



Monthly **ECONOMIC UPDATE**

Economic Adviser's Wing
Finance Division
Government of Pakistan

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1. Economy at the glance

The Corona virus outbreak early in 2020 has taken its toll on the global markets and the economy through numerous channels, including sharp declines in domestic & global demand, lower tourism and business travel, trade and production linkages, supply disruptions, and health effects. The magnitude of the economic impact is highly uncertain; ADB in mid-March suggested a global impact in the range of \$77 billion to \$347 billion (0.1% to 0.4% of global GDP).

UN economists have warned that the deadly Corona virus epidemic could cost the global economy \$4.0 trillion this year and called on governments to ramp up spending to mitigate its impact. A new report from the UNCTAD, a Geneva-based UN agency, concluded that the spread of COVID-19 will push some countries into recession and will significantly slow growth in the world economy as a whole.

Pakistan economy which was moving towards stability and sustainable inclusive growth has also been exposed to multifaceted challenges as a result of this pandemic. According to the latest data for July-Feb, FY2020, the external sector continues to improve substantially on account of significant reduction in current account deficit CAD (71%), modest growth in both exports (2.7%) and workers' remittances (5.3%) and significant reduction in imports (17.5%). However, the outbreak of Corona virus has posed significant challenges for external sector in coming months due to high trade linkages with China, USA, EU and Middle East.

Government is dealing with the Corona virus outbreak on emergency basis. In order to reduce the impact of Corona virus and boost the economy the government has announced Rs.1.2 trillion Economic relief and Stimulus package. It aims to provide relief to vulnerable, support to poor, SMEs industry, deferment of utility bills of lower income groups, deferment of principal and interest for business and reduction in fuel prices etc. Similarly, SBP has decided to cut the policy rate to 11 percent. SBP has also provided various incentives to manufacturing sector and exporters. Joint efforts of Government and SBP will provide a cushion to industry in this dwindling situation.

MONTHLY PERFORMANCE, FEBRUARY 2020

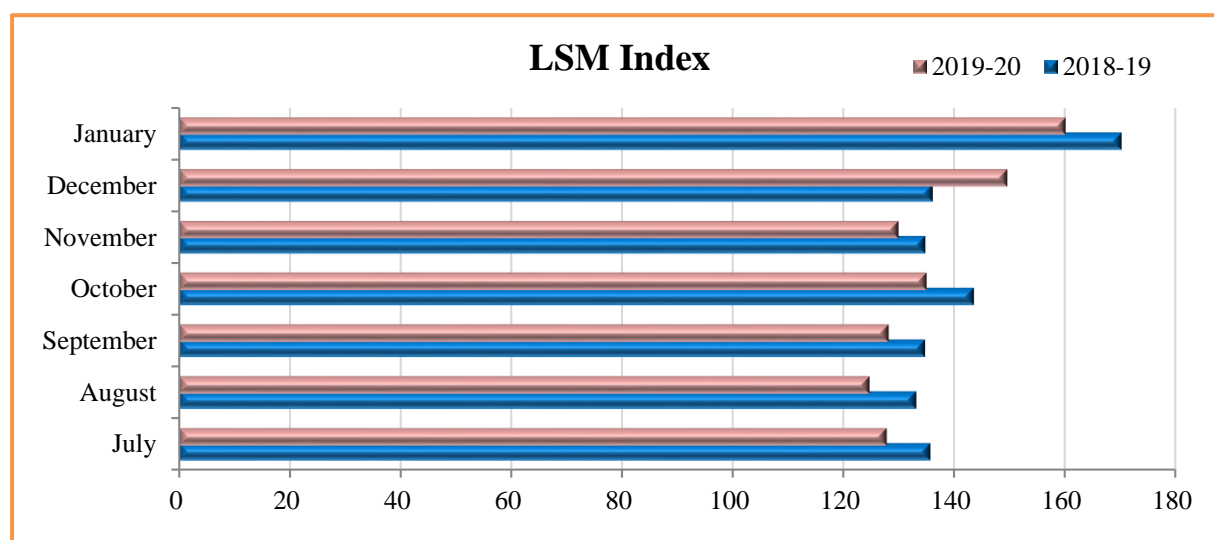
2. Real Sector

2.1 Agriculture

Government has increased wheat support prices to Rs. 1400 per 40 kg. Wheat crop in almost all parts of the country was good. However, recent weather conditions, expected rainfall in the coming weeks and hailing in southern Punjab may have adverse effects on optimistic estimates of 27.0 mn tons. Early terminations of some kharif crops, better inputs availability are promising factors to have good crop at the end of the season.

