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The budget 2019-20

An extremely harsh 2019-20 budget is the general expectation based on the 'prior' International Monetary Fund (IMF) condition to bring the primary deficit to 0.6 percent of Gross Domestic Product (GDP) from the current 1.9 claimed by the government (2.1 percent by independent economists) that would require massive escalation in revenue collection and a significant decline in expenditure.

What can one expect from the budget documents? A meticulous, though not realistic, adherence to the IMF's prior condition - an assessment based on the revenue and expenditure targets already announced by Hafeez Sheikh, the Advisor to the Prime Minister on Finance.

Sheikh has set a tax revenue target of 5.5 trillion rupees, around 39 percent higher than what was achieved in the current year. Chairman FBR Shabbar Zaidi has yet to express an inability of the system to generate this amount though career FBR officials have informed the Business Recorder that a maximum of one trillion rupees additional revenue can be squeezed out of the poorly performing economy in 2019-20. However this amount too is an over optimistic estimate as: (i) it is based on a projected GDP growth rate of 4 percent for next year while a more realistic growth estimate is 2.7 percent after the FBR's proposed fiscal tightening measures, coupled with a contractionary monetary policy, that would dampen productive activity further. In other words, the 350 to 400 billion rupees under this head could well be no more than 250 billion rupees at best; (ii) administrative measures to generate 250 billion rupees next year would depend on Shabbar Zaidi proceeding against the non filers however as the previous two administrations learnt to their cost more than 80 to 90 percent of those considered eligible for filing their returns, from Nadra/bills including data gleaned from electricity bills, were actually not eligible at all as per our laws; and (iii) the increase in sales tax by one percent would generate a whopping 100 billion rupees but that constitutes less than 10 percent of the total revenue target and this tax would further erode the value of each rupee earned with serious socio-economic as well as possibly political implications.

Development expenditure has been earmarked at 675 billion rupees by the Planning Ministry and, according to credible reports, around 100 billion rupees (15 percent of the total) has been earmarked for the Prime Minister's social sector programmes. While projects under China Pakistan Economic Corridor would be prioritized yet GDP growth may be further dampened as empirical studies show that allocations for social as opposed to infrastructure development have a lower beneficial impact on growth. This is not to minimize the need for greater social sector allocations but to emphasize that given the state of the economy perhaps a better option would have been to defer some of these programmes till 2020-21.

Debt servicing was budgeted to account for around 46 percent of total current expenditure in April 2018 budget for the current year; however the budgeted allocation at the start of a fiscal year is based on an assumption of the average rupee dollar parity for the year. With Pakistan on a market based exchange rate (an IMF prior condition post 12 May 2019) the allocation for debt servicing for the current year would be at least 600 billion rupees, if not more, higher than budgeted by the end of June this year. In other words, the projected mark up for debt in the current year would be at least 2.24 trillion rupees (instead of the budgeted 1.620 trillion rupees). The revised estimates for the

current year would be available in the budget documents. And Sheikh may well under-estimate the rupee erosion in his budget documents not only for the current but also for next year.

The Chief of Army Staff has announced that the military has voluntarily accepted the same allocation as in the current year, an announcement that has eased concerns about the axe falling on development expenditure as in the past (another component of the IMF staff level agreement). Defense was budgeted 1.1 trillion rupees in the current year and the PTI government increased allocation by 20 percent or around 220 billion rupees. In other words, next year's budget would allocate 1.32 trillion rupees for defense (not including pensions). However if the rate of inflation is taken into account defense allocation would decline in real terms next year. Sadly there has been no commensurate statement of a voluntary reduction in allocation by the civilian administration accounting for around 10 percent of total current expenditure allocation in the current year. Thus a mini-budget is well on the cards as and when the unrealistic revenue generation capacity is not met and the expenditure cut not sufficient to meet a primary deficit of 0.6 percent of GDP particularly after the first quarterly IMF staff review subsequent to programme approval by the IMF Board of Directors.

In this context it is relevant to note that Dr Hafeez Sheikh has never shied away from mini-budgets if the revenue target was not met and expenditure was higher than budgeted - in March 2011 a 120 billion rupee mini budget was announced through a presidential ordinance after Sheikh failed to secure support from parliament for his reformed general sales tax. This included 53 billion rupees additional taxes on income, imports and domestic sale of export oriented products and the rest from cutting development expenditure, banning fresh recruitments and reduction in non salary expenditures (though not defence). And again in October 2011 a 40 billion rupee mini-budget was tabled in the Senate envisaging higher taxes based on ease of collection notably on petroleum and gas. The harshness of next year's budget is unlikely to deflect Sheikh from profusely praising Prime Minister Imran Khan, perhaps focusing on his commitment to poverty alleviation programme and social sector development though he would have no qualms about disassociating himself from these statements later. In his 2010-11 budget speech Dr Hafeez Sheikh stated: "I must...congratulate President Asif Ali Zardari for his leadership in making the passage of the eighteenth amendment possible. Let us also celebrate that Pakistan has again found collective solutions on key outstanding issues like the seventh NFC award, the granting of provincial rights and the abolition of the concurrent list." On 12 May 2019 Sheikh agreed with the IMF staff mission as noted in the Fund's press release "to improve fiscal management the authorities will engage provincial governments on exploring options to rebalance current arrangements in the context of the National Finance Commission." When queried by Business Recorder Sheikh denied that the NFC award would be renegotiated - not that he would be able to, as the constitution does not allow for a reduction in the share of the provinces in each subsequent award Article 160 [(3A).

Dr Sheikh repeatedly paid tribute to President Asif Ali Zardari and in his June 2012 budget speech he noted that 'above all we must recognize the wisdom and sagacity demonstrated by President Asif Ali Zardari in leading the country in this transition' towards democracy but while attending the spring World Bank/IMF annual meeting Dr Sheikh accused parliament of being the biggest obstacle in the way of government achieving fiscal reforms.

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