


OCTOBER 2019

# PAKONOMICS

## ECONOMY AT A GLANCE

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## 1. PROLOGUE:

We would like to start by thanking Allah, as without his blessing and guidance, none of this would have been possible. With that being said, Tola Associates in its entirety and wholeheartedly welcomes you to its second initiative since its inception. As we already have been imparting knowledge to our clients and readers with regards to Taxation, and bearing in mind the difficult economic time Pakistan is going through, we have decided to go through with an Economic Newsletter called “Pakonomics” which becomes the second tranche of our monthly publications.

Pakonomics will be all about us disseminating information with respect to different key economic indicators making it a highly comprehensive document for its readers.

During November, Pakistan and the IMF have reached a staff level agreement under the Extended Fund Facility, on the first quarterly review of Pakistan economy. IMF has given a ‘clean chit’ to Pakistan for the disbursement of a second tranche of \$450 million subject to an approval by the Executive Board of the IMF. According to the press release of the IMF mission, “all performance criteria for end-September were met with comfortable margins”. Moreover, the IMF believes that despite the mammoth challenges Pakistan faces in terms of structural reforms of its economy challenges, signs of economic stability of country are resurfacing and that the external account has strengthened. Furthermore, it was also stated by the mission that the net international reserves of the State Bank of Pakistan (hereafter “SBP”) have increased and that the revenue collection is growing with the average inflation expected to reduce its pace to 11.8% in FY20’.

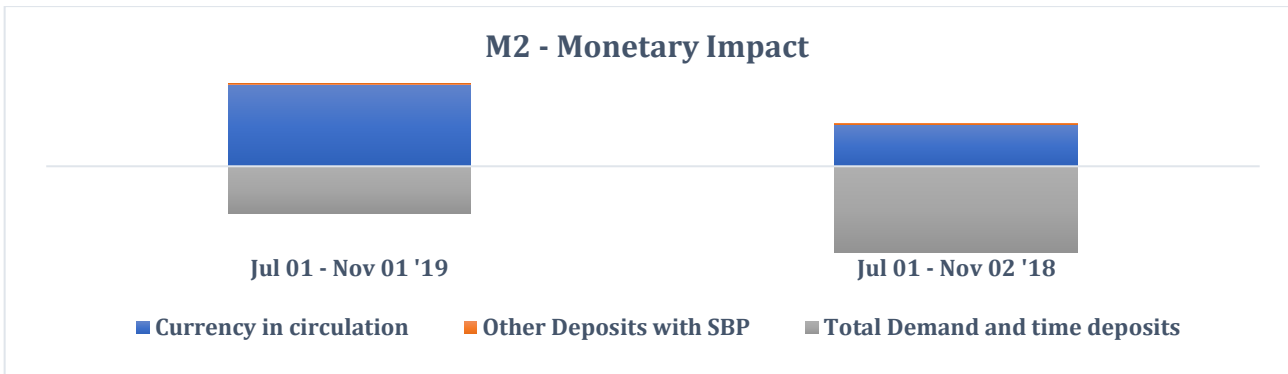
Even though SBP’s net international reserves has comfortably met IMF’s September end quantitative target of negative \$18.478 billion against the actual negative \$15 billion, Pakistan still has to accumulate foreign exchange reserves to avoid any speculative attacks on its currency, achieve financial stability and meet external payments in the short-to-medium term. In order to build up reserves, we must adopt a variety of measures including but not limited to; reducing the fiscal deficit, achieving a current account surplus, a sizeable increase in earnings generated through exports, import substitution, massive non-debt capital inflows and a healthy amount of foreign remittance. Although, easier said than done, these things must be kept in mind whilst devising our economic policies, in order to attain sustainable economic growth.

## 2. BROAD MONEY (M2):

Broad Money is a category for measuring the amount of money circulating in an economy. It grew by 0.87% during 1<sup>st</sup> July to 1<sup>st</sup> Nov 2019, which stood at PKR 154 billion as compared to negative 74 billion during 1<sup>st</sup> July to 2<sup>nd</sup> Nov October 2018. Given the fiscal constraints, economic slowdown, crowding out of private sector, and decline in aggregate demand, overall growth in money supply has remained higher during the said period due to the government’s borrowing for budgetary support. Broad money appreciated by 11.26% or PKR 1.8 trillion during FY19 compared to PKR 1.4 trillion last year on account of a massive increase in the net domestic assets (hereafter “NDA”) during the year.

