

Economic issues

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PAKISTAN is witnessing another democratic transition. This continuity has strengthened the parliamentary process, but the economic situation has not improved. The economic policy of the last government completely failed to address structural issues.

The country's foreign reserves have been depleted to an alarming level of around one and a half month's imports. The current account deficit for the year 2017-18 touched \$18 billion, the highest in the history of Pakistan. It was \$12bn in 2016-17 and \$4bn in 2015-16. This was because of a rise in imports but meagre increase in exports.

The imports for the year 2017-18 stood at \$66bn while exports remained at \$23bn, resulting in a trade deficit of around \$44bn. Exports remained at approximately the same level as when PML-N had come to power.

Though the government provided major incentives in its last year to boost exports, the exports did not rise. The decision of former finance minister Ishaq Dar to strengthen the rupee on the basis of an IMF loan discouraged exports further. This situation may lead to another bailout package by the next government according to economic experts.

Apart from foreign reserves, the fiscal position has not improved either. Foreign and domestic debt is increasing due to the budget deficit. The major portion of the budget goes towards debt servicing, while a small portion is left for investment, education and health. The fiscal deficit for last year remained more than 6 per cent of GDP, while debt increased to 70pc of GDP from 62pc in 2013.

The last government could not bring any structural reforms to increase the tax base by increasing direct taxes, but resorted to taxing the already burdened poor and middle class. Around 1.2 million pay their taxes, which is less than 1pc of the population. The tax-to-GDP ratio is 12.5pc, lowest in the region. It fell short of the 15pc benchmark envisioned in the National Finance Commission Award 2009.

Such failure resulted in the announcement of different amnesty schemes further benefiting the rich and discouraging honest taxpayers. These are fundamental problems affecting Pakistan's economy and the next government might be forced to take unpopular measures to address them.

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