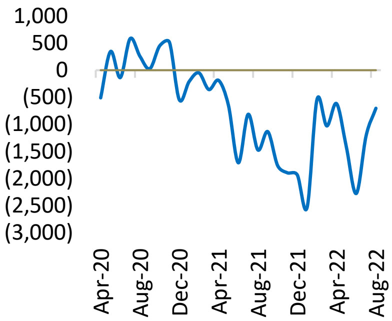
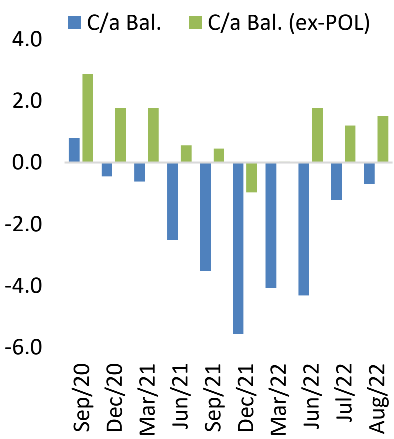
Economy

Exhibit: C/a trend since Aug-20 in US$ bn



Source: IGI Research, SBP

Exhibit: Quarterly C/a balance with and w/o oil imports (Jul-22 and Aug-22 in monthly basis)



Source: IGI Research, SBP

Current Account Balance

Aug-22: C/a Deficit Tapered Off to US$ 0.7bn supported by higher exports and lower oil imports

- For the month of Aug-22, current account balance printed a deficit of US$ 0.7bn compared to US$ 1.2bn recorded during the month of Jul-22. This brings 2 months cumulated balance to post a deficit of US$ 1.9bn versus last year same period a deficit of US$ 2.4bn, a decrease of 19%y/y.
- For the month, country's export receipts recorded at US$ 2.8bn, compared to last month it is up by 23%m/m, and on a yearly basis it is up by 20%y/y. Compared to exports, country's import bill printed US$ 5.75bn that slightly increased by 8%m/m, while dropped on yearly basis of 4%y/y.
- Real Effective Exchange Rate (REER), which is in index form with a base value of 100, recorded at 93.2 in Jul-22.
- Considering the tough measures taken by the ECC and SBP to curb hefty import bill and limit the C/a deficit, rollover and bailout packages from international lenders, along with recessionary outlook from global perspective that may drag down commodity prices in the near term, import bill will likely moderate going ahead and help rebuild country's dollar reserves.

We review current account balance numbers published for the month of Aug-22 by State Bank of Pakistan (SBP).

Monthly Current Account deficit printed US$0.7bn, significant improvement as SBP takes tough measures

For the month of Aug-22, Current Account balance printed a deficit of US$ 0.7bn compared to US$ 1.2bn recorded during the month of Jul-22. This brings 2 months cumulated balance to post a deficit of US$ 1.9bn versus last year same period a deficit of US$ 2.4bn, a decrease of 19%y/y. To recall, Pakistan has been reporting a deficit since Nov-20. From ex-oil C/a bal perspective, it is in surplus of US$ 1.5bn.

Exhibit: Monthly Current Account Balance
US$ mn

	Aug-22	Jul-22	m/m	Aug-21	y/y	2MFY23	2MFY22	y/y
Exports (G)	2,813	2,280	23%	2,339	20%	5,093	4,574	11%
Imports (G)	5,750	5,348	8%	5,967	-4%	11,098	11,338	-2%
Trade Bal.	(2,937)	(3,068)	-4%	(3,628)	-19%	(6,005)	(6,764)	-11%
Services Bal.	(361)	(248)	46%	(287)	26%	(609)	(675)	-10%
Remittances	2,724	2,524	8%	2,736	0%	5,248	5,419	-3%
Income Bal.	2,595	2,101	24%	2,572	1%	4,696	5,065	-7%
Current Acc. Bal.	**(703)**	**(1,215)**	**-42%**	**(1,343)**	**-48%**	**(1,918)**	**(2,374)**	**-19%**
Current Acc. Bal. (ex-Oil)	**1,511**	**1,205**	**25%**	**50**	**30x**	**2,716**	**56**	**48x**

Source: SBP, IGI Research

Exports up by 23% as Food and Textile groups rebound compared to drop in Jul-22

For the month, country's export receipts are recorded at US$ 2.8bn, compared to last month it is up by 23%m/m, and on a yearly basis it is up by 20%y/y. Aug-22 monthly export number is surprisingly higher than last year's monthly average export of US$ 2.7bn. This advancement in monthly exports is on the back of textile group particularly knitwear, bed wear, cotton cloth, etc. To recall, last month textile export reported a languid number of US$ 1.4bn compared to US$ 1.7bn in Aug-22. In addition, food group (mainly rice exports) and other manufacture exports further support overall export growth during the month.

