Economy

Exhibit: Monthly C/A Balance in Deficit US$ 1.4bn

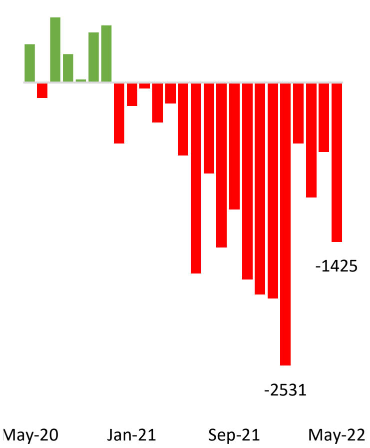
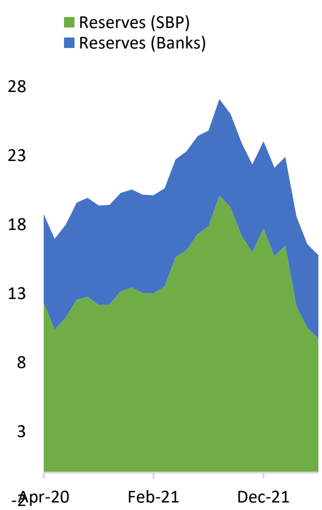


Exhibit: FX Reserves held with SBP and Banks



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Current Account Balance

May-22: C/a Deficit Printed US$ 1.4bn; Remittances and Exports Receipts down on monthly basis Amid Base Effect

- As per the latest data released by SBP for the month May-22, Pakistan's Current Account (C/A) balance recorded a deficit of US$ 1.43bn compared to previous month deficit of US$ 0.65bn (up +2.3x). This brings 11 months cumulative balance to post a deficit of US$ 15.2bn versus last year same period, a deficit of US$ 1.2bn, an increase of nearly 12x.
- For the month of June-22, Pakistan's trade deficit in goods came at US$ 3.2bn up by +11.7%m and 13.5% on a yearly basis. This deterioration in monthly trade deficit is primarily due to momentous fall in exports while languid decline in inelastic imports (last month trade deficit recorded 2.9bn). Remittances, for the month of May clocked in at US$ 2.3bn down by 25.3%m (-6.9%y) when compared to previous month inflow of US$ 3.13bn.
- We estimate CAD for this FY22 to post a cumulative deficit of US$ 16.3bn, but this figure is expected to come down below US$ 14bn in FY23 owing to normalization of commodity prices.

Monthly C/a Deficit rises to US$ 1.43bn; Remittances and Exports Receipts drop on account of High Base Effect

As per the latest data released by SBP for the month May-22, Pakistan's Current Account (C/A) balance recorded a deficit of US$ 1.43bn compared to previous month deficit of US$ 0.65bn (up +2.3x). This brings 11 months cumulative balance to post a deficit of US$ 15.2bn versus last year same period, a deficit of US$ 1.2bn, an increase of nearly 12x.

