

## Economy

### Pakistan Economic Survey

## PES 2019–20 paints a not so optimistic outlook on post-Covid19 economy

- ✓ As per the report, during the outgoing year 2020 Pakistan's economic growth contracted by 0.4%, (targeted of +3.3%) a multi-decade low
- ✓ Pakistan dismissal growth performance is mainly due to the demand and supply shock arising in the 2-half amid global Covid-19 outbreak
- ✓ Given the severity of the Covid19, economic impact is yet to be fully determined due to its unprecedented nature. However, what's more important is what lies on the horizon for Pakistan growth and there are some key points the documents offer for consolation.

We review key summary points from Economic Survey of Pakistan for the year 2019-20 published 11th Jun-20.

#### Growth hits a 68-year low

As per the report, during the outgoing year 2020 Pakistan's economic growth contracted by 0.4%, (targeted of +3.3%) a multi-decade low (last time Pakistan recorded a growth contraction was in 1952). Industrial and service sector which account for ~80% of the GDP size, declined by 2.6% and 0.6% (5-year average: +3.6% and 5.3%) respectively, whereas agricultural sector posted a growth of +2.7% (5year average of 1.8%).

Pakistan dismissal growth performance is mainly due to the demand and supply shock arising in the 2-half amid global Covid19 outbreak. However, pre-Covid19, document lauded policymakers' macroeconomic stabilisation measures undertaken in yesteryears. While these measures had constrained Pakistan full growth potential in 2020 and 2021, but were necessary for a long-term sustainable growth pattern.

#### Exhibit: Pre and Post Covid Pakistan economic growth indicators for Fy2020

%	Pre-covid	Post Covid
Real GDP Growth	3.30	(0.40)
- Agriculture	3.00	2.70
Industrial sector	0.70	(2.60)
- Manufacturing	0.50	(5.60)
Services	4.20	(0.60)
- Wholesale & Trade	3.20	(3.40)
Inflation (GDP Deflator)	11.80	9.10
As % of GDP		
Investment	15.60	15.40
National Savings	13.40	13.90

#### Analyst

#### IGI Research

research@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 810

Summarised Pakistan Covid19 economic repercussion and outlook	
<b>Investment</b>	<ul style="list-style-type: none"> <li>Due to impaired liquidity positions of potential investors and heightened risk perceptions, a heavy decline in private investment is expected to occur in the coming months.</li> <li>It is expected that there will be a decline of 30-40% in fresh FDI during 2020 and 2021.</li> <li>Further, reduction of profits due to economic slowdown will hamper reinvested earnings, a major component of FDI.</li> </ul>
<b>Trade and Business Activity</b>	<ul style="list-style-type: none"> <li>Pakistan's economy may face a loss in business activity due to disruption in trade activities</li> <li>On import and exports, major trade partner countries (USA, UK, China, Japan and Germany - comprising &gt;50%) also happen to be the worst hit countries.</li> <li>Businesses will face liquidity issues, and many more may experience insolvency. They will require different kinds of support, for instance bailouts and provision of cheap funding, among others.</li> </ul>
<b>Fiscal Management</b>	<ul style="list-style-type: none"> <li>Domestic fiscal adjustments will be the hardest hit.</li> <li>Revenues might be difficult to increase. So far due to disruption in economic activity, a negative 13.4% loss of revenue for Mar and Apr has occurred as compared to similar period of preceding year. Growth in revenues prior to that (8MFY20) stood at a healthy 17%.</li> <li>Accordingly, revenues are expected to fall to PKR 3.9trn as against revised target of PKR 4.8trn (Budgeted: PKR 5.5trn).</li> <li>Expenditure demand may be immense on social, health and defence.</li> <li>As a result of reallocation of expenditures and increase in public spending budget deficit is expected to clock in at 9.4% of GDP as against budgeted target of 7.5%.</li> </ul>
<b>Debt Management</b>	<ul style="list-style-type: none"> <li>This high fiscal deficit will lead to high higher debt accumulation</li> <li>Which makes financing for development projects difficult</li> <li>Lengthening of maturity profile of domestic debt, borrowing through multiple instruments including Eurobonds, Pakistan International Sukuk, Panda Bonds etc. are all under consideration but current capital markets situation would limit exploring these options.</li> </ul>
<b>Inflation</b>	<ul style="list-style-type: none"> <li>Covid19 had significantly slowdown aggregate demand, exerting downward pressure on global commodity prices.</li> <li>This decline in global commodities and crude oil prices is providing multidimensional support to overall national inflation index</li> <li>However, risks of supply disruption and hoarding remain potent and the government is making all out efforts to maintain a smooth supply besides taking strict action against hoarders to control artificial price hikes.</li> <li>Inflation is therefore expected to remain at 10.7% for FY20, below the earlier forecast of 11.8% and is expected to further scale down to single digit in FY2021.</li> </ul>
<b>Growth</b>	<ul style="list-style-type: none"> <li>The provisional real GDP of Pakistan has contracted by 0.4% as against projected growth of 3.3% budgeted.</li> <li>Manufacturing and Industrial sector have faced the major brunt of the pandemic.</li> <li>Agriculture sector has not witnessed major disruptions yet, however risks of labour mobility for crop harvesting exist. Border closures and existing lockdown conditions, will potentially have a disruptive impact on the agriculture value chain.</li> <li>Growth may register a 2% or less in 2021.</li> </ul>
<b>Social Impact</b>	<ul style="list-style-type: none"> <li>An estimated 56.6% of the population is socio-economically vulnerable due to the COVID-19 crisis.</li> <li>Among the most vulnerable, the expected loss of employment is estimated to be between 12.5-15.5mn in case of moderate slow-down of economic activity/partial lockdown, and between 18.7- 19.1mn in case of severe restrictions to economic activity/full lockdown</li> <li>A 2% growth in 2021 is lower than the population growth rate, challenges such as unemployment and poverty are expected to persist and aggravate.</li> <li>It is expected that wholesale and retail trade will lose maximum workers followed by manufacturing, construction and transport.</li> </ul>

