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Govt confident of beating IMF's inflation projection

ISLAMABAD: The finance ministry has announced that decisive policy implementation has started to address deep-seated problems of economy and reverse its large imba-lances, preserving financial stability.

In a statement issued on Sunday, the ministry said the Inter-national Monetary Fund (IMF) in its first review of Pakistan's economic performance had acknowledged that the government reforms progra-mme was on track and producing results.

Having been satisfied with the economic performance, the IMF recently released $452 million as the second tranche, bringing total disbursements to about $1.45 billion.

The IMF report acknowledged that the business climate had improved and market confidence was returning. The assessment confirmed the government had recognised that structural reforms, particularly in the public sector, were key to reviving economic activity and growth, the ministry said.

Finance ministry says strategy being finalised to deal with circular debt

According to the ministry, the IMF report also confirmed that end-September performance criteria were observed with wide margins. They included: zero budgetary borrowing from State Bank; primary budget deficit ceiling; ceiling on government guarantees; zero external public payment arrears; State Bank net international reserves, net domestic assets, and swaps/forwards targets all met.

With regard to inflation outlook, the IMF lowered the inflation projection for 2020 fiscal year to 11.8 per cent, down from 13pc earlier on account of the fact that the administrative and energy tariff adjustments are expected to offset the effects from weak domestic demand. The report confirmed that inflation had started stabilising along with core inflation, and the SBP stance (no need for further rate hikes) was appropriate.

However, the government is of the opinion the country would do much better than IMF projection. As inflation during July-November was 10.8pc, the government with the measures taken target to bring inflation down to five per cent in the medium term, according to the ministry.

With regard to the external sector, significant improvement has been witnessed. Overall current account deficit shrunk by almost two-thirds (74 per cent) in the first quarter of fiscal year 2020 compared to the same period of fiscal year 2019. The current account deficit is projected to decline to 2.4pc of the GDP in fiscal year 2020 (4.9pc), which is lower than earlier IMF forecasts of 2.6pc.

Total imports fell by 23pc year-on-year in the first quarter of fiscal year 2020, but imports of machinery and equipment were more resilient, rising about two per cent year-on-year. Exports were showing some sign of recovery, up two per cent year-on-year for the same period with 17pc volume growth, mainly driven by food and textiles.

The IMF report stated that transition to a market-determined exchange rate had allowed the rupee to find its new equilibrium quickly, thereby, successfully correcting the 'exchange rate overvaluation' of the last five years.

The report also acknowledged strong fiscal performance in the first quarter of 2020 fiscal year while stating that primary surplus was 0.6pc of GDP and an overall deficit of 0.6pc of GDP, about one per cent of GDP better than programmed. In addition, tax revenue growth was in double-digits (net of refunds) even though customs receipts and other external sector related taxes had suffered due to import compression.

The ministry mentioned that the key concessions won by the government included increase in the ceiling on the NDA of the SBP (performance benchmark) to Rs9.1 trillion in the current fiscal year. This was positive for growth and would be utilized for concessional financing for the export industry, it added.

Similarly, ceiling on government guarantees had been enhanced to Rs1.8 trillion, which would allow the government to settle the outstanding stock of circular debts.

Besides, floor on the FBR tax collections for the fiscal year 2020 was lowered to Rs5.2 trillion due to strong improvement in non-tax revenue. During the first half of the fiscal year, the government non-tax revenue collection had hit Rs878 billion, which was 75 per cent of the full year budgeted collection of Rs1.16 trillion. The ministry said this would ease the burden on public and businesses.

The finance ministry said Pakistan economy had witnessed significant improvements in recent months as evidenced from the performance of key economic indicators like stable exchange rate for five months, improvement in stock exchange 100-index, improvement in foreign exchange reserves, and ease of doing index.

After four years of outflow, the total foreign portfolio investment was up to $1.2 billion during July-November in fiscal year 2020. Foreign Direct Investment increased to $850 million, up by 78.1 per cent. Total foreign investment reached $2 billion as against $147m last year.

Similarly, incorporation of companies increased 25.8pc during the July-November period of fiscal year 2020.

The FBR tax collection grew by 16.8pc to Rs1,615.2bn during the July-November period against Rs1,382.9bn of the last year's corresponding period. Within total FBR tax collection, domestic tax collection grew to 21.5pc and import taxes dropped to 2.6pc (import compression).

On external side, exports increased by 4.7pc to $10.31bn during July-November of 2020 fiscal year against $9.85bn in the same period last year, while imports decreased by 21.1pc to $18.31bn during this period of the current fiscal year against $23.22bn in the same period last year.

Consequently, trade deficit decreased 40.1pc to $8.002bn during July-November of fiscal year 2020 against $13.36 billion in the comparable period of last year.

Explaining other developments, the finance ministry said the government had accelerated the Public Sector Development Programme (PSDP) release system. In this regard, it added, the step of finance division’s endorsement had been eliminated.

In the last three months, it said, Pakistan Stock Exchange (PSX) became the best-performing market as per Bloomberg, as PSX benchmark KSE 100-Index gained around 10,500 points.

Similarly, the Moody’s Investors Service upgraded Pakistan’s credit rating outlook to stable from negative.

On external front, in the month of November 2019, exports increased 11.23pc to $2.110bn against $1.897bn in the same month last year while imports decreased by 13.18pc to $3.648bn as compared with $4.202bn in the comparable period last year.

In October 2019, on month-on-month, large-scale manufacturing registered a growth of 4.01pc, indicating upward trajectory. Cement dispatches increased 10.6pc in November to 4.35m tonnes. Another important development was that Karkey dispute was renegotiated to save Pakistan $1.2bn.

On the issue of circular debt, the government claimed that the monthly flow decreased from Rs38bn in July 2019 to about Rs10bn at present. A zero-target had been set for the next year, while a strategy for dealing with the stock of debt was being finalized, it added.

The energy ministry will issue additional Rs250bn Sukuks with government guarantee in fiscal year 2020 to retire the central power purchasing authority liabilities of the IPPs.

About the exporter’s package, the ministry said that additional credit of Rs200bn had been allocated for exporters under the Export Finance Scheme (EFS) in 2020 fiscal year. The interest rate differential between Kibor and EFS mark-up would be paid through an additional Rs10bn subsidy by the government. This would boost export sector and further reduce their cost of doing business. SBP will give additional Rs100bn worth of lending to the exporters, to be subsidized by government through SBP profits.