The two contradictory statements on the state of economy in 2017 – first from the treasury benches and second from their critics – are slightly exaggerating. Neither everything is hunky-dory on economic front as portrayed by the government, nor is it as bad as apprehended by the critics. In 2017 too, the economy of Pakistan remained held hostage to political economy considerations and different socio-political developments.

Stability in micro-economic indicators
Credit should be given to Mr Ishaq Dar, as he mainly focused on the stability of macro-economic indicators after assuming the charge of Minister for Finance in 2013. The same year, GDP growth rate was 3.6%, size of GDP was Rs 22.9 trillion, inflation was 7.5%, Tax to GDP ratio was 8.8%, and so was the fiscal deficit (8.8% of GDP) whereas the size of Public Sector Development Programme (PSDP) was Rs540 billion and foreign exchange reserves were less than $6 billion till June 2013.

In June 2017, GDP growth rate was 5.3%, size of GDP got expanded to Rs 31.862 trillion, inflation was 4.5%, tax to GDP ratio got improved to 11.1%, fiscal deficit was recorded 5.3% of GDP (one per cent of GDP is Rs 360 billion), and the size of PSDP was almost doubled and was Rs1 trillion over the past four years. After the sale of recent Sukook Bonds, the foreign currency reserves stood at $14.13 billion on 22nd December. Compared to 2013, the economy of Pakistan was in a much better shape in 2017. However, the growth is not sustainable due to its weak foundations. It may be argued that besides Mr Dar’s fiscal prudence, the improvement in economy during his tenure was based on many “one times” and some other external factors. “One time” gift of $5 billion from Saudi Arabia, “one time” proceeds from the auctions of 3G-4G spectrum, a rare decrease in international oil prices for three and half years, a bailout package from IMF, and an inflow of CPEC early harvest programme investment certainly improved Pakistan’s macro-economic indicators but all of these proved to be “first aid” measures and were not meant to address the structural problems in Pakistan’s economy, especially the issue of low tax base (FBR tax revenue nearly doubled without any significance expansion in tax base), cost and ease of doing business, bleeding public sector enterprises, uninterrupted supply of energy at affordable prices, un/under employment,
and low investment to GDP ratio. In June 2017, the government presented its fourth federal budget, which was the first post IMF budget of Pakistan Muslim League -Nawaz (PML-N).

No direct threat to economy despite political uncertainties
July 2017 – start of the current fiscal year – was marred by political uncertainties. It started with the disqualification of the Prime Minister and later federal finance minister too found himself in hot waters. Incidentally, Dar’s formal indictment by NAB court coincided with the period when final figures for last budget 2016-17 were compiled. The final deficit figures were 5.3% of GDP against a target of 3.8%. At that time, concerns were raised about the historic trade deficit and government’s heavy borrowing from the State Bank and other commercial banks.

While, Ishaq Dar was dealing with his “personal emergencies” and facing accountability courts, there were demands for imposing “financial emergencies” under Article 235(1) of the Constitution of Pakistan. However, there were (and are) no solid grounds to impose financial emergency as “economic life, financial stability, and credit worthiness” of Pakistan are not under direct threat.

Having said that financial emergency is uncalled for, one must not ignore the current economic challenges, especially the “twin deficit” (fiscal and current account) which have the potential to take the economy back to a state in which it was in 2013. The fiscal deficit for the current fiscal year is budgeted to be 4.1%. However, this target is a bit unrealistic. On revenue side, Federal Government would miss out on Coalition Support Fund payment (due to policy shift in the US), and “Gas Cess” (due to litigation with CNG owners). On expenditures sides, it would exceed the budgeted provisions for electricity and fertilizer subsidies (in the run up to next elections, government would considerably control the problem of load-shedding through additional power generation, but due to increase in oil prices and low efficiency of many GENCOs the cost of generation would be quite high and government would have to spend way beyond initial estimates on electricity subsidy. Likewise, it would have to put additional amount for fertilizer subsidy to please its rural voters). Owing to political unrest and other security situation, there would be some unforeseen additional expenditures on security. Rebate payment to exporters would also exceed the allocated amount. Another under budgeted expense would be the bailout package for loss making public sector enterprises. Even if the energy circular debt is not immediately paid off, the expense side would exceed revenues far more than it is budgeted and this imbalance would easily take the fiscal deficit by June 2018 to 7.5% of GDP if not more. This figure is much closer to where PML-N started its journey in 2013.

