MONTHLY ECONOMIC UPDATE

JULY 2020

ECONOMIC ADVISER WING | FINANCE DIVISION | ISLAMABAD

CONTENTS

1. Economy at the Glance

World is in an unprecedented time of change. The COVID-19 pandemic has provoked a threat to life sciences that were previously unthinkable. The lockdown measures opted by most governments have succeeded in slowing the spread of the virus and in reducing the death toll but they have also frozen business activity in many sectors, widened inequality, disrupted education and undermined confidence in the future.

Some International financial institutions (like IMF & World Bank) are still predicting slowdown in 2020 amid economic activities have resumed in most of the countries since June 2020.

Pakistan's economy was progressively moving along the adjustment path and stabilization process. Business confidence was recovering and prices had started settling down, twin deficits were under control and economy was gradually moving towards sustainable growth when the shock of the COVID-19 outbreak hit the economy. Overall, COVID 19 has undermined the growth prospects.

However, with wide ranging policies implemented by the government and State Bank of Pakistan, the detrimental impact of COVID has been lessened. These policies were put in place to protect people and businesses from the consequences of the sudden stop in activity. To avoid significant impact on manufacturing and service sector, the government followed smart lockdown policy to avoid supply chain disruptions.

Beside COVID-19, the desert locust situation has worsened and is likely to be at its peak in between 15th July to 15th September, and consequently, crops may suffer. However, the government is taking proactive measures to control the locust and to provide relief for the locust affected area.

Main priority of the government of Pakistan is to protect the vulnerable segments through social safety nets (Ehsaas Programme) and implement immediate measures that support early and quick economic recovery. In this regard, the budget strategy for FY2021 is focused on maintaining a balance between Corona related expenditure and fiscal deficit, keeping primary balance at the sustainable level, and development expenditure at sufficient level to support the economic activity and revenue mobilization.

Despite being confronted with multifaceted challenges, Pakistan's economy has witnessed significant improvement in some of its sectors during FY2020 like external account has been stabilized with current account deficit reduced by 78 percent. Workers' remittances surged to a historic high level of $23.1 billion during FY2020 compared to $21.7 billion during FY2019, witnessing a growth of 6.5 percent and FDI increased by 88 percent and reached to $ 2.6 billion during FY2020 as compared to $ 1.4 billion in FY2019. Recently an Annual Security Survey 2020 conducted by OICCI, in which foreign investors has shown overall high level of satisfaction on the fast improving security environment in the country. This stance of foreign investors will surely help the economy by boosting up FDI. In addition, KSE 100 index is also going up, which reflects resilience of the institutions and the trust of investors on the institutions.

2. Real Sector

2.1 Agriculture

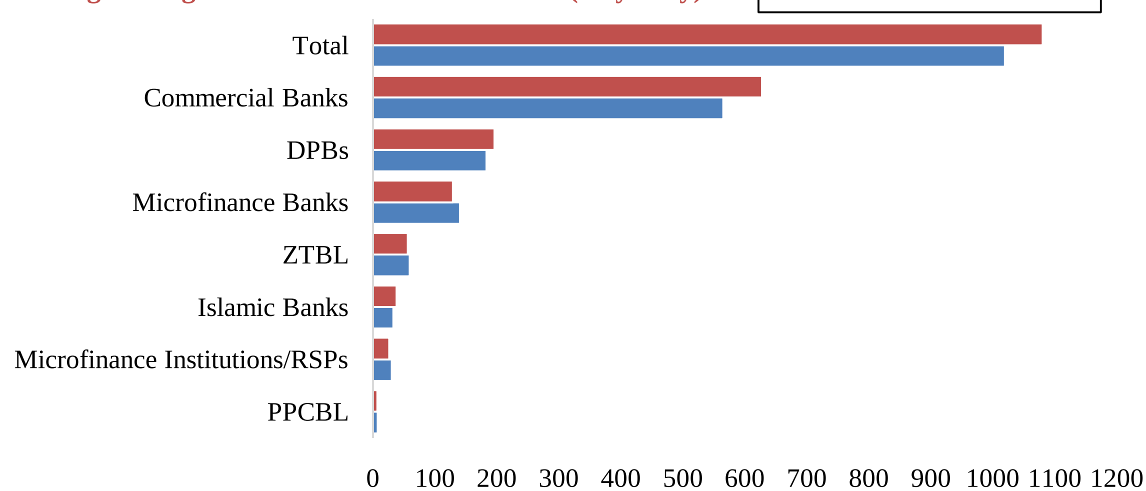
For CFY 2020-21 agriculture sector growth is targeted at 2.8 percent on the basis of better growth in crops, livestock, fisheries and forestry. Meeting of the Federal Committee on Agriculture (FCA) held on 8th July, 2020 reviewed the inputs availability (seed, fertilizers, water and areas etc) for the Kharif Crop 2020. It was informed that weather pattern, water availability, seed, fertilizers and availability of machinery will be better as compared to last year. FCA also expressed satisfaction on expected better crops as compared to the last year.

Agricultural Credit Disbursement

Banks	FY2020 (July-May)	FY2019 (July-May)	% Change over the Period
5 Major Commercial Banks	627.1	564.9	11.0
ZTBL	56.2	59.3	-5.2
PPCBL	7.2	7.7	-6.7
DPBs (14)	195.8	183.2	6.9
Islamic Banks (5)	38.4	33.1	16.3
MFBs (11)	128.8	140.1	-8.1
MFIs/RSPs	26.5	30.5	-13.1
Total	1080.0	1018.8	6.0

Source: State Bank of Pakistan

Fig-2.1: Agriculture Credit Disbursement-(July-May)



For uplift of agriculture sector, the government has allocated an amount of Rs 12,000 million in its Public Sector Development Programme (PSDP) FY2021. Under PSDP the government has allocated Rs 1,250 million for 12 new schemes, Rs 10,750 million for completion of 24 on-going schemes. As per PSDP, an amount of Rs 5,250 million has been allocated for national programme for improvement of watercourses phase-II and Rs 1,000 million for national programme for enhancing the command area in barani areas of the country. In order to reduce the local reliance on imported edible oil, Rs 350 million has been allocated for national oilseed enhancement program and Rs 500 million for promotion of olive cultivation on commercial scale. To promote aquaculture and fish farming an amount of Rs 200 million has been allocated for promotion of trout farming Khyber Pakhtunkhwa, AJK, GB and in Northern Areas of the country. An amount of Rs 150 million has been allocated for cage culture cluster development and Rs 130 million for calf feedlot fattening in AJK and across the country.

