



**MIDDLE EAST
AND CENTRAL ASIA
DEPARTMENT**

Discussion of Mian (2024): Pakistan's Perennial Crisis and Lessons

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Disclaimer

The views expressed in this presentation are those of the author and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

Diagnosis: rentier elite create a perpetual crisis

The rentier class has resulted in:

- **Low investment** in human and physical capital
- **Low growth with concentrated distribution** of its benefits
- **Weak competitiveness** and export performance
- Leading to **twin deficit** and high domestic and external debt

Proposed way forward: Political renewal, consolidation and external sustainability

A new political economy:

- Growth-consistent **consensus within the elite** (rules?), signaling a new start
- “[P]ressures for change from ... economic collapse”

Fiscal consolidation to reverse fiscal deficits:

- New approach to **taxation and spending policy** (carbon, land, PIM)
- **Independent fiscal council** to address moral hazard

Restoration of **external sustainability**:

- **Market based exchange rate** (exporters) and **current account surpluses** (NIR)
- **CFMs**: External borrowing constraints and FDI preference

Growth and industrial policy:

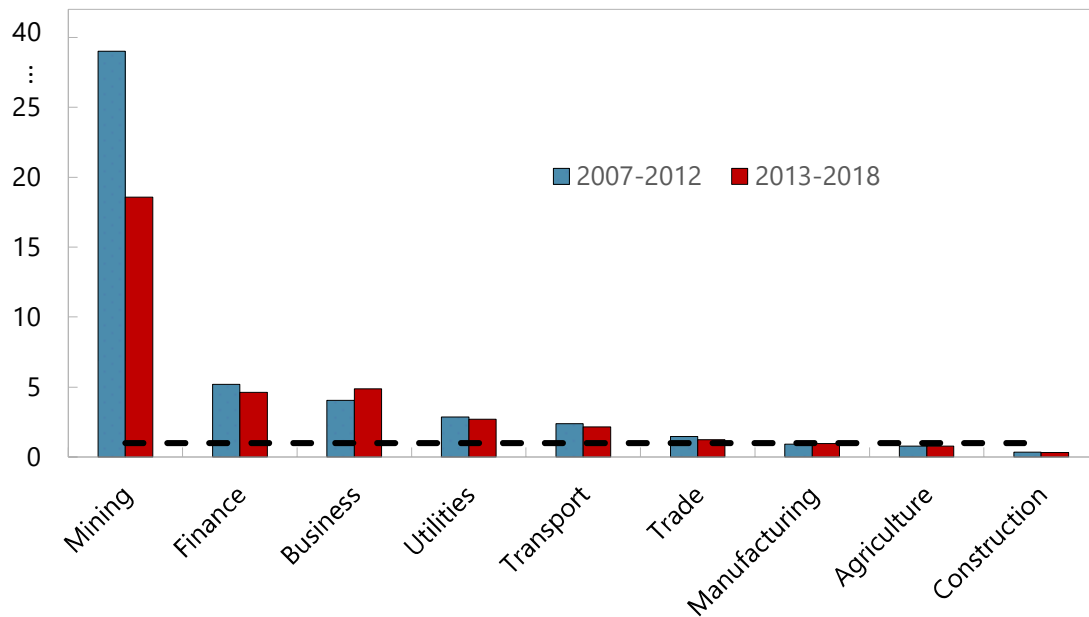
- Stronger capacity, educational investment, and revised industrial policy

Reflections on the diagnosis and way forward

- As always **there needs to be endogenous “ownership” for transformation**
 - ▶ How to create a new order? “Pressure for change” vs share of the pie will be seen quickly
 - ▶ Credibility of new (fiscal) institutions, and capital constraints?
- **Constraints:** Embedded rigidities—constitution (taxation) and capacity (spending).
- **IP has entrenched misallocation.** Need for a **new way to development.**
- It matters **how a current account surplus is achieved**...failure to raise exports.
- The **“structural roots” directly shorten the policy horizon**, driving “busts”.

