



Monthly **ECONOMIC UPDATE**

Economic Adviser's Wing
Finance Division
Government of Pakistan

April 2020

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1. Economy at the glance

Global growth is projected at -3.0 % in 2020. Growth in the advanced economy group, is projected at -6.1 % in 2020. Most economies of the developed countries are projected to contract this year, including the United States (-5.9 %), Japan (-5.2 %), the United Kingdom (-6.5 %), Germany (-7.0 %), France (-7.2 %), Italy (-9.1 %), and Spain (-8.0 %). Emerging Asia is projected to be the only region with a positive growth rate in 2020 (1.0 %), albeit more than 5 percentage points below its average in the previous decade. In China, the economy is projected to grow at a subdued 1.2 % in 2020, India (1.9 %) and Indonesia (0.5 %) and others are forecast to experience large contractions. For Pakistan, real GDP growth projection varies from negative to positive. IMF estimates -1.5%, however, Pakistan Bureau of Statistics will come up with the GDP estimates in the National Account Committee meeting expected to be held in the mid of May.

The Group of 20 nations on 15-04-2020 announced one year debt standstill for the world's poorest nations to deal with Covid-19 as global economy plunged into the worst recession of the century. The G20, also reiterated the pledge to deploy "all available policy tools" to deal with the health and economic crisis caused by Covid-19.

The IMF has termed the recent crisis as "Great Lockdown," that is expected to slash \$9 trillion of global growth. The world economy contracts by three percent this year, the most severe downturn since the Great Depression in 1930s. The situation could get much worse if the pandemic lingers into the second half of the year or resurges. IMF estimates that 20 governments already have committed about \$8 trillion towards combating the virus and providing economic lifelines to households and companies struggling to tackle the crisis.

According to the latest data for July-March, FY2020 for Pakistan's economy, the external sector continues to improve on account of modest growth in both exports (1.1%) and workers' remittances (6%) along with significant reduction in imports (16.2%) and increase in FDI (137.3%). Current account deficit is reduced by 73.1% to \$ 2.8 bn (1.3 % of GDP) against \$ 10.3bn last year (4.7 % of GDP).

In order to reduce the impact of Corona virus outbreak, Government has announced Rs.1.2 trillion relief and Stimulus package. It aims to provide relief to vulnerable, SMEs industry, construction 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 9 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, APRIL 2020

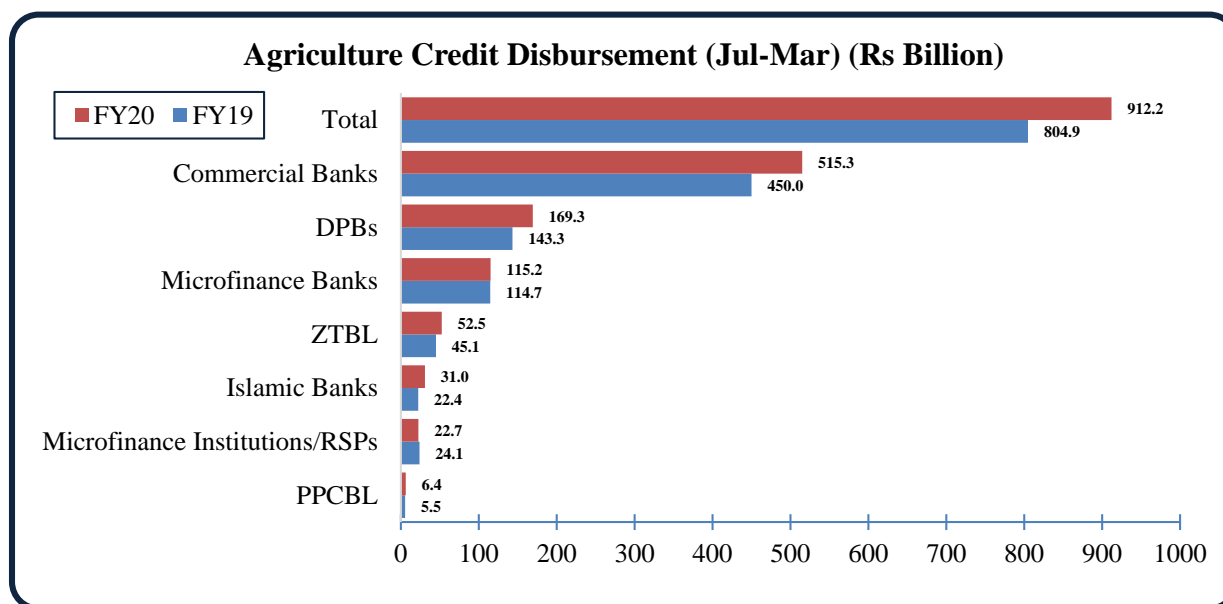
2. Real Sector

2.1 Agriculture

The agriculture sector's outcome for FY2019-20 has been lower than initial expectations. The unfavourable weather conditions and pest attacks have undermine the cotton production i.e. 9.45

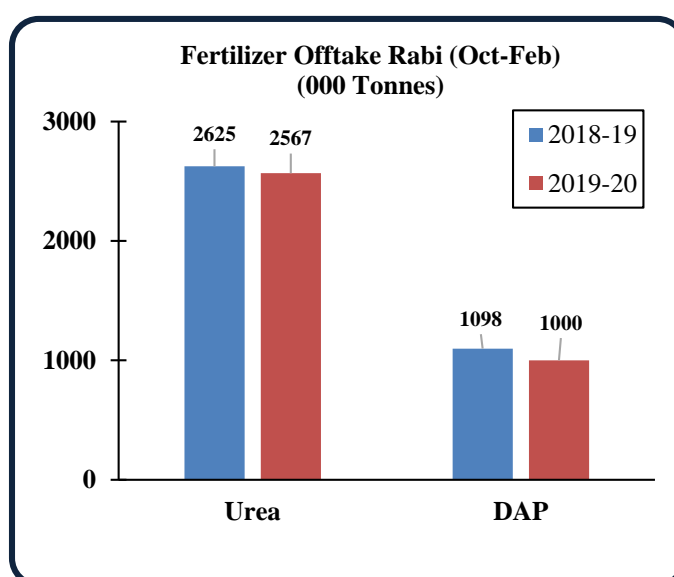
million bales in FY2019-20. The improvement in area under wheat cultivation (8.9 million hectare) as compared to last year (8.7 million hectare) is a favourable development. The recent locusts attack has raised concerns for the wheat crop in major parts of provinces of Punjab and Sindh. This coupled with unprecedented rain fall at harvesting time during March-May may result wheat production slight lower than the FCA target of 27.0 million tonnes.

