

FEDERAL Budget

2021-2022

GROWTH and/or AUSTERITY

WEBINAR BRIEF 39:2021



PIDE PRE-BUDGET WEBINAR IN COLLABORATION WITH IPRI

3:00 PM **Friday, May 7th, 2021**

Background:

Federal Budget 2021-22 is just around the corner. Budget of a country is very important policy document. It reflects the priorities of the government and implementable policies for achieving the desired goals converted into resource allocation for one fiscal year.

Historically there has been an ambitious revenue plan, which given the past performance is likely to miss the targets. Average annual growth for FBR revenue in the period 2001-2020 had been 13.17% and for FY 2021 it is expected to be 11.7% (Rs.4,691 billion against BE of Rs. 4,963 Billion). The Fund requires this to be much more for FY2022 (As per News Paper around 6 trillion).

Expenditures have been largely untamed and without adequate policy framework. Along with that leakages for quasi fiscal needs such as SOE, Circular Debt for Energy and Government Procurement Operations etc. are increasing (July-December FY 2021 Consolidated Budget Deficit 2.5% of GDP, budget estimate for FY 2021 7% of GDP).

PIDE keeping its tradition of engaging academically, inspirational and amazing experts of their field, is initiating a debate which we consider central to public policy in Pakistan. We would like you to join us on the webinar on "Federal Budget 2021-22; Growth and/or Austerity" to be held on May 7th, 2021 at 3 p.m. PST.

MODERATOR:

Dr. Nadeem ul Haq (Vice Chancellor PIDE)



Dr. Hafiz A. Pasha
Professor Emeritus at BNU
and Former Federal Minister



Dr. Pervaiz Tahir
Former Chief Economist
PIDE Senior Adviser



Dr. Aqdas Afzal
Director Social Development
& Policy Program (SDP)
Assistant Professor of Economics
Habib University, Karachi



Dr. Vaqar Ahmed
Joint Executive Director
Sustainable Development
Policy Institute (SDPI)

Registration Link:

<https://forms.gle/DBvj5GzMGDd1TWnf9>

PART-I

Preamble

The budget for the fiscal year 2021-22 is around the corner. The new Finance Minister is expected to bring about new changes and make a new announcement. He wants to negotiate on the Fund Program and also wants to encourage the new enterprises. To get an expert opinion on the new developments in the coming budget, PIDE in collaboration with IPRI held a pre-budget webinar inviting four eminent economists to shed light on where we are and what we are heading towards.

Dr. Mahmood Khalid set the stage by sharing the key budgetary proposals in the Medium Term Budget Strategy (2021-24).

- He said that all the burden of austerity has been put on the revenue side, especially FBR in the coming budget. The revenue target is expected to increase by 27% for FY 2021-22 over the last year revised target.
- From the expenditure side again the federal government is to cut its current expenditures, mainly on the domestic interest payment side.
- The expenditure on the federal and provincial PSDP is expected to be almost the same as in the previous years. There are new projects as well as throw forwards in the PSDP leading to cost and time overrun of projects.
- Apart from this, certain fiscal benchmarks from the IMF have to be met as well specifically the reallocation of electricity subsidy burden towards the consumer.

Key Messages by Dr. Hafiz Pasha

Dr. Pasha mentioned the nine-month fiscal operation position of the country (July-March FY 2021):

- The budget deficit has decreased to 3.6 % of the GDP as compared to 3.8% in the last year.
- There is a big decline in the development budget, that is, 29% in the last nine months. The development spending reported is 277 billion rupees whereas the releases are 494 billion rupees. Provinces have a surplus of 400 billion rupees (0.8% of the GDP) which means the reduced budget is not spent where it should be spent. This means the system does not have the capacity to spend.
- He also mentioned the approval of the Medium Term Budget Strategy Paper by the Cabinet and the National Assembly based on which IMF has given us a quarterly payment of 500 billion dollars. If the targets in the MTBSP are not met, the Fund can suspend its program.
- If renegotiations are possible with the IMF, the Government should focus on revising the targets with them.
- The target for a 1% decrease in the budget deficit. The target for a growth rate of 18-20 % in FBR revenues.
- Increase the capacity for the development budget which happens to be a new constraint. Raise development spending by 20%. Impose a moratorium on new projects.
- Dr. Pasha was not agreed to the tax proposal in the MTBSP and in the staff report of the IMF for withdrawing most of the exemptions in the sales tax. According to him, they are reasonable exemptions (related to food, medicine, etc). The focus should be more on progressive taxation in terms of direct taxes.

the project appraisal function should be outsourced to some independent third party.

