ECONOMIC SURVEY 2019-20 – A NOSEDIVE

DATED: THURSDAY, JUNE 11TH 2020

408, CONTINENTAL TRADE CENTRE, BLOCK-8, CLIFTON, KARACHI

Pakistan Economy 2019-20

FOCAL POINTS

- **Pakistan's GDP growth has dropped to -0.38% in 2019-20 vs target of 4% of Planning Commission 2019-20.**
- **The GDP growth for 2018-19 has also been revised down to 1.91% vs. provisional figures of 3.3%.**
- **Country's wheat crop and livestock sector, drove the overall growth of the agriculture sector, which grew by 2.67% in 2019-20**
- **The country's industrial sector deteriorated by 2.64% in 2019-20.**
- **Services sector's growth dropped to -0.59%, that grew by 3.75% a year ago.**
- **Pakistan's overseas workers remittances appreciated by 5.5% which stood at $18.78 billion during July-April 2019-20 vs. $17.80 billion last year.**
- **The State Bank of Pakistan's ("SBP") reserves stand at $10.36 billion as of 29th May 2020.**
- **Pakistan's current account deficit dropped by 71% to $3.34 billion during July-Apr FY20 vs. last year.**
- **Overall exports dropped by 7% to $19.79 billion during July-May 2019-20 vs $21.25 billion last year.**
- **Pakistan's debt and liabilities appreciated by 22% to Rs. 42,820 billion till Mar 2020 vs Rs. 35,113 billion last year.**
- **Pakistan's projected GDP growth is estimated at 2.10% for 2020-21.**
- **Currency in circulation of country appreciated by Rs. 1,421 billion since June.30 2019 till 29th May,2020.**
- **Pakistan's debt and liabilities appreciated by 22% to Rs. 42, 820 billion till Mar 2020 vs Rs. 35,113 billion last year.**
- **Pakistan total external debt and liabilities appreciated by 3.80% and stood at $110 billion till Mar 2020 vs $105.97 billion last year.**
- **FBR's tax collection stood at Rs.3,518 billion during July-May 2019-20 vs Rs.3,266 billion last year.**

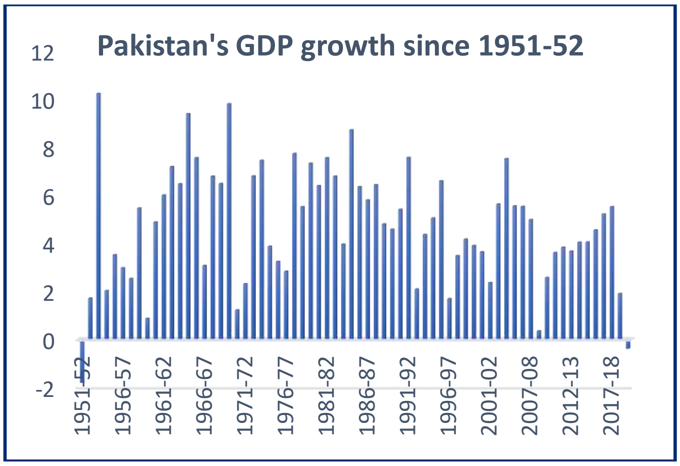
PREAMBLE:

The underlying 'fault lines' have caused the economic gains of past to meltdown, primarily due to, *inter-alia*, monetary and fiscal tightening, currency devaluation, high energy tariffs and interest rates and inflationary effects, which have also deteriorated the economic fundamentals and competitiveness of the economy. The country has been undergoing an unprecedented economic recession, which is not going to end soon, as endogenous and exogenous shocks are mounting challenges for our policymakers. The deterioration of the macroeconomic fundamentals, high cost of doing business and crowding-out of private sector have also caused massive unemployment in the economy. Out of the 14 global recessions since 1870, the present COVID-19 oriented global recession will be the fourth-deepest and steepest, and the most severe since world War-II. Consequently, Pakistan's national output is likely to worsen with the effects of COVID-19 and could jeopardize medium to long term prospects of the country.

Due to significant contractionary measures adopted by the Federal Government and the ongoing pandemic, Pakistan's GDP growth has dropped from 5.53% in 2017-18 to -0.38% in 2019-20. Moreover, the GDP growth of the country for 2018-19 has also been revised down to 1.91%, as compared to provisional figures of 3.3%.

The last time Pakistan witnesses a negative GDP growth in Pakistan was in 1951-52. Under the incumbent regime, the GDP size in US dollar terms has dropped to $264 billion in 2019-20. Whereas, the size of the GDP was recorded at $315 billion and $279 billion in 2017-18 and 2018-19, respectively. The historical GDP growth rate trend is as under;

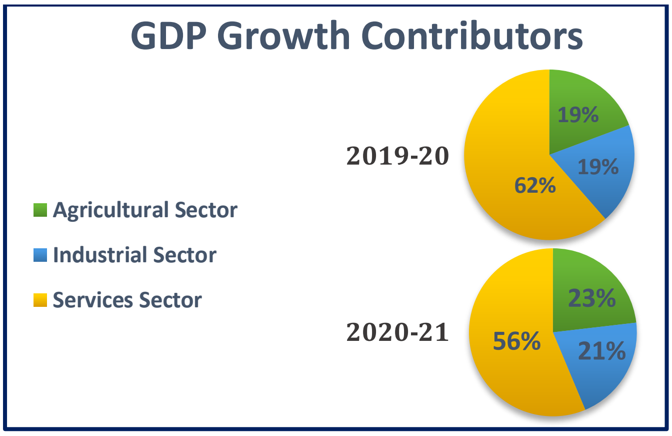
Pakistan Economy 2019-20



(Source: PBS)

