REFORMS NOW

Ali Nawaz

Pakistan is currently confronted with formidable obstacles to address the current economic crisis, satisfy its needs for the balance of payments, and prevent economic default. It is will run a high fiscal deficit, trade deficit, current account deficit and the circular debt is ballooning.

The drop in SBP foreign exchange reserves to $5.8 billion directly results from large imports and pressure on the exchange rate. This amount is not close enough to cover import costs for 1 months. The value of one US dollar in the Pakistani rupee has been steadily increasing as of late, reaching Rs227. As a direct result, the inflation rate has risen to 25% even though the policy interest rate has been raised to 16%.

The government is in a precarious position since it will be required to make payments to foreign creditors during the following fiscal year to service the country's external debt. Amid political upheaval and unpredictability, the country is currently grappling with a severe economic crisis. If timely policy actions and corrective policy measures are not implemented, the country could face a default and a crisis like Sri Lanka's, which will have far-reaching implications for inflation, growth, and employment and will affect the poor and vulnerable segments of the population. A lack of policy actions and corrective measures caused Sri Lanka's default and crisis.

In order to avoid an economic default, Pakistan was forced to accept stringent conditions recommended by the International Monetary Fund (IMF). Pakistan had no other option. We are all aware that the nation has previously participated in 22 IMF programmes, and it is common knowledge that the policies and programmes of the IMF have not been successful in relieving the nation of its economic troubles. It is essential to highlight that most of our economic troubles have been building up over the past 15 years because the government has been keeping a high budget and current account. Sadly, these deficits have been covered by borrowing money from other countries, resulting in a rise in the weight of debt carried by the country.

Inappropriate macroeconomic expansionary policies, higher government expenditures, losses of state-owned enterprises, untargeted subsidies, fixed exchange rate policy until 2017, and import-driven expansionary fiscal policy of the outgoing government in 2022 have led to a high current account deficit and put pressure on the exchange rate, which has resulted in a persistently high double-digit inflation rate. The nation with nuclear capability is facing a dilemma due to these policies. Other contributing factors include: untargeted subsidies.

Even though the new government has taken steps to eliminate subsidies on petroleum products and has placed restrictions on imported non-essential items, the country still requires an immediate political consensus on a charter of the economy supported by the establishment to prevent an economic meltdown. In the following weeks and months, we will need to make tough choices to stem the financial bleeding caused by excessive spending and over-importing.

To begin, Pakistan must keep the funds it receives from the IMF by continuing to conduct economic reforms to regain its confidence in the market. In addition, Pakistan must keep receiving finance from the CPEC. Reforms to reduce high trade and current account deficits would require significant reductions in expenditures and imports. However, these cuts should not negatively impact the cost of living for low-income families, whose lives have become unbearable due to persistently high inflation over the past few years.

The economic reform programme that the government implements needs to include a reduction in fiscal and current account deficits by half over the next year. This can be accomplished by cutting the fiscal deficit by Rs2,000 billion and cutting the wealthy elite's non-essential imports by $10 billion.

In order to forestall an economic meltdown and halt the fast decline of the Pakistani rupee against the US dollar, a reduction in imports must be accomplished. It is essential for people with higher incomes to tighten their belts to signal that those with lower incomes will not be made victims of the economic mismanagement. The following reforms need to be incorporated into the programme for economic restructuring:

To begin, we need to implement tax and credit policies limiting the expansion of highly import-dependent companies that produce items for the local market. Some examples of these industries are luxury goods, electronics, and automobiles.

Second, designating all exporting industries as tax-exempt manufacturing units and guaranteeing that they have access to all utilities at competitive costs with those in surrounding areas while also providing them with subsidised loans. This strategy has resulted in a 45-billion-dollar rise in Bangladesh's total exports.

Third, giving targeted subsidies to 30 million low-income and vulnerable households through the BISP register system in order to compensate for the increase in the prices of power, gasoline, and food.

Once targeted subsidies are in place, the market pricing of these products can be increased by increasing tax rates and import charges; this would generate cash that could be used to deliver targeted subsidies to vulnerable groups and the poor.

Fourth, a reduction of Rs1,000 billion in non-developmental government expenditures is required. This can be accomplished by eliminating waste in civil and military institutions, cutting development expenditure and reducing throw-forward except for dams and water management, privatising loss-making state-owned enterprises, and cutting untargeted subsidies.

Fifth, lower the discount rate which will result in a decrease in the cost of borrowing money for businesses, which in turn would quicken the expansion of the GDP and employment.

Pensioners and widows living on a limited income may be eligible for income protection through increased interest rates on national savings instruments. The yearly interest costs on domestic public debt should be the focus, and the goal should be to cut those costs by around 700 billion rupees.

Finally, to reduce imports by $8-10 billion next year, the nation should impose a one-year embargo on all imported cars, cellphones, non-essential foods, and all manufactured home-use goods. This would help reduce the current account deficit, strengthen the domestic currency against the US dollar, and accelerate growth and employment opportunities.

There are other medium term measures such as Privatizing State Owned Entities, Promoting Foreign Direct Investment, Helping start-ups raise money, Develop Capital Markets so private investment activity can increase, Promote tourism and Disincentivize investment into Real Estate.

It is about time that we start the structural and much needed reforms and not worry about the political cost associated with it. It is the only way we can survive and feed the country's growing population and maintain the sovereignty at the same time.

Ali Nawaz is the Founder & CEO of Chase Securities Pakistan. He can be contacted at ali.nawaz@chasesecurities.com