

Pakistan Economy

Monthly Economic Update & Outlook (Jan'21)- Key Takeaways

27-Jan-2021

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Monthly Economic Update & Outlook

Key Takeaways

- **Fiscal Management:** The primary balance remained in surplus of PKR 216bn (0.5% of GDP) during 5MFY21 compared with PKR 117bn (0.3% of GDP) SPLY. However, during 5MFY21, the fiscal deficit stood at 1.8% of GDP (1.6% SPLY). Total federal expenditures grew by 14.5% YoY to PKR 2,383bn during 5MFY21 (PKR 2,081bn SPLY). Of the total, current expenditures grew by 15.7% YoY mainly due to higher mark-up payments and COVID related spending. On development side, rupee component of PSDP increased by 11.3% YoY to PKR 128bn (PKR 115bn SPLY) in utilization during the period. FBR Tax collection achieved 99.8% of its half-yearly target. The provisional net tax collection grew by 5% YoY to PKR 2,206bn (PKR 2,101bn last year).
- **Monetary Management:** During 1st July'20 – 8th Jan'21, Money Supply (M2) observed cumulative expansion of PKR 846.8bn (PKR 586.3bn last year). Moreover, Net Foreign Assets (NFA) of the banking system increased by PKR 78.9bn (PKR 895.2bn last year) whereas, Net Domestic Assets (NDA) increased by PKR 267.9bn (contraction of PKR 308.9bn last year). Private sector credit cycle recovered and net borrowing started since Mid-Dec 2020. Private Sector borrowed PKR 215.5bn, posting a growth of 3.1% on average (2.0% last year).
- **External Account:** The Current Account posted a surplus of USD 1.1bn (0.8% of GDP) during 1HFY21. In Dec 2020, Current Account turns deficit (USD 662mn) due to import of essential food items, capital goods, oil, and industrial raw material owing to the domestic economic recovery. Pakistan's total liquid foreign exchange reserves increased to USD 20.5bn by the end of Dec 2020.
- **Sectoral Growth:** The prospect for growth in agriculture are encouraging on the basis of major Kharif crops. Rice, sugarcane and maize have surpassed the production targets of FY21. Industrial sector too showed robust growth as in every month since July 2020, the YoY growth rate of LSM was positive.
- **Inflation:** The headline inflation (CPI) is recorded at 8.6% for 1HFY21 (11.1% last year). The decline observed on account of food prices kept average inflation contained.
- **Outlook:** Current outlook ensures economic revival on the basis of continued recovery seen in recent months but there is possibility of slower economic activities especially in services sector. On the external front, imports may remain USD 4.5 – USD 5.0 billion in next month. Exports are expected to stabilize around current levels. But in the baseline scenario, the trade balance is not expected to further deteriorate. Remittance inflows remain strong. On the fiscal front, healthy growth in non-tax revenues, satisfactory performance of FBR tax collection despite issuance of higher number of refunds and controlling of expenditures other than mark-up payments and COVID related would help maintain the fiscal deficit within the reasonable limits in the coming months.

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AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discounted Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

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The following risks may potentially impact our valuations of subject security (ies);

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk

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