


JANUARY 2020

PAKONOMICS

ECONOMY AT A GLANCE

Large Scale Manufacturing (LSM)	
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ADDRESS

408, 4th Floor, Continental Trade Centre, Clifton
Block-8, Karachi 

Email: connect@tolaassociates.com 

Ph# 35303294-6 

Website: www.tolaassociates.com 

Page: twitter.com/tolaassociates 

facebook.com/tolaassociates 

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HIGHLIGHTS:

- The second review of the International Monetary Fund (hereafter “IMF”) with the Government of Pakistan has been concluded. The IMF has accordingly stipulated three conditions for the disbursement of \$450 million tranche, which include; a) monthly, quarterly and annual tariff adjustments; and b) bringing mini budget to bridge the tax shortfall; and c) Chinese loan re-profiling in its second review.
- Large Scale Manufacturing (hereafter “LSM”) output has appreciated by 9.66% in Dec 2019. However, LSM has depreciated by 3.35% in July-Dec 2019 vs a drop of 1.84% in the last year.
- According to Pakistan Cotton Ginners Association, Pakistan cotton production has dropped by 20% to 8.48 million bales as of Feb 1, 2020, vs 10.60 million bales last year.
- Government has estimated that cotton production, at the year-end, would be 10.20 million bales vs. the full year target of 15 million bales.
- Private sector credit-offtake remained around 3 times lower during the current fiscal year amounting to Rs.175 billion vs Rs.552 billion last year.
- Broad Money grew by 3.57% due to increase in net foreign assets, and a drop in net domestic assets.
- Country’s cumulative hot money inflows have reached to \$ 3.12 billion as of 14th Feb 2020.
- Lack of effective control mechanism over supply-side issues accelerated CPI to 14.6%.
- FBR has raised tax revenues of Rs.2,405 billion during July-Jan 2019 vs. 2,062 billion last year which grew by 16%.
- FBR has to raise additional tax revenues of Rs.3,033 billion in the next five months to accomplish the revised target of Rs.5,238 set by the IMF in 2019-20.
- The reserves of the State Bank of Pakistan (hereafter “SBP”) reserves appreciated by \$5 billion which have reached to \$12.27 billion till Jan 31st, 2020 vs. \$7.28 billion as of June-end 2019.
- Foreign direct investment has appreciated by 65%, amounting to \$1.56 billion, during July-Jan FY20 vs. \$943 million during the same months last year.
- Overseas worker’s remittances grew by 4.13%, amounting to \$13.30 billion, in July-Jan FY20 vs \$12.77 billion last year.
- Pakistan’s net exports grew by 2% in terms of the US dollar, while increasing 22% in terms of the Rupee amounting to \$13.50 billion during July-Jan FY20 vs. \$13.21 billion last year.
- Outstanding debt and liabilities of the country appreciated by 23.36% amounting to Rs.40,993 billion as of Dec 2019 vs. Rs. 33,229 billion last year, which has deteriorated debt bearing capacity.
- During current fiscal year, country’s external debt servicing stood at \$6.9 billion with respect to principal and interest against debt.
- Pakistan’s current account deficit has dropped by 72% to \$2.654 billion during July-Jan FY20 vs. \$9.479 billion last year due to a 37% drop in the trade balance, a 17% depreciation of services balance, and a marginal increment in remittances.
- We will update our readers with the latest Macroeconomic Fundamentals of the country, its implications and the outlook of the Economy in hereinbelow.

