

HIGHLIGHTS:

- Moody's expects 4.6% contraction for G-20 economies in 2020, followed by 5.3% growth in 2021. Downside risks to ongoing global economic recovery includes a) Economic recovery linked with successful containment of virus b) Prolonged stagnation c) external demand and trade are unlikely to provide a significant stimulus to growth d) Spillover to the financial sector which could further exacerbate the economic crisis e) Trade and geopolitical tensions pose risks to the global economy.
- State Bank has kept Policy Rate unchanged at 7% for next two months.
- According to PBS, LSM grew by 5.02% in July 2020 vs last year. LSM index is still below to Pre-Covid-19 levels.
- The outstanding stock of 'Hot Money' stood at negative \$168 million till 23rd Sept 2020.
- According to the SBP, Pakistan's overseas worker's Remittances have dropped by 24% to \$2.095 billion in Aug 2020 vs. \$2.768 billion in July 2020
- According to FBR's official statistics, FBR has collected tax revenue of Rs.593 billion during July-Aug 2020, which grew by only 1.89% vs Rs.582 billion last year.
- Broad Money (M2) growth stands at negative Rs. 169 billion till 11th Sept 2020 vs growth of Rs28 billion last year. In percentage terms, M2 growth stands at negative 0.81% vs 0.16% last year.
- According to Pakistan Bureau of Statistics, CPI inflation appreciated by 8.20% on year-on-year basis in Aug 2020 vs 10.50% last year.
- According to Pakistan Bureau of Statistics, country's exports dropped by 21% to \$1.58 billion in Aug 2020 vs \$2.0 billion in July 2020 on-month-on-month basis.
- Pakistan's textile exports dropped by 21% from \$1.27 billion in July 2020 to \$1 billion in Aug 2020 on-month-on-month basis.
- Pakistan's Current Account Balance stands at surplus amounting to \$297 million for the month of Aug 2020 as compared to the surplus of \$508 million in July 2020
- Foreign direct investment in Pakistan grew by 40% or in the absolute terms by \$65 million amounting to \$226.7 million in Aug 2020 vs \$162 million last year.

The outlook of the economy of Pakistan is as follows;

ECONOMY AT A GLANCE

Economic Indicators	Period	Status	Current Year	Last Year
LSM	July 2020	↑	5.02%	(5.88%)
Credit to Private Sector	As of 11 th Sept 2020	↓	Rs. (168) billion	Rs. (136) billion
SCRA inflows	As of 23 rd Sept 2020	↓	US\$(168) million	US\$ 145 million
Worker's Remittances	Aug 2020	↑	US \$2.095 billion	\$1.684 billion
M2	As of 11 th Sept 2020	↓	Rs (169) billion	Rs. 28 billion
Net Government Sector borrowing	As of 11 th Sept 2020	↓	Rs. (126) billion	Rs. 145 billion
CPI	Aug 2020	↓	8.20%	10.50%
FBR Tax Collection	July-Aug 2020	↑	Rs. 593 Billion	Rs. 582 Billion
Foreign Exchange Reserves with SBP	As of 18 th Sept 2020	↑	US\$ 12.70 billion	US\$ 8.46 billion
Foreign Direct Investments	Aug 2020	↑	US\$ 226.7 million	US\$ 162 million
Trade Deficit in Goods	July-Aug 2020	↓	US\$ (3.41) billion	US\$ (3.68) Billion
Balance of Payment	July-Aug 2020	↓	US\$ (248) million	US\$ (1,291) million

1. LARGE SCALE MANUFACTURING:

According to Pakistan Bureau of Statistics (PBS), Out of 15 broad based industries, 7 of them are still in red zone which reflects underlying faults of the manufacturing sector despite monetary easing. On a month-on-month basis, Pakistan's Large-Scale Manufacturing (LSM) grew by 9.54%, in which Oil Companies Advisory Committee (OCAC) and Ministry of Industries have posted double digit growth mainly due to the low base effect. However,

provincial (Bureau of Statistics) BOS only grew by 2.30% during the same period. On year-on-year-basis, overall LSM grew by 5.02%. Revival in the manufacturing activities is a good omen for economy. However, LSM index is still below to Pre-Covid-19 levels and in real terms growth is yet to pick up.