In new schemes, an amount of Rs 250 million has been allocated for cotton productivity enhancement through eco-friendly pink bollworm management. An amount of Rs 250 million has been set aside for up-gradation of central cotton research institute Skrand and for enhancement of cotton productivity through better management and capacity building. The government has also earmarked Rs 100 million for risk based control of foot and mouth disease across the country and Rs 150 million for Sino-Pak agriculture breeding innovation project for rapid yield enhancement.

The timely measures taken by the government along with allocation of Rs 10 billion for locust control will mitigate the risk of locust attack.

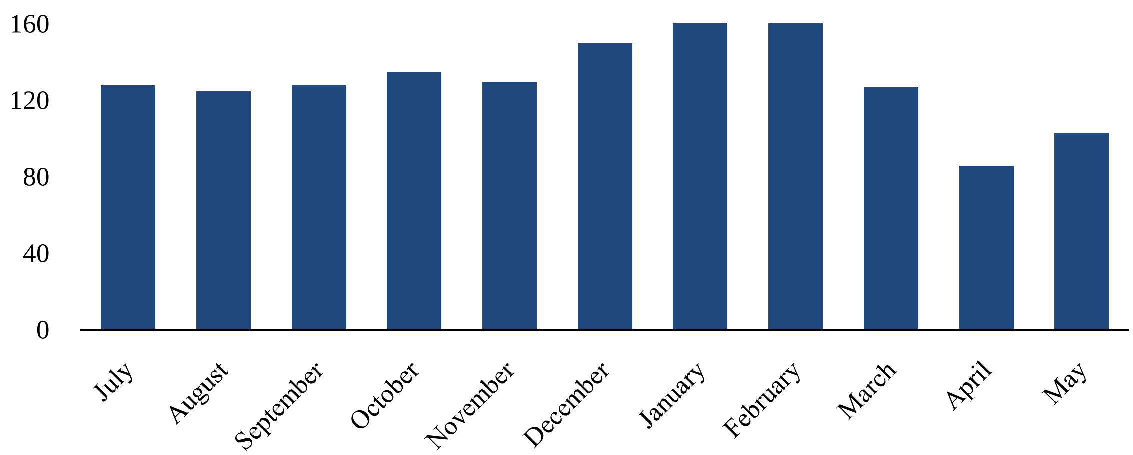
During FY2020 (July-May), the banks have disbursed agriculture credit of Rs 1080 billion which is 80 percent of the overall annual target and 6 percent higher than the disbursement of Rs 1019 billion made during the same period of last year. (Fig-2.1)

2.2 Manufacturing

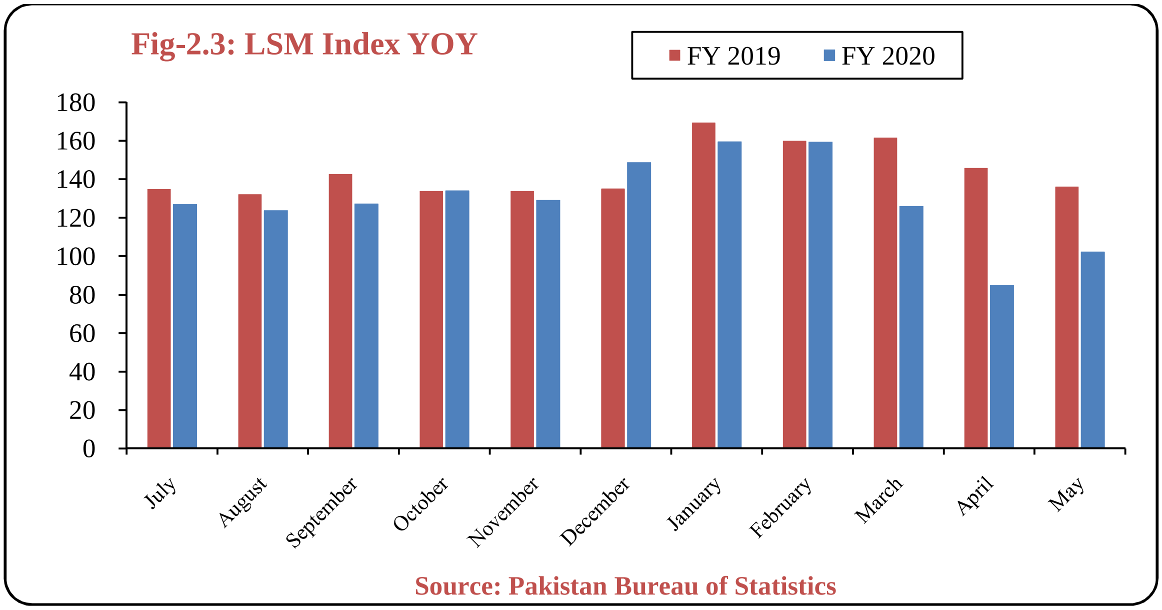
Resumption in business activities started showing signs of recovery and LSM grew by 20.5% on MOM basis in May FY 2020 (-32.5% April FY 2020). YOY LSM decreased by 24.8% in May FY 2020 (-1.01% May FY 2019). LSM during July-May FY 2020 plunged to -10.3% (-2.7% last year).

Figure: 2.1 presents the MOM movement in LSM Index while YOY Index has been presented in Figure: 2.2.

Fig-2.2: LSM Index MOM



Source: Pakistan Bureau of Statistics



During July-June FY 2020, total cement dispatches in the country edged up by 1.98% to 47.81Mt (46.88 Mt last year). Domestic dispatches decreased by 0.94% to 39.96 Mt in July-June FY 2020 (40.34 Mt last year). Exports were up by 19.8% to 7.84 Mt (6.54 Mt last year).

Textile sector, being labor intensive, is highly exposed to COVID-19 thus severely affected by spread of pandemic. During July-May FY 2020 growth of Textile, Food Beverages & Tobacco and Automobile recorded at -10.6%, -3.7% and -44.8% respectively. Nevertheless, Fertilizers, Paper & Board and Rubber Products grew by 5.6%, 2.1% and 2.8% respectively.

