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Research Article **Open Access**

IMPACT OF CURRENCY DEVALUATION ON PAKISTAN ECONOMY

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Abstract

The objective of this research paper is to analyze the impact of currency devaluation on Pakistan's economy. For this purpose, the authors used 20-year data for the period of 1998-2018. The independent variables were currency devaluation, exports, imports, inflation rate, unemployment rate, investment and saving rate while economic growth was dependent variable. The statistical techniques such as descriptive statistics, ADF Test, Correlation Analysis and Multiple Regression were used to analyze data. The findings of study show that imports and investment have positive relationship with GDP growth while all other variables have negative association with it. It means that currency devaluation does not benefit to Pakistan's economy and increases its trade deficit. Thus, it is not a good policy option.

Keywords: Imports; exports; inflation; unemployment, currency devaluation.
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1. Introduction

1.1 Background of study:

The loss of value of currency of any country with respect to foreign currencies like US dollar and Euro is called currency depreciation. A country which is facing bad economic condition such as political instability, terrorism, law and order situation and decrease in foreign portfolio investment it will have to devalue its currency to boost its exports and correct its balance of payment problem.

Devaluation of currency has become very common in the present age. It is said by economists that weakening of the currency could actually stabilize the economy because it increases exports and enhance foreign exchange earnings, which raises the employment and boosts economic growth.

In Pakistan, industries are heavily depended on imported raw materials for producing different types of goods. Any increase in the prices of these inputs through devaluation, would increase production costs and decrease the intensity of capacity utilization. Therefore, it should be avoided as a tool of deficit financing. Devaluation of currency with its implications will cause a contraction (reduction) in economic activity and reduce tax receipts that enhance burden of foreign debt rapidly. It expedites smuggling of goods from neighboring countries. Devaluing currency means devaluing the price of Pakistan labour and talent in the international market as well as value of goods and services. Devaluation hurts Pakistan heavily both as seller and as a buyer. Devaluation in most of the time cause inflation spiral.

The macroeconomic indicators of Pakistan showed visible improvements since year 2001-2002 and it stabilizes Pak Rupee in the range of 59- 60 per dollar till 2006 but after that currency started depreciating from 2007 to till date. In April 2008 the value of Pak Rupee was 63.40 against a US dollar and its parity with US dollar was further depreciated to Rs.95/1 USD by 2013. It reached at Rs.107 till December 2013. In Dec 2017 Pakistani currency depreciated and reached at Rs.111. In 2018 Rs.139 and in 2019 it reached at Rs.155. Since then it has been fluctuating between Rs.154 and R.176 (Pakistan Economic Survey, (2020).

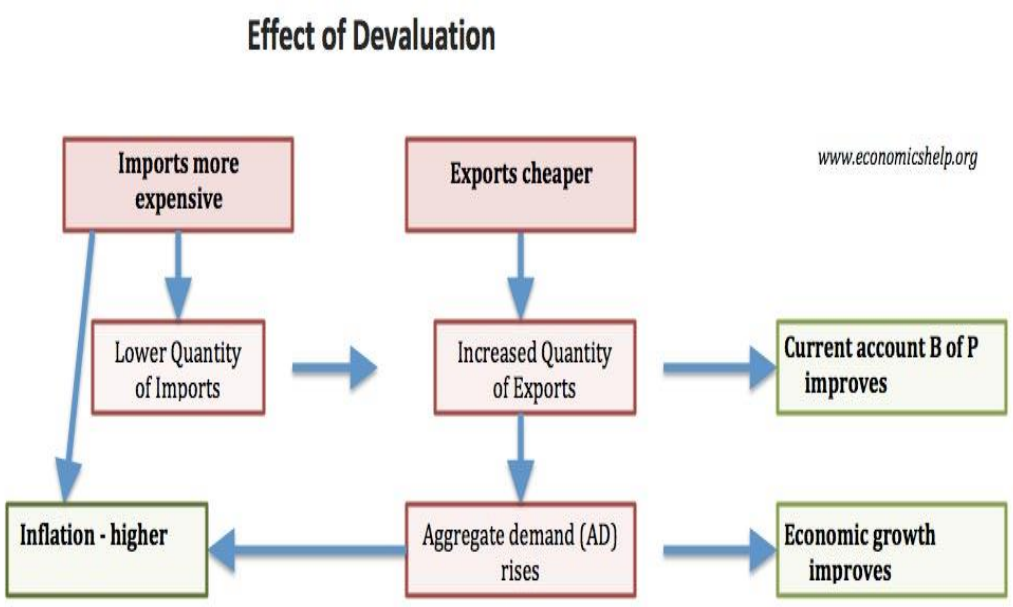
1.2 Main Research Problem

Our main research problem is to determine the "Impact of devaluation of currency on Pakistan Economy" during the study period of 1998-2018

It is generally assumed that weakening of currency could may boost the exports because the demand of foreigners for goods and services are increased and country earning through exports is increased. But devaluation created many implications. It generates price level in the domestic market and enhances cost of inputs and outputs particularly when raw material used in the production of goods are imported. It also widens earning gap between importing and exporting sectors and wage differential. It also increases inflation rate and wages.

1.3 Effects of Devaluation

When a country devalues its currency many macroeconomic variables are effected as per economic theory. For example, exports are increased, imports are declined, inflation is increased while low unemployment is decreased, investment and savings are increased. When savings and investment are



increase it has positive effect on GDP growth rate. The multiple effects of devaluation can be seen in in Figure 1.

Fig: 1: Effects of Devaluation

Mostly policy makers resort devaluation to solve the problem of trade balance and improve competitiveness in the international markets. But it creates multiple problems in domestic market, which are the focus of this study.