Components	Stocks at June end 2019	Flows		Monetary Impact since 1st July to	
		FY18	FY19	1-Nov-19	2-Nov-18
(PKR in Million)					
Currency in circulation	4,950,039	476,516	562,210	359,416	73,474
Other deposits with SBP	33,636	4,270	6,674	632	1,324
Total Demand and Time deposits including RFCDs	12,814,820	935,497	1,232,448	(205,330)	(149,612)
Broad Money (M2)	17,798,495	1,416,283	1,801,332	154,718	(74,814)
Growth		9.71%	11.26%	0.87%	-0.47%

(Source: SBP)



During FY19, the net foreign assets (hereafter “NFA”) of the SBP contracted significantly from negative PKR 810 billion to negative PKR 1.2 trillion. The NFA of SBP has declined on account of borrowings from foreign countries to support foreign exchange reserves due to weak external account of the country.

### 3. NET GOVERNMENT SECTOR BORROWING:

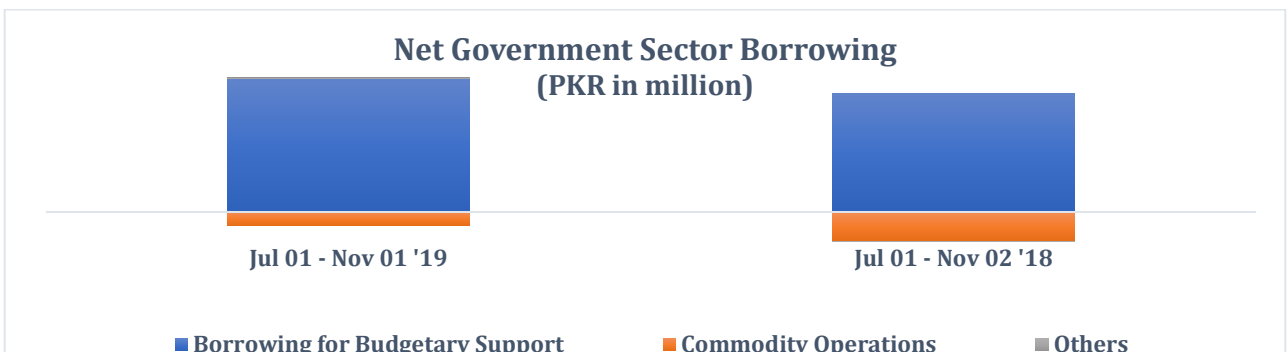
During 1<sup>st</sup> July to 1<sup>st</sup> Nov 2019, budgetary borrowings of the government has increased by over 200% that stood at PKR 373 billion as compared to the PKR 185 billion last year. Incremental government borrowing from the banking system is primarily because of federal government’s budget deficit which has skyrocketed to 8.9% of the GDP. As far as higher budget deficit is concerned, FBR’s low tax collection, higher interest payments have further increased the budget deficit, thereby aggravating the situation.

The NDA have shown sizeable improvement during FY19 on account of huge government borrowing as compared to FY18. Secondly, incremental growth has also been seen in credit to public sector enterprises during FY19 as compared to last year.

In the wake of historic fiscal slippages, federal government’s borrowing from the SBP has significantly increased to an all-time high, standing at PKR 3.07 trillion during FY19 as compared to PKR 1.2 trillion during FY18. However, the federal government has also retired PKR 875 billion debt held by commercial banks during FY19 as compared to PKR152 billion last year. As far as commodity operations are concerned, the Federal Government has retired PKR37 billion during 1<sup>st</sup> July to 1<sup>st</sup> Nov 2019 as compared to net retirement of PKR45 billion during 1<sup>st</sup> July to 2<sup>nd</sup> Nov 2018. Net government sector borrowing during the same period is PKR 338 billion as compared to PKR 139 billion last year.

(PKR in million)	Monetary Impact since 1st July to	
	1-Nov-19	2-Nov-18
Borrowing for Budgetary support	373,694	185,641
Commodity Operations	(37,093)	(45,781)
Others	1,855	(690)
Net government Sector Borrowing	338,456	139,170

(Source: SBP)



#### 4. CREDIT TO NON-GOVERNMENT SECTOR:

Private sector credit offtake retired previous loans that stood at negative PKR 4 billion during 1<sup>st</sup> July to 1<sup>st</sup> Nov 2019 as compared to PKR 223 billion during the same period in 2018 in the wake of overall economic slowdown in the economy leading to stagnation of the credit to GDP ratio so far during FY19.

Within the net domestic assets (NDA), incremental growth reflected in broad money during FY19 is also because of higher credit to public sector enterprises other than government borrowing for budgetary support. On account of over PKR 1300 billion outstanding stock of circular debt and liquidity crunch in energy related firms, power sector's reliance on domestic banking system will increase going forward in order for them to function smoothly.

