Institute for Policy Reforms

Press Release, 26 April 2018

Business as usual for the economy

“While the economy’s real sector is buoyant its fundamentals are still very weak.” This was stated by the Institute for Policy Reforms in comments on the Pakistan Economic Survey released by the government today. IPR feared that weak fundamentals will lower growth rate and harm the real sector. Positive indicators include improved GDP growth rate of 5.8%, moderate inflation of 4%, and buoyant consumer demand. However, high budget deficit, a soaring current account deficit, unmanageable indebtedness, and depleting forex reserves haunt the economy and make ever distant the goal of sustained growth.

Improved FBR performance has helped limit the budget deficit. Since 2015, Government revenue has increased by double digits each year. During this period, GoP, conversely, offering tax incentives, exemptions, and lower corporate rates.

The Economic Survey this year bases its estimates for the fiscal year on mostly six months actuals, unlike the past when it was based on nine months July-March actuals. Some of the information in the document lacks clarity.

Recovery in manufacturing and agricultural production underpinned economic growth of 5.8%, marginally shy of the target of 6%. The manufacturing sector grew by 6.2% short of its 7.3% target, but higher than last year. Agriculture growth of 3.8% was higher than the target of 3.5%.

However, fiscal deficit will far exceed its target of 4.1%. The deficit would likely be between 5.5% and 5.8% of GDP. The Economic Survey estimates that it will be within 5%. Such a major difference between estimates and actuals puts to question the rigour with which government makes the budget. Whatever the final deficit number, it is understated by over Rs. 900 Billion of circular debt.

The deficit would be acceptable if the excess expenditure induced economic growth. Data for July-December FY 18 shows 58% of total expenditure (current and development) was spent on interest payment and defense. Expenditure on defence is much needed because of Pakistan’s especial security needs. However, it does not contribute directly to economic growth. So far, just 13% of federal spending in FY 18 was on development. In times of fiscal constraints, development is the first head to be cut.

Subsidy for PSEs are a particular concern. Despite claims to contrary, government has done little to restructure and turnaround PSEs or to privatize them. Nor has it improved policy and governance of the power sector to reduce revenue losses and create sustainable power supply chain.

Public debt has continued to pile. Pakistan is effectively in a debt trap. In six months, during July-December FY 18, total central government debt grew by Rs. 2.1 Trillion or 6% of GDP, reaching Rs. 22.9 Trillion or 66.5% of GDP. This is a major breach of the target government had set for itself as well as of the fiscal responsibility act. External debt and liabilities grew rapidly. In six months, up to December 2017, the economy’s external debt and liabilities grew by USD 5.9 Billion or 2.5% of GDP. Total external debt reached an unprecedented 89 Billion by December 2017.

A more disturbing trend is that high interest commercial loans increasingly finance external borrowings. In FY 17, borrowings of Eurobond, Sukuk, and from commercial banks was 48% of total external disbursed loans. This figure grew to 64% in July-December FY 18. In FY 13, this figure was zero.

FY 18 has the worst external account indicators in ten years. As of March 2018, the nine-month current account deficit is 5% of GDP against a target of 2.6% of GDP. It is 50% higher than for the same period last year. While exports have grown, imports have grown at an even higher rate, leaving an unprecedented trade gap of USD 27 Billion for July-March 2017-18. Exports have mostly grown because of fiscal incentives and adjustment in Rupee value. Sustained growth of export is constrained by issues of competitiveness and productivity. This is a major concern with which GoP has not yet come to terms. Forex reserves have depleted sharply. March 2018 forex reserve is USD 4,544 Million less than March 2017. During this period external debt grew by USD 11,168 Million. The sum of lower foreign exchange and higher debt equals USD 15,712 Million.

It was thought that social sector indicators would improve with greater autonomy and fiscal resources with the provinces. The sector still receives low priority. There can be no long-term economic growth without it, because the economy grows when most people are part of the country’s economic life. Sustained economic growth will come with reorienting spending priorities, ensuring economic inclusion, enhancing competitiveness, and by investing in and empowering the people of Pakistan.