HIGHLIGHTS:

- Moody's Investors Service ("Moody's") has affirmed Pakistan's B3 local and foreign currency issuer and senior unsecured debt ratings with a stable outlook. Moody's expects that the Pakistan's GDP growth to remain around 1-2% which in turn to widen the fiscal deficit to around 8-8.5% of GDP and Government's debt burden high at around 90% of GDP by the end of fiscal 2020-21.
- Fitch Ratings has affirmed Pakistan's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'B-' with a Stable Outlook.
- According to the Institute of International Finance's Report, Pakistan's GDP growth could rebound to 1.8% in FY21.
- Pakistan managed to contain its fiscal deficit to Rs.3,376 billion or 8.1% of its GDP in FY2019-20 which is 1.0% or Rs.239 billion higher as against the target of Rs.3,137 billion or 7.1% of its GDP.
- The SBP conducted an auction of the Treasury Bills on 26th Aug 2020, with an auction target of Rs.450 billion, whereas, the maturities amounted to Rs.653 billion. The yield for 12-month paper remained at 7.3 per cent.
- State Bank has enhanced additional funding by Rs.190 billion for exporters (Rs.100 billion under EFS and Rs.90 billion under LTFF). Banks will have overall limit of Rs.700 billion for the exporters for FY21.
- According to the Pakistan Bureau of Statistics, the LSM sector dropped by 10.17% during FY2019-20 vs. a negative growth of 3.38% last year mainly because of economic recession and the effects of Covid-19.
- The outstanding stock of 'Hot Money' stood at negative $133 million till 31st August 2020.
- Overseas workers' have remitted highest-ever monthly Remittances to Pakistan amounting to $2.768 billion in July 2020 vs $2.466 billion in June 2020, which grew by 12.25% on-month-on-month basis, whereas 36.50% on-year-on-year basis.
- FBR has collected tax revenue of Rs.300 billion in July 2020 vs a target of Rs.243 billion. FBR's tax collection in July 2020 grew by 8.30% vs tax collections of Rs. 277 billion last year.
- Broad Money (M2) growth stands at negative Rs. 217 billion till 14th Aug 2020 vs negative growth of Rs173 billion last year. In percentage terms, M2 growth stands at negative 1.04% vs negative 0.97% last year.
- According to Pakistan Bureau of Statistics, CPI inflation appreciated by 9.3% on year-on-year basis in July 2020 vs 8.40% last year. On-month-on-month basis, CPI inflation appreciated by 2.5% due to resurgence of perishable food prices and petroleum prices, and the house rent index.
- According to Pakistan Bureau of Statistics, country's exports grew by 6.04% to $2 billion in July 2020 vs $1.88 billion last year on-year-on-year basis.
- Pakistan's Current Account Balance stands at surplus amounting to $424 million for the month of July 2020 as compared to the deficit of $100 million in June 2020.
- Foreign direct investment in Pakistan grew by 60.75% or in the absolute terms by $43.2 million amounting to $114.30 million in July 2020 vs $71.10 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	FY2019-20	↓	(10.17%)	(3.38%)
Credit to Non-Government Sector	As of 14th Aug 2020	↓	Rs.(130) billion	Rs. (92) billion
SCRA inflows	As of 31st Aug 2020	↓	US$(133) million	US$ 0.1 million
Worker's Remittances	July 2020	↑	US $2.768 billion	$2.028 billion
M2	As of 14th Aug 2020	↓	Rs (217) billion	Rs. (173) billion
Net Government Sector borrowing	As of 14th Aug 2020	↓	Rs. (256) billion	Rs. (21) billion
CPI	July 2020	↑	9.30%	8.40%
FBR Tax Collection	July 2020	↑	Rs. 300 Billion	Rs. 277 Billion
Foreign Exchange Reserves with SBP	As of 21st Aug 2020	↑	US$ 12.64 billion	US$ 8.27 billion
Foreign Direct Investments	July 2020	↑	US$ 114.30 million	US$ 71.10 million
Trade Deficit in Goods	July 2020	↓	US$ (1.64) billion	US$ (1.82) Billion
Balance of Payment	July 2020	↓	US$ (241) million	US$ (751) million

1. LARGE SCALE MANUFACTURING:

According to the Pakistan Bureau of Statistics, the LSM sector dropped by -7.74% in June 2020, vs. a negative growth of 24.80% in May 2020 mainly because of economic recession and the effects of Covid-19.Whereas, the LSM sector dropped by 10.17% during FY2019-20 vs. a negative growth of 3.38% last year.

