ECONOMIC UPDATE

Monthly June 2020

Economic Adviser's Wing | Finance Division | Government of Pakistan

CONTENT

1. Economy at the Glance

The COVID-19 pandemic and the global economic shutdown have barged in billions of lives and are posing threats to development progress. It has triggered a global health crisis that is leading to the deepest global recession since the Second World War. The COVID-19 pandemic and the lockdown measures have created massive economic effects as revealed by real-time data. The uncertainty of intensity is still not clear. According to IMF mentioned in World Economic Outlook Update, June 2020, COVID-19 pandemic has had a more negative impact on activities in the first half of 2020 than anticipated. Global growth is projected at negative 4.9 percent in 2020, 1.9 percentage points below the April 2020 World Economic Outlook (WEO) forecast. In the context of Pakistan, COVID-19 may have a double-edged impact; through the trade channel and through the remittances. Further, the performance in a number of key sectors (e.g., textiles, autos) has been hit hardly amid anaemic demand. Business confidence has fallen in both manufacturing and services sectors. Closure of small and medium size enterprises induced significant loss in employment and private investment. Provisional estimates suggest that in FY 2020, Pakistan growth remained negative 0.4 percent, while for FY 2021, GDP growth is projected to be 2.1 percent but predominantly depends upon how the pandemic unfolds.

Policy priorities in most of economies are to lessen the on-going health and human costs and assuage the economic losses. Pakistan's measures include additional spending on health care, cash transfers, and relief of utility payments. On the fiscal side, the government announced a fiscal stimulus package of Rs 1.24 trillion while the State Bank of Pakistan (SBP) provided liquidity support to households and businesses to help them through the ensuing temporary phase of economic disruption. SBP has sanctioned Rs 6.0 billion for hospitals and Rs 8.8 billion for investment purposes. A total of 1,230 companies have availed SBP's refinance scheme, and a sum of Rs 113 billion has been disbursed for wages during three months till June 19, 2020. It is mentionable that IMFs Rapid Financing Instrument (RFI) amounting to $ 1.386 billion to counter the economic impacts of this novel outbreak will also support government's efforts to mitigate the economic shock, the facility will be used to address declining international reserves and increase social sector spending. Additionally, concessionary lending by IFIs; the World Bank and Asian Development Bank will provide much needed support to the government during this crisis time and help Government of Pakistan to tackle the COVID-19 Challenge with minimum affects.

Some countries are now starting to exit their lockdowns. Since mid-May, Pakistan has adopted a “smart lockdown” strategy that allowed many businesses to re-open to cushion the economic impact and support the vulnerable.

2. Real Sector

2.1 Agriculture

There was no significant impact of COVID-19 on the Agriculture sector. The agriculture sector grew by 2.67 percent. Positive growth of 2.90 percent in important crops was observed due to an increase in production of wheat, rice, and maize at 2.45 percent, 2.89 percent, and 6.01 percent, respectively while Other crops have shown growth of 4.57 percent mainly because of an increase in the production of pulses, oilseeds, and vegetables. Cotton ginning has declined by 4.61 percent due to a decrease in the production of the cotton crops while the Livestock sector has shown a growth of 2.58 percent. The growth in forestry and Fishing remained 2.29 and 0.60 percent respectively. For FY 2021, Agriculture sector is expected to grow by 2.8 percent on the basis of expected contributions of important crops (1.9 percent), other crops (1.5 percent), cotton ginned (0.9 percent), livestock (3.5 percent), fisheries (1.5 percent) and forestry (2.1 percent).

Recent Economic Measures for Agriculture

Realizing the importance of agriculture sector in achieving national food security, job creation, and provision of raw material for upstream industries, the government has approved Agriculture Emergency Prog (Rs.277 bn). To mitigate worst impact of COVID-19, an amount of Rs.50 billion as Agriculture Fiscal Package was approved for farmers with subsidy on fertilizers, cotton seed and white fly pesticides, reduced bank mark up on agricultural loans and provision of sales tax subsidy on locally manufactured tractors. Further in Federal Budget FY 2021, funds to the tune of Rs 10 billion have been allocated to withstand the threat of Locust. This development is likely to boost the prospects for the Kharif 2020-21 crops. As a part of package,

I) subsidy to the tune of approximately, Rs 37 billion is allocated for the farmers on the purchase of fertilizers; Rs 925 per bag is subsidy on DAP and other Phosphatic fertilizers and Rs 243 per bag subsidy is fixed on Urea,

ii) diminution in mark-up of agriculture loans to farmers at the total cost of Rs 8.8 billion,

iii) subsidy on cotton seed at a cost of Rs 2.3 billion and white fly pesticides at Rs 6 billion,

iv) subsidy of Rs. 2.5 billion is being provided on sales tax on the locally-manufactured tractors for a period of one year. ZTBL along with all other commercial banks, in the scheme will enhance the outreach of farmers with focus on subsistence farmers with a land holding up to 12.5 acres.

Threat Posed by Locust Attacks in Pakistan

Since 2019, Locust is spreading in Pakistan, at an alarming rate and it pushed the government to declare national emergency against Desert Locust on January 31, 2020. Although after 18th amendment and devolution of Agriculture, provinces have the mandate to maintain basic infrastructure for combating locust, ground operation for the control of locust and logistic support, the federal government at the same time has the mandate for crops protection from locust attack in its international aspect, and for aerial operation. Still, Federal Government is taking lead for implementation of National Action Plan. Federal government has provided more than Rs 1.0 billion as its share for stage-I under National Action Plan, from January to June, 2020. Provincial governments are also supporting in terms of funds and other resources in combating locust.

