PAKONOMICS
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HIGHLIGHTS:

- The International Monetary Fund (hereafter "IMF") has highlighted grave concerns for the economy of Pakistan amidst the consequences of Covid-19 (hereafter "pandemic"). The IMF has projected the GDP of Pakistan to contract by -1.5% in 2019-20.
- The West Texas Intermediate (hereafter "WTI") crude oil plunged to $-37 per barrel, its lowest levels ever, due to capacity issues. The demand for oil is low, and the market thereof is over supplied. Hence, the storage capacity is running out.
- The State Bank of Pakistan (hereafter "SBP"), after, and in light of the decision taken, in an emergency meeting of the Monetary Policy Committee (hereafter "MPC") on 16th April 2020, has slashed the Policy Rate by 200 bps to 9%. The SBP has also revised its outlook for growth to -1.5% for FY20.
- The IMF has, in its Country Report No.20/114 (hereafter "country report"), projected the FBR's tax revenue collection to be Rs. 3,908 billion for the current year, against an already-twice revised target of Rs. 4,803 billion.
- The Large-Scale Manufacturing (hereafter "LSM") sector has contracted by 3.03% during July-Feb FY20 vs. negative growth of 1.72% in FY19. The effects of the pandemic on the Pakistan's LSM sector are yet to be witnessed.
- The Private sector credit growth remained weak, and stood at 325 billion vs. 883 billion last year.
- Pakistan's cotton production plummeted by 20.36% to 8.56 million bales vs. 10.74 million bales last year.
- According to SBP, the amount of hot money inflows remaining in the country stand at $626 million, as of 22nd April 2020.
- Due to the Ramadan effect, the remittances of Pakistani workers witnessed a nominal growth of 3.84% in Mar 2020, on a month-on-month basis. It is likely that these remittances will deteriorate going forward.
- Broad Money grew significantly by 8.75% to Rs. 1,558 billion in FY20, vs. Rs.618 billion last year. This has risen with an alarming pace, which is likely to fuel inflation.
- Overall, the net borrowing of the Government has appreciated to Rs. 993 billion vs. Rs.779 billion last year.
- According to the Pakistan Bureau of Statistics (hereafter "PBS"), CPI Inflation has increased by 10.20% in Mar 2020 vs. 8.60% over a year ago.
- The tax revenue collection of the FBR is reported at Rs. 3,063 billion during July-Mar 2019-20 vs. Rs. 2,690 billion last year, and has grown by 13% on a year-on-year basis.
- The reserves of the SBP have dropped by $1.9 billion, since 6th March 2020, to $10.88 billion.
- According to PBS, Pakistan's exports have dropped by 15.56%; from $2.14 billion in Feb 2020, to $1.80 billion in March 2020 on a month-on-month basis.
- According to the SBP, Pakistan's current account deficit has dropped by 73%, to $2.76 billion during July-Mar FY20 vs. last year, mainly due to a massive contraction in imports.
- We will update our readers with the latest Macroeconomic Fundamentals of the country, its implications and the outlook of the Economy hereinbelow.

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 Feb	↓	-3.03%	-1.72%
Pakistan Cotton production	As of 15th Mar FY20	↓	8.56 million bales	10.76 million bales
Credit to Non-Government Sector	As of 10th Apr FY20	↓	Rs.325 billion	Rs. 883 billion
SCRA inflows (Hot Money)	As of 22nd Apr FY20	↑	US$626 million	0.1
Worker's Remittances	Jul to Mar FY20	↑	US $16.99	$16.0 billion
M2	As of 10th Apr FY20	↑	Rs.1,558 billion	Rs. 618 billion
Net Government Sector borrowing	As of 10th Apr FY20	↑	Rs. 993 billion	Rs. 779 billion
CPI	Mar FY20	↑	10.20%	8.60%
FBR Tax Collection	Jul to Mar FY20	↑	Rs. 3,063 Billion	Rs. 2,690 Billion

Foreign Exchange Reserves with SBP	As of 17th Apr FY20	↑	US$ 10.88 billion	US$ 9.24 billion
Foreign Direct Investments	July to Mar FY20	↑	US$ 2.148 billion	US$ 905 million
Balance of Trade in Goods	July to Mar FY20	↓	US$ (17.36) billion	US$ (23.60) Billion
Balance of Payment	Jul to Mar	↓	US$ - 2,768 billion	US$- 10,284 billion

1. LARGE SCALE MANUFACTURING:

According to the PBS, the LSM sector contracted by 1.15% in Feb 2020 vs 1.44% last year due to an economic slowdown in the country. LSM growth dropped by negative 3.03% during July-Feb FY20 vs. a negative growth of 1.72% last year.

