Report on Proceedings

CIIT Pre-Budget Seminar on

State of the Economy & Federal Budget 2017-18

Centre for Policy Studies

COMSATS Institute of Information Technology, Islamabad
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About the Report

This Report on Proceedings of Pre-Budget Seminar on “State of the Economy & Federal Budget 2017-18 is prepared by Dr. Talat Anwar, Advisor, Centre for Policy Studies, COMSATS Institute of Information Technology, Islamabad. The objective of the seminar was to evaluate the current state of the economy and suggest policy recommendations for the Federal Budget 2017-18 which would be helpful in setting policy direction to further improve the performance of the economy. The seminar provided an opportunity to academia, students, civil society, professionals, and policy makers to come forward and give recommendations as to how to improve the current state of economy, and reduce the risks associated with economy in order to protect the vulnerable groups.

We are thankful to Rector CIIT, Prof. Dr. Raheel Qamar for his support in organizing this seminar. Support from Head, CPS and staff is also acknowledged. We are thankful to our chief guest, Mr. Qaiser Ahmad Shaikh, Chairman, National Assembly Standing Committee on Finance, Revenue, Statistics and Privatization for delivering his inaugural address in the seminar. In particular, we are grateful to Dr. Hafiz A. Pasha, who came to participate as speaker from Lahore despite his health problems. We are also grateful to our distinguished speakers, Mr. Shahid Hafeez Kardar, Dr. Ashfaque Hassan Khan, Syed Sardar Ali, Dr. Asghar Zaidi, Mr. Ali Shan Azhar, Dr. Vaqar Ahmed, Mr. Sakib Sherani, Dr. Ather Maqsood Ahmed, the CPEC panelists, Syed Hassan Javed, Prof. Dr. Usman Mustafa and Dr. Aneel Salman and the chairs, Dr. Javed Ashraf and Mr. Mustafa Hyder Sayed for their valued contribution to the seminar.

About the Centre for Policy Studies

Centre for Policy Studies was established by COMSATS Institute of Information Technology in 2012 to offer academic programs and conduct research in policy areas which benefit the government and the society at large. Through a multi-disciplinary approach, CPS aims at bridging the gap between academia, government, industry and civil society on various contemporary issues in addition to undertaking short and medium term training modules for capacity-building of professionals in public and private sectors.

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The Concept Note

The cheap international oil prices coupled with government efforts as well as the donors’ support including an IMF program of $6.6 billion have led to improved growth prospects with GDP growth increasing from 4.1% in 2013-14 to 4.7% in 2015-16 but missing the target by whooping 1 percentage point. China–Pakistan Economic Corridor (CPEC) is regarded as a game changer with the $46 billion both investment and debt, equivalent to 20% of country's GDP which will transform Pakistan into a regional economic hub. CPEC has also brought improved growth prospects and will have far reaching economic and social implications for both countries. The credit rating agencies (Moody’s, S&P) are also highlighting better growth prospects. However, as before the government set an ambitious target of 5.7 percent for 2016-17, and it is expected that the country will also miss the target and hardly achieve 5% GDP growth at the closing of the current fiscal year 2016-17.

Despite the above prospects, there remain daunting challenges in the economy. With no significant increase in foreign direct investment, country’s exports have been falling persistently from $25 billion in 2013-14 to $24.1 billion in 2014-15 and to $22 billion in 2015-16 and will not meet the target for 2016-17. In addition, the fiscal deficit target of 3.8% of GDP for 2016-17 looks highly ambitious against the actual fiscal deficit achieved at 5.5% of GDP in 2013-14, 5.3% in 2014-15 and 4.6% in 2015-16. Due to the high fiscal deficits, government has been borrowing persistently both from domestic and external sources. As a result, the overall debt increased significantly from Rs.9.5 trillion in 2013 to Rs.12.7 trillion in 2016 whereas external debt substantially from US $61 billion to US $73 billion during this period. There are apprehensions among the professionals, academia and civil society that this continuing rise in public debt over the last few years will destabilize the economy affecting the poor and vulnerable segments of the population adversely in the coming days.

In this scenario, an important challenge that remains is the provision of adequate services and jobs to our increasing working-age population to benefit from the demographic dividend. The energy shortfall and deterioration in governance including corruption and security situation are also the serious challenges that impede the development outcome and prosperity.

We all know that Pakistan Muslim League-N government is going to announce its fifth Federal Budget in June 2017. In this context, it will be important to examine state of Pakistan’s economy, the direction of the policy measures adopted by the government and their results in order to make policy recommendations before the announcement of Federal Budget 2017-18.

In this backdrop, CPS has planned to organize a Pre-budget Seminar on April 25, 2017, 9 am to 5 pm at CIIT, Islamabad with the objectives to evaluate the current state of the economy and suggest policy recommendations for the Federal Budget 2017-18 which would be helpful in setting policy direction to further improve the performance of the economy. The seminar will provide an opportunity to academia, students, civil society, professionals, and policy makers to come forward and give recommendations as to how to improve the current state of economy, and reduce the risks associated with economy in order to protect the vulnerable groups.

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talat.anwar@comsats.edu.pk_March 24, 2017
A one day Pre-Budget Seminar on “State of the Economy & Federal Budget 2017-18” was organized on April 25, 2017 by Centre for Policy Studies, at Electrical Engineering Auditorium, COMSATS Institute of Information Technology, Islamabad. The objective of the seminar was to evaluate the state of the economy and suggest policy recommendations for the federal budget 2017-18 which would be helpful in setting policy direction to improve the performance of the economy. Around 130 participants from academia, civil society and government attended the seminar.

The seminar brought country’s leading economists and experts who spoke about their views and presented their analysis. The pre-budget seminar was the third such event in a row organized by CPS, which focused on state of economy, public debt, microfinance, employment, population, energy sector, export promotion, institutional reforms and tax policy challenges.

Welcome address was given by Ambassador Fauzia Nasreen, Head, CPS, CIIT while the seminar was inaugurated by Mr. Qaiser Ahmad Shaikh, Chairman, National Assembly Standing Committee on Finance, Revenue, Statistics and Privatization who was the chief guest at this occasion. The speakers included, Dr. Hafiz Pasha, Dr. Vaqar Ahmed, Syed Sardar Ali, Dr. Asghar Zaidi, Dr. Ashfaq Hassan Khan, Mr. Arshad Abbasi, Mr. Ali Shan Azhar, Mr. Shahid Hafeez Kardar, Mr. Sakib Sherani, Dr. Ather Maqsood Ahmed. The CPEC panelists included Amb. Syed Hassan Javed, Prof. Dr. Usman Mustafa and Dr. Aneel Salman. Dr. Javed Ashraf and Mr. Mustafa Hyder participated as chairs.

Session I: Inaugural Session

Ambassador Fauzia Nasreen, Head, CPS welcomed all of the people participating in the Pre-Budget Seminar on “State of the Economy and Federal Budget”. She spoke about the number of challenges confronted by Pakistan, and said, the economy occupies a central position within the Government’s overall policy framework. The budget has a pivotal role in giving direction to the economy which determines the priorities that any government sets for itself. Keeping in view the significance of the economy and the budget and its relevance for the faculty and students of management sciences and business administration, they are also invited to attend from Islamabad, Wah and Attock campuses to attend this seminar. The faculty and students from Lahore, Vehari and Sahiwal campuses are also attending this seminar through video conference links. Today’s seminar has immense academic value by creating a productive
debate involving all the stakeholders and most importantly the government representatives and leading economists and experts on the subject. The objective is to present a comprehensive picture on various aspects related to the budget making and preparation. In the end, she thanked all the participants.

