

# SENATE OF PAKISTAN

REPORT NO.8 OF 2019



*House of the Federation*

**REPORT OF THE STANDING COMMITTEE ON FINANCE,  
REVENUE AND ECONOMIC AFFAIRS**

**ON**

**POINT OF PUBLIC IMPORTANCE RAISED BY  
SENATOR MUHAMMAD TALHA MAHMOOD REGARDING  
DEPRECIATION OF PAKISTANI RUPEE AGAINST THE DOLLAR**

**PRESENTED BY**

**SENATOR FAROOQ HAMID NAEK**

## SENATE SECRETARIAT

### **REPORT OF THE STANDING COMMITTEE ON FINANCE, REVENUE, AND ECONOMIC AFFAIRS ON THE SUBJECT MATTER OF POINT OF PUBLIC IMPORTANCE RAISED BY SENATOR MUHAMMAD TALHA MAHMOOD REGARDING DEPRECIATION OF PAKISTANI RUPEE AGAINST THE DOLLAR**

I, Senator Farooq Hamid Naek, Chairman, Standing Committee on Finance, Revenue and Economic Affairs, have the honour to present, on behalf of the Committee, this report on the subject matter of Point of Public Importance raised by Senator Muhammad Talha Mahmood in the House on 21<sup>st</sup> July, 2018, regarding depreciation of Pakistani rupee against dollar, and referred to the Committee for consideration and report.

2. The composition of the Standing Committee is given as under: -

(1)	Senator Farooq Hamid Naek	Chairman
(2)	Senator Ayesha Raza Farooq	Member
(3)	Senator Mushahid Ullah Khan	Member
(4)	Senator Musadik Masood Malik	Member
(5)	Senator Dilawar Khan	Member
(6)	Senator Muhammad Akram	Member
(7)	Senator Muhammad Talha Mahmood	Member
(8)	Senator Imam-ud-Din Shouqeen	Member
(9)	Senator Mohsin Aziz	Member
(10)	Senator Aurangzeb Khan	Member
(11)	Senator Mian Muhammad Ateeq Shaikh	Member
(12)	Senator Anwar ul Haq Kakar	Member
(13)	Senator Sherry Rehman	Member
(14)	Minister for Finance, Revenue and Economic Affairs	Ex-Officio Member

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3. The Committee considered the said matter in its meeting held on 13<sup>th</sup> December, 2018, at Parliament House, Islamabad. The meeting was attended by the following:-

(1)	Senator Farooq Hamid Naek	Chairman
(2)	Senator Ayesha Raza Farooq	Member
(3)	Senator Dilawar Khan	Member
(4)	Senator Muhammad Akram	Member
(5)	Senator Muhammad Talha Mahmood	Member
(6)	Senator Imam-ud-Din Shouqeen	Member
(7)	Senator Mian Muhammad Ateeq Shaikh	Member
(8)	Senator Sherry Rehman	Member

4. The Governor SBP gave a detailed briefing on the issue and impact of devaluation of Pak rupee on the economy of the country. He said that the current account deficit was at 19 billion dollars during the last financial year, therefore, SBP had to intervene in the market to protect the parity of Pak rupee and set the price of dollar as per economic rules of demand and supply. Keeping in view the pressure on market forces, since December, 2017, six adjustments of Pak rupees were made in line with the market forces. Since the foreign reserves of SBP were reduced around 7 to 7.5 billion from 18 billion, therefore, in addition to adjustments some interventions were also made by the SBP with a balance approach to maintain the equilibrium in the market.

5. Senator Mian Muhammad Ateeq Shaikh inquired whether there were only two factors i.e. export and import which led the economy or otherwise and what administrative measures were taken by the SBP with regard to the out flow of dollars. The Governor SBP responded that the major issue was trade imbalance in respect of depreciation and appreciation. The current account deficit basically the reflection of trade gap whereas currently our exports were of 24 billion rupees while the imports were of 60 billion rupees and the gap of 36 billion rupees could only be recovered by foreign remittances. He said that by initiating some policies jointly by the Central Bank and the Government of Pakistan, the imports were decreased by 0.7% as compared to the previous year. The current account deficit at the current level was not sustainable unless there was an intervention by the SBP and resultantly the devaluation was made.

