

Jawaid Bokhari

Breaking the begging bowl

Making the economy stand on its own feet to avoid going to the International Monetary Fund (IMF) again and again for balance-of-payments support has been one of the elusive goals for most civilian and military governments.

Former premier Shaukat Aziz even claimed to have broken the begging bowl. This government also claims to have this laudable objective, but things appear to be moving in a different direction.

In absolute terms, the total public debt is officially projected to shoot up to Rs45.57 trillion by 2023-24 from Rs31.79tr at the end of 2018-19. With the anticipated expansion in the economy and import substitution initiatives in the offing, officials are optimistic that the total debt will come down from existing 80.4pc of GDP to 65.5pc over a five-year period. Meanwhile, debts rose to Rs32.24tr in two months at the end of August.

In the absence of any policy to reduce heavy foreign dependence and without any serious move towards self-sufficiency, similar projections made in the past got nowhere. But now any space for Pakistan in international business is being squeezed by a feared global recession. That leaves Pakistan with no option but to finally stimulate its domestic market to spur diversified indigenous production.

Even PTI legislators have started publicly criticising economic policies that are hurting ordinary citizens

In a policy shift, the government is taking initiatives to reduce the economy's dependence on imports by boosting indigenous production. Addressing a news conference on the eve of Prime Minister Imran Khan's visit to Beijing, Minister for Planning, Development and Reforms Makhdom Khusro Bakhtyar said highest-level talks would involve import substitution projects in the areas of hydropower, oil refinery and steel mills.

Initially, Pakistan will offer China 7,000-megawatt Bunji hydropower project and bilateral cooperation for reviving Pakistan Steel and raising its capacity to three million tonnes per annum to help reduce imports of scrap and steel products worth \$2bn. Chinese assistance will also be sought for increasing the capacity of oil refineries to cut the oil import bill of \$14bn a year by \$1.5bn.

However, the latest projection about the debt-to-GDP ratio coming down in five years has been made at a point when, to quote a report by the United Nations Trade and Development, the country is "in the midst of a crisis as the growth rate has halved, the balance of payments is in poor shape, the rupee has depreciated significantly and external debt is large and rising".

To quote from World Bank data, external loans soared to \$91bn in 2018 from \$86bn in 2017. These loans have been showing a rising trend since 2008. The ratio of external debt stocks to export earnings was 295pc and that of debt servicing to exports was 20pc in 2018. The surge in debts is mainly because of the rupee depreciation, which had been undervalued by 7pc by August.

In the first two months of 2019-20, the government borrowed \$1.62bn, including \$321.5m from commercial banks amounting to 20pc of the total loan. The situation at the end of more than a year of stabilisation efforts calls for a policy review.

However, much of the problem lies with a weak policymaking process as well as the PTI's style of governance. A cursory look at its governance mode shows that the PTI's confrontationist approach has made bureaucratic support less forthcoming. Corporate leaders reportedly told General Bajwa they did not see light at the end of the tunnel and things would continue to worsen if nothing was done on an emergency basis. They complained that 90pc of the tax increase was collected from existing taxpayers and that was raising the cost of doing business.

Economic agents who keep the wheels of the economy moving are also allegedly being harassed by National Accountability Bureau officials lacking expertise or intricate knowledge of business activities. Some course correction is, however, underway.

The Planning Commission recently said it had released Rs133bn for uplift projects that accounted for 19pc of the total annual development outlay of Rs701bn. The figure was just one percentage point short of the quarterly target, which was usually missed by bigger margins in the past. This may stimulate some private investment.

But the policymaking at the federal level suffers from major pulls and pressures. The country's finance team working on the IMF agenda is focused on fiscal and current account deficits. Then there is a prevailing perception that prosperity is a function of the balance in security needs and economic growth. How this blends with the PTI's concept of welfare state is not clear. The federal cabinet is reported to be divided on the issue of privatisation.

Hopefully, the divergent positions will be reconciled sooner rather than later to move forward in an effective way.

The PTI's own electoral agenda remains subdued except for the approval of an additional loan of \$200m by the Asian Development Bank for the Benazir Income Support Programme that aims to "ensure that the poorest segments of the population do not go further into poverty".

Nor is the presence of a large number of technocrats in the decision-making process promoting teamwork as far as the PTI's elected representatives are concerned. In fact, some MNAs and senators have started publicly criticising official policies hurting common citizens. Some of the PTI's old guard are at loggerheads for one reason or another. Divisiveness runs deep and national unity, vital for solving grave problems, is fragile.

Yet another cabinet reshuffle is reported to be on the cards. Critics say ad-hoc decisions will not work. There is a need to set the policy direction right.

The country's financial team may achieve some semblance of stability during the IMF programme, but one cannot be sure that stability will be robust enough to spur strong economic recovery to reduce the debt-to-GDP ratio significantly.