1.4 Objectives of study:

The objectives of this study are given below: -

- To study the causes and effects of devaluation of currency on Pakistan's economy.
- To examine the impact of currency devaluation on import and export with special reference to Pakistan.
- To analyze the impact of currency devaluation on inflation, investment, savings and unemployment.

1.5 Scope of study

This study is very clear and would also assist to policy makers and economists in decision making as regard to currency devaluation. The study will also give great benefit to researchers who are interested to conduct research on this topic. It will act like a guide for new researchers who may find the recommendations and findings of this study useful for their research work. Although this study is restricted to Pakistan but its results can be generalized in all developing country because they are also facing problem of instable exchange rate and they also have to devalue their currency frequently to correct their balance of payment.

2 Review of Lliterature

Literature review is a study of previous research that has been conducted in a particular field of study in past. The brief sketch of relevant studies is given in the following: -

Bakhshi and Ibrahimi (2016) investigated the relationship between exchange rate and unemployment by using time series data from 1981-2012. they found that there is insignificant relationship between unemployment and exchange rate. Aqil et al. (2014) analyzed determinants of unemployment in Pakistan by using inflation and GDP growth variables and concluded that inflation and GDP growth had no significant impact on unemployment in Pakistan. Ahmad (2013) examined the impact of devaluation on imports and exports, exchange rate and unemployment. He found that Pakistan got no benefit from devaluation as its balance of trade was not improved due to high imports and low exports. So the study suggested that devaluation is not a good policy instrument to correct trade balance. Shaheen (2013) analyze the effect

of exchange rate on inflation, import and export in Pakistan by using 10-year annual data from 2000-2010. He found that there was significant relationship between exchange rate and inflation while the relationship between exchange rate and exports was found to be insignificant. Javed and Farooq (2009) analyzed the impact of devaluation in the short run and long run and concluded that exports were increased and imports were decreased in the short run while no such relationship was found in the long run, Burno (2006) analyzed the relationship between inflation and economic growth. She argued If degree of inflation is high then it would be harmful for economy and if the level of inflation is low, it may boost economic growth. She emphasized that inflation does not only affect a specific segment but it affects the whole economy and society at large. Khan (1994) concluded that devaluation is not favourable for the country like Pakistan. He argued that Pakistan has been facing multi-dimensional socio-economic problems due to consecutive devaluations in different periods, so Pakistan should avoid it. Rose (1991) conducted research on five OECD member countries in order to study relationship between trade balance and devaluation. He also examined the effect of devaluation both on trade balance and balance of payment. He concluded that devaluation is a monetary phenomenon and it affects balance of payment positively but balance of trade negatively.

2.2 Distinction of this study:

The period of this study, variables and methodology are different from aforesaid studies and it created a research gap for the authors to conduct research and analyse the merits and demerits of currency devaluation. This study is distinct because it has examined the impact of currency devaluation on investment, saving, imports and exports as well as for gaining

competitiveness. This study will be beneficial not only for Pakistani policy makers but also for the policy of other countries, which are facing problem of instable currency, in competitiveness and trade deficit.

3. Data and Methodology

In this section we discussed the nature of study whether it is quantitative or qualitative. Then we studied about types of data, which means data is primary or secondary and their advantages and disadvantages. We also discussed about sources of data. We discussed sample of study that we take from 1988 to 2018. Then we selected variables which are GDP (as dependent variable) and import, export, currency, inflation, unemployment, investment and savings as independent variables. After selecting variables, we generated a model and specified according to our study.

3.1 Data and sources

The annual data used in this study was spread over a period of 20 years from 1988-2018 which was collected from World Development Indicators, IMF, State Bank of Pakistan, Asian Development Bank and Pakistan Economic Survey.

3.2 Sample of the study

The sample of this study is the economy of Pakistan with specific focus on seven variables like currency, exports, imports, inflation, unemployment, investment and savings and their impact on GDP growth rate in Pakistan.

3.3 Selected variables

The independent variables of our study are given in the following: -

1: Currency (Pak Rupee)

2: Export

3: Import

4: Inflation

5: Unemployment

6: Investment.

7. Savings

The dependent variable of our study is as under: -

GDP (Gross Domestic Product)

The variables are shown in Table 1:

Table 1: Detail of dependent and independent variables

Independent variables	**Dependent variable**
1. Currency Rate (exchange rate) 2. Import 3.Export 4.Inflation 5.Unemployment 6.Investmen 7. Savings	GDP growth

3.4 Specification of model

We have generated a Multiple Regression model which is shown in form of following equation: -

$$GDP = \alpha + \beta 1(CURRENCY) + \beta 2(IMP) + \beta 3(EXP) + \beta 4(INF) + \beta 5(INV) + \beta 6(UNE) + (SAV)$$

Where:

α = (Constant)

GDP = (Dependent variable)

C = Currency rate (Independent variable)

IMP = Import (independent variable)

EXP= Export (independent variable)

INF= (independent variable)

INV= Investment (independent variable)

UNE = Unemployment (independent variable)

SAV= Savings (independent variable)

3.5: Hypotheses of study

The hypotheses of this study are given in the following; -

H_0**:** There is no significant relationship between Exports and GDP growth in Pakistan

H_1**:** There is significant relationship between Exports and GDP growth in Pakistan.

H_0**:** There is no significant relationship between Imports and GDP growth in Pakistan.

H_1: There is signification relationship between Imports and GDP growth in Pakistan.

H_0: There is no significant relationship between Inflation rate and GDP growth in Pakistan.

H_1: There is significant relationship between Inflation rate and GDP growth in Pakistan.

H_0: There is no significant relationship between investment and GDP growth in Pakistan.

H_1: There is significant relationship between investment and GDP growth in Pakistan.

H_0**:** There is no significant relationship between savings and GDP growth in

Pakistan.

H_1: There is significant relationship between savings and GDP growth in Pakistan.

H_0**:** There is no significant relationship between unemployment and GDP growth in Pakistan.