Key Messages by Dr. Pervaiz Tahir

Dr. Tahir responded to the questions posed by Dr. Haq of where the problem lies and why our fiscal machinery is broken down. He said when one doesn't think about one's problem, one keeps on having the problem.

- The Finance Minister has to do something on the expenditure side. Money should not only be released rather it should be spent somewhere, which requires capacity building.
- The focus of spending should be on the projects which are of some return, just not on useless things.
- The Federal Government should not spend in those areas which belong to the provinces after the 18th amendment. For example, the funding of the universities should be a provincial subject.
- He proposes a pension fund for pensions specifically the military pensions as the total liabilities of the pension is over 1050 billion rupees.
- Debt to the private sector should be increased.

Key Messages by Dr. Vaqar Ahmad

- According to Dr. Ahmad, the Budget Strategy Paper should be revised if the four key goals (growth, job creation, social protection, and controlling inflation) by the PM in the Economic Advisory Council have to be met.
- The focus on private investment in the Budget Strategy Paper is missing without which the high targets of job creation cannot be realized.
- The efficiency of our social protection programs seems sub-optimal. To mobilize all the social protection initiatives taken, the nationwide databases including NADRA have to be integrated.
- Insulate the tax administration from the political influence, for that the demand of the tax body for autonomy should be considered.
- Given the lack of capacity of the government sector, the project appraisal function should be outsourced to some independent third party.

Key Messages by Dr. Aqdas Afzal

According to Dr. Afzal, the lack of jobs is not only an economic problem but it is more of a social problem. To cope with the problem of growth, jobs, and poverty, he suggested the following.

- In the short run, the budget for Ehsaas/BISP has to be enhanced; to double at least.
- In the medium term, the Govt. should look forward to the privatization agenda for those State-owned enterprises, not well managed by the government.
- In the long term, invest in human capital in terms of health and education.



PIDE PRE-BUDGET WEBINAR IN COLLABORATION WITH IPRI

IPRI Islamabad Policy
Research Institute
Research | Innovation | Dialogue | Policy

After successfully initiating **“Federal Budget 2021-22; Growth and/or Austerity”** hosting **Dr. Hafiz A. Pasha, Dr. Pervaiz Tahir, Dr. Vaqar Ahmed** and **Dr. Aqdas Afzal** on **May 07 2021**, PIDE brings a second webinar hosting another incredible panel.

11:00 AM PST - Tuesday, May 18 2021

Webinar Moderator: Dr. Nadeem ul Haque (Vice Chancellor PIDE)



Dr. Ashfaq Hasan Khan
Dean and Professor, School of
Social Sciences & Humanities,
National University of Science and
Technology (NUST)



Mr. Shahid H. Kardar
Vice Chancellor, Beaconhouse
National University (BNU) &
Former Provincial Finance
Minister/ ex - governor, State
Bank of Pakistan



Ms. Anam Saeed
Consultant
M/O Finance Khyber
Pakhtunkhwa

Meeting ID: 986 3023 1695 | Passcode: 381153



PIDEIslamabad



PIDEpk



PIDEpk



PIDE Official



PIDEIslamabad

PART-II

Vice-Chancellor PIDE Dr. Nadeem ul Haque moderated the second session in the series of pre-budget webinars by sharing some lessons learned from the first session. He said that our budget is a mess and the budget-making process is not well sorted out. The tax policy is fragmented, cumbersome, and is slowing down growth. Even the budget process itself is slowing down the economy. Since our budget process is linked with the IMF Program, therefore the Fund Program needs to be re-thought and we have to engage with the IMF on various things.

Key Messages by Dr. Ashfaq Hasan Khan

- He started by saying that tight monetary policy increases the cost of borrowing by the governments which significantly reduces the capacity of the government to even prepare the budget. This makes budget-making a challenging task for the people in the Ministry of Finance.
- The larger the gap between the revenue and expenditure, the more we borrow which causes the rapid accumulation of debt. Thus the larger the budget being allocated to interest payments, the less room is left for other developmental activities.
- He further said that the IMF program expects us to fulfill unrealistic tax targets which kill the demand in the economy. How can an economy growing at only 1% realize such targets and how will it create jobs in the economy?
- Thus there is a contradiction between the policies given in the Budget Strategy Paper and the requirements of the Fund Program. It is simply impossible to increase growth to 4% and at the same time reduce the budget deficit by 2%.
- The IMF Program does not suggest any policy regarding the budget deficit. It only focuses on the primary deficit deliberately ignoring the expenditure on interest payments.

