Institute for Policy Reforms

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A number of economic issues need immediate attention

'GDP growth rate has fallen short of government's target, as economic stability remains the objective of choice'. The economy's productive sectors have been sluggish. This was stated in a report issued by the Institute for Policy Reforms upon release today of the Pakistan Economic Survey. The Economic Survey gives a mixed picture of the economy, according to IPR. The economy met some of the targets. For the first time in many years, FBR will achieve its target of Rs. 3,104 Billion tax collection Inflation and fiscal deficit seem in check and tax collection is on track. A number of targets were missed.

The people expect fillip in economic activity and more jobs. Three issues need immediate attention. These include negative growth in agriculture, sluggish industry, and a 15% drop in exports. They need deep well thought out short and long-term reforms. Policy makers have yet to respond fully. In addition, social indicators have declined in some cases and supply of power continues to inhibit growth.

Government deserves credit for bringing macro stability. Fiscal deficit may remain within the target of 4.3%, though it has increased of late. Average inflation for fiscal 2015-16 will remain well within the target of 6%. For the nine months July-March 2015-16, total revenue increased by over 10.4%. FBR revenue, for the same period, has increased by 18.5%. Government will likely reach its tax revenue target. Non-tax revenue will fall short.

Other areas need attention. While forex reserves are healthy in the near term, a major portion consists of borrowings, some of it at high cost. Pakistan's external debt servicing increased by 19.5% during July-March 2015-16. Also, GoP continues to rely on indirect taxes to meet targets. It is no surprise to see 24% growth in total indirect taxes. Besides being iniquitous, indirect taxes sap economic activity.

At 4.7%, GDP growth rate is 0.8 percentage points below the target of 5.5%. Some GoP assumptions may have tweaked up the growth rate. This year agriculture production has taken a major hit and industry has grown at less than the target growth rate. Power shortages continue unabated despite improvements on the margin. Growth is fueled by services, while the productive sector, agriculture and industry, stagnate.

Decline in agriculture production is serious and seems to be structural. It results from a mix of policy gaps. Investment in water resources and management has been low. A brewing crisis on seeds and virus remains unattended. Prices have been volatile. GoP's package for farmers, clearly, has not worked.

A number of industries languish, says the IPR report. It is particularly worrying to see textile stagnate. Government plans to announce incentives for revival of industry and agriculture. While short-term measures are welcome, these sectors need long-term commitment to policies that enhance competitiveness and productivity. Sops and fiscal incentives alone will not work.

The report recalls that Pakistan's historical investment to GDP ratio is 20%. GoP's target for 2015-16 was 17.7%. However, investment has fallen short of target. The budget for public investment was about 5% of GDP. Actual spending is even lower. "This scale is a travesty given the severe gaps in infrastructure and social indicators." While private credit has grown, it has yet to recover fully. Pakistan has one of the lowest credit to GDP ratio. From a peak of over 25% between 2005 and 2009, it has fallen to about 7% in 2015. One constraint is that the capital market does not yet perform the key role of supplier of capital to businesses. SECP and PSX must develop the capital market to become a source of debt and equity for businesses.

The situation with FDI is equally dire. It grew by 5% for July-March 2015-16. Inflows from China more than doubled, but halved from the rest of the world. This is an alarming trend. GoP must do something special to improve FDI.

The report noted that exports have fallen consistently for about a year and a half. Government must address competitiveness issues. There are concerns that loss of exports may be hard to regain.

Overall, there is progress towards macro stability, but much more needs to be done in the productive sectors to remove weaknesses in the economy. Initiatives need deep thought and sincere and earnest commitment.