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## Managing Growth with Stabilization I

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- *How should Pakistan achieve durable adjustment without going through austerity of recent years?*
- *What can be done to achieve growth acceleration even when developing a stable economy?*
- *What are the major mistakes made in the last 3 decades of adjustment programs in both design and implementation?*



Shaukat Tarin (Ex- Finance  
Minister of Pakistan)

Pakistan has been struggling hard for stabilization and strappingly relying on IMF programs for decades. Pakistan is extensively running after loans with the hidden conditions and now the state reflects that Pakistan is under pressure of approx. 53 billion debt. IMF internal evaluation report depicting that three things which lead towards austerity mainly include design failure, implementation failures related to government and institutional decay. Now the problem lies in the capacity issues especially in FBR, Ministry of

Finance and Planning Division and finally the tax policy which is an absolute disaster of all. Considering the last program where offering a number of waivers, appreciated exchange rate, loss of reserves that built up debt during the program, increased energy prices and increased circular debt creating mess in the energy sector. Unfortunately, all these factors reflect the declining long run growth rate as well as investment rate i.e. Pakistan is lowest in Asia. Now the question arises that when and how we will be able to attain durable adjustments? What

would be the ultimate objectives? Can our economic policy be able to refurbish all? Tax regime is happening at the cost of growth and employment. This is in fact a huge burden on the economy leading towards the declining GDP, killing investments and ultimately high fiscal deficit. While focusing on the austerity in Pakistan, there are no major rules for operational and maintenance, investment and capacity areas? Now shall Pakistan have to change the program design or will continue chasing

revenues at the cost of economy? As the growth is totally collapsed, so what will be the durable adjustment paths without growth escorting to the stabilization.

Mr. Masood Ahmad explained the story of stabilization of Pakistan divergent to international experience and highlighted the points on relationship between stabilization and growth. He explained that economic stabilization can have symmetric objectives but the current COVID 19 shock encountered an unanticipated collapse in demand and output and all related response programs are working hard to support to stabilize an economy. He further shared the figures on the current response to revive the aggregate demand. That rich countries have announced \$8 trillion as a global rescue package and also offering the monetary easing policy in form of near-zero interest rates. Compared to that Pakistan also announced a PKR 1.2 trillion relief package and reduction in policy rate. But the issue is that there is a glaring difference between the fiscal stimulus and rescue packages that the rich countries have offered,

with themselves compared with the kind of response, in terms of ability to respond, for the rest of the world. Traditional objective of economic stabilization is to restore macroeconomic stability by rebuilding foreign exchange reserves and reducing the current account as well as fiscal deficit. It can only be possible by enhancing the exports and reducing imports through change in exchange rate. Moreover, focus on fiscal and

He further reflects the outcomes of IMF programs in terms of current account outcomes, import compression, reserve accumulation and growth projections. Reasons for underperforming growth mainly includes underestimation of fiscal/monetary multipliers, overestimation of growth impact of structural reforms and unimplemented planned reforms. In view of the structural reforms that targets to bolster the institutional and regulatory



monetary adjustments to reduce the aggregate demand. Hence this will help to create conditions for resumption in sustainable growth and also slowing the economy down is built into the design.

framework for all kinds of businesses and people's operations, is specially designated to ensure that the economy is able to realize the growth potential in a balanced way. The IMF record on bringing about n

successful and the same is true with the case of Pakistan.

The key points are that the IMF is effective in doing its job of inducing stabilization but the track record of laying the foundation of sustained structural growth is very vague. Stabilization is mostly being achieved through import compression resulting in well-restoring of foreign exchange reserves. Similarly, fiscal adjustment has heterogeneous impacts on growth depending on several other economic dimensions. Last of all, growth will come from structural reforms and a sense of ownership. In the case of Pakistan, there is a dire need to identify the constraints, stick to the fundamentals and chart a clear path with political willingness and accountability.

Mr. Shaukat Tarin, expressed that in all of these issues, the only thing where Pakistan progress is its well-thought strategic

planning. The only delinquent fact relies with the road map and implementation design. All the stakeholders have a common consensus on Charter of Economy, not more than 6/7 points, as an economic way forward. It is acceptable that Pakistan has fiscal problems because of the reason of not generating money and expenses are at higher end. This would be the strategic objective for the government as well as for the opposition, because there is no time to redesign the program, just have to sequence the program by means of restructuring the machinery.

Coming up to the current account issue, it is equally true that Pakistan has not enough exports. The fundamental problem associated with exports is that it totally relies in the hands of the family businesses of Pakistan and they don't want to let go of control. There are no consolidation or bankruptcy laws in such

cases. Moreover, Pakistan's export industry has no FDI and that industry is only commodity-based; not supporting the mega-orders exports. So, Pakistan has to seriously re-think on the exports, regenerate it and make our industry competitive. Third factor i.e., saving and investment rate which is also extremely very low. For this purpose the financial sector has to be revamped. This could only be possible to start with a good implementation plan, forward road map, good governance and good implementation.

In the end, Dr. Nadeem counter confirmed the saying of Mr. Masood that in Pakistan nobody is interested in growth and elite-captured people are the major hurdle hunters in the way of growth. The only point of concern is that when will the people of Pakistan start thinking and will demand growth. This is the only way that ensures Pakistan towards growth and stabilization.