Pakistan: Not a people's budget

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Fixing of unachievable tax target for the FBR represents continuation of past legacies that relied on ill-directed, illogical, regressive and unfair taxes. Such skewered approach has a proven record of dampening industrial and business growth. Whereas — in the negative economic aftermath of Covid — Pakistan needs to do just the opposite

In document titled, Federal Budget 2021-22: Budget in Brief, released with federal budget for fiscal year (FY) 2021-22 on June 11, 2021, the collection target of Federal Board of Revenue (FBR) is fixed at Rs 5829 billion for the next FY. The current FY target was fixed at Rs. 4963 billion, but later revised twice to Rs 4717 billion. The expected collection as per Annual Budget Statement will be Rs 4691 billion. It is a serious matter. It not only reflects adversely on our fiscal mismanagement but also is detrimental for provinces that prepared their budgets based on projection given by the federal government of their share in tax collection under the 7th National Commission Award (NFC). The over-fixation of tax targets of FBR and later downward revision resulting into lesser distribution, as promised in the budget, to the provinces has become a permanent feature that is highly undesirable. It means imprudent budgeting and lack of transparency in fiscal matters.

The total net revenues (tax and non-tax) estimated in Annual Budget Statement for budget 2021-22 are Rs 4497 billion against the total estimated expenditure of Rs 8487 billion, which means fiscal deficit of Rs 3990 billion. What makes the situation more painful is that in order to bridge this gap, the federal government has forecast surplus of Rs 570 billion from the provinces. In other words, they are incentivised not to spend money available under the 7th NFC Award in the most difficult days when millions need help from the respective provincial governments; not least to offset the heavy financial toll that three waves of Covid-19 has taken. The other means of meeting the huge fiscal deficit are: net external financing of Rs 1246 billion; net external financing of Rs 2492 billion and privatisation proceeds of Rs 252 billion.

The expenditure side tells the real story of fiscal challenges faced by Pakistan, which are evident from the official figures released. Out of total current expenditure of Rs. 7523 billion, debt servicing alone is Rs 3060 billion whereas defence (excluding pension of Rs 360 billion) is Rs 1370 billion. In other words, the federal government after meeting these two expenditures alone will be left only with Rs 67 billion. It confirms without any iota of doubt that the entire federal public sector development (PDSP) expenditure of Rs 900 billion and current expenditure of Rs 7456 billion will be met from borrowing.

Loans for long-term development programmes, provided these are executed on time and boost sustainable growth, GDP and income while triggering employment generation are desirable. However, as the above shows, the PTI government will be borrowing the staggering amount of Rs 7.5 trillion to meet the budget deficit (that is, total revenue minus total current expense, excluding outlay for development programmes that are usually cut or remain unutilised or delayed). This will naturally add more cost and resultant more borrowing, leading to greater debt servicing that will cross the Rs 3 trillion-mark as per Federal Budget 2021-22: Budget in Brief and Annual Budget Statement.

The fiscal deficit for the first time in the history of Pakistan in FY 2021-22 will be Rs 4 trillion (Table 2, page 7 of Federal Budget 2021-22: Budget in Brief). Even the primary deficit is of Rs. 360 billion [see Table 3, page 8 of Federal Budget 2021-22: Budget in Brief] in the next FY is estimated. The link to see all these figures is:
http://www.finance.gov.pk/budget/Budget_2021_22/6_Budget_in_Brief_English_2021_22.pdf

It is therefore clear that the rosy picture portrayed on TV talk shows, interviews and press briefings by the fourth Finance Minister of the coalition of the PTI coalition government is not based on concrete facts. Bluntly put, there is no truth in the claims that the government has achieved fiscal consolidation and it is surely against the norms of democracy to hide the facts from the public.

The failure to tap actual tax potential by the federal government is highly problematic for the provincial governments. Dismal performance by the FBR (Federal Board Revenue), it will not be able to collect Rs 8 trillion in the coming two years and this will adversely affect the provinces, as they are overwhelmingly dependent on their shares under NFC Award.

Fixing of unachievable tax target for the FBR represents continuation of past legacies that relied on ill-directed, illogical, regressive and unfair taxes. Such skewered approach has a proven record of dampening industrial and business growth. Whereas — in the negative economic aftermath of Covid — Pakistan needs to do just the opposite. Undue focus on fixing ambitious revenue targets without evaluating the impact of this on an already troubled economy will certainly further devastate trade and industry. The majority of measures announced in Finance Bill 2021 amounts to over-taxing an economy that is already in deep recession; an unjustifiable worst case scenario if ever there was one.

An analysis along the same lines will be made in my next column or when the Finance Bill 2021 is passed; as it is subject to changes after debate. The opposition parties, instead of simply rejecting the budget (and potentially the Finance Bill 2021) must present better proposals. After all, shadow budgets are an established norm in the British parliamentary system, which we supposedly follow.

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