Amendment bill needs revisit

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Federal Finance Minister Asad Umar, identified two major policy objectives of the finance supplementary amendment bill 2018: to load as little a burden on the poor as possible as they have been placed in a very difficult situation with policies of the previous government and to facilitate the productive sectors to provide enhanced employment opportunities and, at the same time, raise exports to contain the widening trade deficit. The former objective was targeted to be met through exempting those with income of 400,000 per annum from income tax, and those with income of up to 800,000 would pay a flat rate of only 1000 rupees. All higher income levels would be taxed progressively, as is the requirement of a fair taxation system. Additionally, petroleum levy, an indirect tax whose incidence on the poor is more than on the rich, was reduced and is projected to increase disposable income (percentage rise) of the poor/middle income earners by more than the rich. Regulatory duties on luxury items, including food items, were raised that again were targeted to impact on the well to do sections of society rather than the poor.

Umar further stated that the April budget for 2018-19 was unrealistic and if that is adhered to, it would generate a deficit of 7.2 percent. The measures taken by the PTI government, Umar further maintained, would reduce the deficit to 5.1 percent.

The critical question is whether this target is achievable given the supplementary amendment bill 2018? First off, Umar maintained that the government would increase revenue by 183 billion rupees. There are some serious reservations about whether this is possible given that he envisages (i) 92 billion rupee additional revenue collection from the use of available technology, which may reflect proactive measures to ensure that those who have assets abroad may be compelled to pay tax in this country though this was not mentioned by the Minister; (ii) higher regulatory duties on small items – cheese and other expensive food items plus high-end cell phones. The minister insisted that it would generate higher revenue and dismissed concerns about increase in smuggling through thousands of kilometres of porous borders on our east and west; and (iii) 100 billion rupee lower generation from petroleum levy budgeted at 300 billion rupees in the April budget.

The public sector development programme (PSDP), as per the government, would be curtailed by 250 billion rupees, however the finance minister identified only a 75 billion rupee cut (from April budget's 800 billion rupees total federal PSDP to 725 billion rupees). His critics argue that he failed to read the footnote in the April budget which maintained that total PSDP would be 1030 billion rupees but with 250 billion rupees financed not by the budget but through self-financing by corporations/authorities (incidentally Umar envisages 150 billion rupees for PSDP from out of the budget).

Calculations with respect to the April budget's data challenged by Umar are as follows: realistic revenue generation is 2720.2 billion rupees (350 billion rupees less than budgeted) while expenditure is 5496.2 billion rupees (and not 5296.2 billion rupees as budgeted) which gives a total deficit of 2775.8 billion rupees (instead of the budgeted 1890.2 billion rupees). The projected deficit in the April budget is 4.9 percent which would imply the government needs to generate around 800 billion rupees (2775.8 minus 1890.2 billion rupees) through higher revenue collections and/or lower expenditure to achieve the 5.1 percent deficit. Thus the 433 billion rupee additional resources envisaged in the finance supplementary amendment bill 2018 (183 billion rupee additional revenue and 250 billion rupees expenditure reduction) is insufficient to bring the deficit down to 5.1 percent from 7.2 percent in 2017-18.

The deficit calculations therefore lead one to the conclusion that the amendment bill is a work in progress and that further adjustments are envisaged by the Khan administration. Would these adjustments include access to foreign grant assistance/lending at extremely concessional terms and/or procuring oil (Pakistan's major import item) at cheap rates and/or on deferred payments that would not only provide fiscal space but also strengthen the country's dwindling foreign exchange reserves. This perception was strengthened by the decision of Prime Minister Imran Khan to take Asad Umar with him on his recent trip to Saudi Arabia, after he had declared that he would not undertake any foreign trips for the first three months of his tenure. Or would these adjustments include the issuance of Pakistani diaspora bonds? Or the government may envisage successful litigation against those who have laundered money and stashed it abroad? Time will tell what envisaged adjustments have actually borne fruit.