The availability of inputs remained adequate during Rabi season. Canal water withdrawals increased over same period last year. Moreover, conducive rainfall was recorded during the wheat sowing season as compared to last year. Additionally, drop in temperatures during the germination and tillering stage of the wheat crop would prove beneficial in enhancing its yields. Agriculture credit also registered a significant increase of 13.3 percent during FY20 (Jul-March) that reached to Rs 912 billion compared to Rs 804 billion in same period last year.



Fertilizer, another critical input, showed mixed trend. Urea off-take increased, whereas DAP off-take continued to slide downwards as Urea remained cheaper than DAP.

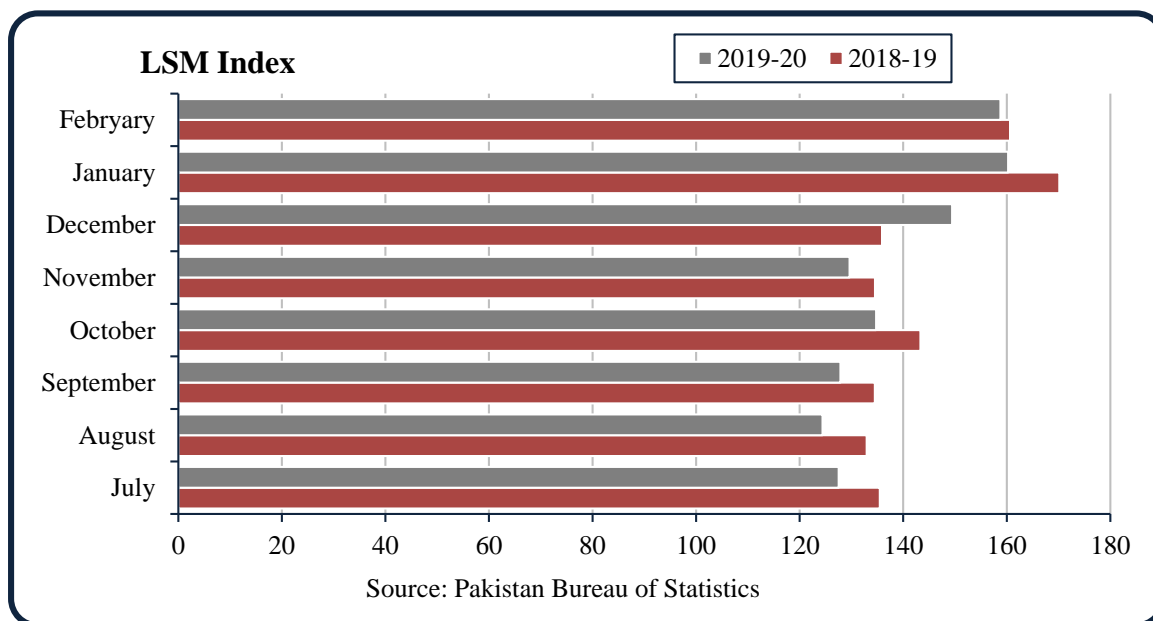
Wheat is a major food crop and its adequate production ensures food security in the country. Government has increased wheat support price to Rs 1400 per 40 kg after a gap of five years which would increase income of the farmer. The cereal markets are expected to remain normal in coming months.



2.2 Manufacturing

Large Scale Manufacturing (LSM) witnessed decline of 0.9% in February, 2020 on MOM basis (increase of 7.23% in Jan 2020). LSM on YOY decreased by 1.15% in Feb 2020 (-1.5% Feb 2019). LSM during Jul-Feb FY 2020 stood at -3.03 % (-1.59% last year).

During Jul-Mar FY20, total cement dispatches in the country increased by 7.1% to 37.035Mt (34.593Mt last year). Domestic dispatches increased by 3.82% to 30MT during Jul-Mar FY20 while exports were up 25.63% to 6.5MT.



Automobile industry continued to suffer from low sales during Jul-Mar FY20. Total car production and sales plunged to -47.9% and -46.8% respectively. While total trucks and buses decreased by 43.7% in production and 39.8% in sales.

Sectors showing growing trend

| Manufacturing Sector | Weight | (%) Change | |
|-------------------------------|--------|-------------------|-------------------|
| | | 2018-19 (Jul-Feb) | 2019-20 (Jul-Feb) |
| Textile | 20.915 | -0.15 | 0.37 |
| Food, Beverages & Tobacco | 12.37 | -1.03 | 0.71 |
| Non-Metallic Mineral Products | 5.364 | -3.99 | 4.58 |
| Fertilizers | 4.441 | 4.90 | 5.99 |
| Leather Products | 0.859 | 0.21 | 10.52 |
| Paper & Board | 2.314 | -3.18 | 5.21 |
| Rubber Products | 0.262 | 3.09 | 4.74 |
| Wood Products | 0.588 | -25.82 | 6.02 |

Source: Pakistan Bureau of Statistics

Sectors showing dismal performance are

| Manufacturing Sector | Weight | (%) Change | |
|---------------------------|--------|-------------------|-------------------|
| | | 2018-19 (Jul-Feb) | 2019-20 (Jul-Feb) |
| Coke & Petroleum Products | 5.514 | -5.50 | -13.57 |
| Pharmaceuticals | 3.62 | -8.71 | -5.81 |
| Chemicals | 1.717 | -4.01 | -0.96 |
| Automobiles | 4.613 | -6.02 | -34.98 |
| Iron & Steel Products | 5.392 | -10.26 | -7.00 |
| Electronics | 1.963 | 36 | -7.85 |
| Engineering Products | 0.4 | 7.57 | -2.73 |