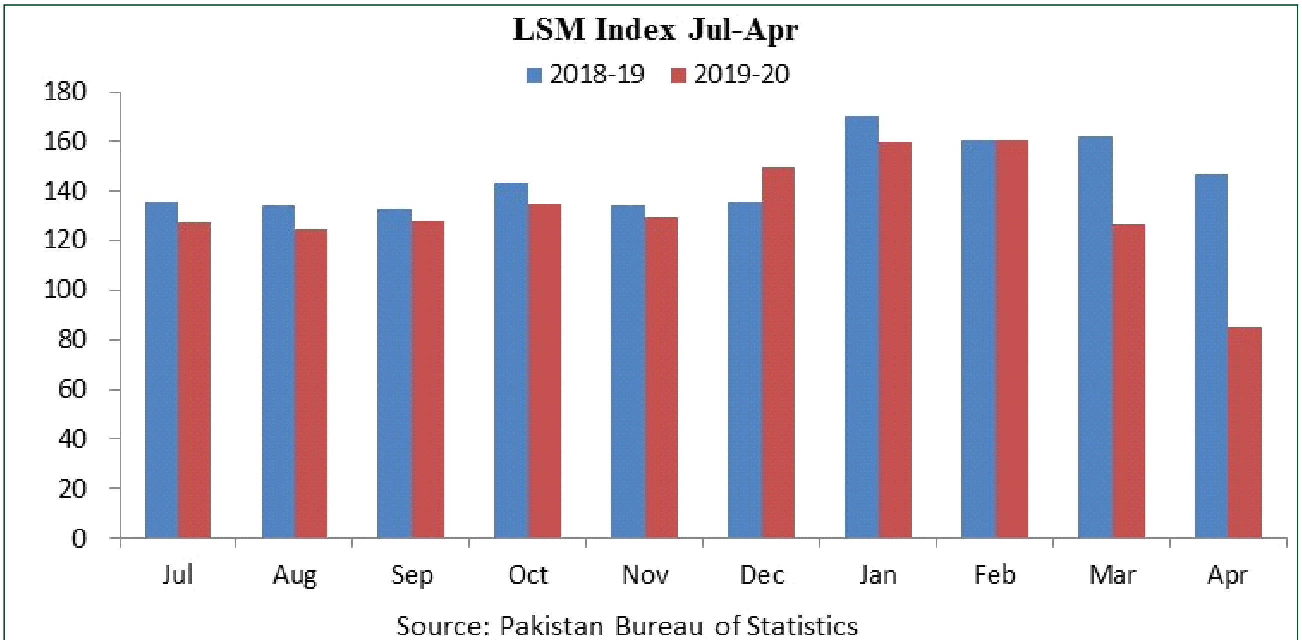
The Ministry of National Food Security and Research's institution, “Department of Plant Protection” is taking lead in managing the Desert Locust threat in Pakistan. Out of 133 districts, locust presence has been reported in 49 districts of four provinces during last 24 hours (as on 15-06-2020). Total area surveyed as per report of NDMA is 28.7 million hectares (deserts & cropped area), whereas area of 623 thousand hectares has been treated by making sprays.

National Locust Control Centre (NLCC) was established with the approval of Prime Minister with wide composition from Federal and Provincial Government on 1st

June, 2020. The NLCC will play a vital role for coordination, surveillance, control and monitoring of locust threat in the country. Revised National Action Plan worth of Rs 25 billion is developed (Federal share Rs 13.6 billion, provincial share will be Rs 11.4 billion). Further, for providing support to the locust surveillance and control programme in Pakistan, FAO is taking lead in providing technical and operational support. Thus, international support amounting to $ 1.9 million (DFID $ 1.2 million, FAO $ 0.5 million and JICA $ 0.2 million) has been received while $ 200 million are committed by World Bank and another $ 180 million from Asian Development Bank is in process.

2.2 Manufacturing

Amid COVID-19 outbreak, LSM nosedived a record low to negative 32.8% in April FY2020 on MOM basis (negative 20.9% March2020). YOY LSM decreased by 41.9% in April 2020 LSM during July-April FY 2020 stood at negative 8.9 %.



Total cement dispatches in the country decreased by 0.3% to 43.2 million ton during July 2019-May 2020 as compared to 43.3 million ton last year. Domestic dispatches decreased by 2.7% to 36.1 million ton during July 2019-May 2020 while exports were up 14.1% to 7.1 million ton. Closure of business activities amid recent health crisis dented the overall LSM. The textile sector, being labor intensive, is highly exposed to COVID-19 thus severely affected by spread of pandemic. Growth of Textile, Food Beverages, Tobacco and Automobile smothered to -8.7%, -4.1% and -41.9%, respectively. However, Fertilizers, Paper & Board and Rubber Products grew by 5.8%, 2.7% and 4.4%, respectively.

