

## Rising from recession

Reza Baqir Published August 28, 2022

The writer is former governor of the State Bank of Pakistan.

AN **economic recession** is generally bad news. However, the **anticipated** متوقع recession in the United States may do more good – rather than bad – to **emerging** ابھرتی ہوئی markets such as ours that are heavily dependent on **commodity** اشیاء imports and external financing.

Markets have become increasingly **concerned** تشویش میں in recent weeks about a recession in the US. A key cause is the sharp **tightening** سخت کرنا of monetary policy by the US central bank, the **Federal Reserve**, since March this year. Many have commented that after having been slow to react to rising **inflation** مہنگائی that proved to be less **transitory** عارضی than originally considered by the Federal Reserve, it is now **slamming** تنقید کرنا hard on economic brakes to reduce inflation. Indeed, the **hawkish** جنگی جارحانہ، speech by Jay Powell, the chair of the Federal Reserve, this Friday at the Jackson Hole conference, the premier annual US event for central bankers and economic policymakers, has led many to believe that the Federal Reserve will keep at it until it feels comfortable that inflationary threats are beginning to **recede** کم ہونا. This raises the **likelihood** امکان for a US recession.

Will a US recession further **sour** خراب کرنا the economic

sentiment جذبات in Pakistan that has already suffered in recent weeks from a host of challenges? There are reasons to worry it might ہیں اس کی فکر کرنے کی وجوہات ہیں. To begin with, a recession in one of the world's largest economies is likely to cause a global economic slowdown. Softening global demand means falling sales for our exporters and falling incomes in export-oriented sectors برآمدی شعبے. Another key concern is the outlook for remittances ترسیلات. As economies slow globally, overseas Pakistanis may face employment challenges and squeezed کم, incomes and hence may have less to send home. And finally, with bleak تاریک global conditions there may be little appetite خواہش for global investors to put down capital سرمایہ in a risky country like Pakistan.

There may, however, be more reasons to think of a silver lining in these gathering dark clouds. A key consequence نتیجہ of a US recession and a global economic slowdown is likely امکان to be falling oil and other commodity prices. These high commodity prices have hammered متاثر کیا the balance of payments of commodity importers such as Pakistan. Despite some recent softening, the US Federal Reserve's global price index of all commodities remains at its highest levels since it began compiling مرتب کرنے this index in 2003.

The savings بچت would be particularly significant in our energy import bill, which accounts for approximately تقریباً one-third of our total imports. A 50 per cent fall in oil prices, as has been the average peak-to-trough fall in oil prices in the four US recessions since 1990, would shave off ختم یا کم کرنا

approximately \$10 billion from our annual import bill. More broadly, Pakistan's economic **prospects** امکانات are more closely tied to international oil prices than any other single indicator. Aside from savings in our foreign exchange bill it would also reduce domestic energy prices and inflation and soften the burden of rising prices particularly on the lower- and middle-income classes.

Another key potential benefit for Pakistan from a US recession would be the outlook for US **interest rates** شرح سود. Each of the four previous US recessions since 1990 has been **preceded** پہلے ہوئے by a sharp increase in the Federal Reserve's policy interest rate. **Subsequently** بعد کے اس, in each of these cases, signs of an emerging recession have led to a significant fall in US interest rates. Thus, the earlier we get a US recession, the earlier market participants would arrive at the conclusion that the **bulk** بہت زیادہ مقدار میں of US rate rises are behind us.

Historically, global rallies in risky assets have started when investors have come to conclude that the US is done with raising rates. This return of risk appetite in global markets is critical **اہم** for Pakistan that needs to **rely** انحصار کرنا **on** commercial borrowing in international capital markets for **meeting** پورا کرنے part of its external financing requirements. Such markets have essentially been closed to us in recent months.

Will the positive impact on our economy from falling oil prices and **re-access** دوبارہ رسائی to international capital markets more than **offset** the potential negative impact on exports and **remittances** ترسیلات زر ? There are reasons to be **optimistic** پر امید. Pakistan is a relatively closed economy with exports **barely** بمشکل exceeding 10pc of **GDP**. Thus, global recessions

have less of an impact on us than on more outward-oriented economies. Also, our annual exports are typically less than half of our imports. For illustrative purposes, a 20pc fall in our exports would be more than offset by the positive impact from a 50pc fall in our energy import bill.

