PAKONOMICS
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HIGHLIGHTS:

- The Monetary Policy Committee of the State Bank of Pakistan ("SBP") shred its Policy rate by 75 bps (0.75%) from 13.25% to 12.50% in its Monetary Policy Statement dated 17th March 2020. The cut was lower than what the market was expecting, and will have a negligible impact on the growth of our country.
- The growth in the Large-Scale Manufacturing ("LSM") sector dropped by 6% in January 2020 vs. December 2019. The said drop was due to structural bottlenecks within the industrial, sector and the economic slowdown that has plagued the country. Overall, the growth of the LSM's sector has contracted by 3.35% during July-Jan FY20, versus a negative growth of 1.77% during last year.
- Private sector credit grew stood at an outstanding amount of Rs.242 billion, which dropped by 56% lower than last year's figure of Rs. 554 billion, mainly due to the said economic slowdown.
- Pakistan's cotton production has dropped by 20%, to 8.56 million bales vs 10.74 million bales last year.
- According to SBP, overseas investors have repatriated $1.68 billion worth **hot money**, during the current fiscal year through the Special Convertible Rupees Account ("SCRA").
- Worker's remittances have dropped by 4.35% in Feb 2020, as against the previous month, due to lower inflows from the UK, Saudi Arabia, UAE, EU and GCC countries.
- Broad Money grew by a substantial amount of Rs. 366 billion, or 5.63%, during the previous month, and has reached over Rs.1 trillion, mainly due to a surge in the Net Foreign Assets ("NFA"), and a drop in Net Domestic Assets ("NDA").
- Overall, the Net Government borrowing stood at Rs. 281 billion vs. Rs.862 billion last year.
- According to the Pakistan Bureau of Statistics ("PBS"), Consumer Price Index ("CPI") Inflation, has increased by 12.40% in Feb 2020, on a year-on-year basis, vs. an increase of 6.80% over a year ago.
- FBR's tax revenue has been reported at Rs.2,714 billion (FBR's actual tax Revenue during July-Feb 2019-20 is Rs. 2,514 billion, as outstanding Tax Refunds Rs.126 billion and advances worth Rs.74 billion) during July-Feb 2019-20 vs Rs.2,333 billion last year, resulting in a growth of 16% on a year-on-year basis.
- The State Bank's reserves have been reported at $12.67 billion vs. $8.83 billion last year.
- Pakistan's foreign direct investment appreciated by 75%, amounting to $1.85 billion during July-Feb FY20 vs. $1.05 million during the same months last year.
- The overall exports of Pakistan saw a marginal growth of 3.65% during July-Feb 2019-20 vs last year.
- Pakistan's current account deficit has dropped by 71% to $2.84 billion during July-FebFY20 as compared to last year, mainly due to a contraction in imports, and a reduction in Arab light oil prices.

The outlook of the economy of Pakistan is as follows;

ECONOMY AT A GLANCE

Economic Indicators	Period	Status	Current Year	Last Year
LSM	Jul to Jan	↓	-3.37%	-1.77%
Pakistan Cotton production	As of 1 Mar 2020	↓	8.56 million bales	10.74 million bales
Credit to Non-Government Sector	As of 6th Mar 2020	↓	Rs.235 billion	Rs. 839 billion
SCRA inflows (Hot Money)	As of 19th Mar 2020	↑	US$1.65 billion	0.1
Worker's Remittances	Jul to Feb 20	↑	US $15.12	$14.35 billion
M2	As of 6th Mar 2020	↑	Rs.1,001 billion	Rs. 550 billion
Net Government Sector borrowing	As of 6th Mar 2020	↓	Rs. 281 billion	Rs. 862 billion
CPI	Feb 2020	↑	12.40%	6.80%
FBR Tax Collection	Jul to Feb	↑	Rs. 2,714 Billion	Rs. 2,333 Billion
Foreign Exchange Reserves with SBP	As of 13th Mar 2020	↑	US$ 12.67 Billion	US$ 8.83 Billion
Foreign Direct Investments	July to Feb	↑	US$ 1.852	US$ 1.059
Balance of Trade in Goods	July to Feb	↓	US$ (15.773) billion	US$ (21.466) Billion
Balance of Payment	Jul to Feb	↓	US$ - 5.84 billion	US$ 1.15 billion

1. LARGE SCALE MANUFACTURING:

According to PBS, the growth of 9.66% in the LSM sector in Dec 2019 was short lived, as the said sector witnessed a dropped of 6% in Jan 2020 on a month-on-month basis due to structural issues within the industrial sector and the said economic slowdown. LSM growth dropped by negative 3.37% during July-Jan FY20 vs negative growth of 1.77% last year.

