FEDERAL BUDGET 2017-18

A Review

Budget Review

On May 26, 2017 finance minister Senator Ishaq Dar presented the fifth consecutive federal budget on behalf of the PML-N led incumbent government, for fiscal year 2017-18. The following is a brief review of the budgetary proposals and measures, in view of the current state-of-affairs of the national economy.

Economic Performance 2016-17

Before going to the budgetary provisions and proposals for 2017-18, it is pertinent to have a look at the health of economy in the outgoing financial year, i.e., 2016-17. According to Economic Survey 2016-17 launched on May 25, GDP growth for the ongoing fiscal year (first nine months) is recorded at 5.28%. It is the highest rate registered in past ten fiscal years, yet remains short of the 5.7% target set for the year. This rate of growth has been recorded on the back of 3.46% growth in agriculture as against 0.27% last year; 5.27% in manufacturing sector as against 3.66% of last year, and services sector grew by 5.98% as compared to 5.55% last year.

These figures are encouraging but there are also some quite worrisome indicators. The burden of debt is continuously increasing. Ironically, the finance minister in his budget speech was seen as building the opinion in favor of loans, saying that loans if taken for development are not bad. The fact of the matter is that during past four years of the incumbent government, net public debt has increased by some 5.5 trillion rupees (Gross public debt, including the government's assets with the banks, increased by seven and half trillion rupees.) A burden of more than 1194 billion rupees has been added in first 9 months of the outgoing fiscal alone. Revised estimates for Bank Borrowing have gone up to Rs. 741 billion as against budget estimates of Rs. 453 billion, external resources' situations is even more alarming as revised estimates are of Rs. 996 billion as against budget estimates of Rs. 820 billion, more than 90% of it being loans, including 389 billion rupees from international commercial banks. All this is much higher than the development spending over past four years, and in the outgoing year, respectively.

Fiscal deficit is going up to 4.2% of GDP as against a target of 3.8%. Even this estimation is based on the data of first nine months of the outgoing fiscal year and considering that releases/expenditure are usually high in the last quarter of the year, fiscal deficit can in fact go beyond the 4.2% figure by June 30, 2017. Merchandise exports continue to decline, 3.6% during this year while imports are increasing at a faster pace, 18.7%. This has resulted in a trade deficit of $17.8 billion in the first nine months, and a Current Account Deficit (CAD) of $ 6.1 billion, which is 2% of GDP (expected to increase to around $ 8 billion by year end.) Federal Board of Revenue (FBR) is falling short of its target by 100 bn. rupees, i.e., 3521 bn. as against 3621 bn. targeted, and even to achieve this revised target of 3521 bn. the Bureau faces an uphill task of collection in the last month of the financial year.

Budget 2017-18 at a Glance

The budget for the coming fiscal year has the following highlights:

- Total outlay of the budget is Rs. 5103.8 billion, 4.3% higher than the size of the budget foe 2016-17
- Net revenue receipts are estimated at Rs. 2926 billion, an increase of 5.3% over the budget estimates for 2016-17. Provincial share in federal taxes is estimated at 2348.2 billion, an increase of 11.6% over the outgoing year.

- Out of the overall expenditure of Rs. 5103.8 bn., Rs. 3763.7 bn. (73.7 %) is Current Expenditure while development expenditure is Rs. 1340.1 bn. (26.3 %).
- Total federal Public Sector Development Program (PSDP) is for the first time crossing the limit of one trillion rupees, at Rs. 1001 billion, as against expenditure of Rs. 715 bn. (revised estimates as against an allocation of Rs. 800 bn.) in the outgoing fiscal year.
- New Bank Barrowing is estimated at Rs. 390 bn. while External Resources are targeted at Rs. 837.8 bn.

Analyzing the Budget 2017-18

First, a comment on the preparation, presentation and approval of the budget. The budget this time around was presented on May 26, a week or so earlier than the usual practices of bringing it out in the first week of June. However, the overall time of debate on the budget in the parliament has been reduced (attributed to *Ramzan*), as the budget debate is to be completed by June 16. The boycott by the opposition of the budget debate in the parliament makes this entire exercise even more meaningless. Although the opposition benches should also be advised to consider playing a more constructive role in this connection, in a parliamentary system it is the responsibility of the treasury benches to keep the opposition onboard and to make it a truly a national budget, not just the budget of the government. A Budget Strategy Paper is usually prepared and approved by the cabinet in the initial months of the calendar year – outlining the coming budget's priorities. However, the Budget Strategy Paper this time was hurriedly unfolded and approved by the cabinet, days before the presentation of the budget, in May. It is clear from this exercise that neither the objective of pre-budget consultations was served in a proper manner, nor is there enough time for any meaningful space/period for post-budget debate.

