SUMMARY of the Article “Cautious hope?” by Editorial, Dawn [Published on December 20th, 2023]

The reported $9 million current account ‘surplus’ in November is attributed to government and State Bank actions, including import restrictions and tight monetary and fiscal policies, shrinking the trade deficit and reducing the current account deficit for the first five months of the fiscal year to $1.16 billion, down by almost 64% from $3.264 billion a year ago. The government anticipates maintaining the deficit in the range of $4 billion to $4.5 billion for the entire fiscal year, with the State Bank even suggesting the possibility of closing the deficit at 1% to 1.5% of GDP, relieving pressure on foreign exchange reserves amid drying capital inflows. However, the current economic situation is characterized by import compression and demand suppression, leading to a stagnant or zero growth rate. Despite last month’s small uptick in imports due to easing IMF restrictions, and a more than 10% decline in remittances over the last five months due to economic and political uncertainty, external stability achieved through import demand compression remains fragile. Short to medium-term economic recovery depends on substantial capital inflows, enabling the authorities to lift import restrictions and move towards monetary easing. In the long term, governance, structural, and financial reforms are crucial to enhance domestic industrial and agricultural productivity and exports. While the caretaker set-up has stabilized the economy through IMF program implementation, stable, elected leadership is essential for addressing short and long-term economic challenges, especially given the reluctance of lenders and foreign investors in politically unstable markets.

Easy/Short SUMMARY:

The reported $9 million current account 'surplus' in November is a result of government actions, including import restrictions and tight policies, reducing the current account deficit for the fiscal year to $1.16 billion. Despite this, the economy is stuck in a zero growth mode due to import compression and demand suppression. The short-term solution relies on significant capital inflows, while long-term recovery requires governance and financial reforms for enhanced productivity and exports. The caretaker set-up stabilized the economy, but a stable, elected leadership is crucial for sustained recovery.

SOLUTIONS of The Problem:

1. Diversification of Capital Inflows:

- Explore and attract diverse sources of capital inflows to reduce dependency on specific channels.

2. Gradual Import Restriction Easing:

- Gradually ease import restrictions in alignment with improving economic conditions to prevent sudden shocks to the economy.

3. Monetary Policy Adjustment:

- Implement strategic adjustments in monetary policy, gradually moving towards easing to stimulate economic growth.

4. Remittance Promotion Measures:

- Introduce measures to promote remittances, addressing economic and political uncertainties to stabilize external stability.

5. Public-Private Partnerships for Investments:

- Encourage public-private partnerships to attract investments and fulfill promises for economic development.

6. Accelerated Governance Reforms:

- Accelerate comprehensive governance reforms to enhance efficiency, transparency, and accountability in economic management.

7. Focused Structural Reforms:

- Implement targeted structural reforms to boost industrial and agricultural productivity, fostering economic growth.

8. Export-Oriented Policies:

- Develop and implement policies to boost exports, focusing on competitiveness and market penetration.

9. Investor-Friendly Environment:

- Create an investor-friendly environment by ensuring political stability and honoring commitments, attracting foreign investors.

10. Long-Term Economic Vision:

- Develop and communicate a clear long-term economic vision to instill confidence in domestic and foreign stakeholders.

IMPORTANT Facts and Figures Given in the Article:

- **November Current Account ‘Surplus’:** $9 million
- **Current Account Deficit (First Five Months):** Reduced to $1.16 billion from $3.264 billion (YoY)
- **Expected Fiscal Year Deficit Range:** $4 billion to $4.5 billion
- **State Bank’s Anticipation for Current Account Deficit (% of GDP):** 1% to 1.5%
- **Uptick in Imports Last Month:** Due to easing IMF restrictions
- **Remittances Decline (Last Five Months):** More than 10% due to economic and political uncertainty

MCQs from the Article:

1. **What primarily contributed to the reported current account 'surplus' in November?**
   A. Increased remittances
   B. Import restrictions and tight policies
   C. Fiscal stimulus
   D. Capital inflows

2. **How much has the current account deficit reduced for the first five months of the fiscal year?**
   A. 20%
   B. 40%
   C. Almost 64%
   D. No reduction

3. **What is the State Bank anticipating regarding the current account deficit as a percentage of GDP?**
   A. 2% to 2.5%
   B. 1.5% to 2%
   C. 1% to 1.5%
   D. 2.5% to 3%

4. **What contributed to the small uptick in imports last month?**
   A. Increased demand
   B. Easing of IMF restrictions
   C. Monetary easing
   D. Public-private partnerships

5. **What is crucial for the long-term recovery of the economy, according to the article?**
   A. Import restrictions
   B. Current account surplus
   C. Political instability

D. Governance and financial reforms

VOCABULARY:

1. **Surplus** (noun) (□□□□□): An excess of something, especially an amount of money or goods.
2. **Administrative** (adjective) (□□□□□□□): Relating to the running of a business, organization, etc.
3. **Suppression** (noun) (□□□□□): The action of suppressing something such as an activity or publication.
4. **Monetary** (adjective) (□□□□□): Relating to money or currency.
5. **Fiscal Policy** (noun) (□□□□□□ □□□□□□□): The means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy.
6. **Deficit** (noun) (□□□□): The amount by which something, especially a sum of money, is too small.
7. **Compression** (noun) (□□□□□): The action or state of being squashed or forced into a smaller space.
8. **Uptick** (noun) (□□□ □□ □□□□): A small increase or slight upward trend.
9. **Remittances** (noun) (□□□□□□): A sum of money sent, especially by mail, in payment for goods or services, or as a gift.
10. **Fragile** (adjective) (□□□□): Easily broken or damaged; delicate.

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Cautious hope?

Editorial

THE $9m current account 'surplus' recorded in November has been delivered primarily by a combination of administrative actions taken by the government and the State Bank to restrict the inflow of imports to shrink the trade deficit, as well as the suppression of demand by a tight monetary and fiscal policy. The almost zero current account balance for the last month squeezes the current account deficit for the first five months of the fiscal year to $1.16bn from $3.264bn a year ago. With the deficit already down by nearly 64pc, the government now expects it to remain in the range of $4bn to $4.5bn for the entire fiscal year. The SBP is even anticipating a situation in which the current account deficit closes at 1pc to 1.5pc of GDP. That is good news for a dollar-starved economy; the reduction means less pressure on our meagre foreign exchange reserves as official and private capital inflows dry up in spite of the IMF programme.

But there is not much to celebrate. The import compression and demand suppression through administrative measures to keep the trade deficit — the key driver of the current account deficit — down mean that the economy is stuck in negative or zero growth rate mode. Moreover, there was a small uptick in imports last month, due to the easing of restrictions on the demand of the IMF, and a decline of more than 10pc in remittances over the last five months because of economic and political uncertainty, meaning that external stability achieved through import demand compression is fragile. The likelihood of the economy wriggling out of this situation in the short to medium term will depend on significantly large capital inflows, enough to allow the authorities to fully lift import restrictions and also move towards monetary easing. In the longer term, comprehensive governance, structural and financial reforms must be implemented to increase domestic industrial and agricultural productivity and exports. Indeed, the caretaker set-up has done well to reduce economic volatility by implementing the IMF programme. However, the short- and long-term solutions to our economic woes require a stable, elected set-up. The delays in the promised investments from friendly Arab nations underscores lenders' and foreign investors' reluctance to enter politically unstable markets. Without foreign flows, we will continue to look for solutions to survive.

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