The chief guest, Mr. Qaisar Ahmad Shaikh, Chairman, National Assembly on Finance, Revenue, Statistics and Privatization said in his inaugural address that CIIT is a reputed institution that has organized this seminar. He lamented that Standing Committee forum is a very important forum but no importance is given to this forum and most of the budget is formed by the FBR. We have abolished most of the SROs and this is a big achievement of the government.

Mr. Shaikh added that we have imposed 0.4% tax on banking transaction for non-filers while exempting filers which is an incentive to non-filers to become a filer. Pakistan tax to GDP ratio at 10% is very low compared with India at 16%. If we broaden tax net, our revenue can be increased to Rs5000 billion. In the current fiscal year 2016-17, our tax revenue target is Rs3600 billion, even if we missed this target by Rs200 billion, this will be a big achievement from Rs1950 billion at the start of our tenure. Our Foreign Exchange Reserves substantially increased, inflation went down from 8% to less than 3% and, the last year GDP growth of 4.7% was the highest since the last 8 years. In the current fiscal year 2016-17, we will try to achieve 5%. He admitted that we remained unable to provide proper jobs to our youngsters.

Pakistan with population of 200 million will have to grow and develop much faster. We have number of problems especially law and order especially in Karachi which is the hub of economy. The situation has yet been improved. We have a tough time to develop next year budget especially in setting a low fiscal deficit target. Talking on the declining exports of the country, the chief guest added that most of the countries have devalued their currencies but we have not done it due to which our exports have been declining. Last year it declined by 2.7% and this year it will also decline.

We have not given importance to value added sector. China did not have cars and even airline 50 years ago and all of the Chinese used to fly in PIA. China has become a big economic giant but we could not get benefit from the growth of China whereas other countries have gained significantly. We have Free Trade Agreement with China but we are not benefiting from it while China has benefited.

For the coming budget, we have identified the problems and questions but we need to find a solution. If we reduced the sales tax then where would funds come from? What should be the deficit of budget? Should we continue the remittance policy of asking no question? How can we increase tax to GDP ratio? CPS has timely organized this important seminar before the announcement of the next Federal Budget. Finally, the chief guest thanked the CPS and CIIT
and said that it is a very prestigious institution. We want to accommodate the ideas that this seminar will generate today while deciding the next budget.

At the end of the inaugural session, Dr. Talat Anwar, Advisor, CPS gave the vote of thanks to everyone who were participating in this seminar in particular the distinguished speakers, chairs, panelists and organizers for their contribution in this seminar. He thanked especially the Rector, CIIT Prof. Dr. Raheel Qamar and Ambassador Fauzia Nasreen for their full supports in organizing this seminar. He also thanked his CPS fellows and staff, Dr. Kalsoom Sumra, Ms Mehwish Qayyum Durrani, Malik Zeshan, Raheel Zahid, Ammar Ahmed, Zohaib Jamali, and Tahir Aslam for their efforts in organizing this event.

Session II: State of the Economy and Employment

In the first plenary session, Dr. Hafiz Pasha, Former Finance Minister gave a talk on “State of the Economy”. He said that the optimism about the economy is not correct as the economic situation would be again heading back to the level of 2013 when the current government took power. According to government statistics, while the inflation rate as a whole is low but inflation in tomato and potato combined in the last two months accounted for 30% of inflation. Fiscal deficit has been at 3.8% of GDP—the lowest since 2004-05. FBR revenue is projected to grow 11% of GDP as compared to 8.5% of GDP in 2012-13. We have all good news. The government claimed achievements and international credit agencies have verified it. That is all the positive side of the story.

Dr. Pasha lamented that all is not good relating to the state of the economy. There has been an unprecedented decrease in revenue, too fast and too much. In the past 9 months our agriculture which provides employment to 44% of the workforce has been in deep trouble. Our 60% industry is agro-based. Last year we had negative growth in agriculture. This year we will recover in cotton to 14 million bales from 10 million bales in the last year. Agriculture sector’s minor crop is not doing well whereas others crops like rice are not too well. Unless we have 4-5% growth in agriculture, this country will not grow, he claimed unambiguously. He added that the neglect of agriculture started in the military government which had a focus on the banking sector. Growth cannot happen without the growth of agriculture because rural purchasing power has to grow. Our industry will not rise without agriculture. We are importing 3 million cotton bales from India. There is a security threat in case India decides not to sell you cotton. We, therefore, need to be self-sufficient in cotton.

We used to export cotton and food to our neighbors but now forced to import these things. The deficits are artificially controlled by the government and official picture of the economy is not based on reality. The parliament should ask why the government manipulates national statistics by changing definitions. Based on the original definition, the debt to GDP ratio is very high at about 70%. Imports are growing and our industries are ravaged because of cheap imports. We need to get our statistics right enabling the policy makers to take right decisions.
Exports of the country will continue to decline. We will be lucky, if we achieved $24 billion this year. In contrast, India’s exports are 18 times much higher whereas Bangladesh’s are 70% higher than Pakistan. This is amazing that our exports are suffering at a time when other countries are doing well. Unfortunately there is an unprecedented increase in imports. Imports bonanza is going on. In the last quarter, imports grew by 31%. The government story of higher imports due to CPEC is not true with all due respect. SBP data shows that only 2% of increase is due to CPEC related imports. Imports of fruits, petroleum products, fertilizers, chemicals, and coppers—all kind of imports of consumer goods are increasing. Our fertilizer industry is declining because of increasing imports of fertilizers. The phenomenal growth of imports is due to the policy of fix exchange rate. The government is in ego problem and the country is suffering because of it. This has become suicidal at a time when there is low intensity war on trade. All countries are devaluing their currencies. China with $3 trillion forex reserves devalued its currency by 8%, Turkey by 30% and India by 4%.

The third area of disappointment is of intellectual dishonesty. Your fiscal deficit is controlled artificially by changing the definitions of debt. Your last year quoted growth rate of 4.7% is actually 3%. Unemployment rate is actually 6%. Investment rate reported at 15% is actually 14%. The government has been telling lie about the statistics. When you engage in believing in yours, you remain in the state of denial. I am talking it openly because situation is worrying as the economy is beginning to plunge.

The fiscal deficit last year closed at 4.6% of GDP. The quasi fiscal transactions are parked outside the fiscal deficit. The government has parked Rs888 billions of Pakistan holding company and Rs700 billion losses of Public sector enterprises outside the fiscal deficit. The government has been giving public guarantees to Chinese companies. Guarantees given were 4% of GDP while fiscal responsibility law allows the government only up to 2% of GDP. The government has parked outside the fiscal deficit the circular debts of Rs700 billion, the commodity operation of Rs650 billion and the losses of Public sector enterprises of Rs600. Including all these items, the fiscal deficit is much higher and debt to GDP ratio is close to 70% of GDP.

