AKD Daily

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Today's Daily

Pak Economy: Stagnant remittances to add on to BoP risks

Pakistan remittance flows improved slightly during 7MFY18, clocking in at US$11.38bn (up 3.5%YoY) vs US$10.99bn in 7MFY17. This was primarily attributable to growth from non-GCC countries (+15.4%YoY) which more than offset the drag from GCC countries (-3.3%YoY). Regarding non-GCC countries, remittances from UK/USA (3rd/4th largest contributors) recorded at USD$1.59/1.51bn in 7MFY18, reflecting an encouraging growth of 11.6%YoY/24.0%YoY respectively. That said, challenging labor market conditions and weak economic activity as evident in lower GDP growth for K.S.A/UAE at 0.3/1.4%YoY in 2017 vs 1.7/3.0%YoY in the previous year, hampered growth in overall remittances (K.S.A contribution to total remittances down to 26% in 7MFY18 from 29% last year). Consequently our remittances/trade deficit ratio has sharply come off to 0.6x in 7MFY18 vs 0.8x/1.0x in 7MFY17/FY16. Going forward, remittances are expected to remain under pressure on account of recent fiscal consolidation in GCC countries (imposition of 5% VAT in Jan'18), where we see flows to stagnate at US$19.8bn in FY18, reflecting nominal growth of 3%YoY. This is likely to take a toll on CAD (FY18F CAD:4.7% of GDP) that is already under pressure from the expanding trade deficit (FY18F: +13.7%YoY). In this backdrop, the reserve drawdown is likely to continue (US$2.3bn wiped out in the last 3 months) with SBP reserves ending at US$12.35bn (import cover of 2.7 months) making room available for further currency depreciation (AKD estimates: PkR118/US$ by end CY18).

KSE100 - Index	
Current	43,705.10
Previous	43,829.07
Chg.	-0.28%

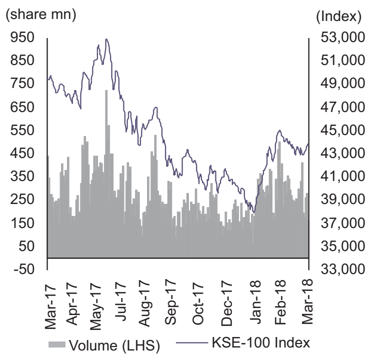
Mkt Cap. (PkRbn/US$bn)	
Current	9,136 / 82.63
Previous	9,150 / 82.76
Chg.	-0.16%

Daily Turnover (mn)	
Current	177.59
Previous	137.04
Chg.	29.6%

Value Traded (PkRmn/US$mn)	
Current	8,087 / 73.15
Previous	5,937 / 53.70
Chg.	36.2%

News and Views

- IMF's first Post-Program Monitoring Discussions with Pakistan concluded on Mar 5'18 where it noted that Pakistan's near-term outlook for economic growth is broadly favorable. However, continued erosion of macroeconomic resilience could put this outlook at risk.
- Pakistan is mulling to place an additional USD1bn to its dollar-denominated 10-year Eurobond the country sold in November last year.
- The SC of Pakistan on Tuesday temporarily allowed the government to continue collecting regulatory duty on over 356 import items, providing a sigh of relief of FBR whose potential revenues of PkR90bn were at stake.



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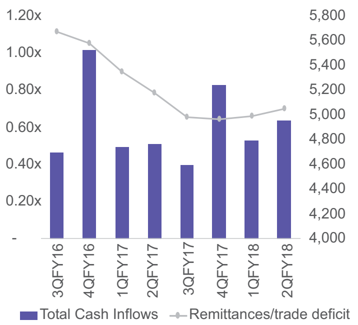
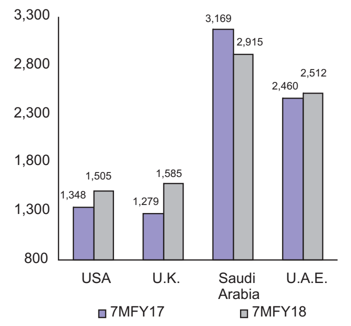
Remittance continue to decline (US$mn)



Source: SBP & AKD Research

Slower GCC flows were a major drag on remittances: Witnessing slight recovery, remittances during 7MFY18 clocked in at US$11.38bn (up 3.5%YoY) vs US$10.99bn in 7MFY17. This was primarily attributable to growth from non-GCC countries (+15.4%YoY) which more than offset the drag from GCC countries (-3.3%YoY). Regarding non-GCC countries, remittances from UK/USA (4th and 3rd largest contributors) were recorded at USD$1.59/1.51bn, reflecting growth of 11.6%YoY/24.0%YoY respectively (remittances from USA encouragingly posted growth for the last 4 quarters consecutively). That said, challenging labor market conditions and weak economic activity (GDP growth of K.S.A/UAE at 0.3/1.4%YoY in 2017 vs 1.7/3.0%YoY in the previous year) driven by oil production cuts and continued geopolitical turbulence in GCC states, hampered remittances growth. With Saudi Arabia's contribution to total remittances coming down to 26% in 7MFY18 from 29% last year, (down 8.0%YoY, at US$2.92bn in 7MFY18) reflecting negative growth trend in the last 6 quarters. This alongwith an expanding trade deficit (up 20.6%YoY in 7MFY18) has resulted in sharp deterioration in remittances/trade deficit ratio that has come off to 0.6x in 7MFY18 vs 0.8x/1.0x in 7MFY17/FY16.

Largest contributor losing strength (US$mn)



Source: SBP & AKD Research

Pressure points remain: External factors like fiscal consolidation in GCC countries (imposition of 5% VAT in Jan'18) that contribute 59% to total remittances, is likely to have an adverse impact on flows going forward. Additionally, SBP's recent proposal to restrict tax-free inflow of remittances to PKR10mn per year alongwith declaration of source of income for amount exceeding PkR0.1mn, can further suppress add to the pressure while encouraging use of illegal transfer services (hundi/hawala). In this backdrop, we see flows to stagnate at US$19.8bn in FY18, reflecting nominal growth of 3%YoY.

External account stability remains questionable: Weak remittance outlook alongwith an expanding trade deficit (FY18F: 13.7%YoY) are likely to be key challenges to BOP stability. CAD is expected to rise to 4.7% of GDP (vs 3.9% of GDP in FY17) while increasing external debt servicing should result in significant reserve drawdown (FX reserves to come down to US$10.8bn in FY18F with an import cover of 2.4 months) making way for further currency depreciation ((AKD estimates: PkR118/US$ by end CY18).

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