The economy in 2019

The economy has slowed down, the Rupee has been devalued, interest rates have gone up and there has been some increase in the rate of inflation in the country. Why has this happened? And what prospects does the economy hold in 2019? This article answers the above questions in an honest and as simple a manner as is possible.

Pakistan’s economy is recovering from what can be best described as a ‘consumption led’ growth period that was financed by short term debt instruments and a stifling of investment climate. Consumption as percentage of GDP went up from the already worrying figure of 91.8% in FY14 to 94.5% in 2018. Correspondingly, total gross investment (that includes government investment also) in Pakistan was reported at just 16.4% of GDP in FY18 whereas India’s figure stands at close to 30% and Bangladesh is at 31% of GDP. Additionally, our spur of consumption spree was associated with policies in the past that instead of channeling the countries resources into savings, investments and industrialization further aggravated the problem of private investment. And here’s how:

To begin with, we saw a very visible deterioration in the economy’s fundamentals as the country exited the last IMF program in 2016 and all forms of fiscal and monetary discipline were abandoned. What this means is that we were fuelling growth in the economy by spending from resources that we did not have. For example, in the last financial year alone, RS 1300 billion of government spending was financed by printing money and monetization of public debt. The previous government was also happy to ask FBR to withhold genuine refunds to the tune of hundreds of billions of Rupees of businessmen and entrepreneurs that further squeezed their working capital and halted all their expansions. This whole model broadly represented the previous government’s fiscal policy and it’s no surprise that it fuelled only consumption growth. And it also led to whopping RS 2300 billion or 6.6 % of fiscal deficit in the system i.e. the excess of government spending over government’s income.

Now let’s take a look at the monetary side. In the first 4 years of the previous government, the Real Exchange Rate (the buying power of the currency in comparison to other currencies) appreciated by 28% without any improvement in the trade deficit to justify this increase. This means that our exports became that much uncompetitive in the international markets and we began subsidizing our imports. This led to the closure of hundreds of export houses and fuelled a largely consumption led increase in our imports. From a point where we had a Current Account deficit of just USD 2.5 BN in 2013, the figure soared to USD 19 Billion in 2018.

The second aspect of monetary policy is Interest Rates. The interest rates were kept low in the past but that also did not translate into any notable increase in private sector borrowing, the loans that our entrepreneurs use for investments and setting up businesses and industry. The reason that private sector was not advanced these loans by the banks is that the government was doing what the economists call ‘crowding out’ the private sector. The banks were more than happy to lend to the government in the form of Treasury Bills. So in effect, the lower interest rates actually did not lead to any investment and the whole monetary scheme of things further fuelled the consumption spree.

The result of the above mentioned fiscal and monetary policies was not surprising for any economist. The country came on the verge of bankruptcy at the close of the last financial year (FY2018). Once both the IMF program ended and oil prices began to rise, the superficial nature of the whole economic model unfolded and the State was left with nothing to finance its fiscal expenditures and its huge import bill.

So what has the new government done about this? And what does it plan to do in order to make sure that the repeat of the above does not take place?

The first and foremost plank of the new government’s economic priority in 2018 has been that the country must meet its financing obligations in terms of debt repayment due this financial year (USD 9 billion) and that the current account deficit is reduced to the range from USD 11-13 Billion from the current USD 19 Billion. The fiscal side also has to show improvement as the last reported fiscal deficit of 6.6% is not sustainable. The above priorities are necessary and overarching in order to keep the economy functioning and not defaulting on its both external and internal obligations.

The good news is that as a result of adjustments by SBP in the exchange rate and the imposition of Regulatory Duties by the government on non-essential items, we have seen a sharp reduction in the growth of imports that has gone down from the figure of 26% growth to a negative figure. Some commentators have criticized the steep adjustment in the exchange rate. However, one has to take into account the fact that the exchange rate was allowed to appreciate in real terms and the need for corrections had been piling up for at least 4 of the last 5 years. Therefore the country had deviated significantly from its Actual Exchange Rate value and a one-time steep adjustment had become inevitable.

The foreign remittances, another foreign exchange source, have also shown a very encouraging rise of 12.5% in the first quarter and the export sector is also showing a positive growth. In 2019, the government shall announce a comprehensive incentives package for overseas workers to send their remittances through the formal channels. Improving the speed, security and reducing the red tape that is currently surrounding the formal channel procedures is a central aspect of the upcoming incentives package for foreign remittances.

The new government’s successful foreign policy has led to friendly countries offering us sizeable support for our Balance of Payments. Bilateral assistance in the form of funds and deferred oil payment facilities from KSA, UAE and other countries has begun to pour in. As a result of the above, the country has successfully averted the balance of payments crises and all economic trends indicate that our deficits are coming down rapidly to within manageable ranges.

The second economic priority of the PTI government is that growth shall now have to be led by exports, investment and productivity instead of consumption and imported finance capital. I mention exports first because a country earns its foreign exchange primarily by virtue of this sector. And foreign exchange earnings are required to fill our huge financing gap and escape from the debt dependency trap. The readjustment of the exchange rate by bringing it at par with its actual market value has helped in restoring competitiveness of our exports. Furthermore, the government has also reached an agreement with the export sectors with regards to freeing up their entire stock of working capital stuck up with FBR in the shape of pending refund claims. This government will no longer use the entrepreneur’s capital to cover up and finance its own shortcomings in raising revenues or funding showcase projects. On this same note, the government has also taken the unprecedented step of bringing at par the energy costs that our exporters face. LNG and Natural Gas mix is now being supplied to them at the regional average rate of USD 6.5 per MMBTU. A similar approach is being worked out when it comes to the electricity tariffs that shall be notified at 7.5 cents/KWH for the export sector. With these measures in place, the export sector in 2019 will be able to unleash its real comparative advantage and earn the much needed foreign exchange for Pakistan.

Another much debated subject these days is interest rates. One would be justified to ask the question that how the government on one hand claims to be promoting ‘investment led growth’ whilst on the other hand is raising interest rates, the act that in theory discourages investment? Firstly, the need for raising interest rates arose when the rupee was devalued. Devaluation causes inflationary pressures to rise in the economy and in order to prevent the rise in prices from forming a spiral and going out of control, the interest rate had to rise simultaneously. However Pakistan’s interest rate in Real Terms (adjusted for inflation) is approximately 4% now. That’s the same rate in real terms that is prevalent in all countries in our region. Furthermore, fresh data with regards to interest rates and investment is painting a very different figure from what many would predict. The ‘private sector credit off take’ in the economy in the first quarter has risen by more than 400%. This means that current interest rates are not stifling investment at all. The explanation for this seems to be that once the ‘crowding out’ phenomenon that was mentioned above was eliminated, the suppressed appetite of the private sector for loans came into play. This phenomenal growth in private sector loans is a much needed development and this trend shall continue into 2019.

Studies point out that apart from restrictive economic policies that were hindering savings and investment in Pakistan, there are two additional features in play. Security and Taxes. The security situation has significantly improved over the years following the successful ‘Zarb-e-Azb’ operation conducted and led by the military. However, little attention has been paid to the most complicated and business unfriendly tax policies and laws in place. Whilst Pakistan is 136th in the rank of the ‘ease of doing business’ index, we are 173rd when it comes to ‘complicated tax systems’ as per a World Bank report. This means that taxes are right now the single biggest hindrance in the way of investment in the economy and the current government is formulating bold initiatives in this regard that shall be rolled out in 2019. For example, ‘With-Holding’ taxes on filers is nothing but a ‘red tape’ as most of the sums under this head are adjusted in the annual return anyway. Similarly, for the non-filers, this tax has only acted to reduce the ‘Cash to Deposits’ ratio in the economy. As per some calculations that take into account the ‘multiplier effect’ of deposits and subsequent lending in the banking system, it is estimated that up to Rs 6 trillion can potentially be made available for private sector lending if the disincentives from transacting in the banking system are removed and the government in 2019 fully intends upon beginning to phase out these distortionary taxes.

