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DECEMBER 2019

PAKONOMICS

ECONOMY AT A GLANCE

- Large Scale Manufacturing (LSM)
- Pakistan Cotton Production
- Credit to Non-Government Sector
- SCRA inflows (Hot Money)
- Worker's Remittances
- Broad Money (M2)
- Net Government Sector Borrowing
- Consumer Price Index (CPI) Inflation
- FBR Tax Collection
- Foreign Exchange Reserves with SBP
- Foreign Direct Investment
- Balance of Trade in Goods
- Balance of Trade in Services
- Balance of Payment
- Pakistan External Debt and Liabilities

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HIGHLIGHTS:

- With respect to IBA-SBP's survey of October and November 2019, businesses' perceptions regarding country's current economic conditions, consumer confidence and expected economic conditions of the respondents have remained below the threshold level of 50 (Below < 50; indicates that Positive views are less than the Negative views) which should be the real concern for the political government.
- Despite improvement in the external account, foreign exchange reserves and Moody's upgrade or IMF positive review, businessmen, traders and investors adopted cautious behaviors and refrained from taking a long-term view.
- LSM contracted by 5.93% in July-Nov FY20 vs. 0.41% last year.
- Pakistan's cotton shortages increased by 21% to 8.139 million bales.
- Hot money inflows increased to $2.225 billion as of 16th Jan 2020 in debt markets.
- Private sector credit-off take not taken momentum so far, amounting to PKR117 billion during (1st July-27 Dec) 2019 vs. PKR 503 billion last year
- Overseas worker's remittances grew by 3.30% amounting to $11.394 billion in July-Dec FY20 vs $11 billion last year.
- M2 grew by 3.58% amounting to PKR.637 Billion during (1st July-27 Dec) 2019 vs. 444 Billion last year
- Country's net govt. sector borrowing has elevated to PKR.282 billion during (1st July-27 Dec) 2019 vs. PKR 540 billion last year
- On account of hike in food prices, CPI inflation appreciated by 12.60% in Dec 2019 vs. 5.4% in Dec 2018.
- FBR has raised taxes of PKR. 2,080 billion in July-Dec 2019 vs. 1,788 billion last year which grew by 16% on-year-on-year basis.
- FBR was supposed to collect tax revenue of PKR 2,367 billion in July-Dec 2019, but could only raise tax revenue of PKR. 2,080 billion, indicating a tax shortfall of PKR.287 billion.
- SBP foreign exchange reserves have crossed $11.50 billion as of 3rd Jan 2020.
- FDI grew by 68% amounting to $1.34 billion in July-Dec FY20 vs. $797 million last year.
- Pakistan's exports have dropped by 4% to $1.99 billion in Dec 2019 vs. $2.072 billion last year
- Pakistan's C/A deficit has dropped by 80% Y/Y amounting to $367 million in Dec 2019 vs. $1.881 billion last year.
- Pakistan's external debt and liabilities increased by 11% amounting to $106.89 billion as of 30th Sept 2019 vs $96.11 billion.
- World Bank has revised Pakistan's real GDP growth projections downward by 0.3% to 2.4% for FY20, 3.0% for FY21 and 3.9% for FY22 due to contractionary monetary policy which has caused a sharp slowdown in the country

(ECONOMY AT A GLANCE)

Economic Indicators	Period	Status	Current Year	Last Year
Large Scale Manufacturing (LSM)	Jul to Nov	↓	-5.93%	0.41%
Pakistan Cotton Production	As of 3 jan 2020	↓	8.13 million bales	10.27 million bales
Credit to Non-Government Sector	Till 27th Dec	↓	PKR 127 billion	PKR 632 billion
SCRA inflows (Hot Money)	As of 14th Jan 2020	↑	US $ 2.225 billion	US $ 0.1 million
Worker's Remittances	Jul to Dec	↑	US $ 11.39	US $ 11.03 billion
Broad Money (M2)	Till 27th Dec	↑	PKR 637 billion	PKR 444 billion
Net Government Sector borrowing	Till 27th Dec	↓	PKR 282 billion	PKR 540 billion
Consumer Price Index (CPI) Inflation	Dec 2019	↑	12.60%	5.40%
FBR Tax Collection	Jul to Dec	↑	PKR 2,080 Billion	PKR 1,788 Billion
Foreign Exchange Reserves with SBP	As of 3rd Jan	↑	US $ 11.50 billion	US $ 7.20 billion