Pakistan Large Scale Manufacturing Performance					
Industries	Weight (%)	Impact Feb -20 (%)	Impact Jan -20 (%)	July-Feb % change	
				FY20	FY19
Textile	20.915	0.78	-0.11	0.37	-0.27
Food, Beverages & Tobacco	12.370	-3.94	-3.0	0.71	-1.54
Coke & Petroleum Products	5.5	-36.25	-12.14	-13.57	-5.50
Pharmaceuticals	3.620	-7.51	-3.32	-5.81	-8.71
Chemicals	1.717	10.45	6.23	-0.96	-4.07
Automobiles	4.613	-27.16	-34.04	-34.98	-6.02
Iron & Steel Products	5.392	10.82	12.09	-7.0	-10.26
Fertilizers	4.441	18.70	2.09	5.99	4.90
Electronics	1.963	-4.47	-41.25	-7.85	35.99
Leather Products	0.859	4.75	10.99	10.52	0.21
Paper & Board	2.314	8.59	4.35	5.21	-3.18
Engineering Products	0.4	0.07	-10.45	-2.73	7.71
Rubber Products	0.262	2.19	6.69	4.74	3.09
Non-Metallic Mineral Products	5.364	27.79	-5.43	4.58	-3.99
Wood Products	0.588	-53.65	-30.99	6.02	18.44
Overall Growth		**-1.15**	**9.66**	**-3.03**	**-1.72**

(Source: PBS)

2. PAKISTAN COTTON PRODUCTION:

Pakistan Cotton Arrivals in factories				
Cotton bales				
As of 15th March 2020	Cotton Arrivals	Last year	Difference from last year	
			Quantity	% Change
Punjab	5,097,282	6,613251	-1,515,969	-22.93%
Sindh	3,473,979	4,149,393	-675,414	-16.28%
Total	8,565,261	10,762,644	-2,191,383	-20.36%

(Source: PCGA)

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

Cumulative net inflows in Equity, T-Bills and PIBs				
During current fiscal year, July to 22nd April 2020				
(thousand US $)	Equity	T-Bills	PIBs	Total
Inflows	660,511	3,636,052	60,508	4,357,070
Outflows	(922,144)	(2,762,942)	(45,420)	(3,730,507)
Balance Remaining	(261,633)	866,110	15,088	626,563

4. WORKER'S REMITTANCES:

Pakistan's worker's remittances witnessed a nominal growth of only 3.84% in Mar 2020 vs the previous month, mainly because of the effects of pandemic. Whereas, Pakistan's remittances grew by 6% amounting to $16.99 billion vs. $16 billion last year.

Country-wise Worker's Remittances						
($ million)	Mar-20	Feb-20	M/M change	9MFY20	9MFY19	Y/Y change
USA	352.42	333.48	5.68%	2,880	2,446	17.74%
UK	248.54	253.51	-1.96%	2,554	2,476	3.15%

Saudi Arabia	452.27	421.96	7.18%	3,925	3,747	4.75%
UAE	420	387	8.53%	3,552	3,412	4.10%
other GCC countries	173	178	-2.81%	1,626	1,542	5.45%
EU countries	43.54	44.66	-2.51%	474	437	8.47%
Others	205	205	0.00%	1,980	1,970	0.51%
Total	1,894	**1,824**	3.84%	16,991	16,030	6.00%

(Source: SBP)

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

(Base year 2015-16) Period	National CPI	Food		Core CPI	
		Urban	Rural	Urban	Rural
Mar-2020	**10.20%**	**13.0%**	**15.50%**	**7.40%**	**9.40%**
Mar-2019	8.60%	8.80%	9.30%	7.20%	6.50%

(Source: SBP)

6. TAX REVENUE COLLECTION:

(Rs. In Billion)	July-Mar 2019-20	July-Mar 2018-19	% change Y/Y
FBR's Tax collection	*3,063	2,690	13%

FBR's actual tax Revenue during July-Mar 2019-20 are Rs. 2,838 billion [outstanding sales tax refunds are Rs.150 billion (accumulated due to rescinding of SRO 1125/2011), and advances are worth Rs.75 billion]

Therefore, FBR's actual tax shortfall is Rs.918 billion vs. the target of Rs. 3,756 billion set for during July-March FY20. The FBR, after a second revision by the IMF of its yearly target, needs to collect Rs. 1,965 billion within the next three months, which seems like a daunting task under the prevailing conditions. In its recent country report, the IMF has revised the revenue target for the FBR for the current year down to Rs. 4,803 billion, from Rs. 5,236 billion (which was also revised down from the initial target of Rs. 5.5 trillion) in FY20.

Moreover, it may be noted that the IMF has now projected the FBR to collect Rs. 3,908 billion during the current fiscal year. It is pertinent to note that we had made a similar projection in our assessment titled "Pakistan Economy - Pandemic Encumbrances" issued on 8th April 2020.

7. FOREIGN EXCHANGE RESERVES:

The State Bank's reserves have dropped by $1.9 billion since 6th Mar 2020 to $10.88 billion.

