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Pak Rupee is in line with economic fundamentals

During the past couple of days the Pak Rupee has been once again facing speculative pressures due to some recent newspaper articles criticizing external borrowing of government and the quality of reserves of the country. These articles are highlighting just one aspect of the debt dynamics without contextualizing it in Pakistan's current performance and the overall macroeconomic stability. Further, reference to reports by international rating agencies, such as Moody's, is also being made conveniently ignoring the strengths of the economy highlighted in the same report.

It would be pertinent to mention that the current level of exchange rate is broadly in line with the economic fundamentals of the country. It is consistent with the improved external position of the country, achieved through contained external current account deficit at low levels, continued surplus in overall balance of payments of the country and built up of foreign exchange reserves to historic high levels. SBP expects the external position to continue to strengthen and stands ready to take any measure to ensure stability in the foreign exchange markets.

While referring to Moody's reports, columnists have overlooked their recent assessment which noted that "the support from multilateral and bilateral lenders bolster an improving foreign reserve position and ongoing reform progress". Moody's have also mentioned that while Pakistan's government financing is mainly from domestic sources and system-wide external debt is declining as a percent to GDP, the level of public debt poses a moderate degree of credit risk. It may be noted here that Pakistan's external debt obligation has actually decreased from 33 percent of GDP in FY10 to 23 percent at the end of FY15. Similarly, despite stagnant exports, the external debt to exports ratio has declined from 300 percent in FY10 to 255 percent in FY15. Further, Moody's have appreciated the progress on structural reforms undertaken by Pakistan.

Borrowing externally is necessitated by trends in balance of payments in general and trade deficit in particular. With shrinking of the current account deficit and with surplus in capital account, Pakistan's overall balance of payment position has contributed to the build-up of external buffers. State Bank of Pakistan's foreign exchange reserves is now over USD 15 billion at present, sufficient to cover four months of imports, which is a marked improvement from 2013 when these were only USD 3.9 billion. Apart from privatization proceeds, spot purchases from the interbank market amid falling oil prices and rising workers' remittances, Coalition Support Fund, and multilateral and bilateral inflows, increase in foreign exchange reserves have also come from external borrowing, including that from international capital markets.

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