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IMF mission arrives to review performance under bailout package

ISLAMABAD: A staff mission of the International Monetary Fund (IMF) is in town for an 11-day second review of Pakis-tan performance under the $6 billion bailout package signed in July last year amid a massive revenue shortfall in the first seven months of the current fiscal year.

The completion of the review against a significantly modified 39-month programme in November last year would determine if the government would secure disbursement in March of another tranche of about $450 million direly needed to build market confidence and foreign exchange reserves. Pakistan has so far secured about $1.44bn through an upfront release of about $991m in July and first installment of about $452m in December last year.

Of the total $6bn extended fund facility, Pakistan would actually receive net inflows of about $1.65bn until 2023 as it would be repaying about $4.36bn to the IMF during the same period.

The review is taking place at a time the government has suffered a revenue shortfall of about Rs385bn in the first seven months of the current fiscal against the target of Rs2.79 trillion. Under the federal budget 2019-20, the government has set an annual tax collection target of Rs5.503tr for the Federal Board of Revenue (FBR). This annual target is based on a revenue growth of 43 per cent, while the actual revenue collection growth over the first seven months has struggled at about 16.8pc, an apparent result of more than 14pc rate of inflation and 3pc economic growth claimed by the government.

The IMF staff had flagged in its quarterly review report in December the risks stemming from the composition of adjustment programme, with an important component from non-tax revenues to date, and "cautioned that fiscal consolidation must be achieved on the back of high-quality measures to ensure the sustainability of the adjustment". The revenue slippages have continued since then.

During its stay here until next weekend, the Fund mission would hold meetings with cabinet members, including Dr Abdul Hafeez Shaikh, Hammad Azhar, Omar Ayub Khan, Asad Umar and Mohammad-mian Soomro, besides top officials of the State Bank of Pakistan and economic ministries. The focus of discussions would remain around progress and challenges on circular debt reduction, revenue collection, privatisation programme and other structural reforms.

The key challenge for the government at this stage is the limited space available in the economy to boost revenue collection through additional measures as the FBR authorities have already opposed any additional taxation for being counterproductive. The two sides are expected to discuss on how to ensure fiscal consolidation without a further cut on development. They are expected to discuss proposals for the next year's budget due in June 2020.

The government has also conceded in its fiscal policy statement for 2019-20 that lower revenue collection and sharp rise in current expenditures caused deterioration in fiscal indicators during FY2018-19.

It said the revenue collection at the federal level remained lower than 2pc of GDP than targeted for FY2018-19, out of which around three-fourth of the revenue shortfall was due to one-off factors. However, the government expects these factors would not carry over into FY2019-20. These included delay in renewing telecom licences and sale of envisaged state assets and weaker than anticipated tax amnesty proceeds that contributed around 1pc of GDP, while a shortfall in the transfer of SBP profits contributed an additional 0.5pc of GDP. Profit of the SBP witnessed a steep plunge during FY2018-19 as the central bank incurred heavy exchange rate losses on its external liabilities, the finance -ministry said.

The "current expenditure grew by around 21pc during FY2018-19 mainly due to higher interest payments [up by 39pc] on account of rise in domestic interest rates", the government said, adding that it had initially budgeted the interest servicing target that was only 6pc over FY2017-18; however, overall interest payments were 29pc higher than the expense -targeted in the budget 2018-19.

The finance ministry has reported total revenue of the government at Rs4.9tr during FY2018-19, compared to Rs5.228tr during FY2017-18, registering a decline of 6pc. This was a rare fiscal year in recent history that revenue collection was actually lower than a previous year.

The FBR was able to put together Rs3.829tr in FY2018-19 that was about 14pc lower than its target of Rs4.435tr.