Industries	Weight (%)	Jul-19	Jul-20	Y/Y growth Impact
Textile	20.915	0.29	1.66	0.49
Food, Beverages & Tobacco	12.37	(9.15)	21.73	3.01
Coke & Petroleum Products	5.514	(25.03)	18.34	1.00
Pharmaceuticals	3.62	(11.79)	19.2	1.41
Chemicals	1.717	3.26	0.19	0.00
Automobiles	4.61	(28.48)	(23.31)	(1.54)
Iron & Steel Products	5.39	(15.44)	(11.13)	(0.49)
Fertilizers	4.44	16.34	(5.08)	(0.36)
Electronics	1.96	0.57	(33.31)	(1.51)
Leather Products	0.86	5.77	(35.95)	(0.57)
Paper & Board	2.31	(1.45)	5.04	0.20
Engineering Products	0.4	15.86	(32.6)	(0.10)
Rubber Products	0.26	3.8	(15)	(0.08)
Non-Metallic Mineral Products	5.36	2.43	29.01	3.56
Wood Products	0.58	60.58	(18.63)	0.00
Overall Growth		(5.88%)	5.02%	-

(Source: PBS)

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

Cumulative net inflows in Equity, T-Bills and PIBs				
During current fiscal year, till 23 rd Sept 2020				
Description	Equity	T-Bills	PIBs	Total
	('000 USD')			
Inflows	123,992	90,529	10,165	224,686
Outflows	(236,169)	(156,991)	-	(393,160)
Balance Remaining	(112,177)	(66,462)	10,165	(168,474)

3. WORKER'S REMITTANCES:

According to the SBP, Pakistan's overseas worker's Remittances have dropped by 24% to \$2.095 billion in Aug 2020 vs. \$2.768 billion in July 2020. On a year-on-year basis, country's Remittances grew by 24% from \$1.683 billion in Aug 2019 to \$2.095 billion in Aug 2020. On a month-on-month basis, Pakistan's Remittances have dropped by 19.54% from USA, 23.24% from UK, 27.81% from Saudi Arabia, 23.89% from UAE and around 27% from other countries. Whereas, Pakistan's overseas worker's remittances have appreciated by 31% to \$4.863 billion during July-Aug 2020 vs July-Aug 2019 \$3.712 billion last year.

Lockdown and travelling restrictions in Middle East and Europe have struck millions who lost their jobs and have already transferred their outstanding funds or savings back home.

Country-wise Worker's Remittances						(USD in million)
Country	Aug-20	Jul-20	M/M change	Jul-Aug 2020	Jul-Aug 2019	Y/Y change
USA	201.64	250.6	(19.54%)	452	271	66.68%
UK	302.27	393.91	(23.26%)	696	398	75.10%
Saudi Arabia	593.1	821.55	(27.81%)	1,415	1,041	35.93%
UAE	409.6	538.19	(23.89%)	948	896	5.80%
other GCC countries	226.09	296.95	(23.86%)	523	498	5.04%
EU countries	166.49	227.57	(26.84%)	394	305	29.12%
Others	196	240	(18.33%)	436	303	43.89%
Total	2,095	2,768	(24.31%)	4,863	3,712	31.01%

(Source: SBP)

4. CONSUMER PRICE INDEX (“CPI”) INFLATION:

(Base year 2015-16) Period	National CPI	Food		Core CPI	
		Urban	Rural	Urban	Rural
Aug-2020	8.20%	11.3%	13.50%	5.60%	7.60%
Aug-2019	10.50%	11.90%	12.60%	8.50%	8.80%

5. TAX REVENUE COLLECTION:

(Rs. In Billion)	July-Aug 2020	July-Aug 2019	change
FBR's Tax collection	593	582	1.89%

According to FBR's official statistics, FBR has collected tax revenue of Rs.593 billion which grew by only 1.89% during July-Aug 2020 vs Rs.582 billion last year. Against the target of Rs.551 billion during July-Aug 2020, FBR's reported tax revenue collection are Rs.42 billion higher than the assigned target. On average, FBR needs to collect Rs. 437 billion per month during next 10 months to accomplish tax collection target of Rs4,963 billion for 2020-21.

6. FOREIGN EXCHANGE RESERVES:

Period	(Amount in US \$ Million)		
	Net Reserves with SBP	Private Banking Reserves	Total Forex Reserves
5-Jul-19	7,083.60	7,175.70	14,259.30
06-Sep-19	8,462.30	7,289.40	15,751.70
27-Dec-19	11,489.40	6,592.00	18,081.40
06-Mar-20	12,789.90	6,114.70	18,904.60
26-Jun-20	11,231.00	6,740.00	17,971.00
04-Sep-20	12,807.80	7,153.50	19,961.30
11-Sep-20	12,820.40	7,138.60	19,959.00
18-Sep-20	12,701.60	7,202.00	19,903.70

State Bank of Pakistan's Reserves have dropped by \$118.8 million to \$12.70 billion during the week as of 18th Sept 2020 vs. \$12.82 billion last week. On a week-on-week basis, State bank's reserves declined by 0.92% to \$12.70 billion. Whereas, private banking reserves increased by 0.89% from \$7.13 billion to \$7.20 billion. Overall, total forex reserves dropped by 0.28% from \$19.95 billion as of 11th Sept 2020 to \$19.90 billion as of 18th Sept 2020.

