**In defence of Mr Dar - PART-II**

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Last week in my piece I had warned that without first fixing the market anomalies in the underlying structure driving the demand for the greenback, simply letting the PKR float on a market-based mechanism would be a grave mistake, as the cascade effect could be horrendous. The same has happened as the PKR devalued almost 16 percent in just two days and we still don’t know where it will settle! Currencies like ours are not freely tradeable and determining their value merely through a market-based mechanism does not always work out, especially when the confidence is low and the economy is in a tailspin. Sadly, the ongoing scenario will see yet another surge in the domestic demand for the USD, as people move in more numbers to hedge against devaluation.

Anyway, back to Part II where one will be touching upon operational matters in the economy: Why our exports are declining despite regular devaluations and what needs to be done; are the strict emergency import control measures good or bad and how long can they be sustainable, how high are our interest rates and are they even sustainable; why an out of control FBR is destroying Pakistan’s economy; is the government deliberately stoking de-industrialisation; what needs to be candidly discussed with the IMF as after all it is a sympathetic lender of the last resort; and on why our capital account problems are no longer serviceable and need a haircut.

[Türkiye briefs UN Security Council members on recent earthquakes](https://www.nation.com.pk/14-Feb-2023/t-rkiye-briefs-un-security-council-members-on-recent-earthquakes)

We saw Dar shift the blame onto Imran Khan’s government the other day, but someone needs to ask him why on earth did he assume the mantle if he did not have the required backing to bring some painful reforms? Yes, IK’s three and half years were an economic disaster, but the malaise started much earlier and perhaps only the tipping point came during his tenure. For students of economic history, it is a reminder of post-1940s events in Argentina as they ring a similar bell, where an economy from being one of the most affluent of its time, got reduced to bankruptcy. It was ironically to be resurrected by a young army Colonel Peron (albeit under the garb of a democratic façade) who got convinced and stood guided by the vision of Raul Prebisch (often referred to as the Keynes of Latin America) that called for “inward-looking development as opposed to outward-looking development.”

We today need something similar, to correct course and start looking inwards. The journey is going to be neither pain-free nor a short haul and will require a professional team that understands both, operational and change management. The process will need to start with negotiating a prudent programme with the IMF in which the emphasis is on creating fiscal space through a firm resolve in reducing inefficiencies and raising productivity rather than eroding competitiveness.

[Virgin Atlantic suspends services to Pakistan](https://www.nation.com.pk/14-Feb-2023/virgin-atlantic-suspends-services-to-pakistan)

A question was recently posed to me by a government think tank member—why are Pakistan’s exports falling despite continuous devaluation? My response was that with all the impediments put in place by our own government: No zero rating, whereas our competitors have it; delayed sales tax refunds in a high-interest rate culture; an FBR went mad and sucking up productive entrepreneurial time and peace of mind in having to deal with a battery of wrongful tax notices; almost withdrawn facility of export refinance, whereas regional exporters have access to capital at nearly one fourth the cost; electricity and gas shortages; supply-chain constraints on raw material imports; production bottlenecks owing to the difficulty in importing key spares and parts; an ever-dwindling cotton crop in case of textiles; a counterproductive governmental compliance culture with more than 120 departments to deal with; highest regional tax slabs, etc., should anyone even be asking such a question?

[Bajwa asked me to decry Ukraine attack after Russia visit: Imran Khan](https://www.nation.com.pk/14-Feb-2023/bajwa-asked-me-to-decry-ukraine-attack-after-russia-visit-imran-khan)

In essence, what Peronian economics stood for was that the government policies need to facilitate the vision it has for the economy and not the other way around. Meaning, if you want domestic manufacturing to grow then the government needs to frame policies that create an environment in which local industry can flourish, not the other way around. In Pakistan, on one hand, we want the industry to grow, but on the other hand, we place almost 70 percent of the national tax burden on the registered industrial sector alone with agriculture contributing a paltry 5 percent. Furthermore, rent-seeking and corruption intertwine to make illegitimate operations thrive over genuine innovative investment ventures, ultimately eroding global competitiveness, thereby alienating them from the grand business arena where corporates go by sheer operational efficiencies and management skills.

Successful economies tell us a story of how responsible governments consciously ceded space to the bona fide private sector to improve delivery and outreach. We all know that capital can be used more efficiently and productively in the hands of the private sector and therefore, no rocket science in ascertaining that the more the capital flows to the way of the private sector the more it would do to improve the fortunes of a country. Today in Pakistan the private sector only uses 15 percent of the total debt in the country whereas the government accounts for 85 percent; the Indian private sector in comparison accounts for 56 percent and Bangladeshi 54 percent.

[Court dismisses hedge fund’s claim on Broadsheet’s $29m Pakistan money](https://www.nation.com.pk/13-Feb-2023/court-dismisses-hedge-fund-s-claim-on-broadsheet-s-dollar-29m-pakistan-money)

In 1992, the Pakistani private sector had a share of approximately 32/34 percent, whereas the Indians and Bangladeshis had 17 percent and 18 percent respectively. The net result is there for everyone to see. And this statistic makes the interest rate regime in Pakistan all the more ironic, since not only is it almost 3 to 4 times what our competitors are having to contend with rendering Pakistani businesses uncompetitive, but also because the government itself is the biggest victim since it is the highest borrower. At the current interest rate level, the government needs more than Rs 4 trillion per annum to only service its domestic debt, so one can see what a debt trap the country has gotten itself into.

To conclude, we have of late heard a lot of criticism by outside led economist groups on why the current account is being squeezed unnecessarily or why even try to balance it because it is counterproductive and chokes the system in the short term. My feedback to the government is that, don’t listen to them and my only reply to them is that these critics do not really understand the configuration of our imports and what factors drive them. And this is why I argue that at least in the short term we need to balance the current account because this is the only thing that we can directly influence in our external account equation. Once the day-to-day bleeding stops, we can gradually re-open critical spheres on a need-be basis. This is exactly what Peron and Prebisch did in an era where even a day without imports from the UK, USA and Europe into Argentina was unthinkable. As for the capital account, it is a different story altogether. With a constantly reducing GDP size (in dollar denomination) which as per my estimates would at best today be no more than $300 billion the external debt at $130 billion looks unserviceable unless we can negotiate a combination of debt restructuring coupled with a reasonable haircut and most importantly, followed by at least a decade long period of sound economic governance. Now please don’t ask me what we have to show for the $130 billion we borrowed, because your guess is as good as mine!