2.2 Manufacturing

Large scale manufacturing (LSM) witnessed an increase of 7.1% in January 2020 on MOM basis (15.4% December 2019). YOY LSM decreased by 5.9% in Jan 2020 (-0.9% Jan 2019). Overall contraction in LSM stood at -3.4% during Jul-Jan FY 2020 (-1.6% last year).



Source: Pakistan Bureau of Statistics

During Jul-Feb FY20, total cement dispatches increased by 10.1% to 33.313Mt (30.253Mt last year). Domestic dispatches increased by 6.9% to 27.374MT while exports were up 27.7% to 5.939MT.

In Feb FY20, Automobile has picked up the pace. Total trucks, buses, Jeeps, Pickups and tractors' production increased by 1.2%, 73.7%, 22.5%, 41.3% and 347% respectively.

Textile sector is getting mounting orders for denim and home textile. But this sector relies on China for the bulk of its capital goods and other inputs (raw yarn, synthetic fiber, and colouring matter), so this may be affected if there is a prolonged closedown of the Chinese Economy.

Sectors showing growing trend

Manufacturing Sector	Weight	(%) Change	
		2018-19 Jul-Jan	2019-20 Jul-Jan
Textile	20.9	-0.12	0.28
Food, Beverages & Tobacco	12.4	-3.62	1.93
Non Metallic Mineral Products	5.4	-2.29	1.71
Fertilizers	4.4	5.81	4.53
Leather Products	0.9	-0.88	11.15
Paper & Board	2.3	-2.29	6.77
Rubber Products	0.3	3.36	2.05
Wood Products	0.6	-30.91	25.07

Source: Pakistan Bureau of Statistics

Sectors showing dismal performance are

Manufacturing Sector	Weight	(%) Change	
		2018-19 Jul-Jan	2019-20 Jul-Jan
Coke & Petroleum Products	5.5	-4.78	-10.59
Pharmaceuticals	3.6	-9.09	-5.77
Chemicals	1.7	-4.16	-3.20
Automobiles	4.6	-5.24	-36.07
Iron & Steel Products	5.4	-9.13	-9.25
Electronics	1.9	37.86	-8.5
Engineering Products	0.4	10.84	-3.62

Source: Pakistan Bureau of Statistics

Main contributors to lower LSM growth

- Shift in power generation away from furnace oil has reduced the fuel's demand and affected petroleum industry's output.
- Upward adjustment in electricity prices dented domestic steel producer's margins.
- The increase in Additional Custom Duty (ACD) from 2% to 4% and 7% against tariff lines of 16% and 20% and above respectively. FED from 2.5% to 7.5% against different vehicle categories increased the prices of vehicles and hence lowered demand and the production.

Steps to overcome de-industrialization

- Government continue to provide Long-term Trade Financing (LTFF) and Export Finance Scheme (EFS) at subsidized rate (LTFF 6%, EFS 3%). LTFF amount reached to Rs 31.5 bn (Rs 26.4 bn last year) during Jul-Feb FY20. Similarly, EFS amount reached to Rs 86.27 bn (Rs 75.6 bn last year) during Jul-Feb FY20.
- Power Division has released Rs. 179 bn upto 19th March 2020 out of allocated Rs. 226.5 bn subsidy to ensure uninterrupted electric supply to both consumers and producers.
- Petroleum Division has released Rs. 15.4 bn upto 19th March 2020 for zero rated industrial sector out of allocated Rs. 24 bn subsidy for the purpose.
- PSDP release process is simplified and Rs465bn (Rs373 bn last year) has been authorized (as on 13th March 2020) to fund various uplifting projects.
- In an effort to combat **Covid-19**, SBP will refinance banks to provide financing at 7% for 10 years for setting up of new industrial units. This is Rs 100 bn scheme with a maximum loan size per project of Rs 5 bn.

3. Inflation

CPI inflation reached to 12.4% in February 2020 as compared to 14.6 % previous month (Y-o-Y). On month-on-month basis, it decreased by 1.0% in February 2020. During Jul-Feb FY20, CPI inflation reached to 11.7%.

