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### **Neither half empty, nor half full, the glass is leaking...**

LAHORE: Generally a healthy economy boasts low interest rates, tame inflation, strong gross domestic product growth, improved foreign investment, increased job creation, and a growing large-scale manufacturing sector; however, the policy squad is insisting all is well when all the above indicators are down in the dumps.

In Pakistan, higher interest rates, higher inflation, lower gross domestic product growth, and declining manufacturing output are now being termed as “stabilisation of economy”. This coinage, “stabilisation”, is the new definition of recession in Pakistan.

Though statistics have showed time and again that exports are stagnant but the government’s economic motley crew continues to claim country’s exports are on the rise. The foreign exchange reserves are being shored up with hot money that can move out on the least negative news. We are in a mess and majority of economists are firm in their belief that our economic direction is not right.

At the moment the economy is shrinking, which is one of the reasons for declining imports. However when we start growing, imports would follow the suit. We lost our competitiveness by three notches this year which shows that things are not improving on economic front. Current economic situation is not the case of “is the glass half empty or half full?” It is in fact a case of leaking a glass.

Our basic problem has always been bad governance. Our exports are stagnant because the facilitations, different governments announced from time to time for the exporters, are not honoured. Even in cases like the refunds the main blockade is from the bureaucrats. The exporter after purchasing inputs from the duly registered suppliers, listed on Federal Board of Revenue (FBR) website, is denied refunds if the supplier fails to deposit the sales tax taken from the exporter in the exchequer.

The FBR asks exporters to buy inputs from its registered suppliers by paying the sales tax, which would be refunded after execution of export order. If the supplier fails to deposit the sales tax amount in the government kitty it is an issue between the government and the registered supplier. The exporter has got nothing to do with it.

This one excuse is then applied on all refund claims even in cases where the supplier has deposited the sales tax. A standard answer is that the credentials presented by the exporters are being verified. But for how long? For those who “cooperate” with the refund authority, the verification could be prompt but for those who do not want to share the refunds with officials the waiting time is indefinite. This problem would be solved immediately if the state make the refund system transparent and take to task all those suppliers who fail to deposit the sales tax in national accounts. This will boost the export of small firms, many of whom hesitate to export because of this problem.

We are still not willing to block all avenues of money laundering and smuggling that have kept the Financial Action Task Force's (FATF) sword hanging on our head. Why can't we take action against all those who were somehow involved in money laundering and terrorist activities? Why has the smuggling not been controlled? Smuggling and under-invoicing means the unethical elements still have access to illegally acquired money.

We have not been able to reduce the pilferages in the power sector. The line losses are still high and power theft has not really been curtailed. The circular debt has been reduced by increasing the power tariff abnormally. The economy would never stabilise if we continued to tolerate the corrupt and penalise the honest consumers. Did government ever calculate the loss due to theft on current tariff compared with the one that was in vogue a year back? Higher tariff is a curse for the consumers and a boom for the thieves.

We may stabilise the economy for the time being with cosmetic measures but the destabilisation would be more vigorous if the ills in the systems are not removed. We have been hearing that so many high profile individuals have been issued show-cause notices by income tax authorities but what specifically has been achieved has never been reported. New tax filers have deposited less than Rs5 billion as income tax.

Is that enough or will we be moving at this pace every year? We need to generate additional income tax of at least Rs150 billion from new entrants in tax regime. The tax evasion though is much higher.