

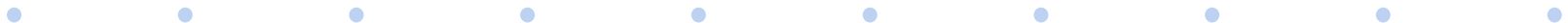
PRE-BUDGET SEMINAR
2011-2012
THE INSTITUTE OF CHARTERED ACCUONTATNS OF
PAKISAN

**ECONOMIC OUTLOOK - 2011-2012 / 2012-2020
STATE OF AFFAIRS - SOLUTIONS**

By

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Karachi April 14, 2011



مستقل بولتا ہی رہتا ہوں
کتنا خاموش ہوں میں اندر سے
(جون ایلیا)



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THE ECONOMIC CRISES [2011-2012]



GROUND REALITIES

- Government is short of 'Rupees', not US\$. People's 'Rupee' is losing purchasing power.
- 'External Support' (Loan or Grant) would not bear sustainable results.
- Story of 'War on Terror' and 'Floods' will not fly.
- There is no concrete 'Recovery Plan'; with any political party, technocrats or donor agencies.
- This situation is similar to USSR in 1998 [Indication of Local Currency crises]. [Cold War with USA (War with India), Low Tax to GDP and high government borrowings].

CERTAIN OTHER ASPECTS



CERTAIN OTHER RELEVANT FACTORS

- IMF is not a solution (It was a stop-gap arrangement); [**“We will not let you die but cannot teach you how to live”**].
- Trends in ‘World Economy’ may be relevant. However, effect is marginal except oil prices.
- Still ‘Agriculture’ sector is sustaining the economy.
- Media, politicians and academics are insensitive on real economic issues. Not able to bring nation to single point agenda.
- Masses are disoriented; huge trust gap; intoxicated by personal corruption stories.

CURRENT SITUATION



CURRENT SITUATION (1)

- Revenue Collection Low [Tax Collection Rs 1,667/1,607 /1,588/1,535 billion]
- Government Borrowings High [Total Debt around 10, Trillion, very Expensive local debt + 13%]
- Inflation High [9.5% Government Story] (Projected) 16% (Real)]
- PSDP Low [Almost Nil]
- Exports Medium – Volume or Value, Quality + Value Added

CURRENT SITUATION (2)

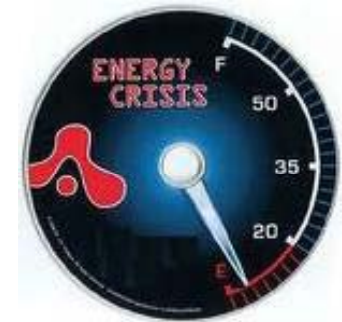
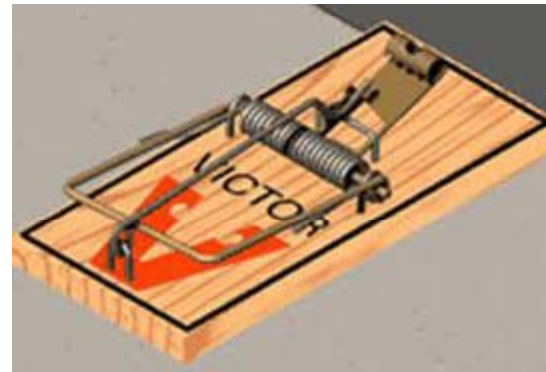
- LSM Low
- SME Under severe stress
- Energy No immediate solution
- Expenditure on Human Development Extremely Low
- Political consensus on economic issues Not under discussion
- Foreign Remittances Only Positive Factor

