BUSINESS RECORDER
Founded by M.A. Zuberi

Economy: bits and pieces

Page NO.18 Col No.03

SYED BAKHTIYAR KAZMI

SEP 15TH, 2018

ARTICLE

The funny thing about economic indicators is that there are so many of them and none of them are in sync, i.e., they are allergic to agreeing with each other; whilst some economic indicators might show a very rosy pictures, at that very moment, other economic indicators may even be beating the doomsday drum; "GDP" and "External National Debt" duo, being the case in point, for Pakistan.

Even worse, some economic indicators, like the GDP, can easily be massaged by ever so lightly tweaking the underlying assumptions and parameters. Ever wonder how a country like Pakistan, which did a census after ten years and considering the disputes still did not get its population right, calculates its GDP. My best guess is that it largely depends on imagination. As an example, I offer a puzzle: according to my estimates, based on detailed regression, depression, recession, hypertension, decompression, progression and corrosion analysis coupled with comprehensive, massive, abusive and elusive modelling, Pakistan's GDP is US$ 500 billion; please provide appropriate and sufficient evidence to prove me wrong!

Hint; the above puzzle is unsolvable, and like Spock's Kobayashi Maru in Star Trek, can only be undone by cheating; you dream up even more fantastic assumptions!

But here is another very interesting thing. Since Pakistan's GDP, hypothetically, is now US$ 500 billion, the related ratios go haywire, and that too in opposite directions; for the record I stand by my GDP number and am confident that given enough data I can even prove it, notwithstanding that I am clueless on how I came up with it in the first place. Nonetheless, happily the debt to GDP ratio suddenly falls to under 50% which mean we can safely borrow another US$ 50 billion; irrespective of the fact that we cannot even pay the current external debt based on our projected income; net trade. On the flip side, sadly, the tax to GDP ratio collapses to less than 9%; this means Pakistanis will have to pay double the taxes as part of IMF's structural program pursuant to them agreeing to lend Pakistan US$ 50 billion.

Continuing in the same vein, deficit to GDP ratio improves by a huge percentage but unfortunately investment to GDP ratio goes to the cats; meaning you can seemingly import more but since you are not investing capital, your exports will continue to decline. Albeit IMF has no conditions in any of its structural reforms, which address the ubiquitous developing countries trade deficit issue; curious isn't that? Someday, I plan to write a newspaper serial on free markets and the game within. For the moment thanks to the American president, tariffs are a global rage, which surely strengthens the first bit, 30% minimum tariff.

I now have a theory that politicians were the original ancestors of economists; the traits, selling a fictional world with zero empirical evidence of it having existed, speaking a language which sounds sensible but no one understands, and making up excuses when the real world collides with their fictional world are only some of their common traits.

So where the economy sits or stands depends purely upon the ratios you select and the narrative that you build around it. But always remember up or down GDP really does not matter since GDP itself is a guesstimate.

Per an accountant's perspective, based on hardcore historical numbers, in 2013 we had to borrow US$ 6.6 from IMF and according to conservative estimates, Pakistan will now need to borrow US$ 9.5 billion from IMF; ergo, in absolute terms the economy is US$ 2.9 worse off today when compared with 2013.

Citibank, in its very recent report on Pakistan, agrees with the above premise in the very first line, "The sheer size of Pakistan's external financing gap...a decision to approach IMF may be made by end-Sept". On a separate note, the fresh finance team needs to burn the midnight oil on three things in the report: Citibank believes that China will oppose any suggestion during IMF negotiations that CPEC did it, i.e. CPEC was responsible for the economic mess we are in; why is that even on the table is a question I would ask. Citibank assert that the viability of the proposed Sovereign Wealth Fund approach of the Finance Minister is unclear. Citibank is convinced that attracting overseas diaspora money and bringing back "looted wealth" is an unrealistic and inadequate approach. Citibank estimates gross external financing requirements for FY2019 at US$ 31 billion; compared with US$ 27 billion for FY2018.

"PSE restructuring, tariff hikes and possible privatization will be on the agenda ..." Citibank report dated 3 September 2018.

Now that we can safely blame Citibank for advising tariff hikes, the first bit, the only remaining matter is how much; I stick with 30%! And for those of you who love conspiracies, if I don't get the "Lifafa" from corporate lobbies shortly, no more harping about tariff hikes in this column!

Getting back to our second bit from last week's column, why resolution of decade old property disputes and determination of who owns what land and building across Pakistan is essential. Property rights are fundamental to capitalism, and there seems to be a very strong correlation between capitalism and democracies. Hence no increase in number of courts, means more property cases, means no capitalism, and hence means no democracy.

With everyone's beloved democracy at stake, selling the second bit to the politicians and media should be a walk in the park now. And perhaps retired judges of the courts and retired senior lawyers can be brought back for two years to dispose of all these pending property cases.

The next bit is all about how not to collect taxes!

Till next week, cheers!

(The writer is a chartered accountant based in Islamabad. Email: )