Pakistan Large Scale Manufacturing Performance					
Industries	Weight (%)	Impact Jan -20 (%)	Impact Dec -19 (%)	July-Jan % change	
				FY20	FY19
Textile	20.915	-0.11	0.50	0.28	-0.26
Food, Beverages & Tobacco	2.55	-3.0	41.57	1.93	-4.26
Coke & Petroleum Products	-4.52	-12.14	1.23	-10.59	-4.78
Pharmaceuticals	3.62	-3.32	2.83	-5.77	-9.09
Chemicals	1.72	6.23	4.04	-3.20	-4.23
Automobiles	4.61	-34.04	-27.92	-36.07	-5.24
Iron & Steel Products	5.39	12.09	-3.72	-9.25	-9.13
Fertilizers	4.44	2.09	-9.96	4.53	5.81
Electronics	1.96	-41.25	15.53	-8.50	37.79
Leather Products	0.86	10.99	16.1	11.15	-0.88
Paper & Board	2.31	4.35	33.47	6.77	-2.29
Engineering Products	0.4	-10.45	-10.15	-3.62	11.01
Rubber Products	0.26	6.69	5.03	2.05	3.36
Non-Metallic Mineral Products	5.36	-5.43	7.89	1.71	-2.29
Wood Products	0.59	-30.99	14.85	25.07	20.36
Overall Growth		**-5.96**	**9.66**	**-3.37**	**-1.77**

(Source: PBS)

2. PAKISTAN COTTON PRODUCTION:

Pakistan Cotton Arrivals in factories Cotton bales				
As on Mar 1,2020	Cotton Arrivals	Last year	Difference from last year	
			Quantity	% Change
Punjab	5,091,397	6,592,318	(1,500,921)	(22.77%)
Sindh	3,473,979	4,149,063	(675,084)	(16.27%)
Total	8,565,376	10,741,381	(2,176,005)	(20.26%)

(source: PCGA)

3. SPECIAL CONVERTIBLE RUPEE ACCOUNT INFLOWS:

Cumulative net inflows in Equity, T-Bills and PIBs During current fiscal year, July to 19th March 2020				
(thousand US $)	Equity	T-Bills (Hot Money)	PIBs (Hot Money)	Total
Inflows	630,425	3,431,505	60,508	4,122,439
Outflows	(775,942)	(1,646,415)	(40,424)	*(2,462,781)
Balance Remaining	(145,517)	1,788,090	20,084	1,659,658

***Out of this, a total of $1.68 billion worth hot money has been repatriated from Pakistan.**

4. WORKER'S REMITTANCES:

A drop of 4.35% was witnessed in the aforesaid indicator in Feb 2020, as against the previous month. This was mainly due to lower inflows from the UK, Saudi Arabia, UAE, EU and GCC countries. The captioned indicator saw a growth of 5.36% on a year-on-year basis, amounting to $15.12 billion, compared to $14.35 billion of last year.

Country-wise Worker's Remittances						
($ million)	Feb-20	Jan-20	M/M change	8MFY20	8MFY19	Y/Y change
USA	333.48	335	-0.45%	2,558	2,246	13.91%
UK	253.51	299	-15.21%	2,306	2,195	5.05%
Saudi Arabia	421.96	433	-2.55%	3,473	3,341	3.95%
UAE	387	395	-2.03%	3,132	3,034	3.23%
other GCC countries	178	185	-3.78%	1,453	1,375	5.71%
EU countries	44.66	47	-4.98%	431	393	9.54%
Others	205	213	-3.76%	1,773	1,772	0.06%
Total	**1,824**	**1,907**	**-4.35%**	**15,126**	**14,356**	**5.36%**

(source: SBP)

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5. CONSUMER PRICE INDEX INFLATION:

(Base year 2015-16) Period	National CPI	Food		Core CPI	
		Urban	Rural	Urban	Rural
Feb-2020	**12.40%**	**15.20%**	**19.70%**	**8.00%**	**9.40%**
Feb-2019	6.80%	5.90%	5.20%	7.10%	6.40%

(source: SBP)

6. TAX REVENUE COLLECTION:

(Rs. In Billion)	July-Feb 2019-20	July-Feb 2018-19	% change Y/Y
FBR's Tax collection	*2,714	2,033	16.33%

FBR's actual tax Revenue during July-Feb 2019-20 is Rs. 2,514 billion (Outstanding Tax Refunds Rs.126 billion and advances worth Rs.74 billion)

FBR's tax revenue is reported at Rs.2,714 billion during July-Feb FY20 vs Rs.2,333 billion last year, and has increased by 16% on a year-on-year basis. The tax revenue target for the FBR was Rs.3,209 billion during July-Feb FY20. Hence, a cumulative shortfall of Rs.695 billion in generating tax revenues, has been witnessed.

7. FOREIGN EXCHANGE RESERVES:

SBP's reserves have reached $12.68 billion vs. $8.84 billion last year.

