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

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Mr. Shaukat Tareen,
Federal Minister of Finance and Revenue
Islamabad

Dear Minister,

Congratulations on your appointment as Federal Minister of Finance and Revenue. This comes at a critical time when bold and courageous decisions are required to put the economy on a growth trajectory. The Pakistan Business Council (PBC) assures you of its full support.

The immediate challenge facing the economy is to deal with the impact of the third wave of Covid. Lives and livelihoods are threatened. To protect the latter, we have positive experience of the economic revival initiatives of the State Bank, which can be triggered selectively and in a targeted manner. The Ehsaas Programme is also robust to provide a social net.

In the arsenal of measures available to you to manage growth are both steps to remove growth dampeners and trigger growth drivers. Some of these are not within the direct control of your ministry, but as an important member of the cabinet you will have a significant influence over.

GROWTH DAMPENERS

The surest way to sap growth of the economy is to drain it of jobs and disposable income, curb demand, deny competitiveness to industry and hurt investor sentiment through knee-jerk reversal of policies.

Energy Costs

The mooted 27% increase in power tariff, on top of the already uncompetitive energy cost, the burden of which will fall entirely on the shoulders of honest customers, is not a growth driver. The narrative on denying the five main export sectors of energy at a regionally competitive cost and forcing the captive power producers to switch to the grid, reliability of which is yet unproven, does not portend well for exports. Efforts should instead be focused on fixing the inefficiency and losses of transmission and distribution. Ominously, the delay in settlement of the agreed dues of the IPP's threatens the gains made on renegotiating capacity charges. Industry, both export oriented and domestic is the engine of employment. Burdening it with the cost of systemic inefficiencies and cross subsidies to residential users impedes its competitiveness and restricts its capability to create jobs. Subsidies are best addressed through the Ehsaas Programme. Allow industry to create livelihoods and generate taxable revenues. Facilitate the major export sector through the much-awaited Textiles Policy.

Fiscal Targets

A 27% increase in the tax target for FY'22, in an economy forecast to grow at a nominal rate of under 14%, with little evidence of improvement in FBR's capability to broaden the tax base, bodes ill for existing tax-payers. Successive governments have lacked the political will to pursue non-taxpayers. Relying on existing taxpayers for additional revenue accelerates the informalization of the economy. The PBC has long advocated for the separation of fiscal policy from collection of taxes and for addressing the talent and technology gaps that prevent the FBR from broadening the tax base. Unrealistic tax targets is putting the cart before the horse. Taxing the already taxed is akin to killing the goose that lays the golden eggs. Fundamental fiscal reforms will take time to deliver, and the benefits will be sustainable. We must not be distracted by short-term targets.

Premature Reversal of Tax Exemptions and Measures to Promote Wider Shareholding and Consolidation

The recent reversal of tax exemptions, some which had just a few years to run, and others which were conceptually aimed at promoting scale and consolidation through formation of groups, wider shareholding through listing, and resultant improved governance and formalization of the economy have hurt the investor sentiment. We urge you to restore the incentive to list companies, exempt inter-corporate dividends from tax (and from withholding tax), allow corporate players in agriculture to avail the same tax benefits as the unincorporated and restore the tax benefits on income arising from use of intellectual property abroad. The earlier termination of tax credits on investment in plant and machinery also needs to e reversed.

Inflation and Borrowing Costs

The PBC is encouraged by the State Bank of Pakistan's differentiated treatment of demand-pull and supply/utility cost-push inflation. However, if the latter causes remain unchecked, there is a high risk of a multiplier effect on core inflation. Higher borrowing costs on this account will also sap growth.

GROWTH DRIVERS

Investment

The Temporary Economic Refinance Facility (TERF) which lapsed in March led directly to over Rs. 400 Bn investment in plant and machinery and indirectly to an approx. Rs. 300 Bn investment in land and industrial buildings. This will add jobs, enhance exports, and strengthen "Make-in-Pakistan." The cost of the interest subsidy will more than be covered by additional tax revenues. At least retaining a version of TERF should be considered for medium sized businesses. Beyond the immediate timeframe, SME and longer-term lending can be taken over by properly configured and resourced development finance institutions which need to be established.

Level Playing Field for Corporatization, Manufacturing and Entry of New Players

The current fiscal policy discourages incorporation of businesses by levying tax on dividends and subjecting gains on sale of shares to CGT, irrespective of the holding period. Unincorporated businesses escape both these taxes. Manufacturers suffer from taxation at each stage of the value-chain whilst commercial importers benefit from presumptive tax at the import stage. Minimum tax based on turnover, besides being inequitable, also acts as a barrier to entry of new players by increasing the capital investment required to fund the tax liability until their businesses become profitable. Incentives hitherto available to motivate business with the formal sector have been removed. We urge you to direct a comparative study of the fiscal policy affecting corporatization and the manufacturing sector.

Cascading Tariffs

The rate at which import tariffs on raw and intermediate industrial inputs is being reduced could be accelerated to promote domestic manufacturing.

Agriculture Emergency

Food shortages and inflation risk hunger, unrest and law and order stability. Higher cost of food also reduces discretionary spending, lowering demand, a critical driver of growth. The government should walk the talk on “agriculture emergency,” especially on wheat and cotton. These have the greatest impact on hunger, jobs, and exports.

Cost and Ease of Doing Business

Impeding investment, cost, and ease of doing business are colonial-era, complex, time consuming, paper-based, and personal interaction-reliant bureaucratic processes. Fragmentation between the federal and provincial authorities has further made doing business more complex – taxation and unharmonized food standards are just two examples. We are encouraged by the government’s resolve under the Pakistan Regulatory Modernization Initiative (PRMI) and Civil Service Reforms to address the regulatory environment. The recent move to unify reporting of federal and provincial GST on a common portal and the Single Window initiative to speed up clearance of consignments portend well for the economy. The Raast and Roshan digital initiatives undertaken by the SBP also hold potential to promote financial inclusivity, visibility, speed, and cost of transactions. The lessons on digital “Know-Your-Customer” can be emulated in the wider economy – in opening of bank and broker accounts, for instance. Supplemented by fiscal incentives, digital transactions would also help broaden the tax base.

Restructuring and Privatization of State-Owned Enterprises and Reform of NAB Laws

The continued bleeding of revenue by State-Owned Enterprises (SOEs) remains a lingering concern. This depletes the amount that the government can invest in socio-economic development. Several attempts to restructure and dispose SOEs have failed. Impeding this process are: PPRA regulations, public sector recruitment rules and fear of action by the National Accountability Bureau (NAB). These and other factors that thwarted the success of Sarmaya-e-Pakistan need to be addressed to arrest the bleeding of SOEs.

Reform of the NAB Law

Reform of the NAB law is necessary to address the near paralysis of decision making by the bureaucracy. Two examples, from just the critical energy sector are delay in settlement of amounts due to IPPs and decisions affecting K-Electric.

We look forward to further engagement with you on matters relating to the economy.

Yours faithfully,

Ehsan Malik