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Economy at crossroads

The second year of the incumbent government opens up with some positive economic indicators. The negative indicators however far exceed the positive ones. The government is now at crossroads from where it can move in the direction of positivity or remain entangled in negativity.

PM Imran Khan's visit to the US was a huge diplomatic success which also thrown up a positive economic outlook in the process. Also, consequently, Pakistan's global standing has risen and with that the country's perception. The challenge is to capitalize on the improved perception and derive quantitative economic benefits out of it.

The tax base has recorded an unprecedented increase from 1.4 million to 2.2 million taxpayers while government's short term objective is to expand it up to 4 million as early as possible. As the public has begun to realise that this government unlike previous ones means business and that there are no two ways about it, there is a good chance that the target of 4 million becomes achievable by close of this fiscal year in June 2020.

However, the tax receipts at the start of the fiscal year against the yearly target of Rs 5.5 trillion are disappointing. This will be one big challenge for the incumbent government.

The IMF programme's impact has started to hit all segments of society as never before. The most vulnerable is the growing salaried middle class whose tax liabilities have increased to the extent that many may slide down to lower middle class segment if not below.

The tax on property rental has been increased by more than 100 percent, adversely affecting the middle class, pensioners and widows as this group largely survives on rental income.

The petrol and gas prices continue to rise and as expected shall remain on rise while inflation will hover around 14 percent.

After having effectively rolled out its mechanism on adjustments of Pakistan rupee as per market dynamics, withdrawal of subsidies, alignment of taxation structure, increase in tax base, the IMF focus is now on some serious structural reforms of which the foremost is the treatment of loss-making public sector entities (PSEs), particularly PIA, PSM and power generation, transmission and distribution companies. They are being prepared for privatisation in the next two to three years. So far the public are sustaining the shocks in the hope that the incumbent government will redeem its pledge to the nation of a better tomorrow. The government has, therefore, subjected itself to accountability by people. Negativity continues to haunt the government.

The legacy of the past has subjected Pakistan's economy to an immense burden of internal and external debts and the economy is largely dependent for its sustainability on loans from institutions such as the IMF and similar to meet its debt liabilities in particular. This status will continue for at least over the next three years.

On account of poor governance in the last decade the 'Ease of Doing Business' has slid from 70 in 2007 to 137 in 2018 which classify it as a country extremely challenging for business and investment

Whereas, the 'Cost of Doing Business' has sharply risen making our LSM and SME sectors uncompetitive in local market in the face of influx of Chinese products, under-invoicing, mis-declarations at import and similar. Likewise for exports too, the country is uncompetitive against fierce competition from Bangladesh, India and Vietnam. Pakistan's competitors reportedly work on cheaper input costs.

The primary reasons behind cost escalations are: expensive electricity, bureaucratic obstacles - multiple NOCs and permits, low productivity and outdated skills and cumbersome imports, exports and taxation regimes and processes.

The biggest threat to economy is the poor state of governance which has not been addressed so far. The last 10 years witnessed a systemic decline in the governance of state institutions, including regulators. Characterised by incompetence, lethargy and vested interests, these institutions are no longer in a position to effectively manage the humungous task of turning around the nation's economy or move the nation out of the present crisis.

In spite of sincere efforts by the incumbent government, the industry is sluggish, exports are not picking up while FDI is showing a downward trend.

A very large number of industrialists, exporters and investors appear fatigued and disenchanted. A big portion of investments has been systematically diverted from industry to real estate, dollar accounts and invested abroad in real estate and industry.

The stock market is enduring its longest bearish spell ever. Market capitalisation eroded by more than \$60 billion — from \$100 billion to \$40 billion — in just two years.

It is unlikely that the existing investor or industrialist/exporter will step forward to support the economic growth. He will stay on the fence till the air of uncertainty clears out and some promising indicators are seen to be happening on ground.

Industrial growth, exports and investment may take a further hit on account of withdrawal of zero-rated tax regime and other concessions, imposition of new slabs of sale tax and the resistance to the change being put up by the said three stakeholders

The government machinery in its present state is non-responsiveness. It needs massive restructuring and management change at three tiers to make it functional, efficient and responsive to effectively deliver on nation's economic challenges and agenda for change.

In the absence of the desired growth in industry, exports and investment, it is unlikely that FBR would be able to meet its revenue collection target of Rs 5.5 trillion which could trigger a cycle of even harsher fiscal conditions in 2019-20. The window for economic turnaround is till June 2020. The economy needs a quick fix. One of the viable options is to mobilise a fresh stream of industrialists, investors and exporters and provide them an enabling environment to deliver.

(The writer is the former President of Overseas Investors Chambers of Commerce and Industry)