Now we come to some specific budgetary measures and announcements:

Much of the growth registered in past couple of years including in the outgoing year is in the services sector. It is nothing unusual for a developing economy, but at the same time, an economy like Pakistan's being primarily agrarian, the budget bring forth little meaningful measures / proposals for all important agriculture sector except for continuing with PM' Agricultural package – the exact impact of which is yet to be known – and focus on increasing agri-credit. In industrial sector, the focus remains primarily on few select industries such as textiles, which is by no means enough and responsive to the changing circumstances where SMEs require an enhanced attention.

Continuous Dependence on Indirect Taxes: For fiscal year 2016-17, the target for direct taxes was Rs. 1558 billion while collection was of Rs. 1389 billion – less by 8 %. The target for indirect taxes was Rs. 2063 billion while the collection came to 2142 billion, 3.3% more than the target. Now for 2017-18, the target for direct taxes has been increased by 214 bn. (to 1595 bn.) while the target for indirect taxes is being increased by 276 bn. (to 2418 bn.) this is all set to increase the burden of the common man.

Lopsided Development Budget: The size of federal Public Sector Development Program (PSDP) has been increased to Rs. 1001 billion from the ongoing fiscal year's 800 billion (budget estimates) – rightly being regarded as the highest ever. Bulk of this (over 400 bn.) remains concentrated in the communication sector.

However, there are some critical questions on the overall development spending, when seen in the outgoing year's allocations and actual expenditure. Revised estimates for 2016-17 indicate the overall spending is considerably less than the initial allocation, i.e., Rs. 715 bn. as against Rs. 800 bn. This is less than the revised estimates for the Bank Borrowing in the same year, making it clear that the whole developmental spending came from borrowed money. No expense has been mentioned against allocation for IDPs that was Rs. 100 billion, in the budget documents. Instead, an expenditure of Rs. 14 billion is shown against a new heading – Security Enhancement. For 2017-18, another Rs. 45 billion are provided for this new head and IDPs each, again.

Expenditure on SDG's increased to Rs. 42.5 bn from an allocation of Rs. 20 billion. No amount was spent in the outgoing fiscal year out of Rs. 28 billion allocated for Special Federal Development Program, yet, Rs, 40 billion are being provided for the same for 2017-18. Two new initiatives – 'Energy for All' and 'Clean Drinking Water for All' get Rs. 12.5 billion each, without any details. Prime Minister's Youth Initiatives could consume only a quarter – Rs. 5 billion out of Rs. 20 billion, and the same amount of Rs. 20 billion is allocated again; and as far a Gas Infrastructure Development Cess (GIDS) is concerned, only Rs. 158 million were spent out of Rs.

25 bn. and again the same amount, Rs. 25 bn. is provided for.

Much of the allocations for Ministry of Ports and Shipping and Ministry of Planning, Development and Reform remain unspent while those for WAPDA and Railways and also for NHA increased substantially. These figures, and records of past few years indicate that some of the allocation have actually become a cushion for the economic managers to adjust the overall goveremntal expenditure – as the need may be – instead of being based on thoughtful planning.

Defence Budget is increased from Rs. 860 bn. budget estimates for 2016-17 to Rs. 920 bn. for 2017-18: this is only a modest increase of 7% considering the overall security situation in the region – continuous tension on the eastern border and periodic tense period on the western. Yet another important point regarding the defence budget is that revised estimates for the outgoing fiscal year are some 19 bn. less than the budget estimates (Rs. 841 bn. are the revised estimates). The budget documents divide the defence expenditure into four major heads: Employees Related Expenses, Operating Expenses, Physical Assets and Civil Works. It the head of Employees Related Expenses that is indicating a shortfall of around Rs. 41 billion, while expenses in all other tree heads have exceeded the budget estimates. This is depictive of some lacunas in the budgeting exercise for this important head of the national expenditure.