I now turn towards the question that affects each one of us; overall economic activity. As mentioned above, the general policy paradigm was in need of a shift, from ‘consumption’ towards ‘investment’. This shift in economic priority entailed a readjustment in the fiscal and monetary policies of the country. ‘Change’ is always accompanied by a certain degree apprehension and uncertainty. We indeed see that in our economy now and it is understandable. We are witnessing a correction or a ‘hang over’ from the over consumption of the past as we sail away from that approach towards a more sustainable and structurally sound economic model. However, as the contours of this new economic approach become clear and an investment focused and pro-business set of policies and framework is put in place, we expect this uncertainty to be swiftly replaced by investor confidence and growth.

2019 shall be a year in which Pakistan shall take significant steps towards improving its ‘ease of doing business climate’. A new tariff policy aimed at rationalizing duties on imports of raw materials, machinery plus simplification in taxes and filing procedures for Individuals, Corporations and Businesses shall be announced. Taxes shall no longer be used purely to raise revenues. The aim of the separation of Tax Policy Division from FBR’s administration is precisely to phase out all taxes that have added to the cost of doing business in Pakistan and replace them with measures that create incentives for SME’s and businesses.

Reforming Pakistan’s tax laws is an extensive subject and a Tax Reform Implementation Committee that I head has already been notified. It is composed of the original authors of the famous and well written Tax Reform Commission Report that was never followed up with policy. My next article will be devoted purely towards the issues of upcoming ‘Tax Reforms’ so I leave this subject with the comment for now that the government will not shy away from undertaking bold measures at simplification and ease of filing taxes and reforming FBR into a business friendly entity in 2019.

Entrepreneurs and businesses in Pakistan have to deal with multiple government departments that require extensive time and workforce to deal with. The methods these departments employ in the name of compliance with outdated legal statutes and their wide ambits mean that businesses and especially SMEs are put at a serious disadvantage and feel harassed. Therefore, the scope and powers of these departments is being revisited and shall be reviewed in conjunction with the provincial governments.

2019 is also expected to be the year for foreign investments in Pakistan. CPEC shall be entering its second phase that shall be more focused on trade and industry, moving on from infrastructure. This shall play a pivotal role in terms of technology and skills transfer to our economy. Multi-national companies from sectors ranging from automobiles, telecommunications, energy, electronics and others have also expressed their interest to invest in Pakistan. Our sizeable population and a young demographic holds great and yet untapped potential for any investor. In the coming year, we are confident to see these interests transforming into tangible foreign investments.

To sum up, the economy has averted the immediate severe balance of payments crises and all macro-economic indicators are showing positive trends towards stabilization. The general paradigm of fiscal and monetary policies has been realigned towards exports, investment and productivity growth. In the days to come, bold steps will be put in place to facilitate both foreign and local investment and dramatically improve the ease of doing business climate in the country.

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Pakistan Economy 2019: A Beacon of hope! - Daily Times

Currently, Pakistan is recovering from a growth which was fueled by short term debt and declining investments. The economy was in a bad shape, and by the end of year 2018 Pakistan was almost on the verge of bankruptcy

After taking office, the new government was faced with the challenge of the devalued currency, increasing import bills and huge amounts of debt obligations. Therefore, there was a need for radical reforms in the economic policy of the county. The first agenda was to service the debt obligations of USD 9 B due in the year 2019 and second, to reduce current account deficit to USD 11-13 Billion from the current 19 Billion. Also the last government’s fiscal deficit of 6.6% is not sustainable and needs to be revised.

Fortunately, the government has already began to set their plan in motion, by instructing the State Bank of Pakistan to adjust the exchange rates from 26% to negative figures and lowering regulatory duties on non-essential items. This move has dramatically reduced Pakistan’s import bill but, some critics argue that the decline was a steady decline that might hurt the market sentiments. However, such a steep decline was essential considering that a real adjustment has not been made since four to five years. The exchange rate decline has also fuelled remittances to 12.5% and improved exports. The government is also planning to launch a program in 2019 to encourage overseas Pakistanis to send their remittances via a formal channel by promising them improved speed, security and reduced administrative issues that are surrounding the formal channel procedures at the moment. A good foreign policy has also supported Pakistan in securing fruitful bilateral relations like deferred oil payment facilities from countries like United Arab Emirates and Kingdom of Saudi Arabia. Generally the focus of this government is to raise capital by encouraging foreign direct investment in the country, fostering exports and productivity rather than imports and consumption. An increase in exports would help Pakistan in gaining self-sufficiency and reduced reliance on debt financing. Previously, the governments were funding their projects from the withholding taxes of the entrepreneurs, which had significantly hurt their business. Reducing exchange rates to actual rate has therefore enabled Pakistan to boost its export trade, and release tied up working capital of the businessmen.

In order to further encourage business in Pakistan the government has been making efforts to reduce the costs of energy. For instance, the LNG costs have reduced to a regional average rate of USD 6.5 per MMBTU and the electricity tariffs will be notified at 7.5 cents/KWH for the  
export sector

Moreover, in order to further encourage business in Pakistan the government has been making efforts to reduce the costs of energy. For instance, the LNG costs have reduced to a regional average rate of USD 6.5 per MMBTU and the electricity tariffs will be notified at 7.5 cents/KWH for the export sector.

Despite of these positive economic indications, the challenge is not over for the government yet. As mentioned earlier, the government has increased interest rate which is generally followed by a decrease in investment since the cost of borrowing increases. This effect will contradict the current government’s agenda to boost investments. However, the action was a necessary evil, since inflationary pressures from the rupee devaluation made it inevitable in order to control prices. It should also be noted that the new 4% rate is approximately the average rate prevalent in the whole region. Moreover, since the move has been taken, there was a 400% increase in private sector’s credit take off. This can be attributed to the fact that the overcrowding of the provision of loans from the previous government was cleared after the interest rate increase.

Other challenges currently looming over the administration are the excessive taxes and security problems. The security issue has been improved by the efforts made by the Pakistan Army in the mission ‘Zarb e Azab’. However, the problem of taxes, still remain very relevant. According to recent statistics, Pakistan is ranked at the 136th position in the ‘ease of doing business’ index, and 173rd in terms of complicated tax systems. In order to cater to the tax problem, the government has set up a Tax Reform Implementation Committee in order to separate FBR duties from Tax Policy Division. This move would reduce costs of doing business in Pakistan, and encourage businesses and SMEs to operate freely. The power of government departments are proposed to be redistributed in order to reduce redundant and precarious steps that businesses need to get through in order to get government approvals.

With the beginning of 2019, Pakistan would be entering into the second phase of China Pakistan Economic Corridor. This means that the government would focus on trade policies and industry development, moving on from infrastructure. Large multinational companies are already interested in setting up industries in the automobiles, telecommunications, energy and electronics industry, in order to tap the undiscovered potential of the people of Pakistan.

Conclusively, the prompt and timely measures taken by the new government has impeded the immediate crisis of the balance of payment however, much more effort is needed to bring the proposed plan to life. Not only macroeconomic indeed – microeconomic – indicators have to be stabilized in order to encourage steady foreign direct investment in Pakistan.

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Special report: What will the year ahead bring for Pakistan's economy?

The economy did not fare well in 2018. Acceleration halted and the economic challenges were aggravated in the second half. The PTI government’s negotiated bilateral inflows averted a sovereign default and offered space for manoeuvrability to fix disruptive factors.

People hope that the new leadership will be able to revive waning business confidence and minimise the pain of stabilisation for the working masses. The PTI vision will come into full play in the year ahead. It is high time to identify the perils and promises.

