BUSINESS RECORDER
Founded by M.A. Zuberi

24th December, 2018

Another 'mini-budget'

In a briefing to the Senate Standing Committee (SSC) on Finance, Asad Umer, Federal Minister of Finance, hinted at a number of initiatives likely to be taken by the present government to rehabilitate the economy. The government, he said, will present a "mini-budget" through "money bill" next month to impose/increase taxes to bridge over Rs 100 billion shortfall of the FBR during July-November, 2018. Some of the tax proposals will relate to increase in rates of taxes and decrease in duties on imports consumed by the export industry/sectors. The Finance Minister, however, disclosed that final decision in this regard, particularly the tax proposals, is yet to be taken and the government is not in a hurry to go to the IMF as the financing gap for the current fiscal year has already been met with the help of the friendly countries. "We want an economically sound IMF programme that serves Pakistan's interests and would not accept anything opposite," Asad Umer reiterated. There was no doubt that flight of capital has been taking place and exports have gone down. The government wants to improve the ease of doing business and introduce tax reforms and both these issues would be addressed on a priority basis. A mechanism is being developed to clear the pending refunds of Rs 250 billion of sales tax and drawbacks of local taxes and levies. FY18 was a very bad year for the economy as C/A deficit was over dollar 18 billion and the major challenge for the new government was how to bridge the financing gap. The Minister disagreed with the senators that there is a loss of confidence following depreciation of the exchange rate. Making decision about the exchange rate is the prerogative of the SBP. Governor, SBP, who was also present at the meeting, added that exchange rate is determined by the market forces and the markets operate on macroeconomic fundamentals and market sentiment.

The observations of the Finance Minister at the meeting with SSC on Finance reflects the latest thinking of the government on important issues of the economy and must have added to the information of the senators to a great deal. It was, more or less, known that the government would come up with a 'mini-budget' soon to meet the shortfall in the tax revenues during the course of the current fiscal year and also cover up the shortcomings of the budget presented earlier by the PML(N) government. However, it may be stated that this would be a third money bill in a fiscal year and the second by Asad Umer after the Supplementary Finance Bill was presented by him on 18th September, 2018, subsequent to the budget his predecessor Miftah Ismail of PML(N) had presented on 27th April, 2018. In our view, though it is the prerogative of the present government, the presentation of a third money bill in one year is something extraordinary and has confused the business community and the investors in general who make their decisions on the basis of fiscal policy announced in the budget which is usually a one-time affair in a year. As such, we would urge upon the Finance Minister to prepare the proposed 'mini-budget' to be presented in January, 2019 with utmost care and keeping in view all the unfolding developments so that uncertainty over the budget for 2018-19 is over and the relevant stakeholders may plan their activities with confidence. It is also sad that the Finance Minister has neither talked about the equity in taxation nor did he speak about broadening the tax base in that meeting which shows that the old philosophy of the budget will be continued.

So far as the bailout package from the IMF is concerned, the Finance Minister seems to have taken a casual and rather austere view of the external sector situation. His confidence may have emanated from liberal assistance from Saudi Arabia and the UAE and the discussions with China which are reported to be in final stages. However, it needs to be remembered that such assistance/loans could only be sufficient for one year at the most and the gap in the external sector after FY19 could be filled only with a programme with the IMF which could also generate the flow of resources from other multilateral sources and the implementation of major structural reforms to ensure a sustainable position in the external sector. As such, the Finance Minister needs to keep the door wide open for a Fund programme. We know that the present grave problems of the economy are not due to the flawed policies of the present government but it is now its responsibility to change the direction and place the economy on a sustainable path of development.

RECORDER REPORT