AKD Daily
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Today's Daily

Pakistan Economy: Current Account weakness to continue

Current account deficit for FY18 reached record levels of US$18.0bn breaching its previous high of US$13.9bn in FY08, though in relative terms it remains significantly lower at 5.7% of GDP vs. 8.2% in FY08. Reflecting growth of 42.6%YoY from US$12.6bn in FY17, the higher deficit is primarily a function of growing trade imbalance (+16.5%YoY) while tepid remittance inflows (marginally up 1.4%YoY) are a further strain. Going forward, external account weakness is likely to persist in FY19F where we estimate deficit to remain elevated at 5.4% of GDP. Despite incorporating hefty growth in exports (10.6%YoY in FY19F), imbalance is being driven by higher oil import bill (+20.0%YoY in FY19F assuming average Arab light at US$70/bbl) and staggered machinery imports (where a sharp drop seems unlikely considering the upcoming IPPs next year). Additionally, lack of support from remittances (FY19F: growth of +1.0%YoY) will be an added burden on current account stability. This along with sizable debt repayments, estimated at US$7.5bn, is likely to push gross external financing at US$21.8bn in FY19F. In this backdrop, we believe the precarious economic situation at hand makes an entry into the IMF a certainty.

KSE100 - Index

Current	41,795.59
Previous	40,897.90
Chg.	2.19%

Mkt Cap. (PkRbn/US$bn)

Current	8,569 / 66.70
Previous	8,419 / 65.53
Chg.	1.79%

Daily Turnover (mn)

Current	337.09
Previous	247.83
Chg.	36.0%

Value Traded (PkRmn/US$mn)

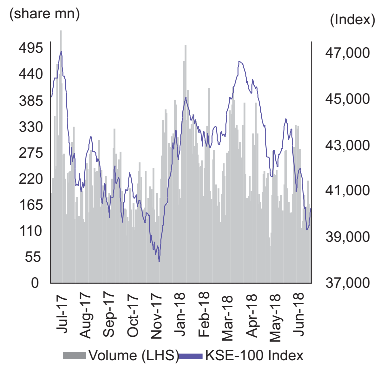
Current	13,090 / 101.88
Previous	8,630 / 67.17
Chg.	51.7%

News and Views

- Latest SBP data shows that foreign exchange reserves held by the central bank plunged 4.39%WoW to record at US$9.063bn (down US$416mn). Overall, liquid foreign reserves held by the country stood at US$15.682bn while net reserves held by commercial banks amounted to US$6.618bn.

- Pakistan's borrowing from foreign sources hit a record high at US$11.4bn in FY18, which broke a one-year-old record, as reliance on external creditors grew due to mounting debt and a steep decline in foreign exchange reserves.

- Power generation in the country grew 11.8% to 120,539Gwh in FY18 compared to 107,858 Gwh generated in the previous year. On a monthly basis, electricity generation increased 12.7%YoY to 12,914Gwh during Jun'18 over 11,458Gwh in Jun'17.



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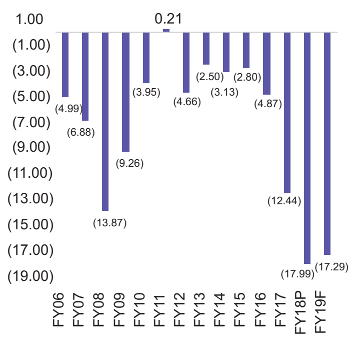
Current account deficit for FY18 reached record levels of US$18.0bn breaching its previous high of US$13.9bn in FY08, though in relative terms it remains significantly lower at 5.7% of GDP vs. 8.2% in FY08. Reflecting growth of 42.6%YoY from US$12.6bn in FY17, the higher deficit is primarily a function of growing trade imbalance (+16.5%YoY) while tepid remittance inflows (marginally up 1.4%YoY) are a further strain. Going forward, external account weakness is likely to persist in FY19F where we estimate deficit to remain elevated at 5.4% of GDP. Despite incorporating hefty growth in exports (10.6%YoY in FY19F), imbalance is being driven by higher oil import bill (+20.0%YoY in FY19F assuming average Arab light at US$70/bbl) and staggered machinery imports (where a sharp drop seems unlikely considering the upcoming IPPs next year). Additionally, lack of support from remittances (FY19F: growth of +1.0%YoY) will be an added burden on current account stability. This along with sizable debt repayments, estimated at US$7.5bn, is likely to push gross external financing at US$21.8bn in FY19F. In this backdrop, we believe the precarious economic situation at hand makes an entry into the IMF a certainty.

Deficit to record higher: Current account deficit for Jun'18 was recorded at US$1.8bn down US$0.2bn from May'18 where higher trade deficit (up 6.9%MoM – US$201mn) was more than offset by income and official transfers (rose by US$584mn). This implies FY18 current account marking a deficit of US$18.0bn, reaching record levels (previous high level of US$13.9bn in FY08). Reflecting growth of 42.6%YoY from US$12.6bn in FY17, it has been primarily a function of growing trade deficit (up 16.5%YoY) while tepid remittance inflows were an added strain (marginally up 1.4%YoY). With regards to trade deficit, imports growth (+14.7%YoY) outpaced growth in exports (up 12.6%YoY) on recovery in crude oil prices and higher machinery and development related imports. Subsequently, the inflated deficit level together with hefty debt repayments have led to a sharp drawdown in FX reserves (SBP reserves down by US$6.4bn ending at US$9.8bn) in FY18.

Challenges persist: External imbalance is likely to persist in the upcoming fiscal year where we estimate deficit to remain elevated at 5.4% of GDP. Despite incorporating hefty growth in exports (10.6%YoY in FY19F), imbalance is being driven by higher oil import bill (+20.0%YoY in FY19F assuming average Arab light at US$70/bbl) and staggered machinery imports (where a sharp drop seems unlikely considering the upcoming IPPs over the next year). Additionally, lack of support from remittances (FY19F: growth of 1.0%YoY) will remain an added burden on current account stability. Elevated deficit within the backdrop of sizable debt repayments estimated at US$7.5bn is likely to push gross external financing at US$21.8bn in FY19F makes an entry into the IMF a certainty.

CA balance (US$bn)

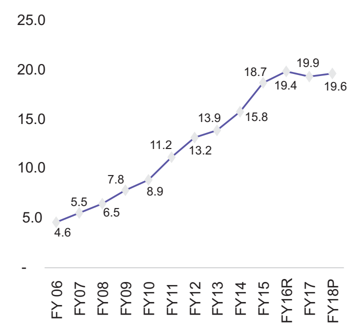


Source: SBP & AKD Research

Rise in imports pressed for higher trade deficit (PkRbn)

Source: SBP & AKD Research

plateaued remittance inflows (PkRbn)



Source: SBP & AKD Research

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