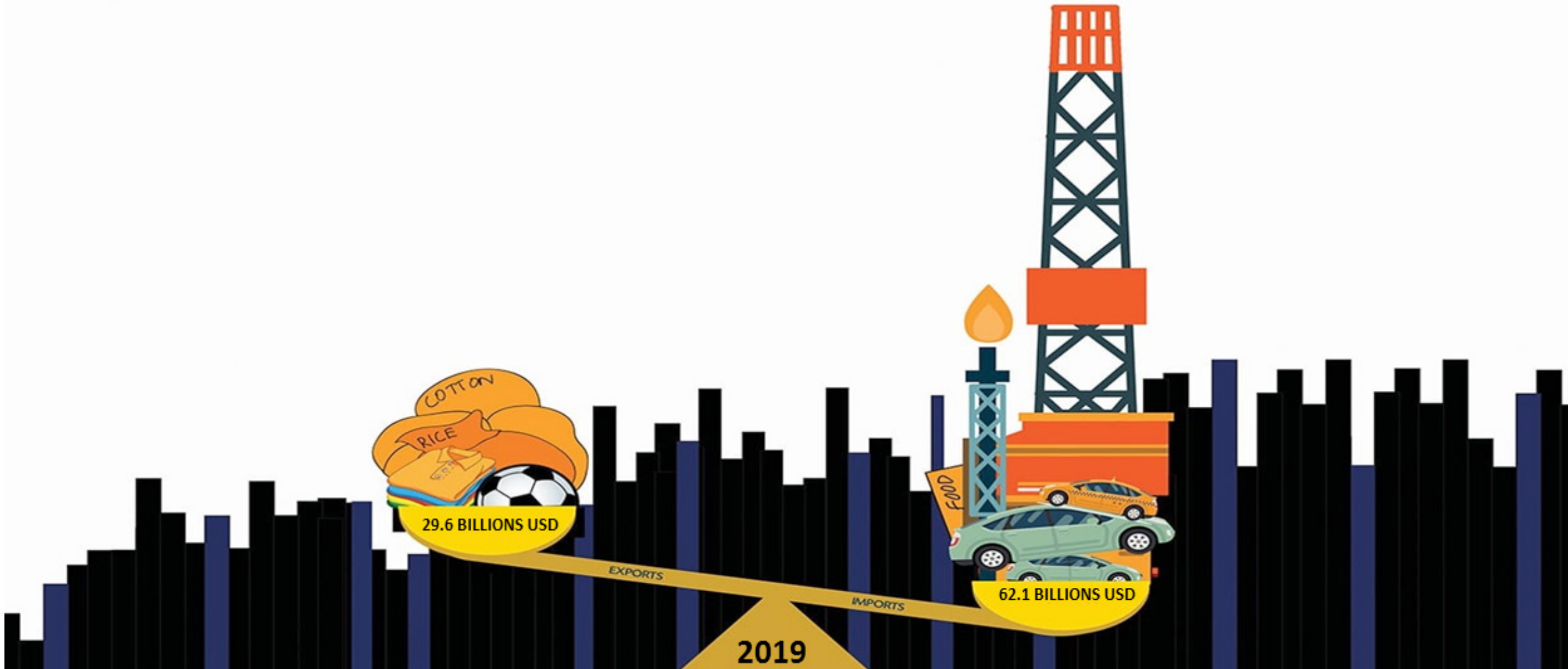


PAKISTAN'S EXTERNAL ACCOUNT IMBALANCE

September, 2019



Balance of Payments (BOP)

As per IMF, Balance of Payments (BOP) is a statistical statement that systematically summarizes, for a specific time period, the economic transactions of an economy with the rest of the world.

BOP's Key Components

Current Account

- Broadly defined, trade balance and income from abroad.
- (Exports – Imports + International income receipts - payments to foreigners)
- (e.g. TV imported)

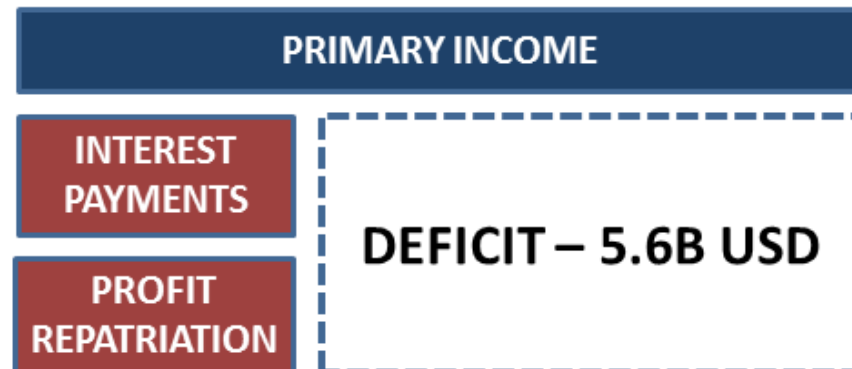
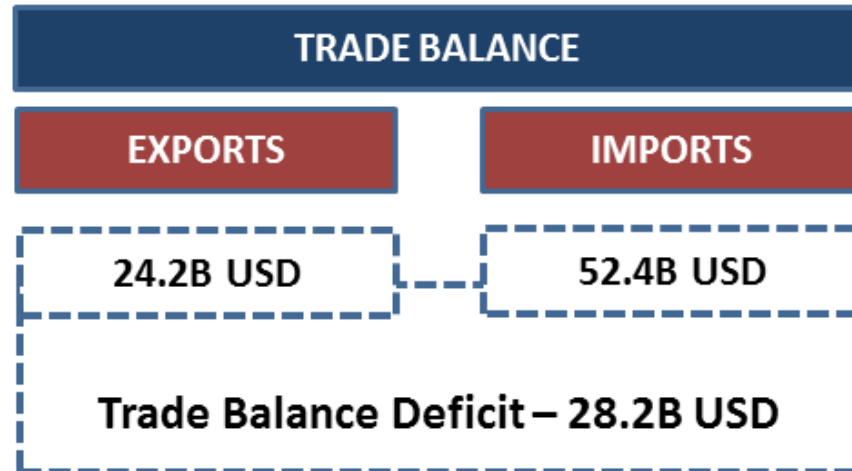
Financial Account

