

## current affair : Devaluation of rupee.

The Pakistani currency rupee lost over 125% of its value against the US dollar, sliding from Rs 125 per dollar in June 2018 to Rs 285 per dollar in June 2023.

year

2000	37 PKR	1 US Dollar
2008	62 PKR	1 US Dollar
2013	84 PKR	1 US Dollar
2018	125 PKR	1 US Dollar
2022	178 PKR	1 US Dollar
2023	304 PKR	1 US Dollar
2024		1 US Dollar

SBP June 2023

There are some major factors that contributed in the plunges of currency.

- Trade deficit
- diminished foreign exchange reserves.
- Reduced foreign investment.
- Heavy burden of foreign debt servicing
- Shift in policy.

## (1) Trade deficit.

There are several factors that contributed to the devaluation of rupee, one of them is trade deficit. The import bill of country is considerably higher than that of export bill. As a result of this unbalanced condition, flight of dollar from country occurs. Economic indicators shown that in FY 2021-22 (Jul-June) total exports FOB was 32.5 b \$ while total import was \$ 71.5 b So Trade deficit was 39.0 b \$. In FY 2022-23 (Jul-June) Trade deficit was 27.1 b \$.  $\text{E } 27.7 \text{ in } \text{S}2$ . Aftermaths of this trade deficit, are devaluation of rupee.

## (2) Diminished foreign exchange reserves:-

In year 2021-22 total foreign exchange reserves are more than 23 billions \$ but in FY 2022-23 these declined to 5.8 billion \$

These plunges in dollar reserves are unprecedented in last 2 year. These reserves are lowest in history of Pakistan since its creation; So diminish foreign reserves results in increase in devaluation of currency.

### (3) Reduced foreign investment:-

In FY 2021-22

total foreign investment was 1857.8 million \$ which in FY 2022-23

declined to 427.1 Million \$. The reduced in foreign investment just

2 year with the 77%. As a result financial account deficit

occurs, and value of rupee agains declined. (FD)

### (b) Heavy burden of foreign debt servicing:-

Year	Debt
2008	6 trillion
2013	12 trillion
2018	29 trillion
2023	39 trillion
2023	54 trillion.

Every government after taking charge of the office, first and foremost step is to acquire loan, to run the affairs of state, to breathe financially. So that in 20 year the debt increase to its max. Pakistan now paying off the debt along with interest. Country have to pay off in dollar as a result flight of dollar is more high. In last FY ~~2011-12~~<sup>5</sup> we acquired 36 b \$ with while paid off 42 b \$. Therefore, this is also a major reason of the devaluation. (finance division 2021)

(5) Change in policy:

There are two types of exchange rate one is fixed who restrained by trade limits or Government, while other is free floating exchange rate system where's country's currency price

is determined by the foreign exchange market, depending on the relative supply and demand of other currencies.

☉ In year 2022 September Government of Pakistan indirectly fixed the exchange rate at 225 PKR per US dollar, until March 2023.

In March 2023 IMF asked GOP to free its exchange rate. As a result of this policy change in just 3 days 1 dollar became equal to 275 PKR. So rupee devalued in just 3 days.

⇒ implication of devaluation of rupee

(i) inflation

The currency devaluation has direct and indirect effect on the rise in inflation. The prices of every imported product increase with the decline in rupee value. Ex. palm oil, fuel etc. All are imported

item increase in FY 2021-22

② Substantial increase in locally produced product

with the devaluation of rupee not only prices of imported items increase but also prices of locally produced product goes high. Because mostly raw material used in the production of these locally production is also imported. Mostly Pakistan imports spare part from Japan & Korea for the manufacturing of cars etc. Hence plunges of rupees results in inflation in Pakistan.

② Local transport :

The condition of local transport is not good but still a Bar source of transportation for poor. These transport are also

in danger because of rupee value's diminish. <sup>The</sup> Prices fuel oil gas LPG etc increase which results in increase in rent. Hence over-burdened people are again

④ Volume of foreign loan increase.

Loan are acquired in US dollar and will return in US dollar. While, with the increase in devaluation of rupee also increased the volume of foreign loan. According to finance division of Pakistan, just in last 1.5 year, 4.7 trillion loan increase because of devaluation.

⑤ Impact on Agriculture:

The currency devaluation also has profound direct or indirect effects on Pakistan's agriculture sector. First, currency devaluation has increased crop

production cost due to price hike in agriculture inputs such as fertilizers, pesticides, diesel, electricity and agriculture machinery that are imported or use imported raw materials and are directly linked to the dollar value.

Secondly, The Russia-Ukraine war disrupted global chain supply of food result in food prices increase.

### Solutions

⇒ Bring dollars in Country

The devaluation can be reverse by the influx of dollars in country when dollar come in country, its currency devaluation stop and eventually reverse. Hence dollars are very important for strengthening of rupee.



## Remittances

is a money that sented by pakistani diaspora back to their home, through legal channel, and banks. In FY 2021-22 their were \$ 35b remittances, higher in history of pakistan. ~~It~~ Because PTI government in that year ~~gives~~ ~~look~~ some measures like They regulated money exchanger and improved banking sector. Roshen digit account was also a good step to improve remittances. Like such, other measures must be taken to improved remittances.

## Reduced trade deficit :-

Reduction in trade deficit is one of the important solution for <sup>the</sup> diminishing of devaluation. This can only be done by increasing the exports of country and simultaneously

cutting down in import of country  
as a result of this trade  
deficit would be ~~de~~ decline  
and flight of dollar would be  
control. These step will ensure  
The strengthening of rupee against  
dollar.

imposed high taxes on unnecessary  
imported commodities

Another step that can be  
taken by the government to  
strengthen the rupee is against  
dollar is imposition of high tax  
duty or protective measures to  
reduced the unnecessary imported  
commodities.

Export increase

Exports are backbone of  
a developed countries. As india's  
total exports for 2022 was \$759.93B  
while China Export for 2022  
is.

Contrarily, Pakistan Export was for year 2022, 32.5 \$b. This figure is need to be improved, by giving more subsidies, more trade facilities etc to increase Exports. The rise in Exports, will also results in influx of dollar in country and current account deficit also goes into current account surplus. Also trade deficit will inverted into trade surplus.

### tax reforms:-

In Pakistan, it is generally believed that tax reform means to imposed ~~to~~ other tax on sales ~~tax~~ and industries who are already paying taxes and holding the entire tax burden. In fact tax reforms means to impose tax on those who are not under the list of tax payers. In doing so,

government will be able to enhance tax circle. So tax reforms brings more revenues and money in account.

Trade in other currency (not dollar).

Recently Pakistan buy Crude oil from Russia. The payment was made in Chinese currency Yuan, not in dollar. So such measure will lessen the pressure on rupee. Hence

Stop devaluation.

### Conclusion

Such devalue in currency is unprecedented in his history. Above measure must be taken to strengthen the rupee. Because country's import are totally rely on dollar rates. Increase in dollar value increased inflation as well.

~~But~~ As per Bank of America report in year 2024-25 Pakistan rupee will test upto 340 against US dollar. instead of watching

and waiting that it happens or not we took solid measure to stop this happening. It is opportune time, to take step otherwise in upcoming years it would be out of control.