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Exhibit: Monthly Trade Break-up Commodity wise US$ mn	Aug-22	Jul-22	m/m	Aug-21	y/y	2MFY23	2MFY22	y/y
Exports (G)	**2,813**	**2,280**	**23%**	**2,339**	**20%**	**5,093**	**4,574**	**11%**
Food Exports	430	386	12%	346	24%	816	656	24%
Textile Exports	1,707	1,442	18%	1,352	26%	3,149	2,709	16%
Other Exports	676	452	49%	641	5%	1,128	1,209	-7%
Imports (G)	**5,750**	**5,348**	**8%**	**5,967**	**-4%**	**11,098**	**11,338**	**-2%**
Food Imports	852	618	38%	690	23%	1,470	1,284	15%
Machinery Imports	581	504	15%	815	-29%	1,085	1,580	-31%
Transport Imports	146	121	21%	271	-46%	267	603	-56%
Petroleum Imports	2,214	2,420	-9%	1,393	59%	4,634	2,430	91%
Other Imports	1,956	1,686	16%	2,798	-30%	3,643	5,441	-33%

Source: SBP, IGI Research

Imports up by 8% despite fall in Petroleum group

Compared to exports, country's import bill is reported at US$ 5.75bn which increased slightly by +8%m/m, while dropping by 4%y/y. Despite fall in petroleum group imports that roughly accounted 39% of total import bill; food, machinery and transport groups posted a double digit growth. Major increase is witnessed in food group (primarily led by wheat, palm oil and pulses) as historic floods jeopardized availability of food products domestically and contributed in monthly inflation figure as supply loomed (link).

Remittances muted the impact of rise in imports, helped in narrowing current account deficit

Remittances, for the month of Aug-22 clocked in at US$ 2.7bn up by +8%m/m (+2%y/y) compared to previous month inflow of US$ 2.5bn. This takes 2mFy23 total remittances to US$ 5.2bn, down by 3%y/y. However, increase in remittances during the month aided in partially offsetting impact of rise in imports. During the month, major contributions came from Saudi Arabia of US$ 0.6bn, followed by U.A.E and UK of US$ 0.53bn and US$ 0.37bn respectively.

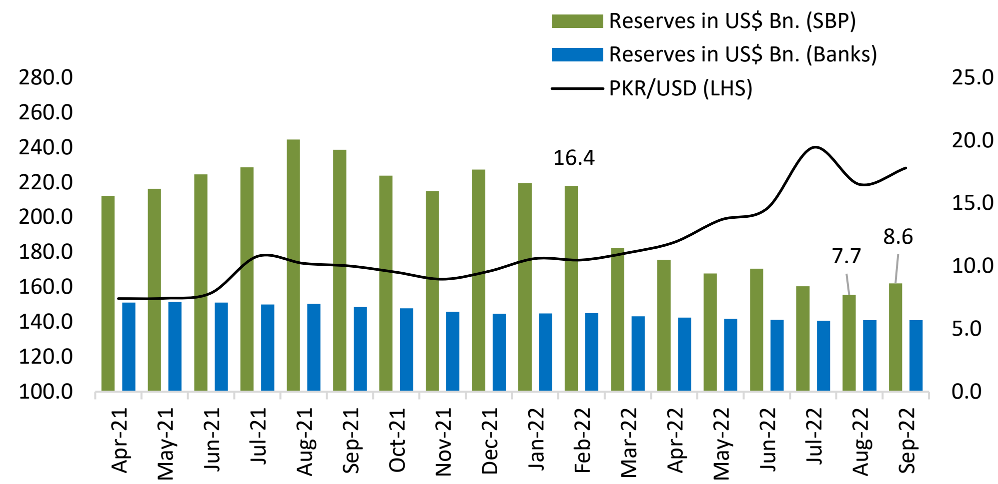
Visible effect of REER coupled with indirect import restrictions helped narrowed deficit

Real Effective Exchange Rate (REER), which is in index form with a base value of 100, recorded at 93.2 in Jul-22. This is the lowest level seen since Jun-19 where REER touched 90, and indicates competitiveness of domestic goods and services. This relates with J-curve effect where imports become expensive while exports gain competitiveness in international markets. Coupled with indirect restrictions by the ECC and SBP have arrested mounting import bill.

Recovery in SBP reserves and lower CAD to arrest freefall of PKR

During the end of Aug-22, SBP reported US$ 7.7bn as net reserves, while the gross amount was US$ 13.4bn when banks are included. Soon after the IMF board's approval of combined 7th and 8th review and disbursement of EFF tranche of US$ 1.1bn or SDR 894mn (link), SBP's reserves increased to US$8.8bn by first week of Sep-22. Moreover, lower C/a deficit and rollover of loan in safe deposits from China (link) has helped in providing stability to reserves which fell sharply from US$ 16.4bn in Feb-22 to US$ 7.7bn by end of Aug-22.

Exhibit: IMF deposits in Aug-22 supported recovery in SBP reserves and arrested further PKR depreciation



Outlook

Considering the tough measures taken by the ECC and SBP to curb hefty import bill and limit the C/a deficit, rollover and bailout packages from international lenders, along with recessionary outlook from global perspective that may drag down commodity prices in the near term, import bill will likely moderate going ahead and help rebuild country's dollar reserves.

However, as long as commodity supply shock persists in international markets, prices will remain elevated once demand begins to tick up as we go forward in medium to long term.

Moreover, SBP recently announced that Saudi Fund for Development (SFD) has confirmed rollover of US$ 3bn deposit maturing in Dec-22 for one year, further strengthening the recovery process. Furthermore, the draft paper from United Nations Development Programme (UNDP) argues that creditors should consider debt relief and proposes some restructuring or debt swaps, whereby creditors would forgo repayments in return for Pakistan agreeing to invest in climate change resilient infrastructure (link).