



Monthly **ECONOMIC UPDATE**

Economic Adviser's Wing
Finance Division
Government of Pakistan

May 2020

CONTENTS

	Page #
1. Economy at the Glance	1
2. Real Sector	1
2.1 Agriculture	1
2.2 Manufacturing	2
3. Inflation.....	4
4. Fiscal.....	5
5. Monetary	6
6. External Sector.....	6
7. Performance of KSE Index	9
8. Conclusion	9
10. Economic Indicators	10

1. Economy at the glance

The global macroeconomic and financial landscape is witnessing unprecedented changes with Novel Corona virus emerging as the biggest threat to economic growth. April and May 2020 became the months of “Global Lockdown” with world economic activity coming to a standstill.

The Corona virus pandemic impacting all sectors of the economy and Pakistan’s business sentiment started to plummet. Manufacturing Sector witnessed very sharp deterioration in business sentiments across all sectors. The growth rate for the FY2020 is estimated at -0.38 percent on account of subdued performance in industry and services sectors which stood at -2.64 percent and -0.59 percent respectively, while agriculture sector performed relatively better and grew by 2.67 percent over previous year.

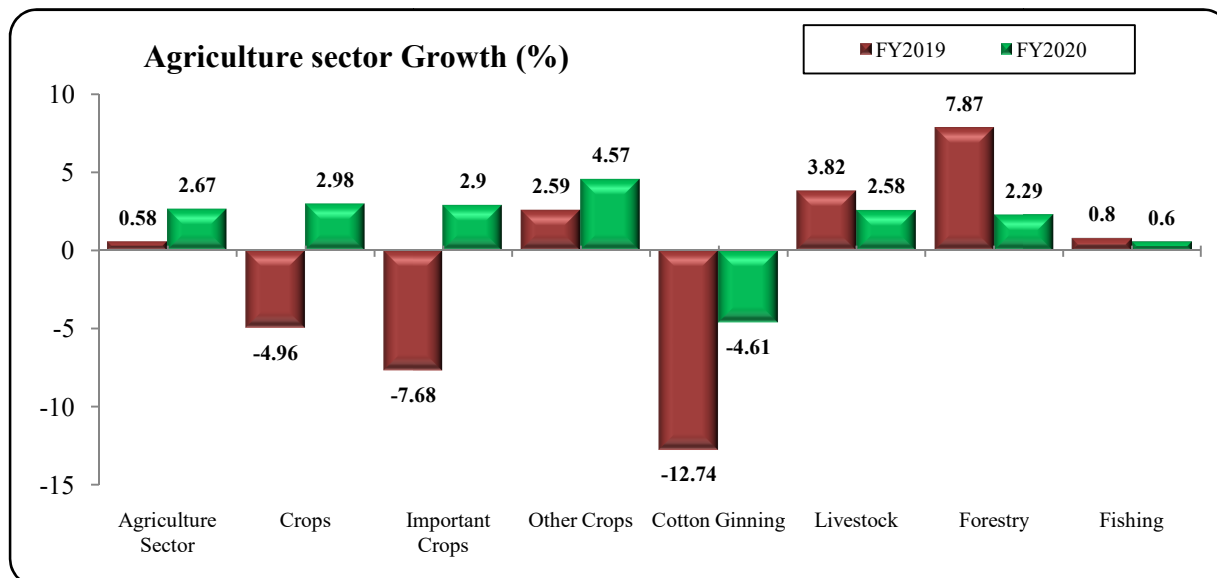
The Government of Pakistan has adopted a comprehensive fiscal support package aimed at accommodating the spending needs to mitigate the impact of the COVID-19 shock. Government is increasing public health spending and strengthening social safety net to provide immediate cash support to a wider segment of the vulnerable population of the country. In addition, the State Bank of Pakistan has also introduced measures to support liquidity and credit conditions and safeguard financial stability.

The government has launched “Ehsaas Emergency Cash Program”, the biggest cash distribution program in the history of Pakistan, with total allocation of Rs 144 billion to provide immediate cash relief of Rs 12,000 to 12 million families of daily wage earners, whose livelihood has been severely affected by the pandemic. Disbursements have been started for the said program and as on 28-05-2020, Rs 112.6 billion have been disbursed to 9.3 million beneficiaries.

