

### **Fire fighting yet to start!**

Federal Finance Minister Asad Umer is the seventh finance minister engaged in fire fighting in a decade (since 2008) however the fire's intensity has not abated. This however never stopped the frequent self-congratulatory statements of appropriate measures to extinguish the flames having been taken by all seven finance ministers.

Ishaq Dar was the first finance minister appointed during the PPP-led coalition government followed by four others during the government's tenure notably Naveed Qamar as acting finance minister, Shaukat Tarin, Hafeez Sheikh and Salim Mandviwalla. Dar's appointment was the outcome of the Charter of Democracy, and within and outside the country he vociferously attacked the policy measures during the Musharraf/Shaukat Aziz tenure – a stance for which he was criticized as it was argued that it led to lower and not higher investor confidence in the newly-elected government. Ironically, Prime Minister Imran Khan as well as his Finance Minister are similarly engaged in attacking the policies and integrity of the key players in the previous two administrations while the latter's defense has been to warn the government that accusing members of the opposition of corruption and flawed economic policies at international fora is going to defeat the stated objective of luring foreign and domestic investors.

Dar began negotiations with the International Monetary Fund (IMF) for a bailout package in 2008 though he resigned before the negotiations were completed on the instructions of his party chief Nawaz Sharif as the PPP Co-chairman Zardari refused to reinstate Iftekhar Chaudhary as the chief justice. His successor Shaukat Tarin took the country on an IMF programme and thence began a series of politically challenging policy reforms that stabilized macroeconomic indicators. The Zardari-led government refused to implement the power and tax sector structural reforms that were part of the IMF time-bound structural benchmarks as elections neared and as a consequence the Fund did not release the last two tranches of the programme.

Dar during his tenure as the federal finance minister in 2013 took the country back on an IMF programme vowing to complete the reform agenda. His contribution to the current economic impasse cannot be ignored for which his party paid a heavy price in the 2018 elections. This is not to understate the impact of the Panama papers and its mishandling by Nawaz Sharif and his team of parliamentarians and lawyers on the 2018 election results but Dar did undertake the following flawed policies, with the tacit if not overt approval of the IMF as the country was on a Fund programme at the time, with disastrous economic and political consequences: (i) market interventions to keep the rupee grossly overvalued which had major negative implications on exports, and propping up foreign exchange reserves through massive external borrowing; (ii) borrowing heavily from abroad and justifying it by maintaining that the rate of return was lower than the domestic rate of return and in his arrogance refused to heed warnings that the rupee's natural depreciation would make foreign borrowing much more expensive in years to come; (iii) filers were slapped with higher taxes including on consumer items/services as withholding taxes, clearly in the sales tax mode, whose incidence on the poor is greater than on the rich, which had negative implications on savings while the non-filers, slapped with a higher withholding tax rate, were granted a legal status and accounted for few non filers being lured to file their returns; (iv) domestic debt and current expenditure more than doubled during his tenure; (v) overstating budgetary revenue and understating expenditure as well as data manipulation of key macroeconomic indicators reached new heights between 2013 to 2017; and (vi) once Pakistan left the Fund programme in 2016 Dar began to borrow heavily from the commercial sector abroad resulting in net outflows rather than net inflows.

What is however relevant to note is that the Zardari-led government and the Nawaz Sharif/Abbasi government did engage in macroeconomic stabilization policies – irrespective of whether it was due to being on a Fund programme or whether it was acknowledged as a priority by their economic teams. Thus there was clearly a focus on reducing the budget deficit and inflationary pressures (though Hafeez Sheikh

manipulated the inflation rate by reducing the weightage of food by 6 percent while calculating the Consumer Price Index and Dar manipulated the data), and negative real rates of return that did not encourage investment/exports given high taxes and failure to clear refunds leading to a liquidity crisis.

So what has the seventh finance minister in a decade done that may lend a comfort level to economists and the people of this country? One policy that has undergone a major revision since the ignominious departure of Dar from the country is the depreciation of the rupee though the Abbasi-led government had already allowed for depreciation followed by the caretakers and the present dispensation, however according to the IMF staff, not by as much as is required. Thus market interventions continue to keep the rupee stable within the range of 138 to 139 rupees per dollar with speculation rife that if and when the government goes on an IMF package the rupee would further depreciate. This is one factor why import growth may have slowed (due to reduction in the international oil price – a major import item for the country) but has not been contained.

There has been some tweaking with respect to taxes by the Khan administration but not significantly. And, sadly, reliance on revenue from sources not likely to pan out at least not in the short term continues for example generating 93 billion rupees from use of technology as noted in the first amendment to the finance bill 2019. Filers are now exempt from tax on banking transactions however they will continue to pay withholding taxes on other items/services (with FBR terming it as income tax which was already deducted at source for the filers). Failing to slap a complete ban on non-essential luxuries for a year or two to better deal with the economic crisis has not been supported as a policy with an inane comment by Asad Umer during the first amendment in the finance bill 2019 that the Minister for Human Rights likes to eat foreign cheese. However regulatory duties have been raised on many non-essential items in an attempt to curtail imports and conserve foreign exchange. However, as aforementioned, given the fact that there is speculation in the market that the rupee value would erode further if the country goes on an IMF programme import growth has not been curtailed. Additionally, without proper policing, smuggling across thousands of miles of our porous borders continues to this day.

And all the while expenditure is being allowed to rise with funding for the PML-N export promotion package together with the recent industrial promotion package, the main component of the second amended finance bill 2019, with no attempt to curtail the two major current expenditure items notably civil administration and defense.

The Khan administration has clearly focused on industrial promotion to date and not on macroeconomic stabilization policies which accounts for a worsening budget deficit, a rise in external debt to GDP ratio (though the debt was incurred to pay off debt and associated interest incurred by the previous administration as well as for balance of payment support), a projected rise in debt equity (through projected issuance of sukuk bonds and Pakistan Banao Certificates/diaspora bonds), and a rising rate of inflation due to high budget deficit and high rates of interest.

Defining a reform agenda and sequencing through time-bound actions is what is required today more urgently than it was required in August when the Khan administration took oath. A call by economists to announce macroeconomic stabilization policies as soon as possible or else face a steady worsening of the situation unfortunately continues to be ignored by the administration.

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