Strategies proposed by Dr. Ashfaq Hasan Khan

Revenue Target: According to him, the revenue target for this year should be kept at not more than 4500 billion Rupees. Over and above will simply be manipulation by the policymakers.

Budget Deficit: He proposed just a 1% reduction in the budget deficit for the next year. More reduction will suffocate the economy and will be inconsistent with the growth target in the Budget Strategy Paper.

Public Sector Development Program: Only fast-moving projects should be funded in bulk to complete them as soon as possible. Those projects which are completed only 5-10% should be shelved out. To show some transparency, there should be a public record of the completed and incomplete projects every year.

Interest Rate: He proposed to reduce the discount rate to 5%. According to him, the real interest rate should be less than the real GDP growth rate to bring the debt into a sustainable situation. Second, a country like Pakistan should follow a negative interest rate policy.

Key Messages and Strategies by Ms. Anum Saeed

- Anum Saeed laid out some of the facts regarding the revenue targets mentioned in this year's Budget Strategy Paper. She said FBR has targeted to increase the revenues in the next year by 25% and that all the policies regarding revenue generation mentioned in the Budget Strategy Paper are redundant except for the policy of sales tax harmonization.
- Heavy reliance on indirect taxes is inconsistent with the motto of the Government regarding social protection. Thus focus should be increased towards direct taxes.
- There is a large knowledge gap between provinces and FBR regarding agricultural tax. Agricultural income is around 19% of the GDP while it contributes only 0.06% in the total revenue collection.
- FBR should also consider its enforcement policies since out of 7.4 million NTN holders, only 40% is the compliance rate.

Key Messages and Strategies proposed by Dr. Shahid Hafiz Kardar

- Dr. Kardar started by saying that the most important side of the fiscal equation is the expenditure side.
- There should be a moratorium on the new projects since there is a throw forward of almost Rs. 8 trillion.
- He proposed to gradually phase out the federal subsidies on fertilizers and transfer them towards provinces since the federal government is not getting any agricultural income tax. In the same way, funding to the universities should be a provincial domain.
- There should be a contributory pension scheme.
- Dr. Kardar pointed out that the taxation system needs reforms while the Fund Program focuses only on tax numbers.
- He proposed that the turnover tax should be decreased from 1.5% to 0.5% as it kills the economy.
- He also proposed fewer slabs (5-6) in the case of income tax and that the exemption limit should be based on per capita income and inflation in the country.
- According to him, 70 % of the revenue comes from GST on oil, electricity, and sugar. GST increases the cost of inputs, specifically food, medicine, and education, so the tax on these should be gradually reduced to make them zero-rated.
- Registration of sales for all the retailers in the significant commercial centers should be made mandatory with FBR installing CCTV cameras.
- There should be a national integrated sales tax which should be reduced gradually over some time.
- In the case of exports, there should be a cash incentive scheme at a rate that would make the scheme both profit and tax neutral.
- Petroleum levy should be raised as the price of petroleum is significantly below that prevailing in countries similarly placed economically.



PIDE PRE-BUDGET WEBINAR IN COLLABORATION WITH IPRI

IPRI Islamabad Policy
Research Institute
Research | Innovation | Dialogue | Policy

Third in the series of PIDE-IPRI Pre-Budget Webinars on “**Federal Budget 2021-22; Growth and/or Austerity**” will be held on **Friday, May 21 2021** at **11:00 AM PST** hosting a blend of experienced and young Economists of Pakistan deliberating on key aspects of upcoming **Federal Budget 2021**.

Webinar Moderator: Dr. Nadeem ul Haque (Vice Chancellor PIDE)



Dr. Abid Aman Burki
Fellow, Mahbub ul Haq Research
Center (MHRC), Former Professor,
Department Of Economics, (LUMS)



**Dr Muhammad
Salahuddin Ayyubi**
Assistant Professor,
Department of Economics
Forman Christian College
University, Lahore



Dr. Ikramul Haq
Writer/Advocate Supreme
Court/ International Tax
Counsel and Partner
HUZAIMA & IKRAM



Mr. Muhammad Sabir
Principal Economist
Social Policy and
Development Centre
(SPDC), Karachi

Meeting ID: 986 3023 1695 | Passcode: 381153



PIDEIslamabad



PIDEpk



PIDEpk



PIDE Official



PIDEIslamabad

PART-III

Preamble

Dr. Nadeem ul Haque started the session by stating that the fiscal situation of our country is a total disaster. Both the revenue and expenditure scenario is not under control and yet the donor narrative is that the only thing to solve any country's problem is related to revenue. FBR collects 10-15 % of taxes every year while the IMF wants us to increase it to 30% which is an unrealistic target and this results in confusion. To put more light PIDE hosted its last pre-budget webinar to get a different perspective on this situation.

