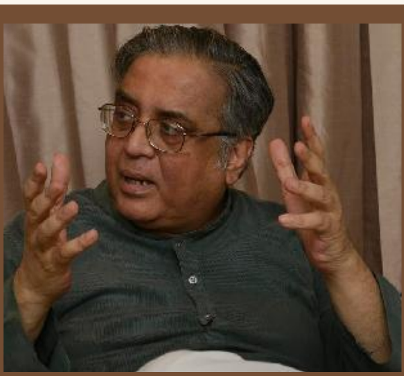
Interview



Dr. Hafiz A Pasha

(Professor Emeritus at BNU and Former Federal Minister)

"The fundamental question we face right now is Growth vs Stabilization. This, though also highlights the difference in approach of the two finance ministers, current and outgoing."

"The government has released the position of 9 months fiscal operations, which give us an idea of where we currently stand. The expected reduction in budget deficit is a good sign, but a few problems still exist some of which reminiscent of the previous era.

- The rise in statistical discrepancy to 1% of GDP is worrying and indicates a possible breakdown in the budgeting system.
- There is a big decline in development spending. The spending data is not consistent with the Planning Commission of releases. This shows, that despite releases the development funds were not adequately spent and could be the reason behind increased statistical discrepancy in the fiscal operations. This, however, indicates the lack of capacity in the system to spend the funds appropriately.
- An unusual problem seems to have surfaced, as in attempt to raise the development spending there is a breakdown in the capacity to spend the money at both federal and provincial levels.

A surprising, good news though, is that the provinces currently are flushed with money. Provinces presently have a cash surplus of over PKR 400 billion. This, though, indicates that the provinces are not spending enough, and is a cause of concern. "

"The cabinet has approved the medium-term strategy paper which has then been discussed in the National Assembly committee. This will form the basis of budgetary policies for the next 4 years or so. It is an extremely optimistic medium-term strategy, focusing on high growth with reduced budget deficit. The cabinet through this strategy paper, has approved a tight budget framework. We must be wary of the impact on fiscal space for expansion while aiming to significantly lower budget deficit.

Approving such a framework was necessary in line of IMF guidelines, but if we must grow rapidly as the new finance minister has been stating, we might have to move away from this framework. This could result in suspension of the IMF program, which could also dry up budgetary support from the World Bank and ADB. The finance minister will have to very skillfully plan accordingly to employ expansionary policies while surviving under the IMF conditions while possibly moving on debt repayment obligations 21-22 onwards for 3 years."

"My suggestions to the finance minister and government, if there is scope for renegotiations and changing conditions with the IMF:

Considering the external obligations, Pakistan cannot focus on an unmitigated and uncontrolled rapid short run growth. While a 5-6% consistent growth rate may be achieved down the road, doing so in the short run is highly unlikely. Though some major reforms, as suggested in the PIDE

Reform Agenda may give some hope for a quick high growth.

Be more realistic in budget deficit reduction, while targeting a slightly lower growth in the time being. As per assessment of historical experiences, a modest containment of the budget deficit by reduction of budget deficit equal to 1 percentage point of GDP annually will be a major achievement.

The FBR revenue increase targets should be revised and set around 18-20%, as our highest increase in revenue to date stands at 21%. The 35% increase target as set out by the IMF is on the higher side.

Capacity for development spending shall be increased. Currently, there is a throw forward of around PKR 7.5-8 trillion with 1000 projects under process. Our development spending is under PKR 1 trillion annually. A temporary moratorium shall be imposed on new projects, and focus should be made on full and fast completion of ongoing projects.

Fixed and final taxation has destroyed the progressivity of the tax system. Yearly loss of tax revenue due to concessions and privileges in the law is around PKR 1440 billion. There is enormous scope for progress taxation in Pakistan and must be the focus of future policies.

Currently there are 12 slabs of personal income tax in Pakistan, starting at 600,000 income per annum. The highest slab begins at PKR 75 million per annum with a 35% tax rate. Considering the sufferings of middle class and the rising inflation, my proposal is to reduce the slabs to 5 or 6. The minimum taxable income should be increased to PKR 750,000 per annum, to compensate for the inflation. The highest slab shall begin at PKR 15 million per annum, with a 30% tax rate.
The above two reforms alone can further increase tax revenues by PKR 150 billion without creating any new hurdles for the middle class.

Disagree with the IMF suggestion of withdrawing most of exemptions regarding sales tax. These are reasonable exemptions relating to food and medicines industry. I also disagree with the 2% sales tax on fertilizer, which should be brought down to 0%.

“I disagree with indirect tax strategy of the IMF. Instead, I am in favor of a more progressive move and modest targets to try and achieve stability with some growth.”