

Govt eyes 4pc growth rate for next fiscal year

ISLAMABAD: Amid tight fiscal and contractionary monetary policies, the government is targeting slight improvements in savings and investments, coupled with better performance by agriculture and industry to achieve an economic growth rate of four per cent during the next fiscal year, compared to a dismal growth of 3.3pc during the current fiscal year.

According to budget documents, the government is setting a target of total investment-to-GDP ratio at 15.8pc for the next fiscal year, slightly higher than the current year's provisional rate of 15.4pc that is significantly lower than 17.2pc target. Of this, the fixed investment-to-GDP ratio is targeted to increase to 14.2pc from the current year's missed target of 15.6pc. The fixed investment during the current fiscal year is provisionally anticipated at 13.8pc.

Public sector investment is estimated to stay almost unchanged at 4.1pc of GDP during the next fiscal year from the current year's actual rate of 4pc — way behind the 4.8pc target. Likewise, the target for national savings-to-GDP ratio is set at 13pc for the next fiscal year, compared to the current year's provisional estimate of 11.1pc that fell significantly behind the 13.1pc target.

As such, investments and national -savings would be impacted by the government's tight fiscal and monetary policies in line with its commitments with the IMF as prior actions to qualify for a \$6 billion 39-month programme.

Improvements in investment, savings envisaged

The documents suggest that the fiscal policy 2019-20 will envisage “containing fiscal deficit, controlling current spending, additional resource mobilisation and targeted subsidies while prioritising development spending”. The monetary policy will be “contractionary” aimed at supporting adjustment process to restore macroeconomic stabilisation and managing aggregate demand. The real test will be to “strike a balance between growth and stability in a manner that monetary policy tools may not suffocate growth while containing inflationary pressure”.

Therefore, the government is projecting next fiscal year's inflation at 8.5pc on the basis of rising commodity prices and second round effect of depreciation and base money creation during the current year.

The size of the national economy is estimated to go up by about 12.9pc to Rs43.5 trillion next year from Rs38.56tr during the current year. Net indirect taxes are projected to increase by 13pc to Rs2.95tr next year from Rs2.6tr this year.

Foreign inflows are estimated to decline by about 26.5pc to Rs1.227tr next year despite the IMF programme, compared to Rs1.66tr external resource inflows during the current year. Total consumption is estimated to cost Rs40.88tr next year, up 11pc from Rs36.77tr this year.

The government will be ensuring in the budget documents a primary deficit of 0.6pc of GDP committed with the IMF as a prior action by setting a revenue target of Rs5.550tr — a massive 35pc jump from the current year — by increasing the general sales tax (GST) rate to 18pc across the board from 17pc, excluding lower rates on selected items like sugar, steel, fertiliser, etc.

An additional Rs1.5tr or so revenue will flow, mostly from additional tax measures, including about Rs600bn on account of inflation and GDP growth rate. About Rs90-100bn is anticipated from one per cent increase in overall GST rate, about Rs75bn by increasing the GST rate to 18pc from 7.5pc on sugar, fertiliser, etc, and about Rs90bn by eliminating the zero-rated regime.

About Rs100bn will be generated by reversing some income tax exemptions and about Rs100bn by restoring taxes on telecom services.

The budget 2019-20 envisages “overall macroeconomic stabilisation in view of -fiscal consolidation, external account -contraction and revival in agriculture and industrial growth”. The next year’s GDP growth is targeted at 4pc, with 3.5pc increase in agriculture, 2.4pc in industry and 4.8pc in services, but these targets are subject to favourable weather conditions and current account, coupled with consistent economic policies.

The agriculture sector is targeted to grow by 3.5pc on the basis of expected contribution from important crops (3.5pc), other crops (3.1pc), cotton ginned (2.5pc), livestock (3.6pc), fishery (4pc) and forestry (2pc). Better production of both Rabi and Kharif crops is expected during 2019-20.

Similarly, the industrial sector is expected to grow by 2.4pc on the back of better energy supply, better investment climate and consistent policies. Mining and quarrying are projected to grow by 2.5pc, manufacturing by 2.8pc, large-scale manufacturing by 1.7pc, construction, electricity generation and distribution and gas distribution by 1.5pc each.

The services sector is targeted to grow by 4.8pc in 2019-20 supported by 3.8pc growth in wholesale and retail, 3.5pc in transport, storage and communications, 6.5pc in finance and insurance, 4pc in housing, 5.7pc in general government -services and 7.1pc in other private -services. The expected higher growth in commodity-producing sectors will support the -targeted growth in the services sector.

Trade deficit is projected at 9.2pc of GDP during the next fiscal year as the government expects exports to get momentum owing to expected better investment environment and CPEC and better industrial production. As such, exports are targeted to increase by 6.2pc and imports by 2.1pc. Current account deficit for the next fiscal year is projected at 2.8pc of GDP, compared to 4.4pc this year.

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