

HIGHLIGHTS:

- Moody's Investors Service, ("Moody's") has placed Pakistan's local and foreign currency long-term issuer and senior unsecured B3 ratings under 'review for downgrade', mainly due to Pakistan's debt relief request from G20 creditors, which has exposed the country to outflows of capital and depreciating exchange rates during the unprecedented pandemic shock.
- Moody's has also placed ratings of Five Pakistani Bank's under review for downgrade. They will review the B3 long-term local-currency deposit ratings, foreign currency deposit ratings and baseline credit assessments of the Allied Bank Limited (ABL), Habib Bank Ltd. (HBL), MCB Bank Limited (MCB), National Bank of Pakistan (NBP) and United Bank Ltd. (UBL).
- The State Bank of Pakistan ("SBP") has cut the Policy Rate by 100 bps to 8% in its Monetary Policy Committee meeting, which was conducted on 15th May 2020, bringing the cumulative reduction in the Policy Rate to 525 basis points, i.e 5.25%.
- As per the Pakistan Bureau of Statistics ("PBS"), Large-scale Manufacturing ("LSM") dropped by 22.95% in March 2020, vs. a negative growth of 11.31% a year ago, because of the lockdown, as was anticipated in our earlier reports.
- According to the Ministry of Finance, Pakistan's fiscal deficit has reached Rs. 1,686 billion, or 3.8% of the GDP, during July-Mar 2019-20.
- The Private sector credit growth deteriorated to Rs.316 billion vs. Rs. 860 billion last year.
- The leftover stock of 'Hot Money' stood at \$283 million till 21st May 2020.
- Pakistan's overseas worker's remitted \$1.79 billion, the said amount dropping by 5.49% in April 2020. 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.
- Broad Money (M2) appreciated by 10.31% to Rs. 1,834 billion, in FY20, vs. Rs.663 billion last year. This is likely to fuel inflation going forward.
- The net borrowing of the Government has increased to Rs. 1,301 billion vs. Rs. 995 billion last year.
- Per the PBS, CPI Inflation has increased by 8.50% in Apr 2020 vs. 8.30% over a year ago.
- The tax revenue collection of the Federal Board of Revenue ("FBR") is reported at Rs. 3,307 billion during July-Apr 2019-20 vs. Rs. 2,995 billion last year, and has grown by 10.41% on a year-on-year basis.
- Pakistan's exports have plunged by 47%, from \$1.81 billion in Mar 2020 to only \$957 million in Apr 2020, on a month-on-month basis. Whereas, the exports dropped by 54% in Apr 2020 on a year-on-year basis.
- According to the SBP, Pakistan's current account deficit has dropped by 71%, to \$3.3 billion during July-Apr FY20 vs. last year, mainly due to a massive contraction in imports.
- Pakistan cotton data has not been updated.

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 Mar FY20	↓	(5.40%)	(3.02%)
Credit to Non-Government Sector	As of 8 th May FY20	↓	Rs.286 billion	Rs. 860 billion
SCRA inflows (Hot Money)	As of 21 st May FY20	↑	US\$283 million	0.1
Worker's Remittances	Jul to Apr FY20	↑	US \$18.78	\$17.80 billion
M2	As of 8 th May FY20	↑	Rs.1,834 billion	Rs. 663 billion
Net Government Sector borrowing	As of 8 th May FY20	↑	Rs. 1,301 billion	Rs. 995 billion
CPI	Apr FY20	↑	8.50%	8.30%
FBR Tax Collection	Jul to Apr FY20	↑	Rs. 3,307 Billion	Rs. 2,995 Billion
Foreign Exchange Reserves with SBP	As of 15 th May FY20	↑	US\$ 12.12 billion	US\$ 8.84 billion
Foreign Direct Investments	July to Apr FY20	↑	US\$ 2,281 billion	US\$ 1,006 billion
Balance of Trade in Goods	July to Apr FY20	↓	US\$ (19.61) billion	US\$ (26.23) Billion
Balance of Payment	Jul to Apr	↓	US\$ (5,390) billion	US\$ 358 million

1. LARGE SCALE MANUFACTURING:

According to PBS, LSM has dropped by 22.95% in March 2020 vs. negative growth of 11.31% a year ago, due to the lockdown, as anticipated in our earlier reports. Whereas, LSM growth dropped by 5.40% during July-Mar FY20 vs. a negative growth of 3.02% last year.