Recent Economic Measures for Industry

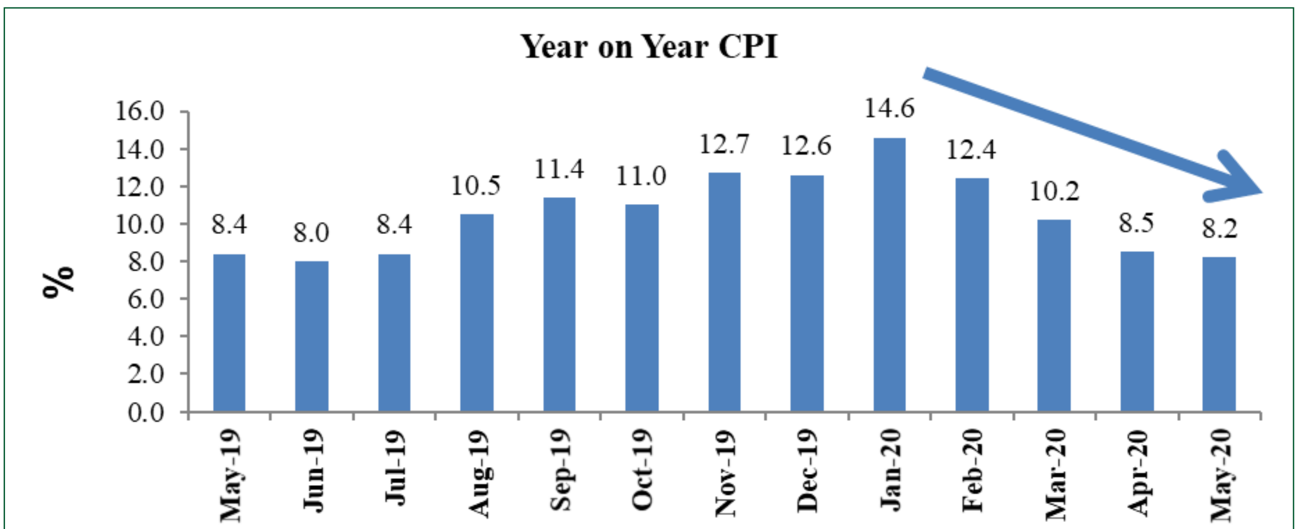
Government has announced a special package for construction sector, ChotaKarobar-o-SannatImadadi Package for SMEs and Rs 100 billion stimulus package to support business. In recent Monetary Policy Statement, SBP has reduced the interest rate to 7% along with other measures to boost industrialization. However, in the Budget FY2021 Rs. 800 million has been approved for Industries and Production Division for its 13 ongoing projects. Within ongoing projects Rs.141

million for National Business Development Programme for SMEs, Rs.100 million for Establishment SEZs, Rs. 2 billion for SME Lending Programme and Rs 1.5 billion for low cost housing through scheme of Qarz-e-Hasna of Akhuwat Foundation have been allocated. Likewise, to reduce input costs of industrial sectors, raw materials used in chemicals, leathers, textile, rubber and fertilizers have been exempted from duty. These tariff lines consist of 20,000 items which are 20% of all imports.

3. Inflation

Prior to COVID-19, the Government was making efforts to stabilize the inflationary pressure that originated from increase in commodity prices in global market, crop damages in some areas and various requisite adjustment policies. Inflation started to stabilize, thus, average CPI inflation is projected to decelerate by end of current fiscal year. In March with outbreak of COVID-19, the virus created a simultaneous supply and demand shocks both globally as well as domestically due to lock-down. Due to this, State Bank of Pakistan (SBP) has sharply cut the policy rate by cumulative easing of 625 basis points in the COVID-19 scenario to 7 percent.

For price stability, the government pursued 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 are being sold to consumers at subsidized prices. All these measures helped in contracting the CPI-national to single digit which fell to 8.2 percent in May 2020. This was fourth successive month showing decline in inflation, whereas, it dropped more than 6 percent in last four months. Hence, during the period July-May FY2020, it is recorded at 10.9 percent as against 6.7 percent during the same period last year.



Sensitive price Indicator (SPI) monitors the price movement of 51 essential items on weekly basis. The SPI for the week ended on 25th, June 2020 increased by 0.15%.

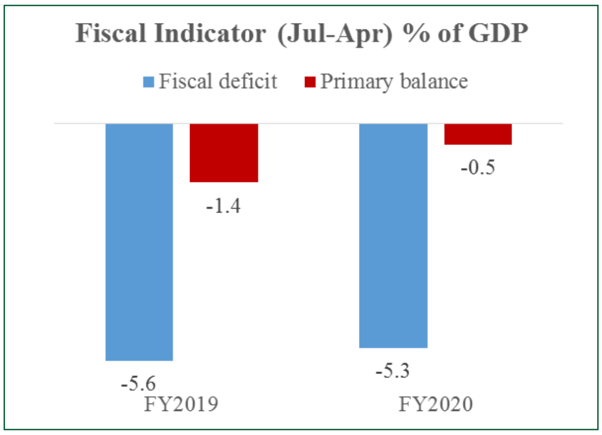
During the week, 07 items recorded decline in their prices, while prices of 14 items were increased and that of 30 items remain stable.

In the international market, prices of Brent Crude are now rising after experiencing a steep downturn, which shows a recovery in global oil consumption. The stimulus measures that central banks and the world's governments are pumping into the economies have a positive impact on economic activities and that it will be supportive to demand. The Palm oil prices registered the fourth consecutive monthly drop in May, mainly reflecting protracted, subdued global import demand (tied to the coronavirus pandemic) and higher than expected production and inventory levels in major exporting countries. Unfavourable weather has caused significant damages to rice crops in top producer Thailand, with farmers reporting a decrease of nearly 2 million tonnes of milled off-season rice this year. The prices may increase in future. The month-on-month increase of international sugar prices comes largely on the back of lower than expected harvests in some major countries, notably India, the world's second largest sugar producer and Thailand, the world's second largest sugar exporter.

