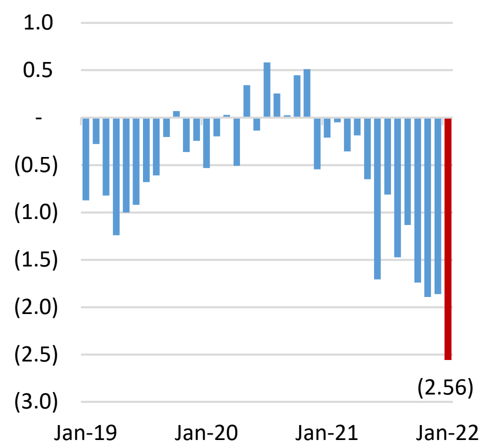
Economic Update

Monthly C/a Balance

Highest deficit recorded in the past 3 years



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External Balance

Jan-22, C/a balance remain elevated recording US$ 2.56bn deficit

- For the month Jan-22, Pakistan's Current Account (C/a) balance recoded a deficit of US$ 2.56bn compared to previous month C/a deficit of US$ 1.86bn. This brings 7 months cumulative C/a balance to post a deficit of US$ 11.6bn versus last year same period, a surplus of US$ 1.03bn.
- Monthly Exports decline by 15% compared to Import bill down by just 2%, and Remittances down by 15% to US$ 2.14bn.
- Given the rising commodity prices, we project C/a deficit to remain elevated in the coming months. With limited foreign inflow expected in the near-term, rising C/a deficit will put a drain on country's foreign exchange reserves

Monthly C/a deficit down to US$ 2.56bn

For the month Jan-22, Pakistan's Current Account (C/a) balance recoded a deficit of US$ 2.56bn compared to previous month C/a deficit of US$ 1.86bn. This brings 7 months cumulative C/a balance to post a deficit of US$ 11.6bn versus last year same period, a surplus of US$ 1.03bn. The stats available on State Bank of Pakistan (SBP) does not include C/a balance as a percentage of GDP due to recent revision in Pakistan GDP (revised GDP size now stand at US$ 347.6bn in FY21).

Monthly Exports decline by 15% compared to Import bill down by just 2%

For the month of Jan-22, Pakistan's trade deficit came at US$ 3.9bn up by +9%m and +69% on a yearly basis. This monthly growth in trade deficit is due to a sharper slowdown in exports to the tune of US$ 2.49bn (down by 15%m) compared to import bill down by 2%m to US$ 6.42bn. Considering the period this brings total trade deficit to US$ 25.1bn compared to US$ 13.7bn last year same period, a deterioration of nearly 83%y. Exports receipts increased by +27%y to US$ 17.7bn but was less impressive considering the rise in import bill by +55%y to the tune of US$ 42.84.

Little or no support from services balance

Country's services deficit also widened to US$ 0.41bn compared to US$ 0.33bn in previous month. This takes 7 months total services deficit to US$ 2.23bn compared to US$ 1.11bn last year same period; a 106%y growth. Income (ex-remittances) deficit shrink albeit merely to US$

Exhibit: Country's Current account balance					
in US$ mn	**7mFY2022**	**7mFY2021**	**Jan/22**	**Jan/21**	**Dec/21**
Current Acc. Balance	(11,579)	1,028	(2,556)	(219)	(1,863)
Exports	17,722	13,915	2,487	2,100	2,923
Imports	42,843	27,627	6,421	4,426	6,548
Trade balance	(25,121)	(13,712)	(3,934)	(2,326)	(3,625)
Services Balance	(2,229)	(1,106)	(406)	(162)	(328)
Income Balance (ex-remit)	(2,977)	(2,979)	(496)	(306)	(540)
Remittances	17,952	16,460	2,144	2,257	2,520
Capital Acc. Balance	139	153	20	21	37
Portfolio Investment	651	(386)	1,057	49	(63)
Foreign Direct Investment	1,168	1,048	110	168	219

Source: SBP, IGI Research

0.49bn from US$ 0.54bn in previous month, taking total period sum to US$ 2.98bn compared to US$ 2.98bn; unchanged.

Remittances down by 15% to US$ 2.14bn

Remittances, for the month clocked in at US$ 2.14bn (down by 5%y) lower by 15%m when compared to previous month inflow of US$ 2.52bn. However, for the 7 months period remittances are up by +9%y to US$ 17.95bn compared to US$ 16.46bn last year same period.

Portfolio investments recorded in US$ 1.0 international Sukuk proceeds

Under financial account balance, country received Foreign Direct Investments (FDI) of US$ 0.11bn taking period cumulative FDI inflow of US$ 1.17bn (up by +11%y). But more importantly, country recorded an inflow of US$ 1.06bn under portfolio investments during the month. This is in our view is owing to realisation of US$ 1.0bn international Sukuk Issued earlier during the month start. Nevertheless, total portfolio inflows for the period came at US$ 0.65bn compared to an outflow of US$ 0.39bn last year.

Outlook

Given the rising commodity prices, we project C/a deficit to remain elevated in the coming months. With limited foreign inflow expected in the near-term, rising C/a deficit will put a drain on country’s foreign exchange reserves which as of latest stand at US$ 16.81bn for SBP and US$ 6.42bn for schedule banks. Thus we can expect pressure on PKR USD parity in the near-term and bearing negative implication on domestic inflation.

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