H_1: There is significant relationship between unemployment and GDP growth in Pakistan.

H_0**:** There is no significant relationship between currency devaluation and GDP growth in Pakistan

H_1: There is significant relationship between currency devaluation and GDP growth in Pakistan.

3.6 Analytical Techniques

We used different statistical techniques which are listed below: -

1.. Descriptive Statistics.

2. ADF Unit Root Test.

3. Correlation Analysis

4. Multiple Regression Analysis

5. Results and Discussion

5.1 Descriptive Analysis:

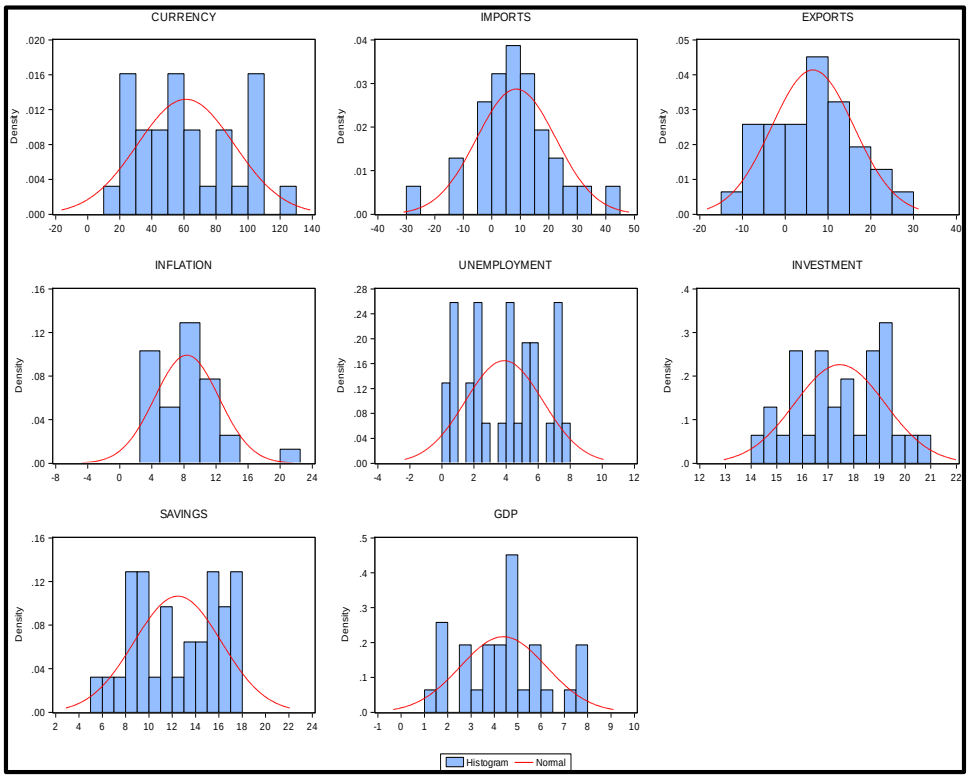
Simply by using descriptive analysis we can check that data is normally distributed or not. In this analysis we checked the mean, median, maximum values of the variables. And we also checked the probability, skewness, kurtosis, Jarque- Bera values. By all of these we concluded that there is not any outlier and data is normally distributed. The results of this analysis are shown in Table 2.

Table:2 Results of Descriptive Statistics

	CURRENCY	IMPORTS	EXPORTS	INFLATION	UNEMPLOYM...	INVESTMENT	SAVINGS	GDP
Mean	61.21355	8.577419	6.447871	8.365806	3.880968	17.45935	12.47323	4.381290
Median	59.51000	6.750000	6.990000	7.920000	4.080000	17.55000	12.23000	4.670000
Maximum	121.8200	44.68000	25.37000	20.29000	7.830000	20.82000	17.61000	7.710000
Minimum	18.00000	-25.88000	-14.42000	2.530000	0.400000	14.12000	5.780000	1.010000
Std. Dev.	30.24479	13.89356	9.642097	4.023773	2.420445	1.764107	3.744612	1.841486
Skewness	0.287887	0.156875	-0.116621	0.660462	0.037353	-0.079915	-0.117435	0.101214
Kurtosis	1.931225	3.865023	2.418166	3.650192	1.724990	2.004714	1.606060	2.388074
Jarque-Bera	1.903654	1.093659	0.507539	2.799804	2.107007	1.312513	2.581051	0.536598
Probability	0.386035	0.578782	0.775871	0.246621	0.348714	0.518790	0.275126	0.764679
Sum	1897.620	265.9000	199.8840	259.3400	120.3100	541.2400	386.6700	135.8200
Sum Sq. Dev.	27442.42	5790.929	2789.101	485.7224	175.7567	93.36219	420.6637	101.7321
Observations	31	31	31	31	31	31	31	31

The same results are shown in Figure 2 on next page

Fig: 2 Results of Descriptive statistics



5.1.1 Interpretation of Results

We used descriptive analysis to check the normality of data. Mean and median. The results of analysis are discussed one by one.

- **Skewness:**

we can measure the asymmetry of the distribution of the series by skewness. Data of currency, imports, inflation, unemployment and GDP are positively skewed and the right tail of these variables are greater than left. It is also cleared through graphs. Data of export, investment and savings are negatively skewed.

- **Kurtosis**

We can measure the Peakedness and flatness

Kurtosis values of currency, exports, investment, savings and GDOP are less than 3 and it means these variables are Platy Kurtic. Imports and inflation are Lepto Kurtic because their values are greater than 3.

- **Jarque-Bera:**

It measures the differences between skewness and kurtosis. The results show that there are no differences between variables of study

- **Probability:**

Probability of all variables is greater than 0.05. that's why we suggested to accept null hypotheses and reject alternate hypotheses. Overall it is concluded that there is no any outlier in the data and it is normally distributed.

