

## Institute for Policy Reforms

### MIXED ECONOMIC PERFORMANCE

6 March 2014

In his presentation today at the launch of the Institute for Policy Reforms, Dr. Hafiz Pasha's instructive and informative review of Pakistan's macro-economic performance for July-December 2013 captured the underlying dilemma of the Pakistan economy. The eminent economist's analysis posed the question whether growth was sustainable with low foreign exchange reserves, high inflation, and low public investment.

He said that even if all possible external inflows into the Pakistan economy materialized by end-June 2014, Pakistan's foreign exchange reserves would still be low, at about two months' import cover. At present, foreign exchange reserves are less than one month of imports. The next tranche from IMF of \$550 million requires waivers from its Executive Board.

The increase in the rate of inflation is another issue that causes concern. Inflation affects growth and is an unfair tax on the poor who suffer the most. As it is, the government has increased the burden on the poor by further raising the rate of GST, a regressive tax. One of the principal drivers of inflation is the high level of printing of money by the SBP.

Dr. Pasha's balanced analysis of the economy was backed by numbers and facts. He recalled that the new government had taken a number of initiatives in the areas of security, energy, and the economy soon after assumption of power.

The fiscal year began with an encouraging growth rate of 5% in the first quarter as reported by the PBS. Large-scale industrial production has shown some revival. But slow growth of exports and a massive cut in development spending are constraining growth. As such, growth is unlikely to exceed 4% in 2013-14.

To meet IMF benchmarks, the government has successfully controlled the fiscal deficit at 2.2% of the GDP in the first six months due to a big reduction in releases for the PSDP, containment of growth in current expenditure, larger non-tax revenues than anticipated and generation of large cash surpluses by the provincial governments. The problem is the nature of financing of the deficit with too much reliance on printing of money.

In conclusion, Dr. Pasha said that the economy is poised on the 'knife edge'. Only if foreign exchange reserves rise sufficiently can the path of economic revival be pursued in coming months.