Mar-2022 CAD at US$1bn; all eyes on IMF

- As per data released by SBP, Pakistan's current account deficit (CAD) swelled to US$1.03bn in Mar-2022, twice that of Feb-2022, as trade deficit expanded 41% MoM owing 21% MoM rise in imports. However, it is c.30% lower than the average monthly CAD of US$1.44bn for 9MFY22, notwithstanding a 28% MoM jump in remittances to US$2.8bn.
- Mar-2022 saw overall negative Balance of Payment (BOP) position of US$4.6bn which accounts for 90% of the negative BOP position of US$5.1bn for 9MFY22. This is primarily owing to Chinese loan maturity of US$2.34bn and portfolio investment outflows of US$0.4mn; contributing a sizeable portion of US$5.0bn decline in SBP Reserves during Mar-2022..
- We stick to our FY22 CAD estimate of US$15.4bn (4.3% of GDP) that has a downside risk emerging from the recently announced palm oil export ban by Indonesia as Pakistan sources 45% of palm oil from Indonesia.
- The need to rebuild reserves to a healthy import cover level remains a challenge amidst a commodity boom and will pressure the currency. Positive indications towards resumption of a longer and larger IMF program, however bodes well.

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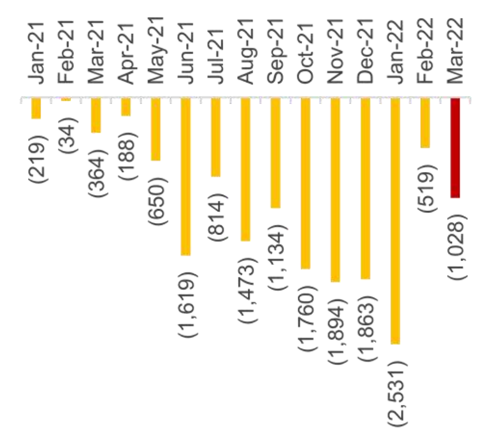
CAD doubles to US$1.0bn in Mar-2022

As per data released by SBP, Pakistan's current account deficit (CAD) swelled to US$1.03bn in Mar-2022 twice that of Feb-2022, as trade deficit expanded 41% MoM owing to 21% MoM rise in imports. However, it is c.30% lower than the average monthly CAD of US$1.44bn for 9MFY22, notwithstanding a 28% MoM jump in remittances to US$2.8bn.

Overall, the goods trade deficit stood at US$3.2bn in Mar-2022, up from US$2.3bn in the previous month, despite 6% MoM higher exports (US$2.9bn). Imports jumped 21% MoM to US$6.2bn from a low base of US$5.1bn in Feb-2022. Key observations in the surge in imports during Mar-2022 are: i) rise in wheat imports to cater to supply shortage in the country; ii) increase in palm oil imports as prices have risen up to 35% YTD; iii) jump in automobile imports owing to low Feb-2022 base, as well as CBU car imports hit their highest level since Jul-2021 despite a temporary ban, iv) bullish trend in oil markets continuously increasing the cost of crude and petroleum imports, and v) increase in fertilizer imports to enhance availability to the farmers.

Remittances jumped to c.US$2.8bn after sustaining near US$2.2bn level during Jan-Feb22. Major recovery in remittance flows has come from the Middle East nations as the trend in registered worker to the region had increased since Dec-2021, as per BEOE (Bureau of Emigration and Overseas Employment).

Monthly CAD (US$mn)



Source: SBP, JS Research

Massive outflow in Financial Account

The month of Mar-2022 posted an overall negative Balance of Payment (BOP) position of US$4.6bn which accounts for 90% of the negative BOP position of US$5.1bn for 9MFY22. This is primarily owing to US$3.6bn of outflow from financial account as Chinese loan of US$2.34bn matured and portfolio investment outflows of US$0.4mn were realized during the month; contributing a sizeable portion of the US$5.0bn decline in Gross SBP Reserves during Mar-2022.