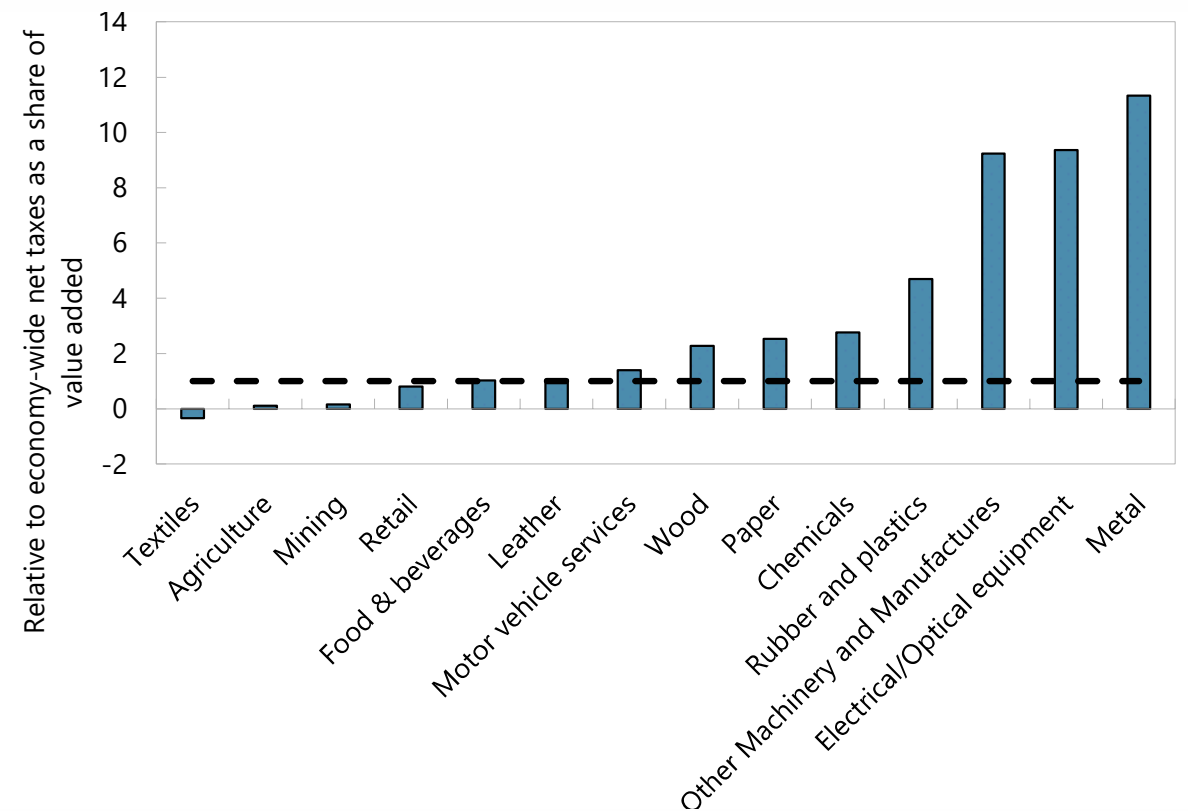
Misallocation reflects preferences, protection, and SOE governance

Labor Productivity Gap (Index, 2010=100)



Sources: Kruse, H., E. Mensah, K. Sen, and G. J. de Vries (2022). "A manufacturing renaissance? Industrialization trends in the developing world", IMF Economic Review.