Policy neglect leads to trade deficit
Rising trade deficit is leading to current account deficit. One can argue that policy neglect is one of the major reasons for trade deficit. Enhancing exports was not a key objective of last four year’s economic policies. Our economic policies does not seem to address the major challenges faced by exporters. Exporters complain of uncompetitive energy prices (this is ministry of power’s domain). They complain of negative impacts of “photo-shoot only” free trade agreements (part of diplomacy). Till recently they complained of unfavourable currency exchange rate (was to be determined by State Bank of Pakistan). Another constraint on export potential is the delayed release of refund and export rebates from Federal Board of
Revenue (Ministry of Finance’s domain). One cannot say that everything is perfect with the ministry of commerce, however, the above-mentioned challenges to exports reveal that our economic policies are not much export-oriented. Low export base, limited export destinations, and surge of imports (not only petroleum products, edible oil, and CPEC-related machinery but consumer items too) under a policy neglect situation have resulted in a current account deficit, which is almost double than the budgeted.

**Bridging fiscal & current account deficit**
The government tried to bridge the fiscal and current account deficit through the sale of bonds in international market and domestic borrowing from the State Bank and commercial banks. Depending on the formula and definition being used, public debts and liabilities hover around 61 to 63% of GDP.

Currency exchange rate remained a double edged sword in 2017. In ideal conditions, market factors should determine the value of rupee against dollar. A real exchange rate also turns exports more competitive and discourages unnecessary imports. However, a depreciated rupee impacts inflation, debt servicing, and import bill. Studies show that 0.3% change in inflation due to 1 rupee change in the PKR value against dollar. Our foreign debts are around $85 billion, a depreciation of 1 rupee in PKR value against dollar would add around Rs90 billion (Rs 85 billion in debt quantum and Rs5 billion in interest cost) in Pakistan’s debt. Owing to obvious reasons, Mr Dar tried to keep the exchange rate stable at Rs102 per dollar. However, pumping borrowed dollar in forex market was an expensive business so finally the State Bank had to let rupee value depreciate. A further depreciation of around 5% in PKR value is likely by June 2018, which would mean more inflation, increased import bills, and increased debt quantum.

**Situation not as bad as portrayed**
The above-mentioned facts are worrisome, but keeping in view some resilience in Pakistan’s economy, it can be said that the economic situation is not as bad as the government critics are portraying. The first five months of the current fiscal year 2017-18 have exhibited favourable performance. The government’s tax revenues show a 19.5 per cent growth which may help in bringing down the budget deficit to some extent. Similarly, after a four-year decline, merchandise exports in the first five months of this fiscal year have grown by 11.8 per cent. During the first five months of the current fiscal year, remittances from abroad have also shown 1.3 per cent growth. The recent adjustment of rupee against major world currencies would increase the import bill but it may further encourage exports and remittances from abroad. Similarly, growth is picking up momentum. Almost all the large-sale manufacturing units are posting a rising growth with the effect that private sector credit off-take has significantly increased. Manufacturing units and business concerns are getting more credit now to meet their growing working capital and fixed investment requirements. Agriculture sector is also performing well; cotton, rice, and sugarcane yield is projected to be good. Thus one may say that projected GDP of 6% for 2017-18 is not difficult to achieve provided economic issues are not politicized but a political consensus is built around them. It is important that all the political parties in Pakistan should agree on a ‘Charter of Economy’ and stick to the strategic priorities outlined under this charter for the longer term. One strongly hopes that the parliamentary parties would agree to make increasing tax to GDP ratio, handling loss making public sector enterprises, and curbing fiscal deficit as the central pillars of this Charter.
Way Forward
Another positive development in the last week of December is induction of Mr Miftah Ismail and Rana Afzal Khan as new chaperons of economy. Both of them are asked to “bat” in the last overs of current innings of PML-N. It would be difficult for them to bring any revolutionary reforms or address the structural issues of economy in their less than six-month tenure. However, they can certainly set policy directions right during preparation of next federal budget. Their major priority should be job creation and focusing on rural development to transfer the benefits of economic growth among masses. However this would have to be done without further increase in twin deficit (meaning controlling their temptation to present an unrealistic “election budget”). If PM-N is optimistic about forming the government after next elections then it would not like to restart from an economic situation that it faced in 2013.