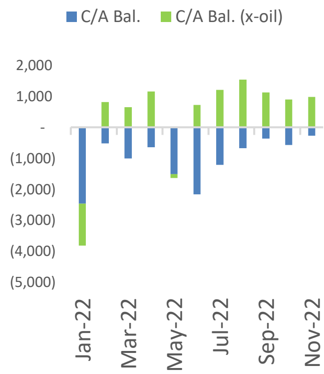
Economy

Exhibit: C/a trend since Jan-22 in US$ bn



Source: IGI Research, SBP

Analyst
Abdullah Farhan
Abdullah.Farhan@igi.com.pk
Tel: +92 21 111 234 234 Ext: 912

Aariz Raza
Aariz.Raza@igi.com.pk
Tel: +92 21 111 234 234 Ext: 810

Current Account Balance

C/A Deficit Shrinks to 0.28bn Amid Remittances Drop

- For the month of Nov-22, C/a balance registered a deficit of US$ 0.28bn compared to US$ 0.57bn recorded during the month of Oct-22. This brings 5mFY23 cumulated balance to post a deficit of US$ 3.1bn versus last year same period a deficit of US$ 7.2bn, a decrease of 57%y/y.
- For the month, trade balance recorded at deficit of US$ 2bn compared to previous month deficit of US$ 2.3bn, down by 12%m/m. The numbers are more impressive when compared on a yearly basis as it has reduced by 44%y/y and from peak level of US$ 3.98bn back in Jun-22.
- Similarly, remittances for the month clocked in at US$ 2.1bn down by 5%m/m and 14% on y/y basis. Remittances are now close to a level last seen in Sep-20.
- C/a deficit has been curtailed under US$1.0bn since Aug-22, averaging US$ ~0.47bn now. This has been effectively done by the government through restrictions on LCs and non-essential import items, which has narrowed import of goods substantially over the last few months.

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

Monthly Current Account deficit shrinks to US$0.28bn as imports further drop

For the month of Nov-22, C/a balance registered a deficit of US$ 0.28bn compared to US$ 0.57bn recorded during the month of Oct-22. This brings 5mFY23 cumulated balance to post a deficit of US$ 3.1bn versus last year same period a deficit of US$ 7.2bn, a decrease of 57%y/y. To recall, Pakistan has been reporting a deficit since Dec-20. Ex-oil Current account balance reported a surplus of US$ 1bn for the month up by 9%m/m.

Exhibit: Monthly Current Account Balance

US$ mn	**Nov-22**	Oct-22	m/m	Nov-21	y/y	5MFY23	5MFY22	y/y
Exports (G)	2,238	2,284	-2%	2,737	-18%	12,065	12,313	-2%
Imports (G)	4,263	4,579	-7%	6,339	-33%	24,872	29,664	-16%
Trade Bal.	(2,025)	(2,295)	-12%	(3,602)	-44%	(12,807)	(17,351)	-26%
Services Bal.	(65)	(159)	-59%	(403)	-84%	(865)	(1,713)	-50%
Remittances	2,108	2,216	-5%	2,460	-14%	12,009	13,288	-10%
Income Bal.	1,814	1,885	-4%	2,076	-13%	10,573	11,830	-11%
Current Acc. Bal.	**(276)**	**(569)**	**-51%**	**(1,929)**	**-86%**	**(3,099)**	**(7,234)**	**-57%**
Current Acc. Bal. (ex-Oil)	**978**	**899**	**9%**	**(310)**	**-316%**	**5,741**	**(140)**	**n.m.**

Source: SBP, IGI Research

Trade deficit narrowed to a level last seen in Dec-20…

For the month, trade balance recorded at deficit of US$ 2bn compared to previous month deficit of US$ 2.3bn, down by 12%m/m. The numbers are more impressive when compared on a yearly basis as it has reduced by 44%y/y and from peak level of US$ 3.98bn back in Jun-22.