At the end of June 2018, the outstanding debt of Public Sector enterprises stood at 4% of GDP which has been on the up ever since. The credit to public sector enterprises stood at PKR 326 billion during FY19 as compared to PKR 245 billion last year. However, from 1<sup>st</sup> July to 1<sup>st</sup> Nov 2019, credit to public sector entities as of 1<sup>st</sup> November 2019 stands at PKR 7 billion compared to PKR 57 billion last year. Hence, the slowdown in the economy along with the depreciation of PKR and high interest rates, has negatively impacted overall credit to non-government sector that stood at PKR20 billion during 1<sup>st</sup> July to 1<sup>st</sup> Nov 2019 as compared to PKR281 billion last year.

(PKR in million)	Monetary Impact since 1st July to	
	1-Nov-19	2-Nov-18
Credit to Private sector	(4,129)	223,090
Credit to Public Sector Entities (PSEs)	7,169	57,170
Credit to NBFIs	17,779	767
Credit to Non Government Sector	20,819	281,027

(Source: SBP)

#### 5. CONSUMER PRICE INDEX INFLATION (ALSO KNOWN AS "CPI INFLATION")

According to Pakistan Bureau of Statistics (hereafter "PBS"), the CPI inflation of Pakistan has increased by 11% during October 2019 at a year-on-year basis (the base year being 2015-16) as compared to 6.5% during October 2018. At a month-on-month basis, the CPI has appreciated by 1.8% during October 2019 against September 2019 mainly because of seasonal fluctuations in prices of essential commodities according to the revised 'base year methodology' by the PBS.

(Base year 2015-16) Period	National CPI	Food		Core CPI	
		Urban	Rural	Urban	Rural
Oct-19	11%	13.70%	14.60%	7.70%	8.60%
Oct-18	6.50%	3%	2.5%	7.50%	6.70%

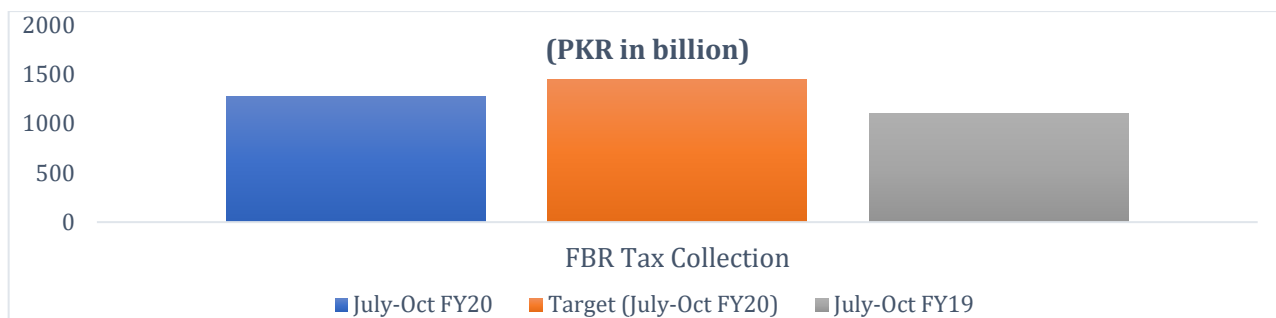
(Source: PBS)

On account of a rise in the prices of food, country's food inflation in the urban segment surged by 13.7% in October at a year-on-year basis, as compared to 3% during the previous year according to revised rebasing. In the rural segment, food inflation grew by 14.6% in October 2019 as compared to 2.5% during the previous year. In urban segment, core inflation of non-food-non-energy has appreciated by 7.7% in October 2019 while in rural segment core inflation increased by 8.6% during the same period last year. The CPI during July-Oct FY20 saw an average increase of 10.32% as compared to 6.19% during the same period last year.

#### 6. TAX REVENUE COLLECTION:

During July-Sept in the year 2019-20, a tax revenue shortfall by the FBR of PKR 111 Billion was recorded which has further escalated the tax gap to PKR 167 billion as provisional tax collection during October 2019 remained at PKR320 billion. FBR's tax revenue collection in October stood at PKR 320bn as against the monthly target of PKR 376bn, leading to a monthly shortfall of PKR 55bn.

	July -Oct FY20	Target (July-Oct FY20)	July-Oct FY19	% change	
	(PKR in billion)			From Target	From Last year
<b>FBR tax collection</b>	1,280	1,447	1,104	-12%	16%



FBR's provisional tax collection during July- to Oct 2019 stood at PKR1.28 trillion as against the target of Rs1.44 trillion leading to a shortfall of PKR 167 billion. However, FBR's tax collection grew by 16% recorded at PKR1,280 billion during July to Oct FY20 as compared to PKR Rs1.1 trillion during the same period last year. Against the tax target, FBR's tax collection has dropped from 90% during July to Sep 2019 to 88% during July to Oct 2019.

