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- ARTICLES

Caretakers and the economy

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- Caretaker Finance Minister Shamshad Akhtar took oath on 5 June, and, reportedly, began work the same day. There is little doubt that, unlike Ishaq Dar and Miftah Ismail, she is a qualified economist, has spent the bulk of her working life with international financial institutions (IFIs) and, more recently, worked for the United Nations. She was appointed as the Governor of State Bank of Pakistan (SBP) during Musharraf's tenure but not granted an extension by the Zardari led government.

Shamshad Akhtar's selection by the caretaker prime minister Nasirul Mulk must have been made, so claim political pundits, only after the ubiquitous establishment made a rather robust recommendation in her favour; and point out that her links to the military are established as she was appointed as Governor SBP during the Musharraf era. There were strong indications that the establishment was deeply concerned with the state of the economy, a concern patently justified, and this explains why the names of senior economists as key members of the caretaker set-up had been doing the rounds before the announcement of Nasirul Mulk as the caretaker prime minister. Two economists included in the list were Dr Hafiz Pasha, an eminent economist who has held various federal portfolios in the past, and Dr Ishrat Husain, a former international bureaucrat as well as former Governor SBP but who has not held any federal portfolio to date. Dr Akhtar was finally selected, so maintain these pundits, because she was willing to accept the position of caretaker finance minister as reports circulating at the time suggested that Dr Husain was angling for the caretaker prime minister's position. Dr Hafiz Pasha, again reportedly a contender for the caretaker prime minister's role without any lobbying on his part, was acceptable to the establishment but not to other political parties with one source informing *Business Recorder* that his name was dropped because his wife was too closely associated with the PML-N.

Be that as it may, Dr Akhtar is a qualified economist though she is perhaps not as familiar with Pakistan's current state of the economy as she has relied on manipulated data by those appointed by Ishaq Dar in key positions. In contrast, Dr Pasha has invested considerable energy on rationalizing government data with other government as well as industry sources - much more so than Ishrat Husain.

Subsequent reports filtered to the media indicated that Dr Akhtar was given detailed briefings by the officials of the Ministry of Finance and other relevant ministries which accounted for her expressing serious concern over: (i) current account deficit, with exports marginally increasing due to the export package announced by the Abbasi-led administration but with imports rising at a faster pace this deficit has risen to a whopping 16 billion dollars; (ii) declining foreign exchange reserves, estimated at 10.26 billion dollars on 15 June 2018 likely to further decline to 7.76 billion dollars given that 2.5 billion dollar repayment is due this month. Needless to add, this level of reserves is insufficient to meet three months of imports regarded as the minimum required which, in turn, would compromise the capacity of any intervention in the foreign exchange market; (iii) the high level of external debt which, she hastened to add, Pakistan would not default on - a clear cut priority of the caretakers; and (iv) budget deficit that Akhtar stated during the press briefing was 6.1 percent but did not hazard to guess what it would be by the end of the fiscal year on 30 June. Apart from the fiscal deficit figure (manipulated through advance income tax collections, delay in refunds etc) the other three statistics cannot be manipulated as the State Bank of Pakistan uploads these figures.

To date nearly 20 days after Dr Akhtar took over as the caretaker finance minister, she has unambiguously announced their policy directives. First, and what was to be expected given her long affiliation with IFIs convinced that the exchange rate must reflect market conditions, is her insistence that the rupee value would be allowed to settle at its market rate as intervention is 'not sustainable'. Be that as it may, the International Monetary Fund, during the Extended Fund Facility programme (September 2013-2016) had in a footnote in one of the quarterly reviews stated that the rupee was overvalued from between 5 to 20 percent - a margin that was wide enough to be laughable. Today the rupee in the open market is above 124 rupees to the dollar and is expected to further erode in value till it reaches some sort of equilibrium at nearly 140 rupees to the dollar according to some economists. This erosion one hopes would not only arrest but reverse total import bill and at the same time make our exports much cheaper than those of our regional competitors. Or in other words the hope is that the eroding exchange rate may slash the trade deficit (by making imports unattractive and exports attractive) what high input costs, relative to regional countries, and massive pending refunds has done to raise it. Seems like a no win-win situation especially given that raising import tariffs fuels smuggling across thousands of kilometers of our porous border and actual import tax collections decline; additionally given our limited manufacturing base and limited export items a depreciating rupee is unlikely to raise exports significantly.

Secondly, Dr Akhtar stated that all debt will be serviced and repaid as and when due. No default is on the cards. But unfortunately she did not go into any details. Would the caretakers focus on improving financial management of the power sector in an attempt to contain the ever rising circular energy sector debt (which is not calculated as a component of total public debt)? Would the Finance Ministry be compelled to inject unbudgeted billions of rupees to enable imports of critical petroleum and products and thereby raise the deficit to well beyond the 6.1 percent that was claimed by the Miftah Ismail-led Finance Ministry? The poor governance of state owned entities is continuing to hemorrhage the entities as well as placing a burden of hundreds of billions of dollars on the exchequer so would the caretakers continue to release or extend sovereign guarantees to these badly run entities? There are as yet no firm answers to these critical questions.

Thirdly, it has been reported that Dr Akhtar has decided not to extend the tax amnesty scheme beyond June 30. IFIs do not support tax amnesty schemes on principle and, according to a section of the press the Fund was requested to comment on Pakistan's 2018 scheme, and the response received was: "Experience from Pakistan and other countries with repeated tax amnesties shows that these often fail to achieve their intended objectives while potentially undermining the perception of fairness of the tax system and future efforts to improve tax compliance." However, there is considerable domestic pressure on Dr Akhtar to extend it - a pressure ratcheted up by tax experts and other stakeholders which, on 21 June, was formally supported by the Federal Board of Revenue through its spokesperson who held a rather rare press conference in which he claimed that the Board is projecting generating 4 billion dollars in revenue through this scheme. He did not mention how much has been received so far.

To conclude, between the limitations imposed by the constitution on the caretakers and the limitations imposed by Dr Akhtar's work experience it is doubtful if much will change in the next four weeks and that it is the next elected government that would have to take appropriate long-term measures to resolve the economic crisis.