The Pakistani economy is on course for a drastic slowdown unless the behaviour of the business community changes and the PTI economic dream team grasps the value of prioritising and sequencing reforms instead of trying to fix everything at the same time.

It is apt to identify the missteps that changed the future perception from highly optimistic at the start of 2018 to moderately doubtful by its close. It will, however, be more relevant at this juncture to pinpoint factors that can influence the economic course going forward.

The blind trust in democracy to make necessary corrections in the economic framework is perhaps an oversimplification bordering absurdity. The third consecutive peaceful transfer of power did stabilise the democratic order. The disruption of democratic transition, however, entailed a high economic cost. The reality is perhaps a lot more complex and needs to be assessed objectively without ideological blinkers to make adjustments for the system to better deliver for the majority.

As 2018 comes to a close, all global economic forecasters have revised down the expected economic performance of the country citing shrinking foreign exchange reserves and a high debt burden among other factors. The World Bank, International Monetary Fund (IMF) and the Asian Development Bank have brought down the GDP growth forecast by two to three per cent. Reputable credit rating agencies Moody’s and Fitch Ratings have downgraded Pakistan to the lower end of the highly speculative grade.

In its current review the IMF stated: “Macroeconomic stability gains have been eroding, putting the outlook at risk. Growth is expected to moderate to 4pc in 2019, and slow to about 3pc in the medium-term”. It projected a slight rise in the unemployment ratio. The current account balance is forecast at negative 5.3pc for 2019 compared to negative 4.1pc for 2017 and negative 5.9pc in 2018.

With panic gripping Pakistan’s markets, the situation has digressed to a point where no government, even with the best of intentions, can shield households perfectly on its own from the fallout of the stabilisation policies.

It might be wishful thinking, but the challenges the country is facing in the current political environment demand political and economic players absorb the gravity of the situation and evolve a short-term consensus regarding a minimum economic agenda to ensure political stability in the tough phase ahead. The bottom line, however, is that only significant fresh doses of investment can ease the economic pain going forward.

The challenges the country is facing demand key political and economic players absorb the gravity of the situation and evolve a short-term consensus regarding a minimum economic agenda to ensure political stability in the tough phase ahead

The issues relating to transparency and terms of multiple deals under the CPEC are important. But the benefits of massive investment in costly infrastructure projects under this umbrella must be understood and appreciated by all stakeholders. Taking Chinese economic support for granted would be an unforgiveable mistake in both economic and political terms and can upset the apple cart. There is a dire need to revive and revitalise lagging projects under the CPEC immediately.

It will also be important for stability to understand how the PTI hierarchy views the 18th Amendment to the constitution and the landmark seventh National Finance Commission Award. Any attempt on the part of the government to tinker with the agreed financial devolution formula is expected to face stiff resistance by all provincial governments.

Again there is a need to understand and appreciate the role of the informal economy and the resilience it lends when the going gets tough for the formal sectors. Yes, there is a need for deeper insight, but unplanned disruptions can acerbate the downward spiral and add to the misery of millions who make their livelihood under the radar.

The deficit-riddled government will not be in a position to close the investment gap. The responsibility, therefore, rests squarely with the private sector to rise up to the occasion. Without local investor mobilisation expecting foreign direct investment is unrealistic. Fast tracking the CPEC industrial economic zones can get the ball rolling.

Will the current crop of economic ministers be able to allay the investors’ fears and offer a friendly business environment without giving-in to their tantrums is yet to be seen? Some issues being raised by the corporate sector regarding unjust taxation burden and lack of continuity in policies make perfect sense and deserve urgent attention.

An adjustment in a policy framework that discriminates against industry in favour of trade is also long overdue. The demand for promotion of regional trade is intertwined with the country’s diplomatic and security policies, particularly normalisation of ties with India, and may take longer than stakeholders expect.

The PTI government, in the end, did succeed in managing to get critical dollar inflows from friendly nations. The secured breathing space better positioned the country’s economic managers to bargain with the IMF regarding conditions that are perceived to be unduly harsh and politically costly.

Besides mitigating risks to the external sector the dollar injection from China and Saudi Arabia, and promised budgetary support from the UAE, did earn the PTI government some trust in the country.

Yet, the markets are still not comfortable. They want the IMF deal because the programme improves the credibility of the policy evolved to fix the economy and minimise risks in a highly volatile world.

To manage the high public expectation in a challenging economic environment, much will depend on how quickly the PTI can earn the confidence of the private sector to nudge it towards committing capital intelligently while taking a long-term perspective. The asset owning class, with its very narrow focus, has clearly been inclined towards short-term investment avenues to roll its monies.

If the elite of the country, urban businessmen and rural aristocracy that commands a sizeable, capital shows foresight, develops an appetite for risk, shrugs off lethargy and assumes charge for industrialisation, the current economic stress can actually serve to reorient the direction of the economy towards a more stable base.

“Now is the time for the private sector of Pakistan to prove its credentials as an ‘engine of growth’ by committing capital in growth sectors to generate wealth, create jobs and sustain the economy,” commented a market watcher.

“The PTI leadership must also have gotten some sense of the economic currents and counter currents. It enjoys more support amongst the overseas Pakistani community than any other political party in the country. It must now understand that a following on social media does not necessarily translate into material support of the scale expected, so it should start focusing on local economic drivers,” he warned.

“The emphasis on exports is good but the government needs to understand that in the highly competitive word Pakistan has little scope as long exportable surpluses are produced locally,” he added drawing attention to trade.

Unfortunately, household incomes may come under pressure with a slowdown in growth and inflationary squeeze in 2019. It might demand readjustment in household budgets and curtailment of entertainment spending in the middle classes.

For poor the effect of the policy choices of the government will be more substantial as any hike in the prices of essentials will impact family food intake and whatever little they spend on health and education.

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‘It’s the Economy, Stupid’

The famous phrase “it’s the Economy, Stupid,” coined by the former US President Bill Clinton in 1992 captures the essence of today’s global world order. Economics has always played a key role in defining political realities at national and global levels. For example, the founding father of USSR, Vladimir Lenin noted that “politics is determined by economics, in the final instance”. But, in the 21st century the economics has become even more important than ever before. The size of the economy, per capita income, unemployment rate, inequality coefficients, growth rate, exports, FDI and competitiveness are no longer economic markers but are the vital signs for any nation. Developing countries are vying to attract greater inflows of FDI, capture larger share of exports in the global trade, and outperform each other in labor productivity, competitiveness and growth rates. It will not be incorrect to say that today economic security of any nation is the key driver of its national security.

In this context, let’s have a look at the emerging scenario in South Asia. In 1999, Pakistan was the leading economy of South Asia with highest per capita income of $618, followed by India $437 and Bangladesh $397. Pakistan was the first country in South Asia to undertake structural economic reforms in 1990-91 under first Nawaz Sharif government which were later followed by India. But unfortunately, Pakistan plunged into a decade of political instability, thanks to Article 58-2(b) which gave president the power to dissolve Parliament, as a result not a single elected government was allowed to last longer than two and a half years. Today, Pakistan has dropped to third position in terms of per capita income behind India and Bangladesh. In Pakistan per capita income grew by 165% during this time while in India and Bangladesh it grew by 352% and 322%, respectively. These stark difference in fortunes can be explained by the fact that in Pakistan exports and FDI grew by 140% and 160%, respectively, in last two decades. While in India, exports and FDI saw a tremendous growth of 719% and 1627% and Bangladesh both indicators grew by 680% and 800%, respectively. In terms of ‘corruption’ and ‘governance’, India and Bangladesh are neither more transparent nor more efficient than Pakistan. The only difference is political stability and continuity of policies.