(ECONOMY AT A GLANCE)

Economic Indicators	Period	Status	Current Year	Last Year
LSM	Jul to Dec	↓	-3.35%	-1.84%
Pakistan Cotton production	As of 1 Feb 2020	↓	8.48 million bales	10.60 million bales
Credit to Non-Government Sector	As of 31 Jan 2020	↓	Rs.173 billion	Rs. 664 billion
SCRA inflows (Hot Money)	As of 14 th Feb 2020	↑	Rs. \$3.12 billion	0.1
Worker's Remittances	Jul to Jan	↑	US \$13.30	\$12.77 billion
M2	As of 31 Jan 2020	↑	Rs. 635 billion	Rs. 394 billion
Net Government Sector borrowing	As of 31 Jan 2020	↓	Rs. (30) billion	Rs. 755 billion
CPI	Jan 2020	↓	14.60%	5.60%
FBR Tax Collection	Jul to Jan	↑	Rs. 2405 Billion	Rs. 2062 Billion
Foreign Exchange Reserves with SBP	As of 31 Jan 2020	↑	US\$ 12.27 billion	US\$ 8.12 billion
Foreign Direct Investments	July to Jan	↑	US\$ 1.563 billion	US\$ 943 million
Balance of Trade in Goods	July to Jan	↓	US\$- 13.84 billion	US\$- 19.20 billion
Balance of Payment	Jul to Jan	↓	US\$ - 5.276 billion	US\$ 1.059 billion
Pakistan's Total Debt and Liabilities	As of Dec 2019	↑	Rs. 40,993 billion	Rs. 33,229 billion

1. LARGE SCALE MANUFACTURING (LSM):

According to the Pakistan Bureau of Statistics (hereafter "PBS"), the output of LSM has appreciated by 9.66% in Dec 2019 vs. a drop of 11.74% last year on a year-on-year-basis. Overall, the output of LSM has depreciated by 3.35% in July-Dec 2019 vs drop of 1.84% last year reflecting underlying "fault lines" in the manufacturing sector affecting the economic growth. It may be noted that the sugar production grew by 97% to over 1 million tons on a year-on-year basis vs 0.554 million tons in December 2018 vs. It is due to this factor that the overall index of ministry of industries has inflated by 10.68% in Dec 2019 vs. Dec 2018. Moreover, there was no production in the sugar sector during July 19- Nov 19. During this period, the government has not given any incentive to the sugar sector. The demand dynamics of the industry have also not changed during the month. Given the historical trend of sugar production, sugar production dropped by 34% in Dec 2018 vs previous year and 37% during July-Dec 2018 vs previous year. Similarly, sugar production dropped by 29% in Dec 2016-17 vs previous year and 37% during July-Dec 2016-17 vs previous year.

Pakistan Large Scale Manufacturing Performance					
Industries	Weight (%)	Impact Dec -19 (%)	Impact Nov -19 (%)	July-Dec % change	
				FY20	FY19
Textile	20.915	0.50	0.48	0.32	-0.21
Food, Beverages & Tobacco	2.55	41.57	0.65	4.33	-3.3
Coke & Petroleum Products	-4.52	1.23	-5.45	-10.33	-4.9
Pharmaceuticals	3.62	2.83	-8.38	-6.36	-10.06
Chemicals	1.72	4.04	-0.19	-4.10	-3.31
Automobiles	4.61	-27.92	-44.67	-36.40	-3.79
Iron & Steel Products	5.39	-3.72	-8.74	-12.31	-7.56
Fertilizers	4.44	-9.96	-2.86	4.89	6.49
Electronics	1.96	15.53	-44.94	-14.08	20.13
Leather Products	0.86	16.1	12.23	11.02	-1.85
Paper & Board	2.31	33.47	30.19	7.87	-2.02
Engineering Products	0.4	-10.15	-19.0	-1.35	16.01
Rubber Products	0.26	5.03	4.75	1.32	5.01
Non-Metallic Mineral Products	5.36	7.89	7.99	2.90	-1.19
Wood Products	0.59	14.85	37.75	46.46	-36.68
Overall Growth		9.66	-4.61	-3.35	-1.84

(Source: PBS)