($ in million)	17-Apr-20	19-Apr-19
Net Reserves with SBP	10,889	9,024
Private Banking Reserves	6,411.1	6,970
Total Forex Liquid Reserves	17,300.	15,994

(Source: SBP)

Out of the $10.88 billion worth Reserves of the SBP, $5.5 billion are showcase deposits (which includes $3 billion from Saudi Arabia, $2 billion from UAE and $500 million Qatar), $1.5 billion commercial loans from Chinese banks (total $7 billion) and outstanding Hot Money worth of $626 million.

8. FOREIGN DIRECT INVESTMENT

(US $ million)	July-Mar FY20	July-Mar FY19	% Change
FDI	2,148	905	137%

(Source: SBP)

The amount of foreign direct investment in Pakistan grew by 137% to $2.14 billion during July-Mar FY20 vs $905 million during July-Mar FY19. The IMF expects that the country will require a balance of payment of about $2.0 billion (0.8% of GDP) in Q4 FY2020. Therefore, the country could face a financing gap of around $1.6 billion in FY 2021.

9. BALANCE OF PAYMENT:

According to the SBP, Pakistan's current account deficit has dropped by 73% to $2.76 billion during July-Mar FY20 vs last year, mainly due to a massive contraction in imports. The IMF expects that Pakistan's public finances will come under significant pressure, and that access to capital markets has temporarily been lost.

($ in million)	Mar-20	Feb-20	% change	Jul-Mar FY20	July-Mar FY19	% Change
Current account Balance	-6	-210	-97%	-2768	-10284	-73%
Capital Account Balance	21	8	163%	230	159	45%
Financial Account Balance	1,627	-634	-357%	-5998	-11353	-47%
Net FDI in Pakistan	**278**	**289**	-4%	2148	905	137%
Net Portfolio investment	**-1,907**	**275**	-793%	228	-410	-156%
Net incurrence of Liabilities	**-735**	**27**	NA	3544	10649	-67%
Overall Balance	-1,596	-566	-	-4246	-1336	-
SBP Gross Reserve	**10,845**	**12,758**	-	10845	10492	-

(Source: SBP)

10. TREASURY BILL AUCTION:

The SBP, on 22nd April 2020, conducted an auction of the Treasury Bills that had an auction target of Rs.500 billion, whereas maturities were Rs.705 billion. The 1 year yield further dropped to 7.47%, hence, a further cut in the interest rate cannot be ruled out.

T-Bill Auction					(Rs. in Million)
Tenors	**Face Value**	**Previous Cut-Off Yield**	**Cut-Off Yield**	**Weighted. avg yield**	**Change**
3-Months	164,025	10.89%	8.39%	8.21%	**250 bps**
6-Months	126,500	10.30%	7.99%	7.88%	**231 bps**
12-Months	145,000	9.65%	7.47%	7.32%	**218 bps**
Total	**435,525**	**-**	**-**	**-**	**-**

OUTLOOK:

- Due to severe shocks of pandemic, the IMF projects Pakistan's GDP to shrink by -1.5% this year.
- The IMF has cumulatively revised the real GDP of Pakistan down by 5 percentage points over FY 2020–21 due to an anticipated contraction in the manufacturing, especially textiles, transportation, and services sector.
- Pakistan has received $1.39 billion under the Rapid Financing Instrument (RFI) from the IMF to address fiscal and balance of payment needs in the wake of a severe economic recession due to the pandemic.
- Quantum of debt relief to Pakistan on account of G-20 group, needs more clarity by the Federal Government.
- Moreover, as per the country report, the IMF has set the FBR's tax revenue collection target at Rs. 6,138 billion in the next year, i.e 2020-21. This means that the FBR will have to raise 57% additional tax revenues when compared to the tax collection projected by the IMF for this year, i.e. Rs. 3,908 billion. Whereas, if we look at the tax projections for the year 2019-20, in terms of the revised tax target set by the IMF this year, i.e. Rs. 4,803 billion, the FBR will have to collect 27.8% additional tax revenue. Such a growth in FBR's tax revenues seems highly unlikely considering the ongoing recession in the country. It may be noted that the IMF has, in light of the pandemic, projected the collection of FBR's tax revenue to be Rs. 5,101 billion for the year 2020/21.
- The IMF expects the country's exports to deteriorate by $2.2 billion to $23.73 billion (original target $25.95 billion) and remittances to drop to $20.79 billion (original target of $22.58 billion) in 2019-20.
- Moreover, the IMF has cut down the consolidated development expenditure of Pakistan by 34%, to Rs. 953 billion vs. the budgeted amount of Rs. 1,437 billion, for the year 2019-20. This will have a negative impact on the GDP of Pakistan.
- On account of the supply chain disruptions and the Ramzan effect, the inflation is set to face food price shocks.
- Pakistan's export earnings and remittances will remain under pressure going forward.