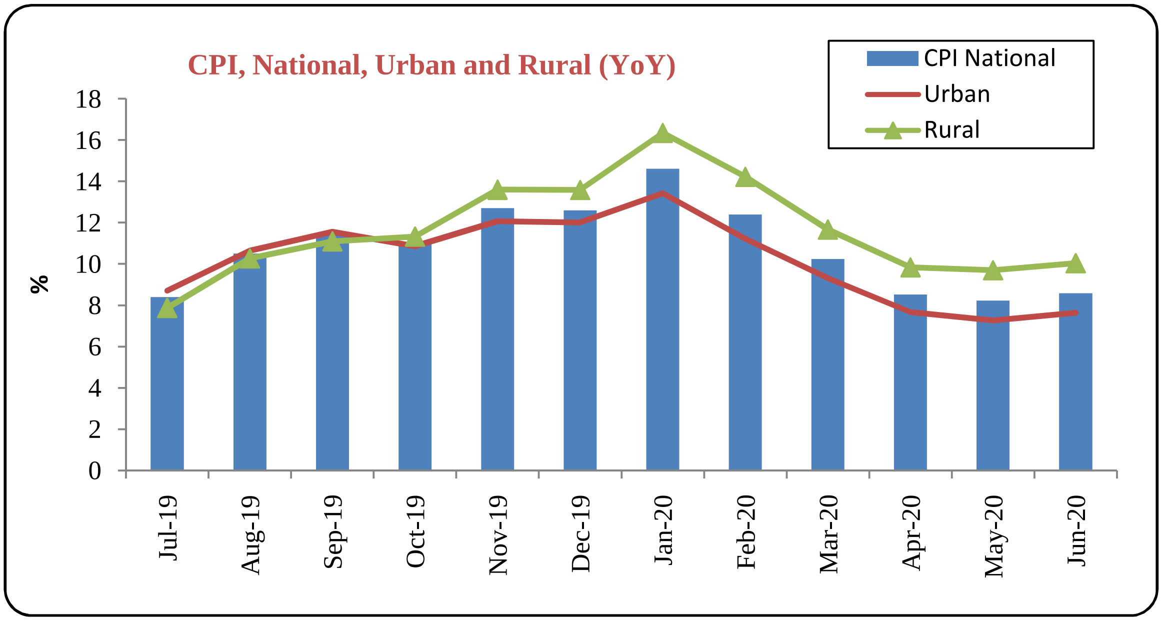
Recent Economic Measures for Industry

Government has announced a special package for construction sector. Package includes amnesty scheme, tax exemptions and Rs 30 billion subsidy for Naya Pakistan. Banks have been asked to set aside 5% of their portfolios for house financing which comes to about Rs 330 billion**.** ECC has approved Rs 50.7 billion package to provide indirect cash flow support to SMEs. SBP has curtailed the mark-up rate on Temporary Economic Refinance Facility (TERF) to 5% from the existing 7% and on Long Term Financing Facility (LTFF) for non-textile sector to 5% from 6%. Borrowing has been further eased by SBP by bringing Interest rate to 7%. FED on cement has been slashed from Rs 2/kg to Rs 1.75/kg w.e.f. 1st July, 2020.

3. Inflation

CPI inflation rate is recorded at 8.6 percent year-on-year in June 2020. The prices of eggs, tomatoes, wheat, flour, fresh vegetables and chicken have increased slightly in June. Petroleum prices that had fallen sharply during last couple of months again increased during the last week of June, which will have impact in next month's CPI. To control inflation, government has adopted different stabilization measures which became fruitful as the pace of inflation has decelerated. For

FY2020, average CPI is recorded at 10.7 percent. Projecting lower inflationary pressure, State Bank of Pakistan sharply cut the policy rate to 7 percent.



Sensitive price Indicator (SPI) monitors the price movement of 51 essential items on weekly basis. The SPI for the week ended on 23rd July 2020 increased by 0.21%. During the week, 11 items recorded decline in their prices, 17 items increased slightly while 23 items remained stable.

For price stability, the government is pursuing combination of policy measures such as curtailing current expenditures, improving agricultural productivity, fostering investment for stimulating output and ensuring adequate availability of consumer goods. The government also remained vigilant on the market situation for smooth supply of commodities. For relief to the common man, the government provided major subsidy through the Utility Stores Corporation. Thus, essential commodities such as wheat flour, sugar, pulses and cooking oil/ ghee in Utility Stores Corporation were sold to consumers at subsidized prices. All these measures helped in easing out inflationary pressure in FY 2020 and expected to continue in FY 2021.

Budget FY 2021 New Initiatives

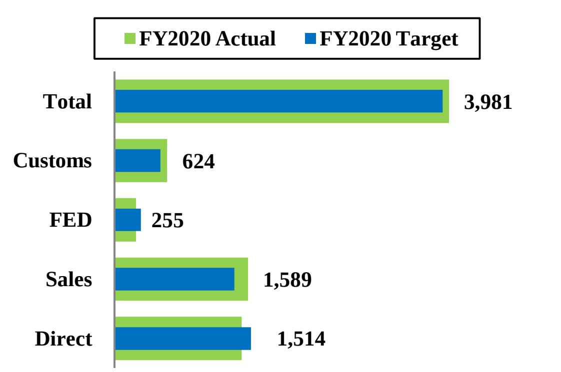
- Reduction in Custom duty and exemption from additional custom duty on import of food related raw material.
- Exemption from 2% ACD on import of edible oils and oil seeds under Prime Minister's COVID 19 relief package has been extended.
- Exemption of Customs duties on inputs of ready to use Supplementary Foods.
- Exemption of duties & taxes on import of Dietetic Foods for Children.

- A subsidy of Rs 37 billion is allocated for the farmers for Fertilizer to support supply of major and minor crops.
- Allocation for Ehsaas Program has been increased from Rs 187 billion to Rs 208 billion, which includes various social safety initiatives.

4. Fiscal

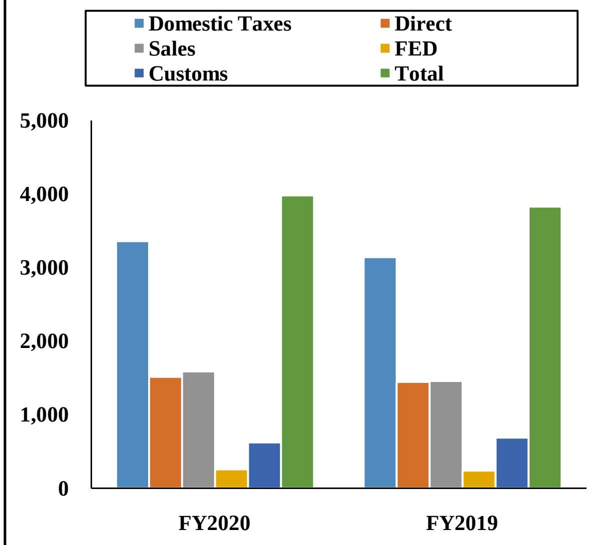
Despite challenges of COVID-19, FBR has surpassed the revised target of Rs 3908 billion by Rs 73.4 billion during FY2020. The provisional tax collection grew by 4.0 percent to reach Rs 3981.4 billion in FY2020 against Rs 3828.5 billion in FY2019. Within total, direct taxes grew by 4.7 percent, sales tax 8.9 percent and FED increased by 7.0 percent. While customs duty declined by 9.0 percent due to import compression to control the current account deficit.

