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Fiscal health deteriorating sharply, half-year data shows

ISLAMABAD: Pakistan's fiscal deficit crossed 2.7 per cent of gross domestic product (GDP) in the first half of this fiscal year – the highest in eight years – despite government's claims to have put the house in order with greater fiscal discipline and austerity.

Almost all the major fiscal indicators – both on expenditure and revenue side – showed deterioration in first half of the current fiscal year when compared to same period of last year.

According to fiscal operations data released by the Ministry of Finance on Wednesday, the fiscal deficit in absolute terms amounted to Rs1.029 trillion in first half (July-December 2018) that was almost 30pc higher than same period of last year – the pre-election spending session of PML-N.

For its part, the PTI government slashed development spending and net lending by a massive 36pc to rein in runaway spending in mark up payments and defence, posting an increase of 32pc and 22pc respectively.

The country has never posted such a higher fiscal deficit since 2010-11 when the gap between the government revenues and expenditure stood at 2.9pc of GDP or Rs490 billion in absolute terms. Nevertheless, the country's fiscal deficit had stood 2.6pc in 2012-13 and 2.5pc twice in 2011-12 and 2016-17.

While defence expenditure went up, spending on the Public Sector Development Programme was reduced by 37pc

The Ministry of Finance reported that defence expenditure and mark up payments also posted an upward journey as share of the size of the national economy (GDP), leaving little space for the government to spend on improvements in the living standards of the people in the form of infrastructure development and social sector spending.

Data showed the total mark up payments amounted to Rs877bn in first six months of the current fiscal year compared to Rs751bn of same period of last year, showing an increase of Rs126bn or 32pc. As percentage of GDP, mark up consumed 2.3pc compared to 2.1pc of GDP the same period last year.

The defence expenditure in first six months of current year stood at Rs479.6bn compared to Rs393bn of same period last year, showing a jump of 22pc or Rs87bn. Its share in GDP also inched up to 1.2pc this year against 1.1pc of GDP same period last year.

Unfortunately this led to a cut back in the Public Sector Development Programme (PSDP). The PSDP spending in first half of this year plummeted to Rs328bn compared to Rs520bn of same period last year, showing a reduction of 37pc or about Rs192bn. This is also evident from the fact that overall development spending and net lending dropped to a paltry 1pc of GDP compared to 1.6pc of GDP of last year.

The total expenditure in first half of CFY amounted to Rs3.36tr against Rs3.18tr of comparable period last year, showing an increase of 5.5pc. The trade off in spending between non-productive and productive sectors of economy helped contain FY19 total expenditure at 8.7pc of GDP compared to 8.9pc in FY18.

The current expenditure, however, remained out of control. For example, current expenditure in FY19 stood at Rs2.98tr compared to Rs2.55tr of FY18, showing an increase of Rs44bn or about 18pc. The current expenditure stood at 7.8pc of GDP during CFY, significantly higher than 7.1pc of GDP last year.

On the other hand, total revenue collection dropped to just 6.1pc of GDP in first half of current year compared to 6.6pc of GDP last fiscal. Tax revenue was also down to 5.4pc of GDP this year compared to 5.6pc of last year. The performance of non-tax revenue was no exception that stood at 0.6pc of GDP in first half of CFY compared to 1pc of GDP same period last year.

The revenue performance in absolute terms was no better either. For example, total revenue collection stood at Rs2.33tr in first half of current year compared to Rs2.38tr of last year, showing a reduction of Rs58bn or 2.43pc. This is perhaps a rare phenomenon that revenue collection has ever been lower than previous year.

Tax revenue amounted to Rs2.08tr in first half of current year compared to Rs2.03tr, showing a nominal increase of Rs55bn or 2.71pc. Normally, the tax revenue should increase every year at the cumulative rate of inflation and economic growth rate. That means the tax revenue should have automatically increased by at least 11pc (over 4pc GDP plus over 7pc inflation).

Direct taxes also dropped to 1.8pc of GDP during CFY against 1.9pc of same time last year. Taxes on goods and properties also declined to 2.1pc of GDP compared to 2.2pc. The share of sales tax also dropped to 1.8pc of GDP from 1.9pc last year.

Non-tax revenue also dropped to Rs245bn in first six months compared to Rs358bn of same period last year, down by a massive Rs113bn or 32pc. Both the federal and provincial revenues contributed to poor tax revenue performance. Provincial revenue slightly increased in absolute terms to Rs188bn this year against Rs176bn of last year while federal revenue inched up to Rs1.89tr compared to Rs1.85tr of same period last year.

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