

# Revival of economy: need for change of strategy

It is now the time to take the nation into confidence about the true state of the economy and design a new strategy for its revival

By Dr. Shahid Hasan Siddiqui

The military government has all along been claiming success in making commendable progress towards the economic front. It had, accordingly, been vowing to ensure that their economic policies would not be allowed to be changed even after the elected government takes over. The World Bank (WB) and the International Monetary Fund (IMF) have repeatedly been insisting that the new government which comes into power after October elections must stay on course with the reforms programme launched by the Government. The State Bank (SBP) also joined the bandwagon by advocating the need of remaining committed in implementing the "On - going reforms programme". In this article an attempt has been made to review the performance of the economy during the tenure of Gen. Pervez Musharraf's administration.

During the tenure of military government at least six major macro- economic targets for three years in a row i.e. for 1999-2000, 2000-01 and 2001-02 could not be achieved. These six targets are:

- GDP growth rate
- Tax revenue
- Exports
- Budgetary deficit
- Total investment

that the elected government has agreed in principle to continue pursuing those very economic policies, the meticulous implementation of which has resulted in non - achievement of targets for three financial years in a row, rise in poverty and unemployment and over-all deterioration of the macroeconomic indicators on the domestic front.

The following table-B shows that the average GDP growth rate has been showing a declining trend. In fact it was 5.2 per cent between 1990 to 1993, rose to 5.5 per cent during 1993 to 1996 but declined to 3.5 per cent during 1996 to 1999 and further to 3.3 per cent during 1999 to 2002.

It is significant to note that the GDP growth rate target for current financial year 2002-03 is only 4.5 per cent whereas GDP growth rate target for 2003-04 is 5 per cent. The poverty can however, show a sustainable reduction only if GDP records a growth rate of over 6 per cent p.a. for a number of years. It therefore, appears that if the existing economic policies are continued, there seems to be no possibility of achieving sustainable progress in the on-going poverty alleviation programme.

The restoring of the confidence of investors was on the top of the agenda of Gen. Pervez

action was taken against terrorist groups."and

Further, the acts of terrorism including bomb blasts, the arrests of " high profile terrorists" and their wide coverage at local and international media have additionally been spoiling the investment climate in the country. It is now the time to review and tone down Pakistan's foreign policy particularly in respect of its over-active role in "fight against terrorism."

It is unfortunately a fact that instead of accepting the failure in achieving the objective of economic revival as laid down in

2001-02 released on October 28, 2002 at page 140 observes that Pakistan's External Debt and Liabilities in 1998-99 were \$36.60 billion and not \$ 38.0 billion.

The following table-C shows the comparative position of public debt.

It is observed from table-C that during last three years:

(i) External debt has in fact shown a rise of more than two billion dollars from \$ 31.3 billion in 1998-99 to \$33.4 billion in 2001-02.

(ii) Domestic debt has also shown a rise of PKR 319.6 billion

made by chairman NAB also, is again not correct. The Governor State Bank, after recent elections, in an article published in a national newspaper says that during the past three years, an amount of more than PKR 40 billion has been recovered in respect of banks and DFIs. He further says that cases of willful defaults have been referred to NAB and that NAB has helped in recovering including rescheduling, PKR 17.5 billion so far from these defaulters. The NAB and the govt. must therefore refrain from making such claims in future as cash recovery through NAB's assistance during last three years is only PKR 12 billion or so as against the claim of PKR 80 billion.

The report published by the govt. referred to above also says that " Exports stagnating at around \$8 billion during 1994-95 to 1998-99 have broken the \$9 billion barrier for the first time in 2000-01 and continued growing during 2001-02. —". The true position however, is that Pakistan's exports in 1993-94 were \$ 6803.0 million, which recorded a historic rise of \$1300.0 million and stood at \$ 8137.0 million in 1994-95. In 1995-96, exports further rose to \$8707.0 million. It is however; correct that exports crossed the barrier of \$ 9 billion in 2000-01. In any case, it has been

TABLE-A: COMPARATIVE POSITION OF SELECTED MACRO-ECONOMIC INDICATORS

	1998-99	2001-02	Change	Remarks
GDP growth rate	4.2	3.6	(0.6)	Target of FY2000, 01 and 02 not achieved
<b>As Per cent of GDP</b>				
Tax revenue	13.3	12.9	(0.4)	Target of FY2000, 01 and 02 not achieved
Total investment	15.6	13.9	(1.7)	Target of FY2000, 01 and 02 not achieved
Budget deficit	6.1	6.6	0.5	Deficit in FY2000, 01 and 02 could not be kept within limit

TABLE-B: COMPARATIVE POSITION OF GDP GROWTH RATE

Years	GDP Growth Rate	Remarks
1980s	6.5%	—
1990-91 to 1992-93	5.2%	Nawaz govt.
1993-94 to 1995-96	5.5%	Benazir govt.
1996-97 to 1998-99	3.5%	Nawaz govt.
1999-2000 to 2001-02	3.3%	Military govt.

government at least six major macro-economic targets for three years in a row i.e. for 1999-2000, 2000-01 and 2001-02 could not be achieved. These six targets are:

- (i) GDP growth rate
- (ii) Tax revenue
- (iii) Exports —
- (iv) Budgetary deficit
- (v) Total investment
- (vi) Trade deficit

It is also observed that many macro-economic indicators deteriorated during last three years. The following table-A shows the comparative position of the economy as on June 30, 1999 and June 30, 2002 in respect of some of the major macro economic indicators.