6. The Chairman Committee quoted the grievances raised by the Governor SBP that the imports were more than the exports and as a consequence there was an outflow of foreign currency due to which current account deficit was increased and depreciation was taken place. He further inquired that what measures were taken to curb the import except oil imports especially the Chinese influence which were hurting the industries in Pakistan. At that juncture, Senator Sherry Rehman added that the gap between dollar rate and the Pakistan rupee was increasing and resultantly Pakistan was hurting on its imports while on the other hand profits expected from exports were not coming in which causing an increase of deficit. The Minister of State for Revenue said that regulatory duties were imposed on the import of non-essential luxurious items moreover by imposition of regulatory duty trade deficit vis-a-vis dollar had been reduced. Since most of our imports were stimulated due to under declaration, therefore, recently MoU was signed with the Chinese government regarding electronic exchange of trade prices data with them and process of exchanging information was being started now.

7. Senator Muhammad Talha Mahmood expressed his reservation on rising prices and said that the revival of economy was not seemed to be possible. In addition to export, all industry raw materials were import based, however, depreciation would cause a huge gap which would be critical. He inquired about the impact of depreciation on LCs on deferred payment, industries which were already closed and about the interest of general public towards dollar. The Governor SBP said that a long term finance facility on 5 to 6 percent interest rates was provided to five oriented sectors including textile, leather goods, surgical goods, sports goods and carpets which reflected 60 % of our economy. There was no change in the interest rates from the whole textile sector, while the finance facility to the exporters was also the same as 6%.

8. The Chairman Committee inquired about the impact of depreciation on our economy as well as on effected industries due to increase in imports. At that juncture, Senator Muhammad Talha Mahmood also inquired that whether the target fixed for imports was increased or otherwise and whether the import stage of dollar could be reduced. The Governor SBP responded that during the last financial year, in the first

quarter the imports were reduced by 1%. The Minister of State for Revenue said that import economy was 15 to 20 percent of our GDP and disproportionately exports were not increased during the last five years even 200 million dollars exports were reduced. Resultantly current account deficit was increased, however, in the present scenario the competitiveness of exporters would be restored as the currency became in its actual equilibrium in real terms while sharp reduction in imports would also be noticed and remittances be increased.

9. The Chairman Committee was of the view that foreign direct investment were remained limited and external debt was increased due to devaluation while the exports were not seemed to be increased as compared to the imports resultantly the Pakistan's economy was in great pressure. The State Minister for Revenue said that there was no impact on the external debt due the recent devaluation which was categorically denied by the Committee. At that juncture, the Governor SBP clarified that with regard to the ability of repayment of external debt, after devaluation of Pak rupee the revenue in terms of dollars would also be increased, therefore, additional burden of external debt could be covered by that revenue.

10. After due deliberation, the Committee expressed its resentment and dissension on the briefing given by the Minister of State for Revenue and Governor SBP and observed that the government was found helpless in the matter. In order to increase our export of the country and to control depreciation of Pak rupee, the following recommendations are made and also gave approval for presentation of this report to the House:-

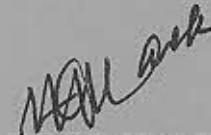
- (i) **The Government should ensure to add the Electric Accumulators & Parts in the list of items under Pak-China Free trade agreement to support local Pakistani manufacturers.**
- (ii) **The Government should ensure to implement the rebate/cash incentive on exports announced by the Ministry of Commerce & Textile, Government of Pakistan vide SRO No. 711(1)/2018,**

dated 8<sup>th</sup> June, 2018, in letter and spirit and the said rebate/cash incentive should be increased to support local manufacturers for competition in international markets.

- (iii) The Government should imposed ban on recycled metals not produced locally and consumed in local manufacturing, for exports or maximum regulatory duty should be imposed for export of those metals and ensure availability of those metals for local Pakistani manufacturers since the export of those metals without any value addition causing huge loss to the national exchequer and local manufacturers.



(MUHAMMAD TAHIR KHAN)  
Secretary (Committee)



(SENATOR FAROOQ HAMID NAEK)  
Chairman (Committee)

Islamabad, the  
22<sup>nd</sup> January, 2019