5.2: ADF Unit Root Test:

A unit root test is used to checks the stationarity whether variables of the study are stationers or not and in the light of these results it is decided which model will be used to analyzed the data. The results of this analysis is used in Table 3.

Table 3: Result of ADF Unit Root Test

Group unit root test: Summary
Series: GDP, CURRENCY, IMPORTS, EXPORTS, INFLATION, UNEMPLOYMENT, INVESTMENT, SAVINGS
Date: 06/16/20 Time: 23:01
Sample: 1988 2018
Exogenous variables: Individual effects
Automatic selection of maximum lags
Automatic lag length selection based on SIC: 0 to 1
Newey-West automatic bandwidth selection and Bartlett kernel

Method	Statistic	Prob.**	Cross-sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	-14.3181	0.0000	8	231
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	-14.0405	0.0000	8	231
ADF - Fisher Chi-square	166.211	0.0000	8	231
PP - Fisher Chi-square	197.666	0.0000	8	232

** Probabilities for Fisher tests are computed using an asymptotic Chi -square distribution. All other tests assume asymptotic normality.

It is cleared from the results of Table 3 that by using unit root test the probabilities of all tests that used are zero which means that the data is normally distributed. Probability value is $0 < 0.05$, which means the result is significant and we can reject null hypothesis that states the data is not normally distributed and accept alternate hypothesis which states that data is normally distributed and there is no stationarity between variables.

5.3 Correlation analysis

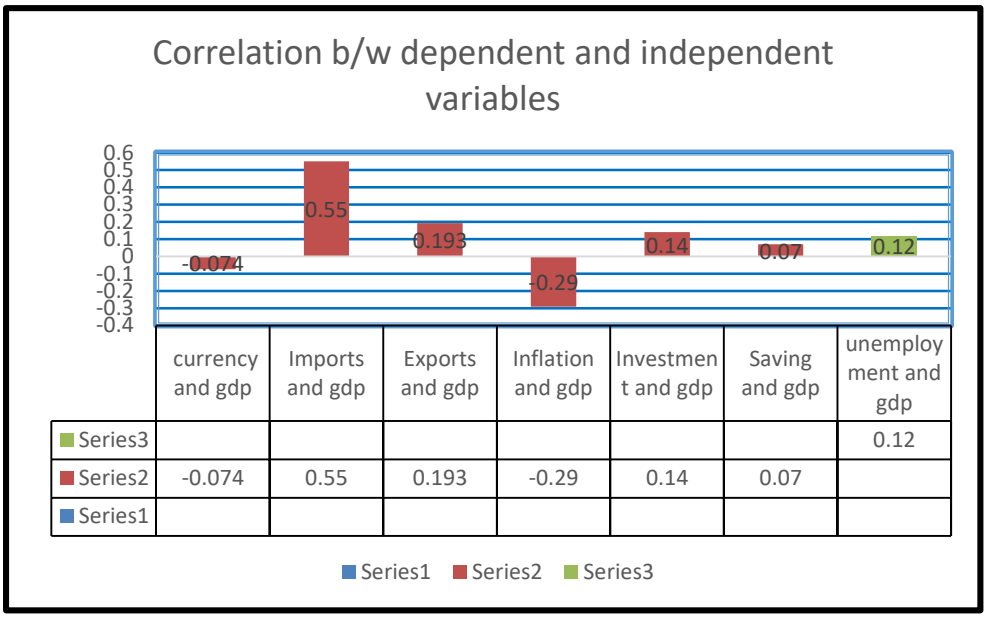
It is a technique which is commonly used to measure the strength of relationship between two variables. The value of correlation can be positive or negative, strong or weak. If the value of correlation is -1 it shows perfect negative correlation and if it is +1 it shows perfect positive correlation between variables. The results of correlation analysis are shown in Table 4.

Table 4: Results of Correlation Analysis

	Currency rate	Imports	Exports	Inflation rate	Unemployment Rate	Investment Rate	Saving Rate	GDP Growth. Rate
Currency	1							
Import	0.009749905	1						
Export	-0.246545176	0.675830186	1					
Inflation rate	-0.242137001	0.059409725	0.167309425	1				
Unemployment rate	-0.287571403	0.062469028	0.124285281	-0.435375212	1			
Investment	-0.738686881	0.040339705	0.185559887	0.372517808	0.071628277	1		
Savings	-0.692273464	0.057566582	0.249321593	-0.084766463	0.735082619	0.475869629	1	
GDP. Growth rate	-0.0730204	0.546739662	0.192317948	-0.28977126	0.119995368	0.136725709	0.063173481	1

The above numerical results are also reflected in the Figure 3.

Fig 3: Correlation between variables

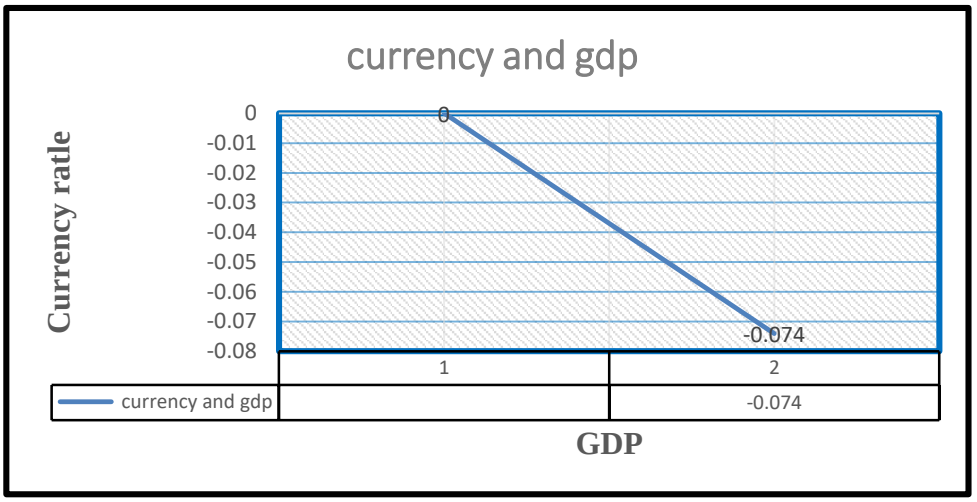


The above table and Figure show that there is positive correlation between all independent variables and dependent variables except of currency devaluation and inflation rate. The detail interpretation of results is given below: -