Revised Target vs Actual



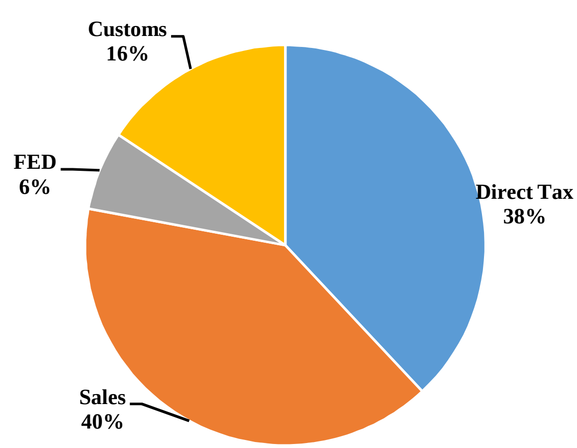
Source: FBR & Budget in Brief 2020-21

FBR Tax Collection (Rs billion)



Source: FBR

Share of Direct and Indirect Taxes in Total FBR Tax Collection (FY2020)



For FY2021, FBR target is set at Rs 4963 billion. It is worth to mention that the government has not introduced new taxes in budget 2021. However, to increase the FBR tax collection the focus would be on improvement of tax system, broadening tax base and strengthening of administrative controls. In addition, other measures like simplifying tax rules and ensuring tax compliance would also be supportive in providing further impetus to FBR tax collection.

The advent of COVIID-19 pandemic has put significant pressures on the fiscal accounts due to rising needs of additional expenditures for health and cash transfers. In addition, the slowdown in economic activity has posed significant challenges to further improve the fiscal accounts.

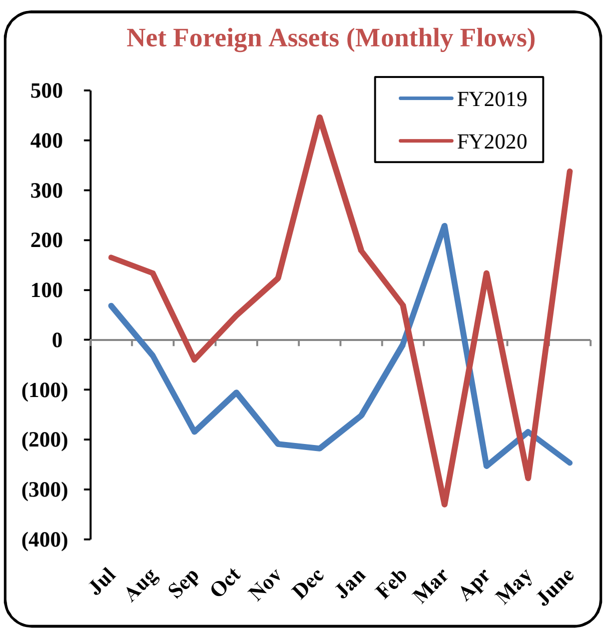
For FY2021, the budget strategy of the government is focused on striking a balance between Corona related expenditure and fiscal deficit and keeping primary balance at the sustainable level. At the same time, protection of social spending, successful continuation of IMF program, keeping development expenditure at sufficient level to support the economic activity and revenue mobilization is at the forefront of government's economic agenda.

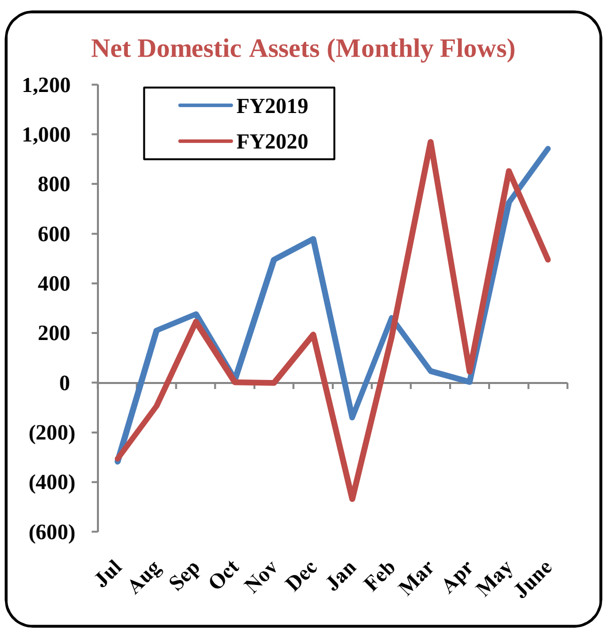
5. Monetary

During FY2020, Money supply (M2) increased by Rs 3,106.7 billion as compared to Rs 1,801.3 billion (growth of 11.3 percent) in last year. Net Foreign Assets (NFA) of the banking sector increased by Rs 992.2 billion against the contraction of Rs 1,298.7 billion in last year. Net Domestic Assets (NDA) increased by Rs 2,114.6 billion (growth of 10.95 percent) as compared to the expansion of Rs 3,100.0 billion (growth of 19.1 percent) last year.

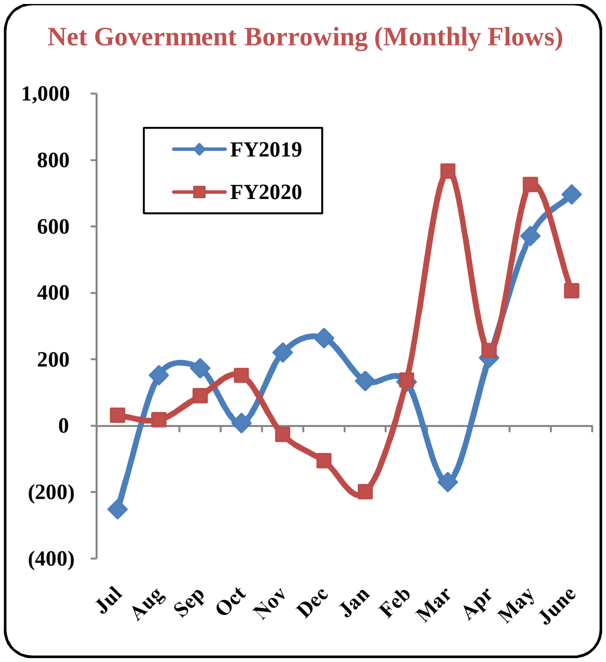
Net Government sector borrowing increased to Rs 2,226.2 billion against Rs 2,137.0 billion in last year. Borrowing for budgetary support stood at Rs 2,167.5 billion as compared Rs 2,203.5 billion during same period last year.

