Exclusive Interview

Ms. Esther Perez Ruiz

IMF Resident Representative in Pakistan

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ICMA: Please briefly share the contribution of the IMF in supporting Pakistan on economic policies and reforms?

Esther Perez Ruiz: Let me start by thanking ICMA International for the opportunity to offer, on behalf of the IMF, our perspective on Pakistan's present economic situation and potential opportunities.

The IMF is here to help support Pakistan's efforts to realize its potential through sound economic policies and reforms. These are needed to reduce Pakistan's structural vulnerabilities that make it susceptible to high economic volatility and low growth. Our partnership with the government seeks to create an environment to strengthen private sector activity and create investment and job opportunities, as well as to mobilize resources for critical social and development spending to make concrete progress toward the Sustainability and Development Goals. For example, Pakistan's young labor force is an unrealized strength given high unemployment, informality and economic volatility. If mobilized properly, they can contribute to higher living standards (per capita income).

The recent period of Pakistan's 2023 Stand-by Arrangement (SBA) shows some of the benefits of sound policy making supported by a Fund-supported program. After a period of economic turbulence in FY2023 stemming from a difficult external environment and policy slippages, the caretaker government and State Bank of Pakistan have brought about a renewed sense of economic stability. Over the past few months, Pakistan's economic and financial position has improved with growth and confidence gradually recovering on the back of prudent fiscal management with due protection of the social safety net, a monetary stance geared toward lowering inflation and pursuing exchange rate flexibility and transparent FX market operations, and the timely adjustment of power and gas tariffs to shore up energy sector viability while protecting the vulnerable through progressive tariff structures. Continuing these policies with deeper structural reforms will help Pakistan move from stabilization to stronger more inclusive growth.

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In addition to supporting sound policy making, the IMF supports Pakistan by building technical capacity in public institutions. During the caretaker period, we have been working closely with the authorities and collaborating with other international organizations and development partners on key capacity development initiatives to durably raise revenue and improve the quality of spending to tackle social and climate-related challenges.

ICMA: How do you see the current economic situation in Pakistan, especially the key challenges facing the economy?

Esther Perez Ruiz: Pakistan's economic and financial position has strengthened over the course of this fiscal year, with gradual disinflation underway and external pressures easing on the back of prudent policy management and the resumption of inflows from multilateral and bilateral partners. However, sustained reform efforts are needed to address Pakistan's deep-seated economic vulnerabilities amidst the ongoing challenges posed by elevated external and domestic financing needs and an unsettled external environment.

To cement the stability established over the past 9 months, consistent sound policy making needs to continue. In this vein, the authorities are determined to deliver the FY24 general government primary balance target of 0.4 percent of GDP, continue efforts towards broadening the tax base, and implement timely power and gas tariff adjustments so that there is no accumulation of circular debt (CD) in FY24, while the vulnerable are protected through the progressive tariff structure applied to energy. The State Bank of Pakistan remains committed to maintaining a prudent monetary policy to lower inflation while also ensuring a flexible exchange rate to buffer shocks and rebuild reserves.

Looking ahead, the authorities have also expressed interest in a successor medium-term Fund-supported program, permanently resolving Pakistan's fiscal and external sustainability weaknesses and laying the foundation for strong, sustainable, and inclusive growth. The IMF could support a program which cements credibility through sound policy making and robustly tackles long-standing structural challenges.

ICMA: Do you think FBR restructuring is vital for boosting the tax revenues?

Esther Perez Ruiz: Pakistan needs to significantly mobilize revenues to create resources for much needed social and development spending, strengthen sustainability, and reduce overreliance on external financing. Overall, it is essential for Pakistan to increase the progressivity, simplicity, and fairness of the tax system so that those who can afford it contribute their fair share. This requires efforts on both tax policy (e.g., increasing taxation of agriculture and property) and revenue administration. Strengthening the FBR and its governance is critical to achieving these goals. We welcome the focus on digitalization to effectively expand the tax base. Similarly, building a culture for enhanced transparency, accountability and separation of the tax collections and policy functions, as intended by the restructuring plan under consideration, are steps in the right direction.