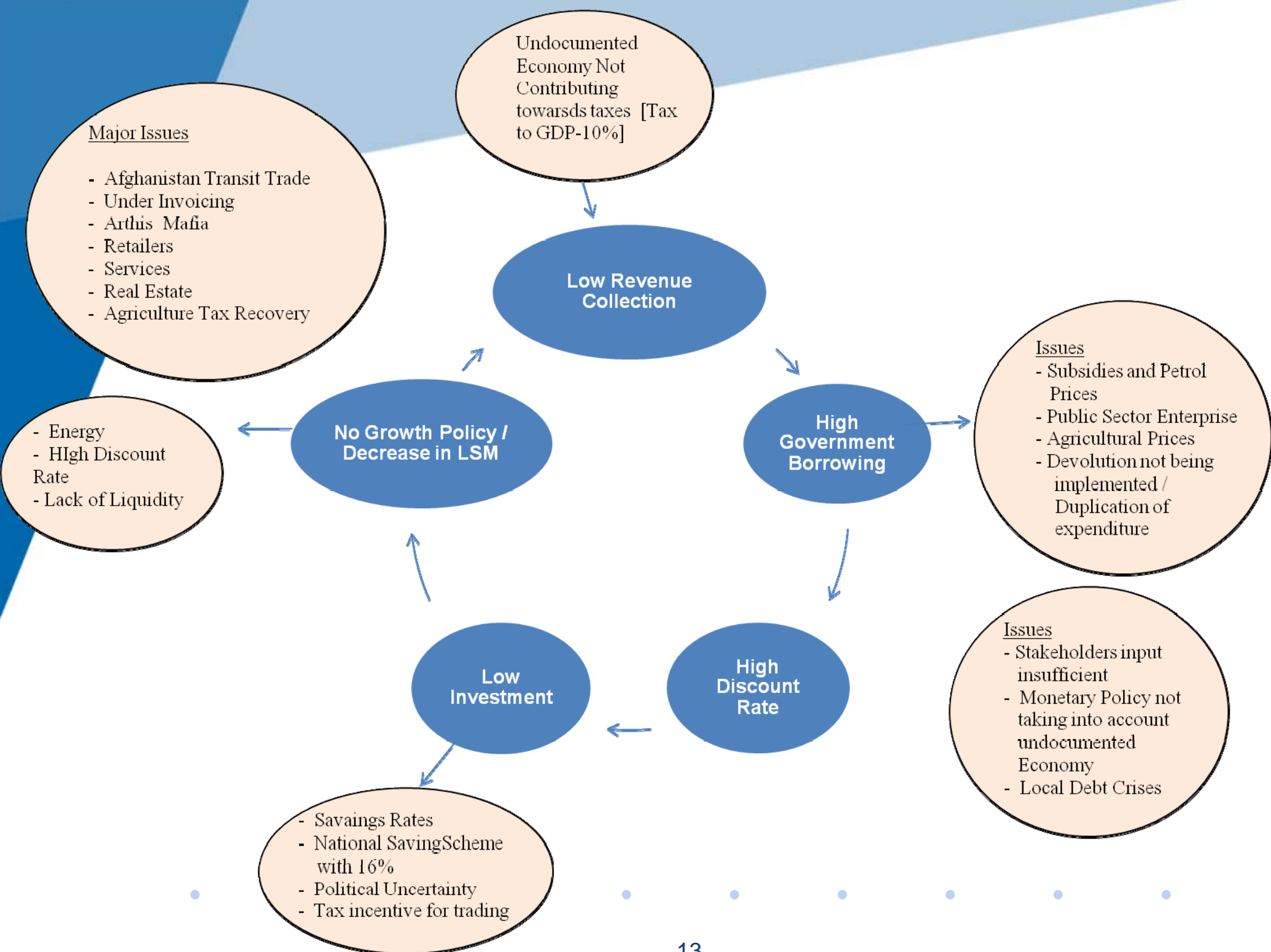


PROJECTED 2011-2012

- Revenue Collection Low [Rs 1,800 billion]
 - Government Borrowings High [Around Rs 1,000 billion]
 - Inflation High [+ 15]
 - PSDP Low [Effectively less than Rs 300 billion]
 - Exports Medium [Around US\$ 28]
 - LSM Low [- 2%]
- **There is no space to be optimistic. The year next is the election year; No effective policy is expected.**
- **Subsidies / PSE / Circular Debt / Government Borrowings – All these issues will remain unresolved.**
- **Concentrate on Documentation and Fair Recovery of Taxes.**

THE TRAP





Major Issues

- Afghanistan Transit Trade
- Under Invoicing
- Arthis Mafia
- Retailers
- Services
- Real Estate
- Agriculture Tax Recovery

Undocumented Economy Not Contributing towards taxes [Tax to GDP-10%]

Low Revenue Collection

Issues

- Subsidies and Petrol Prices
- Public Sector Enterprise
- Agricultural Prices
- Devolution not being implemented / Duplication of expenditure

