

# Balancing the budget

KHAQAN HASSAN NAJEEB



Many think this should be a corona budget. Maybe it is more than that – a survival budget for the millions of citizens and businesses who need a lending hand. The pre-Covid-19 economy was saddled with a plethora of headwinds besieging growth to mere 1.9 percent in FY19 and to 2 percent in FY20. Budget FY21 has to design a blockbuster response to a shrinking economy between -0.38 percent and -1.5 percent in FY20 post Covid-19, giving an overwhelming sense of comfort that people remain healthy and that they as well as the country remains financially secure.

Credibly spelling out the impact of the coronavirus on Pakistan's economy is a realistic starting point. This can establish confidence that we know where we are and where we are likely to be headed. The budget can demonstrate a principled approach of: i) resource generation through tax compliance; ii) deficit reduction by curtailing expenditures; and iii) finance the deficit by a shift to non-debt creating instruments.

In an environment of low economic activity characterized by a supply and demand side shock, conventional revenue measures alone may not be sufficient and can further dampen growth. The economy showed a modest growth of 17 percent in revenues from July 2019 to March 2020, equivalent to new taxes of R 700 billion levied in Budget FY20. FBR tax collection for FY20 after the Covid-19 shock is expected to remain short of Rs4,000 billion – a tad bit higher than the year before. Estimated revenue target collection under consideration for FY21 of Rs 5,101 billion may need some downward adjustment, as a 30 percent

growth is unlikely given restraints of business as usual style of working and the effects of the pandemic. The tax collection target finalized to balance the books can partly be met with a focus on compliance and enforcement. Studies point to a large existent tax gap of 50 percent, exploiting around 15 percent of which can help us with additional revenues of about Rs500 billion. The remainder of the growth in taxes can be handled through a nominal growth of around 8 percent and a modest part if needed from a rise in new taxes or one time levies on land and abnormal profits, both targeted on the abundantly blessed higher income earners, levied for redistributive purposes.

The real test is in ensuring compliance of instruments for raising non-tax revenues. The petroleum levy estimate of Rs489 billion appears to be on the higher side. This collection will depend on resumption of consumption but more so on how smartly oil is hedged by the government at low prices – a once in a generation opportunity. Extra effort would be needed to collect: i) State Bank profits as policy rates continue to fall; ii) dividend in-

come from state-owned enterprises which may shrink due to falling profitability; and iii) mark-ups pending and due on Cash Development Loans. Hard slog will be needed to help collect non-tax arrears such as the Gas Infrastructure Development Cess to the tune of Rs300 billion and current dues of Rs100 billion. Expediting fees from new licenses, recovering royalty on gas, and higher passport and other fees can help.

Financing deficit needs the staunchest change of mindset to move to non-debt creating instruments. One hopes this can restore the public's flagging faith in the integrity of the policymakers to break the debt cycle.

The stalled divestment programme can be revived with a target of \$3 billion for FY21. Past recoverables of \$800 million of 15-year-old PTCL transaction and part of the recoverable of Rs1,100 billion from consumers in the power sector cannot be left untouched while we continue to raise new debt of Rs200 billion through power sector Sukuk.

An open minded re-think can also help create savings on the expenditure side. A continuing downward trend in discount rate can create room for a substantive saving in the interest payments of the government. The temptation to increase salaries and pensions can be deferred. A minimal consideration for those drawing a salary of less than Rs50,000 along with those managing corona on the front line may be possible. Recruitments can also be deferred.

Development expenditures on bricks and mortar is hard to resist. A revamp of projects based on their rate of return can vastly improve the efficacy of the \$4 billion of development spending. Creating livelihood opportunities through development programmes anchored in local rural

economies and on regional economies can help create jobs. We can skillfully fund a larger part of development spending by raising monies by asset leasing and Public Private Partnerships. A programme of reduction in tariffs was initiated in FY20 and can gather steam this year to boost industrial production.

Putting more money in the public's pocket can prop-up demand for goods and services. Incentives through a reduction in sales tax on consumer goods can shore up demand from a market of over 220 million people. Reviewing mortgage lending rules, strengthening bankruptcy rules and creating incentives for banks to lend for the construction sector may actually be equally important as tackling supply side incentives. The budget can support this area.

