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Editorial

Public debt swells

According to a Business Recorder exclusive sourced to a senior official in the Ministry of Finance, borrowing to finance the fiscal deficit and the rupee depreciation against the dollar would massively increase Pakistan's total public debt during the remaining four-year tenure of the Khan administration. The actual projected addition is being estimated at 4.2 trillion rupees – 3.17 trillion rupees on account of financing the fiscal deficit and another one trillion rupees due to the rupee depreciation.

Total debt stock is projected to rise to 35 trillion rupees in 2020 from 31 trillion rupees in 2018-19. Next fiscal year, the government would require an additional 3.3 trillion rupees - 2.6 trillion rupees to finance the fiscal deficit (a figure that is based on overoptimistic estimates if past precedence is anything to go by) with 717 billion rupees for rupee depreciation and given the penchant of the Governor State Bank of Pakistan (SBP) to over-correct and support an undervalued rupee, this figure too may be higher than is being estimated. Disturbingly, the impact of a discount rate rise, at present it is an untenable 13.25 percent, has not been factored in by the Ministry officials however one would assume that its impact on government debt is significant. Projections by the Ministry of Finance indicate that by 2024 the rise in public debt would be around 10.2 trillion rupees, and total debt stock would rise to 45.57 trillion rupees.

Total debt stock in August 2018 when the PTI government took over power was 24 trillion rupees as per the SBP website, while it rose to 31.7 trillion rupees by August 2019 – a rise of 30 percent in one year alone. Part of the reason for this rise can be attributed to the flawed policies of the previous administration given that the primary deficit, which excludes interest payments, increased to 2.1 percent in 2017-18 from 1.5 percent in 2016-17, "indicating a much faster increase in non-interest expenditure compared to revenue" as per the Economic Survey 2018-19. However, unfortunately, the trend of a rising primary deficit continued during the remaining period of 2018-19, which, no doubt, was the reason behind IMF's stipulation to contain it to 0.6 percent in the current year as a "prior" condition.

Budget deficit of 8.9 percent of GDP, as per the revised estimates released in August 2019, is 1.7 percentage points higher than what was the basis of the negotiations with the International Monetary Fund (12 May 2019) and projected in the budget documents (7 June 2019). In rupee terms, the budget documents inaccurately projected total revenue (tax and non-tax) at 5 trillion rupees for 2018-19 while the August revised figures indicate collections were 4.4 trillion rupees; expenditure was budgeted at 8.2 trillion rupees last fiscal year against the August figure of 8.3 trillion rupees. In other words, with a change in the base line data, debt as estimated for the year past, is higher than envisaged and its fallout this year would be to put further pressure on the government to raise the budgeted revenue and/or reduce the budgeted expenditure to contain the budgeted deficit at 7.2 percent.

There is therefore a need for the government to revisit its expenditure priorities particularly current expenditure which would lower reliance on tax revenue that is eroding the value of each rupee faster than the attempt by the SBP to tighten monetary policy to deal with inflation. Pays have not risen in the private sector while sustained heavy reliance on indirect taxes as a source of revenue, whose incidence is greater on the poor than on rich, as well as retrenchments in the industrial sector due to a contraction in productivity are pushing increasing numbers into poverty.