Exhibit: Country's Current account balance

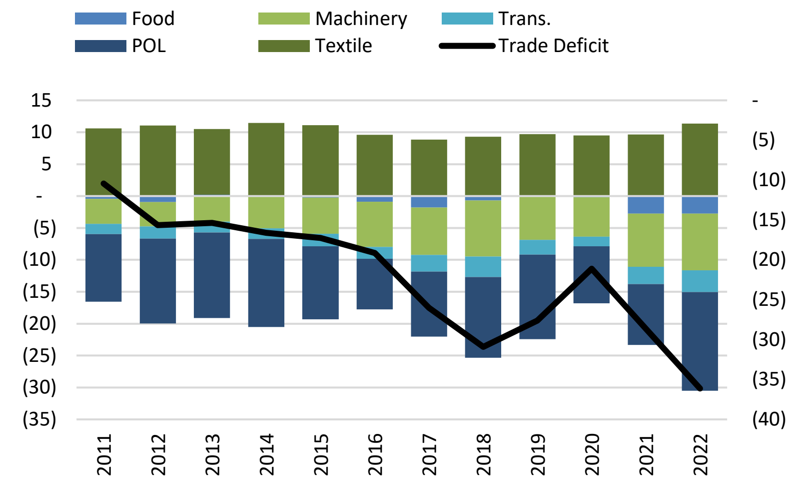
in US$ bn	May/22	m/m	y/y	11m/22	11m/21	y/y
C/a Bal.	(1.4)	2.3x	2.2x	(15.2)	(1.2)	12.9x
Exports	2.5	-21%	17%	29.3	23.1	27%
Imports	5.7	-6%	15%	65.5	48.0	36%
Trade Bal.	(3.2)	12%	13%	(36.1)	(24.8)	46%
Services Bal.	(0.4)	-4%	2.9x	(4.0)	(2.2)	78%
Income Bal. (ex-remit)	(0.2)	-61%	-7%	(3.5)	(0.9)	4.0x
Remittances	2.3	-25%	-7%	28.4	26.7	6%
Capital Acc. Balance	0.0	-73%	-50%	0.2	0.2	-7%
PI Inflows	(0.1)	2.7x	11.5x	(0.0)	2.2	n.m.
FDI Inflows	0.1	-18%	-29%	1.6	1.7	-5%

Source: SBP, IGI Research

Monthly exports tumbled by 21%m after Apr-22 historic high exports

For the month of May-22, Pakistan's trade deficit in goods came at US$ 3.2bn up by +11.7%m and 13.5% on a yearly basis. This deterioration in monthly trade deficit is primarily due to momentous fall in exports while languid decline in import bill (last month trade deficit recorded 2.9bn). In absolute terms on monthly basis, exports dropped by US$ 665mn compared to fall in imports by just US$ 331mn. LSM during the month of Apr-22 declined by 13.2%m owing to contractionary policies and energy constraints, while imports fell due to reduction in oil purchases and ban on luxury and non-essential items. Considering the 11m FY22 period gross trade deficit in goods now stands at US$ 36bn compared to US$ 24.8bn last year same period, an increase of nearly 46%y.

Exhibit: Pakistan Historic Commodity Group-wise Trade Balance
In US$bn



Flat lined services balance

Country's services deficit slightly dropped to US$ 0.38bn compared to US$ 0.4bn in previous month. This takes 11 months total services deficit to US$ 3.97bn compare to US$ 2.2bn last year same period; a 78.4%y growth. Income (ex-remittances) deficit shrink albeit merely to US$ 0.21bn from US$ 0.5bn in previous month, taking total period sum to US$ 3.5bn compared to US$ 0.9bn in FY21.

Remittances growth down by 25.3%m; plummeted after crossing US$ 3bn mark previously

Remittances, for the month of May clocked in at US$ 2.3bn down by 25.3%m (-6.9%y) when compared to previous month inflow of US$ 3.13bn. We believe this monthly fall in remittances is likely due reduced disposable income and high inflation globally as policy tightening is taking place everywhere else. Nevertheless, this takes 11mFy22 total remittances to US$ 28.4bn, up by +6.3%y.

SBP Reserves down to single digit; intimidating if higher deficit trend continues

As of latest FX Reserves stand at US$ 16.5bn (incl. US$ 2.3bn received from China), at this level, import coverage stands shy of 3 months (2.3 months excluding the US$ 2.3bn).

Outlook

We estimate C/a balance for this FY22 to post a cumulative deficit of US$ 16.3bn, but this figure is expected to come down below US$ 14bn in later FY23 owing to normalization of commodity prices, revitalization of exporting industries and higher remittances. In addition to that, bailout package possibly worth of US $2bn is expected to arrive in July as indicated by PM followed by more deposits by friendly countries to bolster dwindling reserves. This will likely reduce pressure on forex reserves and exchange rate to stabilize.

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