

Editorial

The economic team's defence

Advisor to the Prime Minister on Finance with the status of a federal minister Dr Hafeez Sheikh flanked by the usual suspects - Shabbar Zaidi, the Chairman of the Federal Board of Revenue on his left and Hammad Azhar, Minister for Economic Affairs, on his right - held yet another press conference with more or less the same narrative notably that the economy has begun to show signs of improvement. At the same time, he announced measures to improve the performance of some key macroeconomic indicators. The economic team took three days after the successful completion of the International Monetary Fund's (IMF's) first review, 8 November, before holding a press conference to crow about meeting all the agreed conditions, prompting speculation that it was an increasingly disturbed Prime Minister who, once again, directed them to defend their policies in the media by presenting a credible narrative.

The question arises whether or not the announced measures would improve the targeted sectors. Exports that have shown little improvement in spite of an undervalued rupee and some fiscal and monetary incentives will receive 300 billion rupees of additional loans - 200 billion rupees from commercial banks and 100 billion rupees from the State Bank of Pakistan - and the cost of this borrowing would be borne by the treasury, our tax money. Two questions arise? By how much would debt servicing of the government, again payable from our tax money, rise as a consequence? And with the SBP releasing 100 billion rupees how much of this amount would cut into its already overstated profits for the current year with a consequent impact on the budget deficit? Additionally, Sheikh revealed that the government has abandoned the idea of issuing refund bonds to the tune of 30 billion rupees, no doubt due to its less than lukewarm reception by the market. Instead, the government would pay cash and here again the precise impact of this measure on the government's deficit was ignored.

He also referred to the IMF acceptance of issuing sukuk of 250 billion rupees to generate some liquidity for the energy sector where circular debt has been rising, debt equity whose interest payments are borne by consumers through higher utility charges. This implies that sovereign guarantees are in excess of not only the 2005 Fiscal Responsibility and Debt Limitation Act, passed during Sheikh's earlier avatar as the federal Privatisation Minister, but more disturbingly that actual debt of the government, including circular debt and debt equity, has reached unprecedented high levels. The energy sector performance remains appallingly poor, notwithstanding claims by the relevant minister Omer Ayub endorsed by the Prime Minister; there is an emergent need to deal with the high distribution and transmission losses due to an obsolete transmission and distribution system.

Disturbingly, the Adviser made yet another inaccurate statement when he stated that there is no link between Financial Action Task Force and the IMF and one would urge him to read the 6 billion dollar loan documents that he agreed to and signed. The modus operandi of dealing with inflation of essential items was to release wheat to bring its price down and to release 30 billion rupees to the Utility Stores - measures followed during previous administrations including when Sheikh held the finance portfolio between 2010 to 2013

though at the time he undertook an additional measure to reduce inflation: lowering the food weightage in CPI calculation by 6 percent. Ignored was the contribution of fiscal and monetary policies, agreed with the IMF, to inflation.

And finally, it is relevant to note that the first tranche release conditions subsequent to the first review were not stringent though the second review conditions are. Primary deficit was set at 102 billion rupees, more than double the actual deficit of 48 billion rupees during July-October 2018, while the reserve target was set at minus 18.5 billion dollars against minus 17.5 billion dollars actually achieved in the comparable period of last year. The question is whether the first quarter review targets were set to provide the opportunity to the government to better sell an extremely harsh programme to the public or was it a design flaw? The Fund documents insist that the upfront conditions were to mitigate the risk of fiscal slippages, already to the tune of 160 billion rupees in the first quarter, resistance to some fiscal measures (the government has granted another postponement to the use of CNIC condition for transactions above 50,000 rupees), and provinces may under-deliver and Hafeez Sheikh claimed during the press conference that National Finance Commission award to the provinces are being made though Sindh challenges this assertion.

To conclude, one is at a loss to understand why the economic team reckons that by presenting the same narrative in press conferences it can generate a feel good factor when an average householder is increasingly being subjected to higher utility rates, higher petroleum prices and therefore higher transport costs, and a decline in productivity. The capacity of the public to save has been severely compromised which may account for the sale of dollars in the open market that are reportedly being picked up by the SBP while the government is compelled to borrow from abroad to meet its investment needs. The economic team must accept that its defence is falling on deaf ears with only six months having passed since the prior conditions became effective (mid-May), and four months since the IMF programme was launched (1 July). There are 34 more months to go for the end of the programme and with growth projected to remain low notwithstanding Sheikh's optimism (though that optimism is not reflected in the budget documents) the challenge to his defence would become increasingly difficult to withstand.