Daybreak

Friday, 29 July 2022

Economy

Exhibit: Monthly C/A Balance in Deficit US$ 2.3bn

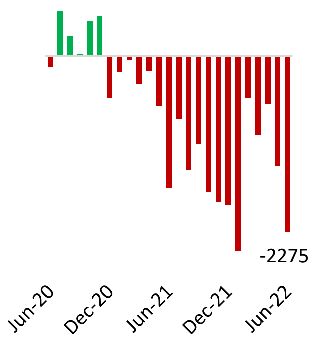
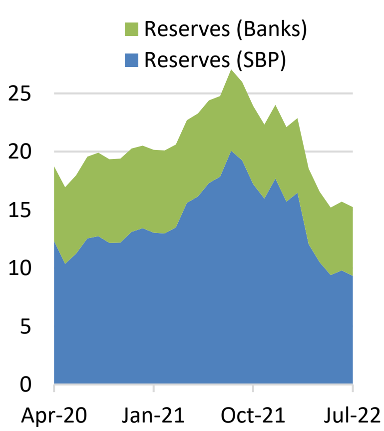


Exhibit: Net Reserves with SBP and Banks



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Current Account Balance

June-22: C/a Deficit Printed US$ 2.3bn (4.6% of the GDP); Higher Oil Imports Diluted Rise in Exports and Remittances Receipts

- As per the latest data released by SBP for the month Jun-22, Pakistan's Current Account (C/A) balance recorded a deficit of US$ 2.28bn compared to previous month deficit of US$ 1.43bn. This brings 12 months cumulative balance to post a deficit of US$ 17.41bn versus of deficit of US$ 2.82bn in the same period last year, an increase of nearly 6x.
- For the month of June-22, Pakistan's trade deficit came at US$ 3.9bn up by 27%m/m and 2.9% on a yearly basis. This sharp rise in monthly trade deficit is primarily due to increase in import of pol products (+2x m/m) as opposed to slight increase in textile exports (17%m/m); in terms of volume, 3.3mn metric tons of oil was imported in June (33%m/m), however together with higher international prices the bill doubled from US$ 1.4bn in May-22 to US$ 2.9bn in Jun-22.
- Owing to higher oil prices and domestic exchange rate despite recessionary concerns around the globe, we expect C/a bal. to remain elevated as long as exchange rate, oil prices and volumetric imports remain high. However, for the month of July-22 we expect oil imports to be much lower compared to Jun-22.

Monthly C/a deficit down to US$ 2.28bn

As per the latest data released by SBP for the month Jun-22, Pakistan's Current Account (C/A) balance recorded a deficit of US$ 2.28bn compared to previous month deficit of US$ 1.43bn. This brings 12 months cumulative balance to post a deficit of US$ 17.41bn versus of deficit of US$ 2.82bn in the same period last year, an increase of nearly 6x.

If we compare C/a, on quarterly basis it posted a surplus of US$ 1.76bn excluding pol imports, while C/a with pol inclusive is in deficit of US$ 4.32bn.

Monthly goods exports bounced by 26%m/m after a decreasing trend since Feb-22

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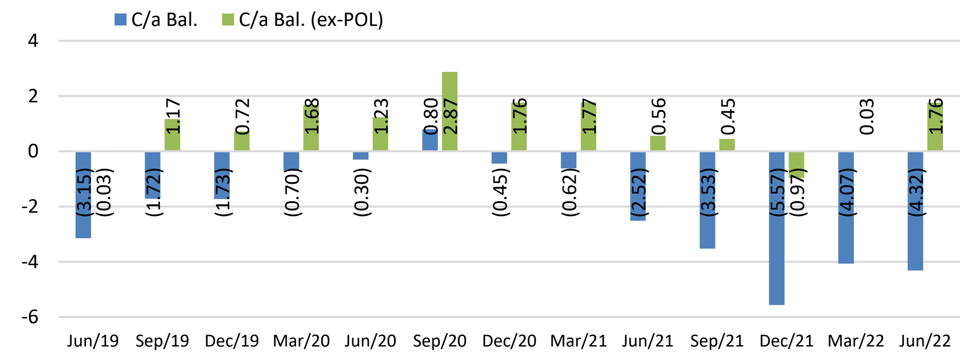
Other than pol products, chemical and metal groups also witnessed some increase on m/m basis. In absolute terms on monthly basis, exports grew by US$ 636mn compared to sharp rise in imports by US$ 1,479mn. Considering the 12m FY22 period total trade deficit now stands at US$ 3.9bn compared to US$ 3.8bn last year same period, an increase of nearly 2.9%y.

Exhibit: Quarterly Current Account balance with and without pol products



No respite from services and income (ex-remittances) balance…

Country's services deficit slightly increased to US$ 0.7bn compared to US$ 0.5bn in previous month. This takes 12 months total services deficit to US$ 5.2bn compared to US$ 2.5bn last year same period; a 1.5x y/y growth. Income (ex-remittances) deficit slightly jumped to US$ 0.39bn compared to last month US$ 0.19bn.