The government is making all efforts in maintaining a smooth supply. The government is also committed to take strict action against hoarding. Therefore, the risk of price hike has been considerably reduced. Inflation is, accordingly expected to remain at 10.7% that is below the earlier projection of 11.8% and is expected to further scale down to single digit in Fy2021.

4. Fiscal

The fiscal performance during the first nine months of current fiscal year remained healthy and much better if it is compared with the corresponding period of FY2019. The consolidation efforts of government reaped the benefits in terms of improvement in major fiscal indicators as fiscal deficit witnessed a substantial decline, while primary balance posted a surplus.



Deficit Financing

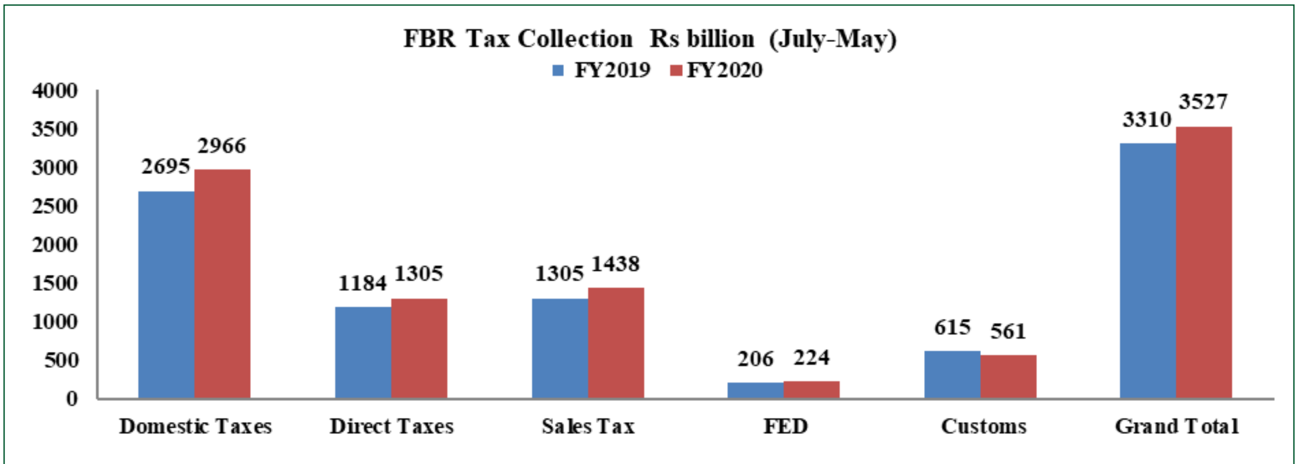
During July-April, FY2020 Rs 2,222 billion has been financed from external and domestic sources to cover deficit. An amount of Rs 837 billion or 2.0% of GDP has been financed from external sources. Similarly, Rs 1,384 billion or 3.3% of GDP has been financed from domestic sources.

Deficit Financing (July-April)				Rs billion
Year	External	Domestic	Total	Financing as % of GDP
FY2019	422	1,706	2,128	5.6
FY2020	837	1,384	2,222	5.3

FBR Tax Collection

Tax collection was growing at the rate above 17 percent during July-February, FY2020 and it was expected that FBR will meet its revised target for Fy2020.

However, after the outbreak of COVID-19 pandemic, tax collection has witnessed a significant decline year on year basis in March (-13.2%), April (-13.5%) and in May (-32.2%) over the same period last year.



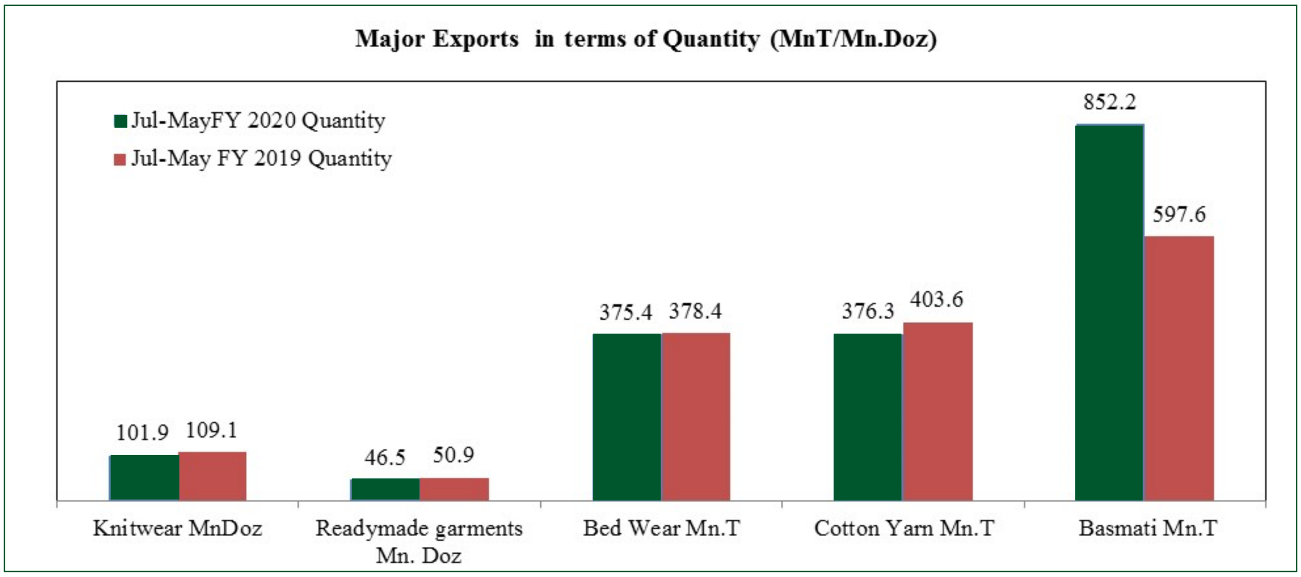
During July-May, FY2020, FBR tax collection posted a growth of 6.6% and reached at Rs 3,527.3 billion against Rs 3,310.1 billion in the comparable period of last year. Within total tax collection, domestic tax collection grew by 10.1% while customs duty declined by 8.8 % during the period under review. The tax collection target of Rs 4,807 billion, revised to Rs 3,908 billion due to economic slowdown. A revenue loss of approximately Rs 900 billion is expected.

