The Pakistan Business Council
FOSTERING ECONOMIC GROWTH
(A Company set up under Section 42 of the Companies Ordinance 1984)

Ehsan A. Malik
Chief Executive

8th Floor, Dawood Centre,
M. T. Khan Road,
Karachi-Pakistan.
PABX : 35630528-29
Fax : 3563 0530
e-mail: ehsan.malik@pbc.org.pk

1st March, 2024

Ms. Esther Perez Ruiz
Resident Representative in Pakistan
International Monetary Fund
Islamabad

Dear Esther,

As the new government takes shape, its major objective on the economy will be to negotiate a fresh, 24th IMF Programme. The Pakistan Business Council (PBC), is the country's preeminent business advocacy body, composed of the most significant local and multinational investors with long term stake in the country. We would like to share the contours that should differentiate the new programme from the previous twenty-three. That said, the primary reason why the previous programmes failed to lead to sustainable reforms was lack of political will and determination of various governments. However, IMF too needs to reflect on the design of its assistance package. The flaws in the economy have worsened over the years and the new programme would need to take account of this.

In our meetings with you and Mr. Nathan Porter, we have been stressing the need for IMF to move away from purely short-term and quantitative to a mix of medium term quantitative and qualitative targets. To illustrate, we offer two examples:

- In the absence of the FBR's capability and capacity, as also the weak political will of governments to disturb vote banks by broadening the tax base, IMF's front-ended tax collection targets have been met by raising the tax burden on those that are already bearing a disproportionate load. The levy of super tax is a case in point. Much of retail, wholesale, services, informal transporters, as well as the undocumented real estate sector, either go untaxed or are under-taxed. A target such as "tax from new tax payers" would be one way to ensure that tax revenue is increased in an equitable and sustainable way. Moreover, this would also prompt significant restructuring of the FBR.

- IMF's tariff driven measures address the symptoms but fail to cure the fundamental defects in the energy sector. Pakistan suffers from the highest electricity costs in the region. The competitiveness of industry, its capacity to create employment, reduce import reliance and generate exports is impeded by the burden of unutilized generation capacity, inefficiencies in transmission, theft, non-recovery of dues and cross-subsidies to residential consumers. High electricity tariffs incentivize theft and increase the reluctance of domestic users to switch out of less efficient, underpriced but fast depleting local gas reserves. To make matters worse, there is substantial reliance on imported fuel for power generation and the transmission system is inadequate to maximize the use of cheaper renewable and coal power from the South. Market dynamics should be allowed to determine tariffs for industry and the state's role should be to remove

bottlenecks in the power transmission infrastructure and to ensuring merit order in generation.

We believe that front loading of targets by IMF stems from the relatively short-term programmes that have hitherto been offered to Pakistan. For this reason, we suggest that the 24th programme be of a longer, five-year term.

Aside from stemming the leakage from the energy sector, bleeding of the fiscal account by state-owned enterprises needs to be arrested. A longer, five-year programme will allow IMF to make tranche releases conditional on progress on fundamental reforms of the energy sector and the privatization or closure of loss-making state enterprises. Besides financial burden, inefficiently run state owned enterprises that operate in the commercial space, provide unfair competition to the private sector, impeding scale and competitiveness. Government should be encouraged to get out of business.

The federal government will need to renegotiate the National Finance Award to incentivize provinces to meet a greater share of their needs from agriculture and property taxes. This will allow the federal government to control its deficit, limit borrowing, bring down inflation, which should lead to lower interest rates.

No doubt, IMF will require the mounting debts to be reprofiled to restore confidence in the economy. A larger as well as a longer IMF programme would provide creditors the necessary comfort.

The PBC looks forward to discussing these suggestions in the near future with the hope that the next programme can be more reform-centric than the previous.

Yours sincerely,

Ehsan Malik