• Correlation between Currency and GDP

We conclude that there is negative correlation between dependent variable GDP and independent variable currency devaluation. When currency is devalued it has negative impact on GDP growth. This fact is highlighted in Figure 4

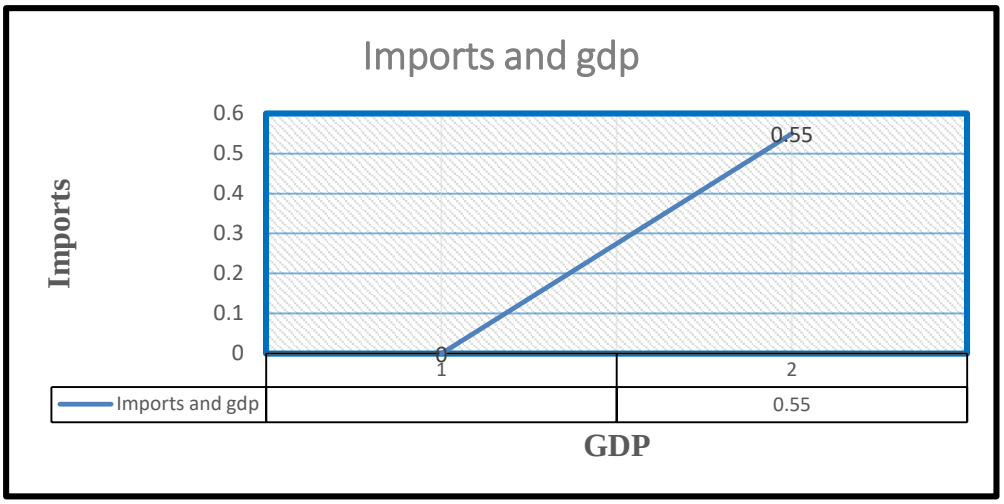
Fig 4: Correlation between currency devaluation and GDP growth



• Correlation between imports and GDP

There is moderate positive correlation between imports and GDP growth. The results show positive association between imports and GDP growth rate in case of Pakistan because Pakistan imports more than exports. Most of its industry is import-substitution and it has to import raw material and intermediate goods on large scale. This is the reason that Pakistan most of times face trade deficit and balanced of payment problem. Even knowing that devaluation has positive correlation with devaluation the policy makers resort it repeatedly to meet IMF' conditional ties. Figure 4 reflects this positive association between imports and GDP growth.

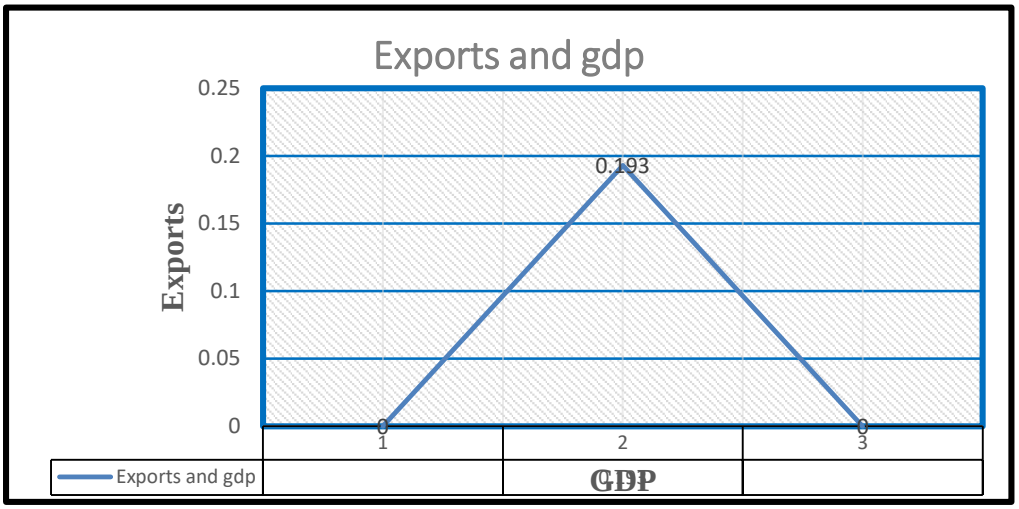
Fig 4: Relationship between imports and GDP growth



• Relationship between Exports and GDP

The results in table 3 show that export and GDP have positive but weak correlation. It means when currency depreciates and exports increases then GDP will increase but on very small scale. The reason behind is that goods and services becomes cheaper soon after devaluation and they purchase them their higher quantity and the country gets benefits it the short run. But after sometimes the domestic prices and wages start rising which increases the prices of exporting goods and consequently the demand for goods and services is declined in international market. Pakistan has facing this issue for a long time. So the currency devaluation is not beneficial for Pakistan in the long run as is shown in Figure 5.