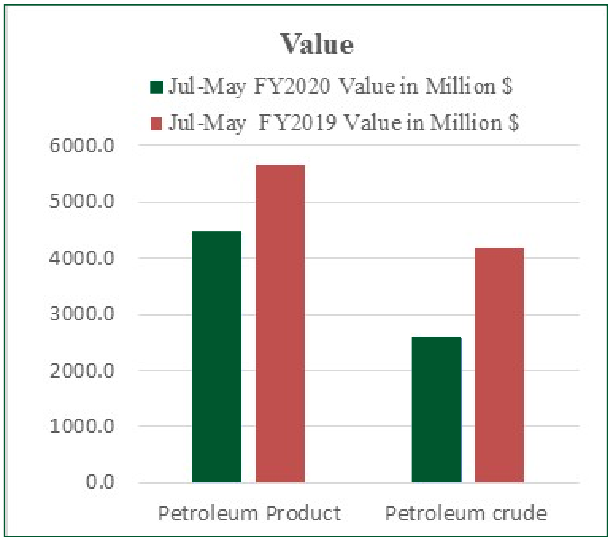
5. Monetary

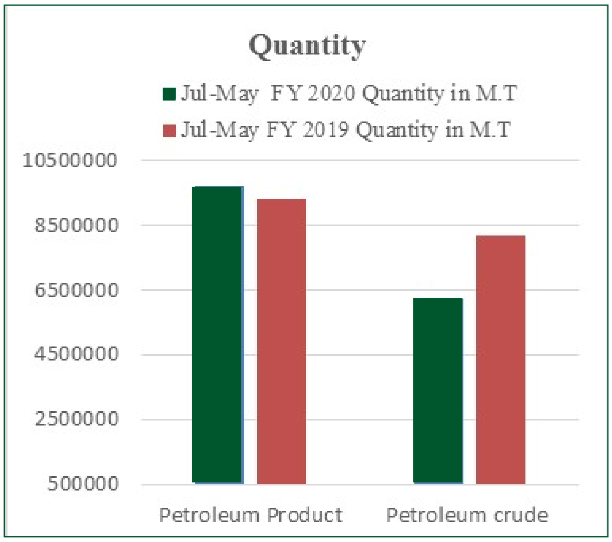
Due to improved inflation outlook, an increasing downside risk to growth, SBP has further cut the policy rate by 100 bps to 7 percent in recent Monetary Policy Statement. Money supply (M2) witnessed 13.8 percent growth (Rs 2,455.9 billion) during 1st July 2019-29th May, 2020 compared to growth of 6.9 percent (Rs 1,105.4 billion) in last year. Net Foreign Assets (NFA) increased by Rs 661 billion as compared to the contraction of Rs 1,051.9 billion in last year. Net Domestic Assets (NDA) of the banking sector increased by Rs 1,794.9 billion as compared to the expansion of Rs 2,157.2 billion last year.

6. External Sector

Despite challenging global environment, the external account position remains stable. The current account deficit has continued to narrow, even though exports have fallen since the COVID-19 outbreak. During July-May FY2020, current account deficit is reduced by 73.6% to $ 3.3 billion (1.4 % of GDP) against $ 12.5 billion last year (4.8 % of GDP). Exports declined by 6.8 % to $ 20.9 billion ($ 22.5 billion last year) during the period under review. The exports values were suppressed due to weak terms of trade, despite significantly higher quantum of exports. Basmati rice registered a growth by 42.6 % (quantity) and 27.6 % (value). Imports declined by 18.7 % to $ 38.9 billion ($ 47.8 billion last year). Consequently, trade deficit reduced by 29.3 % to $ 17.9 billion ($ 25.4 billion last year). Export of services has declined by 8.5% to $ 5.0 billion ($5.5 billion last year). The import of Services declined by 23.6% and is $ 7.8 billion ($ 10.1 billion last year).



