Exclusive Interview

Ministry of Finance
Government of Pakistan

Mr. Miftah Ismail
Federal Minister for Finance and Revenue

> "The economic vision of the present government is to improve efficiency, increase productivity and investment, and create wealth by unleashing the entrepreneurial energies of the private sector"

ICMA: ICMA appreciates your good self for presenting a balanced budget in the current difficult economic situation. Please briefly highlight the long-term benefits of this budget to achieve economic stability and growth.

Miftah Ismail: It is the aim of the Government to steer the economy onto a higher, sustainable, and inclusive growth path. The present government believes that this will be achieved by stimulating the drivers of economic growth. The economic vision of the present government is to improve efficiency, increase productivity and investment, and create wealth by unleashing the entrepreneurial energies of the private sector.

In view of achieving its goals, the present government has prepared the budget for 2022-23 which is a sustainable and inclusive growth budget wherein a well-thought-out strategy has been formulated to boost economic growth over the medium term. This budget provides a clear roadmap of the strategic priorities, revenue, and spending policies of the Government. The main strategies of the Federal Government for FY 2022-23 are to stabilize the economic growth, control inflation, increase revenues, enhance exports, and protect the vulnerable segments of society through relief measures and pro-poor initiatives for providing maximum relief to the lower segment of society for improving their socio-economic condition.

For FY2023, the economic growth is expected to be at 5.0 % while over the medium-term, growth is expected to attain levels even higher than historical trends with average rates of 6.0 % in FY24-25. We believe that government policies will assist in achieving all the planned goals, which will pave the way for higher, inclusive, and sustainable growth in the medium to long term.

ICMA: You had stated that the country is not going towards default; rather it is going towards progress. But you will agree that we are still not out of woods. How different is Pakistan's economic crisis from that of Sri Lanka?

Miftah Ismail: Pakistan's debt profile is adequately balanced in terms of domestic and external debt. Around 64% is domestic debt and around 36% is external debt (end of April 2022). It is important to note that for domestic debt repayments, resources are mobilized through the domestic market whereas, for external debt repayments, the country needs to arrange a foreign exchange. Right now, Pakistan's external public debt burden is fairly manageable as external public debt constitutes around 1/3rd of total public debt. Within external debt, debt from multilateral and bilateral sources cumulatively constitutes over 79 % of the external public debt portfolio.

Mr. Shehzad Ahmed Malik, President and Mr. Ather Saleem Ch, Vice President and Chairman, R&P Committee ICMA with the Finance Minister, Mr. Miftah Ismail

For FY2023, the external financing requirements are around US$33 billion, which includes the current account deficit of around US$10 billion. The government has made a sound external financing plan for FY2023 that includes substantial inflows from multilateral and bilateral partners.

It is also important to highlight that despite fluctuating oil prices in international markets, the government is aiming to substantially reduce the current account deficit through the promotion of exports and discouraging unnecessary imports. Right now, the domestic consumption pattern is also expected to smooth out, and subsequently, economic progression is expected.

> Despite fluctuating oil prices in international markets, the government is aiming to substantially reduce the current account deficit through the promotion of exports and discouraging unnecessary imports

Although Pakistan is currently in the middle of some economic challenges, it would be futile to compare the situation with that of Sri Lanka due to the following reasons:

1) Pakistan's economy is different as compared to that of Sri Lanka in many dimensions. In terms of solvency indicators, Pakistan's Debt to GDP ratio stood at 71.5 percent (end of Jun 2021) as compared to Sri Lanka's Debt to GDP ratio of around 111 percent. Furthermore, the repayment capacity of Pakistan is way better as compared to Sri Lanka.

2) Sri Lanka had been running huge fiscal deficits and with that, the recent tax reduction policy put enormous pressure on government finances. Pakistan, in comparison, has been pursuing a stringent fiscal consolidation policy where the government has cut unnecessary expenditures and broadened the revenue base which is evident from FBR being able to achieve its tax collection target for FY2022.

3) Sri Lanka's international credit rating was downgraded to nearly default levels, which led investors to flee out of the country, and subsequently, Sri Lanka was unable to access international capital markets. With the revival of the IMF program, it is expected that the environment will become conducive to access to the international capital markets. An amount of US$ 2.0 billion is budgeted for FY2023 to be raised through international capital markets.

4) Sri Lanka's agriculture policy (not to use fertilizers) led to a substantial reduction in agriculture output, especially rice. This led to an unprecedented rice import policy, resulting in high demand for dollars and further deterioration in the country's foreign reserves.

President ICMA is presenting a Souvenir to the Finance Minister. Mr. Ather Saleem Ch., Vice President ICMA is also present

5) Sri Lanka heavily relied on earning foreign exchange (13 % of GDP) from tourism. The earning capacity of Sri Lanka substantially reduced after the emergence of Covid-19. On the other hand, Pakistan has diversified avenues of earning Forex through agriculture, industry, and services sectors. Pakistan also performed well during the COVID pandemic.

