Institute for Policy Reforms

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IPR: Budget fails to address real issues of the economy

"Despite high claims, budget 2016-17 does little to address the real issues of the economy or to revive growth." The Institute for Policy Reforms states this in its review of budget 2016-17. The budget focuses on balancing receipts with expenditure. It does not set a strategic direction. According to IPR, fiscal deficit of 3.8% is too ambitious. To get close to it, government has relied again on withholding and indirect taxes.

According to IPR, major issues encumber economic growth. Agriculture production has declined. Exports are in a precipitous long-term fall. Power and energy remain short. The external sector is vulnerable, as government borrows new loans to pay off old ones. The performance of industry is mixed. Textile production is stagnant and other key industries languish. Services, not the productive sectors, have fueled the economy's growth of 4.7%. We have yet to see a strong policy response.

Pakistan's last population census took place in 1998. All plans or budgets are based on a lack of information about the number of people they affect.

Government will be hard pressed to meet the ambitious fiscal deficit target of 3.8%. It again may cut development spending to achieve it. Total revenue is projected to grow to Rs. 4,915 Billion, a growth of 13.4%. Following an increase of 19% this year, FBR's tax revenue is targeted to grow by another 16.6%. Total expenditure is set at Rs. 4,418 Billion. Current expenditure will grow by 15.6% over present year. Development will increase by 14% . To meet its fiscal deficit target, the budget counts on a provincial surplus of Rs. 339 Billion. Inevitably, borrowing will also meet the gap, including Rs. 819 Billion in external funds. GoP's plan to observe provisions of the fiscal responsibility law is encouraging.

IPR welcomes the proposal for zero rating of five major export products. This will ease a major issue faced by exporters. It questions, however, government's policy to increase the burden of indirect taxes. This year too much revenue increase comes through indirect taxes. These taxes are regressive, but more so, for an economy in moderate growth, they inhibit revival.

Referring to measures to revive agriculture and industry, IPR states that their contribution to growth is temporary. The need was for long term efforts to build competitiveness and increase productivity. While reduction in input cost will help, agriculture suffers from neglect of water resources and management. The proposals also do not address the real issue of improving seeds and restricting virus. GoP cites volatile prices as the reason for decline in production. However, most agriculture indices show a downward trend. This year's PSDP provides Rs. 31.7 Billion for the water sector. This is Rs. 15 Billion less than the allocation of 2014-15. Water must receive higher priority.

The budget also provides fiscal incentives for industry. Industry needs technology support. It also needs access to capital and structural reforms to reduce costs. The budget does not include proposals to improve governance to reduce of cost of doing business or to develop the capital market as a genuine source of funds.

Our exports will grow mainly through revival of industry and agriculture. This is critical for an economy effectively in a debt trap. In GoP's view, the export problem is one of falling international prices. A greater concern is that our export to GDP ratio is in serial decline. This ratio is 5.5% this year against 6.6% last year. It was 10.3 % in fiscal 2013-14 and remained above 10% throughout the 2000-2010 decade.

The federal PSDP of Rs. 800 Billion is not enough to meet the large infrastructure and social deficits that constrain the economy. Even within this limited envelope, the PSDP's priorities seem skewed. Some items, PM's Youth Programme and settlement of TDPs, belong to the current budget. IPR hopes that the Gas Development Fund of Rs. 25 billion will not be another subsidy. We have yet to see an evaluation of the utility of PM's Youth Programme. There is an a priori belief in its usefulness.

In fact, the effective PSDP is Rs. 655 Billion. This is 2% of GDP and is 13% of total budget. The Rs. 655 Billion funds 813 projects, with an average completion period of seven years. Roads get a disproportionate share of Rs. 188 Billion. Growth in power sector allocation, though welcome, primarily funds the two LNG power projects. As LNG is an expensive fuel source, IPR would have preferred this amount to finance hydro projects. The PSDP does not at all address the two major constraints of transmission and distribution.