Technically, Pakistan's economy is in a recession as the GDP growth has dropped for two consecutive years since 2017-18, which is reflected in the severe breakdown of economic activity, less exports and lower tax revenue collections. With the ongoing contraction in the Large Scale Manufacturing ("LSM") sector and pandemic shocks, Pakistan's exports have plunged by 34% from $2.096 billion in May 2019 to $1.391 in May 2020 on a year-on-year basis. While the historic tax revenue shortages have further exhausted fiscal space of the country, the tax revenue is likely to stay below Rs.4 trillion in 2019-20 against the original tax revenue target of Rs.5.5 trillion.

Prior to COVID-19, the painful reforms agenda of the IMF program, which primarily included monetary and fiscal tightening, has pushed the country from an era of high growth to recession. Resultantly, tough and painful conditionalities succumbed the growth of LSM into a negative zone which has deteriorated economic activities, exports performance and has further added to the economic woes of the country. This 'structural adjustments' program, has inflated the cost of doing business and affected economic growth of the country.



Pakistan's GDP growth Contribution

Sectors	Share in GDP 2019-20	Share in GDP 2020-21
Agriculture	19.31%	23.16%
Industrial sector	19.21%	20.53%
Services sector	61.40%	56.31%

(Source: PBS)

The unresolved and unsustainable structural imbalances of the country have been facing the deep-rooted effects of COVID-19. The critical factors which deteriorated the Pakistan's GDP growth in 2019-20 are as under;

Sectors	2019-20		2018-19	
	Targets	Provisional	Provisional	Revised
Agriculture	3.5%	2.7%	**0.8%**	**0.6%**
Industrial Sector	2.3%	(2.6%)	**1.4%**	**(2.3%)**
Services Sector	4.8%	0.6%	**4.7%**	**3.8%**
GDP growth	4.0%	(0.4%)	3.3%	1.9%

(Source: PBS and Planning Commission 2019-20)

1. AGRICULTURE SECTOR:

The agriculture sector contributed around 19% to the GDP and around 38% with regards to the employment in the country. It was the only sector which has performed relatively better with respect to other sectors in the economy. This sector grew by 2.67% in 2019-20 vs. 0.58% a year ago. Whereas, its target was 3.50% in 2019-20. Its share in the GDP also increased nominally to 19.31% in 2019-20. The share of Agriculture in Pakistan's GDP was 18.99% in 2017-18, which contracted to 18.74% in 2019-20 according to the revised figures of NAC published in 2019-20. The agriculture sector had also underperformed in 2018-19 and grew by only 0.58% on account of insufficient availability of water, drop in cultivated areas and fertilizer offtake. Covid-19 has not affected the agriculture sector that much in 2019-20.

Agriculture Sector	Provisional Growth 2019-20
1. Crops (i+ii+iii)	2.98%
i. Important Crops	2.90%
ii. Other Crops	4.57%
iii. Cotton Ginning	(4.61%)
2. Livestock	2.58%
3.Forestry	2.29%
4. Fishing	0.60%
Overall Growth	**2.67%**

(Source: PBS)

The wheat production stocks and livestock sector, drove the overall growth of the agriculture sector in 2019-20. Within the important crops, three crops performed reasonably well that include wheat, rice and maize. However, Cotton crops witnessed losses due to adverse weather conditions, low water availability and the pest attacks on crops. Cotton crop's growth could have outperformed the overall crop performances in 2019-20, which contracted by 6.9% compared to last year. The Livestock sector has around a 60% share in agriculture and contributes 11% in the GDP. The same grew by 2.58% according to the NAC estimates. Growth of livestock sector and poultry sector was impacted due to drop in demand of hospitality industry. The provisional growth of agriculture sector was 4% in 2017-18, which was revised 0.58% in 2018-19, and grew by 2.67% in 2019-20.

2. INDUSTRIAL SECTOR:

The share of the industrial sector in GDP is 19.21% for 2019-20 versus 19.74% in 2018-19. LSM plays an instrumental role in the economic development, job creation and economic surplus of the country. It contributes to around 78% in the manufacturing and 10% in GDP. The country's industrial sector deteriorated significantly by 2.64% in 2019-20 mainly due to a drop in the LSM (which dropped by 7.78%) followed by Mining and quarrying (which dropped by 8.82%). The Small Scale Manufacturing ("SSM"), which accounts for around 2% in the GDP, managed to post a 1.52% growth in 2019-20. Interestingly, SSM grew by around 8% for the last 14 years from 2005-06 to 2018-19 but grew only by 1.52% in 2019-20.

Industrial Sector	Provisional Growth 2019-20
1.Mining and Quarrying	(8.82%)
2. Manufacturing(i+ii+iii)	(5.56%)
i. Large Scale	(7.78%)
ii. Small Scale	1.52%
iii. Slaughtering	4.10%
3. Electricity Generation & Dist. Gas dist.	17.70%
4. Construction	8.06%
Overall Growth	**(2.64%)**

(source: PBS)

Prior to COVID-19, the country's LSM was facing the brunt of high interest rates which had peaked to 13.25%. The cost of energy and the working capital has also contracted the manufacturing sector. It is pertinent to note that supply side issues including PKR devaluation, import duties and other regulatory measures have also put LSM under pressure, as these factors increased cost of imported inputs in auto, electronics and pharmaceutical sector. Due to COVID-19 shocks, Pakistan's LSM growth dropped by a historic 22.95% in March 2020 vs negative growth of 11.31% a year ago. Moreover, because of supply chain disruption, drop in demand and effects of the global recession, the supply-demand dynamics of the manufacturing sector are likely to worsen further going forward.