2. Real Sector

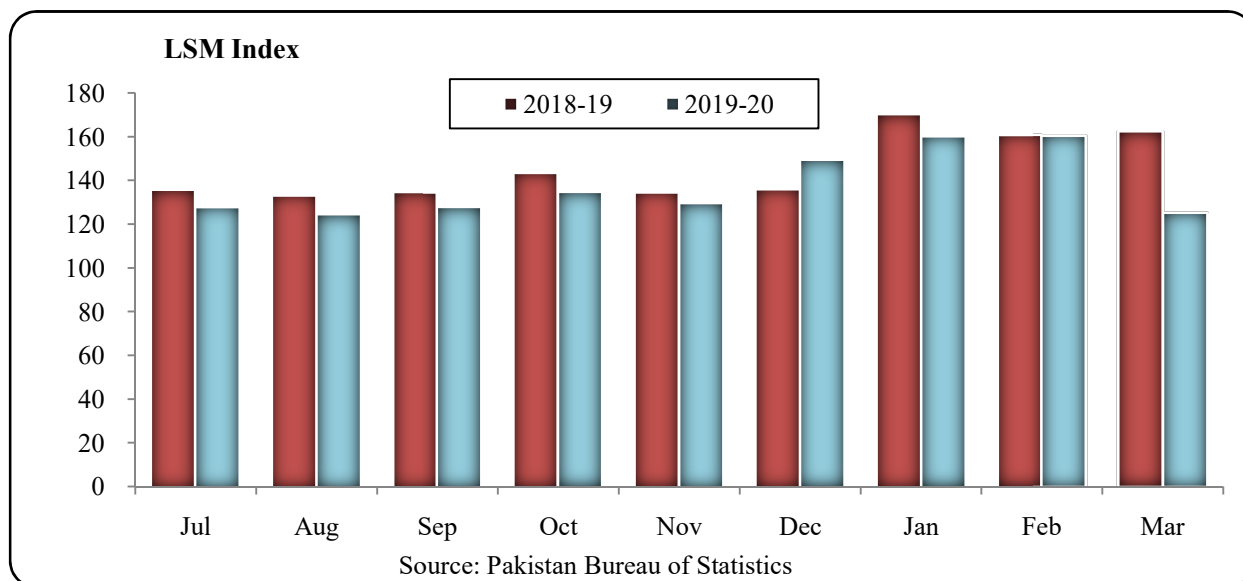
2.1 Agriculture

The agriculture sector during FY2020 grew by 2.67 percent compared to meagre growth of 0.58 percent during last year. The crops sector has witnessed positive growth of 2.98 percent. Positive growth in important crops i.e. 2.90 percent has been recorded due to increase in production of wheat (24.946 million ton), rice (7.410 million ton) and maize (7.236 million ton) at 2.45 percent, 2.89 percent and 6.01 percent, respectively compared to the production of last year. While cotton production (9.178 million bales) has went down to -6.92 percent and sugarcane -0.44 percent to (66.880 million ton). Other crops have shown growth of 4.57 percent mainly because of increase in production of pulses, oilseeds and vegetables. Cotton ginning has declined by -4.61 percent due to decrease in production of cotton crop. Livestock sector is showing a growth of 2.58 percent. The growth in forestry is witnessed at 2.29 percent. Agriculture sector did not witness any significant impact of COVID-19.

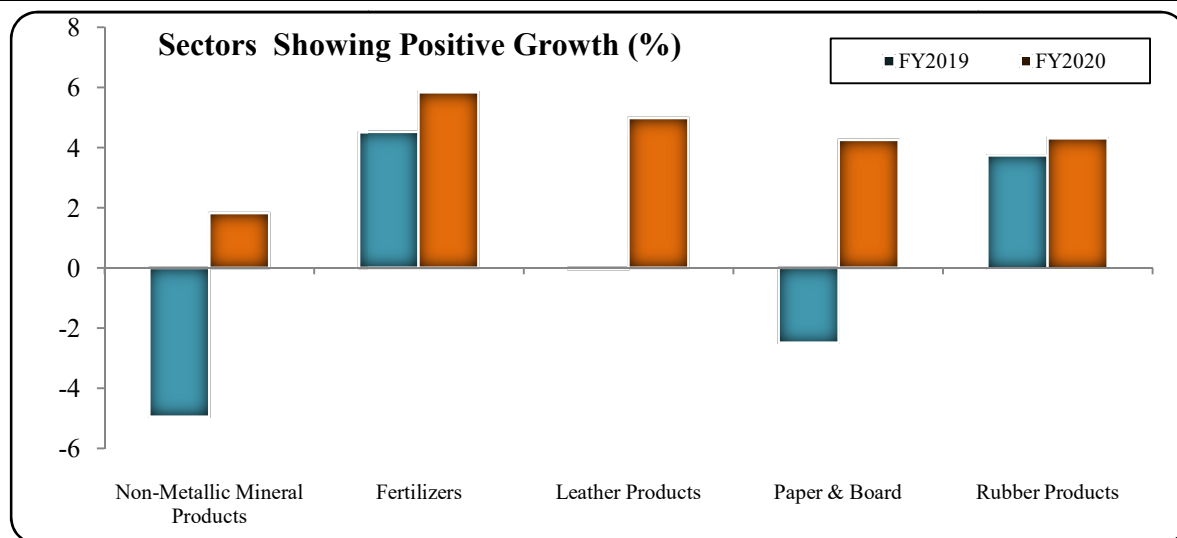


2.2 Manufacturing

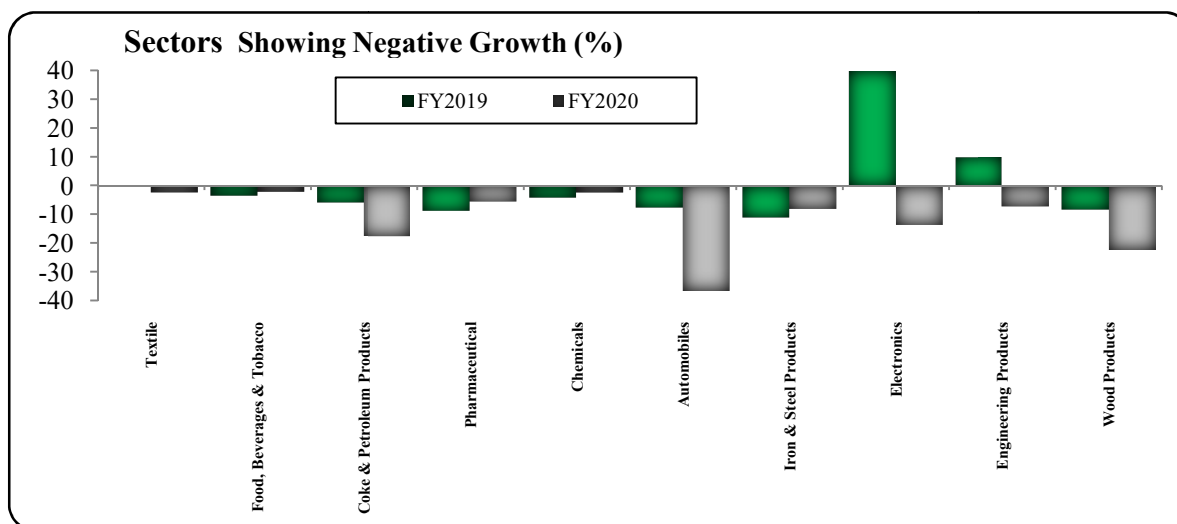
Amid COVID-19 outbreak, LSM nose-dive a record low to -21.9% in Mar FY2020 on MoM basis (0.16% Feb FY2020). YOY, LSM decreased by -22.9% in March 2020 (-7.357% March 2019). LSM during July-March FY2020 stood at -5.4 % (-2.34% last year).



