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- ARTICLES

Aggravating economic challenges

Page No.22 Col No.03

For a moment, a glimmer of hope animated, when the caretaker Finance Minister reportedly asked Ministry officials to open a dialogue with the IMF. However, it was firmly put down when a number of politically powerful voices pointed that any such initiative would be violative of the Election Act, 2017, where the Caretakers have been restrained from doing anything other than the routine business of the government, except in a situation of emergency.

It is intriguing to note the inclusion of the subject of caretaker government in the Election Act, 2017. A simple reading of the Constitution makes it abundantly clear that it makes no distinction between an elected Government and the Caretaker Government, nor has the Constitution asked the parliament to make laws to lay down restrictions on the latter's scope of activities. The relevant clauses of Article 224, dealing with Caretaker Government, have been freshly minted under the 18th Constitutional Amendment. The very set of legislators who drafted the 18th Amendment were part of the team that drafted the Election Act, 2017. Could they do something that they forgot to do in the 18th Amendment through an act of the parliament? The answer is no. Straight jacketing of caretaker administration has reduced its status to glorified office holders with no responsibility except to push files for two or three months.

Why we lament this void is because the economy is an dire straits and badly in need of repair. The caretakers could have done a number of useful things to give confidence to the markets and lay the foundations of a new beginning that would have been carried forward by the elected Government. In its absence, economic turbulence would continue for another couple of months and may exacerbate the ills afflicting the economy. The new data emerging for the months of April and May is fairly alarming.

First, the FBR collections during Jul-May have suffered a setback as the growth declined from 16% in the first ten months to only 14.4%, compared to the same period last year. The required growth was 19.2%. Two developments since then would exert a further blow to revenue effort. One, the outgoing government, as a measure of political convenience has decided to let the petroleum prices remain unchanged for seven days of June and then left it on the caretaker government to take an appropriate decision. The caretaker government, for whatever we have discussed above, have conveniently decided not to burden the consumers with the price hike [As we write these lines, nearly half-way through the month, a partial increase in prices has been passed on]. Resultantly, a significant part of the price hike would not be passed on to consumers by sacrificing government tax revenues. Two, the Supreme Court has suspended collection of taxes on mobile telephone cards as FBR was unable to answer the court's queries regarding the laws under which such taxes were imposed on even those not in the tax net. Both these sources are high revenue spinners and lack of passage, for the former, and suspension, for the latter, will have a negative impact on revenue collections.

Second, the fiscal deficit remains the primary reason behind increased aggregate demand. The implicit measure of fiscal deficit - marginal increase in central government debt -was recorded at Rs 2.84 trillion, which is 8.25% of GDP, reflecting an astonishing increase in debt. To be precise, two adjustments would be made in this number before arriving at a correct estimate of fiscal deficit. One, this figure included capital loss due to depreciation of Pak rupee against the dollar, which would be excluded. Two, a part of this debt finds its place in Government deposits held with the banking system, this amount would also be excluded. Notwithstanding these adjustments, the increase in public debt is betraying a very high level of fiscal deficit, which, as we have said on previous occasions, would be close to 7% of GDP.

Third, the prices situation is deteriorating fast. The year-on-year inflation for May 2018 was recorded at 4.2%, with month-on-month rising by nearly 0.5%. This is still low thanks mainly to good agriculture supplies of food items but the real problem is brewing on the core inflation (non-food, non-energy), which rose to 7% year-on-year in May 2018 with month-on-month by 0.2%. With price outlook worsening globally, especially oil prices, which are hovering in mid-seventy dollar range, inflation would remain elevated.

Fourth, the trade data is showing mounting pressure on the trade account. The shipment data released by Bureau of Statistics shows an increase in trade deficit of 13%, rising from about $30 billion to $34 billion. In a week's time, when SBP data on payments-basis would be released, we would very likely see a worsening of the current account, signifying continuing woes for the balance of payments.

Fifth, and even prior to that release, the SBP surprised the market by making yet another significant adjustment in the exchange rate which was nearly Rs 5 per dollar. The exchange rate shot up from Rs 115/$ in the inter-bank to Rs 120/$ on Monday. Even though this is a step in the right direction - to curb the run-away demand for imports - it looks yet again an isolated step and not part of a well-coordinated response from the monetary and fiscal authorities. There is another puzzle in the timing of this action. Only less than two weeks ago, the Monetary Policy Committee (MPC) of the central bank had met and no indication was given whether such an action was on the cards. Even otherwise, it is not clear if this decision was taken in the meeting of the Board of Directors of the SBP, as that is the body to decide on such matters. Accordingly, one is not sure if these decisions have been deliberated at the right forum and what guides the extent of adjustment.

Curiously, the ex-Finance Minister, Dr. Miftah Ismail, had very confidently claimed, when last such decision was taken in March 2018, that no further adjustment would be required for the next six months. He had crafted most of his claims keeping in view the duration of his presence on the political scene (including, incidentally, his elevation to the post of Finance Minister by using the provision of Article 91(10), that envisages a non-member of parliament to hold such a position for six months during which he should become an elected member. Governor, Sindh had remarked, in an interview, this was not the most appropriate provision to make use of as the prospect to become an elected member was zero due to expiration of assembly's term). He made two more claims, by putting a hand on his heart, one, that he would leave behind more reserves than what he inherited and, two, that Pakistan would not need an IMF program after the manner in which he had managed the economy. He is not around to answer these questions, but no answers are needed as it is for all to see what a mess is Pakistan's economy in and whether it can survive without the help of a bail-out package from the Fund.

One feels pity for the new elected government as it would inherit an economy beset by multitude of challenges. It would have no time to think of giving any relief to the people. At best, it may have to work to minimize the adverse effects of painful adjustments that the economy will have to go through to come to a stable state.

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