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- EDITORIALS

Elevated fiscal Imbalance

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It is very depressing to know that fiscal deficit of the country is expected to be much larger than the target fixed for FY18. According to a news item in this newspaper, sources in the Finance Ministry have indicated that it would be an achievement if the fiscal deficit was contained at 7.0 percent of GDP during 2017-18. This was due to the likely shortfall in the tax revenues, inability of the provincial governments to provide projected budget surpluses and the decisions taken by the Abbasi-led administration which had already pushed up the budget deficit to 6.1 percent of GDP by the second week of June, 2018. It was also confirmed that SBP and AGP were instructed not to clear government cheques and the honorarium announced by the government for its employees was not paid to contain the budget deficit. FBR had also informed in a meeting that revenue collection in FY18 would not exceed Rs 3800 billion as against the target of Rs 4013 billion set in the budget which was consequently revised downwards to Rs 3935 billion. A considerable shortfall in non-tax revenues was also expected.

A huge shortfall in revenue collection had necessitated a cut in PSDP to partly offset the impact of low revenue collection. The government had released Rs 752.15 billion (75.14 percent) including Rs 182 billion of foreign aid for development projects so far against total budgeted allocations of Rs 1001 billion. According to latest data, the government released Rs 186.35 billion (61.74 percent of total budgeted amount for the federal ministries) for development projects of various kinds against the total budget allocation of Rs 301.83 billion. Development allocations were not released for Special Provision for completion of CPEC projects and Gas Infrastructure Development Cess as well as Foreign Affairs Division and National Security Division. Railways Division received Rs 19.38 billion out of its total budgeted allocation of Rs 42.9 billion while Rs 34 billion were released for Water and Power Division against the budgeted allocation of Rs 36.75 billion for FY18.

Although the actual picture of the fiscal situation for FY18 will become clear by the end of August when the consolidated budgetary operations (Federal & provincial) will be finalised, the early indications point towards an unsustainable budget deficit of 7 to 8 percent of GDP. To delay the clearance of cheques or reluctance to meet other obligations in time is not the solution but the postponing of a problem. If such a practice is continued over the years, it does not even make any difference on the overall situation. Another practice continued over the years is a drastic cut in development expenditures to show a reduction in the budget deficit. This leads to crumbling/infrastructure and undermines the growth prospects of the economy. Rampant corruption in development expenditures is another sad story. So far as receipts are concerned, if we exclude the receipts under the tax amnesty scheme, the growth in tax collection is only 10 percent which shows a poor elasticity of tax receipts and lack of concrete efforts by the FBR to mobilise higher revenues. The non-tax revenues, most notably GIDC, were also significantly short of the target. It may be mentioned that projected budget surplus of Rs 347 billion from the provinces is also highly unlikely. Provincial surpluses were critical to achieving the target as vast powers were given to the provinces under the 18th Constitutional Amendment to raise revenues of their own besides a sizeable shift of resources from the centre to the provinces. Indications are that provinces will again end up with a deficit during 2017-18, raising the overall deficit of the country. It may also be mentioned that contingent liabilities and circular debt have not been added to the calculations which may have to be paid by the government. Overall, the fiscal position of the country is highly risky and could fuel inflationary pressures, crowd out private sector credit, undermine the prospects of economy, have a negative impact on the external sector, force the authorities to tighten monetary policy and go for another round of depreciation of rupee.

The sad aspect is that no political party is thinking about tax reforms or withdrawal of tax exemptions and concessions to set matters right. Budgets for both FY18 and FY19 were very soft because the elections were very near and the PML(N) government wanted to appear poor friendly and pro-business. It even delayed the depreciation of the rupee for a considerably long period. The caretaker government is here only for few weeks and does not have the mandate to take very harsh measures. All eyes will be on the post-election government which may or may not choose to swallow the bitter pill.