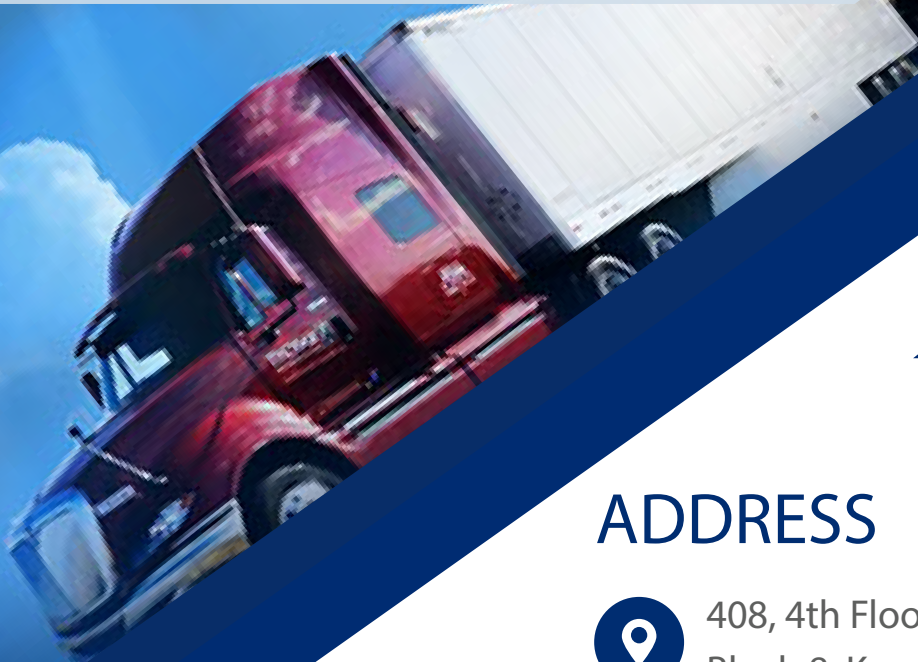




# TANGIBILITY BACK OF CURRENT ACCOUNT DEFICIT AND BALANCE OF TRADE

(JULY 2019 to SEPTEMBER 2019)



<https://goo.gl/LFiWyx>



<https://goo.gl/QDM4ZM>



## ADDRESS



408, 4th Floor, Continental Trade Centre, Clifton  
Block-8, Karachi



Email: [connect@tolaassociates.com](mailto:connect@tolaassociates.com)



Ph# 35303294-6



Website: [www.tolaassociates.com](http://www.tolaassociates.com)



## TABLE OF CONTENTS

<i>S. No.</i>	<i>Description</i>	<i>Page No's</i>
<b>1.</b>	<b>Prologue</b>	<b>1</b>
<b>2.</b>	<b>Current Account Balance</b>	<b>1</b>
2.1	Constituents	<b>1</b>
2.2	Past Performance	<b>1</b>
2.3	Recent Quarterly Performance	<b>2</b>
<b>3.</b>	<b>Balance of Trade in Goods – August 2019 Vs September 2019</b>	<b>2</b>
3.1	Imports	<b>3</b>
3.2	Exports	<b>5</b>
<b>4.</b>	<b>Rupee Devaluation and Exports</b>	<b>8</b>
<b>5.</b>	<b>Take Away</b>	<b>8</b>



## LIST OF TABLES

<b>TABLES AND CHARTS</b>	<i>Page No.s</i>
<b>Recent Quarterly Performance</b>	<b>2</b>
<b>Current Account Balance Components</b>	<b>2</b>
<b>Historical Data Value in US Dollars - Balance of trade</b>	<b>3</b>
<b>Balance of Trade- September 2019 vs August 2019</b>	<b>3</b>
<b>Imports</b>	<b>3</b>
Food Group	<b>4</b>
Machinery Group	<b>4</b>
Road Transport Group	<b>4</b>
Petroleum Group	<b>4</b>
Textile Group	<b>5</b>
Agricultural and other chemicals group	<b>5</b>
<b>Exports</b>	<b>5</b>
Food Group	<b>6</b>
Textile Group	<b>6</b>
Petroleum Group & Coal	<b>7</b>
Other Manufacturer Group	<b>7</b>
<b>Rupee Devaluation and Exports</b>	<b>8</b>



## **1. PROLOGUE:**

*“Pakistan’s current account deficit narrows to 41-month low”*, states one of leading newspaper of Pakistan on October 19, 2019. Every other news channel and newspaper covered the story superficially selling the news without digging into the core reasons and impact of such low levels of the deficit. The statement made its rounds on social medial pages also where these low deficit balances were presented as the most celebrated economic achievement of the present setup.

Before moving further, one needs to understand the constituents of current account deficit/surplus, how the same is computed and what does their magnitude represent. It is true that low current account deficit should be the objective of economists of a country, but the same should be without compromising over the economic activity of the country.

Pakistan is passing through one of the worst economic depression of the history. Monetary and fiscal tightening exuberated input costs of the businesses which has dampened the demand and discouraged expansion plans of the firms. PKR devaluation and increase in interests’ rates has pushed the public debt more than the GDP of country. Pakistan’s (Net International Reserves) NIR are in negative zone that stood at over negative \$15 billion indicating that country can’t avoid speculative attacks on PKR in the wake of low foreign exchange reserves and weak economic fundamentals.

