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SANEM

Thinking Aloud

Editor's Desk

The July 2022 issue of Thinking Aloud focuses on "Global Economic Crisis and Experiences from South Asian Countries". The article on Bangladesh titled "Global economic slowdown and the Bangladesh economy" analyses the major concerns for the Bangladesh economy and underscores need for making the underlying economic fundamentals stronger to counter the short-term turbulence and achieve the long-term goals. The article highlights that both monetary and fiscal policies need to be linked more specifically to inflation targets and macro stability. The article on Sri Lanka titled, "Five lessons from Sri Lanka's debt and economic crisis", assesses the ongoing economic crisis engulfing Sri Lanka and posits key lessons from the external economic shocks and policy missteps which culminated in the current situation. For indebted developing countries, the article recommends timely initiatives for external financing, strengthening safety nets to mitigate poverty and political instability, building effective crisis management capability, devising strong macroeconomic and financial regulatory structure, and conducting honest public communication to avoid the spread of misinformation. The article on India titled, "What are India's policy challenges in the face of post-COVID reconstruction?" appraises the post-COVID economic challenges for India. It analyses four trends in the global situation which widen the prospect for growth acceleration: re-globalization, rapid formalization of the Indian economy, focus on 'green structural transformation', and rapid digitalization taking place in the Indian economy. The article on Nepal titled "Worrying signs in Nepal's economy", discusses the impact of the COVID-19 pandemic and the ongoing Ukraine crisis on the Nepalese economy. Noting the current dynamics of the economic indicators of Nepal, the article elaborates concerns regarding increasing public debt, rising trade deficit, disruptions in the tourism sector, and rising inflation. The article on Pakistan titled "Pakistan's Economic Outlook", analyses the external factors that are putting pressure on the Pakistani economy. Among the external factors, the article identifies the rising global oil and gas prices, uncertain global food and metals prices, and expectations of high food inflation in the short term. Reflecting on the current account deficit, the article examines the vulnerabilities of the government's fiscal position and discusses the prospect of managing the economic situation in the current geo-political context. The fourth page also provides a glimpse into SANEM's event on post-budget response 2022-23.

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Global economic slowdown and the Bangladesh economy

Selim Raihan

A major slowdown in the global economy and high inflation are both results of the Ukrainian war in 2022. Prices for food and fuel have dramatically increased, particularly affecting vulnerable populations in developing countries. Also, projections by different international organisations indicate that even beyond 2023, global growth might decline further over the medium term.

The United States, the European Union and China saw their growth forecasts lowered, with the European Union seeing the most significant downward revision. Disruptions in the Russian Federation's energy supply are having a negative impact on the economies of the European Union. The estimated growth rate for the developing countries is also projected to be lower in 2022 than in 2021.

What are the concerns for Bangladesh?

First, a broad, inclusive, and sustainable recovery from the pandemic will be hampered by the widespread slowdown of the global economy. The developing countries are struck hard by this slowdown and the crisis in Ukraine, which is driving up the prices of food and fertilizer and exacerbating food insecurity and poverty in these countries. The developed countries' monetary tightening will make borrowing more expensive, undermine debt sustainability, and further reduce the fiscal space available to support the full recovery of the economies of developing countries. Given the current scenarios, the economic growth prospect of Bangladesh for the fiscal year 2023 seems overshadowed. Bangladesh is already grappling with rising commodity prices, supply bottlenecks, and vulnerabilities in financial sectors. The pressure of the current price hike is beyond the endurance level of the low-income people in the country. This is because many people were already under huge pressure due to COVID. Rising inflation is an added pressure on them. The war in Ukraine will amplify these challenges, further contributing to inflation, and putting pressure on current account balances.