3. SERVICES SECTOR

Services Sector	Provisional Growth 2019-20
1. Wholesale & Retail trade	(3.42%)
2. Transport, storage & comm.	(7.13%)
3. Finance & Insurance	0.79%
4. Housing Services	4.02%
5. General Govt. Services	3.92%
6. Other private Services	5.39%
Overall Growth	**(0.59%)**

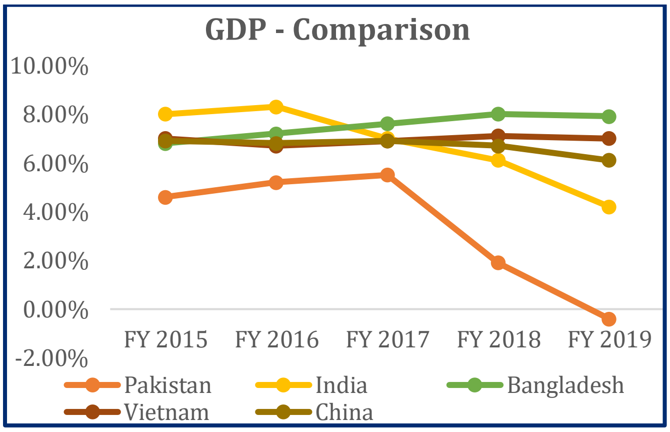
(source: PBS)

The share of services sector in GDP stood at 61.40%, which actually depends on the economic value added and output of the agriculture and manufacturing sectors. Services sector's growth dropped to -0.59%, that grew by 3.75% a year ago. The drop was mainly due to the lockdown which affected trading activities in wholesale, retail trade, transport, storage, and communication sectors. For the last five years, the services sector had grown, on an average, by 5.47%, from 2013-14 to 2017-18. The current negative growth of the service sector of economy was also the lowest in decades. During the last two years, the wholesales & retail trade sector underperformed, and dropped by 3.42% in 2019-20, that had only grown by 1.1% in 2018-19. Transport, storage, and communication sector deteriorated to -7.13% versus 4.6% growth a year ago.

If the prolonged and large magnitude of the COVID-19 pandemic persists in the country, it is likely to further meltdown the future growth prospects of the private sector going forward. Consequently, the effects of Covid-19 will further expose the existing depressed economic dynamics of country to multiple domestic and external challenges. The severity of the second round impact of COVID-19 will also negatively affect the production capacity of the private sector and will fuel uncertainty. Therefore, under the present scenario, a phase of high economic growth is not expected in the near future.

4. GDP – COMPARISON:

Pakistan's GDP growth has remained consistent with the regional economies in past till FY2017, but later deteriorated and lost competitiveness with the regional economies. Two competitors of Pakistan, namely Bangladesh and Vietnam, witnessed consistent growth rate during recent years and managed to capitalize on export markets and retained their respective market shares.



Period	Pakistan	India	Bangladesh	Vietnam	China
FY2019	(0.4%)	4.2%	7.9%	7.0%	6.1%
FY2018	1.9%	6.1%	8.0%	7.1%	6.7%
FY2017	5.5%	7.0%	7.6%	6.9%	6.9%
FY2016	5.2%	8.3%	7.2%	6.7%	6.8%
FY2015	4.6%	8.0%	6.8%	7.0%	6.9%

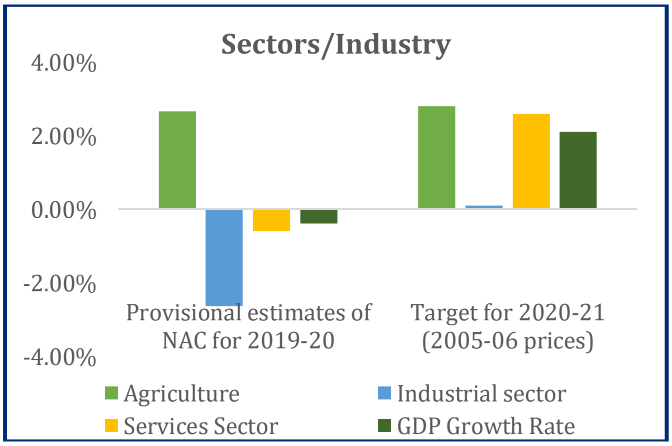
(Source: IMF & PBS)

5. PAKISTAN'S ECONOMIC GROWTH PROJECTIONS FOR 2020-21:

According to the Planning Commission, the overall GDP growth is expected to pick up in 2020-21. The GDP growth of the country is targeted at 2.10% for 2020-21, out of which agriculture, industry and services sector will post a 2.80%, 0.1% and 2.60% growth.

