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Road to macroeconomic stability

By Umar Latif

What the former government aspired to achieve in its three year stint, the time allowed by the Supreme Court of Pakistan, was achieved by and large, in the latter part of the final year. Most of the achievement was realised in consequence of the situation emerging in local fallback of the September 11, 2001 simmering episode that occurred in the United States of America. The USA is now anchored as a unique unipolar super power on the global spectrum. Until the end of fiscal year in June 2002, then about two years or two-third of the prescribed three year period of General Pervez Musharraf's rule had lapsed, chips on economic horizons persisted down, but not without fond hopes of their getting bright, through certain polishing being vigorously put by his economic team. No compelling needed to accommodate populist policies and get along the political forces on wider spectrum; concerted efforts on core issues were fairly facilitated. Nonetheless, unless political and economic forces could be wielded well together and integrated effectively, investments would be difficult to come around. This was, of course, clearly seen from the fund flows not emanating in a way and in system, which could promote economic activities and brings the much desired upturn.

Before putting up comparative macroeconomics parameters, it would be in concert to touch upon what does macroeconomics stability refers to. Macroeconomics is an important and interesting subject to broach, of course, for those who feel at home to deal with the intricate subject and hold deep concern about human welfare. No human beings can be immune to such concern. Macroeconomics basically reflects in aggregate the result of microeconomics performance and so it encompasses study of the entire gamut of economics. Key indicators of macroeconomics tend to be sound budgetary structures, positive external trade trends and its salutary influence on the balance of payments position, stable prices of goods and services getting increasingly in the reach of the people, improving opportunities of employment and in sum total reflecting human welfare getting firm.

Microeconomics study on the other hand deals with approach in decision making by individuals and enterprises and their overall interactionary impact. Macroeconomics indicators get shapes from several microeconomic interactions. Macroeconomists invariably measure results with many a tools applicable in the upturn of the microeconomics.

During the past three years, registering of loud but fuzzy claims of great achievements leading to stabilisation of macroeconomics was trumpeted. In contrast, on microeconomics level, chips persisted deep down and repetitively got dented. Stability in macroeconomics indicators being claimed so often with a purpose to convince people of achievement and stability could not get supportive evidence from the outcome flashed on microeconomics canvas. It has been similar to the proverbial building of castles on sand.

Like acrobatics, grand show of macrobatics has been on in Pakistan theatre for now more than three years at a stretch. This compels one to have a good look at the macroeconomics indictors underlying the stability structure. Some key figures given in the table shall facilitate the assessment.

(1) Growth rate gross domestic product reflects a downtrend. Three years average growth rate at 3.32 per cent by no means is supportive to sustainability of the claim of public welfare.

THREE YEARS' MACRO-ECONOMICS INDICATORS

Rs/US$ in million

	1999-00 (Rs)	Growth rate %	2000-01 (Rs)	Growth rate %	2001-02 (Rs)	Growth rate %
Gross domestic product	649,656	3.90	665.582	2.45	689,613	3.61
Gross national product	641,773	3.50	657,837	2.50	693,390	5.43
Gross fixed investmnet	452,280	10.48	488,180	7.94	459,457	(5.88)
National savings	444,806	29.40	514,636	15.70	519,859	1.01
Domestic savings	498,389	31.60	577,398	17.98	514,959	(10.82)
Fed. Govt receipts	531,300	14.41	535,091	0.71	643,803	20.30
Fed, Govt, revenue expenditure	604,365	14.24	612,680	1.38	662,607	8.16
Budget defict	73,065	13.01	77,589	6.19	18.804	(76.77)
Trade off:		**US$**		**US$**		**US$**
Exports	8,190	8.79	8,933	9.07	9,133	2.24
Imports	9,602	(0.11)	10,202	6.25	9,493	(6.95)
Deficit	1,412	(32.28)	1,269	(10.13)	360	(71.63)
Services & Incomes-net						
Outflow	1,501	6.53	1,464	(2.47)	2,027	38.40
Inflows	4,296	6.86	4,606	7.20	4,647	0.89
Deficit	2,794	6.72	3,142	12.40	2,620	(16.61)
Forex reserves	2,766	(5.34)	3,810	37.74	6,997	83.65

GDP and GNP are atconstant factor cost.

Source: State Bank Annual Report 2002-03 .

(2) Growth rate of gross national product improved in 2001-02, which has been due to positive flow of income from abroad worth PRs3.777 billion, which in the preceding two year was a negative flow at PRs7.83 billion and PRs7.745 billion.

(3) Growth in gross fixed investment has distinctly deteriorated.

(4) Growth rate of national savings has drastically dropped.

(5) Trend of domestic savings wears still worse.

(6) The federal government receipts report fluctuations, reflecting the trend in growth rates of GDP and GNP.

(7) Decline in budget deficit has been by reduction in debt servicing emanating from debts reprofiling, getting moratorium, reduction in servicing on both external and internal highly surged debts.

(8) Reduction in imports a steady growth in exports reveals cuts in domestic consumption on both counts, reflecting poverty menace on the march.

(9) Services and incomes - the net out flow has been rising, yet with more supportive inflows from donors etc., has been a help to reduce the net effect, which may by short run gain and long run drain.

(10) High tide in forex reserves has been way of (a) purchase of US $5.167 billion in kerb by the State Bank of Pakistan during the said three years, (b) restraints of inflows by Hundi system (c) increased economic assistance, (d) external debts rescheduling and restructuring (e) repatriates sending more of funds home etc.

Had it really been a great macroeconomics upbeat, it would have neatly reflected in growth rates of GDP, GNP, fixed capital outlay, domestic savings investments, increased external trade, more revenues, enhanced employment and above all sound balance of payments position created without crutches, as identified in the boost achieved. Fundamentals of macroecomics stability through improved performance of macroeconomics have not been in irrefutably supportive evidence.

The situation has now emerged, especially with a record above eight billion dollars of forex reserves and boost in fund flows, provides us an opportunity and challenge also, to transcend macroeconomics lopsided growth by injecting requisite vigour to dynamics in microeconomics and build its structure on strong footings. It would be an interesting enterprise aiming at creating a good model of successful transition from macro to micro build up. Usually, the process has been a journey from micro to macro built up. Fortification of macoreconomics from micro built up has been a long experience and the path well known to tread. Pakistan gets an opportunity to excel in transforming microeonomics from happy tidings heralded by adequate resource base emanated in the macroeconomics.

The current situation presents a case for our economists claiming often the present policy as indigenously devised to make out of a gratifying situation. Let us make a powerful model for other economies, like Pakistan, to follow the strategy in near future for their economic revival. Several developing economies, and among them specially Islamic countries, are passing through situations similar to ours and let them too benefit.

Mere macrobatics, by eloquent tune of macroecnomics stability will not usher prosperity, will not even derive the fun desired, will not give impetus to economy.