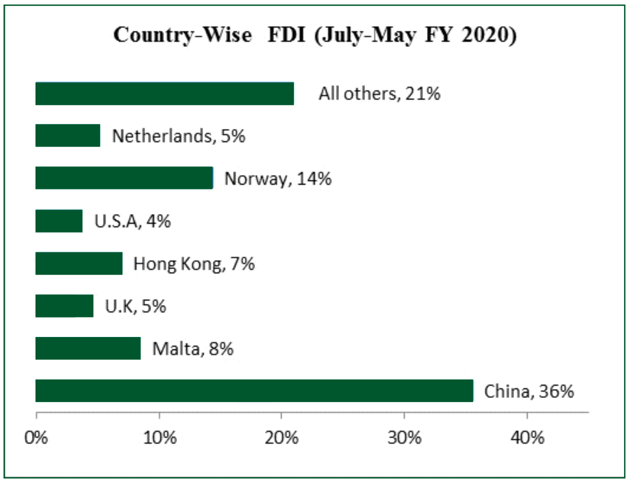


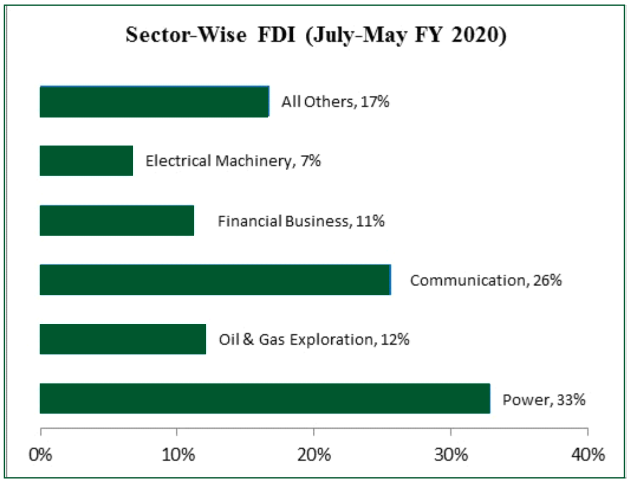


Source: Pakistan Bureau of Statistics

Foreign Direct Investment

FDI increased by 90.6% and reached $ 2.4 billion during July-May FY2020 as compared to $ 1.3 billion last year. The inflows of FDI reached to $ 3075.1 million during July-May FY2020 compared to $ 2626.2 million same period last year, with a growth of 17.1%. The outflows of FDI during July-May FY2020 decreased by

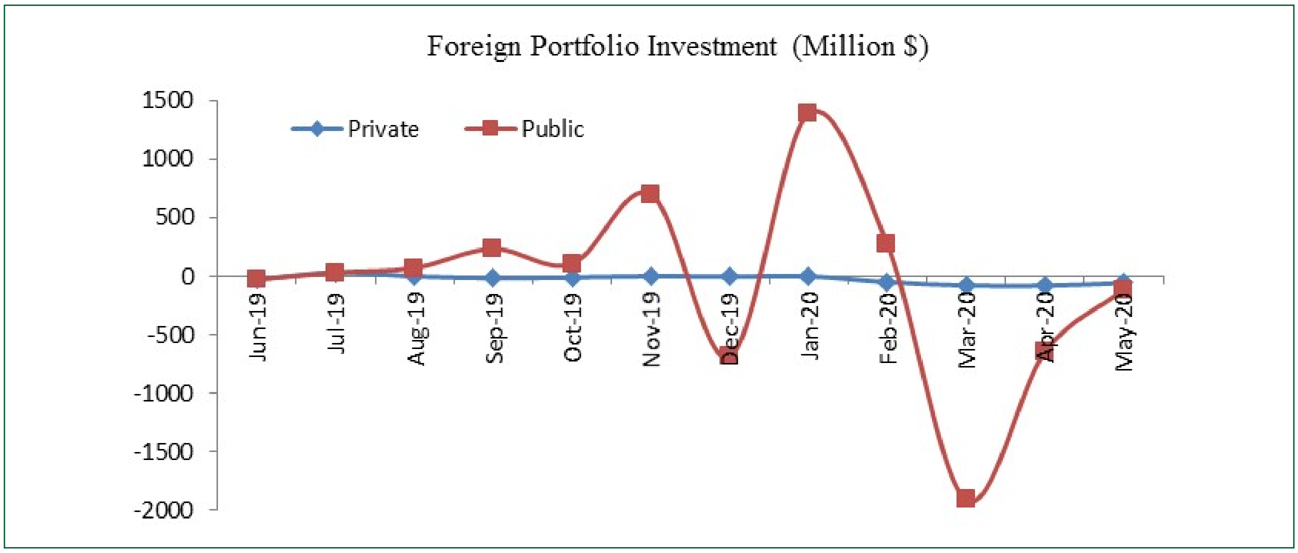




50.7% and reached to $673.7 million compared to $ 1366.2 million same period last year. With COVID-19 outbreak, global FDI is forecasted to shrink by 40% in 2020, from $ 1.5 trillion in 2019 to less than $ 1 trillion ('UNCTADs World investment Report 2020).