Source: IGI Research, Pakistan Economic Survey 2019-2020

### Outlook: Some consolation but not much optimism

Given the severity of the Covid19, economic impact is yet to be fully determined due to its unprecedented nature. However, what's more important is what lies on the horizon for Pakistan growth and there are some key points the documents offer for consolation;

- The document identifies that **adverse impact of Covid19 is finally bottoming out**
- Economic experts largely agree that **growth will likely take a 'V-shape' recovery** and will gather momentum in coming years
- Fiscal stimulus package of PKR 1.24trn** along with measures taken by State Bank of Pakistan (SBP) for providing liquidity support to households and businesses will counteract the current economic downturn.

- **IMFs Rapid Financing Instrument (RFI)** amounting to USD 1.386bn 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
- National Agriculture Emergency Program, "Kamyab-Jawan Program (low cost loans to youth for business)", "Naya Pakistan Housing Program" to construct 5mn houses, which have the **potential to create 1.5-2.0mn jobs by Dec-20**.

Exhibit: Pakistan Key Growth Highlights								
FY= (Jun)	Unit	2017a	2018a	2019a	2020e	2021f	2022f	2023f
GDP	PKRtn	31.9	34.6	38.0	41.7	46.0	51.4	58.3
GDP	USDbn	304.9	314.4	279.0	261.9	266.9	285.4	313.3
GDP per capita	USD	1,545.7	1,564.7	1,363.4	1,173.7	1,168.4	1,220.0	1,307.9
<b>Growth Rate</b>								
Nominal GDP	%	9.8	8.4	9.7	9.9	10.2	11.7	13.6
Real GDP	%	5.2	5.5	1.9	(0.4)	2.8	4.0	4.4
Agriculture	%	2.2	4.0	0.6	2.7	1.5	2.0	2.0
Industries	%	4.6	4.6	(2.3)	(2.6)	2.0	3.0	5.0
Services	%	6.5	6.3	3.8	(0.6)	3.5	5.0	5.0
<b>%age of GDP</b>								
Agriculture	%	19.3	19.0	18.7	19.3	19.1	18.7	18.3
Industries	%	20.8	20.6	19.7	19.3	19.1	18.9	19.0
Services	%	60.0	60.4	61.5	61.4	61.8	62.4	62.7
Consumption	%	93.2	93.8	94.6	91.6	95.1	95.0	95.1
Investment	%	16.2	17.3	15.6	15.4	12.8	12.9	12.8
Savings	%	12.0	11.0	10.7	13.9	10.6	10.6	10.6
Exports	%	8.3	9.0	10.1	9.6	8.7	8.8	8.6
Imports	%	(17.6)	(20.1)	(20.3)	(16.6)	(16.6)	(16.8)	(16.5)
Capex	%	14.6	15.7	14.0	13.8	11.3	11.6	11.7
<b>Prices and Monetary</b>								
CPI	%	2.9	4.8	6.8	11.2	7.3	7.6	9.0
Discount Rate - Per. End	%	6.3	7.0	12.8	10.0	9.0	9.0	9.0
Broad Money (M2)	%	13.7	9.7	11.3	8.7	10.1	11.7	13.5
<b>External Sector</b>								
Current Account Bal.	(USDbn)	(12.6)	(19.9)	(13.8)	(3.9)	(5.8)	(6.8)	(7.1)
Exports	(USDbn)	22.0	24.8	24.3	22.2	23.3	25.1	26.9
