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Hafeez Shaikh's budget

As the long-suspended negotiations with the International Monetary Fund (IMF) resume today, Pakistan will be committing to a robust, painful and frontloaded adjustment plan to secure a $6-8 billion three-year bailout package for the revival of external flows blocked for almost a year.

The talks were suspended in November last year.

A strong revenue effort matching more than 1.2 per cent of GDP, including a move to the single value added tax (VAT) regime, completion of at least seven divestment transactions, auction of 3G and 4G telecom licences, reduction in subsidies, increase in energy prices and a relative free-float of the exchange rate are some of the key performance indicators firmed up by the authorities for the first year.

Interestingly, the prime minister's adviser on finance, Dr Abdul Hafeez Shaikh, will be resuming a task he had left unfinished in February 2013 — the introduction of the VAT regime that was then called reformed general sales tax (RGST) — a key reason for the termination of an IMF programme.

Bringing real estate and agriculture sectors under the effective tax net by the provinces was another critical initiative that never materialised. Stopping the bleeding in public-sector entities was one of the top agenda items on his plate then. It will be no different now. He is in his familiar boat.

The finance adviser will be resuming a task he had left unfinished in February 2013: introduction of the value-added tax

The government will be committing to the sale or divestment of seven key entities in the first year of the IMF programme ie 2019-20. The sub-optimal performance of a majority of these entities has been causing financial losses and eating up resources from the budget that can otherwise be spent elsewhere for productive output.

Privatisation will be presented as a key action point of the medium-term economic framework. First-year privatisation transactions include the sale of two RLNG-based power plants (Baloki and Haveli Bahadur Shah) in Punjab, two small banks (SME Bank and First Women Bank), two real estate units (Services Hotel Lahore and Jinnah Convention Centre Islamabad) and 18pc shares of Mari Petroleum. The two power plants alone are expected to fetch about Rs200 billion.

The privatisation of oil, gas and power companies, industrial units like Pakistan Steel, financial and investment companies, Pakistan Railways and Pakistan International Airlines is not being promised at this stage for want of restructuring or revival through Sarmaya Pakistan Holding Company.

The new fiscal adjustment reform programme will also envisage additional non-tax revenue measures like recovery of arrears and smoothening of the Gas Infrastructure Development Cess (GIDC), speedy adjudication of tax-related cases through the alternative dispute resolution mechanism, auction of 3G and 4G telecom licences and timely realisation of dividends, profits interest receipts etc.

A fund is being proposed for the State Bank of Pakistan (SBP) so that the regulator can have a sort of manoeuvrability with the exchange rate within a month or quarter to address unusual movements. Besides, it will allow the central bank to move towards inflation-targeting monetary policy in line with international best practices.

Energy prices will see further upward adjustments, beginning perhaps before the federal budget for 2019-20. Their quarterly and biannual revision schedules will be fully restored with an additional provision to allow the automatic notification and implementation of gas and electricity rates on the day of tariff determinations by the relevant regulators.

The government's medium-term framework also envisages additional revenue generation of almost 2.6pc of GDP in three years. Of this, the federal government will raise about Rs1.1 trillion or 2.3pc of GDP. Almost half of this — 1.1pc of GDP or nearly Rs500bn — is being committed for the first year. The government will roll out measures for this purpose in the upcoming budget for 2019-20.

A major contribution of about 0.4pc of GDP or Rs180bn to this target will flow from the shift to the single VAT regime in the first year. The remaining 0.4pc (Rs180bn) is expected through the strengthening of the FBR formations, cleansing of databases, data mining, efficient enforcement/process reengineering and taxpayer facilitation. About 0.3pc of GDP is targeted through the removal of tax exemptions and rationalisation of tax credits.

This will be followed by 0.9pc of GDP additional revenue generation in 2020-21 and then 0.3pc in 2021-22. Provincial taxes are supposed to go up by 0.1pc of GDP every year to achieve 1.6pc tax-to-GDP ratio in 2021-22 from the current year's 1.3pc.

Broadly, measures expected to deliver the targets include a drastic reduction in tax expenditures through the removal of exemptions and excessive credits from income tax, sales tax and federal excise duty laws and moving to a single sales tax (VAT) regime by doing away with special procedures and reduced rate taxation.

Other policy and reform initiatives will include a reduction in the number of withholding taxes, which are hurting the banking sector while making an insignificant contribution towards revenue. Other measures include freezing the corporate tax rates at 30pc or 29pc and increasing the expanse of federal excise duties. This will also need the strengthening of the FBR's field formations through investment in IT/physical infrastructure and training by increasing investment from 0.68pc of the revenue collection to at least 1.25pc in three years.

The authorities believe that the present arrangement of four provincial and one federal bodies looking at the goods and services tax have increased the cost of doing business. They will, therefore, ensure a single tax collection agency, a single tax return and a single auditing authority to cut compliance costs.

Considering their critical role in resource mobilisation from sales tax on services and the agriculture sector, the provinces will be required to enhance the tax yield from these two segments besides improving the base of urban immovable property taxpayers.

Khaleeq Kiani