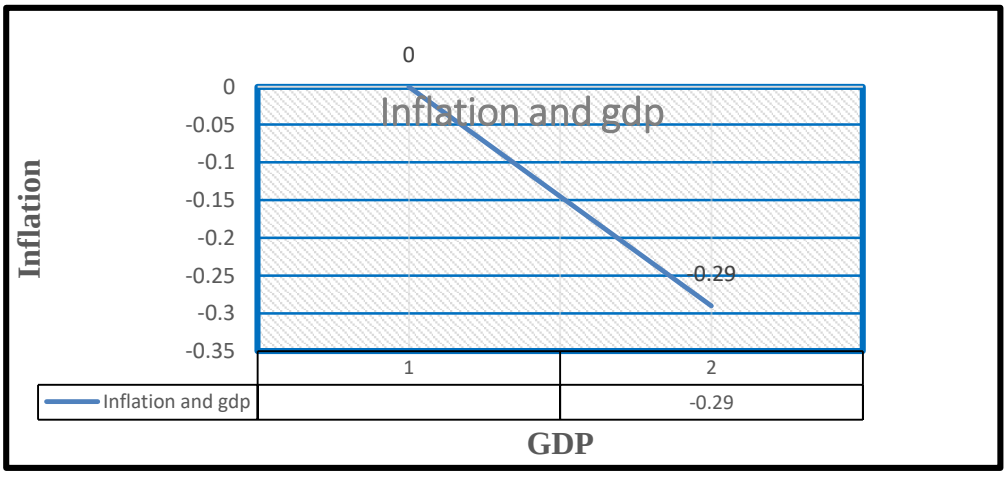
Fig5: Relationship between Exports and GDP



• Correlation between inflation and GDP:

The results of correlation analysis show that there is a negative correlation between inflation and GDP growth. When inflation rises it will have negative effect on GDP because per capita real income and purchasing power the consumers fall and they are forced to cut their consumption expenditures. This phenomenon has been highlighted in Figure 6.

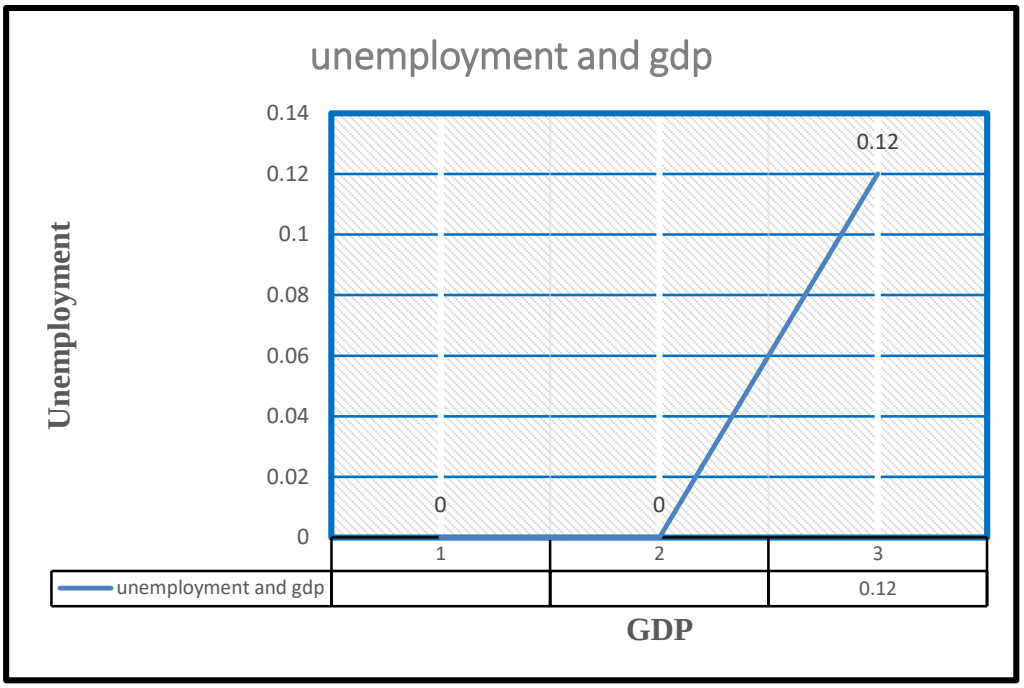
Fig 6: Relationship between inflation and GDP



• Relationship between Unemployment and GDP

The correlation analysis results in Table 3 shows that there is a positive but weak correlation between unemployment and GDP growth rate. If GDP grows the unemployment rate will be reduced and if GDP falls the unemployment rate will have increased. The correlation between two variables is only 12 % as is reflected in Figure 7.

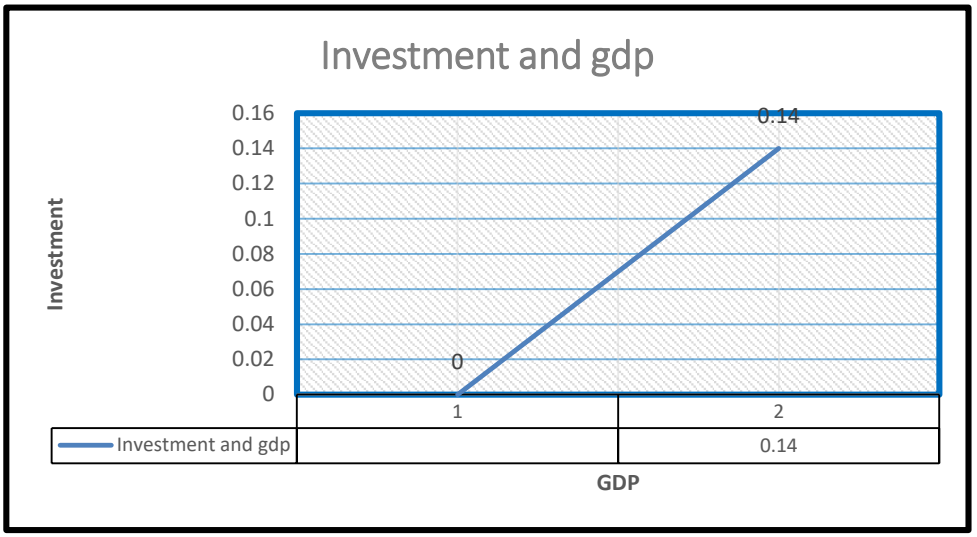
Fig 7: Relationship between GDP and unemployment



• Relationship between investment and GDP

Although relationship between investment and GDP is positive but it is also weak because correlation coefficient value is 014. Due to increase in investment there is no large increase in GDP growth rate as is seen in Figure 8.