The net revenue receipt of federal government in the first three months could not even cover the cost of debt service leave alone the defense, government salary, grants and development expenditure. The government is able to cover 60% of defense through revenue while 40% of salaries would come through borrowing. We are going towards a default situation. In case of default, this time conditionality would be on national security.

Remittances are going down. The current account deficit is $9 billion. All kind of imports are growing. Our industry is ravaged because of cheap imports. We are able to finance only 45% of current account deficit. Thus, the minimum decline in forex reserves this year would be $4.5 billion. We may have to go back to IMF in the coming years.
In his concluding remarks, Dr. Pasha said that we need to get our statistics right on critical bases so that our policy makers can take right decisions. He advised to take some decisions now for emergency funds. The government must address the appreciation of Pak rupee against the foreign currencies which is overvalued by 30%. The government should think about devaluing it. In the last year three months, the current account deficit increased by 500%.

Firstly, we need to focus on the real sector. If India decides not to sell the cotton to Pakistan, our industry will come to halt. Our first priority should be to bring down the prices of inputs. We need to act together on agriculture and industrial sector. We need to give refunds to the exporters to increase their liquidity. CPEC is welcomed but we should not discriminate between Pakistani and Chinese companies. According to law, SRO should be given on a category and not on an individual basis which has been done recently for a Chinese company. Under the Free Trade Agreement, our exports to China declined by 45% in the last three years. India and Vietnam are the beneficiaries. We have witnessed a 35% increase in Chinese imports. Our industry is destroyed from Chinese imports. Our 35% deficit is due to our great friend China. We need to protect our interests. Government should ensure that CPEC is financially sustainable and does not lead to displacement of Pakistani businessmen, entrepreneurs, engineers and workers.

Government is engaged in state of deception. The wholesale price index increased by 6.5%. Only one item, the furnace oil has an increase of 3%. The actual inflation in wholesale price index is at 10.4% which one of my graduate students has estimated. The government has overstated growth in manufacturing at 4% which is at best is only 2%. He requested the government to hold his meeting with PBS for correction of the statistics. Get and act together on CPEC. Get and act together on Agriculture, Dr. Pasha concluded.

The next speaker was Dr. Vaqar Ahmed, Deputy Executive Director of SDPI who spoke on “Providing Employment for the Fast Growing Labour Force”. His presentation was focused on a study on the role of youth in sustainable development and the constraints to youth employment in Pakistan. The objectives of the study were to analyze the constraints to youth employment in Pakistan, identify priority actions needed to accelerate progress on goal-8 and particularly youth employment and identify the means of implementation and policy interventions to materialize priority actions (for youth employment). Sharing the findings of the study, Dr. Vaqar said, there are overlapping institutional roles and responsibilities with multi-tier governance system while the implementation system is vague. There are ineffective accountability mechanisms and weak monitoring system and the linkage between activities, outcomes and impact is weak because of weak feedback and learning loops. The social accountability initiatives are missing and there is lack of community participation in implementation of the projects at local level. The lack of partnerships endangers programme sustainability. The programme outcome is low due to lack of horizontal and vertical linkages.
There are issues of quality of certification and the current programmes not reaching youth in informal sector which is a major employer of youth.

Highlighting priority actions for 1000 days, he added, mapping of youth unemployment by region and community is crucial. Federal government needs to play the planning, coordination and monitoring role and encourage youth education and skills development through non-profit, civil society organizations and social enterprises. Public sector secondary schools, colleges and universities should be encouraged to open their technical and vocational education and training facility for youth.

The priority actions for long term include reforming domestic regulations, taxes and subsidies to incentivize skill development. The recommendations to address youth employment should be situated in an overall framework of youth engagement and the SDGs. A deliberate effort will be needed to ensure a commitment to ‘leave no one behind’. There is a need to develop a strong monitoring and accountability framework under public-private partnership.

Recommending the budget proposals for jobs, he suggested increasing private sector’s capacity to hire skilled labour through reduction in overall cost of doing business. Indirect tax burden on labour intensive, formal businesses (particularly agriculture) may be reduced through an overall revenue-neutral change. There is a need to enhance the self-employment potential of youth, women and marginalised segments. Wage and self-employment of women and marginalised segments in the society can benefit through coordinated social safety nets and growth of social enterprises in the country.

Recommending the budget proposals for women-led enterprises, he said, employment potential of existing women-led SMEs can be enhanced through appropriate fiscal policy measures which may include: a) ensuring targeted bank finances for women businesses trying to enter regional and global trade; b) relaxing fee and participation terms for exhibitions organized by Trade Development Authority of Pakistan; and c) increasing funding to enhance the geographical capacity and outreach by SMEDA can help build capacity of new and existing entrepreneurs and their managers.

**Dr. Javed Ashraf**, Vice Chancellor, Quaid-e-Azam University, Islamabad who chaired the session gave his remarks as chair that we have the resources but don’t know how to use them efficiently and that is why we need to get and act together to try to improve the conditions of our country’s economy.
Session II: Panel Discussion on “China Pakistan Economic Corridor” (CPEC).

The third session was a Panel Discussion on “China Pakistan Economic Corridor” (CPEC). The panelists included Ambassador Syed Hasan Javed, currently Director, Chinese Studies Centre, NUST, Prof. Dr. Usman Mustafa, PIDE and Dr. Aneel Salman, CIIT. Mr. Mustafa Hyder Sayed, Executive Director, Pakistan-China Institute chaired the session.

Ambassador Syed Hasan Javed spoke about how the Chinese have become a number one economic power. They have the best work in agriculture, taxation and civil service system. Pakistan also needs to work on these three factors to improve our economic conditions. At the moment we are struggling against 1% of China’s imports. Pakistan is standing economically today where China stood in 1978 but China underwent a huge change in 1980 by looking at where it stands at that time. I see CPEC as the “great leap forward” as the Chinese put it. It means that it is becoming the same situation as what China went through in 1958-1962. China had suffered a great set back to its economy then and to me CPEC is leading towards the same situation.

The second panelist, Prof. Dr. Usman Mustafa, PIDE said that Chinese interest in CPEC is due to its dependence on foreign oil is around 60%. Being an international economic corridor, CPEC will help China in its ambitious initiative by leading a new wave of globalization, which will attract more international financing and investment to Gwadar. One Belt One Road (OBOR) Initiative is a counter measure to manage US-led Trans-Atlantic alliance and balance the Trans-Pacific containment against China. OBOR is going to serve as connection of policy, roads, trade, and currency and especially of hearts.

Dr. Usman highlighted the threats and challenges in CPEC that include: underutilization of dividends of CPEC due to lack of formal agreements and vested interests; possibility of militarization of Gwadar port by China and its ramifications in regional paradigm; payment of costs of CPEC as these are not free lunches but a loan on harsh terms; efficacy of the projects, many projects are junk i.e. QAU solar power project, wind mill power pilot projects and coal fired projects in heart of Punjab mostly imported coal based; lack of economic opportunities in CPEC due to employment of Chinese labour; requirement of legally defined economic dividend of CPEC to Balochistan and challenges if not done; and security environment in Balochistan and associated challenges.