The fall in fuel and non-fuel commodities prices in global market will have favourable impact on inflationary outlook of Pakistan. The Sensitive price Indicator (SPI) monitors the price movement

of 51 essential items on weekly basis. The SPI for the week ended on 12th March, 2020 increased by 0.71%. During the week, 9 items recorded decline in their prices while 28 items remain stable. The table given below presents the SPI trend during the month of, February and March 2020:

SPI (51 Items) 2015-16=100

Week ended on	Combined SPI	%age change over previous week	%age change over Corresponding week last year
13-02-2020	130.9	-0.4	16.4
20-02-2020	130.7	-0.1	15.9
27-02-2020	129.2	-1.2	14.6
05-03-2020	128.7	-0.3	11.6
12-03-2020	129.7	0.7	12.4

Source: Pakistan Bureau of Statistics

Borrowing from SBP has inflationary impact. Govt. has discontinued borrowing from SBP in Current Fiscal Year. Government retired Rs. 896.16 bn (1st July-6th March 2020) as compared to borrowing of Rs. 3,195.33 bn same period last year.

SBP has decreased the policy rate to 11percent.The decision reflects that the outlook for inflation has improved in light of the recent deceleration in domestic food prices, consumer price expectations, and sharp fall in global oil prices.

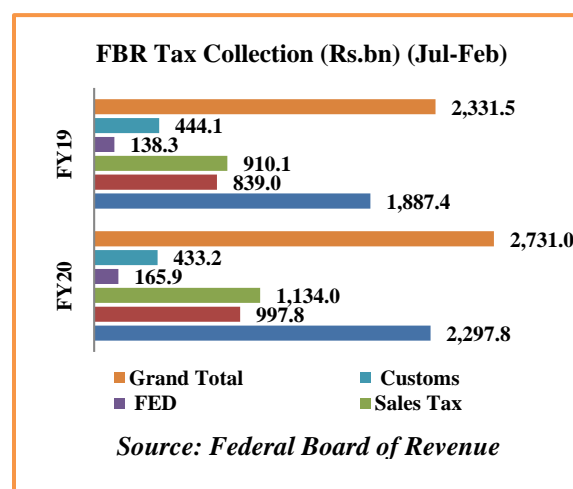
4. Fiscal

Overall fiscal deficit is recorded at 3.2% of GDP (Rs.1,430 bn) during Jul-Jan, FY20 against 3.8%(Rs.1,472bn) in the comparable period of FY19. Similarly, primary balance has improved and posted a surplus of Rs.153 bn (0.3% of GDP) during Jul-Jan, FY20 against the deficit of Rs.338 bn(-0.95 of GDP) in the preceding year. On expenditure side, PSDP authorization went up to Rs. 465.3 bn (as on 13-03-2020) as against Rs. 373.5 bn in last year. Increased public spending relative to last year is supporting business activities, especially in construction-allied industries.