## 7. FOREIGN EXCHANGE RESERVES:

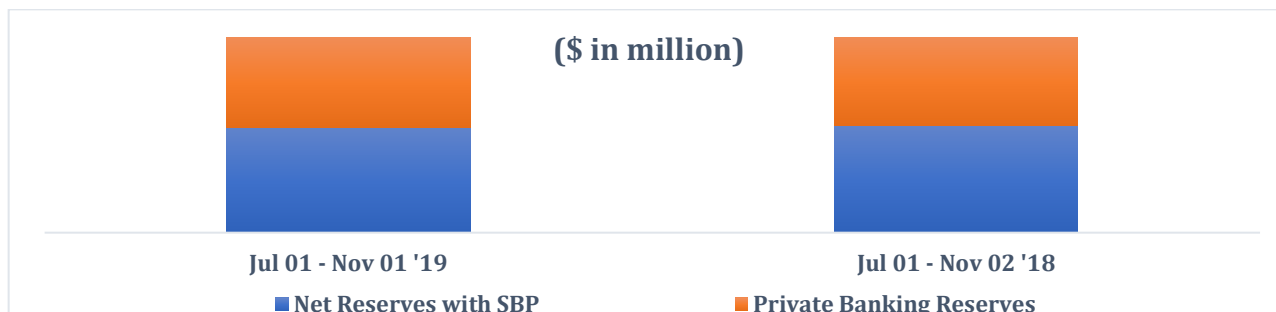
According to SBP, the country's private banking reserves appreciated by 10%, and stood at \$7.16 billion as of 1st Nov 2019 as compared to \$6.4 billion as of 26<sup>th</sup> Oct 2018. During the same period, despite the recovery, State Bank's reserves are still at precarious levels, which stand at \$8.35 billion as compared to \$7.77 billion last year. Overall, the country's net forex liquid reserves rose to \$15.51 billion as compared to \$14.18 billion last year.

SBPs foreign exchange reserves have dropped by 20% which were recorded at \$10.49 billion as of March 2019 to \$8.35 billion as of 1<sup>st</sup> Nov 2019 on account of debt servicing.

According to the SBP, Pakistan's external debt servicing has increased by \$1.81 billion in principal from \$1.458 billion during July-Mar 2019 to \$3.2 billion till June end FY19. In terms of interests, debt servicing has also increased from \$645 million during July-Mar 2019 to \$889 million till June end FY19.

Foreign Exchange Reserves		
(\$ in million)	1-Nov-19	26-Oct-18
Net Reserves with SBP	8,357	7,776
Private Banking Reserves	7,160	6,407
<b>Total Forex Liquid Reserves</b>	<b>15,517</b>	<b>14,183</b>

(Source: SBP)



## 8. SCRA UPDATES:

According to SBP, Pakistan has witnessed a 24.1% Rupee devaluation against the US dollar during FY19. In real terms, the PKR has weakened by 15.4% in FY19, against a depreciation of 11.2% in FY18. However, during FY2019-20, Rupee has shown some signs of gradual recovery on account of improvement in current account deficit, falling demand of dollars from the importers and sizeable Special Convertible Rupee Account (hereafter "SCRA") inflows in debt markets.

SCRA speculative capital inflows have shown significant improvement in the country during the current fiscal year. In addition to Investor Portfolio Securities' account (hereafter "IPS"), foreign investors have to open a SCRA with an authorized dealer in Pakistan. Non-Resident Pakistani's invested amount can be credited into the IPS account after conversion of foreign currency into Pakistani currency for the purpose of investment in government securities.

<b>Country-wise Cumulative Net inflows in T-bills, PIBs and Equity markets</b>				
<b>During the Year July 19 to 21<sup>st</sup> Nov 2019</b>				
<b>(US \$ in 000)</b>	<b>Equity</b>	<b>T. Bills</b>	<b>PIBs</b>	<b>Cumulative Net Inflow</b>
Australia	(1,041)	-	-	(1,041)
B.V Island	704	-	-	704
Bahamas	(1,335)	-	-	(1,335)
Bahrain	(563)	-	-	(563)
Belize	(2)	-	-	(2)
Marshall Island	217	-	-	217
Camyan Island	(375)	496	-	122
Canada	(2,232)	-	-	(2,232)
China	(213)	-	-	(213)
Cyprus	36	-	-	36
France	(22)	-	-	(22)
Germany	463	-	-	463
Hong Kong	(2,302)	-	-	(2,302)
Ireland	(12,275)	363	-	(11,912)
Japan	(350)	-	-	(350)
Liberia	(457)	-	-	(457)
Korea	(52)	-	-	(52)
Kuwait	(224)	-	-	(224)
Luxembourg	8,441	-	-	8,441
Malaysia	(174)	-	-	(174)
Mauritius	(4,488)	-	-	(4,488)
Netherland	172	-	-	172
Oman	2,183	-	-	2,183
Singapore	(1,064)	-	-	(1,064)
Sweden	3,901	-	-	3,901
Saudi Arabia	83	-	-	83
New Zealand	3	-	-	3
Switzerland	(4,786)	-	-	(4,786)
UAE	14,509	5,064	-	19,574
UK	26,092	453,016	-	479,108
USA	(35,231)	612,684	3,190	580,644
<b>Total</b>	<b>(10,382)</b>	<b>1,071,624</b>	<b>3,190</b>	<b>1,064,433</b>

