

BUSINESS RECORDER

Date: - 14-March-2019

MINISTER BRIEFS NA BODY

IMF-govt gap over reforms narrowed

TAHIR AMIN

ISLAMABAD: Finance Minister Asad Umar Wednesday stated that gap between the government and International Monetary Fund (IMF) over reform agenda for the next programme has considerably narrowed.

While speaking to the National Assembly's Standing Committee on Finance, presided over by Faiz Ullah, the minister stated what the IMF was asking is quite clear that the exchange rate must be market based and there should be no interference by State Bank of Pakistan (SBP). The IMF has also been asking that SBP should be given complete autonomy. It also wants that electricity and gas system losses be recovered in particular and public sector losses be curtailed in general. Additionally, the Fund's opinion was that Pakistan's fiscal house is not in order.

The IMF also raised the issue of banking system and stated that Pakistan's banking system has been frozen as during July 2017 to December 2018, banks did not even bid in Pakistan Investment Bond (PIB). The minister acknowledged that compression in import is far more than expected.

The IMF had feeling as to what happened to the inflation subsequent to exchange rate adjustment and there is no ideological difference, he added.

The minister stated stability has been achieved in domestic market while average bids of PIB, which were at Rs 25 billion during the period pointed out by the IMF, has reached Rs 370 billion during the last two months, January and February 2019.

There was no disagreement over the problems; however; disagreement was over timing and base of adjustment, the minister said, adding, "At a time when reserves were sliding rapidly, if we had opened the exchange rate, there would have been a panic." He further stated that exchange rate will not reflect the real value of rupee but would reflect the perception and the sentiment of the market. "So we conveyed them Pakistan's concerns and now there is no need of big depreciation," said Umar.

He further stated that Finance Ministry and State Bank have taken stabilisation measures to deal with current account deficit which needs immediate attention. But the IMF was of the view that a lot is needed to be done and was asking for more measures to be taken. The minister said, "We will have to take structural changes to move on growth model."

Umar further stated that as witnessed in the past an overvalued exchange rate caused a huge loss to the economy and there is need to support market-based exchange rate.

The committee members expressed their concern on the overall fiscal deficit and debt servicing issues. The members were of the view that current expenditures are increasing, which will create hurdles for balance of payments.

The minister informed the committee that foreign reserves have been enhanced and economic situation has been stabilised. He said the government will draw down more multi-lateral

funding that is around \$5.6 billion this year despite the fact balance of payment loans and policy loans have been stopped.

Umar rejected the impression that multilateral sources have slashed the funding for Pakistan. The inflows from multilateral sources have been estimated to be US \$ 5.6 billion which the government is committed to achieving by the end of June 2019 backed by portfolio reviews and stronger monitoring measures taken by the government. Actual inflows from multilaterals and bilateral sources in fiscal year 2017-18 were \$4.784 billion.

The finance minister admitted that inflation has increased that is a major worry for the government. He clarified that inflation increased by only 2.8 percent during the first six months of the incumbent government as against 5.5 percent increase in first six months of PML-N's tenure and 10 percent increase in initial months of the PPP's.

He explained that inflation enhanced due to increase in prices of electricity and gas. The previous PML-N government had not increased the prices of gas and electricity in last few years due to elections. The losses of power and gas sectors increased to Rs 600 billion that forced the government to increase the prices.

He said that a draft framework will be presented to the standing committee for preparing the budgetary proposals for the upcoming budget 2019-20. He directed the ministry to provide details of foreign currency loans along with its terms and regulations to the committee and also directed the special secretary finance & revenue to provide details of foreign currency loans on a regular basis to this forum.

The minister informed the committee about the measures taken by the government with regard to the Financial Action Task Force (FATF). According to him, the next 3-4 months are very critical as the government is going to the actual implementation phase for clearing from grey list and avoiding blacklisting.

“This is the highest priority which also covers legislation challenges during the next four months where provinces would also have to play a vital role,” he said. He further said that the government has proposed amendments in four laws including the Benami Act, the Customs, the Anti Money Laundering Law and the Federal Investigation Agency (FIA) Act, which would be presented in the Parliament for approval. The government would have to take action in the next three months as the FATF next round would be held in May 2019, he added. The next stage is related to apprehensions and sentences, which is a difficult task.

On the basis of assessment, targets have been set for Pakistan, some of which were to be achieved in January, some in May and June while others in September.

The big target for January was National Risk Assessment Report and on the basis of that action plan was to be devised. The report has been finalised for which the World Bank's help was also sought to make it as per the global standards. After addressing their concerns with some organisations, the report has been submitted to FATF and the compliance report for January has been achieved. However, the major issue FATF had was that Pakistan was not declaring banned outfits high risk. “Now, we have fulfilled that condition.” He said that the next FATF review would be held in May this year.

He apprised the committee of the anti-Pakistan lobbying by India on the issue of FATF, and counter-steps taken by the government of Pakistan in this regard.

The committee discussed the problems being faced by the filers for filing of tax return. The committee unanimously recommended to FBR that filing of tax returns date may be extended till 31st March, 2019.

While discussing the problems being faced by the processing units of textile, the committee directed Federal Board of Revenue to constitute a committee under the supervision of FBR for further deliberations with stakeholders in this regard and a plausible solution may be submitted to this committee by 1st week of April 2019.

The committee discussed the problems being faced by real estate sector regarding FBR valuation Table, DC valuation and upper cap imposed by the FBR. The committee members agreed to the viewpoint of stakeholders; however, it was decided that other stakeholders i.e. provinces may be taken on board and directed the FBR to make friendly policies for the said sector. The chairman of the committee was of the opinion that agriculture sector and real estate sector have huge potential for revenue collection.

The committee discussed the “Microfinance Institution (Amendment) Bill, 2019,” moved by Sajida Begum. It was proposed by the federal minister for finance that a meeting may be arranged by the Ministry of Finance with Pakistan Poverty Alleviation Fund (PPAF) for the mover to discuss the measures already being taken by the PPAF in this respect. The committee decided with the consultation of the mover that the subject bill may be pended till meeting with PPAF for any further action.