Path to prosperity: budget priorities

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The recently announced budget for the fiscal year 2023-2024 in Pakistan has sparked discussions among experts and stakeholders. The MacroPolicy Lab at PIDE organized a Twitter space discussion to analyze the budget and its impact on the country and its people a few days ago.

The objective of the discussion was to encourage a healthy discourse, identify key issues, and propose potential solutions to enhance the budgeting process. Pakistan currently faces several economic constraints and challenges, including low growth, high inflation, foreign reserve deficits, and stagnant exports.

Addressing these challenges requires proactive measures, innovative approaches and political will. The participants acknowledged these constraints and emphasized the need for strategic measures to address them effectively.

One commendable aspect of the budget is the government's allocation of significant funds for social protection programmes and incentives for the youth and small and medium-sized enterprises (SMEs). These initiatives aim to alleviate the inflationary pressure and generate employment opportunities. However, it is essential to focus on creating sustainable employment opportunities to reduce dependency and promote overall economic growth.

Efficiency in spending and cost-effectiveness, particularly in the Public Sector Development Programme (PSDP), is crucial. The discussion highlighted the need to rationalize expenditure, eliminate duplicate agencies, and restructure subsidies to optimize resource allocation and maximize outcomes. The participants emphasized the importance of an efficient outlay and cleaning the portfolio of projects that lose their value for money.

The taxation system in Pakistan requires reform to strike a balance between revenue generation and providing a favourable business environment. Simplifying tax processes, increasing transparency, harmonizing provincial and federal tax structures, strengthening compliance mechanisms, and addressing concerns related to documentation and high tax burdens on businesses are vital steps. These reforms can encourage investment, boost economic growth and discourage tax evasion.

The budget-making process should prioritize the needs and aspirations of the people. By fostering coordinated efforts, involving stakeholders, and adopting a people-centric approach, the concerns and interests of various ministries can be addressed, leading to more inclusive economic development. The participants emphasized the need for better coordination between ministries, focusing on employment generation, improving education and healthcare systems and addressing the basic needs of the population.

The discussion also highlighted the need for a framework for subsidy allocation. The participants questioned the unlimited and unending allocation of subsidies, particularly in the realm of social protection. They stressed the importance of conducting a comprehensive evaluation of the impact and effectiveness of these subsidy programmes to ensure they are achieving their intended goals.

Several concerns were raised during the discussion regarding the budgetary process. The impact of mini budgets, statutory regulatory orders (SROs), and quarterly budgets was questioned, with concerns raised about the increased uncertainty for industries. The negative effects of withholding taxes were also discussed, with manufacturers and sellers passing on the tax burden to buyers.

The budget was criticized for not discouraging property investments and not imposing taxes on the agricultural sector, which could hinder SMEs and generate low revenue. The participants highlighted the importance of addressing these concerns to create a more favourable business environment.

The discussion also focused on the need for better tax administration and the complexity of the existing tax code. The impact of high taxation, annoying investor calls, and lengthy documentation processes on businesses was discussed. The participants emphasized the necessity of capacity building in the Federal Board of Revenue (FBR) to effectively identify, monitor, control and collect taxes. They also suggested implementing a single tax rate for all income levels to avoid distortions.

Another important aspect discussed was the concept of pseudo tax expenditure. The participants highlighted the need to streamline the process and develop a resource map to address the issue of uncollected taxes. They questioned the tax-free status of the Gwadar port and emphasized the importance of performance indicators and sunset clauses in tax exemptions.

The discussion touched upon the concept of a charter of economy, emphasizing the need for long-term solutions rather than temporary measures. It was suggested that political parties should work together to create a consensus on economic policies and reforms to provide stability and continuity to the economy.

To enhance the budgeting process and promote inclusive economic growth, several recommendations emerged from the discussion. These recommendations include enhancing efficiency in budget allocation, strengthening economic growth through investment promotion and export diversification, streamlining subsidy management, simplifying the taxation system, adopting a people-centric approach to budgeting, reducing debt and managing assets effectively, improving budget transparency and accountability, fostering collaboration with international institutions, promoting evidence-based policymaking, and enhancing public participation and awareness.

The post-budget analysis provided valuable insights into the strengths and weaknesses of the budget. It highlighted the importance of reevaluating the financial model, rationalizing expenditure and subsidies, simplifying the taxation system, and adopting a people-centric approach to budgeting.

Implementing the recommendations proposed during the discussion can lead to a transparent, efficient, and accountable budgetary process that caters to the needs and aspirations of the people of Pakistan. It is crucial for policymakers and stakeholders to take note of these recommendations and work together to address the challenges and opportunities in the budget and ensure sustainable economic growth and development.

To leverage the budget recommendations and drive economic revival, the Special Investment Facilitation Council (SIFC) can take the following actions: 1) implement investor-friendly policies, streamline regulatory processes, and reduce bureaucratic hurdles to create an enabling business environment; 2) focus on sector-specific incentives, such as tax exemptions and infrastructure support, to attract investment in key industries with high growth potential; 3) collaborate with relevant government agencies to prioritize and develop infrastructure projects that support investment and enhance competitiveness; and 4) facilitate skill development programmes to nurture a trained workforce tailored to the needs of potential investors.

By executing these actions, the SIFC can effectively attract investment, stimulate economic growth and foster a resilient economy in Pakistan.

The success of the 'economic revival plan' relies on the collective efforts of all stakeholders, including the government, policymakers, businesses, civil society and citizens. Through collaboration, revisiting approaches, and pursuing shared goals, Pakistan can overcome challenges and ensure meaningful progress towards a brighter future.

For the betterment of our country, it is vital that we prioritize stability over short-term gains, even if it requires making initial sacrifices. By focusing on sustainable development and long-term goals, we can establish a strong foundation for a stable and prosperous future for Pakistan.

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