Exclusive Interview

"The key economic priorities of the Caretaker Government encompass critical areas such as fiscal discipline, investment, competitiveness, energy sector, enhancing exports, improving income and employment opportunities, and leveraging capital market for domestic resource generation, with a short-term focus"

Dr. Shamshad Akhtar

Minister for Finance
Revenue & Economic Affairs

ICMA: What are your key economic priorities as Caretaker Finance Minister and how do you plan to tackle them?

Minister: The FY2023-24 started with multiple challenges for Pakistan's economy. Several macroeconomic adversities have been encountered that are testing the resilience of our nation. Pakistan had to confront the devastating impact of unprecedented floods in the previous year, further straining our resources and facing a decline in external capital inflows, crucial for financing fiscal and current account deficits.

The global landscape also posed new obstacles as we witnessed the ramifications of the conflict in Ukraine. Pakistan, like many other nations, found itself vulnerable to the cascading effects of this turmoil. The collateral impact of these challenges has constrained our fiscal space, affecting essential development and social sector expenditures, thereby hindering our growth momentum. The situation therefore, necessitated swift and decisive actions.

In response to these formidable challenges, the government made a steadfast commitment to restore macroeconomic stability, instil market confidence, and attract investors. The key economic priorities of the Caretaker Government encompass critical areas such as fiscal discipline, investment, competitiveness, energy sector, enhancing exports, improving income and employment opportunities, and leveraging capital market for domestic resource generation, with a short-term focus.

ICMA: What specific economic recovery reforms has the caretaker government introduced to improve the country's economy, and how do they ensure long-term benefits for the nation?

Minister: After the pandemic shock, Pakistan's economy experienced multifaceted crises. In FY2022, the government followed the expansionary fiscal policy that led to 6.1% growth but with high fiscal and current account deficits. In FY2023, economic growth slowed to 0.29% accompanied by spiking inflation. In these challenging times, it had been more pertinent for the government to respond to the economic situation through an overwhelming plan for economic revival with a multipronged focus to make inclusive efforts to put the country on the sustainable growth trajectory. The specific economic recovery reforms which the Caretaker Government plans include:

1) Revenue enhancement, involving tax revisions in sectors such as retail, agriculture, and real estate, as well as the implementation of a wealth tax on movable assets as deemed appropriate.

2) Tax exemptions to limit to essential sectors only like food and medicine, and supply chains to digitize.

3) Austerity measures to rationalize government expenditures, along with review of subsidies and grants.

4) Review of the Development plan and emphasis on Public Private Partnership (PPP) projects.

5) Compliance with quarterly budget targets and IMF agreements, including tax collection and debt liabilities.

6) The 5Es framework (Exports, Equity, Empowerment, Environment, and Energy) addresses socio-economic challenges, including export expansion and business facilitation.

7) The use of Information Technology to digitize the economy and expand the tax net.

8) State-Owned Enterprises (SOEs) reforms will be enacted, including an SOE policy, Central Monitoring Unit (CMU), and SOE performance reports.

9) Focus on implementation of a Treasury Single Account (TSA), remittance incentives, energy conservation, and price controls.

10) The Privatization Commission will undertake the privatization of selected Public Sector Enterprises using various modes such as strategic sales and concessions. The initiatives encompass assessing privatization options for DISCOs, exploring restructuring possibilities for PIAC, and conducting unbundling studies for SNGPL and SSGC.

11) Capital market development will focus on reducing corporate taxes, improving non-bank finance, and promoting the capital market.

12) For export enhancement, implementation of Weighted Average Cost of Gas (WACOG), operationalization of EXIM bank, and faster clearance of sales tax refund are priority short-term measures.

13) The Board of Investment will implement short-term initiatives aimed at business facilitation and investment promotion. These initiatives include the Asaan Karobar plan, which involves establishing a central e-registry, developing the Pakistan Business Portal, and establishing the National Regulatory Delivery Office. Additionally, they will implement a 'zero time to start' policy.

14) IT exports will be boosted through training, a Startup Pakistan Program, and policy interventions. In telecommunications, reforms aim to foster growth and introduce 5G technology.

15) In maritime affairs, initiatives include reducing freight charges, enhancing ship recycling, developing port master plans, and revitalizing the fisheries sector.

> “The Privatization Commission will undertake the privatization of selected Public Sector Enterprises using various modes such as strategic sales and concessions. The initiatives encompass assessing privatization options for DISCOs, exploring restructuring possibilities for PIA-CL, and conducting unbundling studies for SNGPL and SSGPL”

16) Pakistan Railways will focus on governance, private sector participation, technology, and digitalization, and increasing the number of freight trains.

17) The National Highways Authority (NHA) will restructure resources, focus on maintenance and optimization, and seek private-sector financing.

