

Financial Emergency in Pakistan

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Abstract— This paper deals with proposal for financial governance on war footing to combat tax evasion, corruption & terror financing. The immediate steps Government should initiate to increase tax net.

Index Terms— Anit Money Laundering, Counter Terrorism Financing, Financial Governance..

1 INTRODUCTION

THIS document is about proposal for financial governance on war footing to combat tax evasion, corruption & terror financing. The immediate steps Government should initiate to increase tax net.

Every person in the Country agrees we are in financial crisis. The Government not so strong based on coalition support. Stronger numbers in federal and provinces could have made it easier for the Government to encounter the basic issues more easily.

The Government will be supplementing its numbers by issuing Ordinance instead of passing legislation through parliament.

The Government is taking bold emergency steps to track down the capital, money laundered to overseas, it is highly commendable. But we have to realize the legislation and efforts require completing it. The Government will be dependent on other countries for Mutual Legal Assistance (MLA) and bilateral agreements for extradition, repatriation. It will take time to do all.

The short term initiatives for Domestic Financial Governance (DFG) should also be prioritized to get the going along with efforts for Money Laundered. This will show immediate impact, Government funding crisis will replace ventilator with simple oxygen mask.

The successful implementation of DFG will provide optics help to Government in portraying its political will, commitment to War Against Corruption (WAC).

2 SOLUTION TO THE PROBLEM

In current scenario the immediate steps to counter financial crisis in Pakistan. The priorities include easing pressure on Dollar demand and bringing back the currency flight from economy.

Both currency flight and demand of Dollars are interlinked.

The third component of this triangle is high denomination currency notes the most important and crucial element needs immediate attention.

The higher denomination currency notes lead to ease and support of corruption and terrorism funding. This not only eases corruption but facilitate parallel cash based economy, which is hard to trace.

The cash economy is the root cause of all economy ills. This never contribute to tax net resulting in poor tax collection to national exchequer. The short fall is unsuccessfully being tried to be covered with indirect taxes, giving undesired inflation.

This illegal money when never goes to bank accounts is kept out of mainstream economy. This money is used to purchase dollars from open market from foreign exchange companies.

The purchase of dollars puts unnecessary pressure on Rupee and foreign exchange reserves also disturbs exchange rate parity.

The dollars bought from open market are sent abroad in safe heavens of illegal money through illegal channels like hawala and hundi.

The Government urgently required taking steps on war footing to counter all the above mentioned issues.

First of all the high denomination currency notes should be immediately withdrawn specially 5000, 1000 and 500 rupees currency notes. The 100 rupee currency notes should be redesigned to re-monetize.

These demonetization and re-monetization should be done only through banking channels. Usually the demonetization and re-monetization sometimes create cash liquidity issues. Since Pakistan has micro-finance banking system strongly in place, with little fine tuning this will eliminate cash liquidity crunch scenario.

The re/demonetization policy will bring out the stored money once it is implemented with mandatory condition to exchange currency notes only through bank deposits. If the person does not have bank account he should be required to open account with schedule bank or micro finance bank/easy paisa account. This should be only way to exchange currency notes.

This step will bring the unaccounted economy and tax evaders in main stream economy.

The total of this cash economy, parallel economy or untaxed shadow economy is considered 30% to 50% of total GDP of Pakistan. Total impact can be fairly estimated by taking this step of demonetizing and re-monetizing.

To compliment demonetization is to curb the open market sale of foreign exchange, all the payments, remittances of school college fees, technical fees, royalties, boarding and lodging expenses of overseas students should only be allowed with banking / official channels. These payments and remittances should be adequately supported with documentary evidences.

The cash sales of OTC foreign exchange should be zero, for overseas travelers the cash be purchased on proof of valid confirmed ticket and visa or similar measures for control.

The key to success of these steps will be in implementing de-regulate OTC sale of foreign currency and then proceed with demonetization.

The bank deposit position will have positive impact and State Bank of Pakistan (SBP) should also consider revisiting banks deposit margin limits.