The rising deficits

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PAKISTAN's rising deficits are becoming a cause for concern. According to provisional data released by State Bank, the current account deficit, which was $886 million during July-December last year, registered an increase of $228 million in just two months and stood at $1.114 billion this February. The trade deficit has registered a more alarming rising trend. During July-December 2004 it was around $2.257 billion. By March 2005, it had reached $4.262 billion, increasing by $2.005 billion in three months. The trade deficit figure for the first nine months of the current fiscal is almost three times the figure of the entire fiscal 2003-4, which was $1.279 billion.

The current account deficit comes on the heels of a surplus of $1.99 billion during the same period in the last fiscal. What is worrisome is that it is likely to expand at a fast pace as the increase in imports is outpacing exports, thus widening the trade deficit. The sharp rise in the import bill is attributed to a greater focus on capital intensive imports (chiefly machinery for industry to subsequently boost exports) and an increase both in volumes and prices of oil. During July-March 2004-5, the import figure stood at $14.469 billion while exports brought in $10.207 billion. The budget for 2004-5 was based on a trade deficit projection of $3 billion. Now State Bank expects it to cross the $5 billion mark. Originally the export target was set at $13.7 billion but is expected to fall slightly short and reach around $13.5 billion. The initial import target was $16.7 billion but a revised estimate predicts it settling at around $18.5 billion.

An across-the-board upward trend in imports means the economy is clearly expanding and requiring more input. That said, a continuously rising trade deficit puts great pressure on the painstakingly accumulated forex reserves and threatens to slow down the fast growth rate in the long run. Therefore it must be carefully managed. Neither international prices nor domestic demand for oil are likely to go down in the near future. During July-December 2004, the import bill for petroleum and petroleum products registered an increase of 38 percent over the preceding year, while import of oil in terms of quantity was 20.6 percent higher. Therefore, while the Finance Ministry ponders over ways to check the rising deficits, they should give promotion of import substitution industry some consideration. In place of importing expensive value-added machinery, an emphasis should be placed on developing our engineering sector, and giving it a level playing-field. It must be noted that a narrow focus on high growth, forex reserves and federal government solvency will not cure the country's ills in the long run. If important indicators like rising deficits are ignored, it will not be long before the growth fizzles out with little to show.