In forthcoming paragraphs, we will briefly evaluate what constitutes ‘current account deficit’; whether the reduction in trade deficit and current account balance are helping Pakistan economy; and whether devaluation of PKR has helped boost exports.

## **2. CURRENT ACCOUNT BALANCE:**

### **2.1. Constituents**

Current account balance is the sum of following four items namely:

1. Balance of Trade in Goods;
2. Balance of Trade in Services;
3. Balance on Primary Income; and
4. Balance on Secondary Income

**Balance of Trade in goods** measures the difference between a country’s Export of goods and Import of goods. Higher imports over exports gives a negative balance while higher exports give a positive balance. We will discuss Pakistan’s recent Balance of Trade performance in coming paragraphs.

**Balance of Trade in services**, likewise, measures the difference between Export of services and Import of services. The negative balance denotes that a country has imported more services than it has exported over a given period of time.

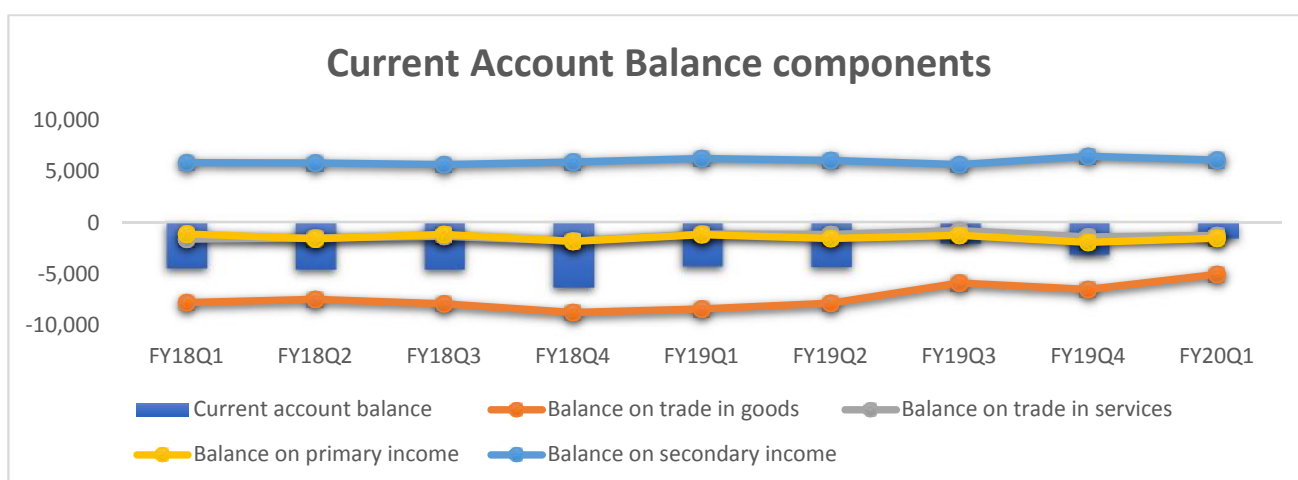
### **2.2. Past Performance**

Current account deficit is the key indicator that reflects strength of economic fundamentals of the country. Pakistan current account balance remained surplus for only four consecutive years out of last 40 years, but it couldn’t sustain for a long time. Interestingly, Pakistan current account surplus stood at 5% of the GDP in 2004 and after four years the current account deficit swung to the other extreme and touched at highest ever 9% of the GDP in 2008. This unsustainable feature of the current account balance of the country is a grave concern for successive governments which has created default like situation several times. During FY18, current account deficit recorded at the historic levels to \$19.89 billion or 6.3% of the GDP on account of exorbitant imports and lower inflows. The magnitude of the current account deficit both in relation to GDP as well as in absolute US dollar size has significantly increased.

### 2.3. Recent Quarterly Performance

Description	Million USD										% change	
	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19 <sup>R</sup>	Q2 FY19 <sup>R</sup>	Q3 FY19 <sup>R</sup>	Q4 FY19 <sup>R</sup>	Q1 FY20 <sup>P</sup>	Q1FY18	Q1FY19	
Current account balance	-4,469	-4,560	-4,560	-6,308	-4,287	-4,327	-2,055	-3,161	-1,548	-65%	-64%	
Balance of Trade in goods	-7,753	-7,456	-7,886	-8,729	-8,382	-7,819	-5,848	-6,468	-4,999	-36%	-40%	
Balance of Trade in services	-1,572	-1,449	-1,299	-1,748	-1,076	-1,100	-739	-1,352	-1,203	-23%	12%	
Balance on primary income	-1,056	-1,524	-1,103	-1,801	-1,121	-1,522	-1,193	-1,873	-1,483	40%	32%	
Balance on secondary income	5,912	5,869	5,728	5,970	6,292	6,114	5,725	6,532	6,138	4%	-2%	

Source: SBP



Current account balance for first quarter of fiscal year 2019-20 was 65% and 64% lower in comparison with first quarters of fiscal year 2017-18 and 2018-19 respectively. The reduction was primarily on account of improvement in Balance of Trade in goods (reduced by 36% and 40% in comparison with first quarters of fiscal year 2017-18 and 2018-19 respectively) and Balance of Trade in services (reduced by 23% in comparison with first quarter of fiscal year 2017-18).