Second, the Bangladesh economy is also facing escalated current account deficit, negative growth in remittances, stress on the US$ exchange rate, and strain on the foreign reserves to support a sufficient and comfortable number of months of imports. Bangladesh's economy depends significantly on foreign trade. More significantly, its exports, including readymade garments, shrimps, leather, etc., are heavily dependent on the western consumer demand. Therefore, a global recession is likely to have detrimental effects on Bangladesh's export potential.

Third, in terms of debt management, currently, Bangladesh is not under pressure like Sri Lanka. Public debt remains sustainable, and the March 2022 joint World Bank-IMF Debt Sustainability Analysis assessed that Bangladesh remained at low risk of external and public debt distress. However, Bangladesh needs to be on alert because many of the country's large-scale projects are financed by foreign debt, and that debt has been growing in recent years. Concerns exist regarding the lack of appropriate feasibility studies as well as the cost and time overrun of many mega projects. Avoiding unnecessary mega projects and proper feasibility studies of the development projects are crucial. The projects which are already undertaken could become burdensome if the expenses eventually become exorbitantly high and it takes much more time to implement those. All these could eventually put unwanted strain on the debt burden. Thus, a thorough assessment of the current mega projects is necessary.

Fourth, the current crisis underscores the need for a much bigger fiscal space which the country is seriously lacking. Bangladesh's tax effort has been inadequate and keeps falling short of its potential. Bangladesh has one of the lowest tax-to-GDP ratios in the world, at less than 9%. The necessity for a prudent fiscal framework has become much more obvious than in the past. It is expected that the government will demonstrate strong political will in putting into effect long-overdue crucial reforms in the taxation sector.

Fifth, as a result of the war and its effects on fuel prices, Bangladesh may get the much-needed impetus it needs to reduce its dependency on fuel imports and switch to a green, resilient, and inclusive growth trajectory. Bangladesh should gradually reduce ineffective fuel subsidies that typically favour wealthier households and drain the public coffers. Bangladesh should also gradually implement taxes that impose tariffs on goods that harm the environment in order to transition to a greener economy.

The underlying economic fundamentals need to be made stronger to counter the short-term turbulence and achieve the long-term goals. Both monetary and fiscal policies need to be linked more specifically to inflation targets and macro stability. The emphasis on economic recovery with enhanced private sector investment should be the priority. Most micro and small firms, which play an important part in the economy's supply chain, are still struggling. Micro and small firms are also the least beneficiaries of the government's stimulus packages. Therefore, effective support programmes need to be put in place for these firms. Otherwise, the supply chain disruption, which has resulted, will continue to obstruct economic recovery at the intended pace. The government should materialise growth-enhancing policies and schemes (such as special economic zones) and increase infrastructure development which will lead to a stronger multiplier effect on jobs and income, higher productivity, and more efficiency—all leading to accelerated economic growth.

While the government has a priority to focus more on macroeconomic stability and economic recovery, it is equally important to address the issues of poverty, vulnerability, and rising inequality. Over the last two decades, the successive governments continued spending very low on education, health, and social protection. The repeated failures to increase the shockingly low tax-to-GDP ratio are the main cause of the low level of social spending. However, there are also concerns that the policymakers have not yet set in place the proper priorities when it comes to making significant investments in social protection, health care, and education.

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Five lessons from Sri Lanka's debt and economic crisis

Ganeshan Wignaraja

Debt and economic crises can set back decades of gains in per capita incomes and poverty reduction in developing countries. Once cited as a success story in the developing world for meeting basic human needs for a low-income country as early as the late 1970s, Sri Lanka is in the midst of the worst debt and economic crisis since independence in 1948.

Debt servicing has become unsustainable with economic and political consequences. In a pre-emptive move, on 12 April 2022 Sri Lanka temporarily suspended foreign debt payments pending a bailout from the IMF. This may prompt international rating agencies to downgrade Sri Lanka to restrictive or selective default. Sri Lanka's public debt to GDP ratio rose from 91% to 119% between 2018 and 2021. At the end of March 2022, Sri Lanka had external debt service payments of $6 billion for the remainder of 2022 against foreign reserves of US$1.9 billion. On 6 April 2022 all the members of a bloated 26-member cabinet resigned apart from the President and the Prime Minister following mass public protests over the rising cost of living and economic mismanagement.