Imports	(USDbn)	48.7	56.6	52.8	40.1	44.3	47.8	51.7
Remittances	(USDbn)	19.4	19.9	21.8	20.7	20.3	21.3	23.4
SBP Gross Reserves	(USDbn)	-	16.1	9.8	7.3	14.0	17.5	19.2
C/a Bal. / GDP	%	(4.1)	(6.3)	(5.0)	(1.5)	(2.2)	(2.4)	(2.3)
Trade Bal. / GDP	%	(8.8)	(10.1)	(10.2)	(6.8)	(7.9)	(8.0)	(7.9)
Exports + Remit. Gr.	%	2.0	14.1	(8.2)	(5.9)	6.4	7.9	7.3
FDI / GDP	%	0.9	1.1	0.6	0.8	1.0	1.0	1.0
<b>Exchange rate</b>								
USD		104.7	110.1	136.1	159.4	172.2	179.9	186.2
<b>Fiscal (%age of GDP)</b>								
Fiscal Balance	%	4.2	4.4	5.4	9.3	8.5	7.3	7.0

Source: IGI Research, Pakistan Economic Survey 2019-2020, Forecast IGI Research

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IGI Finex Securities Limited

**Research Analyst(s)**

Research Identity Number: BRP009

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**Jama Punji**  
 سرمایہ کاری سمجھداری کے ساتھ  
<http://www.jamapunji.pk>

## Contact Details

### Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Bharat Kishore	Database Officer	Tel: (+92-21) 111-234-234 Ext: 974	bharat.kishore@igi.com.pk

### Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk

### IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of  
Pakistan Stock Exchange Limited |  
Corporate member of Pakistan Mercantile Exchange Limited

### Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,  
Khayaban-e-Jami Block-09, Clifton, Karachi-75600  
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234  
Fax: (+92-21) 35309169, 35301780  
Website: www.igisecurities.com.pk

### Stock Exchange Office

Room # 134, 3rd Floor, Stock Exchange Building,  
Stock Exchange Road, Karachi.  
Tel: (+92-21) 32429613-4, 32462651-2  
Fax: (+92-21) 32429607

<b>Lahore Office</b> Shop # G-009, Ground Floor, Packages Mall Tel: (+92-42) 38303560-69 Fax: (+92-42) 38303559	<b>Islamabad Office</b> Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza, Block- B, Jinnah Avenue, Blue Area Tel: (+92-51) 2604861-2, 2604864, 2273439 Fax: (+92-51) 2273861
<b>Faisalabad Office</b> Room #: 515-516, 5th Floor, State Life Building, 2- Liaqat Road Tel: (+92-41) 2540843-45 Fax: (+92-41) 2540815	<b>Rahim Yar Khan Office</b> Plot # 12, Basement of Khalid Market, Model Town, Town Hall Road Tel: (+92-68) 5871652-3 Fax: (+92-68) 5871651
<b>Multan Office</b> Mezzanine Floor, Abdali Tower, Abdali Road Tel: (92-61) 4512003, 4571183	

IGI Finex Securities Limited

### Research Analyst(s)

Research Identity Number: BRP009

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