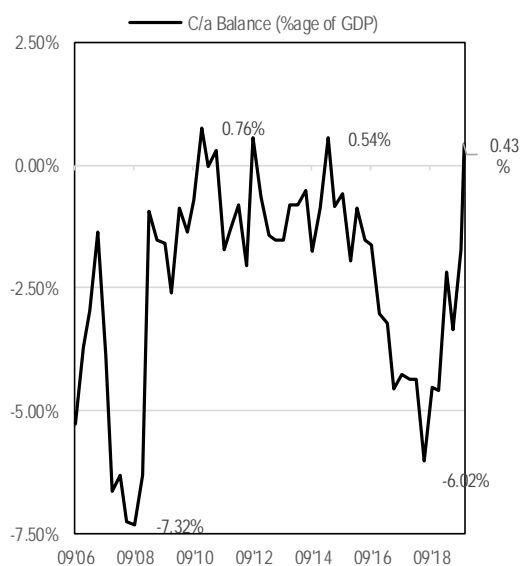


Day Break

Thursday, 21 November 2019

Economy

Exhibit: C/a Balance %age of GDP



External Balance

C/a turned around to positive in Oct-19 thanks to reduced import bill and support from income balance

- Monthly Current Account (C/a) deficit continues to improve with Oct-19 balance posting a surplus of USD 99mn compared to USD 1.3bn deficit last year in same month and USD 284mn deficit in Sep-19.
- Major relief during the month came via curtailed trade deficit at USD 1.4bn (down 2% m/m) helped by a +17% m/m growth in exports compared to a +9% m/m growth in import bill.
- Having said that while c/a surplus for the month of Oct-19 is a positive development, considering upcoming monetary policy statement due on 22nd Nov, 2019, we think sustaining a surplus would be difficult, hence a more cautious decision is expected on monetary policy decision front in view of Oct-19 C/a numbers.

Oct-19 Current account balance post a surplus of USD 99mn

Monthly Current Account (C/a) deficit continues to improve with Oct-19 balance posting a surplus of USD 99mn compared to USD 1.3bn deficit last year in same month and USD 284mn deficit in Sep-19. On cumulative basis, 4m Fy20 C/a deficit now comes at USD 1.4bn (or 1.6% of the GDP) compared to USD 5.6bn (or 5.5% of the GDP) last year same period, a 74% y/y decline.

...amid curtailed trade deficit and higher remittances

Major relief during the month came via curtailed trade deficit at USD 1.4bn (down 2% m/m) helped by a +17% m/m growth in exports compared to a +9% m/m growth in import bill. More importantly, during the month, income balance improved significantly by +26% m/m mainly due to a +14% m/m growth in workers' remittances.

Exhibit: Oct-19 Current Account Balance Highlights

USDbn	Oct/19	Sep/19	m/m	Oct/18	y/y	4m Fy20	4m Fy19	y/y
Export	2,210	1,888	17%	2,060	7%	8,220	7,953	3%
Import	3,625	3,326	9%	4,741	-24%	14,656	19,016	-23%
Trade Balance	(1,415)	(1,438)	-2%	(2,681)	-47%	(6,436)	(11,063)	-42%
Services Balance	(167)	(182)	-8%	(291)	-43%	(1,368)	(1,367)	0%
Income Balance	1,681	1,336	26%	1,692	-1%	6,330	6,863	-8%
C/a Bal.	99	(284)	n.m	(1,280)	n.m	(1,474)	(5,567)	-74%

C/a balance to settle under ~3.0% of GDP in Fy20

Given the 4m Fy20 average monthly C/a deficit comes at USD 368mn compared to 1.39bn last year. If the trend continues c/a deficit is likely to fall even under 2.0% of the GDP, which is significantly lower to our initial estimates of ~3.0% of the GDP (4m Fy20 =1.6%). To recall, IMF forecast country's C/a deficit is expected to print USD 6.7bn (~2.6% of the GDP) in FY20, with exports expected to post a ~11% y/y growth and imports are estimated to show a meagre ~1% y/y reduction. However, so far things in 4months are looking promising, particularly imports down by 23% y/y and exports up by +3% y/y thanks to textile and food sector. Moreover, with adjustment in country's exchange rate (REER as of June-19 down to 90.0 compared to 119.6 back in Jul-17, based on revised base of 2013-15) country's exports are likely to witness a healthy volumetric growth in coming months.

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Monthly surplus a positive consideration for monetary policy, but sustainability will be challenging

Having said that while c/a surplus for the month of Oct-19 is a positive development, considering upcoming monetary policy statement due on 22nd Nov, 2019, we think sustaining a surplus would be difficult, considering dependency of C/a on trade balance and remittances. Volatility in either of the three factors; exports, imports or remittances could potentially alter external account trend, hence a more cautious decision is expected on monetary policy decision front in view of Oct-19 C/a numbers. While improved foreign direct investments (FDI) - USD 0.45bn in 4mFY20 –and portfolio investments - USD 0.65bn is a welcoming, as it would lend support to balance of payments which should help slowdown the FX reserve drainage.

