INTERNATIONAL THE NEWS

16th September, 2019

Mehtab Haider

Slipping on the loan-ly road

Pakistan's primary deficit surged by 2.3 percent of gross domestic product (GDP) in just last and fourth quarter (April-June) period of 2018-19, proving massive slippages on fiscal front of the economy, so the very basis of the International Monetary Fund (IMF) bailout package of $6 billion had already shattered.

The primary balance in third quarter till end March 2019 stood at 1.2 percent of the GDP so the dents were so acute and abrupt that the total primary balance ballooned to the level of 3.5 percent of the GDP in the whole financial year ended on June 30, 2019.

The last fiscal year's budget deficit was initially envisaged at 4.9 percent of the GDP during the tenure of the last regime. After coming into power, the Pakistan Tehreek-e-Insaf- (PTI) led government revised the budget deficit upward to 5.1 percent of the GDP. The budget deficit was again revised upward to 6.2 percent of the GDP. Moving forward, when Pakistan sealed a deal with the IMF under a 39-month Extended Fund Facility, the deficit was re-adjusted to 7.2 percent of the GDP. It's a mystery that within 20 days it escalated up to 8.9 percent of the GDP against a revised target of 7.2 percent that was tabled before the Parliament on eve of the budget session for 2019-20.

Such massive slippages on fiscal front forced the IMF to send its staff team to Islamabad to find ways and means to tackle the emerging crisis having a potential to derail the IMF-sponsored program within the ongoing financial year. The IMF team is scheduled to visit Islamabad this week from September 16 to 20 to discuss the prevailing economic situation especially on the fiscal front of the national economy.

The budget deficit in the first year the PTI rule went out of control in gradual manner as it stood at Rs541.6 billion in the first quarter (July-Sept) and it increased to Rs1,029.9 billion in the second quarter (Oct-Dec) of 2018-19. The budget deficit escalated to Rs1922.4 billion till third quarter (Jan-March) of the previous financial year 2018-19. The disastrous situation struck in the last and fourth quarter (April-June) of 2018-19, where the budget deficit ballooned to Rs3,444 billion or 8.9 percent of the GDP, which means the budget deficit went up by Rs1,522 billion just in the period of last three months of the last financial year.

There are multiple factors behind such massive slippages but the major contributors are highest ever revenue collection shortfall on the part of Federal Board of Revenue (FBR), a record deficit on non-tax revenue side and finally an overrun on the expenditures' side on all accounts except for the development budget.

The FBR has faced a revenue shortfall of Rs569 billion as it fetched only Rs3,829 billion against initially envisaged target of Rs4,398 billion in the last fiscal year. The non-tax revenue faced historic shortfall in the last fiscal as it could only materialise Rs427 billion and only Rs6 billion could be collected in last quarter of the fiscal year 2018-19.

The profits earned by State Bank of Pakistan (SBP) dropped significantly in the last quarter of previous fiscal as the central bank profit contributed just Rs12.5 billion as non-tax revenue in April-June period of 2018-19 compared to Rs233 billion in the same period of last financial year 2017-18. The exchange rate policy and tightening of monetary policies had just evaporated the profit earning of the central bank. On other hand, the ministry of finance in an formal presentation informed the National Assembly’s Standing Committee on Finance and Revenue that a collection shortfall of Rs321 billion in the last fiscal year was the major reason behind the highest-ever fiscal deficit in absolute figures. The government compared revenue shortfall with revised target of Rs4,150 billion, whereas the collection stood at Rs3,829 billion.

The ministry of finance in its detailed presentation said other factors involved in higher budget deficit were a decrease in other revenues by Rs276 billion, increase in expenditures by Rs286 billion as current expenditures went up by Rs224 billion, Public Sector Development Programme (PSDP) by Rs62 billion, and supplementary grants by Rs353 billion.

Under the IMF conditions, the primary deficit is required to slash down from 3.5 percent of the GDP to 0.6 percent, indicating the PTI led government will have to bring down the primary deficit in the range of 2.9 percent of the GDP.

The FBR has so far collected Rs580 billion in the first two months (July-August) of the current fiscal year. The IMF envisaged FBR’s target at Rs1,071 billion for first three months so the FBR requires a collection of Rs491 billion to meet the IMF-assigned target for the first quarter of the fiscal year 2019-20.

The IMF program has already entered a critical and interesting phase and it is yet to be seen how both sides will proceed further because if the assigned targets are not rectified and reconciled, the loan deal is going to do no good to the struggling economy of Pakistan.

The technical team of ministry of finance is the weakest ever as when members of a lower house standing committee asked the incumbent secretary finance about the possibility of renegotiations of different targets to run the IMF programme successfully, he replied: “Let’s see what happens in the next round of talks”.

However, ministry of finance, through official statement, made efforts to dispel the impression the government was going to readjust different targets with the visiting IMF staff team.

On the other hand, independent economists are still insisting there is no other option left but to renegotiate IMF programme by making adjustments in different important targets, otherwise a suspension will become inevitable.

The writer is a staff member