($ in million)	13-Mar-20	08-Mar-19
Net Reserves with SBP	12,679	8,838
Private Banking Reserves	6,063	6,870
Total Forex Liquid Reserves	18,743	15,709

(source: SBP)

Out of the net reserves resting with the SBP, around $5.50 billion are showcase deposits (which includes $3 billion from Saudi Arabia, UAE $2 billion and $500 million from Qatar) and $1.5 billion commercial loans from Chinese Banks (Total $ 7 Billion), and outstanding Hot Money worth $1.65 billion.

8. FOREIGN DIRECT INVESTMENT

(US $ million)	July-Feb FY20	July-Feb FY19	% Change
FDI	1,852	1,059	75%

(source: SBP)

In addition to this, the country has fetched $2.16 billion worth foreign public investment during the same period, which are actually hot money inflows in debt securities. Whereas, according to SBP, portfolio outflows of $26 million were witnessed from the equities of the country during July-Feb FY20 vs. $408 million last year.

9. BALANCE OF PAYMENT:

According to SBP, Pakistan's current account deficit has dropped by 71% to $2.84 billion during July-Feb FY20 vs. last year. This is mainly down to a contraction in imports, and a reduction in Arab light oil prices. The share of oil imports stood at $8.23 billion, or 26%, in the overall import bill of the country (which is $31.51 billion during July-Feb FY20). If the current trend of falling oil prices persists, this will have a net positive impact on the Pakistani economy, even if external inflows slowdown.

US$ in million Period	Jan-20	Dec-19	% Change	July-Feb FY20	July-Feb FY19	% Change
Current account Balance	**-210**	**-555**	**-62%**	**-2843**	**-9871**	**-71%**
Capital Account Balance	**8**	**5**	**60%**	**16,535**	**169**	**NA**
Financial Account Balance	**-634**	**-1,402**	**-55%**	**-2,624**	**-8,239**	**-68%**
Net FDI in Pakistan	289	223	29.60%	1,853	1,058	75%
Net Portfolio investment	275	1390	NA	2,135	(408)	NA
Net incurrence of Liabilities	27	408	-93.38%	4,303	7,357	-42%
Overall Balance	**-566**	**-922**		**-5842**	**1,152**	
SBP Gross Reserve	12,758	12,774	0%	12,758	8,086	58%

(source: SBP)

10. TREASURY BILL AUCTION:

SBP conducted an auction of Treasury Bills, on 11th March 2020, with an auction target of Rs.350 billion. However, the maturities were worth Rs.305 billion. Yields on all tenors dropped in anticipation of a cut in the policy rate through the Monetary Policy.

Despite a massive cut in yields in term of the above, SBP decreased the policy rate by only a negligible 75 bps. The said cut in the policy rate was lower than what the market was expecting. Moreover, the said cut in the rate shall not have any meaningful impact on the GDP growth.

T-Bill Auction					**(Rs. in Million)**
Tenors	**Face Value**	**Cut-Off Yield**	**Cut-Off Yield**	**weighted. avg yield**	**Change**
3-Months	128,585	13.38%	12.72%	12.68%	**70 bps**
6-Months	102,301	13.34%	12.50%	12.47%	**87 bps**
12-Months	92,500	13.33%	12.00%	11.97%	**131 bps**
Total	**323,386**	-	-	-	-

OUTLOOK:

- Due to stagflation, and the economic fallout of the COVID-19, the impact of monetary easing will be neutralized. Also, if the aforesaid pandemic persists, it is likely that this will lead towards a recession.
- The FBR is expected to generate tax revenues of Rs.4,400 Billion during 2019-20, with a massive shortfall in tax revenues amounting to Rs.1,103 billion vs. IMF's original target of Rs.5,503 Billion.
- According to the Medium-Term Budget Strategy Paper for 2020-21, the Federal Government will impose additional taxes worth Rs. 1 trillion. This means that the Government is targeting 36% additional tax revenues for 2020-21. Under the present scenario of stagflation and lockdown, due to COVID-19, this seems highly unlikely.
- According to the 'hypothetical worse-case scenario' published by the Asian Development Bank in a recent report, a loss of $4.9 billion is estimated to be incurred by Pakistan if the outbreak persists for more than 6 months. Assessing the current situation, it may be likely that Pakistan will incur heavy losses due to this outbreak.
- On account of a lockdown due to the COVID-19, the country's economic activities will be negatively affected, which will further slowdown tax revenues, and will elevate tax shortfall of the country.
- As per media reports, the expenses incurred to counter the coronavirus will not be included in the fiscal deficit. If this is materialized, it will be a big relief to the Federal Government by the IMF under the bailout program.
- Pakistan is also likely to get a $2 billion package from multilateral agencies to counter the current pandemic, in an effort to build a health-emergency capacity.
- Pakistan's foreign exchange reserves will increase due to IMF's third tranche worth $452 million in April 2020. However, the said tranche is subject to approval of the IMF Executive Board.
- Under the present situation, the country's remittances are to remain under pressure, and our exports are likely to be contracted going forward.
- In case of Force Majeure, Pakistan might renegotiate terms with donors and multilateral agencies.

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