Remittances growth up by 18%

Remittances, for the month clocked in at US$ 2.8bn up by +18%m (+1.7%y) when compared to previous month inflow of US$ 2.3bn. This takes 12mFy22 total remittances to US$ 31bn, up by +6%y.

Exhibit: Country's Current account balance

in US$ mn	FY2022	FY2021	June/22	June/21	May/22
C/a Bal.	**(17,406)**	**(2,820)**	**(2,275)**	**(1,637)**	**(1,430)**
Exports	32,450	25,639	3,118	2,492	2,482
Imports	72,048	54,273	7,038	6,302	5,559
Trade Bal.	(39,598)	(28,634)	(3,920)	(3,810)	(3,077)
Services Bal.	(5,175)	(2,516)	(727)	(293)	(497)
Income Bal. (ex-remit)	(3,871)	(1,120)	(389)	(248)	(189)
Remittances	31,238	29,450	2,761	2,714	2,333
Capital Acc. Balance	206	224	18	22	4
PI Inflows	(78)	2,762	(69)	589	(125)
FDI Inflows	1,869	1,819	271	141	141

Outlook

As of 22th July, total reserves stood at US$ 14.4bn, US$ 8.6bn with the SBP and remaining US$ 5.8bn with the private banks. At this level, import coverage stands at 2 months, which in our opinion is of great concern.

Owing to higher oil prices and domestic exchange rate despite recessionary concerns around the globe, we expect C/a bal. to remain elevated as long as exchange rate, oil prices and volumetric imports remain high. However, for the month of July-22 we expect oil imports to be much lower compared to Jun-22.

Moreover, the government has reversed the import ban on luxury and non-essential items except for CBUs of auto, mobile, and home appliances that were projected to be worth around US$ 100-150mn.

Exhibit: Breakdown of goods export (USD mn)

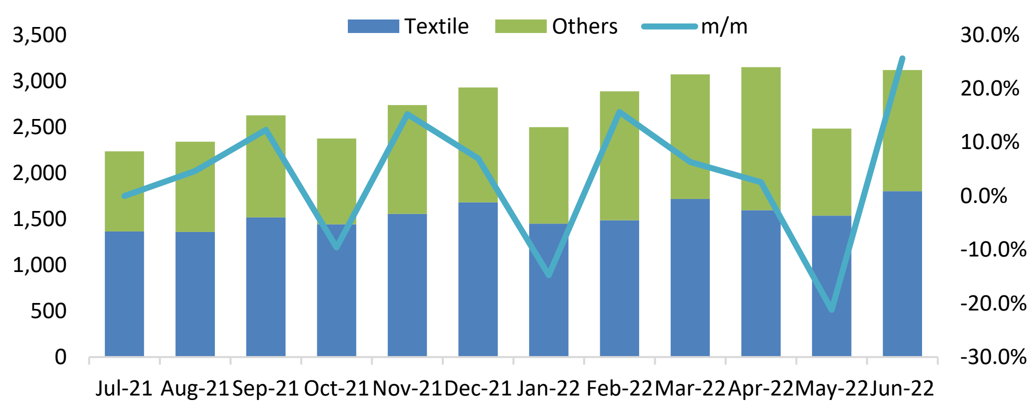
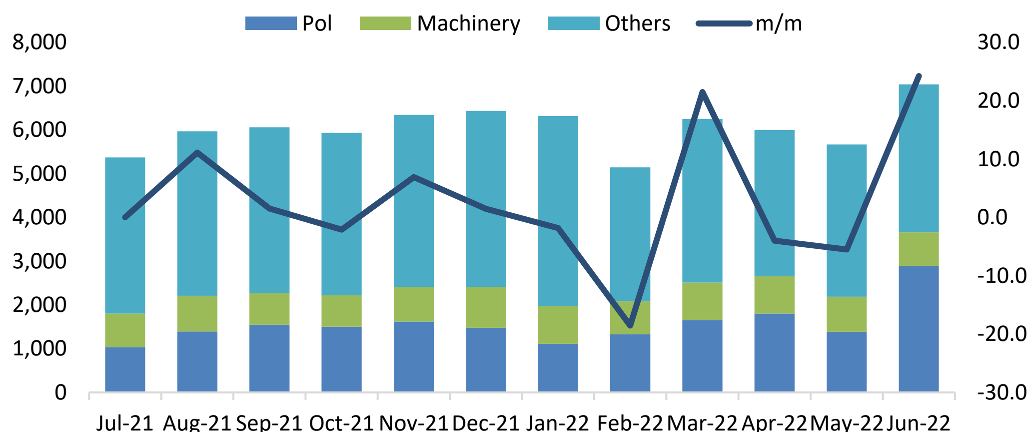


Exhibit: Breakdown of goods import (USD mn)



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