

EXPRESSIONS

ECONOMIC PULSE

# PRK initiates major tax reforms

# Private sector retires Rs185B loans



KARACHI

The private sector has retired Rs185 billion against its outstanding loans instead of taking new loans, owing to the lacklustre economic activities in the country, according to the data released by the State Bank of Pakistan.

The private sector repaid Rs185 billion during July 1 to August 22, 2022, compared with Rs152 billion in the corresponding period of the last fiscal year.

Analysts said that the high inflation, rising interest rates and political uncertainty deterred the private sector from taking new loans.

The private sector credit grew around 21 per cent (YoY) in FY22, somewhat faster than the nominal GDP. The expansion was broad-based, with the working capital loan accounting for the largest share, owing to strong activity in the sectors such as textiles, food, construction, energy and wholesale and retail trade, the SBP report noted.

In real terms, the private sector credit growth was more subdued last year and actually declined 3 per cent in June 2022, consistent with a moderating pace of economic growth," it added.

Regarding inflation, the SBP said the inflationary pressures intensified in July 2022, with headline inflation rising by a further 3½ percentage points to 24.9 per cent (YoY). The main contributors were food and energy inflation but core inflation also rose further, particularly in the retail area.

In the coming months, curbing food inflation through supply-side measures that boost the output and resolve the sup-

ply-chain bottlenecks should be a high priority. Encouragingly, there is evidence that the inflation expectations of businesses have eased significantly.

Looking ahead, the headline inflation is projected to peak in the first quarter before declining gradually through the rest of the fiscal year.

"To cool the overheating economy and sharply and fall to the 5 to 7 per cent target range by the end of FY24, supported by the lagged effects of the tight monetary and fiscal policies, the normalisation of global commodity prices and beneficial base effects.

This baseline outlook remains subject to uncertainty, with risks arising out from the path of global commodity prices, the domestic fiscal policy stance and the exchange rate, the SBP added.

On August 22, 2022, the central bank maintained the policy rate at 15 per cent. "To cool the overheating economy and contain the current account deficit, the policy rate has been raised by a cumulative 800 basis points since last September," it said.

The SBP data revealed that the conventional banks have extended loans amounting to Rs3.33 billion during the period under review, compared with the retirement of Rs175 billion in the same period of the last fiscal year.

On the one hand, the massive retirement of the private sector credit has been seen in the case of Islamic banks. The private businesses retired Rs171 billion to the Islamic banks, compared with a credit of Rs4.44 billion in the same period of the last fiscal year.

The credit facilities by the private sector saw a massive growth of Rs1.61 billion during the fiscal year 2021/22, compared with Rs7.66 billion in the preceding fiscal year. —Shahnoor Akhter

TAXATION

By Shahnoor Akhter

KARACHI: The Federal Board of Revenue (FBR) has initiated a major tax reform programme funded by the World Bank with a financing grant of \$400 million to broaden the tax base, automation and improving accountability.

According to official documents, the revenue board had received a part of a financing from the World Bank to have consultants under the programme, namely Pakistan Revenues Reform (PRR). The consultants will provide technical assistance across various cross-functional areas.

The FBR said the reforms would achieve high performance and innovation, which are essential for sustained growth in the revenue collection to meet the country's budgetary demands and to finance development programmes for public welfare.

The main emphasis of the tax reforms is promoting voluntary tax compliance through robust compliance control mechanisms, enhanced facilitation for the taxpayers, improvement of information and communications technology (ICT)-based data systems to broaden the tax base, automation and improving accountability and transparency.

The FBR officials said that the project has two components: result-based component comprising of 10 disbursement linked indicators to strengthen the results orientation of the project, while the technical assistance mainly focuses on information technology and organisational capacity-building. The project is currently under implementation.

Under this reform programme, the revenue board is intended to prepare and implement the National Annual Financial (income tax/federal excise duty) and National Annual Financial (income tax/federal excise duty) and National Annual Financial (income tax/federal excise duty) strategic goal analysing the compliance trends and key risk areas in order to identify the objectives and vision of the National Audit Mission. The project will also identify and recommend initial projects to transform the traditional audit process.