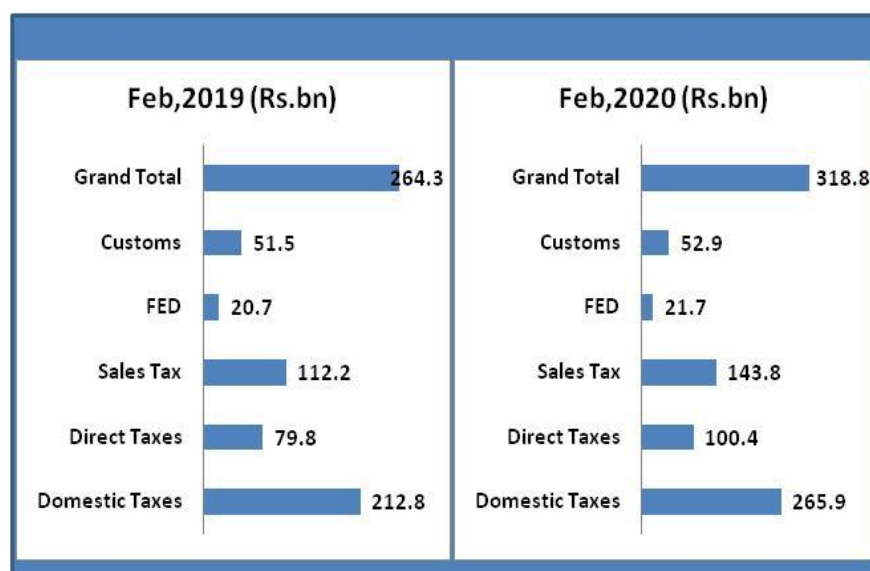
FBR Tax Collection

The outcomes of measures/initiatives introduced by FBR have now started to emerge in terms of significant rise in tax collection during Jul-Feb,FY20. FBR has collected Rs. 2,731bn during Jul-Feb,FY2020 against Rs. 2,332bn, showing a growth of 17.1 %.

First eight months of current fiscal year has witnessed a significant rise in domestic tax collection by 22% to Rs.2,298bn against Rs.1,887bn last year. Within the domestic tax collection, direct taxes grew by 19%, sales tax



by 25% and federal excise duty by 20%. However, customs duty reduced by 2.5% during first eight month of current fiscal year.

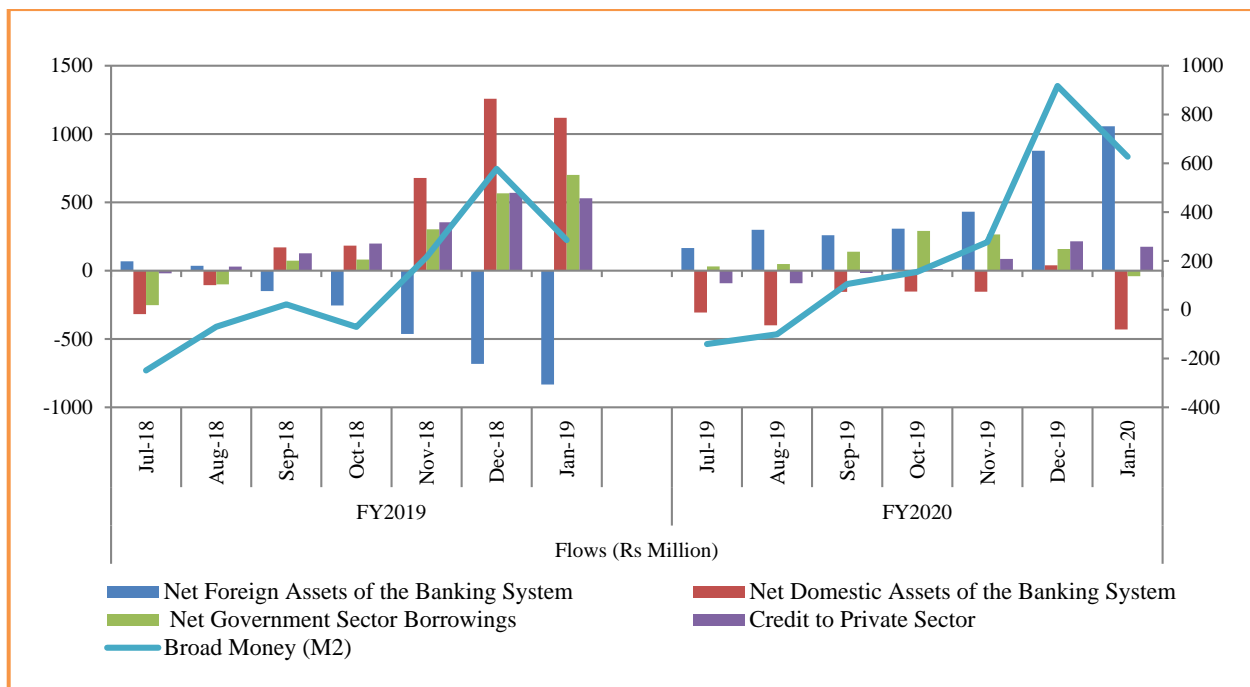


Source: Federal Board of Revenue

Significant improvement in fiscal accounts indicates that fiscal consolidation is on track and supporting a qualitative improvement in the inflation outlook. However, the government could face challenges in achieving revenue targets for this year, especially if there are disruptions in economic activity, and may require increased expenditures in health and social sectors to cushion the impacts of the Corona virus pandemic.

