INTERNATIONAL THE NEWS

To rein in runaway budget deficit: Govt slashes development spending

Page No.01 ColNo.03

ISLAMABAD: Ahead of talks next week with a visiting International Monetary Fund team, the new government yesterday presented a revised budget for the fiscal year (FY) 2018-19 to the National Assembly for approval.

With a prospective application to the IMF for a balance of payments support programme looming large, the mini-budget envisaged fiscal adjustments of more than Rs800 billion, or 2.1 percent of gross domestic product (GDP).

The sizeable reduction cascaded into a projected budget deficit of Rs1,979 billion, the equivalent of 5.1 percent of GDP, down from the 7.2 percent forecast in the budget approved in May. This would be achieved by slashing development expenditure, raising tax rates for high income earners, and making imported products more expensive.

According to the revised budgetary document for FY2018-19 released yesterday by the Ministry of Finance, the targeted budget deficit was revised upward from 4.9 percent of GDP to 5.1 percent. Total estimated expenditure would stand at Rs5,309 billion, including current expenditure of Rs4,413 billion.

Domestic and external debt servicing would remain the largest drain on current expenditure, following its upward revision from Rs1,620 billion to Rs1,842 billion. This is due largely to the steep depreciation of the rupee against the US dollar this year.

Defence has retained its position as the second biggest expenditure at Rs1,100 billion. Development spending ranks third, despite being cut from Rs1,088 billion to Rs898 billion. This includes a reduction of the federal Public Sector Development Programme (PSDP) from Rs800 billion to Rs575 billion. The overall financial allocation for the PSDP totaled Rs725 billion, with Rs575 billion included in the revised budget.

Other major outflows include: grants and transfers of Rs469 billion; Rs460 billion to fund civil government operations; Rs367 billion for pensions and subsidies totaling Rs175 billion. A modest gain in revenue collection, from Rs5,246 billion from Rs5,309 billion, was been forecast, reflecting the government's inability to introduce radical reforms so soon after assuming power. The Pakistan Tehreek-i-Insaf (PTI) has vowed to dramatically increase tax collection to Rs8,000 billion during its five-year term.

The FY2018-19 tax collection target of the Federal Board of Revenue was revised downward to Rs4,398 billion from Rs4,435 billion. The target for other taxes was also reduced, from Rs454 billion to Rs322 billion.

However, the non-tax revenue target was increased from Rs772 billion to Rs893 billion. The forecast for net revenue receipts was maintained at Rs3,070 billion, after taking into account the budgetary share of the provinces under the National Finance Commission (NFC) Award.

Total expenditure was projected at Rs5,309 billion, including Rs1,979 billion for the provinces under the NFC Award. Out of the total gross revenue receipts of Rs5,661 billion, the provinces' estimated share would fall slightly to Rs2,569 billion, from the previous target of Rs2,590 billion.

Another key aspect of the revised Finance Bill is the projected revenue surplus of Rs286 billion. Asad Umar had been a harsh critic of the budget's formulation on the basis of false assumptions by the outgoing Pakistan Muslim League-Nawaz (PML-N) administration, and pinpointed this as an example of it in May.

However, it was not changed in the mini-budget presented by him yesterday. The budget deficit would increase by 0.8 percent of GDP if this projected revenue surplus were to be excluded.

To finance the budget deficit of Rs1,979 billion, the government intends to borrow Rs1,072 billion from domestic banks and Rs374 billion from overseas financial institutions and markets. The deficit would also be plugged with a Rs286 billion revenue surplus from the provinces and capital receipts of Rs533 billion.

Briefing reporters at the Parliament House after delivering his mini-budget speech to the National Assembly, Minister for Finance Asad Umar renewed his criticism of the previous government.

The PML-N had formulated the budget for FY2018-19 on the basis of false assessments worth Rs900 billion. Tax revenues were over-estimated by Rs350 billion, while expenditure was under-estimated by some Rs250 billion, Asad claimed.

He said the projected revenue surplus of Rs286 billion -- still included in the mini-budget -- was unrealistic because three of the four provinces had recorded budgetary deficits in FY2017-18. Khyber Pakhtunkhwa was the only province to generate a surplus, he said.

The finance minister said the country was faced with internal and external imbalances. They prompted the last government to borrow a record Rs1,200 billion from the State Bank of Pakistan in FY2017-18 -- double the previous record for any fiscal year.

Asad said external debt had risen to $95 billion, but foreign exchange reserves were depleting at an alarming pace. The current account deficit was projected in the range of $18-$21 billion for the current fiscal year, he said.