In July-April FY2020, total cement dispatches in the country increased by 3.45% to 40.55 mn ton during July-April FY2020 (39.20 mn ton last year). Domestic dispatches increased by 1.07% to 33.858 mn ton in July-April FY2020; while, exports were up 17.35% to 6.695 mn ton.



Closure of business activities amid recent health crisis dented the overall LSM. Textile sector, being labor intensive, is highly exposed to COVID-19 thus severely affected by spread of pandemic.



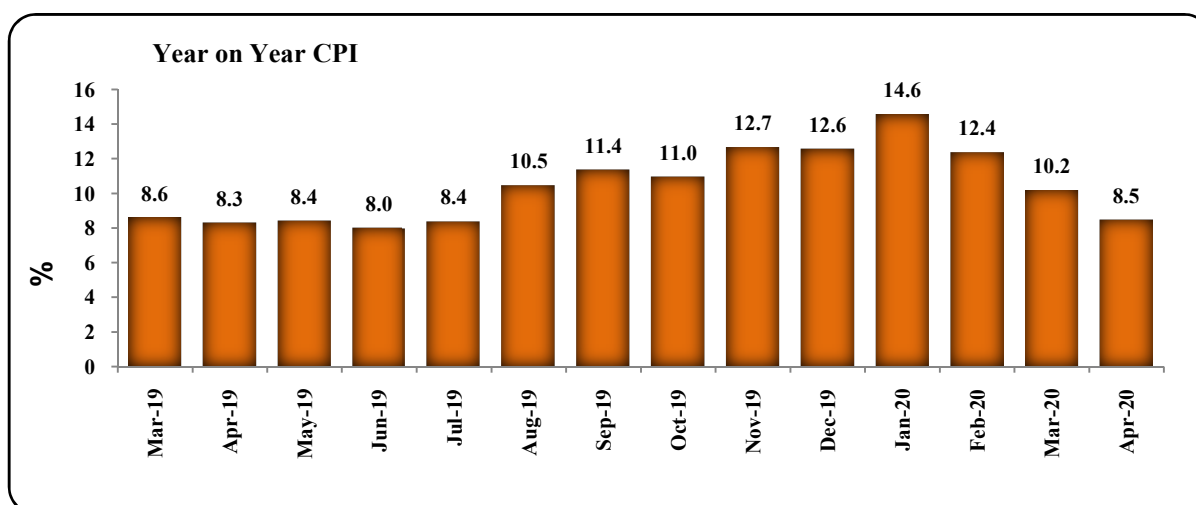
Measures to Support Industrialization

- 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 36.99 billion (Rs 33.52 billion last year) during July-April FY2020. Similarly, EFS amount reached to Rs 109.186 billion (Rs 84.03 billion last year) during July-April FY2020
- ECC has approved Rs 50.7 billion package to provide indirect cash flow support to the SMEs through pre-paid electricity bills for May-July FY2020. This package named “ChotaKaro-bar-o-SannatImadadi Package” will benefit around 3.5 million small businesses.

- A stimulus package has also been introduced to support businesses and to stimulate the economy. According to the package, export-oriented industries would be given Rs 100 billion worth of tax refunds and interest payments have also been deferred.
- Government and SBP have introduced risk-sharing mechanism to support bank lending to SMEs. Rs 30 billion has been allocated under a credit risk sharing facility for the banks spread over four years to share the burden of losses due to any bad loans in future.
- SBP will finance up to 100% of wages and salaries (April-June 2020) of businesses with average 3- month wage bill of up to Rs 500 million.
- Along with the number of measures to combat COVID-19, borrowing has been further eased by SBP through bringing interest rate at 8%.

3. Inflation

With outbreak of COVID-19, simultaneous supply and demand shocks both globally as well as domestically were observed due to lock-down. For price stability, the government pursued combination of policy measures to ensure adequate availability of consumer goods at reasonable prices. The government also remained vigilant on the market situation for smooth supply of essential items. For relief to the common man, the government provided major subsidy to the Utility Stores Corporation (USC). Thus, essential commodities such as wheat flour, sugar, pulses and cooking oil/ ghee in Utility Stores Corporation are being provided to consumers at subsidized prices. All these measures helped in contracting the CPI-national to single digit which fell to 8.5 percent in April 2020. This was third successive month showing decline in inflation, whereas it dropped more than 6 percent in last three months. Hence during the period Jul-April FY2020, it is recorded at 11.22 percent.



Sensitive price Indicator (SPI) monitors the price movement of 51 essential items on weekly basis. The SPI for the week ended on 14th May, 2020 increased by 0.01%. During the week, 11 items recorded decline in their prices, 14 items increased while 26 items remained stable.

