20 October 2021

Economy

External Account

Pakistan Research

Economy: Current account deficit swells to USD 3.4bn in 1QFY22

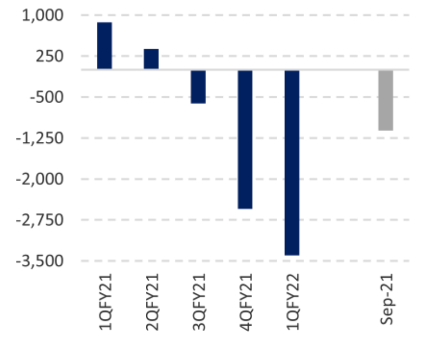
- **Some improvement was witnessed in the Current Account Deficit (CAD) on MoM during Sept-21, down 24% to USD 1.1bn, however, in the comparable Sept-20 the country posted a surplus of USD 27mn. CAD for 1QFY22 clocked in at USD 3.4bn (4.1% of GDP), compared to a surplus of USD 865mn (1.2% of GDP).**
- **The doubling trade deficit was the major reason for the Current Account Balance posting deficit for another quarter. The trade deficit surged 94% YoY in 1QFY22 to USD 10.2bn mainly driven by 64% YoY hike in the imports to USD 17.5bn as the export of goods grew at a lesser pace of 35% YoY to settle at USD 7.2bn. For Sept-21 alone, imports remained flat MoM while exports grew 13%, contracting trade deficit by 6%.**
- **Upbeat remittance flows of USD 8.0bn (+12% YoY) during 1QFY22 partially compensated for the burgeoning trade deficit. Robust inflows witnessed from EU and US. Worker remittances during Sept-21 were flat on MoM, while grew 17% YoY growth.**

External Account Highlights (USD mn)

	Sept-20	Aug-21	Sept-21	YoY	MoM	1QFY21	1QFY22	YoY
Balance on trade in Goods	-1,884	-3,650	-3,434	82%	-6%	-5,283	-10,232	94%
Exports	*1,955*	*2,348*	*2,642*	*35%*	*13%*	*5,354*	*7,241*	*35%*
Imports	*3,839*	*5,998*	*6,076*	*58%*	*1%*	*10,637*	*17,473*	*64%*
Balance on trade in Services	-95	-336	-117	23%	-65%	-533	-717	35%
Exports	*476*	*544*	*551*	*16%*	*1%*	*1,276*	*1,572*	*23%*
Imports	*571*	*880*	*668*	*17%*	*-24%*	*1,809*	*2,289*	*27%*
Primary Income - Net	-533	-372	-320	-40%	-14%	-1,489	-964	-35%
Secondary Income - Net	2,539	2,885	2,758	9%	-4%	8,170	8,513	4%
Worker Remittances	*2,284*	*2,658*	*2,670*	*17%*	*0%*	*7,143*	*8,035*	*12%*
Current A/c Balance	**27**	**-1,473**	**-1,113**	**NM**	**-24%**	**865**	**-3,400**	**NM**
% of GDP	*0.1%*	*-0.5%*	*-4.1%*	*-*	*-*	*1.2%*	*-4.1%*	*-*
Capital A/C Balance	**39**	**10**	**33**	**-15%**	**230%**	**77**	**62**	**-19%**
Financial Account	**503**	**-3,653**	**-819**	**NM**	**-78%**	**854**	**-5,767**	**NM**
Net Errors and Omissions	**14**	**119**	**-417**	**NM**	**NM**	**-263**	**-265**	**1%**
Overall BoP	**423**	**-2,309**	**678**	**60%**	**NM**	**175**	**-2,164**	**NM**
% of GDP	*1.8%*	*-0.8%*	*2.5%*	*-*	*-*	*0.2%*	*-2.6%*	*-*

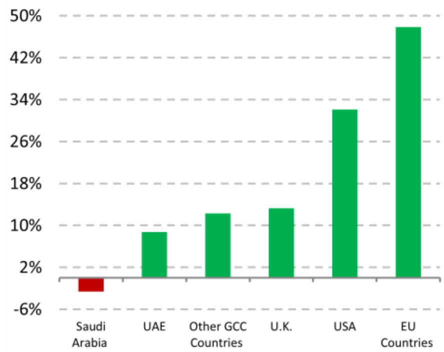
Source: SBP, Akseer Research

Current Account Balance (USD mn)



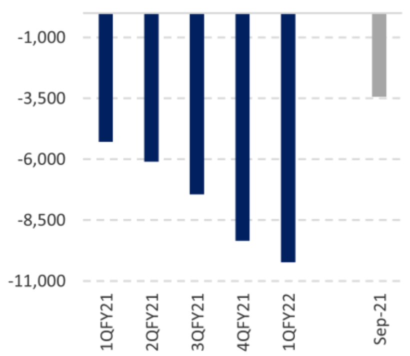
Source: Akseer Research

1QFY22 YoY change in Remittances



Source: Akseer Research

Balance in trade of Goods (USD mn)



