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PAKISTAN ECONOMY

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MARKET VISTA

CAD improves, but don't let your guard down

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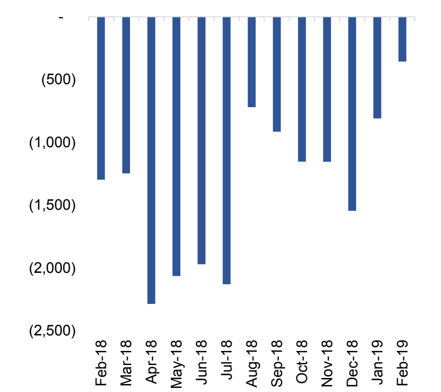
- **External account continues to exhibit significant improvement, with the recent monthly data (i.e. Feb'19) showing noticeable decline in CAD by 73%YoY/56%MoM to US$356mn. The marked reduction in deficit primarily stems from narrowing trade deficit, with the 'February Effect' also playing its part.**
- **The trade imbalance continued to recede, narrowing 27%YoY/22%MoM to US$1,651mn in Feb'19. This moderation in trade deficit was imports driven, down 18%YoY/21%MoM, reflecting general slowdown in the economy. On the other hand, exports remained disappointing recording 9%YoY/19%MoM decline.**
- **Overall, 8MFY19 CAD now stands 23%YoY lower at US$8,844mn, averaging monthly deficit of US$1,105mn vs. US$1427mn in 8MFY18. Contraction in trade deficit (both goods & services) and growth in workers' remittances pulled the deficit lower.**
- **While import led contraction in CAD is encouraging – at least in the short term, we are concerned about dismal exports performance, which remained stagnant despite 24% currency depreciation and export incentives.**

Current Account deficit (US$mn)



Source: SBP & AKD Research

CAD sees further contraction in Feb'19: Latest data on external account shows continuation of Jan'19 trend, with CAD in Feb'19 further narrowing 56%MoM/73%YoY to US$356mn. The marked reduction in deficit primarily stems from tapering trade deficit, with 'February Effect' also playing its role (CAD usually witnesses sequential moderation in the month of February every year). The trade imbalance continued to regress, narrowing 27%YoY/22%MoM to US$1,651mn in Feb'19. The moderation in trade deficit was imports driven, down 18%YoY/21% MoM, reflecting general slowdown in the economy. Exports on the other hand remained disappointing, and recorded 9%YoY/19%MoM decline. Services balance (down 53%YoY) and higher remittances (up 9%YoY) also played their part in lowering overall monthly deficit. On a cumulative basis, 8MFY19 CAD now stands 23%YoY lower at US$8,844mn, averaging monthly deficit of US$1,105mn vs. US$1427mn in 8MFY18. Contraction in trade deficit (both goods & services) and growth in workers' remittances pushed deficit lower.

External Account (US$mn)

	Feb'19	Feb'18	YoY%	Jan'19	MoM%	8MFY19	8MFY18	YoY%
Current account balance	(356)	(1,297)	-73%	(809)	-56%	(8,844)	(11,421)	-23%
Exports of Goods	1,862	2,056	-9%	2,309	-19%	15,975	15,987	0%
Imports of Goods	3,513	4,307	-18%	4,422	-21%	35,257	35,826	-2%
Balance on Trade in Goods	(1,651)	(2,251)	-27%	(2,113)	-22%	(19,282)	(19,839)	-3%
Balance on Trade in Services	(198)	(422)	-53%	(197)	1%	(2,304)	(3,630)	-37%
Workers' Remittances	1,577	1,450	9%	1,743	-10%	14,350	12,834	12%

Source: SBP & AKD Research

Trade imbalance regressing but exports fail to show up: A segregated analysis of 8MFY19 PBS trade data indicates broad based decline in imports (Import ex. Oil, Agri & Chemical: down 13% YoY), with more noticeable declines in capital goods (machinery/transport: down 20%/30%YoY), raw materials (iron & steel scrap/ textile inputs: 5% /11%YoY) and luxury items, signifying that the external imbalance is responding to stabilization measures undertaken so far. We expect the impact of the said measures to be more pronounced in the remaining FY19, and full year CAD to even round up below our estimate of US$14.05bn (5.0% of the GDP). That said, we are concerned about dismal exports performance so far, which remained stagnant despite 24% domestic currency depreciation and export incentives. Additionally, our estimates are prone to movement in commodity prices particularly oil, where we highlight that US$5/bbl increase in average crude prices (ceteris paribus) raises our CAD estimate by US$353mn.

BoP – IMF is the key: On a BoP front, negotiations on potential bailout are underway between the GoP and the IMF, with differences on policy framework under the program are narrowing, according to the gov't officials. The IMF country Rep also hinted the same in a recent statement. We expect the authorities to reach a deal by the end of FY19, with initial policy focus on the fiscal side, considering the fiscal side of equation remains largely unaddressed. Forthcoming FY20 budget would be key checkpoint in this regard.

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Accumulate	> 5% to < 20% upside potential
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