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Economic slowdown

Let us divide up the economy into two categories: dollar-denominated and rupee- denominated. In August 2018, when the PTI took over the reins of the government, the biggest economic challenge was in the dollar-denominated economy where our gross financial requirement stood at a colossal \$28 billion (current account deficit of \$20 billion plus debt repayment of \$8 billion).

Over the past year, two major developments have taken place in the dollar-denominated economy. First: Our current account deficit has come down to \$13 billion (from \$20 billion). Second: The IMF's Executive board "approved a \$6 billion loan packageto rein in mounting debts and stave off a looming balance of payments crisis, in exchange for tough austerity measures." As a result, our dollar-denominated economy now seems to be heading in the right direction – which is stabilization.

Our rupee-denominated economy can be divided up into: the government sector, the corporate sector and private households. Within the government sector, accountability is at full-throttle – which is very good. Within the government sector, the government's current expenditures are going through the roof – which is very bad. Within the government sector, the reform agenda in the power sector and the Public Sector Enterprises (PSEs) is near-zero – which is very bad.

The corporate sector is slowing down. If Honda Atlas Cars Pakistan is taken as a rule of thumb then the slowdown is around 35 percent – which is very bad. If the collective wisdom of the Pakistan Stock Exchange (PSX) is taken as a rule of thumb then business sentiments are quite bearish (PSX's capitalization has gone down from \$100 billion to \$40 billion). With the Karachi Interbank Offered Rate (KIBOR) at 14.33 percent (1-year) borrowing costs for the corporate sector have doubled-that means a sharp slowdown resulting in layoffs.

At the household-level purchasing power is sharply down and unemployment will soon become a major national problem. Last week, my barber complained that his business is down and his personal electricity bill has come in at Rs6,000 (people have cut down their haircut frequency). I asked him his salary and he said "Rs15,000 a month plus tips".

The valet outside a five-star hotel said that his electricity bill has come in at Rs6,500. My car mechanic told me that he used to service seven to nine vehicles a day which has now gone down to three to five (he has laid off three out of his five employees). The owner of a dried fruit outlet inside a major shopping mall said that his sales have gone down from Rs200,000 a day to Rs70,000 a day.

The good news is that BISP under the PTI is working overtime: 5.7 million poorest of the poor families are receiving Rs5,000 per quarter (BISP has plans to enhance these unconditional cash transfers to Rs5,500 per quarter). The bad news is that there's little or no focus on vocational training – and no attempt to teach these poorest of the poor families how to catch their own fish.

Red alert: PSEs continue to lose Rs1.1 trillion a year every year – and there's no roadmap for the future. The power sector continues to lose Rs2 billion a day every day of the year – and there's no roadmap for the future. The trillion-rupee leakages in the multi-trillion rupee public procurement projects continue – and there's no roadmap for the future. The government must set goals – and then devise strategies to achieve those goals.

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