INTERNATIONAL THE NEWS

11th June, 2019

Public debt, twin deficit reach record high

ISLAMABAD: Conceding the rising public debt and twin deficits — current account and budget — as serious threats exposing Pakistan to default, the PTI government has missed all major macroeconomic targets, including the GDP growth rate by a big margin, during the first year of its rule.

Launching the Economic Survey 2018-19 here on Monday, Adviser to the PM on Finance Dr. Abdul Hafeez Shaikh said the country's fiscal position had weakened to such an extent that it needed loans to pay back interest on the already obtained and piled-up loans.

Hafeez said he did not want to indulge in the blame game but a realistic picture of economy showed that the worsening external and domestic front was posing a serious threat to economy.

The government did not release any official figures of cost of war against terror and the latest poverty figures in the Economic Survey. The unemployment rate stood at 5.8 percent in accordance with the Labor Force Survey 2017-18 against 5.9 percent in 2014-15.

The survey showed that the country achieved GDP growth rate of 3.29 percent against the desired target of 6.2 percent for the outgoing fiscal — one of the lowest in eight years. The per capita income declined standing at $1,497.3 in outgoing financial year 2018-19 against $1641 in the corresponding period of financial year 2017-18, registering negative growth of 8.77 percent.

The government failed to achieve investment and savings targets in percentage of GDP in the outgoing fiscal year. The total investment as a percentage of GDP was recorded at 15.4 percent against the target of 17.2 percent.

The fixed investment as percentage of GDP remained 13.8 percent against the target of 15.6 percent, while public and private investments remained at 4.0 and 9.8 percent against the target of 4.8 and 10.8 percent respectively.

The National Savings remained at 10.7 percent of GDP against the target of 13.1 percent. Inflation doubled standing at average rate of 7 percent in first 10 months in the current fiscal against 3.77 percent in the same period of last financial year with increasing CPI inflation at 9.4 percent in March 2019 and 8.8 percent in April 2019.

However, Dr Abdul Hafeez Shaikh said all institutions and powerful individuals would contribute towards austerity in the coming budget. The rich must pay their due taxes, he made it clear.

He did not share the figures of major economic indicators achieved by the incumbent regime in the outgoing fiscal year 2018-19 and restricted himself to saying that there was need to ascertain reasons due to which the PTI government inherited a disarrayed economy where the public debt and liabilities had touched historic heights of Rs31 trillion when the PTI took over power and now would have to consume around Rs3,000 billion on debt servicing alone in the coming budget.

“The foreign debt had touched $100 billion mark at atime when the country achieved zero growth in exports in last 10 years. This situation is a threat to economy where we are unable to generate dollars to repay our foreign debt. The foreign currency reserves held by the SBP had depleted from $18 billion to $9 billion in the last two years of the last regime.”

Flanked by Minister for Power Omar Ayub, Adviser to the PM on Commerce Abdul Razak Dawood, Minister of State for Revenues Hammad Azhar, Chairman FBR Shabbar Zaidi and DG Economic Reform Unit Dr. Khaqan Najeeb, Hafeez said the country would have to move towards default if incumbent regime had not taken corrective measures.

The government, he said, managed $9.2 billion assistance from three friendly countries and also struck an agreement with the IMF for securing $6 billion package in order to demonstrate seriousness of the regime that the country was ready for ensuring discipline. He termed it an unjustified comment to question the sincerity and loyalty of those who had come to Pakistan after leaving million dollars jobs. He warned that if bureaucrats and ministers were found using more than one official vehicle, the Ministry of Finance would take action.

To another query, he said the government would focus on six priority areas in the upcoming budget including stabilization of economy by curtailing the twin deficits, second the growth trajectory would follow after stabilizing economy, third mobilizing revenues, fourth undertaking austerity drive, fifth protecting the vulnerable and poor and sixthly build institutions with zero tolerance for corruption.

The Economic Survey 2018-19 states that the outgoing fiscal year witnessed a muted growth of 3.29 percent against the ambitious target of 6.2 percent. The target was based upon sectoral growth projections for agriculture, industry, and services at 3.8 percent, 7.6 percent and 6.5 percent respectively. The actual sectoral growth turned out to be 0.85 percent for agriculture, 1.4 percent for industry and 4.7 percent for services.

Some of the major crops witnessed a negative growth as production of cotton, rice and sugarcane declined by 17.5 percent, 3.3 percent and 19.4 percent respectively.

The crops showing positive growth include wheat and maize which grew at the rate of 0.5 percent and 6.9 percent respectively. Other crops have shown growth of 1.95 percent mainly due to increase in production of pulses and oil seeds.

Cotton ginning declined by 12.74 percent due to decline in production of cotton crop. Livestock sector has shown a growth of 4.0 percent. The growth recorded for the forestry is 6.47 percent which was mainly due to increase in production of timber in Khyber Pakhtunkhwa ranging from 26.7 to 36.1 thousand cubic meters.

The growth in industrial sector has been estimated at 1.40 percent. The mining and quarrying sector has witnessed a negative growth of 1.96 percent mainly due to reduction in production of natural gas (-1.98 percent) and coal (-25.4 percent).

The large-scale manufacturing sector as per QIM data (from July 2017 to February 2018) shows a decline of 2.06 percent. Major decline has been observed in textile (-0.27 percent), food, beverage & tobacco (-1.55 percent), coke & petroleum products (-5.50 percent), pharmaceuticals (-8.67 percent), chemicals (-3.92 percent), non-metallic mineral products (-3.87 percent), automobiles (-6.11 percent) and iron & steel products (-10.26).

On the other hand, the substantial growth in LSM has been observed in electronics (34.63 percent) engineering products (8.63 percent) and wood products (17.84 percent). Electricity and gas sub sector has grown by 40.54 percent, whereas the construction activity has declined by 7.57 percent.

The services sector has shown an overall growth of 4.71 percent. Wholesale and retail trade grew by 3.11 percent, while the transport, storage and communication sector registered a growth of 3.34 percent mainly due to positive contribution by railways (38.93 percent), air transport (3.38 percent) and road transport (3.85 percent).

Finance and insurance sector showed an overall growth of 5.14 percent. While the central banking has declined by 12.5 percent, a positive growth has been observed in scheduled banks (5.3 percent), non-scheduled banks (24.6 percent) and insurance activities (12.8 percent). The Housing Services has grown at 4.0 percent.

The growth recorded in General Government Services is 7.99 percent which is mainly on account of increase in salaries of employees of federal, provincial and district governments. Other private services, comprising various distinct activities such as computer related activities, education, health & social work, NGOs etc, recorded a growth of 7.05 percent.

The consumption growth was recorded at 11.9 percent compared to 10.2 percent growth recorded last year. As percentage of GDP, it increased to 94.8 percent compared to last year's figure of 94.2 percent. On the demand side, the exports declined by 1.9 percent despite exchange rate depreciation, while imports declined by 4.9 percent. This helped in reducing the trade deficit by 7.3 percent during July-April FY 2019 while it had shown an expansion of 24.3 percent during the corresponding period of last year.

The workers' remittances played a major role in containing current account deficit to 4.03 percent of GDP. The current account deficit (CAD) showed a contraction of 27 percent during July-April of the current year, while it had expanded by 70 percent during the corresponding period of last year.

The State Bank is following a contractionary policy to anchor the aggregate demand and address rising inflation on the back of high fiscal and current account deficits, the survey concluded.

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