

### **The 'mini-budget'**

The much hyped 'mini-budget' was presented in the National Assembly on 23rd January 2019. While the PTI government, in the presence of PM Imran Khan in the house, well-achieved its objective of unfolding its economic and fiscal policies before the nation, the opposition benches' did not go well with the public interest. At the moment no subject is more important to the people of Pakistan than the country's economy. The legislators are expected to be a true reflection of the public sentiments.

The so-called 'mini-budget' can best be described as 'fiscal corrections'.

The government appears to have well achieved its objectives to the extent that a stagnant industry and a nervous stock exchange have welcomed the government's overdue initiatives with a hope of a better tomorrow.

The key challenges identified by the government are Fiscal deficit, trade deficit and budget deficit. All this boils down to one core issue: the government has not been able to mobilise revenue generation through industrial production, agriculture growth, investments, exports, real estate transactions, retail businesses and tax collection. All these sectors remain stagnant and sluggish for multiple reasons.

No doubt, much of the problem is on account of the accumulated legacy of last 10 years - an argument which may hold good for the new government in its first year after which the ownership of the legacy moves to the incumbent government.

The government has well managed the threat of default through soft loans from friendly countries, notwithstanding that this adds to nation's liabilities with budget deficit jacking up from 4.2 percent to 6 percent by this fiscal year end.

Reportedly, negotiations with the IMF are on the cards and expected to move smoothly and rapidly than earlier envisaged.

The government's decision to facilitate SMEs and agriculture sector are the right steps to provide a wider space to small entrepreneurs; it will certainly help create new employment opportunities.

The government has also announced incentives for Pakistan stock exchange, although serves only a small segment of society, it is essential for the economic perception of the country.

But, these were the easy ones. The real challenge lies in mobilising the revenue and curtailing fiscal leakages and expenditure failing which fiscal year end of 2019 will be much worse than that of last year. This requires the government to turn around the economy in the next six months, which appears unlikely.

Since 2007, the industrial growth is on a declining trend and so is the ease and cost of doing business in Pakistan whose global rating has declined from the position of around 80 (2007) to around 140 (2018). Local products are no longer competitive against imported goods specially those from China under an FTA between the two countries.

Foreign Direct Investment (FDI) has shrunk from \$9 billion in 2007 to around \$300 million in 2018 - the lowest in a decade.

BOI Islamabad is far from being a one-window operation or an entity with credentials to offer any value-addition to a foreign investor. Today, regulators like SECP, building control authorities, environment compliance entities and similar have mushroomed - more as investment repellents than investment facilitators.

In spite of our best efforts and unprecedented devaluation of Pakistan rupee against dollar by 25% our exports could only inch up by 3 percent. The main reason is that Pakistan is no longer competitive in the global market due to high cost of doing business.

In any country the industry, foreign investment and exports are the key prime movers of the economy and revenue generation. The incumbent government is far from firming up a viable strategy to mobilise these three.

It is good to hear the news of mega investment coming from the Middle East or China but it may or may not come as investment is all about numbers and not based on friendship alone. The government must work on developing a structure to mobilise multiple and sustainable smaller foreign investments from SMEs. This requires a lot of hard work.

The other challenge for the government is to plug fiscal leakages and rationalise expenditure. The energy sector alone is reported to be losing Rs 2 billion per day. It is said to be adding circular debt in a big way. Circular debt is estimated to balloon to Rs 3 trillion by end of this fiscal year end - the brunt of which will be borne by our industry and general public. This week alone the electricity tariff has been increased by a steep Re0.75 per unit. More of such increases in tariffs will be witnessed in the next six months.

Moreover, the accumulated losses of Public Sector Enterprises (PSEs) are over Rs 1.4 trillion. These are estimated to reach Rs 2 trillion by fiscal year-end.

The real estate market continues to remain out of the state economy from which the grey economy of the nation has also branched out.

The government's endeavours to place accountability before business and the interest of a wider middle class over a tiny elite class who have amassed wealth at the expense of the poor is understandable and desirable. But the change has to be gradual and incremental. More importantly, it must be through business intelligence and automation.

The environment riddled with 'business as usual' mindset, is the main deterrent for this government. Too many business advisory councils cannot be of much help. The change has to be mobilised within the ministries; it may be through full-time induction of professionals with specific job responsibilities and deliverables.

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