Govt sets 'ambitious' targets despite industrial slowdown

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KATHMANDU, June 12

The government has set an ambitious target of achieving 6 percent economic growth and increasing revenue by 35 percent in the coming fiscal year, despite slowdown in industrial growth due to labor unrest, persisting energy crisis and worsening industrial security, and low-performing agriculture sector.

The high growth target has been set, up from projected growth of 3.63 percent for this fiscal year ending mid-July, even though the country is unlikely to see significant improvement in economic activities in the coming fiscal year.

Those who are closely watching the country's macro economic situation do not believe that the government will meet the target without giving a boost to economic activities and reforming tax system.

VAT, income tax and customs duty are the major sources of revenue for the government. However, the government has yet to bring many potential sectors inside the tax net. Similarly, it should also discourage and control the tendency of undervaluation in trading at different levels - from customs to retail level - by making tax administration effective.

Though the contribution of income tax in total revenue is increasing, the collection is highly dependent on petroleum products, vehicles, liquors and luxurious products. If the government wants to increase import revenue, it have to encourage import of such products.

"The target of achieving 35 percent revenue growth is not so big. But what matters most is what the government will do to achieve the target," Jagadish Agrawal, a revenue expert, said. "Putting more focus on import duty collection will not be beneficial for the economy, as it is collected from the products which are not of much importance to general public."

Agrawal suggested that the government widen the VAT net to make sectors, which are still not contributing to the national coffer, taxable.

"The government won't be able to achieve revenue target by focusing on import duty alone. It should widen VAT net and increase excise duty collection," said Agrawal.

Interestingly, revenue target set by the governments have been achieved over the past few years.

The government has revised economic growth rate downward to 3.63 from 5.5 percent set at the beginning of fiscal year due to drop in farm output, political instability and industrial slowdown.

Economist Posh Raj Pandey termed the government's target of increasing revenue by 35 percent and achieving six percent growth an 'ambitious plan'.

Growth target has been set at 6%, up from a projected growth of 3.63% for this fiscal year ending mid-July, even though the country is unlikely to see significant improvement in economic activities in the coming fiscal year.

"We have not seen the possibility of economic activities improving significantly in the next fiscal year. Our agriculture output is always uncertain and the industrial slowdown is poised to continue in the coming year as well," Pandey, who is also the former member of National Planning Commission (NPC), said, adding "It's just an ambitious target."

According to Pandey, our economy can't grow more than 5 percent even if agricultural output increased remarkably. He also termed revenue growth of 35 percent set for the coming fiscal year as ambitious.

"It is very difficult to increase tax rates. Also our tax base is very narrow. Given the situation, the government's revenue target looks unachievable,' he added.

Business community, however, are for increasing revenue target only after creating investment friendly environment in the country.

"The government can't collect more tax from the industrial sector which is in crisis. If the government wants to increase revenue mobilization, it should create favorable situation for investment," Pashupati Muraraka, vice-president of the Federation of Nepalese Chambers of Commerce and Industry (FNCCI), said.

Though revenue officials are not fully confident of achieving the revenue growth of 35 percent, they see a huge scope in increasing revenue mobilization.

"Achieving revenue growth of 35 percent is not beyond our capacity. We can achieve this if we penetrate into sectors that are still outside tax net," Tanka Mani Sharma, director general of Department of Inland Revenue (IRD), told Republica.

Sharma said the revenue target can be achieved by widening tax net, discouraging undervaluation in customs, land revenue offices and at retail level, raising awareness about tax among customers, increasing presence of tax offices across the country, and reforming tax administration.

The government has set the target of collecting Rs 81 billion from VAT, Rs 55 billion from income tax and Rs 51 billion from customs duty in the current fiscal year.