

Pakistan external vital statistics



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Macro statistics paint tough time ahead

Macro headwinds driven by the oil price storm and global credit squeeze clearly indicate a tough time ahead. And uncertain domestic politics aren't helping to mitigate the external account vulnerability. Liquidity conditions have massively deteriorated lately due to the sustained surge in trade deficit and in turn high current account deficit. To ensure medium-term macro stability, Pakistan must reduce domestic demand pressures, fiscal deficit, and top up foreign exchange reserves through aggressive privatization and FDI inflow. We expect pressure on the rupee exchange in the absence of foreign inflows and hence expect an average exchange rate of PRs70-72/US\$ in FY09, compared with our earlier estimate of PRs64.70/US\$.

Trade deficit reached 13.0% of GDP

Pakistan's trade deficit has reached 13.0% of GDP (to US\$20.74bn) in FY08, hitting double digits for the first time since 1996. As per Federal Bureau of Statistics, Pakistan's import bill reached US\$39.96bn (up 31% YoY), while export receipts surged to US\$19.22bn (up 13.0% YoY). Higher import growth has led the trade deficit to widen by 53% YoY and in turn is expected to increase Pakistan's current account deficit to US\$13.0bn (or 8.1% of GDP), the highest in the last decade. Going forward, we expect Pakistan's trade deficit to remain double digit at US\$20bn and current account deficit at US\$14.0bn (assuming US\$106/bbl oil price in FY09). At US\$150/bbl average price scenario, Pakistan's trade deficit could touch US\$25bn and C/A deficit could hit US\$19.0bn. That would further increase the vulnerability of Pakistan's external account and currency.

Table 1: Pakistan key macro statistics vs. the region

	Fx res (US\$ mn)	Import cover	Oil Subsidy (US\$ bn)	as % of GDP			Inflation (%)	GDP (%)
			Bud bal	Ext	Debt			
China	1,796,960	20.2	76	0.7	11.5	6.9	10.9	
Hong Kong	159,000	47.9	0	6.3		3.9	6.0	
India	314,614	15.3	58.9	-5.3	20.1	6.2	8.1	
Indonesia	57,464	--	26	-1.5	31.6	9.1	6.3	
Korea	258,199	7.8	0	3.8	39.9	4.2	4.8	
Malaysia	125,191	9.6	8	-2.8	29.3	3.1	6.0	
Pakistan	11,250	3.2	2.57	-7	27.8	12.0	5.8	
Philippines	36,233	7.4	0	-1.5	38.1	7.5	5.0	
Singapore	175,802	15.1	0	3.4		5.7	6.3	
Taiwan	290,070	15.5	0	-1.1	24.7	3.4	5.0	
Thailand	108,944	8.2	0	-0.9	25.1	5.4	5.0	

Source: Merrill Lynch and KASB

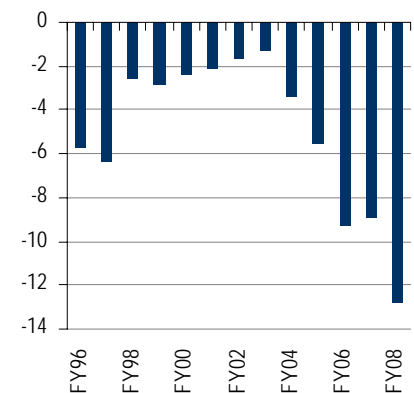
Pakistan is more vulnerable than its regional peers to oil shocks (Table 1). However, we believe Pakistan can weather the shock through aggressive privatization, Saudi oil facilities, current transfers from the US on the war against terrorism, budgetary support from China and GCC countries, and multilateral loans from IFIs.

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Chart 1: Trade deficit as % of GDP



Source: KASB calculation

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