The reform programme body is intended to establish Post Clearance Audit Risk Management System designed with the workflow-based case management and training module for the auditors, based on best international practices to ensure transparency in its operation and compliance. Develop the operational framework for five-year National Audit Plan for all key activities analysing the respective trends and international best practices in setting the objectives and vision of the National Audit Mission. Develop Compliance Risk Management Programme and prepare review reports, recommendations and relevant risks as prescribed under the relevant laws and statistics of the audit policy.

Under the reform programme, it is also part of the efforts to identify and implement government collection of taxes from consumption and use of digital services by businesses and consumers of such services in Pakistan via devising a mechanism for tracking and collecting associated taxes on digital payments through digital service providers in Pakistan by various payment channels and collaborating with the participants in online payment chain.

**The results-based component comprises a set of 10 disbursement linked indicators to strengthen the results orientation of the project, while the technical assistance mainly focuses on information technology and organisational capacity-building**



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INTERVIEW

Business Desk

KARACHI

The oil industry in Pakistan went through a rough patch last year in the aftermath of the COVID-19 pandemic. However, as the refineries, and marketing companies stood firm during the difficult period and have made a comeback. Although the industry is still facing a myriad challenges, it comes out stronger from the downturn and some eyes are now looking for growth and expansion. In this context, Energy One (PK) Limited, Pakistan's biggest vertically integrated oil refiner and marketer that has ambitious plans for the future.

To gain better insight, BCI News availed an opportunity to interview Mohammad Wasi Khan, CEO of the Chairman of the Board. Wasi Khan has associated with the group for more than 17 years. A chemical engineer by profession, Khan is an industrialist with four decades of experience of working in key positions in large public sector and multinational organisations.

**Energy One has been the fastest-growing oil company in Pakistan in recent history. What was the vision behind the company's expansion?**

Energy One was formed by the merger of two of late Parvez Abbasi and Amir Abbasi's in 1995 with a vision to transform Pakistan by reducing its reliance on imported petrol, and other refined products. Since then, the company has witnessed a phenomenal growth. To face the expansion, we've seen in Pakistan's oil refining sector over the last two decades can be attributed almost entirely to Energy One. Energy One was started in 2001 as a small refinery that could process 18,000 barrels/day of crude oil. Within three years, this expanded to 100,000 barrels/day. In 2015, Energy One initiated its second oil refining plant of 120,000bpd, which increased its total capacity to 150,000 barrels/day, to meet the demand in the country. At the same time, we've also expanded our nationwide network of petrol pumps that currently stand at around 450. Our production, marketing and base is also growing rapidly.

We are the only private-sector marketing company in Pakistan that owns and operates its own refinery. Energy One's state-of-the-art Single Point Mooring (SPM) facility is located in deep-sea near our oil refining complex. Unlike other energy companies that use the third-party operated ports to import crude oil, we own our SPM. As a result, Energy One does not face any port congestion or delays that other refining companies frequently experience.

**Besides growing capacity, does Energy One has any plans to upgrade and modernise its oil refinery, especially in the light of the changing environment of the global energy market?**

The global energy market has been in a state of constant change. The advent of advanced technologies, new regulations, shifts in consumption patterns, major geopolitical events, such as the ongoing war in Ukraine, are some of the factors that have played a big role in reshaping the energy markets and will continue to affect this sector in the future.

In the last few years, the changes in the energy markets have been driven by the arrival of electric vehicles, fuel-efficient internal combustion engines, new fuels like hydrogen, renewables, etc. One of the three main industries that constitute the energy sector — upstream (oil and gas exploration and production), midstream (transportation and storage) and downstream (refining and marketing) industries — have upgraded their business in light of the above-

Mohammad Wasi Khan, Board Chairman of EnergyOne PK

# Ambitious plans

The Upgrade-1 project will further cement Energy One's position as an industry leader



mentioned trends. In Pakistan, oil refiners have been modernising their facilities, including EnergyOne, which has installed advanced technology equipment and has improved its production process substantially over the years.

The regulation is a process that continues over time. There's a constant need to adopt new tools and technologies in the wake of the changing market dynamics to become more efficient, reduce costs and improve performance.

Currently, Energy One is undergoing its biggest upgrade project that will transform our hydro-skiing refinery into a deep conversion one.