Sri Lanka's crisis is due to a combination of external economic shocks and policy mis-steps. The severe economic shock from Covid-19 meant an economic contraction of 3.6% in 2020 and an additional half a million new poor (mostly in urban areas, among formal sector employees and informal sector workers) fell into poverty. As economic recovery began, the Russia-Ukraine conflict shock hit the economy through higher import bills for fuel and food leading to double-digit inflation and a 30% depreciation of the rupee against the US$. These external shocks hammered an already weak economy reeling from the economic costs of a thirty-year civil conflict which ended in 2009, persistent fiscal and current account deficits, excessive foreign borrowing for low return infrastructure projects and rising external debt service. A successful Covid vaccine rollout was overshadowed by recent policy mis-steps like comprehensive tax cuts which reduced government revenues, banning imports of chemical fertilisers without preparing farmers which prompted a surge in food prices, maintaining a highly expansionary monetary policy beyond its shelf life and persisting with a fixed exchange rate without the foreign reserves to support it.

Sri Lanka's experience offers five lessons for other indebted developing countries to mitigate the economic and social costs of a crisis.

1. Net benefits can result from going to the IMF early

The government hesitated for nearly 18 months after Covid hit from seeking IMF assistance to solve its balance of payments difficulties. Instead a raft of home grown remediates (e.g. loose monetary policy, stringent import controls and bilateral swap arrangements with regional economies) were deployed to little effect. Concerns existed within the government that the austerity policies the IMF demands would be politically unpopular (including public expenditure cuts, higher taxes, a floating exchange rate, and the removal of fuel subsidies). But the advantages of IMF assistance seem to have been underplayed including a low-interest loan to bail out Sri Lanka, the ability to borrow from international capital markets once again, and the benefit of IMF financial advice. A worsening economic and political crisis forced the government into a U-turn in mid-March 2022 that Sri Lanka will seek an IMF Programme.

2. Strengthen safety nets to mitigate poverty and political instability

Sri Lanka has a British style welfare system providing free health care and education as well as a Samurdhi poverty reduction initiative for 1.2 million families. However, these mechanisms were insufficient to stem growing poverty and social discontent over rising food inflation and shortages of food and fuel. In an ideal world, a temporary rationing system for basic food and fuel should be introduced early in a crisis, followed by donor-funded cash transfers targeted to the poorest.

3. A parallel requirement is effective crisis management capabilities

Sri Lanka has fragmented crisis management capabilities which hinders effective economic decision-making. In March 2020, a large and unwieldy Presidential Task Force was created to coordinate the Covid-19 response. In March 2022, two overlapping committees – one of key ministers and another of business leaders – were appointed to tackle the debt crisis. In early April 2022, a panel of eminent economists with experience of international institutions was appointed to advise the President on debt restructuring and the IMF programme. In an ideal world, a US style President's Council of Economic Advisors should be mandated with offering objective economic advice to the President supported by a national economic monitoring unit within the Ministry of Finance.

4. A strong macroeconomic and financial regulatory structure is necessary to reduce the economic costs of a crisis

The Central Bank of Sri Lanka lies at the heart of Sri Lanka's regulatory structure. However, a lack of autonomy means that the Central Bank's monetary policy and exchange rate decisions were influenced by short-term political pressures. Not only is the Governor of the Central Bank appointed by the Sri Lanka's President for a six-year term but the Monetary Board which manages the Central Bank includes the Secretary of the Treasury. In an ideal world, the Governor would be appointed by the President on the recommendation of a group of eminent persons (like a constitutional council without any parliamentarians) and the Monetary Board would have the Governor, a Deputy Governor and three independent members. The Treasury Secretary would not sit on the Monetary Board.

