

From caution to optimism

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It is pertinent to point out that the country is still not out of debt trap. Whatever little fiscal space is now available to the country on account of paying less for foreign and domestic debt, it is because of rescheduling of \$12.5 billion foreign debt by the Paris Club countries and substantial reduction in domestic interest rates.

A few of the populist demands, if executed, might affect tax revenue collection which can be compensated by improving the long outstanding demand to make CBR an efficient and transparent organisation. Similarly, utilities charges such as that of electricity if reduced, can be compensated by reducing the line wastage and theft. WAPDA and KESC, so far have not succeeded to address both the problems despite the fact that they are being managed by the army personnel. It is therefore quite logical to argue that when SBP asserts that the political government should stay away from taking measures that could increase fiscal deficit, it inadvertently supports the slanted practice carried out during past years to punish the middle and poor class doubly, that is, to let them suffer at the hands of inefficient utility organisations and deprive them of any benefit that could accrue because of higher spending by the government. A better option for the SBP is to pinpoint the areas which the govt should improve.

Is the economy poised to take-off

The answer to this question either positive or negative is debatable. The official answer, also supported by SBP is positive whereas some of the analysts view the official version with certain degree of reservation. The criteria for economy being poised to take-off is that it is presently moving in the direction of a sustainable economic growth. If so, two things must visibly should take place. One, exports must increase and trade deficit should become surplus. Two, tax revenue should increase and fiscal deficit should decrease through high tax revenue collection.

What are ground realities at present? Exports are on the increase as has been highlighted in the initial part of this article. But, they are marginal, least diversified and value added. Imports have also increased. Trade deficit has marginally increased during the first half of current fiscal year compared to first half of last fiscal year. The mere fact that we might earn double digit forex of \$10.4 billion according to the target raises the hope that economy is poised to turn

around. Such an assessment will, however, be credible in case the trend persisted. Better performance of agriculture sector is expected this year. It would give boost to GDP growth rate. But, sustainability of high growth in agriculture is more dependent on weather than on an irrigation system that can withstand the hazards of poor weather.

Banking sector is facing problem of excess liquidity. Failure of the government during 1999-2002 to address the woes of industrial sector has left the economy high and dry to use excess liquidity for the industrial sector. Slow and low private credit despite substantial cut in interest rate, SBP's anticipated venture in house financing and ongoing venture in consumer goods clearly indicate that managers of national economy have been caught unprepared to benefit from excess liquidity as they were unprepared during 80s when foreign remittances and aid were in excess. For these very reasons and in case every thing from good performance by agriculture sector picking up consumer financing substantially, economy may experience higher economic growth rate but which might be unsustainable. External factors are playing greater role rather than internal factors and institutional strength for being optimistic about turning around economy.

Conclusion

SBP over past two years has done commendable job in executing a balanced monetary policy, taken extra-ordinary measures to keep inflation low and keep rupee stable vis-a-vis US dollar, built high forex reserve by and has adhered to the commitments made to IMF. It has kept pace with the government policy to achieve macro-economic stability. It has published objective analysis about performance of the economy as far as could be possible for her. But, all along it has not cared for the poor segments of the society who have suffered because of governments one sided policies that primarily focused at macro-economic stability. The caution expressed in the report over the possibility of falling into the trap of executing populist demands that would affect the economy negatively, amounts to over reaching a point that is not finding favour some experts and the people. In case people are made to stay in the queue and wait till they are exhausted and donors are preferred over them. Then, neither SBP nor the finance ministry are doing their job to public satisfaction.