

# 2020 to be a make-or-break year

ABBAS NASIR

With 2019 drawing to a close, all political parties, governing and opposition, are claiming 2020 as the year Lady Luck will smile on them and them alone. Let's examine whose optimism appears more rooted in reality.

Prime Minister Imran Khan has said the new year will see his government consolidating what he perceives as gains already made and the economy will pick up so he would be able to embark on delivering on some manifesto promises such as low-cost housing and new jobs.

Its first 18 months in power have seen the government limping from one crisis to another. The IMF-mandated contraction of the economy and devaluation has put severe pressure on the poorest segments of society which have had to deal with widespread job losses and double-digit inflation.

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The macroeconomic scenario the government is painting for the next year is predicated mainly on the shrinking current account deficit. Apart from that, all projections of growth rate suggest it would be no better than it was this year so even here there seems to be an element of wishful thinking.

The one area where the government appeared in no mood to compromise was in its 'anti-corruption' campaign. That now seems to be running out of steam as many opposition leaders, after incarceration in NAB, ANF, FIA cases, are now getting bailed out as the prosecution is floundering.

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In addition to hounding the opposition, NAB's impartiality is now also coming under the microscope. A secretly recorded video of the chairman may have left him compromised. It appeared on the channel of a top PTI supporter. The anti-corruption body

so far has not taken any action against key members of the government when it said it would in some cases which are public knowledge.

The government's latest ordinance curtailing NAB's powers is ostensibly a gesture to win over support of the business community and the civil service whose role in kick-starting a near-moribund economy is crucial. It isn't clear if this is the incentive the captains of commerce, industry wanted.

All this does not augur well for the PTI but if the devotion of its supporters on social media is truly indicative of wider support, then the party has still nothing to worry about. Its devotees remain unchanged in their commitment to Imran Khan and support each of his decisions unconditionally.

This may be a big plus but does not in itself ensure better governance and delivery for the masses. For the sake of the people, one hopes the economy

cated a non-confrontation policy towards the military and tried hard to convince his elder brother, who owns the PML-N vote bank, but to no avail. Ever since his ouster from office, Nawaz Sharif had been totally adamant that he did not wish to cut any deals.

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Shahbaz Sharif is said to have negotiated the permission for his elder brother to travel abroad for lifesaving treatment. Given the prime minister's scepticism about Nawaz Sharif's illness, it is clear he was not party to these negotiations.

And this is why some PML-N hard-liners are unhappy, even if they aren't saying so in public. Some of them have told me it would be a mistake for the PML-N to cut a deal with the establishment to claw its way back in favour, even power as that would move the party away from its populist moorings. As one second-tier leader said: 'Mian Sahib (Nawaz Sharif) commands a place in our hearts because of his principled stance. If we start playing the compromise game we will end up going too far and destroying our hard-earned credibility among the people.'

This is why the new year will pose a huge test for Maryam Nawaz. So far she has kept quiet after her release on bail, and only said that her father's health is her top priority. This is understandable, given the circumstances of her mother's tragic death.

But if Nawaz Sharif's treatment turns out to be long drawn and he can't return home soon, Maryam Nawaz will be faced with a tough choice. She knows she is the keeper of her father's political legacy and her long silence, absence from the scene will undermine morale, even support.

How she resolves this conundrum will spell out the course of her political future. Many politicians may want Lady Luck to smile on them in the coming year but some of them will have to be content with merely surviving what is likely to be a make-or-break year.

Now if the army chief were a politician one could say he'd have the toughest new year as his extension hangs in the balance. But that is another matter.

# Chasing shadows

DR FARRUKH SALEEM

Shadow number 1: \$200 billion in Swiss banks. On August 18, 2018, Imran Khan took office of the prime minister of Pakistan. On August 19, Murad Saeed, now the federal minister for communication and postal services, tweeted: "200 billion dollars of Pakistani tax payers money stashed in Swiss banks as per Fin minister written reply in parliament."

Lo and behold, we ended up spending August, September and part of October chasing the \$200 billion shadow in lieu of an economic policy. To chase shadows is "to pursue things that are not there.....things that are imagined rather than real."

