The Business

*Chief Editor*

**Irfan Athar Qazi**

E-mail: editorthebusiness@yahoo.com

thebusinesslhr@gmail.com

Tijarat House, 14-Davis Road, Lahore
0423-6312280, 6312480, 6312429, 6312462
Cell # 0321-4598258

1270-B, Peoples Colony No I, Off: Chenone Road, Faisalabad, Ph: 041-8555582

ISLAMABAD / RAWALPINDI
N-125 Circular Road, Ph: 051-5551654, 5532761, Cell # 0300-8567331
KARACHI
3rd Floor Kehkashan Mall 172-I Block II PECHS
Opp Rehmania Masjid Main Tariq Road
Ph: 021-34524550, Cell # 0300-8251534


# State of economy

According to the World Bank report titled "The South Asia Economic Focus, Reshaping Norms: a New Way Forward" — a rate lower than that projected by the outgoing Khan administration's Finance Minister Shaukat Tarin who had projected a rate of five percent for the current year and six percent for the next fiscal year. Pakistan's economy performed worse than Bangladesh's which is projected to register a Gross Domestic Product growth rate of 6.4 percent, and India with 8.9 percent. Nepal and Sri Lanka rely heavily on tourism as a source of revenue. These two countries performed worse than Pakistan due to continuing travel restrictions at 3.7 percent and 2.4 percent, respectively. However, what is disturbing is that next fiscal year Pakistan's growth is projected by the World Bank as the lowest in the region at 4 percent, Nepal at 4.1 percent, Bhutan at 4.4 percent, Bangladesh at 6.7 percent, and the Maldives at 10.2 percent. Sri Lanka's growth rate is not projected due to its default on foreign loans. Why Pakistan's performance will be the lowest next fiscal year has been the subject of these columns again and again. The agreement with the International Monetary Fund (IMF) was effectively at an end when the then Prime Minister Imran Khan announced an unsustainable relief package on February 28.

Indicators of ability to pay such as the ratio of public external debt service to exports and remittances is highest in Pakistan and Sri Lanka, the report notes, which, given Sri Lanka's announcement of default and violent street protests, must bring the need for immediate mitigating policy measures to deal with the crisis that must include slashing current expenditure which was allowed to rise from 4.3 trillion rupees in 2017-18 to well over the budgeted 7.5 trillion rupees in the current year given the relief package. And rising interest rates in the West may lead to outflows from Pakistan putting further pressure on our currency as Pakistan grapples with external debt.

The trade deficit exceeded 35.4 billion dollar July-March and reserves are less than two months of imports which is the most compelling reason to initiate talks with the IMF on the stalled seventh review. It is highly doubtful if the new government will be able to improve on the politically challenging but economically critical conditions agreed in the sixth review without a reversal of the relief package. The only flexibility in the short-term (three months or so) for the Shehbaz Sharif-led government would be to improve the administrative measures to check food prices, and target subsidies to only the vulnerable through the Benazir Income Support Programme.

# Taking on the economy

**DR KHAQAN HASSAN NAJEEB**

Government is a very demanding business, much more difficult than commentators and critics recognize. It's a multifaceted process that requires balancing a range of competing and demanding priorities. The future of Pakistan, and of all its citizens, depends more on the quality of what is achieved rather than on how much is achieved in the coming months.

Three-pronged agenda: Today's economic calling is both about managing the short-term challenges, and also about giving a sense that we have an understanding of the issues hampering sustainable development. Let us consider a three-pronged approach. First, making hard but necessary choices in the immediate; second, improving implementation of the work-in-pipeline; and third, presenting a sound economic framework for growth, which can permanently overcome the periodic balance of payment crisis.

**Immediate:** Let us build on the short-term decisions partly highlighted in our last article on April 4, 2022 ('The economy challenge'). There is a consensus that the country should try to complete the on-going programme with the International Monetary Fund (IMF). However, it is not that straightforward. For Pakistan, it's not just about reverting to the IMF. It is more about doing its own homework on identifying a set of policies that should form part of the Memorandum of Economic and Financial Policies to be agreed with the Fund – that's what really counts.

