[**Policy direction for the budget**](http://www.dawn.com/news/1109643/policy-direction-for-the-budget)

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**THE contours of the upcoming budget in terms of size, outlays, revenue collection targets, fiscal deficit etc. have been spelled out by the finance minister at various fora and by the IMF in its reports. So, it is not very interesting to speculate on whether the tax targets are ambitious, expenditures understated and subsidies underplayed.**

The purpose here is to suggest that budgetary estimates and projections should be formulated in the context of a medium-term policy framework. The objectives of such a framework should be: to accelerate the rate of economic growth and job creation; to keep inflationary expectations under control; to target subsidies for the poor; to incentivise production sectors; to minimise external account imbalances.

What is entailed in achieving each of these objectives, some of which are interlinked?

First, a major gap has occurred in the post-NFC award period between control of revenues and responsibility for public expenditures. This gap can be bridged if the consolidated federal and provincial budgetary statement approved by the National Economic Council ensures these governments prepare their respective budgets within the given parameters of revenue-sharing and the overall fiscal deficit target.

Debt servicing, defence and subsidies have to be financed by the federal government but their share in the divisible tax pool is relatively low. Provincial governments therefore have to generate a fiscal surplus as their expenditure commitments are not that heavy with regard to their revenue receipts. In the absence of this structured approach, budgetary outcomes would depend on luck and reducing overall deficit may remain elusive.

Second, public investment in infrastructure and social services is complementary to private investment and the revival of growth. The allocations of the Public Sector Development Programme (PSDP) should be aimed mainly at projects that remove energy bottlenecks and can be completed within the year.

In case public-sector resources prove inadequate, partnership with the private sector should be invoked. An infrastructure development fund may be created to mobilise additional resources. Governance reforms in the sector ought to be implemented expeditiously. The provincial PSDP should be geared mainly towards education, health, potable water, sanitation and nutrition.

Third, growth cannot be revived unless inflation is controlled. Excessive public-sector borrowing has been the main culprit for monetary expansion and rising inflationary pressures. Containing the fiscal deficit, financing it mainly through non-bank borrowing and following a path of declining public debt-GDP ratio would ease these pressures.

Private-sector credit will expand and a lower inflation rate would reduce the cost of borrowing thus providing a stimulus. Renewed interest by domestic investors would pave the way for foreign investors. Provincial and local governments should be involved right from the beginning as they play a major role in land acquisition, utilities and the local infrastructure.

Fourth, the country has developed a complete database of households living below the poverty level. They are already receiving cash transfers under the Benazir Income Support Programme. In future, all subsidies and transfers meant for the poor should be targeted only through this vehicle. Conditional cash transfers for educating out-of-school children would give a big boost as 70pc of the children belonging to these households have never attended a school. Besides lifting millions out of poverty this will also reduce the budget allocation for subsidies.

Private entrepreneurs and farmers are responsible for the production of goods and services in the economy. Their treatment at the hands of petty public servants is atrocious. Twenty to 30 different departments and agencies inspect, regulate, issue no-objection certificates and collect various taxes, cesses and fees.

Extortion and harassment of honest businessmen are so pervasive that the latter, especially those whose businesses are small and medium, either fall in line or are forced to pack up. Unless new dynamic enterprises come up, Pakistan will remain trapped in a low-level equilibrium of low efficiency and low productivity. The excessive powers of these functionaries have to be curtailed and ICT tools should be used for minimising interactions between businesses and these officials.

Pakistan’s trade imbalances have remained huge for quite some time. To overcome this, the exchange rate has to be maintained at a realistic level. Petroleum and petroleum products account for more than a third of imports. Switching the fuel source for electricity generation, revamping railways to carry bulk commodities, building oil pipelines, setting up naphtha cracker facilities in the country, deregulating the oil marketing sector, increasing exploration activity and other reforms in the energy sector are some measures to reduce this burden.

At the same time non-traditional exports in the areas of engineering, chemical and pharmaceuticals etc. should be given time-bound incentives to penetrate new markets.

The construction sector can play a vital role in industrial growth, employment generation and creating social assets for lower middle class and lower income groups. Besides infrastructure financing Islamic financing instruments can be used for low-cost housing. Diminishing musharaka, whereby the relative share of the owner of the house rises as he makes monthly repayments is a powerful instrument for this purpose. The multiplier effect on other allied industries etc. would be highly positive.

This catalogue of policies is by no means exhaustive; it is only illustrative. What is needed is that policy statements and action plans be followed by all the ministries and the provincial governments setting the direction, and performance indicators for the medium term should accompany the budget which would itself fit into this framework.

The writer is a former governor of the State Bank of Pakistan.