INTERNATIONAL THE NEWS

No clarity on economic management

Page No.06 ColNO.01

The economic performance of the government continues to look tentative. There is confusion in the minds of policymakers – at least that's how things look to an ordinary person keenly awaiting the government's economic policy and a roadmap that tells the nation how it plans to steer the economy from stormy waters to placid shores. There are many instances of this confusion and lack of clarity.

One of the members of the Economic Advisory Council announced that, in its first meeting, the council was unanimous in advising the government to stay away from the Fund. Then came the news that a staff-level mission would soon be arriving in town.

In the meanwhile, it appears, the government has realised that the previous government had presented an uncalled-for budget, which not only gave undue tax concessions, but was also based on unrealistic estimates of revenues and expenditures.

In an article titled 'Ignoring economic challenges' published in these pages on May 1, 2018, we had argued that once these unrealistic estimates were rationalised, the underlying deficit was close to 6.4 percent as against the purported deficit of 4.9 percent. Subsequently, as more data was available, we had alerted that the deficit could be as high as seven percent, just as it was last year.

In this backdrop, the government's announcement to present a revised budget is a welcome development. More heartening is the list of measures that some press reports have revealed: reversal of tax concessions; additional tax measures; and significant cuts in development expenditure. Tax measures are billed to yield Rs400 billion whereas development spending would be slashed by Rs250 billion. The measures add up to Rs650 billion or 1.6 percent of GDP. The underlying deficit would fall to 5.4 percent.

There were also some reports regarding adjustments in administered prices, which would also be required to signal prudent economic management. While we will also comment on the feasibility of these measures, our present focus is on the confusion that continues to bedevil the rank and file of the government.

No sooner is the news of difficult measures contemplated by the government hits the press, the energetic minister for information and party spokesperson rushes to the Press Information Department and holds a press conference to quash those 'rumours'. He doesn't like any such talk and stares the newsmen with wanton looks: where is the increase in prices? Who's withdrawing tax concessions? Or, who's imposing new taxes?

He betrays the indecisiveness that's writ large on the faces of all key decision-makers. Then comes the more recent leak that the prime minister is heading to Saudi Arabia to collect a deposit of $10 billion. The journalist who was given this privileged information also chuckled: no more IMF. He went further, claiming that a bigger reception awaits the prime minister in China for launching the next round of CPEC.

The markets aren't impressed by this deepening perplexity. Such announcements aren't building confidence. The euphoria that enthralled the country has given way to rising despondency. The economic data for the first two months of the fiscal year doesn't carry any redeeming news. In fact, depressing conditions have been set off since the end of the Fund programme. The new government had to break this trend and usher in a new era of hope and optimism.

At this point, it would be useful to contrast how the previous government had started its term on a high note. The elections were held on May 11, 2013 and the assembly took oath on June 1, 2013. The then PM was in office on June 5, 2013 while his cabinet took oath on June 7. The previous government presented its budget on June 12, and a week later, on June 19, an IMF mission was in town.

Besides getting the budget passed by the assembly in record time, the government succeeded in signing the Fund programme on July 4. What's more, to get the programme signed, former prime minister Nawaz Sharif agreed to sacrifice his political capital by increasing the price of electricity (which the PPP government had avoided for most of its term) by 50 percent. But this was the need of the hour as the country would have otherwise faced a spectre of defaults within the next few months.

The stock market was at 19,916 points and skyrocketed to 25,570 points on December 30, 2013. Nawaz Sharif stood behind the programme and that is why it succeeded, becoming the first successful programme in history – and that too under a democratic government.

Prime Minister Imran Khan is not well-counselled when he laments the public debt numbers, which are not even based on facts. As we noted in our two-part series on debt (published in these pages on August 28, 2018 and September 4, 2018), our debt problem isn't back-breaking. We have faced far worse debt burdens in the past.

Our problem is the loss of fiscal discipline that has to be restored. If the government brings the fiscal deficit down to two percent of GDP this year, the country would be back on track. But this requires a fiscal adjustment of two percent, whereas the measures (if they are true) would give 1.6 percent. So, an additional Rs150 billion worth of measures would be required. The tax measures of Rs400 billion noted above are unrealistic.

The government should seek provincial surpluses over the next three years. For this purpose, a meeting of the CCI needs to be convened immediately and a voluntary arrangement must be reached with the provinces – as was done in 2013. Without such an arrangement, a required fiscal adjustment would not be possible.

It is hoped that the finance minister, when he presents his budget proposals, removes uncertainty and brings clarity on economic policy. That will leave no room for the information minister to give an alternative view on government policy. The sooner the government sends out a message that it won’t hesitate to take tough decisions to put things right, the earlier economic stability will return.

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