BUSINESS
RECORDER
Date: - 08 Aug 2018

ECONOMIC REASONING VS POLITICAL CONSIDERATIONS

The Finance Minister-designate Asad Umer, in his first press conference with the economic beat reporters stated that the PTI government intends to separate economic decisions from political considerations. This is an extremely bold statement and while it would no doubt present considerable challenge to Pakistan Tehreek-e-Insaf's (PTI's) popularity yet, given the honeymoon period that any newly-elected government enjoys, it maybe more than made up as the country nears the next elections in five-year's time as macroeconomic indicators stabilize.

In the country's recent history, political considerations have almost always been upheld at the cost of economic considerations. Musharraf's handpicked government refused to pass on the rise in the international price of oil in 2007 arguing that such a decision would lose them the 2008 elections. The party lost in any event but left the budget deficit at an unsustainable high of over 8 percent of Gross Domestic Product (GDP). The Zardari-led PPP government was compelled to go on an International Monetary Fund programme a few months after it took over power but again, for political considerations, failed to implement key sectoral reforms it had agreed to under the programme particularly with respect to the power and tax sectors leading to the Fund suspending the last two tranche releases. While these two administrations hired technocrats to run the finance ministry with the objective of accessing expertise where none existed within the party echelons, yet the technocrats exhibited no backbone to challenge the party leadership's political decisions and once they left the portfolio, they laid the blame on the political leadership.

While in contrast, Ishaq Dar followed by Miftah Ismail did have the party backing to take challenging economic decisions yet they displayed little understanding and/or concern with where they were pushing the economy with their heavy reliance on borrowing from ever more expensive sources that accounts for the current appalling state of the economy.

The problems besetting the economy today range from an unsustainably high current account deficit of 18 billion dollars, a historical high, to a budget deficit of more than 8 percent of GDP (though data for July-June 2017-18 fiscal year has yet to be officially released), to eroding foreign exchange reserves which are at present less than two months of imports, to a rupee value that has not yet achieved stability (though after PTI's electoral win, the rupee-dollar parity has improved with some economists claiming that this may partly be attributed to an 'engineered' improvement by the powerful currency exchange players with the objective of gaining the new government's goodwill), to a highly unrealistic budget document presented by the Abbasi-led administration on 26 April 2018 which remains applicable with respect to allocations as well as revenue generation.

At the same time, the key private sector stakeholders in the economy have been persistently complaining about flawed economic policies of the PML-N government with respect to pricing of utility tariffs, a key input cost for the manufacturing sector, that are well above the regional average to the rising sales and income tax refunds that account for liquidity issues facing exporters who have had to rely on borrowing to meet their needs which has anted up their costs further leading to a climate that is not conducive to economic activity.

In this scenario, the decision by the administration-in-waiting to engage in fire fighting that would have a significant political cost is a good one and is fully supported by this newspaper. Sacrifices are in order not only by all the major stakeholders, defined as the recipients of major annual budgetary allocations, including defence and the civilian government, but also by delaying the implementation of PTI's 100-day programme which envisaged expenditure on certain key sectors that promised large outlays in the social sector.