5. Conduct honest public communication to avoid the spread of misinformation

Historically, ineffective government communication has resulted in considerable public confusion and misunderstanding about Sri Lanka's crisis and the IMF programme. The public has tended to rely on social media which has provided variable quality data and analysis. In an ideal world, a lean government information unit would be created staffed by media professionals dedicated to honest messaging about the economy.

There is no one size fits all approach to economic crisis management. These lessons from Sri Lanka's experience should be tailor-made to the circumstances of others facing similar circumstances.

Dr Ganeshan Wignaraja, Senior Research Associate, International Economic Development Group. The article first appeared in the Overseas Development Institute (ODI) on 27 April 2022.

What Are India's Policy Challenges in the face of Post-Covid Reconstruction?

Sabyasachi Kar and Mayank Jain

The Indian economy has faced multiple challenges due to the Covid-19 pandemic. The biggest was, of course, the growth collapse after the first wave and the lockdown. In the first quarter of FY21, the country's GDP shrank by a massive 24.4%. The economic recovery towards the end of the financial year was rapid, but not enough to make up for this loss, and for FY21 as a whole, India's economy shrank by 6.6%. In FY22, growth remained buoyant and the economy grew at a high 8.7%. The economy is, however, far below its original pre-pandemic growth trajectory and needs a decade of high growth rates to make up.

The other big challenge has been inflation. In the first year of the pandemic (FY21), CPI inflation in India was 6.1% compared to the previous year, staying close to the upper bound of the tolerable range of inflation set by the Reserve Bank of India (RBI). Due to global events like the Russia-Ukraine conflict and lockdowns in China, however, inflation has risen significantly in recent months driven by a rise in oil and wheat prices, among other commodities. CPI inflation in India for the months of April and May 2022, for instance, was 7.7% and 7% respectively, breaching the upper bound of the inflation target. The tightening of monetary conditions by central banks around the world in response to the rising prices could also feed back into subdued economic growth by slowing down investment. Despite these headwinds, however, the global situation has thrown up some opportunities for a growth acceleration for the Indian economy. We describe four such trends here.

The first trend can be termed "re-globalization". Over the past 30 years, hyper-globalization has resulted in over-dependence on the Asian supply-chain built largely around the Chinese economy. With the large-scale disruptions to production, trade and mobility around the world since the pandemic started, the global economy has recognized the need to re-orient the global supply chains and re-globalize by reducing the dependence on China. India is well-positioned to make use of this opportunity, with its large, labour-abundant economy.

The second trend is the rapid formalization of the Indian economy. A large part of the pre-pandemic Indian economy was made up of small, informal enterprises. Due to the disruptions during the pandemic, many such enterprises went bankrupt. This void has been quickly filled by the formal sector firms, particularly in the retail sector. This can be described as formalization by 'push' rather than 'pull'. While formalization by push is unfortunate and less desirable, it does hold the potential for increasing the fiscal capacity of the government, along with better targeting of labour welfare programs since there is more record-keeping associated with formal-sector employees.

Third, the focus on 'green structural transformation'. As climate change increasingly becomes an accepted problem and governments have emission targets to abide by, new sectors such as electronic vehicles (EVs) and new processes and technologies that enable 'greener' production of goods can be sources of rapid growth for the Indian economy.

Last but not the least, is digitalization. Two important examples of the rapid digitalization taking place in the Indian economy are the FinTech industry and the increasing transactions using the digital Unified Payments Interface (UPI). The benefits of FinTechs such as increased financial inclusion and reduced transaction costs can be further enabled with the uptake of new technologies like UPI. Linking of UPI to other countries' payments interfaces, such as Singapore recently, is also a promising development that will enable instantaneous, low-cost international transactions. This would be a significant improvement over the slow and expensive correspondent banking system that currently dominates international transactions.

