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Editorial

Remittances exempted from withholding tax

The Finance Division has stated that remittances would henceforth be exempt from payment of withholding taxes, the objective being incentivizing the inflows of remittances. This raises the question as to whether a carte blanche to any amount of remittance inflow is appropriate given the Khan administration's persistent claim that large sums of money were remitted to the country by opposition politicians as well as money launderers. A more feasible, from a political and economic perspective, would be to place a cap on remittance income inflows exempt from the payment of withholding tax.

Be that as it may, this particular measure is fully supported as remittance inflows, apart from exports, make a major contribution to reducing the current account deficit from 'desired' as opposed to the 'undesired' foreign exchange inflows that include borrowing from abroad as well as policies designed to attract 'hot' money which, in Pakistan's case, has implied a high discount rate. It is indeed unfortunate that Pakistan's foreign exchange earnings from these desired sources are at great risk due to domestic policies as well as external factors. The former charge is substantiated by the data uploaded on the Pakistan Bureau of Statistics (PBS) website noting that a significant decline in the current account deficit - from 21.467 billion dollars in July-February 2018-19 to 15.7 billion dollars in the comparable period of the ongoing year – is attributable to import contraction which accounts for 5.1 billion dollars with exports rising by only 551 million dollars during the same period. The rise in exports is very small attributable to fiscal and monetary policies supported by the Khan administration that are making imports of raw materials and semi-finished products unattractive, thereby stifling productivity in the country.

External factors, particularly the coronavirus, finally declared a pandemic by the World Health Organisation, and the disagreement between Russia and Saudi Arabia to adjust oil output to reflect lower global demand as a consequence of the virus, are impacting on economies around the world. Pakistan is more susceptible to a reduction in export orders for its are largely consumer-based exports (relative to others that export capital goods); however, with market uncertainty pervasive around the world "hot" money outflows from Pakistan have begun – an outflow that could have been predicted in the circumstances. In other words, foreign exchange earnings are likely to further suffer if these external factors persist coupled with the continuation of domestic policies.

Thus while the decision of the Finance Division to exempt remittances from withholding tax is appropriate yet projecting an increase in remittances as a result appears to be wishful thinking in the current domestic and global environment. Many of our major trading partners are experiencing recession due to the coronavirus and the oil-rich Middle East has begun to take a hit with respect to a massive decline in oil prices. In this scenario, the issue becomes one of possible lay-offs of foreign workers, including Pakistani workers employed in these countries, and therefore the projected increase in remittances maybe premature at this time. Additionally, the announcement of a September 2020 launch of national remittance loyalty programme in the current domestic and international environment may not have been the most appropriate time.

To conclude, perhaps it was due to these very factors that no federal minister thought it prudent to announce this fiscal incentive to remittance inflows. It is important to note that countries in the West have begun to inject large sums into their economies to mitigate the impact of the virus while the Pakistani government appears more focused on slashing expenditure as stated in the mid-year review: one of the consequences of falling short on revenue targets would be curtailment in development expenditure.