

12<sup>th</sup> April 2021

Mr. Hammad Azhar  
Federal Minister of Finance and Revenue  
Islamabad

Dear Minister,

Congratulations on your appointment as Federal Minister of Finance and Revenue. The Pakistan Business Council (PBC) wishes you success and assures you of its full support to grow the economy.

Your appointment comes at a critical time for the country. Of the many challenges and objectives, none are as important as preserving livelihoods, especially as the country fights the third wave of Covid; addressing food shortages and inflation; building export momentum; and developing capability and competitiveness of domestic industry to stem the pressure of rising commodity cost on balance of trade. Yet the direction of recent measures is counter to these objectives.

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.

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.

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 recent reversal of tax exemptions, some which had just a few years to run, and others which were conceptually aimed at promoting scale, formalization, wider shareholding, and improved governance have hurt the investor sentiment. 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 target 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.

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.

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.

Some of the measures undertaken by the SBP to revive the Covid-impacted economy need to be retained for at least two more years to strengthen the growth trajectory. The Temporary Economic Refinance Facility (TERF) which lapsed in March led directly to a 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.

Impeding investment, cost, and ease of doing business are complex, time consuming, paper-based, and interaction-intensive 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 (PMRI) 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.

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 need to be addressed to arrest the bleeding of SOEs. Reform of the NAB law will also 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 of decisions affecting K-Electric.

We look forward to further opportunities to discuss growth targeted initiatives.

Yours faithfully,



Ehsan Malik

cc: Members of the Economic Advisory Council