Foreign Portfolio Investment (FPI)

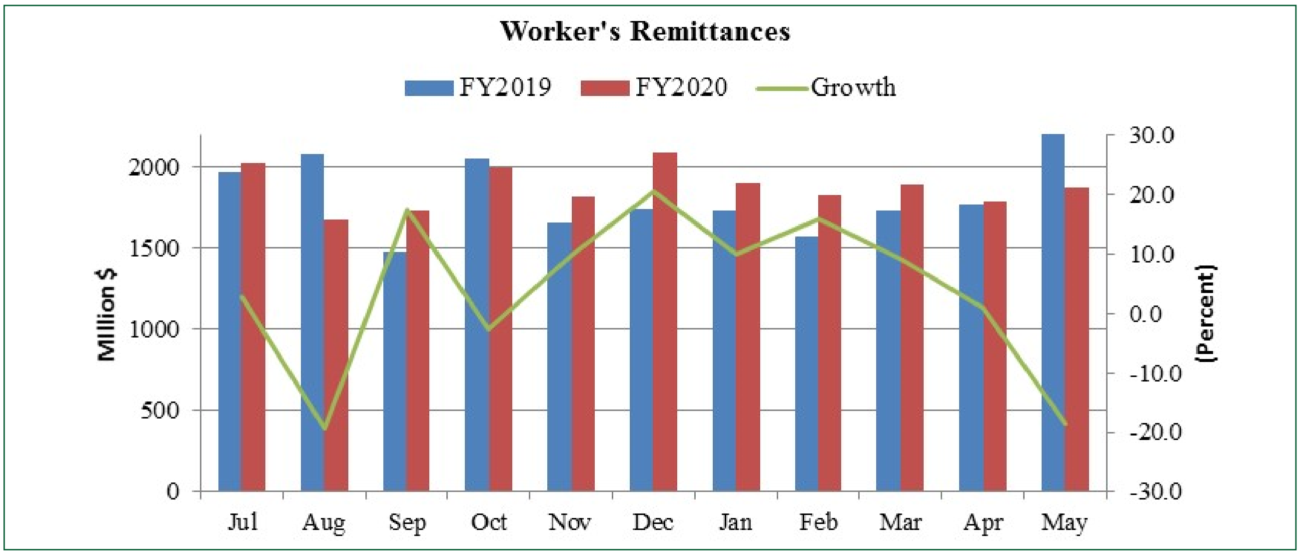
Foreign Private Portfolio Investment registered a net outflow of $ 55.8 million in May 2020. Countries with Major inflows are Singapore ($0.7 million) Japan ($0.2 million) and Qatar ($0.1 million). While outflows destinations were United States ($22.5 million), United Kingdom ($13.0 million) and Luxembourg ($ 6.6 million). Below is the trend over the past twelve months. Foreign Public Portfolio Investment registered net outflow of $54.8 million. Trend of public & private FPI is depicted below:



Source: State Bank of Pakistan

Worker's Remittances

Remittances have reached to $ 20654.5 million during July-May FY2020 against the $ 20103.0 million last year with a growth of 2.7%. On Y-o-Y basis, remittances declined by 18.6 % in May 2020, recorded $1872.9 million ($ 2302.0 million last year). On M-o-M basis, it increased by 4.6% in May 2020, over April 2020 ($1790.0 million).



Source: State Bank of Pakistan

Country/Region Wise Cash Worker's Remittances				
	July-May ($ billions)			
Country/Region	2018-19	2019-20	% Change	Share
Saudi Arabia	4.7	4.8	3.1	23.3
U.A.E.	4.3	4.2	-0.7	20.5
USA	3.0	3.7	22.0	18.0
U.K.	3.1	3.1	-2.5	14.8
Other GCC Country	2.0	1.9	-1.1	9.4
Malaysia	1.4	1.3	-7.1	6.5
EU Countries	0.6	0.6	3.0	2.8
Others Countries	1.0	1.0	-4.4	4.8
Total	20.1	20.7	2.7	100.0

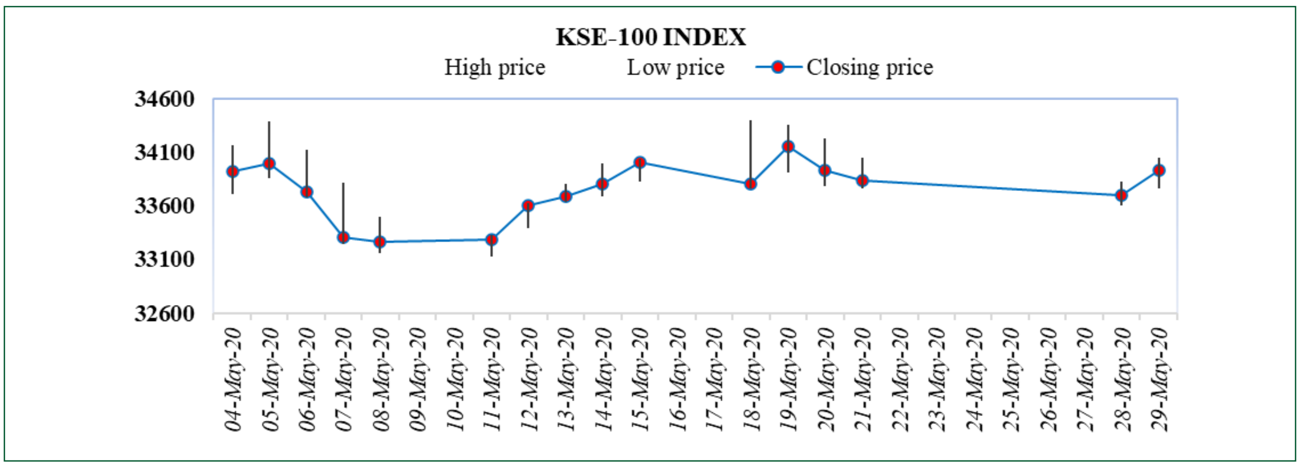
Source: State Bank of Pakistan

Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves increased to $ 16.9 billion by the end of May 2020, up by $ 2.4 billion over end-June 2019. The breakup of reserves accumulation in May 2020 shows that the State Bank of Pakistan's reserves stood at $10.4 billion ($7.9 billion last year) and $ 6.5 billion ($7.0 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, for the most part, oscillated around 34,000 points in May 2020. The index opened at 33,916 points on 4thMay and closed at 33,931 (0.04%), while market capitalization opened at Rs 6372 billion and closed at Rs 6485 billion, gaining Rs 112 billion in May 2020.



