

# Policy Review/Analysis

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## The Economic Way Forward

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*In the last four years, GDP growth improved from 3.68 per cent in 2012-13 to 5.28 per cent in 2016-17; Inflation was reduced from 7.36 per cent to 4.16 per cent; FBR revenues increased from Rs1964.4 billion to Rs3367.9 billion.*

The tenure of PML-N government came to an end. Right now one hears three different views about the PML-N government's economic performance. One, the PML-N government failed to deliver on economic front. Two, it turned an ailing economy around, and fulfilled all its promises. Three, it improved certain economic indicators and could not deliver on others.

### **PML-N govt's performance**

While awaiting the official figures on economic indicators for fifth year in the government, PML-N government's last four years must be compared against the benchmarks of 2013 when it came into power. In the last four years, GDP growth improved from 3.68 per cent in 2012-13 to 5.28 per cent in 2016-17. Inflation was reduced from 7.36 per cent to 4.16 per cent. During this period, the FBR revenue increased from Rs1964.4 billion to Rs3367.9 billion which not only helped increase the development spending from Rs348.3 billion to Rs733.3 billion but also provided a cushion for an increased transfer to provinces from divisible pool from Rs1299.4 billion to Rs1996.5 billion.

Likewise, budget deficit came down from

8.2 per cent to 5.8 per cent during this period; foreign direct investment (FDI) increased from \$1.4 billion to \$2.7 billion; credit to private sector improved to Rs.747.9 billion in fiscal 2017 compared to a decline of Rs 7.6 billion in the fiscal 2013; and agriculture credit disbursement improved from Rs336.2 billion to Rs704 billion. The number of companies incorporated in 2012-13 was 3,960, while in 2016-17 8286 companies got incorporated in Pakistan.



## **Comparison between PML-N, PPP govts**

Certain indicators, especially the current account deficit, net debt and liabilities, and exports deteriorated during the last four years. However, before discussing them one must compare the five-year average figures during the PPP government (2008-2013) with the four-year (2013-2017) average figures of the PML-N government.

During the PPP tenure, GDP grew at an average of 2.82 per cent whereas the average GDP growth in last four years is 4.47 per cent. Average industrial sector growth in the PPP government was 1.20 per cent, it averaged at 5.13 per cent in last four years. The average service sector growth increased from 3.60 per cent in the PPP's government to 5.09 per cent under the PML-N government. Average fiscal deficit during the PPP tenure was 7.20 per cent while it is 5.33 per cent during last four years.

A significant change was observed in inflation (11.83 per cent to 5.04 per cent), average credit to private sector (Rs96.20 billion to Rs457.15 billion) and average transfer to provinces from divisible pool (Rs973.67 billion to Rs1740.32 billion).

So what is it that the PPP could not do and the PML-N did right. And if the PML-N's direction was right then how come at the end of its tenure we are again facing the twin menace of fiscal and current account deficit?

**Dependency on non-economic factors**

Pakistan's economy is still dependent on different endogenous and exogenous — non-economic — factors; oil prices in the international markets, security situation, political instability, governance issues (manifested through bleeding public sector enterprises, and energy circular debt) to name a few. On top of these, it can be argued that any bad monsoon season can fail best of the best economic policies in Pakistan.

In the context of the above argument, the simplistic answer to why things improved during the PML-N government may be comparatively better supply of energy; comparatively better security situation; and flow of CPEC related transactions. Likewise, three important factors that (among others)

badly affected the PPP's performance can be terrorism, historic high oil prices in the international market, and devastating floods of 2010 (and the subsequent floods of 2011).

Having talked of the above-mentioned factors, one should not infer that economic policies and economic management do not matter in improving the state of the economy at all. They are vital in getting the benefit from favourable exogenous and endogenous factors and vice versa.

Looking at comparative numbers/trends of the PPP and PML-N governments, where one finds that on most counts the PML-N government fared well during the last four years; we have to give credit to prudent fiscal management. However, after giving credit where it is due, one also needs to point out areas where Senator Ishaq Dar and his team could not capitalize on favourable factors and opportunities that came in his way.

## **Fiscal Deficit**

One such area is fiscal deficit, which remained well under control until the IMF-extended fund facility programme was there. However, once we completed the IMF's programme, one saw irresponsible spending both from the federal government as well as from the provincial governments. Looking at the federal budgets for last 10 years, it is evident that deficit at federal level is our economic characteristic.