As per the figure released as part of the Swiss National Bank's (Switzerland's central bank) annual statistics report, "A little over CHF380 million (\$388.58 million) in Pakistani-origin funds were held in Swiss banks at the end of 2018....."

Shadow number 2: By September 2018, we started forming 'task forces' - a task force on energy, another one on reforming the police, on civil service reforms, on austerity, on asset recovery, on knowledge economy, on tree plantation, on the economic corridor etc. Eventually, we had three dozen of

them. In August 2018, before the formation of the Task Force on Energy, our circular debt was at Rs1,100 billion.

The most recent figure is Rs1,700 billion. In Punjab, over the past 16 months, we now have the fifth inspector general of police - average tenure three months; three chief secretaries and six education secretaries.

The most recent reshuffle has reshuffled 31 DCOs, 20 Additional IGs, 19 secretaries and five commissioners.

The Task Force on Asset Recovery is yet to recover any asset and the Task Force on Knowledge Economy is yet to have its first meeting.

Shadow number 3: Naya Pakistan Housing. Yes, the months of October and November were big on Naya Pakistan Housing. Current status: not known.

Shadow number 4: Yes, December 2018 was spent on the 'chicken-and-egg' scheme. Yes, Dr Muhammad Arshad, the additional director at the Rawalpindi livestock department, told us that "2.5 million units will be distributed among residents of Rawalpindi division with each unit comprising four chickens and a cockerel. The chickens in each unit are 85 days old and fully capable of laying eggs frequently." Current status: not known.

Shadow number 5: We spent Febru-

ary 2019 on welcoming Arab princes. The Saudi prince alone was going to invest \$20 billion. Current status: not known.

Shadow number 6: We spent March and April of 2019 on ExxonMobil-led consortium drilling an ultra-deep well in Kakra-I. We were told that "Pakistan is on the verge of hitting a kind of jackpot in the form of discovering a huge reserve of oil and gas."

Shadow number 7: By June, we had handed over the reins of our economy to the IMF. And the IMF has since given us new shadows to chase: the current account deficit and the Pakistan Stock Exchange.

Here are the four things we actually need to do. One, implement e-procurement in all public procurement projects. Remember, the government spends around Rs6 trillion on public procurement projects - and the leakages are estimated at around 25 percent (bigger than the IMF package).

Two, reform Public Sector Enterprises (PSEs). In August 2018, the losses at PSEs amounted to Rs1,300 billion. The losses have since jumped to Rs2,100 billion. Three, reform the electricity sector. The losses in this sector have jumped from Rs1,100 billion in August 2018 to Rs1,700 billion.

Four, the leakages in the gas sector amount to some \$2 billion a year. Re-



# Monetary policy and growth

DR MUHAMMAD JAVID

The monetary policy is a key element of macroeconomic management and its effectiveness is an important issue in economic policy analysis.

In the context of Pakistan, monetary policy management is one of the primary roles of the State Bank of Pakistan (SBP). In line with SBP Act, the monetary policy has to be supportive of the dual objective of promoting economic growth and price stability. The SBP conducts monetary policy by using money supply (M2) as an intermediate target. The SBP uses short-term interest rate as an instrument of monetary policy to control inflation. It pursues a monetary target regime with broad money supply (M2) as a nominal anchor to achieve the objective of price stability.

The SBP also sets a target of M2 growth in line with the government's targets of inflation and

growth. This framework is based on two key assumptions: first, there is a strong and reliable relationship between the goal variable (inflation or real GDP) and M2; and second, the SBP can control growth in M2.

In its meeting on November 22, 2019, the Monetary Policy Committee (MPC) of the State Bank decided to leave the policy rate unchanged at 13.25 percent for the next two months because of obstinately high inflation caused by increases in food prices.

According to the SBP projection, average inflation for FY20 remained broadly unchanged at 11-12 percent. The monetary policy mainly relies on the interest rate channel. Therefore, the critical question is the effectiveness of the interest rate channel as a transmission mechanism. Judging the effectiveness of the monetary policy is difficult because it is not always easy to isolate all

the other happenings in the economy, such as fiscal policy, external shocks, market idiosyncrasies, in order to come up with a causal relationship between a monetary policy instrument and an objective.

