BUSINESS RECORDER
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Moderation in C/A deficit

Though still very large, the current account (C/A) deficit has moderated somewhat during the current fiscal year. According to the latest data released by the State Bank, C/A deficit of the country decreased, albeit slightly, to dollar 3.665 billion during the first quarter of FY19 as compared to dollar 3.761 billion in the same period of last year, showing a decline of dollar 96 million or 2.5 percent during the period. Goods' import bill, nonetheless, continued to surge, increasing by 6 percent or dollar 763 million to dollar 13.765 billion in July-September, 2018, up from dollar 12.993 billion in the corresponding period of last year while goods' exports rose by 4 percent to dollar 5.884 billion. Goods' trade deficit jumped to dollar 7.882 billion during the first quarter of FY19, up from dollar 7.314 billion in the same period of last year. Details show that with dollar 1.292 billion of exports and dollar 2.23 billion of imports, the country's services sector deficit declined to dollar 938 million compared to dollar 1.276 billion last year while income sector's deficit was almost steady at dollar 1.479 billion with dollar 168 million earnings and dollar 1.247 billion of payments. However, month-on-month basis, C/A deficit was recorded at dollar 952 million in September, 2018 as compared to dollar 592 million in the last month, posting a sharp increase of dollar 360 million or 61 percent. It may be mentioned that C/A deficit during FY18 had reached a record level of dollar 18.1 billion due to higher imports of energy, transport, food and metals and insufficient inflows of foreign investment and home remittances. As foreign inflows proved inadequate to plug the C/A deficit, the SBP had to utilise its foreign exchange reserves which fell by dollar 6.4 billion during FY18. Although it is too early to say something definite about the C/A deficit during FY19, the trend so far indicates that the country would not be able to cut the C/A deficit significantly during FY19 despite its best efforts to do so because of considerable time lag between the implementation of right policies and their outcome in the external account.

However, some improvement in the foreign sector accounts in July-September, 2018, after a significant deterioration in FY17 and FY18, is of course a positive development for the country. If this trend continues or improves further, it would reduce the need to borrow from outside sources, reduce the speed of reduction in foreign exchange reserves and the value of the rupee. In addition, foreign investors would feel more comfortable while credit rating of the country would not deteriorate. More importantly, Pakistan would be able to negotiate a programme with the IMF in a confident manner. The stamp of approval by the Fund increases the chances of financial inflows from bilateral and multilateral sources and the country is obliged to undertake necessary reforms to balance the external sector accounts on a sustainable basis.

It goes to the credit of the present government that, unlike the previous PML(N) government, it is trying harder to reduce or eliminate the C/A deficit altogether and looking seriously for borrowing options to meet the foreign sector gap in the meantime. In fact, it has accorded the highest priority to this area so that the country does not become insolvent and unable to meet foreign obligations. The implications of such a situation are so grave that any government would shudder to even contemplate them. Keeping the gravity of the situation in view, the PTI government has improved/increased regulatory duties on imports, devalued the Pak rupee by a considerable margin despite a lot of criticism on this move, introduced certain measures to increase home remittances through banking channels and has finally decided to approach the IMF, appreciating criticality of the situation; and it has not shied away from requesting the friendly countries to lend a helping hand to Pakistan. The government's concerted efforts finally yielded results when Saudi Arabia on 23rd October, 2018, stepped forward with a dollar 6 billion bailout package, including dollar 3 billion for balance of payments support and dollar 3 billion as deferred payment on oil imports. Hopefully, such a liberal package would help government successfully persuade the IMF for a better deal. However, we feel that these initiatives may be useful in the short run but are no substitute for long-term solutions like increasing the productivity and exports of the country, containing imports to the minimum and boosting the level of home remittances to the maximum extent possible.

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