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Budget measures: woefully inadequate

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Finance Minister Asad Umar has finally unveiled the much-awaited economic measures to correct the deteriorating economic conditions. A day earlier, the government, after considerable to-and-fro, also announced a hefty gas price adjustment.

As we would argue, these measures are in the right direction but they fall significantly short of what is required to face the economic challenges.

Let us recount the major initiatives: (a) new taxes of Rs 183 billion out of which Rs 92 billion would be administrative measures meaning tax savings by plugging evasion and leakages through the use of technology; (b) development expenditure cut to Rs 725 billion from Rs 800 billion; (c)individual tax rate, which was unjustly reduced from 35% to 15% in the original budget, has been increased to 29% but the increased taxable limit from Rs 400,000 to Rs 1,200,000 has been retained; (d) a large number of excise, import and regulatory duties have been increased both on domestic production and on imports; (e) tax on cash transactions from banks has been increased from 0.4% to 0.6%; (f) non-filers, who were banned from purchasing vehicles and immovable property, would now be able to do so; and, (g) withdrawal of increased rates of petroleum levy announced in the last budget. The last measure is only a notional action, as the increased rates only amounted to acquiring flexibility in collecting more duty but actually it was not used till now.

The Minister has noted that the budget deficit for 2017-18 was 6.6% and the underlying deficit in the budget 2018-19, made by the previous Government was 7.2%. It is claimed that the measures adopted would bring down the deficit to 5.1%. This is not a valid claim.

The reduction of 2.1% in fiscal deficit means either to raise Rs 880 billion in tax measures or reduce expenditures by the same amount or a combination thereof. Even when the tenuous tax measures of Rs 183 billion are taken on the face value together with the reduction of Rs 75 billion in development expenditure, these add up to Rs 258 billion, which is grossly inadequate to bring down the deficit to 5.1%. If the soft measures of Rs 92 are excluded, the new effort would come down to a mere Rs 166 billion, which is woefully inadequate to achieve the desired fiscal adjustment.

Some people have reacted adversely on withdrawal of ban for non-filers. We disagree for the simple reason that the State cannot stop someone to acquire a vehicle or buy a property for want of being a non-filer. First, there are numerous purchases subject to tax where the non-filers are allowed after paying a higher tax. Why exclude vehicle and immovable property from this facility. Second, this whole notion of non-filers is a misplaced concept. Why the tax authority allows people to remain non-filers forever. A time frame should be allowed after which the tax authorities should approach the non-filers and inquire as to why they are not filers. This is imperative to do, for otherwise we are incentivizing people to remain non-filers if they choose to despite being potential taxpayers; or tax even those who may be pensioners and others whose income is not taxable to keep paying such an unjust tax. In fact, there are reports that even remittance income is being subjected to tax when rupee is withdrawn from the bank account. This is inducing non-banking channels for remittances.

What is also surprising is the absence of an economic vision. One had hoped that Asad Umar would use the occasion to lay out his strategy as to how he plans to reshape the economy over the next five years. He termed the economy in ICU and claimed that the measures presently taken were simply aimed at retrieving the patient from ICU. Despite noting a multitude of risks facing the economy, he would not spell out how those risks would be mitigated. The measures adopted, despite being correct, lack a coherent story about economic management. It was curious to note that on many occasions, the Minister only showed his resolve to face a given challenge (new taxpayers) without indicating a game plan. Indeed, he left the increased limit of taxable income by the previous government intact which had effectively excluded nearly half the income of taxpayers barring a notional tax of Rs 1000 and Rs 2000 to remain within the tax net and be counted as filers.

In these pages we have been urging that the Government needs to announce a comprehensive economic policy to deal with the current economic crisis. It is not simply a matter of few ad-hoc measures, aimed at balancing the budgetary gaps, though even this has also not been done as needed. Every question of substance has been left for a task force to make recommendations. Serious questions have been left unanswered.

It seems the government has not understood the basic framework that guides the conduct of economic policy. There is an undue emphasis on reducing imports by raising regulatory duties and in some cases some tariffs. This is not the preferred instrument when there is an intense demand for imports essentially emanating from Government's own budget. The fiscal adjustment, as noted above, is not credible. Accordingly, the intended effect on imports would remain elusive.

Although many commentators have described the budget as a preparatory work for approaching the IMF, we have doubts if any such plan is in the offing. However, it is an undesirable situation that the government is keeping an ambiguous stance on this critical matter. Markets would welcome a clarity about government's plans in this regard. If the government has decided not to go to the Fund, as it seems, then let this be a matter of public knowledge so that markets can brace for the consequences that would inevitably flow from such a decision.

There are muted voices from some government officials that support from Saudi Arabia and China would spare the need for going to the Fund. This is not a desirable course to follow as no amount of outside support would help alleviate the ills afflicting the fiscal regime in the country. Accordingly, we would strongly recommend that the government should focus on fixing the economy through austerity and resource mobilization and bringing fiscal discipline in the country and look for sedatives from friendly countries.

(The writer is former finance secretary)