

Our Correspondent

Inflation to be brought down to 5pc

ISLAMABAD: On the completion of the first review of Pakistan's economic performance, the IMF has acknowledged that Pakistan's reform programme is on track and already producing results, the Ministry of Finance stated on Sunday.

A long statement issued by the Ministry of Finance stated that decisive policy implementation has started to address the deep-seated problems of Pakistan's economy and to reverse its large imbalances, preserving financial stability.

The statement said the report acknowledges that the business climate has improved, and market confidence is returning. The IMF further adds in its assessment that the government recognises that structural reforms, especially in the SoE sector, are key to revive economic activity and growth. The IMF has released SDR 328 million (about \$452.4 million), bringing total disbursements to SDR 1,044 million (approx \$1.45 billion). The report has confirmed that End-September performance criteria (PCs) were observed with wide margins. These include zero budgetary borrowing from SB, primary budget deficit ceiling, ceiling on government guarantees, zero external public payment arrears, SBP net international reserves (NIR), net domestic assets (NDA), and swaps/forwards targets all met. In addition to above, all structural benchmarks (SBs) for end-September, except the SB on AML/CFT, were completed.

With regard to inflation outlook, IMF has lowered Inflation projection for FY20 to 11.8%, down from 13% earlier on account of this fact that the administrative and energy tariff adjustments are expected to offset the effects from weak domestic demand. Thereafter, inflation is expected to converge to 5-7%. The report confirms that inflation has been started to stabilise, along with core inflation, and the SBP stance is appropriate (no need for further rate hikes).

However, the ministry is of the view that it will do much better than IMF projection. As inflation during Jul-Nov was 10.8% and with measures taken we target to bring inflation down to 5% over the medium term.

With regard to the external sector, significant improvement has been witnessed. Overall, Current Account Deficit (CAD) shrunk by almost two-thirds (74%) in the Q1 FY20 compared to the same period of FY 2019. CAD is projected to decline to 2.4% of GDP in FY20 (4.9%), which is lower than earlier IMF forecasts of 2.6%.

Total imports fell by 23% y-o-y in Q1 of FY2020, but imports of machinery and equipment were more resilient, rising about 2% y-o-y. Exports are showing some sign of recovery, up 2% y-o-y for the same period with 17% volume growth, mainly driven by food and textiles.

The report states that transition to a market determined exchange rate has allowed the rupee to find its new equilibrium quickly, thereby, successfully correcting the 'exchange rate overvaluation' of the last 5 years.

The report has also acknowledged strong fiscal performance in the First Quarter of FY2020 while stating Primary surplus of 0.6% of GDP and an overall deficit of 0.6% of GDP, about 1% 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 have suffered due to import compression.

Key concessions won by government includes: Ceiling on NDA of SBP (Performance benchmark) has been enhanced to Rs9.1trn (8.7), an increase of Rs339bn in FY20. This is positive for growth and will be utilised for concessional financing for the export industry. Ceiling on government guarantees has been enhanced to Rs1.8trn (1.6), an increase of Rs252b in FY20. This is positive for growth and will allow government to settle the outstanding stock of circular debt. Floor on FBR tax collections for FY20 has been revised lower to Rs5.2trn (5.5), due to strong improvement in non-tax revenue. During H1 FY20, government non-tax revenue collection has hit Rs878bn which is 75% of full year budgeted collection of Rs1.16trn. This is positive for growth and will ease the burden on public and businesses.

Current Economic Performance

Pakistan economy has witnessed significant improvements in recent months as evidenced from the performance of key economic indicators mentioned below:

Exchange rate is stable for 5 months, rupee appreciated by 3.2% (Rs/\$ 160.1 to 154.89) (20th Dec, 2019), Stock Exchange 100-Index up 20.1 percent since 1st July, 2019 (33,996) to 40,832 (20th Dec, 2019), SBP FX Reserves increase to \$10.8bn (13th Dec, 2019), from 7.2bn (June 2019), Ease of Doing index up by 28 points (108/190) and World Bank rank Pakistan in Top 10 improvers.

After 4 years of outflow, total foreign portfolio investment up \$1.2bn during Jul-Nov FY20 (-330mn last year). FDI increased to 850mn (477.3mn last year) 78.1%. Total foreign investment reached to \$2bn (last year 147mn).

Similarly, Incorporation of Companies increased 25.8 % (7,177 from 5,707) during Jul-Nov FY2020.

FBR tax collection grew by 16.8% to Rs1615.2bn during July-November, FY2020 against Rs1382.9bn last year. Within total FBR tax collection domestic tax collection grew up 21.5% and import taxes down 2.6% (import compression).

On external side, exports increased by 4.7% to \$10.31bn during July-November, FY2020 against \$9.85bn in the same period last year, while imports decreased by 21.1% to \$18.31bn during July-November, FY2020 against \$23.22bn in the same period last year.

Consequently, Trade deficit decreased 40.1% to \$8.002bn during July-November, FY2020 against \$13.36bn in the comparable period of last year.

Cement dispatches increased by 5.8% to 20.462 million ton (15.4million ton). Cement export increased 21.5% to 3.608 million ton (2.4 million ton).

Other developments include:

PSDP releases system is accelerated. In this regard ways & means and Finance Division endorsement is eliminated. As a major development, PSX becomes best performing market as per Bloomberg in last three months. PSX benchmark KSE 100-Index gained around 10,500 point in last three months.

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 11.23% to \$2.110bn against \$1.897bn in the same month last year while imports decreased 13.18% to \$3.648bn as compared with \$4.202bn in the comparable period last year.

In October 2019, on M-o-M, LSM registered a growth 4.01% (Sep 1.9%), indicating upward trajectory. Cement dispatches increased 10.6% in November to 4.35 million ton (3.9 million ton).

Another important development is that Karkey renegotiated to save Pakistan \$ 1.2 bn.

Circular Debt:

Monthly flow decreased from Rs38bn in July 2019 to about Rs10 bn. Targeted to be zero next year. Strategy for dealing with the stock of debt being finalised. Protection for lower end consumers <300 from price rationalisation. More effective recovery/detection of electricity theft (>50mn). Ministry of Energy will issue an additional Rs250bn Sukuks (with government guarantee) in FY2020 to retire the CPPA liabilities of the IPPs.

Compact for jobs & growth. Scale up Affordable Housing devised by Naya Pakistan Housing Authority.

Additional budgetary allocation of Rs20bn to 30bn in FY2020 to cover the 10% down payment by beneficiaries of affordable housing. The total impact of this stimulus to the economy would be equivalent to Rs200bn to Rs300bn.

Tax Credits equal to 10% of the amount of expense related to these projects including labour related costs will be allowed to the developer for the first two years.

Exporter's package

Additional credit of Rs200bn for exporters under the Export Finance Scheme (EFS) in FY2020: The interest rate differential (between Kibor and EFS markup) will be paid by additional Rs10bn subsidy by the government in FY2020.

This will boost export sector and reduce their cost of doing business SBP will give additional Rs100bn worth of lending to the exporters, to be subsidised by government through SBP profits.