In 2013 when PML-N assumed power, Pakistan was in economic, social and security crisis. Economy faced serious stagflation and low growth, 18-20 hours of power outages and terrorist incidents were highly frequent. Newsweek listed Pakistan as one of the most dangerous country in the world in 2013. Due to the efforts of PML-N government, two major bottlenecks in the growth of economy, energy and infrastructure, were removed, tax collection doubled from Rs2 trillion to Rs4 trillion which created space for PSDP (development budget) to increase from Rs300 billion to Rs1,000 billion, inflation stabilised around 4%, and GDP growth rate increased from 3% to 5.8% in 2017-18, highest in the last thirteen years. In January 2018, World Bank projected that Pakistan’s economy would achieve 6% growth rate in 2019 and 2020. PML-N government with its experience and vision restored investors’ confidence and trust in Pakistan’s potential and by 2018 it was being acclaimed as one of top tourist destinations. Pakistan was moving forward under Vision 2025 to be among top 25 economies of the world by 2025. PWC in its global report had endorsed that with this pace Pakistan would be among top 20 economies by 2030.

Unfortunately, in 2017 events unfolded aimed at removing PM Nawaz Sharif from office, pushed Pakistan into a cycle of political uncertainty causing billions of dollars of foreign investment, which had lined up after CPEC, to shy away thereby putting pressure on our foreign reserves, while our imports soared due to increase in the economy’s growth rate. Moreover, many of the gains made in last four years were compromised due to the political crisis and controversial elections. We as a nation unfortunately are yet to learn the link between political stability, continuity of policies and economic development. Our problem is neither politics nor economics, its political economy. We need stability in politics and economics.

New PTI government, which was handpicked, promised a great deal of change in first 100 days, instead it came out clueless about Pakistani economy. In any other country, if a newly elected government presented two budgets in a span of six months, it would have faced a wrath of criticism from all quarters of society. The second mini-budget is an admission of the failure of the first mini-budget. It has become abundantly clear now that PTI was not prepared at all when it was offered government in the plate. Thus, all the campaign promises of having a team of experts and homework were nothing but a hoax. Contrary to Imran Khan’s logic of greatness lying in U-turns, economic development is a function of stable and consistent policies. PTI government has made uncertainty the only certain thing in town by changing its economic policies at regular intervals.

PTI government has flipped flopped on the issue of whether or not non-tax filers should be allowed to buy assets so many times that it is hard to keep count. How can you assure an investor that a new policy that the government has just announced will not be changed again in few months? The government has taken eight months and yet hasn’t come out clearly on IMF programme, keeping the markets undecided. On top Pakistani PM has been telling international investors that there is rampant corruption and money laundering in Pakistan. State institutions have been given licenses to hound entrepreneurs and businesses. That is why the positive sentiment and vibes about the economy are at its lowest at the moment. Economy comprises of two S’s, sentiment and structure. If market sentiment is destroyed, nothing can make the structure to move. Money from the markets has either fled or gone underground.

The second supplementary finance bill, i.e. mini-budget of PTI, is like an old honey in a new bottle. The mini-budget offers big old businesses tax and custom incentives in the hopes that once they accumulate enough wealth, they may undertake new investments and create employment. This is known as supply-side ‘trickle-down economics’. Businesses can invest their newly created super-profits in financial or land markets instead of undertaking productive investments, therefore, providing these huge tax holidays to businesses provide no guarantee that rest of the economy and especially the majority of Pakistanis, i.e. middle and working classes will benefit from such pro-rich policies. Supply-side trickledown economics has miserably failed in the US and the Europe in last couple of decades. It led to a global economic meltdown in 2008. There is no reason to believe that the policies will work in the context of Pakistan.

PTI government has totally ignored the demand side of the economy. In fact, it has substantially cut down, Public Sector Development Programme which is a key driver of the ‘effective demand’ in the economy. During July-Feb period, PTI government released only Rs81 billion in local contribution for PSDP, which is 27% of Rs358 released by PML-N government during the same period. In fact, PTI government is undertaking policies to slow down the demand in the economy. It wouldn’t be incorrect to say if PML-N government had its foot on accelerator pedal of economy, PTI government is pressing the brake pedal with full force. Growth has crashed and the inflation is at record high, according to PTI government’s own conservative estimates, it is up to 8.24%. While from 2014-2018, inflation on average was under 4 %.

Promoting inflation in the domestic market while global oil price is stable at $56 per barrel is nothing but a conscious anti-poor policy of the PTI government. This self-induced inflation is like a tax which hurts the poor segments of society disproportionately more as compared to rich households. This is due to the fact that poor households do not own return-bearing assets such as bonds, land or other financial instruments. Instead they only hold cash and when rupee loses its value, poor households lose the most. While rich may still be able to offset their losses because they own return-bearing assets such as bonds and dollar accounts.

Middle- and working-class families of Pakistan are struggling to make both ends meet given such rapid price hikes of daily essentials ranging from food items to medicines. Not to mention, the prices of electricity and gas have touched the record high having serious consequences for both domestic and industrial consumers. Even the staunchest supporters of PTI admit that price hikes are out of control and they are utterly disappointed on the performance of PTI government. While, finance minister helplessly acknowledges that working- and middle-class Pakistanis will suffer and have to go through the misery.

While, PM Imran Khan claimed ignorance but in reality, it was the conscious policy of the government to devalue rupee on the pretext that it would help increase exports, but despite 30% devaluation the growth of exports has been minimal, and it has played havoc with the economy. While devaluation of rupee led to increase in Pakistan’s debt liabilities and our GDP shrunk from $315 billion to $250 billion overnight. Since PTI government has taken office, the external-debt has increased by 17% and it is up to Rs2.4 trillion. According to estimates of independent economic experts, PTI government is expected to amass more debt in next three years than what PML-N accumulated in their full term of 5 years. This is ironic because PTI criticised PML-N government on the issue of debt, but it is clear now that PTI had no understanding of economy. Its criticism was merely to malign PML-N and now when they have a chance to prove their mettle, they are failing miserably.

In 2019, where are we heading? Large scale manufacturing has contracted for first time in over seven years, agriculture sector is under performing due to increase in the prices of inputs particularly fertilizers, wholesale and retail sectors are under performing due to lackluster industrial activity and massive devaluation, transport and logistics sector is depressed, inflation is increasing rapidly and highest since 2015, cost of doing business is sky high. Circular debt has increased from Rs1.1 trillion to Rs1.4 trillion at twice the rate than what it was PML-N government. FBR is facing record shortfall in revenue collection of Rs237 billion in first eight months. S&P has downgraded Pakistan’s credit ratings to B-, while under PML-N government Pakistan’s credit ratings steadily improved and it was B+. After achieving thirteen-year high growth of 5.8% in 2018, Pakistan’s economy is headed for around 4% growth and even less for coming years. India’s economy is growing at an average of 7% for last several years, Bangladesh’s economy is growing at 7%, and can we afford to grow at 4%?

These are the undisputed facts, which Mr. Imran Khan neither rebut nor seem to comprehend. Therefore, he opts for below the belt personal attacks against opposition leaders, including myself. But Mr. Khan’s attack would not stop me from separating myth from the reality and exposing his incompetence to deal with the economy of Pakistan. I would like to end by quoting Abraham Lincoln and it has a message for the selected PM Khan: “You can fool all the people some of the time, and some of the people all the time, but you cannot fool all the people all the time”. Mr. Khan and his party can fulfill their wishes to ridicule and victimise opposition as much as they like but it will not help because “It is the Economy, Stupid”.