Programme continuity can certainly help in managing the rising external financing needs and building the declining reserves of the State Bank of Pakistan (SBP). Focus should be on building the Net International Reserves, which signal the quality and usability of SBP reserves. IMF programme resumption will be a positive signal to markets and can create a semblance of confidence.

A lot is said about consistency of policy. However, that alone is not enough. It is more about calibration of monetary, fiscal, industrial and trade policies, which is of significance. In this regard, Budget 2023 needs to be prepared considering a large reform effort. Whereas revenue reforms get the bulk of the attention, it is the expenditure side that needs serious consideration. Public Sector Development Programmes (PSDP) need a focus towards the software of the economy and a moratorium on new projects funded by PSDP. There should be a clear signal to move beyond amnesties and take tough decisions on taxing agriculture income, capital gains and retail sides. The Budget 2023 document has to demonstrate that it can wind back the budget deficit without stifling economic growth. This requires true hard work and calibration.

Energy pricing policies are bleeding the exchequer and are thus unsustainable. The policy needs revision and astute management. Higher prices driven by the global commodity super cycle and the effect of rupee adjustment are hard to pass to the consumers already reeling under inflationary pressures. But, as tough as it may be, the need is about showing prudence over populism.

Increasing the breadth and quantum of adequately targeted subsidy has become possible due to newly developed databases such as the National Socio-Economic Registry, which covers about 33 million households through a combined door-to-door survey and desk-based self-registration mechanism. Other direct options like fuel cards for motorcyclists and agriculturists are also possible. Such moves will give credence to eliminating general subsidies in the economy. This requires a lot of effort but must be accomplished.

In the immediate, credible signalling is a necessary condition for economic stability. All the above actions are geared in this direction. The goal is to indicate a move to build minimum new foreign debt by minimizing current account deficit, substantively eliminating fiscal deficit and focus spending on the deserving to alleviate the impact of price rises.

**Implementation:** The second part of the agenda is about implementation of the work-in-pipeline, which may have lost momentum. This needs strong economic governance and a professional team. The key areas needing a push are quite obvious. The second phase of the China-Pakistan Economic Corridor (CPeC), nine underutilized SEZs, new LNG terminals, the north-south gas pipeline, divestment and pension reforms – all need a nudge.

Other areas also require attention. Facilitating a shift of the industrial units from the Far East to Pakistan can give a big push to exports. Creation of an energy market in Pakistan is something that an energy czar must devote time to on an urgent basis. The federal government should coordinate policies to degasify gas networks, primarily through electrification. It should support the development and deployment of gas replacement technologies.

Lastly, put in motion the digitalization of the Federal Board of Revenue to improve transparency, reduce administrative burden and make it easier for taxpayers to comply. A successful digital journey requires a strategic transformation plan, which can be developed in collaboration with more technologically advanced tax administrations to incorporate international experience.

**Growth framework:** The nation must learn from recent history. In the last five years, two growth episodes have had an identical result – balance of payment difficulties and consequently the urgency to put in motion contractionary policies. Pakistan must put forward an economic framework beyond the usual tools of amnesties, concessional financing for large businesses, subsidized energy, and incentives for non-tradable sectors. This should be the third part of the agenda for the country.

A growth framework based on principles of productivity growth, competitiveness, marketization and privatization. A key element of the framework must be eliminating inefficiency in key areas that underpin a competitive economy including energy, logistics, financial services and government services. In each area, opportunities for value-creating market-based models could emerge, generating billions in economic value. The federal government should work with the provinces to better align policies to support the growth in renewable energy and its connection into the transmission grid. The growth framework must include new ways of living and working. We must recognize that climate change will have an impact on every aspect of the economy and every government portfolio. As citizens aspire for better quality of life including secure urban environments, less air pollution, clean drinking water, and mixed-use buildings can create opportunities for millions of productive jobs in service sectors.

