

## **Economy: the daunting task ahead**

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Imran Khan-led Pakistan Tehreek-e-Insaf (PTI) presented its vision for the first 100 days if elected to head the federal government - a vision that may undergo a major overhaul because the vision was based on: (i) job creation, particularly for the youth, through (a) developing tourism as a source of growth of the economy, government revenue and jobs, and (b) building houses that would fuel construction industry and jobs; (ii) creation of a wealth fund for the poorly performing state-owned entities that would no longer be under line ministries with the source of the fund not specified; (iii) tax reforms again not specified; and (iv) encouraging medium and small enterprises a common enough manifesto of political parties not only in Pakistan but also throughout the world.

There is no doubt that some components of the 100-day vision would have been supported by independent economists though they would have emphasized the need for greater detail (the devil as they say is in the detail) yet given the current state of the economy the vision reflects a complete lack of understanding of the major issues facing the country today and which require urgent remedial measures. These issues are (i) an unsustainable budget deficit that may well be in excess of 7.5 percent of Gross Domestic Product for fiscal year 2017-18 with Ministry of Finance officials disturbingly claiming that they would be satisfied if it is 7.5 percent which is unsustainable and would require borrowing on a larger scale than what the PML-N administration was engaged in; (ii) a current account deficit that has reached an historical high of 18 billion dollars with an export rise that continues to lag behind imports in spite of export promotion and import limitation policies; (iii) dwindling foreign exchange reserves, close to 9 billion dollars that are not enough to meet the minimum three months of imports and have eroded the State Bank of Pakistan's ability to intervene in the market to shore up the rupee value, this in turn, is raising the payments due on foreign loans incurred in the past (interest and principal as and when due) and for payment on debt equity (due on Eurobonds/sukuk issued); and (iv) last but not least, there is a need to grant immediate autonomy to Pakistan Bureau of Statistics that has been abused by successive finance ministers to project data that is totally unrealistic and to the State Bank of Pakistan to ensure that monetary policy is geared towards controlling inflation rather than to support the finance ministry's penchant for borrowing.

Imran Khan had announced more than six months ago that Asad Umer would be the party's nominee for the finance minister slot and, more recently, stated that Umer had already begun to work on the challenges facing the economy. It is indeed unfortunate that the party during its first year or two in power would be compelled to take five major decisions that would be politically extremely challenging. First, a massive cut in expenditure and, unlike its predecessors, a cut in current as opposed to development expenditure if the change is to be meaningful which may require negotiating a decline in defence expenditure (for a year or two) and in civil administration. Second, the tax structure and administration needs to be completely revamped. Reliance on withholding taxes in the sales tax mode must be replaced with tax on income as opposed to revenue sources plus making it mandatory to file returns and not allow legitimacy to non-filers by allowing them pay double the withholding tax on goods and services. Thirdly, the PTI has indicated that it would appoint heads of SOEs on merit (experience and qualifications) and one would hope it does not face the same pitfalls as the PML-N which was compelled to favour its own supporters over others with appalling outcome on the SOEs performance. Fourthly, accountability must not be seen as a witch-hunt and a non-partisan approach must be strictly adhered to. And fifthly, there is a need for a review of the China Pakistan Economic Corridor - based on actual agreements signed by the previous administration and there is also a need to revisit some of the projects themselves.

However, perhaps the first decision that the new elected government would have to make is to determine how much to borrow and from where to bring the twin deficits (budget and current account) to sustainable levels; at this point in time, International Monetary Fund appears to be the best option as its programme, rigidly monitored, would give a comfort level to other sources of relatively cheaper funds. But again, the

devil will be in the detail and one would have to see how well the new government negotiates with the Fund because given the state of the economy the conditions would be extremely challenging politically.

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