	2020			
Foreign Direct Investment	July to Dec		US $ 1.340 billion	US $ 797 million
Balance of Trade in Goods	July to Dec		US $ -11.69 billion	US $ -16.77 billion
Balance of Trade in Services	July to Dec		US $ -1.795 billion	US $ -2.176 billion
Balance of Payment	Jul to Dec		US $ -4.354 billion	US $ 2.024 billion
Pakistan External Debt and Liabilities	As of Sept 2019		US $ 106.89 billion	US $ 96.11 billion

Source: SBP and PBS

1. LARGE SCALE MANUFACTURING (LSM):

Within Large Scale Manufacturing (LSM), Out of the 15 major broad-based industries of the country, 8 industries have posted performance and contracted in November 2019 on-year-on-year-basis. While, only 7 major industries out of them have managed to post a positive growth, indicating that problem in large scale manufacturing is deep rooted as LSM dropped by 4.61% in Nov 2019.

According to Pakistan Bureau of Statistics (PBS), on account of economic slowdown and incremental cost pressures, LSM contracted by 5.93% during July-Nov FY20 vs. 0.41% growth during the previous year.

Pakistan Large Scale Manufacturing Performance				
Industries	Weight (%)	Impact Nov-19 (%)	July-Nov % change	
			FY20	FY19
Textile	20.915	0.48	0.27	-0.16
Food, Beverages & Tobacco	2.55	0.65	-6.57	2.35
Coke & Petroleum Products	-4.52	-5.45	-12.19	-4.52
Pharmaceuticals	3.62	-8.38	-8.38	-8.22
Chemicals	1.72	-0.19	-5.46	-1.92
Automobiles	4.61	-44.67	-37.50	-0.12
Iron & Steel Products	5.39	-8.74	-13.82	-6.13
Fertilizers	4.44	-2.86	8.04	5.87
Electronics	1.96	-44.94	-16.22	37.94
Leather Products	0.86	12.23	9.47	-2.34
Paper & Board	2.31	30.19	3.40	2.24
Engineering Products	0.4	-19	1.46	16.57
Rubber Products	0.26	4.75	2.21	6.52
Non-Metallic Mineral Products	5.36	7.99	1.91	-0.19
Wood Products	0.59	37.75	55.13	-42.8
Overall Growth		**-4.61**	**-5.93**	**0.41**

Source: PBS

2. PAKISTAN COTTON PRODUCTION:

On account of pest attacks, erratic weather conditions of the country, shortage of the pesticides and incompetence of the Federal and provincial agricultural ministries, cotton production has dropped by 23% in Punjab and 16% in Sindh as of 3rd Jan 2020 according to Pakistan Cotton Ginners association. Overall, cumulative cotton shortages have increased by 2.131 million bales or 21% from 10.27 million bales to 8.139 million bales. Cotton production losses has lowered the agricultural productivity as cotton production estimated at 9.45 million bales vs annual target of 15 million bales impacting textile exports and GDP of the country.