Sectors	Target for 2020-21
Agriculture	2.8%
Industrial Sector	0.1%
Services Sector	2.6%
GDP	2.1%

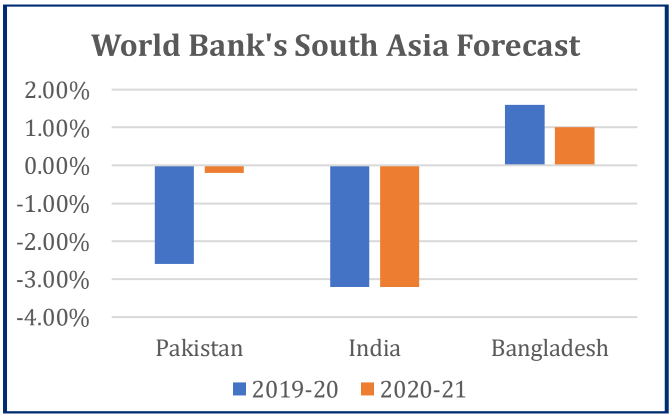
(Source: Planning Commission)



Pakistan Economy 2019-20

Sectors/Industry	Provisional estimates of NAC for 2019-20	Target for 2020-21 (2005-06 prices)
A. Agriculture	**2.67%**	**2.8%**
Important crops	2.9%	1.9%
Other crops	4.57%	1.5%
Cotton Ginning	(4.61%)	0.9%
Livestock	2.58%	3.5%
Forestry	2.29%	2.1%
Fishing	0.6%	1.5%
B. Industrial sector	**(2.64%)**	**0.1%**
Mining and Quarrying	(8.82%)	0.5%
Manufacturing (i+ii+iii)	(5.56%)	(0.7%)
i. Large Scale	(7.78%)	(2.5%)
ii. Small Scale	1.52%	6.0%
iii. Slaughtering	4.1%	3.3%
Electricity generation & distribution	17.7%	1.4%
Construction	8.06%	3.5%
C. Services Sector	**(0.59%)**	**2.6%**
Wholesale & Retail trade	(3.42%)	1.1%
Transport, storage & communication	(7.13%)	0.9%
Finance & Insurance	0.79%	3.0%
Housing Services	4.02%	4.0%
General Govt. Services	3.92%	4.6%
Other private Services	5.39%	4.2%
GDP Growth Rate	**(0.38%)**	**2.1%**

(Source: Planning Commission)



World Bank's South Asia Forecast		
Countries	**2019-20**	**2020-21**
Pakistan	(2.6%)	(0.2%)
India	(3.2%)	(3.2%)
Bangladesh	1.6%	1%

(Source: World Bank)

According to the World Bank, Pakistan's economy will contract in 2020. Mitigating measures have been imposed to put private consumption under severe pressure. The World Bank has revealed that the labor-intensive textile sector will face a sharp contraction and could subsequently recover slowly going forward. Therefore, Pakistan's GDP growth to contract by -2.6% this year and -0.2% in 2020-21.

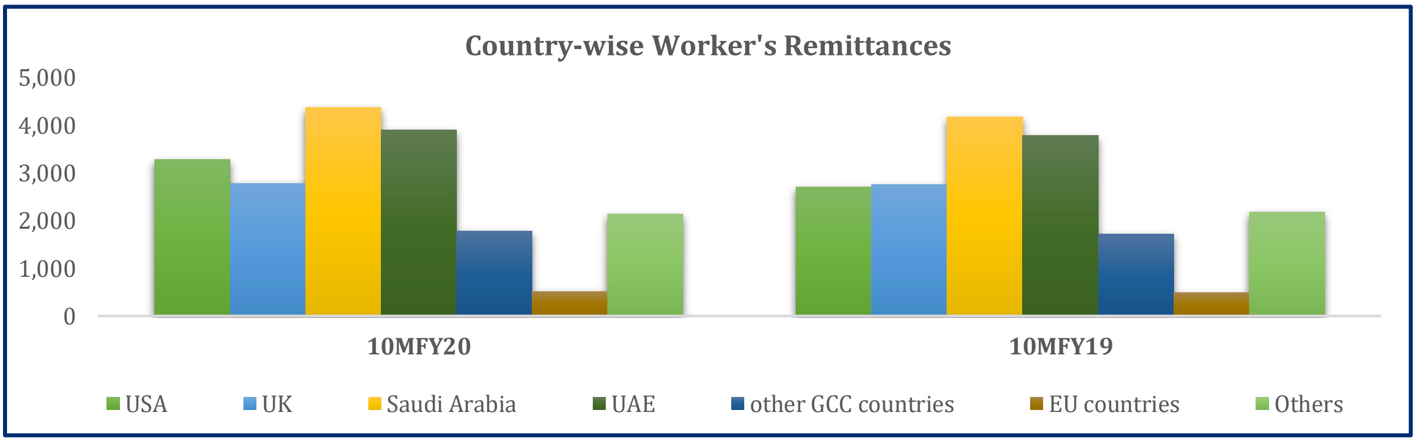
- According to proposed annual plan 2020-21 of the Planning Commission, Pakistan's economic growth depends upon the control of the pandemic.
- The Planning Commission, amidst macroeconomic stability, envisages on account of fiscal consolidation, better outlook of external account and revival in agriculture and industrial sector of the country.
- Growth targets are conditional upon favorable weather conditions, post COVID-19 recovery, managing current account deficit, and aligned fiscal and monetary policies.
- Rehabilitation and recovery of industrial and services sector may boost growth prospects.
- Inflation is expected to remain in single digit at 6.5% in 2020-21, on the basis of muted demand and suppressed commodity prices in international market and second round effect of COVID-19 economic implications.
- Monetary and debt relief will improve fiscal position.
- External sector of the country will improve on account of resumption of remittances inflow and improved performance of the exports.
- Balanced monetary policy is aimed to support economic activities, restore macroeconomic stability and manage aggregate demand.