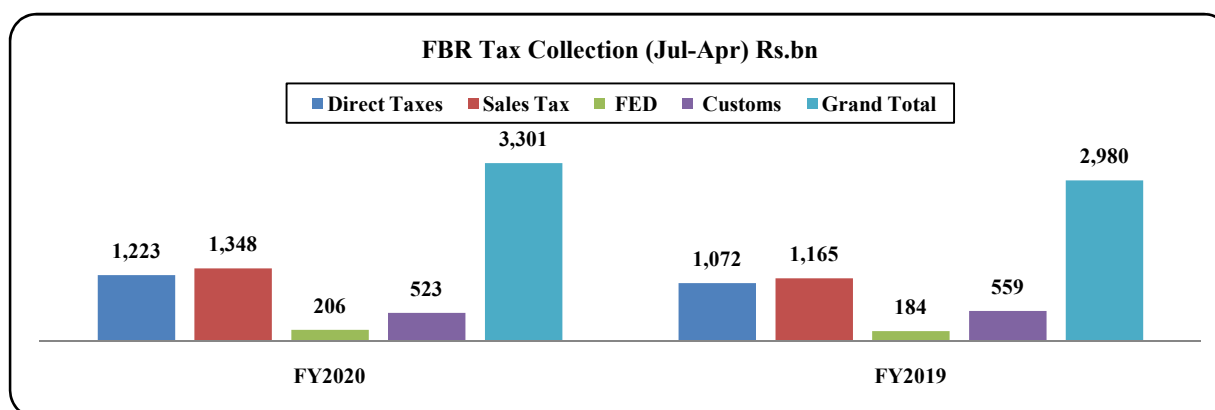
4. Fiscal

The fiscal performance till March, 2020 has shown significant improvement as fiscal deficit has been reduced to 3.8% during July-March, FY2020 (5.0% last year). Similarly, primary balance has posted a surplus of Rs 193.5 bn during July-March, FY2020 against the deficit of Rs 463.3 bn last year. Fiscal deficit has been contained due to a sharp rise in non-tax revenues and significant improvement in provincial surplus during July-March, FY2020.

Within revenues, non-tax rebounded during the first nine months of current fiscal year on account of substantial rise in profits by State Bank of Pakistan and PTA. On expenditure side, PSDP expenditures grew by 24.9% to reach Rs 722.5 bn during July-March, FY2020 (Rs 578.5 bn last year). Moreover, all provinces posted a cumulative surplus of Rs 394.1 bn during July-March, FY2020 (Rs 291.6 bn last year).

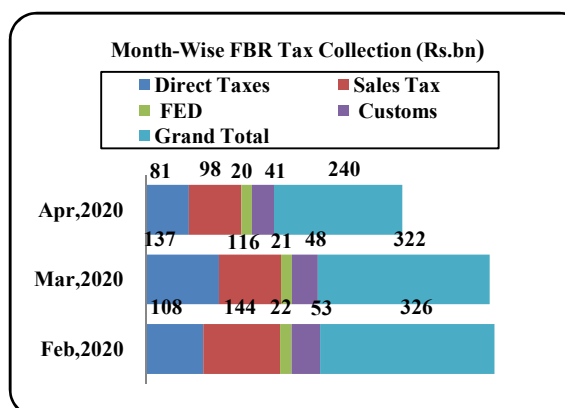
FBR Tax Collection

FBR tax collection increased by 10.8 % to stand at Rs 3,300.6 bn during July-April, FY2020 (Rs 2,980.0 bn last year). Within total, the domestic tax collection grew by 14.7% to Rs 2,777.7 bn in first ten months of current fiscal year (Rs 2,421.1 bn last year).



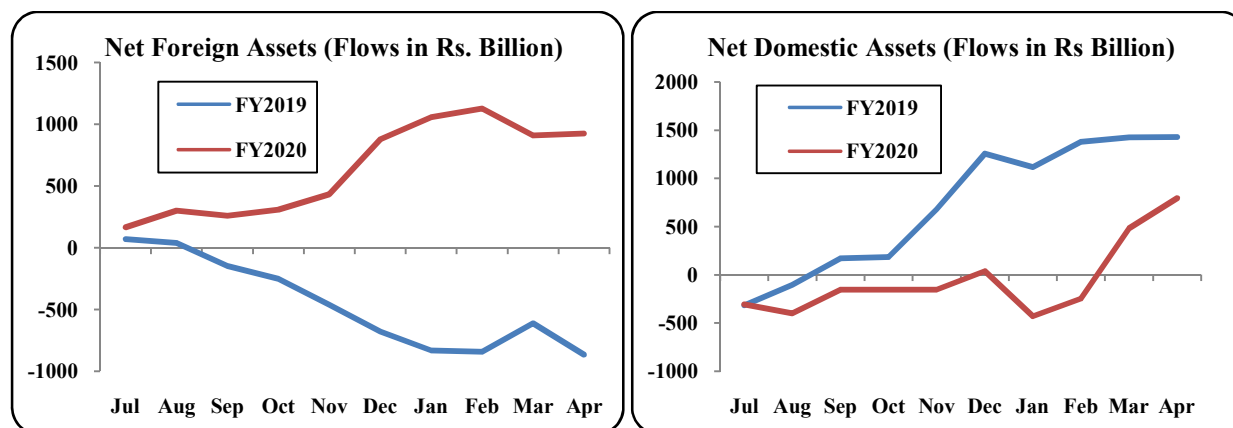
The net collection of direct taxes increased by 14.1% to Rs 1,223.2 bn during July-April, FY2020 (Rs 1,071.7 bn last year), while indirect taxes registered a growth of 8.9% to Rs 2,077.4 bn in first ten months of CFY 2019-20 (Rs 1,908.3 bn last year). Within indirect taxes, sales tax grew by 15.7%, Federal excise Duty increased by 12.0% and customs duty declined by 6.5%.