Pakistan Large Scale Manufacturing Performance					
Industries	Weight (%)	Impact Jun -2020 (%)	Impact May -2020 (%)	July-Jun % change	
				FY20	FY19
Textile	20.915	(6.78)	(30.45)	(10.37)	(0.05)
Food, Beverages & Tobacco	12.37	18.47	0.36	(2.67)	(5.6)
Coke & Petroleum Products	5.514	(9.81)	(18.19)	(20.10)	(8.35)
Pharmaceuticals	3.62	23.5	5.15	(2.69)	(8.32)
Chemicals	1.717	(11.77)	(27.58)	(7.76)	(4.1)
Automobiles	4.61	(29.33)	(79.02)	(43.78)	(11.78)
Iron & Steel Products	5.39	(21.18)	(31.16)	(17.36)	(11.21)
Fertilizers	4.44	(7.98)	3.8	4.39	7.68
Electronics	1.96	(88.11)	(81.6)	(34.82)	59.37
Leather Products	0.86	(43.68)	(53.86)	(9.09)	(2.43)
Paper & Board	2.31	6.92	(12.37)	2.25	(3.73)
Engineering Products	0.4	(34.17)	(66.35)	(18.71)	8.93
Rubber Products	0.26	2.98	(12.37)	2.91	4.19
Non-Metallic Mineral Products	5.36	19.94	(36.19)	(2.16)	(2.39)
Wood Products	0.59	(89.76)	(89.57)	(44.25)	18.58
Overall Growth		**(7.74%)**	**(24.80%)**	**(10.17%)**	**(3.38%)**

(Source: PBS)

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

Cumulative net inflows in Equity, T-Bills and PIBs				
During current fiscal year, till 31st Aug 2020				
Description	Equity	T-Bills	PIBs	Total
	('000 USD')			
Inflows	86,499	44,659	10,165	141,323
Outflows	(173,894)	(100,371)	-	(274,265)
Balance Remaining	(87,395)	(55,712)	10,165	(132,942)

3. WORKER'S REMITTANCES:

Overseas workers' have remitted highest-ever monthly Remittances to Pakistan amounting to $2.768 billion in July 2020 vs $2.466 billion in June 2020. This inflow of Remittances grew by 12.25% on-month-on-month basis, whereas 36.50% on-year-on-year basis.

This high growth in overseas workers' remittances is witnessed due to the following;

a) Overseas workers' transferred their outstanding savings back home from Middle East as COVID-19 hit them hardest and hundreds of thousands lost their jobs.
b) Eid-ul Adha's seasonal inflows have contributed to high growth of the remittances.
c) Pakistan Remittance Initiative taken by State Bank and the Federal Government have increased pace of remittances.
d) SBP has also reduced threshold for eligible transactions from USD 200 to USD 100 under the Reimbursement of Telegraphic Transfer (TT) Charges Scheme which has increased adoption of digital channels and promoting the formal channels for sending remittances.

According to the Fitch, "Pakistan's Remittances to post a decline by about 10% in FY21 due to the impact of the global economic shock". Despite unprecedented Covid-19 and economic shocks, substantial growth in the Remittances is very encouraging for Pakistan's economy. However, sustainable trend of high growth of remittances is yet to be established.