Pakistan Economy 2019-20

- The Planning Commission is expecting resurgence of global commodity demand in 2020-21.
- Revival of global economic activities is also anticipated after the pandemic.
- Trade deficit is projected at 7.1% of GDP and current account deficit will stay at 1.6% of GDP.
- Projected growth of Pakistan's exports and imports in 2020-21 is 1.5% and 1.1% respectively.

6. WORKER'S REMITTANCES:

Pakistan's overseas workers remitted $1.79 billion, that saw a decrease of 5.49% in April2020. Moreover, the Ramadan effect has mitigated the drop in remittances, otherwise the deterioration could have been higher as millions of Pakistanis have lost their jobs in the Middle East due to the Pandemic. It is projected that remittances will drop significantly due to the consequences of the pandemic and global economic slowdown.

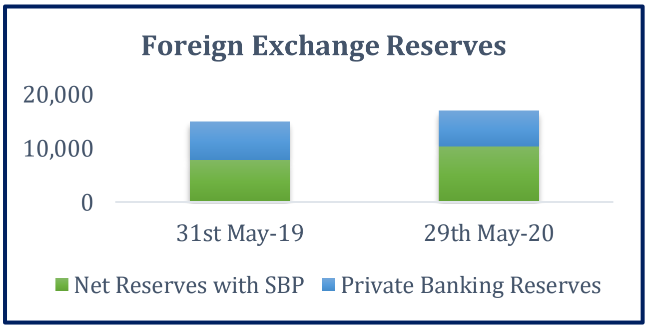


Country-wise Worker's Remittances						
($ million)	Apr-20	Mar-20	M/M change	10MFY20	10MFY19	Y/Y change
USA	**401.91**	352.42	14.04%	3,282	2,706	21.29%
UK	**226.61**	248.54	(8.82%)	2,780	2,756	0.87%
Saudi Arabia	**451.37**	452.27	(0.20%)	4,377	4,175	4.84%
UAE	**353.79**	420	(15.76%)	3,905	3,784	3.20%
other GCC countries	**153.35**	173	(11.36%)	1,780	1,718	3.60%
EU countries	**40.48**	43.54	(7.03%)	515	486	5.97%
Others	**162.49**	205	(20.74%)	2,142	2,176	(1.56%)
Total	**1,790**	1,894	(5.49%)	18,782	17,801	5.51%

(Source: SBP)

7. FOREIGN EXCHANGE RESERVES:

The State Bank of Pakistan's ("SBP") reserves stand at $10.36 billion as of 29th May 2020.



($ in million)	29th-May-20	31st-May19
Net Reserves with SBP	10,362	7,862
Private Banking Reserves	6,558	7,018
Total Forex Liquid Reserves	16,920	14,881

(Source: SBP)

Out of the $10.36 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 are commercial loans from Chinese banks (total $7 billion) and there is outstanding Hot Money worth $252 million.

8. BALANCE OF PAYMENT:

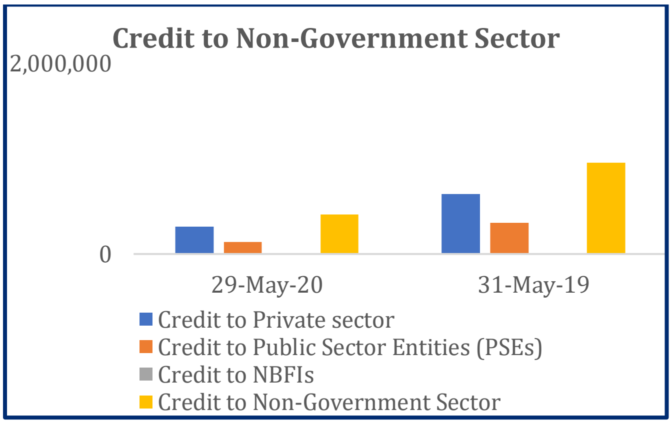
According to the SBP, Pakistan's current account deficit has dropped by 71% to $3.34 billion during July-Apr FY20 vs. last year, mainly due to a massive contraction in imports. Whereas, due to a deterioration in exports and remittances, the current account deficit of the country has dropped to $572 million in Apr 2020 over $9 million in Mar 2020. Post COVID-19, the IMF expects Pakistan's C/A deficit to $4.50 billion till June 2019-20.

($ in million)	Apr-20 (Provisional)	Mar-20 (Revised)	% change	Jul-Apr FY20 (Provisional)	July-Apr FY19	% Change
Current account Balance	(572)	(9)	6256%	(3,343)	(11,449)	(71%)
Capital Account Balance	12	27	(56%)	248	168	48%
Financial Account Balance	(1,436)	1,681	(185%)	(7,380)	(10,871)	(32%)
Net FDI in Pakistan	**133**	**279**	(52%)	2,281	1,006	127%
Net Portfolio investment	**(645)**	**(1,907)**	(66%)	(417)	(1,409)	(70%)
Net incurrence of Liabilities	**1,692**	**(658)**	(357%)	5,313	(10,720)	(50%)
Overall Balance	(1,144)	(1,596)		(5,390)	358	
SBP Gross Reserve	**12,329**	**10,845**		12,329	8,781	

(Source: SBP)

9. CREDIT TO NON-GOVERNMENT SECTOR:

Private sector credit-offtake dropped to Rs. 288 billion as of 29th May 2020 vs 628 billion last year.