High Government Borrowing

No Growth Policy / Decrease in LSM

Issues

- Stakeholders input insufficient
- Monetary Policy not taking into account undocumented Economy
- Local Debt Crises

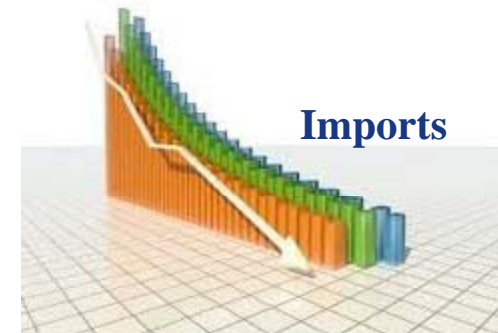
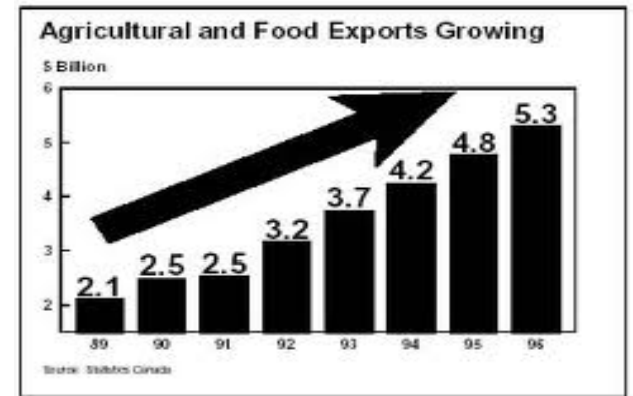
High Discount Rate

- Energy
- High Discount Rate
- Lack of Liquidity

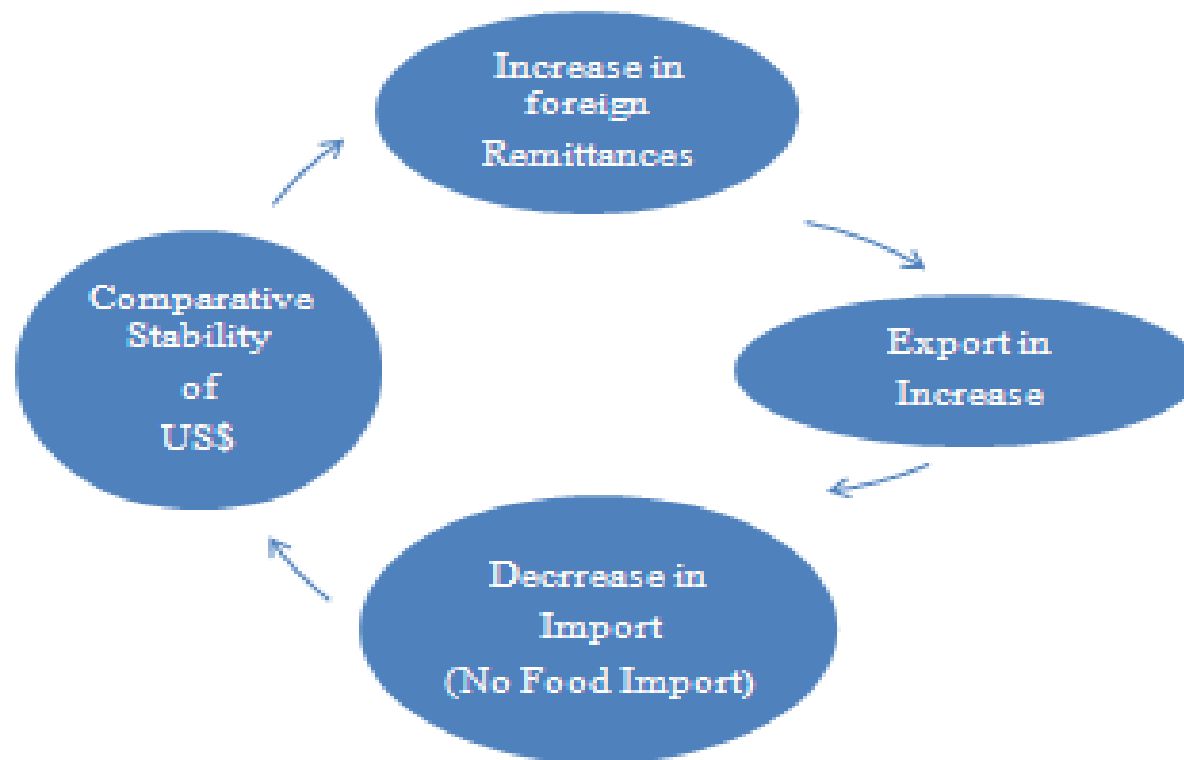
Low Investment

- Savings Rates
- National SavingScheme with 16%
- Political Uncertainty
- Tax incentive for trading