Country-wise Worker's Remittances						
Country	July 2020	June 2019	M/M change	July 2020	July 2019	Y/Y change
	(Mln USD)			(Mln USD)		
USA	**251**	452	(44.55%)	**251**	322	(22.16%)
UK	**394**	401	(1.77%)	**394**	299	31.77%
Saudi Arabia	**822**	619	32.63%	**822**	471	74.45%
UAE	**538**	431	24.87%	**538**	427	26.01%
other GCC countries	**297**	227	30.81%	**297**	198	49.92%
EU countries	**228**	112.96	101.46%	**228**	58	292.70%
Others	**240**	223	7.62%	**240**	253	(5.14%)
Total	**2,768**	**2,466**	**12.25%**	**2,768**	**2,028**	**36.50%**

(Source: SBP)

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

(Base year 2015-16) Period	National CPI	Food		Core CPI	
		Urban	Rural	Urban	Rural
July-2020	9.30%	15.10%	17.80%	5.30%	7.60%
July-2019	8.40%	7.90%	9.30%	7.30%	6.70%

5. TAX REVENUE COLLECTION:

	July-June 2019-20	Target	change
	(Bln USD)		
FBR's Tax collection	*3,826.70	5,503	(1,676.3)

***FBR's actual tax Revenue stood at Rs. 3,826.70 Billion in 2019-20 as Supplementary Grants includes Rs. 101.3 billion, and Rs.71 billion tax refunds are withheld. (After adjusting average CPI 10.74% for 2019-20, FBR's actual tax revenue growth stands at negative 10.66%)**

The FBR has missed its tax revenue collection by a wide margin of Rs 1.67 trillion in 2019-20 against the IMF's original target of Rs 5.5 trillion in 2019-20. Federal Government has managed to contain fiscal deficit to 8.1% of GDP mainly due to cut in Federal PSDP by Rs. 234 billion, unutilized funds of Rs 540 billion in PM's Covid-19 package, and SBP profit which stands at Rs. 529 billion in 2019-20.

According to FBR's official statistics, FBR has collected tax revenue of Rs.300 billion in July 2020 vs a target of Rs.243 billion. FBR's tax collection in July 2020 grew by 8.30% vs tax collections of Rs. 277 billion last year. On average, FBR needs to collect Rs. 424 billion per month to accomplish tax collection target of Rs4,963 for 2020-21.

6. FOREIGN EXCHANGE RESERVES:

State Bank of Pakistan's Reserves have reached to $12.64 billion as of 21st August 2020.

	21st-Aug-2020	21st-Aug-2019
	(Mln USD)	
Net Reserves with SBP	12,640	8,271
Private Banking Reserves	7,081	7,358
Total Forex Liquid Reserves	19,722	15,629

(Source: SBP)

According to media sources, Pakistan has repaid $1 billion loan to Saudi Arabia vs. its $6.2 billion package which includes $3 billion in cash assistance and $3.2 billion worth of annual oil facility on deferred payments to avert balance of payment crisis in 2018. It is speculated in media that this repayment of $1 billion is made by Chinese authorities to help Pakistan. So far Pakistan have utilized $770 million Saudi oil facility on deferred payments vs the sanctioned annual limit of $3.2 billion.

Pakistan's friendly countries had given assurances to the IMF authorities that "showcase deposits" would not be withdrawn. However, this sudden repayment of $1 billion has increased vulnerability of the foreign exchange reserves and has weakened rupee in interbank market, which is likely to remain under pressure. Any setback to Pak-Saudi relationship, will be detrimental to the Pakistan economy.

However, Neither Saudi Arabia have demanded funds from Pakistan nor have suspended deferred oil facility, says Shah Mehmood Qureshi who is the Federal Foreign Minister.

7. FOREIGN DIRECT INVESTMENT

	July 2020 (Mln USD)	July 2019 (Mln USD)	% Change
Foreign Direct Investment	114.30	71.10	60.75%

(Source: SBP)

Foreign direct investment in Pakistan grew by 60.75% or in the absolute terms by $43.2 million amounting to $114.30 million in July 2020 vs $71.10 million last year. Overall total foreign private investment stands at $41.1 million as outflow of the Portfolio investment has reached to $73.2 million in July 2020. Whereas, total foreign public investment stands at $66 million in July 2020. Therefore, total foreign investment of the country (foreign private investment + foreign public investment) stands at $107 million in July 2020 vs $105 million last year.

8. BALANCE OF TRADE IN GOODS:

According to Pakistan Bureau of Statistics, country's exports grew by 6.04% to $2 billion in July 2020 vs $1.88 billion last year on-year-on-year basis. Pakistan's exports have touched to $2 billion mark after 4 months since Feb 2020. As a result, due to low base effect country's exports grew by 25.08% to $2 billion in July 2020 vs $1.59 billion in June 2020. 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. The resurgence of COVID-19 to remain a key concern for the economy in the wake of subsequent waves.

