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First quarter CA deficit down 2.5 percent YoY

KARACHI: The country"s current account deficit slightly declined by some 2.5 percent during the first quarter of this fiscal year (FY19) compared to corresponding period of last fiscal year (FY18). According to analysts the decline in current account deficit has been recorded after 15 months. The lower deficit is primarily due to some 13 percent growth in home remittances inflows and improved performance of services sector, which deficit was declined by 26 percent during the period, they added.

However, goods import bill is still moving upward despite a number of measures taken by the federal government to curtail imports.

The State Bank of Pakistan (SBP) Monday reported that the county"s current account deficit decreased to $3.665 billion in July-Sep FY19 compared to $3.761 billion in the same period of last fiscal year (FY18), showing a decline of $96 million.

However, month-on-month basis, current account deficit posted a notable increase of over 61 percent or $360 million in September 2018 versus August 2018. During September 2018, the current account deficit was recorded at $952 million against some $592 million in August 2018.

Economists said external account is under pressure due to higher current account deficit and massive external debt servicing. The government has also approached International Monetary Fund (IMF) to obtain a loan amounting to $12 billion to build its depleting forex reserves, which are already reached below $ 15 billion mark.

According to SBP, goods import bill continued to surge, increasing by 6 percent or $763 million to $13.756 billion in July-Sep FY19 up from $12.993 billion in the same period of last fiscal year. During the period under review, goods exports rose by 4 percent to $5.884 billion.

Goods trade deficit surged to $7.872 billion at the end of first quarter of this fiscal year up from $7.314 billion in the corresponding period of last fiscal year.

Details show that with $1.292 billion exports and $2.23 billion imports, the country"s services sector declined to $938 million in July-Sep FY19 compared to $1.276 billion in the corresponding period of FY18. Similarly, deficit of income sector was almost steady at $1.079 billion with $168 million earnings and $1.247 billion payments.

The current account deficit in FY18 reached a high of $ 18.1 billion mark compared to $ 12.6 billion recorded in FY17.

The SBP, in its recent report, pointed out that the energy, together with the transport, food and metal imports pushed Pakistan"s import bill to a record high in FY18, and led to a historic high current account deficit. In addition, the inflows under foreign investment and loans were insufficient to finance the large current account deficit. Similar to remittances, foreign direct investment also remained stagnant in FY18.

As foreign inflows proved inadequate to finance the current account deficit, the SBP had to resort to utilizing its forex reserves, which depleted by $ 6.4 billion during FY18.

A number of measures were undertaken by the SBP, including putting restrictions on the movement of the foreign currency within the country, led to a significant appreciation of the exchange rate within a short span of time. Going forward, the SBP believes that realigning of expectation would require significant build-up of reserves and credible policy actions.

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