**Sixteenth International Conference on**

**Management of the Pakistan Economy**

***From Stabilization to Growth***

**25th-26th March, 2020**

The current government inherited a number of critical macro problems from the previous regimes. Principally, but not least, a BOP crisis, which threatened default on external payments. Necessitating recourse to bilateral support, and finally an IMF Extended Fund Facility loan of $6 billion. Pakistan’s 23rd Agreement with IMF came into effect in May 2019.

Pakistan’s macroeconomic problems in themselves have been long standing and onerous, and the current IMF conditionalities for stabilization were stringent and have pushed the economy into a low growth and high inflation trajectory. Therefore, the immediate question facing the economy, policy makers, and this Conference’s deliberations, is, will the stabilization measures restore growth; or are these stabilization measures necessary, but not sufficient to restore growth; or worse, could some of these stabilization measures even be inimical to restoring growth.

Developing policies to revive growth, tame inflation, restore macro balances, external and domestic, and redress welfare requires first establishing empirically the causal determinants of these macro aggregates; and then identify policy instruments to improve these outcomes. While analysis must begin at the macro level, it must be complemented by a drilling down to the sectoral meso level, and firm and household micro level, granularity.

This year’s conference, scheduled for 25th -26th March 2020, will initiate this analysis of the current crisis of stabilization and growth, beginning with the first two sessions on the overall macroeconomic perspective of the economy.

The global economy is in a synchronized slowdown, with the growth for 2019 downgraded to 3 percent. Pakistan has experienced a decrease in GDP growth rate of 5.5 percent in 2018 to 3.3 percent in 2019, and expected a further decline to 2.4 percent in 2020. The situation gets worse because of the policies of the previous regimes, which resulted in a current account deficit of $20 billion in 2018. Moreover, the inflation rate is rising with low growth and a downward pressure on exchange rate. In this light, the first two sessions of the conference will focus on some critical macroeconomic issues facing the country and will provide some key policy solutions to accelerate the economy from the low-growth equilibrium and Balance of payment crisis.

Session 3 will present a two meso level panel that will be designed to reveal connections at the micro- and macro-levels. Starting from the macro level, complemented by a drilling down to firm and household micro level, granularity. Firstly, focusing on critical issues surrounding trade, industry and productivity, and secondly on the informal economy. The former will show the relationship of trade policies and productivity and the resulting impact on economic growth. The latter will provide household level insights on the size of the informal economy and the role it plays in economic growth.

The fourth session will focus on understanding the macro determinants of poverty, to formulate policy which consistently alleviates poverty. The particular case in point being Pakistan’s fiscal allocations for poverty reduction programs like the Benazir Income Support Program, on the one hand, while on the other hand the IMF package entailed devaluation persistently erodes the real wages and incomes of low-income households. Potentially reversing or halting the long run trend in poverty reduction. Further macro determinants of poverty in Pakistan must be sought in the labor market, which generates such weak returns to the poor compared to the non-poor. Policy must address these causal determinants of poverty, in terms of weaknesses in real wages, employment, informality, and critically the unpaid work women do largely through self-employment. Then only can a budget constrained policy address the complementary issue of transfers from the non-poor to the poor, which has been the only policy focus of poverty programs in Pakistan so far.

The fifth session will examine Pakistan’s debt obligations and reliance on global capital markets for growth. It took some hard lessons before policy makers in Asia were able to prioritize the importance of the debt market as an indispensable component of a strong and vibrant financial system necessary for sustained growth. Therefore, an important question arises: Is more debt a cure for high-debt economies? In recent years, Argentina and Greece have dealt with similar crises. In Pakistan’s case, numbers may lose meaning. Data shows that in this fiscal year’s (2019) first quarter, interest payment was 48 percent of the total federal expenditures. If we add to it subsidy, pension and defense, the sum is 97 percent of total expenditure and 103 percent of revenue. This situation has led to serious concerns of abnormal domestic debt growth in the last decade (2009-19), which was crowding out the private credit in domestic banking system. Shifting the debt mix to external avenues towards FDI may also help more domestic credit for private sector. Hence, the country’s ability of paying growing external debt servicing is to be seen in perspective; which means that debt servicing cost will increase more rapidly. The economic capacity to pay that debt back has fallen and needs deliberation. Therefore, the debt debate has to be conceptualized/ contextualized beyond the absolute numbers by researchers in their four papers in this session.

The sixth session focuses on how to move from stabilization to sustained growth through investment. While Pakistan recovers from the current macroeconomic crisis, the fundamental issue of low investment persists. Pakistan has a relatively low rate of investment (around half that in other countries in South Asia) and it has been declining since the 1980s. The low rate of investment is an important factor in the decline of Pakistan’s growth rate and poor human development indicators. In addition, even to achieve this low rate of investment Pakistan has had to rely disproportionately on international loans and large fiscal deficits. A key to accelerating growth will be enhancing the rate of investment and improving its growth impact and this will be the focus of the session. The papers in this session will address issues such as (i) identifying innovative ways of financing growth; (ii) improving tax mobilization; (iii) enhancing the effectiveness of the PSDF spending; and (iv) reducing the constraints to private investment.

The final session will focus on the issue of governance. In particular, as Pakistan attempts to move from its current low growth trap towards a high growth trajectory, it is critical to understand the role of the public sector in this process. Throughout its history, the public sector in Pakistan has played a key role (both positive and negative) in development and the first issue to address is what public sector reforms need to be initiated to bring about a structural shift in the role played by the public sector in development. This will be followed by a discussion of the future roles of federal and provincial expenditures after the 18th Constitutional amendment and how these roles can be complementary. Finally, there will be a discussion on the governance reforms needed to improve faltering public service delivery.

As the Pakistani economy stabilizes, there is a strong chance that history will repeat itself: Stabilization will not be followed up by critical reforms which in turn leads to higher growth that is accompanied by increasing and eventually unsustainable current account deficits. This again results in an economic crisis which in turn leads to another round of stabilization and economic stagnation. The papers presented in this conference should be of critical importance to policy makers if they are serious in breaking this vicious cycle.