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To meet IMF targets: Govt to adopt appropriate policy measures to curb fiscal deficit

ISLAMABAD: In the aftermath of failing to materialise all agreed fiscal targets with the IMF under $6 billion package for last fiscal 2018-19, the Fiscal and Monetary Policies Coordination Board on Wednesday agreed to take “appropriate policy measures” for curtailing the budget deficit during the current fiscal year.

Without explaining appropriate policy measures through official statement, the government went on saying that keeping in view the increased debt serving, lesser resources for public services and tight monetary policy the need for consistent and deep-rooted structural reforms was emphasised. “It was also agreed that appropriate policy measures will be adopted to curtail fiscal deficit during the current fiscal year” the Ministry of Finance stated after the Coordination Board meeting held under chairmanship of Adviser to PM on Finance Dr Abdul Hafeez Shaikh here on Wednesday.

This important high-level forum meeting held at a time when the yawning budget deficit witnessed record level of Rs3444 billion or 8.9 percent of GDP in the last fiscal year whereby the primary deficit escalated to 3.6 percent of GDP instead of envisaged target of 1.8 percent of GDP with the IMF.

Now the primary deficit was envisaged to bring down at level of 0.6 percent of GDP in the current fiscal year as everyone who knows ins and outs of fiscal operation knew that this kind of massive adjustment will be simply impossible.

When contacted to Special Secretary Finance Umar Hammed who is also official spokesman and inquired how such massive fiscal adjustment would be made to bring down the primary deficit to 0.6 percent of GDP, he replied that the fiscal number for last year were finalised with prevalent budgets and for expenditures for that year. “This year the target of 0.6 percent of primary deficit will be met through prudent planning and raising of revenues’ kitty, austerity measures and discouraging supplementary grants.” he added.

However, one top economist of the country on condition of anonymity said that “all the fiscal numbers agreed with the IMF would have to be revised/adjusted as these targets were simply impossible to achieve so the option left either to present mini-budget or further slash down the development or combination of both by end of first half of the current fiscal year”.

The meeting of the Monetary and Fiscal Policies Coordination Board was attended by the Adviser to the Prime Minister on Commerce, Textile, Industry & Production and Investment, Deputy Chairman, Planning Commission, Finance Secretary, Governor State Bank of Pakistan and two eminent economists Dr Asad Zaman, ex-VC PIDE and Dr Farrukh Iqbal, Director IBA Karachi.

The meeting reviewed the impact of fiscal and monetary policies on economic growth, inflation, investment and external sector of the economy. While reviewing the fiscal policy, the Board observed that there is a need to narrow the fundamental revenue-expenditure gap and the exportimport gap by ensuring prudent expenditure management and efficient resource mobilisation strategy.

The key economic indicators and impact of stabilisation policies were presented to the Board. The meeting also reviewed the fundamentals of economy and the performance of the government decisions like upward adjustment in gas and electricity prices, market based exchange rate adjustments, increase in interest rate etc. The Board also discussed the options to enhance the economic activities in potential areas of the economy with targeted policy interventions. The possible options were also deliberated to control price hike in the country.

It was informed that the pressure on the external sector has also been relieved with the first tranche of IMF Extended Fund Facility, activation of the Saudi oil facility and increase in exports. This has not only supported the balance of payment but also strengthen the market confidence. Furthermore, additional financial support from other development and bilateral partners will support the stability and inclusive growth. The current account balance has shown a sign of improvement due to decline in trade deficit and increase in inflows of workers' remittances. However, slower inflows of Foreign Direct Investment are a challenge. It was also highlighted that government is making best efforts to operationalised the special economic zones and the export processing zones to attract FDI at the earliest.

It was emphasised that policy rate may be regulated in a way to confine external sector vulnerability by focusing and prioritising the export oriented sectors to generate more exportable surplus and become more competitive. It was agreed that SMEs sector should be uplifted by providing access to finance that will contribute to generate export surplus and to create jobs.

The unnecessary imports is required to be restricted that has eroded the competitive edge of domestic industry. This will enhance the inclusive economic activities and improve socio-economic condition of common man at large in the country.

While concluding the meeting, the Adviser to the PM on Finance and Revenue highlighted that this platform provides an opportunity to review the current economic situation for bringing consistency in monetary, fiscal and exchange rate policies. He also urged that Board needs to meet quarterly to have meaningful deliberations for a sustained and improved economy.