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PAKISTAN ECONOMY

REP-019

MARKET VISTA

CAD drops to US$600mn in Aug’18

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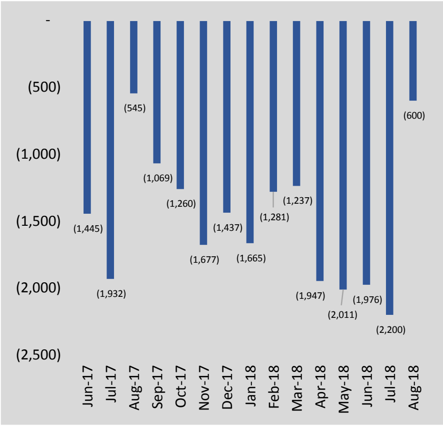
- **Current account deficit for Aug'18 marked a steep decline of US$1.52bn from the previous month to settle at US$600mn, primarily on the back of waning imports (down 18.7% MoM), narrowing the trade deficit to US$2.4bn (down by 31.7%MoM).**
- **While exports marginally inched up by 3.9%MoM on the back of uptick in manufactured goods, imports slipped away due to decline in petroleum group (-23.5%MoM) and machinery imports (-18.3%MoM).**
- **While challenges remains during the ongoing fiscal year, we estimate deficit to remain elevated at 5.4% of GDP primarily driven by higher oil import bill.**

Aug'18 CAD down: Current account deficit for Aug'18 declined significantly by US$1.52bn to register at US$600mn vs. US$2.12bn in Jul'18. Primarily led by narrowing trade deficit at US$2.4bn (down 31.7%MoM), further support was lent by remittance inflows inching up 5.5% MoM to US$2.04bn. However, on YoY basis, the deficit still remains up by 10.1% (US$545mn in Aug'17) where a similar MoM dip was witnessed last year as well due to seasonal uptick in remittance. Cumulatively, the deficit stands at US$2.7bn (up 9.9%YoY) in 2MFY19 vs. US$2.5bn in same period last year where widening of trade deficit (up 16.0%YoY) remained the key trigger. Subsequently, reserves held by SBP have increased by US$406mn in FYTD due to US$2.0bn inflow from China last month while other foreign inflows remain tepid.

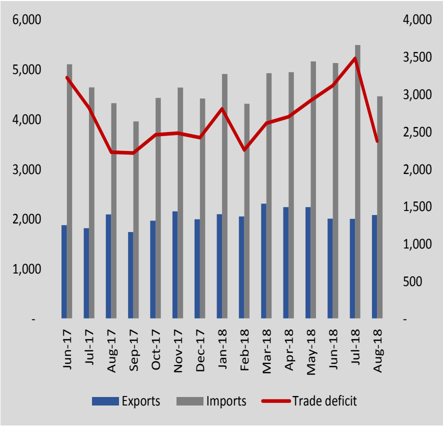
Trade deficit: Trade deficit clocked-in at US$2.4bn in Aug'18 (down 31.7%MoM) vs. US$3.5bn in the previous month. Narrowing of trade deficit was mainly a function of 18.7%MoM decline in imports whereas exports marginally inched up by 3.9%YoY. In this regard, while the exports of manufactured goods increased (up 13.7%MoM), textile saw a slight decline of 1.2%MoM to US$1.17bn along with a 11.2%MoM drop in food group. On the other hand, decline in petroleum imports (down 23.5%MoM) and machinery (down 18.3%MoM) remained key contributors towards a surprise contraction in import bill. Within the petroleum group, imports of refined products slid by US$392mn along with a US$134mn fall in the value of LNG imports. That said, PBS external trade data presents a different picture where tapering of trade deficit (down 6.8% MoM) is a function of exports growth (at 22.5%MoM), surpassing that of imports (up 3.2% MoM).

Current Account Deficit (US$mn)



Source: SBP & AKD Research

Trade Deficit (US$mn)



Source: SBP & AKD Research

External Account (US$mn)

	Aug-18	Aug-17	YoY %	Jul-18	MoM %	2MFY19	2MFY18	YoY %
Current account balance	(600)	(545)	10%	(2,121)	-72%	(2,721)	(2,477)	10%
Exports of Goods	2,087	2,098	-1%	2,009	4%	4,096	3,919	5%
Imports of Goods	4,466	4,328	3%	5,493	-19%	9,959	8,972	11%
Balance on Trade in Goods	(2,379)	(2,230)	7%	(3,484)	-32%	(5,863)	(5,053)	16%
Balance on Trade in Services	(263)	(456)	-42%	(499)	-47%	(762)	(935)	-19%
Workers' Remittances	2,037	1,955	4%	1,930	6%	3,967	3,497	13%

Source: SBP & AKD Research

Challenges persist: Despite the sudden drop in CAD number, external imbalance is likely to persist in the current 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 projects 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 further push gross external financing at US$22.3bn in FY19F (vs. US$20.4bn in FY18).

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Neutral	> 10% to < 16% expected total return
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