Each of the above sources of growth come with their challenges, however. And this is where policy needs to play a major role. For example, a re-globalization that favours India is not inevitable. The scale of financing required to re-orient global supply chains is massive and private financial markets may be too risk-averse to undertake such financing. The economic policy environment in India should provide them with reasonable certainty in order to overcome their risk-aversion. Inter-governmental initiatives will also have to subsidize the costs of setting up new production capacity in India.

With the rise in formalization based on large firms, there is a risk that sectors in the Indian economy might become uncompetitive. Monopolies would be bad for consumer welfare and monopsonies would be bad for the welfare of the remaining small producers upstream of the large ones. Strong regulatory policies will have to keep this within acceptable bounds. Further, there is also a risk of jobless growth since the formal sector employs more capital-intensive technologies. Here, industrial policies that support labour-intensive manufacturing will be crucial.

Securing bank-financing for green structural transformation is a big challenge at present, and central banks have to reshape monetary policy for this. While some central banks are considering this, such thinking is still in its nascent stages. The international intellectual property (IP) regime, too, appears unfavourable at the moment and this may prevent the transfer of green technologies and capabilities to developing countries like India. Technology policies will need to play a big role to overcome this.

Finally, technological advancements underlying digitalization are rapid. Regulatory agencies are usually unable to keep up with these changes, leading to the use of blunt and ad-hoc policymaking. Delayed and poorly-informed regulatory action can even lead to regulatory failure. The stakes are ever higher for firms and consumers operating at the intersection of rapidly changing technology and finance. Lack of nimble and capable regulatory agencies could thus create instability for legacy banking systems, harming many lenders, borrowers and users in the process.

Addressing all these challenges may be difficult, but is certainly not impossible for the Indian government. However, policymaking will need to be proactive rather than reactive in such circumstances. Only then will India emerge out of its post-pandemic economic malaise in a strong and sustainable manner.

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Worrying signs in Nepal's economy

Puspa Sharma

The world economy is in a state of flux. Almost all the countries, from the most advanced to the least-developed, are battling with reigning in their economies that appear to be derailing from their usual courses. The COVID-19 pandemic dealt a serious blow to the global economy. Now the pandemic appears to have entered into a new normal phase, mainly due to the vaccines, although the course of the pandemic in the days ahead is still uncertain. As economies around the world were showing promising signs of recovery from the devastation of the pandemic, the Russia-Ukraine war has pounced on them badly, resulting in macroeconomic imbalances.

In Nepal, the economy shrank by 2.1 percent in FY 2019-20 due to measures such as lockdowns that were imposed to contain the spread of COVID-19. The lockdowns were lifted after some time and economic activities resumed, although not to the same extent as it was prior to the pandemic. Moreover, many important sectors of Nepal's economy, such as tourism, could not recover and continued to be affected given the nature of the pandemic. Thus, the economy grew by only 4 percent in FY 2020-21. For the current FY 2021-22, the government of Nepal (GoN) had set the economic growth target at 7 percent, but the Central Bureau of Statistics has estimated that the economy could grow by 5.84 percent in the current fiscal year. This is still a higher estimation compared to the estimations of international organizations such as the World Bank, ADB and IMF that have estimated Nepal's economic growth in the current FY 2021-22 in the range of 3.7 percent-4.1 percent.

Major indicators of Nepal's economy are not encouraging. The country had a balance of payment (BoP) surplus of US$2.4 billion in FY 2019-20, whereas until mid-May of the current FY 2021-22, there has been a BoP deficit of US$2.4 billion. Similarly, the current account deficit of US$290 million in FY 2019-20 has risen to US$4.5 billion until the first 10 months of the current fiscal year. There has also been an increase in trade deficit by US$2.3 billion in the first 10 months of the current fiscal year compared to the same period last year. Remittances, which are a major source of Nepal's foreign exchange earnings, used to be mostly on an increasing trend. But in the 10 months of this FY, it appears to have remained stagnant compared to the same period last year. Because of these factors, Nepal's foreign exchange reserves that were sufficient to import merchandise and services for more than a year in 2020 have dwindled significantly with the capacity to import merchandise and services for only a little more than six months.

