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Editorial

In defence of economic roadmap

Advisor to the Prime Minister on Finance Hafeez Sheikh in yet another press briefing designed to ease growing public concerns on the steady loss of purchasing power of the rupee and a scaling down of output in the private sector leading to unemployment in several large, medium and small enterprises, stated that the fiscal deficit has been reduced by 36 percent during the first quarter of the ongoing fiscal year in comparison to the year before (due mainly to zero disbursements under supplementary grants) and the trade deficit has narrowed by 35 percent (due to import compression as the rupee's value eroded subsequent to the adoption of a market-based exchange rate regimen). He then projected 400 billion rupees more as non-tax revenue from the 1.2 trillion rupee that was budgeted.

This is indeed doable given his earlier statements in which he astutely denied the possibility of a mini-budget as the budgeted revenue target was clearly unrealistic to start off with (during the first quarter, the shortfall has been around 110 billion rupees) and focused on a projected rise in non-tax revenue. He also referred to the rupee having stabilised at around 156 to the dollar implying thereby that the productive sectors may recommence imports of raw material and semi-finished products thereby restarting the wheels of industry. A new policy for small and medium enterprises would be unleashed in two months, he added, which would also fuel productivity.

The question that arises is whether this narrative has any traction in reality? First off it is relevant to note that Hafeez Sheikh focused on achievements in the current year that are not independently verifiable particularly his claim that no supplementary grants were disbursed during the first three months of the current year. Be that as it may, if one assumes that this is indeed correct then it is relevant to note that the first quarter's data he presented was a comparison with the year before rather than from what he budgeted, raising the distinct prospect of a comparison between apples and oranges as last year the country was not on an IMF programme and therefore relied heavily on borrowing from the SBP.

Sheikh's claims with respect to projections of higher non-tax revenue than budgeted may require a revisit: (i) an additional 200 billion rupees as SBP profit gives the total projected at an unrealistic 606 billion rupees this year. It may be recalled that during 2013-14, the first year of the IMF programme with the condition of zero borrowing from the SBP, profit was 260 billion rupees, and it is extremely doubtful that the already unrealistic budgeted target of 406 billion rupees would be enhanced to 606 billion rupees by the end of the year; (ii) 300 billion rupees from sale of LNG plants which is doable; (iii) 250 billion rupees instead of the budgeted 216 billion rupees from petroleum development levy. Ishaq Dar placed petroleum development levy under the 'other taxes' head instead of as non-tax revenue – a practice followed in the current year's budget. Thus if Sheikh's claim is that an additional 34 billion rupees would be generated from this source as non-tax revenue during the current year in comparison to the budget documents then he needs to relocate this item to non-tax revenue; it is unclear whether he implied an additional 250 billion rupees from this source from what was budgeted in which case the Prime Minister must be informed as this revenue item has major economic implications on the pocket book of the poor much more than on the rich; (iv) 338 billion rupees from telecom sector (which was budgeted at a paltry 1 billion dollars) and which maybe doable; and (v) 120 billion rupees additional from dividends – a target that would appear to be unrealistic given the poor state of health of all state-owned entities at least in the current year.

There is a need for the government to revisit its math with respect to additional non-tax revenue that it hopes to generate in the current year. This is all the more critical as the budget deficit for last year was upped to 8.9 percent instead of the budgeted 7.2 percent and in the event that the IMF remains inflexible about changing the deficit target of 7.2 percent for this year, the government would need to do a lot more than rely on projections that are unrealistic to say the least.

There is, therefore, a need for the economic decision-makers to engage in out-of-the-box thinking – and sadly for Pakistan that implies a cut in current expenditure, which is not evident in budget documents or any other documents that have been publicly shared, and a more focused development expenditure for the first year of the IMF programme at least – for social or physical infrastructure development, a tough choice as the much-needed support for social development would further reduce the already low growth rate of 2.4 percent, further impacting negatively on tax revenues and on the China Pakistan Economic Corridor.