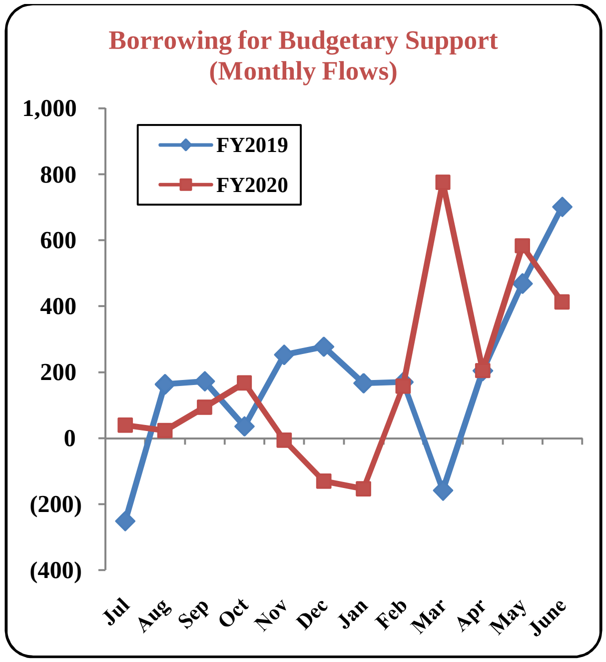
SBP has cut the policy rate by 100 bps to 7 percent in last Monetary Policy decision w.e.f. 25th June, 2020 due to improved inflation outlook and to provide incentives for economic growth.





Data Source: State Bank of Pakistan





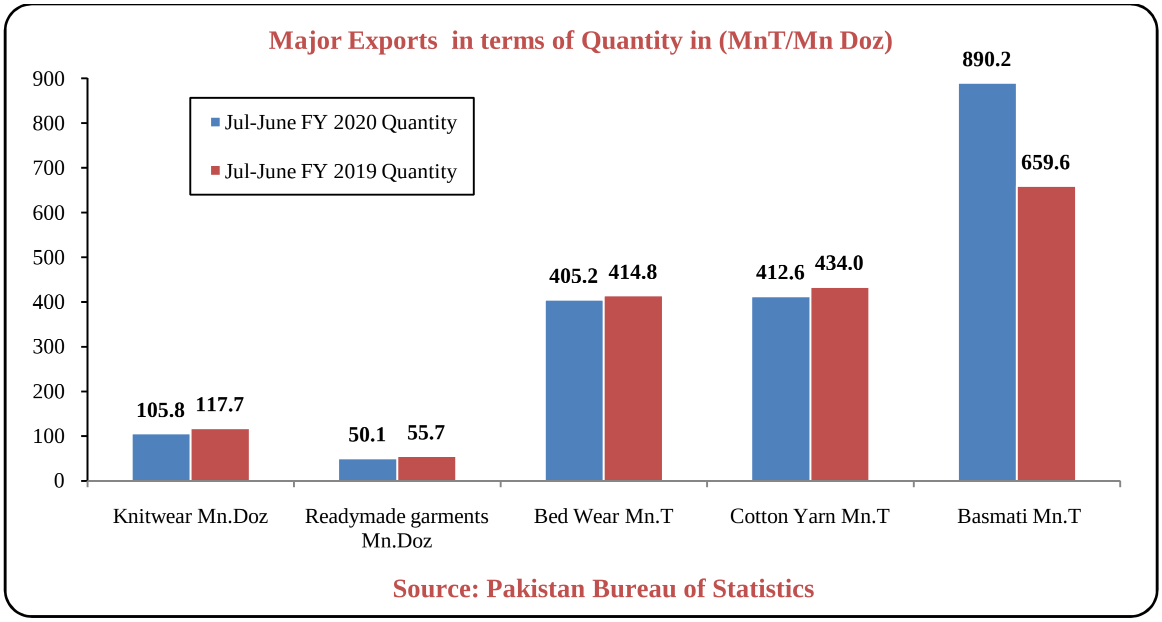
Data Source: State Bank of Pakistan

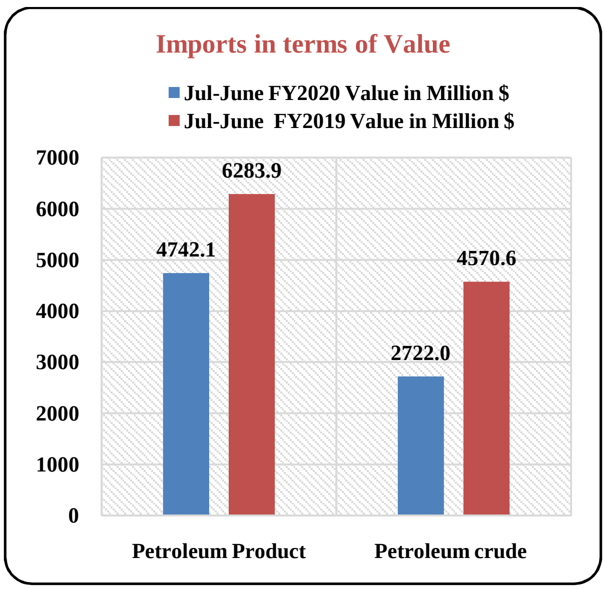
6. External Sector

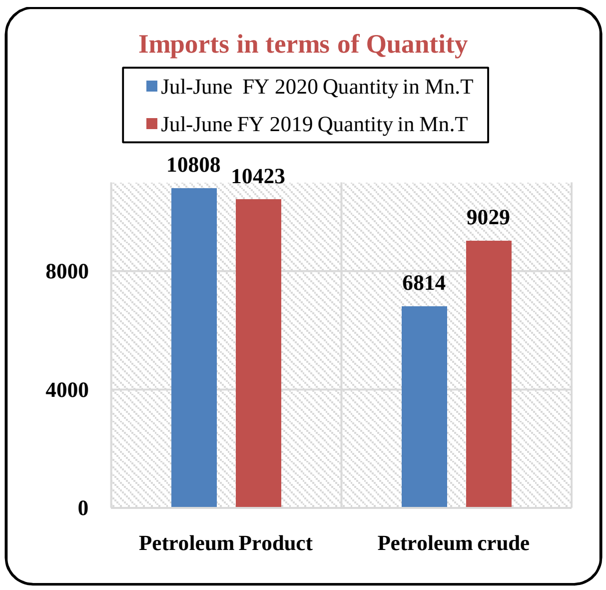
Despite challenging global environment, the external account position remains stable. The current account deficit has continued to narrow, even though both exports and imports have fallen sharply since the coronavirus outbreak. During FY2020, current account deficit is reduced by 77.9% to $ 2.9 billion (1.1 % of GDP) against $ 13.4 billion last year (4.8 % of GDP).

