

Provincial surpluses

EDITORIAL (November 29, 2012) : A *Business Recorder* exclusive revealed that the federal government was able to contain the budget deficit for July-September 2012 to 1.2 percent due to two major contributory elements: cumulative surplus of 107.3 billion rupees in the provincial budgets and 1.18 billion dollars reimbursed under the Coalition Support Fund (CSF). The former was due to enhanced provincial fiscal responsibility and the latter was released after a big thaw in Pakistan-US ties that were terribly strained following the killing of Osama bin Laden by the US Navy Seals. The surplus shown by the four provinces must be appreciated, however, it is relevant to note that the components of the provincial budgets in terms of revenue and expenditure changed dramatically after the passage of the 18th Constitutional Amendment which was hailed by the political leadership across-the-board for meeting the long-standing demand of the provinces for greater financial autonomy. Revenue made available to the provinces from the net proceeds of the divisible pool rose to 56 percent in 2010-11 and 57.5 percent from the current fiscal year onwards with a commensurate decline in the federal government resources from 44 percent in 2010-11 to 42.5 percent from the current fiscal year onwards. And doing away with the concurrent list led to a proportionate increase in the responsibilities of provinces as several critical ministries have been devolved to the provinces including health, education etc. There was one proviso for the provinces: to achieve a budget surplus indicative of enhanced fiscal responsibility. July-September is the first quarter in which all provinces have shown a surplus with Punjab registering a surplus of 53 billion rupees, Sindh 37 billion rupees, Khyber Pakhtunkhwa (KP) 1.3 billion rupees and Balochistan 16 billion rupees. However, this data is limited to the first three months of the current fiscal year and it is not certain whether the provinces would be able to sustain this trend till the end of the current fiscal year. This is especially so given the higher than budgeted outlay on development expenditure in recent months seen as a natural outcome of the impending general election. Provincial budget deficits evident in the past fuelled the federal budget deficit, which in turn had major negative repercussions on the country's major macroeconomic variables including inflation. The federal budget documents reveal that in 2011-12 the budgeted provincial surplus was 124.8 billion rupees while the revised estimates gave a modest figure of 90.7 billion rupees. The current year's federal budget has set the target of 80 billion rupees provincial surplus and it is not clear whether the trend for the first three months would be sustained by provincial governments that are already in the election mode with higher than budgeted expenditures. It is critical for the provinces to show fiscal responsibility to not only justify their enhanced financial autonomy but also to meet the needs of the people. The CSF meant specifically to fund the war on terror that is being fought by the Pakistani armed forces in our Taliban-infested regions, mainly in KP and Federally Administered Tribal Areas (Fata) was, according to the report, used to plug the burgeoning budget deficit. Money no doubt is fungible, however, it must be borne in mind that this was money already spent and hence its injection to plug the budget deficit was justifiable. There is a need for all governments, federal and provincial, to show fiscal responsibility and greater transparency in their expenditures. At present, several countries, on bilateral and multilateral basis, are refusing to extend budgetary support to Pakistan due to our failure to show fiscal responsibility and implement agreed reforms. The state of the economy is

particularly disturbing with high inflation and unemployment and one can only hope that the economy is not held hostage to election imperatives.

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