

# Balance of Payments

Jan'22: Highest ever CAD but imports are moderating

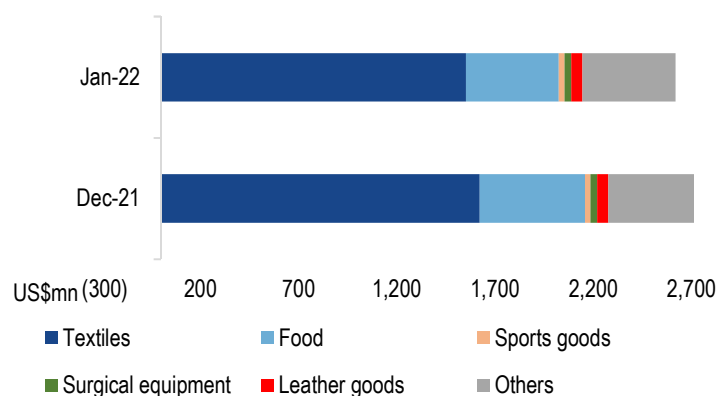
## C/A deficit surges to record US\$2.6bn in January

As per SBP data, Pakistan's current account deficit (CAD) surged to US\$2.6bn in January 2022, up 37% mom. This took the deficit during 7MFY22 to a whopping US\$11.6bn (against a surplus of US\$1.0bn SPLY). The key takeaway from January CAD is that imports were flat, but support from remittances and exports weakened. On PBS data, however, imports fell a sharp 20% mom (timing difference with SBP data). It is possible that future CAD readings will fall to US\$1.5-2.0bn per month. Even though CAD in FY22 is likely to exceed 5% of GDP (about US\$15bn), the SBP guides that there is a good pipeline of capital flows to contain drawdown of its forex reserves.

**Goods trade deficit** stood at c.US\$3.9bn in January (as per SBP data), also its highest ever level. Imports were down only 2% mom to US\$6.4bn, but exports fell 15% mom to US\$2.5bn due to seasonal factors (SBP data). However, PBS data on imports of January is more encouraging, showing a 20% mom decline to US\$6.0bn and down from a peak of US\$7.9bn in November 2021. Almost all major categories (except Food) – Machinery, Petroleum and Chemicals – came off 15-20% mom. We suspect that imports have begun reacting to the recent monetary tightening, over 10% PKR depreciation and increase in taxes/duties.

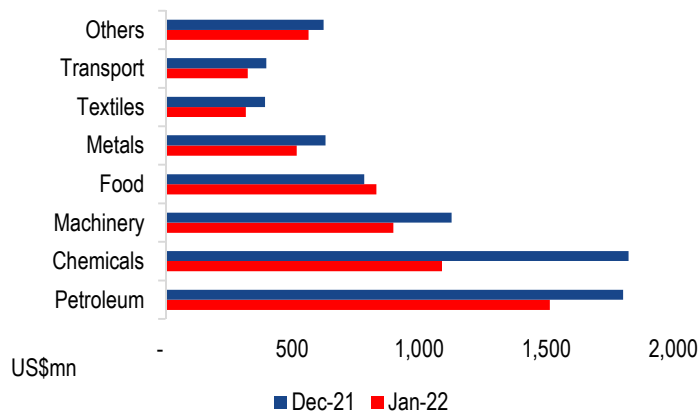
**Remittances** fell 15% mom to c.US\$2.1bn – a 17mth low – partly because of normalized travel since November 2021 and broad economic recovery in Pakistan (expats had sent more money at the peak of the pandemic to support families in Pakistan). We await future data to ascertain if this is sticky; however, remittances in the coming months will be boosted by flows ahead of Ramadan and Eid season. Two other trends supporting the outlook that remittances should remain US\$2.0-2.5bn per month are: (i) revival of GCC economies due to high crude oil prices, and (ii) net outflow of workers from Pakistan in recent months (partly to Qatar ahead of the FIFA World Cup).

Exports fell 5% mom due to seasonal factors



Source: Pakistan Bureau of Statistics

Imports of all major import categories (except Food) fell 15-20% mom



Source: Pakistan Bureau of Statistics

## SBP's Fx reserves continued to fall

SBP's Forex reserves fell to US\$15.7bn by end of January due to debt repayments and large CAD; however, they increased to c.US\$17.0bn by mid-February. Pakistan should continue to see an increase in SBP forex reserves following the resumption of IMF Program by February and subsequent receipt of a US\$1.0bn tranche. Thereon, Pakistan will issue an ESG compliant Eurobond of US\$1.0bn and realize flows from other multilateral donors. It also plans to materialize the long-pending sale of two RLNG based power plants, which may fetch about US\$2.0bn.

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Muhammad Saad Ali, CFA

saad.ali@imsecurities.com.pk

+92-21-37131610

**Balance of Payments (selected items) until January 2022**

US\$ bn	3QFY21	4QFY21	1QFY22	2QFY22	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
<b>C/A Balance</b>	<b>-0.28</b>	<b>-2.46</b>	<b>-3.42</b>	<b>-5.52</b>	<b>-1.47</b>	<b>-1.13</b>	<b>-1.76</b>	<b>-1.89</b>	<b>-1.86</b>	<b>-2.56</b>
Trade Balance	-7.25	-9.33	-10.22	-10.99	-3.65	-3.42	-3.65	-3.72	-3.63	-3.93
Exports	6.89	6.93	7.23	8.04	2.35	2.63	2.38	2.74	2.92	2.49
Imports	-14.13	-16.26	-17.45	-19.03	-6.00	-6.05	-6.03	-6.45	-6.55	-6.42
Service Balance	-0.42	-0.40	-0.76	-0.93	-0.34	-0.16	-0.31	-0.29	-0.33	-0.41
Income Balance	-0.89	-1.14	-0.97	-1.48	-0.37	-0.32	-0.48	-0.45	-0.54	-0.50
Remittances	7.25	7.96	8.04	7.50	2.66	2.67	2.52	2.46	2.52	2.14
<b>Cap. &amp; Fin. A/c Balance</b>	<b>1.16</b>	<b>6.57</b>	<b>5.77</b>	<b>4.29</b>	<b>3.66</b>	<b>0.79</b>	<b>-0.16</b>	<b>0.32</b>	<b>4.13</b>	<b>1.57</b>
Foreign portfolio invest. - Debt	0.19	3.06	0.98	-1.08	-0.03	0.00	-1.04	-0.02	-0.02	1.06
Govt borrowings (incl. IMF)	2.15	3.08	2.10	2.87	0.77	0.79	0.68	0.79	1.40	1.04
Debt repayments	-1.50	-0.99	-0.61	-1.52	-0.11	-0.32	-0.26	-0.56	-0.70	-0.59
Allocation of SDR	2.77	0.00	0.00	0.00	2.77	0.00	0.00	0.00	0.00	0.00
<b>Balance of Payments</b>	<b>0.26</b>	<b>4.02</b>	<b>2.16</b>	<b>-1.38</b>	<b>2.31</b>	<b>-0.68</b>	<b>-2.10</b>	<b>-1.25</b>	<b>1.97</b>	<b>-1.09</b>
SBP Fx reserves - end	13.5	17.3	57.2	50.9	20.1	19.3	17.2	16.0	17.7	15.7
PKR/USD - period end	152.8	157.5	170.7	176.5	166.4	170.7	171.7	175.7	176.5	176.7

Source: State Bank of Pakistan

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Buy	Total return expectation of $\geq 15\%$ or expected to outperform the KSE-100 index
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\*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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