Institute for Policy Reforms

Press Release

Testing credulity: Budget fiscal 22 poses questions

This year's budget speech made so many promises that it is difficult to sift facts from its many claims. One must therefore comb the numbers in the budget document. It appears that there is agreement between GoP and IMF on the broad parameters of the budget, without which many of the budget numbers will be up in the air.

Let us first see if the numbers add up. Total outlay of the federal budget is Rs. 8,487 Billion Rupees. Gross federal receipts is estimated at Rs. 7,909 and net at Rs. 4,497. The financing gap is Rs. 3,990 Billion, net Rs. 3,420 Billion, after accounting for a provincial surplus of Rs. 570 Billion. Three things will determine if government can stay within its fiscal deficit target of 6.4 % of GDP. They are whether or not government realizes its revenue target, whether it stays within expenditure estimates, and if provinces provide the large surplus.

Despite expectation of better enforcement and expansion of tax net, 20% growth in revenue collection from last year's estimates seems ambitious, especially given the large number of concessions offered. FBR revenue must grow by an additional 25% of the actual collection to reach the target of Rs. 5,829 Billion.

Increase in tax and non-tax revenue will depend on continued economic buoyancy. FY 21's growth rate of 4% or more came from higher consumption demand, not from investment. Increase demand will continue this year if growth in remittances are as high as they are in FY 21, if there is no cut in PSDP, and Ehsaas payments are as planned. A slip in any one of these, especially remittances, could hurt revenues. The 35% increase in petroleum levy offers a cushion, though at the cost of citizen welfare.

Regarding expenditure, the budget provides adequate estimates of 18.5% increase in current expenditure and about 40% in PSDP. Yet the demands being placed on government are very high. They include much needed spending on vaccination, Ehsaas payments, meeting the circular debt hole for continuous energy supply (IPP subsidy is 266 Billion), subsidy for others other SOEs, salary increases, subsidized loan for agriculture and the weaker population, and higher PSDP. It is moot if GoP will stay within its expenditure estimates, if all these demands are met. Either it will breach the fiscal deficit target or reduce PSDP and social security. That would affect GDP growth

More important are the development related targets that government announced. FY 22 GDP growth must come on top of current fiscal's 4% growth. That is a challenge. The quality of growth is of equal concern.

We hope that it will result from investment and exports. That does not seem assured, despite substantial and creditable tax and credit relief. Last year, such concessions did not convert into investment. If SEZs actually begin operation, they will add to production and exports, but in subsequent years. Moreover, the economy has not made the required investment in infrastructure and human capital to put export on a sound footing.

Much hope is placed on increase in IT exports. Yet, one does not see corresponding investment in training to produce the high number of qualified experts and technicians needed to boost the IT sector. Nor do we see investment in hardware and connectivity to increase IT access. Fiscal incentives are needed, but may not be enough.

Shortfall in growth would affect government's plans to extricate more people out of poverty and provide millions more jobs. It will also dampen progress to government's goal of 6 to 7% GDP growth, for adding the 2 million jobs annually that the economy needs.

The large increase in PSDP is welcome. Here too, there are concerns. First that there would likely be budget cuts. Second, the quality of PSDP portfolio should be such that it boosts growth. In the past too, PSDP budget has touched a trillion Rupees without much impetus to exports. PSDP portfolio must provide the soft and hard infrastructure that firms need to enhance investment and productivity, or else growth will come from one time spending. Also, we fear that PPP in infrastructure is another IPPs in the making, as elite capture is common in Pakistan.

Budget making is a professional exercise that calls for a realistic estimate of income and expenditure. As a document that is valid for just one year, its importance enhances if it is part of a long-term strategy. Without this, the many claims in the budget speech lack force.

Over the years, the budget has become an occasion for self-congratulation. But the general public hardly takes notice. For them, reality lies in the marketplace. Today’s locked gates of the secretariat and striking workers reflects the chasm between the perceptions inside the secretariat and outside.