BUSINESS RECORDER
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Improvement in C/A deficit

Thanks mainly to a marked decrease in imports and a substantial rise in home remittances, the current account (C/A) deficit of the country has shrunk by a considerable margin during the current year so far. According to the latest data released by the State Bank of Pakistan, the country's C/A balance posted a deficit of dollar 8.844 billion in July-February, 2019 compared to dollar 11.421 billion in the same period of the last fiscal year, depicting a decline of 22.56 percent or dollar 2.577 billion. However, the import and export figures during the eight-month period did not show much change as trade deficit during this period fell only by dollar 557 million to dollar 19.282 billion as against dollar 19.839 billion during the same period of last fiscal year. Meanwhile, services account showed a much sharper decline as it fell to dollar 2.304 billion, from dollar 3.630 billion last year. Month-on-month basis, the C/A deficit in February, 2019 plunged by 59 percent to dollar 356 million compared to dollar 873 million in January, 2019. Exports during February, 2019 declined by 18 percent from dollar 2.272 billion in January to dollar 1.862 billion in February, 2019 while imports also dropped from dollar 4.403 billion to dollar 3.513 billion in the same period. It is quite clear that despite a substantial decline in C/A deficit, the country is still faced with a massive C/A deficit compared to the record deficit of dollar 18.9 billion in FY19.

The improvement in foreign sector account of the economy would of course appear to be a positive development for the country though it could be easily argued that the C/A deficit is still very high and unsustainable and only looks smaller because of the record deficit registered in the previous fiscal year. Looking at the data prior to FY18, the average C/A deficit during FY19 is actually much higher and a cause of great worry. If the present trend continues, the huge C/A deficit would force the country to continue borrowing from outside sources to maintain the existing level of foreign exchange reserves of the country and stabilise exchange rate of the rupee. Dwindling foreign exchange reserves of the country is a reflection that C/A deficit is still huge and unsustainable and foreign investors could not be sure about the solvency of the country. It also needs to be highlighted that C/A deficit continues to be a major challenge for the policymakers of the country despite their best efforts to bring the C/A deficit under control during the past few months. Pak rupee has been devalued by a substantial margin and imports have been restricted through tariff measures to improve the foreign sector of the economy. As a short-term measure, top authorities of the government have asked the friendly countries to assist in plugging the huge hole in the external sector. The kingdom of Saudi Arabia and the UAE have pledged to place some dollar 6 billion with the SBP to support the current account. So far, Pakistan has received about dollar 3 billion from Saudi Arabia while the UAE has also placed dollar 2 billion with Pakistan to build up the depleting foreign exchange reserves of the country. Abu Dhabi Fund for Development (ADFD) has also signed an agreement with the SBP to place another dollar 3 billion with Pakistan.

However, it needs to be stressed that support from the friendly countries would increase the outstanding stock of external debt of the country and is not likely to continue in the coming years. The ultimate aim, therefore, should be the elimination of C/A deficit altogether, primarily through the increase in exports, substitution of imports by local production and reducing dependence on debt creating inflows. Some of the analysts and exporters have long advocated a devaluation of PKR in order to increase the level of exports and narrow the trade gap but such a policy option could only serve the country properly if exportable surpluses of the country are adequate or abundant and the economy could generate a higher economic activity. Overall, we feel that policies must be formed and implemented urgently to enhance productivity of the economy and increase exports so that external sector of the economy gets a boost on a sustainable basis and the reliance on outside sources of finance could be reduced to the minimum.

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