(Source: SBP)

According to SBP, speculative SCRA inflows have crossed \$1 billion during 1st July to 21<sup>st</sup> Nov 2019. The report of the SBP also reveals that 99% speculative hot money is coming from USA and UK, and mostly in T-bills. The entry and exit strategy of speculative SCRA investors quickly change with the change in economic fundamentals of the country. It seems like the Government is targeting speculative hot money to finance its growing debts in the short term.

## 9. WORKER'S REMITTANCES:

Overseas Pakistani worker's remitted amounting to \$7.478 billion during July-Oct FY20 which has dropped by 1.82% as compared to \$7.617 billion during July-Oct FY19 on account of lower remittances from UAE and GCC countries. The said decline from UAE and GCC countries amounts to 6.62% and 2.34% respectively. In absolute terms, country's workers' Remittances dropped by \$139 million during

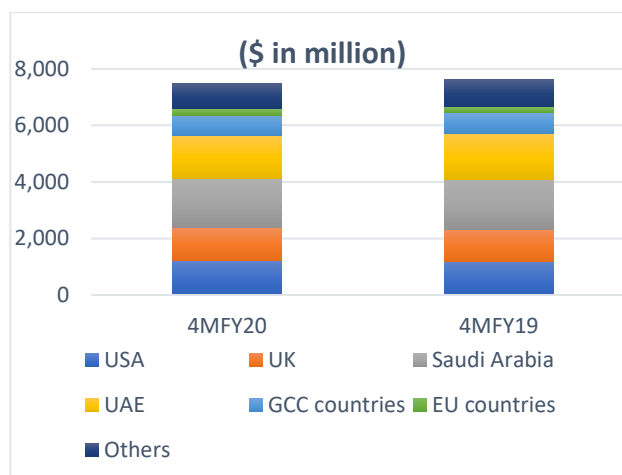
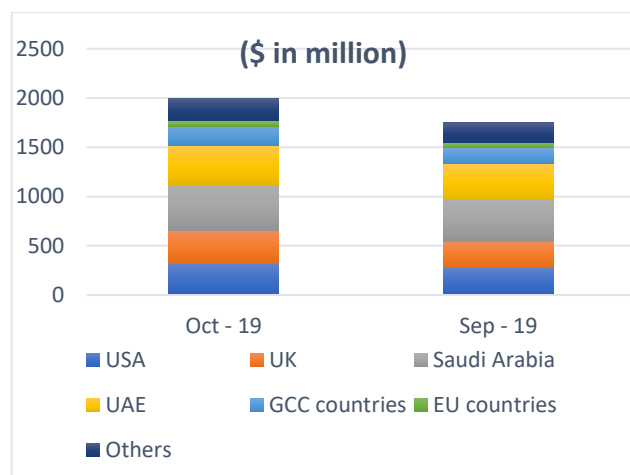
July-Oct 2019 as compared to last year. Country's worker's Remittances dropped by 2.89% during October 2019 amounting to \$2 billion as compared to \$2.06 billion during October 2018.

Overseas Pakistani worker's remitted amounting to \$2 billion during October 2019 which is 14% higher as compared to \$1.747 billion during September 2019.

Country-wise Worker's Remittances						
(\$ million)	Oct-19	Sep-19	M/M change	*4MFY20	4MFY19	Y/Y change
USA	322	282	14.32%	1,234	1,188	3.87%
UK	329	265	24.03%	1,143	1,132	0.97%
Saudi Arabia	468	421	11.21%	1,738	1,758	-1.14%
UAE	399	363	9.92%	1,538	1,647	-6.62%
GCC countries	192	163	17.65%	711	728	-2.34%
EU countries	61	53	14.98%	230	223	3.14%
Others	229	200	14.50%	884	941	-6.06%
<b>Total</b>	<b>2,000</b>	<b>1,747</b>	<b>14.48%</b>	<b>7,478</b>	<b>7,617</b>	<b>-1.82%</b>

\*4MFY = Four Months Fiscal Year

(Source: SBP)



## 10. FOREIGN DIRECT INVESTMENT

Pakistan's foreign direct investment has increased by 239% amounting to \$650 million during July-Oct FY20 as compared to \$191.9 million during the same months last year.

