

EXCLUSIVE INTERVIEW

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ICMA: What, in your view, are the major shortcomings of the 2025–26 budget from a reform perspective?

Miftah Ismail: This budget contains absolutely no reforms and is, therefore, a complete failure from a reform perspective.

ICMA: Do you see this budget as favoring elites, or does it offer any real relief for ordinary citizens and small businesses?

Miftah Ismail: The budget provides no relief for the ordinary citizens or for small businesses. For salaried class people, they talked about giving relief, but they reduced the tax rate by 0.35%. So, the highest tax bracket was 38.5%, and now it is 38.15%. There is no relief for small businesses or business individuals. There is no relief for citizens in terms of sales tax on various items, in terms of sales tax rates on things, in terms of income tax, in terms of power tariffs, or gas tariffs.

ICMA: The Budget 2025-26 heavily emphasizes tax enforcement and grants broader powers to the FBR. Do you view this as necessary for improving compliance, or could it lead to harassment and discourage business activity?

Miftah Ismail: Giving more powers to FBR officers to arrest taxpayers and to arrest those accused of tax fraud, etc., is counterproductive. We know that FBR officers already have the power to issue notices to businesses, and we also know that out of the trillions of rupees' worth of notices they issue, they collect less than 1% in actual taxes. These notices are mostly issued to scare businesses and extract bribes. Similarly, now if you give them arrest powers, that's exactly what will happen. So, this is really not something that is productive or likely to improve the business climate in Pakistan.



Dr. Miftah Ismail

Former Federal Minister for Finance & Revenue
Former Chairman, Board of Investment (BOI)
CEO & Director, Ismail Industries Limited

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ICMA: The Budget 2025-26 offers limited relief to the salaried class, while largely overlooking untaxed and undertaxed sectors. Do you think this imbalance undermines fairness and tax equity?

Miftah Ismail: Pakistan really has to work on fairness and equity in taxation. Pakistan has neither vertical equity nor horizontal equity. When it comes to horizontal equity, people with equal incomes don't pay equal tax here. And we certainly lack vertical equity in terms of richer people paying a higher proportion of their income. In Pakistan, on the contrary, richer people pay a lower proportion of their income in taxes than poorer people, who not only pay income tax on their earnings but also pay sales tax on everything they buy.

And then, of course, salaried people with a salary of 50,000 rupees start paying tax, whereas you can have 1,000 acres of agricultural land and pay no income tax. Or you can have large properties in urban areas and pay little to no tax. So, we need to have both horizontal equity and vertical equity.

ICMA: Do you believe the proposed FBR revenue collection target of Rs. 14.13 trillion is achievable, or does it risk overburdening the economy?

Miftah Ismail: I don't think the FBR collection target of 14.13 trillion is achievable at all. I think they will probably fall short by 1,000 billion rupees — that is to say, 1 trillion rupees. They are talking about improving enforcement and getting more money out of this. That remains to be seen. I think even their projection for economic growth is too optimistic. So, I don't think they will come close to 14.13 trillion.

ICMA: How do you assess the overall impact of this Budget 2025-26 on business confidence and private sector investment?

Miftah Ismail: I think business confidence and private sector investment was already very low in Pakistan, and this budget absolutely does not improve the situation. If anything, it makes it worse. I think a lot of private sector people were looking for some relief in this budget, and that has not come about.

ICMA: How can political consensus be built around economic reforms that directly affect business viability?

Miftah Ismail: I think Pakistan really has no political consensus, even on basic things like elections — who is elected and who is not. So, to build a consensus around economic reforms, I think, is next to impossible. There is no proper politics in Pakistan to speak of. Your largest opposition party, PTI, is under a lot of duress, and the government parties really don't do politics either. I think their politics are also dead. So first, I think we need to revive politics in Pakistan, and only then can we have a consensus around economic issues.

ICMA: Pakistan's business environment is often viewed as uncertain and unstable. What do you see as the biggest barriers to long-term business sustainability?