- Sales of assets
- (Sales of assets to foreigners - purchases of assets located abroad)
- (e.g. purchasing a residence abroad)

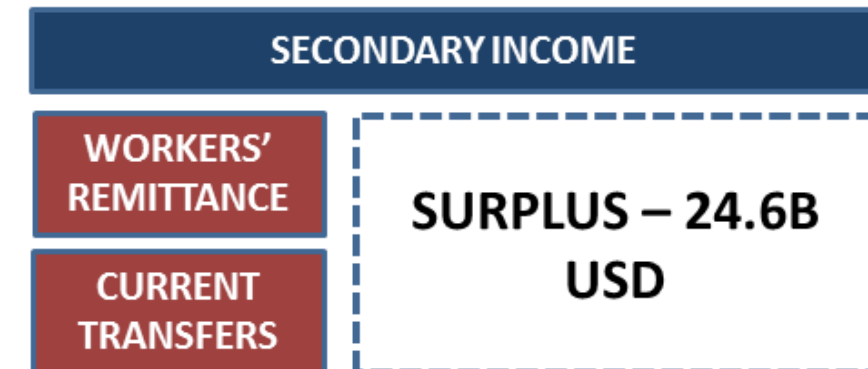
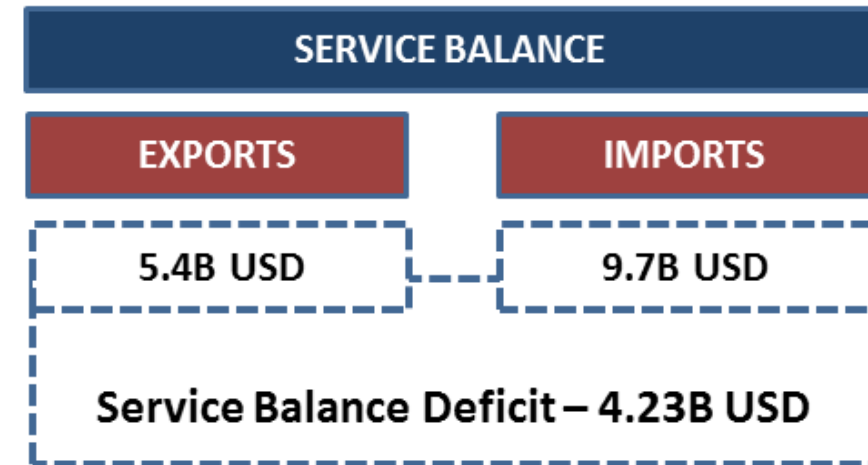
Capital Account

- Relates to inflows and outflows of investments, short term borrowings/lending, private loan flow, reserves, gold movement
- (e.g. charity gifts)

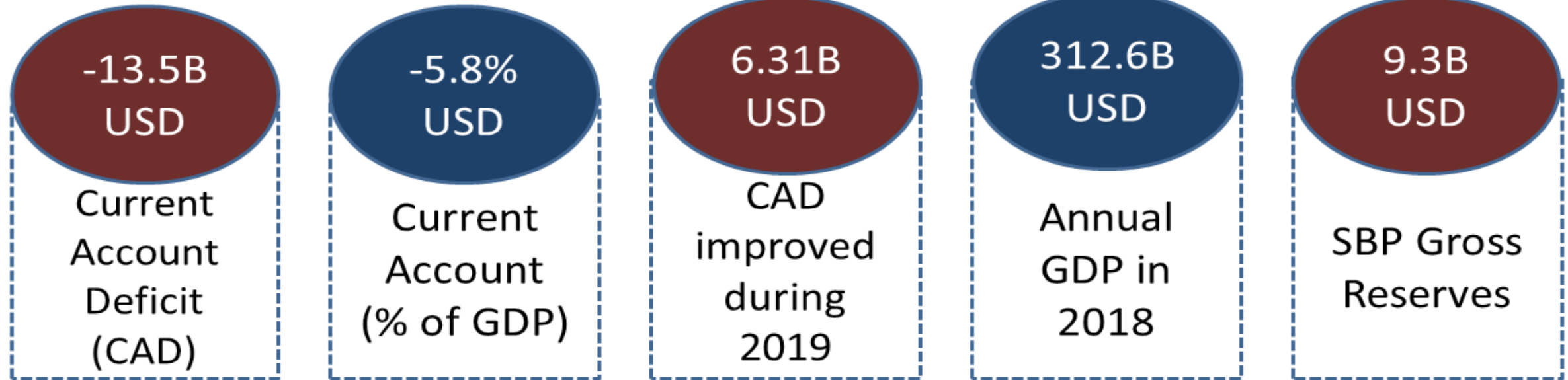
Four Key Components of Current Account Balance (Figures - 2019)