In developed countries, which have more sophisticated financial systems, there is a general consensus on the use of indirect instrument, particularly a short-term interest rate to effect the monetary policy. Indeed, widespread empirical evidence has shown that in those countries, the short-term interest rate is an effective tool for controlling inflation and influencing output growth.

In developing economies, the transmission of the monetary policy operates differently because of weak institutional frameworks and shallow financial markets. The conventional view is that the monetary policy is ineffective in developing countries, largely be-

cause of weak institutions, underdeveloped financial markets, and uncompetitive banking systems.

The tight monetary policy stance has become under fire from the business community and many interested observers. It is argued that the monetary policy has failed to curb inflation on the one side and has stymied economic growth on the other. While there is a certain element of truth in these arguments, policy measures taken to subdue the twin deficits had a profound impact on economic activity during the FY19 (SBP). Real GDP growth slowed to 3.29 percent in FY19 as compared to target of 5.4 percent. Agriculture and industrial output slowed to 0.85 and 1.4 percent as compared to target of 3.7 and 5.8 respectively.

The fallout for the industrial sector was quite severe and similarly the agriculture sector fared poorly as a whole. There are clear signs that in the foreseeable fu-

ture the economy will witness low economic growth and high double digit inflation - classical characteristics of an economy in stagflation. The supply shock may have partially contributed in the stagflation among other factors. The SBP has acknowledged that a high discount rate has a negative impact on credit to the private sector which further worsens the supply bottleneck.

Higher interest rate increases the cost of borrowing for the private sector which discourages the demand for private sector credit. When the demand for private sector credit decreases, the level of private investment falls - which adversely affects economic growth and employment. Since a major source of stagflation appears to be supply shocks, part of the solution may lie in boosting supply by removing the supply side bottleneck.

The other important concern in this regard is government bor-

rowing from the SBP at a high interest rate. The question is whether the increase in interest rate acts as a deterrent to increased government borrowing from the SBP. The answer to that is: no. During the FY19, government net borrowing from the SBP increased from Rs3691.6 billion in July 2018 to Rs6679 billion in June 2019 which is 81 percent.

Borrowing from the SBP injects liquidity in the system through increased currency in circulation. The impact, therefore, of a tight monetary policy stance is diluted with this automatic creation of money which increases the money supply. The high interest rate would cause high interest payments on government debt which would cause an even higher fiscal deficit.

The SBP acknowledged in its monetary policy statement that food prices are behind inflation outcomes. According to the 'Inflation Monitor' September 2019

issue, the weighted contribution of food and energy (housing, water, electricity, gas & other fuel) group in overall inflation is 72.7 percent. These are essential items and demand for these items may not be curtailed due to high interest rate. In the current situation, it seems that high interest rate is neither slowing down inflation nor appears to act as a deterrent to government borrowing from the SBP but only adversely affecting the private sector. In this scenario, the possible reason for high interest rate might.

The current monetary policy stance has not been helpful in either ensuring macroeconomic stability or reviving growth in the economy. Indeed, it only further squeezes the private sector and discourages private investment which is already facing an extremely difficult situation. In the current scenario, the appropriate approach is prudent monetary management to spark private sector revival.

# Letters to the Editor

## Musharraf case judgement

This is apropos the Pervez Musharraf case judgement by the special court. If the court can declare a national hero a traitor, then Nawaz Sharif should also be declared a traitor.

I say this because Nawaz Sharif not only pushed the country to the brink of default while building his own empire outside Pakistan, he was also responsible for the withdrawal of Pakistani forces from a winning position in Kargil.

This deprived Pakistan of a certain opportunity to gain control of whole of Kashmir. Our politicians love democracy not because they actually love Pakistan. They actually love the freedom of doing anything according to their wishes. The elite class - landlords, feudal lords and bureaucrats - virtually control everything, including the public.

