DAWN

Businesses hold breath as govt mulls policy options

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The voters' swing towards the Pakistan Tehreek-i-Insaf (PTI) in 2018 won the party massive support in business circles. Repositioning itself, the corporate sector celebrated the appointment of former business executive Asad Umar as finance minister. Can this support stand the test of the mini-budget expected to be tabled in parliament this week?

Business leaders showed unusual empathy for the government embroiled in complex economic problems that they acknowledge have no easy solutions. However, they wished economic managers to be bolder and more sensible. Many were in favour of entering the International Monetary Fund (IMF) programme immediately for not just the bailout but also much-needed structural readjustments in a phased and predictable manner.

"The industry is already overloaded with taxes, which is compromising its competitiveness. Any further burden will prove disastrous. The government has access to information on high net worth individuals outside the tax net. It should target them to raise revenues. Rates can be cascading. But to be fair, all incomes irrespective of the source should be taxed," commented Muhammad Ali Tabba, CEO of Lucky Cement while discussing the upcoming revised budget.

The government needs to address issues on both external and internal fronts to deal with a financial panic gripping the country

"The government must also implement the real estate package of the last government. It will serve a dual purpose: open up an avenue for raising resources and burst the bubble that has pushed housing beyond the reach of ordinary people," he demanded.

The 2018-19 budget contained measures related to the real estate sector. The Federal Board of Revenue (FBR) rates were abolished, the provinces were asked to do away with the unrealistic DC rates, non-filers were barred from buying property worth more than Rs4 million, advance tax was cut to one per cent of the declared value and the government was allowed to buy individual properties within six months of registration at double the declared price through a buyback scheme.

Pakistan Business Council (PBC) CEO Ehsan Malik was not worried about short-term fixes, but he pleaded to mend structural weaknesses. He advocated a comprehensive policy direction and alignment in the working of line ministries.

"There are rumours about offers of help from Saudi Arabia and China. I think it is much better to go to the lender of last resort," he said.

"Much depends on the policy direction adopted. If the mini-budget stops at rolling back the tax breaks, the private sector may not react. However, if relief to the industry and exporters is withdrawn, new taxes are imposed and duties on industrial raw material are hiked, support for the government in corporate corridors can wane as quickly as it waxed," warned a top businessman.

“Finance Minister Umar, a novice in Islamabad, is at the mercy of bureaucrats who excel in tricking politicians to mount the rocking horse. Most files I see shuttling in economic ministries were prepared by the last caretaker government,” a senior officer commented from Islamabad over the phone.

To achieve a modicum of stability amidst the financial panic gripping the country, the government needs to address issues on both external and internal fronts. Despite the more precarious external situation, Mr Umar chose to focus on the domestic sector before deciding on the IMF bailout.

Internally, to drag down the fiscal deficit from over six per cent to 5pc of GDP in 2018-19, the government needs to close the budgetary gap of Rs500 billion, according to an expert.

“The government has two options: increase revenue or cut spending. In my opinion, the government will do a little of both. It intends to mobilise over Rs100bn through the reversal of tax breaks and slashing the Public-Sector Development Programme (PSDP) to balance books,” another informed source told Dawn.

“Realistically speaking, chopping the PSDP will not affect anything because the government’s capacity to optimally utilise the development budget in a transition phase is compromised. In the last fiscal year, with the PML-N government’s best efforts, a little over 60pc of the development budget of Rs1.01 trillion was consumed,” he said.

The business community, our survey showed, is ready to grant time to the new team. The market, unfortunately, is not as generous.

It has already started punishing the economy for the delay in fixing the external-sector problems. Commodity, currency, capital and property markets are stagnating. Low trading volumes are forcing brokerage houses, mutual funds and real estate companies to lay off staff to stay viable. According to market sources, some have sent SOS messages to the prime minister, pleading for clarity on the policy direction.

The long-drawn phase of uncertainty has discouraged high net worth individuals. In addition, the recent dip of 20pc in auto sales is said to be indicative of the middle-class attitude. According to market watchers, business in departmental stores and malls around the country is also less than usual.

Keeping complexities in sight, perhaps the best option for the government will be to share with people not just the real situation but also different sets of solutions. Unless the government justifies its policy option at this juncture to its constituents, it will be hard for the ruling party to deny its complicity in fracturing our fragile economy.

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