

### **Are good intentions not good enough?**

Despite the goodwill for Prime Minister Imran Khan's team, the private sector currently appears to be more reluctant than before to commit capital.

The ruling party seems to enjoy more support in the businesses circles of Punjab that consider the last two governments 'self-serving'.

Business leaders view the increased engagement of the government with the private sector positively. They expressed confidence in the PTI's good intentions, but were mildly suspicious of the capacity of the economic team to balance competing interests in the current phase of consolidation, which entails enforcing fiscal discipline and further monetary tightening.

Karachi-based businessmen blame the inordinate delay in seeking an IMF bailout package for the persistent market uncertainty

In Karachi, the leadership of traders-dominated chambers and sector-specific bodies were not impressed with the government's performance in its initial phase. In addition to the open-handed management of the economy in the final phase of the PML-N government, they blamed the inordinate delay in the decision on seeking an IMF bailout package for the persistent market uncertainty and a major dip in consumers', producers' and traders' confidence.

They were also critical of the administrative setup that appears to be either hostile or too fearful of the government to clear files related to business matters. They mentioned the hounding of businessmen by the taxmen while other asset-owning classes continue to stay out of the tax net.

The Overseas Investors Chamber of Commerce and Industry (OICCI) Business Confidence Index report, scheduled for release in November, was still awaited till the filing of this report. Farhan Iqbal of the OICCI confirmed that the organisation has decided to push its release forward by a few months. He cited the preoccupation of the OICCI with other issues of more pressing nature as the reason for the delay.

The said biannual exercise gauges business confidence. The last survey in May reported a seven-percentage-point drop to 14pc from 24pc in November 2017. The fall in confidence was attributed to growing pessimism in retail and wholesale trade, which showed a sharp decline to 6pc from 40pc earlier.

According to OICCI CEO Abdul Aleem, the ongoing investment plan of foreign investors who are members of OICCI has not been affected by and large. "Foreign investors also look for predictability, consistency and transparency of policy and its implementation," he said, adding that recent investment announcements by leading international consumer goods companies show the country is attracting investment based on opportunities and not challenges only.

Market watchers assess that the drop in business confidence is steeper post-May, although they have no data to back up their assertion. "There was political uncertainty between November last year and May this year, but the economic data was not as grim. With the cost of doing business hiking and the currency, capital and property markets teetering, how can businesses remain insulated from such major pressures?

"It must be a tactical decision by the OICCI to not report survey results because they know the outcome. Probably they did not want to sour their relationship with the new government by reporting an embarrassingly low level of trust the government has within the business fraternity," commented an analyst who is not permitted by his company to publicly air his views.

This perception about a major loss in business confidence was endorsed indirectly by the State Bank of Pakistan (SBP), which conducts consumer confidence surveys every two months. According to the SBP, consumer confidence fell to 49 index points in November from 56 in September. The index covers households' perceptions relative to the last six months and their expectations for the next semester, including personal financial conditions, overall economy, unemployment and consumption of durable goods. The index is based on the stratified random telephone survey of more than 1,600 households across Pakistan.

Zubair Tufail, former president of the Federation of Pakistan Chambers of Commerce and Industry (FPCCI), was cautiously optimistic. He participated in the meeting that the prime minister and his economic team held with businessmen in Karachi last week.

"No one doubts the intentions of the government. But mere intentions are not sufficient to boost business activity. On top of an already high cost of doing business, the government has now suspended the supplies to industrial units in Karachi, which can only be restored at a higher price. It has played havoc with industrial areas of the city."

He was unhappy with the very slow pace of the reimbursement of sales tax refunds. "Asad Umer has said the government will disburse Rs5 billion a month against Rs300bn outstanding tax claims," he stated.

Eizaz Shiekh, a key leader of cement manufacturers in Lahore, advised the business community and citizens to show patience towards the government that is only a few months old. "I believe the current team has the will and clearly defined targets. It can take a little more time than what we expect, but issues will eventually be sorted out. Industry will have to extend its support to move the wheel of the economy faster."

He deplored the lack of responsible behaviour within his own class. "Things can't go on the way they were being managed. The change will only materialise if we embrace it. The practice of under- and over-invoicing must stop. People should clear their tax liabilities. As tax compliance improves, the government needs to expand the tax net and bring down the rates. The current rate that collectively makes up about 40pc of the total cost for a new project is prohibitively high," he said.

"Instead of extending support to the low-export potential sectors like textiles, the government needs to identify sectors that can boost export earnings quickly," he said.

Shabir Ahmed, a leading textile exporter based in Karachi, said the current level of the government's interaction with the business community was insufficient. "Our requests for meetings with government representatives remain pending for months on end. It is becoming increasingly difficult for people to conduct business in this environment. Yes, expectations were high, but the performance belies the tall claims of the PTI leadership," he said.

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