Going forward, the economic situation is expected to improve on the back of government commitment to run primary surpluses and promote measures that support higher long-term economic growth. With a narrower fiscal deficit, public debt is projected to enter a firm downward path.

ICMA: The government has taken some tough decisions to meet the IMF demands. How important is the IMF loan facility for the economic stability of Pakistan and what initiatives would you suggest to come out of the debt trap to achieve self-reliance?

Miftah Ismail: The Government has taken tough decisions like the reversal of energy subsidies, increase in energy prices, personal income tax reforms to reduce the fiscal deficit and generate much-needed revenues. The IMF loan facility @ USD 6 billion allows the Government to implement its economic reforms to bring overall macroeconomic stabilization. These reform measures improve fiscal discipline, bring debt sustainability, and bolster our external reserve position. Moreover, under the program, we also aim to broaden the tax base and enhance our revenue generation, reduce circular debt in the energy sector, improve the performance of state-owned enterprises (SOEs), and make the AML/CFT regime effective. While implementing these reforms, the vulnerable segment of the population is also protected as evident by the expansion of our social protection spending under BISP.

ICMA: The tax revenue target has been revised from Rs 7 trillion to Rs. 7.47 trillion. Don't you think this target is quite ambitious, keeping in view that past attempts to bring big tax evaders had not proven successful?

Miftah Ismail: The target for FY2023 is quite ambitious given the fact that the government is focusing on controlling the current account deficit and rising inflation which would result in import contraction and a slowdown in the overall GDP growth. But we are confident, and our finance team has the ability and the resolve to accomplish this gigantic task. An upward revised target has been achieved for the financial year ended on 30-6-2022. FBR has collected its revised target of Rs. 6.1 trillion during FY 2022 which is an increase of more than 29%.

The tax target of Rs.7.47 trillion for FY 2023 is about 22% higher than the collection registered during FY 2022 which is quite achievable keeping in view the past performance of FBR and the revenue measures taken by the government during the current budget. Some of these measures include the imposition of Super Tax, Poverty Alleviation Tax, revision of individual tax slabs including salaried class, increase in FED on international air travel, and increased tax on luxury motor vehicles. The dedicated team of FBR will hopefully achieve the given target.

> Pakistan's economy is different as compared to that of Sri Lanka in many dimensions. In terms of solvency indicators, Pakistan's Debt to GDP ratio stood at 71.5 percent (end of Jun 2021) as compared to Sri Lanka's Debt to GDP ratio of around 111 percent. Furthermore, the repayment capacity of Pakistan is way better as compared to Sri Lanka

ICMA: The salaried class was quite happy when you announced tax relief and exemptions for them in the budget; however, on the demand of IMF, the tax relief has been withdrawn. How would you compensate them as they are the most vulnerable segments of society who are facing the brunt of inflation?

Miftah Ismail: There is no doubt that the country is facing a severe fiscal crisis, however, we are aware of the hardships faced by government employees.

The price hike has affected household expenditures badly, especially that of the salaried class but despite all the challenges and financial constraints, salaries of government employees have been increased by 15% in order to improve their purchasing power. Moreover, the government has also accepted the long-lasting demand of the government employees to merge the Ad-hoc relief measures into their basic pay. These measures will provide some respite to them from higher inflationary pressures.

ICMA: Being an agricultural country, we are importing Agri-food items which is quite unfortunate. What measures have been taken in the budget to increase agricultural productivity and achieve self-sufficiency?

Miftah Ismail: There is no doubt that Pakistan is an agrarian country. It contributes 22.7 % to the GDP and provides employment to around 37.4 % of the labor force. If you consider food trade data, for FY 2022 (Jul-May), food items worth US$ 4.82 billion were exported as compared to 4.11 billion during the same period last year, showing an increase of 17.3 % while imports of food items during the same period increased to US$ 7.58 billion from US$ 6.57 billion witnessed an increase of 15.4 %. Thus trade deficit of food items during FY2022 (Jul-May) stood at US$ 2.76 billion compared to US$ 2.46 billion same period last year.

To ensure food security, the focus is on increasing per acre yield as well as enhancing the cultivated land. In the budget 2022-23, the government has taken the following initiatives for the development of the agriculture sector and to ensure food security:

- The government has allocated Rs. 21 billion to increase crop yield and uplift the livestock sector.
- An amount of Rs. 11 billion has been allocated to modernize the agriculture sector and increase the use of machines, laser leveling of land, modernizing the irrigation, provision of quality seeds, and exports of agriculture products.
- Steps to provide essential infrastructure and services for special economic zones are included in schemes so that market share in the domestic and international markets can be enhanced. An amount of Rs. 5 billion has been allocated for value-added export (Agri related) based on the latest technology, mineral sector, and industry.