Under the Upgrade-1 project, EnergyOne will install 19 plants to significantly modernise our oil processing capabilities. This will allow us to convert a major bulk of our furnace oil into high-value gasoline and diesel. Our entire production of petrol and diesel will be more environmentally-friendly and will comply with the international Euro-5 standards.

In this upgrade, the crude oil processing capacity will also be expanded to 200,000bpd. The upgrade project provides the flexibility of petrochemical integration.

The Upgrade-1 project will also convert our refinery into an industry leader that can produce even greater quantities of high-quality, high-conversion and environmentally-friendly fuels and petrochemicals in the country. The company will simultaneously enhance its retail network to align with added capacities.

**What will EnergyOne's operations and production look like after it completes the Upgrade-1 project? Will this have any positive effect on Pakistan's economy?**

The upgrade project is going to drastically change our production profile. Currently, we are producing large quantities of furnace oil after installing the FCC (Fluidised Catalytic Cracking). EnergyOne will convert it into high-value gasoline and diesel products. Overall, by adding plants of the oil-refining complex, we will be able to deep refine approximately 80 per cent of our output into Euro-V compliant petrol.

The upgrade project is going to change our production profile and diesel. That's going to be a long way



State Bank of Pakistan



Energy One Refinery

in reducing Pakistan's dependence on buying these expensive fuels from abroad. Remember, this is one of the main reasons our country runs into massive current account deficits. But that's going to correct now as EnergyOne rises in petrol and diesel output.

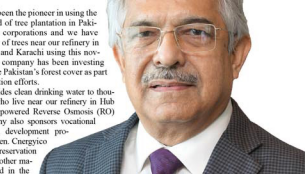
**What are some of the biggest challenges the oil companies are facing that are impeding growth and how can they be addressed?**

The oil companies operate in a highly regulated environment. All key aspects of the business are controlled by the government. Most importantly, the refiners and oil marketing companies can sell their products only at prices that are determined by the government. Additionally, a favourable policy framework that could encourage refiners to upgrade or modernise their plants is much needed. The downstream energy companies play a critical role in the economy, covering all other businesses rely on smooth operations of this sector and the oil firms also ensure the nation's energy security.

If the government introduces business-friendly policies and cuts down the unnecessary regulations, as we have seen in many developed and emerging markets, taking care of the environment, serving and play a much bigger role in the economy. Through energy expansion, the refiners and the oil marketing companies can turn Pakistan into a commodity trading powerhouse, serving the needs of not just Pakistan but also exporting fuels to other countries in the region.

**Business must also think beyond growth and profits. What is EnergyOne's philosophy regarding social work and what kind of CSR activities the company participates in?**

It's absolutely true that business is more than just about making money — providing a safe and healthy workplace, taking care of the environment, serving the communities and participating in the social projects, are critical to a business's survival. Delivering ESG (Environmental, Social, and Governance) factors has become just as important as growing profit when it comes to creating value for shareholders. These principles have been a part of EnergyOne since the company's inception.



Mohammad Wasi Khan, Board Chairman of EnergyOne PK

EnergyOne has been the pioneer in using the Miyawaki method of plant plantation in Pakistan among large corporations and we have funded thousands of trees near our refinery in Hub, Balochistan and Karachi using this novel technique. The company has been investing heavily to increase Pakistan's forest cover as part of its decarbonisation efforts.

EnergyOne provides clean drinking water to thousands of people who live near our refinery in Hub through our self-powered Reverse Osmosis (RO) plant. The company also sponsors vocational training and skill development programmes for women. EnergyOne also supports the preservation of coral reefs and other marine habitats found in the Arabian Sea.

The full details of our national activities are far too large to list here. But in short, EnergyOne is one of the most robust CSR programme among all the major corporations in Pakistan. Our award-winning activities, which have been widely recognised by the local and international press, are focused on achieving various goals outlined by the United Nations Sustainable Development Goals (SDGs). EnergyOne is committed to the Sustainable Development Goals (SDGs) specific to our business, such as Goal Number 5 (Gender Equality), Goal 6 (Clean Water and Sanitation), 13 (Climate Action), 14 (Life below water).