Pakistan's low savings rate paints a distorted picture. The bulk of savings remain in unproductive assets. We must create the right incentives to channel more household savings to capital markets. Lastly, digging the ground is a seriously profitable business and with abundant opportunities in Balochistan, we must move forward with conviction.

Such a framework can be a springboard to a better future. These aspects of economic policy need to be put at the centre of the national debate if citizens have any chance of winning a decent living.

**Conclusion:** The emerging economic and political picture is worrisome. However, one should never lose hope for a better Pakistan. The above highlighted three-pronged agenda is a possible way to help Pakistan meet its short-term obligations and move out of low growth rates, high levels of debt, inflation, low productivity and poor competitiveness that have contributed to high rates of poverty and low human indicators.

# PML-N's challenge begins

**ARIFA NOOR**

Imran Khan is down but not out. This, it seems, is the emerging consensus since he vacated Prime Minister House only to inhabit the jalsa gah.

Political conversations in Islamabad and beyond are more about him and the crowds he is pulling than the newly formed government, which is struggling to not just consolidate power but also announce its cabinet — until Monday morning, a week after Prime Minister Shehbaz Sharif took oath, there was still no official announcement and only considerable conjecture about who will get what.

Yet, in some ways, it is all so familiar, reminiscent of the early days of the PDM when Nawaz Sharif was on a roll, naming and shaming those he held responsible for his disqualification and 2018 election 'defeat', in the jalsas the opposition parties were holding across the country. The focus, then too, was on how big the crowds were and what Sharif senior was going to say or not say. In those days, senior PML-N leaders would chuckle when asked about their narrative and their leader's speeches, arguing that Nawaz Sharif was dominating the political scene, despite being in London.

Indeed, it is a staple of our politics that those in the opposition, as long as they are angry and loud, will dominate the political imagination. And so, it is with Imran Khan these days. And this aggressive domination is also linked to the manner in which a party is thrown out. Any hint or allegation of manipulation is enough for the party to win backs its core support — from the PPP in the 1990s to the PML-N in 2018 and now the PTI. The ouster has simply galvanised the PTI support base. Had the party lasted a year longer and gone into election, it would have found it much harder to bounce back.

Though, it should be pointed out that while opinion polls in the last days of the PTI government did indicate some fall in Khan's popularity, the downward slide was not as extensive as generally perceived. The PTI continued to be one of the two top choices of voters in all the provinces. According to a survey by the Institute of Public Opinion Research published in The News in January this year, the party led in KP with 44 per cent, with JUI-F trailing at 17pc. In Punjab, the PML-N was the most popular with 46pc. However, the PTI remained the second choice at 31pc, despite three years of Buzdar's rule and inflation. For comparison, the PPP trailed far, far behind at 5pc in Punjab. And, three months later, since his unceremonious departure, Khan seems to have reacquired his Teflon tendencies.

The opposition, or rather, the government, is said to be worried. As are others, who may have nudged him out. From unexplained absences, to long, rambling press conferences to interactions with the elderly, the signs are there for anyone to read, though the evidence is too circumstantial to be listed with clarity. The jury can make up its own mind. The PML-N government has put off the petrol price hike, which it had been crying hoarse about since the PTI had announced it. However, their own statements suggest the delay can only be temporary. And while the PPP is bargaining long and hard for this and that, it has not asked for finance — not out of the goodness of its heart but perhaps because it wants the Noonies to bear this burden alone, as did the PTI earlier. However, the opposition and others can take heart from the fact that Khan will eventually run out of steam, as did the PDM. There are diminishing returns to the spectacle of rallies and speeches, and on their own they cannot force an election. But this is not entirely good news. The longer Shehbaz Sharif governs, chances are that Khan and his party will grow stronger — for, governance matters, especially the high fuel prices, will take their toll on the PML-N. And frankly, every decision and every road now leads to the next election. And this is worrying for the PML-N, more than the other parties, though Maulana sahib should also be very concerned about the mood in KP. As things stand, at the moment, electorally the PPP, PML-N and PTI dominate one province each — Sindh, Punjab and Khyber Pakhtunkhwa respectively. If there were any doubts created about KP by the first phase of the local government elections, these have been laid to rest by the second. The PTI should not have any issues sweeping the elections here, next time around too.