5. Monetary

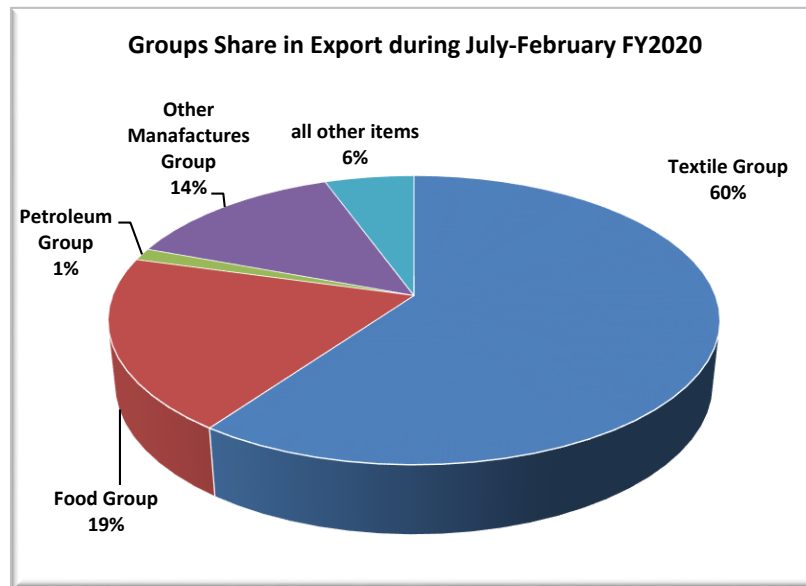
SBP in its monetary policy announced on 17th March, 2020, slashed the policy rate by 75bps to an eight months low of 12.5%. In order to cushion growth slowdown while protecting inflation expectations in the wake of Coronavirus outbreak, policy rate reduced by a further 150 basis points (24th March, 2020) to 11%. This brings the cumulative easing over the past one week to 225 basis points. During 1st July – 28th February, FY20 money supply (M₂) witnessed 5.02 percent growth (Rs. 894.3 bn) compared to growth of 3.36 percent (Rs. 536.88 bn) in last year. Net Foreign Assets (NFA) increased by Rs. 1,130.06 bn as compared to the contraction of Rs. 842.53 bn in last year. Net Domestic Assets (NDA) of the banking sector decreased by Rs. 235.76 bn as compared to the expansion of Rs. 1,379.42 bn last year. Private Sector has borrowed Rs. 244 bn against the borrowing of Rs. 582.1 bn in last year.



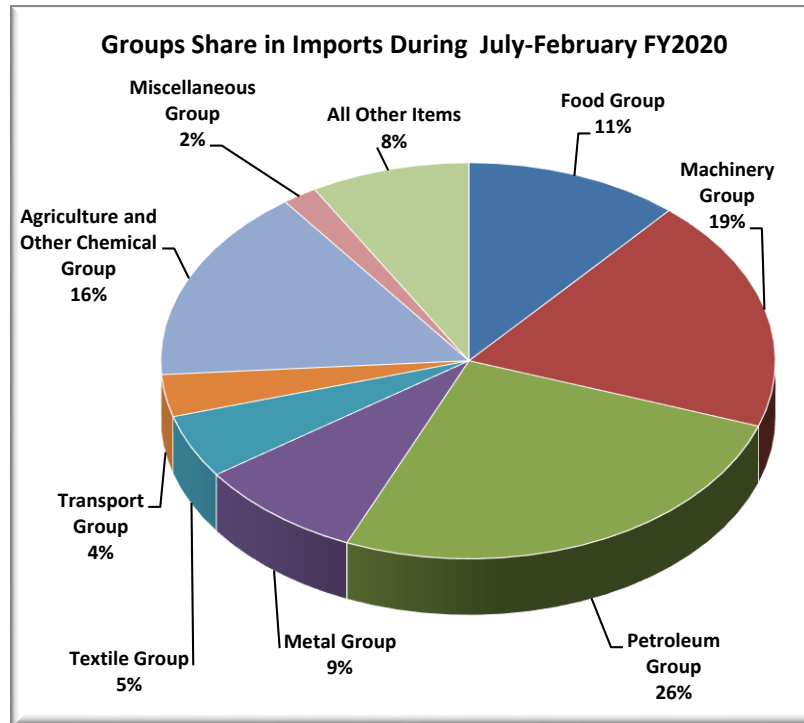
Source: State Bank of Pakistan

6. External Sector

The current account deficit contracted by 71% to \$2.84 bn (\$9.82bn last year) during Jul-Feb FY20, driven by a significant reduction in imports and modest growth in both exports and workers' remittances. Exports grew by 2.7% to \$16.4 bn (\$16.0 bn last year), Imports declined by 17.5% to \$29.6 bn (\$35.9 bn last year). Consequently, trade deficit reduced by 33.7% to \$13.2 bn (\$19.9 bn last year).



