Economy

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

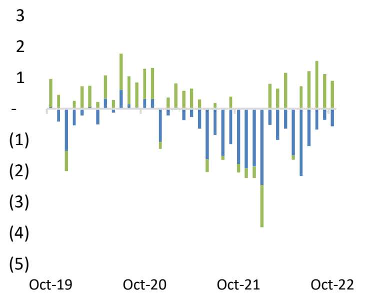
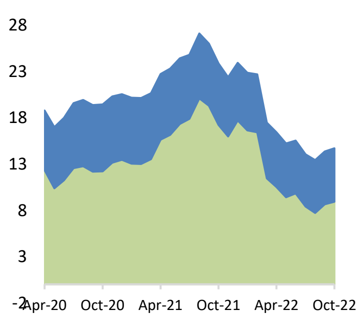


Exhibit: FX Reserves with SBP and Banks



Source: IGI Research, SBP

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Current Account Balance

Oct-22: C/a Deficit Edges Up to US$ 0.57bn as Remittances & Exports Drop

- For the month of Oct-22, C/a balance registered a deficit of US$ 0.57bn compared to US$ 0.36bn recorded during the month of Sep-22. This brings 4mFY23 cumulated balance to post a deficit of US$ 2.82bn versus last year same period a deficit of US$ 5.31bn, a decrease of 47%y/y.
- Remittances for the month of Oct-22 clocked in at US$ 2.2bn down by 9%m/m basis compared to previous month inflow of US$ 2.4bn that slightly deteriorated C/a balance to US$ 0.57bn.
- Having said that, for our base case we estimate current account deficit is likely to average US$ 0.6-0.7bn in the remainder of FY23. This will effectively take total FY23 C/a deficit to US$ 7.6-8.5bn or under 2.5% of the gdp. For our bull case, where we expect rapid growth in non-oil imports combined with significant decline in country's export and remittances C/a deficit may jump to US$ 1.0bn monthly, taking FY23 total C/a deficit to US$ 10.8bn or 3.0% of the gdp (IMF projected: US$ 9.2bn or 3.0-3.5% of the gdp).

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

Monthly Current Account deficit recorded US$0.57bn as remittances fall

For the month of Oct-22, C/a balance registered a deficit of US$ 0.57bn compared to US$ 0.36bn recorded during the month of Sep-22. This brings 4mFY23 cumulated balance to post a deficit of US$ 2.82bn versus last year same period a deficit of US$ 5.31bn, a decrease of 47%y/y. To recall, Pakistan has been reporting a deficit since Dec-20. Ex-oil Current account balance reported a surplus of US$ 0.9bn for the month down by 20%m/m.

Exhibit: Monthly Current Account Balance

US$ mn	Oct-22	Sep-22	m/m	Oct-21	y/y	4MFY23	4MFY22	y/y
Exports (G)	2,282	2,450	-7%	2,339	-2%	9,825	9,576	3%
Imports (G)	4,587	4,834	-5%	5,967	-23%	20,617	23,325	-12%
Trade Bal.	(2,305)	(2,384)	-3%	(3,628)	-36%	(10,792)	(13,749)	-22%
Services Bal.	(171)	(166)	3%	(287)	-40%	(812)	(1,310)	-38%
Remittances	2,216	2,437	-9%	2,736	-19%	9,901	10,828	-9%
Income Bal.	1,909	2,187	-13%	2,572	-26%	8,783	9,754	-10%
Current Acc. Bal.	**(567)**	**(363)**	**56%**	**(1,343)**	**-58%**	**(2,821)**	**(5,305)**	**-47%**
Current Acc. Bal. (ex-Oil)	**901**	**1,121**	**-20%**	**159**	**5.7x**	**4,765**	**170**	**28.0x**

Source: SBP, IGI Research

Exports down 7%m/m dragged by food and textile groups

For the month, country's export receipts recorded at US$ 2.3bn compared to last month of US$ 2.5bn, down 7%m/m, and on a yearly basis it is down by 2%y/y. Oct-22 monthly export number is lower than last year's monthly average export of US$ 2.7bn. This drop in monthly exports is on the back of textile, leather, and food items mainly rice.

Imports slightly fell by 5%m/m mainly due to food, machinery and transport groups

During the month of Oct-22, country's import bill receded albeit slightly to US$ 4.6bn down 5%m/m and 23%y/y. During the month, food imports softened to US$ 0.69bn compared to last month US$ 0.82bn, a drop by 16%m/m, indicating food import pivoting post high imports following Jul 2022 floods. In addition, transport group mainly consisting of CBU and CKD units acutely fell by 20%m/m, while Petroleum and machinery groups remained relatively stagnant.