POSITIVE SIDE

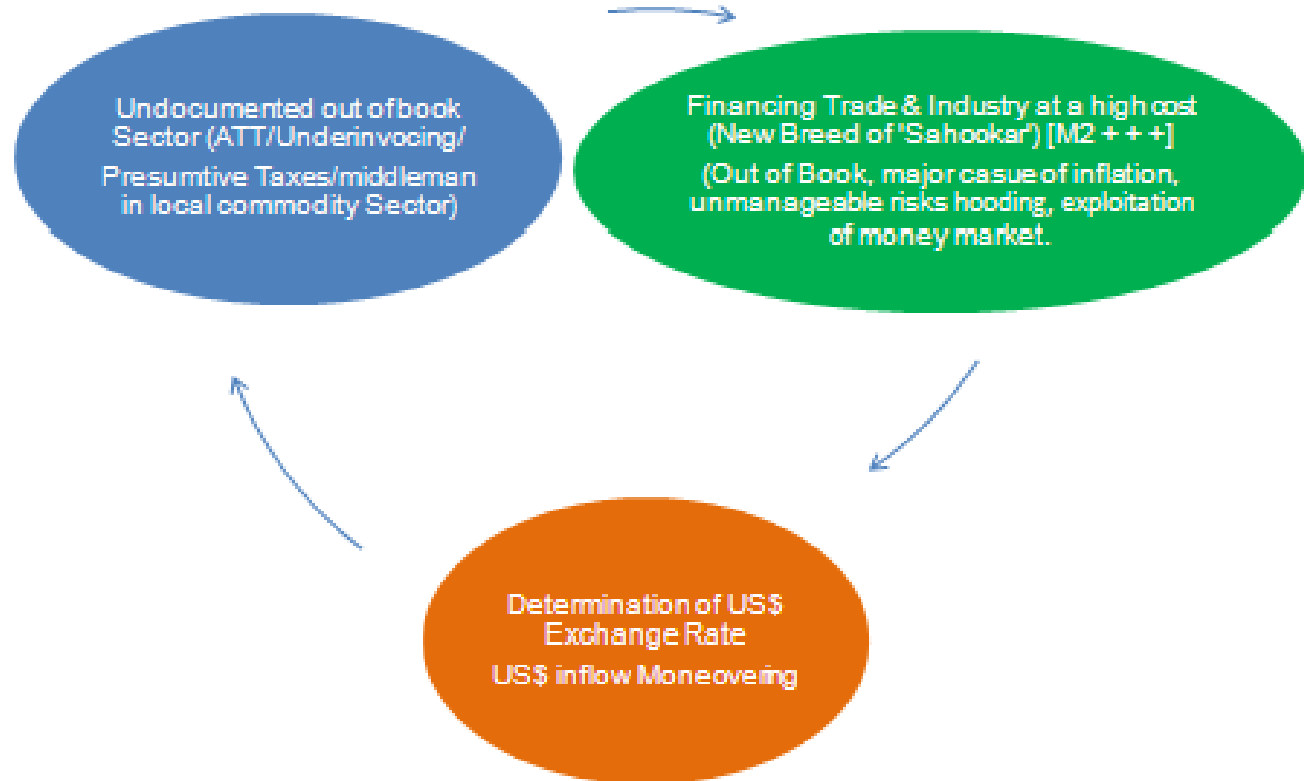


POSITIVE SIDE



However, this positivity is totally overshadowed by sustained negative trap. Risks are Increase in oil prices.

OTHER ECONOMY



Could be around 40% of GDP. If so every other aspect of documented economy • gets disturbed.

HOW MUCH MONEY WE NEED ?