Source: Akseer Research

Current Account posted deficit for the 2nd consecutive quarter

Current Account settled in deficit during 1QFY22 to USD 3.4bn (4.1% of the GDP) versus a surplus of USD 865mn during 1QFY21, and USD 2.5bn deficit posted in the prior quarter. The major deterioration in current account balance came from doubling of the trade deficit in goods coupled with 35% YoY surge in the trade deficit in services. Positive growth of 12% YoY in the remittances to some extent contained the CAD during 1Q. On MoM, in Sept-21, CAD improved by 24% to USD 1.1bn, however, in the comparable Sept-20 the country posted a surplus of USD 27mn.

Goods trade deficit increased twofold in 1QFY22

Deficit in trade of goods during 1Q grew 94% YoY to USD 10.2bn, on the back of unabated surge in the imports bill of 64% YoY to USD 17.5bn. Export of goods, on other hand grew by 35% YoY to USD 7.2bn. Major contribution in the imports came from 'petroleum group', up 91% YoY as international oil prices rallied 70% YoY during the quarter. Food imports also grew 43% YoY on the back of significant rise in international commodity prices due to supply-demand imbalance. Alone in Sept-21, import bill stood at USD 6.0bn (up 58% YoY, flat on MoM) where highest growth was witnessed in petroleum, metal and food group of 99%, 71% and 40% YoY, respectively.

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On the exports front, textile exports during 1QFY22 grew by 31% YoY to USD 1.5bn on account of 41% YoY and 42% YoY growth in export of Knitwear and readymade garments respectively. Similarly, Food group contribution also remained noteworthy primarily on the back of 21% YoY growth in basmati rice exports. Sept-21 witnessed USD 2.6bn worth exports (up 35%/13% YoY/MoM) wherein textile and food group posted growth of 31% YoY and 28% YoY, respectively. The robust monthly exports led to 6% MoM contraction in the trade deficit.

Imports & Exports Breakup (USD mn)

	Sept-20	Aug-21	Sept-21	YoY	MoM	1QFY21	1QFY22	YoY
Imports	**3,839**	**5,998**	**6,076**	**58%**	**1%**	**10,637**	**17,473**	**64%**
Petroleum Group	*775*	*1,393*	*1,544*	*99%*	*11%*	*2,076*	*3,974*	*91%*
Agri. & Other Chemical	*661*	*825*	*826*	*25%*	*0%*	*1,794*	*2,435*	*36%*
Machinery Group	*605*	*815*	*723*	*20%*	*-11%*	*1,932*	*2,303*	*19%*
Food Group	*497*	*690*	*695*	*40%*	*1%*	*1,379*	*1,979*	*43%*
Metal Group	*316*	*441*	*541*	*71%*	*23%*	*922*	*1,403*	*52%*
Others	*986*	*1,834*	*1,747*	*77%*	*-5%*	*2,534*	*5,380*	*112%*
Exports	**1,955**	**2,348**	**2,642**	**35%**	**13%**	**5,354**	**7,241**	**35%**
Textile Group	*1,152*	*1,352*	*1,509*	*31%*	*12%*	*3,070*	*4,218*	*37%*
Food Group	*281*	*346*	*360*	*28%*	*4%*	*865*	*1,016*	*17%*
Others	*521*	*651*	*773*	*48%*	*19%*	*1,419*	*2,007*	*41%*

Source: SBP, Akseer Research

Remittances witnessed double digit growth in 1QFY22

Remittance inflows have been a positive support in containing the burgeoning current account deficit as they grew 11% YoY to USD 2.7bn in Sept-21, taking the cumulative number to PKR 8.0bn during 1QFY22, +12% YoY. Saudi Arabia and UAE remained the top contributors during 1Q with 25% and 19% share in the total mix respectively despite 4pps and 1pp YoY decline in their shares correspondingly. EU countries (+48% YoY) and US (+32% YoY) gained weight in the total mix and stood at 11% and 10% respectively. The monthly average for 1QFY22 settled at USD 2.68bn, which is 22% higher than the monthly average during the preceding two fiscal years.

CAD to remain elevated during FY22

With the recent austerity measures taken by the government to control the unabated rise in imports might help in containing the deficit to some extent. However, with the ongoing global supply-demand disruptions and commodities prices peaking to all time high, we expect the overall deficit to remain elevated. We estimate the CAD to settle around 4.2% of the GDP, surpassing the GoP's target of 2-3% for FY22.

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