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Different challenges and prospects of Pakistan’s economy

Pakistan has been facing different challenges regarding to its economy. The economic situation of Pakistan is very critical and people are looking towards the solution of these challenges faced by the economy of Pakistan. Pakistan has different opportunities which can help it to solve its economic problem. But without tackling long term challenges and problems decisively, country will no longer be able to take advantages of opportunities. Increase in debt, increase in import and decrease in export, low saving, lower investment, low tax collection, lack of policy implementation, excessive taxation are some of the challenges faced by the Pakistan’s economy. Some of the solutions of these problems are offering low interest rate, collection of the taxes, proper use of young labor force, use of technology, governance and decentralization.

Decentralization is one of the factors which can help increase the economy of the country. An individual sitting in capital can’t identify the needs of the different areas of country but the local people those are living there know exactly what they needed, what are their requirements. One has to transfer power to other, decentralize and delegate authority, provide resources to the local/district governments so that they can take decisions at their own at district level. District government will take decision according to the requirement and the needs of the areas. Local government should report to the provincial government about its activities and provincial government should report to federal government. If our government does so we can do more by same resources which are being wasted today. Economic growth rate can be raised from 6-7 percent average to 8-9 percent annually.

Interest rate is one of the factors which can increase the economy of country. Government can offer low interest rate to the public so that it becomes easier for the investors to borrow money from the banks and invest it in their business. Return in the form of interest rate should be low so that people do invest their money. Borrowing at low interest rate and investing money will increase the level of demand in the economy. It will increase the demand of labor force to meet the high production level. GDP and living standard of people will improve.

Tax collection can play a vital role to improve the economy of Pakistan. For the past four years, Pakistan has witnessed 81 percent rise in tax revenue, which is a big plus for Pakistan. There was 5.4% growth in GDP, which is highest and the first time in over a decade. Government should allow Federal Board of Revenue (FBR) to work as impartially, independently and transparently which will make FBR an efficient and effective tax administration. This will increase the confidence of taxpayers in FBR and increase tax collection in fair manner. This higher collection of tax can be used for the development of infrastructure. It will help to create jobs by reducing unemployment and generate income for the millions.

Pakistan is among those countries which has a young labor force which can be bound for its own and global economy. If we tool these young women and men accurately, we increase the female participation in labor force, give them knowledge and skills, they can become the labor force for the rest of the world. This will give immense boost to Pakistan’s economy. In 2001, worker allowances were less than a billion dollars; today we have almost 7-8 billion dollars. Currently this can be multiplied by three or four times if we have educated labor force i.e. skilled labor force going for foreign employment. This is the best mode to create employment opportunities because if you have younger people approaching to labor force and you don’t have job opportunities for them you can have social disturbance. Therefore, it is commanding to make employment opportunities for them and train them in the kind of skills which are not necessary only by the national economy but also by the international economy. Pakistan can put over 30 million plus population by drilling training in various fields to meet the market needs in the age group of 25-35.

Technology has been spreading like a wild fire. 5 years ago, not every individual had mobile phone but today 95 million Pakistanis have mobile phones today. This technology can be used to provide individuals banking services, information on climate/weather, agriculture extension, health, education etc. Technology particularly the information/communication technology can be used for the betterment of social and economic problems of Pakistan. Pakistan is making good progress on Business-to-Business (B2B) front as software industry aims to achieve the goal of $5 billion export mark by year 2020 through software development and service out-sourcing which will help to improve economy of country.

While there is a crucial need to fix persistent challenges, more innate reforms are required to improve and attract talent to serve in the businesses and public sector. Instead of politicians, the academics, intellectuals and community leaders should come forward and play their role in social revolution.

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Economy: Challenges and opportunities | Pakistan Today

The social media is abuzz with outlandish predictions of economic melt-down. A post attributed to former World Bank/IMF officials is particularly vicious, which reads like an apocalyptic scene: “the external deficit is so big that exchange rate would go down to Rs200 even with an IMF program; the country would face a situation like that of Venezuela and Argentina – widespread shortages of reserves, expect fuel crisis and long lines for many other imported goods. To turn around would require scrapping of last NFC, shutting down of loss making SOEs, major increase in energy prices to cover losses in power sector, substantial increase in interest rate, substantial devaluation, major tax increases, major cut back in development expenditures and rapid privatisation. Basically to rapidly reduce fiscal deficit, slow down the economy, to reduce imports. Brace for a Venezuelan type of situation by December”.

Undoubtedly, there are elements of truth in this narrative but it is highly exaggerated. Surely, we have a difficult situation in hand. But we have faced such situations in the past and overcame the challenge once we did what was required to be done or refrained from policies responsible for the crisis. In the last three decades, we have faced a similar crisis for at least six times. This vulnerability started after liberalisation of Pakistan’s the external account. Prior to 1988, Pakistan was meeting its foreign exchange needs essentially from multilateral (World Bank-ADB) and bilateral (Aid-to-Pakistan Consortium) sources. The unipolar world spawned globalisation and international capital movements in the private sector. Markets and competition were the new rules of the game, and to be able to play, controls were to be removed.

While the country made major strides in opening trade, facilitating capital movement, removing forex controls and generally dismantling barriers to economic activities, we, however, failed to institute economic governance commensurate with the imperatives of new realities. In particular, fiscal discipline was the biggest casualty, which was frequently abandoned leading to excessive demand and external account deficit which the country was unable to fill. We face crises because we fail to exercise responsible care in fiscal affairs. We are neither interested in raising domestic resources (taxes and other revenues) nor in curtailing expenditures. Consequently, we borrow relentlessly. In doing so, we face no difficulty in rupee financing, because we can print local currency in any amount we want. But we overlook the fact that this excess demand inevitably leads to increased demand for imports, which means demand for foreign exchange. The availability of foreign exchange is limited by our exports and remittances – both significantly below the level of imports.

Under these circumstances, we rush for help from the IMF. Once under a program, things begin to improve, so long as we adhere to its conditions. However, we soon discover that these conditions are politically unpalatable and fling the program. That doesn’t last long, as the cycle of indiscipline is re-booted, following the above path, at the close of which the need for an IMF program is again felt.

The Fund program would also bring on board World Bank, ADB and other development partners to support the new government and to close the financing gap. The program would free the government from the constant worry about depleting reserves and fear of default

The present situation has emerged following the same pattern. The only surprise is that it has come on the heels of first ever successfully completed IMF program, and that too under a democratic government. All gains made under the program were lost. Fiscal and external deficits have risen to dangerous level, structural reforms abandoned, reserves declined rapidly and exchange rate is facing free fall.

Despite these challenges, the current phase offers highly promising opportunities. The last year saw the highest growth rate of 5.8pc in 13 years. Inflation is moderate, agriculture, manufacturing and services sectors are buoyant. Investments are also rising with robust consumer spending. Undoubtedly, some of this was aided by excess demand due to high fiscal deficit, but its primary nature remains firmly rooted in private sector confidence. Once the imbalances are removed, the economy would grow with a very healthy growth rate.

It is a foregone conclusion that the country has to approach IMF for a new program to restore economic stability. In fact, we have lost considerable time for the sake of political convenience. At the close of 2017, the economy had reached a point where a stand-by arrangement from IMF was critically needed, yet no such initiative was taken as it would have demanded economic discipline in the penultimate months of government’s term, which was not expedient.

We need a fund program to stem external account unsustainability, which means insufficient resources (reserves, FDI, loans) to meet the financing needs of the economy. The starting point of a Fund program is the so-called ‘financing-gap’. The current account deficit last year was $18 billion. Roughly, we had FDI of $2.7 billion, public investment (Sukuk and Euro Bond) of $2.3 billion and net borrowing of $6.8 billion from various sources. This adds up to $11.8 billion, which means there is still a shortfall of $6.2 billion relative to the deficit of $18 billion. Where was it made up from? The answer is by drawing down on our reserves by $6 billion, which declined from $16 billion in June ’17 to about $9.8 billion in June ‘18.