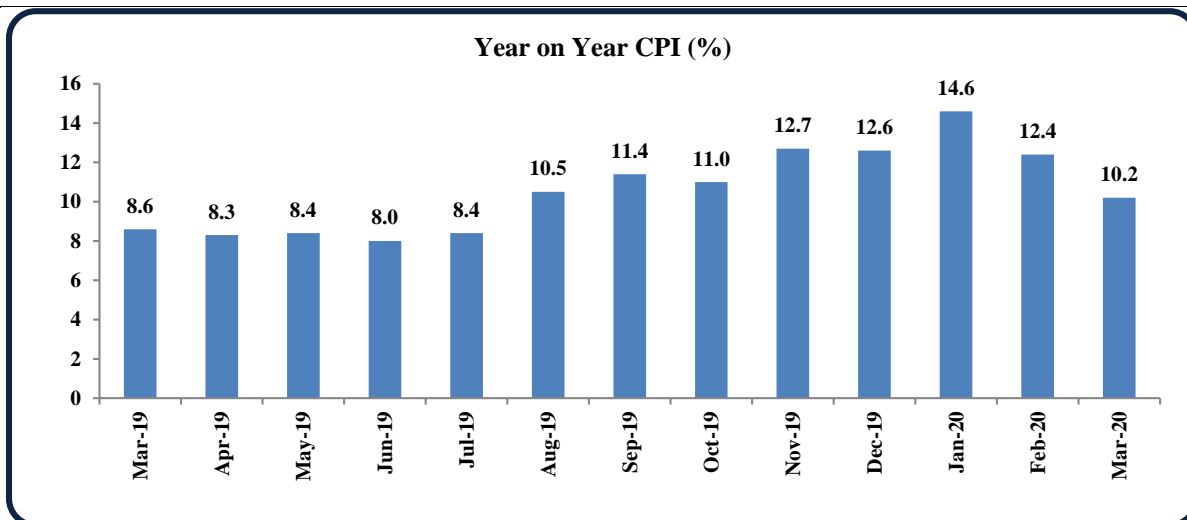
Source: Pakistan Bureau of Statistics

Measures to Support Industrialization

- In wake of Covid-19 government has announced a special package to provide stimulus to construction sector. Package includes amnesty scheme, tax exemptions and Rs. 30 bn subsidy for Naya Pakistan.
- SBP allowed manufacturing sector an advance payment of upto \$ 25,000 (\$10,000 earlier) for import of raw materials and spare parts.
- Capital Conservation Buffer (CCB) has been reduced to 1.5% (2.5% earlier). This will enable banks to lend an additional amount of Rs. 800 bn to businesses and households.
- SBP has given relaxation of one year in repayment of principle amount under various refinance schemes.
- Credit limit to SMEs has been permanently increased to Rs. 180 mn (Rs. 125 mn earlier).
- SBP has announced a temporary refinance scheme to support the employment of workers. All businesses which do not layoff their employees during Apr-Jun 2020 will be given loans with upto 5% mark-up during this period.
- Borrowing has been further eased by SBP by bringing Interest rate to **9% from 11%**.
- Power Division has released Rs. 144.9 bn upto 20th April 2020 out of allocated Rs. 226.5 bn subsidy to ensure uninterrupted electric supply to both consumers and producers.
- Petroleum Division has released Rs. 22.2 bn upto 20th April 2020 for zero rated industrial sector out of allocated Rs. 24 bn subsidy for the purpose.

3. Inflation

The inflation measured by the Consumer Price Index (CPI) has downward trend for a second month in a row due to a combination of factors including improvement in supply of eatables and reduction in energy prices. Inflation rate fell to 10.2% in March from 12.4% in the previous month. On month-on-month basis, it increased by 0.04% in March 2020. During Jul-March FY 2020, CPI inflation reached to 11.53% (6.31% last year).

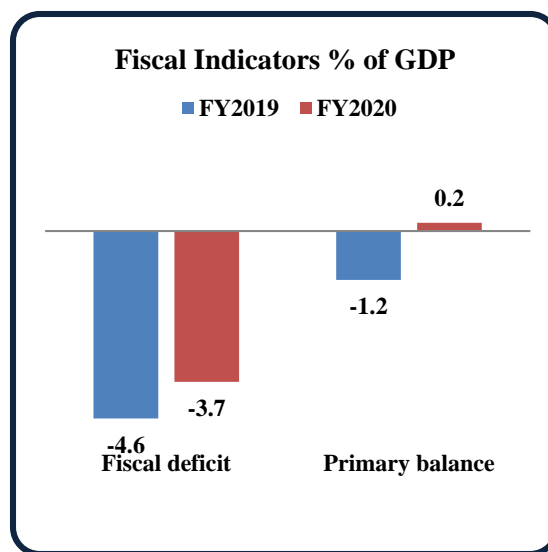


Sensitive price Indicator (SPI) which monitors the price movement of 51 essential items on weekly basis is showing an increase of 0.1% during the week ending on 16 April 2020. Price of 16 items recorded increase which include Masoor Pulse (8%), Chicken (4.9%), Maash Pulse (4.5%), Potato (4.4%), Rice IRRI (3.3%) Mung Pulse (1.2%) and Tomato (1%). Prices of eight items recorded decline which includes Onions (9.1%), Garlic (8.9%), Eggs (4.8%), LPG (1.7%) Wheat Flour (1.4%) and Sugar (0.2%), while prices of 27 items remained stable.