Highlighting the way forward, Dr. Usman said that the sufficient conditions for its success are CPEC related investments and infrastructure whereas the necessary conditions for tangible dividend are absorptive Capacity (Human Resource Development) and trickle down mechanism. The designing high-potential, efficient, and cost-effective and feasible policy solutions are the way forward for CPEC.
Dr. Aneel Salman, Assistant Professor, Department of Management Sciences CIIT spoke on the environmental issues, saying that the most disliked people are the environmentalists like us. When we think about the economic corridor we don’t pitch ourselves to think that it also involves other factors such as the environment and the transport corridor, etc. Climate change is affecting and increasing in Pakistan day by day. The coal plants being developed under the CPEC in the region might cause more climate changes. On the one hand, we are using our local coal which has a high carbon emission but costs less and has a less effect on our economy. On the other hand, we are also importing coal with a low carbon emission technology which is high in cost. So the question for the policy makers to consider is which coal should be used? Should it be the one that has more production or the lower carbon emission type? Should we try to save the environment or should we try to save our economy? Another factor to consider is the decline in water in the Punjab region which will affect our agriculture. Another aspect to consider is how to go about protecting the environment especially a vast expanse of green land which is falling in the CPEC area. If not protected that area can become the cause of severe water decline and will affect our agricultural productions. So the area falling under the CPEC route needs to be properly protected through proper planning so that we can protect our environmental situations also.

Mr. Mustafa Hyder Sayed who chaired the session commented to these points by saying that the coal which is being imported is made under “ultra-super critical technologies” and is being mostly used in the coal power projects. True that coal is considered as being bad for the environment but the coal with the ultra-technology has a very low carbon emission which is a very important factor to be considered. Hydro is a very long-term planning project and the results of completion takes 5 to 6 years which is considered to be a lengthy plan as compared to the coal power projects. The wind corridor is another option which is also a part of CPEC. The solar energy plants are also being developed in Sindh. We have an environment agency that monitors and regulates all the laws that the Chinese companies also have to follow like the Pakistani companies/industries. While this agency is already working on protecting the environment but we also need to make sure that because of CPEC none of our county’s historical heritage gets damaged.

Addressing the questions, Mr. Mustafa H Sayed said that Pakistan needs great reforms. Currently Pakistan will be adding 10,000 Megawatts by the year 2018 so that should be considered as a positive change in the current electricity crisis. China has historically followed a policy of not interfering in Pakistani politics so we cannot say that CPEC is a new version of the East India company scenario. China does not plan to take over Pakistan through the CPEC project. CPEC is not solely being developed by the Chinese but Pakistan is also contributing in the development, for example in Thar coal power project. The British are also willing to invest in Pakistan on CPEC project. So I think FDI is going to increase as many countries will invest in CPEC which will be a boost to the economic conditions in Pakistan. Finally, he added that the pre-budget seminar would have been incomplete without a discussion on CPEC so he
thanked Amb. Fauzia Nasreen and Dr. Talat Anwar for taking an initiative on creating awareness on this subject.

Session VI: Microfinance and Population Aging in Pakistan

In the 4th plenary session, Syed Sardar Ali, Head, APEX Consulting, Pakistan presented findings of a DFID study on “Recent Expansion of Microfinance in Pakistan”. He said, Microfinance Sector has expanded considerably in recent past; an increase from 1.7 million MF borrowers in 2008 to 3.6 million in 2015 along with an increase in gross loan portfolio from PKR20 billion in 2008 to PKR90.1 billion in 2015. The number of districts (>50,000 borrowers per district) served by MFIs increased from 8 in 2008 to 30 districts in 2015.

However, despite considerable expansion, Pakistan lags behind even South Asia in terms of outreach, depth and quality of microfinance credit portfolio. The interest rates charged to MF borrowers remained high despite the fact that general interest rate in country declined. The weighted average lending rates declined from 14% in June 2009 to 8.24% in June 2016 whereas interest rate for the poor borrowers increased from 26% in 2009 to nearly 35% 2015.

Syed Sardar Ali presented arguments in favor of interest rate caps that include: high interest rates passed on to those who can least afford—the poor people; high interest rates create doubt about MFIs’ profits or competency and high interest rates can lead to explosion of growth in microcredit market (Cambodia); and high interest rates can lead to debt-trap continuously. He added that more than 40 countries have introduced ceilings or caps on MF interest rates.

Likewise Syed Sardar Ali presented arguments against interest rate caps that include: high operating/processing costs of serving very small loans without collateral; capping rates force small MFIs to go up-market or to sell their portfolio to larger MFIs; rates caps limit product innovation and competition; and despite good intentions, interest rate ceilings can actually hurt low-income populations by limiting their access to MF. In the end, Syed Sardar Ali concluded that capping rates can result in reduced interest paid by the poor, and help grow microfinance market rapidly in Pakistan besides protecting the poor from the debt-trap. Unluckily, there has been no consideration of capping interest rate in Pakistan under the policy ambit.

Dr. Asghar Zaidi, Professor, University of Southampton, UK and Adjunct Professor, Institute of Ageing, Chinese University of Hong Kong gave a presentation on “Challenges of Population Ageing in Pakistan”. Highlighting the context, he said, the world’s population is ageing across all regions of the globe. There are currently around 900 million older persons aged 60+ worldwide, representing approximately 12.5% of the global population. By 2050, this will increase to 2.1 billion or 21.5% of the global population. Pakistan is the sixth most populous country in the world and in 2015 it had older population of approximately 12.5 million. This places Pakistan in a group of only 15 countries worldwide with more than 10
million older people. By 2050, the number of older persons living in Pakistan will be a staggering 40 million which is a huge number in absolute term.

Dr. Zaidi added that Pakistan ranks depressingly low at 92 out of 94 countries in the Global AgeWatch Index developed by him. It has one of the lowest pension income coverage in the world. It ranks particularly low with respect to health of older persons, with a relatively low life expectancy and even lower healthy life expectancy in comparison to other countries of the region.

Giving his recommendations, Dr Zaidi added that there is an urgent need for a better understanding of the state of the social and economic rights of older persons in Pakistan and in developing appropriate policies to promote and protect their rights. The British Council in Pakistan is addressing this need by funding the project on ‘Moving from the Margins: Promoting and Protecting the Rights of Older Persons in Pakistan’ in collaboration with HelpAge International Pakistan, carried out during 2016-2017.

The project is aimed at providing evidence of what human rights are neglected in Pakistan for the older population and what policies and programmes are required, at the Federal and the provincial levels, to promote and protect the rights of Pakistan’s older population. The project has rolled out a first of its kind nation-wide survey asking as many as 2000 of Pakistan’s older persons to reflect on the issues and barriers they face across the key dimensions of the human rights for older people: Independence, Participation, Care, Self-fulfilment and Dignity. First results of the survey will be available during summer 2017.

In the end, Mr. Shahid H. Kardar, former State Bank Governor who chaired the session thanked the speakers and participants for their contribution in the session.

Session V: Energy Sector Challenges in Pakistan

Mr. Ali Shan Azhar, Analyst, High Commission of Canada gave a presentation on “Power Sector Governance in Pakistan: Challenges and Reforms” and said, electricity load shedding is largely the product of misgovernance rather than that of generation capacity constraints. Governance and institutional issues, mostly administrative and financial in nature, have immensely contributed to the power crisis.

