BUSINESS RECORDER
Founded by M.A. Zuberi
EDITORIAL

29th August, 2019

Revised macroeconomic data

Consolidated Budgetary Operation (CBO) statement for 2018-19 released by the Ministry of Finance is extremely disturbing as macroeconomic data (finalised) is markedly divergent from what was presented in the budget documents for the current fiscal year – data that was critical to enabling the Pakistan economic team led by Dr Hafeez Sheikh, Advisor to the Prime Minister on Finance and Governor State Bank of Pakistan Reza Baqir to convince the International Monetary Fund (IMF) that all its prior conditions had been met. Of most serious concern is the difference in the budget deficit as a percentage of Gross Domestic Product between budget documents and the CBO: a difference of 1.7 percent, a whopping 892.5 billion rupees, raising the question as to whether Hafeez Sheikh incorporated this differential as and when he finalised the revenue and expenditure items in the budget for the current year. If he did not do so then the government's balance sheet for last year is short by 3.4 trillion rupees requiring a revenue target increase by this amount and/or a reduction in expenditure by this amount or an amalgam of the two.

The Federal Board of Revenue's (FBR's) target for the current fiscal year of 5.5 trillion rupees, 34 percent higher than the revised estimates of last year and 25 percent higher than what was budgeted last year, is unrealistic not only as it is the highest-ever envisaged revenue rise in any one year but also because with the rate of growth set at 2.4 percent this would be impossible to achieve. To meet last year's shortfall due to understating the deficit through raising the revenue target still further would therefore be the height of folly. Based on past precedence, the government may raise taxes on petroleum and products, easy to collect, which would generate higher revenue. This recourse may not be available to the government at present as Hafeez Sheikh, subsequent to the weekend meeting of the economic team with the Prime Minister, pledged that he would reduce the price of oil in the country next month. In the event that he keeps his pledge the options before him would be either a mini-budget, which may be a challenge given that the government has already upped taxes to more than what is achievable or acceptable with negotiations ongoing with the many sectors. The government has already (i) revised income tax for the salaried class upward; (ii) raised taxes on cottage industry (leading to layoffs as per an anecdotal survey carried out by Business Recorder); (iii) raised taxes on real estate sector accounting for the business being at a standstill; and (iv) taxes on imports which, together with a depreciating rupee, is making imports less attractive and therefore even the previously set target achievement is at risk. And while Hafeez Sheikh may not be focused on the impact of his taxation measures on social unrest the Prime Minister almost certainly would be and should be.

This newspaper continues to urge the Khan administration, that expenditure must be curtailed on a range of items including: (i) loss-making state-owned entities currently the recipients of more than a trillion and half in budgetary allocations, need to be dealt with on an emergent basis; (ii) the rise in pensions of 23 percent needs a revisit as that appears to be unprecedented; (iii) the allocation of 79 billion rupees for pay and pension separate from running of civilian government and pensions requires a revisit; (iv) the doubling of grants and transfers (with Benazir Income Support Programme subsumed under this head) with an additional 353 billion rupees compared to last year needs to be deferred as and when the balance sheet of the government becomes healthier; (v) the high discount rate has not checked inflation and is unlikely to, given Pakistan's ground realities are different to what economic theory dictates. One would therefore hope that the State Bank would reduce the rate as a means to encourage productivity especially of large-scale manufacturing units which witnessed negative 3 percent growth last year – a trend that continues to this day; and (iv) the allocation for infrastructure development (with a higher impact on GDP growth relative to social sector) must be allocated the bulk of the federal PSDP.

To conclude, the government's economic team would have to carefully revisit its focus on reducing the budget deficit with policies that fuel the growth rate. The team needs to look at out of the box solutions instead of merely relying on the IMF team to propose conditions that do not reflect ground realities partly because of their lack of knowledge of the Pakistan economy and partly because of considerable difference between data shared with the Fund and actual data.