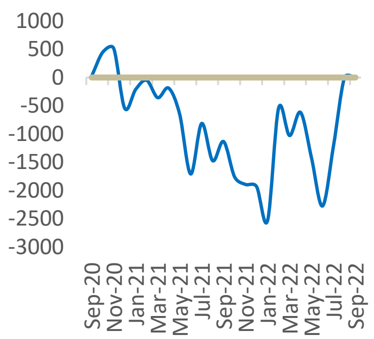
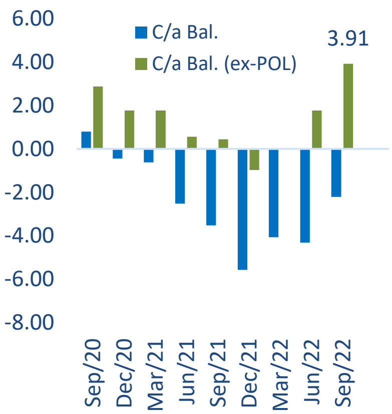
Economy

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



Source: IGI Research, SBP

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



Source: IGI Research, SBP

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Current Account Balance

Sep-22: C/a Deficit Further Narrowed to US$ 0.3bn as Imports Sharply Dropped

- For the month of Sep-22, C/a balance printed a deficit of US$ 0.32bn compared to US$ 0.68bn recorded during the month of Aug-22. This brings 3 months cumulated balance to post a deficit of US$ 2.21bn versus last year same period a deficit of US$ 3.53bn, a decrease of 37%y/y.
- During the end of Sep-22, SBP reported US$ 7.9bn as net reserves, while the gross amount was US$ 13.6bn when banks are included. The government is taking measures to rebuild FX reserves that merely cover less than 2 months of imports. According to recent IMF projections, gross external financing requirement for the FY23 is roughly US$ 31bn, out of which US$ 9.2bn is allocated to cover for C/a deficit.
- C/a deficit came lower consecutively for the past two months primarily due to administrative measures taken by the SBP and the government.

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

Monthly Current Account deficit recorded US$0.3bn as trade deficit sharply falls

For the month of Sep-22, C/a balance printed a deficit of US$ 0.32bn compared to US$ 0.68bn recorded during the month of Aug-22. This brings 3 months cumulated balance to post a deficit of US$ 2.21bn versus last year same period a deficit of US$ 3.53bn, a decrease of 37%y/y. To recall, Pakistan has been reporting a deficit since Nov-20. Considering ex-oil Current account balance reported surplus of US$ 1.17bn for the month down by 24%m/m.

Exhibit: Monthly Current Account Balance
US$ mn

	Sep-22	Aug-22	m/m	Sep-21	y/y	3MFY23	3MFY22	y/y
Exports (G)	2,501	2,813	-11%	2,339	7%	7,594	7,201	5%
Imports (G)	4,822	5,848	-18%	5,967	-19%	16,018	17,395	-8%
Trade Bal.	(2,321)	(3,035)	-24%	(3,628)	-36%	(8,424)	(10,194)	-17%
Services Bal.	(172)	(227)	-24%	(287)	-40%	(647)	(877)	-26%
Remittances	2,437	2,724	-11%	2,736	-11%	7,685	8,199	-6%
Income Bal.	2,177	2,586	-16%	2,572	-15%	6,864	7,545	-9%
Current Acc. Bal.	**(316)**	**(676)**	**-53%**	**(1,343)**	**-76%**	**(2,207)**	**(3,526)**	**-37%**
Current Acc. Bal. (ex-Oil)	**1,168**	**1,538**	**-24%**	**201**	**482%**	**3,911**	**448**	**774%**

Source: SBP, IGI Research

Exports down by 11% as Food and Textile groups recorded lower figures

For the month, country's export receipts are recorded at US$ 2.5bn, compared to last month of US$ 2.8bn, down by 11%m/m, and on a yearly basis it is down by 5%y/y. Sep-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 group particularly cotton yarn, bed wear, readymade garments, etc. To recall, last month textile export posted a higher number of US$ 1.7bn compared to US$ 1.6bn in Sep-22. In addition, food group mainly rice and fruit exports further hindered overall exports during the month; however, other manufacture exports that include sports, cement, leather, plastic, chemical and pharmaceutical products posted a positive growth that partially netted off drop in textile and food groups.