There are also good reasons to think that remittances may remain resilient. The Covid-19 crisis represented the largest collapse in global output since World War II. However, overseas Pakistanis' contributions to their home country continued to grow, aided by the State Bank's new initiatives such as Roshan Digital Account in 2020. Also, most of our remittances originate from the Middle East where economic conditions are likely to remain robust given the ample sovereign foreign exchange savings from recent sustained high oil prices.

There are, therefore, good reasons to think that our balance-of-payments may get a net boost following a US recession. Given that historically our economic crises have been driven by balance-of-payments considerations, a US economic recession will, ironically, help to bring an end to our current economic challenges. Perhaps the most important reason to focus on the silver lining amongst the current dark economic clouds is that all US recessions are followed by a sharp recovery. We should be positioning ourselves for that recovery.

While there are good reasons to be optimistic about economic sentiment in a few months, the key challenge for us is to hold the economic fort in the interim as global and local economic sentiment may worsen before it improves.

This may sound easier than it is. In the past we have **dropped the ball** many times just as we were getting close to the finish line. The current political **acrimony**، تناؤ، تلخی and related **uncertainty** غیر یقینی صورتحال can **throw a wrench** in this **outlook** منظر، نقطہ نظر this time around as well. Let's hope it does not.

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Removing ambiguity ابہام

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EARLIER this month, an American drone struck a house in Kabul, killing the head of Al Qaeda, a UN- designated نامزد terrorist organisation. The chatter بات چیت within the international community centred on مرکوز تھی how another Al Qaeda member was eliminated ختم . But in Pakistan, the debate focused more on whether the American drone had used Pakistani airspace. Ordinarily عام طور پر, one would have thought that the weakening of Al Qaeda would be welcomed in Pakistan, too. After all, Pakistan has suffered deeply from terrorism since 2004 and continues to do so.

This is a familiar predicament مصیبت our country faces. For years, while the world was struggling to forge بڑھانا a consensus رائے اتفاق on what constitutes terrorism کیا, Pakistan was part of a group of countries which felt that violent پرتشدد acts committed during freedom struggles should not be treated as terrorism. Indeed, international law (specifically, UNGA resolution 45/130) allows people struggling for self-determination حق خودارادیت to use "all

available means, including armed struggle". However, bringing this into the **scope** دائرہ of the definition of terrorism has clouded the **debate** بحث چھیڑی in Pakistan. **Extremists** انتہا پسند and terrorists have used this **ambiguity** ابہام to deepen their roots in Pakistani society. Many **sanctioned** منظور شدہ **entities** ادارے have openly raised funds, creating the **impression** تاثر that the government was either unwilling to, or incapable of, **reining in** لگام ڈالنا UN-sanctioned terrorists.

As such, on the **external front** بیرونی محاذ پر, ever since 9/11, Pakistan has been blamed for **inaction** بے عملی against terrorists. India first made **common cause** مشترکہ مقصد with the US in **projecting** پیش کرنے itself as a **victim** شکار of religiously motivated terrorism from Pakistan and then used the **Mumbai and Pathankot incidents** to **diplomatically** سفارتی طور پر isolate Pakistan. The US also **ramped up** تیز کیا its **rhetoric** بازی بیان that Pakistan was not doing enough to **rein in** دینا لگام terrorists. The **FATF** was **dexterously** مہارت سے used to keep Pakistan on the grey list, despite the considerable progress made by the country to **curb** روکنا money laundering.

The reality is that Pakistani forces have **demonstrated** مظاہرہ کیا **laudable** قابل تعریف **capability** صلاحیت **to counter** مقابلہ کرنے terrorists in Swat and South Waziristan in 2009, and in North Waziristan in 2014 through the Zarb-i-Azb operation. Intelligence-based operations **launched** شروع کیے through Raddul Fasaad in 2017 were also successful in **eliminating** ختم

کرنے terrorists on Pakistani soil. Efforts have also been made to control **sectarian** وارانہ terrorism, eg, in recent years, Muharram has passed peacefully.

