BUSINESS RECORDER
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Editorial

C/A surplus

In the first quarter of the current fiscal year Pakistan witnessed a current account surplus to the tune of 99 million dollars as per the State Bank of Pakistan (SBP). This is a remarkable achievement given the scale of the deficit, around 20 billion dollars inherited by the Khan administration.

The policies that contained the deficit are twofold. First, an undervalued rupee - undervalued by 3 percent when the staff-level agreement with the International Monetary Fund (IMF) was reached on 12 May 2019, by 10 percent in June, 7 percent in July and 6 percent in October. This policy measure choked off luxury imports, a desired objective, as well as imports of raw materials and semi-finished products used in the manufacturing sector, an undesired objective, accounting for negative 7 percent growth in Large-Scale Manufacturing (LSM) sector. Additionally, major import items such as petroleum and products rose in rupee terms with a consequent impact on inflation, however, with the 3.2 billion dollar deferred oil facility extended by Saudi Arabia, applicable for the duration of the programme, current account deficit was contained.

And secondly, reliance on external borrowing rose to 2 billion dollars in July-September 2019, 50 percent more than in the comparable period of the year before at 1.042 billion dollars as per the data released by the Economic Affairs Division. And unfortunately reliance on commercial borrowing, in spite of being on an IMF programme, rose in comparison to the year before – to 514 million dollars compared to 240 million dollars in the comparable period of last year. Commercial loans are procured at a higher rate of interest and a lower amortization period and raise the short-term debt profile of the borrowing country.

The IMF ongoing programme documents present a rather disturbing picture: "as of March 2019, 57 percent of domestic public debt had a maturity of less than a year, up from 54 percent in June 2018. Moreover, the stock of short-term debt from the central bank more than doubled in the last 10 months… The adjustment scenario envisages re-profiling of the short-term debt held by the Central Bank, discontinuation of Central Bank financing, and a gradual decrease of foreign current denominated debt to reduce rollover and exchange rate risks." In this context, it is relevant to note that borrowing from the central bank is zero since the IMF programme was launched, though open market operations - a form of borrowing by the government - continue, and the government claims SBP profit of 185 billion rupees in the first quarter, instead of the budgeted 100 billion rupees, out of which it intends to lend 100 billion rupees to exporters at the export refinance rate of 3 percent with the government picking up the interest tab.

The SBP website also indicates that remittances are down by around 2 percent, a major source for plugging the current account deficit. However, the most desired source of earning foreign exchange is through exports and these have not responded as expected to an undervalued rupee – a policy decision that was also witnessed in the last year of the PML-N administration. It is therefore to be appreciated that both the Adviser to the Prime Minister on Finance Hafeez Sheikh and the SBP Governor Reza Baqir have announced export promotion measures including a 200 billion rupee loan to exporters from commercial banks (plus 100 billion rupee from the SBP) with the government picking up the interest, cash refunds of 30 billion rupees (the market reception of the refund bonds was less than lukewarm) and allowing authorised dealers to make advance payment up to 10,000 dollars per invoice on behalf of the manufacturing sector for import of raw materials and spare-parts for their own use only as well as Pakistani firms acquiring services abroad. This amount is considered to be small; however, it is a step in the right direction.

The pro-export measures reveal that the country's economic team is at last turning its attention towards export promotion and one would hope that if these measures have limited success then additional measures will be taken promptly to achieve a spurt in manufacturing growth and thereby exports.