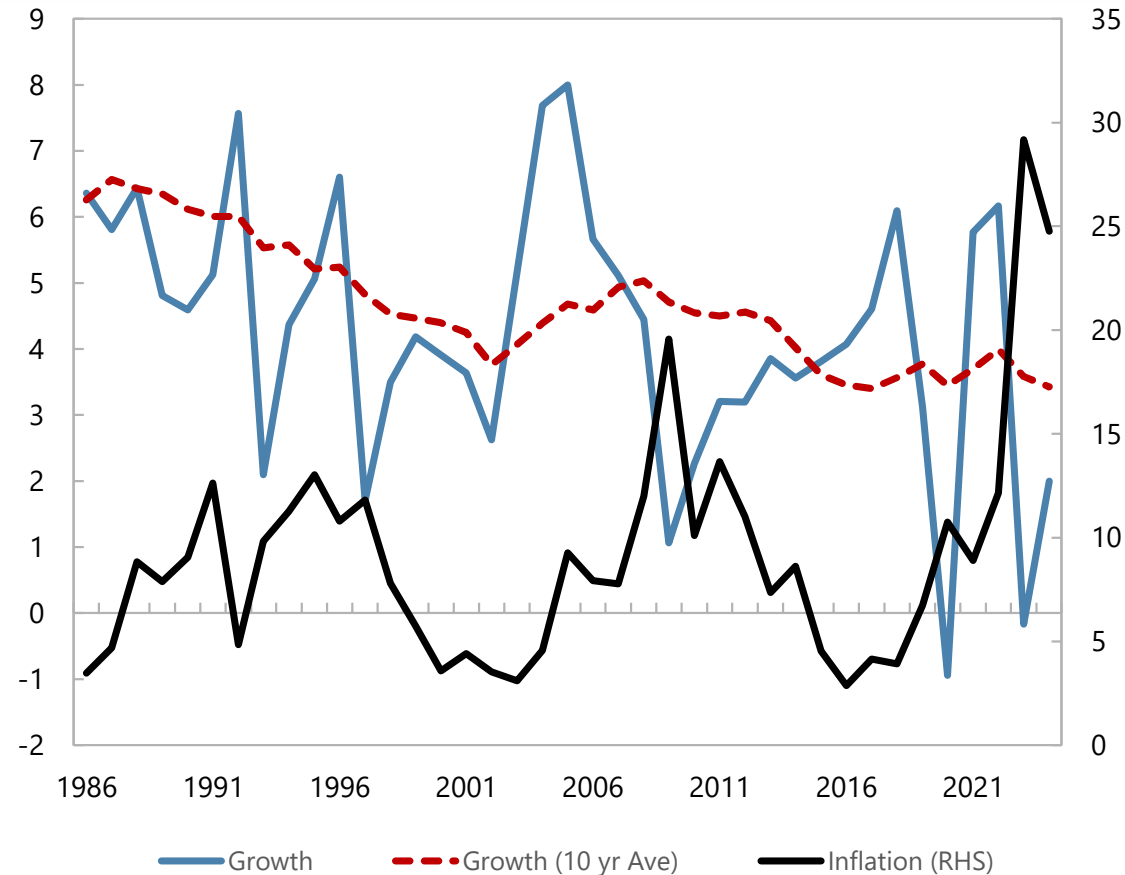
Pakistan: Sectoral Net Tax Gap 1/ (2007-2022, Historical average)



Sources: ADB (2023), Input-Output tables (various countries) and staff calculations. 1/ The net tax gap is defined as the ratio of net taxes as a share of value added for sector A to that for the aggregate industrial sector, with the dashed line indicating a ratio of 1, highlighting the average for aggregate industry. The bar for Petroleum products, which has a ratio of 15.8, is not shown for visualization purposes.

The repeated “busts” reflect the very short-term focus of policy makers ...

