INTERNATIONAL THE NEWS

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Newspost

Managing the economy

This refers to the news stories ‘PM thanks economic team for stabilizing economy (Nov 16) and ‘Current account balance posts $99 million surplus in October’ (Nov 19). It is too early to declare that the economy has stabilized with the last month’s results taken on standalone basis. The current account surplus in the month of October, arising from a one-off transaction or unsustainable inflows in the portfolio investment makes the government complacent. There is no indication or certainty that this positive trend will be maintained. The export sector remains sluggish while a significant rise in remittances is not forecast with the dampened global economic scenario.

As economic activity starts picking up, investment in the expansion of manufacturing capacity gets underway. Execution of key development projects, involving forex funding, commences. This would exert significant pressure on the import bill and consequently on the current account, at least during the gestation period, say three to four years. There is no option but to mitigate the pressure by augmenting exports. It may require additional fiscal and tax incentives and other concessions. Management of the import bill, however, is very critical. Stringent curbs must be placed on the import of luxury and unnecessary items to provide adequate space for the import of machinery, capital goods and raw material. The months ahead will require great astuteness in managing the economy as a bullish trend in the international oil market can disrupt the projections. Also, laxity in implementing austerity may create difficulties.

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