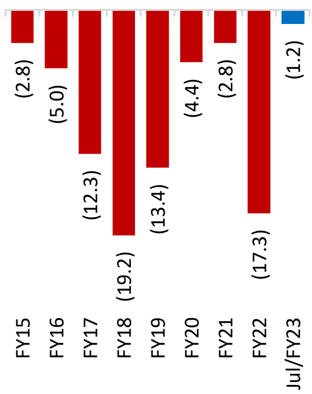
Daybreak

Thursday, 25 August 2022

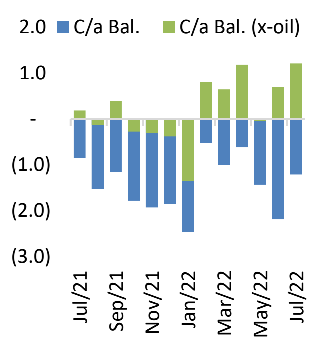
Economy

Exhibit: Jul-22 C/a deficit off to a high start



Source: IGI Research, SBP

Exhibit: Monthly C/a balance with and w/o oil imports



Source: IGI Research, SBP

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Current Account Balance

Jul-22: C/a Deficit Narrows to US$ 1.2bn; but Remain High

- For the month of Jul-22, current account balance reported a deficit of US$ 1.2bn compared to US$ 2.2bn recorded during the month of Jun-22. To recall, Pakistan has been reporting a deficit since Nov-20.
- For the month, country's exports receipts recorded at US$ 2.3bn, compared to last month it is down by +27%m/m and on a yearly basis it is up by +3%y/y. Compared to exports, country's import bill decline relatively less on a monthly basis. For the month, import bill came at US$ 5.4bn, down by 23%m/m (or flattish growth on year on year basis).
- Lately, some external positive sentiments from the IMF and friendly nations have improved the external outlook for the ongoing FY23 as stated by the SBP (link), trade activities likely to moderate going ahead.

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

Monthly Current account deficit recorded at US$ 1.2bn, some improvements between the lines

For the month of Jul-22, current account balance reported a deficit of US$ 1.2bn compared to US$ 2.2bn recorded during the month of Jun-22. To recall, Pakistan has been reporting a deficit since Nov-20. However, ex-oil imports, country C/a balance is in surplus of US$ 1.2bn.

Exhibit: Monthly Current Account Balance
In US$mn

	Jul-22	Jun-22	m/m	Jul-21	y/y
Current Account Bal.	(1,210)	(2,187)	-45%	(851)	42%
Current Account Bal. (ex. Oil)	1,210	706	71%	186	549%
Exports	2,295	3,135	-27%	2,235	3%
Imports	5,385	7,033	-23%	5,371	0%
Trade Bal.	(3,090)	(3,898)	-21%	(3,136)	-1%
Services Bal.	(260)	(682)	-62%	(287)	-9%
Remittances	2,524	2,761	-9%	2,736	-8%
Income Bal.	2,140	2,393	-11%	2,572	-17%

Source: SBP, PBS IGI Research

Exports down by 27% as textile exports takes a hit

For the month, country's exports receipts recorded at US$ 2.3bn, compared to last month it is down by +27%m/m and on a yearly basis it is up by +3%y/y. Jul-22 monthly export number is less than, when also compared to last year average monthly export of US$ 2.7bn. Nevertheless, during the month, textile exports having a weightage of 62% declined sharply to US$ 1.4bn, down by 20%m/m. This is followed by food sector down by 34% to US$ 0.4bn having a weight of 17%.

Exhibit: Monthly Exports Break-up
In US$mn

	Jul-22	Jun-22	m/m	Jul-21	y/y
Exports	2,295	3,135	-27%	2,235	3%
Food Exports	386	586	-34%	310	24%
Textile Exports	1,442	1,803	-20%	1,357	6%
Other Exports	467	746	-37%	567	-18%

Source: SBP, PBS IGI Research

Relief on petroleum imports covered by rise in food imports; visible decline on non-essential items

Compared to exports, country's import bill decline relatively less on a monthly basis. For the month, import bill came at US$ 5.4bn, down by 23%m/m (or flattish growth on year on year basis). Higher food imports worth US$ 0.6bn compared to last month US$ 0.3bn (up by +73%m/m) was a major reason for higher import bill during the month.

