The Pakistan Business Council

FOSTERING ECONOMIC GROWTH

(A Company set up under Section 42 of the Companies Ordinance 1984)

Pakistan Economic Forum

Stimulating the Economy

Assessment on the Economy

A). Bigger Challenges on Governance (Formal vs. Informal vs. Illegal economic activities) – state influence is weakening.

B). Need to stimulate the economy – oil price stimulus not passed on to industry, consumers.

C). Pak-China Economic Corridor – a key development priority.

C). Reforms need to be fast tracked

- Energy reforms must focus on distribution vs. generation
- Tax reforms must focus on equitable distribution
- Debt strategy needs to be realigned towards lower cost
- Banks must end 'repression' of private sector and play a part in meeting development objectives

Tax reforms

- For the upcoming NFC award the formula should be modified to give some weightage to Provincial tax effort in addition to the existing four criteria for horizontal distribution out of the divisible pool.
- Bring more uniformity into tax rates and into stages of tax payment. 86% of Customs tariff lines are affected by operative SROs. Besides, we have multiple levels of tax rates within each tax category, and tax is paid at various stages i.e. at source, or on Income, or is paid and then claimed for refund.
- Dealing with SROs. Longer-term, Tax policy and Tax management must be separated. The power of FBR to use discretionary powers to provide exemptions/exceptions must be subordinated to the national Legislature.

Financial sector reforms

- There is need for second generation Financial sector reforms including Debt capital market, credit to SME, Agriculture and low cost housing sectors, banking flows to deprived districts for alleviating regional disparities, financing for private sector initiatives in low cost health and education facilities, REITS, Mutual Funds, Broadening of Retail base for Equity Markets, role of Non banking financial institutions, Mortgage financing, Foreclosure law, Bankruptcy Law etc.

- The panel recommends the formation of a Commission on the lines of Tax Reform Commission to study, consult the stakeholders and formulate recommendations for financial inclusion and reforms to strengthen and broaden the financial sector. SBP autonomy is part of the agreement with the IMF but must be strongly reiterated by PBC.

PSE reforms

- Public sector enterprise reforms should be prioritized, for details please see the PBC 2013 report.
- Liberalisation of Railways of Pakistan. PR carries only 4% of national passenger and freight volumes. Existing network connects ports and links the entire trade corridor, and also population concentration points - very significant potential to upgrade freight, and also passenger, volumes.
- PR will need to be restructured first, to separate its operations into a) ownership of track and signalling infrastructure, b)its passenger and freight services operation, c)workshops and manufacturing, and d) Land management. Private operators will contract with a) for time and route usage.

Land Reforms

- Consolidated Register of Urban Land and Property owned by Government entities. Government Properties can be used as collateral to raise long-term finance for infrastructure development, and would be particularly apposite for backing Sukuk issues. As we have seen from the PTCL imbroglio, there is considerable lack of clarity around use and ownership of Government held properties, e.g., which precise entity the ownership of the property rests with/clean title deeds, purpose of land/property use etc. Besides, Government urban land is also under encroachment from builders and Katchi Abadi developments.

- A special task force should be appointed to 'clean-up' the entire ownership structure of Govt properties, together with the identifying each entity's right of use (can they develop owned property for commercial purposes, can they sub-lease, can they sell, etc). The records may take time to consolidate, and may need different 'regularisation' initiatives to iron out wrinkles that may have arisen over time. But the effort is necessary, as it unlocks a major opportunity for Government to mobilise its own assets to enhance development.

Priority Reforms

- China Pakistan Economic Corridor (CPEC) is a key development priority for Pakistan. To address the long term PKR financing requirements, the committee recommends the creation of a Infrastructure Finance Bank.

- Competitiveness indicators of Industry and Agriculture are showing a decline. Policy makers need to address these challenges more aggressively.

- Revival of Iran pipeline should be a priority, especially with the expected lifting of sanctions.