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FOREIGN EXCHANGE MARKET REVIEW

Appreciating PKR with downslope policy rate

The month of April witnessed appreciation of Pakistani Rupee against dollar as it started with 166.80/167 and closed around 160/160.25, the highest rate traded at 168 and lowest at 160. PKR depreciated in the starting phase of the month due to an outflow of USD by international investors as the Special Convertible Rupee Accounts (SCRA) showed an outflow of $700 Million for the month of April but soon PKR gained strength because of an accord with IMF, an emergency loan of $1.386 billion and $588 million by Asian Development Bank to cope with the coronavirus pandemic, pushing the country's foreign currency reserves. During the month several challenges were faced by the country, resumption of economic activity due to Covid-19 appears to be a major fallout, which made The International Monetary Fund (IMF) revise the FBR collection target to Rs3.908tr from Rs5.270tr, a reduction of Rs1.362tr. Coronavirus affected global economic activity, resulted oil price collapsed to -$37 per barrel for the first time in history. Unfortunately, Pakistan missed golden opportunity and failed to get benefit since its storage capacity was full across the country. Moreover, Government's decision to lockdown the country appears to show the declining trend of exports and import as it declined by 15.23% and 20.76% respectively in the month of March compared to the previous month. Positively, Foreign Direct Investment (FDI) continued its rising trend despite the emergence of coronavirus as it jumped by 137 per cent during the first nine months of current fiscal year. The State Bank of Pakistan's (SBP) data showed the country received $2.148 billion in FDI during July-March period compared to $905 million in the corresponding period last year.

Pakistan's total liquid foreign reserves held by the country stood at USD 18,463.00 Million on Apr 24, 2020. The increase in foreign reserves helped to gain PKR against USD since there is downward trend in the short-term and long -term premiums because of halted business activity and almost zero level of trade in the country. In order to cushion the impact of the Coronavirus shock on growth and employment, SBP cut the policy rate by 200 bps to 9%. Market spectators still expect further cut in the policy rate because of the COVID-19 effect.