INTERNATIONAL THE NEWS

FDI falls to $2.475 billion in July-May: Current account deficit widens to 5.5pc of GDP

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KARACHI: Pakistan's current account deficit widened to $15.961 billion, or 5.5 percent of gross domestic product, in the first 11 months of the current fiscal year of 2017/18, as trade gap continued to swell, the central bank's data showed on Wednesday.

The current account deficit rose 43.27 percent from $11.140 billion in the corresponding period a year earlier, the State Bank of Pakistan's (SBP) data showed.

The current account deficit stood at $1.934 billion in May compared with $1.947 billion in the previous month.

Ex-Finance Minister Salman Shah said the biggest concern now is "how the interim and the new government will finance the huge current account deficit and meet external debt obligations". Widening trade gap is driving the increase in current account deficit. Import growth mainly stemmed from rising oil imports. An upturn in exports failed to help in narrowing the current account gap.

Exports rose 15.3 percent to $21.345 billion in the July-May period, the Pakistan Bureau of Statistics data showed. Imports increased 14.2 percent to $55.232 billion during the first 11 months. Oil imports surged 30.4 percent to $12.928 billion.

With the current account deficit growing, there is more pressure on the country's foreign exchange reserves. The SBP's foreign exchange reserves stood at $10 billion during the week ended on June 8, which can cover less than two months of import bills.

A banker, requesting anonymity, said the recent devaluation was done to reduce the imbalance created not only against the dollar but the basket of currencies and give due relief to "the grieved exporters whose exports were badly affected due to expensive in nature and parity imbalance".

Rupee lost around 14 percent against the US dollar since December last year.

The SBP's data further showed that net foreign direct investment (FDI) fell 1.3 percent to $2.475 billion in the first 11 months of current fiscal year. The country attracted $237.9 million in FDI in May, down 26.27 percent from a year ago.

Around 60 percent of the total FDI inflows were from China. The country attracted $1.509 billion in FDI from the Chinese firms in July-May. These investments mainly received in power and construction sectors.

Shah said growing external imbalances, with the political uncertainty surrounding the succession of power before the general elections, may have discouraged foreign firms from plowing more cash into the country.

“There are economic concerns for the foreign investors as the country faces balance of payments difficulties,” he said. “The heart of the negative sentiment among foreign investors is the balance of payments.

Shah further said the uncertainty over whether the country will seek another International Monetary Fund’s bailout package to prop up its dwindling foreign currency reserves is affecting the investor confidence. “A China-US trade war could also have forced investors to lower capital flows to emerging markets.”

There was an outflow of $161.9 million from Pakistan Stock Exchange in the July-May percent compared with $391.7 million outflows in the same period a year earlier.

Remittances from overseas Pakistanis, however, increased 2.8 percent to $18.028 billion in the first 11 months. Net inflows in the power sector rose to $760.5 million in July-May from $633.1 million a year earlier. Construction-related businesses fetched $632 million worth of foreign investments in 11 months as against $416.4 million recorded in the corresponding period of FY2017, the SBP’s data showed.