It will thus be seen that the performance of the economy as reflected from GDP growth rate, tax revenue, total investment, export, budget deficit and trade deficit deteriorated in 2001-02 as compared to position inherited in 1999-2000. While commenting on the performance of the economy, State Bank Annual Report 2001-02 released in October 2002 observes; -

“—The quality of growth remained lackluster and shallow as the spread and spillover to the rest of the economy remained highly limited. Thus the buoyancy and briskness in economic activity was not observed.”

It therefore, looks surprising

therefore, appears that if the existing economic policies are continued, there seems to be no possibility of achieving sustainable progress in the ongoing poverty alleviation programme.

The restoring of the confidence of investors was on the top of the agenda of Gen. Pervez Musharraf. The economic managers of his administration, instead of taking steps for winning over the confidence of domestic and overseas Pakistanis, devoted their energies in securing confidence of International Financial Institutions (IFIs) and imperialistic powers by accepting and implementing their demands, conditionalities and prescriptions. The implementation of the directives of IFIs not only had an adverse effect on the economy but also significantly enhanced the number of persons living below the poverty line. The assuming the role of ‘front line state’ in the U.S.-led war against terrorism by Pakistan, on the other hand, resulted in the deterioration of the law and order situation in the country.

The SBP Annual Report 2001-02 released on October 28, 2002 observes:

“Foreign investors remained hesitant in making new commitments. And the law and order situation became difficult as

**TABLE-B: COMPARATIVE POSITION OF GDP GROWTH RATE**

Years	GDP Growth Rate	Remarks
1980s	6.5%	—
1990-91 to 1992-93	5.2%	Nawaz govt.
1993-94 to 1995-96	5.5%	Benazir govt.
1996-97 to 1998-99	3.5%	Nawaz govt.
1999-2000 to 2001-02	3.3%	Military govt.

**TABLE-C: PROFILE OF DOMESTIC DEBT, EXTERNAL DEBT AND LIABILITIES**

	FY1999	FY2002	Rise
(i) Domestic debt	PRs1375.9 bn	PRs1695.9 bn	PRs319.6 bn
(ii) Total debt (Domestic & external & explicit liabilities)	PRs3060.4 bn	PRs3760.5 bn	PRs700.1 bn
(iii) External debt	\$31.3 bn	\$33.4 bn	\$2.1 bn
(iv) External debt & liabilities	\$36.60 bn	\$36.53 bn	—

the agenda announced on October 17, 1999, the economic managers have been distorting facts in the report published by the government on October 10 2002 under the caption “ 3 Years of Reforms and Good Governance”. The report claims:

“External debt and foreign exchange liability stand reduced from \$38 billion in 1998-99 to \$36 billion in 2001-02 “.

The fact of the matter is that this statement is factually not correct as no such reduction has been recorded in the total quantum of external debt and liabilities inherited by the government on October 12, 1999. The State Bank Annual Report

from RKR 1375.9 billion in 1998-99 to RKR 1695.5 billion in 2001-02.

(iii) The total public debt rose by RS. 700.1 billion from PKR 3060.4 billion in 1998-99 to PKR 3760.5 billion in 2001-02.

(iv) The total external debt and liabilities were \$36.60 billion in 1998-99, which practically remained unchanged in 2001-02 and stood at \$ 36.53 billion.

It is also interesting to note that the report published by the govt. referred to above also claims that: “National Accountability Bureau (NAB) was instrumental in recovery of bank defaults amounting to PKR 80 billion”. This claim, which was earlier

Pakistan's exports in 1993-94 were \$ 6803.0 million, which recorded a historic rise of \$1300.0 million and stood at \$ 8137.0 million in 1994-95. In 1995-96, exports further rose to \$8707.0 million. It is however; correct that exports crossed the barrier of \$ 9 billion in 2000-01. In any case, it has been incorrectly mentioned in the report that exports continued growing in 2001-02. All this and much more incorporated in the report neither justifies the claim of good governance nor serves any purpose. It is however, accepted and recognised that as a result of post September 11 scenario tremendous improvement has been recorded in the external sector.

It is now the time to take the nation into confidence about the true state of the economy and design a new strategy for its revival. The salient features of this strategy will be highlighted in one of our next articles.

The military government faithfully followed the prescription of International Financial Institutions and accordingly won kudos from donor countries but could not succeed in improving the investment climate in the country. The following table-C shows that total investment as per cent of GDP declined from 15.6 per cent in FY 99 to 13.9 per cent in FY 02, a big fall of 1.7 per cent.