Pakistan Cotton Arrivals in factories				
Cotton bales				
As on Jan 3,2020	Cotton Arrivals	Last year	Difference from last year	
			Quantity	% Change
Punjab	4,693,653	6,162,706	-1,469,053	-23.84%
Sindh	3,445,838	4,111,160	-665,322	-16.18%
Total	**8,139,491**	**10,273,866**	**-2,134,375**	**-20.77%**

Source: PCGA

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3. CREDIT TO NON-GOVERNMENT SECTOR:

Private sector credit-offtake has still not taken momentum so far in current fiscal year amounting to PKR 117 billion during 1st July to 27th Dec 2019 vs. PKR 503 billion last year. The underlying realities in the wake of economic slowdown have restricted the private sector credit- off take on account of cost pressures, low demand. Overall credit-offtake to non-government sector remained subdued that stood at PKR.127 billion vs. 632 billion last year.

(PKR in million)	Monetary Impact since 1st July to	
	27-Dec-19	28-Dec-18
Credit to Private sector	117,384	503,628
Credit to Public Sector Entities(PSEs)	9,033	127,499
Credit to NBFIs	729	1,652
Credit to Non-Government Sector	127,146	632,779

Source: SBP

4. SCRA ("SPECIAL CONVERTIBLE RUPEE ACCOUNT") INFLOWS:

According to State Bank of Pakistan, on account of large hot money inflow of over $500 million in T-bills on 16th Jan 2020, the cumulative hot money inflows have increased to $2.225 billion as of 16th Jan 2020 in debt markets.

Cumulative net inflows in Equity, T-Bills and PIBs During current fiscal year, July to 16th Jan 2020				
(thousand US $)	Equity	T-Bills	PIBs	Total
Net inflows	-32,005	2,233,546	23,905	2,225,446

Hot money comes-in and goes-out quickly with abrupt change in sentiment, interest rates, economic fundamentals or geopolitical situation of the country. Such massive injections can be a 'risky business' for the country which may trigger crisis and would be counter-productive for the economy. Overseas investors have been capitalizing 'Pakistani jurisdiction' of higher interest rates and investing in debt markets of the country.

According to State Bank, overseas investor have so far invested $2.225 billion under SCRA inflows (Special Convertible Rupee Account) in current fiscal year in the country. Out of which, 62% of the hot money flows came from United Kingdom ($1.392 billion) and 34% from United States ($677 million) during current fiscal year FY20.

5. WORKER'S REMITTANCES:

Overseas worker's remittances grew by 3.30% that stood at $11.394 billion in July-Dec FY20 vs $11 billion last year. While, on-month-on-basis, Pakistan's remittances appreciated by 15% that stood at $2.097 billion in December 2019 vs $1.819 billion in November 2019 on account of healthy inflows from USA, UK, Saudi Arabia, UAE and others. However, country's monthly average remittances growth restricted to 4% in FY20 vs over 9% growth in FY19. We believe country's remittances likely to stay in the range of $22.5 to $22.7 billion in FY20. While, Government has projected remittances target of $24 billion for current fiscal year 2020.

Country-wise Worker's Remittances						
($ million)	Dec-19	Nov-19	M/M change	6MFY20	6MFY19	Y/Y change
USA	357	299	19.69%	1,890	1,733	9.08%
UK	325	286	13.63%	1,753	1,647	6.44%
Saudi Arabia	473	407	16.06%	2,618	2,567	1.97%
UAE	428	384	11.41%	2,349	2,348	0.04%
other GCC countries	206	172	19.44%	1,089	1,056	3.17%
EU countries	56	53	6.92%	339	313	8.42%
Others	252	219	15.35%	1,356	1,366	-0.74%
Total	**2,097**	**1,819**	**15.26%**	**11,394**	**11,030**	**3.30%**

Source: SBP

6. BROAD MONEY (M2):

Broad Money grew by 3.58% which stood at PKR 637 Billion during 1st July to 27thDec 2019 vs. 444 Billion last year on account of increase in net foreign assets of the country, indicating improvement in external account. While, in contrast to NFA, net domestic assets contracted mainly because of restricted growth of private sector credit which is impacting overall economy.