Budget 2017-18 reveals that after giving provincial share from divisible pool, the federal government has PKR2996 billion. Out of which PKR 3200 billion is to be spent on "non-discretionary expenses," mark-up on debt, debt repayment, defence and security, pensions, and day-to-day administration. On top of it, we have PSDP (development expenditures), and then "holes in the bucket" such as energy subsidy, energy circular debt, loss making public sector enterprises, and unforeseen expenditures.

All of these are "discretionary" expenditure and contribute to fiscal deficit. Repairing these "holes" becomes an extra painful process when other factors are negative. However, many of those factors were favourable

for Senator Dar, and he could have done much better in minimising the leakage through those holes.

Here one should also keep in mind that provinces, whose share from divisible pool has increased substantially, are equally responsible for increased fiscal deficit by giving deficit budgets and going on spending spree.

### **Debts and Liabilities**

The second front where the PML-N could have done much better is to improve balance of payment, essential not only to honour debt servicing commitments but also to meet essential import demands. Partly because of CPEC and partially because of raising foreign exchange through different sukooks and bonds, the external debt and liabilities are close to \$90 billion today. On top of this burden, during July - February 2018, the current account deficit has expanded by 50 per cent, standing at \$11 billion.

In normal circumstances, neither taking debt, nor artificially stabilizing the rupee against dollar is bad. However, pumping the borrowed dollars in open market to stabilize rupee was a bad choice. That resulted in quick depletion of our foreign exchange reserves. Miftah Ismail has taken a wise move to take a departure from this policy. However, it should have been done much earlier.

Another challenge the PML-N government could have addressed during last four years was falling exports (which have increased during last quarter though). It has led to a \$23 billion trade deficit during first 8 months, compared with \$19 billion in the same period previous year. Prime Minister Shahid Khaqan Abbasi Abbasi has done a commendable job to have a Ministry of Power. The same should have been done with economic ministries.

One can argue that factors leading to decline in exports (over-valued rupee, non-payment of refunds and rebates by FBR, energy tariffs, ease and cost of doing business) were partly beyond Ministry of Commerce's control and would remain there until economic ministries start talking

to each other.

The question arises, what is it that the government can do in its last sixty days. The prime minister partly answered this question by announcing a tax reform package (21 days before the federal budget) along with an amnesty scheme for undeclared domestic and overseas assets/deposits held by Pakistanis falling under its tax jurisdiction. Among his reform measures, some are quite radical (on property sale/purchase), some are repetitive (use of CNIC as NTN), and some (amnesty) may be a nonstarter. Simplification of income tax slabs and increasing the tax exemption limit are welcome moves, especially in the context of rupee depreciation and potential inflation in the coming months. Replacing NTN numbers with CNIC if implemented (Senator Dar could not get it implemented) is again a welcome move.

### **Fate of amnesty scheme**

Without going into the discussion whether tax amnesty is good or bad, one can argue that current amnesty scheme may not take off. The government has done its homework and provided exemption to those (except public office holder and their family members) voluntarily declaring foreign and domestic assets from criminal prosecution for accumulating and concealing their assets. However, those who have hidden their assets would not take the words of an outgoing government very seriously. Amnesty would come to an end on June 30, 2018, before next elections.

If the PML-N could not form a federal government after next elections, and the new government did not endorse this scheme (as the PTI has already opposed it), then those declaring their assets may find themselves at the mercy of National Accountabil-



ity Bureau.

The timing of amnesty scheme is not very ideal, not only because the government is on its way out, but also due to the fact that this scheme is announced at a time when the possibility of Pakistan getting placed on Financial Action Task Force's list of non-compliance members is just a few weeks away.

### **Way Forward**

The PML-N government has tried to conclude its economic innings through a master stroke of tax reforms. Now it's up to major opposition political parties to reveal their economic agenda. Going forward, one should be content that despite all odds, the strong GDP growth is here to stay for some time. The sane minds and voices in our political parties, irrespective of the fact if they are on opposition or treasury benches, should capitalize on the existing growth momentum and try to turn the exogenous and endogenous factors in their favour by agreeing on a "Charter of Economic Reforms". The way forward is political consensus on solutions to economic woes and not in politicizing the issues.

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