

Belt tightening after a bad year

This has been a bad year financially and economically. Almost all the major economic indicators have moved south as uncertainty prevailed along the last 10 months of the current fiscal year that badly affected investor and public confidence. Public finances appeared completely out of hand.

It was generally on the basis of this summary that Prime Minister's newly inducted adviser on finance Dr Hafeez Shaikh sounded cabinet members last week a rare caution about what is to come.

In a candid in-house discussion, he affirmed a general public perception that 'indecision had deteriorated the economic situation' since the October-December period.

His assessment was that situation had not been as bad in October but started to deteriorate by December 2018. Indecision towards major economic matters further aggravated the state of affairs over the following months in the absence of major policy decisions.

He also warned the cabinet that the IMF bailout he had agreed to will not be a traditional programme this time. All non-productive expenditures will need to be curtailed significantly and everyone will have to share the sacrifice and be efficient in operations.

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Like the IMF, Dr Shaikh also pushed for a "front-loaded programme". This means most of the difficult reform measures should be taken upfront rather than lagged out over a period of time as back-loaded reform measures lose steam and are difficult to implement, causing embarrassment in the international community.

On top of that, hints were also dropped to phase out large subsidies and exemptions including an end to zero-rated regime to select export sectors. Therefore, the policy decisions should start flowing immediately to show seriousness to the world and be owned by the entire cabinet to succeed — no ifs and buts.

Dr Shaikh has himself seen for decades the growing bleeding in public sector entities (PSEs). Thus, he told the cabinet meeting that budgetary injections to such PSEs would have to be stopped forthwith in line with PTI's original plans and all such entities should be parked in the Sarmaya Pakistan Company.

He advocated minimising general subsidies, limiting them to the poorest of the poor in a targeted manner and criticised the existing culture where maximum benefits of subsidies are enjoyed by the rich in the name of the poor.

That is where the power sector subsidies would go up by Rs50 billion to Rs216bn in the coming budget but remain limited to less than 300 units.

As pointed out by Dr Shaikh, a lack of fiscal discipline has been the hallmark of the current year that would not bode well on the first year performance of the PTI government.

The first three quarter (July-March) fiscal deficit data of the current year jumped to 5 per cent of GDP — an 11 year high — as expenditures broke past records and revenues suffered a shortfall almost equivalent to 1pc of GDP.

The last time the country touched 5pc deficit in three quarters was in 2007-08 and the year finished at a 7.4pc of GDP gap between income and expenditure.

In absolute terms, the country's nine-month total fiscal deficit amounted to Rs1.922 trillion — the highest 3rd quarter deficit in history — against Rs1.48tr in the same period last year, up by a massive 30pc. This was despite a steep fall of 34pc in development spending.

Mark-up payments in first nine months this year were reported at 3.8pc of GDP — the highest since 2009 — compared to 3.4pc in the same period last year. In absolute terms, an amount of Rs1.459tr was spent on mark-up payments this year compared to significantly lower debt servicing of Rs1.172tr last year.

Defence spending increased to 2pc of GDP in nine months this year — highest in 11 years. For the full period running from July to March, defence spending rose by 24.1pc from last year, coming in at Rs774.8bn compared to Rs623.8bn in the same period last year.

Revenues have flattened out between July and March, presenting the government with its most serious challenge.

Collections till March of 2019 came in at Rs3.583tr compared to Rs3.582tr in the same period last year. But it actually fell significantly to 9.3pc of GDP this year compared to 10.4pc of same period last year.

This meant that the government's tax machinery showed negative performance both in terms of absolute numbers and as percentage of GDP, clear manifestation of the revenue shortfall of about Rs350bn.

Non-tax revenues in nine months of this year amounted to Rs421.6bn, significantly lower than last year's Rs506bn. As such, the non-tax revenue amounted to 1.1pc of GDP compared to 1.5pc of GDP last year. Non-tax revenue to GDP ratio was the lowest since 2008-09.

Current expenditure on the other hand amounted to 12.5pc of GDP in nine months that was the highest since 2008-09. Last year current expenditure was reported at 11.8pc of GDP that was also the highest in a decade. In absolute numbers, the current expenditure amounted to Rs4.798tr compared to Rs4.075tr last year.

During 10 months of the current fiscal year, the capital market index has lost almost 8,500 points — from 41,600 in July 2018 to about 33,250 last week. The rupee has lost about 27pc of its value against the dollar since June as the exchange rate jumped from Rs121 to Rs153.

Also, the total public debt and liabilities surged to 91.2pc of GDP (Rs38,474tr) from 86.9pc of GDP (Rs34,396tr in July 2018), up by 12pc or Rs4.1 trillion.

The total external debt and liabilities also jumped \$10.6bn to \$105.84bn this month from \$95.24bn in June.

The real economy has already shown signs of stagnation as GDP is estimated to have grown by only 3.28pc against a target of 6.2pc and last year's growth rate of 5.22pc.

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