Exports declined by 7.2 % to $ 22.5 billion ($ 24.3 billion last year) during FY2020. The exports values were suppressed due to weak terms of trade, despite significantly higher quantum exports. Imports declined by 18.2 % to $ 42.4 billion ($ 51.9 billion last year). Consequently, trade deficit reduced by 27.9 % to $ 19.9 billion ($ 27.6 billion last year). Export of services has declined by 8.6% to $ 5.4 billion ($5.9 billion last year). The import of Services declined by 24.3% and is $ 8.3 billion ($ 10.9 billion last year).

As per PBS data, Textile sector exports decreased by 6.0 % in value over the last year. Basmati rice registered a growth of 35 % (quantity) and 24.6 % (value). Other varieties of rice decreased by 5.3% (quantity) and 3.5% (value). The Petroleum group import is recorded at $ 10.4 billion (share of 23.4 % in total imports) decreased by 27.8 % (value), of which import of petroleum crude decreased by 40.4 % (value) and 24.5% (quantity). Import of petroleum product increased by 3.7 %(quantity) and declined by 24.5% (value).





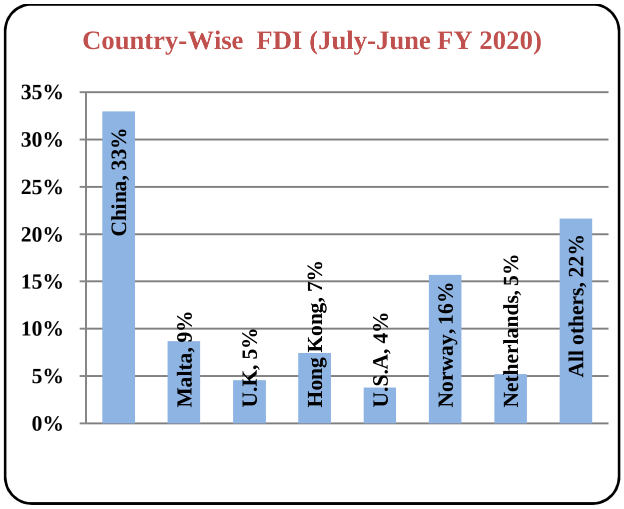


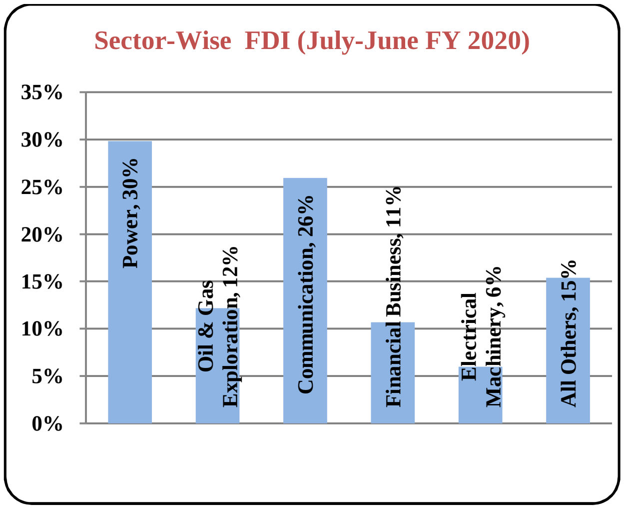
Source: Pakistan Bureau of Statistics

6.1 Foreign Direct Investment

FDI increased by 88% and reached to $ 2.6 billion during FY20 as compared to $ 1.4 billion last year. On year on year basis FDI increased by 70.5% and reached to $ 174.8 million in June FY20 as compared to $ 102 million in the same month last year. The inflows of FDI reached to 3285.8 million during FY2020 compared to 2785.2 million last year, with a growth of 17.1%. The outflows of FDI during FY2020 decreased by 49.1% and reached to 724.6 million compared to 1422.8 million same period last year.

Pakistan's performance is better on FDI; although there are estimates that COVID-19 outbreak could cause global FDI to shrink by 40% in 2020, from $ 1.54 trillion in 2019 to less than $ 1 trillion (UNCTAD's World investment Report 2020).