18) The Petroleum Division will implement price reforms and attract foreign investment, along with other initiatives.

19) In the power sector, short-term actions include an anti-theft campaign, cost reduction through solar initiatives, and renegotiating IPP agreements.

ICMA: Can you highlight any specific progress or improvements in economic indicators under the caretaker government's initiatives?

Minister: Despite domestic and global challenges during FY2023, fiscal and external sector stability has been achieved through various stabilization measures and structural reforms. Fiscal deficit stood at 7.7% of GDP during FY2023 as compared to 7.9% last year.

Current account deficit FY2023 narrowed down by 87.2% to $ 2.2 bn against a deficit of $ 17.5 bn in FY 2022. Trade deficit contained by 38.7% in FY2023 as compared to expansion of 36.4% in FY2022.

The caretaker government took charge in a very tough economic environment. Turning around the economy is a challenging task and requires careful economic planning, policy consistency, and a favourable external economic environment. The government is quite vigilant of the challenges/risks emanating from the domestic and external sides and taking timely measures to address them.

The government has taken some short-term actions to overcome speculations, smuggling, cartelization, and theft of publicly provided resources. Encouragingly, the timely actions carried out by relevant government regulatory agencies have begun yielding positive outcomes.

Hard earned gains on the fiscal and external accounts have started to translate into a pick-up in economic activity during first four months of FY2024 such as:

- Cotton production posted exceptional growth of 127% (11.5 million bales) for 2023-24. Rice production is also showing growth of 27.8 percent.
- Cotton arrival as on 15th Sep 2023 recorded at 3.93 million bales compared to 2.19 million bales same period last year, observed an increase of 80%.
- Jul-Sep FY24, credit to agriculture sector increased by 30.1% to Rs 499.3 billion (Rs 383.7 billion last year).
- LSM posted a positive growth of 2.5% in August, reversing 14 months of downward spiral in the manufacturing sector. Removal of restrictions on imports, clearance of outstanding L/Cs, and improved dollar liquidity in the markets are contributing to economic activity.
- Jul-Sep FY24, total cement dispatches increased by 23.4% to 11.9 million tons (9.6 million tons last year).
- Jul-Sep FY24, production of fertilizer increased by 8.2% to 2.4 million tons as against 2.2 million tons last year.
- During Q1-FY2024, the strong revenue performance led to a primary surplus of Rs 417 billion (0.4% of GDP) against the target of Rs 87 billion under the IMF SBA.
- FBR revenues clocked in at Rs 2,748 billion (27.3% growth) compared to the target of Rs 2,682 billion during Jul-Oct FY2024.
- Non-tax revenue also posted a significant increase of more than 100% in Q1 with higher collection on Petroleum Levy and dividends of SOEs.
- Overall, the fiscal deficit stood at 0.9% of GDP in Q1-FY2024 as compared to 1% of GDP during same period last year.
- The PKR recovered 9% since 5th September due to reforms initiated on the exchange companies and crackdown against illegal transactions.
- During Q1-FY2024, CAD has declined further by 58.8% to $ 0.95 billion, largely reflecting an improvement in trade balance. The trade deficit contained by 99.4 percent.
- During Jul-Oct FY2024, CPI inflation stood at 28.5% against 25.5% during same period last year. In October, CPI inflation clocked in at 26.9% on YoY basis as compared to 31.4% in Sep-2023.

"The government has taken some short-term actions to overcome speculations, smuggling, cartelization, and theft of publicly provided resources. Encouragingly, the timely actions carried out by relevant government regulatory agencies have begun yielding positive outcomes"

- KSE-100 index crossed 52,000 points mark and recorded at 52,342 points as on 1st November 2023.

The current performance indicates that the economy is gearing up to achieve the growth target set for FY2024.

ICMA: What outcomes do you anticipate from the upcoming visit by the IMF delegation to Pakistan?

Minister: As the first review of the SBA was successfully concluded, a Staff Level Agreement (SLA) has been reached. This is subject to approval by IMF's Executive Board. Upon approval, Pakistan will have access to SDR 525 million (around US$ 700 million).

ICMA: How do you expect inflows from other multilateral institutions once the IMF's tranche is received?

Minister: Government of Pakistan (GOP) anticipates raising approximately $4.5 billion from multilateral and bilateral sources, excluding the IMF in the current fiscal year. For the second quarter (Q2), the government expects to receive over $1.6 billion from these sources. Major creditors include the Asian Development Bank, the World Bank, and the Asian Infrastructure Investment Bank. These inflows comprise both project-based and program-based funds. Negotiations for some program loans have been completed, and disbursements are expected. The country is currently meeting its debt obligations in a timely manner and intends to continue doing so in the future.

ICMA: What steps will you take to address economic challenges such as inflation and currency stability in Pakistan?