2. PAKISTAN COTTON PRODUCTION:

According to Pakistan Cotton Ginners Association, the cotton production of Pakistan has dropped by 20% or 2.11 million bales, to 8.48 million bales as of Feb 1, 2020 vs 10.60 million bales last year due to Pest attacks, erratic weather conditions, shortage of the pesticides and governance issues. Pakistan's major cotton losses have been reported in Punjab, amounting to a shortage of 1.5 million bales, or a drop of 23% on a year-on-year basis. Similarly, cotton production has depreciated by 16% in Sindh on account of the same reasons mentioned hereinabove. Massive cotton shortages have negatively affected the country's agricultural productivity and textile exports. The Economic Coordination Committee (hereafter "ECC") decided to withdraw; 3% regulatory Duty, 2% additional Customs Duty and 5% Sales Tax; on imported cotton from Jan 15th, 2020. The Federal Government estimated cotton production at the year-end to be 10.20 million bales vs. the full year target of 15 million bales.

Pakistan Cotton Arrivals in factories (Cotton bales)				
As on Feb 1,2020	Cotton Arrivals	Last year	Difference from last year	
			Quantity	% Change
Punjab	5,014,203	6,461,080	-1,446,877	-22.39%
Sindh	3,472,901	4,144,666	-671,765	-16.21%
Total	8,487,104	10,605,746	-2,118,642	-19.98%

(source: PCGA)

3. CREDIT TO NON-GOVERNMENT SECTOR:

Private sector credit growth has remained restricted due to tight monetary and fiscal policies. Private sector credit offtake remained almost 3 times lower, amounting to Rs.175 billion, than that of Rs.552 billion last year. Overall, the non-government sector credit-offtake stood Rs.173 billion vs. 664 billion last year.

(Rs. in million)	Monetary Impact since 1st July to	
	31-Jan-20	1-Feb-19
Credit to Private sector	175,230	552,012
Credit to Public Sector Entities (PSEs)	(2,187)	110,903
Credit to NBFIs	664	1,603
Credit to Non-Government Sector	173,707	664,519

(source: SBP)

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

As per SBP, Pakistan's cumulative hot money inflows have increased to \$3.12 billion as of 14th Feb 2020, in the debt markets.

Cumulative net inflows in Equity, T-Bills and PIBs				
During current fiscal year, July to 14th Feb 2020				
(thousand US \$)	Equity	T-Bills	PIBs	Total
Net inflows	(56,431)	3,144,422	35,814	3,123,805

The Federal Government and SBP are eyeing a substantial chunk of hot money inflows to accelerate the foreign exchange reserves on one hand, however, on the other side, the same is resulting in making the cost of credit expensive for the private sector. This is because holding interests rates are being held at 13.25% which is affecting industrial and economic growth of the country. So far out of the SCRA inflows materialized, 67% of the hot money flows have arrived from the United Kingdom (\$2.1 billion), while 26% have been invested from the United States of America (\$805 million) during the current fiscal year FY20 till 14th Feb 2020.

5. WORKER'S REMITTANCES:

The remittances of overseas workers appreciated by 4.13%, amounting to \$13.30 billion in July-Jan FY20 vs \$12.77 billion last year. Whereas, Pakistan's remittances dropped by 9% amounting to \$1.90 billion in Jan 2020 vs \$2.09 billion in Dec 2019 due to lower inflows materialized from USA 6.28%, UK 8%, Saudi Arabia 8%, UAE 7% and EU by 17% respectively on a month-on-month basis.

However, the country's monthly avg. remittances have also depreciated by 4%, that stood at \$1.9 billion during FY20 vs \$1.82 billion during FY19.

