

Narrowing of trade deficit

It is a matter of some satisfaction that trade deficit of Pakistan has declined during the current year so far. According to the latest data released by the Pakistan Bureau of Statistics (PBS), trade deficit declined by about 12.82 percent (dollar 3.867 billion) to dollar 26.302 billion during July-April, 2019 as against 30.189 billion in the corresponding period of last year. The contraction in deficit was attributable entirely to a steep fall in imports that posted a decline of 7.88 percent to dollar 45.471 billion during the first ten months of the current fiscal as compared to dollar 49.360 billion in the same period of last year while exports also witnessed a nominal reduction of 0.12 percent by falling from dollar 19.191 billion during last year to dollar 19.169 billion during the ongoing fiscal year. On year-on-basis, Pakistan's imports fell by 6.42 percent to dollar 4.753 billion during April, 2019 from dollar 5.079 billion in the same month of the previous year. Exports too declined by 1.54 percent to dollar 2.094 billion in April, 2019 from dollar 2.127 billion in April, 2018. The trade deficit during the month of April, 2019 thus shrank by 9.93 percent by going down from dollar 2.952 billion in April, 2018 to dollar 2.659 billion in April, 2019.

The latest data on trade deficit of Pakistan, though better than last year's, is still a matter of great concern and shows that the country has still to go a long way to improve to a level that it could be described as satisfactory or sustainable. It is clear that home remittances have been increasing during the year but the rate of their increase is insufficient to cover the aggregate trade deficit with the result that current account deficit of the country would be too large for the second consecutive year to give sleepless nights to the authorities who have to find ways to fill such a wide gap and maintain foreign exchange reserves at a reasonable level. Seen closely, the rapid deterioration in trade deficit was mainly the result of flawed policies of the previous government which was obsessed to keep the exchange rate within a particular range and did not take other measures to check the worsening situation with the result that both the trade and C/A deficits reached record levels during FY18. Fortunately, the present government has realized the gravity of the situation and taken various steps to reverse the deteriorating trend. It has taken the bold step to depreciate the Pak rupee substantially though it was against political expediency and sure to ignite inflationary pressures in the economy. The government also adopted certain other measures like higher tariffs on non-essential imports and concessions to export industries. The data show that these corrective but unpopular measures taken by the government are finally bearing fruit in the form of a substantial decline in imports. Exports, however, have refused to budge so far and are not showing enough signs of improvement despite a sharp fall in the value of the rupee against US dollar. We, however, do not agree with those who believe that exports do not respond to rupee depreciation but feel that exports would also expand but with a time lag when productivity of the economy would tend to improve and exportable surpluses become available. Anyhow, a decline of 12.82 percent in trade deficit during the current year is not a mean achievement and hopefully this percentage would go up when exports also show signs of improvement. Realizing that the corrective steps taken by the authorities may not be enough to bridge the wide gap in the external sector and the country could face the insolvency threat at some point of time, the present government has also taken the unpopular measure to cut a deal with the IMF which has attracted a lot of criticism from all and sundry. If this arrangement is approved by the Executive Board of the Fund and is implemented faithfully by the government, the economy of the country could be stabilized, trade deficit could be reduced to manageable levels and dark clouds gathering over the external front could fade out with the passage of time.

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