For this year, the option of repeating last year’s performance is simply not there. The level of reserves is dangerously low to lose any further. The exchange rate stability is critical for investors’ confidence. The Fund program would aim at stabilising the external account. To this effect the key is to reduce fiscal deficit, which was reportedly recorded at 7.1pc of GDP (Rs.2450 billion). The Fund program, e.g., would require a reduction in deficit of 2pc of GDP in the first year, which would mean either raising Rs750 billion in taxes or cutting equivalent expenditures or a combination of the two. This is surely a tall order, requiring severe austerity that the government would have to practice. But this is how the excess demand in imports would be curtailed and current account deficit contained.

Other requirements would be to further increase the SBP policy rate and a major reduction of deficit financing from the SBP, which would also put further pressure on the interest rate. Administered prices would have to be freed. These measures would spur inflation but it would be nothing like runaway inflation. Then there would be structural reforms, such as the revival of the privatisation program and fixing up of the circular debt and power sector inefficiencies, without which future investments would not be possible.

The Fund program would also bring on board World Bank, ADB and other development partners to support the new government and to close the financing gap. The program would free the government from the constant worry about depleting reserves and fear of default. It can then focus on its development and reforms agenda.

Let’s finally make comments on NFC, Venezuela and Argentina. The NFC challenge has no immediate solution. The government should seek a CCI resolution for provinces to give surplus in their budgets. Pakistan is simply not comparable to either of the two countries. Venezuelan economy is facing turmoil since it embraced socialist policies. Even in a non-socialist government, the ills created continue to this day. Argentina is recovering from nearly two decades of government controlled economy with prices frozen during this period. The required adjustment for balancing fiscal and external accounts is much more than what is needed in Pakistan. We have a very short period of about two years of economic mismanagement that can be cleaned up quickly. But the process of adjustment would be painful and government would do well to let people know, as the would-be prime minister has stated in his first national address, that the government would sacrifice equally if not more than what it would ask people to bear.

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These 19 developments shaped Pakistan's economic future in 2018.

Overall, 2018 saw Pakistan's economy buckle under increasing pressure, with decreasing foreign exchange reserves, increasing trade deficit, circular debt as well as foreign loans taking a toll on macroeconomic health.

As a result, the economy suffered while resources were diverted to handling power crises, import bills, and other issues. The country's foreign exchange reserves also remained under pressure.

Given that this was an election year, the outgoing PML-N government presented a populist budget, considerably slashing income tax slabs which put a further burden on the economy.

After Islamabad witnessed a regime change, the newly elected government increased taxes on utilities and luxury goods to mitigate the deficit. Side by side, a significant depreciation in the value of local currency also played a role in increasing inflation.

Meanwhile, friendly countries came forward to rescue the country's economy. The Kingdom of Saudi Arabia (KSA) and the United Arab Emirates (UAE) provided a lifeline of $3 billion each to maintain foreign exchange reserves.

The KSA additionally provided a deferred payment facility of $3bn, while the Abu Dhabi Fund for Development financed eight development projects in Pakistan with a total value of AED1.5bn, including AED931 million in grants.

During the first half of the year, a tax amnesty scheme was launched for foreign asset holders. During the outgoing year, stricter regulations were imposed by the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan on asset inflows and outflows.

The central bank also raised its policy (target) rate by 150 basis points (bps) to 10 per cent near the end of the year.

Here's a look at the major developments on the economic front throughout the year.

1. America suspends entire security aid to Pakistan

In the first week of January, the [Trump administration suspended its entire security assistance](https://www.dawn.com/news/1380876) to Pakistan until Islamabad "proved its commitment to fight all terrorist groups operating in the region".

According to the State Department, the cut-off is not permanent and only affects military assistance.

Under the new approach, funds would be allocated to a particular purpose identified with the allocation and would be released only after that target was achieved. The targets identified with the allocation could be strategic as well as issue specific.

2. EU renews GSP+ scheme for two years

The Generalised System of Preferences Plus (GSP+) scheme passed smoothly through the European Parliament’s Committee on International Trade (CIT) in February, [enabling Pakistani exporters to enjoy](https://www.dawn.com/news/1390653) preferential duties on exports for the next two years.

The continuation of the scheme is an award for Islamabad’s progress in enacting new laws and developing new institutions for implantation of 27 core conventions of GSP+, especially the National Action Plan for human rights.

Pakistan’s first Biennial Assessment Report of GSP+ was conducted in 2016. The second Biennial Assess­ment Report of GSP+ was done in Brussels in February.

A statement issued by the commerce ministry had said that the EU parliament expressed satisfaction on the progress achieved by Pakistan in enacting new laws and hoped that Islamabad would continue to engage with the EU and ensure to bridge implementation gaps during the next two years of reporting on GSP+.

3. Tax amnesty scheme

In April, the then prime minister, Shahid Khaqan Abbasi, [announced a tax amnesty scheme](https://www.dawn.com/news/1399769) through which people with undeclared income earned before June 30, 2017 on assets held within the country were allowed to declare them by simply paying a five per cent penalty.

People holding undocumented assets outside the country were also invited to declare them through the new amnesty scheme. Foreign exchange could also be brought back to the country by paying a 2pc penalty. Foreign liquid assets like cash, securities and bonds held abroad and in local dollar accounts could be declared with a 5pc penalty.

Dollar account holders in Pakistan who had purchased dollars with undeclared funds could also regularise them with a 2pc payment.

"People who take part in the amnesty scheme will be given a one-time exemption from accountability and other laws," the prime minister had explained at the time.

4. Reduced taxation under reforms

Under a tax reforms initiative in April, the government had [significantly reduced tax rates.](https://www.dawn.com/news/1399769) Under the new formula, people who make less than Rs100,000 a month (Rs1.2 million a year) are exempted from paying taxes. The previous maximum annual income exempt from income tax was Rs400,000. An individual making Rs100,000 a month was expected to pay Rs4,958.33 each month in taxes — Rs59,500 per year.

People who make between Rs1.2m to Rs2.4m were made liable to pay five per cent in income tax. The income tax for the Rs2.4-Rs4.8m bracket reduced to 10pc. Those earning over Rs4.8m annually were liable to pay 15pc tax on their income.

Additionally, the CNIC numbers of all citizens were made their tax number.

5. Chinese tech giant Alibaba breaks into Pakistani market by acquiring Daraz

China's biggest e-commerce company, the Alibaba Group, [broke into the Pakistani market](https://www.dawn.com/news/1406375) in May by fully acquiring the Daraz Group.

"With the acquisition, Daraz will be able to leverage Alibaba’s leadership and experience in technology, online commerce, mobile payment and logistics to drive further growth in the five South Asian markets that have a combined population of over 460 million, 60 per cent of which are under the age of 35," a press release issued by Daraz had mentioned at the time.

Founded in Pakistan in 2012, Daraz had since expanded to Bangladesh, Myanmar, Sri Lanka and Nepal. It will continue to operate under the same brand, the press release had added.

6. Pakistan placed on FATF 'grey list' despite diplomatic efforts to avert decision

In June, Pakistan was [officially placed on the Financial Action Task Force (FATF) 'grey list',](https://www.dawn.com/news/1416630) failing the country’s efforts to avoid the designation.

A terrorism financing watchdog took the decision during a plenary meeting in Paris, arguing that Pakistan had failed to act against terror financing on its soil.

Being placed on the 'grey list' means that Pakistan's financial system will be designated as posing a risk to the international financial system because of "strategic deficiencies" in its ability to prevent terror financing and money laundering.

After being placed on the 'grey list', Pakistan is being directly scrutinised by the financial watchdog until it is satisfied by the measures taken to curb terror financing and money laundering.

7. In farewell budget, govt showers businesses with incentives

This year, the then ruling PML-N made history by presenting the sixth consecutive budget by a civilian government.

