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Economic outlook

With bad economic news being the order of the day, the government will take hope from the optimism of the National Security Council (NSC) in backing the current economic reforms. The news was greeted positively by the market as the stock exchange rallied to regain a small amount of the losses made in the past weeks. While there was little concrete discussion on the economic reform agenda, the broadly positive strokes with which all institutions seemed on board is exactly what was required months ago. The government has been asking the public to expect tough times, but it has dithered in the face of public criticism. This, however, does not mean that there is no more bad news for the economy to digest. On Thursday, reports emerged that the concessions offered to all five major export sectors in Pakistan will be withdrawn in the next budget. This means that the special package approved for the export sector, which included cheap gas and electricity as well as zero-rated status, may be under threat of being withdrawn.

There can be no doubt that withdrawing the subsidies on the export sector will hurt the balance of trade greatly. Government officials have put the blame on the IMF, but have promised that the final decision has yet to be taken. This means that overall exports for 2018-19 will remain static at around $24 billion – or fall to $21 billion in the next fiscal year. Under the earlier plan, the government had fixed the gas price at $6.5 per MMBTU and electricity at 7.5 cents per unit to keep the price of both inputs equal to regional competitors, such as India, Bangladesh and Vietnam. Instead, it is likely that the rate of gas could go as high at $12 per MMBTU, which would entail a significant jump in the cost of industrial production.

Representatives of the textile mills association will meet the government to raise concerns about these decisions, but one can imagine that if the decisions have been taken, they will not be reversed. The government will need to remain steadfast – and can respond by telling industrialists that 90 percent of them still do not pay sales tax much like 50 percent of the companies registered in Pakistan. If major industrialists are not paying their taxes, they have little right to demand subsidies from the government; however, this would work better if presented as part of a carrot-and-stick approach. Instead, the unilateral withdrawal of all subsidies is likely to lead to a major contraction in industrial capacity in Pakistan. Despite reassurances from the top, there remains genuine cause for worry as we move into this brave new world of economic policy-making.

Editorial