Budget 2023: Tough Decisions or Temporary Fixes?

The budget is all about making political choices. But the Shehbaz Sharif-led coalition government facing a swirling political crisis, power shortages, and skyrocketing inflation, had little or no space to make its choices, even though it tried its best to circumvent the International Monetary Fund (IMF) demands to provide a bit of relief to the smaller businesses and the salaried people, as well as avoid taking any major taxation measure in the original draft of its budget for the current fiscal year. As expected, the lender of the last resort saw through the method of the unity government's madness and raised questions about the sustainability of the budget, linking the revival of its bailout package with concrete taxation measures and commitment to several other structural benchmarks. Hence, a new budget proposing the largest ever fiscal adjustment of Rs1.7 trillion - or equal to 2.2 percent of the nation's GDP (Gross Domestic Product) in any given financial year was prepared within 15 days of the presentation of its original fiscal plan. The new budget 'ensures' that the government produces a primary surplus - or savings from its revenues net of debt payments - of Rs. 152 billion this year as demanded by the IMF, and holds the consolidated fiscal deficit down to 4.9 percent of the GDP (Gross Domestic Product).

The fledgling Shehbaz Sharif government needs money - and loads of it - to bridge the gaping fiscal gap. The IMF also breathing down its neck to keep its promises before the lender restored the suspended. In a $6 billion funding program, it was forced to impose a super tax of four percent across all the sectors and 10 percent on 13 sectors, including banks, automobiles, cement, chemicals, sugar, aviation, energy, and textile companies in a bid to shore up its tax revenues. Apart from that, the personal income tax cuts announced for those earning Rs. 100,000 a month announced in the first draft of the budget as a relief to the salaried classes and smaller businesses were also taken back. The government claims that it has taken some tough decisions. But are these really tough decisions needed to make to put the economy on a sustainable growth path? Not really. At best, the tough tax measures are nothing more than good optics for the ruling coalition and a populist move to show the people that it was taxing the rich to give away to the less privileged classes.

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The additional taxes imposed on the corporations does not help the broader narrative of increasing the tax base or documenting the large shadow or informal economy to boost the existing tax to GDP ratio of less than nine percent or one of the lowest in the world. The decision conveniently spared the PML-N's core constituency, traders, and stops far short of netting other untaxed and under-taxed sectors agriculture, professionals, etc. Likewise, it also frees the PML-N and its coalition partners from the need to reduce wasteful expenditure on the state-owned enterprises (SOEs) that have been hemorrhaging taxpayers' money for years now.

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No wonder, the Pakistan Business Council (PBC), which represents the national and foreign corporations, as well as banks, was critical of the move to impose a super tax. "Who (has) benefited from the budget? Commercial importers spared full tax accountability (and) retailers, non-filers holding real estate, and big landlords in agriculture levied mild taxes... Whose vote bank are they?..." the PBC had tweeted in response to the announcement of the additional taxation on the corporate sector. "Contrary to the claims of alleviating poverty, a super tax on industry is really to support a bloated bureaucracy, high public spending, and handouts to the commercial importers and traders."

On the face of it, the taxation measures make sense. Pakistan needs the IMF program for its solvency and to avoid a potential default. The IMF program is also critical for unlocking billions of dollars in other multilateral as well as bilateral assistance. Also, the super tax comes after record profits made by firms across the spectrum. Most of the firms coming under super tax are seen as having prospered over the decades on government subsidies and tax exemptions. So, it makes sense they cough up cash to help the government get out of the present crisis. Still, these arbitrary changes in tax rates will significantly hurt policy continuity, reduce faith in a government that is already operating on a very low level of trust, affect future investments and injections of fresh capital and increase the 'risk perception' associated with Pakistan.

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"Imposing a super tax on industries is regressive and will hamper industrialization, curb manufacturing and not reduce the current account deficit. Pakistan needs a wider tax base through documentation, taxing unproductive sectors like real estate and long-term policy development," Ghias Khan, the president of Engro Corporation and present chairman of the Overseas Investors Chamber of Commerce and Industry (OICCI), which represents foreign investors operating in Pakistan, said in a tweet. The message was clear: no confidence in the government's tax policies. The reaction would have been much more intense if the government had made some really tough decisions like effectively taxing real estate and agriculture income for securing a sizable, recurring source of tax revenues rather than depending on the one-time additional taxation on the corporate taxpayers. It also shows that neither the IMF nor the government is committed to fundamental reforms of the FBR's capacity to tax.

The finance minister, Miftah Ismail, defended the government for not effectively taxing retailers, rich farmers, professionals, and others, saying "I can fight only so many battles. We're bringing in gently millions of shops into the tax net. I have brought jewelers into the net, and rest assured I will bring in all the professionals in the net over the next few months. Now I will bring in real estate brokers, builders, housing society developers, car dealers, restaurants, salons, etc. on the net. But nothing will be forced." But it is no consolation to those who have long been shouldering the burden of supporting the state.

Many would argue that it is unfair to expect a three-month-old government that has no guarantee of completing its short term of 15 months before the new elections next year to take difficult, politically unpopular decisions. The argument does have merit. But the question is: how long shall we continue to postpone reforms to end 'boom and bust cycles because of political considerations of one ruling party or the other? Enough is enough.

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