Having defeated the forces of terrorism on ground, it is time to remove the conceptual **ambiguities** تصوراتی ابہام. A good starting point is to build a national **consensus** اتفاق رائے that **non-state actors** غیر ریاستی عناصر **shedding** بہانا innocent blood cannot be justified in any ideological terms. It is **outright** صریحاً, terrorism, and must be **condemned** مذمت without any **ifs and buts** اگر مگر یا بغیر کسی دلیل کے. True, there is a category of state terrorism, against which people have struggled during the **decolonisation** process and continue to do so in Palestine and occupied Kashmir. However, it is important to not confuse these two separate categories of terrorism. Otherwise, terrorist **entities** ادارے will continue to engage in broad interpretations, and will **capitalise on** اٹھانا this conceptual confusion to further deepen their roots in Pakistani society.

Pakistan needs a clear national narrative that terrorists deserve no **sympathy** ہمدردی, whatever ideology they may **profess** دعویٰ or **pretend** دکھاوا to **project** پیش کرنا. Pakistan should continue to work, through intelligence support (but no bases), with the US or any other country as long as the objective is **to rid** نجات دلانا the country and the region of terrorist elements.

Let us be clear. Pakistan, as indeed our region, once again faces a real threat. Terrorist entities are making a comeback in Afghanistan. With a serious humanitarian and economic crises



unfolding rapidly in Afghanistan, there is a high risk that the country might descend into another civil war. The ungoverned spaces that will be created would attract even more militants and terrorists in the world to Afghanistan. Pakistan and the regional countries must persuade the Afghan Taliban that it would be in their own interest to not host terrorist groups like IS-k or TTP and others, which indulge in shedding innocent blood. The Afghan Taliban should know that unless they demonstrate a commitment to counterterrorism and respect women's rights, the international community is not likely to extend formal recognition to their government. By hosting the Al Qaeda leader and terrorist elements like TTP, they are sending the wrong signal.

According to Islam, taking a life ("unless as a punishment for murder or mischief in the land") is tantamount to killing entire humanity. That indicates that if an individual or a group engages in indiscriminate killings or creates disorder that leads to shedding innocent blood, these acts cannot be condoned. Other religions provide similar guidance.

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### Economic recession

a period of temporary economic decline during which trade and industrial activity are reduced, generally identified by a fall in GDP in two successive quarters.

"the country is in the depths of a recession"

The **Federal Reserve System** (also known as the Federal Reserve or simply the Fed) is the central banking system of the United States of America. It was created on December 23, 1913, with the enactment of the Federal Reserve Act, after a series of financial panics (particularly the panic of 1907) led to the desire for central control of the monetary system in order to alleviate financial crises. Over the years, events such as the Great Depression in the 1930s and the Great Recession during the 2000s have led to the expansion of the roles and responsibilities of the Federal Reserve System.

A **silver lining** is a metaphor for optimism in the common English-language, which means a negative occurrence may have a positive aspect to it

A silver lining is a sign of hope or a positive aspect in an otherwise negative situation

In international economics, the **balance of payments** of a country is the difference between all money flowing into the

country in a particular period of time and the outflow of money to the rest of the world.

What are Price Indices? A **price index** (PI) is a measure of how prices change over a period of time, or in other words, it is a way to measure inflation.

**Peaks and troughs** are patterns that are developed by the price action experienced by all securities. As we know, prices never move in straight lines, whether in an uptrend or a downtrend. The term "zigzag pattern" has been used to describe the peaks and troughs, and many charting software programs will have a "%-zigzag" indicator that investors can lay down on a chart that they are viewing..

### **Shave off**

To reduce, remove, or eliminate some amount of something, especially a very small amount. A noun or pronoun can be used between "shave" and "off."

### **Offset**

to balance one influence against an opposing influence, so that there is no great difference as a result:

The extra cost of travelling to work is offset by the lower price of houses here.

