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TAX & CORPORATE ADVISORS

PAKONOMICS

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HIGHLIGHTS:

- According to the IMF, the persistence of pandemic is set to continuously elevate economic risks and uncertainty going forward, which could only be less severe if; a) A vaccine becomes available earlier than expected; and b) The authorities manage to find a way out to maintain economic activity plus healthcare system without harsh lockdowns in the wake of subsequent waves.
- The Overall Consumer Confidence Index (CCI) dropped by 10.4% in May 2020, according to a Survey conducted by the Institute of Business Administration ("IBA") and the State Bank of Pakistan ("SBP").
- As per the SBP, Central Government's public debt has ballooned by 42.42% from Rs.24.21 trillion in June 2018 to Rs.34.48 trillion till May 2020 in just two years. Whereas, gross public debt stood at Rs.35.20 trillion till Mar 2020.
- The SBP conducted a Treasury Bill(s) auction on 15th July 2020, with an auction target of Rs.100 billion. The maturities amounted to Rs.332.4 billion. The 12 Months cut-off yield dropped by 25 bps to 6.6% from 6.85%, indicating a further cut in the Policy Rate going forward.
- According to the Pakistan Bureau of Statistics ("PBS"), the Large-Scale Manufacturing ("LSM") sector dropped by -24.80% in May 2020, vs. a negative growth of 42% in Apr 2020.
- The outstanding stock of 'Hot Money' stood at negative $106 million as of 22nd July 2020-21.
- Pakistan has received $23.12 billion in worker's remittances, in FY20, which has appreciated by 6.35% on a year-on-year basis vs. last year.
- FBR missed its tax revenue collection missed by a wide margin of Rs 1. 73 trillion, as it only collected Rs 3.82 trillion vs IMF's original target of Rs 5.5 trillion.
- The Broad Money (M2) stock has increased by 17.46% to Rs. 3.106 trillion in FY20, vs. Rs1.8 trillion last year.
- CPI Inflation has increased by 8.60% in June 2020 vs. 8.0% over a year ago. The average CPI stood at 10.74% in 2019-20 vs 6.80% last year
- Pakistan's exports deteriorated by 6.84% to $21.38 billion during July-June 2019-20 vs $22.95 billion last year mainly on account of tight regime of monetary and fiscal policies under IMF program.
- Pakistan's Current Account Deficit has dropped by 78% to $2.96 billion during FY20 from $13.43 billion in FY19, mainly due to a depreciation of 18% in the import of goods and 24% in import of services.
- Foreign direct investment in Pakistan grew by 88%, or by $1.19 billion in absolute terms, amounting to $2.56 billion in FY20 vs $1.36 billion last year.
- According to the APTMA, Federal Govt. has extended the date of subsidized tariff of electricity & gas to textile sector till 30th June 2021. The notification is still awaited.
- The regular meeting of the Monetary Policy Committee which was scheduled to be held in July 2020 has been postponed till September 2020 says State Bank of Pakistan.

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 May FY20	↓	(10.32%)	(2.37%)
Credit to Non-Government Sector	As of 10th July FY21	↓	Rs.(98) billion	Rs. (123) billion
SCRA inflows (Hot Money)	As of 22nd July FY21	↓	US$(106.7) million	US$ 32 million
Worker's Remittances	FY20	↑	US $23.12 billion	$21.73 billion
M2	As of 10th July FY21	↑	Rs (241) billion	Rs. (234) billion
Net Government Sector borrowing	As of 10th July FY21	↑	Rs. (61.28) billion	Rs. (55.11) billion
CPI	June FY20	↑	8.60%	8.0%
FBR Tax Collection	FY20	↓	Rs. 3,827.7 Billion	Rs. 3,829 Billion
Foreign Exchange Reserves with SBP	As of 17th July FY21	↑	US$ 12.12 billion	US$ 7.8 billion
Foreign Direct Investments	FY20	↑	US$ 2.56 billion	US$ 1.36 billion
Balance of Trade in Goods	FY20	↓	US$ (23.18) billion	US$ (31.80) Billion
Balance of Payment	FY20	↓	US$ (5.29) billion	US$ 1.50 billion

1. LARGE SCALE MANUFACTURING:

As per the PBS, the LSM sector has dropped by -24.80% in May 2020, vs. a negative growth of 42% in Apr 2020. Whereas, the LSM sector dropped by 10.32% during July-May FY20 vs. a negative growth of 2.37% last year.