Highlighting key governance challenges, he added that there is a major disconnect between the installed capacity and actual generation leading to a persistent electricity deficit which has currently exceeded 5,000 MWs. T&D losses are well above the global average at 17.8%. The IPPs, which account for nearly half of the installed generation capacity, are highly inefficient. The transmission lines, cables and copper parts of transformation are all in dilapidated shape (due to inadequate upgrading, repair and maintenance), and most transformers are over-loaded. Non-technical losses – theft, inaccurate meters and illegal connections – are very high.
According to NEPRA, electricity meters of 70% consumers are out-dated. Nearly 12% of the electricity bills involving PKR 105 billion are not collected. The provincial governments with PKR 99 billion and AJK government with PKR 65 billion are mega electricity defaulters.

There happened to be a weak professional expertise of NEPRA: no mandatory financial scrutiny, including energy cost audit, of the IPPs for the past eight years; and DISCOs have frequently failed to furnish their Annual Performance Reports. DISCOs’ lack of management autonomy as most DISCOs running into losses and remained unable to disconnect influential defaulting consumers and make recoveries from government departments.

Due to the lack of timely and essential maintenance of power stations, the GENCOS have lost nearly one third of their capacity. Once again, there is an emergence of accumulated inter-corporate (circular) debt arrears between generators and distributors (largely built on unpaid bills), which have hovered around 1% of the GDP, compelling thermal power plants to underperform.

Emphasizing on the proposed reforms and government’s response, he stated that since 2013 there has been an increase of 250% in tariffs and budgetary subsidies had been brought down to PKR 118 billion. There is a need for transparency since the information on the basic nature and intensity of the energy crisis as shared by the authorities is often inconsistent and misleading. Operational/financial data is not regularly shared. CPEC projects have bypassed government procurement rules and competitive bidding.

Reform of DISCOs and GENCOS included, wheeling of Electric Power Regulation 2016, improving the key performance indicators, and decentralised entities should be run on corporate and commercial lines with an independent board, which should be free of political influence to appoint a CEO.

A more effective role of NEPRA requires true autonomy to regulate with technical expertise and institutional capacity. There is a strong need to check electricity theft through anti-theft penalties, including property seizure, which should be implemented through specialized courts. There is also need to strengthen utilities’ capacity to detect, pursue and prosecute theft and non-payment of dues and introduce smart metering infrastructure with real time sensors and remote reporting along with improvement in recovery of unpaid electricity bills.

Giving a verdict on the power sector governance, he concluded that given the complexity and serious ramifications of the power crisis, an acknowledgement of the underpinning structural constraints is needed to ensure energy security through availability of reliable electricity supply at affordable prices. The government’s attempt to bend the reality and pass the crisis off as one of generation capacity alone has not helped. There has been only partial progress in across the board reforms to address the structural issues. The government has largely been bogged down in day-to-day crisis management of the myriad dysfunctions that plague the power sector.
Without undergoing sectoral restructuring and painful governance reforms, the power crisis will not be resolved on a sustainable basis.

**Dr. Talat Anwar** Advisor, CPS CIIT who chaired the session said in his concluding remarks that the root cause of the power crisis emerged from the government policy of setting power tariff rates below the cost recovery level. Thus, price differential amount that is supposed to be provided by the government as a subsidy is not paid by the government resulting in increased power load shedding. The government is a big defaulter. There is a need to release amount of subsidy timely in order to prevent the generation of circular debt and protect the people from increased power load shedding.

**Session VI: Trade and Export Promotion**

**Mr. Shahid H. Kardar**, former State Bank Governor, currently the Vice-Chancellor of Beasonhouse University, Lahore talked on “Pakistan’s Declining Exports: Causes and Remedies”. Giving the basic fact he said, exports declined from $25.1 billion in 2013 to $22 billion in 2016 and fell by 1.4% between July-March 2016-17. The current account deficit increased from $3 billion in 2015 to $4 billion in 2016 and to $6.5 billion between July-March 2016-17. The deficit was $2.7 billion between Jan-March 2017. The share in world exports down from 0.15% in 2011 to 0.13% in 2016 compared with India at 1.6%, Vietnam at 0.9%, Bangladesh at 0.19%. The decline was only partly owing to plunging commodity prices & slowing global demand. The structural underpinnings to this fall in value terms and market share have also played an important role.

Mr. Kardar added that the key factors affecting exports &competitiveness included: fragmentation of policy making-multiple agencies- and poor coordination; IMF programs which dominates on Ministry of Finance agenda; tax regime-influenced by design of IMF program that focused overwhelmingly on raising tax revenues; ineffective systems for timely processing of tax refunds reflecting objectives of FBR and MoC are incongruent; energy tariff structure making industry pay a much higher rate than domestic consumers; domestic inflation rate higher than that of trading partners with no concomitant adjustment in exchange rate resulting in overvalued exchange rate as Pak rupee ‘artificially’ is propped up by remittances and donor support-especially because of fortuitous global events. Since 2012 Malaysian depreciated their currency by 47%, Indonesian by 38%, Indian by 30%, Korean by 7%. On the contrary, Pak rupee appreciated by 1%.

Mr. Kardar said that key instruments beyond influence of Ministry of Commerce (MoC) included: factors influencing competitiveness-e.g. Exchange rate, tax structure, tax refunds, export credit lines, access to utilities and infrastructure and skills etc. that are not in the domain of MoC; MoC does not have institutional and political leverage and tools in arsenal to resolve institutional conflicts with respect to trade policy; lukewarm attitude to reform due to external bailouts; and non-performance of private sector. The productivity increases were only 1.9% per
annum in Pakistan compared with 5.9% in Sri Lanka, 5.6% in India, 4.3% in Vietnam, and 3.4% in Bangladesh and Myanmar.

Highlighting the limitations to Trade Policy Reform, Mr. Kardar cited determinants which are: issue of attitudes and mindsets; weak commitment to changing ways of doing business; lobbying strengths of different interest groups; crises & difficult decisions taken under compelling circumstances due to IFI imposed prior actions; and IFI pressure on removing subsides and reversion to old ways of doing business after dilution of crisis.

Emphasizing on options to enhance export, Mr. Kardar added that we need to focus on export culture that will instill vibrancy, life, vigor, innovation and imagination in economy; along with change in currency of power ‘hard’ to ‘soft’ opportunities being generated as creative industries become important sources of trade in goods & services. Our rating in creativity of goods & services and exports of cultural services is 12 and 55 respectively, which is higher than India at 13 and 65, respectively. The image of a hard country can be improved. We can exploit the potential of our artists, actors, fashion and jewelry designers-and many of them are females. The cost of doing this is little.

Underlining the other options relating to global supply chains of goods and services, he concluded, there is a need to be an integral part of regional and global supply chains in textiles, engineering, pharmaceuticals, leather products and IT. But there are constraints which included: high import duties (import content 40% of exports); regulatory burden of convoluted administrative systems due to high processing charges, penalties, excessive documentation under transit trade regime; high levels of protection to some sub-sectors of industry; and impact of indigenization policies of Engineering Development Board. In the end, Dr. Ashfaque H. Khan, Principal& Dean, School of Social Sciences & Humanities, National University of Sciences & Technology, Islamabad who chaired the session thanked the speakers and participants for their contribution.