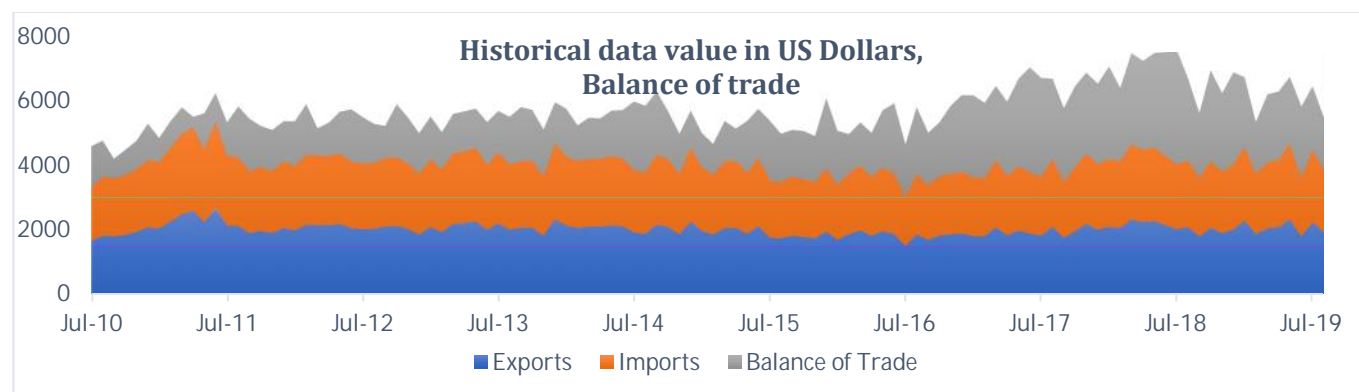
It is interesting to note here that although overall current account deficit has improved, however, deficit balance on primary income has been worsened by 40% and 32% in comparison with first quarters of fiscal year 2017-18 and 2018-19 respectively. This means that on one hand, government claims to bring down current account deficit by squeezing trade deficit, on the other hand, there appears that no effort has been made to improve or at least contain deficit balance on primary income. Likewise, with respect to balance on secondary income, there is no improvement despite tall claims of establishment of afresh international cooperation and increased overseas workers' confidence.

### 3. BALANCE OF TRADE IN GOODS – AUGUST 2019 VS SEPTEMBER 2019

Balance of Trade in goods accounts for a significant contribution in current account balance. Pakistan is an import driven country where its imports remain higher than that of exports leading to a trade deficit. This has become the real challenge of Pakistan to revive the exports and bring the trade deficit to the manageable level.

It is important to evaluate the historical data of the balance of trade that why Pakistan has been facing persistent higher trade deficit that affects economic growth and stability of the country. However, trade deficit during 2016-17 was on back of power generation machinery imports (\$11.77 billion during 2016-17 as

compared to \$ 8.9 billion during 2018-19) and cellular phone imports. Import of power generating machinery was to curb the gap between supply and demand of electricity which was the source of GDP growth in coming years. While imports of cellular phones skyrocketed due to advent of 3G and 4G licenses in the country, which also played role in boosting GDP growth.



We will analyze the trend in imports and exports both in quantitative and in value terms during the months of August 2019 and September 2019 and will discuss the real reasons behind contraction in imports, if any, and future consequences.

Balance of trade deficit for the month of September 2019 was Rs. 314,835 million, wherein, imports were Rs. 591,111 million and exports were 276,276 million. Balance of trade deficit during August 2019 was better at Rs. 295,631 million with imports of Rs. 589,960 million and exports of Rs. 294,329. The trend of trade deficit from August to September 2019 is worsening.

Balance of Trade	SEPTEMBER,2019		AUGUST,2019		% Change	
	PKR (m)	USD (000)	PKR (m)	USD (000)	PKR	USD
Exports	276,276	1,769	294,329	1,862	-6.13	-4.99
Imports	591,111	3,785	589,960	3,732	0.20	1.42
<b>Balance of Trade</b>	<b>-314,835</b>	<b>-2,016</b>	<b>-295,631</b>	<b>-1,870</b>	<b>6.50</b>	<b>7.81</b>

Source: PBS

### 3.1. Imports

Overall imports during month of September 2019 increased slightly by 0.20% to Rs. 591,111 million from 589,960 million during August 2019. The import bill in dollar terms also increased by 1.42% from \$ 3,732 million to \$ 3,785 million.

Imports	SEPTEMBER,2019		AUGUST,2019		% Change	
	PKR (m)	USD (000)	PKR (m)	USD (000)	PKR	USD
Food Group	62,409	399,606	64,290	406,701	-2.9%	-1.7
Machinery Group	96,786	619,723	109,611	693,403	-11.7%	-10.6%
Road Transport Group	34,013	217,785	27,245	172,355	24.84%	26.36%
Petroleum group	179,555	1,149,695	160,853	1,017,560	11.63%	12.99%
Textile Group	19,949	127,732	24,942	157,783	-20.02%	-19.05%
Agricultural and Other Chemicals and Others	198,399	1,270,352	203,019	1,284,303	-2.3%	-1.1%
<b>Grand Total</b>	<b>591,111</b>	<b>3,784,893</b>	<b>589,960</b>	<b>3,732,105</b>	<b>0.20%</b>	<b>1.420%</b>

Source: PBS

FOOD GROUP	UNIT	SEPTEMBER,2019			AUGUST,2019			% Change		
		Qty	PKR (m)	USD (000)	Qty	PKR (m)	USD (000)	Qty	PKR	USD
MILK, CREAM & MILK FOOD FOR INFANTS	MT	3,316	1,456	9,323	4,208	1,820	11,513	-27%	-25%	-23%
DRY FRUITS & NUTS	MT	1,601	413	2,644	594	152	962	63%	63%	64%
TEA	MT	16,128	5,774	36,971	13,612	4,864	30,770	16%	16%	17%

