

Will the exports rise? (ever?)

If you are one for reading the “bigger picture”, Pakistan seems to be doing just fine in terms of trade balance. It is no mean achievement that the trade deficit has gone down by 15 percent year-on-year, the highest dip in recallable memory, having grown by over 50 percent in the two years leading to FY19.

A slowing down economy, some administrative efforts to curb non-essential imports via duties, and a breather in power plant installing business – the imports have cooled by nearly 10 percent year-on-year in FY19. God job! But that is about as good as it gets – as the other part of the equation, i.e. the exports have shown no signs of recovery.

Yes, you have to dig deep down in the numbers to find a “silver lining” in exports, as a few key export categories in the textile sector have actually shown decent double-digit growth in volumetric terms. But all of it means little, when it does not lead to dollar earnings. It takes time to increase capacities and takes time for currency devaluation to have a result in dollar terms, because the market is competitive – and the real impact would only come with scalability. Going with this argument, exports are still a few months if not years, from making a rebound.

Exports in FY19 remained flattish, dropping 1 percent year-on-year in value terms. But it is the sequential export numbers that should be a cause of worry. In the 1QFY19, exports were up by nearly 5 percent year-on-year, which went down to 2 percent growth by the end of 1HFY19. That is the time around which massive rupee devaluation started and the currency shed considerable value in the 2HFY19. Granted that devaluation takes its sweet time to show in export numbers, but the growth started to go in the other direction in the second half of FY19, slowing down to just 0.3 percent year-on-year in 9MFY19 – and a drop of 1 percent by the end of FY19.

The June 2019 exports at \$1.7 billion are the lowest in 12 months, whereas last month imports were the highest in 13 months. Bear in mind the fuel prices are showing signs of resurgence, and Pakistan’s fuel mix for power generation is heavily reliant on imported fuel, even after dumping furnace oil. The sticky imports won’t come down much. Things have to happen on the export front.

The government ministers back in March 2019 were telling that the impact on exports would be visible after April. April came and went. The impact never arrived. The ball was arguably in the exporters’ court, as the government extended a support package in terms of competitive energy prices in the second half of FY19. Now with the GST exemption withdrawn, energy costs will shoot up by at least 17 percent for all exporters. And if they are finding it hard to compete for unit values now, they would not find it any easier from now on. Capacities will take time to come online. FY20 may well be a tough year in terms of trade balance and dollar inflows.