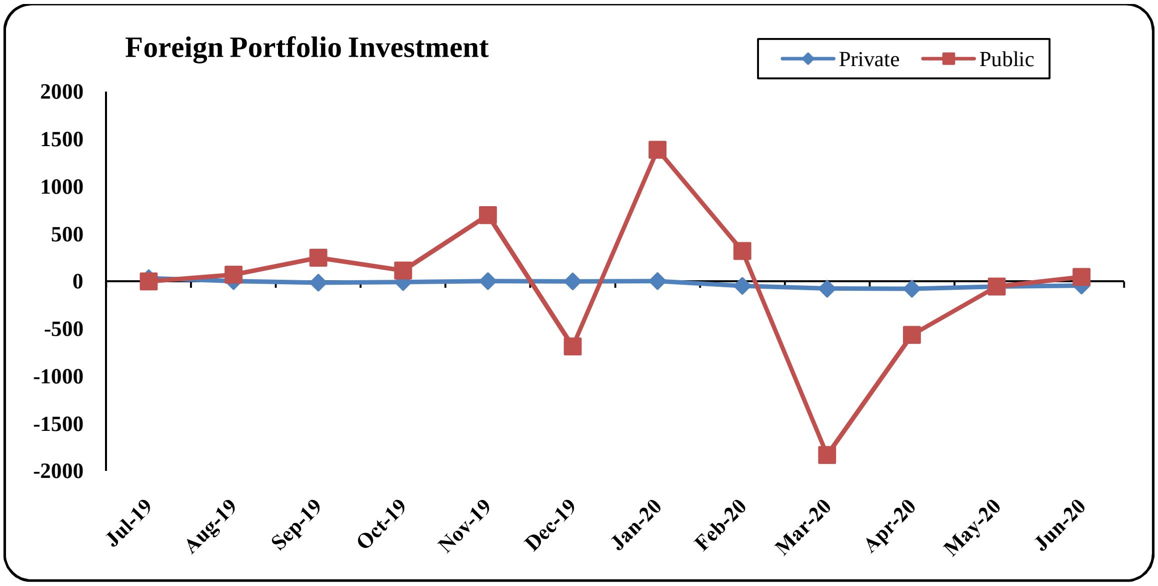


Source: State Bank of Pakistan

6.2 Foreign Portfolio Investment

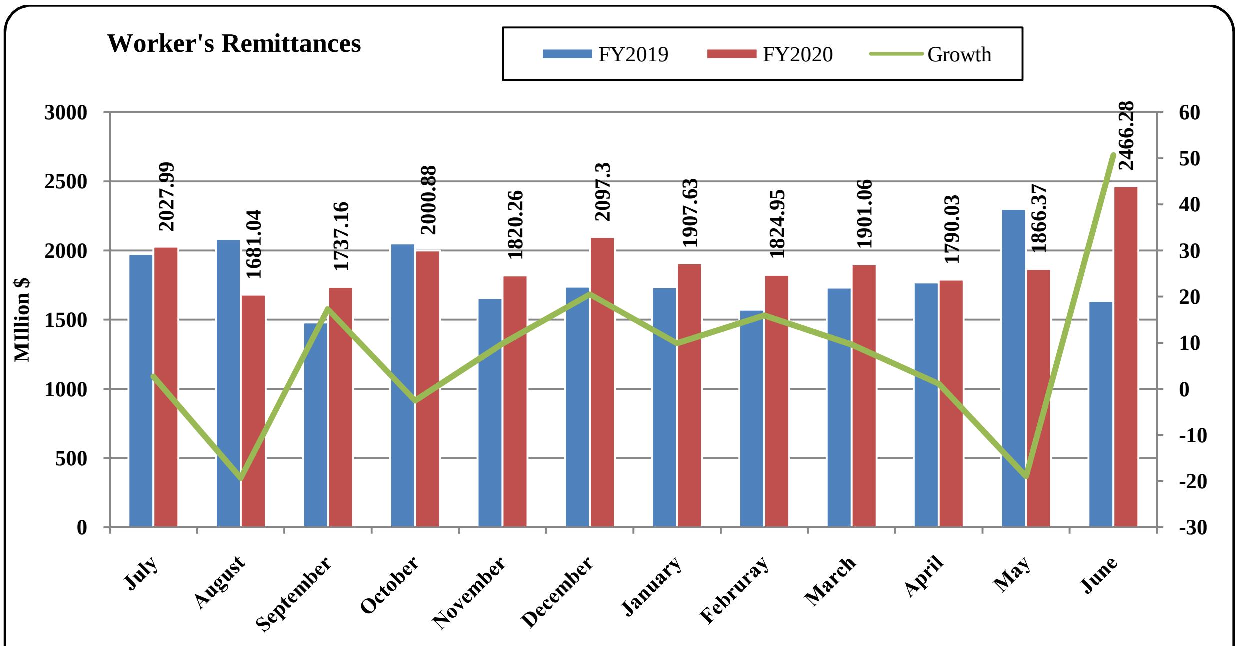
Foreign Private Portfolio Investment has been registering a net outflow since February, 2020. In June, the outflow was US$ 43.2 million. Countries with Major inflows are Singapore ($3.3 million) Canada ($1.9 million), Sweden ($1.1 million). While outflows destinations were United States ($25.0 million), United Kingdom ($9.5 million) and Luxembourg ($ 7.3 million).

Foreign Public Portfolio Investment recorded a net inflow for the first time in four months. In June, it witnessed a net inflow of $48.0 million. The trend of FPI is depicted below:



6.3 Worker's Remittances

During Jul-June FY2020, remittances reached $ 23120.7 million ($ 21739.4 million last year), with a growth of 6.4%. On Y-o-Y basis, remittances increased by 50.7 % in June 2020, recorded $2466.3 million ($ 1636.4 million last year). On M-o-M basis, remittances increased by 32.1 % in June 2020, recorded $2466.3 million ($ 1866.4 million in May 2020). Share of remittances from Saudi Arabia 23.5 % ($ 5432.6 million), U.A.E 20% ($ 4662.5 million), USA 18 % ($ 4163.4 million), U.K 15 % ($ 3465.6 million), other GCC countries 9.4 % ($ 2162.1 million), Malaysia 6.2 % ($ 1426.3 million), EU 3 % ($ 686.2 million) and other countries 4.9 %.



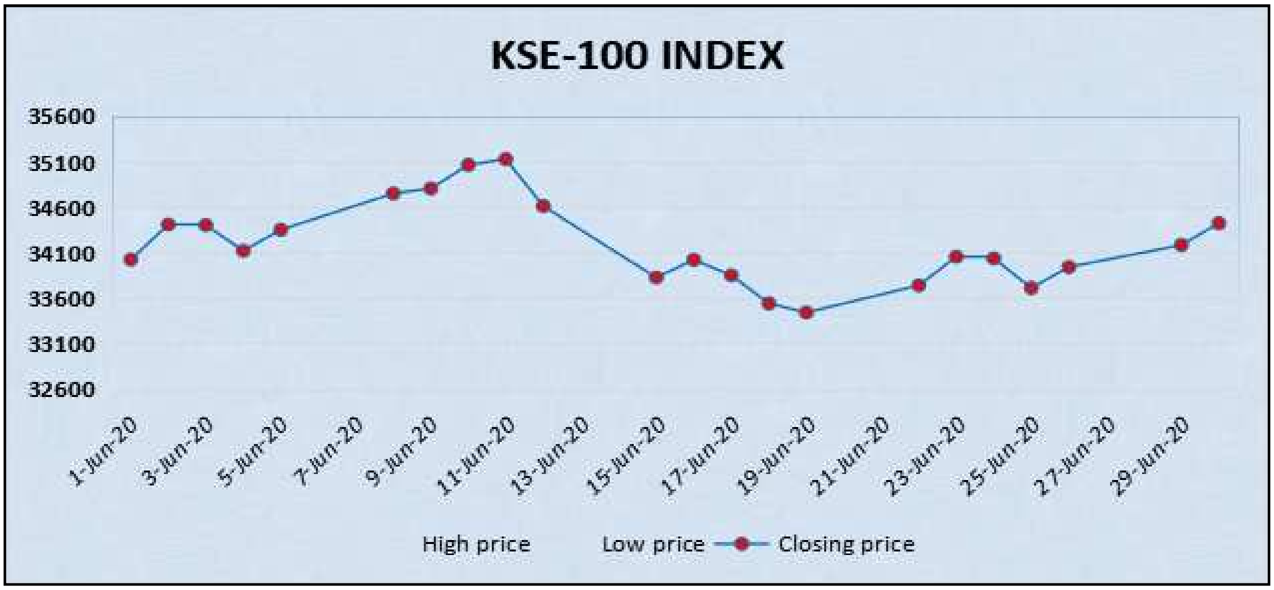
Source: State Bank of Pakistan

6.4 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves increased to $ 17.97 billion by the end of June 2020, up by $ 3.5 billion over end-June 2019. The breakup of reserves accumulation in June 2020 shows that the SBP's reserves stood at $ 11.2 billion ($7.3 billion last year) and $ 6.7 billion ($7.2 billion last year) in commercial bank's reserves. The reserves provide the import cover of around 3 and half months