Multi-rounds of monies for the vulnerable and businesses; and new growth supporting programmes succeeding survival can inspire the confidence of a state looking after the needy and giving wider citizens more buying power. Global research indicates that the harmful effects of Covid-19 may be most on city slum dwellers. Pakistan has an estimated 30 million living in katchi abadis. Special allocation can be a lifeline to them, especially through social protection programmes which are child-centric. Spending on corona is hopefully agreed by the IMF to remain outside the estimated fiscal deficit of 6.6 percent for FY21, a target which itself appears quite conservative. With the prevalent mist, a possible suggestion would be a revision of the June budget in the fall, considering how the health crisis evolves.

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## SBP's initiatives

The State Bank of Pakistan (SBP) has expanded the scope of the Rozgar Scheme to finance 100 percent of payrolls of businesses with a total three-month wage bill of up to Rs500 million and for wage bill beyond this amount and up to Rs 1 billion to the extent of 75 percent. This arrangement can be used for payment of salaries for April, May and June. Earlier, when the scheme was launched on April 10, 100 percent financing was offered for wage bills up to Rs200 million, with 75 percent financing for a maximum of Rs375 million, and 50 percent for as much as Rs500 million. The SBP must be commended for its proactive steps to provide cushion to employers and protect the job market because if unemployment spikes before the economy is able to function again, there will be a sharp increase in the poverty rate, outright panic and the likelihood of large-scale social disturbance. Yet for all its novelty, the Rozgar Scheme is in danger of getting bogged down under procedural delays. It turns out that requests have been received from over 1,440 businesses for financing over Rs103 billion so far, meant to support around a million employees, yet no disbursements have been made at all.

That is because banks have had little time to prepare Standard Operating Procedures (SOPs) that match their risk profiles. And even if the government acts as a guarantor, it is on the condition that banks take all necessary steps to cover associated risk; hence all the confusion about necessary documentation. The SBP has no doubt come up with a rather ingenious way of marshalling its resources to keep the economy from collapsing. And all that looks just fine on paper. Everybody realises, of course, that there are only so many answers the State Bank can pull out of its hat. The economy was barely above water even before the pandemic. And if banks spend too much time fine-tuning risk matrices now they could well miss the bus to consolidation and recovery, and throw all the workers awaiting compensation under it. Being the effective guardian of the banking sector, the SBP should step in and help remove all the roadblocks. And it must move with exemplary speed because now that the lockdown is being relaxed the risk of the virus spreading faster is increasing.

Pakistan is truly standing at a historic crossroads. It is nothing short of a miracle that not only did we not suffer the high number of COVID-19 confirmed cases and deaths that some other countries did, but authorities were also able to keep a floor under the economy. But if things get worse, and the outbreak worsens or the economy crumbles, we have neither the healthcare infrastructure nor the financial reserves to survive for too long.



## Astrology & Covid-19

RAFIA ZAKARIA

The world and its inhabitants are in a difficult place at this moment in time. In Pakistan, a Ramadan under lockdown has been followed by an Eid celebration haunted by the lingering and fatal presence of the coronavirus. There are those that have decided that they cannot bear the isolation and seclusion and are moving forward in full denial of the risks that lurk all around them. Those who are still socially isolating because they have pre-existing conditions or elderly family members whose lives they would like to preserve are equally frustrated. Watching others enjoy themselves while a deadly pandemic lingers is much like watching people play Russian roulette; they will probably live but they may blow their brains out too.

It is natural, that in a time of uncertainty such as this, humans, all of us among them are searching for clues as to what is to come. Plagues, locusts, cyclones are all events that have been written about in divine sources and have caused humankind to come up with explanations of varying merit but unified in their apocalyptic doom and gloom. This moment is no different, the emergence of the Covid-19 pandemic has seen the proliferation of all sorts of prophecies and theories regarding why the virus has struck.

Among those offering explanations for mass consumption are the world's astrologers. Now astrology itself evokes strong feelings and so before even talking about what astrologers have to offer, I must declare that I do not believe in astrology as a basis of predicting the future. Plenty of scientific theories have already proven its shaky foundations and we all know that the broad nature of predictions offered means that some bit of them will probably align with this or that person.