CURRENT ACCOUNT DEFICIT (13.5B USD)



Key Figures & Projections



IMF Projected Figures

	2017	2018	2019	2020	2021	2022	2023	2024
	Actual		Projections					
Current Account Balance (\$ billions)	-12.6	-19.9	-13.1	-6.7	-5.5	-5.3	-5.3	-6.1
Current account balance (% of GDP)	-4.1	-5.8	-4.6	-2.6	-2	-1.8	-1.7	-1.8
Real GDP growth (%)	5.4	5.2	3.3	2.4	3.0	4.5	5.0	5.0
Inflation	4.3	2.8	7.8	12.6	9.8	6.9	5.2	5.1

Three Phases of Current Account Balance

2004- 2009

From surplus of 4.1b USD in 2003 to the highest deficit of 13.8b USD in 2008.

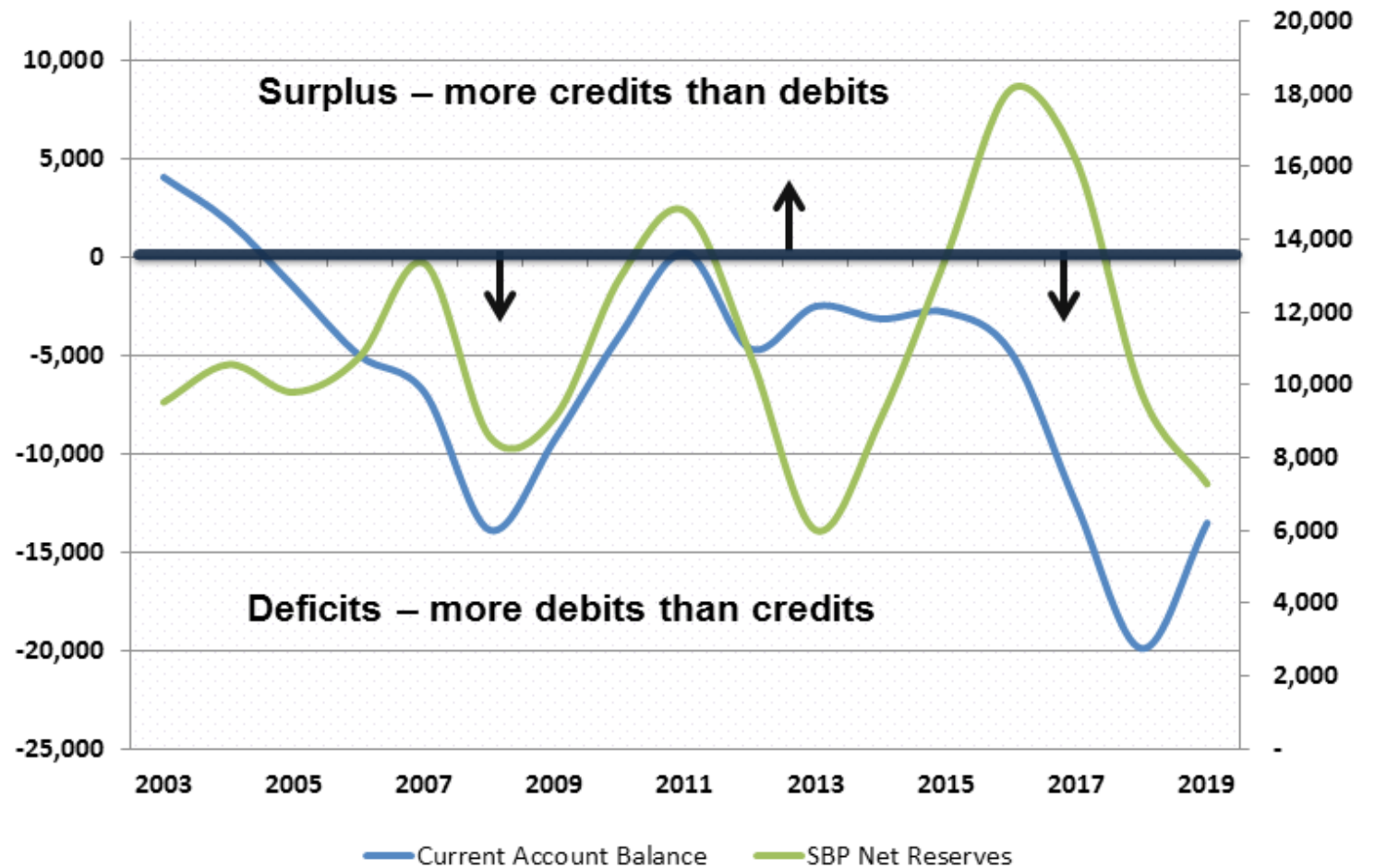
2010- 2012

Significant improvement from 2009 onwards and a nominal surplus of 0.2b USD was recorded in 2011.

2013- 2019

Since 2011, current account has remained in deficit while reaching the all time high of 19.9b USD in 2018.

