



Settling bills

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IN his recent visit to Karachi, Finance Minister Miftah Ismail held a round of meetings with industry leaders and heard the same refrain that every finance minister has had to hear from industry. Sales tax refunds are stuck, industry complained, and the amount has become so large that it is hampering industry's ability to function. This is a constant theme in the government's relations with business leaders, because the rulers rely on and hold on to these refunds to help shore up the fiscal framework, while industry has to resort to bank borrowing to make up for the liquidity shortages that it must endure as a result. One hears of different amounts that industry claims is outstanding in the form of refunds, but the figure tends to be in the hundreds of billions of rupees. In Karachi, the finance minister assured industry leaders that Rs100bn worth of these refund claims will be settled by the government before its departure. Industry leaders are sceptical, however, perhaps because they recall a similar commitment made to them in February which has yet to be fulfilled.

This is not the only outstanding amount that the government is committed to clearing up, even if partially, before its departure. According to reports, emanating from post-budget consultations, the government is also pledging to settle at least Rs100bn worth of the power sector's circular debt — the total level of outstanding amounts payable by the government has crossed Rs1tr. The politicians might yet be successful in this because it is the start of the fiscal year and those in power do not have to worry about even the close of the first quarter, let alone the whole year. The stars are aligned for a large payout before the government's departure. But the fact that it has come to these last-minute commitments to settle a portion of the large overhang of outstanding payments owed by the government is a serious indicator of the failure of reforms in the areas of taxes and the power sector. In both, the government likes to brag about the quantum increases it has managed. Power generation has increased in five years by more than it did in 70, the politicians tell us. And revenue collection has more than doubled in this time. But the inability of both systems to make their payment obligations is the real story, and it is here that very little seems to have changed.

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