

Flexible budget & stiff austerity

LAHORE: We need a team of capable analysts to prepare a flexible budget, keeping in view different possible scenarios resulting out of the novel coronavirus COVID-19 pandemic after all no government can perfectly forecast where the revenues and expenses be by the time the pandemic hits its peak.

Our planners would have to think and plan rationally. We have seen 30 percent decline in revenues in the past three months as admitted by our Prime Minister. The way things are moving it is certain that the next three months would be no better. There are certain expenses that cannot be avoided that includes salaries of government employees, the defence expenditure and the debt servicing cost. Another compulsory cost that has been added to this list is of pandemic management. No sane planner could shy away from this expense.

It is indeed extremely shocking that this government locked its horns with the International Monetary Fund (IMF) by insisting on increasing the salaries of government employees when the state would be borrowing money even to bear the existing bill of pays and pensions. We should adopt a realistic approach on revenue collection as well. The revenues would increase if we are able to exceed the productions from this fiscal. Higher taxes could only be collected if normal business activities resume. Now the businesses are struggling to achieve even minimum sustainable turnover. There are very few consumers, and their preference is to buy only the essential items. The fat sales tax that the government used to collect from automobiles, electronics, home appliances has dwindled. The informal sector would be the first to revive because the informal sector entrepreneurs depend more on their skills and competence than capital. The formal industries are short of capital. They have either fired their productive workforce or the workers have left on their own. They have found refuge in their rural homes, where bread and butter is shared in the combined family system. They derive their food from their small farms and one or two cattle that each family rears. Rural Pakistan these days is more populated and more content.

The major troubles are in big cities. Karachi, Lahore, Rawalpindi, Hyderabad, Quetta and Peshawar account for the bulk of coronavirus patients in the country. These cities are also the main business and industrial centres. The businesses and industries in these cities are fighting for survival. Their fate depends on how prudently the government handles the pandemic. It is inconceivable for the production to hit top gear until the pandemic curve starts flattening. Our prime minister has already said that the pandemic may attain its peak in August. That means that we should expect subdued economic activities for over next two months.

Clearing and managing the health mess created by the pandemic would require lot of resources. The recovering patients would be too weak to attain their full productivity. The health system would be overwhelmed. Medical staff would feel the fatigue of over

work. The money would have to be provided from the available resources. Other expenses would have to be drastically cut. Can we cut the expenses of the ruling executives? Would we dare to slash the perks of parliamentarians by 50 percent? Or we would seek further loans for health sector and spend only the amount that we could get as loan. This approach would be disastrous for society. The government is bound to look after its ailing population.

What if the state failed to achieve its revenue target? Normally the Federal Board of Revenue never achieves its revenue target. This time around inability to generate the targeted revenues would have grave implications. But the ground reality is that if the business activities failed to reach even the 2019-20 level the revenue targets would be missed. Already the World Bank has predicted negative half percent growth for next fiscal. The assessment is based on current situation but if the situation of pandemic worsens (which most likely will) then the growth would be even lower.

At this point the state would scramble to find more resources; but if hold our development spending till the last quarter of next fiscal we could easily divert those funds for pandemic rehabilitation. If we strictly refrain from buying any new vehicles or furniture and downgrade the travelling mode of officials including ministers. To manage our current account deficit, make in Pakistan should be the highest priority. This means reducing cost of manufacturing. To reduce our budget deficit, we must close down all ministries, departments, state-owned enterprises who are redundant or a burden on our exchequer. This should have been done after the 18th amendment; however, now is the time to do it.