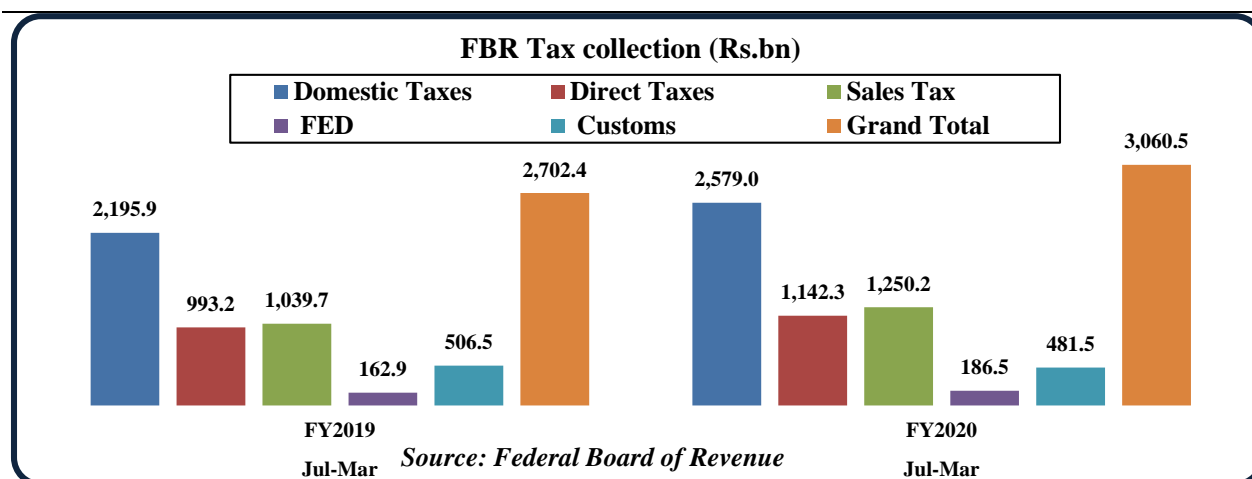
4. Fiscal

Prudent fiscal management have positive effect on fiscal indicators during first eight months of current fiscal year. Overall fiscal deficit reduced to 3.7% of GDP (Rs.1,613 bn) during Jul-Feb, FY2020 against 4.6% (Rs.1,761 bn) last year. Similarly, Primary balance posted surplus of Rs 104 bn during Jul-Feb, FY2020 (0.2 % of GDP) against the deficit of Rs 474 bn (1.2 % of GDP) last year.

On expenditure front, first eight months of current fiscal year witnessed a significant rise of 38% in federal PSDP to stand at Rs.392 bn against Rs.284 bn in the same period last year. With regard to PSDP authorization, it went up by 5% to Rs. 471 bn (as on 10-04-2020) as against Rs. 449 bn last year.



On revenue side, FBR tax collection grew by 13.3% to Rs.3060.5 bn during Jul-March, FY2020 against Rs.2702.4 bn in the same period of FY2019. During first nine months of current fiscal year, domestic tax collection increased by 17.4 % while revenue generation from import side (customs duty) declined by 4.9%.

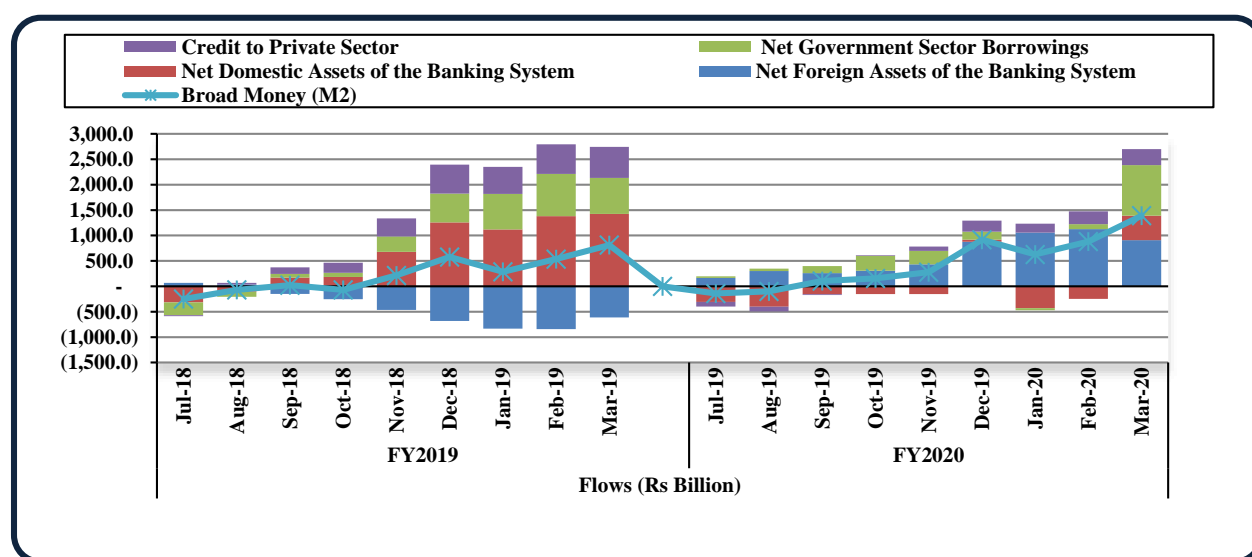


The fiscal performance till now indicates that, fiscal consolidation is on track. However, managing fiscal accounts under COVID-19 crisis would be challenging due to economic slowdown and higher expenditures under health and social sectors.

5. Monetary

Monetary Policy Committee decided to cut the policy rate by a further 200 basis points to 9% due to slowdown in global and domestic economic activity under the pandemic. Resultantly, cumulative interest rate has been cut by 4.25 % in one month.