Source: Pakistan Bureau of Statistics



Source: Pakistan Bureau of Statistics

The exports of services grew by 10.2% to \$ 3.7 bn (\$3.5 bn last year). The major services exports: telecommunication, computer and information services (\$888 mn), other business services (\$944 mn) and government goods & services (\$245mn). The import of Services declined by 1.2% and is \$ 6.0 bn (\$ 6.1 bn last year). Imports of services comprised of transport (\$2220 mn) and other business services (\$1769 mn).

Foreign Direct Investment

FDI increased by 75.0% and reached to \$ 1852.7 mn during Jul-Feb FY20 as compared to \$ 1059 mn last year. On year on year basis FDI increased by 150.6% and reached to \$ 289 mn in February FY20 as compared to \$ 115.3 mn in the same month last year.

The inflows of FDI reached to 2360.1 mn during Jul-Feb FY20 compared to 2244.4 mn same period last year, with a growth of 5.2%. The outflows of FDI during Jul-Feb FY20 decreased by 57.2% and reached to 507.4 mn compared to 1185.4 mn same period last year.

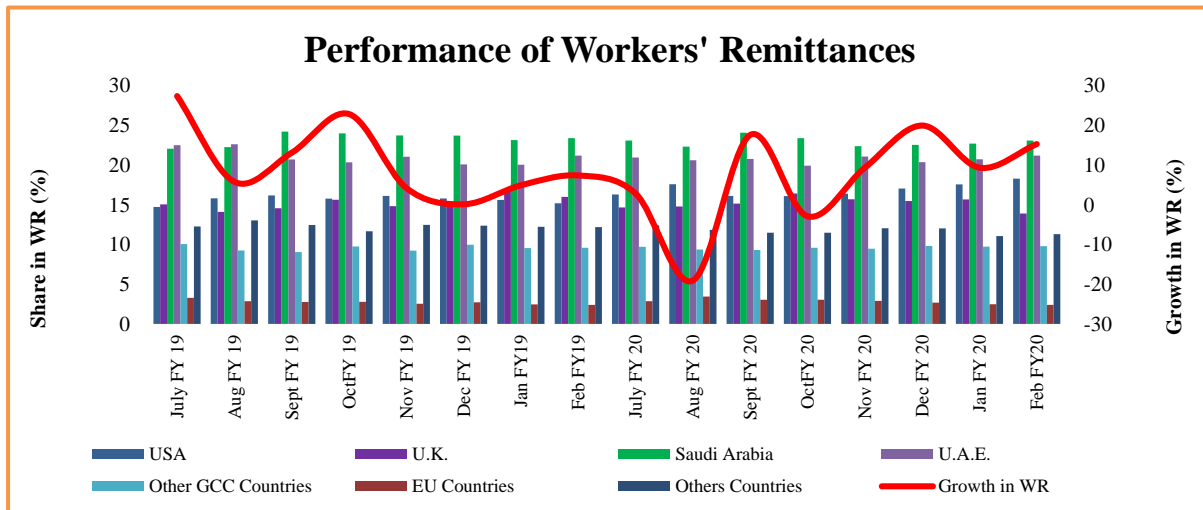
Foreign Portfolio Investment

The Foreign Private Portfolio Investment registered a net outflow of US\$ 47.9 million in February. Countries with Major inflow are Hong Kong (\$14.9 Mn), U.A.E (\$1.4 Mn), and Singapore (\$0.9 Mn). While major outflows were sent to United States (\$19.6 Mn), United Kingdom (\$5.5 Mn) and Luxembourg (\$ 2.6 Mn).

Foreign Public Portfolio Investment registered a net inflow of \$ 321.5 Mn in month of February, 2020. Net Foreign Public Portfolio Investment from July 2019 till February, 2020 accumulates to \$2161.1 Mn.