Source: State Bank of Pakistan

Business activity has largely resumed in the country which boosted the confidence of the investors in May 2020.

Conclusion

Like entire globe, the outbreak of COVID-19 has adversely affected Pakistan's economic growth for FY2020. Pakistan's domestic production and exports declined for decrease in global demand and commodity prices. The slowdown left adverse impact on tax and non-tax revenues; whereas government spending has overrun. However, drop in crude oil prices has reduced the current account deficit and eased out inflationary pressure. The Government is utilizing all resources to provide maximum relief to the public. Economic Stimulus Package, Ehsas Emergency Relief Programme, incentive package for SMEs and reduction in petroleum prices, will provide multidimensional positive impacts to all segments of society especially poor families.

Economic Indicators (26.06.2020)

	2018-19	2019-20	% Change
	July-May	July-May	
External Sector			
Exports ($ billions)	22.5	20.9	↓ 6.8
Imports ($ billions)	47.8	38.9	↓18.7
Trade Deficit ($ billions)	25.4	17.9	↓ 29.3
Remittances ($ billions)	20.1	20.7	↑ 2.7
Current Account Deficit ($ billions)	12.5	3.3	↓ 73.6
Current Account Deficit (% of GDP)	4.8	1.4	↓
FDI ($ millions)	100.8 (April)	133.2 (April)	↑32.1
	254.0 (May)	120.0 (May)	↓52.8
	1259.9	2401.4	↑ 90.6
Portfolio Investment -Private ($ millions)	1.4 (April)	-79.1 (April)	↓
	16.0 (May)	-55.8 (May)	↓
	-392.1	-238.5	↑
Portfolio Investment -Public ($ millions)	-1000.4	-289.3	↑
Total Foreign Investment ($ millions) (FDI &Portfolio Investment)	-132.6	1873.6	↑1512.9
Forex Reserves ($ billions)	14.285 (SBP: 7.216) (Banks: 7.069) (On 24th Jun 2019)	17.549 (SBP: 10.787) (Banks: 6.769) (On 24th Jun 2020)	
Exchange rate (PKR/US$)	156.99 (On 24th Jun 2019)	167.36 (On 24th Jun 2020)	

Source: State Bank of Pakistan

Rs Billion

	2018-19	2019-20	% Change
	July-April	July-April	
Fiscal			
FBR Revenue (provisional) (July-May)	3310	3527	↑ 6.6
Non Tax Revenue	422 (July-March)	1096 (July-March)	↑ 159
Expenditures	4128	5078	↑ 23.0
Federal PSDP (incl. grants to provinces)	347	483	↑ 39.2
Fiscal Deficit	2128	2222	↑ 4.4
Monetary Sector			
Agriculture Credit (provisional)	1018.8 (July-May)	1080.0 (July-May)	↑ 6.0
Government borrowing from SBP	2596.4 (1st Jul–14th Jun 2019)	-139.6 (1st Jul –12th Jun 2020)	
Credit to private sector (Flows)	606.9 (1st Jul–14th Jun 2019)	195.2 (1st Jul –12th Jun 2020)	
Total Credit	533.2	187.3	
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)	7.00 (w.e.f 25-June-2020)	

Source: SBP & FBR, Budget Wing

	2018-19	2019-20	% Change
Inflation			
CPI (National) (%)	8.4 (May)	8.2 (May)	
	6.7 (July-May)	10.9 (July-May)	
Real Sector			
Large Scale Manufacturing (LSM) (%)	-7.35 (March)	-21.91 (March)	
	-6.88 (April)	-41.89 (April)	
	-2.80 (July-April)	-8.90 (July-April)	
Miscellaneous			
PSX Index*	33996 (On 1st July 2019)	34035 (On 24th June 2020)	↓ 0.11
Market Capitalization (Rs trillion)	6.89 (On 1st July 2019)	6.46 (On 24th June 2020)	↓ 6.24
Market Capitalization ($ billions)	43.58 (On 1st July 2019)	38.59 (On 24th June 2020)	↓ 11.45
Incorporation of Compan ies	13677 (July-May)	15394 (Jul-May)	↑ 12.55

*: Formerly Karachi Stock Exchange (KSE)

Source: PBS,PSX& SECP

	18-06-2020	19-06-2020	22-06-2020	23-06-2020	24-06-2020
PSX Index	33540	33439	33738	34053	34035
Market Capitalization (Rs trillion)	6.39	6.37	6.42	6.46	6.46
Market Capitalization ($ billions)	38.42	38.25	38.54	38.54	38.59
Forex Reserves ($ billions)	16.734	16.729	16.550	16.517	17.549
SBP ($ billions)	*9.993*	*9.960*	*9.781*	*9.756*	*10.787*
Banks ($ billions)	*6.741*	*6.769*	*6.769*	*6.761*	*6.762*
Exchange rate (PKR/US$)	166.35	*166.64*	*166.59*	167.66	167.36

Source: PSX&SBP

Economic Adviser's Wing | Finance Division | Government of Pakistan