INTERNATIONAL THE NEWS

Money Matters

Mini-budget, mega issues

Page NO.II Col NO.I
September 17, 2018

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Prime Minister Imran Khan has conceded that the country was short of funds to run its affairs and the fiscal woes could be overcome without improving governance and overhauling bureaucracy. There is a need to remind Pakistan Tehreek-e-Insaf (PTI) that now they have assumed reins of power thus pointing out the problems will not solve them. In order to pull that feat off they will have to devise a plan with an implementation mechanism to deliver goods for the country.

Prime Minister Imran Khan has conceded that the country was short of funds to run its affairs and the fiscal woes could be overcome without improving governance and overhauling bureaucracy. There is a need to remind Pakistan Tehreek-e-Insaf (PTI) that now they have assumed reins of power thus pointing out the problems will not solve them. In order to pull that feat off they will have to devise a plan with an implementation mechanism to deliver goods for the country.

The incumbent regime is all set to present a mini budget before National Assembly this week by readjusting all major macroeconomic and budgetary targets for the rest of the fiscal year.

The fear expressed through articles appeared in The News proved to be true that this fiscal year will be witnessing more than one budget because the last Pakistan Muslim League-Nawaz (PML-N) government had unveil a budget based on half-cooked data that was bound to change following the emergence of new realities on economic fronts.

Now the government intends to come up with revision of budgetary targets to tackle rising current account and budget deficits that witnessed peaks of 6 percent and 6.6 percent of the GDP respectively in the last fiscal year ended on June 30, 2018.

Pakistan cannot sustain such huge levels of twin deficits keeping in view its inability to finance them. The budget deficit, which is considered mother of all economic ills, ballooned to historic levels by touching Rs2260 billion or 6.6 percent of the GDP. In absolute terms, the country had never witnessed such level of budget deficit since 1947.

When budget deficit increased it negatively impacted the current account deficit because it pushed up demand for rising imports.

It is appropriate time to warn the PTI-led government that the capacity of top bureaucrats at Ministry of Finance, Federal Board of Revenue (FBR) and other ministries deteriorated rapidly for making right kind of projections on macroeconomic and budgetary fronts and in the last several years all of their projection slipped with huge margins. The revision of budgetary targets is the right approach for the government but projections must be made on the basis of ground realities instead of devising plans on mere false assertions.

The government plans to withdraw tax incentives introduced by the its predecessors and it would increase burden on salaried class as exemption of taxable income ceiling would be brought down from Rs1.2 million to Rs 0.6 or Rs 0.8 million through upcoming revised finance act 2018. There is also a proposal to impose wealth tax on moveable assets but it’s yet to be seen how the government moves ahead with it.

The federal government cannot bring immoveable assets into tax net keeping in view legal and constitutional requirements.

Former Member FBR Shahid Hussain Asad told The News that the PTI-led government could move ahead with its plans to increase deputy commissioner rates for real estate to bring it at par with the market rates in consultation with the provinces and subsequently reduce the stamp duty accordingly.

This one step, he said, could fetch Rs300 to Rs400 billion into the tax net. There are three provincial governments of the PTI and they can get support from Sindh as well as this juncture, he added. Hussain said the broadening of tax base needs to be expanded seriously as all kinds of data was available but there was a lack of political.

On customs side, Hussain said there was need to overcome leakages by plugging massive under-invoicing especially in trade with China and curbing rampant smuggling.

However, the government is also planning to jack up Regulatory Duty on luxury items and there is a proposal under consideration to increase additional custom duty from 2 to 3 percent.

The government will have to curb rising imports on immediate basis but it cannot be done without revising Free Trade Agreement (FTA) with China because when the government imposed tariff and non-tariff barriers it resulted into extending more favorable environment for increasing imports from China in the wake of the FTA.

Even Finance Ministry officials had even suggested that there was a need to conduct forensic audit to ascertain reasons as to why the tariff and non tariff barriers undertaken in the last fiscal year 2017-18 had failed to bring down import bill up to the desired levels. There is something fundamentally wrong here and it must be known to policymakers to rectify their policy measures otherwise all steps taken in the future would also fail to achieve the desired results.

In a bid to bring down the budget deficit from 6.6 percent of the GDP to the range of over 5 percent, the government is going to revise downward the FBR tax collection target from Rs4435 billion to Rs4325 billion despite taking some additional revenue measures through upcoming amendments in finance act 2018. On expenditure side, the development outlay will be axed from Rs1030 billion to Rs600 billion to Rs700 billion through revision of budget 2018-19. The government is ready to present the revised budget before the Parliament this week probably on coming Tuesday.

The biggest challenge for the PTI led government will be bringing reforms into FBR and broadening of tax base because the wish of doubling tax collection from Rs4000 to Rs8000 billion cannot be materialised without reforming the tax machinery and granting autonomy by removing it from clutches of Finance Ministry.

The Overseas Investment Chamber of Commerce & Industry (OICCI) and its President Irfan Wahab along with office bearers in federal capital shared a ten-point agenda with Minister for Finance to reform the national economy. The agenda stresses the need for short-term confidence building measures on economic front, creation of focused group to improve Ease of Doing Business ranking from World Bank, and engagement with key stakeholders in the private sector, like OICCI, on a regular basis.

The OICCI also suggested the government to leverage technology in transforming economy, broaden the tax base, reform tax regime in line with regional benchmark, implement 2016 Tax Reforms Commission Report, simplifiy complex taxation system, including Customs.

The chamber also recommended the government to broaden the tax base through the use of data and technology, invite foreign direct investment (FDI) through sharing success stories in key international forums.

It also called for fully operational Special Economic Zones, special incentives for FDI for re-export, building Brand Pakistan with enhanced visibility across the globe, resolution of inter-provincial coordination issues, boost in export under a structured programme, especially of services sector, review and revision of FTA/PTA and BIT's and increase in agriculture productivity through technology and research.

The implementation on this agenda is imperative for the PTI for which they will have to come out of the opposition mode to ascertain that they are in power and responsible to fix all problems on all fronts by devising short-, medium- and long-term plans.

The writer is a staff member