

### Reckless borrowings

HUZAIMA BUKHARI AND DR IKRAMUL HAQ ARTICLE (November 30, 2012) : The government borrowing from commercial banks during the first quarter of the current fiscal year surpassed budgetary projections - Rs 546 billion during July-September 2012, up by 16 percent against the budgetary projection of Rs 484 billion. Total borrowing from scheduled banks in July-September 2011 was Rs 223 billion which surged to Rs 564 billion for the same period of the current fiscal year, reflecting an increase of 152 percent. The government's heavy reliance on borrowing from banking system is causing a negative impact on the growth, particularly depriving private sector of the much-needed funds for investment. Interest payments on domestic and foreign debts have been on the rise during the current fiscal year due to reckless bank borrowing by the government. The interest payment on domestic and foreign debts stood at Rs 313 billion during July-September 2012 which is 72 percent higher than Rs 181 billion for the same period last year. Interest payments on domestic loans rose to Rs 299 billion in the first quarter of the current fiscal year against Rs 169 billion for the same period last year. According to fiscal operation statistics for the first quarter (yet to be released), the fiscal deficit is going to be around 1.2 percent of GDP or Rs 282 billion. During the first quarter, the federal government transferred Rs 278 billion to the provinces from a total collection of Rs 428 billion by the Federal Board of Revenue (FBR). The non-tax revenue stood at Rs 216 billion in the first quarter because of \$1.18 billion reimbursement by the US for Coalition Support Fund (CSF). The reimbursement of CSF enabled the government to limit fiscal deficit to around 1.2 percent of the GDP. A senior official of the Finance Ministry told a reporter that "the fiscal deficit during the first quarter of the current fiscal year would have been considerably high if CSF amount had not been received". The total federal government expenditure during the first quarter had reportedly increased to Rs 735 billion against Rs 554 billion for the same period last year. An official told *Business Recorder*

on condition of anonymity that the government borrowing was expected to go up considerably from budgetary allocation in the current fiscal year because of higher than expected fiscal deficit. How the governments make mockery of the laws made by the Parliament is best exemplified by the above figures - under the Fiscal Responsibility and Debt Limitation Act of 2005, it is the duty of the Debt Policy Office to ensure effective management of debt control by formulating a strategy for reducing it, but it has allowed public debt to grow by 103% in last four years. Although, the state is caught in a deadly debt trap, the government continues to borrow funds from banks to pay off liabilities of the corruption-ridden inefficient public sector enterprises (PSEs). Reckless borrowing from local banks is destroying private sector growth as pointed out by State Bank of Pakistan (SBP) in the following words: "Lack of external funding has put the burden of financing the deficit disproportionately on the banking system, which has led to crowding out of private sector and is acting as a disincentive for banks to perform their role of financial intermediation.....Unfortunately, PSEs continue to haemorrhage as a credible restructuring plan has not been put into action. As a result, circular debt issue is likely to persist". The SBP revealed that settlement of circular debt of power sector PSEs and public procurement agencies resulted in billions of rupees increase in the stock of total debt and liabilities (TDL). We have pointed out time and again in these columns that the government has failed to devise a strategy for raising revenues even to the extent of Rs 6 trillion, though actual potential is not less than Rs 8.5 trillion. Unless it is done, Pakistan can never come out of the 'debt prison' - our internal debt is more than Rs 8 trillion and external debt and liabilities (EDL)