SPICES	MT	10,844	2,141	13,709	11,091	2,045	12,937	-2%	4%	6%
SOYABEAN OIL	MT	12,902	1,391	8,907	13,764	1,509	9,546	-7%	-8%	-7%
PALM OIL	MT	261,736	21,968	140,661	280,413	23,792	150,509	-7%	-8%	-7%
SUGAR	MT	385	34	218	419	38	240	-9%	-12%	-10%
PULSES (LEGUMINOUS VEGETABLES)	MT	62,770	4,645	29,742	86,843	6,248	39,525	-38%	-35%	-33%
ALL OTHERS FOOD ITEMS			24,587	157,431		23,822	150,699		3%	4%
<b>Total</b>			<b>62,409</b>	<b>399,606</b>		<b>64,290</b>	<b>406,701</b>		<b>-2.9%</b>	<b>-1.7</b>

Imports of food group shown an upward tendency from August 2019 to September 2019. Dry fruits and nuts were major contributors to increased imports both in quantitative and in value terms. Pulses and milk cream and milk food for infants posted negative trend in imports.

MACHINERY GROUP	SEPTEMBER,2019		AUGUST,2019		% Change	
	PKR (m)	USD (000)	PKR (m)	USD (000)	PKR	USD
POWER GENERATING MACHINERY	14,557	93,209	15,564	98,458	-7%	-6%
OFFICE MACHINE INCL.DATA PROC EQUIP;	4,953	31,714	3,916	24,773	21%	22%
TEXTILE MACHINERY	6,846	43,835	5,132	32,465	25%	26%
CONSTRUCTION & MINING MACHINERY	1,631	10,443	1,456	9,211	11%	12%
ELECTRICAL MACHINERY & APPARATUS	16,594	106,252	38,133	241,231	-130%	-127%
TELE COM	21,221	135,879	19,020	120,321	10%	11%
AGRICULTURAL MACHINERY & IMPLEMENTS	1,331	8,522	1,557	9,850	-17%	-16%
OTHER MACHINERY	29,653	189,869	24,833	157,094	16%	17%
<b>Total</b>	<b>96,786</b>	<b>619,723</b>	<b>109,611</b>	<b>693,403</b>	<b>-11.7%</b>	<b>-10.6%</b>

In machinery group, import of electrical machinery and apparatus declined sharply by 130% which indicates slowdown in economic activity as these items are mostly used for industrial purposes. Import of textile machinery inclined by 25% owing to stable PKR and USD parity during the month. Overall, the trend of machinery group imports was upwards which widened the fiscal deficit gap. However, increase in machinery import is generally a good sign for economic growth as it indicates increased economic activity in future.

ROAD TRANSPORT GROUP	SEPTEMBER,2019		AUGUST,2019		% Change	
	PKR (m)	USD (000)	PKR (m)	USD (000)	PKR	USD
<b>ROAD MOTOR VEH. (BUILD UNIT, CKD/SKD)</b>	18,812	120,453	22,160	140,187	-18%	-16%
CBU	1,449	9,278	1,482	9,376	-2%	-1%
CKD/SKD	12,256	78,475	15,094	95,486	-23%	-22%
PARTS & ACCESSORIES	4,489	28,743	4,671	29,549	-4%	-3%
OTHERS	618	3,957	913	5,776	-48%	-46%
<b>AIRCRAFTS, SHIPS AND BOATS</b>	14,638	93,727	4,624	29,252	68%	69%
<b>OTHERS TRANSPORT EQUIPMENTS</b>	563	3,605	461	2,916	18%	19%
<b>Total</b>	<b>34,013</b>	<b>217,785</b>	<b>27,245</b>	<b>172,355</b>	<b>25%</b>	<b>26%</b>

In road transport group, import of luxury items like ships and boats increased while import of economy pushing items, such as road motor vehicles, parts and accessories, posted a declining trend. Increased import of non-revenue generating items burdens the current account deficit on one hand, while decline in revenue generating items slows down the economy on the other.

PETROLEUM GROUP	UNIT	Qty	SEPTEMBER,2019		AUGUST,2019		% Change			
			PKR (m)	USD (000)	Qty	PKR (m)	USD (000)	Qty	PKR	USD
PETROLEUM PRODUCTS	MT	778,268	65,984	422,497	829,090	76,215	482,138	-7%	-16%	-14%
PETROLEUM CRUDE	MT	764,134	53,643	343,477	521,303	34,720	219,640	32%	35%	36%
NATURAL GAS, LIQUIFIED			56,967	364,761		46,779	295,925		18%	19%
PETROLEUM GAS, LIQUIFIED			2,959	18,947		3,135	19,832		-6%	-5%
OTHERS			2	13		4	25		-100%	-92%
<b>Total</b>			<b>179,555</b>	<b>1,149,695</b>		<b>160,853</b>	<b>1,017,560</b>		<b>11.6%</b>	<b>13%</b>

Import of petroleum crude posted an increase of 32% in quantitative terms while other petroleum products declined marginally. Increase in Import of petroleum crude is a good sign indicating increased economic activity in coming months. Import of LNG was up while import of LPG was marginally declining.