Pakistan Large Scale Manufacturing Performance					
Industries	Weight (%)	Impact Mar -20 (%)	Impact Feb -20 (%)	July-Mar % change	
				FY20	FY19
Textile	20.915	(26.0)	0.78	(2.57)	(0.19)
Food, Beverages & Tobacco	12.370	(20.55)	(3.94)	(2.33)	(4.05)
Coke & Petroleum Products	5.5	(47.41)	(36.25)	(17.46)	(6.0)
Pharmaceuticals	3.620	(6.47)	(7.51)	(5.38)	(8.38)
Chemicals	1.717	(11.91)	10.45	(2.30)	(3.79)
Automobiles	4.613	(49.45)	(27.16)	(36.50)	(7.56)
Iron & Steel Products	5.392	(16.44)	10.82	(7.96)	(11.0)
Fertilizers	4.441	4.38	18.70	5.81	4.50
Electronics	1.963	(57.69)	(4.47)	(13.54)	17.73
Leather Products	0.859	(31.49)	4.75	4.96	1.47
Paper & Board	2.314	(1.85)	8.59	4.23	(2.48)
Engineering Products	0.4	(35.52)	0.07	(7.05)	8.35
Rubber Products	0.262	(20.22)	2.19	4.31	3.62
Non-Metallic Mineral Products	5.364	(16.62)	27.79	1.82	(4.93)
Wood Products	0.588	(98.31)	(53.65)	(22.11)	(16.83)
Overall Growth		(22.95)	(1.15)	(5.40)	(3.02)

(Source: PBS)

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

Cumulative net inflows in Equity, T-Bills and PIBs				
During current fiscal year, July to 21st May 2020				
(thousand US \$)	Equity	T-Bills	PIBs	Total
Inflows	679,706	3,641,052	91,812	4,412,570
Outflows	(1,024,148)	(3,060,068)	(45,420)	(4,129,636)
Balance Remaining	(344,442)	580,984	46,392	282,934

3. WORKER'S REMITTANCES:

Pakistan's overseas worker's remitted \$1.79 billion, the said amount dropping by 5.49% in April 2020. 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 to drop significantly due to pandemic consequences 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)

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

(Base year 2015-16) Period	National CPI	Food		Core CPI	
		Urban	Rural	Urban	Rural
Apr-2020	8.50%	10.4%	12.90%	6.40%	8.40%
Apr-2019	8.30%	8.30%	9.30%	7.0%	6.80%

(Source: SBP)

5. TAX REVENUE COLLECTION:

(Rs. In Billion)	July-Apr 2019-20	July-Apr 2018-19	% change Y/Y
FBR's Tax collection	*3,307	2,995	10.41%

**FBR's actual tax Revenue during July-Apr 2019-20 are Rs. 3,082 billion [outstanding sales tax refunds are Rs.150 billion (accumulated due to rescinding of SRO 1125/2011), and advances are worth Rs.75 billion]*

As per the IMF, the FBR needs to collect Rs. 1,721 billion during the next two months, against Pre-COVID-19 tax collection target of the FBR which stood at Rs. 4,803 billion. Similarly, the FBR has to collect Rs.826 billion during next two months against the post-COVID-19 tax collection estimates of the IMF which stood at Rs. 3,908 billion. Last year, the FBR had collected tax revenue to the tune of Rs. 3.829 billion. Therefore, under the present scenario of the pandemic, it seems difficult to surpass even last year figures of Rs. 3,829 billion, as the country's fiscal space has exhausted.

6. FOREIGN EXCHANGE RESERVES:

The State Bank's reserves stands at \$12.12 billion till 15th May 2020.

(\$ in million)	15th-May-20	10th-May19
Net Reserves with SBP	12,129	8,845
Private Banking Reserves	6,489	7,084
Total Forex Liquid Reserves	18,618	15,894

(Source: SBP)

Out of the \$12.12 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 \$305 million.