Exhibit: Monthly Imports break-up
In US$mn

	Jul-22	Jun-22	m/m	Jul-21	y/y
Imports	5,385	7,033	-23%	5,371	0%
Food Imports	618	356	73%	593	4%
Machinery Imports	504	764	-34%	765	-34%
Transport Imports	121	190	-37%	333	-64%
Petroleum Imports	2,420	2,893	-16%	1,037	133%
Other Imports	1,723	2,830	-39%	2,643	-35%

Source: SBP, PBS IGI Research

As a result of decline in import bill and quantum, country's trade terms improved to post a deficit of US$ 3.1bn compared to last month of US$3.9bn; reduced by US$ 0.8bn. Having said that, the disparity between the PBS trade stats and SBP has turned negative, meaning SBP recorded a higher value of trade deficit compared to publish by PBS.

Exhibit: Trade Statistics as per SBP and PBS
In US$mn

	Jul-22	Jun-22	m/m	Jul-21	y/y
Trade Statistics as per SBP					
Exports	2,295	3,135	-27%	2,235	3%
Imports	5,385	7,033	-23%	5,371	0%
Trade Bal.	(3,090)	(3,898)	-21%	(3,136)	-1%
Trade Statistics as per PBS					
Exports	2,254	2,918	-23%	2,340	-4%
Imports	4,993	7,880	-37%	5,575	-10%
Trade Bal.	(2,739)	(4,962)	-45%	(3,235)	-15%
Difference (PBS-SBP)					
Exports	(41)	(217)		105	
Imports	(392)	847		204	
Trade Bal.	351	(1,064)		(99)	

Source: SBP, PBS IGI Research

Exhibit: Difference in SBP and PBS recorded Import Bill
in US$mn

	Food	Machinery	Transport	Petroleum	Other	Total
SBP	618	504	121	2,420	1,723	5,385
PBS	763	628	209	1,436	1,957	4,993
Diff. (PBS-SBP)	**146**	**124**	**89**	**(984)**	**234**	**(392)**

Key reason of trade difference between SBP and PBS

During the month major difference came under the head of petroleum products of US$ 984mn. While the disparity has been witnessed in past, we highlight a key difference between the SBP and PBS data values are;

- The **SBP data** is based on the manual 6 provided by International Monetary Fund (IMF) Balance of Payment Manual (BPM-6) and is recorded on **Freight on Board (FOB) basis**.

- Whereas **PBS data** is on **Cost, Insurance & Freight (c. i. f.) basis**.
- The **SBP export and imports** are based on realization of export proceeds and import payments made through the **banking channel**. Information on exports and imports unaccounted for by the banking channel are collected from the relevant sources and added to the exports /imports data reported by banks to arrive at the overall trade exports and imports.
- The trade data of **PBS is**, on the other hand, **based on physical movement of goods** crossing the custom boundaries of Pakistan.

Relaxed cash margin requirements to boost economic activity: Earlier in Jun-22 along with higher import duties, SBP also stringent regulatory measures such as increasing cash margin requirement (CMR) to 100% for import of non-essential and consumer goods (link) discouraging imports. However, as per the newsprint these cash margins has been relaxed recently (link). The core reason for relaxing CMR is to boost economic activity. A similar cash margin requirement (CMR) was introduced back in Sep-21 (link). Back then also the CMR was re-introduced to discourage imports of largely non-essential and consumer goods.

Easing Oil prices: The lower deficit figure for the month of Jul-22 compared to June-22 is primarily due to oil stock build-up in June-22, when prices were at peak. However, oil prices topped in June and since then has been gradually on a declining trend.

Currency finally finding its ground: Moreover, volatile exchange currency movement also to an extent paralyzed trading activities, and continued till first week of August. Lately, some external positive sentiments from the IMF and friendly nations have improved the external outlook for the ongoing FY23 as stated by the SBP (link).

Outlook:

Looking ahead reduced CMR, stable currency and easing oil prices presents a mix outlook on country's trade terms going forward.

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