TEXTILE GROUP	SEPTEMBER,2019				AUGUST,2019			% Change		
	UNIT	Qty	PKR (m)	USD (000)	Qty	PKR (m)	USD (000)	Qty	PKR	USD
RAW COTTON	MT	2,142	589	3,771	3,358	997	6,307	-57%	-69%	-67%
SYNTHETIC FIBRE	MT	15,079	3,797	24,312	29,082	7,495	47,414	-93%	-97%	-95%
SYNTHETIC & ARTIFICIAL SILK YARN	MT	18,780	7,142	45,730	16,856	6,396	40,461	10%	10%	12%
WORN CLOTHING	MT	25,217	1,810	11,589	28,512	1,943	12,291	-13%	-7%	-6%
OTHR TEXTILE ITEMS			6,611	42,330		8,111	51,310		-23%	-21%
<b>Total</b>			<b>19,949</b>	<b>127,732</b>		<b>24,942</b>	<b>157,783</b>		<b>-20%</b>	<b>-19%</b>

Imports of raw cotton and synthetic fiber fell sharply. Imports of synthetic fiber dropped vertically by 93% while raw cotton imports declined by 57%. These sharp declines are a sign of low expectation of industrialists of future productions. The fall in raw cotton imports cannot be attributed to substitution with local produce as local produce has also declined by 27% during July to September 2019 as compared to last year, as per Pakistan Cotton Ginners Association. Decline in synthetic fiber is also a clear sign of coming slowdown in textile manufacturing and resultant exports in future. The less imports may have improved the current account deficit balance; however, it has done so at the cost of economic growth.

AGRICULTURAL AND OTHER CHEMICALS AND OTHERS	SEPTEMBER,2019				AUGUST,2019			% Change		
	UNIT	Qty	PKR (m)	USD (000)	Qty	PKR (m)	USD (000)	Qty	PKR	USD
FERTILIZER MANUFACTURED	MT	159,143	8,912	57,064	54,291	2,986	18,890	66%	66%	67%
INSECTICIDES	MT	2,023	1,891	12,108	1,540	1,684	10,653	24%	11%	12%
PLASTIC MATERIALS	MT	120,616	22,920	146,757	130,840	25,347	160,346	-8%	-11%	-9%
MEDICINAL PRODUCTS	MT	2,280	14,130	90,475	2,213	13,692	86,616	3%	3%	4%
OTHERS			43,436	278,121		47,977	303,504		-10%	-9%
METAL GROUP										
GOLD	MT	29	184	1,178	46	306	1,936	-59%	-66%	-64%
IRON AND STEEL SCRAP	MT	327,253	20,542	131,531	316,670	19,415	122,820	3%	5%	7%
IRON AND STEEL	MT	154,011	16,899	108,205	214,955	23,695	149,895	-40%	-40%	-39%
ALUMINIUM WROUGHT & WORKED			1,598	10,232		1,978	12,513		-24%	-22%
ALL OTHER METALS & ARTICALS			10,801	69,159		9,864	62,400		9%	10%
MISCELLANEOUS GROUP										
RUBBER CRUDE INCL. SYNTH/RECLAIMED	MT	8,901	2,126	13,613	10,704	2,569	16,252	-20%	-21%	-19%
RUBBER TYRES & TUBES	NO	178,012	1,157	7,408	210,350	1,354	8,565	-18%	-17%	-16%
WOOD & CORK			1,318	8,439		1,401	8,863		-6%	-5%
JUTE	MT	2,272	224	1,434	738	75	474	68%	67%	67%
PAPER & PAPER BOARD & MANUF.THEREOF	MT	41,397	6,067	38,847	39,004	5,147	32,560	6%	15%	16%
ALL OTHER ITEMS			46,194	295,781		45,529	288,016		1%	3%
<b>Total</b>			<b>198,399</b>	<b>1,270,352</b>		<b>203,019</b>	<b>1,284,303</b>		<b>-2.3%</b>	<b>-1.1%</b>

In other imports, imports of manufactured fertilizers and insecticides also grew by 66% and 24% respectively. While Iron/steel and aluminum imports dropped by 40% and 24% respectively. Fall in imports of Iron and steel further substantiate the announcements of production shutdowns by auto industries etc. Moreover, slowdown of construction activities in Pakistan owing to aggressive taxation regime has also contributed in economic slowdown.

### 3.2. Exports

Exports	SEPTEMBER,2019		AUGUST,2019		% Change	
	PKR (m)	USD (000)	PKR (m)	USD (000)	PKR	USD
Food Group	52,009	333,014	43,472	275,006	19.64%	21.09%
Textile Group	166,906	1,068,701	188,245	1,190,843	-13%	-11%
Petroleum Group & Coal	2,116	13,549	6,875	43,491	-69.2%	-68.8%
Other Manufactures Group	276,276	1,769,000	294,329	1,861,934	-0.88%	0.32%
<b>Grand Total</b>	<b>276,276</b>	<b>1,769,000</b>	<b>294,329</b>	<b>1,861,934</b>	<b>-6.13%</b>	<b>-4.99%</b>

Source: PBS



Overall exports during September 2019 dropped by 7% as compared to August 2019 from Rs. 294 billion (\$ 1.86 billion) to Rs. 276 billion (\$ 1.77 billion), contrary to government claims, substantiating further that low current account deficit is at the cost of economic growth.