Country-wise Worker's Remittances						
(\$ million)	Jan-20	Dec-19	M/M change	7MFY20	7MFY19	Y/Y change
USA	335	357	-6.28%	2,225	2,005	10.97%
UK	299	325	-7.88%	2,052	1,942	5.66%
Saudi Arabia	433	473	-8.45%	3,051	2,971	2.69%
UAE	395	428	-7.62%	2,744	2,698	1.70%
Other GCC countries	185	206	-10.08%	1,275	1,222	4.34%
EU countries	47	56	-16.70%	386	356	8.49%
Others	213	252	-15.55%	1,569	1,580	-0.70%
Total	1,907	2,097	-9.06%	13,302	12,774	4.13%

(source: SBP)

6. BROAD MONEY (M2):

Broad Money grew by 3.57% amounting to Rs.635 billion during 1st July to 31st Jan 2020 vs. 394 Billion last year, mainly because of increase in net foreign assets (hereafter "NFA") and drop in net domestic assets. An appreciation in the net foreign assets bodes well for our external account. While in contrast to NFA, the net domestic assets of Pakistan contracted, mainly because of restricted private sector credit and government borrowing from the SBP.

Components	Stocks at June end 2019	Flows		Monetary Impact since 1st July to	
		FY18	FY19	31-Jan-20	1-Feb-19
(Rs. in Million)					
Currency in circulation	4,950,039	476,516	562,210	408,565	267,564
Other deposits with SBP	33,636	4,270	6,674	(386)	182
Total Demand and Time deposits including RFCDs	12,814,820	935,497	1,232,448	227,789	126,377
Broad Money (M2)	17,798,495	1,416,283	1,801,332	635,968	394,123
Growth		9.71%	11.26%	3.57%	2.46%

(source: SBP)

7. NET GOVERNMENT SECTOR BORROWING:

Even though the Government had decided not to borrow from the SBP in order to arrest inflation, it is still targeting the banking system to avail credit for its budgetary support. Overall, the Government has retired its debt amounting Rs.30 billion during 1st July to 31st Jan 2020 vs. Rs. 755 billion last year.

(Rs. in million)	Monetary Impact since 1st July to	
	31-Jan-20	1-Feb-19
Borrowing for Budgetary support	42,502	872,504
Commodity Operations	(76,946)	(118,112)
Others	4,339	742
Net government Sector Borrowing	(30,105)	755,133

(source: SBP)

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

According to PBS, the CPI Inflation appreciated by 2%, on a month-on-month basis, to 14.6% in January 2020 vs. 5.60% a year ago. The whole-sale inflation appreciated by 1.8%, on a month-on-month basis, to 15.4% in Jan 2020 vs. 12.6% in Jan 2019.

Lack of effective control mechanism regarding supply-side issues were leading to inflated food prices. Rural food inflation appreciated by 3.4% to 23.8% while urban food inflation grew by 2.7% to 19.5% during the month under review.

(Base year 2015-16) Period	National CPI	Food		Non-Food CPI	
		Urban	Rural	Urban	Rural
Jan-2020	14.60%	23.80%	19.50%	10.20%	10.50%
Jan-2019	5.60%	2.60%	1.80%	8.20%	7.00%

(source: SBP)

9. TAX REVENUE COLLECTION:

FBR has raised tax revenues of Rs.2,405 billion during July-Jan 2019 vs. 2,062 billion last year which grew by 16%. During Jan 2020, FBR collected tax revenues of Rs.320 billion vs. 272 billion last year which appreciated by 17%. Overall, FBR's tax shortages have reached to Rs.387 billion during July-Jan without incorporating outstanding tax refunds, and advances or amnesty proceeds, which stood at around Rs. 200 billion. If we incorporate the above figures, FBR's actual tax revenues for July – Jan 2019-20 stood at Rs. 2,205 billion. It may be noted that the FBR was supposed to collect Rs. 2,792 billion during July-Jan 2019-20, however, only ended up collecting Rs.2205 billion, facing cumulative tax gap of Rs.587 billion.

FBR has to collect additional tax revenue worth Rs.3,033 billion during next five months to accomplish IMF's revised target of Rs.5,238 set by the IMF in 2019-20.