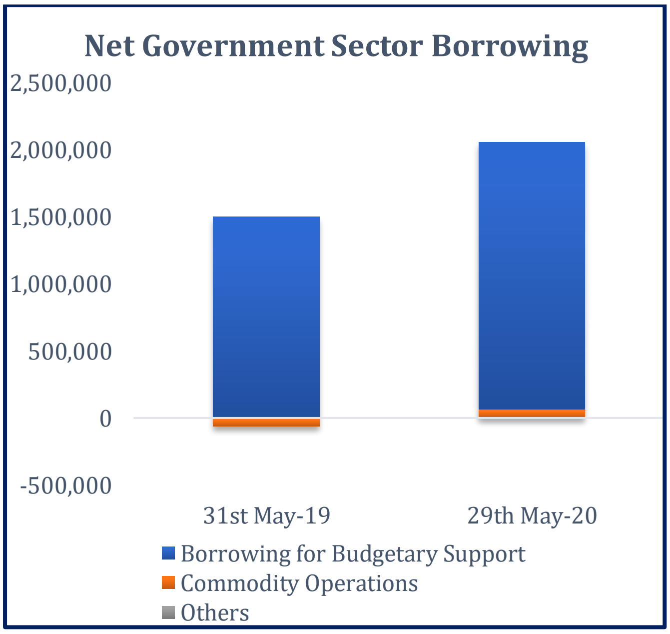


(PKR in million)	Monetary Impact since 1st July to	
	29-May-20	31-May-19
Credit to Private sector	288,941	628,404
Credit to Public Sector Entities (PSEs)	125,325	326,782
Credit to NBFIs	214	1,881
Credit to Non-Government Sector	416,411	957,067

(Source: SBP)

10. NET GOVERNMENT SECTOR BORROWING:

Overall, the net government sector borrowing stood at PKR 1,997 billion vs PKR 1440 billion last year.

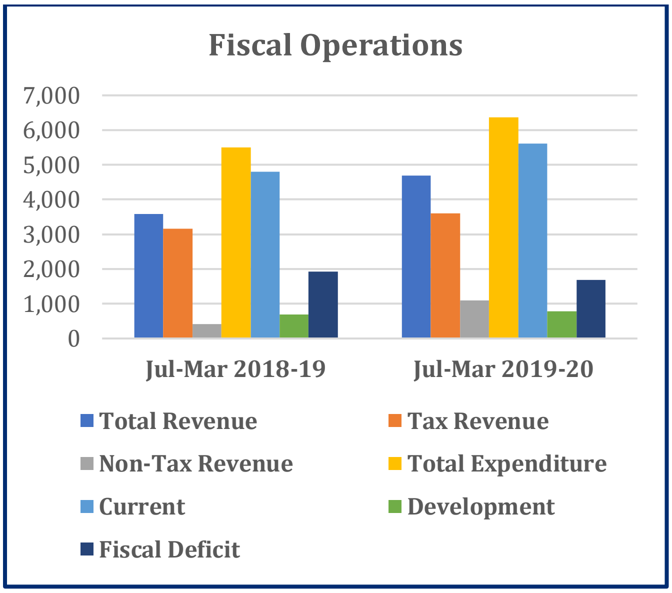


(PKR in million)	Monetary Impact since 1st July to	
	29-May-20	31-May-19
Borrowing for Budgetary support	1,933,175	1,502,111
Commodity Operations	64,344	(60,169)
Others	266	(1,902)
Net government Sector Borrowing	1,997,785	1,440,040

(Source: SBP)

11. FISCAL OPERATIONS:

Under the current IMF program, the fiscal deficit consolidation is a fundamental objective to contain Pakistan's fiscal deficit, boost country's economic growth and reduce the vulnerabilities while keeping buffers in place.



Consolidated Fiscal Operations			
Rs in Billion	July-March		%
Fiscal-Side	2019-20	2018-19	Change
Total Revenue	4,690	3,584	30.86%
Tax Revenue	3,594	3,162	13.66%
Non-Tax Revenue	1,096	422	159.72%
Total Expenditure	6,376	5,506	15.80%
Current	5,612	4,798	16.97%
Development	781	684	14.18%
Fiscal Deficit	1,686	1,922	(12.28%)

(Rs. In Billion)	July-May 2019-20	July-May 2018-19	% change Y/Y
FBR's Tax collection	*3,518	3,266	7.71%

FBR's actual tax Revenue during July-May 2019-20 are Rs. 3,293 billion after adjustment of advances and SRO 1125 related refunds.

The FBR has thus far collected Rs.3,518 billion during July-May 2019-20 vs Rs.3,266 billion last year, which is 7.4% higher than last year. The FBR needs to collect Rs. 1,510 billion in June 2020 to achieve the Pre-COVID-19 tax collection target set for the FBR, by the IMF, which stood at Rs. 4,803 billion. Similarly, the FBR has to collect Rs. 615 billion in June 2020, to achieve the post-COVID-19 tax collection estimates of the IMF, that stood at Rs. 3,908 billion. Last year, the FBR had collected tax revenue to the tune of Rs. 3.829 billion. Since, the country's fiscal space has exhausted, it seems difficult that FBR could surpass even last year figures of Rs. 3,829 billion. Therefore, FBR is likely to face a tax shortfall of Rs. 1,726 billion against the FBR's original tax collection target of Rs. 5,555 billion.