7. FOREIGN DIRECT INVESTMENT

(US \$ million)	July-Apr FY20	July-Apr FY19	% Change
FDI	2,281	1,006	126%

(Source: SBP)

The amount of foreign direct investment in Pakistan grew by 126% to \$2.28 billion during July-Apr FY20 vs \$1.0 billion last year. 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 IMF projects that the COVID-19 shock is likely to reverse the decline in public debt in recent months, that was achieved through the authorities' resolute fiscal consolidation efforts.

8. BALANCE OF TRADE IN GOODS:

It was expected that Pakistan's exports will deteriorate significantly due to the effects of the pandemic. The country's exports have plunged to almost half (\$957 million in April 2020) of what they were in the month of March 2020 (\$1.81 billion in Mar 2020). Whereas, the exports contracted by 54% in April on a year-on year basis.

(\$ in Million)	Apr-20	Mar-20	% change M/M	Apr-20	Apr-19	% change Y/Y	July-Apr FY20	July-Apr FY19	% change Y/Y
Exports	957	1,814	(47.24%)	957	2,089	(54.19%)	18,408	19,160	(3.92%)
Imports	3,204	3,316	(3.38%)	3,204	4,714	(32.03%)	38,021	45,393	(16.24%)
Balance of Trade in Goods	(2,247)	(1,502)	49.60%	(2,247)	(2,625)	(14.40%)	(19,613)	(26,233)	(25.24%)

(Source: SBP)

9. 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, on account of 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 Balance	Account	(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)

10. TREASURY BILL AUCTION:

The SBP, conducted an auction of the Treasury Bills, on 20th May 2020, with an auction target of Rs.325 billion, whereas, the maturities amounted to Rs.205 billion. The 12-month cut-off yield remained almost the same. The SBP has thus far slashed the Policy Rate by 525 bps to 8% since March 2020. It may be noted that a further rate cut cannot be ruled out given the current economic scenario because of the pandemic, and the ongoing recession.

T-Bill Auction					(Rs. in Million)
Tenors	Face Value	Previous Cut-Off Yield	Cut-Off Yield	Weighted. avg yield	Change
3-Months	26,800	8.38%	8.14%	8.12%	24 bps
6-Months	50,000	7.99%	7.80%	7.74%	19 bps
12-Months	90,507	7.75%	7.74%	7.67%	1 bps
Total	167,307	-	-	-	-

OUTLOOK:

- Per the National Accounts Committee, Pakistan's GDP growth contracted to -0.38% in 2019-20, due to fiscal and monetary tightening and the pandemic effects, vs. Planning Commission targets for 2019-20 of 4.0%. It is pertinent to note that the aforesaid figure of **-0.38%** was accurately predicted accurately by us in our report titled "Pakistan Economy- Pandemic Encumbrances" published on 8th April, 2020. The last time Pakistan reported a negative GDP growth was in 1951-52.
- Pakistan's fiscal deficit is to remain close to 10% of GDP in fiscal 2020, as per Moody's.
- As per the Special Advisor to the Prime Minister on Finance and Revenue, Dr. Abdul Hafeez Shaikh, the Federal Government will not impose any new tax in the upcoming Budget 2020-21 and will simultaneously give incentives to boost export-oriented sectors.
- Pakistan is set to get a \$1.8 billion debt relief from G20 nations, per Dr. Abdul Hafeez Shaikh
- The SBP expects inflation to drop further than expected, if economic activity fails to pick up in the coming fiscal year. However, food price shocks could resurface the inflationary pressures, which are linked with adverse agricultural conditions.
- Pakistan's textile exports have plunged by 61% in April 2020 over Mar 2020. If the pandemic persists, the exports are going to drop further due to domestic and global supply chain disruptions and deep uncertainty in times of crisis.
- According to the IMF, Post-COVID-19 FBR's tax revenue collection target is estimated at Rs. 5,101 billion in 2020-21, meaning that the FBR will have to raise around Rs.1200 billion in additional tax revenues, when compared to the tax collection projected by IMF for this year, i.e. Rs. 3,908 billion. This seems highly unrealistic under the current pandemic and ongoing recession.
- Pakistan's export earnings and remittances will remain under pressure going forward.

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