

FPCCI terms rupee fall mysterious amid improving current account

KARACHI: The Federation of Pakistan Chambers of Commerce and Industry (FPCCI) on Tuesday expressed surprise over instability of rupee despite improving current account position, seeking the central bank's intervention for stability that it says mandatory for growth.

FPCCI President Anjum Nisar said termed rupee depreciation "a mysterious development".

"Continued fall of rupee is not understandable with a fact that there was no fundamental change in country's imports during last few months while other economic indicators are also same for a long time," Nisar said in a statement.

Rupee dropped 2.8 percent or Rs4.55 against the dollar since the start of June. Rupee continued its downward slide against the US dollar, moving in record low range of Rs167-168, having no sign of recovery, despite the fact that current account deficit narrowed 78 percent owing to lower imports and better inflows.

Current account deficit shrank to \$2.9 billion in fiscal 2019/20, lowest in five years. Import bill fell 19 percent to \$44.5 billion during this period but rupee continued to sink. Current account deficit shrank to 1.1 percent of GDP in FY20. Inflows of workers' remittances grew 6.4 percent to \$23.1 billion, "which should have a positive impact on dollar-rupee exchange value".

"Huge depreciation of rupee continued to damage the economy, as the cost of deals done by the businessmen with their foreign counterparts has increased manifold due to massive fall of rupee against dollar," said Nisar. "Apart from increasing exports and controlling imports the government will have to take administrative measures, as a large demand of cash dollars are seen in the market."

Nisar said the industrial revival and economic growth is not possible without stability of local currency. "Sharp depreciation of rupee shows that Pakistan is again moving towards a trade deficit regime, which might jack up the current account deficit yet again."

In dollar value, the gross domestic product (GDP) contracted 5.2 percent to \$263.8 billion in FY20. The GDP value in terms of dollar does not reflect the growth pattern, as Pakistan measures economic indicators in rupee value and converts it into dollar term.

"So, the volatility in the rupee-dollar exchange value would lead to a huge difference between GDP growth in dollar value and real growth in rupee term," Nisar said.

FPCCI president further said foreign direct investment rose 88 percent to \$2.5 billion in FY20 and in June alone foreign investment surged 70.5 percent to \$174.8 million, which should have helped strengthen the rupee and the foreign exchange reserves. Moreover, Pakistan has received around \$500 million in soft loan from the World Bank last month, bridging the shortfall in budgeted expenditures. Earlier, Pakistan has also received \$1.3 billion in commercial loan from a Chinese bank and another \$1.5 billion from the Asian Development Bank, World Bank and Asian Infrastructure Investment Bank in June. The International Monetary Fund also provided an emergency loan of \$1.4 billion in April to fight coronavirus.

Nisar said the State Bank of Pakistan and the government need to intervene and come up with policy reforms to control depreciation of rupee, which is becoming more and more valueless.