cards. However, this will not affect existing cases in litigation.
- Concurrently, certain revenue measures are also proposed in the Bill to levy federal excise duty @ Re. 1 per call, if the call duration exceeds three minutes, Ten paisa per SMS and Rs. 5 per GB of data usage in addition to the standard duty. Again, this will be relevant only for services rendered in Islamabad.

Import Plant and machinery without collection of advance tax

Reduction of withholding tax from 8% to 3%

Reduction of FED on telecom services from 17% to 16%

Abolition of Fixed sales tax on SIM cards

CD : Custom Duty
ACD : Additional custom Duty
RD: Regulatory Duty

Source: MOF , FBR

Information Technology - Positive

The Government had promulgated Special Technology Zones Authority Ordinance, 2020 with the stated objective of setting up a corporate authority to establish, amongst others, software and hardware technology parks, high-tech industrial areas, science and technology zones, knowledge cities, technology incubation zones or any sector zone requiring technological intervention.

- 10 years break from income tax to zone developers and zone enterprises, including exemption from minimum tax otherwise leviable under section 113 of the Ordinance
- 10 years exemption from customs duty, sales tax and withholding income tax on import of capital goods such as plant, machinery and equipment for use within the zone.
- Tax exemption on dividend income and long term capital gains of any venture capital fund from investment in a zone enterprise(s)
- Complete exemption on income of the Special Technology Zones Authority established under the STZA Ordinance, 2020

10 Years break from income tax

10 Years Exemption from CD , sales tax and withholding tax

Tax exemption on dividend income and capital gains

Complete exemption on income of STZA

CD : Custom Duty
ACD : Additional custom Duty
RD: Regulatory Duty

Source: MOF , FBR

Manufacturing Sector - Positive

The primary focus of the Government is to reduce the cost of production for the local industry to compete in the market. At the same time, much needed protection has also been given to the manufacturing sector of the country. Special focus has been given to the textile, pharmaceutical, oil refining, plastic and iron & steel manufacturers as well as downstream engineering goods manufacturing industry.

Textile Sector: Textile sector being backbone of the export economy has been given special attention. Therefore, tariff structure is proposed to be reduced and rationalized comprehensively on cotton value chain, polyester value chain and manmade fibres, thereby fulfilling long standing demands by the textile industry.

Steel Sector: Similarly, to give relief to downstream engineering goods manufacturing industry, customs duties and additional customs duty on flat rolled HRC and alloy and stainless-steel products is proposed to be exempted along with reduction in Regulatory duty.

Pharmaceutical Sector: To incentivize the pharmaceutical sector and to keep the prices stable in the market, -

- Exemption of CD & ACD on more than 350 APIs
- Plant, machinery and equipment subject to concessionary rate of 5%
- Exemption of CD & ACD on raw material of auto-disable syringes and Reduction in tariff on finished auto-disable syringes

Textile Sector: tariff structure to be reduced

Steel sector : CD and RD exemption/reduction

Pharma: more than 300 API have been exempted from CD

Exemptions in Tariff for many other sectors

CD : Custom Duty
ACD : Additional custom Duty
RD: Regulatory Duty

Source: MOF , FBR

SMEs Sector

In order to promote small and medium scale manufacturers (SME), the concept of SME has been introduced in the Ordinance. SME, by definition, is a manufacturer with turnover not exceeding Rupees two hundred and fifty million.

A special tax regime through insertion of Fourteenth Schedule to the Ordinance is proposed by the Bill, which is effective from the tax year 2021. Under this regime, separate reduced tax rates of 7.5% and 15% will apply for SMEs with turnover less than and greater than Rs. 100 million respectively, with option for final tax regime at 0.25% and 0.50% of the turnover. The option once exercised shall remain valid for a period of three years.

Income tax returns filed under the Final Tax Regime shall not be selected for tax audits. However, income tax returns filed under the normal tax regime are prone to audit selection through risk based parametric ballot if the tax to turnover ratio is less than 0.25% or 0.50% of the SME, as the case may be.

We however note that the Bill is silent on the applicability of minimum tax under section 113 on SMEs, which is higher than the rates proposed in the Fourteenth Schedule. There is also the question of withholding of taxes under section 153 of the Ordinance, which also constitute minimum tax in themselves. This needs to be addressed in the Finance Act to avoid unnecessary litigation on this issue. A simplified tax return is proposed in the Bill in the wake of ease of doing business.

CD : Custom Duty
ACD : Additional custom Duty
RD: Regulatory Duty

Source: MOF , FBR

Other Sectors

Housing Sector – Positive

PKR 33 billion of subsidy allocated for low income housing scheme construction (PKR 3 Lacs/per household)

Food % Personal Care Products - Positive

- Reduction / exemption on inputs / raw materials of food processing industry.
- FED on juices withdrawn.
- Reduction of RD on import of cocoa paste, butter and powder being industrial input goods.
- For establishment of Border Sustenance Markets, exemption from sales tax is proposed to be granted on food related and other consumable goods.

Construction and allied industries – Positive

PKR 57 billion for dasu hydropower project , PKR 23 Billion for diamer basha dam , PKR 6bn Mohamad Dam, PKR 14bn for Neelum hydro project

Export based industries - Positive

Exemption of Special economic zones enterprises from payment of minimum turnover tax.

Power , Cable goods - Positive

- PKR 118 bn for improving electricity transmission projects vs PKR 70.23 bn in FY21.
- Exemption of ACD on import of raw materials for cables / optical fiber manufacturers.

Refinery - Positive

Exemption of income tax for 10 years on deep conversion new refineries.

Sugar - Positive

Exemption/ reduction of CD, ACD, RD on import of HRC and Stainless steel.

Paper & Board – Positive

Reduction of CD & ACD on uncoated paper and paperboard for printing and graphic arts industry.

CD : Custom Duty
ACD : Additional custom Duty
RD: Regulatory Duty

Source: MOF , FBR

Other Sectors

Chemical Industry – Positive
- Reduction / Exemption of CD & ACD on raw materials for Paint Industry
- Reduction / Exemption of CD & ACD on raw materials for Chemical and Artificial Leather Industry

Electronic Industry - Positive
Reduction / Exemption of CD & ACD on inputs for Electronics Manufacturing Industry.

Furniture Sector – Positive
Reduction / exemption of CD & ACD on raw materials / inputs of furniture, coating, boiler manufacturing industry, bobbins and cops manufacturing industry etc.

Packaging Industry - Positive
Reduction / exemption of CD & ACD on raw material for manufacturer of aseptic plastic packaging.

Poultry Industry - Positive
Reduction / exemption of CD & ACD on inputs for poultry industry.

Footwear Industry - Positive
Reduction of duties on raw material/inputs of footwear industry.

Tourism Industry - Positive
Reduction / exemption of CD & ACD on goods falling under more than 100 PCT codes relating to Tourism industry.

Dairy Sector - Positive
Reduction / exemption of CD & ACD on Vaccines for veterinary medicines and feed additives to incentivize the dairy sector.

Agriculture - Positive
To facilitate farmers and encourage storage of grain, tax exemption on locally manufactured silos is proposed to be granted till 30.06.2026.

CD : Custom Duty
ACD : Additional custom Duty
RD: Regulatory Duty

Source: MOF , FBR

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