



## Fostering growth under IMF programme

*During the period of the caretaker government, the authorities have maintained economic stability through strict adherence to the fiscal targets while protecting the social safety net, maintaining a tight monetary policy stance to control inflation, and continuing to build foreign exchange reserves. And this has been done at the same time as implementing timely adjustments in tariffs to shore up the viability of the energy sector. The IMF stands ready to hold a mission for the second review of the Stand-by shortly after a new cabinet is formed. The focus, therefore, is currently on completion of the current Stand-by program, which ends in April 2024. We look forward to working with the new government on policies to ensure macroeconomic stability—Julie Kozack, Director Communications IMF*



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Pakistan's economic scenario due to unabated dependence on International Monetary Fund (IMF) continues to be shrouded in risk and challenges. Fundamental problems have become permanent fixtures in our fiscal profile, making the path to recovery arduous and lengthy. While there is a multitude of issues, the primary concern revolves around our inability to generate inflows that match spending requirements, both internally and globally. The economy is grappling with budget deficits and current account deficits, which undermine indicators of stability and progress. Under these circumstances, there is a need to devise a long-term plan coupled with structural reforms to come out of debt prison.

Once touted as an "agriculture-based", Pakistan's economic trajectory purportedly shifted towards becoming an "industrial" one. However, amidst evolving dynamics and our policymakers' penchant for ad-hoc strategies, we find ourselves regrettably transformed into a "Lender-Driven Economy". Our pivotal economic decisions hinge upon approvals from lenders, marking a significant departure from our initial aspirations. Over the past few years, the primary focus of our economic team has been to align with policies outlined by the IMF leaving little to no room for independent decision-making. Matters such as electricity and petroleum pricing, along with types of taxes to be imposed, are dictated by IMF agreements, constraining autonomy compelling the nation to navigate within the confines of externally dictated parameters, questioning its sovereignty and economic agility.

The caretaker government deserves commendation for its proactive measures aimed at curbing unproductive expenditures and augmenting both tax and non-tax revenue streams. Particularly, during the initial seven months of the fiscal year (July-January 2024), the Federal Board of Revenue (FBR) witnessed a substantial surge in tax collection, marking a 30% increase, reaching Rs. 5.15 trillion.

The Ministry of Finance attributes this noteworthy improvement to resurgence in economic activity and enhanced profitability across various industrial sectors, including banking, oil and gas. This achievement emphasizes the government's commitment to fiscal responsibility and economic revitalization, laying a solid foundation for sustainable growth and development.

In line with their commitment to prudent fiscal management, the caretaker government undertook several challenging, yet essential measures aimed at addressing entrenched issues in critical areas. They implemented unpopular measures such as reducing subsidies in power and gas sectors through quarterly tariff adjustments, demonstrating a resolve to bolster financial sustainability and efficiency.

Furthermore, the government upheld stringent financial discipline by refraining from issuing supplementary grants, signaling a dedication to fostering a culture of accountability and transparency in fiscal affairs. Additionally, transfer of Public Sector Development Projects (PSDP) to provincial Annual Development Programs signifies a decentralized approach to project management, facilitating more efficient resource allocation and project execution at local level.

Adherence to financial discipline has yielded significant fiscal gains, with the government achieving a primary surplus of Rs. 1.5 trillion during the period from July to December 2023, translating to 1.4% of GDP, exceeding the IMF target of 0.5% of GDP, underscoring the government's commendable fiscal performance. The economy has also shown signs of recovery, with GDP growth rebounding to 2.1% in the Q1 of FY24 after two consecutive quarters of negative growth. This improvement is not only a positive development but also indicative of a diverse recovery across key sectors.

Agriculture registered robust growth, recording a notable expansion of 5.06%, while the manufacturing and industrial sectors have shown improvement of 2.48%. Additionally, the services sector exhibited resilience, posting a growth rate of 0.82%. These encouraging indicators underscore the effectiveness of governmental policies in revitalizing the economy and fostering inclusive development across various sectors.

Amidst a backdrop of anti-state propaganda from the opposition party Pakistan Tehreek-e-Insaf, which openly urged the lending agency to intervene in Pakistan's domestic politics and demanded an audit of 30% of national and provincial assembly seats before extending any financial assistance to the cash-strapped economy, the recent statement from IMF carries a positive tone. It serves as a reassuring affirmation of IMF's readiness to collaborate with the newly elected government, despite the contentious rhetoric and calls for interference in domestic affairs. This stance underlines IMF's commitment to constructive engagement and support for Pakistan's economic development, irrespective of political discourse.

Despite some discernible signs of improvement, the overall economic outlook remains fraught with challenges. Sustained progress necessitates the continuation of timely decision-making, even if such decisions prove unpopular, to ensure that the trajectory toward recovery remains unimpeded. It is evident that the new government will seek a comprehensive 24th IMF programme with increased financial allocation following the conclusion of the ongoing US\$3 billion Stand-By Arrangement (SBA).

A paramount concern for the government should be the curtailment of fiscal deficit and reducing reliance on borrowing. The substantial portion of fiscal resources allocated to debt servicing has precipitated a perilous cycle of borrowing to meet fiscal requirements, exacerbating the debt burden.

The task ahead for the newly elected political leadership is to sustain economic momentum in a manner that is both sustainable and conducive to the preservation of macroeconomic stability. This entails striking a delicate balance between fostering growth and managing fiscal constraints, thereby safeguarding against any adverse strain on key macroeconomic indicators. Maintaining this equilibrium will be imperative for steering the economy toward long-term resilience and prosperity.

Within our multifaceted economic terrain, we observe a rich tapestry encompassing agriculture, manufacturing, services, and a burgeoning technology sector. Each of these sectors presents unique opportunities for growth and development, necessitating bespoke solutions tailored to their individual characteristics and challenges.

The agriculture sector, historically serving as the backbone of our economy and employing a substantial portion of the population, holds considerable sway over the nation's GDP and overall economic performance. It remains imperative to harness the full potential of this sector through targeted interventions and modernization efforts aimed at enhancing productivity and sustainability.

Similarly, the manufacturing sector, with its capacity for value addition and job creation, plays a pivotal role in driving industrial growth and export competitiveness. Moreover, the services sector, encompassing a diverse array of industries ranging from finance to tourism, is a significant contributor to economic output and employment generation.

Additionally, the technology sector, characterized by innovation and entrepreneurship, holds promise for fostering economic dynamism and global competitiveness. Leveraging the strength of each sector effectively while addressing their respective constraints is essential for realizing our nation's economic aspirations and promoting inclusive development.

However, the agricultural industry encounters various obstacles, including high costs of essential inputs such as electricity, fuel, and fertilizers, as well as water scarcity and outdated farming methods. But, through increased collaboration of the public and private sectors and adoption of modern mechanized agricultural techniques, we can revitalize this sector to meet our national demands and which holds the potential to spur higher levels of economic activity thus reducing our reliance on imports.

Again, the manufacturing sector grapples with challenges such as high cost of operations, elevated interest rates, energy shortages, steep tariffs, infrastructural deficiencies, and bureaucratic impediments. Addressing these issues warrants immediate attention from the government. Essential measures include investment in infrastructure, the development of human capital, and initiatives aimed at enhancing governance. By undertaking these efforts, we can unlock the sector's economic potential and pave the way for sustainable growth even under the austerity-driven IMF's plan and conditions to liberalize imports and remove controls over forex market.

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