	July 2020	June 2020	% change M/M	July 2020	July 2019	% change Y/Y
	(Mln USD)			(Mln USD)		
Exports	2,000	1,599	25.08%	2,000	1,886	6.04%
Imports	3,640	3,719	(2.12%)	3,640	3,713	(1.97%)
Balance of Trade in Goods	(1,640)	(2,120)	(22.64%)	(1,640)	(1,827)	(10.24%)

(Source: PBS)

9. BALANCE OF PAYMENT:

Pakistan's Current Account Balance stands at surplus amounting to $424 million for the month of July 2020 as compared to the deficit of $100 million in June 2020. The upsurge in Remittances by 12.25% on-month-on-month has contributed in positive outlook of current account balance during first month of current fiscal year. However, weak growth in exports to remain a key concern for the macroeconomic sustainability of country.

	July 2020 (Provisional)	June 2020 (Revised)	% change	FY20 (Revised)	FY19	% Change
	(Mln USD)			(Mln USD)		
Current account Balance	424	(100)	(524%)	(2,970)	(13,434)	(78%)
Capital Account Balance	4	29	(86%)	290	229	27%
Financial Account Balance	(241)	(2,413)	(90%)	(7,693)	(11,759)	(35%)
Net FDI in Pakistan	**114**	**175**	(35%)	2,561	1,362	88%
Net Portfolio investment	**(7)**	**7**	(200%)	400	(1,418)	(128%)
Net incurrence of Liabilities	**607**	**2072**	(71%)	5,317	11,530	(54%)
Overall Balance	(241)	(1,854)	-	(5,299)	1,504	-
SBP Gross Reserve	**12,542**	**12,132**	-	12,132	7,285	-

(Source: SBP)

10. TREASURY BILL AUCTION:

The SBP conducted an auction of the Treasury Bills on 26th Aug 2020, with an auction target of Rs.450 billion, whereas, the maturities amounted to Rs.653 billion. The yield for 12-month bids remained unchanged at 7.3 per cent.

T-Bill Auction					
Tenors	**Face Value (Rs. in Million)**	**Previous Cut-Off Yield**	**Cut-Off Yield**	**Weighted. avg yield**	**Change**
3-Months	273,547	6.99%	7.15%	7.09%	**16 bps**
6-Months	209,205	7.18%	7.18%	7.15%	-
12-Months	65,054	7.15%	7.30%	7.25%	**15 bps**
Total	547,807	-	-	-	-

OUTLOOK:

- Fitch expects Pakistan's fiscal deficit to remain roughly stable at 8.2% in FY21, due to weak public finances, large fiscal deficit, high debt to GDP ratio and challenging external position. Whereas, Fitch forecast Pakistan's GDP growth to rebound to 1.2% in FY21 from negative 0.38% in FY20.
- According to the Fitch, "Pakistan's Remittances to post a decline by about 10% in FY21 due to the impact of the global economic shock". The sustainability of the smooth inflows to remain a key concern going forward.
- Pakistan's economy may be downgraded if external account deteriorated and erosion of the foreign exchange reserve buffers is to be witnessed says Moody's. This would eventually worsened the Government's external repayment capacity and heighten liquidity risks of the country.
- According to the media sources, the Saudi Arabia and UAE have demanded to return their funds which were aimed to help Pakistan economy in crisis times last year. This speculation has been fuelling Pakistani rupee to hit an all-time low of Rs168.28 against the US dollar in the inter-bank market and likely to remain under pressure.
- Pakistan's public debt has increased to alarming level to Rs36.3 trillion or 87% of GDP as of June 30, 2020. This is the incremental addition of Rs11.35 trillion since 2017-18, which is exposing country to multiple economic shocks to economy.
- Despite weak demand, Governance related issues and supply-side shocks adding volatility in the domestic prices will remain a challenge for the policy makers. Therefore, country's inflation to surge in short term due to supply chain disruptions, hoarding and mismanagement, and is likely to remain in single digit.
- The Institute of International Finance expects Policy rate to remain unchanged in the next Monetary Policy Committee meeting.