7. Performance of KSE Index

The benchmark KSE-100 index, exhibited a modest growth of 1.44% in June, 2020. The index closed at 34,421.92 points on 30th June 2020 and gained 490.69 in the month under discussion. Market capitalization opened at Rs 6,485 billion and closed at Rs 6,529, gaining Rs 44 billion in June 2020.



(Source: Pakistan Stock Exchange)

Rise in international oil prices, further opening up of businesses, and a cut of SBP's policy rate to 7 % contributed to the overall gain in stock market.

8. Conclusion

Preventive measures taken domestically and globally to stem the spread of the coronavirus pandemic are resulting into an immense negative impact on economic activity worldwide. Economies of the world and its effects are sturdily being felt; Pakistan is in no exception to feel the heat. Pakistan's domestic production and exports have declined mainly due to depressed global demand and commodity prices. The slowdown left adverse impact on tax and non-tax revenues; whereas government spending is rising. However, the Government is mobilizing all of its available resources to provide maximum relief to the public. Among federal government's relief measures, important and heavy weight is Ehsaas Emergency Relief Programme, under which, Rs 160.5 billion to 13.3 million beneficiaries till 27-07-2020 has been released to those suffering from lock down. Moreover, State Bank of Pakistan (SBP) has disbursed Rs 6.4 billion for hospitals and Rs 10.4 billion for investment purposes and a sum of Rs 119 billion for wages till July 3, 2020. These measures, coupled with persistent decline in new cases of Corona in last four week are expected to further support economic activity, new long-term investment and employment generation.

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Economic Indicators (24.07.2020)

	2018-19 Jul-June	2019-20 Jul-June	% Change
External Sector			
Exports ($ Billion)	24.3	22.5	↓ 7.2
Imports ($ Billion)	51.9	42.4	↓ 18.2
Trade Deficit ($ Billion)	27.6	19.9	↓ 27.9
Remittances ($ Billion)	21.7	23.1	↑ 6.4
Current Account Deficit ($ Billion)	13.4	3.0	↓ 77.9
Current Account Deficit (% of GDP)	4.8	1.1	↓
FDI ($ Million)	254.0 (May)	120.0 (May)	↓ 52.8
	102.5 (June)	174.8 (June)	↑ 70.5
	1362.4	2561.2	↑ 88.0
Portfolio Investment-Private ($ Million)	16.0 (May)	-55.8 (May)	↓
	-23.1 (June)	-43.2 (June)	↓ 87.0
	-415.2	-281.7	↑32.2
Portfolio Investment-Public ($ Million)	-1002.0	-241.3	↑75.9
Total Foreign Investment ($ Million) (FDI &Portfolio Investment)	-54.8	2038.2	↑3819.6
	2019-20	2020-21	
Forex Reserves ($ Billion)	14.870 (SBP: 7.620) (Banks: 7.250) (On 22nd Jul 2019)	18.982 (SBP: 12.037) (Banks: 6.945) (On 22nd Jul 2020)	
Exchange rate (PKR/US$)	160.53 (On 22nd Jul 2019)	167.64 (On 22nd Jul 2020)	

Source: State Bank of Pakistan (SBP)

(Rs Billion)

	2018-19 July-June	2019-20 July-June	% Change
Fiscal			
FBR Revenue (provisional)(July-June)	3828.5	3981.4	↑ 4.0
Federal PSDP (incl. grants to provinces)	406	519	↑ 27.8
PSDP Authorization (30th June)	677	645	↓ 4.7
Monetary Sector			
Agriculture Credit (provisional)	1018.8	1080.0	↑ 6.0
Government borrowing from SBP	285.7 (12th July 2019-20)	82.7 (10th July 2020-21)	
Credit to private sector (Flows)	-119.2 (12th July 2019-20)	-84.3 (10th July 2020-21)	
Total Credit	578.8	97.3	
Working Capital	379.8	(45.6)	
Fixed Investment	91.9	19.3	
Trade Financing	107.1	123.5	
Policy Rate (%)	13.25 (w.e.f 17-July-2019)	7.00 (w.e.f 25-June-2020)	

Source: SBP & FBR, Budget Wing

	2018-19	2019-20	% Change
Inflation			
CPI (National) (%)	8.0 (June)	8.6 (June)	
	6.8 (July-June)	10.7 (July-June)	
Real Sector			
Large Scale Manufacturing (LSM) (%)	-6.88 (April)	-41.69 (April)	
	-1.01 (May)	-24.80 (May)	
	-2.67 (July-May)	-10.31 (July-May)	
Miscellaneous			
PSX Index*	34889 (On 1st July 2020)	37805 (On 22nd Jul 2020)	↑ 8.36
Market Capitalization(Rs Trillon)	6.61 (On 1st July 2020)	7.12 (On 22nd Jul 2020)	↑ 7.72
Market Capitalization ($ Billion)	39.33 (On 1st July 2020)	42.48 (On 22nd Jul 2020)	↑ 8.00
Incorporation of Companies	14493 (July-June)	16930 (July-June)	↑ 16.81

*: Formerly Karachi Stock Exchange (KSE) Source: PBS, PSX& SECP

	15-07-2020	16-07-2020	17-07-2020	20-07-2020	21-07-2020	22-07-2020
PSX Index	36679	37001	37331	37651	37700	37805
Market Capitalization (Rstrn)	6.93	7.00	7.08	7.12	7.11	7.12
Market Capitalization ($ bn)	41.60	41.95	42.30	42.29	42.33	42.48
Forex Reserves ($ bn)	18.896	18.957	19.064	19.051	18.976	18.982
SBP ($ bn)	12.000	12.055	12.138	12.125	12.034	12.037
Banks ($ bn)	6.896	6.902	6.926	6.926	6.942	6.945
Exchange rate (PKR/US$)	166.68	166.99	167.34	168.30	167.90	167.64

Source: PSX & SBP