Exhibit: Key highlights of C/a Balance and external balance for the month of Oct-19

USDbn	Oct	Sep	Aug	Jul	4m'20	4m'19	2019	4q'19	3q'19	2q'19	1q'19	2018	2017	2016
Export	2.2	1.9	1.9	2.2	8.2	8.0	24.3	6.2	6.2	6.0	5.9	24.8	22.0	22.0
Import	3.6	3.3	3.5	4.2	14.7	19.0	52.8	12.7	12.0	13.8	14.3	56.6	48.7	41.3
Import Cover (mths)	4.2	4.5	4.4	3.6	4.1	2.9	3.3	3.4	4.3	3.0	3.1	3.5	5.3	6.7
Import / Export Ratio	1.64	1.76	1.86	1.87	1.78	2.39	2.18	2.04	1.95	2.31	2.42	2.28	2.21	1.88
Trade Balance	(1.4)	(1.4)	(1.6)	(2.0)	(6.4)	(11.1)	(28.5)	(6.5)	(5.8)	(7.8)	(8.4)	(31.8)	(26.7)	(19.3)
Trade Cover (mths)	10.7	10.4	9.6	7.8	9.4	5.1	6.1	6.7	8.9	5.3	5.3	6.2	9.6	14.4
Services Balance	(0.2)	(0.2)	(0.5)	(0.5)	(1.4)	(1.4)	(4.3)	(1.4)	(0.7)	(1.1)	(1.1)	(6.1)	(0.0)	(0.0)
Income Balance	1.7	1.3	1.6	1.8	6.3	6.9	19.0	4.7	4.5	4.6	5.2	18.0	0.0	0.0
Remittances	2.0	1.7	1.7	2.0	7.5	7.6	21.8	5.7	5.1	5.5	5.6	19.9	0.0	0.0
C/a Bal.	0.10	(0.28)	(0.62)	(0.67)	(1.5)	(5.6)	(13.8)	(3.2)	(2.1)	(4.3)	(4.3)	(19.9)	(26.7)	(19.3)
%age of GDP	0.4%	-1.2%	-2.7%	-2.9%	-1.6%	-5.5%	-4.6%	-4.2%	-2.7%	-5.7%	-5.7%	-6.0%	-8.3%	-6.5%
Cap. /a Bal.	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.1	0.0	0.0	0.1	0.4	0.0	0.0
Fin. /a Bal.	(0.2)	0.1	(1.0)	(1.0)	(2.1)	(3.3)	(11.9)	(0.3)	(5.4)	(3.3)	(2.9)	(14.3)	(0.0)	(0.0)
FDI	0.11	0.24	0.07	0.03	0.45	(0.27)	(1.4)	0.3	(1.0)	0.0	(0.2)	2.2	(0.3)	(0.3)
PI	0.11	0.39	0.08	0.07	0.65	0.19	1.7	0.5	0.5	0.4	0.2	3.5	2.7	2.3
Inflow	5.5	3.9	5.4	6.1	20.9	21.6	67.0	14.6	19.2	16.7	16.4	69.4	0.1	0.1
Outflow	5.1	4.3	4.9	5.7	20.1	23.7	68.7	17.4	15.9	17.7	17.7	74.6	0.1	0.1
Net Flow	0.4	(0.4)	0.4	0.3	0.8	(2.1)	(1.7)	(2.8)	3.4	(1.0)	(1.3)	(5.2)	(0.0)	0.0
Fx Reserve	15.1	15.0	15.6	15.1	15.1	14.0	14.5	14.5	17.4	13.8	14.9	16.4	21.4	23.1

Source: SBP, IGI Research

Textile Sector export rise in Oct-19;

For the month of Oct-19, textile exports increased by +7% y/y and +14% m/m to USD 1.2bn. However, for the 4m FY20, sector export earnings have remained relatively tepid at USD 4.58bn up by +4% y/y. In terms of quantity, Value-added textile exports have shown a significant rise over previous year, courtesy of positive impact of substantially weakened PKR as against the comparative period.

Exhibit: Textile Sector Export

	Non-value added Textile Goods						Value added Textile Goods						Per Unit / USD	Qty (unit)	Per Unit / USD	
	Raw	Yarn	Cloth	Combed	Other Yarn	Per Unit / USD	Qty (unit)	Knitwear	Bed wear	Towels	Canvas	Readymade				Synthetic
2017	1.71	2.73	1.04	1.05	2.70	1.36	212	22.69	5.98	4.06	2.94	65.95	1.17	8.83	75	3.31
2018	1.65	2.63	0.93	0.38	2.89	1.25	245	25.67	6.00	3.92	2.96	64.39	1.00	8.22	89	3.10
2019	1.61	2.60	0.76	0.88	2.81	1.02	268	23.76	5.55	4.17	2.78	49.97	0.81	7.67	98	2.79
1q'19	1.53	2.81	0.85	0.00	3.16	1.16	246	25.02	5.64	4.10	2.73	55.38	0.91	7.89	91	2.98
2q'19	1.72	2.44	1.06	0.00	2.62	1.30	199	22.05	5.59	4.03	2.95	52.31	1.07	8.25	94	3.52
3q'19	1.57	2.54	0.64	0.83	3.08	0.87	324	26.05	5.50	4.74	2.73	49.51	0.74	7.68	97	2.44
4q'19	1.60	2.57	0.63	0.99	2.58	0.89	305	22.70	5.45	3.87	2.56	44.73	0.64	6.99	109	2.49
1q'20	1.55	2.50	0.88	1.33	2.50	1.17	232	26.03	4.69	4.34	2.55	45.18	0.83	7.35	105	3.10
Oct-19	1.42	2.55	0.93		2.43	1.19	230	26.67	4.89	4.32	2.63	46.18	0.87	7.34	115	3.23

Source: PBS, IGI Research, QTY(unit) monthly average

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