Historical Trend (\$ Millions) [Credit less debit]

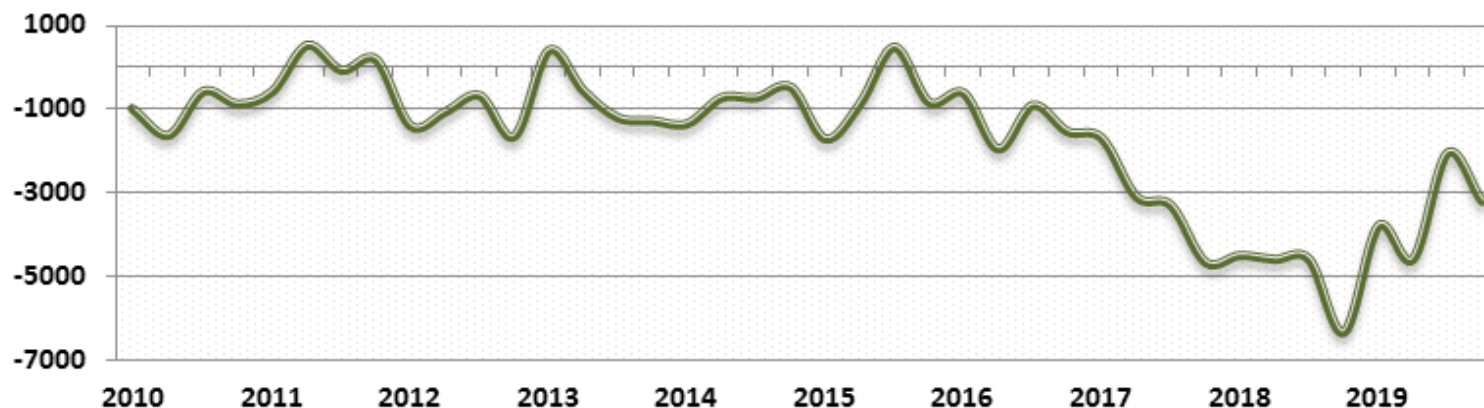


Analysis of Monthly Current Account Balance (CAB)

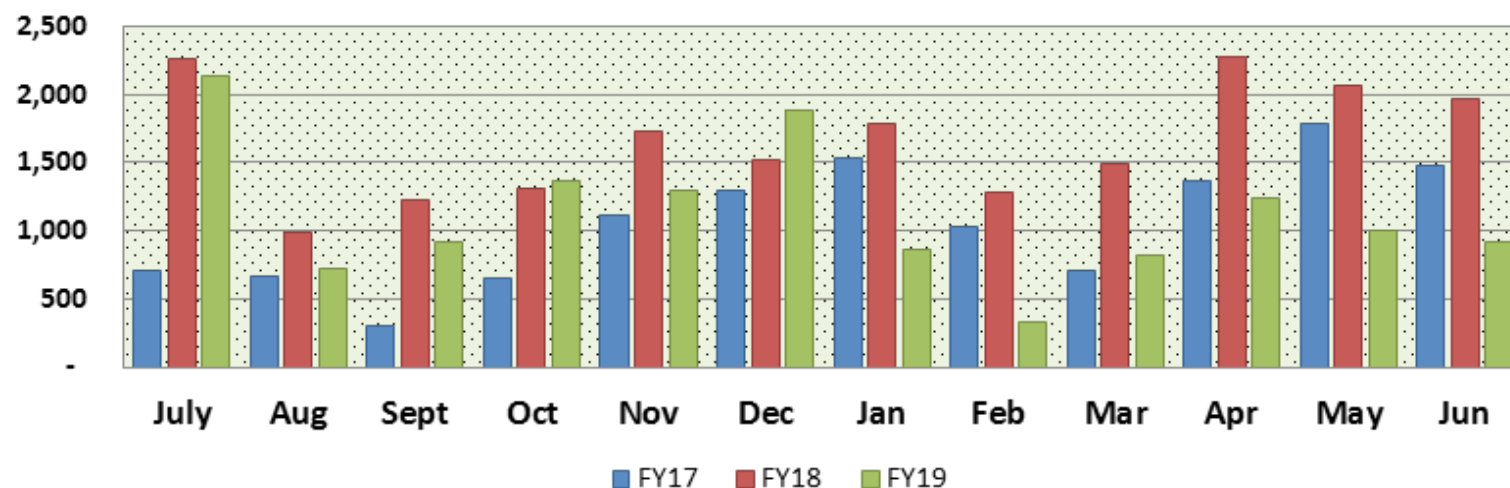
July 2016 – July 2019

- CAD crossed 1B USD mark in Nov 2016.
- Deficits consistently remained on the higher levels till June 2018.
- Government realization of weakening CAD in Dec 2017.
- Stabilizing measures undertaken to control CAD afterwards are as follows:
 - Rupee devaluation
 - Interest rate adjustment
 - Loan from Chinese Bank
 - Duties on non-essential imports
- Deficit in July 2019 – **579M USD**

