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Economic road map

Advisor to the Prime Minister on Finance Dr Hafeez Sheikh after a meeting chaired by the Prime Minister with his economic team during the weekend stated in a five-minute video that the government was in the process of preparing a road map to increase economic activity and provide relief to the common man. The Advisor has consistently shown a marked reluctance to engage with media and respond to its queries other than to regurgitate salient points of the agreement he signed on behalf of the government with the International Monetary Fund (IMF), directing Hammad Azhar, Minister of State for Economic Affairs Division, and Shabbar Zaidi, Chairman Federal Board of Revenue (FBR), to respond, which may explain why he opted for a five-minute video; however what is baffling is his contention that the economic road map is under preparation.

Details of the road map can be found on the IMF website where the entire programme is uploaded and include five major policy decisions. First, 38.6 billion dollars would be required from external sources to meet the 39-month-long IMF programme objectives (including support from multilaterals and bilaterals as well as roll-over agreed with friendly countries); in other words, the extent of reliance on foreign loans is expected to rise further during the programme period.

Second, the speed and quantum of raise in the discount rate and rupee depreciation, prior IMF conditionalities have, by raising input costs, acted as impediments to an industrial turn-around. Large-scale manufacturing sector registered negative growth in the year just ended on 30 June and there has been no evidence of an upward trend in July. Auto sector in particular has been hit hard because the import of parts to manufacture/assemble the car domestically has raised input costs which, inclusive of taxation measures, have reduced the sale of cars considerably. The clamour for used cars has resurfaced and, if allowed, the possibility of closure of auto manufacturing/assembly plants would raise unemployment levels considerably. Additionally, taxes on intermediate raw material imports have further dampened industrial output. An anecdotal survey by Business Recorder indicated that the small and medium enterprises (including workshops) have been laying off workers.

Third, exports must rise to meet foreign exchange shortfall. Exports have not responded to the rupee depreciation significantly as a consequence of the adoption of the market-based exchange rate, a prior IMF loan conditionality. However, the July decline in the current account deficit can mainly be attributed to the Saudi 3 billion dollar oil facility which accounted for around 60 percent of import reduction in July. This must be a source of concern and there is an urgent need for the government to focus on revamping the tax structure and not to simply rely on exporting surplus.

Fourth, budgeted expenditure has not been curtailed under any head and while the increase in markup – from 1,987,319 million rupees in the revised estimates of last year to 2,891,449 million rupees in the current year maybe understandable - yet outlays on all other items have also risen quite dramatically. Pensions, for example, have risen by an inexplicable 23 percent, defence in spite of the sacrifice made by senior officials not to get a pay raise by nearly 11 percent, subsidies by 6.4 percent, grants and transfers by 63 percent (including Benazir Income Support Programme) and with running of civilian government budgeted to decline by 6 percent though the jury is out whether this would be achievable. Total current expenditure is budgeted to rise by 33 percent (1.5 trillion rupees) which in the event that there are no contingency payments during the year would imply 115 billion rupees may be used to take account of slippages in revenue. Federal development expenditure has been raised from 500 to 701 billion rupees, a raise of 40 percent, with the bulk to be spent on social infrastructure; however, the impact on growth of an outlay on social as opposed to physical infrastructure is considerably less.

And finally, FBR is budgeted to generate 5.5 trillion rupees, 34 percent more than what was achieved in the revised estimates of the year before, which is not unlikely but impossible to be met by even those who signed off on the road map, as the growth rate has been projected at 2.4 percent.

The Advisor's video maintained that (i) subsidy on electricity and gas is provided to the business community, a claim that is at odds with the IMF agreement; (ii) to facilitate business community to get loans, the question is given that the problem is the high discount rate; and (iii) the general public already burdened with high inflation, continues to suffer erosion of their income earned through the government's continued high reliance on indirect taxes with private sector employees not being given a pay raise commensurate to the rate of inflation due to threat of closures.

To conclude, Business Recorder would urge the government to reduce its expenditure, with the objective of balancing its books because the projected tax collection exercise is highly improbable that has been rendered impossible because of the fiscal slippages suffered in fiscal 2019 that forms the basis for targets agreed with the IMF for fiscal 2020 – the first year of the IMF programme. For the Prime Minister to use up his political capital to defend this road map may lead to political hara-kiri by the end of the fiscal year and it is therefore imperative for him to demand from his economic team to come up with out of the box solutions for reducing expenditure for achieving or coming close to the primary deficit target agreed with the IMF under the programme without further burdening the people with new taxes or increase in the rates of the existing taxes.