**Pumping growth**

BY K H U R R A M H U S A I N 2020-11-19

IN a rather strange presentation of the facts, the government told us this week that the economy is doing well and they are preparing for talks with the IMF. I always thought the IMF is where you go when the economy is not doing well.

Here are some things the prime minister`s special adviser on finance, Hafeez Shailch, and the minister information, Shibli Faraz, said during the press conference in which they discussed the forthcoming IMF t alks.

We were told there is `positive news on the economic front from all sides`. That matters under discussion with the IMF were showing improvement, such as `better revenue collection`, reduction in government expenditure and paying off debts.

`Good news is pouring in from all four sides and we need to protect it from coronavirus and build on it,` Shaikh said. Shibli Faraz went a step further, saying `all basic economic indicators have moved in the right direction over the past one month and there is a feel-good factor in the market as evident from the stock marl(et, foreign direct investment and large-scale manufacturing (LSM) data`.

So the economy is growing, the stock market is rising, revenues are up, debts are being paid off, expenditures are restrained, the power sector is being reformed and the prime minister himself is leading on thisfront(according to Shaikh)andforeign investors are pouring in, food inflation is set to fall since wheat stocks are adequate and so on.

Then why, dear sirs, is your government talking to the IMF? Fact is the economy is puffed up, full of air at the moment, and that is what is driving this `feel-good factor` that makes it appear like things are actually improving. How can he describe revenue collection as good when it is lagging behind nominal GDP growth? Take the first quarter as an example, where tax revenues increased by 2.5 per cent of GDP but nominal GDP growth was 3.5pc. And remember that a 1pc gap is equal to Rs440 billion.

Notice how the indicator deflates rapidly when placed in the proper context. Similar is the case of exports that is also being touted by the government as some sort of a signature success. Aside from the remarks by Messrs Shaikh and Faraz on Tuesday claiming exports have increased, the governmentseparately tweeted out two screenshots based on a Bloomberg article claiming exports have grown by 7pcinSeptember,fasterthanIndiaandBangladesh, because of the prime minister`s decision to open exporting units early by exempting them from lockdown restrictions as far back as April.

But the claim is built on export shipments, not export proceeds. The sheer quantity of exports, if measured in terms of the number of containers or in weight of the consignments, may well have increased. However, State Bank data shows exportproceeds in the first quarter of the fiscal year, running from July to September, actually declined more than 10pc. For the month of October, we have to look at Pakistan Bureau of Statistics data (since State Bank has not yet released theirs), which is based on customs valuations of the cargoes (as opposed to amounts received by banks as in the case of State Bank data), which saw an increase of just over 4pc compared to October last year. When measured in dollars, exports are not showing an increase worthy of being touted as a big success.

One thing to note is the large increase in the number of export consignments and the comparatively smaller increase in export proceeds. This means we are exporting more cargo and earning fewer dollars against the volumetric increase. And this merits comment.

The relatively small increase in dollar receipts on exports could be due to steeper discounts that exporters have to offer to their customers to secure their orders. But this trend has been there for anumber of years now volumetric increases coupled with relatively smaller dollar receipts and my hunch is that there is rampant under-invoicing going on. If true, this would mean the exporters are taking the full benefit of all the subsidies and other incentives the government has lavished upon them, with the bulk of their money 1(ept abroad.

The telling instance is the ongoing appreciation of the exchange rate. Whenever the rupee rises against the dollar and the trend looks like it is set to continue, we usually see large amounts of dollars hoarded abroad through trade misdeclaration making their way back through a variety of channels. It returns either as remittances, foreign investment into the stock market, or into government debt instruments, since these are usually channels through which undeclared money can be whitened. Upon its return, this sort of money most often looks to find its way into the property market.

So if you see people who own large export units and are also known players in property markets via owning housing societies, egging the prime minister on to open avenues for blacl(money to enter into property investment without questions being asked, it is fair to wonder whether we are in fact witnessing the round-tripping of dollar hoards acquired through misdeclaration of trade seeking their way into another speculative racket (property), which in turn is being pumped up through more government incentives.

Fact of the matter is the economy is riding on a mini bubble, pumped through massive government inducements, and whether or not this can last is being decided at the IMF table. Soon they will have to face reality, and get to work unwinding the circular debt through tariff increases, getting the revenue effort going through an earnest tax effort and cut the largesse being showered on industry, including the amnesty scheme that lies at the heart of the so-called `construction package`. We will see where this nascent growth story stands once all this is done.  The writer is a member of staff.

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