…as imports narrowed

The reduction in trade deficit is mainly down to country's import bill receded to US$ 4.3bn down 7%m/m and 33%y/y basis. Major retraction in import bill, was witnessed under import of petroleum products, which declined by 15%m/m to US$ 1.25bn and more than halved when compared to Jun-22 import bill of US$ 2.8bn. Followed by petroleum products, major reduction was seen in machinery (down by 12%m/m) and then food products (5%m/m).

…while exports shrink meagerly

Country's export receipts recorded at US$ 2.2bn compared to last month of US$ 2.3bn, down by 2%m/m and 18%y/y basis. Nov-22 monthly export number is slightly lower than last month due to fall in textile exports.

Exhibit: Monthly Trade Break-up Commodity wise

US$ mn	Nov-22	Oct-22	m/m	Nov-21	y/y	5MFY23	5MFY22	y/y
Exports (G)	**2,238**	**2,284**	**-2%**	**2,737**	**-18%**	**12,065**	**12,313**	**-2%**
Food Exports	358	323	11%	481	-25%	1,863	1,850	1%
Textile Exports	1,425	1,491	-4%	1,548	-8%	7,672	7,201	7%
Other Exports	455	470	-3%	709	-36%	2,530	3,261	-22%
Imports (G)	**4,263**	**4,579**	**-7%**	**6,339**	**-33%**	**24,872**	**29,664**	**-16%**
Food Imports	659	690	-5%	705	-7%	3,640	3,392	7%
Machinery Imports	386	440	-12%	792	-51%	2,366	3,810	-38%
Transport Imports	124	114	9%	291	-57%	647	1,552	-58%
Petroleum Imports	1,254	1,468	-15%	1,619	-23%	8,840	7,094	25%
Other Imports	1,840	1,868	-1%	2,933	-37%	9,379	13,815	-32%

Source: SBP, IGI Research

Remittances also drop sharply to a 2-year low

Similarly, remittances for the month clocked in at US$ 2.1bn down by 5%m/m and 14% on y/y basis. Remittances are now close to a level last seen in Sep-20. Country-wise, Saudi Arabia and UAE witnessed the largest decline of ~20%y/y ach followed by other GCC registering a 13.5%y/y decline. Nevertheless, on a 5mFy23 cumulative basis, total remittances now stand at US$ 12bn, down by 10%y/y.

Exhibit: Monthly Remittances Break-up Country wise

US$ mn	Nov-22	Oct-22	m/m	Nov-21	y/y	5MFY23	5MFY22	y/y
USA	229	253	**-9%**	244	**-6%**	1,299	1,245	**4%**
U.K.	299	279	7%	314	-5%	1,667	1,806	-8%
Saudi Arabia	498	570	-13%	622	-20%	2,957	3,407	-13%
UAE	378	427	-12%	475	-20%	2,267	2,555	-11%
Other GCC	257	258	**0%**	298	**-14%**	1,393	1,508	**-8%**
EU	245	233	5%	267	-8%	1,307	1,460	-11%
Other	201	195	3%	240	-16%	1,119	1,304	-14%
Total	**2,108**	**2,216**	**-5%**	**2,460**	**-14%**	**12,009**	**13,287**	**-10%**

Source: SBP, IGI Research

Exhibit: Import Coverage
Export and Remittance coverage of total import finally starting to turn positive with latest data of Nov-22 reporting US$83mn surplus (exports remittances –imports)

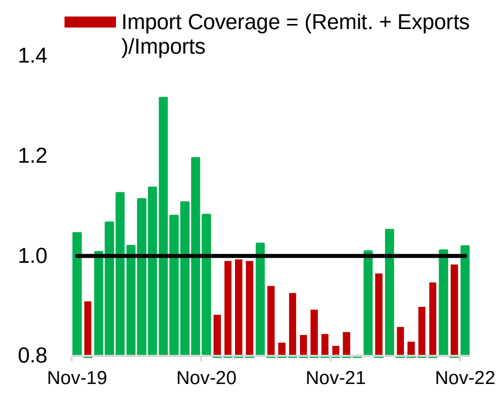
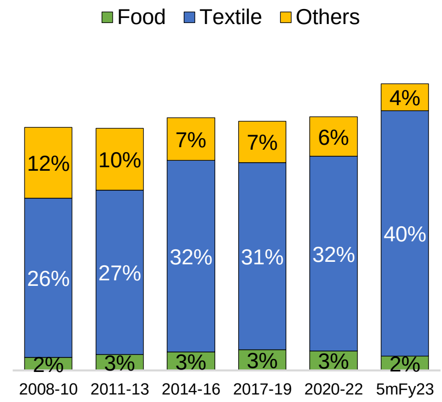