Due to such a grim economic scenario, there is some fear that Nepal's economy could be heading towards a situation that Sri Lanka is facing currently. It is true that Nepal's economy is in a midst of several challenges that need to be addressed immediately, but the fear that it might suffer the same fate as that of Sri Lanka might be a little overblown. The main reason for this is Nepal's public debt is only around 40 percent of its GDP, of which foreign debt is a little more than 50 percent. Importantly, Nepal's foreign debt is mostly of concessional nature with low interest rates and longer repayment periods. The availability of foreign exchange reserves sufficient to import merchandise and services for six months is also not a worrisome indicator. This does not mean, however, that Nepal can remain complacent. As the numbers in the preceding paragraph demonstrate, there are signs that unless necessary measures are taken, there are risks of the economy sliding further. Nepal's total public debt has risen from around 23 percent of GDP in 2016-17 to more than 40 percent in 2020-21. This would not be a problem if the rise in public debt was due to a rise in investments that would provide good returns. However, this does not appear to be the case in Nepal. There has been an increase in recurrent expenditure, but not in capital expenditure. In FY 2020-21, Nepal's recurrent expenditure was 19.9 percent of GDP and capital expenditure was 5.3 percent of GDP, whereas these figures were 16.9 percent and 6.8 percent of GDP, respectively, in FY 2016-17.

Massively rising trade deficit is another major area of concern. Although Nepal's export-to-import ratio rose to 10.8 in the 10 months of the current FY from 8.6 in the same period of the last FY, this has been on the back of a huge rise in exports of mainly two commodities (refined soybean oil and palm oil) to India taking advantage of tariff differentials. There are concerns that such a rise in exports might not be sustainable, thus raising questions about the sustainability of the improvement in the export-import ratio.

There are promising signs of recovery in the tourism sector with an impressive rise in the number of tourists visiting Nepal. If the pandemic does not cause further disruption, Nepal's tourism sector might rebound to its pre-pandemic level soon. The weakened Nepali Rupee against the US dollar might also be beneficial to Nepal's tourism export. However, there are many unfinished agenda since pre-pandemic times that need to be taken further to realize greater gains from Nepal's tourism.

Regarding the economic ramifications of the Russia-Ukraine war, except for high imports of mainly oil seeds and crude cooking oil from Ukraine and Russia, Nepal does not have a strong and direct economic linkage with these countries. Hence, the war has not had a devastating direct impact on Nepal's economy. However, its ripple effects, mainly through rise in global food and fuel prices have had serious ramifications on Nepal. The year-on-year consumer price inflation as of mid-May 2022 stood at 7.87 whereas this was just 3.65 in mid-May of last year. Rise in fuel prices has resulted in rise in transportation costs, which subsequently has contributed to the rise in other costs such as that of construction and raw materials.

The GoN has been making efforts to address the imminent challenges to Nepal's economy. For example, to arrest the burgeoning trade deficit, it has introduced policies to ban and discourage imports of luxury items, increase domestic agricultural production to reduce imports, promote electric vehicles and electric appliances to reduce import of fossil fuel, etc. It has also introduced measures to encourage the inflow of remittances through the formal channel. However, there is lack of consistency and coherence in the policy measures. Reforms are also warranted to channel public debt and remittances into capital investments; encourage sustainable exports; attract FDI that not only contribute to a rise in foreign exchange and transfer of technologies but also in employment; control inflation; and introduce effective social protection measures to protect the poor and vulnerable; among others.

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Pakistan's Economic Outlook

Vaqar Ahmed

Pakistan's economy registered a growth in real GDP of 6% in the fiscal year 2021-22 (FY22) compared to a target of 5%. This growth was higher than previous fiscal year's growth of 5.7%. An early opening up of the economy from the lockdowns of pandemic during 2020-21 allowed the industrial sector to continue its growth streak at 7.2% in FY22 followed by agriculture and services sectors recording 6.2% and 4.4% respectively.

