Rising debt payments: SBP''s reserves fall by $1.7 billion in first half

RIZWAN BHATTI KARACHI (January 07, 2013) : Forex reserves held by the State Bank of Pakistan (SBP) have witnessed a massive decline of $1.7 billion during the first half of the current fiscal year, mainly due to rising debt payments. Sources in the banking sector told *Business Recorder*
that the country's current account deficit was much lower during the first half of the current fiscal year than figures for the same period last fiscal year. They said that a continuous decline in reserve might force Pakistan to apply for a new programme of the International Monetary Fund (IMF) to maintain its rapidly depleting forex reserves. As per repayment schedule agreed between Pakistan and IMF, the country has to pay a total of 1.726 billion Special Drawing Rights (SDRs) on account of the Stand-by Arrangement (SBA) during the fiscal year 2012-2013 (FY13). In dollar terms, this amount is equal to $2.58 billion. Since July 1 last year, Pakistan has paid seven installments worth $1.14 billion to the IMF as part payment of SBA and other debt payments from forec reserves maintained by the State bank of Pakistan (SBP). As a result, a fall of 17 percent was witnessed in the SBP's reserves during the first half of the current fiscal year. Foreign exchange reserves held by the SBP have down to $9.009 billion by December 28 last year compared with $10.802 billion on June 29, 2011, depicting a decline of $1.792 billion in July-December of the current fiscal year. However, reserves held by banks witnessed some improvement as they surged by $364.4 million to $4.799 billion in December last year against $4.434 billion in June last year. Cumulatively, a decline of $1.428 billion was registered in total liquid foreign reserves. The country's total liquid foreign reserves declined to $13.808 billion in December last year from $15.236 billion in June of the same year. Home remittances, sent by overseas Pakistanis, constitute major foreign inflows helping maintain the reserves at a suitable level, while remaining foreign inflows from international donors remained almost standstill. However, during the current fiscal year, Pakistan also received much awaited payments of Coalition Support Fund (CSF) from the United State. Pakistan received $1.118 billion on August 2 last year, after it restored Nato supplies after a formal apology from the United State on the Salala check post incident. This payment was received after a gap of 18 months: the country had last received $633 million in December 2010. Another payment of $688 million was received on December 28 last year. These two payments also helped maintain forex reserves at a higher level. Pakistan rejoined IMF in November 2009 when it applied for SBA to build up its foreign reserves. Later, IMF stopped SBA payments and Pakistan exited the program in September 2011. In addition, the State Bank is taking several measurers to reduce foreign currency payments. So far, it has signed two currency swap agreements with Turkey and China. The first agreement was signed with Turkey in October last year worth a billion-dollar equivalent in respective currencies. In China's case, the currency swap agreement was executed for a tenure of three years in respective currencies, worth Rs140 billion and 10 billion Chinese yuan.