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Doomsday scenarios!

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It's a domino effect. The economy was operating on the edge anyways; and now things are slipping fast in the wrong direction. Nothing is working out—the currency is down by 15 percent, interest rates are up by 75 bps, exporters' package is extended, non-essential imports curbing measures are imposed and unprecedented loans for China are extended.

Yet, the current account slippage is peaking to new heights—nearly $1.9 billion per month for two consecutive months. The gap is widening and leakages are everywhere to make outlook even more pessimistic. Seeing these growing external vulnerabilities, ratings agency Moody's changed outlook on Pakistan to negative.

The country is already relying on commercial loans to meet debt repayments and bridge the growing current account gap; now with adverse outlook, the avenues of financing are growing thin and whoever would extend loan to this ailing economy would ask for a higher premium.

It's a vicious circle; and rats are leaving the sinking ship. The primary income debit which is on average around $400 million per month has increased to $802 million in May. The increase started in April as the debit was $573 million and the number is not likely to come down in June.

A conjecture of this abnormal increase is that the multinationals are repatriating profits in the shape of dividends higher than normal, and whoever has conduit to repatriate money out is either doing or thinking to do soon. The other element for this higher number is that interest payments are increasing on external debt—this is a natural outcome of ballooning debt which is mostly on commercial basis and of short term - the rates are high for commercial loans and repayment cycle starts early for short term debt.

This number may not be too big but every dollar counts in days of economic emergency. The core of the problem is imports which keeps on heading north despite all the efforts to slowdown the rising trend. Goods imports stood at $5.1 billion in May17 which is the highest ever monthly import (based on SBP data) in the history of the country.

Just to give perspective, in Oct-08 which was the worst month in terms of CAD, the imports were $3.6 billion and today it has crossed $5 billion. Such days were feared when the economy was going into expansionary cycle and bringing competitiveness in the domestic industry.

The megawatts are added in the economy but nothing has been done to bring efficiencies in the energy chain. The motorways are built but there is not enough commercial traffic to justify economic returns of expanded infrastructure. The tax to GDP is marginally raised at the cost of existing manufacturing tax payers which makes the sector even more uncompetitive.

Is producing over 20,000 MW electricity a factor to jubilate or to worry? The oil prices are up; bulks of additional imports lately are on the basis of imported fuel. The country is running old plants on FO in addition to new plants at RLNG. The imports of RLNG alone will cross $2 billion in FY18 versus virtually nothing in FY15.

The inefficiencies in the power sector will take its toll on overall economy. Higher the production, higher the losses will be leading to mounting circular debt. The electricity tariffs ought to increase to adjust to gaps in the power sector. The story of gas is no different and gas tariffs must be increased. Thus, higher energy cost will further elude competitiveness for exports and continue to cut the current sorry figure.

Machinery imports are likely to cross $8 billion in FY18. This is third consecutive year of higher machinery imports. The expansion may result in all kinds of other incremental imports to churn wheels of domestic economy. With no meaningful exports, the trend was always feared to be unsustainable and now things are falling like a pack of cards.

Optimists say that exports are picking up and that is a positive sign. How come? Exports are up by 13 percent in 11MFY18 or by $2.7 billion. On the flip, imports are up by 16 percent or $7.1 billion in the same period. This widens the trade deficit by $4.5 billion.

It’s foolish to rely on exports from short to medium term in the quest for attaining stability. There is no way to deal with the mess but by curtailing imports massively. For that, currency depreciation can to do a bit; the need is to call an emergency monetary policy meeting to significantly tighten the policy.