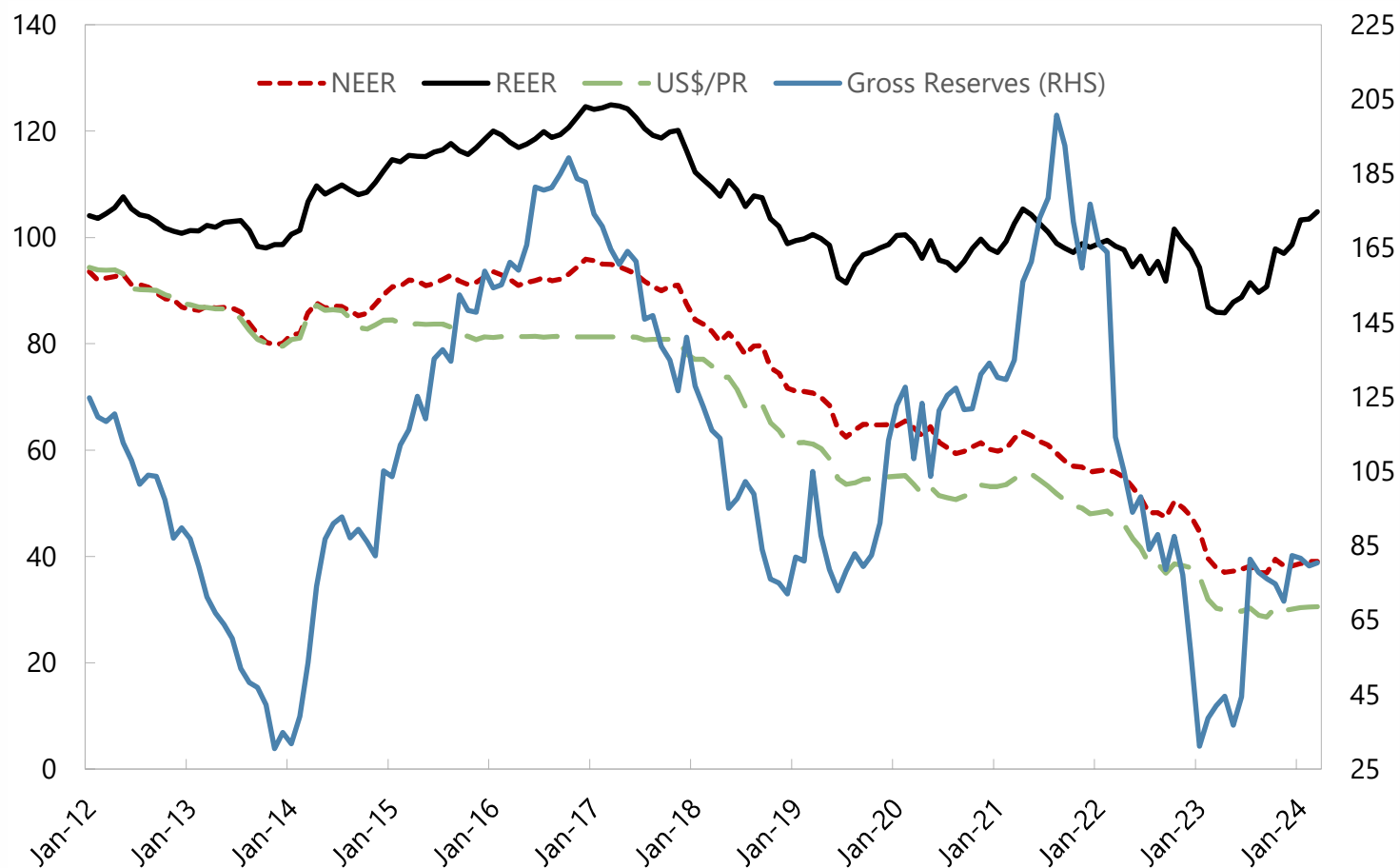
Pakistan: Growth and Inflation
(In percent)



Sources:

... and in the behavior of the rupee

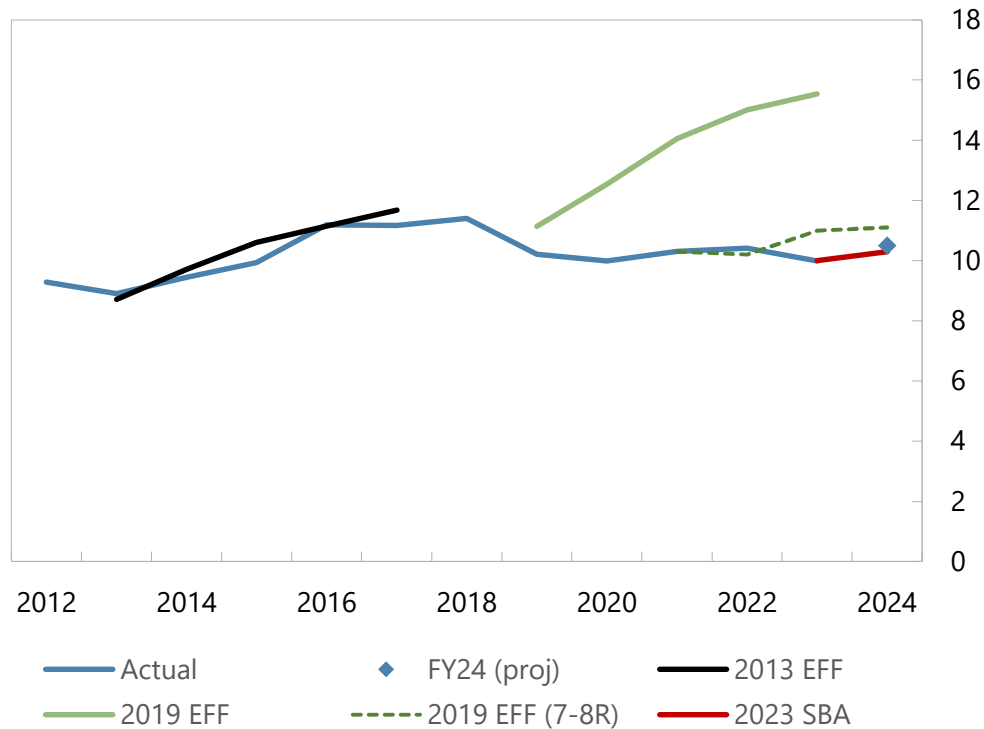
Pakistan: Reserves and Exchange Rates (US\$ billions; Index 2010=100)