Exhibit: Monthly Trade Break-up Commodity wise

US$ mn	Oct-22	Sep-22	m/m	Oct-21	y/y	4MFY23	4MFY22	y/y
Exports (G)	**2,282**	**2,450**	**-7%**	**2,375**	**-4%**	**9,825**	**9,576**	**3%**
Food Exports	323	366	-12%	354	-9%	1,505	1,370	10%
Textile Exports	1,491	1,607	-7%	1,435	4%	6,247	5,653	11%
Other Exports	468	477	-2%	586	-20%	2,073	2,553	-19%
Imports (G)	**4,587**	**4,834**	**-5%**	**5,930**	**-23%**	**20,617**	**23,325**	**-12%**
Food Imports	690	822	-16%	709	-3%	2,982	2,687	11%
Machinery Imports	440	455	-3%	715	-38%	1,980	3,018	-34%
Transport Imports	114	142	-20%	319	-64%	523	1,262	-59%
Petroleum Imports	1,468	1,484	-1%	1,502	-2%	7,586	5,475	39%
Other Imports	1,876	1,931	-3%	2,686	-30%	7,547	10,883	-31%

Source: SBP, IGI Research

Remittances

Remittances for the month of Oct-22 clocked in at US$ 2.2bn down by 9%m/m basis compared to previous month inflow of US$ 2.4bn that slightly deteriorated C/a balance to US$ 0.57bn. This takes 4mFy23 total remittances to US$ 9.9bn, down by 9%y/y. During the month, major contributions came from Saudi Arabia of US$ 0.57bn, followed by U.A.E and UK of US$ .43bn and US$ 0.28bn respectively.

Exhibit: Growth in Remittances Tapered Off Since Apr-22

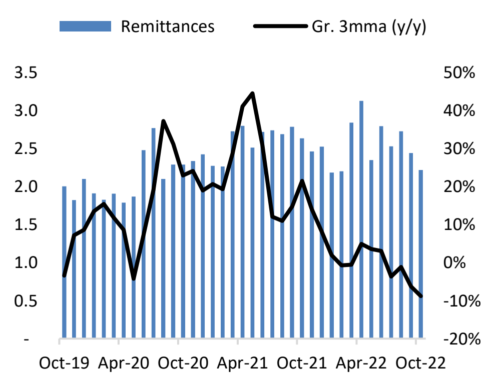
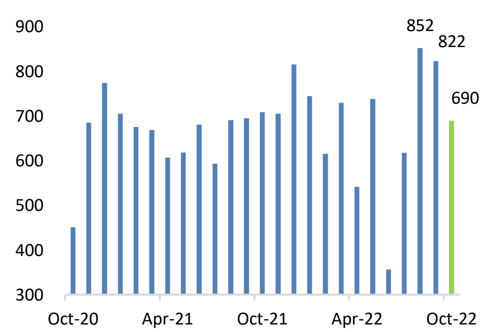


Exhibit: Food import pivoting post high imports following Jul 2022 floods.



Source: SBP, IGI Research

US$1.5bn Disbursement by ADB supported dwindling SBP FX reserves

From Balance of Payment (BoP) perspective, overall balance came positive at US$ 1.17bn that increased SBP FX reserves by same amount. Under financial account general government disbursement, there is a major inflow of US$1.5bn in the form of loan package came under (BRACE) facility designed by Asian Development Bank (ADB) to cushion the impact of external and flood shocks. This significant funding will help the government widen the fiscal space to absorb the shocks.

Some other major developments that are likely to take place in coming months include:

- US$ 0.5bn as co-financing for the BRACE development program from the Asian Infrastructure Investment Bank (AIIB) to support SBP FX reserves likely (link).

- Sovereign Sukuk of US$ 1bn is due for repayment on 5th December, 2022. This will create some downward pressure on FX reserves.
- IMF 9th review likely to be initiated soon as the government strives to complete the prior conditions. This successful completion of review by IMF will entail country unlock significant funding providing crucial support to Pakistan's foreign exchange reserve.

Outlook

C/a Balance has been curtailed under US$1.0bn since Aug-22, averaging US$ ~0.5bn. Primarily this is due to government effectively able to curtail non-oil import bill under US$ 3.3bn for 4MFY23 compared to an average of US$ 4.4bn during FY22; down by 27%. A key reason for this slowdown has been government ban on non-essential items and limiting line of credit for importers. As a result, overall production line was hampered, such as for automobile and textile sector.

During the period 4MFY23, both exports and remittances have also suffered. During the 4MFY23, exports & remittances averaged US$ 4.9bn compared to last year average of US$ 5.3bn, a decline of 7%. This is drop in exports and remittances is rather concerning.

Particularly, with respect to given elevated energy prices. Moreover, as per media reports country's non-oil imports which have been kept at bay, will eventually size up in coming months. Mainly as domestic production resumes.

Having said that, for our base case we estimate current account deficit is likely to average US$ 0.6-0.7bn in the remainder of FY23. This will effectively take total FY23 C/a deficit to US$ 7.6-8.5bn or under 2.5% of the gdp. For our bull case, where we expect rapid growth in non-oil imports combined with significant decline in country's export and remittances C/a deficit may jump to US$ 1.0bn monthly, taking FY23 total C/a deficit to US$ 10.8bn or 3.0% of the gdp (IMF projected: US$ 9.2bn or 3.0-3.5% of the gdp). This is still considerably less than FY22 total c/a deficit of US$ 17.4bn.

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