

Pakistan's planners caught between IMF, rising ire of electorate

LAHORE: The new economic team is caught between the devil and deep blue sea. If it deviates from IMF mandate it loses \$6 billion bailout package. Programme's implementation would mean job losses and deindustrialisation that would invite the ire of the electorate.

Pakistani businessmen and manufacturers may be having nightmares on government policies to be announced in the budget; but the economic managers are also spending sleepless nights to make their policies as palatable as possible to please both sides.

The economic team must be repenting the haste with which it offered to implement IMF's proposed reforms upfront. They now realise that the upheaval caused as a result of upfront loading may not be absorbed by the industries as well the general public.

This new economic team is not shy of confronting the businessmen and listening to their grievances on the proposed policy changes. It however makes it clear in all meetings that the implementation of harsh measures is unavoidable. They ask businessmen to cooperate with the government.

Businessmen on the other hand are frustrated, as they spent months interacting with the earlier economic team of this government making presentations about the problems they faced in conducting business smoothly.

After marathon meetings with the economic planners they convinced them to make changes in numerous policies. These changes were to be incorporated in the coming budget.

However, instead of now looking forward to those changes, they have to deal with a completely new economic team, which has been inducted pretty close to the budget.

This new team is working with an entirely different mindset. In fact they are out to undo even the measures that were implemented by the previous economic team. It is a new phenomenon, as economic policies were tinkered with only after the change of the government. The businesses even at that time pleaded for the continuity of policies.

This time around, even policies that were approved by the present regime a few months back, are being drastically revised. There are still some old guards in the new economic team, including PM's Commerce Advisor Razzak Dawood and State Revenue Minister Hammad Azhar.

Dawood does plead for continuation of zero-rating for the exporting sector, but seems helpless. Hammad is toeing the line of the new economic team.

Since the budget is less than a fortnight away, businesses do not have time to convince the new economic team. PM's Finance Advisor Dr Hafeez Shaikh is also too busy in the budget making process to spare unlimited time for the businessmen.

Still, he spared over three hours for a meeting with Punjab businessmen at the Governor House Lahore. The issues nonetheless remain unresolved, as the economic managers politely explained through documentary evidence the misuse of zero-rating concessions, which are being withdrawn.

There is still no certainty about withdrawal of energy subsidy of the five exporting sectors. However, if the other subsidies are withdrawn this too might not be exempted.

In fact, the government is now under more pressure from IMF as it missed the revenue target by Rs447 billion in the first 11 months of this fiscal.

Any shortfall below Rs4,000 billion would mean additional tax measures for the next fiscal to achieve the IMF given target of Rs5,550 billion. So, instead of giving concessions, the government would be contemplating further taxation steps. The new economic team is not naïve. It knows that the new taxation measures would badly hurt the economy, particularly the manufacturing sector.

But this is not their priority, because as expert economists they are banking on the economic theory that abhors subsidies and concessions in a free market economy. The economy is already in contraction stage and burdening it with further increase in taxes would further contract it.

Economic theory states that the efficiencies increase if subsidies are withdrawn, as the fittest survive while the inefficient bow out of business.

The trouble in Pakistan is that most of the exporting sector is inefficient. Withdrawal of concessions would make most of them sick. Efficient industries would emerge after a gap of two to three years if the policy of no state interference continued.

What will we do during those non-productive two years? Who will earn foreign exchange for the country? In a badly managed economy like that of Pakistan, things must be fixed gradually to avoid complete disruption of economic activities.

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