Considering astrology can be a helpful way to synthesise and process complex events happening at warp speed. The language of astrology lends itself to considering certain epochs in history against certain others. Also it helps pass time and we all suddenly have a lot of, perhaps too much, time. On Jan 12 of this year, Saturn and Pluto aligned in the zodiac sign of Capricorn. According to astrologers (and it is interesting that many of them note the importance of this event in videos recorded before the pandemic) the last time the two planets met in this sort of alignment was the year 1518. Henry VIII was king and Martin Luther was challenging the power of the Catholic Church by questioning the sale of indulgences and the corruption of Church officials. In sum, Luther condemned the practice through which Catholics paid money to the Church to obtain forgiveness for various sins. The rich were therefore sin-free, the poor not so much. No one would have known it at the time, but what was begun then, would transform Western society, placing the individual in a direct relationship with God and at the centre

of the way life was constructed. It certainly appears that the current pandemic will lead to similar changes. An interesting point in relation to Pakistani history is that Aug 14, 1947, also fell during a Saturn-Pluto conjunction in the sign of Leo, which signified independence and expansion. The Saturn-Pluto conjunction before that took place in 1914 around the beginning of World War I. All of it may be coincidence but in the absence of any ability to actually predict the future, there will be those who will not see it as insignificant.

Whether or not astrology is right, we are at a historic crossroads. At the time Martin Luther rebelled against the Catholic Church, which truly held all the power in the entire Western world, no one could have ever imagined it would be relegated to what it is now. In the years following, people were able to suddenly obtain their own copies of the Bible they had been relying on priests to read for them. The changes that occurred then also marked the beginning of the Industrial Revolution whose end we are witnessing today. Similarly, having endured 200-plus years of British rule, few in India could have predicted that the colonial masters would be evicted from the country, the unthinkable suddenly became thinkable and then soon after, actually occurred.

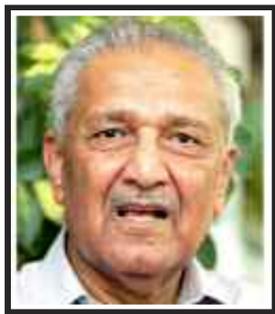
What is the unthinkable of our moment? What new world can we see through the haze of this virus that appears imminent but not quite real? Perhaps just like in 1518 and 1914 and 1947, truths long held sacred will be ripped to shreds, the balance of power will shift in dramatic ways.

In my view, the pandemic will completely transform the way we work, where we live and how we relate to the world. The virtual world that has been gradually encroaching on the 'real' world will become the locus and centre of our activities. Physical presence will no longer be required for most work. This in turn will transform the world making all the borders and visas entirely irrelevant to what a person does for a living. If all of this does happen, whether owing to the conjunction of Saturn and Pluto or for some other reason, then this terrible virus and all the upheaval that has occurred because of it would mark the breaking down of old structures centred on the nation state, towards futures where the location of most 'work' is 'virtual' — accessible by anyone, anywhere.

We all suddenly have plenty of time to entertain all sorts of thoughts as we sweat and stumble through the bizarre rituals of trying to survive a global pandemic. It is also useful, in these plague-ridden times to find someone to blame. Astrology may or may not be true, but it provides us with a couple of planets to blame. All of this mess, all of these deaths, the entire mess of Covid-19 is ultimately the fault of Saturn and Pluto that have come together in the sign of Capricorn and made a complete mess of our minds, our lives and just about everything

## Ramazan blessings

DR AQ KHAN



Most of us are aware of the benefits and blessings of fasting during Ramazan. A Japanese Nobel Prize winner won this coveted prize for finding out that when a sick person (refers to cancer patients here) is hungry, his healthy cells eat up the sick ones. When asked how long one should stay hungry for this effect to take place he replied that it would have to be for about 15 to 16 hours at a time for 25 to 30 days uninterrupted.