Relief Measures and Provision of Basic Necessities

A major chunk of Pakistan's population needs relief and direct support in terms of provision of basic necessities of life. Budget 2017-18 comes up with some measures, out of which the following are significant to have a look at:

- The principal measure of relief remains to be the Benazir Income Support Program (BISP), with the total allocation going up to Rs. 121 billion and number of beneficiaries increasing to 5.5 million. There is no denying the fact that direct cash grants, no matter how small, do help to an extent. Nonetheless, as has been repeatedly highlighted by concerned quarters (including IPS) that the program, despite its short-term benefits, is becoming a source of increasing dependencies instead of building or facilitating sustainable livelihoods as its main deliverance. Continuing with this approach serves only one purpose, i.e., winning sympathies, and votes, of the downtrodden in the election year. The political grounds of distribution of these doll-outs are well established.

- Increase in salaries and pensions is welcome. Awarding the personnel and officers of armed forces with the double increase in salaries (10 percent as per increase for all the federal employees and 10 percent special allowance for *Zarb-e Azb*), though warranted due to the peculiar role and sacrifices of the military, smacks of discrimination and considering that *Zarb-e Azb* has now given way to *Radd-ul Fissad* and it too raises concerns coming right in the last year of tenure of the incumbent government, before the next general elections. Increase of the minimum wage to Rs. 15,000 per month is at one hand too meagre considering the inflation of daily-use items, and there is no visible mechanism ensuring its implementation on the ground.

- **Housing** – The finance minister in his budget speech has erroneously mentioned that the country faces a shortfall of some on million housing units and the shortfall increases by some 300,000 housing units every year. International institutions estimate that housing shortage in Pakistan is around 10 to 12 million units. However, despite this mammoth need being highlighted, an allocation of mere Rs. 6 billion and that too in the form of a part of credit guarantees is insufficient. What is needed is a large scale program for provision of housing to millions who lack it.

Promoting Unhealthy Lifestyles

Budget 2017-18 continues with a not-so-positive approach of promoting a culture of conspicuous consumption, and unhealthy lifestyles, as the two examples in the following indicate:

- **Mobile Phones** are an import source of personal and commercial connectivity in today's world. In view of this, it is good to note that WHT on mobile calls and excise duty on import of mobile phones has been reduced. But at the same time, it is important to note that the use of mobile phones is linked with promotion of certain lifestyles – specially the nighttime packages. Any decision in this regard should come in view of

considering overall social and moral values system, and packages that discourage unhealthy lifestyles should be discouraged through taxes / duties. Taxes on actual airtime can handle this issue.

- **Cigarettes –** Taxation measures introduced in the budget 2017-18 are actually decreasing the prices cigarettes, instead of increasing that same. It means increase tobacco use, which is quite in contrast to the prevailing global practices, where tobacco use is being continuously discourages with consistent raise in taxes.

Unrelenting Reliance on and Promotion of the Interest-Based Economy: Such is the situation of Pakistan's economy being caught in the tentacles of interest-based economy that the single largest head of the expenditure, and over one third of the total, i.e. Rs. 1363 billion are earmarked for payment of the interest/markup on national loans. This alarming trend is continuing for the past few years, particularly aggravating during the tenure of the incumbent government. Neither in the budget nor otherwise in the government's approach there seems to be any strategy or approach to get out of this vicious cycle. On the front of encouraging interest-free economy, the announcement to tax financial products of Islamic Banks at par with conventional banks is welcome, as previously the Islamic Banks were rather disadvantaged being faced with double taxation in some cases. However, if the objective is to encourage Islamic Banking in the country – it will be served better with providing the Islamic finance products incentives which are higher than the already established commercial financial industry.

As to the **macro-targets** set in the budget, many of these are overly optimistic. Achieving the GDP growth of 6% is quite possible considering the increased development spending, allocations for CPEC related projects and FDI coming from China. However, taking the investments to 17% of GDP and increasing the tax to GDP ratio to 13.1 % seem to be difficult, without any particular incentives for increasing the savings (prerequisites for investments) and with no out-of-the-box approach to broaden the tax base. Keeping the budget deficit at 4.1% and inflation under 6% in the wake of increased expenditures on all counts, would also be hardly possible.

In the nutshell, the budgetary measures and proposals for 2017-18 hardly signal any move towards a structural change in economic fundamentals, depict no urge towards self-reliance, and induce little meaningful incentives for growth in critical sectors such as agriculture and industry. By and large, budget 2017-18 remains an accounts-books-balancing exercise, as usual, without any serious thought and effort for strengthening the foundations of the national economy. The popular touch is there, without matching sustainable backing.

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