The situation for the PPP in Sindh, too, is the same. In other words, the proverbial battleground will be Punjab, where the PML-N does monopolise central Punjab. But the north and the south have and will determine who makes it to Islamabad and this is where the Noonies may yet face a fight.

It is now a matter of determining if the PTI has made any inroads in the province at all despite its governance record. As a PTI leader recently said, his party simply needed to retain its space in Punjab. If it doesn't, the PML-N will be sitting pretty and if PTI does, it can be in a position to get a second chance at the centre. The second battleground will be Karachi, where too, the recent jalsa seems to suggest that PTI has not lost all its support though this will not yield the 2018 dividends by any stretch of the imagination. However, here the determining factor may be the MQM and its ability to mobilise their voters. And like the PML-N, the MQM's fortunes will be affected by its decision to join the ruling coalition. Indeed, the worst may yet be over for the PTI but not for the rest.

# Blood money

**JUAN COLE**

The BBC reports that Ukraine President Volodymyr Zelensky, during an interview, accused Germany and Hungary of paying "blood money" for Russian petroleum.

Russia could earn $320 billion from energy exports in 2022, fueling Moscow's war machine.

Zelensky is perhaps making an analogy to blood diamonds, an issue Aryn Baker explained at Time. Some diamonds come out of conflict zones in Africa where gangs used forced labor to mine them and sell them to finance mass murder. Ethical people are now trying to avoid buying blood diamonds. They will find that avoiding blood oil, though, is impossible. President Zelensky is right that buying gasoline and other petroleum products is paying blood money. This maxim is especially true of Russia at the moment, given what it is doing to children, women and noncombatant men in Bucha, Mariupul and other Ukrainian cities. Russian oil is likewise "blood oil."

But I would add that purchasing gasoline or diesel, etc., is always blood money no matter whom you get it from. The petroleum industry is wrecking the planet with carbon dioxide emissions, which have the potential of killing millions of people and making hundreds of millions homeless. That is not even to mention all the people who sicken or even die from air pollution, all the people harmed by dangerous oil and chemical leaks, all the people displaced and harmed by drilling operations. That is blood money on a vast scale. Even regarding Russia, you are paying Moscow blood money even when you don't buy directly from Lukoil, since oil is a single global market. Any purchase anywhere from anyone of this commodity supports the price, and helps all the producers.

Not everyone can afford a hybrid or an electric car, though tens of millions who can afford one don't buy one. Not everyone can take public transport, but millions who could, don't. Not everyone can bike to work, but many more could than do. And it would be good for their health and help them live longer if they did. And we can all make sure to vote only for those politicians who will use the levers of government to make the big infrastructural changes that will end the evil of petroleum.

Why is Zelensky especially angry at Berlin and Budapest? Inside the European Union, Germany and Hungary have so far blocked a ban on Russian oil purchases by countries in the union.

Germany has backed some boycotts of Russia. It has joined in a boycott of Russian coal, for instance, and has paused the Nordstream 2 gas pipeline from Russia through the Baltic Sea. The latter may be a dead letter.

But Germany imports 25 percent of its petroleum and 40 percent of its methane gas from Russia, and Chancellor Olaf Scholz maintains that boycotting those commodities is a more complex proposition. His stance has infuriated his coalition partners in the Green Party.

Paul Carrel at Reuters reports that German Greens are more eager to send military aid to Ukraine than is Scholz and his Social Democratic Party, which, being on the left, has long sought correct relations with Moscow in the teeth of US opposition. The SPD, however, seems not to have noticed that Russia's government is now barracuda capitalist and authoritarian, so I'm not sure what that has to do with socialism.

***Excerpted: 'Zelensky Calls Paying for Russian Oil 'Blood Money' – the Same Is True for All Oil Purchases'.***