Key Messages by Dr. Abid Burki

Mr. Burki started by saying that budget-making is a challenge this time due to the interference of the IMF. The IMF implements a standard program for every country. The standard recipe in every country they go is to cut the government expenditure, to cut the losses of the public sector organizations and bring stability in the exchange rate by using the market forces. So the current picture is that the Government is at the crossroad. It has to decide whether to go with expansionary fiscal policy or austerity.

He highlighted four issues including agriculture, wage inequality, and investment which should be taken into account while making the budget.

- He said our agricultural sector has been suffering for the last so many years and there are many reasons for that. The government wants to invest 110 billion rupees to develop agriculture over the next three years. But their main focus is on fertilizer subsidy though the major decline in agriculture is due to the lack of research and development, especially in the seed industry. If the government does not have enough capacity, it should collaborate with the private sector.
- The government should stop intervention in the wheat market. It should only intervene only when the price of wheat is out of a certain band set by the government.
- The third point is the investment in primary and secondary education which is also the key target of Sustainable Development Goals (SDG).
- The gap between the wages of a college-educated and a non-college-educated worker has increased substantially. This indicates that the quality of human capital is stagnant at the lower end and it is growing at the upper end. More educated are more productive.

Key Messages by Dr. Ikram ul Haq

According to Dr. Ikram ul Haq, planning should be a federal subject. According to him,

- Taxation is anti-growth in this country. Our taxation policies are not even helping us grow nor helping in reducing the fiscal deficit. He pointed out that we should know how much taxes are in-built in the inputs which we are using for agriculture.
- He said that the internet should be provided free as it is the right of every person but on the other hand it is taxed heavily (sales tax of 17% on the ICT sector). Tax revenue from the ICT must have increased in the last few months due to an increase in the number of broadband users (due to the Covid-19).
- He concluded by saying that to achieve anything, we have to reconstruct and redesign everything.

Key Messages by Dr. Muhammad Salahuddin Ayyubi

According to Dr. Ayyubi, There is an apparatus involved in budget making and there are their expectations and fulfillment. The governments would wish to have growth while the donors wish to have austerity. So there is this clash which makes budget-making very difficult in countries like Pakistan. According to him, the Budget Strategy Paper has everything which is needed to get things right. On the tax and expenditure side, we have got laws amended to get things in the right manner. So where does the problem lie?

- First, he thinks that the Budget Strategy Paper the way we receive it is putting up a picture that is more of hope than a strategy. Numbers are given without any explanation of where these numbers come from. Government should play the right course of action by being truthful. We should push the government to declare their agendas not in an abstract manner.
- He states that every government wants to go for growth. It doesn't care whether it is inclusive or exclusive, whether it is pro-poor or not. He proposed job-based growth. All the drivers of growth should somehow focus on getting the growth from sectors that are pro-job creation. The government should focus on Small and Medium Enterprises which have the potential to create jobs. Secondly, the Govt. should focus on the services sector which is largely affected by Covid-19. Ways should be found out to revive this sector.
- Mr. Ayyubi said that austerity is a good thing but if austerity comes from the donors' perspective, it has its meaning.

Key Messages by Mr. Muhammad Sabir

According to him, every budget has some gainers and some losers. But it costs most of the middle class who pays taxes regularly and contributes to the economy and at the same time faces the burden of inflation and debt.

- According to him, the middle class contributes to the taxation from its salaries but if they are somehow laid off, they don't get unemployment benefits. Therefore, there should be a mechanism in collaboration with the provinces and EOBI where we talk about some benefits for those who contribute to the taxes and EOBI.
- He also talked about taxing the agriculture sector. The federal government can easily get the collection power from the provinces if it wants. All the incomes should be treated the same way no matter whether it comes from construction, imports, or agriculture.
- He also proposed a multi-stage consumption stage because taxation at the production stage only encourages the producers to underreport their sales.
- Expenditure should not be for the sake of just expenditure. The focus should be on the effectiveness of expenditure.



Prepared by
Aisha Irum
PhD Scholar, PIDE

Edited by
Hafsa Hina

Design by
Afzal Balti

🌐 www.pide.org.pk
✉ policy@pide.org.pk
☎ 92-51-924 8051
📠 92-51-942 8065