As per the IMF, the FBR's tax revenue collection target for Pre-COVID-19 is set at Rs. 6,138 billion in 2020-21. This target later was revised to Rs. 5,101 billion for post- COVID-19 for the year 2020-21, which is 30% higher from Rs. 3,908 billion tax collection targets for 2019-20. According to media reports, Federal Government has been negotiating with the IMF to get it revised downward to Rs.4.8 trillion.

IMF estimates of Pakistan's Fiscal deficit in 2019-20		
(Rs in bln)	Pre-COVID-19	Post-COVID-19
Expenditures	10,204	9,836
Revenue	7,034	5,979
Fiscal deficit	(3,170)	(3,857)
Fiscal deficit (exc. grants)	(3,229)	(3,916)

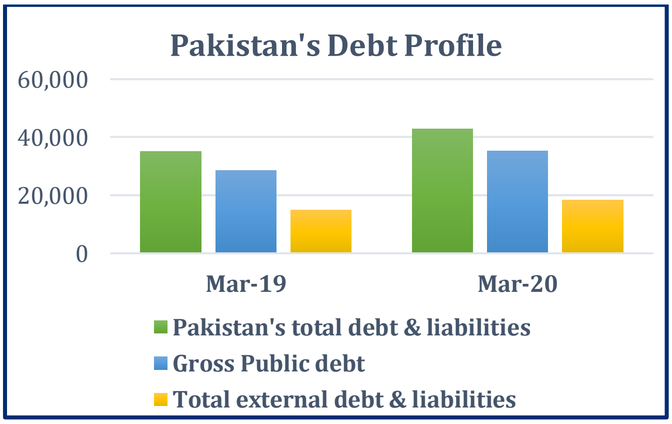
(Source: IMF)

Pakistan's fiscal deficit stood at 3.8% during July-March, FY2020 which is likely to shoot up to around 9.5% of GDP till June 2020 mainly because of high expenditures and low tax revenues. Pre-COVID-19, fiscal deficit excluding grants was projected at Rs. 3,229 billion in 2019-20. Whereas, Post-COVID-19, Fiscal deficit is expected to be Rs.3,916 billion. Considering the FBR's post-covid target of generating its Rs.3,908 billion worth tax revenue during 2019-20, it may be noted that this fiscal deficit this would be higher than country's total tax revenue collection.

Under the severe consequences of the pandemic, it will be a tough ask for the Govt. to accomplish the Rs.4.8 trillion tax revenue targets for 2020-21. Without substantial growth in tax collection efforts, enhancement in tax base, implementation of reforms agenda in FBR and economic growth, Pakistan cannot achieve fiscal consolidation objectives of the IMF.

12. PAKISTAN'S DEBT PROFILE

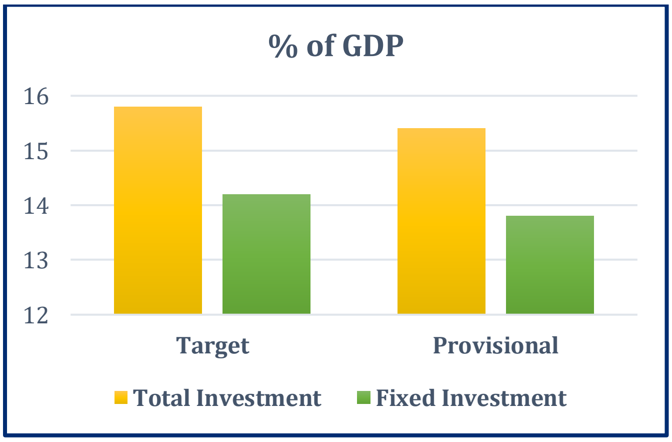
Without effective public debt management, fiscal consolidation and consistent economic growth, Pakistan's debt sustainability to remain a key concern for the policy makers. Pandemic shock has exposed the country to multiple endogenous and exogenous shocks and pushing public debt to historic levels. Pakistan's total debt and liabilities profile is hereafter;



Pakistan's Total Debt & Liabilities (Rs in bln)	Mar-20	Mar-19	% change
Pakistan's total debt & liabilities	42,820	35,113	21.95%
% of GDP	98.2	91.1	-
Gross Public debt	35,207	28,607	23.07%
% of GDP	80.8	74.2	-
Total external debt & liabilities	18,295	14,911	22.69%
% of GDP	42	38.7	-

(Source: SBP)

13. SAVINGS VS. INVESTMENT GAP 2019-20

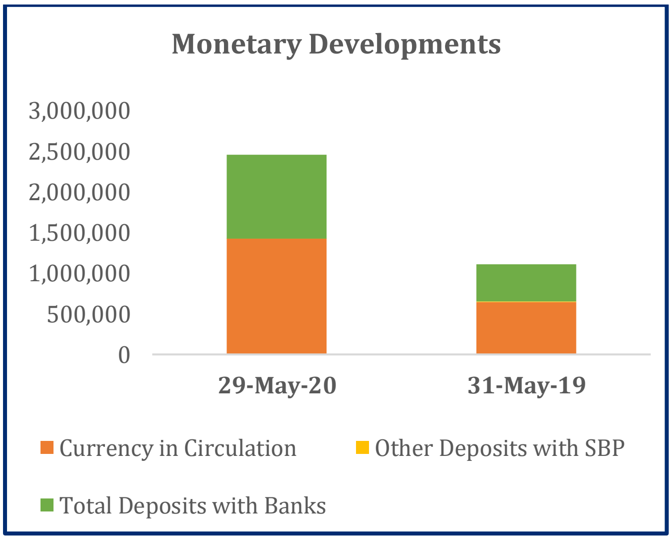


(% of GDP)	2019-20	
	Target	Provisional
Total Investment	15.8	15.4
Fixed Investment	14.2	13.8
Public	4.1	3.8
Private	10.1	10
National savings	12.8	13.9
External resources inflow net	3	1.5