Section VII: Public Debt, Institutions and Tax Policy Challenges

Dr. Ashfaque H. Khan (formerly Economic Advisor, Ministry of Finance), Principal & Dean, School of Social Sciences & Humanities, National University of Sciences & Technology, Islamabad talked on “Pakistan’s debt: an update”. Referring to his previous article on “Rising Debt: A Threat to National Security” in 2016, he said that Finance Minister reacted and responded through a lengthy article on Pakistan’s Debt. In this article, Finance Minister presented his own definition of debt. Notably this definition is different and contrary to the international standard definition used by the IFIs (IMF/WB) and rating agencies. According to Finance Minister’s own invented definition, the country’s debt was $57.7 billion instead of $73 billion as per standard definition. If fact, Finance Minister excluded the Foreign Exchange Liabilities, Public Sector Enterprises’ (PSEs) Debt, Banks and Private Sector Debt (Non – Guaranteed), Debt Liabilities to Direct Investors (Intercompany Debt). Excluding these items
will underestimate the country’s debt and will have far reaching consequences as country will continue to borrow without having debt repayment capacity.

Dr. Khan added that the pace of accumulation of debt over the last 8 years has raised serious concern among independent economists. The future outlook of external debt and liabilities is worrying. By 2019-20, country’s external debt is projected to rise $110 billion or 365% of exports of goods and services. This is indeed unsustainable and may put Pakistan in an extremely difficult situation by 2018-19. Country’s financing requirement in the current fiscal year is $14.5 billion which will increase further to $22.5 billion by 2019-20. The financing gap is projected to be at $6 billion in 2016-17 which is likely to rise gradually to $11.5 billion by 2019-20. Country will not be able to bridge this financing gap and will have no option but to seek IMF loans with more strict conditionalities. Thus, changing definition is not a solution. We should be transparent in stating facts so as to take important decision. We should face the difficult challenges boldly through policies and not through gimmickries.

**Mr. Sakib Sherani**, Former Principal Economic Adviser, Ministry of Finance gave a presentation on “Federal Budget 2017-18: An Institutional Framework & Approach”. Mr. Sherani said, budgeting usually takes place within an institutional framework (IF) with a focus on socio-economic planning, tax administration, expenditure management, executive restraint plus parliamentary oversight. The robustness’ of the framework determines outcomes. However, framework of budgetary formulation and analysis in Pakistan is too restricted. The focus has been primarily on inputs and outputs and on the short run. The focus should be on the process or outcomes. Medium Term Budgetary Framework developed few years ago provides this opportunity.

Highlighting the challenges he added, Pakistan’s rank in Human Development Index is very low at 147 with spending on education at 2.7% of GDP. Only 0.24% of Pakistanis pay income tax. The efficiency of spending in Pakistan is declining.

Oversight by parliament is weak due to Article 84 of Constitution which provides extraordinary powers to Federal Government to make Supplementary or excess expenditures without prior approval of Parliament. Pakistan is one of only 3 to 4 countries that grant executive the power to make expenditures without recourse. The law is unable to leverage Standing Committees. Therefore, there is an inertia by parliament in playing due role.

In his concluding thoughts, Mr. Sherani said, success in achieving economic policy and budget outcomes depends on the supporting institutional framework. A country’s budget making process should be transparent, participatory, accountable and responsive. There is a need for wide ranging institutional reforms.

**Dr. Ather Maqsood Ahmed** (formerly Member FBR), Professor and Head of School of Social Sciences NUST presented his analysis on “Tax Policy: Issues and Challenges”. He said that
there are claims and counter claims about economic growth rates and improvement in the state of the economy. However, there is no controversy about low tax effort and growth in tax collection and the low tax-to-GDP ratio; the public sector enterprises (PSEs) are continuously bleeding without any solution; the performance of textile sector is well below par. As a result, exports are falling continuously both in price and quantity terms resulting in increasingly higher trade deficit. The power theft and huge distribution and transmission losses have not been arrested and concerns about security and terrorism are still alive despite some improvement.

Dr. Ather Maqsood added that Pakistan’s economy is under serious pressure because of increasing debt servicing costs from following sources: a) the payment of Eurobonds due to the 10 years maturity of US$ 500 million bond issued in 2005-06 and US$ 750 million bond issued in 2006-07; b) the repayment of re-scheduled Paris Club debt under ODA has started from 2016-17; c) the repayment of the Extended Fund Facility from IMF will begin in 2017-18; d) the 5-year Eurobond of US$ 1.0 billion issued in April 2014 will mature in 2018-19; and e) the 5-year Pakistan International Sukuk of US$ 1.0 billion issued in November 2014 will mature in 2019-20.

Talking on Tax Policy, Dr. Ather Maqsood added that in his humble opinion there is no taxation policy currently operational in this country. Whatever there is, it can at best be described as revenue sucking policy of a revenue hungry leviathan. Despite so many obvious structural problems in the taxation system, professional approach is clearly missing to address them. The same old pressure groups are receiving concessions and blood is being squeezed from already taxed individuals and entities. Regressive indirect taxation is the norm of the day without caring about its incidence on low-income segments of the society. There is no consistency in policies. In fact various policy measures adopted over the years have become contradictory in nature.

Recommending the way forward in the fiscal sector, he advised to improve fiscal discipline and create fiscal space by raising revenue collection, reducing expenditure, and reducing debt burden. FBR has to improve its tax effort. The revenue loss by FBR is growth loss of the economy through cuts in development spending. Current modest growth needs to be converted in job-enhancing growth to keep our children away from poverty, crime, and civil conflict. FBR has to have a professionally designed tax policy that is not only investment and trade friendly that promote growth but also revenue generating in an equitable and efficient manner.

In the end, Dr. Talat Anwar, Advisor, CPS thanked to all participants in particular the distinguished speakers, chairs, panelists, organizers, and the CPS staff for their contribution in this seminar. He also thanked the students and faculty of Management Sciences and Business Administration from Islamabad, Wah and Attock campuses and the faculty and students from Lahore, Vehari and Sahiwal campuses for attending this seminar through video conference links.
Budget Proposals for 2017-18

State of the Economy

The full day deliberations of the seminar recommended that there is a need to get government statistics right on critical bases so that the policy makers can take the right decisions. To avoid emerging debt payment crisis, there is a need take some decisions now for the emergency funds. The government must address the appreciation of Pak rupee against the foreign currencies which is overvalued by 30%. The government should think an appropriate proportion of devaluation of domestic currency in order to enhance exports.

There is a great need to focus on the real sector. If India decides not to sell the cotton to Pakistan, our industry will come to halt. Our first priority should be to bring down the prices of inputs. We need to give refunds to the exporters to increase their liquidity.

While developing CPEC, we should not discriminate between Pakistani and Chinese companies. No further SRO should be issued that gives priority to Chinese over Pakistani companies. There is a need to review Free Trade Agreement with China in order to save domestic industry from destruction from Chinese imports. Government need to ensure that CPEC is financially sustainable and does not lead to displacement of Pakistani businessmen, entrepreneurs, engineers and workers.

Government is engaged in state of deception. The government has been overstating economic growth rates and understating the inflation rate. There is a need to correct these biases by holding independent economists’ meeting with PBS for correction of the statistics.