It is worth mentioning that FBR tax collection witnessed a significant performance during first eight months of CFY, when revenue collection grew above 17%, however, the outbreak of COVID-19 has affected tax collection during the months of March and April. Tax collection has declined by 13.2% and 13.5% in March and April, respectively. Overall, significant shortfall in tax revenues is expected during the CFY due to slowdown in economic activity.



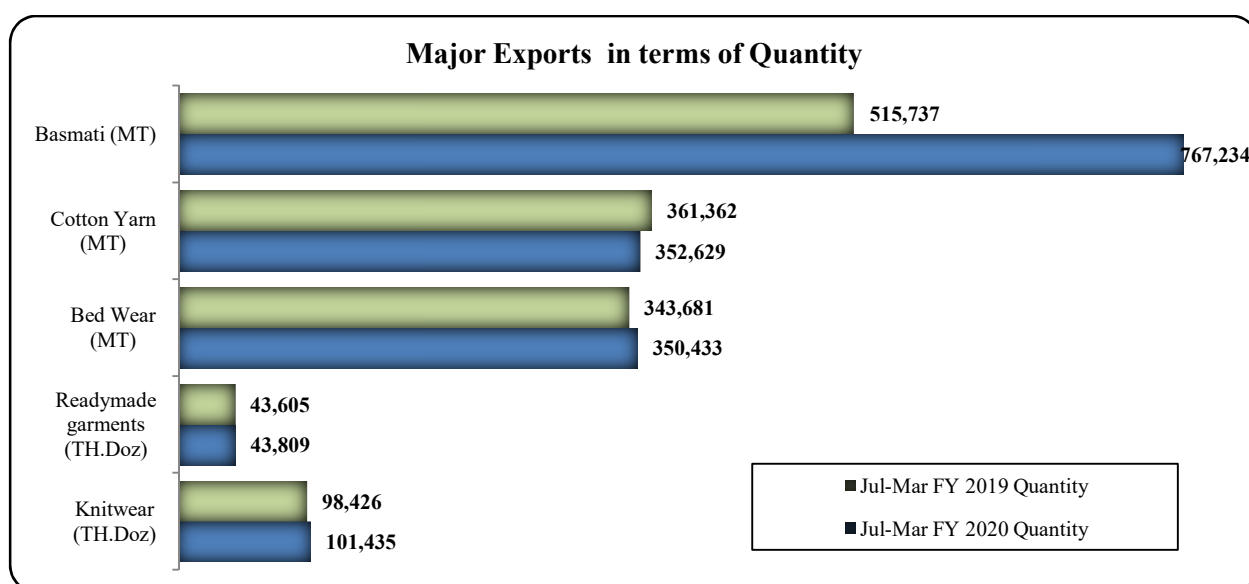
5. Monetary

Due to improved inflation outlook resulting from fall in domestic oil prices, Monetary Policy Committee decided to cut the policy rate by a further 100 basis points to 8 %. A cumulative cut by 525bps in two months will help to achieve growth and employment and to provide relief to the people suffering from pandemic. Broad money (M2) expanded by 9.66 % and reached to Rs 1,718.7 bn during July 2019 to 1st May, 2020 reflecting higher Net Foreign Assets (NFA) and showing government spending to fight against COVID-19.



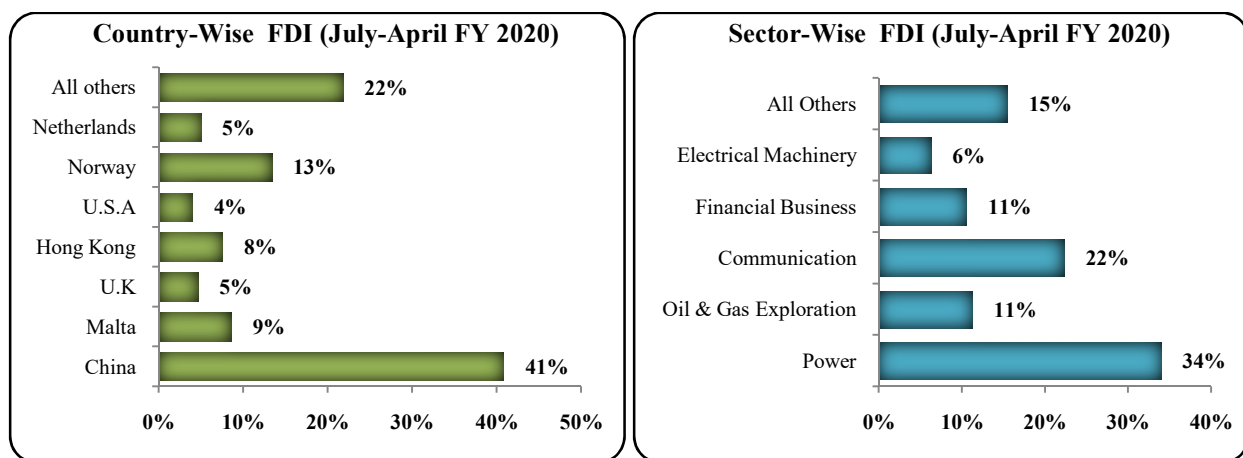
6. External Sector

Pakistan's current account deficit (CAD) reduced by 71% to \$ 3.3 bn (1.5 % of GDP) during Jul-Apr FY2020 against \$ 11.4 bn last year (4.8 % of GDP). A sharp decline in import growth due to suppressed domestic activity and a minor decline in export growth due to global slowdown have been observed. Exports declined by 2.4 % to \$ 19.6 bn (\$ 20.1 bn last year) during the period under review. Imports declined by 16.9 % to \$ 36.1 bn (\$ 43.4 bn last year). Consequently, trade deficit reduced by 29.5 % to \$ 16.4 bn (\$ 23.3 bn last year). Export of services has declined by 7.6% to \$ 4.7 bn (\$5.1 bn last year). The import of Services declined by 18.9% and is \$7.3 bn (\$9.0 bn last year).



