

IMF conditions: Rs475 bn new taxes to be slapped in next budget

ISLAMABAD: Pakistan requires fiscal adjustments of Rs560 billion through a combination of revenue generation and slashing expenditure to bring primary deficit at 0.6 percent of GDP in the upcoming budget to fulfil the IMF demand.

The International Monetary Fund (IMF) has estimated that Pakistan's primary deficit (excluding interest payment) was projected to stand at 1.9 percent of GDP in the outgoing financial year ending on June 30, 2019. The IMF mission slapped the condition to bring it down at level of 0.6 percent of GDP in the upcoming budget. The overall budget deficit is estimated to remain around Rs2.9 trillion or 7.6 percent of GDP out of which the expenditure on interest payment was projected at Rs2.1 or Rs2.2 trillion in the outgoing fiscal year. The Fund allowed the primary deficit to remain at 0.6 percent and requires adjustment of 1.3 percent of GDP in the next budget.

"We will have to make fiscal adjustments of 1.3 percent of GDP equivalent to Rs560 billion through a combination of revenue generation as well as making efforts to slash expenditure side in the upcoming budget to fulfil the IMF condition," top official sources confirmed to The News here on Monday. Out of total adjustment of 1.3 percent of the GDP, Islamabad makes plan to generate revenues to the tune of 1.1 percent of GDP and slash expenditure by 0.2 percent of GDP through abolishing subsidies and rationalising other expenditure during the next financial year. The government will have to generate revenues to the tune of 1.1 percent of GDP or equivalent to Rs475 billion through upcoming budget 2019-20 while remaining Rs85 billion would be reduced through expenditure cut by eliminating subsidies and slashing down on certain ministries and departments with duplicated functions at the federal level even after enactment of 18th Constitutional Amendment.

The story of fiscal adjustment will not end here alone. As the overall budget deficit that is all set to witness new peaks in the outgoing fiscal year will also be required to bring down in massive manner. "Under the IMF programme, the overall budget deficit will have to bring down in line with the IMF conditions," Dr Waqar Masood, former finance secretary and renowned economist said while talking to The News here on Monday.

He said the fiscal imbalance has gone out of control so efforts would be made under the IMF programme to bring it down to the desired level. However, the sources said the government will have to slap additional taxes in the range of Rs700 billion through combination of withdrawal of tax exemptions and raising the tax rates as well as through innovative thinking to bring more new sectors under the tax net.

"The make or break in terms of implementation of the IMF programme will largely depend upon the performance of the FBR under the new three-year Extended Fund Facility programme" said the official. The next year target of FBR will depend on the projected FBR's collection during the outgoing fiscal year. Without any amnesty, the FBR can collect Rs3,950 billion. With amnesty its collection can be increased to Rs4,100 billion.

The economic managers will have to keep in mind the quarterly reviews before the release of every next tranche under the IMF programme. In case of revenue shortfall, the IMF will ask to come up with mini-budget to meet the revenue collection target because slippages on front of sacrosanct target of curtailing the budget deficit would never be allowed to hike at any cost.