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Pakistan Large Scale Manufacturing Performance					
Industries	Weight (%)	Impact May -20 (%)	Impact Apr -20 (%)	July-May % change	
				FY20	FY19
Textile	20.915	(30.45)	(64.20)	(10.66)	(0.1)
Food, Beverages & Tobacco	12.37	0.36	(23.24)	(3.76)	(5.86)
Coke & Petroleum Products	5.514	(18.19)	(51.5)	(20.87)	(7.13)
Pharmaceuticals	3.62	5.15	(5.31)	(4.39)	(7.49)
Chemicals	1.717	(27.58)	(20.77)	(7.53)	(3.8)
Automobiles	4.61	(79.02)	(96.94)	(44.79)	(11.2)
Iron & Steel Products	5.39	(31.16)	(88.96)	(17.02)	(10.78)
Fertilizers	4.44	3.8	6.16	5.64	6.97
Electronics	1.96	(81.6)	(80.92)	(25.63)	45.08
Leather Products	0.86	(53.86)	(94.62)	(6.06)	(2.43)
Paper & Board	2.31	(12.37)	(11.59)	2.12	(2.77)
Engineering Products	0.4	(66.35)	(71.32)	(18.16)	8.78
Rubber Products	0.26	(12.37)	(17.1)	2.86	3.76
Non-Metallic Mineral Products	5.36	(36.19)	(17.36)	(3.84)	(3.3)
Wood Products	0.59	(89.57)	(89.94)	(38.87)	11.97
Overall Growth		**(24.80%)**	**(41.89%)**	**(10.32%)**	**(2.37%)**

(Source: PBS)

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

Cumulative net inflows in Equity, T-Bills and PIBs				
During current fiscal year, till 22nd July 2020-21				
(thousand US $)	Equity	T-Bills	PIBs	Total
Inflows	18,262	10,057	5,057	33.377
Outflows	(83,611)	(56,704)	-	(140,315)
Balance Remaining	(65,349)	(46,647)	-	(70,816)

3. WORKER'S REMITTANCES:

Pakistan has received $23.12 billion in worker's remittances in FY20, which has appreciated by 6.35% on a year-on-year basis vs. last year. Overseas worker's remittances have appreciated by 32% to $2.466 billion in June 2020 vs. $1.866 billion in May 2020. The overseas Pakistanis transferred their outstanding funds back home as COVID-19 hit them hardest and millions lost their jobs. Secondly, due to Eid ul Azha and ease-off in the lockdown restrictions in Middle East and Europe, inflows have also increased during the month of June 2020. The Planning Commission has estimated the country's remittances at $ 21.53 billion for next year 2020-21.

Country-wise Worker's Remittances						
($ million)	June-20	May-20	M/M change	FY20	FY19	Y/Y change
USA	**451.95**	**421.98**	7.10%	4,163	3,309	25.81%
UK	**401**	**284.79**	40.81%	3,465	3,412	1.55%
Saudi Arabia	**619.43**	**436.21**	42.00%	5,432	5,003	8.57%
UAE	**431**	**323.36**	33.29%	4,662	4,617	0.97%
other GCC countries	**227**	**155**	46.45%	2,162	2,119	2.03%
EU countries	**112.96**	**58**	94.76%	686	609	12.64%
Others	**223**	**187**	19.25%	2,550	2,670	(4.49%)
Total	**2,466**	**1,866**	32.15%	23,120	21,739	6.35%

