BUSINESS RECORDER

Islaah beyond IMF

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Pakistan's economic stability has long been precarious, which is why the country's economic history over the past decades has been marked by frequent recourse to IMF assistance. Entering its 24th IMF programme accentuates the severity of its financial struggles. Over the next five years, Pakistan's external financial requirements will exceed USD 120 billion, creating a significant gap that even the most optimistic IMF projections may struggle to bridge.

This recurring reliance on IMF assistance highlights the persistent structural issues and cyclical financial crises that have plagued Pakistan for decades. The frequency with which Pakistan turns to the IMF is not just a symptom of immediate fiscal shortfalls but a reflection of deeper, systemic inefficiencies and governance challenges that must be addressed to achieve long-term economic resilience. Despite numerous interventions, the underlying problems continue to resurface. The IMF's repeated recommendation to raise taxes has proven ineffective in the past and is unlikely to succeed in the future.

The reliance on IMF programmes indicates a broader issue of fiscal irresponsibility and lack of structural reforms. Despite these programmes, Pakistan's growth has remained lackluster and sporadic, failing to meet the needs of its young and rapidly growing population. The output gap and the underlying economic weaknesses need to be addressed through more than just financial injection.

Pakistan Institute of Development Economics (PIDE) outlines a comprehensive reform agenda to address these deep-rooted problems. PIDE believes that at this time IMF programme was a necessity. It also considers that restructuring debt will be difficult and time-consuming. However, PIDE stresses the necessity for reforms beyond the superficial adjustments typically mandated by IMF. It calls for a systemic overhaul that addresses the root causes of economic instability, including governance issues, policy inconsistencies, and structural inefficiencies.

Pakistan's rapidly growing population necessitates the creation of almost 2 million job opportunities annually. This rate of labour force participation requires ample employment opportunities. Additionally, Pakistan's mounting debt burden needs to be addressed. To reduce the debt burden and create sufficient job opportunities, Pakistan must sustain a growth rate of at least 7 to 8 percent.

This target requires an investment equivalent to 28.8 percent of GDP (based on ICOR), nearly double the current level. Meeting this investment demand calls for significant enhancements in domestic savings rates and foreign direct investment. Prioritizing investment necessitates substantial deregulation, efficient and functional markets, and digital governance.

PIDE's emphasizes that clear rules with digitization, not permissions, are needed. Permissions cost us time and resources, while documentation costs are huge. Therefore, we must end bureaucratic control and the need for permissions, certificates, and similar requirements.

Pakistan should move away from the colonial bureaucratic style of governance, as this outdated model hinders growth and the development of a strong economy. So, a fundamental aspect of the proposed reforms is the modernization of the regulatory framework. This involves creating independent regulatory bodies free from political interference, and ensuring that regulatory decisions are made based on merit and economic rationale.

We have pursued increased taxes through all IMF programmes and consistently failed due to a cumbersome, distortionary, and volatile tax system that creates significant uncertainty in the economy. Government expenditures and balance sheets are often overlooked, to our extreme detriment.

It is urgently necessary to simplify taxes in a revenue-neutral manner and maintain stability for the next ten years without introducing new taxes annually. There should be a uniform tax rate across all sources of income, including agriculture income. The presumptive tax regime should be ended and taxes on turnover should be eliminated. Uniform taxes should be applied to AOPs, sole proprietors, and corporations.

Inter-corporate dividend income and assets sold within a year should be treated as normal income. Withholding taxes should be eliminated in favor of advance income tax. Concessionary financing and discriminatory fiscal incentives between businesses should cease. Tax administration should be automated and streamlined to minimize human interaction.

Abolish the distinction between filers and non-filers, and the use of FBR rates for property valuations. A responsible and accountable tech-savvy group should be allowed to collect revenue, with an independent service knowledgeable in technology and modern auditing techniques overseeing the process. Audits of tax returns for first-time filers should be halted for the next five years.

The state-controlled real estate sector represents a significant but underutilized asset. Government assets, such as roads, convention centers, stadiums, and auditoriums, have been built but are not being utilized for high returns. While the IMF focuses on income statements, immense value lies in the effective utilization of these assets.

The potential value of real estate is staggering, amounting to PKR 2,278.6 billion with 17,471 government houses occupying 1,325 acres of prime land in Islamabad. This approach could attract over USD 58.8 billion in investment, create 351,000 job opportunities, add 44.4 million sq. ft of commercial space, and generate an annual rental income surpassing Rs. 446.8 billion.

Such endeavors have the potential to generate tax revenue ranging from PKR 160 to 300 billion. Therefore, a comprehensive examination of all underutilized state-owned assets is imperative. Establishing a high-level professional commission tasked with developing an asset register and devising mechanisms for optimal asset utilization is essential.

Circular debt, inefficiency, and mismanagement have plagued the energy sector for years. Thus, the commercialization and corporatization of energy companies, improved governance through independent boards and competition in the energy market is required. Establishing independent, empowered commissions to oversee the energy sector is essential. These commissions should comprise technocrats and operate under the supervision of parliamentary committees to ensure accountability and transparency.

Mandatory disclosure of all energy companies on the stock market with limits on shareholding is recommended to ensure broad-based ownership and prevent monopolistic practices. Rationalizing the number of power entities and revisiting the uniform tariff policy are necessary steps to improve the efficiency of the power sector. Tariffs should reflect the actual cost of services, and subsidies should be provided through direct cash transfers rather than through cross-subsidization.

It’s crucial to move beyond the narrow focus on “Plotistan” or Housing Societies and recognize real estate as encompassing major construction projects that develop city centers and commercial areas. Therefore, abolishing FBR valuation and DC rates will eliminate artificial pricing barriers. Regulating file trading under SECP (securities and exchange commission of Pakistan) as securities will curb speculative practices. Separating regulation from the real estate business will mitigate conflicts of interest and enhance oversight effectiveness.

Organizing the real estate brokerage industry ensures ethical standards and consumer protection while updating rental laws will foster a fair and stable rental market. Relaxing zoning regulations for vertical and mixed-use development across all cities promotes urban density and efficient land use, fostering transparency, efficiency, and sustainable growth in the real estate sector.

The banking sector must address high non-performing loans, regulatory hurdles, and the crowding out of private credit by government borrowing. Developing non-bank financial entities and easing entry into banking will enhance competition, innovation, and financial inclusivity.

Encouraging local, regional, and thrift institutions promotes local economic development. A robust foreign exchange market ensures currency stability and facilitates trade and investment. Expanding the network of primary dealers boosts market liquidity and efficiency.

Liberalizing the agricultural market, removing market-distorting subsidies, and encouraging private-sector investment are indispensable. Key reforms include discontinuing support prices and abolishing commodity operations to let market dynamics dictate pricing, fostering competition and innovation.

Eliminating seed registration and testing in favour of market-driven brand reliability. Encouraging private storage through five-year tax incentives for certified facilities will improve storage infrastructure, while the government should exit the storage business to allow private enterprises to thrive.

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