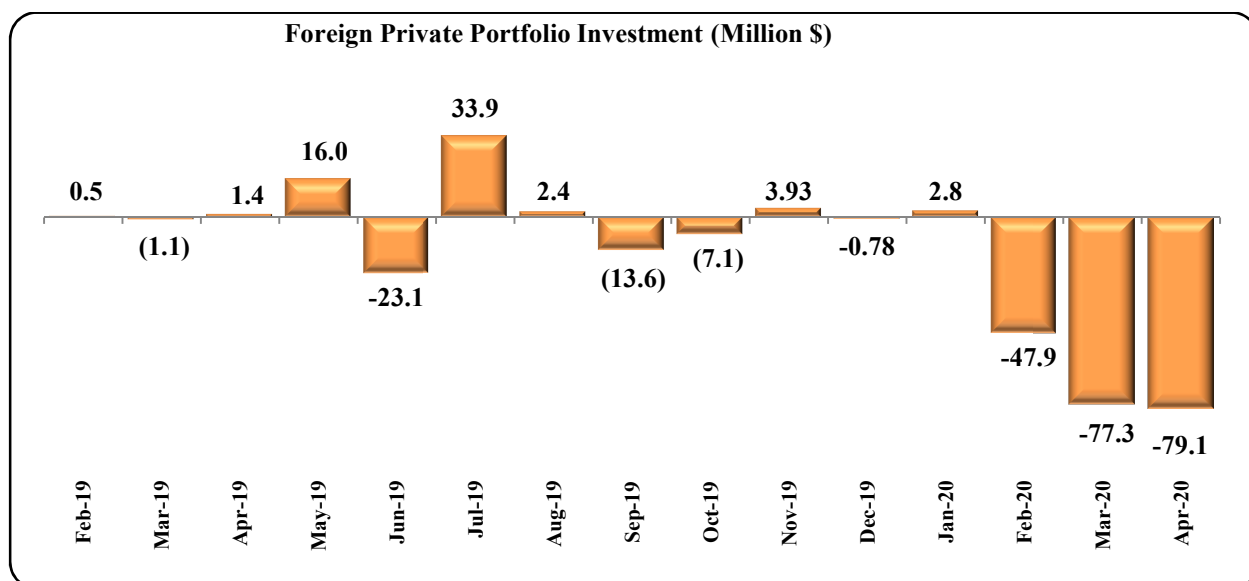
Foreign Direct Investment

FDI increased by 126.8% and reached \$ 2281.4 mn during July-April FY2020 as compared to \$ 1009.0 mn last year. On year on year basis, FDI increased by 32.1% and reached to \$ 133.2 mn in April FY2020 as compared to \$ 100.8 mn in the same month last year. The inflows of FDI reached \$ 2871.5 mn during Jul-April FY2020 compared to \$ 2314.2 mn same period last year, with a growth of 24.1%. The outflows of FDI during July-April FY2020 decreased by 54.9% and stood at \$ 590.1 mn compared to \$ 1308.2 mn in the same period last year.

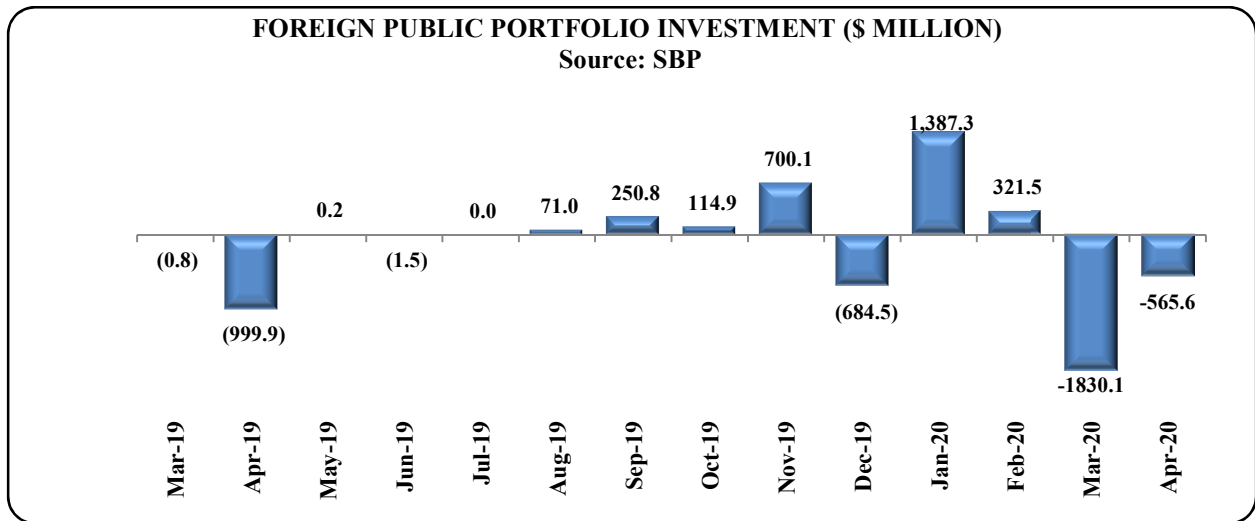


Foreign Portfolio Investment

Due to uncertainty in the economy, capital began flowing out of the country. Foreign Private Portfolio Investment registered a net outflow of US\$ 79.1 million in April. Countries with Major inflows are Singapore (\$0.8 Mn) Netherlands (\$0.5 Mn), South Korea (\$0.2 Mn), and. While outflows destinations were United States (\$46.2 Mn), United Kingdom (\$11.3 Mn) and Luxembourg (\$ 9.2 Mn). Below is the trend over the past fourteen months.