(Source: SBP)

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

(Base year 2015-16) Period	National CPI	Food		Core CPI	
		Urban	Rural	Urban	Rural
June-2020	**8.60%**	**12.90%**	**15.20%**	**6.50%**	**8.80%**
June-2019	8.0%	7.50%	9.10%	7.3%	6.70%

- Avg CPI (July-June) stood at 10.74% in 2019-20 vs 6.80% last year

5. TAX REVENUE COLLECTION:

(Rs. In Billion)	July-June 2019-20	July-June 2018-19	% change Y/Y
FBR's Tax collection	*3,827.7	3,829	(0.03%)

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FBR's actual tax Revenue during July-June 2019-20 is not correctly reported, as it includes huge refunds on account of rescinding of SRO 1125 of 2011 (worth Rs. 136.3 billion) and advances (worth Rs 25 billion) taken during the year.

After incorporating withheld tax refunds and advances as mentioned above, FBR's reported tax collections are Rs.3,989 billion during 2019-20. Therefore, FBR's actual tax collection stood at Rs 3,827.7 billion during 2019-20. The FBR has missed its tax revenue collection by a wide margin of Rs 1. 73 trillion, as it only collected Rs 3.82 trillion vs. the IMF's original target of Rs 5.5 trillion. This massive shortfall in tax revenues has impacted the country's fiscal consolidation efforts under the IMF program, and is likely to push the country's fiscal deficit to around 9.5% of GDP in 2019 20. FBR's tax Revenue targets have also been affected due to COVID-19. However, the persistence of high fiscal deficit has exhausted the fiscal space of the country

For the 2020-21 Budget, the Federal Government has set a target of collecting Rs.4.9 trillion in tax revenues, which is 26% higher than what FBR has collected so far till June 2020. Under the ongoing recession and effects of COVID-19, a 26% growth in tax revenues seems impractical.

6. FOREIGN EXCHANGE RESERVES:

Pakistan's foreign exchange Reserves have appreciated from $15.14 billion (as of 17th July 2020) to $19 billion (as of 17th July 2020). Whereas, the SBP's reserves stand at $12.12 billion.

($ in million)	17th-July-20	30th-July19
Net Reserves with SBP	12,121	7,827
Private Banking Reserves	6,925	7,316
Total Forex Liquid Reserves	19,047	15,143

(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 the UAE and $500 million Qatar), and $3 billion from China. The outstanding Hot Money funds stood at negative $106 million till 22nd July 2020.

7. FOREIGN DIRECT INVESTMENT

(US $ million)	FY20	FY19	% Change
FDI	2,561	1,362	88%

(Source: SBP)

Foreign direct investment in Pakistan grew by 88%, or in absolute terms, by $1.19 billion, amounting to $2.56 billion in FY20 vs $1.36 billion last year. Overall, a $523 million outflow of Portfolio investment was witnessed in FY20 vs outflow of $1.415 billion in FY19. Foreign private investment grew by 140% to $2.27 billion in FY20 vs $947 million in FY19.

8. BALANCE OF TRADE IN GOODS:

Pakistan's exports have deteriorated by 6.84% to $21.38 billion during July-June 2019-20 vs $22.95 billion last year, mainly on account of the tight monetary and fiscal policies imposed under the IMF program. However, recent monetary easing may positively impact exports, but it depends on the size, depth and containment of COVID-19 going forward. Trade deficit has dropped by 27% which has contributed in the improvement of the current account deficit.

($ in Million)	June-20	May-20	% change M/M	June-20	June-19	% change Y/Y	FY20	FY19	% change Y/Y
Exports	1,592	1,396	14.07%	1,592	1,703	(6.52%)	21,387	22,958	(6.84%)
Imports	3,715	2,863	29.76%	3,715	4,353	(14.66%)	44,570	54,763	(18.61%)
Balance of Trade in Goods	(2,123)	(1,467)	44.72%	(2,123)	(2,650)	(19.89%)	(23,183)	(31,805)	(27.11%)

(Source: PBS)

9. BALANCE OF PAYMENT:

Pakistan's Current Account Deficit has dropped by 78% to $2.96 billion during FY20 from $13.43 billion in FY19, mainly due to a depreciation of 18% in the import of goods and 24% in the import of services. Whereas, around 7% drop also witnessed in exports of goods and 8.66% in exports of services during the same period vs last year.

Despite 32% surge in remittances in June 2020 on-month-on-month basis, Pakistan's current account reported a deficit of $96 million in June 2020 vs. a revised surplus of $344 million in May 2020. Pakistan's stagnant exports and weak remittances are to remain a key concern for the macroeconomic sustainability of the country.

($ in million)	June-20 (Provisional)	May-20 (Revised)	% change	FY20 (Provisional)	FY19	% Change
Current account Balance	(96)	344	(128%)	(2,966)	(13,434)	(78%)
Capital Account Balance	29	10	190%	290	229	27%
Financial Account Balance	(2,386)	2,079	(215%)	(7,666)	(11,759)	(35%)
Net FDI in Pakistan	**175**	**120**	46%	2,561	1,362	88%
Net Portfolio investment	**5**	**(111)**	(105%)	(523)	(1,418)	(63%)
Net incurrence of Liabilities	**2,043**	**(2,056)**	(199%)	5,288	11,530	(54%)
Overall Balance	(1,854)	1,945		(5,299)	1,504	
SBP Gross Reserve	**12,181**	**10,362**		12,181	7,285	

(Source: SBP)

10. TREASURY BILL AUCTION:

The SBP conducted a Treasury Bill(s) auction on 15th July 2020, with an auction target of Rs.100 billion. The maturities amounted to Rs.332.4 billion. Moreover, the 12 months cut-off yield dropped by 25 bps to 6.6% from 6.85%, indicating a further cut in Policy Rate going forward.

T-Bill Auction					(Rs. in Million)
Tenors	**Face Value**	**Previous Cut-Off Yield**	**Cut-Off Yield**	**Weighted. avg yield**	**Change**
3-Months	110,862	6.84%	6.55%	6.42%	**29**
6-Months	66,729	6.65%	6.57%	6.46%	**8**
12-Months	81,864	6.85%	6.60%	6.54%	**25**
Total	259,456	-	-	-	-

OUTLOOK:

- With respect to the oil importing Middle Eastern, North Africa, Afghanistan and Pakistan ("MENAP") region the IMF has said that benefits of lower oil prices are mostly being offset because the following have been hampered; trade, tourism, remittances, and that tighter global financial conditions and spillovers on domestic credit conditions will continue to depress growth.
- The Food and Agriculture Organization of United Nations (FAO) has given a warning on the timing, scale, breeding, and location of the Locust attack. According to FAO estimates, since June 2019 last year, numerous Desert Locust swarms have been present in India, Iran and in Pakistan. Similarly, Egypt, Eritrea, Saudi Arabia, Sudan, and Yemen will be potential breeding hotspots in the coming months. According to the Ministry of Food Security and Research Secretary Omar Hamid Khan, swarms coming from the Horn of Africa could be 400 times higher than that of last year. Therefore, locust invasion will remain a threat to food security.
- The country's inflation may surge in the short term due to supply chain disruptions, hoarding and mismanagement.
- The SBP has given mandatory targets to banks, in order to increase their housing and construction of building loan portfolios to at least 5% of their private sector credit by the end of December 2021. Therefore, cement demand is likely to remain strong going forward.
- Pakistan's Rupee will remain under pressure due to an upsurge in oil prices, higher imports and low inflows going forward.
- Pakistan's exports and remittances likely to remain weak due to the effects of COVID-19 pandemic and global recession.