INTERNATIONAL THE NEWS

28th October, 2019

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Bartering for stability

Amid heightening political temperature in the wake of Azadi March announced by JUI-F and a demand for Prime Minister Imran Khan's resignation, the International Monetary Fund (IMF) sponsored $6 billion programme has entered into a critical phase.

Despite the political situation, Islamabad would have to perform on fiscal as well as on external fronts in the ongoing second quarter (October to December) to avoid suspension of the backing of the lender of last resort.

At this critical stage, the performance of the government in the ongoing second quarter will set the stage and mood of the Fund programme, as it will make clear how much the incumbent PTI-led regime is capable of delivering on its tall promises on key fiscal and economic targets.

The IMF review mission is scheduled to reach Islamabad on Monday (today) for kick-starting parleys on gauging the performance of the economy, especially related to the first quarter of the current fiscal year and its movement in the ongoing second quarter of the current fiscal year.

Although, Pakistan has managed its performance for the first quarter, still the country has to seek waivers for getting approval of the next tranche under the IMF programme.

First in this regard is the revenue shortfall, as far as the Federal Board of Revenue is concerned. The FBR has collected Rs963 billion against the desired target of Rs1,071 billion for the first quarter of the current fiscal year.

Now, the FBR is required to collect of Rs1,404 billion in the second quarter to match the desired collection figure of Rs2,367 billion till December 31, 2019. This target must be achieved at a time when the economy is slowing down.

The government has firmed up its strategy to increase reliance on non-tax revenue collection, which will jack up the target from Rs1,200 billion to Rs1,600 billion on an assumption that non-tax revenue would perform well and help the government bridge the revenue loss on the front of FBR collection. It could be a good strategy, but it requires two basic pre-requisites, including political stability and proper homework. In case of the absence of any of these, it will remain a wish only. For instance, the government plans selling out two RLNG plants in order to fetch Rs300 billion within this financial year. But without political stability, it could be a difficult task to achieve.

Other ambitious targets will also prove difficult to achieve if Azadi march turned into a sit-in, leading to political unrest. The government will have to turn its attention towards settling political dust. This change in focus will of course have far reaching negative impacts on the state of the economy.

The risks have increased for slippages on fiscal front and it will be a challenge for the government to avoid disruptions at this critical stage, which may hinder successful completion of the IMF programme. If the government opted the path of compromise then steam of fulfilling the IMF programme requirement will start to lose.

The FBR had given an indication that it may find a middle ground to resolve the lingering problem of CNIC condition (imposed on traders). Any compromise on documentation front will be a severe blow to the government's efforts to meet IMF criteria for fixing Pakistan's structural problems for decades.

Secondly, the external front of the economy will be facing risks as the government plans launching two international bonds (Eurobond and Sukuk) to fetch $3 billion within this ongoing quarter of the current fiscal year. Though for the time being, some high-ups in the Finance Ministry have indicated that this might be delayed due to the brewing political turmoil. It was being done to avoid showcasing the situation on the domestic front to potential investors. Once the dust settles, Eurobond and Sukuk bond would be launched to attract investment into Pakistani papers.

Further, the country would have to focus on ensuring non-debt creating inflows, such as remittances from abroad, increasing exports and attracting foreign direct investments. If non-debt creating dollar inflows are not boosted, it will make the government increase its reliance on obtaining foreign loans, which again is a potential threat to the economy on medium to long-term basis.

The IMF's review mission will stay in Islamabad for two weeks for holding technical and policy level talks from October 28 to November 11, 2019, after which the Fund team will prepare its report for presenting before the IMF's Executive Board for release of second tranche, subject to the approval of the Board.

The FBR's tax shortfall of Rs108 billion has been bridged by improved performance of other taxes and non-tax revenue receipts in the first three months of the current fiscal year. The state Bank of Pakistan's (SBP) profit stands at Rs200 billion and renewal of license fee of cellular companies fetched Rs70 billion, while expenditure remained stagnant.

The economic managers had analysed that the budget as well as primary deficit had escalated in the last financial year mainly because of overall revenue shortfall on both FBR and non-tax revenue collection fronts. On expenditures side, there were only slippages on the front of payment of debt servicing in the wake of increased discount rate and devaluation of rupee against dollar.

Now the stage of make or break has arrived, and a laidback attitude will not provide any solution. If political instability persists for a longer period, and the government focus shifts, the IMF programme may derail. However, if the government turned it into an opportunity to stabilise and move towards higher growth trajectory, it can result into providing benefits to bring relief to millions of people.

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