There are pressures on the economy largely owing to external factors. First, the rising global oil and gas prices have meant that Pakistan's import bill will remain on the rise in the medium term. Almost 40% of Pakistan's energy requirements are met from imported sources. Second, Russia-Ukraine war has resulted in uncertain global food and metals prices. This has resulted in countries even in the North taking an inward and protectionist position. Almost 60% of Pakistan's exporting sector's inputs are imported from abroad – currently faced with supply chain disruptions. Most industrial inputs are facing delayed deliveries. For domestic consumption, a portion of food items such as wheat, sugar, tea, pulses, palm oil, fruits, and milk are imported from abroad. The supply of these items are also faced with various uncertainties resulted in expectations of high food inflation in the short term.

As a result of some of the factors explained above, Pakistan's current account deficit has risen after 3 years of decline and stood at 3.6 percent of GDP (during July 2021-April 2022). The trade deficit for the period July 2021-April 2022 was 8.6% of GDP. While export orders increased on the back of weakening of rupee, and merchandise exports were recorded at USD 29 billion during 11 months of FY22 - 28% higher than previous year, however as a percentage of GDP, exports remained stagnant at 7%. To some extent, remittances clocking around USD 28.4 billion during the 11 months of FY22 provided cushion for the growing current account gap. However, this wasn't enough to cover the large value of imports (mostly due to sudden hike in global oil and input prices). The imports for the full year FY22 are expected to close around USD 78 billion. Furthermore, recent transition in the federal government and provincial government of Punjab province has resulted in foreign investors remaining conservative. The foreign direct investment only registered a meager USD 1.6 billion during the 11 months of FY22.

External factors alone are not responsible for the weakening of economic outlook in the country. Government's fiscal position has become vulnerable. The federal government was running large subsidies to safeguard the low and middle income groups from the impacts of inflation. These subsidies kept oil, electricity, and gas prices low for the end-consumer. Several food items including wheat and sugar were being supplied on subsidized rates. Farm inputs such as fertilizer and seed also are beneficiary of cross-subsidy. During the COVID-19 surge vaccines were also made available free of any charge. Farmers and industrial sector were provided with subsidized and at times guaranteed credit. With real revenues of the government not growing at a pace sufficient to match spending needs of the government, fiscal deficit (7.1% of GDP) was being financed through both internal and external borrowing. Direct borrowing from the central bank was not allowed as Pakistan is currently complying with Extended Fund Facility requirements of the International Monetary Fund (IMF). However, central bank was lending to the commercial banks for delivering onward loans to the government.

The increased government's financing needs coincided with a growing trade deficit. Large debt repayments were also due during FY22. All this exerted pressure on foreign exchange reserves which fell to USD 14 billion as of 10th June 2022. This has seen fast depreciation of rupee with inter-bank rate at PKR 208.5 to 1 USD on 20th June 2022. The falling value of rupee resulted in several rounds of hike in fuel prices ultimately hurting the poorest of the poor.

The medium-term improvement projected in Pakistan's economy is subject to the resumption of the fund program. Currently the IMF is in talks with the coalition government led by PML-N. This agreement with the IMF is expected to unlock possibilities of financing from other multilateral and bilateral sources.

Pakistan requires USD 37 billion in external financing for FY23 as informed by the finance minister in May. The breakdown reveals that approximately USD 21 billion will be required to repay or for servicing of existing debt. The rest will be required to cover for the current account which could easily widen depending on oil, metals, and food import prices and the supply disruptions which could remain in the wake of ongoing Russia-Ukraine war.

