FY22 budget deficit likely to stand at 9pc of GDP — highest-ever in country's history

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ISLAMABAD: Former finance minister Dr Abdul Hafiz Pasha has projected Pakistan's budget deficit for the fiscal year 2021-22 at Rs5,000 billion or nine percent of the Gross Domestic Product (GDP) which is the highest in the history of the country.

While speaking at a webinar organised by the Pakistan Institute of Development Economics (PIDE), here on Tuesday, he said that the consolidated fiscal deficit including federal and provincial with the close of the current financial year will be Rs5,000 billion.

Dr Pasha said that the government has projected a budget deficit of Rs3,440 billion or 6.3 percent of the GDP but as a result of massive subsidy on petroleum product prices and debt servicing on the loans taken by the state own enterprises the deficit will jump up by Rs1,560 billion by the end of the fiscal year. He said that the primary deficit will be around 2.6 to 2.7 percent of the GDP.

He further said that the rate of inflation has remained double-digit throughout the third quarter of 2021-22. The initial optimism that the GDP rate would rise above five percent has given way to the more modest expectation that it will remain closer to four percent. The growth of Pakistan's economy is projected to slow down to four percent in 2022-23 from 5.6 percent in 2021-22. The budget deficit has crossed Rs5 trillion and its main issues are related to the energy and power sectors including outstanding recoveries and the circular debt.

Budget deficit reaches Rs5.6trn, NA told

The Pak rupee depreciation will add another Rs3,000 billion in public debt, he said and added the consolidated public debt with the close of the financial year will touch to Rs8,000 billion which is a 16 percent increase.

He added both external and internal factors have played a key role in widening the budget deficit. He lamented that only three weeks are left in presenting the new budget but there are no discussions on national media and even the Ministry of Finance is not holding required consultations.

The increase in budget deficit according to him is attributed to the massive imports of unnecessary items and reduction in petroleum levy which was estimated at Rs610 billion but at the end of the financial year the country could generate Rs140 billion reflecting a shortfall of Rs470 billion on this account only because the government did not pass on the impact of global oil prices to the end consumers. He said that the total subsidy on petroleum products will be around Rs300 billion with the close of the fiscal year and subsidies on other accounts such as agriculture and power sectors will go to Rs700 billion.

The webinar was moderated by Vice Chancellor PIDE Dr Nadeemul Haque, who was of the view that the pressure on the rupee is mounting due to receding dollar inflows and a lack of support from friendly countries including China, Saudi Arabia, and the UAE. Delay in revival of IMF bailout package of $6 billion has also plummeted the country's reserves.

He said that economic experts and analysts have been demanding a financial emergency to deal with looming economic challenges. They suggest that Rs800 billion or $4.1 billion tax exemptions available to corporate sector be withdrawn and higher taxes be levied on land and property holdings.

Pasha said that the non-stop increase in circular debt is another serious financial problem the country was facing. He added that the debt acquired by the state owned entities worth Rs2 trillion to Rs2.5 trillion was also a liability on the government as interest payments on this debt reaches to Rs500 billion.

Talking about the next budget deficit target, Pasha said that the government will likely to bring it down from nine percent to 4.5 percent but it was not possible and it will remain around minimum 6 percent. He added that the government will take up the issue with the International Monetary Fund (IMF) in Doha talks.

He said that the federal government earmarked Rs900 billion for development budget and the provincial governments Rs1,200 billion for the ongoing year, but owing to the fiscal constraints the federal government cut development budget by Rs300 billion, otherwise total fiscal deficit would have touched Rs1,800 billion for the year.

He said that for the next budget achieving six percent budget deficit target will be an uphill task, adding that the to attain the target the government has to increase federal revenues by Rs1,100 billion which in real terms will be Rs1,500 billion because owing to massive subsidies on petroleum products in 2021-22 as a result of slashing petroleum levy and sales tax are going to be zero as the base is artificially inflated and the country has to cut it down now.

He further said that if the country has no taxation of the petroleum products barring the custom duty, then the base figures has to be accordingly adjusted.

He said that to bring down budget deficit target from nine percent to six percent the country will have to generate additional Rs1,500 billion which is almost 25 percent of the total taxation. He said that the upcoming meeting of the monetary policy board is likely to consider enhancing the policy rate. He said that the IMF says there is no scope to increase the country's development spending from Rs600 billion.

He said that Pakistan has only one option to go back to the 8-year-old policy to generate additional taxation including controlling imports in terms of volume and prices which is known as forced import substitution, more progressive income tax, taxation on agriculture and controlling non-essential imports and reviving personal income tax level.

Sales taxes on services must be introduced both at the federal and provincial levels. The government has to pass on the impact of global petrol price increase on the end consumers as the country was generating around 15 percent of the total taxes from the sales of petroleum products.

The webinar was informed that Bangladesh has outpaced Pakistan across all standard economic indicators, including nominal gross domestic product, GDP per capita, GDP's growth rate and foreign reserves. Bangladesh's GDP of $411 billion, compared to Pakistan's GDP of $347 billion, makes Bangladesh 33rd largest economy in world.

Political instability, analysts fear, may turn violent in the coming days, affecting Pakistan's reeling economy, which has been headed toward a default-like situation. The country's foreign exchange reserves are falling, food inflation is spiralling and Pakistani rupee is on slippery ground.

World economy isn't yet a local area, not so much as an economic area. However, presence of worldwide market is a reality that cannot be undone. The vision of an economy for all won't be forgotten; this time, the government must look on into it.

Shortage of foreign currency is the biggest crisis in the domestic economy, as the value of import payments remained more than double export earnings. Pakistan is estimated to face a shortfall of $27 billion in foreign expenditure to pay for imports and repay foreign debt over the next year.