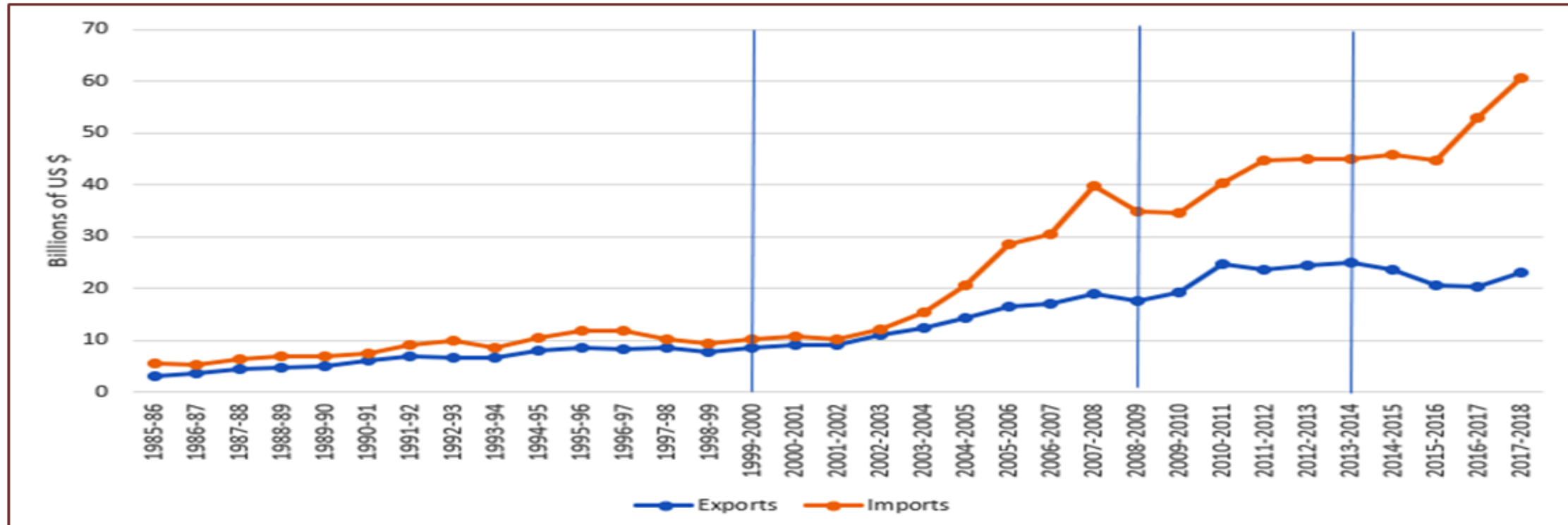
Quarterly Comparison CAB (Figures in \$ Millions)



Monthly Comparison CAB (Figures in \$ Millions)



Pakistan's Trade Statistics



- **Musharraf regime (1999 to 2008)**
- **Followed by the five-year rule of Pakistan People's Party (PPP)**
- **Pakistan Muslim League – Nawaz (PML-N) from 2013 to 2018**

Imports & Exports of Goods

Exports of Goods by Groups (\$ Millions)

	FY17	FY18	FY19
Food Group	3,618	4,818	4,639
Textile Group	12,457	13,377	13,565
Petroleum Group	411	575	676
Other Manufacture	3,659	4,134	3,811
All Other	1,859	1,865	1,532
Total Exports	22,003	24,768	24,223

Major Export Commodities in 2019

- Rice - \$ 2.0B
- Cotton Yarn - \$ 1.B
- Cotton Cloth - \$ 2.2B
- Knit Wear - \$ 2.8B
- Bed Wear - \$ 2.3B
- Ready made garments - \$ 2.6B
- Chemical & Pharmaceutical - \$ 1.2B
- Made up Articles - \$ 0.7B
- Sports goods - \$ 0.5B
- Leather Manufactures - \$ 0.5B
- Cement - \$ 0.3B

Imports of Goods by Group (\$ Millions)

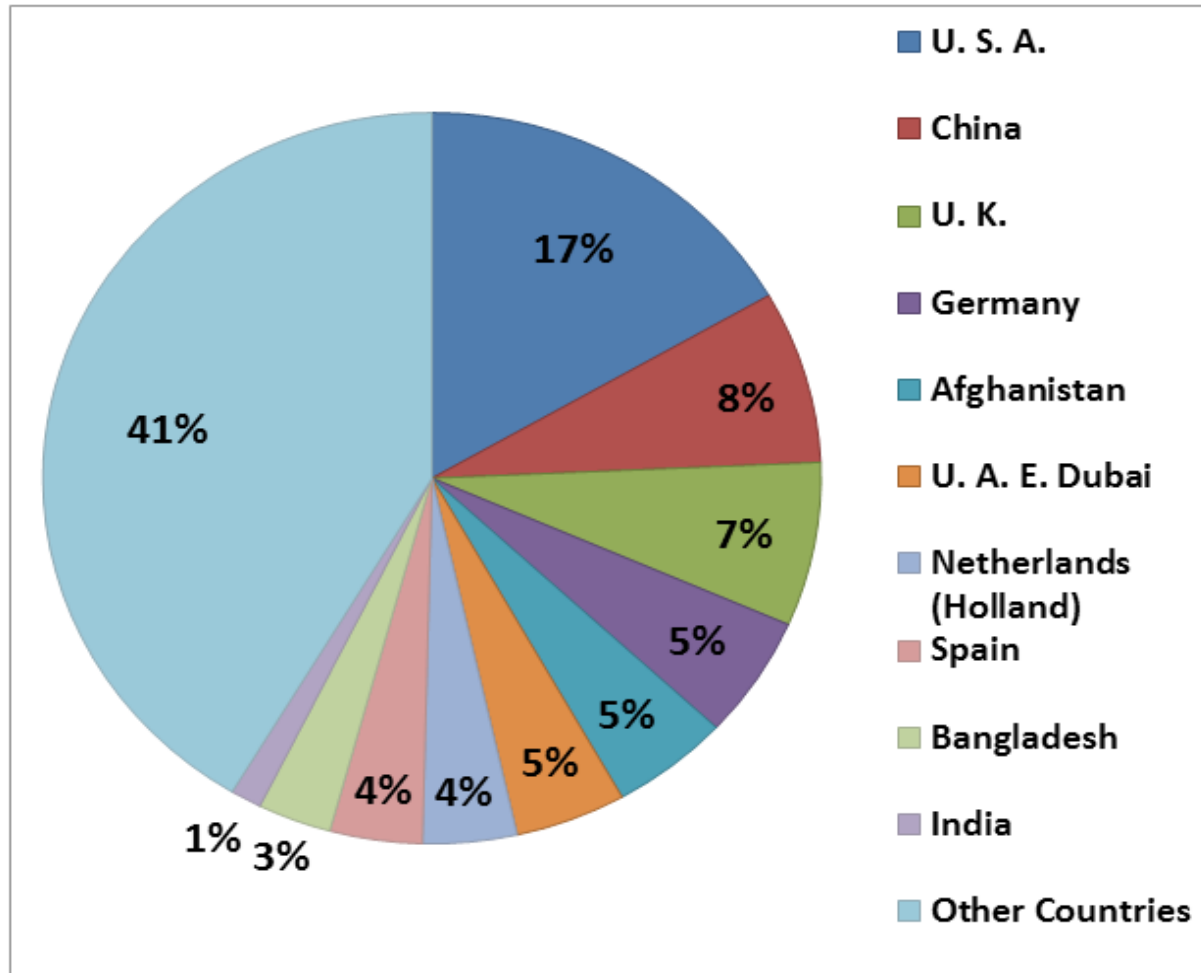
	FY17	FY18	FY19
Food Group	5,417	5,502	4,750
Machinery Group	7,410	8,785	6,767
Transport Group	2,643	3,207	2,315
Petroleum Group	10,607	13,263	13,921
Textile Group	3,589	4,091	3,846
Agri. & Other Chemical	7,123	8,315	8,392
Metal Group	3,674	4,762	3,905
Miscellaneous Group	1,196	1,256	1,029
All others	7,024	7,412	7,466
Total Imports	48,683	56,592	52,390

Major Import Commodities in 2019

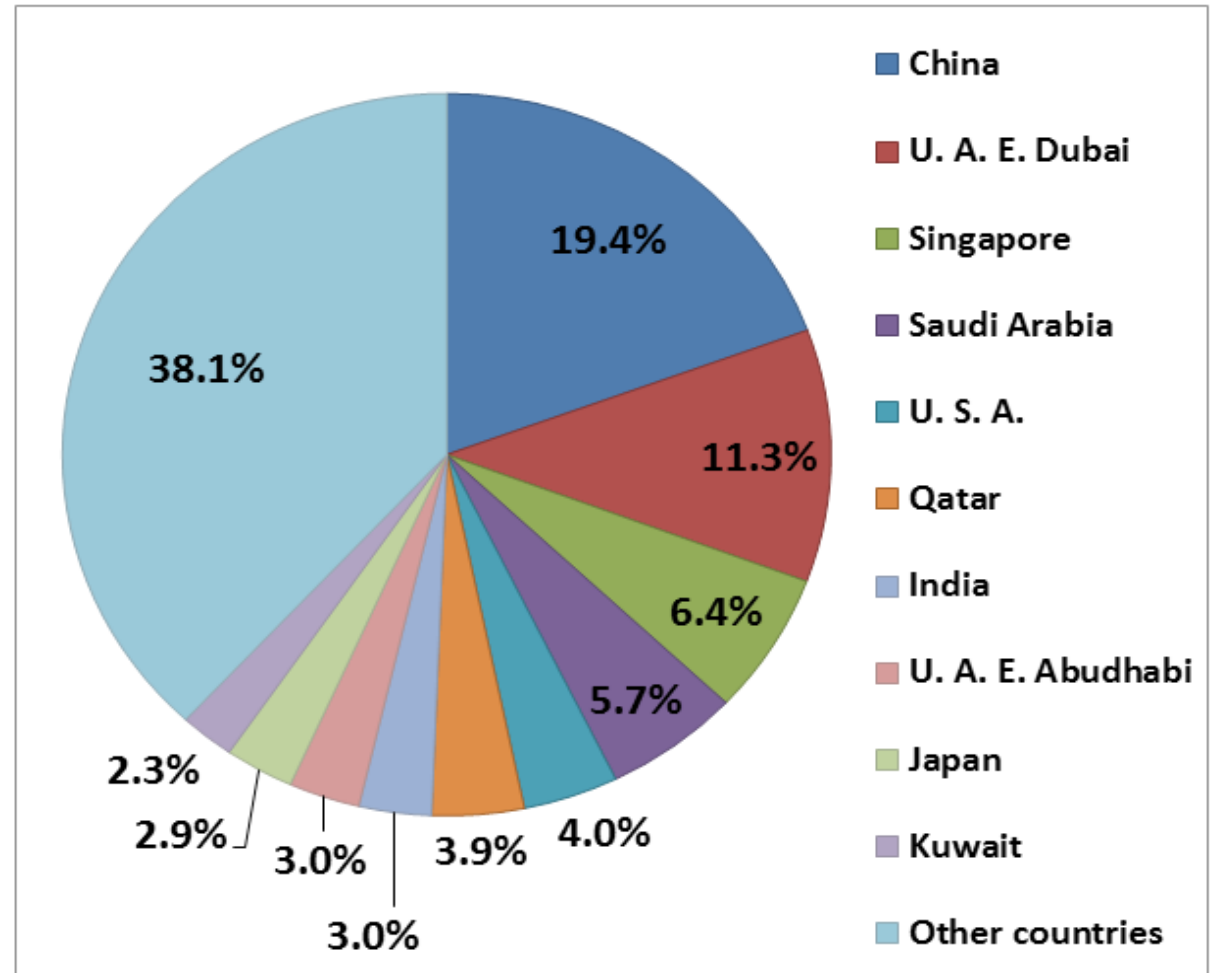
- Palm Oil - \$ 1.7B
- CBU - \$ 0.3B
- CKD - \$ 1.4B
- Petroleum Products - \$ 6.0B
- Petroleum Crude - \$ 4.9B
- LNG - \$ 2.9B
- Raw cotton - \$ 1.2B
- Plastic materials - \$ 2.3B
- Iron and Steel Scrap - \$ 1.1B
- Iron and steel - \$ 2.0B
- Paper and Paper Board - \$ 0.5B

