

Rupee may lose five percent till yearend: analysts

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KARACHI: Rupee is likely to further weaken against the US dollar till this yearend as foreign exchange reserves are dwindling with uncertainty over fund inflows to support external sector prevailing far and wide, analysts said on Monday.

The analysts said rupee will continue to experience volatility as well as pressure in the next two to three months. The currency has so far been weakened by a cumulative 15 percent against dollar since December last year.

“We expect a further depreciation of around five percent in PKR/USD by the second half of 2018,” Alfalah Securities said in a report. The brokerage forecast it at 125 till December-end and 128 by June-end of the current fiscal year as compared to the Monday’s close of 121.54 in the interbank market.

Pakistan’s current account deficit widened 43 percent to \$16 billion or 5.5 percent of GDP for the July-May period of 2017/18. Analysts expect it to be at almost six percent of GDP for the whole fiscal year ended June 30, 2018. The wide deficit jacked up gross external financing requirement to around \$25 billion for the last fiscal year.

Alfalah Securities said even if China is amenable to providing a large bailout “which we think may be somewhat unlikely its likely terms may be more stringent than the IMF’s (International Monetary Fund) in some non-economic areas (control of Gwadar port for example), forcing Pakistan to negotiate with the IMF at a later stage”.

Authorities are eyeing short-term commercial borrowing after recently receiving \$1 billion deposit from China. The Chinese aid, couple with a favourable response to the tax amnesty scheme, will be enough to safely tide over the next 2 to 3 months, Alfalah Securities said.

“Looking ahead, the outlook for the rupee is contingent on when Pakistan receives bailout assistance, from where it receives it, and the amount,” it added. “Despite resort to commercial borrowing, the unfunded portion of the overall external gap has resulted in continued depletion of forex reserves, with the country’s international liquidity having declined a cumulative \$6.4 billion in the past 12 months, or by 39 percent.”

Part of the pressure on the rupee is also coming from the strength of the US dollar globally versus emerging market currencies. “Moving to a free-float of the exchange rate is very likely to be a prior action for the next IMF program, should the new government decide to make an approach to the Fund,” the brokerage added.

The brokerage expects continued interest rate hikes of additional 100 to 125 basis points to be complemented with greater liquidity management in the inter-bank market at some stage.

“By end-June 2019, we project SBP’s policy rate to have increased to 8 to 10 per cent,” it said. The central bank increased its policy rate by a cumulative 75 basis points since January. Alfalah Securities expects recent rupee weakness and the round of hikes in domestic energy prices will feed into inflation.

“We expect the consumer price inflation to spike to around 8 to 10 percent year-on-year by the first half of calendar 2019, with the central bank keeping up with interest rate hikes,” it said. “The possibility of inflation breaching into double digits during 2018-19 remains strong, and is contingent on the movement of international oil prices and the magnitude of rupee weakness.”