(US \$ million)	July-Oct FY20	July-Oct FY19	% Change
<b>FDI</b>	<b>650</b>	<b>191.9</b>	<b>239%</b>

(Source: SBP)

According to SBP, on account of upsurge in SCRA capital inflows, foreign private investment has significantly increased during the current fiscal year. In absolute terms, net foreign investment during July-Oct FY20 which has appreciated by \$1.179 billion stood at \$1.10 billion, as compared to net outflows of \$77.5 million during last year.

## 11. BALANCE OF TRADE IN GOODS AND SERVICES:

Despite monetary and fiscal tightening, Rupee devaluation and regulatory interventions, Pakistan's exports of goods and services saw a meagre growth of 2.77% that stood at \$8.77 billion during July-Oct FY20 as compared to \$8.53 billion during previous year. On account of drop in imports of goods and services, balance of trade in goods and services dropped by 30% to \$8.97 billion during the same period as compared to previous year. In addition to SBP's relaxation of import rules, a stimulus package by the government amounting PKR 200 billion to subsidize the exporters against high interest rates and releasing PKR 30 billion liquidity for the exporters may recover the shrinking export sector and increase economic activities going forward.

Balance of Trade in Goods and Services						
(\$ in Million)	Oct-19	Sep-19	% change M/M	July-Oct FY20	July-Oct FY19	% change Y/Y
Exports of Goods and services	2,428	2,172	11.77%	8,773	8,537	2.77%
Imports of Goods and services	4,662	4,723	-1.30%	17,752	21,309	-16.69%
<b>Balance of Trade in Goods and Services</b>	(2,234)	(2,551)	-12.43%	(8,979)	(12,772)	-29.70%

(Source: PBS)

### 11.1. BALANCE OF TRADE IN GOODS:

According to PBS, Pakistan's exports rose by 14.41% during October 2019, and stood at \$2 billion (1\$= PKR 155.94) as compared to \$1.76 billion (1\$= PKR 156.76) during September 2019.

Incremental growth in imports by \$289 million during October 2019 as compared to the previous month has diluted the impact of recovery in exports leading to a surge in Trade deficit. As a result, Trade Deficit in goods appreciated by 1.69% that stood at \$2.05 billion during October 2019 as compared to \$2.01 billion in September 2019.

Despite a devaluation of PKR 25.66, against the US Dollar, Pakistan exports marginally grew by \$125 million during October 2019 that stood at \$2 billion as compared to \$1.89 billion during October 2018.

Overall, country's exports have not shown a sizeable recovery as against the macroeconomic adjustments and corrective measures taken. During July-Oct FY20, Pakistan's exports grew marginally by 3.81%, and stood at \$7.54 billion as compared to \$7.27 billion during the previous year. However, on account of a massive drop in non-essential imports and an overall economic slowdown, Trade deficit of the country has contracted by 33.53% from \$11.69 billion during July-Oct FY19 to \$7.77 billion during July-Oct FY20. Reduction in trade gap will further improve external imbalances leading to sizeable improvement in current account deficit going forward.

We will further analyze the item wise trade in goods in both quantitative and value terms in our another issue coming soon.

Balance of Trade in Goods									
(\$ in Million)	Oct-19	Sep-19	% change M/M	Oct-19	Oct-18	% change Y/Y	July-Oct FY20	July-Oct FY19	% change Y/Y
Exports	2,024	1,769	14.41%	2,024	1,896	6.75%	7,547	7,270	3.81%
Imports	4,074	3,785	7.64%	4,074	4,801	-15.14%	15,323	18,966	-19.21%
<b>Balance of Trade in Goods</b>	(2,050)	(2,016)	1.69%	(2,050)	(2,905)	-29.43%	(7,776)	(11,696)	-33.52%

(Source: PBS)

### 11.2. BALANCE OF TRADE IN SERVICES:

According to PBS, the country's exports of services grew marginally by 0.17% during October 2019 that stood at \$404 million as compared to \$403 million during September 2019. On account of a substantial drop in imports of services by 37% during October 2019, trade deficit in services has dropped by 65% from \$535 million during September 2019 to \$184 million during October 2019.

Signs of economic slowdown are also reflecting in exports of services which have not shown considerable improvement during current fiscal year. During July-Oct FY20, exports of services has dropped by 3% that stood at \$1.226 billion as compared to \$1.267 billion during previous year leading to a surge in trade deficit. Balance of Trade in services has appreciated by 12% to \$1.20 billion during July-Oct FY20 as compared to \$1 billion last year.



