

Pakistan Economy

22 November 2021

Balance of Payments

CAD worsens to a 34mth high

C/A deficit worsens to US\$1.66bn

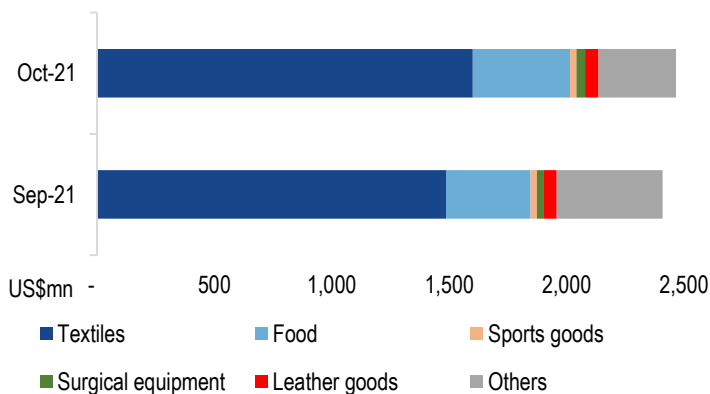
As per SBP data, Pakistan's current account deficit (CAD) swelled to US\$1.66bn in October 2021, up c.47% mom, which is the worst level since Dec 2018. While imports were flat mom, the enlarged deficit is due to a mild reduction of c.US\$200mn in both exports and remittances, and larger deficits in Services and Income balances (the latter due to greater interest payments on external debt).

Goods trade deficit stood at US\$3.6bn in October, up from US\$3.4bn previous month, due to 7% mom lower exports (at US\$2.4bn). According to PBS data, Textile exports rose c.8% mom to US\$1.60bn (second highest ever level), but non-textile exports fell 6% mom (broad-based decline). Imports remained at c.US\$6.0bn for the third consecutive month, where those of machinery, food and motor vehicles fell 12-15% mom but Petroleum imports rose c.7% mom to US\$1.60bn (now a quarter of total imports), as per PBS data. Note that without Petroleum imports, the current account is nearly in balance.

Looking ahead, Textile exports could be tested by a new wave of lockdowns across Europe (if prolonged), even though bulk of the orders for winter (peak season) are shipped by October. As per the SBP, about US\$1.4bn have been disbursed out of the total US\$2.6bn TERF loans; machinery imports can thus remain high in the coming months. Petroleum imports in winter tends to fall sharply, but global LNG prices may shave off some of those gains, in our view. All in all, we see little improvement in the goods trade deficit in the next two months.

Remittances fell slightly to c.US\$2.5bn after sustaining the c.US\$2.7bn level in the prior four months. Since early November, Pakistan allowed air traffic to resume to pre-pandemic levels. This can lead to moderate reduction in remittances in the coming months. But global oil prices have rebounded (good for GCC economies) and there has been a consistent net outflow of workers from Pakistan in recent months.

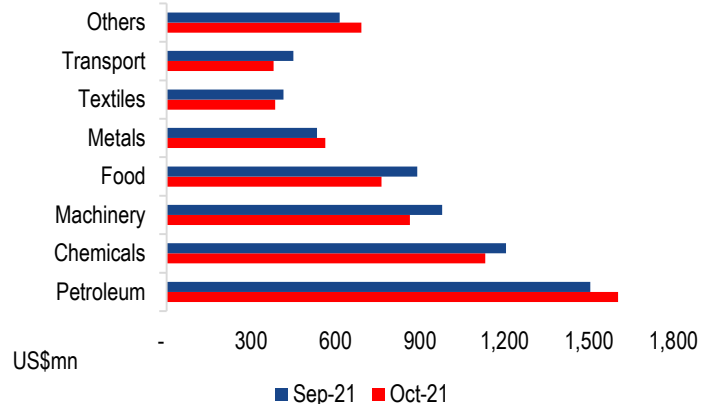
Exports* fell 8% mom in October due to lower non-textile exports...



Source: PBS

*PBS data shows a rise, but SBP data shows a decline (temporary timing difference)

...while overall Imports remained flat



Source: PBS

SBP's Fx reserves and PKR fall sharply in October

SBP's Forex reserves fell below to US\$17.2bn at the end of October from US\$19.2bn at September end, thanks in part to a repayment of US\$1bn international Sukuk during the month. By mid-November, the reserves continued to fall to under US\$17bn. As a result, the PKR has depreciated a further c.2% against the USD since the start of October to 174 (down c.8% FY22td). Nonetheless, Pakistan is set to receive US\$3bn from Saudi Arabia as bilateral assistance; which, in combination with the recent monetary tightening and potential IMF program resumption should reverse this spell of devaluation, in our view.

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Balance of Payments (selected items) until October 2021

US\$ bn	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21
C/A Balance	0.87	0.28	-0.27	-2.46	-3.42	-1.62	-0.81	-1.47	-1.13	-1.66
Trade Balance	-5.28	-6.12	-7.26	-9.33	-10.22	-3.83	-3.15	-3.65	-3.42	-3.59
Exports	5.35	6.45	6.88	6.93	7.23	2.50	2.25	2.35	2.63	2.45
Imports	-10.64	-12.57	-14.14	-16.26	-17.45	-6.33	-5.40	-6.00	-6.05	-6.03
Service Balance	-0.53	-0.46	-0.42	-0.40	-0.76	-0.23	-0.26	-0.34	-0.16	-0.28
Income Balance	-1.49	-1.23	-0.92	-1.14	-0.97	-0.40	-0.27	-0.37	-0.32	-0.48
Remittances	7.14	7.06	7.27	7.96	8.04	2.69	2.71	2.66	2.67	2.52
Cap. & Fin. A/c Balance	-0.78	0.94	1.11	6.57	5.77	3.23	1.31	3.66	0.79	-0.15
Foreign portfolio invests. - Debt	-0.04	-0.16	0.19	3.06	0.98	0.60	1.00	-0.03	0.00	-1.04
Govt borrowings (incl. IMF)	1.85	2.71	2.15	3.08	2.10	2.10	0.54	0.77	0.79	0.68
Debt repayments	-1.21	-0.83	-1.51	-0.99	-0.61	-0.15	-0.18	-0.11	-0.32	-0.26
Allocation of SDR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.77	2.77	2.77
Balance of Payments	-0.18	1.46	0.26	4.02	2.16	1.62	0.53	2.31	-0.68	-2.10
SBP Fx reserves - end	12.15	13.42	13.49	17.30	57.21	17.30	17.85	20.07	19.29	17.20

Source: SBP

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Ratings Guide*	Criteria
Buy	Total return expectation of $\geq 15\%$ or expected to outperform the KSE-100 index
Neutral	Total return expectation of $> -5\%$ or expected to match the return of KSE-100 index
Sell	Expected downside of more than 5% or expected to underperform the KSE-100 index

*Based on 12 month horizon unless stated otherwise in the report.

Valuation Methodology: We use multiple valuation methodologies in arriving at a Target Price including, but not limited to, Discounted Cash Flow (DCF), Dividend Discount Model (DDM) and relative multiples based valuations.

Risks:(i) Imports continue to remain above US\$6.0bn per month, (ii) remittances through formal channels decline due to resumption of normal travel, and (iii) delay in realizing expected capital flows.

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