

# Policy Analysis

Dr Abid Qaiyum Suleri

## Revitalizing economy by balancing defence & development

### Budget 2017-18 in political perspective

Prime Minister Nawaz Sharif made a record by becoming the first democratically-elected premier who has presented the fifth consecutive budget in a single tenure in the 70-year history of Pakistan. Although Pakistan People's Party government also completed its five-year term, they had two prime ministers in that tenure.

There were a lot of expectations from amongst the people as well as pressure within the party in the run-up to the election that the federal budget 2017-18 would be an election-friendly budget. After all this were to be the first independent budget presented by the PML-N government. The initial four budgets were prepared under the International Monetary Fund (IMF) program. Therefore, in those four budgets, the conditions imposed by the IMF framework took priority in the budget-making process.

The PML-N government had to use its newly-found financial autonomy (after the successful completion of IMF program) in a situation where the economy is stable compared to 2013, but still far from being sustainable.

Contributing to the lack of sustainability in the economy are: a) Trade imbalance hitting a historical low, b) Sharply falling remittances, c) Fiscal deficit (which for the first four years was slightly under control compared to 2013 but is again sliding up), d) Current account deficit (the budgeted target for 2016-17 got missed and is already doubled), and e) Prices of petroleum product in the international market, which are on the rise. The finance minister is wary of the situation.

In this context, a government that is in doubt regarding re-election will give a popular or election-oriented budget and go on a spending spree. If the popular budget gets them the votes, it will be a win-win situation, but if it does not, the successor government will be facing the brunt. Looking at the current political scenario, the PML-N seems confident that it will be able to retain the current status quo, if not better. Although they could not make governments in Sindh and Khyber Pakhtunkhwa (KPK), they are still confident that they will be able to come back in the center. This is the prime reason that the budget is not as election friendly as was expected. Rather, it is a business as usual and is prepared following the template used by the earlier governments.



## 4Ds -The major expenditures

In this template, fiscal deficit is taken as an entry point. Successive governments have been trying to meet this deficit by inflating the revenues and deflating the expenditures. They rely on indirect taxes as a major source of revenue. Increasingly, major expenditures can be categorized into 4Ds:

1. Debt Servicing
2. Defence
3. Day-to-day Administration
4. Development

Likewise, this time too, the net federal revenue would be barely sufficient to meet the first two “Ds” and the rest of the expenditures would be met through borrowing and external assistance.

This time the net federal revenue is budgeted as Rs2926 billion. The debt servicing is budgeted to be Rs1363 billion, and defence will be Rs920 billion. The remaining amount, i.e. Rs643 billion is what the federal government is left with to take care of the third and the fourth D. The third D includes the running of the civil government, whole federal administration, pensions, subsidies, grants, direct allocation, etc. Whereas the fourth D is PSDP, which amounts to Rs1 trillion.

As it is presented in the budget, the difference between revenue and expenditure is almost Rs1900 billion (Rs1826.8 billion to be precise). To remain within the budgeted fiscal deficit of 4.1% of GDP, the deficit should not exceed Rs1479.6 billion. Thus a provision is made for the provincial surplus to the tune of Rs347.3 billion. The 4.1% of GDP fiscal deficit would be met through external loans and domestic financing.



## Budgetary constraints

Since the government is confident to win next general elections and knows that it would have to deal with any financial mess that it creates now, so it sticks to a prudent approach. However, my concern is that the fiscal deficit will cross the budgeted target. The budgeted power sector subsidies (to WAPDA/PEPCO/KESC) amount to Rs117 billion. There is no provision for circular debt, which stands at Rs414 billion as of today. Moreover, there is neither a provision for fertilizer subsidy, nor for the refunds of exporters from FBR. In the best case scenario, these unaccounted expenditures would add up to another 2 percentage points of the GDP (Around Rs600 billion) to the fiscal deficit.

On top of it, despite the finance minister's prudent approach of the finance minister, the prime minister and his colleagues would announce development schemes and electoral packages, which will add further burden to the economy. So, we expect the fiscal deficit to touch around 6.5% of GDP by the end of 2018 if the petroleum prices remain the same. Any further slip on fiscal deficit, and going back to IMF in FY2018-19 would become unavoidable. Investment coming from China-Pakistan Economic Corridor (CPEC) may ease up the situation a bit.

## Pro-farm measures

Despite the above-mentioned constraints, there are some positive points in the budget too. Among those, budgetary measures on agriculture are worth mentioning here. Having ignored agriculture in the initial three years, the government has realized its importance, not only for GDP but also for the next elections. PML-N is hoping to spend on agriculture and get votes from rural areas of the Punjab thus compensating for PTI's growing influence in the urban centers.



In case of fertilizer, popular demand is that the General Sales Tax (GST) on fertilizer, especially Urea may be lowered. The GST is imposed once on the supply of gas to the fertilizer plant and also applied on the retail price of Urea. The government has decided to withdraw the GST on gas supplied as raw material to the Urea plants. Moreover, the price of imported urea lying with National Fertilizer Marketing Company has been fixed as Rs1,000 against the current market price of Rs1,400 per bag. Reduction of markup for agri-loans (though for owners of less than 12.5 acres and for a loan upto Rs50,000), and duty free import of combined harvesters are other welcoming steps.

### **Increase in PSDP - a laudable step**

Another commendable effort by the government in this budget is the Federal PSDP. Even though the PSDP is borrowed and dependent on external sources, it has been increased by almost 300% from Rs320 billion in 2013 (PPP's last budget) to Rs1 trillion. The releases against the PSDP funds in this government have been efficient. In FY 2015-16, almost 90% of the allocation was released and the same is expected in the current year as well. The total amount of Rs1 trillion kept for PSDP is mainly (around 70%) infrastructure and 30% for the soft development projects. One more worth mentioning aspect of PSDP is the amount allocated for Higher Education Commission (HEC). The allocation has been increased from Rs21 billion to Rs35.5 billion, which is a marked increase from the past allocations.



Social sector, including education, health, drinking water, sanitation, environment, sewerage, etc. now falls under the provincial mandate. Besides some direct grants, a huge amount of Rs1112 billion has been allocated for provincial PSDP. With such high allocations, the provinces ought to take care of most of the social sector needs in their jurisdiction. If that is not happening, then one needs to carry out a realistic assessment of the 18th amendment, especially whether the social sector should be provincial subject, federal subject or taken care jointly by both the federal and provincial governments.

While the federal government is trying to make both ends meet through juggling between first two (debt, defense) and last two (day-to-day administration, development) "Ds", one must ensure that provinces contribute towards a stable and sustainable national economy. The provincial governments should release their economic surveys vis-à-vis the economic survey of Pakistan. In addition, the provinces should also show their GDP growth and major contributors of that growth.

While it was historic that the current government presented its fifth consecutive budget, the mere fact that others could not achieve this milestone reflects the vulnerability of democratically-elected governments. The non-democratic forces toppled the elected governments on the pretext of the latter's inability to deliver on social sector development. As has entered in its fifth year, the government must understand that GDP growth sans job creation and livelihood security means nothing for ordinary citizens. PML-N government needs to focus on the improvement of human security by spending more on education, health, and livelihoods. This action would not only provide relief to general masses but also ensure the continuity of democratic set-ups in the future.