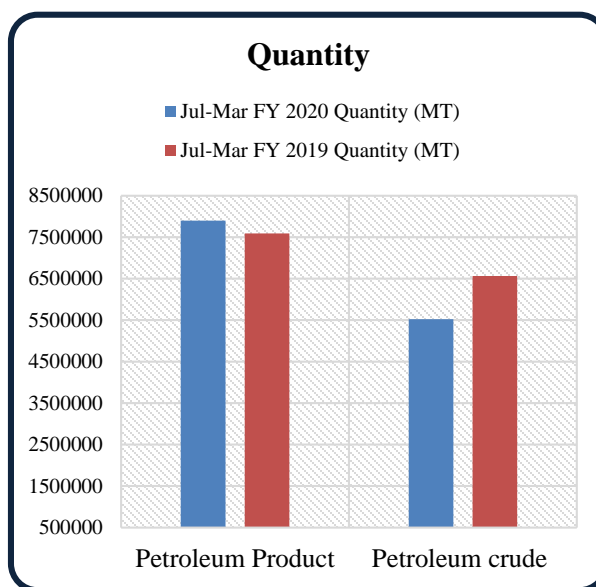
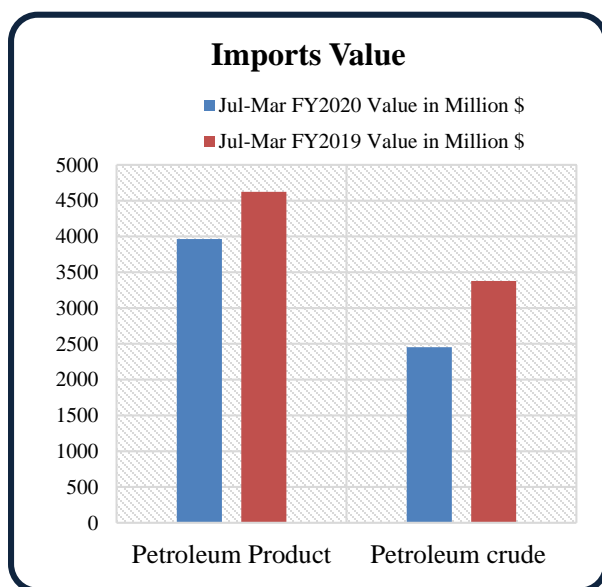
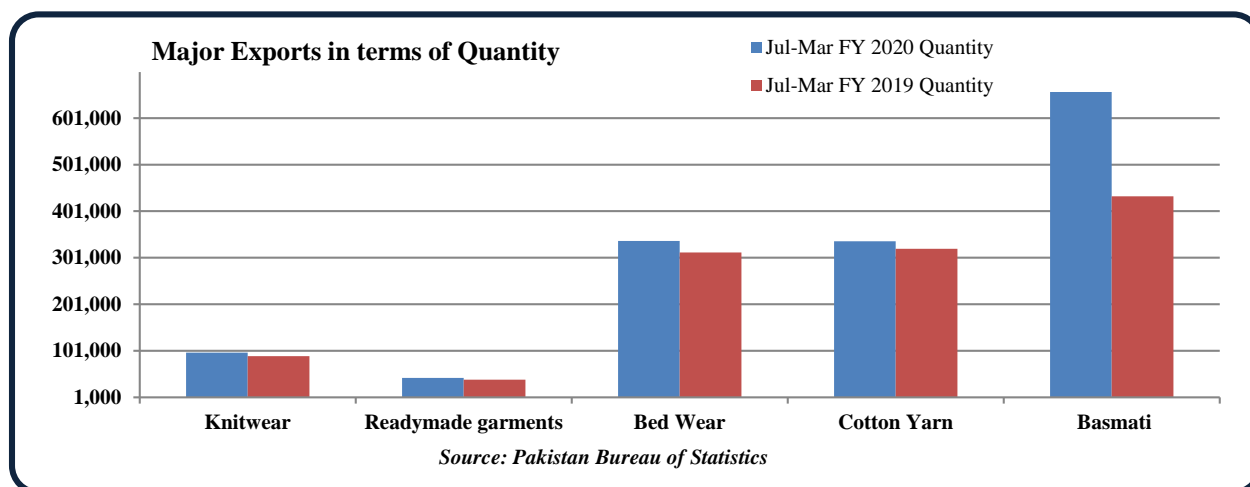
Money supply (M2) has witnessed 7.81 % growth (Rs.1,390.77 bn) during Jul-27th March, FY 2020 against the growth of 5.08 % (Rs.812.17 bn) in same period last year. Net Foreign Assets (NFA) increased by Rs.909.15 bn as compared to the contraction of Rs.613.74 bn in last year while NDA of the banking sector increased by Rs.481.62 bn as compared to the expansion of Rs. 1,425.9 bn last year. Private Sector has borrowed Rs. 315.0 bn against the borrowing of Rs. 608.9 bn in last year.



Source: State Bank of Pakistan

6. External Sector

Despite the challenging external environment, Pakistan's exports have performed better in recent months than most of its competitors. During July-March FY2020, current account deficit is reduced by 73.1% to \$ 2.8 bn (1.3 % of GDP) against \$ 10.3bn last year (4.7 % of GDP). Exports grew by 1.1 % to \$ 18.3 bn (\$ 18.0 bn last year) during the period under review. Imports declined by 16.2 % to \$ 32.9 bn (\$ 39.3 bn last year). Consequently, trade deficit reduced by 30.9 % to \$ 14.7 bn (\$ 21.2 bn last year). Export of services has declined by 7% to \$ 4.2 bn (\$4.5 bn last year). The import of Services declined by 17% and is \$ 6.7 bn (\$ 8.0 bn last year).



Source: Pakistan Bureau of Statistics

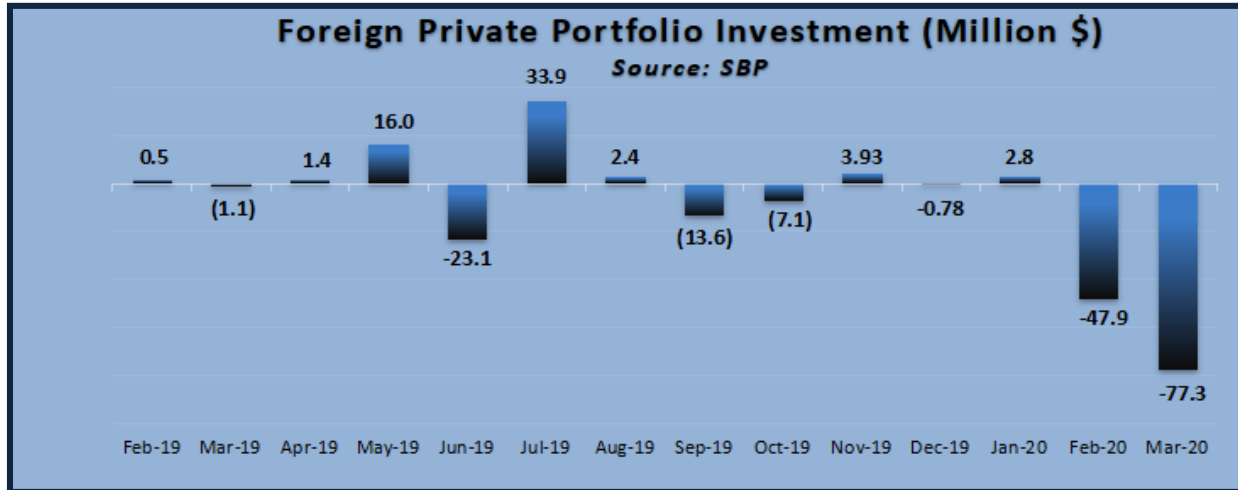
Foreign Direct Investment

FDI increased by 137.3% and reached to \$ 2148.2 mn during Jul-March FY20 as compared to \$ 905.1 mn last year. On year on year basis FDI increased by 91.7% and reached to \$ 278.7 mn in March FY20 as compared to \$ 145.4 mn in the same month last year. The inflows of FDI reached to 2696.8 mn during Jul-March FY20 compared to 2146.9 mn same period last year,

