

Our Correspondent

Foreign exchange reserves up \$557 million to \$15.5bln

KARACHI: Pakistan's foreign exchange reserves took a major boost of \$557 million to reach at \$15.577 billion last week, the central bank's data showed on Saturday, with resumption of policy-based lending from the ADB brightening prospects of recovery in the country's external account position.

The State Bank of Pakistan (SBP) said foreign exchange reserves rose 3.7 percent week-on-week during the week ended August 9. The foreign exchange reserves stood at \$15.020 billion in the previous week. SBP's foreign reserves increased \$535 million to \$8.264 billion.

"The increase in SBP's reserves is mainly due to inflow of \$500 million received from the Asian Development Bank (ADB)," the central bank said in a statement. The reserves held by commercial banks rose to \$7.313 billion from \$7.291 billion.

Mohammad Sohail, chief executive officer at brokerage Topline Securities said the government's efforts would bear fruits if it is to receive planned foreign inflows on account of Euro bonds, carry-trade and privatisation.

The ADB last week approved a \$500 million worth of policy-based loan for Pakistan after a gap of one and half years as the International Monetary Fund- (IMF) backed reforms in the country persuaded the Manila-based lender to okay a part of \$2 billion committed for the current fiscal year. The policy-based loan would support the government's reforms to improve trade competitiveness and exports as a defence against external shocks and to help finance the country's trade deficit.

Analysts said further increase in foreign exchange inflows would help in improving balance of payments that reeled from bloated current account deficit. The current account deficit started to scale down. It narrowed 32 percent to \$13.587 billion during the last fiscal year.

Analysts said the replenishing foreign exchange reserves would help rupee to gain against the US dollar. Rupee lost a quarter of its value last year. The rupee has been trading around 159 / dollar since the start of this month.

"Rupee will remain fairly stable in the short term depending on (planned) foreign inflows," Sohail said. "However, if the foreign inflows are not realised there might be pressure on the foreign exchange reserves."

The financial assistance from the IMF and other international creditors would strengthen the country's ability to service its gigantic external debt. Pakistan last month agreed to a \$6 billion IMF's loan program, which is expected to attract \$38 billion from bilateral and multilateral creditors over the program period of three years.

External debt as percentage of gross domestic product is likely to touch an all-time high of 32 percent this fiscal year from the estimated 26.5 percent last year. The country would need external borrowing of \$12.14 billion in the current fiscal year to meet gross reserves level and financing gap agreed with the IMF. The country is scheduled to repay a total of \$10 billion in lieu of external debt servicing in the current fiscal year.