# Institute for Policy Reforms

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## Why we miss economic targets each year

*High twin deficits, balance of payments concerns, weak export capacity, low savings and investment, and fragile macroeconomy affect performance, PBS must improve national accounts quality*

"It is no surprise that the economy missed most targets. What is surprising is that this happens each year and no one draws a lesson." This was said in an analysis of economic performance released today by the Institute for Policy Reforms. IPR said that there would be no cause for celebration even if the economy had achieved its growth target. It is more important to change the fundamentals underlying growth and the macroeconomic framework. It did not agree with Government's claim in the Pakistan Economic Survey of a turnaround based on a "comprehensive programme of economic revival." The report also stressed that continued fiscal and current account deficits are real sources of concern. The economy stands on weak pillars.

Looking at headline numbers, the report analyzed why they do not improve. GDP growth rate of 5.28% is shy of its target of 5.7%. The contribution of industry and agriculture was 1.74%, while services contributed 3.54%. Recall that agriculture's modest 3.46% growth this year is from last year's low base when crop production declined.

In nine months, the fiscal deficit has already breached its target of 3.8% for the year. IPR forecasts that it will be about 4.5% of GDP by year end. The current account deficit was worse. Compared to a target of USD 4.5 Billion for the year, it was $ 7.25 Billion in April and would end up at about USD 8.5 Billion, nearly twice government's projection. This is unsustainable. When this happens, usually Pakistan goes to the IMF. Alternately, we may rely on China's largesse, but the country must know on what terms. Both GoP and IMF had forecast current account deficit of 1.5% of GDP.

The fiscal deficit is high for several reasons. Government revenue will be well below target, expenditure on debt servicing will be high, and less than estimated provincial surplus.

GoP had set a target of Rs. 4,916 Billion for total revenue and Rs. 3,621 for FBR revenue. Low energy prices, low markup rates, and fall in Coalition Support Fund payments mean that overall government revenue for the year will be short by Rs. 500 to 600 Billion. FBR revenue will be short by about Rs. 120 billion for the year. This is less than the concessions of about Rs. 150 Billion granted by GoP, including reduction in corporate tax rates. Effectively, FBR would have achieved its target after a 20% increase last year.

On the expenditure side, foreign debt servicing has reached Rs. 85 Billion in 2016-17 and will almost certainly exceed this year's target of Rs. 113 Billion. Clearly, recent high markup loans have begun to have an effect. This problem will only grow with increased debt from China.

This has implications also for the current account deficit. Export performance and weak workers' remittance are a special concern. Exports are expected to be USD 21.5 B compared to the target of USD 24.75 B. They have fallen sharply from USD 25.1 Billion in 2014-15. Government's belated incentives for exporters have not had an effect. Pakistan will have to change its industrial structure and be part of the global supply chain, if exports are to grow. Workers' remittances also will be 2% below last year, instead of the targeted growth of 5%. FDI will touch USD 2 Billion against a target of USD 4.6B

Savings and investment are well below target. They must increase for the economy to grow. Investment to GDP ratio is 15.8% this year against a target of 17.7%. Savings rate was 14.3% against the target of 16.2%. It fell from last year. Power supply and other public services continue to be an issue.

Pakistan will attract very large investments from China in coming years. This is the opportunity for a period of long-term economic growth. While investments will create one time stimulus, we need fundamental reforms for long-term sustained growth. This requires increase of savings and investment, control on twin deficits, workers skills training, R&D, and infrastructure. It needs governance reforms to support business activity.

IPR also questioned PBS's method for preparing national accounts and estimating growth rates in the national accounts. Several assumptions increase GDP growth estimates. IPR recommends a review of accounting methods. It appears that the much-celebrated reorganization of government statistics organization has not borne fruit.