

Economic sanity must prevail

LAHORE: Pakistan has entered the new year with more uncertainty than ever. There are so many ifs and buts that are going to determine the path our economy would take in the next 12 months.

When a government claims that a turnaround in the economy has started and the public at large see its lifestyle continuously deteriorating; one cannot predict the outcomes in future.

We improve economy so that the people living in the country feel comfortable.

Political polarisation is not helping either. It is in fact directing the energies of the state to tackling the unrest. Unfortunately, the government itself is widening the polarisation through its deeds and actions.

One simply hopes that sane elements would be able to work out a compromise so the state could pay full attention to the economy.

Coming to specifics, the decline in imports is over and we should expect much higher imports this year. This would turn the trade deficit negative.

The economy cannot grow with a positive trade balance. In fact, no developing country posts a positive trade balance when it starts industrialising.

We have de-industrialised in the past one decade. Now is the time to boost manufacturing, as that is where the jobs are. In the process of industrialisation trade deficit would balloon.

But a trade deficit that creates sustainable jobs from manufacturing and new infrastructure is better than a trade surplus that eats up jobs and deteriorates even the existing infrastructure. We have been doing that for the last two years. Let us hope this year would be different.

On the export front our economic managers are creating false hopes. We must remember that our peak exports were \$25 billion about eight years back during the Pakistan Peoples' Party era.

At the end of the Nawaz regime, the exports declined to stand at \$24.5 billion. Currently we are expecting to touch \$24 billion by end June.

Pakistan has handed most of its export markets to the emerging Asian economies including India, Bangladesh, Vietnam, Cambodia, and recently to Myanmar. By achieving \$24 billion exports we would hardly recover our lost market.

Our textile industry is operating at full capacity, yet the increase in exports is nominal (4 percent in five months for textiles). We have lost capacities in the past five years.

We would have to add new updated machinery to become competitive. The government is making efforts in this regard, but it lacks experts.

Therefore, much would depend upon how our competitors realign themselves in textiles in the post Covid-19 period. Our good performance is linked to their bad performance.

Remittances from overseas Pakistanis are a puzzle that is hard to resolve. Our remittances have jumped at a time when remittance to most countries declined.

The State Bank of Pakistan should be commended for its efforts and incentives. But the question is the sustainability of high remittances.

If remittances remain as high as they have been in the past six months, Pakistan's foreign exchange problems would lower (not eliminate). But if remittances are because of the last hurrah of the thousands of expats coming back to Pakistan for good, then we might see a sharp decline in inflows – lower than pre-Covid19 period.

In that case we would be in deep trouble. The year 2021 would determine the fate of remittances to Pakistan.

Inflation has come down much more slowly than expected by the economic managers. Inflation even at a relatively lower level is hurting the public at large.

The increase in petroleum products

rate and electricity rates would trigger inflation. Increase in gas prices would also aid inflation.

The huge budget deficit that this government carries is a permanent inflation threat. General hike in prices can mostly be attributed to a lack of government writ.

If the writ remained as weak as last year, we may see further hike in prices, accompanied by double digit inflation. Let us hope that governance improves appreciably this year or be prepared for more miseries.

Economists and analysts predict growth projections on the basis of known growth factors. When these factors are tardy no one can predict which way the economy moves in 2021.