

## **EAC meets for the first time**

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The Economic Advisory Council (EAC) presided over by Prime Minister Imran Khan met for the first time in Islamabad; and, as per an official handout from the Prime Minister's office, Imran in his opening remarks regretted that in the past the country's economic policies neglected the poor and the middle classes and that the Pakistan Tehreek-e-Insaf (PTI) government will "provide equal opportunity to everyone as no nation can progress without taking care of the middle class." These are praiseworthy sentiments but given that the economy is grappling with unsustainable budget and current account deficits, fire fighting measures are required on an emergent basis that leave little luxury for the newly-installed government to undertake necessary long-term reforms in not only the tax structure and tax administration but also limits its capacity to increase expenditure targeted towards achieving salutary PTI objectives notably increasing outlay on tourism-related infrastructure development, cheap housing and creation of jobs.

During the EAC meeting, the government reportedly committed to setting up working groups on debt, fiscal and current account by next week, indicative of the fact that the Khan administration is cognizant of the gravity of the situation and Business Recorder would suggest that these three working groups identify short-term fire fighting measures as well as long-term reform measures. Of particular and consistent concern over decades to domestic stakeholders as well as multilaterals has been the need to reform the tax structure and administration. Tax structure needs to be revamped through raising reliance on direct tax collections, a progressive form of tax instead of on indirect taxes whose incidence on the poor is greater than on the rich. Tax administration needs strengthening as the capacity of the Federal Board of Revenue (FBR) is technically as well as with respect to human resources inadequate. Thus even if existing legislation designed to increase the number of tax filers 25-fold is followed in letter and spirit the FBR system would be unable to withstand the increased traffic. Additionally, the revenue collection for the current year as envisaged in the budget is completely unrealistic and FBR noted this fact in April and released data that revealed that the tax measures would lead to a loss of 91 billion rupees in the current year.

Expenditure allocations as approved by parliament in the sixth budget of the PML-N government not only reflect the priorities of the previous administration (and as Prime

Minister Khan stated these are at considerable variance with his administration's priorities) but also envisage a rise in current expenditure that is 27 and 11.2 percent higher than the budget and the revised estimates of 2017-18 – a raise that the economy cannot withstand. If the revised budget is presented by the end of this month or early next month, 25 percent of the fiscal year (three months out of a total of 12) would have passed which would constrain the implementation of the revenue and expenditure priorities of the PTI government for the current year. Thus, the revised estimates for development and current expenditure must be presented to the cabinet and parliament as soon as possible that would launch the economic vision of the new government. Prime Minister Imran Khan did note during the meeting that major changes in the budget are under preparation to make the budget realistic.

Those who attended the first EAC were assured by the Prime Minister that its recommendations would be implemented and this would be a marked deviation from the EAC during the Dar/Ismail era which sceptics maintained was to silence the administration's critics. While many of the EAC members during the Dar/Ismail era have been reselected by the Khan administration yet three new names, all resident abroad associated with prestigious Western institutions, including Harvard and Princeton, led to considerable optimism about the efficacy of the EAC: Dr Rasul, Dr Khawaja and Dr Mian, the latter's name has since been dropped. Unfortunately, none of the three was present during the first EAC meeting and reports did not indicate that they joined the meeting through a video-link. Their absence one hopes is sourced to logistics and not an indication of their engagement in the EAC.

Imran Khan did state that recommendations of the EAC would be fully implemented, however, in spite of the fact that there are bound to be differences of approach between the members yet Business Recorder fully supports the establishment of an EAC staffed by highly qualified individuals who held senior positions in previous administrations as well as foreign-based economists who are respected internationally.