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Govt restricts budget deficit to Rs3.4tr

ISLAMABAD: The Pakistan Tehreek-e-Insaf (PTI) government has managed to restrict overall budget deficit to below Rs3.4 trillion or 8.1% of the size of the economy in its second year in power due to steep cuts in expenditures and provincial cash surpluses.

The budget deficit of 8.1% of the gross domestic product (GDP) was far better than the International Monetary Fund's (IMF) forecast of Rs3.9 trillion or 9.2% of the GDP and independent assessments of close to 10% due to adverse impacts of the deadly coronavirus on the economy.

It cut the federal development expenditures by one-third or Rs233 billion to contain the deficit, far steeper than the IMF's assessment and expectations of Federal Minister for Planning and Development Asad Umar.

However, the budget deficit exceeded the original target of 7.1% of the GDP, which the National Assembly had approved last year for fiscal year 2019-20 that ended on June 30.

The statistics of the Ministry of Finance showed that the deficit was Rs3.376 trillion or 8.1% of the GDP in fiscal year 2019-20.

The primary deficit – total revenues minus interest payments – also beat the IMF forecast and stood at Rs757 billion or 1.8% of the GDP. The IMF had expected the primary deficit equal to 2.7% of the GDP.

The deficit – gap between expenditures and revenues – was also lower than the one recorded in the first year of the PTI government, both in absolute terms and size of the economy. In fiscal year 2018-19, the public finances had deteriorated further with budget deficit rising to a record Rs3.45 trillion or 8.9% of the GDP because of the government's sheer failure in enhancing revenues and controlling expenditures.

The lower the deficit is, the lesser are the borrowings for budget deficit financing.

Although the government, due to steep cuts in provincial cash surpluses and development expenditures, has managed to contain the deficit, it needs to put its house in order to improve tax collection.

A deeper look at the numbers suggests that when compared with the original targets set in June last year, the government contained the expenditures by Rs422 billion but its total revenues fell short of the target by Rs961 billion despite better performance of non-tax revenues and other taxes.

But these numbers were far better than the IMF projections that it made in its April report, except tax collection by the Federal Board of Revenue that was disappointing to the least.

During fiscal year 2019-20, overall expenditures of the federal and provincial governments stood at Rs9.65 trillion – lower by Rs188 billion when compared with the IMF's post Covid-19 projections.

Compared with that, total revenues of the federal and all provincial governments stood at Rs6.3 trillion – Rs352 billion higher than the IMF's post coronavirus assessment.

The troubling factor was a steep reduction in tax revenues. The FBR's tax revenues that stood at 9.9% of the GDP in the first year of the PTI government, dropped to 9.6% in the second year. The main reason was the FBR's failure to achieve its Rs5.5 trillion annual tax collection target. The FBR's collection stood at Rs3.998 trillion – Rs242 billion less than even the IMF's post Covid-19 projection.

The federal government's non-tax revenues jumped to Rs1.42 trillion against the IMF's revised assessment of Rs1.2 trillion. The key factor was the surplus profits generated by the State Bank of Pakistan due to additional money that it is earning on reprofiling of the government's debt.

Total expenditures of the federal government stood at Rs6.6 trillion as against the budgetary estimates of slightly over Rs7 trillion and the IMF's revised estimates of Rs6.8 trillion.

The government tried to offset the shortfall in revenues by massively scaling back core development and other development spending. Against the budgeted Public Sector Development

Programme (PSDP) of Rs701 billion, the actual PSDP spending stood at only Rs467.7 billion.

The current spending in the last fiscal year was Rs6 trillion as against the IMF's estimates of Rs6.2 trillion. The cost of debt servicing stood at Rs2.6 trillion due to cut in the interest rates in the last quarter.

The primary deficit – calculated after adjusting debt payments against revenues – also stood at Rs757 billion or 1.8% of the GDP. It was also far better than the IMF's revised projection of 2.7% of the GDP. But the budget target was 0.4%, which was missed due to steep shortfall in revenues.

Prime Minister Imran Khan had announced Rs1.2 trillion Covid-19 relief package but the actual spending was far lower than even the figures earlier reported. This also helped restricting the budget deficit.

For the new fiscal year, the government has set the budget deficit target at Rs3.2 trillion or 7% of the GDP on the basis of Rs4.963 trillion tax collection target. Finance Adviser Dr Abdul Hafeez Shaikh termed the target unrealistic in his post-budget press conference.