US$mn	Mar-22	Feb-22	MoM	Mar-21	YoY	9MFY22	9MFY21	YoY
Current account	**(1,028)**	**(519)**	**98%**	**(369)**	**179%**	**(13,169)**	**(275)**	**NM**
Trade balance	(3,172)	(2,255)	41%	(2,776)	14%	(30,097)	(19,349)	56%
- Exports	*3,072*	*2,888*	*6%*	*2,616*	*17%*	*23,699*	*18,713*	*27%*
- Imports	*6,244*	*5,143*	*21%*	*5,392*	*16%*	*53,796*	*38,062*	*41%*
Services balance	(264)	(291)	-9%	(188)	40%	(3,179)	(1,943)	64%
- Services Exports	*668*	*535*	*25%*	*556*	*20%*	*5,156*	*4,404*	*17%*
- Services Imports	*932*	*826*	*13%*	*744*	*25%*	*8,335*	*6,347*	*31%*
Income	(559)	(288)	94%	(375)	49%	(3,905)	(3,318)	18%
Current transfers	2,967	2,315	28%	2,970	0%	24,012	24,335	-1%
- Remittances	*2,810*	*2,190*	*28%*	*2,723*	*3%*	*22,952*	*21,436*	*7%*
Capital account	**21**	**9**	**133%**	**18**	**17%**	**169**	**174**	**-3%**
Financial account	**(3,590)**	**428**	**NM**	**1,045**	**NM**	**8,496**	**2,304**	**269%**
FDI	(24)	98	NM	133	NM	1,260	1,218	3%
FPI	(428)	(60)	613%	112	NM	183	(290)	NM
- In Pakistan	*(429)*	*(60)*	*615%*	*118*	*NM*	*162*	*(266)*	*NM*
Others	(3,139)	390	NM	799	NM	7,051	1,378	412%
Assets	(865)	(608)	42%	189	NM	(2,435)	(1,726)	41%
Liabilities	(2,274)	998	NM	610	NM	9,486	3,104	206%
Central Bank	-	-	NM	2	NM	(1)	(1,465)	-100%
Banks	7	(77)	NM	(46)	NM	520	(147)	NM
Government	(2,340)	1,095	NM	403	NM	5,019	3,749	34%
- Loans	*568*	*1,200*	*-53%*	*668*	*-15%*	*7,780*	*6,727*	*16%*
- Amortization	*(2,879)*	*(153)*	*NM*	*(370)*	*678%*	*(6,394)*	*(4,368)*	*46%*
- Other	*(29)*	*48*	*NM*	*105*	*NM*	*3,633*	*1,390*	*161%*
Other sector	59	(20)	NM	251	-76%	1,175	967	22%
Allocation of SDRs	-	-	NM	-	NM	2,773	0	NM
Errors/Omission	**(12)**	**(122)**	*-90%*	**79**	**NM**	**(608)**	**(666)**	**-9%**
BOP	**(4,609)**	**(204)**	**NM**	**773**	**NM**	**(5,112)**	**1,537**	**NM**

Source: SBP, JS Research

Commodity cycle poses a risk

Commodities have not simmered to any extent, which continues to put out a multitude of concerns for Pakistan's external account outlook. Oil market continues to remain tight where a second round of sanctions on Russia is under consideration by EU. A complete ban on Russian oil and gas import by EU holds unintended consequences for the West where the cutting off of energy supplies (4mbpd) can wreak havoc on EU while also cause oil prices to spiral exponentially.

We currently stick to our FY22 CAD estimate of US$15.4bn (4.3% of GDP) that has a downside risk emerging from the recently announced palm oil export ban by Indonesia, as the country tries to combat inflation. This move can halt more than half of global palm oil supply sending shockwaves in palm oil market which has already seen prices jump 35% CY22 YTD. Pakistan sources 45% of palm oil import from Indonesia and it has already surpassed its FY21 palm oil import bill of US$2.4bn in 9MFY22 with US$2.5bn of palm oil imports.

IMF program resumption is key

Aiming to re-build reserves and maintain a healthy import cover continues to remain a key challenge for Pakistan in such a commodity price run, continuously putting pressure on exchange rate. With US$14bn short-term currency drain, the currency risk has magnified, calling for a swift resumption of IMF program. Resumption of talks with IMF with the team visiting Pakistan next month with positive indications towards resumption of a longer and larger IMF program, hence bodes well on that front despite the likely belt tightening that comes alongside.

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