Stop flip-flopping, says the industry

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By Afshan Subohi | 10/1/2018 12:00:00 AM

THIS October may prove to be the toughest month of the last five years economically for Pakistan as Finance Minister Asad Umar and commerce adviser Razzak Dawood`s team struggles to achieve first stability then growth.

Presently stability eludes the country as twin deficits balloon and dollar inflows may take a time lag to materialise while foreign exchange reserves teeter at a critical level. The prolonged uncertainty, mini-budget proposals emitting conflicting signals and the indecision on the International Monetary Fund (IMF), dealt a blow to market sentiments thereby fracturing the growth momentum.

Trying to veil their angst -as staff level interactions with the IMF team for Article IV consultations progress and preparations are hastily made to receive the Financial Action Task Force (FATF) review team in Islamabad -business leaders pinned their hopes on the skillset of the duo leading the current economic team. Privately they shared their disappointment with the PTI`s performance in the economic sphere thus far.

Putting up a brave face, some said they were willing to support the government as it had started engaging them on policy options. Leaders, cognizant of difficulties, expressed readiness to pitch in their bit provided the government abstains from reversal on the policy that penalises non-filers and implements the recommendations of the Tax Reform Commission in letter and spirit.

Many were critical of the Ministry of Finance, with its solitary focus on book balancing, and the Federal Board of Revenue that disproportionately depends on a presumptive and withholding tax regime, passing on the burden of its inefficiency on tax payers by revising rates upward instead of ensuring tax compliance and broadening the net.

They foresee the credit cost in the country rising steeply as the State Bank of Pakistan (SBP) revises up the interest rate and the rupee depreciates sharply against the dollar. `No one expects the kind of flexibility from multilateral partners that the country needs to sustain the growth thrust,` a business leader lamented.

The current economic indicators are worrisome: inflation is accelerating (from little above four per cent at the start of the calendar year to nearly six per cent cur-rently), growth projections are down from 5.8pc to 4.8pc (by the Asian Development Bank) or 4.7pc (if one goes by International ratings agency Fitch`s estimation).

Further, recent tax measures emit conflicting signals, the import dip appears to be temporary as importers had hiked orders to cash-in on the rupee fall two months back, the future of export remains clouded because oflimitation of exportable surpluses and dollar inflows have yet to be streamlined.

`The government should have been better prepared.

I am disappointed. The situation is difficult but can be salvaged if PTI, instead of flip-flopping, takes concrete measures to correct economic direction and the key drivers of growth are given the attention and support they deserve,` Ehsan Malik, CEOthe Pakistan Business Council, commented.

In its initial response to Finance Minister Asad Umar`sbudget proposal of a blanket withdrawal of restrictions on non-filers from buying cars and property, the PBC circulated a note expressing surprise at the retrogressive step, `...It would have been understandable if exception were made for non-resident non-filers or their dependents... it may also have made some sense to remove the restrictions on locally assembled cars up to certain value... It is a pity that revenue expediency prevailed over principle...

Haroon Farooki, a frontline leader of the Karachi Chamber of Commerce and Industry (KCCI) was confident that the final draft of the budget proposals will accommodate key amendments suggested by businessmen. He thought the fairness of the tax regime will be compromised if all segments of the domestic industry have not been treated at par with the five export-oriented industries.

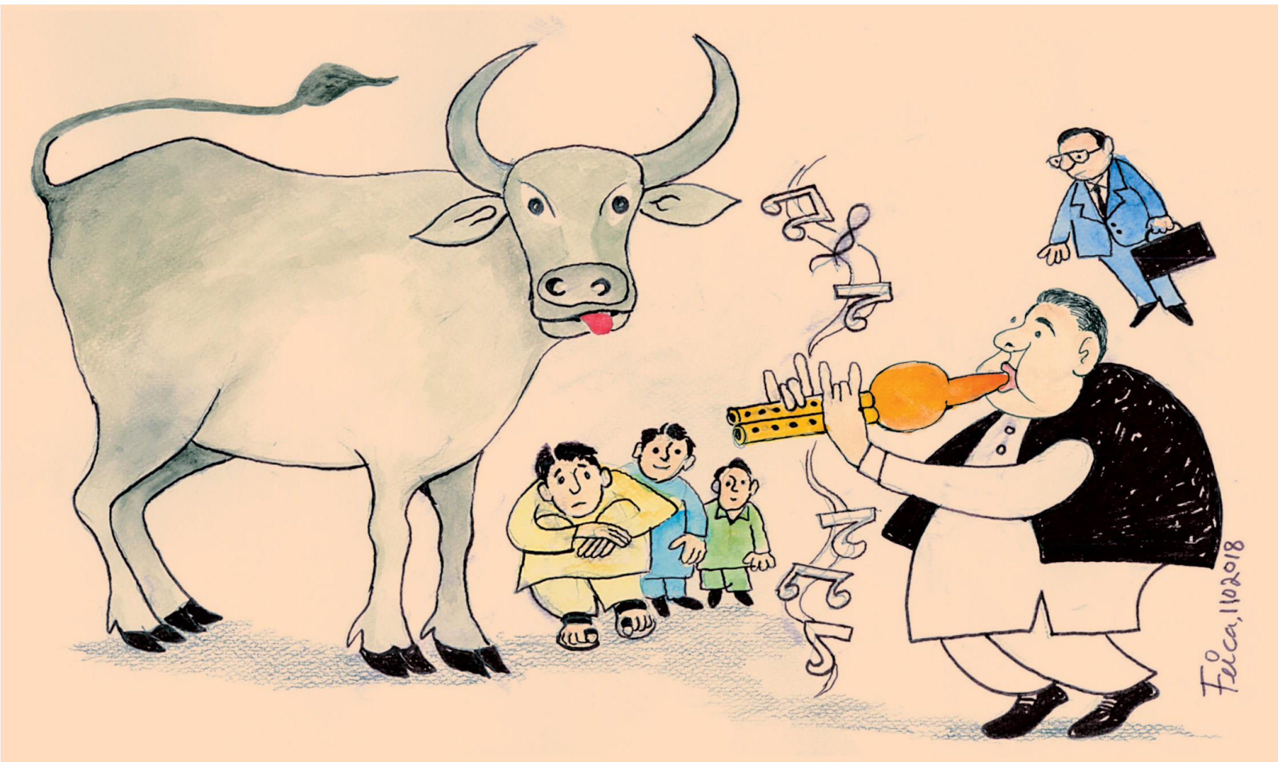
`Yes, the export-oriented industry earns dollars for the country but does the local industry not save dollars through import substitution? In my opinion each dollar saved is as valuable as one earned. If you further burden the local industry, which is already under stress, with increasing costs you will be creating the perfect recipe for a slow, painful, death,` he argued.

`Unfortunately in our country the regulatory duty management is not used as a policy tool to encourage or discourage imports of certain items but as a revenue measure. It is unfortunate that in Pakistan the collective weight of all economic ministries in policymaking appears to be less than one ministry i.e in the Ministry of Finance. The result is before us: adhoc revenue steps sometimes at the cost of trade and industry,` he complained.

Majyd Aziz, president Employers Federation of Pakistan, was perturbed over the secrecy surrounding the list of items on which the government has proposed increasing the regulatory duty.

`There is suspicion in business circles over the revised rate and items on the list. There are several anomalies in our Custom duties regime from before.

There are instances where higher duties are clamped on raw materials than on the semi-finished product or even the finished product it is used for. For example, in the palm oil category duty is higher on crude than refined oil. Who does that?`



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