Minister: In the modern era of globalization and industrialized markets, prices are influenced not only by domestic factors but also by global ones, exerting equal pressure. As Pakistan heavily relies on imports for food and petroleum products, any international disruptions in their supply contribute to inflationary pressures within our economy.

> Power sector is undergoing progressive reforms, with a long-term restructuring process currently underway

Relevant studies indicate that fluctuations in exchange rates and food prices have been the primary drivers of inflation in Pakistan in recent years. Consequently, the Caretaker Government has implemented various administrative measures to mitigate disruptions in demand and supply. As a result, prices have been consistently decreasing over the past five months. It's worth noting that in May 2023, Food Inflation peaked at 48.1%, but it has since decreased to 28.9% in October 2023, marking the lowest point since August 2022.

The crackdown on hoarding of foreign currency and food items has led to an appreciation of the PKR and an improved supply of essential items, raising expectations of lower food prices in the future. Clearly evident is the PKR's remarkable rebound, transforming it into the world's top-performing currency. Initially hitting a record low of 307 rupees against the US$ in early September, it has since surged by over 8.3%, trading at 283.42 in the first week of November 2023 against the dollar. This downward trend in the exchange rate is expected to further reduce inflation and enhance the overall economic outlook.

ICMA: What are the main reasons for approx. Rs. 500 billion losses in the SOEs and the steps taken by the Government to address their financial challenges?

Minister: Pakistan has around 200 State Owned Enterprises (SOEs) which are engaged in a diverse range of activities and provide and manage a significant share in the country's infrastructure, communication and utilities sectors. These SOEs, however, are facing financial losses due to various factors, including poor management, inadequate strategic planning, lack of transparency and accountability, absence of a consistent and overarching policy, and institutional malpractices. During the fiscal year 2019-20, the SOEs collectively incurred a significant loss amounting to Rs. 485 billion. Despite this, the total profit generated by the SOEs amounted to Rs. 329 billion, resulting in a net loss of Rs. 156 billion. The major contributors to these losses were observed in the Power sector, Pakistan International Airlines (PIA), National Highway Authority (NHA), and Railways.

It is worth pointing out that the Power sector is undergoing progressive reforms, with a long-term restructuring process currently underway. The substantial losses faced by the National Highway Authority (NHA) primarily result from loan repayments, and efforts are underway to address and resolve these financial burdens. Pakistan International Airlines (PIA) and Pakistan Steel Mills are actively included in the privatization agenda, along with several other financially challenged entities. The interim government is actively engaged in addressing these challenges and facilitating the privatization process.

The Government of Pakistan has also taken various steps to bring legislative, institutional and administrative reforms in the SOEs. Some of these reforms are stated as under:

- Timely determination of tariffs
- Full cost recovery of tariffs
- Reforms in the accountability structure of the SOEs
- The SOEs (Governance and Operations) Act, 2023 was promulgated on 2nd February, 2023. The salient features of the Act are (1) nominations of independent directors institutionalized (2) majority of independent directors (3) security of tenure: removal criteria defined (4) establishment of CMU (4) separation of office of Chairman from the CEO office (6) PPRA rules exemption and (6) enhanced board independence - appointment of CEOs and policy directions to be issued with approval of Cabinet.
- Establishment of Cabinet Committee on SOEs (CCoSOEs) under the SOEs Act, 2023 to periodically review the performance of the SOEs.
- CMU has been established through an interim placement in Finance Division. CMU will maintain electronic database of financial and operational performance of SOEs, information related to business plans, half-yearly and annual SOEs reports and any other information prescribed in the SOEs Policy.
- Under the SOEs Act, 2023, the SOEs (Ownership and Management) Policy, 2023 has been developed in consultation with the line Ministries/Divisions, SOEs and other stakeholders. After completion of all procedural formalities, the SOEs Policy, 2023 was submitted to the Cabinet Committee on SOEs (CCoSOEs). The Committee considered the Policy in its meetings held on 21st & 28th September 2023, respectively and approved it on 15th November, 2023. The SOEs policy is now submitted for the approval of the Cabinet.
- The Government of Pakistan has embarked on a journey to implement gradual structural reforms within the governance framework of all State-Owned Enterprises (SOEs), aligning them with the SOEs Act of 2023. As part of this initiative, the first phase involved successfully amending the Acts of four SOEs: the National Highway Authority, Pakistan Post Office, Pakistan Broadcasting Corporation, and Pakistan National Shipping Corporation. These amendments have been carried out successfully and are at an advanced stage of promulgation.

*The Editorial Board thanks **Dr. Shamshad Akhtar, Minister for Finance, Revenue & Economic Affairs** for sparing from her precious time to give exclusive interview for Chartered Management Accountant Journal.*