Balance of Trade in Services									
(\$ in Million)	Oct-19	Sep-19	% change M/M	Oct-19	Oct-18	% change Y/Y	July-Oct FY20	July-Oct FY19	% change Y/Y
Exports of Services	404	403	0.17%	404	411	-1.66%	1,226	1,267	-3.21%
Imports of Services	588	938	-37.34%	588	656	-10.38%	2,429	2,343	3.67%
Balance of Trade in Services	(184)	(535)	-65.64%	(184)	(245)	-25%	(1,203)	(1,076)	11.81%

(Source: PBS)

## 12. BALANCE OF PAYMENT:

Current account deficit has dropped by 64% to \$1.54 billion during 1QFY20 as compared to \$4.28 billion last year on account of an enormous contraction in the import bill.

In absolute terms, country's imports have shrunk by over \$3 billion that stood at \$11 billion during 1QFY20 as compared to \$14.2 billion last year. On the other hand, exports of goods have not shown that much of an improvement (despite a massive devaluation of the PKR) and stood at \$6 billion as compared to \$5.89 billion during the same period. Similarly, exports of services dropped by 3.24% during the first quarter of FY20 that stood at \$1.22 billion as compared to \$1.26 billion last year, whereas imports of services grew by 3% which has pushed the balance on trade in services to \$1.2 billion as compared to \$1 billion last year.

Pakistan Balance of Payment comparison 1QFY20 with 1QFY19			
US\$ in million	1QFY20	1QFY19	% Change Y/Y
Period			
<b>Current Account Balance</b>	-1,548	-4,287	-63.90%
<b>Trade Balance</b>	-4,999	-8,382	-40.36%
Exports	6,033	5,893	2.38%
Imports	11,032	14,275	-22.72%
<b>Service Balance</b>	-1,203	-1,076	11.80%
<b>Primary Income</b>	-1,483	-1,121	32.30%
<b>Secondary Income</b>	6,138	6,292	-2.45%
Worker's Remittances	5,478	5,557	-1.42%
<b>Capital Account Balance</b>	105	106	-0.94%
<b>Financial Account Balance</b>	-2,101	-2,899	-27.53%
<b>FDI in Pakistan</b>	541	559	-3.22%
<b>FPI in Pakistan</b>	321	0.1	320900%
<b>Net incurrence of Liabilities</b>	1,074	2,282	-52.94%
<b>Overall Balance</b>	-1,008	820	-222.93%
<b>SBP Gross Reserve</b>	7,937	8,409	-5.61%
<b>Current Account % of GDP</b>	-2.2	-5.5	

(Source: SBP)

Overall, the balance on trade in goods and services has depreciated by 35% during July-Sept (2019-20) that stood at \$6.2 billion as compared to \$9.4 billion last year. On account of slowdown of workers' Remittances, primary income deficit has further increased to \$1.4 billion in 1QFY20 as compared to \$1.21 billion last year. Pakistan worker's Remittances have also declined by 1.43% during 1QFY20 amounting to \$5.478 billion as compared to \$5.557 billion last year on account of slow down flows from the Middle East. Despite the significant reduction in the current account deficit, financing pressures have remained persistent and should be a cause for concern for our Government.

During July-Sept (FY20), foreign private investment stands at \$321 million as compared to very nominal inflows during the same period last year. However, foreign direct investments have declined by 3% to \$541 million during July-Sept FY20 as compared to previous years. Since the beginning of current fiscal

year, SCRA speculative inflows have significantly increased in T-bills which has reached to \$697 million as of 12<sup>th</sup> Nov 2019.

As far as net inflow of forex liabilities is concerned, net incurrence of liabilities dropped by more than 50% from \$2.28 billion in 1QFY19 to \$1 billion in 1QFY20. However, on account of friendly inflows and commercial borrowing from bilateral including Saudi Arabia (US\$ 3 billion), UAE (US\$ 2 billion), Qatar (US\$ 500 million) and China(US\$4.7 billion), Pakistan has witnessed a sizeable increment of 36% in net incurrence of liabilities during FY19 amounting to \$11.7 billion as against \$ 8.9 billion during the previous year to mitigate the balance of payment pressure.

The Current account deficit has shown significant improvement on the back of currency depreciation. However, the quantum of current account deficit is still high standing at 2.2% of the GDP during 1QFY20 as compared to 5.5% of GDP during last year.

In absolute terms, the quantum of the current account deficit is still high and in case of lower inflows in the near future, the financing of current account deficit will have to be borne by the country's forex reserves. Country's overall balance of payment position is still vulnerable keeping in view the precarious foreign exchange reserves.

### 13. TOTAL PUBLIC DEBT AND LIABILITIES

Pakistan's public debt and liabilities have significantly increased, appreciating by more than PKR 10 trillion in a single year that stood at PKR 41,490 billion. Country's public debt and liabilities and size of GDP has almost become equal, that stood at PKR 43,585 billion during 1QFY20 as compared to PKR38,558 billion during last year. Country's Public debt and liabilities has increased by 35% from PKR 30,798 billion during 1QFY19 to PKR41,490 billion during 1QFY20.