Exhibit: Monthly Trade Break-up Commodity wise
US$ mn

	Sep-22	Aug-22	m/m	Sep-21	y/y	3MFY23	3MFY22	y/y
Exports (G)	**2,501**	**2,813**	**-11%**	**2,627**	**-5%**	**7,594**	**7,201**	**5%**
Food Exports	366	430	-15%	360	2%	1,182	1,016	16%
Textile Exports	1,607	1,707	-6%	1,509	6%	4,756	4,218	13%
Other Exports	528	676	-22%	758	-30%	1,656	1,967	-16%
Imports (G)	**4,822**	**5,848**	**-18%**	**6,057**	**-20%**	**16,018**	**17,395**	**-8%**
Food Imports	822	852	-4%	695	18%	2,292	1,979	16%
Machinery Imports	455	581	-22%	723	-37%	1,540	2,304	-33%
Transport Imports	142	146	-3%	340	-58%	409	943	-57%
Petroleum Imports	1,484	2,214	-33%	1,544	-4%	6,118	3,974	54%
Other Imports	1,919	2,054	-7%	2,755	-30%	5,659	8,196	-31%

Source: SBP, IGI Research

Imports dipped by 22% mainly due to petroleum and machinery imports

During the month of Sep-22, country's import bill recorded at US$ 4.8bn that dipped by 18%m/m and 20%y/y basis. Relative to fall in exports, imports dropped sharply that helped contain trade deficit to US$2.3bn (down by 24%m/m). Petroleum and machinery imports dropped by 33%m/m and 22%m/m respectively, whereas food, transport and other imports also posted slightly lower figures during the month. Food imports remained above its last year monthly average of US$ 0.66bn primarily due to shortfalls in domestic market in the aftermath of historic floods.

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

Remittances for the month of Sep-22 clocked in at US$ 2.4bn down by 11%m/m basis compared to previous month inflow of US$ 2.7bn that helped contain C/a deficit to US$ 0.6bn. This takes 3mFy23 total remittances to US$ 7.7bn, down by 6%y/y. During the month, major contributions came from Saudi Arabia of US$ 0.62bn, followed by U.A.E and UK of US$ 0.47bn and US$ 0.31bn respectively.

Pending external inflows, and lower CAD to rehabilitate dwindling SBP reserves

During the end of Sep-22, SBP reported US$ 7.9bn as net reserves, while the gross amount was US$ 13.6bn when banks are included. The government is taking measures to rebuild FX reserves that merely cover less than 2 months of imports. According to recent IMF projections, gross external financing requirement for the FY23 is roughly US$ 31bn, out of which US$ 9.2bn is allocated to cover for C/a deficit.

Outlook

C/a deficit came lower consecutively for the past two months primarily due to administrative measures taken by the SBP and the government. Some major developments happened include:

- Recently, Financial Action Task Force (FATF) excluded Pakistan from the grey list, as a result this will help prop up foreign investors' and lending institutions' confidences thereby boosting foreign inflows.
- In addition, Asian Development Bank (ADB) approved US$ 1.5bn under the Building Resilience and Active Countercyclical Expenditure (BRACE) facility and likely to be credited by end of this week.
- Moreover, Saudi Fund for Development (SFP) team has shown willingness to inject US$ 1.6bn in different energy and other projects and likely to conclude in coming weeks.
- Furthermore, Finance Minister Ishaq Dar indicated to tap food shock window facility under the IMF in the aftermath of floods.
- Also Prime Minister Shehbaz Sharif is on schedule to visit China next month and discuss CPEC and debt maturing related issues. Most of the external debt is owed to China, and any relaxation from Chinese authorities will significantly reduce pressure on external outflows this FY23.

If this goes successful, pressure on PKR will likely ease off.

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