Sources:

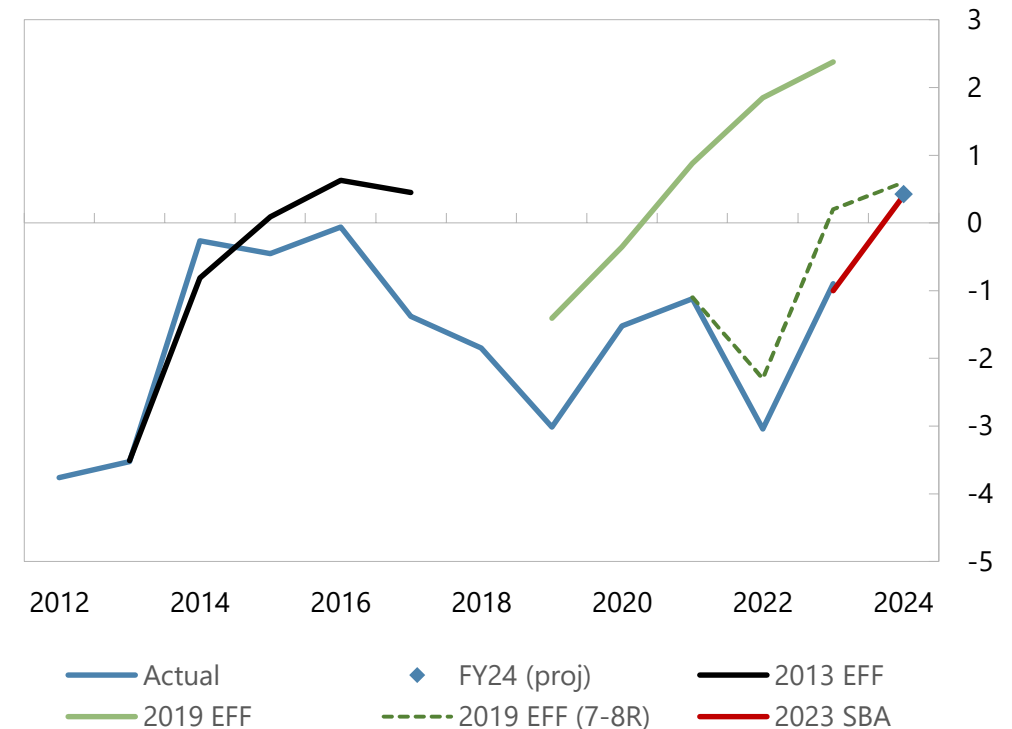
Recent programs began with stabilization, but left adjustment incomplete

General Government Tax Revenue (In percent of GDP)



Sources: IMF Staff Reports and staff calculations

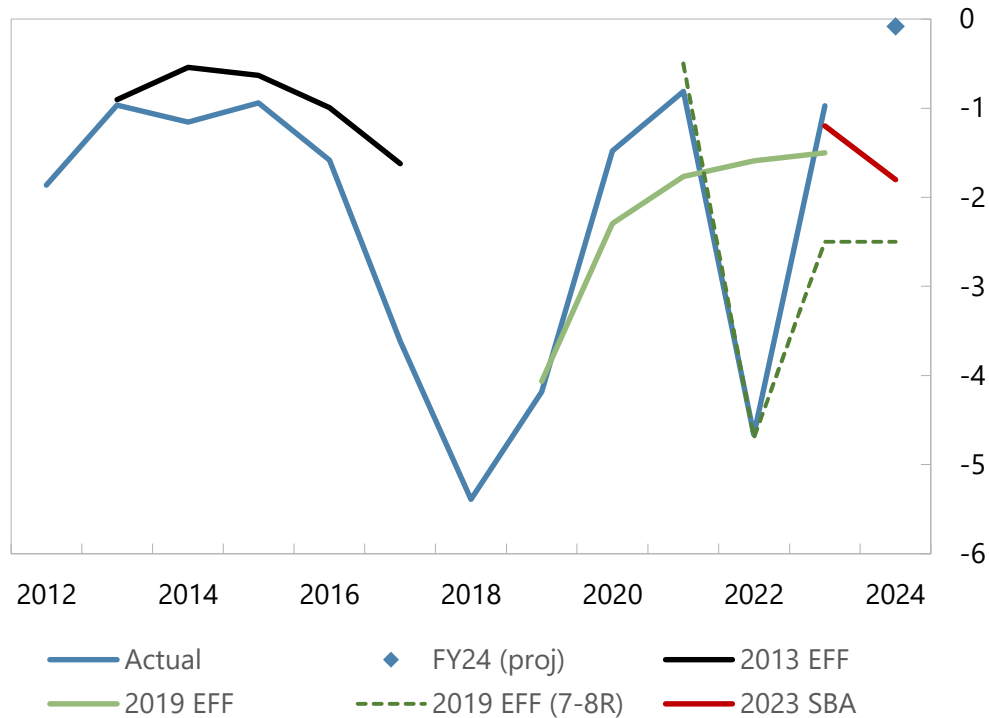
General Government Primary Balance (In percent of GDP)