. **GDP** stands for "Gross Domestic Product" and represents the

total monetary value of all final goods and services produced (and sold on the market) within a country during a period of time (typically 1 year)

**Roshan Digital Account** (RDA) (Urdu روشن ڈیجیٹل اکاؤنٹ) is a banking facility available to Non-resident Pakistanis, this facility allows Pakistani nationals living abroad to have access to banking services within Pakistan without having to visit a consulate, embassy or a physical bank branch. The initiative was launched by the government of Imran Khan, who inaugurated the programme in September 2020. Toward the end of August 2021, RDA deposits had exceeded \$2 billion

The **foreign exchange market** is a global decentralized or over-the-counter market for the trading of currencies. This market determines foreign exchange rates for every currency. It includes all aspects of buying, selling and exchanging currencies at current or determined prices.

**In the interim** means until a particular thing happens or until a particular thing happened.

But, in the interim, we obviously have a duty to maintain law and order

**drop the ball**

idiom informal

to make a mistake, especially by not taking action or dealing with something that should have been planned for:

For God's sake don't drop the ball on this - we're relying on you.

### to throw a wrench

#### PHRASE

If someone throws a wrench or throws a monkey wrench into a process, they prevent something happening smoothly by deliberately causing a problem.

They threw a giant monkey wrench into the process by raising all sorts of petty objections

**Al-Qaeda** lit. 'the Base' or 'the Foundation', alternatively spelled al-Qaida and al-Qa'ida), officially known as Qaedat al-Jihad (lit. 'Base of Jihad'), is a multinational militant Sunni Islamic extremist network composed of Salafist jihadists. Its members are mostly composed of Arabs, but may also include other peoples. Al-Qaeda has mounted attacks on non-military and military targets in various countries, including the 1998 United States embassy bombings, the September 11 attacks, and the 2002 Bali bombings; it has been designated as a terrorist group by the United Nations Security Council, the North Atlantic Treaty Organization (NATO), the European Union, India, and various other countries

### UNGA

The United Nations General Assembly is one of the six principal organs of the United Nations, serving as the main deliberative, policymaking, and representative organ of the UN. Currently, in its 76th session, its powers, composition, functions, and procedures are set out in Chapter IV of the United Nations Charter.

President: Abdulla Shahid

Headquarters: New York, New York, United States

Founded: 1945

The 2008 Mumbai attacks (also referred to as 26/11, pronounced "twenty six eleven") were a series of terrorist attacks that took place in November 2008, when 10 members of Lashkar-e-Taiba, an Islamist terrorist organisation from Pakistan, carried out 12 coordinated shooting and bombing attacks lasting four days across Mumbai.

The 2016 Pathankot attack was a terrorist attack committed on 2 January 2016 by a heavily armed group of Islamic militants which attacked the Pathankot Air Force Station, part of the Western Air Command of the Indian Air Force.

### FATF

The Financial Action Task Force, also known by its French name, Groupe d'action financière, is an intergovernmental organisation founded in 1989 on the initiative of the G7 to develop policies to combat money laundering. In 2001, its mandate was expanded to include terrorism financing.

ifs and/or 'buts. (often used in negative sentences) used to stop somebody arguing, protesting or making excuses when you tell them to do something: I want this work finished by Friday and no ifs and buts

**Decolonization**; the action or process of a state withdrawing from a former colony, leaving it independent  
It is the undoing of colonialism, the latter being the process whereby a nation establishes and maintains its domination of foreign territories, often overseas territories.

The Islamic State – Khorasan Province (**ISKP**) is an affiliate of the Islamic State militant group active in South Asia and Central Asia. Some media sources also use the terms ISK (or IS–K), ISISK (or ISIS–K), IS–KP, Daesh–Khorasan or Daesh–K in referring to the group. ISKP has been active in Afghanistan, Pakistan, and Tajikistan, where they claimed attacks. The ISKP and Taliban consider each other enemies.

### **TTP**

Tehrik-i-Taliban Pakistan, commonly known as the Pakistani Taliban, is an umbrella organization of various Islamist armed militant groups operating along the Afghan–Pakistani border. Formed in 2007 by Baitullah Mehsud, its current leader is Noor Wali Mehsud, who has publicly pledged allegiance to the Afghan Taliban.