

Dire straits

What International Monetary Fund (IMF) stated in its staff report with regard to the \$6 billion Extended Fund Facility for Pakistan should not be surprising.

Numerous articles were written in the newspapers and independent economic experts have been issuing warnings on the haphazard way the economy of the country was being handled over the past few years.

The IMF has in fact stamped a seal of endorsement on those analyses and commentaries.

Because of its singular obsession of gaining high growth numbers, the previous government ignored all macroeconomic vulnerabilities for the country that created a huge economic mess.

Though the country achieved an average growth of 5 percent in the first three years of the last government, the country saw the macroeconomic problems emerging as a monster when it left the office.

While the former government should be credited for resolving the stubborn energy crisis to a large extent as it was directly hitting the people – the power base of any political government – its performance on addressing the fiscal management was not up to the mark.

It left a staggering current account deficit of \$19 billion, close to a billion dollar circular debt, stagnant exports despite giving hefty financial packages and paltry foreign exchange reserves at the end.

It artificially maintained the rupee value through manipulation in an effort to keep inflation under control though it could have let rupee depreciate when there was a windfall in the international oil prices. The passing on of the benefit of the low oil prices to people could have kept the inflation under control, while devaluation could have helped spur exports but it refused to do that balancing act for reasons better known to the Mr Ishaq Dar himself.

This situation had warranted immediate remedial measures by the Pakistan Tehreek-e-Insaf (PTI) government which came into power with the slogan of “change”.

However, it wasted the first few critical months in rhetoric and sloganeering.

Everyone was under the impression the PTI would come up with a robust economic team to take all challenges head on.

But its initial few months in power were marked with utter confusion and lack of policy direction.

The way the first big devaluation of rupee was carried out under the PTI government apparently without the knowledge of Prime Minister Imran Khan and dithering attitude of the government leaders on whether to go to IMF for a bailout package manifested utter chaos in its ranks.

Now that the IMF deal has been sealed and the other international financial institutions have also announced their support to help Pakistan economy, it is now the responsibility of the incumbent government to pursue its economic policies and their implementation with clarity of mind and purpose.

The government has announced its taxation measures but there is still a lot of confusion among the business community as well as general public on them.

Undoubtedly, vested interests always take benefit of confusion and try to stir uncertainty but the onus of removing this uncertainty lies squarely on the shoulders of the government.

Prime Minister Imran Khan last week flew into Karachi to meet businessmen to allay their concerns over taxation measures but the parleys reportedly made no headway, resulting in the strike call given by several traders' bodies for last Saturday.

Pakistan is passing through a very critical phase as far as economy is concerned. At a time when the economy has already slowed down, the country ill-affords any disturbance and chaos.

Instead of using strong-armed tactics, the government needs to continue to dialogue with the business community to redress their problems and get its own policies implemented smoothly.

Tax net's broadening is a must for Pakistan as it is among the countries which have lowest tax-to-GDP ratio. However, this drive should be carried out prudently without stoking protests and disturbances.

The tax net could be broadened by lowering tax rates so that people voluntarily pay their taxes and feel no insecurity, while joining the tax net.

The government should draw up a strategy to bring in powerful and influential segments of the society into the tax net as these people using their clout very conveniently stay out of the tax net.

Successive governments have used amnesty schemes as instruments for bringing powerful people into tax net by offering lucrative incentives to whiten their black money, but a majority didn't even consider the bait as they believe no meaningful and concrete action could be taken against them.

The government needs to tighten the noose around them through effective legislation which plugs all escape routes available to them.

This step could be backed up by an effective crackdown against them if they refuse to voluntarily join the taxpayers club.

However, previously no tangible action was taken against them as this powerful lobby has representatives in all political parties and they effectively thwart any attempt aimed against them.

But the government should evolve a consensus with the support of all stakeholders, including political parties, to address this issue in an effective manner.

The premier has very rightfully said Pakistan's economy could not be fixed unless people started paying their taxes honestly.

Corruption is undoubtedly a major hurdle in introducing an effective taxation system in the country but such a system can be introduced and implemented effectively through utmost caution and prudence.

Any half-hearted or ill-conceived move can only complicate the problems.

Therefore, it is time for the government to draw up a thoroughly and well thought-out strategy to tackle the economic challenges faced by the country. At a time when political problems are brewing up fast, the government should not create more problems for it and try to resolve the matters amicably through dialogue and negotiations.

In fact, the government also needs to bring down rising political temperature in the country as it would help it handle economic issues more effectively.

Unfortunately, the government does not appear to be thinking on these lines but it can still mend its ways by making things more problematic for it.

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