Sources: IMF Staff Reports and staff calculations

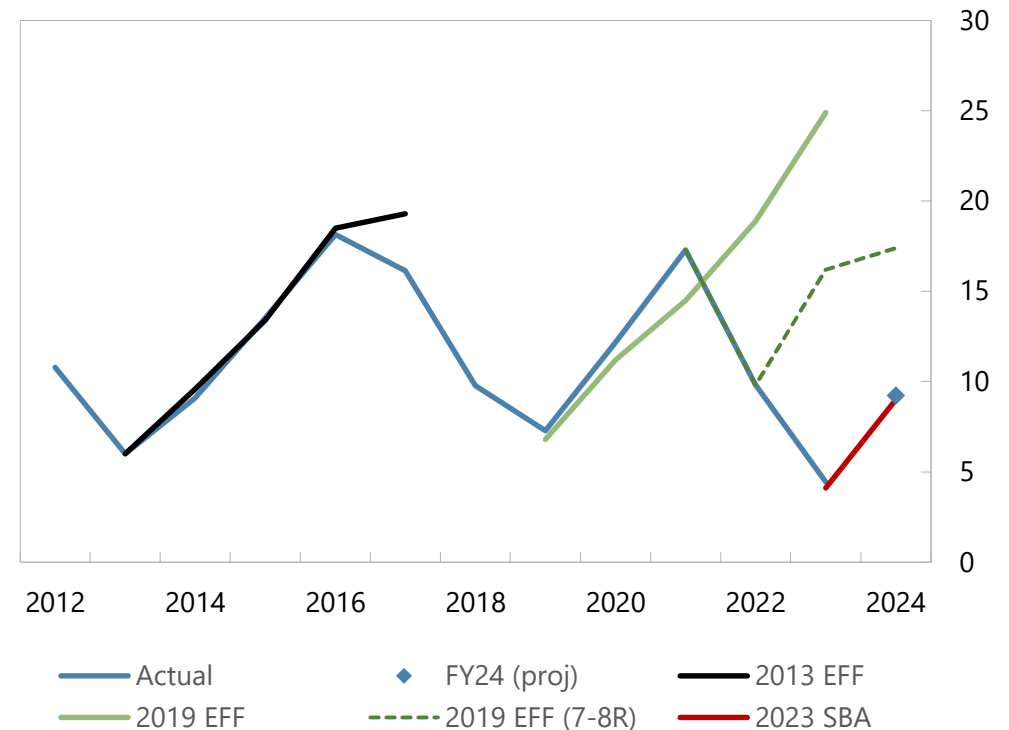
Recent programs began with stabilization, but left adjustment incomplete

Current Account Balance (In percent of GDP)



Sources: IMF Staff Reports and staff calculations

Gross International Reserves (US\$ billions)



Source: IMF Staff Reports and staff calculations

Summary

Paper's key points:

- The rentier elite creates perpetual crisis through low investment, growth, competition
- This leads to twin deficits
- Need to foster a new political consensus, and address twin deficits and growth

My points:

- How to generate a new consensus? Focus on outcome-based commitment, and limiting cycles?
- Build buffers and resilience
- System has rigidities to protect interests. Institutionalization of reforms can help.
- Fairer, efficient taxation. Better spending, governance, and public services (SOEs).
- Reduced the role of state and misallocation, and greater competition and savings.

Thank you