

Rising rupee

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Two weeks ago, the Pakistani rupee looked set to depreciate further as a narrative of doom and gloom went around the country's economy. However, since the July 25 general elections, the Pakistani rupee suddenly feels like it has sparked into life. Having lost almost 30 percent of its value since December 2017, the rupee gained around eight percent of its value back after China announced it was going to allow Pakistan to borrow \$2 billion to avert a fiscal crisis. The amount itself barely extends Pakistan's current account deficit by around 15 more days – which should do little to arrest the slide of the rupee in real terms. Previously, Pakistan held around 47 days worth of foreign exchange reserves, which were hovering around \$9 billion. The grim reality that the country faces a foreign exchange crisis in the short term has not changed, which opens up the question: why has the rupee gained value since the election? Moments such as this open up a sort of silly season for all kinds of pseudo-economic analysis, including placing this 'success' solely on our PM-in-waiting.

This is to grossly underestimate the scale of the challenges that the incoming government is set to encounter. Currency values remain highly speculative, especially at times of economic crises. We could look across the border to Iran for a sample of what can happen when a closed economy that has only briefly opened up to the international currency market faces sanctions from a single global superpower. The Iran case should worry Pakistan as it appears that the US is happy to use currency manipulation as a way of playing politics and weakening governments. The grounds for the US trade war with China were set in the Obama period around the issue of what the American administration thought was the 'artificially' low value of China's currency. Now, Pakistan could face the blowback of the ongoing economic tussle between China and the US.

US Secretary of State Mike Pompeo has already stated that the US will oppose any IMF bailout for Pakistan. With Pakistan expected to go to the IMF with a GBP12 billion bailout proposal, the statement could cause the rupee's value to plunge once again. It will be hard for Pakistan to get IMF funding when the US government considers it akin to 'bailing out Chinese bondholders or China itself.' The logic itself is flawed, but it leads one to wonder what alternative economic strategy is being firmed up to get Pakistan out of the crisis. For now, the PTI – in all probability the party leading the new government – has not revealed its economic plan, which should raise doubts about whether the temporary recovery of the Pakistani rupee is a trend or a small aberration created by currency speculators.