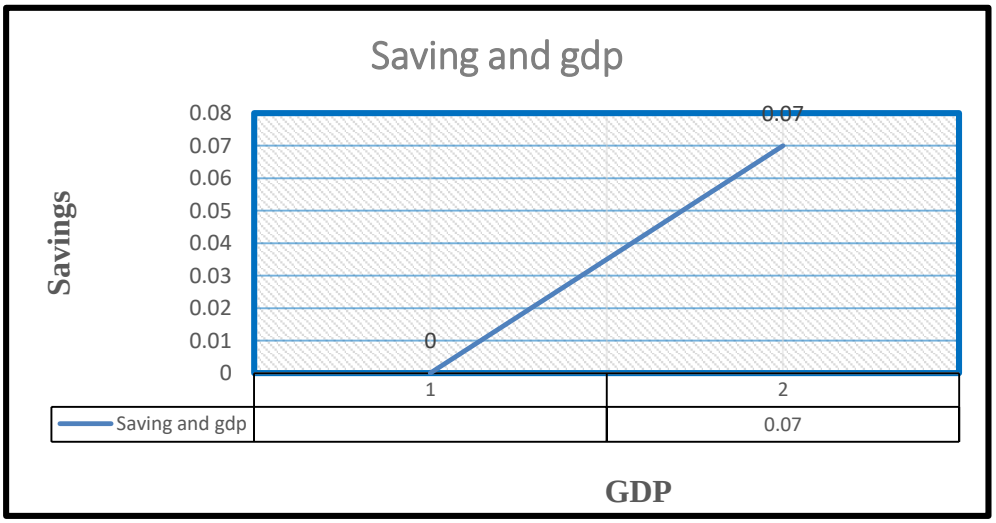
Fig 8: Relationship between investment and GDP.



- ***Relationship between savings and GDP growth***

There is weak correlation between savings and GDP because the correlation coefficient value is 0.07 as is shown in Figure 9.

Fig 9: Relationship between Saving and GDP growth.



We summarized correlation analysis the results: -

- There is a weak positive correlation between import and investment rate.
- There is a strong negative correlation between currency devaluation and investment. Its mean when currency decreases investment will also decrease.
- There is a weak negative correlation between currency devaluation and Inflation rate, between currency and unemployment as well.

5.4 Multiple Regression

This statistical technique is used when we want to predict the value of a variable based on two or more other variables. It also allows to determine the overall goodness of fit of the model. In this model we can check probability of the variables. This model also contains standard error, coefficients, T-statistic values (which accept or reject the hypothesis) R- squared, adjusted R square, F- statistic, probability of f statistics and DURBIN WATSON. The results of Regression analysis are shown in Table 5

Table: 5: Results of Multiple Regression

Dependent Variable: GDP
Method: Least Squares
Date: 05/30/20 Time: 10:00
Sample: 1988 2018
Included observations: 31

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.771600	4.883987	0.567487	0.5759
CURRENCY	-0.013338	0.016279	-0.819340	0.4210
IMPORTS	0.104900	0.026267	3.993588	0.0006
EXPORTS	-0.060037	0.039417	-1.523134	0.1414
INFLATION	-0.214187	0.082332	-2.601503	0.0160
UNEMPLOYMENT	-0.016019	0.200335	-0.079961	0.9370
INVESTMENT	0.290350	0.232090	1.251023	0.2235
SAVINGS	-0.104366	0.154889	-0.673816	0.5071

R-squared	0.545967	Mean dependent var	4.381290
Adjusted R-squared	0.407783	S.D. dependent var	1.841486
S.E. of regression	1.417127	Akaike info criterion	3.752777
Sum squared resid	46.18975	Schwarz criterion	4.122838
Log likelihood	-50.16804	Hannan-Quinn criter.	3.873408
F-statistic	3.951016	Durbin-Watson stat	2.322855
Prob(F-statistic)	0.005684		

5.4.1 Interpretation of results

P values (probability values) and coefficients work together in regression analysis. They tell which relationships in the model are statistically significant. Coefficients tells the change in dependent variable due to a unit change in independent variable or relationship between dependent and independent variable. P values describes whether the relationship is significant or not.

The first value of prob. column 0.5759 shows that there is insignificant and positive relationship between constant and GDP growth. Second value of prob. shows that there is insignificant and negative relationship between currency and GDP. Its mean we accept null hypothesis. Mean change in independent variable does not affect dependent variable significantly and so the null hypothesis is accepted. The third value of prob. shows that there is significant and positive relationship between imports and GDP in Pakistan's case. Or one-unit increases in imports will raise the GDP by 10 percent. So we reject null hypothesis and accept alternate hypothesis. Fourth value shows that there is insignificant and negative relationship between exports and GDP. If one unit changes in export it will likely to decrease the GDP by -0.006 percent and we accept null hypothesis. Fifth value shows that there is significant but negative relationship between inflation and GDP. It means if one unit changes in inflation it will likely to decrease the GDP by 21%. Thus, we reject null hypothesis and accept alternate hypothesis. Sixth value of coefficient shows that there is insignificant and negative relationship between unemployment and GDP. It means if one unit increases in unemployment rate it will likely to decrease GDP by 1%. So we can accept null hypothesis. Seventh value of coefficient shows that there is insignificant but positive relationship between investment and GDP. It means if one unit increases in investment it will likely

To raise GDP by 29%. So, we can accept null hypothesis. Eight value of coefficient shows that there is insignificant and negative relationship between savings and GDP because in Pakistan most of the savings are made for future consumption expenditures but not for productive purposes. So, we accept null hypothesis and reject hypothesis. The value of R2 is -squared measures the proportion of the changes in the dependent variable that comes from the independent variables. It also tells us how much this model is goodness of fit. It means that the value of R square in given model shows the model is good fitted and causes 54% variation in GDP due to variations in the independent variables. The values of R2 and adjusted R2 are 54.58 and 40,77 respectively and it shows that more than 50 percent variations in dependent variable is due to variations in independent variables. So the model is goodness of fit.