That is what the Almighty ordained for us to do during Ramazan. The Almighty has reminded us many times that nothing has been made or ordered to be done without a specific reason. We might think that it is only to make us feel hungry so we know how the poor feel but obviously there is much more to it. Here are some good religious books to read, especially during Ramazan: The first, an excellent reference, is 'Quran Search Index' compiled by Ms Shaheena

Tamizuddin and published by herself. Ms Shaheena has introduced her book with the following words: "The Quran Index has been compiled according to topic so that the reader may find it easy to find the interested subject easily." She has advised that the Quran should be read with translation. I give the same advice when I visit schools, colleges, universities, etc. It helps understand the deeper meaning of the messages contained

in the Quran. She has also reminded us that the Almighty has advised us to read and reread the Quran so that we may understand and think about the messages without any external help. Ms Shaheena has compiled this book in such a way that, if a surah deals with two or more topics, then that surah has been indexed at the bottom of the other surahs as well. With the help of this indexing, one can easily trace the subject of interest. There is a separate section containing episodes concerning the prophets. They too, have been properly indexed.

Another portion contains divine edicts regarding instructions for doing good deeds. Some surahs regarding behaviour have been clearly identified. One portion also contains the Urdu translation of the verses. Very interesting and useful is the last portion, which contains the family trees of 25 prophets. A long time ago my dear, late friend, Zahid Malik, had also compiled a similar book named 'Mazameen-e- Quran and

Quranic Subjects'. It cannot be stressed enough that children should not only read the Quran in Arabic, but encouraged to read translations regularly.

The second, informative book is 'Tauheed Ka Qurani Tasavuur'. It has been compiled by Mr Salahuddin Ayubi (not the same one who defeated the crusaders centuries ago!) and published by Multimedia Affairs Lahore. Mr Salahuddin is a prolific writer and has 11 books to his name. Shaikhul Hadees Ahmad Haqqani Balakoti has written an excellent review, to which I need not add anything else. The third book is 'Ajmi Ka Mutailah Quran', compiled by Dr A R Khalid and published by Qalam Foundation, Walton Road, Lahore. This book contains useful, in-depth analyses of various Quranic verses and is a must-read for a better understanding. Dr Khalid is a multi-faceted scholar who has been a journalist, a teacher and a prolific writer. No further introduction is needed from me.

## Letters to the Editor

### Petrol benefit

This refers to the letter, 'Cheap petrol' (May 21) by Arif Majeed. While disagreeing with the writer, I would suggest further reduction in petroleum products so as to pass on maximum benefit to the general public that is already facing hardship due to joblessness, poverty, high inflation. Twenty-five percent of Pakistanis are living below the poverty line and passing such benefits to them is the need of the hour in order to make ends meet. There are many other measures to boost economy which the incumbent government must implement in consultation with experts.

Engr Asim Nawab  
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### IMF vs lives

The government is to use the Covid-19 fund for interest payment. Serving interests of the IMF is certainly above saving people's lives.

Dr Irfan Zafar  
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### Continuous corruption

On the basis of my personal experience and exposure with various public-sector organizations, I have logically concluded that behind every corrupt person, there is always a big boss or someone in a strong position. As long as this despicable practice continues, come what may, corruption will not be eliminated from this society. It is because of this implicit or explicit backing or patronage of authority person(s), unscrupulous elements indulge in corrupt practices and corruption in all its forms and manifestations continues in this country. It simply means that something is fishy. As the maxim reads, "Caesar's wife must be above suspicion" so a person at the helm affairs must keep officers and employees of shoddy character and questionable track record at an arm's length.

Hashim Abro  
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### Locust attack

Pakistan is struggling to combat a lethal threat of swarms of locusts. They have created panic in the country and will further spread in the coming days. The government is adopting various means to control the spread of locusts. The first generation of locusts, which is already in Pakistan, will join the upcoming second generation of locusts soon and they might destroy the Rabi and Kharif crops if immediate steps are not taken. The nature of these swarms is that they devour everything on their path. They travel with the wind. Pakistan and Iran are more prone to swarms. Moreover, according to recent statistics cotton and wheat production have been on a decline in this fiscal year. The pest damage could cut the economic growth this year. China has already sent 300 tons of pesticides and is providing anti-locust spray and drones. He can learn from China on how they have started an environment-friendly strategy.

Shamin Humayun  
MIRPURKHAS