Youth Unemployment

To promote youth employment, federal government needs to play the planning, coordination and monitoring role and encourage youth education and skills development through non-profit, civil society organizations and social enterprises. Public sector secondary schools, colleges and universities should be encouraged to open their technical and vocational education and training facility for youth.

The priority actions for long term include reforming domestic regulations, taxes and subsidies to incentivize skill development. The recommendations to address youth employment should be situated in an overall framework of youth engagement and the SDGs. A deliberate effort will be needed to ensure a commitment to ‘leave no one behind’. There is a need to develop a strong monitoring and accountability framework under public-private partnership.

There is a need to increase private sector’s capacity to hire skilled labour through reduction in overall cost of doing business. Indirect tax burden on labour intensive, formal businesses (particularly agriculture) may be reduced through an overall revenue-neutral change. There is a need to enhance the self-employment potential of youth, women and marginalised segments.
The employment potential of existing women-led SMEs should be enhanced through appropriate fiscal policy measures which included: a) ensuring targeted bank finances for women businesses trying to enter regional and global trade; b) relaxing fee and participation terms for exhibitions organized by Trade Development Authority of Pakistan; and c) increasing funding to enhance the geographical capacity and outreach by SMEDA can help build capacity of new and existing entrepreneurs and their managers.

**China Pakistan Economic Corridor (CPEC)**

There is threat of underutilization of dividends of CPEC due to lack of formal agreements and vested interests along with possibility of militarization of Gwadar port by China and its ramifications in regional paradigm. Another threat is the payment of costs of CPEC as its loans are on harsh terms. The efficacy of the projects is important as many projects are junk i.e. QAU solar power project, wind mill power pilot projects and coal fired projects in heart of Punjab that are mostly based on imported coal based. There might be lack of economic opportunities in CPEC due to employment of Chinese labour. The requirement of legally defined economic dividend of CPEC to Balochistan is a challenge, if not done then the security environment in Balochistan would be a bigger challenge.

The way forward should focus on sufficient conditions for CPEC success that are related investments and infrastructure along with the necessary conditions for tangible dividend that include absorptive Capacity (Human Resource Development) and trickle down mechanism. The designing high-potential, efficient, and cost-effective and feasible policy solutions should be sorted out in CPEC.

The coal plants being developed under the CPEC in the region might cause more climate changes. We should try to save the environment. The decline in water in the Punjab region is expected which will affect our agriculture. There is a need to protecting the environment especially a vast expanse of green land which is falling in the CPEC area. If not protected that area can become the cause of severe water decline and will affect our agricultural productions. So the area falling under the CPEC route needs to be properly protected through proper planning so that we can protect our environmental situations also. While our environment agency is working on protecting the environment, we need to ensure that because of the CPEC none of county’s historical heritage gets damaged.

**Addressing Rising Interest Rate for the Poor**

The Microfinance Sector has expanded considerably in recent time but Pakistan still lags behind even South Asia in terms of outreach, depth and quality of microfinance credit portfolio. The worrisome factor is that the interest rates charged to the poor borrowers remained high despite decline in general interest rate in country. The weighted average lending rates declined from 14% in June 2009 to 8.24% in June 2016 whereas interest rate for the poor borrowers increased from 26% in 2009 to nearly 35% 2015.
The high interest rates for the poor can lead to debt-trap continuously. More than 40 countries have introduced ceilings or caps on microfinance interest rates which has greatly benefited the poor. There is a dire need to capping rates for the microfinance borrower which will not only help grow microfinance market rapidly in Pakistan but also protect the poor from the debt-trap.

**Population Aging in Pakistan**

By 2050, the number of older persons living in Pakistan will be a staggering 40 million which is a huge number in absolute term. Pakistan ranks depressingly low at 92 out of 94 countries in the Global AgeWatch Index. The country has one of the lowest pension income coverage in the world. It ranks particularly low with respect to health of older persons, with a relatively low life expectancy and even lower healthy life expectancy in comparison to other countries of the region. There is an urgent need for a better understanding of the state of the social and economic rights of older persons in Pakistan and in developing appropriate policies to promote and protect their rights. The government should take steps to increase coverage of pension to old age population.

**Raising Salaries and pensions**

The underestimated inflation rate has eroded the purchasing power of the fix salaried income people. Salaries and pensions of government servants should be increased by 15% and 20% respectively. Pensions of those 80 years and above should be increased by double rate i.e. 40% as their salaries at the time of retirements in the 1980s were very low compared with retirees in recent years.

**Revision of minimum wage**

The government announced a new official poverty line at Rs.3030 per person per month. Accordingly, at least 60 million people are poor. It is noteworthy that the average household size in Pakistan is 6.5. Thus a household on average needs at least Rs.19,695 per month to meet minimum basic needs of life. The current minimum wage rate at Rs.14,000 per month is not sufficient to meet the basic needs of a family. It is, therefore, recommended to increase the minimum wage rate by at least Rs.3,000 to Rs17,000 this year and by Rs.3,000 to Rs20,000 next year so as to bring the minimum wages closer to the minimum living standard announced by the government in term of poverty line and improve the productivity of the workforce.

**Energy Sector**

There is a need for transparency since the information on the basic nature and intensity of the energy crisis as shared by the authorities is often inconsistent and misleading.
Operational/financial data is not regularly shared. CPEC projects have bypassed government procurement rules and competitive bidding.

Reform of DISCOs and GENCOs should be initiated. The decentralised entities should be run on corporate and commercial lines with an independent board, which should be free of political influence to appoint a CEO.

A more effective role of NEPRA requires true autonomy to regulate with technical expertise and institutional capacity. There is a strong need to check electricity theft through anti-theft penalties, including property seizure, which should be implemented through specialized courts. There is also need to strengthen utilities’ capacity to detect, pursue and prosecute theft and non-payment of dues and introduce smart metering infrastructure with real time sensors and remote reporting along with improvement in recovery of unpaid electricity bills.

**Trade and Export Promotion**

The domestic inflation rate remained higher than that of trading partners with no concomitant adjustment in exchange rate resulting in overvalued exchange rate. There is need for exchange rate adjustment to boost the declining exports.

Ministry of Commerce does not have institutional and political leverage and tools in arsenal to resolve institutional conflicts with respect to trade policy. There is a lukewarm attitude to reform due to external bailouts and non-performance of private sector. This result in lower productivity increases compared with trading partners. Thus the institutional and political leverage of Ministry of Commerce should be enhanced.

The trade policy reform has limitation in terms of its determinants which includes issue of attitudes and mindsets; weak commitment to changing ways of doing business; lobbying strengths of different interest groups; crises & difficult decisions taken under compelling circumstances due to IFI imposed prior actions; and IFI pressure on removing subsidies and reversion to old ways of doing business after dilution of crisis. These limitations need to be addressed in order to have an effective trade policy.

The government need to focus on export culture to enhance exports with instill vibrancy, life, vigor, innovation and imagination in economy; along with change in currency of power ‘hard’ to ‘soft’ opportunities being generated as creative industries become important sources of trade in goods & services. The will improve the image of a hard country. We need to exploit the potential of our artists, actors, fashion and jewelry designers-and many of them are females. The cost of doing this is little.

There is a need to be an integral part of regional and global supply chains in textiles, engineering, pharmaceuticals, leather products and IT. But constraints should be removed which included: high import duties (import content 40% of exports); regulatory burden of convoluted
administrative systems due to high processing charges, penalties, excessive documentation under transit trade regime; high levels of protection to some sub-sectors of industry; and impact of indigenization policies of Engineering Development Board.