Worker's Remittances

During Jul-Feb FY20, remittances reached to \$ 15126.5 mn (\$ 14355.8 mn last year), with a growth of 5.4%. On Y-o-Y basis, remittances witnessed a growth of 15.3 % in February 2020, recorded \$1824.3 mn (\$ 1581.7mn last year). Share of remittances from Saudi Arabia 23 % (\$ 3473.4 mn), U.A.E 20.7% (\$ 3131.8 mn), USA 16.9 % (\$ 2558.3 mn), U.K 15.2 % (\$ 2305.6 mn), other GCC countries 9.6 % (\$ 1453.5 mn), Malaysia 6.7 % (\$ 1041.4 mn), EU 2.9 % (\$ 431.1 mn) and other countries 4.8 %.



Source: State Bank of Pakistan

7. Performance of KSE Index

Fear of outbreak of Corona virus dominated the market perception in the month of February. KSE-100 index plunged 3647.32 points (8.76% decrease) and closed at 37983.62, lowest in 3 months.



Source: Pakistan Stock Exchange

Similarly, a massive sum of Rs. 756 bn (9.63% decrease) was wiped out from market capitalization which settled at Rs 7094.66 bn at the end of the month. Figure below depicts the downward trend that started in February.



Source: Pakistan Stock Exchange

Major Achievements

- The Reimbursement of T.T. Charges Scheme is revised on March 2020 accordingly, the amount of Home Remittance transaction between USD 100/- and USD 200/- (or equivalent in other currencies) to be reimbursed increased from SAR 10/ to SAR 20/-.
- The amount of the remittances transferred into bank accounts will be exempted from withholding tax with effect from July 1, 2020. ECC has approved a TSG of Rs.9.6 bn during the current financial year to finance the above-mentioned initiatives.
- A “National Remittance Loyalty Program” will be launched from September 1, 2020 with collaboration of major commercial banks and government agencies through which various incentives will be given to remitters through mobile apps and cards.
- During Jul-Feb FY2020, FBR has issued Rs.111.1 bn of refunds whereas in the last year the refunds of Rs. 84.1 bn were issued. Up to February 29th 2020, total returns for Tax Year 2019 were 2,483,866 whereas 373,877 new taxpayers paid taxes in Tax Year 2019.
- Manpower export grew by 54.65% (66,865) in February, 2020 as compared to (43,234) in the same period last year.
- SBP has announced two schemes; a “Temporary Economic Refinance Facility (TERF)” and a “Refinance Facility for Combating COVID-19 (RFCC)”, according to which new project in the manufacturing sector and hospitals could avail bank financing at reduced rate of 7 percent and 3 percent respectively to fight against contagious virus and increase investment in the country.
- Under National Poverty Graduation Initiative Rs 1,897 mn have been disbursed in the month of February, 2020 and 20.4 bn during Jul-Feb FY20.
- Federal Government has unveiled a Rs.1200 billion Economic Package to provide relief to citizens, particularly low-income groups whose livelihood has been badly affected by the Corona virus pandemic.

Conclusion

GDP growth for FY2020 was projected to grow by 3.0%. However, the outbreak of Corona virus may affect Pakistan's economy through various channels. Therefore, there will be further reduction in GDP growth; however, the magnitude of decline is uncertain. Pakistan's domestic production and exports value may suffer due to less supply of intermediate goods and decrease in global demand and commodity prices. The economic downturn in China, USA, EU and Middle East will affect Pakistan's exports and remittances inflows. The slowdown will also have negative impact on tax and non-tax revenues; whereas government spending will overrun and fiscal balance will disturb having negative implications.

Besides possible worst effects on Pakistan's economy, recent decline in oil prices is a positive thing for Pakistan's economy. Petroleum group import bill is \$13.9 bn of a year. A drop of crude oil prices may reduce the current account deficit and ease out inflation/domestic prices.

