

# From caution to optimism

By M. Sharif

One has to read FQ1 report of SBP with a bit of caution for two reasons. One, SBP is not a fully autonomous financial state institution that has 'full liberty' to opine on the state of economy in a more candid way than it does at present. Two, its status hangs in between semi-autonomous to quasi-government financial institution that determines and executes monetary policy that conforms to IMF/Ministry of Finance diktat. It is, perhaps, imperative to do so in our environment. These very reasons create their own compulsion to read the FQ1 report with caution as well as optimism.

The extract taken from the report makes an interesting reading because this is what the previous government prior to the October general election was emphatic to state, repeatedly: "The induction of the newly elected government has generated expectations in some quarters that fiscal discipline, institutional re-structuring, socio-economic policies and good governance practices pursued during the last three years will gradually give way to more populist policies. This if happens, will be most unfortunate. The economy, having achieved stability, eased itself from pressures of external sector payments and gained credibility in financial markets and is now poised for take-off towards his/her growth, employment and poverty reduction".

trend that could enable the government to meet both budgetary targets. Exports earning during July to December period of current fiscal year stands at \$5.2 billion, exactly half of current fiscal year's target of \$10.4 billion. Officials have expressed confidence that in case existing trend in exports continued, export target could be surpassed and could be close to \$11.0 billion. Similarly, tax revenue collection has also hit the target of PRs199.5 billion.

Trade deficit during first six months stood at \$590.335 million against \$417.5873 million during first six months of last fiscal year. \$73 million increase in trade deficit was mainly due to increase in imports by 18.71 per cent.

A few other macro-economic indicators such as LSM fiscal deficit, current account balance show a mixed trend during first quarter of current fiscal year compared to

suing populist demands?

During second half of current fiscal year, the political government has moved swiftly to decrease burden on the common citizens even if nominally. As a first measure it reduced electricity charges by 12 paisa per unit for a certain degree of consumer whose total financial effect could be around Rs7/8 billion for WAPDA according to a conservative estimate. A further decrease of 5.5 paisa per unit has been declared for KESC consumers. A committee headed by Advisor to PM has been appointed to prepare a relief package for agriculture sector to boost production. The old system of support price undone by the army-led government for different cash crops has been restored to protect the interests of farmers particularly the small ones. There are also reports that 15 per cent GST on fertilizers imposed under IMF pressure is likely to be withdrawn.

secure their markets. This is the situation to which new economic world order has ultimately boiled down. The SBP needs to take cognisance of this view point and must endeavour to bridge the dichotomy that is so very obvious in its report. It pre-empts any economic measures that government intends taking to address the economic woes of the common people cosmetically by reissuing the spectre of dooms day if populist demands were met. There is no point to stress upon that a lot is to be done to change the economy and economic condition of the common man. SBP needs to orient itself to give due weightage to this vital aspect of economic management.

## Populist demands

We need to have a deeper look into populist demands whose pursuance has been seen by the SBP with open scepticism. Populist demands centre round reducing the cost of utilities, reducing or withdrawing GST on various consumable items and inputs for various sectors of economy and executing such socio-economic policies which should bridge income gap between various segments of society, increase per capita income, improve social sector infrastructure and alleviate poverty. In case one looks at these populist demands, there is nothing wrong with them. In fact had managers of national economy and ruling elite ever cared for the common man of the country, they at their own would have executed such

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### Three fundamental questions

The above statement from the SBP report raises three fundamental questions. First, why should economic stability, if achieved through genuine economic growth would conflict with populist policies, if they were pursued by the government? Second, what could be probable populist policies that according to SBP report "will be most unfortunate"? Third, is the economy relieved-off from the pressure of external sector payment, really poised for take-off? These are important questions and finding their answers objectively is imperative.

A lot is being talked about macro-economic stability with visibly high macro-economic indicators supporting the contention. For example, forex reserves are poised to increase up to and may be even beyond \$10 billion mark by the end of current fiscal year for external reasons that have helped building forex reserves. Similarly, performance of economy on two major counts - exports and tax revenue collection - over past six months has shown quite positive

first quarter of last fiscal year. LSM has declined by 2.6 per cent, fiscal deficit has decreased from 1.7 to 1.0 per cent and current account deficit has increased from - 0.1 to 1.9 per cent.

The report expresses optimism about achieving the targeted growth rate of 4.5 per cent of GDP because of recovery of agriculture sector after two years. Other indicators such as current account balance (CAB) and worker's remittances, have also shown extra-ordinary positive trend. Balance of payment during first quarter decreased from \$587 million of first quarter of last fiscal year to \$67 million of first quarter of current fiscal year primarily because of higher FDI, increase in non-food and project flows from donor countries and decrease in repayments of commercial loans and credits. The trend is likely to continue. Exports and tax revenue collection also support the viewpoint that economy is poised to achieve the targeted growth rate of 4.5 per cent. In case it were so, why the report has expressed scepticism about pur-

In case one goes by the statements of the former finance minister and presently advisor to the PM, the newly inducted government should have resisted the temptation of meeting the populist demands some of them have been stated in above lines. How does one reconcile with post-election development which include new role of former finance minister as Chairman relief committee appointed by the PM. He had enthusiastically implemented IMF conditionality. The committee is to recommend a relief package that would be mostly based on populist demands of agriculture sector such as doing away with GST on inputs like fertilizers. Imposition of GST has made inputs for agriculture costly. The point to be highlighted is that populist demands arise out of economic compulsions. It is the responsibility of the government to address them. Donors and IFIs are least committed to such an obligation. Their prime interests for understandable reasons lie in securing their capital interest on it along with hold on the economies of recipient countries and

policies that would have adverse effect on economic goals that are there now in populist demands. Even WB's new doctrine encompassing poverty alleviation programme, empowering people at grass-root level and to take their own economic decisions and owning of economic process and projects by the people indirectly include populist demands. In case a strong case exists in favour populist demands, why SBP is sceptic about them?

SBP values sustenance of macro-economic stability vital for future economic growth Governor SBP is optimistic about achieving 4.5 or 4.6 per cent of GDP economic growth by the end of current fiscal year and 5 per cent growth during next fiscal year. He, however, fears that any fiscal indiscipline that was witnessed during the past regimes, mostly the civilian rules of 90s could obstruct economic growth. He is reported to have said, "the government should keep an eye on fiscal discipline, fiscal deficit to avoid falling in the debt trap once again".

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