Day Break

Wednesday, 22 November 2017

Economy

Exhibit: C/a Balance and Trade Balance

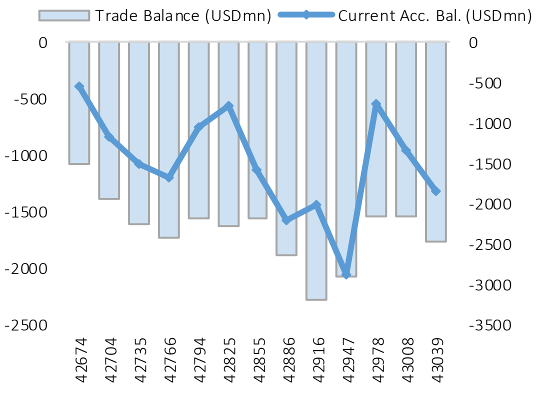


Exhibit: Declining Foreign Exchange Reserves

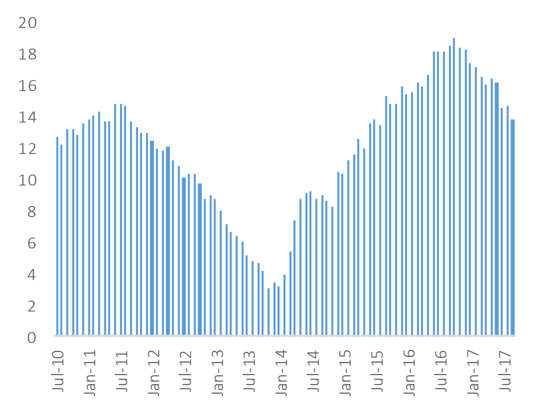
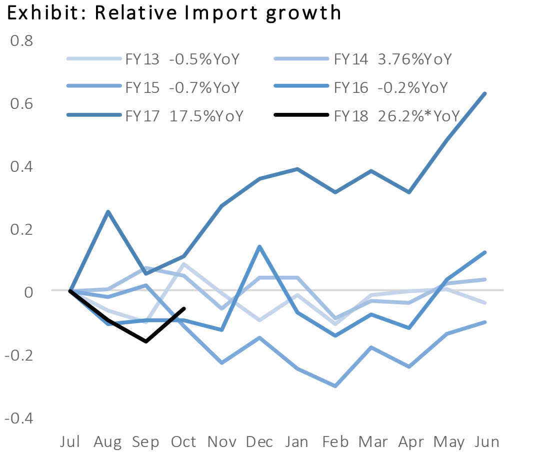


Exhibit: Relative Import growth



Source: SBP & IGI Research

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Economy

4MFY18 C/a deficit up by +122%YoY

- As per latest external account numbers, country's Current Account deficit (C/a) for 4MCY17 rose to USD 5.01bn (4.4% of GDP), up by +121.9%YoY
- Trade deficit in 4MFY18 has reached USD 9.7bn, up by +41.2%YoY, with imports reaching USD 17.4bn and exports rising to USD 7.7bn, up by +26.3% and +11.3% YoY respectively.
- After a decline of ~3%YoY in FY17 to USD 19.3bn, the remittances rose by +2.3%YoY in 4MFY18 primarily due to supportive base effect from the preceding year
- In 4MFY18, Net Foreign Direct Investments (FDI) increased to USD 940mn, up by +74.4%YoY, with net FDI in Oct-17 clocking in at USD 278mn
- Owing to high base effect from Nov-16 onwards, we expect slowdown in yearly growth rate of C/a deficit, albeit with continuation of trend in absolute numbers
- Henceforth, with import cover down to 3.6x (Sep-17), we anticipate PKR stability to be tested in coming months as reserves continue to descend

4MFY18: Current Account deficit rises to USD 5.01bn

As per latest external account numbers, country's Current Account deficit (C/a) for 4MFY18 rose to USD 5.01bn (4.4% of GDP), up by +121.9%YoY from USD 2.3bn in same period last year. To recall, C/a deficit posited USD 12.1bn (4% of GDP) in FY17 primarily due to upsurge in trade deficit and slowdown in remittances. FY18 is on a similar track, with Oct-17 C/a deficit adding USD 1.3bn to post a total of USD 5.01bn 4MFY18 deficit. However, we expect the growth rate of deficit to slowdown as low base effect from FY17 starts to ware off from Nov-16 onwards.

Oct-17 numbers follow the trend

For the month of Oct-17 C/a deficit posted USD 1.3bn, primarily led by widening trade deficit, wherein, imports rose by +28.4%YoY (to USD 4.4bn) compared to exports which rose by just +8.4%YoY (to USD 2.0bn), leading to upsurge in trade deficit by +50.8%YoY to USD 2.5bn. Similarly, trade deficit in 4MFY18 has reached USD 9.7bn, up by +41.2%YoY, with imports reaching USD 17.4bn and exports rising to USD 7.7bn, up by +26.3% and +11.3% YoY respectively.

Petroleum imports the largest contributor to rising import bill

For the 4MFY18, Petroleum group imports witnessed the most growth, up by +31.4%YoY, attributable to rising quantum demand from construction activity and recent increase in world oil prices. At the same time, textile sector growth has rebounded, growing by +9.1%YoY, an effect of textile package, slowing down the rise in C/a deficit.

Meagre growth in remittances to be the norm in FY18

After a decline of ~3%YoY in FY17 to USD 19.3bn, the remittances rose by +2.3%YoY in 4MFY18 primarily due to supportive base effect from the preceding year. Countries that recorded growth in remittances include UK, Dubai and EU countries with +5.7%, +20.5% and +33.3% YoY growth respectively, while Saudi

Arabia, Abu Dhabi and GCC countries were the biggest drags recording negative growth of 5.8%, 38.7% and 1.4% respectively.

FDI on a bullish track with major inflows from China

In 4MFY18, Net Foreign Direct Investments (FDI) increased to USD 940mn, up by +74.4%YoY, with net FDI in Oct-17 clocking in at USD 278mn. Major contributors in FDI continues to be China (up +225%YoY to USD 631mn) and Malaysia (up 10.4x to USD 107mn) with investments focused in power (USD 422mn) and construction (USD 177mn) sectors. However, the impact of FDI was reduced by portfolio outflows, which rose to USD 53.2mn dragging down total capital inflow to USD 886mn.

Outlook: C/a balance deterioration likely to continue in absolute terms; PKR stability to pose a challenge

Although until now we have observed significant YoY growth in C/a deficit for all the 4 months in FY18, yet, owing to high base effect from Nov-16 onwards, we expect slowdown in yearly growth rate of C/a deficit, albeit with continuation of trend in absolute numbers. POL imports are likely to continue the upsurge given low base effect from FY17 and volatility of supply side factors with oil price remaining range-bound. At the same time, remittances are expected to grow at a meagre pace with sluggish economic outlook of major remitting countries.

Contrarily, FDI is expected to continue its bullish trend on account of continuing investments from China, while support is also expected to emanate from planned issuance of Euro bond and Sukuk (expected inflow of USD 2-3bn). On the other hand, the debt servicing and re-payments will be a serious hurdle in maintaining the reserves to an adequate level. Henceforth, with import cover down to 3.6x (Sep-17), we anticipate PKR stability to be tested in coming months as reserves continue to descend.

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