has reached \$65 billion. The government's unabated borrowing to meet burgeoning budgetary deficit is drowning the economy. One of the major weaknesses of economic governance is unchecked wasteful spending on monstrous government machinery and inefficient PSEs. Unwillingness to collect taxes from the rich and mighty is worsening plight of the poor. Our foreign debt is going to be US \$75 billion in 2015 and domestic debt Rs 12 trillion if curative measures and tough decisions are not taken in time. The policy of appeasement towards tax evaders, money launderers and plunderers of national wealth, if not discontinued, will push the country to a complete disaster. The shameless indulgence of rulers and bureaucrats in wasteful expenditure - when half of the population of the country is facing malnutrition - is simply criminal. The word 'austerity' is not in the dictionary of politicians in power, high-level civil-military bureaucrats and public office holders. The tradition of living beyond means - our national addiction - has rendered Pakistanis a nation with the beggar's bowl. When foreign lenders see the lifestyle of our ruling elite, they immediately show indignation - it is hard to believe for them that the rulers of a nation living on borrowed funds have such flamboyant ways of spending. Today's Pakistan represents a state where a trio of civil-military bureaucrats, politicians and businessmen is very affluent, but the government is on the brink of bankruptcy. This state of affairs is the direct outcome of government's policies allowing free hand to forces of loot, corruption and terrorism. One of the major weaknesses of governance in Pakistan is unchecked wasteful spending and reluctance to collect taxes from the rich and mighty. The worsening plight of the poor is not due to scarcity of resources-as propagated by the rulers to shift blame on others-but is due to their own lavish expenses and their mediocre bureaucracy. Wasteful spending out of taxes collected from the poor and unwillingness to harness the real potential of Rs 8 trillion by taxing the rich is playing havoc with economy as well as the socio-economic fabric of society. Behind the present chaotic socio-economic and political situation in Pakistan, amongst other factors, is an ever widening gulf between the rich and the poor. It is shocking that with every passing day, more and more people are being pushed below the poverty line - their total number is now not less than 60 million in a country where rulers unashamedly waste billions of rupees on their personal comfort and so-called security. For financial year 2011-12, a cursory look at the Annual Budget Statement reveals a disturbing story. Analysis of two sizeable volumes, prepared and published by Finance Division, Ministry of Finance, commonly called the "Pink Book", shows how public money is wasted on unproductive, unnecessary and monstrous federal government offices when millions of people are homeless, starving and sick. Fiscal deficit of over two trillion rupees is expected during the current fiscal year. This testifies to bankruptcy of our political leadership and economic managers, who keep on relying on an incompetent and corrupt bureaucracy. They always take first flight to Washington when things get out of hand. The policy of appeasement towards tax evaders, money launderers and plunderers of national wealth is showing its impact in all spheres: political culture of rapidly changing loyalties continues, nation is in high despair and all sectors of economy are showing horrible indicators. In this bleak scenario, neither our political leaders nor technocrats dominating the Finance Ministry have definitive plans for resolving these crises. All said and done, nothing will change in Pakistan unless rulers start living within their means. Unashamedly, they are not ready to surrender extraordinary perks and privileges enjoyed by them at the cost of taxpayers' money. In a democratic set-up, responsibility towards people who vote for parliament and accountability are interconnected. The concept of modern egalitarian state emerges from the sovereign right of the Parliament to levy taxes [Article 77 of the Constitution of Pakistan] but at the same time it has to spend the same for public welfare

rather than for personal comfort and self-aggrandisement [Article 3 of the Constitution of Pakistan]. This second part of democracy is completely missing in Pakistan. When half of the population of the country is facing malnutrition, the shameless indulgence of rulers and bureaucrats in wasteful expenditure continues unchecked. Look at their gaudy lifestyle at a time when people are committing suicide due to starvation and unemployment. The grim truth of Pakistan is the tendency on the part of the rulers and their lackeys to indulge in self-deception, self-praise and self-perpetuation during critical times without realising how disastrous these acts can be. This is certainly a ruinous and suicidal path. We cannot come out of debt-enslavement, which is the main cause of our subjugation, unless we first become an economically self-reliant nation for which taxing each according to his ability and giving each according to his work, as enshrined in Article 3 of the Constitution, is a prerequisite. All forms of exploitations are to be reduced, if not fully eliminated. For this, the starting point should be a complete change in the style of governance - the President, Prime Minister, ministers, parliamentarians, heads of political parties and high-ranking government officials start living at the average man's level. The palatial government residences should be vacated and converted into places of public utilities. The rich and mighty should start paying their taxes and repatriate all their foreign assets. We can take a great economic leap forward if consensus is reached on these points without prosecuting anyone. We need truth and reconciliation at this critical juncture rather than creating further chaos and commotion leading to a horrible civil war. There should be political consensus on just one point that let bygone be bygone, and let us start afresh.

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