Country Wise Distribution - Export & Import of Goods

Country wise Exports

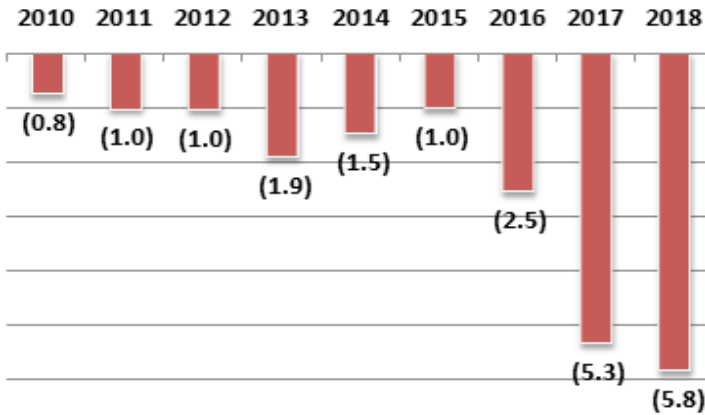


Country wise Imports

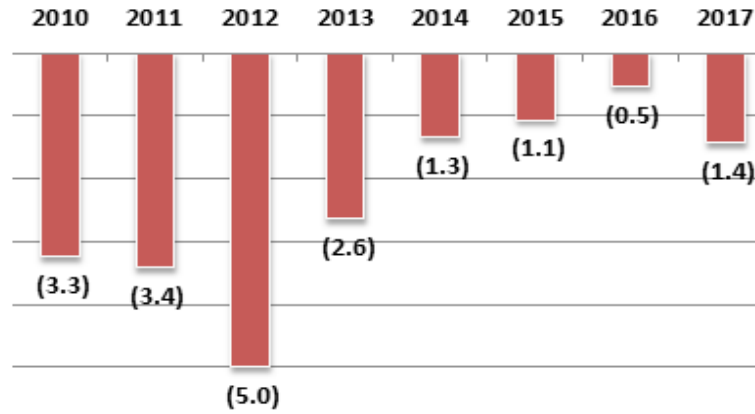


Regional Comparison (Current Account as % of GDP)