One of these democracy lovers, who wanted to control the armed forces like a king and who cannot spend a night in a place less than a palace, leave alone on the borders, should be asked to spend one week in extreme cold or hot weather under heavy enemy fire to fully understand what the army and other forces do.

I strongly believe the treason case against Musharraf was made because of bias. Instead, a treason case should have been instituted against

Nawaz Sharif and his cronies.

Musharraf is a hero of Pakistan and declaring him a traitor is illogical and an attempt to gain control of the armed forces through court. The politicians take the oath before a judge when they take a public office.

How much do they follow what they say while taking the oath?

Present form of democracy can be successful only if at least 95 per cent Pakistanis are educated and have the knowledge about their rights and know how to protect them.

Waqarul Hassan Khan  
KARACHI

## Piper's tune

He who plays the piper calls the tune. That sums up our predicament about attending or not attending the recently concluded summit in Kuala Lumpur, clarifications and constructs notwithstanding.

Since when did beggars become choosers? With a cast iron begging bowl hanging around our neck for as long as one can remember, how do we go against the wishes, expressed or otherwise, of someone who has helped us keep our financial head above the water?

The day we are able to put our financial house in order, we will take first step towards freeing ourselves from the financial shackles that bind us. Till such time we will continue to play all

kinds of tunes to whoever pays us!

Farid Nawaz  
ISLAMABAD

## BISP scam

The Benazir Income Support Programme (BISP) was launched back in 2008 by then Pakistan People's Party government. The aim of the programme was to support financially the most marginalised people. It was launched across Pakistan so that a maximum number of people could get benefit from it. But, unfortunately, like other projects people got benefit of this programme on the basis of political affiliation, at least in my village, where 80 per cent of BISP cards were given to PPP stalwarts instead of those who really deserved.

It has been almost 12 years since the programme started but no authority ever checked the status of beneficiaries. In these 12 years, an army soldier must have served his two-thirds of service and he must have been planning for retirement by now.

I lodged a complaint at Citizens' Portal and tagged people at the helm in a message on Twitter. But there has been no response.

I feel pain when deserving people are deprived of their rights. I urge the people to raise this issue with the government.

Zamin Ali  
GILGIT-BALTISTAN

## Enemy at gates

IT is painful to see internal bickering when the enemy is concentrating its forces and deploying missiles on our eastern borders. The valiant armed forces are there to defend the motherland against any misadventure by India.

Modern wars are fought in totality when the nation is at war. We have to prepare 220 million Pakistanis for war. There should be no panic and the nation must continue functioning in a normal manner with zeal and enthusiasm. At the same time people must be well aware of black-outs, anti-air raid measures, first aid, damage control as well as safety measure against nuclear blasts. Nuclear awareness must be created, not its scare. We must learn to operate and function normally during nuclear environments. It is recommended that PTV should telecast daily one-hour programme during the prime time to be unlinked by all channels for motivating and educating the people about both national defence and self-defence along with national songs and glimpse of 1948, 1965 and 1971 wars.

LT-Col (r) Syed Ifthikhar Ahmed  
KARACHI

## Delayed justice

A cheque amounting to Rs14 million and 35,000 was presented by me to my bank, which

was dishonoured. I got FIR no 1021/19 registered under section 489F at Defence A police station, Lahore cantonment (E Tac no DA-9/2/2019-6054) on Oct 14. The accused obtained an interim bail from district court Lahore on Oct 15. Although the police in their investigation report before the judge have declared the accused guilty, the bail was extended for one reason or the other. According to my counsel, who is an experienced advocate, it may take years before a final verdict on the case is decided.

Maj (r) Mumtaz Bashir  
LAHORE

## Christmas joke?

The Pakistan Railways announced that a special Christmas train would leave Rawalpindi and Karachi on Christmas with a 20 per cent discount on all tickets (Dec 24). This was indeed a joke. All those who celebrate Christmas never travel on Christmas day. All reach their destinations before Christmas. The railway should have announced this at least a week before. I will be travelling in a short while after Christmas day. Now I am not going to cancel my ticket in order to travel on this train. I am not against the special trains; they are beneficial but the announcement should have been made long before Christmas.

Fr Abid Habib  
KARACHI