ICMA: Pakistan's Debt service requirements is estimated at US$25 billion in 2023–24. Do you think debt rescheduling is the only option left for the Government?

Esther Perez Ruiz: It all depends on the authorities' taking policy and reform actions commensurate with addressing Pakistan's economic imbalances.

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> Stronger focus on good governance, transparency, and the institutional environment that respects the rule of law are critical for economic stability and growth. Professional accountants have a particular important role to play in this respect

Consistent sound policy making and strong ownership of long-delayed reforms can enable Pakistan to protect macroeconomic stability and bolster growth, access the financing from external partners, and eventually return to the market. The Pakistani authorities can develop such a program, with key efforts that include (i) strengthening public finances and broadening the tax base (including to undertaxed sectors) to make the tax system simpler, fairer and more efficient; (ii) restoring the energy sector's viability by accelerating cost reducing reforms which should allow CD-neutral tariffs to decline; (iii) monetary policy aimed at returning inflation to target, with a flexible FX market supporting external rebalancing and the rebuilding of foreign reserves; and (iv) establishing an environment conducive to private-led activity through the removal of distortionary protection, advancement of SOE reforms to improve the sector's performance, and the scaling-up of investment in human capital.

ICMA: How Pakistan can become a self-reliant country so that it can reduce its dependence on foreign loans?

Esther Perez Ruiz: The policy and reform areas already discussed are central to reducing reliance on foreign loans, but also making the foreign loans more productive and affordable. Consistent implementation of sound policies should ultimately lead to higher public and private sector savings but also attract foreign financing for productive investments at lower cost that can foster private-led growth and the build-up of reserves. Key policy goals in this regard include:

- Reducing the crowding out of private investment by the government by creating fiscal surpluses, supported by broader and fairer tax revenue. Improving the quality of public investment and SOE reforms will reduce the fiscal cost of the existing inefficiency of this sector and improve the quality of public service provision to the private sector.
- Establishing a competitive and level playing field with strong public sector governance, free of preferential treatment, to further encourage private savings and private investment.
- Allowing a fully-flexible exchange rate that promotes export-oriented activities, and broadening reforms to reduce energy sector costs while also allowing a reduction in tariffs for businesses.

ICMA: What new measures the Pakistani policymakers must take to enhance the competitiveness of the economy?

Esther Perez Ruiz: Exports as a share of GDP have fallen markedly over the past two decades. Boosting export competitiveness is essential to reducing external vulnerabilities, reversing Pakistan's productivity decline, and increasing its growth potential. In addition to the policies already discussed, the agenda requires reducing any anti-export bias by implementing the national tariff policy and gradually reducing import duties in Pakistan which, averaging 20 percent, remain amongst the highest in the world and directly harm exporters by incentivizing import substitution.

The modernization of export promotion schemes is also necessary to reduce reliance on unconditional subsidies (e.g., Export Finance Scheme and the Drawback of Local Taxes and Levies). These schemes have proved costly for taxpayers and with limited impact on exports. In this vein, we welcome the authorities' recent actions to phase out SBP's involvement in the refinancing schemes and task the Ex-Im Bank with allocating subsidized lending schemes against budget resources in a fairer and more transparent manner.

ICMA: Any special message to our readers, especially professional accountants?

Esther Perez Ruiz: With a large domestic market, young labor force, an entrepreneurial orientation, a privileged location, and extensive donor support and market access, Pakistan has the potential to become a dynamic, emerging market economy. To unleash this potential, there is a need for sustained and consistent implementation of good policies oriented to maintaining macroeconomic stability and putting in place the conditions for private-led growth. In this respect, stronger focus on good governance, transparency, and the institutional environment that respects the rule of law are critical for economic stability and growth. Professional accountants have a particular important role to play in this respect.

*The Editorial Board thanks **Ms. Esther Perez Ruiz, IMF Resident Representative in Pakistan** for sparing from her precious time to give exclusive interview for Chartered Management Accountant Journal.*