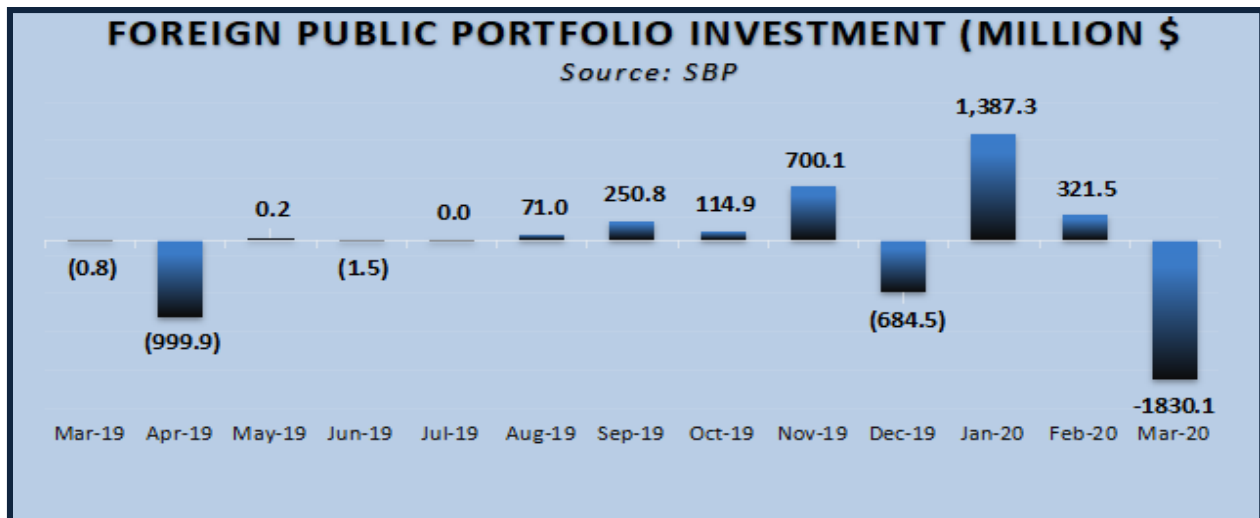
with a growth of 25.6%. The outflows of FDI during Jul-March FY20 decreased by 55.8% and reached to 548.5 mn compared to 1241.8 mn same period last year.

Foreign Portfolio Investment

Due to coronavirus pandemic, capital began flowing out of the country. Foreign Private Portfolio Investment registered a net outflow of US\$ 77.3 mn in March. Countries with Major inflow are Singapore (\$5.1 mn) Switzerland (\$1.6 mn), Saudi Arabia (\$0.02 mn). While outflows destination was United States (\$40.6 mn), United Kingdom (\$14.5 mn) and Sweden (\$ 8.2 mn). Below is trend over the past twelve months:



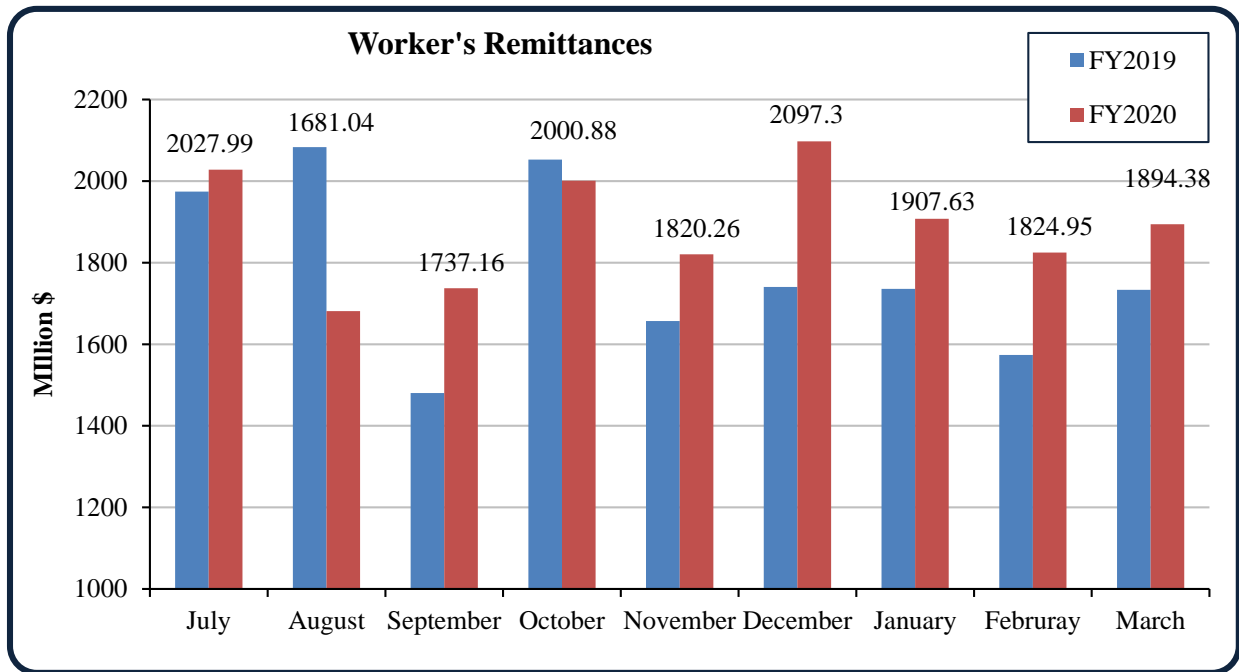
Foreign Public Portfolio Investment registered a net outflow of \$ -1830.1 mn. Trend is depicted below:



Worker's Remittances

Remittances reached to \$ 16991.59 mn during Jul-March FY2020, (\$ 16030.88 mn last year), with a growth of 6.0%. On Y-o-Y basis, remittances witnessed a growth of 9.3 % in March 2020, recorded \$1894.4 mn (\$ 1733.5mn last year). Share of remittances from Saudi Arabia 23.1 % (\$