(Rs. in Billion)	Jan-20	Jan-19	% change Y/Y	July-Jan 19	July-Jan 2018	% change Y/Y
FBR tax collection	320	272	17.64%	2405	2062	16.33%

10. FOREIGN EXCHANGE RESERVES:

The reserves of SBP appreciated by \$5 billion mainly because of SCRA inflows which have reached to \$12.27 billion vs. \$7.28 billion as of June-end 2019. Overall, the country's foreign exchange reserves have reached to \$18.64 billion as of 31st Jan 2020.

(\$ in million)	31-Jan-20	31-Jan-19
Net Reserves with SBP	12,273	8,192
Private Banking Reserves	6,370	6,728
Total Forex Liquid Reserves	18,644	14,921

(source: SBP)

Composition of Reserves is feeble as it includes showcase deposits from Saudi Arabia, UAE, Qatar, and China worth \$8 billion, and hot money worth \$3.2 billion.

11. FOREIGN DIRECT INVESTMENT

Pakistan's foreign direct investment (hereafter "FDI") appreciated by 65%, amounting to \$1.56 billion during July-Jan FY20 vs. \$943 million during the same months last year.

(US \$ million)	July-Jan FY20	July-Jan FY19	% Change
FDI	1,563	943	65%

(source: SBP)

In addition to this, the country during the same period, has attracted \$1.839 billion of hot money funds in debt securities, one-off license fee worth \$440 million, and \$21 million in portfolio investment during July-Jan FY20 vs. last year.

12. BALANCE OF TRADE IN GOODS:

The export sector of Pakistan has been experiencing the 'heat' of hike in the interests' rates, electricity and gas tariffs. The impact of Rupee devaluation, imposition of incremental taxes, regulatory interventions along with other factors have also been felt by the said sector. The exports of Pakistan dropped by 2.80% in terms of the US dollar, on a year-on-year basis, amounting to \$1.97 billion in Jan 2020 vs. \$2.03 billion in Jan 2019.

Contraction in the trade deficit is materializing due to import compression. Pakistan's trade deficit has dropped by 28% amounting to \$13.84 billion during July-Jan FY20 vs. \$19.20 billion last year. The country's net exports grew by 2% in terms of the US dollar, while 22% in terms of the Rupee, amounting to \$13.50 billion during July-Jan FY20 vs. \$13.21 billion last year. Imports on the other hand, have dropped by 15.64% in terms of the US dollar, from \$32.42 billion during July-Jan FY19 to \$27.34 billion during July-Jan FY20.

(\$ in Million)	Jan-20	Dec-19	% change M/M	Jan-20	Jan-19	% change Y/Y	July-Jan FY20	July-Jan FY19	% change Y/Y
Exports	1,978	1,993	-0.75%	1,978	2,035	-2.80%	13,507	13,216	2.20%
Imports	4,135	4,037	2.43%	4,135	4,467	-7.43%	27,348	32,420	-15.64%
Balance of Trade in Goods	(2,157)	(2,044)	5.53%	(2,157)	(2,433)	-11.34%	(13,841)	(19,204)	-27.93%

(source: PBS)

13. BALANCE OF PAYMENT:

According to SBP, Pakistan's current account deficit has dropped by 72% to \$2.654 billion during July-Jan FY20 vs. \$9.479 billion last year due to a 37% contraction in the trade balance, a 17% decrease in the services balance, and marginal increment in remittances. Whereas, on a month-on-month basis, the current account deficit has appreciated by 77% that stood at a deficit of \$555 million in Jan 2020 vs. deficit of \$313 billion Dec 2019.

Pakistan's remittances dropped by 9% amounting to \$1.90 billion in Jan 2020 vs \$2.09 billion in Dec 2019 on account of lower inflows materialized from USA 6.28%, UK 8%, Saudi Arabia 8%, UAE 7% and EU by 17% respectively on a month-on-month basis. However, within the financial account, Pakistan's FDI appreciated by 52% amounting to \$223 million in Jan 2020 vs. \$147 million in Dec2019. The country's overall balance of payment stood at negative \$5.276 billion in July-Jan FY20 vs. \$1.059 billion last year. It is likely that Pakistan's current account deficit may accelerate in coming months with the pace of the economic activities of the country.