Components	Flows		Monetary Impact since 1st July to	
	FY18	FY19	27-Dec-19	28-Dec-18
(PKR in Million)				
Currency in circulation	476,516	562,210	440,826	217,559
Other deposits with SBP	4,270	6,674	122	209
Total Demand and Time deposits including RFCDs	935,497	1,232,448	196,206	226,733
Broad Money (M2)	1,416,283	1,801,332	637,155	444,500
Growth	9.71%	11.26%	3.58%	2.78%

Source: SBP

7. NET GOVERNMENT SECTOR BORROWING:

On account of government's appetite to avail credit from banking system, borrowing for budgetary support amounting to PKR.346 billion vs. PKR.625 billion last year. However, govt. has shifted its focus from SBP's borrowing to commercial banks, indicating banks apatite have remained strong to invest in government papers. Overall net government sector borrowing stood at PKR 282 billion during 1st July to 27th Dec 2019 vs. PKR 540 billion last year.

(PKR in million)	Monetary Impact since 1st July to	
	27-Dec-19	28-Dec-18
Borrowing for Budgetary support	345,985	624,909
Commodity Operations	-64,398	-85,846
Others	1,237	1,357
Net government Sector Borrowing	282,824	540,420

Source: SBP

8. CONSUMER PRICE INDEX ("CPI") INFLATION:

According to Pakistan Bureau of Statistics (PBS), on account of hike in food prices, CPI inflation of the country grew by 12.60% in December 2019 vs. 5.4% in December 2018.

Supply side issues jacking up food inflation driving force-behind overall inflation of the country as tomatoes prices appreciated by over 300%, onions 169%, fresh vegetables 83%, potatoes 78%,sugar 28% and wheat by 22% etc. Urban food inflation appreciated by 16.7% while rural food inflation grew by 19.7% in December 2019 vs. urban food inflation 0.60% and 1.50% rural food inflation last year.

(Base year 2015-16)	National CPI	Food		Core CPI	
Period		Urban	Rural	Urban	Rural
Dec-19	12.60%	16.70%	19.70%	9.50%	8.80%
Dec-18	5.40%	0.60%	1.50%	9.00%	8.10%

Source: SBP

On-month-on-month basis, CPI depreciated marginally 0.3% in December 2019 vs previous month.

9. TAX REVENUE COLLECTION:

FBR has raised taxes of PKR. 2,080 billion in July-Dec 2019 vs. 1,788 billion last year which grew by 16% on-year-on-year basis. IMF has revised FBR tax revenue target by PKR.265 billion from PKR. 5,503 billion to PKR. 5,238 billion. FBR was supposed to collect tax revenue of PKR 2,367 billion in July-Dec 2019, but could only raise tax revenue of PKR. 2,080 billion, indicating a tax shortfall of PKR.287 billion.

According to our calculation, FBR's actual tax revenue collection stood at PKR 1,853 billion during July-Dec 2019 as FBR has 'inflated' tax revenue numbers by PKR. 225 billion which includes exporter's tax refunds, advances from companies and tax amnesty proceeds. Hence, by incorporating overstated figures of PKR.225 billion and above shortfall of PKR.287 billion, FBR cumulative tax shortfall exceeded to PKR.512 billion.

FBR's Tax collection						
(PKR in Billion)	Dec-19	Dec-18	% change Y/Y	July-Dec 2019	July-Dec 2018	% change Y/Y
FBR tax collection	**463**	403	14.89%	2,080	1,788	16.33%

FBR has to raise additional tax revenue amounting to PKR3,158 billion in next six months (avg. per month PKR.526 billion) to achieve the IMF's revised target of PKR.5,238 billion in 2019-20.

10. FOREIGN EXCHANGE RESERVES:

According to State Bank updates, SBP foreign exchange reserves have crossed $11.50 billion as of 3rd Jan 2020. During current fiscal year, SBP reserves appreciated by $4.22 billion that stood at $11.504 billion vs. $7.28 billion as of June 30th 2019.

