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By Our Correspondent

PSDP cut as Covid-19 eats up resources

ISLAMABAD: With the deteriorating economic situation in the country in the backdrop of Covid-19 pandemic, the government has proposed its development programme at Rs650 billion, down 7.27% from the budget estimate of Rs701 billion for FY20.

One major reason for the reduction is the Federal Board of Revenue's (FBR) failure to meet the tax collection target.

The allocation for development work by the federal government also raises questions about fiscal prudence. Despite a lack of resources, it has planned to initiate 296 new projects in the next fiscal year with allocation of 26.6% of the total federal Public Sector Development Programme (PSDP) of Rs650 billion.

In total, 994 schemes have been included in the PSDP with a total cost of Rs8.2 trillion. The government needs Rs5.7 trillion to complete these schemes. Some 698 ongoing projects have been made part of the PSDP and Rs477 billion has been allocated for their completion. For the 296 new projects, Rs173 billion or 26.6% of the proposed budget has been earmarked.

Meanwhile, an overall allocation of Rs1.32 trillion has been made for development projects under the PSDP for FY21, which accounts for 2.9% of the gross domestic product (GDP) compared to Rs1.61 trillion for outgoing year 2019-20.

For the national development budget, the government will borrow Rs222 billion from foreign lenders, which is Rs350 billion or one-fifth lower than the original allocation for the outgoing fiscal year. The federal PSDP spending is expected to remain at Rs530 billion in the current fiscal year, which is Rs171 billion or 25% less than the original target. One key reason for the lower spending is the coronavirus-fuelled partial lockdown in the country. The FBR's inability to achieve the revenue target is also a factor behind the shortfall in spending.

The combined development budget for the four provinces is estimated at Rs674 billion, 30% less than the outgoing fiscal year's allocation of Rs912 billion.

The federal and provincial governments' decision to slash the development budget by around one-fifth indicates the fiscal challenges the government is facing in its efforts to revive the stalled International Monetary Fund (IMF) loan programme.

The IMF has so far not agreed to allow Pakistan to announce a major fiscal stimulus in the next fiscal year due to unsustainable public debt levels. The IMF has proposed 0.4% of GDP as the primary deficit target, excluding interest payments.

This leaves no room for the federal and provincial governments to announce big development schemes.

Against the budgeted Rs1.6-trillion development outlay in the outgoing fiscal year, actual spending is now estimated at less than Rs1.1 trillion. The difference between approved and actual spending is around Rs500 billion.

PSDP breakdown

Of the federal PSDP of Rs650 billion for FY21, Rs418.7 billion has been earmarked for federal ministries/divisions, up 20.2% over the budget estimate of Rs348.2 billion for the ongoing financial year.

An amount of Rs158.3 billion has been allocated for corporations, which is lower by 19.94% compared to Rs197.8 billion for the outgoing year. Apart from this, Rs3 billion has been allocated for the Earthquake Reconstruction and Rehabilitation Authority (Erra) and Rs70 billion for the Covid-19 responsive and other natural calamities programme.

The budget for the National Health Services Division has been slightly increased to Rs14.5 billion against Rs13.4 billion in the outgoing fiscal year. The Higher Education Commission has been earmarked Rs29.5 billion, slightly above Rs29 billion in the outgoing year.

An amount of Rs5 billion has been allocated for the Climate Change Division, down from Rs7.6 billion. The National Food Security and Research Division will receive Rs12 billion.

For special areas like Azad Jammu and Kashmir (AJK), merged districts of erstwhile Federally Administered Tribal Areas (Fata) and Gilgit-Baltistan, Rs100.5 billion has been allocated. Out of this, Rs48 billion has been set aside for the merged districts of Fata. The Finance Division will be provided Rs18.7 billion compared to Rs36.8 billion in the ongoing financial year.

The Railways Division budget has been increased to Rs24 billion against Rs16 billion for the ongoing year, which includes Rs6 billion for the Mainline (ML)-I project.

The Water Resources Division will be given Rs81.3 billion, down from Rs85 billion this year while the Industries Division will get Rs800 million. The National Highway Authority's budget has been cut to Rs118.7 billion as against allocation of Rs155.9 billion in the current fiscal year.