

### **Fiscal deficit challenge**

Addressing the inaugural session of the two-day conference titled ‘Rethinking Microfinance: Developing a New Inclusive Finance Compass’, Advisor to the Prime Minister on Finance, Dr Hafeez Shaikh, stated that the fiscal deficit prevented the government from releasing funds for the development sector. There are two major issues with his contention. First and foremost, the budget for 2019-20 that Shaikh prepared and which was approved by the International Monetary Fund (IMF) as a prior loan condition, envisaged outlays in the first quarter (July-September) that he has not disbursed. Thus, instead of the 20 percent release for Public Sector Development Programme envisaged during the first quarter, Sheikh released only 8.8 percent while grants received 11 percent of the total amount budgeted for the purpose and there were no releases under subsidies. And what must be a source of serious concern for Prime Minister Imran Khan is that only 547 million rupees out of the 200 billion rupees budgeted were disbursed under his signature social protection programme in the first quarter which is less than one percent of what was actually budgeted.

And secondly, the budget deficit agreed with the IMF was 7.2 percent for the current year. True that the deficit was grossly underestimated for last year, at 7.2 percent in the budget while the actual figures released in August indicated a deficit of 8.9 percent, which compromised the budgeted allocations for the current year as the base changed considerably yet by massively slashing the budgeted PSDP, grants, subsidies and social protection in the first quarter Shaikh ensured a further slowdown in the economy.

Noted economist and former finance minister Dr Hafiz A. Pasha, while speaking at a seminar titled ‘Pakistan Economy: Stabilisation with a Human Face’, lamented the ‘intensity’ of adjustments in the ongoing IMF programme while citing the economic team leaders’ agreement with the IMF to slash current account deficit by 74 percent and deficit by 55 percent in the first year of the 39-month IMF programme period. The implication no doubt was that the team leaders have not negotiated appropriately and should have tried to convince the IMF team that a phased approach would have greater chance of being implemented as the negative impact of the IMF conditions on the general public would be spread out over a longer period and therefore more bearable. Today, inflation is at 12 percent, food inflation is closer to 20 percent as per the Sensitive Price Index; and the number of those who have joined the ranks of the unemployed as a consequence of the contractionary policies of the government agreed with the IMF is humungous with a consequent impact on the quality of life of their entire households.

Pasha recommended that the government must improve performance, reduce electricity losses instead of borrowing heavily and passing on the interest costs to consumers through ever-rising tariffs, increase reliance on direct tax collections instead of continuing to rely on indirect taxes whose incidence on the poor is greater than the rich and focus on reducing poverty levels which have risen from 36 percent last year to 40 percent this year. Sadly, Pakistan’s economic team leaders are not focused on alleviating these serious issues facing the general public and whose negative impact is rising with each passing day and are instead

engaged in patting each others' backs on achieving milestones set in the IMF programme that does not address ever-growing 'inequalities'. The economic team cites indicators as positive signals, particularly the reduction in current account deficit but is silent on its cost notably negative growth in large-scale manufacturing sector with reduced employment levels, a stable rupee while ignoring that it remains undervalued fuelling domestic prices, and a reduced fiscal deficit which is at the cost of further shrinking of the economy impacting on productivity and employment.