President ICMA is presenting a Souvenir to Mr. Rana Ahsan Afzal, Coordinator to the Prime Minister on Finance & Revenue

- To facilitate agriculture, sales tax has been withdrawn on the supply of tractors, agricultural implements, and various seeds including wheat, rice, maize, sunflowers, canola, and rice.
- With the consultation of provinces, the government has devised a three-year growth strategy with the aim to enhance production, increase farmers' income, counter the negative effects of climate changes, and promote smart agriculture, self-sufficiency, value addition, and agro-processing.
- The cultivation of sunflower and canola will be increased to control agriculture imports.
- To give relief to the agricultural sector and farmers, customs duties exemption has been extended further on agricultural machinery pertaining to irrigation, drainage, harvesting/post-harvest handling and processing, greenhouse farming, and plant protection equipment as well as machinery, equipment, and other capital goods for miscellaneous agro-based industries.

ICMA: According to the IMF, Pakistan is collecting 60% less taxes than its potential. What are the other potential areas and segments which you intend to bring into the tax net in the short and medium term?

Miftah Ismail: There is no doubt that there is a gap between the tax potential and the tax that is being collected. There are different methods of calculating the tax gap that can give different results about the tax gap.

We have taken several strategic measures to tap the true tax potential. We are aiming to facilitate the taxpayer through tax facilitation and expanding the tax base using technology. We have a three-pronged strategy aiming to bring the entire business spectrum, from large-scale manufacturing to retail outlets into the tax net.

Firstly, the **Track-n-Trace System (TTS)** has been successfully launched to document the production in the major sectors of **Large-Scale Manufacturing (LSM)**. Secondly, to improve the documentation and collection of tax, the coverage of the Point-of-sale system (POS) is being expanded upon tier-1 retailers. Finally, to rope in the small retailers, other than tier 1, we have introduced a **fixed tax on small and medium retailers** on the basis of their electricity bills.

ICMA: Recently, the government has repeatedly increased petroleum prices as part of the IMF conditionality and it further intends to levy Rs.50 per liter. Do we expect a further increase in the POL prices in the coming days?

Miftah Ismail: The increase in petroleum products was mainly driven by the rising international prices of petroleum products and the gradual withdrawal of subsidies. Subsidy on petroleum products is gradually withdrawn because it is not a financially sustainable option.

Currently, Rs 10 is charged/liter on petrol as a Petroleum levy. The budget estimates for 2022-23 in respect of Petroleum Levy have been fixed at Rs. 855 billion. To meet these budgetary targets, an incremental increase in the prices of petroleum products up to Rs.50/ liter would become necessary. This would probably cause an increase in the prices of petroleum products in the days to come. In order to assure that the minimum burden is passed to consumers, the government has decided to impose a petroleum levy in a phased manner.

The present government is cognizant of the problems of the people and took the decision to pass on the benefits of the declining price trend of oil in the international market and reduced the prices of petroleum products instantly. However, the government would try to keep it at a lower level to ease the pressure of growing inflation by exploring other possible options to generate revenue. Moreover, the government is also taking steps to launch a program for providing support to consumers for lower segments of society.

ICMA: Pakistan has received a loan facility of $2.3 billion from China which would help increase our foreign exchange reserves. Have you approached other friendly countries and multilateral organizations to get softer loans?

Miftah Ismail: Friendly countries The People's Republic of China, the Kingdom of Saudi Arabia, and the United Arab Emirates- have been helping Pakistan steer through tough times. These countries have reposed confidence in the country's macroeconomic indicators by extending loans on favorable terms and conditions.

In addition to the commercial syndicated loan of US$2.3 billion, China has rolled over US$4 billion worth of SAFE

“Currently, Rs 10 is charged/ liter on petrol as a Petroleum levy. The budget estimates for 2022-23 in respect of Petroleum Levy have been fixed at Rs. 855 billion. To meet these budgetary targets, an incremental increase in the prices of petroleum products up to Rs.50/ liter would become necessary”

deposits in the last financial year 2021-22. The country has further extended another deposit of US$1.0 billion in the current financial year which is due on July 23, 2022.

Requests for commodity financing such as oil are under consideration with the Kingdom of Saudi Arabia and the United Arab Emirates. Requests for an increase in amount and extension in the period of the current deposits from Saudi Arabia of US$ 3 billion and the U.A.E. of US$ 2 billion for budgetary support have also been shared. The requests are being considered by both countries.

ICMA: Economic experts believe that instead of stabilizing the economy, the tax will squeeze the formal sector of the economy and will be passed onto the customers, thus leading to even more inflation. What are your views?

Miftah Ismail: Building further on our ongoing drive to promote a culture of progressive taxation in the country which resulted in 32% growth in direct taxes in the recently concluded FY 2022, efforts are afoot to maximize the revenue potential by shifting the incidence of taxation to the affluent and privileged class.

The aim is to provide relief to the poor by shifting the burden of taxes from the poor to the rich. The majority of new tax measures in the Finance Bill 2022 are direct taxes in nature and the incidence of very few of these can be passed on to the consumers. We have levied one-time Super Tax and income tax on profits @ 10% which are direct taxes and cannot be passed on to the consumers.

*The Editorial Board thanks **Mr. Miftah Ismail, Federal Minister for Finance and Revenue** for giving his exclusive interview for Chartered Management Accountant Journal.*