Subject to IMF's review and assessment (expected to conclude during June), it is expected that Saudi Arabia will allow USD 3 billion including oil on deferred payment basis. China is expected to rollover a repayment of USD 2.5 billion. Around USD 18 billion in concessional loans are expected from multilateral development bodies. Subject to improvement in global ratings, some amount will have to be raised from global bond markets.

As the major cities in China gradually start to open up it is expected that major projects under China Pakistan Economic Corridor (CPEC) will also resume or pick up pace and could see early completion. This in turn will allow greater inflows and possibilities of backward and forward linkages with local manufacturing units in Pakistan. The work on at least two special economic zones (SEZs) is also expected to be completed during FY23 ultimately leading to higher levels of industrial output and exports.

The revised free trade agreement with China is also bearing fruit with rebound seen in exports of some items to China including rice and fisheries. As the political milieu in Afghanistan improves this year it is expected that export volumes could see a rise with possibilities of export to central Asian republics via Afghanistan.

Dr Vaqar Ahmed, former civil servant and currently Joint Executive Director, Sustainable Development Policy Institute (SDPI), and Honorary Senior Fellow, Pakistan Institute of Development Economics (PIDE).

SANEM's Post Budget Response 2022-23

South Asian Network on Economic Modeling (SANEM) organized an event on 13 June 2022, at BRAC Centre Inn, Mohakhali, Dhaka, to share its analysis of the proposed national budget for FY 2022-23. The event started with opening remarks by Dr Selim Raihan, Professor, Department of Economics, University of Dhaka & Executive Director, SANEM, followed by a presentation, delivered by Dr Sayema Haque Bidisha, Professor, Department of Economics, University of Dhaka & Research Director, SANEM. Led by Dr Selim Raihan and Dr Sayema Haque Bidisha, the SANEM team for budget analysis included: Md. Tuhin Ahmed, Senior Research Associate; Eshrat Sharmin, Senior Research Associate; Farhin Islam, Research Associate; Md Nadim Uddin, Research Associate; Afia Mubasshira Tiasha, Research Associate; Samantha Rahman; Research Associate, and Kaniza Muhshina, Research Associate. In her presentation, Dr Bidisha addressed a wide-range of issues including stabilization of macro economy, inflation containment, growth and employment generation, poverty and inequality reduction strategy, and agricultural policies. She recommended detailed and specific plan of action for tackling inflation, strengthening market monitoring mechanism, devising a road map for employment generation, increasing the allocation in social infrastructure and per capita allocation of the social safety net programs, updating the data base for tracking the status of key indicators, conducting both monitoring and evaluation exercises and feasibility studies at the ministry level, and moving towards a progressive tax structure. Dr Raihan pointed out that the budgetary allocations for health, education and social safety net programs are not in line with the 8th Five Year Plan. The budget 2022-23 was expected to address the "newly poor" population due to the rising inflation and post-pandemic situation which, however, was not met. Dr Raihan also observed that a more revised tax policy specifically for import duties and value-added taxes, should be mandated. He expressed his concerns regarding growth and employment generation, domestic and foreign direct investments, over and under invoicing of imports, subsidies, and overall budget deficit. Dr Raihan and Dr Bidisha unequivocally voiced their concerns regarding the proposed amnesty to return laundered money and pointed out that such provisions are unconscionable. Dr Raihan also called on the government to hold a symposium where SANEM and other private research organizations would present their findings on the poverty impact of COVID. Later, a Q/A session with the journalists was held where the research team addressed specific queries from the journalists.

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SANEM is a non-profit research organization registered with the Registrar of Joint Stock Companies and Firms in Bangladesh. Launched in January 2007 in Dhaka, it is a network of economists and policy makers in South Asia with a special emphasis on economic modeling. The organization seeks to produce objective, high quality, country- and South Asian region-specific policy and thematic research. SANEM contributes in governments' policy-making by providing research supports both at individual and organizational capacities. SANEM has maintained strong research collaboration with global, regional and local think-tanks, research and development organizations, universities and individual researchers.

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