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Time to test targeted subsidies

LAHORE: While sadly pointing out any International Monetary Fund (IMF) recipe has never truly bailed out any economy, critics are hoping against all hopes they are proven wrong and the economic managers turn out to be right with their much-touted reforms somehow ushering in the promised turnaround.

The vibes coming from all around are highly depressing. Manufacturing is in doldrums, there is 30 percent shortfall in cotton crop the mainstay of our economy and for the first time in last two decades the service sector is also limping.

Currently there is a break in growth. It is the failure of the government fiscal policy. It is borrowing heavily from domestic sources as the foreign funds remain elusive. When you borrow domestically it is monetised as the capital cost of sovereign debt is zero. High interest rates and inflation are the outcome of this fiscal borrowing.

The banks happily give credit to the government at Karachi Inter Bank Overnight Rate (KIBOR) plus two percent without any risk of default. Since the government doesn't have funds for even its general non development expenditures it cannibalises development expenditure.

It's the development spending and investment that spur growth. When there's no development the infrastructure actually degenerates. The growth first stagnates and then retards.

The inability of the state to bring efficiency in our energy sector is playing havoc with our industries. The removal of zero-rating on exporting industries was a good step but the failure of the government to make refunds after redemption of export proceeds has created a financial crunch for exporters. The cost of borrowing is very high and the government borrowing has crowded out credit for the exporters. The exporters have orders in hand which they cannot execute because of the scarcity of funds. The economic planners are not pushed to resolve the genuine issues of industries in general and exporters in particular.

The power distribution companies continue to post heavy line losses which are subsidised by the state. The revenue losses due to non-collection of bills are as high as line losses. The defaulters continue to enjoy power supply. The subsidy meant for the poor is distributed to all segments of society. It should be for the poor only and not be based on consumption. Many consumers have installed number of electric meters at their residences. They consume electricity from each meter up to the threshold at which subsidy is available.

There should be targeted power subsidy. The government has identified six million poor families through Benazir Income Support Program (BISP).

All consumers should pay the full electricity bill without any subsidy and the poor should get the power subsidy through BISP. Industrial consumers should be preferred over other consumers to keep the wheel of the employment generating manufacturing sector moving.

When this government assumed power people were not expecting immediate turnaround in economy. It was, in fact, the top functionaries, who promised signs of turnaround in first 100 days and then went on extending the time and finally asking the electorate for wait for three to four years.

The main problem in economy for the last 11 years has been the high fiscal deficit. The government should have ensured that the overall deficit does not exceed 5 percent of the GDP, but it unfortunately crossed 8.2 percent of the GDP in this government's first year in power. The Public Sector Development Program should have ensured allocation of 2.5-3 percent of the GDP. There should have been no cut during the financial year under this head. Unfortunately cutting the development budget was the first priority of this government to curtail expenses.

Despite promise of austerity the non-development expenses continued to increase substantially. No efforts were made to lure private sector to execute infrastructure projects at built-own-transfer basis. In order to make up for infrastructure deficiencies some projects equivalent in value to at least 1 percent of the GDP should have been executed through public-private partnership in the most transparent way.

As things stand today there are grim chances of revival of economy. The government has not outlined any growth strategy. Growth from now on should be with an aim to redistribute the benefits more towards poor.

All general subsidies should be immediately replaced with targeted subsidies. Priority should be given to provision of education, health, and drinking water. All new recruitments should be immediately banned except of teachers and healthcare staff.