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Mini-budget: PTI takes the middle ground

Page No.02 Col No.01

The mini budget is here. Asad Umar set the record straight to show the fiscal situation PTI inherited, which is no different from what PML-N got in 2013 - on net basis there is no improvement in the past five years.

This is followed by portraying real picture of budgeted fiscal deficit - according to his calculation, without doing anything, actual deficit could slip by Rs886 billion due to overstated revenues of Rs350 billion, expenditure understatement of Rs250 billion and wishful thinking of Rs286 billion provincial surplus.

Adjusted for ground realities, without any intermediary measures, the deficit touches Rs2.77 trillion (7.2% of GDP) from budgeted Rs1.9 trillion (4.9% of GDP). It is a good approach to be transparent whereas the successive governments used to have practice of running over optimistic picture.

But there is no fun in exposing the previous governments. Dar did the same in 2008 and 2013 while he adopted the policy to show rosier picture for his performance. Let's see how Asad reacts in 2019 and in subsequent years, before one can really comment on his honesty.

The crux of the first part of his speech is that times are difficult ahead and parliamentarians should all join hands to take the economy out of the mess. This is the right approach and there is no doubt that the twin deficit inherited by PTI is much worse than what Dar inherited.

But Asad and team missed no opportunity to criticize in past, as opposition, even good or tough imperative steps were criticized. It would be naïve to expect a change of heart from the opposition.

Asad vouched for bringing fiscal deficit in FY19 close to 5 percent without adding any burden on to the poor and middle class, and exporting sector. The idea is to transfer the tax burden to rich; not poor. And he added that stabilization measures can only stop the catastrophe; but these cannot excel the economy which requires industries and exports to grow to generate employment and foreign exchange.

He announced some relief to zero rating exporting industries in the form of lowering gas prices (Rs44bn benefit to industry in Punjab) and promised similar steps on electricity tariffs too. He waived regulatory duties on 82 items which are used as raw material or intermediary good for value addition in exporting industries.

Duties are maintained on other goods; there is increase in duties on luxury food items and 1800cc and above automobiles. The idea is to curb non-essential imports, whilst giving a boost to exports. But these measures may not yield enough results as in past these did not work much to the tune of expectations.

The revenue measures amount to Rs183 billion; half of it (Rs92bn) is to be raised by using technological tools and better administrative measures at the FBR to enhance taxes on existing base and rates. The philosophy was same when the budget was announced by Miftah. All what Asad has done is to take the budget announcement by PMLN on face value to take credit on better yields on existing base. There is nothing wrong in it as it has to be done by his regime and they have all the rights to take credit.

The rest of revenues are to be added by higher WHT tax on banking transaction, duties on luxury imported items and revision of tax relief given to the individuals. He maintained the tax gains already announced for individuals earning up to Rs200,000 per month. And rightly revised the rates upwards on higher slabs. The good news is that the rates are still lower than last year; only the expectations are killed.

The good step of Miftah of disbarring non-filers to buy real estate and cars is abolished; the argument presented was to facilitate experts who do not need to file returns at home. That is naive; they could have allowed it under special condition; this opens back conduit of parking grey money. They could have political compulsion of rewarding Karachi real estate clout of PTI; and of course this will re-boost Doha's transfer revenues. Seeing a documented Nay Pakistan still appears a distant dream.

Anyhow, the major cut in development expenditure has been proposed to lower fiscal deficit. The federal government funded PSDP is slashed from Rs800 billion to Rs575 billion. This will hurt growth which is already compromised by depreciation infused inflation. The focus for two years should only be on stability; and the mini budgeted stated that. The subtle but very important commitment is to slash tax exemptions by Rs350 billion. This is like breaking jaws of rent seekers; they would surely resist this. Good luck Asad!

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Impact of mini budget measures

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                                                                     Rs (bn)    % of GDP
Explanatory notes
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(1) Budgeted deficit	1,890	4.9%	
Revenue shortfall (a)	350		Shortfall from actual estimates to budgeted
Expenditure overrun (b)	250		Over-run from budgeted to actual
Provincial surplus (c)	286		In FY18 provinces ran Rs18 billion deficit; assumption of a balanced budget from provinces in FY19
(2) Actual deficit without any measure ((1-(a+b+c))	2,776	7.2%	
(3) Below the line deficit (d+e)	550		
Power circular debt (d)	450		
Gas circular debt (e)	100		
(4) Deficit including below the line (2+3)	3,326	8.6%	
Mini-budget measures			
Tax revenue increase (f)	183		
PSDP cut (g)	225		From Rs800 billion of federal budget to Rs575 billion
(5) Revised deficit on calculation (2-f-g)	2,368	6.1%	
Tax exemption reduction (h)	350		To be reduced from Rs550billion to Rs250 billion

Deficit after mini budget measures (5-h)	2,018	5.2%

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