SBP reserves dropped by \$106 million since Sept 4th, 2020. Covid-19 has disrupted global economic activities, triggered shock to global risk aversion, and are drying up capital flows. Under such a scenario, country's external account will likely to remain vulnerable going forward.

7. FOREIGN DIRECT INVESTMENT

(US \$ million)	July-Aug 2020	July-Aug2019	% Change
Foreign Direct Investment	210.40	269	(22%)

(Source: SBP)

Foreign direct investment in Pakistan grew by 40% or in the absolute terms by \$65 million amounting to \$226.7 million in Aug 2020 vs \$162 million last year. Overall total foreign private investment stands at \$150.4 million as outflow of Portfolio investment has reached to \$76 million in Aug 2020. Whereas, total foreign public investment stands at \$60 million in Aug 2020. Therefore, total foreign investment of the country (foreign private investment + foreign public investment) dropped by 22% to \$210.40 during July-Aug 2020 vs \$269 million last year.

8. BALANCE OF TRADE IN GOODS:

According to Pakistan Bureau of Statistics, country's exports dropped by 21% to \$1.58 billion in Aug 2020 vs \$2.0 billion in July 2020 on-month-on-month basis. Whereas, imports also depreciated by 9.53% in Aug 2020 vs July 2020. As a result, trade deficit appreciated by 4% in Aug 2020 vs last month. According to Planning Commission, Pakistan's exports likely to remain stagnant, and are estimated at \$22.71 billion in 2020-21 vs \$21.39 billion last year.

(\$ in Million)	Aug 2020	July 2020	% change M/M	Aug 2020	Aug 2019	% change Y/Y
Exports	1,584	2,001	(20.83%)	1,584	1,858	(14.75%)
Imports	3,324	3,674	(9.53%)	3,324	3,720	(10.65%)
Balance of Trade in Goods	(1,740)	(1,643)	4.0%	(1,740)	(1,862)	(6.55%)

(Source: PBS)

9. BALANCE OF PAYMENT:

Pakistan's Current Account Balance stands at surplus amounting to \$297 million for the month of Aug 2020 as compared to the surplus of \$508 million in July 2020. On-a month-on-month basis, this surplus balance came because of drop in imports of services by \$310 million, appreciation in primary income by \$363 million. However, massive drop in exports by 20% and remittances by 24% have reduced the current account balance by 42% from \$508 million in July 2020 to \$297 million in Aug 2020, which is the key concern. On a cumulative basis, Current Account balance stands at surplus \$805 million during July-Aug FY21 vs. deficit of \$1.21 billion during July-Aug FY20. ADB expects that Pakistan's Current account deficit is projected to remain 2.4% of the GDP in FY2020-21.

(\$ in million)	Aug 2020 (Provisional)	July 2020 (Revised)	% change	July-Aug FY21	July-Aug FY20	% Change
Current account Balance	297	508	(42%)	805	(1,214)	(166%)
Capital Account Balance	33	5	560%	38	87	(56%)
Financial Account Balance	426	(18)	NA	408	(2,030)	(120%)
Net FDI in Pakistan	112	114	(2%)	226	162	40%
Net Portfolio investment	(9)	(7)	29%	(16)	107	(115%)
Net incurrence of Liabilities	(92)	610	(115%)	518	1,950	(73%)
Overall Balance	(7)	(241)	-	(248)	(1,291)	-
SBP Gross Reserve	12,738	12,542	-	12,738	8,280	-

(Source: SBP)

10. OUTLOOK:

- ADB expects that Pakistan's GDP to grow 2% in the current fiscal year, which is one of the lowest in South Asian Economies. This projected growth of 2% is assumed on two factors a) Covid-19 impact will subside by end of 2020 (end of 2nd quarter of FY2020-21) and economic sentiment to improve b) and resumption of the structural reforms under an ongoing IMF Extended Fund Facility program.
- State Bank expects that the average inflation to remain 7 -9% in FY2020-21. Upside risks to Inflation are; a) rise in the electricity tariffs b) due to flood-related damages and potential locust attacks to drive food prices. On global front, resurgence of international oil prices likely to impact domestic imported inflation. Whereas, lower than expected pickup in the domestic economic activities is potential downside risk to the inflation.
- COVID-19; India and Bangladesh becoming next Hotspots. Pakistan's textile exporters could exploit situation and enhance their market share to accelerate textile exports.
- Overall stagnant exports and weak remittances to remain a key concern for macroeconomic sustainability of the country.
- The resurgence of COVID-19 to remain a key concern for Pakistan economy in the wake of subsequent waves.

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