Foreign Exchange Market February 2018 Review

Icon Management Private Limited

Deficit and currency

The SBP, in its monetary policy statement issued last month, said there has been visible improvement in export growth and remittances are marginally higher however the central bank's foreign exchange reserves stood at $ 12,345.6 billion during the week ended February 23, compared with $13 billion in the first week. Pakistan's current account deficit has widened by 48 percent to $9.156 billion during July – January 2017/2018 as compared with the deficit of $6.43 billion in the corresponding period of the last fiscal year, according to Balance of Payment data issued by State Bank of Pakistan. Persistent rise in the current account deficit was due to a higher trade gap led by a significant increase in imports as compared to exports. Pakistan's trade deficit rose 24.18 percent to $21.546 billion in July-January FY18.

The central bank, earlier, said recent rupee depreciation, a government-backed export incentive package, adjustments in regulatory duties, favorable external environment, and expected increase in workers' remittances, would contribute to a gradual reduction in the country's current account deficit. While increase in international oil prices pose a major risk to this assessment, managing overall balance of payments in near term depends on the realization of official financial flows. Threats of putting Pakistan's name on FATF are also lingering around. Pakistan has not been added to the grey-list of global money-laundering watchdog Financial Action Task Force (FATF) after conclusion of the task force's plenary session. The list called 'jurisdictions with strategic deficiencies', available on FATF's website, includes the names of Ethiopia, Iraq, Serbia, Sri Lanka, Syria, Trinidad and Tobago, Tunisia, Vanuatu, and Yemen. It excludes Pakistan's name. But Miftah Ismail has shown concern that Pakistan might be placed on the Black list after June this year.

Based on the developments in the first half of the fiscal year it was safe to predict that exports would likely end in the range of $23.5-24.5 billion in FY18. Imports on the other hand, would likely be in the range of $57 to $58 billion, with trade balance further deteriorating to $33.5 billion this fiscal year. Pakistan is likely to receive external financing from various traditional sources like Chinese proceeds of CPEC, and FDI amounting to $14 to $14.5 billion. This leaves a financing gap of $12 to $12.5 billion in FY18 for which Pakistan might have to look up to foreign donor agencies.