It was the first budget announced by the party that [shifted gears away from development spending](https://www.dawn.com/news/1404388) towards current expenditures.

The budget showered incentives on business and industry in quantities never seen before, leading many to wonder where the revenues would come from to pay for all the handouts.

Most of the tax cuts directly benefited what some called Finance Minister Miftah Ismail’s de facto constituency — corporate, industry and banking circles. Also, for the first time, the development budget was slashed while large hikes were given to defence and all other heads under current spending, like subsidies, the running of government affairs and debt servicing.

8. Rupee falls 5.7pc against dollar in interbank trade

Under the caretaker setup in July, the Pakistani [rupee lost 5.7 per cent of its value against the US dollar](https://www.dawn.com/news/1420432) in the interbank market.

The devaluation took place amid reports that preparations to approach the International Monetary Fund (IMF) were underway. Malik Bostan, one of the largest currency traders in the country, had commented over the situation: "Devaluation has never helped external deficits. With each devaluation, the deficits grow faster still."

9. First tax recovery made under Panama Papers investigation

In September, exactly two years after starting the exercise, the [tax authorities reported their first recoveries](https://www.dawn.com/news/1431813) under the investigations into assets held by individuals named in the Panama and Paradise papers.

Data from the Federal Board of Revenue, obtained by Dawn, showed that the Karachi and Islamabad Large Tax Units made the first recovery since the start of the exercise.

The FBR recovered a total amount of Rs6.2 billion out of total demand created in 15 cases. The recovery of the remaining amount of Rs4.64bn is under process.

10. PM Khan forms 18-member Economic Advisory Council

In September, the prime minister had constituted [an 18-member Economic Advisory Council (](https://www.dawn.com/news/1430355)EAC). Out of these 18 members, seven belonged to the government while 11 were from the private sector.

Ministers for finance and planning and development; the secretary of the finance division; the SBP governor; the Prime Minister's advisers on institutional reforms and commerce; and the deputy chairman of the planning commission were nominated as official members of the council.

The move to set up the council was marred by controversy when the government asked Dr Atif Mian to resign after a section of political and religio-political parties recorded their protest and concerns over his nomination based on the religious beliefs of the nominee.

11. Saudi Arabia pledges $6bn package to Pakistan

Saudi Arabia in October stepped forward with a [$6 billion bailout package for Pakistan’s ailing economy.](https://www.dawn.com/news/1440974) The package included $3bn balance of payments support and another $3bn in deferred payments on oil imports.

Agreements in this regard were signed on the sidelines of the second edition of the annual Future Investment Initiative (FII) Conference in Riyadh.

It was agreed Saudi Arabia would place a deposit of $3 billion for a period of one year as balance of payments support. It was further “agreed that a one-year deferred payment facility for import of oil, up to $3 billion, will be provided by Saudi Arabia. This arrangement will be in place for three years, which will be reviewed thereafter”.

Pakistan imports 110,000 barrels of crude per day from Saudi Arabia. Taken at the current price, the oil imports from the kingdom amount to around $3bn in a year.

12. PM forms Council of Business Leaders

In October, Imran Khan constituted a [22-member Council of Business Leaders](https://www.dawn.com/news/1436920) (CBL), inducting prominent businessmen to ensure the availability of the best professional advice to the government for resolving trade-related issues.

The CBL will be headed by the prime minister himself to ensure the implementation of decisions, especially those required for the promotion of exports and the resolution of current account deficit issues at the earliest.

The Commerce Division was chosen as the secretariat for the CBL. Adviser to the Prime Minister on Commerce Abdul Razzak Dawood was asked to preside over the CBL, whereas the secretary commerce was asked to serve as the council’s secretary, according to a notification.

13. Rupee sees further plunge as volatility sweeps financial markets

The local currency devalued around seven times since July and was sitting at around Rs140 to a dollar at the time this piece was written.

“The State Bank is managing the exchange rate,” the finance minister explained on the day the dollar experienced its sharpest slide, pointing out that in the past the rate was kept artificially overvalued which hurt the economy and created distortions.

He said the country’s exports were adversely affected by that artificially low value, and went on to offer some glimmers of hope in a darkening economic scenario. He insisted that the external sector was recovering as exports and remittances showed an upward trend, and foreign investors’ interest had been revived, citing recent overtures from Suzuki, Coca Cola and Pepsi as examples.

14. SBP raises key lending rate by 150 basis points to 10pc

The country's top bank surprised markets in November by [announcing a 150 basis points increase in the discount rate, bringing it to 10pc](https://www.dawn.com/news/1448616), more than anyone had expected. It was the largest increase in the benchmark rate since the cycle of monetary tightening began earlier this year. The discount rate was 5.75pc at the start of the year when monetary tightening began.

The SBP also warned: “The near term challenges to Pakistan’s economy continue to persist”.

It cited the fiscal deficit (difference between state’s revenues and expenditures), rising inflation and low foreign exchange reserves as the key challenges. Inflation has jumped and is now forecast to remain between 6.5pc and 7.5pc for the rest of the fiscal year, far higher than the target of 6pc and nearly double its level last year.

15. Pakistan’s ‘Doing Business’ ranking up 11 notches

In November, the World Bank issued the ‘Doing Business Report: Training for Reform 2019’. It showed that [Pakistan improved its ranking by 11 points](https://www.dawn.com/news/1442727), moving from 147th to 136th position.

Commenting on the report, Adviser to the Prime Minister on Commerce and Investment Razzak Dawood said that three reforms have been acknowledged: Pakistan made starting a business easier by introducing the online one-stop registration system; replaced several forms for incorporation with a single application; and established an information exchange mechanism between the Securities and Exchange Commission of Pakistan (SECP) and Federal Board of Revenue (FBR).

16. China agrees to almost double its imports from Pakistan

In November, Beijing [agreed to increase its imports from Pakistan to $2.2 billion](https://www.dawn.com/news/1444295) by end of 2018-19 from the existing level of $1.2bn and to $3.2bn by end of next fiscal year. “We wanted China to give Pakistan market access and increase tariff lines with similar conditions that it had offered to Bangladesh and member countries of Association of Southeast Asian Nations (Asean),” Adviser to Prime Minister on Commerce, Industry and Investment Abdul Razak Dawood had announced.

The development surfaced after the prime minister's first official visit to China. After his visit, Imran Khan had informed the federal cabinet that his maiden visit to China was "more successful than expected" and that the host country had "assured every kind of assistance to Pakistan".

Earlier in May, the currency swap arrangement (CSA) between the SBP and the People’s Bank of China (PBOC) was extended for a period of 3 years in respective local currencies.

Both the central banks agreed to increase the CSA amount from CNY (Chinese Yuan) 10 billion to CNY 20bn and from Rs165bn to Rs351bn. The currency swap arrangement facilitates traders to do business with each other in local currency instead of the US dollar.

17. Rs82bn plan launched to reduce rural poverty

The Ministry of National Food Security and Research (MNFSR) in December [unveiled an Rs82 billion plan](https://www.dawn.com/news/1449747/rs82bn-plan-launched-to-reduce-rural-poverty) for the agriculture sector, with the aim of enhanced crop yield, improved water efficiency, livestock and fisheries development, and creation of agro-markets with the overall objective of uplifting small farmers and reducing rural poverty.

The transformative plan — based on recommendations made to Prime Minister Imran Khan by the MNFSR Task Force — follows the ‘100 Days Agenda’ and is part of the Rs200 billion package for the agriculture sector by the federal and provincial governments.

The comprehensive plan will be implemented within two to three years.

18. UAE pledges $3bn to boost Pakistan's liquidity, reserves

The United Arab Emirates (UAE) in December announced [its intention to deposit $3 billion](https://www.dawn.com/news/1452799) (equivalent to AED11 billion) with the SBP "to support the financial and monetary policy of the country".

