
Stopping the rot

Posted by Zia - 2008/06/13 14:56

Just like the bad old days

BRIGHTLY painted Tata lorries, laden with sacks of onions, wait in the noon heat at the Wagah border post between India and Pakistan. Once past customs, the onions will go on to Lahore and beyond. But the lorries must turn back. Their produce is laboriously loaded onto smaller vans, driven by locals.

Pakistan's costly imports of food (\$3.5 billion in the first ten months of this fiscal year, which ends on June 30th), fertiliser (\$823m) and fuel (over \$8.6 billion) may pull the economic rug from under its newly installed government, which presented its first budget, belatedly, on June 11th. The State Bank of Pakistan (SBP), the central bank, reckons the country's current-account deficit might reach 7.8% of GDP this fiscal year, its highest ever (see chart). Growth has slowed to 5.8%, inflation has quickened to over 19% and the government's budget deficit, at about 7% of GDP, is the highest in ten years.

Such macroeconomic disarray will be familiar to the coalition government led by the Pakistan People's Party of Asif Zardari, and to Nawaz Sharif, whose party provides it "outside support". Before Mr Sharif was ousted in 1999, the two parties had presided over a decade of corruption and mismanagement. But since then, as the IMF remarked in a report in January, there has been a transformation. Pakistan attracted over \$5 billion in foreign direct investment in the 2006-07 fiscal year, ten times the figure of 2000-01. The government's debt fell from 68% of GDP in 2003-04 to less than 55% in 2006-07, and its foreign-exchange reserves reached \$16.4 billion as recently as in October.

But in the months since, the turnaround economy has threatened to turn full circle. The political turmoil that followed President Pervez Musharraf's imposition of a state of emergency in November and Benazir Bhutto's assassination in December is not wholly to blame. Pricey fertiliser and April hailstorms hurt the wheat harvest. The mealy bug and other afflictions cost about 16% of the cotton crop, which in turn hurt the textile industry. And over 27% of Pakistan's higher import bill was due to the spike in oil prices alone.

But all this made it a bad moment for Pakistan to spook foreign investors with its wobbly politics. They bought just \$97m-worth of shares in the first ten months of this fiscal year, compared with over \$1.5 billion in the same period a year earlier. Reluctant to test the foreigners' appetite for its securities, the government has turned to the charity of multilateral lenders and friendly governments. Pakistan also received over \$5.3 billion in remittances from migrant workers in the ten months to April, half of it from the Gulf.

Mr Zardari has recently returned from a pilgrimage-cum-begging mission in Saudi Arabia. The Kingdom reportedly agreed to defer charges on some of the 250,000 barrels of oil it sells Pakistan each year. This forbearance comes on top of a \$300m handout to the government.

What will his government do with this money? Its new budget aims to narrow its fiscal deficit to 4.7% of GDP, based on an optimistic forecast of revenues. It will raise sales taxes across the board and impose heavy duties on luxury items such as perfume and chocolate. It has resolved to "prune" the "unbearable" subsidies, mostly of fuel and electricity, which now consume one-fifth of its budget, promising instead to give poor households 1,000 rupees (\$15) a month in cash. The scheme will be named the "Benazir programme", lest the beneficiaries forget which party to thank. The budget's allocation to the army was less in real terms than it was last year. But even as it spends less on guns, it promises to spend more on soldiers, raising their pay by 20% along with that of every other federal employee. Other expenses on the bureaucracy, however, are to be frozen: civil servants will have to forgo their new cars and air-conditioners.

As the finance minister unveiled his plans, Pakistan's lawyers began their "long march" to Islamabad, demanding Mr Musharraf's removal and the reinstatement of the senior judges he sacked last year. On June 7th Mr Musharraf told the press that he was not about to leave his post or the country. He will know when to quit, he said. He will not sit around like a useless vegetable, or like the onions waiting to cross the border at Wagah.

=====