

The projected budget

The Advisor to the Prime Minister on Finance, Dr Hafeez Sheikh, and the Planning and Development Minister, Khusro Bakhtiar, have revealed some key components of the budget for fiscal year 2019-20 while the International Monetary Fund (IMF) press release dated 12 May 2019 revealed some other critical aspects of the budget after the staff-level agreement with Pakistani authorities was reached.

Sheikh has announced Federal Board of Revenue's (FBR's) target for next year at 5.5 trillion rupees - 1.45 trillion rupees more than what was budgeted to be collected in the current fiscal year after the target was revised downward by 348 billion rupees July-April 2018-19. And the projected shortfall by the end of the fiscal year on 30 June is 450 billion rupees - a projection that may also not be met. Be that as it may, this newspaper did the math with senior officials of the FBR and the conclusion was extremely disturbing: even if the draconian fiscal measures agreed with the IMF are followed in letter and spirit the economy's capacity to generate more than one trillion rupees next year would not be possible. So where would the one trillion rupees come from: (1) higher taxes including (a) increase in across the board sales tax rate from 17 to 18 percent to generate 100 billion rupees; (b) increase the rate of federal excise duty (FED) on existing items and widen its application on additional items to generate 5 to 10 billion rupees, (c) revised income tax slabs to yield another 100 to 120 billion rupees, (iv) abolition of final tax regime for exporters 10 to 20 billion rupees; (2) withdrawal of exemptions 250 billion rupees; (3) administrative measures 250 billion rupees; and (4) annual growth of economy including inflation to generate another 350 to 400 billion rupees. These fiscal measures would slow down the growth in industry and consequently exports while at the same time the large amount to be generated from administrative measures may, without appropriate mitigating measures, lead to a rise in complaints of high-handedness by the tax officials.

Prudent growth in expenditure with the objective of achieving a primary deficit of 0.6 percent of GDP (agreed with the IMF) would require cutting non-development expenditure as the IMF has stated that spending growth must be "aimed at preserving essential development spending, scaling up the Benazir Income Support Programme and improve targeted subsidies, with the goal of protecting the most vulnerable segments of society" (or the Prime Minister's Ehsaas programme that envisages subsuming BISP).

Khusro Bakhtiar revealed in the fourth week of May 2019 that 675 billion rupees would be spent on federal Public Sector Development Programme (PSDP) while another 250 billion rupees would be generated under public-private partnership mode - an objective unlikely to be met given the projected decline in industrial productivity as a consequence of the fiscal measures. An innovative method to raise federal PSDP was also adopted by the Abbasi-led PML-N administration which projected 230 billion rupees self-financing by corporations - an objective that was not achieved as the corporations continued to rely on government support to meet their bills.

The Ehsaas programme would receive 180 billion rupees - a doubling of allocation next fiscal year, Sheikh informed the media; however this may include the merging of all the different funds engaged in extending assistance to the needy - an essentially good decision. But what must be a source of

concern for the Prime Minister is that the budget would, without doubt, increase the numbers below poverty line as inflation rises and hence any increase in allocation may not be able to either contain or cater to the growing number of those living below it.

And finally, the Chief of Army Staff has announced that defence expenditure would remain constant, that the officers would forgo any increase in salaries next year though it would not apply to the jawans, and that it is not a favour to the country but part of the sacrifice that the rest of the country would also be making to deal with the economic impasse.

Be that as it may, one would hope that the civilian administration would also offer a similar freezing of salaries to provide fiscal space to meet the primary budget target set by the IMF. All the figures used to achieve this over-arching prior condition would also require the government to project the rupee-dollar parity till end June 2020 with the objective of estimating total debt servicing for next year. In the event that this estimate is on the lower side it would have to adjust and reduce the allocation for the other two major current expenditure items that it has agreed with the IMF to reduce - notably defence and running of civilian government.

Business Recorder fully acknowledges the scale and depth of the economic crisis facing the country today; however, policies must be designed to ensure that the likelihood of their success as determined by their public acceptability is high. In the present instance, the rupee value will continue to erode due to market-based exchange rate agreed with the IMF that would further raise the price of all imports but particularly petroleum and products, which, in turn, may fuel socio-economic discontent. The income groups accounting for the bulk of our population, middle to lower middle income earners, are not eligible for the Ehsaas programme and hence their ability to make ends meet would be seriously compromised. At the same time, industrial growth would further decline with unemployment rising. This is a sure recipe for disaster and sacrifices by budgetary recipients would have to be extremely steep for a smooth implementation of the IMF proposed programme.

To conclude, once the revenue target is not met by the end of the first quarter of next fiscal year which may coincide with the first review under the IMF programme a mini-budget would be on the cards. And in the event that expenditure is over the target merciless slashing would have to be undertaken if the country is to be able to access the next IMF tranche. A catch 22 situation for all the key players - the civilian government, the defence forces, the low to middle income earners and last but not least the industrial and farm sectors required to make life and death sacrifices for an agreement that should have had a more phased implementation period.

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