INTERNATIONAL THE NEWS

Mixed report

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The recent predictions for the future of Pakistan's economy have not been positive. This past Friday, Moody's, one of the world's top three rating agencies, issued its view on Pakistan's economy. The headlines seemed to be a mix of good and bad. The report suggested that Pakistan could meet its current debt obligations if there were no change in overall debt and the exchange rate. However, it warned that the situation was precariously balanced. Mounting external pressure to the import of capital goods and investments under CPEC could aggravate the problem of declining forex reserves. For now, China has provided some cash flow to counter-balance the outflow, but there is only so much support that it will be willing to provide before Pakistan needs emergency support. The current account deficit of $18 billion will need to be brought down to improve Pakistan's ability to meet its external obligations. Our imports from China have crossed $11.45 billion, which is a significantly high number. The total import bill of $55 billion does not include $10.5 billion in the import of services, which in itself is a stunning number.

Moody's, however, is still more optimistic than many domestic and international observers. It believes the current account deficit is likely to fall from 5.7 percent to 4.8 percent of GDP next year. It also believes that the current foreign reserves are adequate for short-term coverage, but it is concerned about the medium-term as reserves will continue to fall. The overall fall is not as alarming on paper – going down from $14.6 billion last year to $9.5 billion this year – if we do not account for the amount of new debt obligations that Pakistan has taken up to paper over the fall. The rating agency has also raised another concern: an increase in the value of the US dollar is likely to put more pressure on Pakistan's economy and foreign reserves. This runs counter to the current IMF and World Bank dogma that Pakistan needs to depreciate its currency. If Moody's would have its way, it would make sense to keep the currency value stable. The agency's report raises severe questions over Pakistan's debt management and import policies. The last half decade has brought the country's current account deficit to an unmanageable level. In the short term, the country will need to continue to use foreign debt to finance its deficit, but this cannot continue much longer. It will eventually cause a severe crisis that will be hard to get out of.