($ in million)	03-Jan-20	31-Dec-18
Net Reserves with SBP	11,504	7,204
Private Banking Reserves	6,581	6,553
Total Forex Liquid Reserves	18,085	13,757

Source: SBP

11. FOREIGN DIRECT INVESTMENT

Pakistan's foreign direct investment (FDI) appreciated by 68% amounting to $1.34 billion during July-Dec FY20 vs. $797 million during the same months last year.

(US $ million)	July-Dec FY20	July-Dec FY19	% Change
FDI	1,340	797	68%

In absolute terms, foreign direct investment grew by $543 million during the same period. In addition to $1.340 billion foreign direct investments, country has recorded $452 million of hot money funds in debt securities, and $18.80 million portfolio investment during July-Dec FY20 vs. last year.

12. BALANCE OF TRADE IN GOODS AND SERVICES:

A) BALANCE OF TRADE IN GOODS:

Despite of 'towering' claims by commerce ministry, on-year-on-year basis, Pakistan's exports dropped by 4% amounting to $1.99 billion in Dec 2019 vs. $2.072 billion last year. On account of domestic and global economic slowdown, overall exports of country have remained stagnant. Country's exports only grew by 3% during July-Dec 2019 that stood at $11.53 billion vs. $11.18 billion last year.

Import compression has become the sole-factor which is responsible in the contraction of trade deficit. Country's trade deficit has dropped by 30% amounting to $11.69 billion in July- Dec 2019 vs. $16.77 billion last year, leading to improvement in current account. On import front, country's overall imports dropped by 17% in US dollar terms in July-Dec 2019 which stood at $23 billion vs. $28 billion last year.

($ in Million)	Dec-19	Nov-19	% change M/M	Dec-19	Dec-18	% change Y/Y	July-Dec FY20	July-Dec FY19	% change Y/Y
Exports	1,993	2,011	-0.90%	1,993	2,072	-3.81%	11,533	11,181	3.15%
Imports	4,073	3,940	3.38%	4,073	4,405	-7.54%	23,229	27,952	-16.90%
Balance of Trade in Goods	-2,080	-1,929	7.83%	-2,080	-2,333	-10.84%	-11,696	-16,771-	-30.26%

Source: PBS

B) BALANCE OF TRADE IN SERVICES:

According to SBP, on account of increase in travelling services, telecommunication services, computer services and other business services, country's exports of services grew by 26% amounting to $527 million in Dec 2019 vs. $417 million in Nov 2019. While, services deficit has dropped by 7.72% amounting to $239 million in Dec 2019 vs. $259 million in Nov 2019.

During July-Dec FY20, country's services exports have increased by 6% that stood at $2.7 billion vs $2.5 billion last year mainly because of increase in travelling services, telecommunication, computer services and other business services. While, imports have dropped by 5% on account of decline in transport services and government goods and services, leading to the cumulative drop in services deficit by 17% that stood at $1.795 billion in July-Dec FY20 vs. $2.17 billion in FY19.

($ in Million)	Dec-19	Nov-19	% change M/M	Dec-19	Dec-18	% change Y/Y	July-Dec FY20	July-Dec FY19	% change Y/Y
Exports of Services	527	417	26.38%	527	477	10.48%	2,738	2,580	6.12%
Imports of Services	766	676	13.31%	766	919	-16.65%	4,533	4,756	-4.69%
Balance of Trade in Services	-239	-259	-7.72%	-239	-442	-45.93%	-1,795	-2,176	-17.51%

Source: SBP

13. BALANCE OF PAYMENT:

According to SBP, Pakistan's current account deficit has dropped by 75% to $2.153 billion during July-Dec FY20 vs. $8.614 billion last year on account of massive contraction of $5.8 billion in the imports of the country. On-year-on-year basis, current account deficit has dropped by 80% Y/Y that stood at $367 million in Dec 2019 vs. $1.881 billion Dec 2018 on account of 38% contraction in the trade deficit, 20% upside in overseas worker's remittances and 46% drop in services deficit.