TAX TO GDP RATIO OF 15 PER CENT

**In Rupees terms in the present context this means the collection of Rs 2,500 billion.
Present Collection is Rs 1600 billion [Expected]**

Additional Revenue Required: 800 billion

To be collected from:

Federal Collection

	Rupees in billion
Collection from trade in agricultural produce (arthis)	100
Collection from retailers	50
Correction of Afghan Transit Trade	150
Sales tax on value addition of Local Sales of Export Oriented	50
Wealth Tax on Non-Business Wealth	50
Correction in under invoicing and smuggling	25
Tax on outward foreign remittances	25
	<u>450</u>

Provincial Collection

Agriculture Tax Implementation	60
Taxes on provincial services all provinces	100
Real Estate Capital Gain Tax	50
Real Estate Rental Income	50
[to be taken devolved from Federal Government]	
Urban Immovable Property Tax [Upper Class]	25
	<u>285</u>

District Level

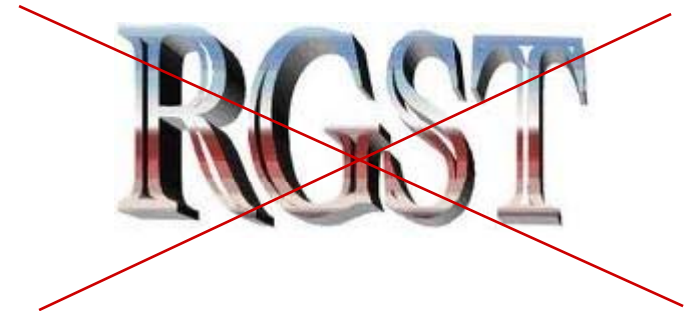
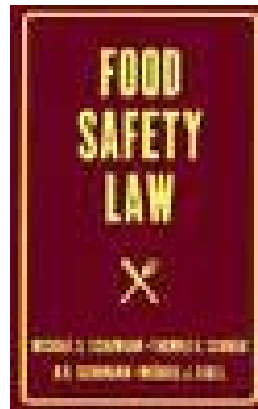
Tax on Hoarding and Advertisements in district	25
Taxation on Expensive Schools for poor education	10
	<u>35</u>

Total **770**

**This suggestion does not include any tax on poors and is all incremental.
This can be implemented immediately. Not in following five years.**

This is doable; Are we really ready to it. Do we have any other solution.

SOLUTION



SOLUTION 2012-2013 (1)

- Indigenous – Fully Informed Economic Policies
- Bury the desire for RGST implementation in idealistic form; go for realistic mechanism
- Level Playing System of Taxation.
- Foreign Exchange Rate ‘Management’ (Stabilization)
- Regional Trade vs International Trade
- Concentration on local consumption and import substitution
- Food Safety Act (Essential Food Pricing)

SOLUTION 2012-2013 (2)

- Arthi / Retailers Mafia
- ‘Banking Spread’s and Loan Allocation Management
- No increase in petroleum price
- Minimum Alternate Tax – Wealth Tax in a modified form
- Fill Tax Gap by non traditional measures
- Concentration on recovery by Provincial Government from agriculture tax
- Symbolic: conversion of all government / army residences above one thousand yard into educational institutions

SOLUTION 2020 (1)

- Reallocation of taxing rights between Federation, Provinces and Local Bodies; Sales Tax to be devolved to provinces.
- Carving out New Provincial Administrative Units; wherever required.
- Fixing of Minimum Allocation of Budget for Education, Health and Infrastructure.
- Thar Coal, Reko Dig, Bhasa Dam, Kalabagh Dam ?
- National Energy Award [Allocation of Gas and Hydal Power].
- Gas Pipe Line Project [Turkmenistan or Iran].



SOLUTION 2020 (2)

- Integrating ‘Madrasa’ education with national education system.
- Education Card (Trial for younger generation)
- Revitalization of Railway; (division between cargo and passenger); ATT only through railways.
- Privatisation of PSM & PIA [through Stock Exchange].
- Public Information Act. [Accountability Act]
- Gradual Demonetisation / De-Dollarization.

IT IS EFFECTIVELY AN ISSUE OF POLITICAL ECONOMY



ہم پرورش لوح و قلم کرتے رہیں گے
جو دل پہ گزرتی ہے رقم کرتے رہیں گے
'مے خانہ' سلامت ہے تو ہم سرخئیء مے سے
ترتین در و بام حرم کرتے رہیں گے