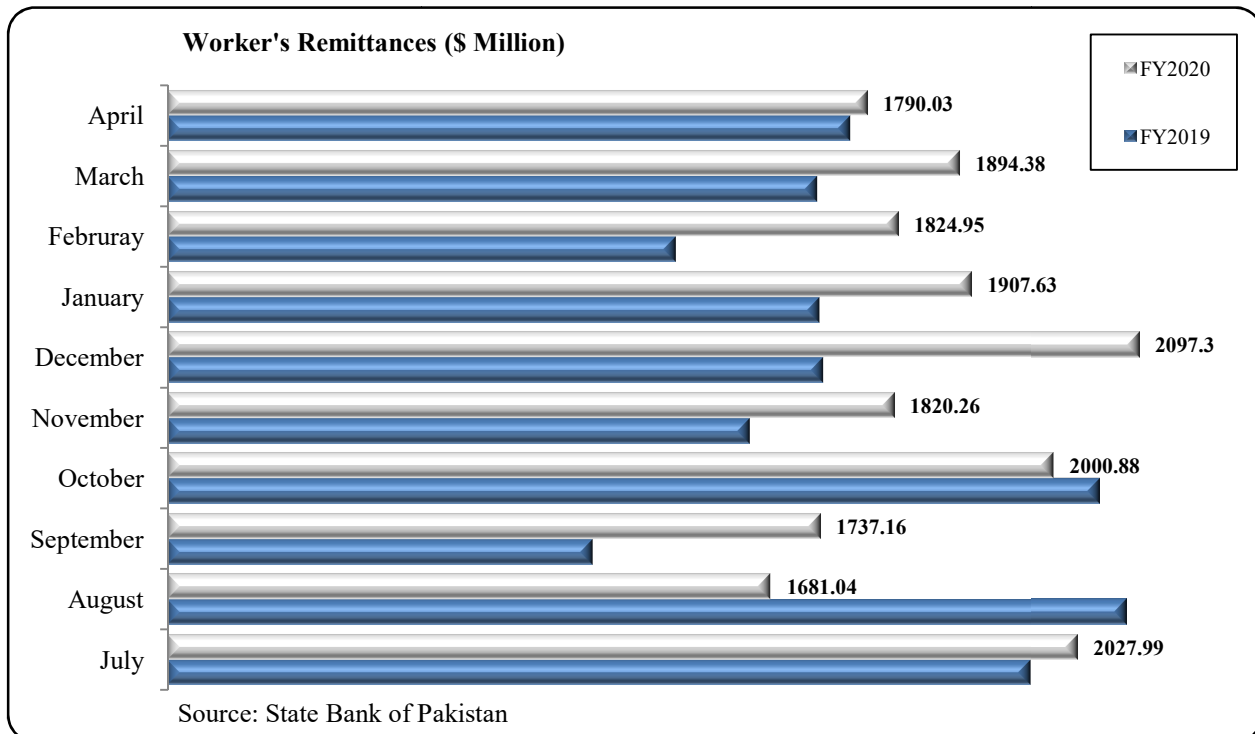


Foreign Public Portfolio Investment registered a net outflow of \$565.6 Mn. The trend of public FPI is depicted below:



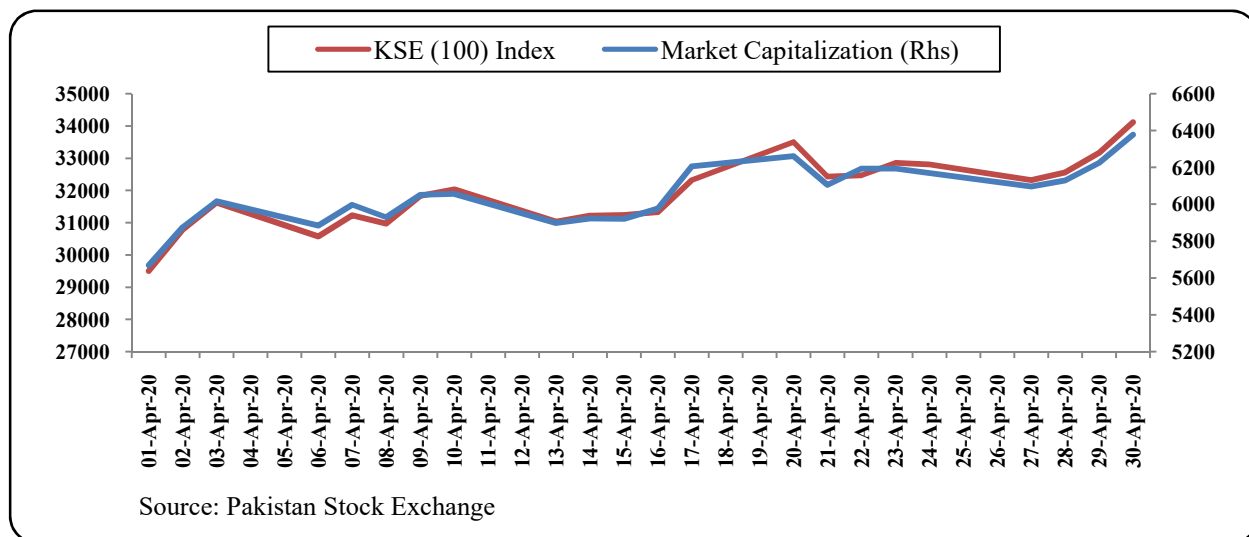
Worker's Remittances

Remittances reached to \$ 18781.62 mn during July-April FY2020, (\$ 17801.01 mn last year), with a growth of 5.5%. On Y-o-Y basis, remittances witnessed a growth of 1.1 % in April 2020, recorded \$1790.0 mn (\$ 17770.2 mn last year). Share of remittances from Saudi Arabia 23.3 % (\$ 4377.0 mn), U.A.E 20.8% (\$ 3905.9 mn), USA 17.5 % (\$ 3282.3 mn), U.K 14.8 % (\$ 2780.8 mn), other GCC countries 9.5% (\$ 1779.8 mn), Malaysia 6.6 % (\$ 1242.3 mn), EU 2.8 % (\$ 515.2 mn) and other countries 4.8 %.



7. Performance of KSE Index

As a result of the government's stimulus package and 525 basis points cut in the SBP's policy rate, stock market regained some of its lost value. On April 30th, 2020, KSE-100 closed at 34111.64, (up by 16.7% in comparison to March 31st value) and market capitalization closed at Rs 6376.71 billion, gaining Rs 755.77 billion since March 31st 2020.



The SECP introduced a number of measures like increasing the duration of index-based market halts etc to facilitate capital market operations in the wake of COVID-19 pandemic. The index is expected to improve in May 2020.

Conclusion

The outbreak of Corona virus has affected entire globe and so has adversely affected Pakistan's economic growth for FY2020. Pakistan's domestic production and exports have suffered due to less supply of intermediate goods, decrease in global demand and commodity prices. The economic slump in China, USA, EU and Middle East has affected Pakistan's exports and remittances inflows. The slowdown has negatively affected tax revenues whereas government spending has overrun due to special stimulus measures. Major decline in oil prices in recent past is, however, a positive sign for Pakistan's economy especially on current account deficit and on inflationary pressures.

Economic Indicators (28.05.2020)

	2018-19	2019-20	% Change
	Jul-Apr	Jul-Apr	
External Sector			
Exports (\$ bn)	20.1	19.7	↓ 2.4
Imports (\$ bn)	43.4	36.1	↓16.9
Trade Deficit (\$ bn)	23.3	16.4	↓ 29.5
Remittances(\$ bn)	17.8	18.8	↑5.5
Current Account Deficit (\$ bn)	11.4	3.3	↓ 70.8
Current Account Deficit (% of GDP)	4.8	1.5	↓
FDI (\$ mn)	145.4	278.7	↑91.7
	(March)	(March)	
	100.8	133.2	↑32.1
	(April)	(April)	
	1006.0	2281.4	↑ 126.8
Portfolio Investment-Net (\$ mn)	-1408.7	-417.2	↑
Total Foreign Investment (\$ mn) (FDI & Portfolio Investment)	-402.7	1864.1	↑ 563
Forex Reserves (\$ bn)	15.124	18.598	
	<i>(SBP: 8.055)</i>	<i>(SBP: 12.129)</i>	
	<i>(Banks: 7.069)</i>	<i>(Banks: 6.469)</i>	
	(On 20 th May 2019)	(On 20 th May 2020)	
Exchange rate (PKR/US\$)	149.65	160.77	
	(On 20 th May 2019)	(On 20 th May 2020)	

Source: SBP

(Rs bn)

	2018-19	2019-20	%
	Jul-Mar	Jul-Mar	Change
Fiscal			
FBR Revenue (provisional)	2980 (Jul-Apr)	3300 (Jul-Apr)	↑ 10.8
Non Tax Revenue	422	1096	↑ 159
Expenditures	3678.3	4455.7	↑ 21.1
Federal PSDP (incl. grants to provinces)	331	417	↑ 26.1
Fiscal Deficit	1922	1686	↓ 12.3
Monetary Sector			
Agriculture Credit (provisional)	804.9	912.2	↑ 13.3
Government borrowing from SBP	4967.8 (1 st Jul–10 th May 2019)	-552.2 (1 st Jul–8 th May 2020)	
Credit to private sector (Flows)	563.1 (1 st Jul–10 th May 2019)	298.1 (1 st Jul–8 th May 2020)	
Total Credit	533.2 (Jul-Apr)	187.3 (Jul-Apr)	
Working Capital	345.6	28.8	
Fixed Investment	85.2	-5.2	
Trade Financing	102.4	163.8	
Policy Rate (%)	12.25 (w.e.f 21-May-19)	8.00 (w.e.f 15-May-2020)	

Source: SBP & FBR, Budget Wing

	2018-19	2019-20	% Change
Inflation			
CPI (National) (%)	8.3 (April)	8.5 (April)	
	6.5 (Jul-Apr)	11.2 (Jul-Apr)	
Real Sector			
Large Scale Manufacturing (LSM) (%)	-1.50 (February)	-0.21 (February)	
	-7.35 (March)	-22.95 (March)	
	-2.34 (Jul-Mar)	-5.40 (Jul-Mar)	
Miscellaneous			
PSX Index*	33996 (On 1 st Jul 2019)	33933 (On 20 th May 2020)	↓ 0.19
Market Capitalization (Rs trn)	6.89 (On 1 st Jul 2019)	6.47 On 20 th May 2020)	↓ 6.10
Market Capitalization (\$ bn)	43.58 (On 1 st Jul 2019)	40.24 On 20 th May 2020)	↓ 7.66
Incorporation of Companies	12344 (Jul-Apr)	14636 (Jul-Apr)	↑ 18.57

*: Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP