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Current account deficit sharply widens 37.3 percent to $1.660 billion in December

KARACHI: Pakistan's current account deficit sharply widened 37.3 percent to $1.660 billion in December as the trade balance remained in deficit driven by increases in goods imports while investment from abroad also declined, central bank data showed on Thursday.

The current account deficit had clocked in at $1.209 billion in previous month.

Imports rose to $4.627 billion in December 2018, up 10.69 percent from the previous month. Exports also increased 5.81 percent to $2.003 billion in December.

The State Bank of Pakistan's (SBP) data showed the current account deficit shrank to $7.983 billion in the first six months of 2018/19, compared with $8.353 billion in the corresponding period last year.

The deficit in the first six months remained at 5.4 percent of the GDP.

Analysts said a decline in the current account deficit in July-December period came from a slowdown in the country's trade gap.

Exports slightly increased to $11.840 billion in July-December from $11.831 billion a year ago. Imports jumped to $27.390 billion, compared with $26.589 billion in the same period last year.

Brokerage Topline Securities said the current account deficit, reported at $1.6 billion in December, was much higher than the market expectations of less than $1 billion.

"The primary reason for the deviation is that central bank reported imports of $4.6 billion are higher than PBS (Pakistan Bureau of Statistics) reported imports of $4.4 billion, where usually it's the other way round," the brokerage said in a note.

SBP's reported exports of $2 billon were in line with the PBS reported exports, where SBP exports are usually higher, it added.

"We await further clarity as to the reason for this deviation. For the six months Jul-Dec 2018, current account deficit has now amounted to $8.0 billion compared to $8.4 billion last year," the brokerage house said.

"We believe that our full year FY19 estimate of $12 billion will be difficult to achieve if the current account deficit is not significantly curtailed in the coming months."

It added that further tightening in near-term through interest rate hike and devaluation could not be ruled out.

"The government should also implement significant additional taxation measures in next week's mini budget to both curtail demand and the burgeoning fiscal deficit," Topline said.

Analysts said improved numbers of current account deficit would be short-lived unless the government took timely measures to further curb imports growth and also enhance exports. They said a lower-than-expected improvement in the exports showed currency devaluation did not work to make the exports more competitive.

“The government needs to take strict measures such as imposition of ban on luxury items imports, especially luxury cars, cell phones, and some food items in the upcoming mini-budget otherwise the current account deficit will reach $14-$15 billion in the fiscal year ending in June 2019,” an analyst said.

Analysts said a blend of higher current account and budget deficit and large foreign debt payments were expected to weigh on the rupee.

The rupee depreciated by almost 29 percent since December 2017.

Pakistan has been facing an economic crisis due to depleting foreign reserves and a widening current account deficit since the government of Prime Minister Imran Khan took office in August.

The country is looking to bridge a gap of at least $12 billion caused by its latest balance-of-payments crisis and is currently negotiating a bailout package with the International Monetary Fund.

Prime Minister Khan has been shuttling between China, Saudi Arabia, and the United Arab Emirates (UAE) in an effort to secure bilateral funding from those allied nations.

In October last year, Saudi Arabia had announced a $6 billion bailout package for the country’s fragile economy.

Moreover, Pakistan is expected to sign agreements with Saudi Arabia and UAE to attract investments worth $10 billion, respectively, this month.

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