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Economic situation going from bad to worse

ISLAMABAD: The country's economic situation a few months back was bad but now it is worse as the official figures of key economic indicators mostly show financial situation of the country really disappointing.

Instead of showing any improvement after the IMF deal, the country's economic situation has further deteriorated amid reports that the former finance secretary Younis Dhaga had warned the government that the IMF deal would be disastrous for the country.

Dhaga, however, was removed and the government had appointed another officer as secretary finance. Because of his serious reservations about the government-IMF negotiations, Younis Dhaga, despite being secretary finance, had withdrawn himself from the IMF negotiations and did not attend the last three sessions.

The other day, the government admitted that the journey for improvement of economy was not easy, as tax receipts could not be increased. He said, "There are challenges on economic front, but there should be some element of fairness in criticism. It will be unfair to hold this government responsible for adding Rs7.6 trillion to debt burden.

When asked about worsening fiscal position where the deficit escalated to 8.9 percent of GDP for last fiscal year, the government said that out of total collected tax revenue of Rs3.8 trillion, debt servicing consumed Rs2.1 trillion and then after providing share to provinces, the government had to borrow to meet defence, development and running of the government expenditure.

A comparison of macro-indicators at end fiscal year 2018 with FY 2019 suggests that there has been a fast track deterioration of the economic situation during the last one year of the PTI rule.

The following are the key indicators showing how things have gone wrong with the Pakistan's economy.

- GDP growth was recorded at 5.8 percent in 2018. As a result of slowdown in economy, growth rate for 2019 is expected to be 3 percent or even less.

- Fiscal deficit has increased to Rs3.4 trillion at the end of June 2019 compared to Rs2.2 trillion when PML-N government left in June 2018. Amount wise this is the largest ever deficit in our history. In terms of percentage, fiscal deficit has been recorded at 8.9 percent compared to 6.6 percent on June end 2018. As percentage of GDP, 8.9 percent is the highest in last 30 years and 8.9 percent also has to be seen against PTI's own set target of 5.1 percent in September last year. Missing the target by miles reflect complete lack of understanding on the part of PTI's economic team. The high fiscal deficit has a direct consequence on the amount of borrowing as the following debt numbers will reflect.

- Total debt and liabilities on the end of June 2018 was Rs30 trillion, which has now gone up to Rs40 trillion. This is the largest ever increase in debt and liabilities in one year. Pakistan's total debt and liabilities in first 71 years was Rs30 trillion but under PTI government, one third more has been accumulated. This is unprecedented and reflects poor management of expenditure and revenue. If the trend continues like this, it is feared, the whole economic structure would collapse as our economy will not be able to sustain this.

- Tax revenue was at a record level at more than Rs3,800 billion in 2018. First time in Pakistan history, tax revenue didn't register any increase during 2019. During PML-N Government's five years, the tax revenue

increased 20 percent per annum in 4 out of 5 years. This was in spite of extremely low inflation and without significant devaluation - the two factors that automatically help increase tax revenues. It is said that the current revenue target of Rs5,550 billion seems very difficult to be achieved. It's about 44 percent higher than the last year's actual collection.

- Inflation was at a record low at 3.9 percent in 2018. Last inflation figure reported by the present government is 10.3 percent.

- SBP policy (interest) rate was 6.50 percent in mid-2018. It has been to 13.25 percent by the PTI government.

- Stock Market was 42,847 at end PML-N government. It's now hovering around 30,000 after touching 28,000.

- Foreign exchange reserves were \$15,913 million (SBP reserves \$9,510 million) at end of PML-N government. Now it's \$15,630 (SBP reserves \$8,271 million). This is in spite of around \$12 billion obtained from friendly countries and IMF in last one year.

- The only positive thing happened during the last one year is that the current account deficit which improved during PTI government. It was \$19,897 million (6.3 percent of GDP) during 2018 fiscal year. It's now \$13,508 million (4.8 percent of GDP) in 2019. It's ideal to reduce current account deficit by increasing exports. That has the best impact on the economy. The government, however, did it without increasing exports but due to reduction in imports. It is said that the policy to impact imports has considerably slowed down the economy.

- Compared to GDP of \$313 billion in 2018, our GDP has come down to \$280 billion - a reduction of \$33 billion only to achieve reduction of \$4 billion in imports.

- As a result of GDP decline, per capita GDP has gone down by more than 8 percent.

- Large scale manufacturing has had negative growth during last one year.

- Agriculture growth was less than 1 percent.

- Massive currency devaluation took place with rupee going from 116 by end of PML-N government to around 160. This is the largest devaluation in last several decades with significant downside impact on our economy.

- FDI (Foreign Direct Investment) has plummeted and is down by more than 50 percent.

- As a result of significant reduction in growth and high inflation, the common Pakistani has been the worst affected. In last one year, more than 45 lac people have gone below the poverty line. In addition more than 15 lac people have lost their jobs.

According to official projections, the GDP growth is expected to be around 2.4 percent while inflation will be in the range of 13 percent to 15 percent. The discount rate is expected to go further up in the range of 15 percent-16 percent.

As a result, during the present fiscal year about five million people will go below the poverty line. This is on top of 4.5 million people who suffered this misery past one year. With declining growth rate, another 1.5 million or more Pakistanis will become unemployed.

In the first two years of PTI rule, it is feared that about three million Pakistanis will become unemployed as against the party's commitment of providing 10 million jobs over five years.