State Bank of Pakistan has issued the following clarification against an article titled 'CAD Chronicles' published in Business Recorder on Monday, 28 February, 2022.

In an article published in the Business Recorder on February 28, 2022 titled "CAD chronicles", it has been alleged that a recent State Bank of Pakistan (SBP) tweet on the current account balance was "sugar-coated" and "misleading", and that the SBP failed to "keep the sanctity of the institution and state the facts as they are." These statements are completely baseless. The tweet was based on facts and the SBP has always espoused the highest standards of integrity and transparency. We also pride ourselves in the recent improvements that we have made in our external communication, which have been appreciated both within and outside Pakistan.

Here are the facts. The SBP tweet noted that the current account deficit in January of $2.6 billion would have been lower by around $1 billion if we exclude in-kind imports that are fully financed. These imports refer to oil, vaccines and other items that are financed by loans and supplier credit facilities. There is nothing "mysterious" about them, as the article suggests.

Why is it important to present this additional information? Because not all current account deficits are created equal. When we assess the sustainability of the current account deficit, what matters most is the extent to which it can be financed. Unlike the rest of the import bill, which needs to be funded by concurrent foreign currency inflows like remittances and exports, these imports do not generate any immediate demand for US dollars in the foreign exchange market. Payments for these imports are distributed over time, often over long durations.

Whenever the State Bank releases important data, it aims to enhance public understanding of what they mean. It was with same objective that this tweet was drafted. Providing this information was in the public interest, as it shows that almost 40 percent of the current account deficit in January did not generate any immediate financing needs. This helps make the current account deficit more sustainable. It is a vital point. Instead of sowing confusion and casting aspersions, the article should instead have helped to explain its significance in the public interest.

Following is the story **'CAD Chronicles' published in Business Recorder on Monday, 28 February, 2022.**

The current account deficit at $2.6 billion in Jan-22 is the highest ever recorded number. The toll is at $11.6 billion in 7MFY22 as compared to a surplus of $1.0 billion. The imports in Jan-22 at $6.4 billion is at similar levels of the past two months (avg $6.5 bn). The higher deficit by $700 million as compared to the previous month is due to a dent in exports and remittances. COVID-related economic disruptions are making a full circle. With no ease to commodity prices in the backdrop of geopolitical tensions, the situation is looking grim.

SBP released the numbers with a delay of a couple of days and sugar-quoted the record deficit by saying in a tweet that higher deficit of $2.6 bn (versus $1.9bn in Dec-21) is largely due to in-kind imports which are fully financed, and by excluding those, the deficit would be lowered by $1 bn. This is a misleading statement. These imports are not due to donation or in exchange of other goods. These are financed by loans. SBP should keep the sanctity of the institution and state the facts as they are.

The fact of the matter is that $1.1 billion of imports in January are routed through non-banking channels. This means these imports are not creating demand of foregone exchange in the inter-bank market and are not putting pressure on the PKR to depreciate. Imports via non-banks averaged at $256 billion in the past four years (Feb-17 to Jan-21) prior to COVID vaccines imports that started in Feb -21. Since Feb-21 vaccine imports started and the non-bank imports averaged at $437 million from Feb-Dec 21. And the toll stood at $1.1 billion in January – by far the highest number. Historically, oil financing facilities and CPEC related machinery imports remained part of non-bank imports where there is no immediate payment routed through Pakistan banking channels and a counter entry in the balance of payment is made to nullify the impact – these counter entries could be within current account as other transfers or below the line in capital account (in case of donation), and financial accounts (in case of fully-financed by debt).

In January 22, the flows in other current transfer (within current account) and capital accounts are depicting that there is no parking of this $1.1 billion. This implies majority of this $1.1 billion is fully financed by debt. Just like your groceries are fully financed by your bank if credit card is used to make payment.

The question is what does this $1.1 billion constitute of. Well, BR Research could dig three elements in it. One is oil deferred payment facility by ITFC, second is purchased vaccine payments financed by ADB and WB, and third is mysterious items (for context read: "The imports mystery continues", published on 19th January 2022). According to sources close to the government, the payment made by SBP for vaccines is around $100 million in January, around $550 million are made for some unexplained imports while the rest are oil and other small items imports.

Thus, barring that mysterious $550 million, the current account deficit in January is almost at the same level as it was in Dec. Then the government procured 267 million (purchased 175 mn) doses of COVID vaccine during Feb21-Jan22. Assuming an average price of $10/dose, the imports are higher by $2.7 billion in the period. Out of these 245 million doses came this fiscal year. That is soaring the deficit by around $2.5 billion in 7MFY22- barring this, the deficit stood at $9.2 billion in the fiscal year so far.
Aside from these one-offs, the imports in January are showing a marginal decline almost across all the sectors. There are early signs of economy slowing down. This is not just due to higher interest rates. The overall inflation due to currency depreciation and growing commodity prices are hampering the purchasing power of households and firms, the impact is slowly reflecting in numbers. Nonetheless, a visible dent would take a quarter or two.
Imports-via banks are down by 11 percent MoM to $5.5 billion in Jan22. Food is down by 9 percent to $744 million. Machinery imports eased by 5 percent and that is mainly due to decline of 20 percent in mobile phone imports. The transports are yet to show a decline. This may take a few months, as car sales and imports are based on the demand created in the previous months. The key number is booking of cars where some players are facing slowdown and others are saying that actual sales are still resilient. Then there are dents in agriculture, chemicals and metals imports suggesting an overall slowdown. The bigger dent is in petroleum products which are down by 25 percent MoM to $1.1 billion. Here the ITFC facility is playing a role as well. Some oil imports could be parked in the full-financed non-bank imports. Then there is a decline in volume of imports as suggested by PBS numbers in petroleum products. The higher number in the previous two months is unexplained. Again, for context read article about the import mystery referred above.
The real reason for current account deficit shooting up is exports. The toll is down by 15 percent to $2.4 billion. The SBP reported number is $131 million less than PBS while in Dec21 SBP number was $159 million higher than the PBS. The difference is plausible. PBS is shipment-based and SBP is payment-based. Sometimes, exporters bring payments earlier and sometimes they wait. In days of currency depreciation, exports like to wait as much as they can to fully enjoy the benefit of currency depreciation. Food exports are down by 15 percent to $428 million in Jan22 while textile exports are down by 14 percent. Similar is the number for other sectors. There was a case of lower production of exporting goods – especially in textile, during Dec and Jan due to gas shortages. However, the impact of these would be visible Feb onwards in PBS numbers and with a lag of month or two in SBP's.
The real impact of travel opening after the COVID is on the home remittances. The number is down by 15 percent (MoM) to $2.1 billion in Jan22. The decline is also visible in other economies such as Bangladesh. One of the reasons for higher remittances growth last year was less travel and shift of informal sending to formal sectors. The less

travel has an impact on export of services too. This is down by 24 percent to $521 million in Jan-22.

Overall, the bonanza of low travel is winding up. The flows are moving back towards informal channels. Low prices were a blessing for imports fall. That is over. And on top, the war situation is keeping commodity prices even higher. Times are testing. Not much room to further compress imports. The key is to get financing. Be it fully-financed or in-kind form.