**Public Debt**

The government has changed the definition of debt by excluding certain debt which is against the international norms. This has understated the country’s debt to US $57.7 billion against US $73 billion as per standard definition. Excluding such debt items will underestimate the country’s debt and will have far reaching consequences as country will continue to borrow without having debt repayment capacity. The excluded items of Foreign Exchange Liabilities, Public Sector Enterprises’ (PSEs) Debt, Banks and Private Sector Debt (Non-Guaranteed), Debt Liabilities to Direct Investors (Intercompany Debt) should be included in order to have a realistic picture of the debt and repayment capacity of the economy.

The pace of accumulation of debt over the last 8 years has raised serious concern among independent economists. The future outlook of external debt and liabilities is worrying. By 2019-20, country’s external debt is projected to rise $110 billion or 365% of exports of goods and services. This is indeed unsustainable and may put Pakistan in an extremely difficult situation by 2018-19. Country’s financing requirement in the current fiscal year is $14.5 billion which will increase further to $22.5 billion by 2019-20. The financing gap is projected to be at $6 billion in 2016-17 which is likely to rise gradually to $11.5 billion by 2019-20. Country will not be able to bridge this financing gap and will have no option but to seek IMF loans with more strict conditionalities. Thus, changing definition is not a solution. The government needs to be transparent in stating facts so as to take important decision. The government needs to face the difficult challenges boldly through policies rather than changing definition.

**Parliament Oversight on Expenditure**

Oversight by parliament on expenditure is weak due to Article 84 of Constitution which provides extraordinary powers to Federal Government to make Supplementary or excess expenditures without prior approval of Parliament. Pakistan is one of only 3 to 4 countries that grant executive the power to make expenditures without recourse. The law is unable to leverage Standing Committees. Therefore, there is an inertia by parliament in playing due role. There is a need to make a constitutional Amendment in order empower the parliament on expenditure oversight.

The success in achieving economic policy and budget outcomes depends on the supporting institutional framework. There is a need to make budget making process transparent, participatory, accountable and responsive besides wide ranging institutional reforms.
Tax Policy

There is no taxation policy currently operational. There happened to be revenue sucking approach of FBR. Despite so many obvious structural problems in the taxation system, professional approach is clearly missing to address them. The same old pressure groups are receiving concessions and blood is being squeezed from already taxed individuals and entities. Regressive indirect taxation should be avoided to reduce the incidence on low-income segments of the society. There is a need for consistency in policies as various policy measures adopted over the years have become contradictory in nature.

There is a great need to improve fiscal discipline and create fiscal space by raising revenue collection, reducing expenditure, and reducing debt burden. FBR has to improve its tax effort. The revenue loss by FBR is growth loss of the economy through cuts in development spending. Current modest economic growth of 4% needs to be converted in job-enhancing growth to keep our children away from poverty, crime, and civil conflict. FBR needs to have a professionally designed tax policy that is not only investment, trade and growth friendly but also revenue generating in an equitable and efficient manner.
Photo Gallery
Pre-Budget seminar on
“State of the Economy & Federal Budget 2017-18”

Programme

Venue: EE Auditorium, CIIT Islamabad  Date: April 25, 2017, 10:00 am-5:00 pm

Session I:  Inaugural

9.30 – 10:00 am:  Guests to be seated

10:00 – 10:05 am  Recitation

10:05 – 10:30 am:  Welcome address by Ambassador Fauzia Nasreen, Head CPS CIIT

Address by the Chief Guest
Mr. Qaiser Ahmad Shaikh
Chairman, National Assembly Standing Committee on Finance, Revenue, Economic Affairs, Statistics and Privatization

Vote of Thanks by Dr. Talat Anwar, Advisor, CPS, CIIT

10:30 – 10:45 am  Tea

Session II:  State of the Economy and Employment

10:45 – 11:25 am

Chair: Dr. Javed Ashraf
Vice Chancellor, Quaid-e-Azam University, Islamabad

State of the Economy: An Overview
Dr. Hafiz Pasha
Former Finance Minister

Providing Employment for the Fast Growing Labour Force
Dr. Vaqar Ahmed
Deputy Executive Director, SDPI, Islamabad

11:25 – 11:35 am  Q-A session

Session III:  Panel Discussion on “China Pakistan Economic Corridor” (CPEC)

Chair: Mr. Mustafa Hyder Sayed
Executive Director, Pakistan-China Institute
11:35 – 12:30 am

Panelists:
1. Syed Hasan Javed, Director, Chinese Studies Centre, NUST
2. Prof. Dr. Usman Mustafa, Head of Management Science, PIDE
3. Dr. Aneel Salman, Faculty of Business Administration, CIIT

12:30 – 12:35pm  Q-A session

**Session IV**

12:35 – 1:25pm  **Microfinance and Population**

Chair: Mr. Shahid Hafeez Kardar
(Former SBP Governor)
Vice Chancellor, Beaconhouse University, Lahore

Microfinance in Pakistan: Is it helping the Poor?
Syed Sardar Ali
Head, APEX Consulting, Pakistan

Challenges of Population Aging in Pakistan
Dr. Asghar Zaidi
Professor in International Social Policy, University of Southampton, UK
Adjunct Prof. (JC Institute of Ageing, Chinese University of Hong Kong)

1:25 – 1:30pm  Q-A session

1:30 – 2:30pm  **Lunch and Prayer Break**

**Session V:**  **Energy Sector Challenges**

2:30 – 3:00 pm  Chair: Dr. Talat Anwar, Advisor, CPS, CIIT

Governance Issues in the Power Sector
Mr. Ali Shan Azhar
Political and Economic Analyst
High Commission of Canada Islamabad, Pakistan

3:00 – 3:05 pm  Q-A session

**Session VI:**  **Trade and Export Promotion**
Chair: Dr. Ashfaque Hassan Khan
Dean, NUST Business School, Islamabad

3:05 – 3:25 pm  **Pakistan’s Declining Exports: Causes and Remedies**

Mr. Shahid Hafeez Kardar
(Former SBP Governor)
Vice Chancellor, Beaconhouse University, Lahore

3:25 – 3:35 pm  Q-A session

**Session VII**  **Public Debt, Institutions and Tax Policy**

Chair: Mr. Shahid Hafeez Kardar
(Former SBP Governor)
Vice Chancellor, Beaconhouse University, Lahore

3:35 – 3:55 pm  **Pakistan’s Rising Public Debt**

Dr. Ashfaque Hassan Khan
Dean, NUST Business School, Islamabad

Institutional Reform in Pakistan
Mr. Sakib Sherani
Former Economic Advisor, Ministry of Finance

3:55 – 4:15 pm  **Tax Policy: Issues and Challenges**

Dr. Ather Maqsood Ahmed
Professor/Head of Department of Economics and School of Social Sciences NUST, Islamabad

4:35 – 4:40 pm  Q-A session

4:40 – 5:00 pm  **Concluding Remarks and Vote of Thanks**

Dr. Talat Anwar,
Advisor, Centre for Policy Studies, CIIT

05:00  Tea
COMSATS Institute of Information Technology

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