Exhibit: Pakistan HHI for Exports
Country's export concentration has increased from 26% back in 2008-10 to current 40% in 5MFY23. Increased energy shortages and slowing global growth could potentially derail export momentum picked up in Fy23.



Source: SBP, IGI Research

Outlook

C/a deficit has been curtailed under US$1.0bn since Aug-22, averaging US$ ~0.47bn now. This has been effectively done by the government through restrictions on LCs and non-essential import items, which has narrowed import of goods substantially over the last few months. During the FY22, imports averaged US$ 6bn compared to 5MFY23 average of US$ 4.9bn, down by roughly US$ 1.1bn on average. Exports on the other hand have remained stagnant primarily due to lower export orders from Europe and USA.

Looking ahead, government likely to continue restrictions on imports and will eventually liberate once bilateral and multilateral flows begin to pour in from friendly countries and international institutions in second half of FY23. BOP for the month of Dec-22 likely to witness build up in reserves despite major outflow in the form of debt repayment (International Sukuk) of US$1bn during the 1st week of Dec-22. Saudi Fund for Development (SFD) extended the term for deposits US$ 3bn to support dwindling reserves, and according to Finance Minister another US$ 3bn is expected soon. On IMF front, for the 9th review to be successful and unlock another tranche, government has revised macroeconomic outlook post floods and been engaging with the IMF to evaluate fiscal, monetary, exchange rate, and energy policies adopted since the last 7th and 8th reviews in Aug-22.

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IGI Finex Securities Limited
Research Analyst(s)
Research Identity Number: BRP009

Contact Details

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Syeda Mahrukh Hameed	Branch Manager (Lahore)	Tel: (+92-42) 38303564	mahrukh.hameed@igi.com.pk
Shakeel Ahmad	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	shakeel.ahmad1@igi.com.pk
Zaid Farook	Branch Manager (Stock Exchange) Karachi	Tel: (+92-21) 32462651-52	zaid.farook@igi.com.pk
Asif Saleem	Equity Sales (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Equity Sales (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Aariz Raza	Analyst	Tel: (+92-21) 111-234-234 Ext: 810	Aariz.raza@igi.com.pk
Ajay Kumar	Analyst	Tel: (+92-21) 111-234-234 Ext: 912	ajay.kumar@igi.com.pk
Huzaifa Yaseen	Analyst	Tel: (+92-21) 111-234-234 Ext: 912	huzaifa.yaseen@igi.com.pk

IGI Finex Securities Limited
Trading Rights Entitlement Certificate (TREC) Holder of Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited
Website: www.igisecurities.com.pk

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,

Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780

Stock Exchange Office

Room # 134, 3rd Floor, Stock Exchange Building,

Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Lahore Office

Shop # G-009, Ground Floor,

Packages Mall
Tel: (+92-42) 38303560-69
Fax: (+92-42) 38303559

Islamabad Office
Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Faisalabad Office
Office No. 2, 5 & 8, Ground Floor, The Regency International 949, The Mall
Faisalabad
Tel: (+92-41) 2540843-45

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,

Model Town, Town Hall Road
Tel: (+92-68) 5871652-3
Fax: (+92-68) 5871651

Multan Office
Mezzanine Floor, Abdali Tower,
Abdali Road
Tel: (92-61) 4512003, 4571183

IGI Finex Securities Limited
Research Analyst(s)
Research Identity Number: BRP009