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### **Volumetric increase in exports: Pasha contests SBP's claim**

ISALMABAD: The Governor State Bank of Pakistan's claim that the country's exports have increased in terms of volume is inaccurate as apart from rice, which witnessed a 52 percent increase in terms of volume, exports of all other items have contracted.

This was stated by former Finance Minister Dr Hafeez Pasha while speaking at TV programme 'Paisa Bolta Hai' with Anjum Ibrahim in response to a recent speech of SBP Governor Reza Baqir at the Institute of International Finance, which was created by 38 banks of leading industrialized countries in 1983 in response to the international debt crisis of the early 1980s.

Dr Pasha added that exports of cotton, cement, chemical and pharmaceutical, leather, garments, footwear have decreased and domestic sales of these products have also witnessed a massive decline, as revealed by the production data of last month. He added that overall production including exports have declined whereas unemployment has increased.

Dr Pasha suggested that "it would have better for the SBP Governor to go through every individual item before making any statement."

Pasha also challenged the Governor SBP's claim that an increase in current account deficit increases growth which is not sustainable and clarified that the current account deficit does not impact on growth; instead a decline in growth contributes to improvement in current account deficit. Pasha noted that after the implementation of the IMF programme began there was a 21 percent decline in imports and barely 2.5 percent increase in exports, adding that decline in growth contributed to a contraction of the current account deficit and "it is not that the current account deficit decreases first and then growth increases."

With respect to the Governor SBP's claim that previous administrations had supported a fixed rate Hafeez Pasha stated that this was true only during the tenure of Ishaq Dar as the Finance Minister from 2013 to 2017. He said that when PML-N government tenure ended rupee value against the dollar was Rs 110 and increased to Rs 124 in caretaker set up and at one time in June 2019 the rupee value depreciated by Rs 40 rupee in one month.

He acknowledged that the government had to depreciate the rupee to tackle the \$20 billion current account deficit but maintained that the implementation of the market based exchange rate was not being done 'sensibly'.

Pasha expressed fear that in case reserves go below \$7 billion the repayment of \$1 billion on account of Sukuk bonds next month may impact on the exchange rate stability that the Governor maintained had been achieved.

Pasha added that instability in exchange rate creates worries for importers as to how much payment they would be required to make when goods land in the country while exporters withhold money abroad in anticipation of further decline in rupee value.

Governor SBP's comment that zero borrowing from the SBP is a new policy decision is not accurate and Pasha pointed out that in every IMF programme Pakistan has agreed to zero borrowing from the SBP.

He added that Pakistani governments also borrow through open market operations (OMO) and the SBP pays some money to commercial banks for OMO operations. Pasha contended that in effect the government is continuing to borrow from the SBP indirectly, otherwise, he added, the government's financing needs are so high that commercial banks do not have the capacity to meet.

About the SBP Governor's argument that domestic savings are very low and the government is considering measures to increase them Pasha said that if the Governor looks at the number of SBP's research department, he would realize that for the first time after many years bank deposits have actually declined by Rs 415 billion. People do not have the capacity to save money due to high inflation and deposit in banks. He said that there is only one percent increase in national saving schemes and these are SBP's own figures and it would have been appropriate for the Governor to study these figures before making any statement.

On the issue of hot money, Pasha said that after a significant increase in discount rate to 13.25 percent, only \$240 million portfolio investment (hot money) entered the country; this is a very small amount considering that our weekly import bill is \$1 billion. He said that there are very serious ramifications of the high discount rate on industrial output which declined by 7 percent.

Pasha in conclusion also challenged the Governor's claim that the tax net had widened by stating that the increase in tax revenue was on account of the levy of new taxes including higher tax rates in the budget for 2019-20.