News & Comment

بسم الله الرحمن الرحيم

Sharif's Government Enacts Policies Harmful to Industry

News:

Recently, the State Bank of Pakistan (SBP) raised interest rates to 15% in a bid to curb inflation. [Newsweekpakistan] Days later the government of Pakistan raised gas prices by 335% for consumers and failed to slash gas prices significantly to ease pressure on the industrial sector. [Dawn] These changes combined with high petrol prices raises the specter of Pakistan's economy worsening in the near future. Sharif's government was supposed to be business friendly, but it appears the medicine prescribed by the IMF has not changed.

Comment:

Pakistan's economy still reeling from the shock of the coronavirus is now facing rampant inflation due to high energy prices and a debased currency. To make matters worse, the remedy stipulated by the IMF for Khan's government and now repackaged for Sharif's governments shows no sign of abating.

Under the behest of the IMF, the SBP has raised interest rates and the government has increased the price of gas and petrol. Additionally, Sharif's government has pledged to raise taxes, which also includes one-time 10% tax on large scale industry for one year to raise over 400 billion Pakistani rupees ($1.93 billion).

The aggregate impact of these measures will only hurt Pakistan and keep the country forever dependent on IMF structural adjustment programmes (SAPs). By increasing interest rates, loans necessary for industry will become expensive and this will impact productivity. Added to this, the high energy costs to produce and transport goods will make such goods less competitive on the international markets. Similar measures enacted by successive governments have already decimated the country's textile industry. Pakistan once a market leader in textiles has already ceded ground to the likes of India and Bangladesh.

Likewise, taxing Pakistan's industries without addressing the basic problem of de-industrialization is a recipe for disaster. Pakistani industries need more investment not less. They need state of the art infrastructure that will enable them to compete domestically and internationally. Instead, industrialists are forking out huge sums to build their own power stations in a bid to ensure uninterrupted supply of electricity, and this renders them less competitive.

Other drawbacks of IMF policies include further contraction of Pakistan's industrial base, less foreign exchange collected and high unemployment. More unemployment means less tax and less tax will create fiscal pressures on the government to borrow from commercial banks at high interest rates. Thanks to the IMF, the government of Pakistan cannot borrow from the SBP to plug fiscal deficits.

It appears that the thrust of all of these policies is designed to ensure that the government has adequate funds to pay back loans to international creditors at high interest rates. Little wonder then that international creditors continue to lend to Pakistan because IMF policies guarantee healthy returns. There is no thinking on how to wean off Pakistan from IMF loans and expensive oil imports. Equally, no government to date has put forward an effective strategy to make Pakistan self-sufficient.

What is required is a totally new approach to fixing Pakistan's economy and this can only happen under the Khilafah (Caliphate) upon the method of the Prophethood. ﴿يَا أَيُّهَا الَّذِينَ آمَنُواْ اسْتَجِيبُواْ لِلّهِ وَلِلرَّسُولِ إِذَا دَعَاكُم لِمَا يُحْيِيكُمْ﴾ **"Oh you who have iman! Answer (the call of) Allah and His messenger when he calls you to that which gives you life."** [Al-Anfaal:24]

Written for the Central Media Office of Hizb ut Tahrir by

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