

Pakistan Economy

FY25 kicks off with a decline in current account deficit

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Best Securities House: 2023
Best Investment Bank: 2023

FinanceAsia

Best Investment Bank: 2022

 **Global
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Best Equity House: 2022

 **ASSET ASIAN AWARDS
TRIPLE A**

Best Equity Advisor: 2021

 **CFA Society
Pakistan**

Best Brokerage House: 2023
Corporate Finance House: 2023
Best Economic Research House: 2023
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(2019, 2018 & 2017)

 **CENTRAL
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 **FINANCIAL MARKETS ASSOCIATION OF PAKISTAN
FMA**

Best Money Market Broker
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FY25 kicks off with a decline in current account deficit

Balance of Payment at a glance

In Jul'24, **total exports** amounted to USD 3.0bn, reflecting a robust 11% growth YoY. **Exports of goods** surged by 13% YoY, while **services exports** saw a 6% YoY increase during the same period.



In Jul'24, **total imports** reached USD 63.3bn, marking a 12% YoY increase. **Goods imports** rose by 16% YoY, while **services imports** declined by 8% YoY.



The **trade deficit** in Jul'24 stood at USD 2.6bn, showing a 13% YoY growth due to increased imports. However, on a MoM basis, the deficit growth remained flat.

In Jul'24, the **Net Primary Income deficit** reached USD 727mn, a 25% increase YoY. This marks a decrease from the consecutive USD 1bn-plus net outflows in the previous two months, following the SBP's clearance of the payment backlog.



Secondary Income in Jul'24 amounted to USD 3.2bn, with remittances contributing around USD 3.0bn. Remittances saw a 48% YoY increase but declined by 5% on a MoM basis.



FDI totaled USD 136mn in Jul'24, reflecting a 64% YoY growth but a 19% decline MoM. The majority of FDI came from China, followed by Hong Kong.

Balance of Payment

Jul'24: Current Account deficit stood at USD 162mn

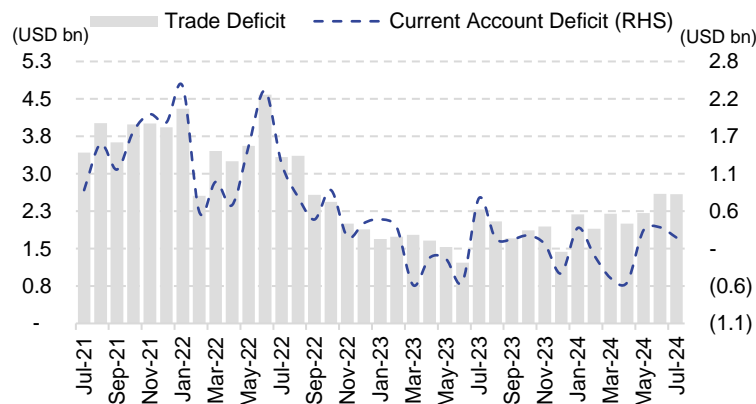
- **Current Account deficit:** Pakistan reported a current account deficit of USD 162mn in Jul'24, a significant improvement from the USD 741mn deficit recorded in Jul'23.
- The reduction in the deficit is largely attributed to a 48% YoY increase in remittances.
- **Export Performance**
- Jul'24 saw total exports amounting to USD 3.0bn. This represents a 2% decrease from USD 3.1bn in Jun'24.
- Despite the MoM decline, exports increased by 11% compared to Jul'23.
- **Import Trends**
- Imports in Jul'24 totaled USD 5.6bn, down by 1% from USD 5.7bn in Jun'24.
- Compared to Jul'23, imports have risen by 12%.
- **Primary Income Balance:** The balance on primary income (deficit) increased to USD 727mn, reflecting a 25% increase YoY while down 36% MoM.
- **Secondary Income:** Secondary income reached USD 3.2bn in Jul'24, marking a 48% rise from the previous year while down 8% MoM.
- **Remittances:** Remittances, which accounted for ~USD 3.0bn of the secondary income, also saw a 48% YoY increase.
- **Financial Account:** The financial account experienced a sharp decline of 92%, falling to USD 268mn mainly due to decline in other liabilities (net).
- **Foreign Direct Investment:** Net FDI outflow clocked-in at USD 141mn, an 83% increase YoY.
- **Overall Balance:** The balance of payments for Jul'24 recorded a surplus of USD 152mn, a significant turnaround from the USD 2.5bn deficit observed during the same period last year.

Exhibit: Pakistan's Balance of Payment

(USD mn)	Jul-24	Jul-23	YoY	Jun-24	MoM
Exports (Goods)	2,391	2,118	13%	2,444	-2%
Imports (Goods)	4,819	4,142	16%	4,630	4%
Exports (Services)	622	588	6%	637	-2%
Imports (Services)	781	849	-8%	1,045	-25%
Trade Balance	(2,587)	(2,285)	13%	(2,594)	0%
Balance on Pri. Income	(727)	(583)	25%	(1,139)	-36%
Balance on Sec. Income	3,152	2,127	48%	3,420	-8%
Remittances	2,995	2,029	48%	3,158	-5%
CAB	(162)	(741)	-78%	(313)	-48%
FDI	(141)	(77)	83%	(141)	0%
Financial Account	(268)	(3,266)	-92%	(777)	-66%
Capital Account	7	12	-42%	25	-72%
Overall Balance	152	(2,481)	-106%	(500)	nm

Source (s): SBP, AHL Research

Exhibit: CAD clocked in at USD 162mn during Jul'24



Source (s): SBP, AHL Research

Balance of Payment

Jul'24: Imports (+12% YoY), Exports (+11% YoY)

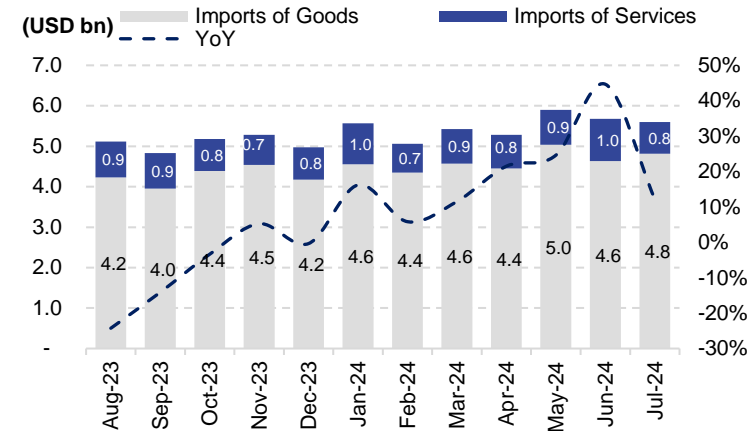
Imports:

- In Jul'24, total imports, including both goods and services, declined by 1% compared to the previous month, reaching USD 5.6bn.
- Meanwhile, the YoY comparison for Jul'24 depicts a 12% jump in total imports compared to the same period last year.
- In Jul'24, the import of goods saw a 16% YoY increase and a 4% MoM increase, reaching a total of USD 4.8bn.
- On the other hand, services imports in Jul'24 declined to USD 781mn, reflecting an 8% decrease YoY and a 25% decrease MoM.
- Category wise imports during the Jul'24 were as follows: USD 1.2bn for the petroleum group, USD 802mn for agriculture and other chemicals, USD 536mn for the food group, and USD 898mn for the machinery group.

Exports:

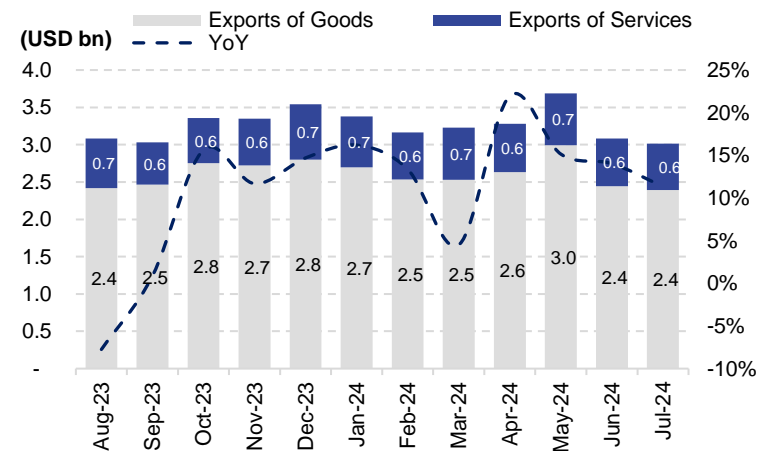
- In Jul'24, the total exports, including both goods and services, reported a 2% decrease compared to the preceding month, amounting to USD 3.0bn while up by 11% YoY.
- The export of goods saw a 13% YoY increase in Jul'24. However, there was a 2% MoM decline in goods exports during the same period.
- Meanwhile, in Jul'24, the export of services experienced a 6% YoY increase and a 2% MoM decline.
- In addition, technology exports went up by 34% YoY during Jul'24 to USD 286mn contributing 46% to the overall services exports.

Exhibit: Historical Trend of Monthly Imports



Source (s): SBP, AHL Research

Exhibit: Historical Trend of Monthly Exports



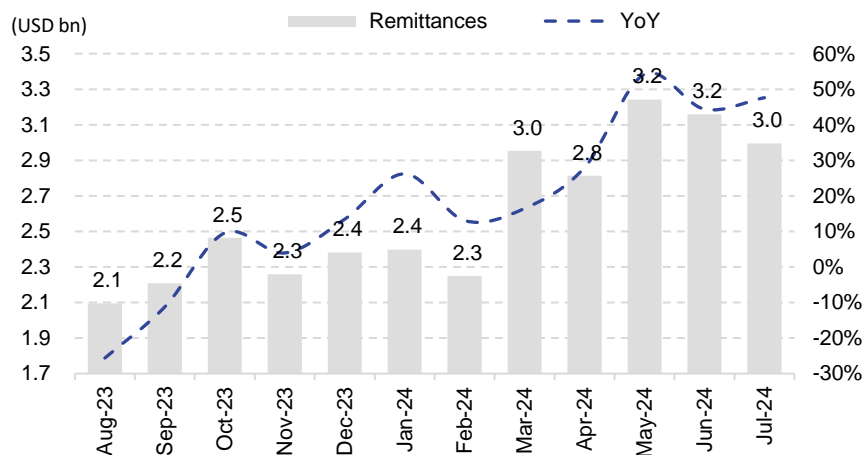
Source (s): SBP, AHL Research

Balance of Payment

Jul'24: Remittances up 15% YoY

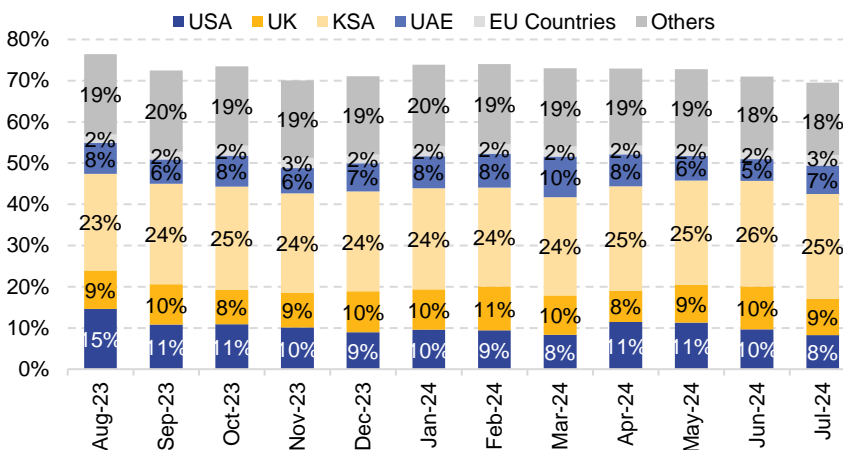
- **Overall remittances:** In Jul'24, remittances from overseas Pakistanis totaled USD 3.0bn, reflecting a 5% MoM decline from USD 3.16bn in Jun'24. However, on a YoY basis, remittances increased by 15% from USD 2.03bn in Jul'23.
- **Saudi Arabia:** Remittance inflows amounted to USD 761mn, showing a 56% YoY increase but a 6% MoM decrease.
- **United Arab Emirates:** Remittances were USD 611mn, down 94% YoY and 7% MoM.
- **United Kingdom:** Contributions totaled USD 443mn, experiencing a 45% YoY decrease and a 9% MoM decline.
- **European Union:** Remittances reached USD 351mn, marking a 24% increase YoY and a 6% increase MoM.
- The recent sustained increase in Pakistan's remittances can be attributed to several key factors. Political and economic stability have played a crucial role. Moreover, improved control over informal money transfer markets has also been significant; enhanced regulation has shifted remittances from unregulated channels to formal ones, increasing the total reported figures. Additionally, the stability of the Pakistani Rupee (PKR) has contributed to this growth by reducing exchange rate uncertainty. Furthermore, Pakistan's stronger foreign exchange reserves have provided a cushion against currency volatility. Lastly, an increase in the number of Pakistani workers going abroad has also bolstered remittance inflows, as more overseas workers contribute to the financial support of their families back home.

Exhibit: Historical Trend of Monthly Remittances



Source (s): SBP, AHL Research

Exhibit: Country-Wise Historical Trend of Monthly Remittances



Source (s): SBP, AHL Research

Balance of Payment

Jul'24: FDI inflows up 64% YoY

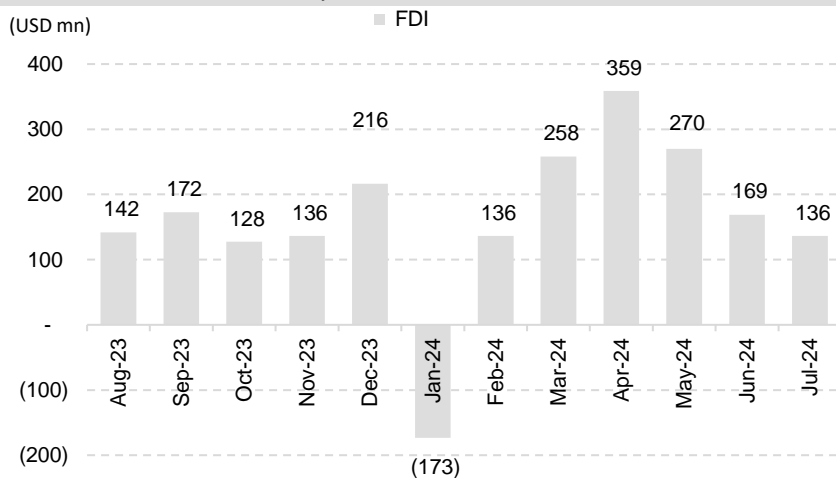
Foreign Direct Investment

- Foreign direct investment (inflow) settled at USD 136mn in Jul'24, compared USD 83mn during Jul'23.
- During Jul'24, China emerged as the leading contributor to net FDI, recording a net FDI of USD 45mn, followed by the Hong Kong with a net FDI of USD 42mn.
- In terms of sectors, the power sector attracted the most significant investment during Jul'24, totaling USD 62mn, followed by the oil and gas exploration sector with USD 30mn during the same period.

Portfolio Investment

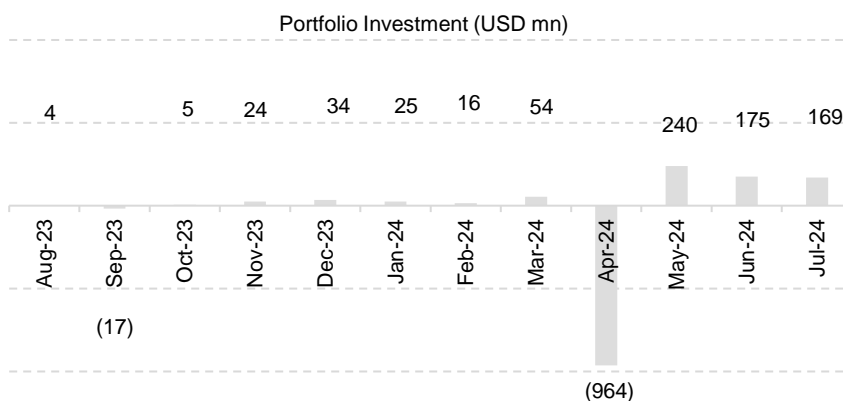
- Portfolio investment inflows totaled USD 169mn, with USD 145mn from investments in debt securities, up 24x YoY amid high interest rates and PKR stability.
- While, USD 5mn outflow was witnessed in equity and fund shares against an inflow of USD 27mn recorded last month.

Exhibit: Historical Trend of Monthly FDI



Source (s): SBP, AHL Research

Exhibit: Historical Trend of Monthly Portfolio Investment



Source (s): SBP, AHL Research

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SELL	Upside* of subject security(ies) is less than -15% from last closing of market price(s)

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AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

Risks: The following risks may potentially impact our valuations of subject security (ies);

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk

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