DAWN

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Firefighting is the new normal

Finance Minister Asad Umar insisted that the Jan 23 mini-budget was a reforms package. The Federation of Pakistan Chambers of Commerce and Industry (FPCCI) said it was actually a relief package. Critics saw an effective amnesty scheme for defaulters and non-taxpayers — a charge our Federal Board of Revenue (FBR) rejected vehemently.

By whatever name you choose to call it, the Jan 23 mini-budget brought to the fore a big reality: firefighting on the economic front goes on and no one can say when it will stop. We continue to see firefighting on the balance-of-payments front. We saw a third major fiscal firefighting exercise on Jan 23 in the form of a third finance bill in 2018-19.

Net foreign exchange reserves of the State Bank of Pakistan (SBP) declined to $6.36 billion on Jan 18, not enough to cover a month and a half of imports. But we got $1bn from the United Arab Emirates on the same day when reserves data came out. Another $1bn is expected by the end of January.

The current account deficit in the first half of this fiscal year stood at $7.98bn. Exports of goods and services in July-Dec 2018 fetched only $14.44bn whereas imports totaled $31.93bn.

Remittances in July-Dec 2018 stood at $10.72bn. Add this number to the combined exports of goods and services and you get $25.16bn — still far lower than our imports of goods and services.

Tax incentives for the corporate sector and commercial importers are expected to boost the sagging industrial output and expand domestic trade

The government's claim that it is a reforms package makes sense in view of these numbers. The PTI wants to keep us ready for more reforms. After all, preparing the nation for budgets after budgets is not easy — politically or otherwise.

Tax incentives announced for motivating banks to lend more to agriculture and SME sectors and participate in the Naya Pakistan low-cost housing scheme are quite strong. Banks will now be paying 20pc tax instead of 35pc on incomes arising out of lending to each of these sectors. With such a big incentive, banks should love to increase lending to existing borrowers and reach out to new ones. Since activities in agriculture, housing and SME sectors revolve around a large number of people — unlike in the services or even manufacturing sector — the impact of the incentives will hopefully strengthen the PTI's political capital.

The government takes credit for the doubling of private-sector credit and 22pc growth in agricultural lending so far in this fiscal year. But to translate growth in private-sector credit and agricultural lending into tangible gains for people, it needs to supplement both achievements with many other things, like an improvement in the federal-provincial political relationship and the removal of fears of uneven accountability from the minds of businessmen.

Some other measures announced in the mini-budget or the reforms package, as the government loves to call it, are also expected to impact banking activities profoundly.

For example, the decision to exempt tax return filers from the advance tax on cash withdrawals from banks means a lot for taxpaying companies and individuals dealing with banks. In the past, a number of them started bypassing banks for part of their cash-payments and that was affecting the expansion of banks' deposit base negatively and fuelling growth of currency in circulation.

The government has neither lifted the advance tax on cash withdrawals from non-filers of tax returns nor reduced the tax rate for them. The assumption is the pain thus inflicted on non-filers may ultimately compel a number of them to become filers and lead to greater documentation of the economy.

But that is where the will of the government and the honesty and skill of our taxmen will be tested to their limits as powerful people take pride in evading taxes and the tax machinery is perceived as the most corrupt among all government departments. Unfortunately, banks continue to deduct this tax on cash withdrawals by even those who fall below the income tax threshold despite some clarifications issued by the FBR. There are people who ought to file tax returns and they do. But there are those who don't. There is also a third category of our citizens: tens of millions of people who cannot be asked to file returns as their income is less than the minimum taxable limit. Why is a university student earning money from tuitions required to pay the tax if his annual income is below the threshold level of Rs1.2 million?

The finance minister should sort out this issue once and for all.

In his mini-budget speech, the minister also announced abolition of the advance tax on bank accounts fed wholly on home remittances and on banking instruments bought against cash (like demand draft and pay orders) for filers of tax returns.

Here again, there is a need to differentiate between those who are supposed to file returns but they don't and those who are not legally bound to file such returns. Why, for example, a college student has to pay advance tax on the pay order she purchases from a bank for paying her fees?

As for the exemption of remittances-fed accounts, the abolition of advance tax should obviously help beneficiaries of those accounts and may act as an incentive for overseas Pakistanis to send more foreign exchange back home via banks.

The mini-budget has permitted non-filers to purchase new, domestically produced motor vehicles of up to 1300cc. This is expected to enhance sales of locally manufactured automobiles and may be helpful for banks in boosting consumer finance.

Other tax incentives announced for commercial importers and the corporate sector are also expected to boost the sagging industrial output and expand domestic trade. Banks stand to gain with an anticipated increase in corporate and commercial loans.

As an additional incentive, the government has also abolished super income tax on the corporate sector, excluding banks. Its removal was a big demand of the corporate sector and its acceptance should help companies perform better.

The introduction of three-year promissory notes for the settlement of overdue tax refunds can have a favourable impact on our domestic bond market. But whether they can be helpful in deepening this market depends on the rate of profit to be offered on them.

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