Pakistan's remittances grew by 20% amounting to $2.097 billion in Dec 2019 vs $1.78 billion last year on-year-on-year basis. Within the financial account, Pakistan's foreign direct investment (FDI) appreciated by 53% that stood at $487 million in Dec 2019 vs 319 million last year, leading to the accumulated FDI to $1.34 billion during July-Dec FY20 vs. $797 million during the same months last year. Pakistan's current account deficit may likely to increase in the second half of current fiscal year FY20 with the pace of future economic activities of the country. IMF has projected current account deficit amounting to $6.6 billion during FY20 of the country.

Pakistan Balance of Payment comparison December 2019 with December 2018			
US$ in million Period	Dec-19	Dec-18	% Change Y/Y
Current Account Balance	-367	-1,881	-80%
Trade Balance	-1,753	-2,833	-38%
Exports	2,108	2,012	5%
Imports	3,861	4,845	-20%
Service Balance	-239	-442	-46%
Primary Income	-654	-546	20%
Secondary Income	2,279	1,940	17%
Worker's Remittances	2,097	1,748	20%
Capital Account Balance	40	27	48%
Financial Account Balance	-2,347	-1,479	59%
FDI in Pakistan	487	319	53%
Portfolio investment	-685	0.0	NA
Net incurrence of Liabilities	2,470	1,176	110%
Overall Balance	-2,319	344	NA
SBP Gross Reserve	11,336	7,204	57%

Country's overall balance of payment stood at negative $4.354 billion in July-Dec 2019 vs. $2.024 billion last year.* **(Source: SBP)

Quantum impact of key imports on Balance of Payment vs. Deferred Oil Facility			
(US $ in Billion)	July-Dec 2019	July-Dec 2017	Net Impact
Machinery	4.433	5.494	-1.061
Transport	0.837	2.012	-1.175
Textile	0.979	1.378	-0.399
Iron and Steel Scrap	1.569	1.913	-0.344
		Total	-2.979
		Deferred Oil Facility per month	**$275 million**
		Deferred Oil Facility (July-Dec 2019)	**$1.65 billion**
		***Net Impact**	**$4.629 billion**

****Note:** With the Saudi deferred oil facility of $1.65 billion ($275 million per month) which has started since July 2019), and the cumulative reduction of $2.979 on account of imports of machinery, transport, textile and Iron, Steel scrap since July-Dec 2017 to July-Dec 2019, the net effect of $4.629 billion has contributed in the improvement of country's balance of payment position.*

We have taken July-Dec 2017 period in our comparison because it was the last year of previous regime

14. PAKISTAN EXTERNAL DEBT AND LIABILITIES:

On account of Rupee devaluation against US Dollar and foreign exchange liabilities, Pakistan's external debt and liabilities increased by 11% amounting to $106.89 billion (at US$ avg. exchange rate 156.3) as of 30th Sept 2019 vs $96.11 billion (at US$ avg. exchange rate of 124.20). Country's cost of debt servicing has also increased by $3 billion during 1QFY20. Country's outstanding external debt reached to the alarming levels which have deteriorated the debt bearing capacity.

($ in Million)	Sep-19	Sep-18	% change
Pakistan External Debt	106,891	96,111	11%

Source: SBP

OUTLOOK:

- Output of key kharif crops likely to remain below target, expected to grow by 3.5% this year vs. -6.5% last year.
- Private sector credit-off take to remain weak going forward in the wake of massive contraction in the economy.
- On account of pest attacks, erratic weather conditions, poor cropping management practices and governance issues, cotton shortfall may exceed to 5 million bales in FY20, negatively impacting exports and national GDP.
- Manufacturing and trade has decelerated amid economic slowdown of the country, will further weaken the industrial activity going forward.

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