The Abu Dhabi Fund for Development said in a statement that it will deposit the said amount in the coming days to enhance liquidity and monetary reserves of foreign currency at the bank.

Following the announcement, Prime Minister Imran Khan took to Twitter to thank the UAE government for "supporting Pakistan so generously in our testing times".

"This reflects our commitment and friendship that has remained steadfast over the years," said the prime minister.

19. ‘Mini-budget’ planned as IMF, govt still differ

In December, the finance ministry was making arrangements [to introduce the third money bill](https://www.dawn.com/news/1452469/mini-budget-planned-as-imf-govt-still-differ) of this fiscal year, while discussions between the government and the IMF were ramped up.

Reports following a late evening hour-long video conference between the government and the IMF suggested that differences persist between both sides over a broad spectrum of issues.

Finance Minister Asad Umar subsequently announced his intention to bring a new money bill when he appeared before a parliamentary panel along with State Bank Governor Tariq Bajwa.

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**Three challenges**

THE ill-advised euphoria following Saudi Arabia’s promise to lend at least $6 billion to Pakistan will hardly end the many challenges faced by the country — mostly of our own making. And it will cut no ice with the visiting IMF team that is here to negotiate the terms of a possible loan package. The stock market had welcomed the Saudi promise with a robust rise. But a fast reality check is now needed. Three months after Prime Minister Imran Khan formed the new government, several challenges have continued to emerge.

After years of recurring and widespread abuse of authority under successive regimes, many of Pakistan’s institutions remain weak. While the ‘naya Pakistan’ government has promised to practically reinvent the country, the regime faces the danger of losing direction. The push to fix everything under the sun, beginning with a comprehensive plan to be unveiled after the fast-approaching first 100 days, is clearly a non-starter. Rather than placing too many entrées simultaneously on the table, Pakistan needs clarity and radically improved coordination of action to tackle just a narrow set of key central challenges.

Some of the world’s best-performing governments have succeeded with setting a broad direction and addressing some of the main obstacles upfront, while letting the rest fall in place.

In Pakistan’s case, the biggest pitfalls that have caused today’s disarray have emerged fundamentally from failing performance in three broad sectors: the economy, internal security and religious harmony. On all of these fronts, the performance of successive governments has been dismal.

Pakistan must address three problems before turning to the rest.

The economic crisis of today caused by the reckless spending of the past half a decade will not subside anytime soon. In sharp contrast to the celebratory mood in the corridors of power following the latest bailout and expectations of Chinese aid, there should be a period of mourning instead. More debt will further weaken whatever is left of the country’s sovereignty, unless a fast-paced push gets under way to aggressively fix a dilapidated system of revenue and tax collection.

Other notable aspects of a push to kick-start the economy include an aggressive campaign to fix the widening international trade deficit, along with the internal management of the economy whose growth is held back by a weak policy environment. Challenges such as widespread inefficiency and corruption are the natural consequences of Pakistan’s failure over time to bring its economic management at par with the changing global environment.

The PTI’s message of cleaning up Pakistan will remain hollow unless backed by a clear line of action. History has proven time and again that pauperised states inevitably lose their freedom of action, and there are hardly any exceptions to this proven norm.

A second element to addressing Pakistan’s challenges lies in reforming the country’s internal security conditions to remove the prevailing sense of widespread discomfort in daily lives. Notwithstanding the army’s success of recent years in pushing back the advance of the Pakistani Taliban, much more still needs to be done on the militancy and extremism front. Besides, across Pakistan, the pervasive thana culture rules, with little evidence that this will change soon. The policing network for the subcontinent was initially built in colonial times to serve the ends of a distant power. That construct still exists.

Meanwhile, across the lower judiciary, the daily lament of the public ranges from unusual delays and incompetence surrounding court proceedings to accounts of massive corruption. Taken together, the Pakistani public finds little relief in an area which should be the central responsibility of the state.

Last, Pakistan is in urgent need of a strong push to promote religious harmony in society. As the country advanced its interests in the name of ‘jihad’ across its neighbourhood in the 1980s and after, intolerance in the name of religion grew by leaps and bounds within. Over time, one government after another has simply abdicated its responsibility to ending violence in the name of religion. They have failed to lead Pakistan towards greater unity among members of different sects and religions.

For the prime minister, a journey to a successful and enduring turnaround for Pakistan will be a nonstarter unless the government’s priorities and vision incorporate an inclusive, national mainstream that has Pakistanis from all faiths and beliefs living in peace and security.

These three objectives are both narrow and wide. But a clearer focus on them could eventually resurrect what was once a promising future for Pakistan. In contrast, filling the plate with too many choices runs the risk of shifting the focus away from where it must matter the most.

ity of the UN anti-terrorism committee.

Article continues after ad

“This is not in line with resolution of the issue through dialogue and negotiations. This has reduced the authority of the Committee as a main anti-terrorism body of the UNSC and this is not conducive to the solidarity and only complicates the issue,” he said.

On Wednesday, the United States directly moved a resolution in the UNSC, seeking to list Jaish-e-Mohammad chief Masood Azhar as a UN-designated global terrorist.

On March 13, the US, Britain and France had moved a similar resolution in a forum known as the 1267 or the Islamic State and Al Qaeda Sanctions Committee. Since members of this committee are the same as those of the UN Security Council, China used its discretionary powers to put a technical hold on the resolution. China also promised to review the situation, including Indian allegations against Masood Azhar, and reconsider its position on the resolution.

But instead of waiting for the final Chinese decision, the United States moved the resolution in the Security Council. China, as one of the Permanent Five, can veto the resolution but this will put Beijing in a direct confrontation with the other four. Both Washington and New Delhi hope that China will avoid a direct confrontation and let the resolution pass.

Speaking in the general debate, Ambassador Lodhi pointed to the several gaps that existed in the international community’s counterterrorism strategy.

She identified the lack of international attention given to foreign intervention and foreign occupation, denial of the right to self-determination to peoples living under foreign occupation and continued violations of international law and the UN Charter as examples of such gaps.

She pointed out that continued and persistent violations of human rights contributed to violent extremism. Yet killings continue in India-held Kashmir and Palestine.

Ambassador Lodhi said that brutalisation and oppression of people struggling for their legitimate right to self-determination constituted state terrorism, which should also be the focus of international attention.

“Pakistan has been the principal victim of terrorism, including that supported, sponsored and financed from abroad,” she said. “But this has not diminished my country’s resolve to eliminate this scourge.”

Ambassador Lodhi also told the Security Council that Pakistan had criminalised terrorist financing in accordance with the Terrorism Financing Convention and had enacted laws to eliminate terrorism financing risks and implement its international obligations, including those arising from FATF recommendations and 1267 Sanction Regime.

In Beijing, Chinese Foreign Ministry spokesman Geng said China put a technical hold on the US move because it wanted to conduct an in-depth assessment and was “in communication with all parties to seek a settlement through dialogue. We hope this will be a common goal of all the members of the UNSC.”

Asked about Pakistan rejecting the evidence put forward by India on the Pulwama terrorist attack, he said, the 1267 committee had detailed and clear stipulation and requirements on the listing issue.

“What China has done is in line with the requirement of the UNSC and rules and procedures of the committee. We are always working in a constructive manner and stay in communication with the relevant parties and seek a proper solution,” he said.

Mr Geng said that moving a resolution directly in the UNSC undermined the authority of the UN’s anti-terrorism committee.

“This has reduced the authority of the Committee as a main anti-terrorism body of the UNSC and this is not conducive to the solidarity and only complicates the issue,” he said. “We urge the US to act cautiously and avoid forcefully moving forward this draft resolution.”