thenews.com.pk/print/374617-economic-realities

September 30, 2018

Economic realities

The new government, in a bid to place the blame for the state of the economy on the previous government and to minimise expectations for what it can achieve, has been playing up the economic failures of the past. Continuing with this theme, Finance Minister Asad Umar has now likened his job to performing heart bypass surgery. His diagnosis seems to have been backed up by the Asian Development Bank, which has forecast that economic growth in the country could slow down by one percentage point – from 5.8 percent in the previous fiscal year to 4.8 percent this year. The ADB has particularly pointed to the fiscal deficit and falling foreign exchange reserves. There is no doubt that the last government deserves a share of the blame. It did little to expand the tax base and propping up the rupee for most of its tenure ended up costing Pakistan dearly. The China-Pakistan Economic Corridor has not yielded the revenue that was predicted as yet. This means exports have not picked up even as we continue importing capital goods for CPEC projects. But there is no indication that the PTI government is planning on doing anything much different. Its decision to reverse the PML-N's decision to bar those who do not file their tax returns from purchasing property and vehicles removes one incentive for people to pay their taxes. On the CPEC front, it has promised to continue as before.

No government wants to admit this since it necessitates a long and painful recovery, but the fact is that the primary problems our economy faces are structural. We are almost entirely dependent on imported energy and even small fluctuations in the international price of oil can have a large impact on our balance of payments. Attempts to secure gas from abroad have been thwarted by security concerns in the case of the Tapi pipeline and US sanctions in the case of the Iranian pipeline – although a deal to explore setting up a pipeline from Russia could be promising. Pakistan needed to take on massive debt to complete CPEC projects but the country is in a bind now that the bills are coming due before those projects start yielding significant revenue. The government has suggested practising austerity but too drastic a cut in the development budget will have an adverse effect on economic growth. An IMF team is now in the country to decide if Pakistan needs and qualifies for further loans. The PTI had always railed against being reliant on international lending institutions and their onerous terms but now that it is in power it is realising that economic realities may force Pakistan into drastic action.