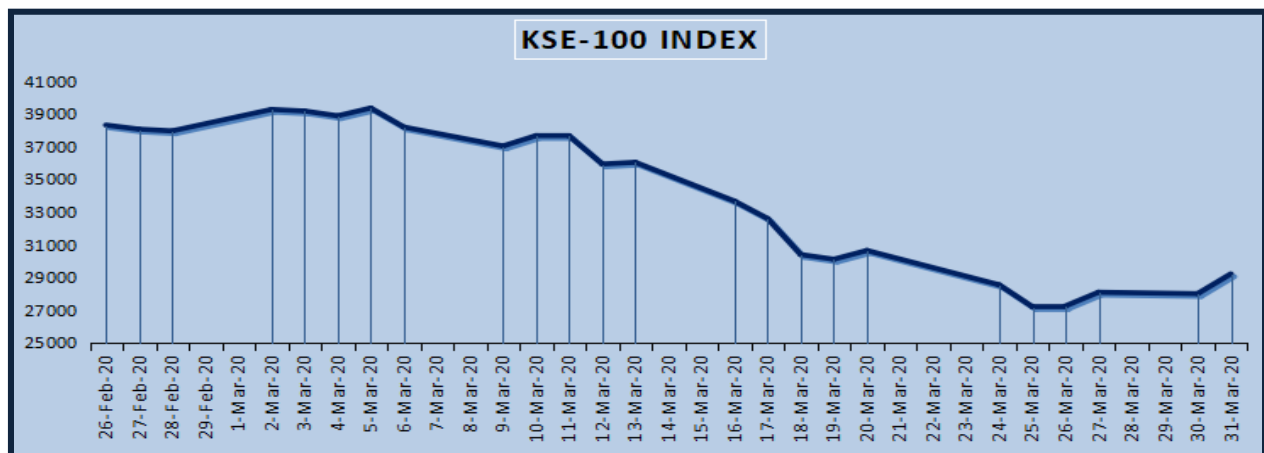
3925.7 mn), U.A.E 20.9% (\$ 3552.2 mn), USA 17 % (\$ 2880.4 mn), U.K 15.0 % (\$ 2554.4 mn), other GCC countries 9.6 % (\$ 1626.5 mn), Malaysia 6.8 % (\$ 1161.8 mn), EU 2.8 % (\$ 474.7 mn) and other countries 4.8 %.



Source: State Bank of Pakistan

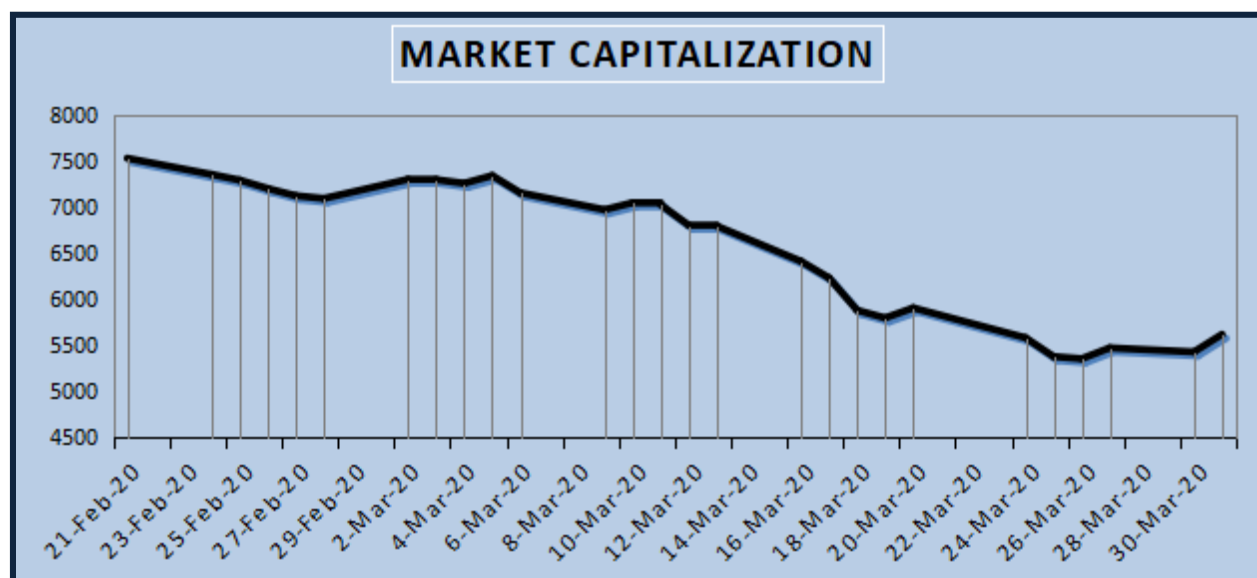
7. Performance of KSE Index

March has been the toughest month of the year for investors. The benchmark KSE-100 index has recorded a decline of 24.8% since the first reported case of COVID-19 in the country on 26th Feb 2020 and index closed at 29231.6 on 31st March 2020. The index slightly improved at the end of the month when government announced the stimulus package to invigorate the economy. Figure below depicts the downward trajectory in KSE-100 Index.



Source: Pakistan Stock Exchange

During the same period, Rs 1673.1 bn were wiped out of the Market Capitalization and the market closed at Rs 5620.9 bn on 31st March 2020.



Source: Pakistan Stock Exchange

On 16th April, the State Bank of Pakistan (SBP) slashed the country's policy rate by 200 bps to 9.0 percent and the government has also eased the lockdown. This move, together with government's stimulus package, has eased the investor's fear and the index is likely to rise provided that the Covid-19 outbreak is contained.

8. COVID-19 and Government Response

- With the outbreak of COVID-19, Pakistan's economy likely to effect through various channels
 - Sharp declines in domestic & global demand,
 - Lower tourism and business travel,
 - Supply disruptions, etc.
- Magnitude of economic losses is uncertain and depends on intensity and duration of COVID-19 in coming weeks.
- Government has announced a package of Rs 1,240 billion, the largest ever stimulus package in Pakistan's history. The package aims to mitigate the impact of COVID 19 on economy and vulnerable segments of society.

| | <i>Rs bn</i> |
|---|--------------|
| Emergency Response | 190 |
| NDMA | 25 |
| Medical equipment/incentive for workers | 50 |
| Emergency provisioning/ Funds | 100 |
| Tax relief on Food & Health items | 15 |

| | <i>Rs bn</i> |
|--|--------------|
| Relief to Citizens | 570 |
| Relief to daily wage workers | 200 |
| Relief to vulnerable families & Panagah | 150 |
| Relief on petrol /diesel | 70 |
| Funding to Utility Stores | 50 |
| Power & Gas subsidy/ payment deferral measures | 100 |
| Support to Business & Economy | 480 |
| Payment to farmers (wheat) | 280 |
| Relief to Exporters | 100 |
| Relief to SMEs & Agriculture | 100 |
| Support to Capital Markets | - |
| Total | 1,240 |

The government has launched “Ehsaas Emergency Cash Program” the biggest cash distribution program in the history of Pakistan with total allocation of Rs. 144 bn to provide immediate cash relief of Rs 12,000 to 12 mn families of daily wage earners, whose livelihood has been severely affected by the pandemic. Till 23-04-2020, Rs. 68.9 bn has been disbursed to 5.74 mn beneficiaries.