(Source: PBS & Planning Commission)

14. MONETARY DEVELOPMENTS:

The SBP has maintained a tight Monetary Policy during first three quarters of the current fiscal year. After the global response of the central banks to counter the effects of pandemic, the SBP has cut the Policy Rate from 13.25% to 8%, bringing the cumulative reduction in the Policy Rate to 525 basis points, i.e. 5.25%. The SBP has also introduced two new financing facilities which includes, 'Temporary Economic Refinancing Facility' (TERF) and 'Refinance Facility for combating COVID-19' (RFCC).



(Rs in mn) Components	Monetary Impact since 1st July to	
	29-May-20	31-May-19
Currency in circulation	1,421,823	643,998
other deposits with SBP	4,459	6,815
Total deposits with banks	1,029,622	454,536
M2	2,455,905	1,105,349
Growth	**13.80%**	**6.91%**

(Source: SBP)

Rs. In Billion

Periods	Increase/-Decrease In					
	Currency in circulation		Demand Deposits		Time Deposits	
	Total	Month Avg	Total	Month Avg	Total	Month Avg
July 2013 to June 2018	2,450	41	4,486	75	(127)	(2)
July 2018 to May 2020	1,984	86	1,746	76	322	14

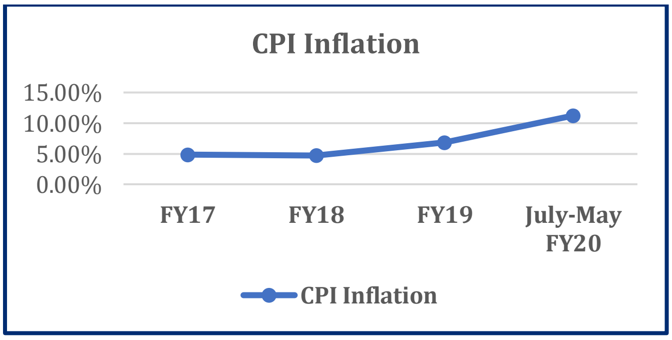
(Source: SBP)

15. INFLATION

The inflation updates are as follows:

(Base year 2015-16) Period	National CPI	Food		Core CPI	
		Urban	Rural	Urban	Rural
May-2020	**8.20%**	**10.6%**	**13.70%**	**6.30%**	**8.40%**
May-2019	8.40%	9.0%	9.70%	7.20%	6.80%

Pakistan's inflation has dropped to 8.20% in May 2020 vs 8.40% a year ago. Average CPI inflation for July-May FY20 increased to 10.94% vs 6.69% last year. The average inflation since FY17 is as under;



Period	CPI Inflation
July-May FY20	11.22%
FY19	6.80%
FY18	4.70%
FY17	4.80%

(Source: SBP & PBS)

16. TAKEAWAY:

Post-COVID-19, the country has been facing daunting challenges and downside risks to its economic outlook, that depends on the magnitude, duration and persistence of measures taken and its capacity for containment. Post-pandemic, the world has been facing two unprecedented challenges to deal with i.e., health and revival of the economy. The uncertainty with respect to the length and depth of the pandemic will keep on distressing the prospects of the economy going forward.

According to the World Bank, Pakistan's GDP growth to contract by -2.6% this year and -0.2% in 2020-21.

Pakistan's economic growth also depends on the length and depth of the COVID-19 impacts. Second round impact of COVID-19 will further worsen the meltdown of the economy.

With the second-round effect of COVID-19 across the globe, it is likely to be a tough time for Pakistan's exporters. Despite lower oil prices in international market, imports are likely to post a marginal growth, and there will be muted growth in exports, and trade will neutralize. The Current Account deficit is projected to be at 1.6% of GDP in 2020-21, as stated above. The growth in imports and exports is projected at 1.5% and 1.1%, respectively.

According to a press release dated 9th June 2020, the Paris Club has recognized the Debt Service Suspension Initiative (DSSI) endorsed by the G20 group for a time-bound suspension of debt service for Pakistan. This debt relief is from May 1 to 31 Dec 2020. The Government of Pakistan is committed to devote its resources to increase its spending to mitigate the health, economic and social impact of the COVID19-crisis. This relief from Paris Club countries will not be substantial and drop in exports and remittances will keep exchange rate under pressure.

International oil prices have previously plunged six times since 1970, when oil prices dropped by 30% or more over six months period, during; 1985-86, 1991, 1998, 2001, 2008-09, 2014-16.

Liquidity has become the center stage in COVID-19 pandemic, as an additional injection in system could provide credit to private firms and households and save insolvency issues within the economy.

According to the World Bank, the economic damages of pandemic could be long lasting and will hinder restoration of supply chain and labor markets, value chains, balance sheets and consumer's confidence in the economy.

The effects of COVID-19 pandemic have weakened manufacturing, tourism, and services industries across the South Asia region. According to the World Bank, with the spillover effects of the global recession, the output of the region could be -2.7% in 2020. Whereas, the post COVID-19, the growth is expected to be 3% going forward.

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