US\$ in million Period	Jan-20	Dec-19	% Change	July-Jan FY20	July-Jan FY19	% Change
Current account Balance	-555	-313	77%	-2654	-9479	-72%
Trade Balance	-1,870	-1,709	9.42%	-11644	-18353	-37%
Exports	2,051	2,108	-2.70%	14,442	14,136	2.2%
Imports	3,921	3,817	2.72%	26,086	32,489	-20%
Service Balance	-182	-236	-22.88%	-1974	-2378	-17%
Primary Income	-460	-653	-29.56%	-3578	-3136	14%
Secondary Income	1,957	2,285	-14.35%	14,542	14,388	1.07%
Worker's Remittances	1,907	2,097	-9.06%	13,302	12,773	4.14%
Capital Account Balance	5	38	-86.84%	211	164	29%
Financial Account Balance	-1,402	-2,346	-40.24%	-7,010	-8,013	-13%
Net FDI in Pakistan	223	147	51.70%	1,564	943	66%
Net Portfolio investment	1390	0.0	NA	1,860	(408)	NA
Net incurrence of Liabilities	408	2,476	-83.52%	4,287	7,214	-41%
Overall Balance	-922	-2,319		-5276	1,059	
SBP Gross Reserve	12,774	11,336	13%	12,274	8,192	50%

(source: SBP)

14. PAKISTAN'S TOTAL DEBT AND LIABILITIES:

According to the SBP, Pakistan's outstanding debt and liabilities appreciated by 23.36% amounting to Rs. 40,993 billion as of Dec 2019 vs. Rs. 33,229 billion last year, on account of domestic and external debt which has deteriorated the debt bearing capacity. Similarly, the country's outstanding domestic debt has increased by 23% amounting to Rs.22,196 billion as of Dec 2019 vs. Rs.18,040 billion last year. On the external front, Pakistan's external debt has surged by a staggering \$12 billion in one year amounting to \$111 billion as of Dec 2019 vs \$99 billion as of Dec 2018. Pakistan has paid debt servicing of \$3 billion (in principal) and \$849 million (in interest) during 2QFY20. During the current fiscal year, the country's external debt servicing stood at \$6.9 billion with respect to principal and interest against debt. Overall, Pakistan has paid \$18.489 billion during FY19 to date as external debt servicing.

Pakistan's Debt Profile				
Year on Year		Dec-19	Dec-18	% Change
Pakistan's Total Debt and Liabilities	(Rs.)	40,993 billion	33,229 billion	23.36%
Domestic Debt	(Rs.)	22,196 billion	18,040 billion	23.03%
External debt	(US\$)	111 billion	99 billion	12.12%

(source: SBP)



OUTLOOK:

- The FATF review has been concluded on 21st February 2020. Accordingly, FATF has stated that Pakistan has managed to comply with 14 out of 27 points recommended to it by the FATF in their implementation plan. Therefore, the anti-money laundering watchdog is further retaining Pakistan on its grey list till June 2020, to comply with the remaining 13 points.
- Due to the coronavirus outbreak, OPEC has lowered its forecast for oil demand by 0.23 million bpd to 0.99 million bpd in 2020. The OPEC and its allies have scheduled an emergency meeting in March to counter the economic hit from the deadly coronavirus.

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OFFICES IN PAKISTAN

Karachi Address:

**Office no. 408, 4th Floor, CTC
Building, Clifton Block-8,
Karachi**

Tel #: +92 21 3530 3293-6

Islambad Address:

**144, 1st Floor, Street No.82
Sector E-11 / 2 FECHS
Islamabad 44000,**

Tel #: +92 51-835 1551

Lahore Address:

**202-E, 2nd Floor, Sadiq Plaza
69-The Mall Road, Lahore**

Tel #: +92 42 3628 0403