BUSINESS RECORDER
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23rd May, 2019

Fiscal operations update

Fiscal operation update uploaded on the Ministry of Finance website reveals a dismal economic performance with fiscal deficit widening to 5 percent of Gross Domestic Product (GDP) during the first nine months of 2018-19, the highest during the past 11 years against 4.3 percent in the comparable period the year before. This reflects a major failing of the Finance Ministry in that the focus remained on resolving the balance of payment crisis, which has been temporarily mitigated through borrowing heavily from friendly countries for one year, with no focus on the budget deficit with obvious implications on inflation. Prices are projected to rise further due to the rise in international price of oil and its products, Pakistan's major import item, as well as the decision of the government to support a market-driven exchange rate in compliance of a prior condition of the International Monetary Fund bailout package on which a staff-level agreement has been reached. The rupee has already witnessed a decline in the inter-bank rupee-dollar parity from 141.40 on 15 May to 151.80 on 21 May with no end in sight.

Three disturbing elements of the update data are: (i) given PTI's pre-election rhetoric one would have expected lower reliance on net external financing; however this was not the case as from 524.2 billion rupees in July-March 2017-18 it rose slightly to 524.4 billion rupees. This does not take account of the 10.2 billion dollars borrowed by the government from friendly countries this year, principal and interest, as the amount is due next year - 3 billion dollars each from Saudi Arabia and the United Arab Emirates with one billion dollars yet to be disbursed by the UAE and 4.2 billion dollars from China; (iii) public debt estimated at 111 billion rupees in the first nine months rose to 423.3 billion rupees in the comparable period this year - a rise of 282 percent; and (iii) petroleum levy, a fixed rate of tax, accounted for 136.4 billion rupees July-March 2017-18 and 141.3 billion rupees during the comparable period of this year reflecting Pakistan Tehrik-i-Insaaf (PTI) government's continued reliance on this tax in spite of the party's severe criticism during the PML-N tenure on all taxes on petroleum and its products as being a major contributor to the decline in the quality of life of the lower to middle income earners.

Total revenues as a percentage of GDP declined to 9.3 percent in the first nine months of 2018-19 from 10.4 percent in the comparable period of last fiscal year: tax revenue declined from 8.9 percent last year to 8.2 percent this year and direct tax collections declined from 2.9 percent last fiscal year to 2.6 percent this year. Taxes on international trade rose from 429.8 billion rupees to 507 billion rupees in the first nine months of the current year reflecting a rise to 1.3 percent from 1.2 percent last year as a percentage of GDP.

Total expenditure declined to 14.3 percent from 14.8 in the comparable period of last year with current expenditure rising to 12.5 percent this year against last year's 12.8 percent while development expenditure declined to 1.7 percent from 2.9 percent last year. Defence as a percentage of GDP rose from 1.8 percent to 2 percent. Servicing of foreign debt remained at 0.5 percent of GDP (the 10.2 billion dollars borrowed by the government from friendly countries, principal and interest, is due next year - 3 billion dollars each from Saudi Arabia and the UAE with one billion dollars yet to be disbursed by the UAE and 4.2 billion dollars from China) while domestic debt as a percentage of GDP rose from 3.1 percent last year to 3.3 percent in the first nine months of the current year.

Allocation for social sectors rose marginally during the PTI government's tenure in comparison to the comparable period the year before which may be attributed to lack of resources: July-March 2017-18 social protection received a disbursement of 1.4 billion rupees while this year the allocation rose to 1.59 billion rupees, education rose from 64.5 billion rupees last year to 68.9 billion rupees and health allocation rose from 10.7 billion rupees last year to 11 billion rupees this year.

As long as the government remains committed to meeting IMF's prior conditions followed by harsh, as yet not specified during programme conditions, there is little advice that the government is likely to take.

To conclude, hard times are here though one would disagree with Prime Minister Khan's projection that these would last for no more than a year or two. The IMF package would dampen growth considerably and imports may decline due to the adoption of market-based exchange rate; however, exports are unlikely to rise with all special incentives to be withdrawn as per the IMF staff-level agreement.

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