FOOD GROUP	UNIT	SEPTEMBER, 2019			AUGUST, 2019			% Change		
		Qty	PKR (m)	USD (000)	Qty	PKR (m)	USD (000)	Qty	PKR (m)	USD (000)
RICE	M.T	249,803	21,513	137,748	249,070	21,869	138,344	0%	-2%	-0.43%
BASMATI	M.T	64,101	9,280	59,420	63,542	9,130	57,757	1%	2%	3%
OTHERS	M.T	185,702	12,233	78,328	185,528	12,739	80,587	0%	-4%	-3%
FISH & FISH PREPARATIONS	M.T	17,438	6,740	43,156	7,926	2,974	18,814	55%	56%	56%
FRUITS	M.T	45,787	5,405	34,608	38,627	5,485	34,698	16%	-1%	11.32%
VEGETABLES	M.T	59,709	2,398	15,354	37,424	1,628	10,299	37%	32%	33%
TOBACCO	M.T	275	138	884	652	326	2,062	-137%	-136%	-133%
WHEAT	M.T	2,060	69	442	-	-	-	100%	100%	100%
SPICES	M.T	1,350	832	5,327	1,200	774	4,896	11%	7%	8%
OIL SEEDS, NUTS AND KERNELS	M.T	6,540	1,210	7,748	879	192	1,215	87%	84%	84%
SUGAR	M.T	62,469	3,976	25,458	13,726	836	5,289	78%	79%	79%
MEAT AND MEAT PREPARATIONS	M.T	6,894	3,593	23,006	6,281	3,643	23,046	9%	-1%	-0.17%
AIL OTHER FOOD ITEMS	-	-	6,135	39,283	-	5,745	36,343	-	6%	7%
<b>Total</b>			<b>52,009</b>	<b>333,014</b>		<b>43,472</b>	<b>275,006</b>		<b>19.64%</b>	<b>21.09%</b>

Overall food group exports declined by 7% in Rupee term and 5% in dollar terms. This decline could be worse had there been no one off exports of wheat which contributed Rs. 69 million in September 2019. Export of rice remained constant in quantitative and PKR terms while reduced by 2% in terms of dollars. Fish and fish preparations, oil seeds, nuts and kernels, and sugar saw massive increase in exports during September 2019 as compared into August 2019. Vegetable exports also increased by 37% followed by fruits which saw an incline of 16%. Although fruit exports increased by 16% in quantitative terms, it declined by 1% in PKR terms and remained constant in USD terms, indicating a decline in prices of same. It might be due to manipulation of foreign customers to offset PKR devaluation. Same was the case with spices, and meat and meat preparations. These positive performances were offset by huge decline of 137% in exports of tobacco and decline in other items. Overall increase in food group remained at 16% in PKR terms and 17% in USD terms.

TEXTILE GROUP	UNIT	SEPTEMBER, 2019			AUGUST, 2019			% Change		
		Qty	PKR (m)	USD (000)	Qty	PKR (m)	USD (000)	Qty	PKR (m)	USD (000)
RAW COTTON	M.T	1,643	395	2,529	2,677	657	4,156	-63%	-66%	-64%
COTTON YARN	M.T	34,173	13,669	87,523	42,717	17,282	109,326	-25%	-26%	-25%
COTTON CLOTH	TH.SQM	194,825	27,278	174,661	202,890	27,991	177,072	-4%	-3%	-1%
COTTON CARDED OR COMBED	M.T	-	-	-	24	5	32			
YARN OTHER THAN COTTON YARN	M.T	918	361	2,311	1,488	589	3,726	-62%	-63%	-61%
KNITWEAR	TH.DOZ	9,215	37,180	238,064	10,793	44,054	278,687	-17%	-18%	-17%
BED WEAR	M.T	41,287	31,324	200,568	45,725	32,549	205,906	-11%	-4%	-3%
TDWELS	M.7	12,852	8,600	55,066	14,072	9,686	61,274	-9%	-13%	-11%
TENTS, CANVAS & TARPULIN	M.T	2,104	856	5,481	2,112	883	5,586	0%	-3%	-2%
READYMADE GARMENTS	TH.DOZ	4,336	31,216	199,877	5,176	37,261	235,714	-19%	-19%	-18%
ART, SILK & SYNTHETIC TEXTILE	TH.SQM	29,926	4,040	25,868	32,882	4,406	27,872	-10%	-9%	-8%
MADEUP ARTICLES (EXCL.TOWELS & BEDWEAR)	-	-	7,439	47,632	-	8,528	53,948	-	-15%	-13%
OTHER TEXTILE MATERIALS	-	-	4,548	29,121	-	4,354	27,544	-	4%	5%
<b>Total</b>			<b>166,906</b>	<b>1,068,701</b>		<b>188,245</b>	<b>1,190,843</b>		<b>-13%</b>	<b>-11%</b>

Textile group in exports sector performed badly as the exports dropped by 13% from Rs. 188 billion (\$ 1.19 billion) to Rs. 167 billion (\$ 1.07 billion) during the month of September 2019 as compared to August 2019. The huge decline may be attributed to withdrawal of SRO 1125(I)/2011 (effective on July 01, 2019) which made supplies of five export-oriented sectors to be charged at 17% instead of reduced rates. This withdrawal caused huge funds of textile exporters stuck in form of outstanding input tax refunds, increasing their finance costs coupled with spike in policy interest rates.

