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Govt ought to have taken IMF decision on day one: Pasha

ISLAMABAD: The delay in dealing with the challenge of external account deficit by the Khan-led administration is responsible for the sudden massive weakening of the rupee against the dollar which has added Rs 900 billion to external debt in one day.

Former finance minister Dr Hafeez Pasha said that the government should have taken the decision of going to the International Monetary Fund (IMF) on day one given the condition of the country's foreign exchange reserves. He said that the country was heading towards default and there was no window left other than the IMF, to support the swift decline in foreign exchange reserves.

Pasha added that the depreciation in the exchange rate would have a positive impact on the current account deficit and projected an increase of $1.5 billion in exports and a decline in import of non essential items by $1 billion. Thus, there would be a positive impact of $2.5 billion on current account deficit consequent to the current depreciation of rupee against dollar, he stated.

Pasha further said that exports would increase by 8 percent and imports will decline by 1.6 percent as a one percent slide in rupee contributes 0.6 percent increase in exports and 0.2 percent decrease in imports, other than essential items.

An official of Finance Ministry however stated besides increase in external debt, implications of exchange rate depreciation would be very serious on the budget deficit, inflation and on cost of doing business.

The official further stated that it may be too early to estimate the positive impact of rupee devaluation on exports. He described the current situation of the economy, especially with respect to foreign exchange reserves, as 'volatile' and added ominously 'no one appears to be managing the situation'.

According to the official depreciation of one rupee against the dollar adds Rs 100 billion to the public debt and is Tuesday's depreciation alone is taken into account then over Rs 900 billion has been added to the country's debt.

Former Advisor to Finance Ministry Dr Ashfaque Hassan Khan stated that the weakening of the rupee against the dollar impacts in several ways –it increases inflation, the need for financing as well as debt repayments.

He added that the increase in price of petroleum products due to the rupee depreciation will escalate the cost of all raw materials/inputs and will make Pakistan's goods more expensive in the global market rather than cheaper.

An official of All Pakistan Textile Mills Association (APTMA) stated that the increased dependency of exports-oriented sectors on imported inputs will add to the cost of production and may further hurt the industry instead of providing relief.

The exporters are expected to get some short term relief from the rupee depreciation however the depreciation may not result in a corresponding increase in exports owing to higher cost of imported inputs.

Tahir Amin &

Zaheer Abbasi