

IMF asks Pakistan to revisit NFC award

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ISLAMABAD:

The International Monetary Fund (IMF) on Thursday called upon Pakistan to reopen discussions on the National Finance Commission (NFC) award, seeking to address the ongoing imbalance in the distribution of fiscal resources between federal and provincial governments. During the opening round of discussions for a \$1.1 billion loan tranche, Nathan Porter, the IMF Mission Chief to Pakistan, raised concerns over the distribution of resources and responsibilities, underscoring the need for a more equitable arrangement. Representing Pakistan in these talks was Finance Minister Muhammad Aurangzeb. Government officials disclosed to the IMF emphasised the need to reassess the NFC award, citing disparities in resource allocation between federal and provincial authorities. The current formula, established in 2010, resulted in provincial shares increasing

from 47.5% to 57.5% of total federal taxes, without a commensurate transfer of additional responsibilities. This has led to a sustained fiscal imbalance and a rise in public debt.

The Pakistani authorities informed the IMF that the provincial shares cannot be reduced without bringing a constitutional amendment and making all the provinces agree to a new formula. The 2010 NFC award had been agreed for a period of five years but since then there has not been any consensus to revisit it. Addressing the challenge of garnering provincial support for reforms, particularly within a politically diverse landscape, presents a formidable task for the coalition government. Despite possessing a two-thirds majority necessary for constitutional amendments, securing agreement from all four provincial governments remains uncertain, with parties such as the Pakistan Peoples Party (PPP) advocating strongly for the NFC award. The Khyber-Pakhtunkhwa government is controlled by the Pakistan Tehreek-e-Insaf (PTI). The Special Investment Facilitation Council (SIFC) has also been making efforts to shift some responsibilities to the provinces with little success. The sources said that the IMF's demand for the redistribution of the resources is for the new programme, as the country has already met the conditions set for the last review of the \$3 billion arrangement. The IMF also raised the issue of excessive spending by the provincial governments, which can undermine this fiscal year's primary surplus target of Rs400 billion. The IMF was assured that the Punjab Chief Secretary would brief the IMF about the

fiscal developments and the corrective measures that have been taken to fix the excessive spending.

Despite the federal government's success in achieving the primary surplus target, its expenditure has continued to spiral out of control, primarily due to the high cost of debt servicing.

Consequently, the overall budget deficit for the first seven months (July-January) of this fiscal year remained at Rs2.7 trillion, despite the provincial governments generating a cash surplus of Rs432 billion. During the first quarter of this fiscal year, the provincial current spending increased 57% while development spending increased 61%. Subsequently, the provincial governments amended their memorandums of understanding (MoUs) signed with the federal government to include the estimated federal revenue, annual provincial revenue, and total expenditure plans, in line with the agreed cash surplus.