Economic Indicators (19.03.2020)

	2018-19	2019-20	%
	Jul-Feb	Jul-Feb	Change
External Sector			
Exports (\$ bn)	16.0	16.4	↑ 2.7
Imports (\$ bn)	35.9	29.7	↓ 17.5
Trade Deficit (\$ bn)	19.9	13.2	↓ 33.7
Remittances(\$ bn)	14.4	15.1	↑ 5.4
Current Account Deficit (\$ bn)	9.8	2.8	↓ 71.0
Current Account Deficit(% of GDP)	5.0	1.5	
FDI (\$ mn)	146.8 (January)	223.1 (January)	↑ 52.0
	115.3 (February)	289.0 (February)	↑ 150.6
	1059.0 (Jul-Feb)	1852.7 (Jul-Feb)	↑ 75.0
Portfolio Investment (\$ mn)	10.9 (January)	2.8 (January)	↓ 74.3
	0.5 (February)	-47.9 (February)	↓
	-408.4	-26.3	
Total Foreign Investment (\$ mn)	650.6	3987.5	↑
Forex Reserves (\$ bn)	15.709 (<i>SBP: 8.838</i>) (<i>Banks: 6.871</i>) (On 15 th Mar 2019)	18.317 (<i>SBP: 12.285</i>) (<i>Banks: 6.032</i>) (On 17 th Mar 2020)	
Exchange rate (PKR/US\$)	138.28 (On 15 th Mar 2019)	158.43 (On 17 th Mar 2020)	

Source: SBP, PBS

	(Rs bn)		
	2018-19	2019-20	%
	Jul-Jan	Jul-Jan	Change
Fiscal			
FBR Revenue (provisional)	2331.5 (Jul-Feb)	2731.0 (Jul-Feb)	↑ 17.1
Non Tax Revenue	250	775	↑ 210
Expenditures	3357.0 (Jul-Dec)	4226.6 (Jul-Dec)	↑ 25.9
Federal PSDP (incl. grants to provinces)	233	360	↑ 54.5
Fiscal Deficit	1472	1430	↓ 2.8
Monetary Sector			
Agriculture Credit (provisional)	606.1 (Jul-Jan)	702.9 (Jul-Jan)	↑ 16.0
Government borrowing from SBP	3195.3 (1 st Jul–7 th Mar2019)	-896.2 (1 st Jul –6 th Mar2020)	
Credit to private sector (Flows)	554.3 (1 st Jul–7 th Mar2019)	242.6 (1 st Jul –6 th Mar2020)	
Total Credit	506.7	111.9	
Working Capital	374.6	44.4	
Fixed Investment	37.0	1.2	
Trade Financing	95.1	66.4	
Policy Rate (%)	10.25 (w.e.f 1-Feb- 19)	12.50 (w.e.f 18- Mar-20)	

Source: SBP & FBR, Budget Wing

	2018-19	2019-20	% Change
Inflation			
CPI (National) (%)	6.8 (February)	12.4 (February)	
	6.0 (Jul-Feb)	11.7 (Jul-Feb)	
Real Sector			
Large Scale Manufacturing (LSM) (%)	-11.51 (December)	9.96 (December)	
	-0.93 (January)	-5.96 (January)	
	-1.61 (Jul-Jan)	-3.37 (Jul-Jan)	
Miscellaneous			
PSX Index*	33996 (On 1 st Jul 2019)	32617 (On 17 th Mar 2020)	↓ 4.06
Market Capitalization (Rs trn)	6.89 (On 1 st Jul 2019)	6.23 (On 17 th Mar 2020)	↓ 9.58
Market Capitalization (\$ bn)	43.58 (On 1 st Jul 2019)	39.34 (On 17 th Mar 2020)	↓ 9.73
Incorporation of Companies	9466 (Jul-Feb)	12417 (Jul-Feb)	↑ 31.17

*: Formerly Karachi Stock Exchange (KSE)

Source: PBS,PSX& SECP

	10-03-2020	11-03-2020	12-03-2020	13-03-2020	16-03-2020	17-03-2020
PSX Index	37696	37673	35957	36061	33685	32617
Market Capitalization (Rs trn)	7.05	7.03	6.81	6.80	6.418	6.233
Market Capitalization (\$ bn)	44.77	44.36	42.76	43.57	40.49	39.34
Forex Reserves (\$ bn)	18.904	18.835	18.748	18.742	18.433	18.317
SBP (\$ bn)	12.770	12.735	12.683	12.679	12.369	12.285
Banks (\$ bn)	6.134	6.100	6.065	6.063	6.063	6.032
Exchange rate (PKR/US\$)	157.45	158.42	159.14	158.98	158.41	158.43

Source: PSX&SBP