Not a single textile item, instead of other textile materials, posted positive results. Other textile materials also showed an increase of meagre 4%. On the other hand, raw cotton and yarn performed worst with a decline of 66% and 63%, respectively. Textile is the major export group of the country which has always supported the economy and contributed towards its growth. Its poor performance and no active policy decisions for the support and growth of sector raise questions on its future performances also,

PETROLEUM GROUP & COAL	UNIT	SEPTEMBER, 2019			AUGUST, 2019			% Change		
		Qty	PKR (m)	USD (000)	Qty	PKR (m)	USD (000)	Qty	PKR (m)	USD (000)
PETROLEUM CRUDE	M.T	-	-	-	82,794	5,927	37,494			
PETROLEUM PRODUCTS (EXCL TOP NAPHTA)	M.T	5,055	473	3,029	2,744	283	1,790	46%	40%	41%
PETROLEUM TOP NAPHTA	M.T	23,234	1,642	10,514	9,217	665	4,207	60%	60%	60%
SOLID FUELS (COAL)	M.T	20	1	6	-	-	-	100%	100%	100%
<b>Total</b>			<b>2,116</b>	<b>13,549</b>		<b>6,875</b>	<b>43,491</b>		<b>-69.2%</b>	<b>-68.8%</b>

Overall performance of petroleum group was also very poor as its exports declined massively by 225%. Exports of petroleum crude was astonishingly nil as compared to last month's 82,794 metric tons. On the positive side, exports of petroleum products excluding naphtha and top naphtha increased by 40% and 60% respectively.

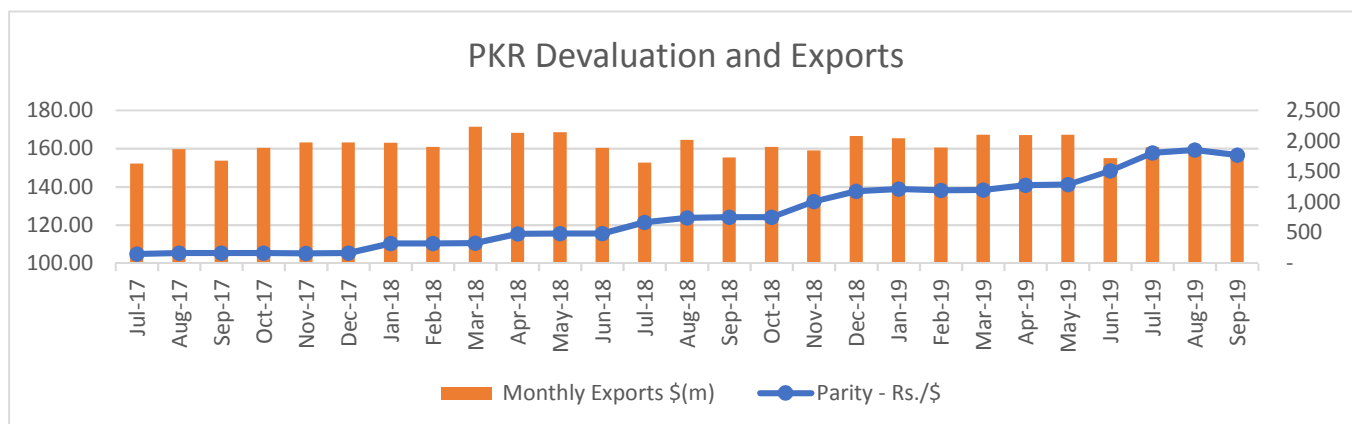
OTHER MANUFACTURES GROUP	UNIT	SEPTEMBER, 2019			AUGUST, 2019			% Change		
		Qty	PKR (m)	USD (000)	Qty	PKR (m)	USD (000)	Qty	PKR (m)	USD (000)
CARPETS, RUGS & MATS	TH.SQM	135	852	5,455	150	938	5,934	-11%	-10%	-9%
SPORTS GOODS	-		3,506	22,449		4,407	27,878		-26%	-24%
LEATHER TANNED	TH.SQM	1,195	2,366	15,150	2,002	2,957	18,706	-68%	-25%	-23%
LEATHER MANUFACTURES			6,382	40,864		7,767	49,134		-22%	-20%
FOOTWEAR	TH. Pairs	1,202	1,760	11,269	1,299	2,031	12,848	-8%	-15%	-14%
SURGICAL GOODS & MEDICAL INSTRUMENTS			5,034	32,233		5,971	37,773		-19%	-17%
CUTLERY			1,089	6,973		1,290	8,161		-18%	-17%
ONYX MANUFACTURED	M.T	123	49	314	117	47	297	5%	4%	5%
CHEMICALS AND PHARM.PRODUCTS			12,451	79,724		11,727	74,185		6%	7%
ENGINEERING GOODS			1,918	12,281		1,799	11,381		6%	7%
PARTICULAR INDUSTRIES										
GEMS	M.T	2	168	1,076	1	23	145	50%	86%	87%
JEWELLARY			73	467		30	190		59%	59%
FURNITURE	TH.NOS	18	44	282	25	57	361	-39%	-30%	-28%
MOLASSES	M.T	305	4	26	298	4	25	2%	0%	4%
HANDICRAFTS			-	-	-	-	-			
CEMENT	M.T	625,166	3,846	24,626	391,548	2,647	16,745	37%	31%	32%
GUAR AND GUAR PRODUCTS	M.T	1,697	374	2,395	1,874	432	2,733	-10%	-16%	-14%
ALL OTHER ITEMS			15,329	98,152		13,610	86,098		11%	12%
<b>Total</b>			<b>55,245</b>	<b>353,736</b>		<b>55,737</b>	<b>352,594</b>		<b>-0.88%</b>	<b>0.32%</b>

Other manufacture group also posted negative growth of 6% during month of September 2019 as compared to August 2019. Exports of tanned leather dropped by 68% and 25% in quantitative terms and PKR terms, respectively. This shows that the drop-in exports were due to hike in prices by exporters. Most of the items in the manufacture group posted negative trend. Only Chemicals and pharma products and engineering goods posted positive trends.