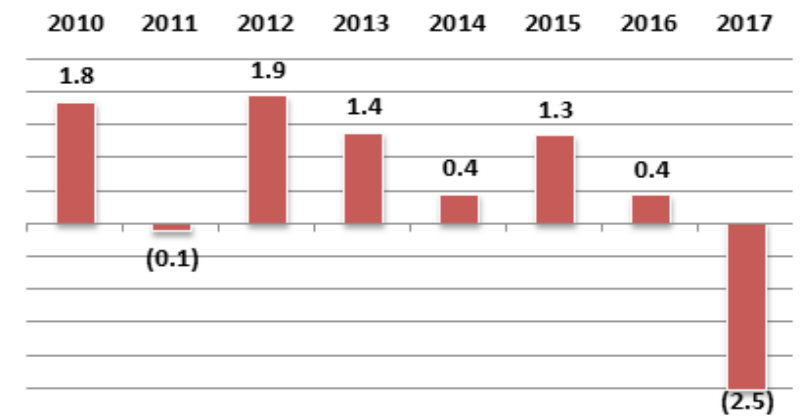
Pakistan



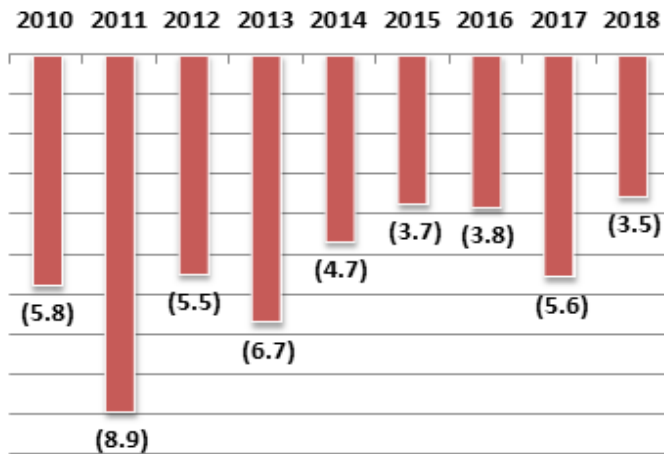
India



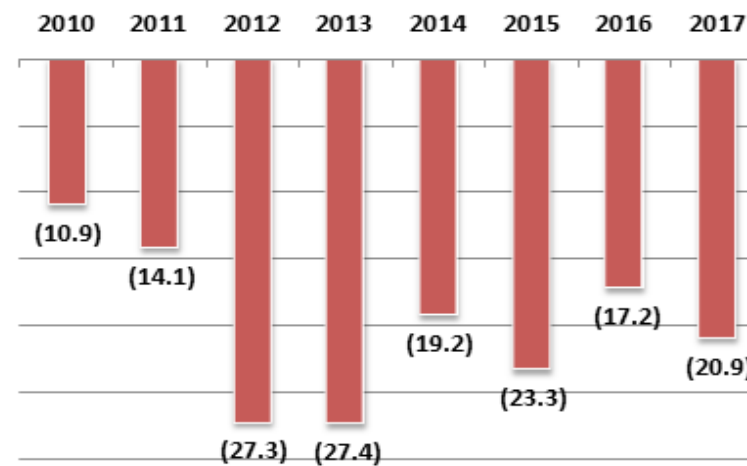
Bangladesh



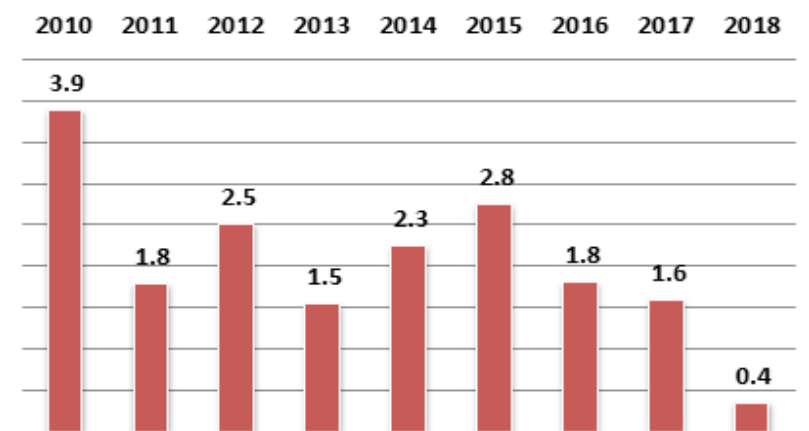
Turkey



Afghanistan



China



IMF – Projections (Balance of Payment, Program Scenario)

(All figures in USD Billions)	2018	2019	2020	2021	2022	2023	2024
	Actual	Projections					
Current Account	(19.9)	(13.1)	(6.7)	(5.5)	(5.3)	(5.3)	(6.1)
Balance on Goods	(31.9)	(29.5)	(24.9)	(24.5)	(25.1)	(25.7)	(26.8)
- Exports	24.8	24.8	26.8	29.5	31.7	34.1	36.7
<i>Growth</i>			8.2%	9.8%	7.6%	7.6%	7.6%
- Imports	56.7	54.3	51.7	53.9	56.8	59.8	63.5
<i>Growth</i>			-4.7%	4.3%	5.3%	5.3%	6.3%
Services (net)	(5.9)	(3.2)	(2.0)	(1.9)	(1.8)	(1.8)	(1.6)
Current Transfers (net)	23.5	24.4	25.7	26.8	28.0	29.2	30.5
Worker Remittance	19.9	21.6	22.5	23.6	24.7	25.9	27.0
<i>Growth</i>			4.5%	4.8%	4.7%	4.6%	4.5%
Financial Account	14.3	10.7	8.7	7.9	8.6	11.0	9.8
Memorandum items:							
Current account (in percent of GDP)	(6.3)	(4.6)	(2.6)	(2.0)	(1.8)	(1.7)	(1.8)
Current account (in percent of GDP; excluding fuel imports)	(2.1)	0.6	3.5	4.0	4.3	4.6	4.7
Oil Imports	13.3	14.9	15.7	16.5	18.0	19.9	22.0
End- period Gross Official Reserves	9.8	6.8	11.2	14.5	18.9	24.9	28.1

Gross External Financing Requirement

For the Ongoing Fiscal Year FY20

**External
Requirement
(\$25.6b)**

- \$6.7B under the projected current account deficit
- \$18.1B under foreign debt-servicing
- \$757M repayment to the IMF on account of past borrowings

**Expected
Financing
(\$29.3b)**

- \$2.1B in net FDI
- \$7.2B in private-sector borrowing
- \$17.6B from non-IMF official bilateral and multilateral creditors
- \$2.4B in IMF borrowing

Resultantly, IMF projects gross official reserves to increase by \$4.4B

- **The State of Pakistan's Economy**

<http://www.sbp.org.pk/reports/quarterly/index.htm>

- **IMF Staff Report (July 8, 2019)**

<https://www.imf.org/en/Publications/CR/Issues/2019/07/08/Pakistan-Request-for-an-Extended-Arrangement-Under-the-Extended-Fund-Facility-Press-Release-47092>

- <http://www.sbp.org.pk/ecodata/index2.asp>

- <https://data.worldbank.org/country/pakistan>

- <https://www.imf.org/external/index.htm>

- <https://tradingeconomics.com/>

- <https://www.ceicdata.com/en>

- <https://www.brecorder.com/2019/07/12/509327/external-account-fully-financed/>

Analysts Contacts

Talha Iqbal

Senior Manager

talha.iqbal@vis.com.pk

Muhammad Tabish

Assistant Manager

muhammad.tabish@vis.com.pk