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Revenue shortfalls in spotlight as first review of IMF programme kicks off

ISLAMABAD: Projecting core inflation at 12.4 per cent, fiscal deficit at 7.4pc and higher debt levels despite better revenues in FY20, the International Monetary Fund (IMF) on Monday began discussions with Pakistan authorities over its first quarterly review of the \$6 billion 39-month economic programme.

Informed sources said the visiting IMF mission had preliminary discussions on first quarter (July-September) data relating to revenue collection, its breakup and the reasons for shortfall of about Rs113bn.

The two sides also discussed reasons for lower-than-targeted tax refunds.

The Federal Board of Revenue (FBR) briefed the mission that glitches causing delays in refunds have been removed through replacement of relevant tax forms and data interface for input and output calculations.

The IMF mission raised questions over the revenue integration between federal and provincial tax systems and authorities. The mission told that a draft agreement for single return form and single revenue portal were shared with the provinces, informed source said.

Another official explained that in fact, some of the provinces had rejected the draft and linked its signing to removal of their concerns.

Fund forecasts CPI inflation to rise by 5.7 percentage points

The two sides also touched upon the revenue projections until December this year, based on first quarter performance, and how shortcomings were being addressed.

The two sides would remain engaged in technical level discussions and exchange of data from all the economic sectors until this weekend and then start policy level talks to be led by Adviser to PM on Finance and Revenue Dr Abdul Hafeez Shaikh.

The review talks coincided with the launch of IMF's Regional Economic Outlook (REO 2019) on Middle East, North Africa, Afghanistan, and Pakistan (MENAP) region. The outlook estimated Pakistan's consumer price index rising from 7.3pc in 2019 to 13pc in 2020. It put the core CPI increasing to 12.4pc in 2020 from 8.3pc in 2019.

The fund estimated the net lending to slightly reduce to 8.4pc of the GDP in 2020 when compared to 8.9pc in 2019 and fiscal deficit declining to 7.4pc of GDP in 2020 against 8.8pc in 2019.

This was despite the fact that general government revenue is estimated to improve to 16.1pc of GDP in 2020 from 12.7pc in 2019. This would partially be driven by the increase in government expenditure and net lending to 23.6pc of GDP in 2020 from 21.6pc in 2019.

The total gross government debt, on the other hand, is also projected to increase from 76.7pc in 2019 to 78.6pc of GDP in 2020. The net government debt is also estimated to increase from 72.5pc of GDP to 75.2pc. Of this, the gross external debt is forecast to reach 43.7pc of GDP in 2020 from 38.1pc in 2019.

The IMF forecast Pakistan's exports increasing to \$32.5bn in 2020 from \$30.2bn in 2019 while imports to reduce to \$59.5bn next year from \$62.9bn this year compared to \$67.8bn in 2018.

The current account deficit has been projected at 2.6pc of GDP in 2020 compared to 4.5pc in 2019 and 5.4pc in 2018. Gross official reserves would generally remain in the existing band or \$25.9bn in 2020 against \$25bn in 2019 and \$24bn in 2018.

The foreign exchange coverage would, on the other hand, improve to 2.2 months of imports in 2020 compared to 1.4 months in 2019 and 1.9 months in 2018.

The IMF advised oil-importing countries to raise growth and accelerate structural reforms to attract investment, including foreign direct investment and achieve growth friendly fiscal consolidation, strengthen business environment and increase inclusion.

It said the growth in oil-importing countries in the MENAP region is expected to be muted in coming years. High public debt levels and associated financing costs are not only holding back growth in the region, but have also become a source of acute fiscal stress.

Yet a mix of sustained social tensions, unemployment, and global headwinds leave policymakers facing a difficult trade-off between rebuilding fiscal buffers and addressing growth challenges. For now, supportive global financial conditions and lower oil prices are helping to ease this trade-off. However, managing high levels of public indebtedness will require fiscal consolidation and policies to deliver higher, more inclusive growth.

Real GDP growth in MENAP oil importers is expected to fall slightly in 2019 to 3.6pc, down from 4.3pc in 2018, driven mostly by the declines in Pakistan and Sudan.

Excluding these two countries, the rest of the region's real GDP growth in 2019 is projected to be 4.4pc. In Egypt, growth will remain strong, supported by gas production and a return of tourism. Overall, though, growth in most countries is projected to be below its 2000–15 average.

In 2020, real GDP growth in the region will remain about 3.7pc but recover to 5pc over the medium term. The decline is largely driven by Pakistan, where ongoing reforms are expected to boost growth. However, this outlook implies that the region is set to fall behind other countries with similar income levels.

Inflationary pressures have been kept at bay by weak domestic and external demand. Egypt, Pakistan, Sudan, and Tunisia are notable exceptions where, at different times in the last three years, exchange rate depreciation, while helping reduce external imbalances, have contributed to increased inflation.