Exports of gems, jewelry and cement posted positive growths of 86%, 59% and 31%, respectively, while exports of furniture, and guar and guar products declined by 30% and 16%, respectively.

Exports of all other items posted a positive trend and shown a growth of 11% in PKR terms (from 13.6 billion to 15.3 billion) and 12% in USD terms (from 86 million to 98 million)

#### 4. RUPEE DEVALUATION AND EXPORTS



Rupee started its journey of free fall from Rs. 105 per USD in December 2017 to Rs. 156.6 in September 2019. Dollar also peaked to Rs. 165 at one point in June 2019. During these 22 months, dollar gained around Rs. 51 or 48%. On the other hand, monthly exports in dollars increased by meagre 8%. In other words, dollar gained 2.18% per month on an average, while exports increased by only 0.36% monthly. On the other hand, dollar parity with Bangladeshi Takka was virtually constant in the given period while their exports were also stagnant. Bangladesh did not devalue its currency to keep their exports level unlike Pakistan’s adventure.

Pakistan is an import driven economy wherein its exports are also majorly dependent upon imported raw materials, intermediary goods and industrial machineries. 70% of the real benefits to be accrued to exporters, due to huge Rupee devaluation, has been offset by simultaneous rise in imports bill, due to strengthening of dollar, and manipulative pressures from foreign buyers who forced the exporters to discount prices of commodities. Resultantly, the expected benefits of Rupee devaluation were marginal, both to exporters and for current account balance.

#### 5. TAKE AWAY:

- Historical fiscal deficit slippage to 8.9% of GDP during FY19, negative Net International Reserves of over \$15 billion as on 30<sup>th</sup> June 2019 (negative \$8 billion as on 30<sup>th</sup> June 2018) and weak economic fundamentals can’t afford speculative attacks on PKR in the wake of low foreign exchange reserves and external shocks in future.
- Bangladesh allowed its currency to devalue its currency by just 2.18% since December 2017 just to support its declining exports. Whereas, Pakistan devalued Rupee despite growing exports trend till 2016-17, which backfired as 70% of the impact was absorbed by imports of raw materials and machineries used for exports manufacture. Remaining effect was offset by demand of reduced prices by foreign buyers.
- The recipe of devaluation is the disaster for an import driven country. It suddenly increases inflation and debt on one hand and hurts economic development on the other. Same applies to Pakistan which had positive key economic indicators before December 2017.
- Although country’s trade deficit has dropped by 35% and current account deficit has contracted by 64% during 1QFY20 as compared to 1QFY19, risks pertaining to external sector’s vulnerabilities has not wiped out. With continuation of such policies, although government may be successful to further narrow trade deficit and current account deficit, the vulnerabilities would still continue to worsen.
- Relative improvement in current account deficit by \$6 billion from \$19.8 billion in FY18 to \$13.8 billion in FY19 witnessed at the cost of economic slowdown from 5.5% GDP in FY18 to 3.3% GDP in FY19.
- Country’s GDP size in dollar terms were recorded at \$314.79 billion during FY18 ((Rs. 109.97/USD average exchange rate) which has decreased to \$283 billion during FY19 (Rs. 136.25/USD average



exchange rate). As a result, country has incurred loss of \$31.79 billion in terms of GDP size as against the \$6 billion 'saving' in current account deficit. Hence, overall country has lost \$25.79 billion in GDP terms.

- Devaluation and monetary tightening, have increased public debt by around PKR 4000 billion to the country, have reduced fiscal space and have caused massive drop in aggregate output of the country.
- Pakistan failed to broaden the export base of the country and kept on relying on textile exports. It is high time to shift its reliance from textiles exports to non-textile exports in order to create exportable surplus and value addition for sizeable foreign exchange earnings as well
- Pakistan has to review its import policy as by import compression policy we won't be able to come out of elevated deficit syndromes and finance heavy imports of the country. Hence, it's too early to celebrate improvement in trade and current account balance as any external shock with respect to oil prices, fiscal deterioration and deterioration on economic front can put country into balance of payment crisis in future.
- Reversal in zero-rating regime, increase in interests' rates, Rupee devaluation and imposition of duties has deteriorated competitiveness of the country compared to the rest of the world.
- Pakistan must address acute economic structural challenges to exploit its tremendous export potential which can be done through integrated action plans, prudent policies and by enhancing exports through improving productivity of the country coupled with lower policy rates to bring back economy on track.

**DISCLAIMER:**

*This document is the property of Tola Associates and contents of the same may not be used or reproduced for any purpose without prior permission of Tola Associates in writing.*

*The contents of this document may not be exhaustive and are based on the laws as of date unless otherwise specified. Tax laws are subject to changes from time to time and as such any changes may affect the contents.*

*The comments in the document are a matter of interpretation of law and is based on author's judgments and experience, therefore, it cannot be said with certainty that the author's comments would be accepted or agreed by the tax authorities. Furthermore, the information in the article has been sourced from various websites. Tola Associates do not accept nor assume any responsibility, whatsoever, for any purpose.*