(PKR in Billion)	1QFY20	1QFY19	% change
<b>Pakistan's total debt</b>	39,130	29,368	33%
<b>Total Liabilities</b>	2,360	1,430	65%
<b>Total Debt and Liabilities</b>	41,490	30,798	35%

### 14. GDP SIZE

At an average exchange rate of PKR158.001 against the US Dollar, the size of Pakistan's GDP has declined to \$275.85 billion during 1QFY20 as compared to \$309 billion at 124.4085 US dollar average exchange rate during previous year according to provisional figures provided by the SBP. As mentioned above, there has been a 24.1% Rupee devaluation against the US dollar during FY19, while in real terms, PKR has weakened by 15.4% in FY19, against a depreciation of 11.2% in FY18. As a result, in terms of the US Dollar, Pakistan's GDP has shrunk considerably by 11% or \$34 billion at a year-on-year basis due to the devaluation of currency which has reduced fiscal space and has caused a drop in aggregate output of the economy.

(PKR in billion)	1QFY20 (P)	1QFY19 (R)
<b>GDP (current market price)</b>	43,585	38,558.8
<b>US\$ average exchange rate</b>	158.001	124.4085
<b>GDP In US Dollar terms</b>	275.85	309.94

### 15. OUTLOOK:

1. Overall macroeconomic stabilization process will remain a key concern for the country.
2. Pakistan's bilateral and multilateral funding will increase going forward and boost foreign exchange reserves, after the first IMF Review.
3. SBP has not revised its CPI expectations due to the October CPI which has increased by 11.04% at a year-on-year basis and by 1.8% on a month-on-month basis, structural supply side issues and fiscal

constraints in the economy. On account of contraction in the LSM (Large Scale Manufacturing), cotton crop losses, crowding out private sector, and effects of cut in PSDP, Rupee devaluation, power tariff hike and other macroeconomic adjustments will discourage private consumption going forward.

4. State Bank has validated our stance in its monetary policy statement (dated 22nd November 2019) and kept the discount rate unchanged at 13.25%. For the next two months, controlling inflation will remain a key challenge going forward.
5. SBP expects that inflation may recede in second half of current fiscal year, targeting 5-7% over the next 24 months.
6. Government's primary balance during 1QFY20 and current account balance during October 2019 were recorded in a surplus, showing steps towards fiscal consolidation and an improved inflation outlook.
7. According to Special Assistant to the Prime Minister on Finance, the Government has also decided to increase the limit of sovereign guarantees by PKR250bn to retire circular debt. If Petroleum Division releases the said amount in the near future, this will ease off the liquidity concern in power sector.
8. According to Governor SBP, in order to facilitate importers, SBP has lifted ban on advance payment of up to \$10,000 per invoice for the import of goods and services. SBP has also increased the financing limit by PKR 100 billion under the Export Finance Scheme and Long-Term Finance Facility. By relaxing import rules, revival of industrial sector and demand in the economy may put our currency under pressure going forward.
9. Tight fiscal and monetary policy, hike in power tariffs and overall economic slowdown will keep on affecting large scale manufacturing in the coming months.
10. Risks towards external account is likely to be reduced as pace of current account deficit will be further dropped in coming quarters. IMF expects Pakistan current account deficit may drop to \$6.69 billion by the end of current fiscal year. Such improvement in the balance-of-payments may increase state bank's net international reserves going forward. However, in terms of quantum the current account deficit is still higher and will remain a key concern going forward.
11. Country's cotton arrivals likely to be slower in coming months on the back of volatile climatic conditions going forward. According to Pakistan Cotton Ginners Association, as of 1<sup>st</sup> Nov 2019, cotton production has dropped by 1.68 million in quantitative terms which stood at 6 million bales as compared to 7.7 million bales last year. Punjab has witnessed drop of 25% in cotton production while Sindh reported a drop of 15%, taking cumulative drop of 21% as of 1<sup>st</sup> Nov 2019.
12. Pakistan Cotton Crop Assessment Committee has also adjusted their cotton production targets, expecting cotton production to be lowered by around 33% to 10.2 million bales as against the annual target of 15 million bales set for the current season 2019-20. As a result, Pakistan will remain a net cotton importer this year on account of massive drop in cotton production and has to meet the shortage by importing 4.5 to 4.8 million cotton bales from other countries. It is likely that the drop in cotton production may increase the import bill, negatively affect the entire value chain and further increase the cost of our exports.
13. Speculative SCRA investors to remain upbeat and will fuel the stock market momentum in coming weeks as government is desperate to capitalize hot money to finance its growing debts.

### **DISCLAIMER**

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