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Deal with IMF must be renegotiated: Dr Pasha

ISLAMABAD: The budget of current fiscal year has gone out of control of the incumbent regime on account of zero growth in revenue and the budget deficit in first nine months has surged to 5 percent of the GDP which hasn't happened in the last 11 years.

If this trend continues, the budget deficit is feared to swell up to Rs2,800 billion (over 7 percent of GDP) by June 30, 2019. This has happened despite a big decline in development spending of 32 percent, with the biggest cut in Punjab by 63 percent.

Still it is high time for Pakistan's economic managers to renegotiate the contours of the forthcoming budget with the IMF as with high interest rates, unpredictable and rising exchange rate, massive proposed additional taxation of Rs700 billion will suffocate the growth process in the economy, eminent economist Professor Dr Hafiz Pasha said while talking to The News.

He said the actions are too front loaded in the programme and will be politically very difficult and exceed the implementation capacity for reforms. He predicted that unemployment and poverty will increase manifold. He said the IMF must realise that it is also in its own interest that a feasible path of reform is followed under which Pakistan can increase its debt repayment capacity, including retirement of the outstanding loan with the IMF. Also, he said, the proposed size of the programme is too small.

However, if the Pakistan government continues to succumb to IMF conditions and prior actions, then the government after every quarter will have to either present mini-budget in case of failure to come up with performance criteria or the Fund programme will get suspended and under this scenario the country will face a severe financing constraint in honouring external debt repayment obligations.

Dr Pasha said the GDP growth of the country stands at 3 percent, but revenue growth remained at standstill in first nine months of the current fiscal year which is enough to raise the eyebrows of many who matter in Pakistan. The amount consumed in debt servicing has increased by 24 percent as it has eaten up the mammoth amount of Rs1.46 trillion in July-March period and the debt servicing expenditures are most likely to further jack up by Rs400-500 billion by June 30, 2019. The same growth rate of 24 percent has been registered in defence expenditure, when the budgeted growth rate for 2018-19 was 7 percent. The increase in defence expenditure, Dr Pasha said, is understandable as Pakistan forces are engaged on both eastern and western borders of the country and more importantly they are also engaged against the militants within the country. However, some voluntary restraint may be possible next year.

The government has placed cut in development budget by 32 percent in the range of Rs350-400 billion, in case the government had not reduced the development budget, the fiscal deficit would have ballooned up to Rs3,200 billion, over 8 percent of the GDP. When the development budget is reduced, thousands of people get unemployed and according to one study when it gets slashed down by Rs100 billion, 90,000 people get unemployed, which means that with a Rs400 billion cut, 360,000 people have been unemployed.

Dr Pasha mentioned that the meagre amount of Rs7.6 billion has been collected through property tax from all over the country in the first nine months and said it is quite unfortunate as in Mumbai, India, Rs100 billion is collected per annum under the head of property tax, and the government can generate Rs50 billion from Lahore and Karachi under this head.

He said the government has also collected less than Rs2 billion so far in the current fiscal year through income tax on agricultural income, which is 20 percent of the GDP. He suggested that this is one of the major areas from where the provincial governments can generate more revenue.

Khalid Mustafa