Apart from this, SBP has provided more flexibility under Refinance Facility for Combating COVID-19 (RFCC) to facilitate the health sector. Maximum coverage of 60% of civil works for setting up separate /isolation facilities has also been enhanced to 100%. SBP has introduced Refinance Scheme for Payment of Wages and Salaries to the Workers and Employees of Business Concerns. The scheme will provide financing for wages and salaries expense for three months from April to June 2020 for those businesses which do not layoff their employees for these three months.

Conclusion

The outbreak of Corona virus may adversely affect Pakistan’s economic growth for FY2020. Pakistan’s domestic production and exports may suffer due to less supply of intermediate goods, decrease in global demand and commodity prices. The economic slump 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 may disturb having negative implications. Recent decline in oil prices is, however, a positive sign for Pakistan’s economy. Drop in crude oil prices may reduce the current account deficit and ease out inflationary pressure.

Economic Indicators (23.04.2020)

| | 2018-19 | 2019-20 | % Change |
|---|--|--|----------------|
| | Jul-Mar | Jul-Mar | |
| External Sector | | | |
| Exports (\$ bn) | 18.1 | 18.3 | ↑ 1.1 |
| Imports (\$ bn) | 39.3 | 32.9 | ↓ 16.2 |
| Trade Deficit (\$ bn) | 21.3 | 14.7 | ↓ 31.0 |
| Remittances(\$ bn) | 16.0 | 17.0 | ↑ 6.0 |
| Current Account Deficit (\$ bn) | 10.3 | 2.8 | ↓ 73.1 |
| Current Account Deficit (% of GDP) | 4.7 | 1.3 | ↓ |
| FDI (\$ mn) | 115.3 | 289.0 | ↑ 150.6 |
| | (February) | (February) | |
| | 145.4 | 287.7 | ↑ 97.9 |
| | (March) | (March) | |
| | 905.1 | 2148.2 | ↑ 137.3 |
| Portfolio Investment-Private (\$ mn) | 0.5 | -47.9 | ↓ |
| | (February) | (February) | |
| | -1.1 | -77.3 | ↓ |
| | (March) | (March) | |
| | -409.5 | -103.6 | ↑ 74.7 |
| Portfolio Investment-Public (\$ mn) | -0.7 | 331.1 | ↑ |
| Total Foreign Investment (\$ mn) (FDI & Portfolio Investment) | 494.9 | 2375.7 | ↑ 380 |
| Forex Reserves (\$ bn) | 15.993 (<i>SBP:</i> 9.023) (<i>Banks:</i> 6.970) (On 19 th Apr 2019) | 18.701 (<i>SBP:</i> 12.273) (<i>Banks:</i> 6.428) (On 21 st Apr 2020) | |
| Exchange rate (PKR/US\$) | 141.40 (On 19 th Apr 2019) | 161.13 (On 21 st Apr 2020) | |

Source: SBP, PBS

| (Rs bn) | | | |
|--|--|---|----------------|
| | 2018-19 Jul-Feb | 2019-20 Jul-Feb | % Change |
| Fiscal | | | |
| FBR Revenue (Provisional) | 2702 (Jul-Mar) | 3060 (Jul-Mar) | ↑ 13.3 |
| Non Tax Revenue | 407 | 991 | ↑ 143.4 |
| Expenditures | 3357.0 (Jul-Dec) | 4226.6 (Jul-Dec) | ↑ 25.9 |
| Federal PSDP (incl. grants to provinces) | 284 | 392 | ↑ 38.1 |
| Fiscal Deficit | 1761 | 1613 | ↓ 8.4 |
| Monetary Sector | | | |
| Agriculture Credit (provisional) | 701.6 | 783.8 | ↑ 11.7 |
| Government borrowing from SBP | 3503.0 (1 st Jul-12 th Apr 2019) | -627.4 (1 st Jul -10 th Apr 2020) | |
| Credit to private sector (Flows) | 567.5 (1 st Jul-12 th Apr 2019) | 331.2 (1 st Jul -10 th Apr 2020) | |
| Total Credit | 547.4 | 123.0 | |
| Working Capital | 384.5 | -10.1 | |
| Fixed Investment | 59.4 | 3.7 | |
| Trade Financing | 103.5 | 129.4 | |
| Policy Rate (%) | 10.75 (w.e.f 1-Apr-19) | 9.00 (w.e.f 16-Apr-2020) | |

Source: SBP & FBR, Budget Wing

| | 2018-19 | 2019-20 | % Change |
|--|----------------------------|----------------------------|---------------------|
| Inflation | | | |
| CPI (National) (%) | 8.6 (March) | 10.2 (March) | |
| | 6.3 (Jul-Mar) | 11.5 (Jul-Mar) | |
| Real Sector | | | |
| Large Scale Manufacturing (LSM) (%) | -0.93 (January) | -5.82 (January) | |
| | -1.50 (February) | -1.15 (February) | |
| | -1.59 (Jul-Feb) | -3.03 (Jul-Feb) | |

| Miscellaneous | 14-04-2020 | 15-04-2020 | 16-04-2020 | 17-04-2020 | 20-04-2020 | 21-04-2020 |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| PSX Index | 31223 | 31242 | 31329 | 32832 | 33500 | 32423 |
| Market Capitalization (Rstrn) | 5.92 | 5.92 | 5.97 | 6.20 | 6.26 | 6.10 |
| Market Capitalization (\$ bn) | 35.47 | 35.45 | 35.80 | 37.93 | 38.29 | 37.88 |
| Forex Reserves (\$ bn) | 17.136 | 17.028 | 17.074 | 17.299 | 18.680 | 18.701 |
| SBP (\$ bn) | <i>10.813</i> | <i>10.700</i> | <i>10.698</i> | <i>10.888</i> | <i>12.269</i> | <i>12.273</i> |
| Banks (\$ bn) | <i>6.323</i> | <i>6.328</i> | <i>6.376</i> | <i>6.411</i> | <i>6.411</i> | <i>6.428</i> |
| Exchange rate (PKR/US\$) | 166.95 | 166.98 | 166.88 | 163.58 | 163.49 | 161.13 |

Source: PSX & SBP