6: Findings of study

The findings of this study are discussed in the following: -

The descriptive analysis shows that the variables imports, inflation, unemployment and GDP are positively skewed and exports, investment and savings are negatively skewed. It is also observed that imports and inflation are LEPO KURTIC and all other variables are PLATY KURTIC. There is no any outlier in the data and the data is normally distributed. Normality of data also checked by unit root test and cleared that all the data is normally distributed and no outlier was existed in the data.

The correlation analysis shows that there is moderate positive correlation between imports and GDP. Exports, investment, saving and unemployment have weak positive correlated with GDP. But currency and inflation are negatively correlated with GDP growth rate.

We applied Multiple regression analysis which is clearly shown that devaluation of currency is negatively related to the Pakistan's GDP and it was noted that there is a very smaller gap between actual and predicted GDP. We observed that p values of currency, exports unemployment, investment and savings are greater than 0.05 which mean there is insignificant relationship between independent and dependent variables. We accept null hypothesis and reject alternate hypothesis. The value or R^2 is more than 54 percent, indicating that model is goodness of fit. These findings of this study also supported the results of Ahmad (2013). Javed and Farooq (2009), Khan (1994) who stated that devaluation has no major impact on GDP growth in Pakistan. The reason for weak relationship between currency devaluation and exports is that Pakistan's export sector is very small and it is producing primary goods and services which fetches low price in international market. So whenever Pakistan devalues its currency it gets boots in its exports temporarily because domestic prices and cost of producing goods are increased.

7. Conclusions and policy implications

From the above results it can be concluded that devaluation is not a good solution to the problem of in competitiveness and low volume of exports. The results show that exports are temporarily increased as a result of devaluation but reduces in the long run due to rising prices (inflation), wages and cost of production of goods and services in the domestic market that make local goods unattractive for foreign buyers. There is a large gap between volume of imports and exports and Pakistan has to borrow from international donors around 10 billion dollars every years to bridge this gap. As the structure of the economy is that Pakistan has import-substitution industries it has not only to import their raw material from different countries and but also pay high prices

due to depreciation of Pak Rupee. The devaluation also increases the amount of foreign debt and interest payable on it. So it has dual negative effect on Pakistan's economy, that is, paying high price of importing goods and rising foreign debt. Moreover, devaluation does not only reduce the purchasing power of the people but also reduces the real value of financial assets and investors are reluctant to purchase due to falling of their real value year after year. So it is advisable for Pakistan to follow other measures like improving quality of exporting goods or producing high tech products to improve its competitiveness in international market. In the light of above conclusions, the following policy implications are given: -

- The policy makers should not resort currency devaluation as the sole solution of correcting balance of payment issue because it enhances multi-dimensional socio-economic problems.
- The policy makers should control excessive imports which involve payment in foreign currency. All luxury goods must be restricted and heavy tariffs be imposed to discourage their import.
- Major devaluation of currency should be avoided because it jolts the whole economy and create uncertain condition in which investors lost confidence and do not make investment decisions and importers face problems to honoring their import contracts because they have to pay more in dollars and other currencies.
- If devaluation is necessary in order to obtain competitiveness in the international market it may be resorted bit by bit and domestic prices may be kept under control

● Inflation rate must be kept low because rising domestic prices after devaluation eat away its positive benefits after sometimes.

● **Pakistan's** main problem is fiscal deficit and high inflation rate. The policy makers have so far been miserably failed to control these two variables and all prescriptions made by IMF and World Bank have also proved ineffective. The reason is that IMF pressurize Pakistan to depreciate its currency to correct its balance of payment but before doing so its impact on various sectors of the economy must be assessed.

● The other reason of failure is that there is coordination failure on the part of the managers of fiscal and monetary policy. On the one side, fiscal managers enhance electricity and petroleum prices and on the other side the managers of monetary policy increase interest rate to tame inflation.

But these policies often fire back when producers of goods and services enhance their prices and pass on extra cost to the consumers. The fiscal and monetary authorities never think about the consequences of their coordination failure.

8. Contribution of this study

The results of this research study are useful both for fiscal and monetary authorities in Pakistan as well as in other countries to learn lesson from devaluation practices and their negative impact on various sectors of the economy. The results of this study clearly proves that devaluation policy is not useful for Pakistan in particular and other developing in general because it is short run gain and long run loss. So it is better to take the measures to enhance competitiveness and correcting balance of payment through efficiency, quality and productivity. This study also highlights the fact that IMF structural adjustment programs are not effective for all developing countries or those

countries facing balance of payment problem effective. Such programs should be redesigned keeping in view the ground realities and real causes of budget and trade deficit. Economic theories developed in advanced countries cannot be implemented in the poor countries due to difference of socio0economic structure of developed and underdeveloped countries.

Data availability statement

The data used in the findings of this study will be available on request by corresponding author.

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Contribution of Authors

Both authors jointly carried out this research study and collaborated each other. The author 1 collected data, conducted its statistical analysis. She prepared initial draft of manuscript. The Author 2 helped Author 1 in selection

of title of research, guided in statistical analysis and formatted final draft of manuscript. Both authors carefully read final draft of manuscript and found it fit for publishing.

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