

Day Break

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Economy

Jul-23: C/a Deficit of US\$ 0.8bn Comes After Import Control Relaxation

- For the month of Jul-23, C/a balance registered a deficit of US\$ 0.8bn compared to a deficit of US\$ 1.3bn recorded during the month of Jul-22, a decrease of 36%/y.
- The recent increase in the current account deficit is a result of the State Bank of Pakistan repealing the import control policy in June 2023. This decision was made to pave the way for a Standby Arrangement by the lender of last resort to support the balance of payment crisis.
- Additionally, the International Monetary Fund (IMF) stressed the importance of allowing the Pakistani Rupee (PKR) to fluctuate based on true demand and supply mechanisms.

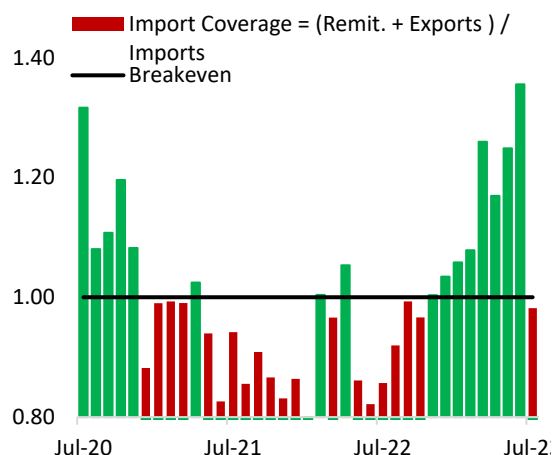
We review current account balance numbers published for the month of Jul-23 by the State Bank of Pakistan (SBP).

Monthly current account deficit printed US\$0.8bn as imports jump

For the month of Jul-23, C/a balance registered a deficit of US\$ 0.8bn compared to a deficit of US\$ 1.3bn recorded during the month of Jul-22, a decrease of 36%/y. This deficit comes after four consecutive months of surpluses that summed to US\$ 1.6bn.

Exhibit: Export and Remittances coverage

Export and Remittance coverage of total import has started to turn negative as SBP lifted import restrictions recently.



Source: SBP, IGI Research

Exhibit: C/a trend (in US\$ bn)

Current account trend with and without oil imports since Jul-22

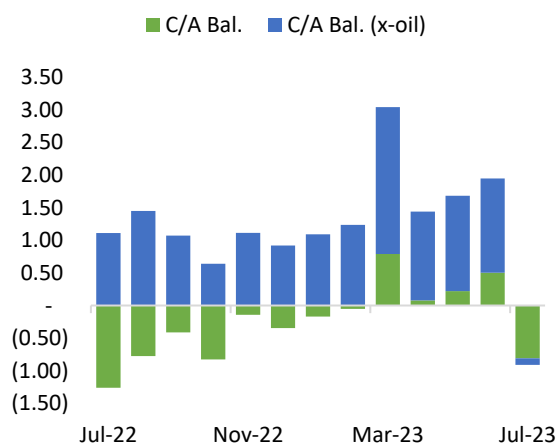


Exhibit: Monthly Current Account Balance								
US\$ mn	Jul-23	Jun-23	m/m	Jul-22	y/y	1MFY23	1MFY22	y/y
Exports (G)	2,116	2,119	0%	2,217	-5%	2,116	2,217	-5%
Imports (G)	4,220	3,177	33%	5,517	-24%	4,220	5,517	-24%
Trade Bal.	(2,104)	(1,058)	99%	(3,300)	-36%	(2,104)	(3,300)	-36%
Services Bal.	(273)	(125)	118%	(32)	753%	(273)	(32)	753%
Remittances	2,027	2,187	-7%	2,511	-19%	2,027	2,511	-19%
Income Bal.	1,568	1,687	-7%	2,071	-24%	1,568	2,071	-24%
C/a Bal.	(809)	504	-261%	(1,261)	-36%	(809)	(1,261)	-36%
C/a Bal. (x-oil)	(101)	1,444	-107%	1,111	-109%	(101)	1,111	-109%

Source: SBP, IGI Research

Overall, exports remained muted; textile group jumped

For the month, the country's export receipts recorded at US\$ 2.1bn compared to last month of US\$ 2.1bn, with no change on a m/m basis, and on a yearly basis down by 5%/y. Jul-23 monthly export number is significantly below 12MFY23 monthly average export of US\$ 2.3bn. During the month, the textile group recorded a surge of 8%, while the rest declined.

On the other hand, Imports surged as import control relaxed

During the month of Jul-23, the country's import bill recorded US\$ 4.2bn up 33%m/m and down 24%/y. During the month, all groups posted a sudden jump except for the petroleum group which recorded a decline of 25%m/m.

Exhibit: Monthly Trade Break-up Commodity wise								
US\$ mn	Jul-23	Jun-23	m/m	Jul-22	y/y	1MFY23	1MFY22	y/y
Exports (G)	2,116	2,119	0%	2,217	-5%	2,116	2,217	-5%
Food Exports	370	375	-1%	386	-4%	370	386	-4%
Textile Exports	1,285	1,188	8%	1,442	-11%	1,285	1,442	-11%
Other Exports	461	556	-17%	389	18%	461	389	18%
Imports (G)	4,220	3,177	33%	5,517	-24%	4,220	5,517	-24%
Food Imports	632	433	46%	618	2%	632	618	2%
Machinery Imports	437	259	68%	504	-13%	437	504	-13%
Transport Imports	155	63	145%	121	29%	155	121	29%
Petroleum Imports	708	940	-25%	2,372	-70%	708	2,372	-70%
Other Imports	2,289	1,481	55%	1,903	20%	2,289	1,903	20%

Source: SBP, IGI Research

Remittances declined by 7%m/m

During the month of Jul-23, remittances posted US\$ 2bn compared to the previous month of US\$ 2.2bn, a decline of 7%m/m. Major inflows came from Saudi Arabia and UAE, US\$ 0.48bn and US\$ 0.32bn respectively.

Exhibit: Monthly Remittances Break-up Country wise								
US\$ mn	Jul-23	Jun-23	m/m	Jul-22	y/y	1MFY23	1MFY22	y/y
USA	238	273	-13%	248	-4%	238	248	-4%
U.K.	306	343	-11%	409	-25%	306	409	-25%
Saudi Arabia	487	516	-6%	577	-16%	487	577	-16%
UAE	315	325	-3%	456	-31%	315	456	-31%
Other GCC	228	272	-16%	281	-19%	228	281	-19%
EU	284	279	2%	294	-4%	284	294	-4%
Other	169	179	-5%	246	-31%	169	246	-31%
Total	2,027	2,187	-7%	2,511	-19%	2,027	2,511	-19%

Source: SBP, IGI Research

Outlook

The recent increase in the current account deficit is a result of the State Bank of Pakistan repealing the import control policy in June 2023. This decision was made to pave the way for a Standby Arrangement by the lender of last resort to support the balance of payment crisis. Additionally, the International Monetary Fund (IMF) stressed the importance of allowing the Pakistani Rupee (PKR) to fluctuate based on true demand and supply mechanisms.

Prior to this policy change, the current account balance was curtailed through import control measures that lasted for 11 months since August 2022. During this time, Pakistan faced shortages of dollars due to debt servicing and a decline in exports and remittances.

Overall, the repeal of the import control policy and the IMF's recommendation for PKR flexibility have contributed to the recent increase in the current account deficit.

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