

Balance of Payments

Dec'21: Fifth consecutive month of very high CAD

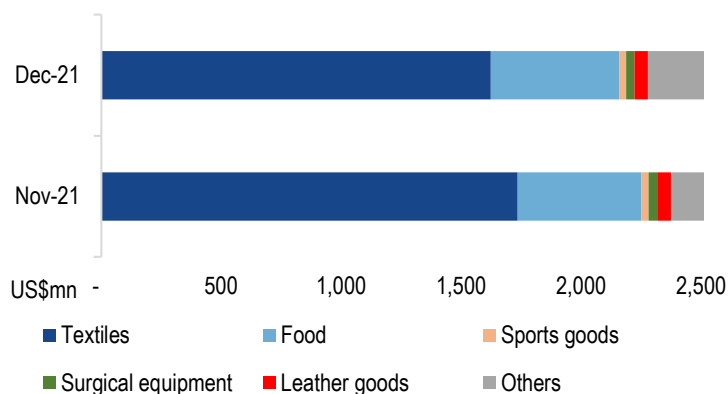
C/A deficit remains at US\$1.9bn in December

As per SBP data, Pakistan's current account deficit (CAD) remained at US\$1.9bn in December 2021, up 2% mom. This took the deficit during 1HFY22 to a whopping US\$9.0bn (against a surplus of US\$1.2bn SPLY). Broadly, most major heads maintained their levels from previous month, but the deficit is clearly not sustainable. The present run rate of CAD is much higher than the equivalent of c.4% of GDP projected by the SBP (c.US\$1.0-1.2bn/mth), for which adequate capital commitments are in place, as per the central bank. We expect considerable reduction in 2HFY22 as a consequence of recent tightening measures by the SBP and Ministry of Finance, so that CAD in FY22 should clock near c.US\$15bn.

Goods trade deficit stood at c.US\$3.7bn in December (as per SBP data), slightly lower than in the previous month but still much lower than US\$4.9bn as per PBS data (meaning future SBP CAD data will remain high). Exports clocked in at c.US\$2.8bn (as per PBS) down from c.US\$2.9bn in the previous month, where a similar reduction was seen in Textile exports (seasonal, in our view). Overall imports remained high at c.US\$7.7bn, but most many categories (Petroleum, Food and Autos) showed more than 10% mom decline – which might reflect the negative impact on demand from recent tightening measures and high domestic prices. Imports were expected to remain high until December, as many importers had placed orders in earlier months; but they should moderate further in the coming months, bringing overall monthly imports to about US\$6.0-6.5bn, in our view.

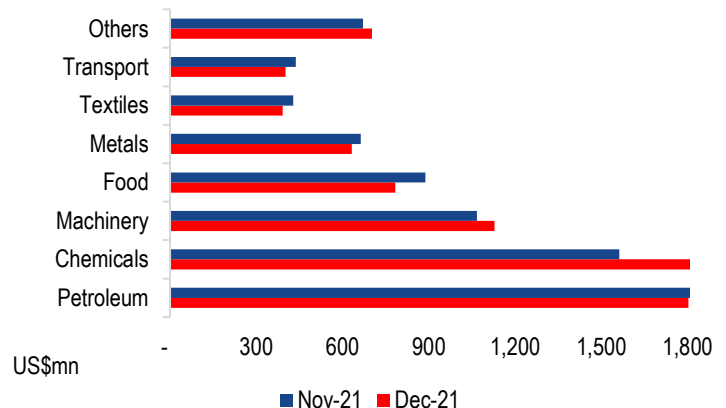
Remittances were flat mom at c.US\$2.5bn amid the onset of Omicron outbreak. We expect it to maintain the monthly run rate of US\$2.5bn for the remainder of FY22.

Exports fell 5% mom in December from record level previous month



Source: Pakistan Bureau of Statistics

Imports remained high above but some major categories showed big declines



Source: Pakistan Bureau of Statistics

SBP's Fx reserves rise moderately despite bilateral assistance

SBP's Forex reserves rose by about a US\$1.0bn by end of December to c.US\$17.7bn, even though Pakistan received US\$3.0bn in bilateral assistance from Saudi Arabia at the start of month. At present level of imports, the reserves imply less than 3mth import cover. The likely resumption of IMF program by February and expected impact of recent tightening measures on C/A balance should help arrest the decline in Fx reserves, in our view. Pakistan should receive US\$1.0bn from the IMF and plans to raise another US\$1.0bn from an international Sukuk issue. In concert, possible revival of plans to sell two RLNG based power plants to Qatar based investors for c.US\$2.0bn will be a significant boost to the balance of payments, in our view.

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Balance of Payments (selected items) until December 2021

US\$ bn	3QFY21	4QFY21	1QFY22	2QFY22	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
C/A Balance	-0.27	-2.46	-3.42	-5.59	-0.81	-1.47	-1.13	-1.76	-1.89	-1.93
Trade Balance	-7.26	-9.33	-10.22	-10.98	-3.15	-3.65	-3.42	-3.65	-3.72	-3.61
Exports	6.88	6.93	7.23	8.04	2.25	2.35	2.63	2.38	2.74	2.92
Imports	-14.14	-16.26	-17.45	-19.02	-5.40	-6.00	-6.05	-6.03	-6.45	-6.54
Service Balance	-0.42	-0.40	-0.76	-0.94	-0.26	-0.34	-0.16	-0.31	-0.29	-0.34
Income Balance	-0.92	-1.14	-0.97	-1.50	-0.27	-0.37	-0.32	-0.48	-0.45	-0.57
Remittances	7.27	7.96	8.04	7.50	2.71	2.66	2.67	2.52	2.46	2.52
Cap. & Fin. A/c Balance	1.11	6.57	5.77	4.30	1.31	3.66	0.79	-0.16	0.32	4.13
Foreign portfolio invest. - Debt	0.19	3.06	0.98	-1.08	1.00	-0.03	0.00	-1.04	-0.02	-0.02
Govt borrowings (incl. IMF)	2.15	3.08	2.10	2.87	0.54	0.77	0.79	0.68	0.79	1.40
Debt repayments	-1.51	-0.99	-0.61	-1.52	-0.18	-0.11	-0.32	-0.26	-0.56	-0.71
Allocation of SDR	0.00	0.00	2.77	0.00	0.00	2.77	0.00	0.00	0.00	0.00
Balance of Payments	0.26	4.02	2.16	-1.38	0.53	2.31	-0.68	-2.10	-1.25	1.97
SBP Fx reserves - end	13.5	17.3	57.2	50.9	17.8	20.1	19.3	17.2	16.0	17.7
PKR/USD - period end	152.8	157.5	170.7	176.5	162.4	166.4	170.7	171.7	175.7	176.5

Source: State Bank of Pakistan

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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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