Miftah Ismail: The biggest barriers to long-term business sustainability in Pakistan have to do with the kind of policies we pursue. This means that we keep the dollar at a certain nominal target for some years, and then, all of a sudden, it depreciates by 50% or more. Then we go running to the IMF, restart the whole cycle — keep the dollar-to-rupee at a nominal parity — and again the rupee crashes, and we have to run to the IMF and repeat the process.

Then, of course, there are the very high budget deficits that we have. And the third thing, of course, is the dysfunctionality of our government — it is not able to deliver anything to the people, to businesses, or to common citizens. All of these factors become barriers to long-term business sustainability.

ICMA: How critical is macroeconomic stability — such as inflation, interest rates, and exchange rates — for sustaining businesses, and what should policymakers do to ensure it?

Miftah Ismail: Macroeconomic stability, of course, is the key to getting your economy going in the short and medium term, and to achieving growth in the short and medium term.

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It also ensures long-term growth, or at least underwrites it. Unfortunately for Pakistan, mistakes in inflation, interest rate, and exchange rate policies have often been the bane of businesses.

Because of our very high budget deficit—caused by a lopsided NFC Award—we are unable to achieve high growth with low inflation. Every time we try to grow the economy, we end up with a very high current account deficit, run out of dollars, and then have to seek international support. Unless and until we bring our budget deficit down by revising the NFC Award and reducing government expenditures, we will not be able to bring the current account deficit down. Only once both the budget and current account deficits are reduced, and inflation is controlled, can we achieve sustained high growth.

Right now, if we try to pursue high growth, we will again end up with higher inflation and a current account deficit. That is why we have not been able to build reserves even up to \$14 billion or \$15 billion. Interest rates remain high for the same reason.

The exchange rate has also been an obsession for many Pakistani policymakers, who do not fully understand how exchange rate dynamics work. The idea of nominally targeting the exchange rate is harmful, and that is why we repeatedly go through cycles of expansion and recession cycles which we can really avoid by just not trying to peg the exchange rate to a certain level.

ICMA: Given your experience in both policymaking and private enterprise, how important is public-private dialogue in shaping effective economic policies?

Miftah Ismail: Public-private dialogue is very important, but it's not clear to me that this government actually listens to the private sector. They have dialogue with the private sector, but they don't listen to it. They only listen to their elite benefactors. For instance, sugar mills have an outsized importance in this government. There are other cartels that the government will do nothing about. But otherwise, they don't really listen to the private sector. They only listen to the elites, and that's it.

ICMA: What are the top three policy actions the government should prioritize to promote business sustainability and economic resilience?

Miftah Ismail: I would actually try to redo the NFC Award and keep 80% of the new money coming into the federal government for reducing the federal budget deficit.

The second thing I would do is bring agriculture tax into the federal tax net. I would apply a fixed tax on it, but it should nonetheless be brought under the federal domain.

I would also ensure that the money going to the provinces goes directly to divisions, so that education

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and health can be effectively delivered to our citizens. Currently, provinces focus more on show projects, corruption, and similar issues, and the money does not reach the education and health sectors. So those are the three main things I would do.

I would, of course, also introduce considerably lower tax rates once the NFC is revised. I would try to reduce gas and electricity rates — gas rates can be reduced even now, while electricity rates can be reduced after privatization, which I would expedite. I would also implement pension reforms.

ICMA: Are you optimistic about Pakistan's economic future? What gives you hope, and what major risks do you believe need urgent attention?

Miftah Ismail: I am optimistic about Pakistan's future only because of the young people of Pakistan. I think our governance is completely ineffective—in fact, dysfunctional—and with all of this dysfunction in governance, we are not able to deliver anything to our citizens, either at the federal or provincial levels. What we need to do is reduce the footprint of the government and fundamentally discard our current governance model, replacing it with one that is effective and truly serves the people—making them literate and healthy. We must provide health and education to our children.

But I am still optimistic that young people will always find a way to live a better life, and as they strive for a better life for themselves, they will build this nation.

The Editorial Board thanks Dr. Miftah Ismail, Former Federal Minister for Finance & Revenue, Former Chairman, Board of Investment (BOI) and CEO & Director, Ismail Industries Limited for sparing his precious time to give an exclusive interview for Chartered Management Accountant Journal.