IMMEDIATE REFORM Agenda

IMF & Beyond

Nadeem Ul Haque
Ahmed Waqar Qasim

Pakistan Institute of Development Economics
اصلاح
Rethink | Reform | Revive

The authors are grateful to:
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IMMEDIATE REFORM AGENDA
IMF & BEYOND

Designer: Mohsin Ali, Pakistan Institute of Development Economics, (PIDE). Islamabad.

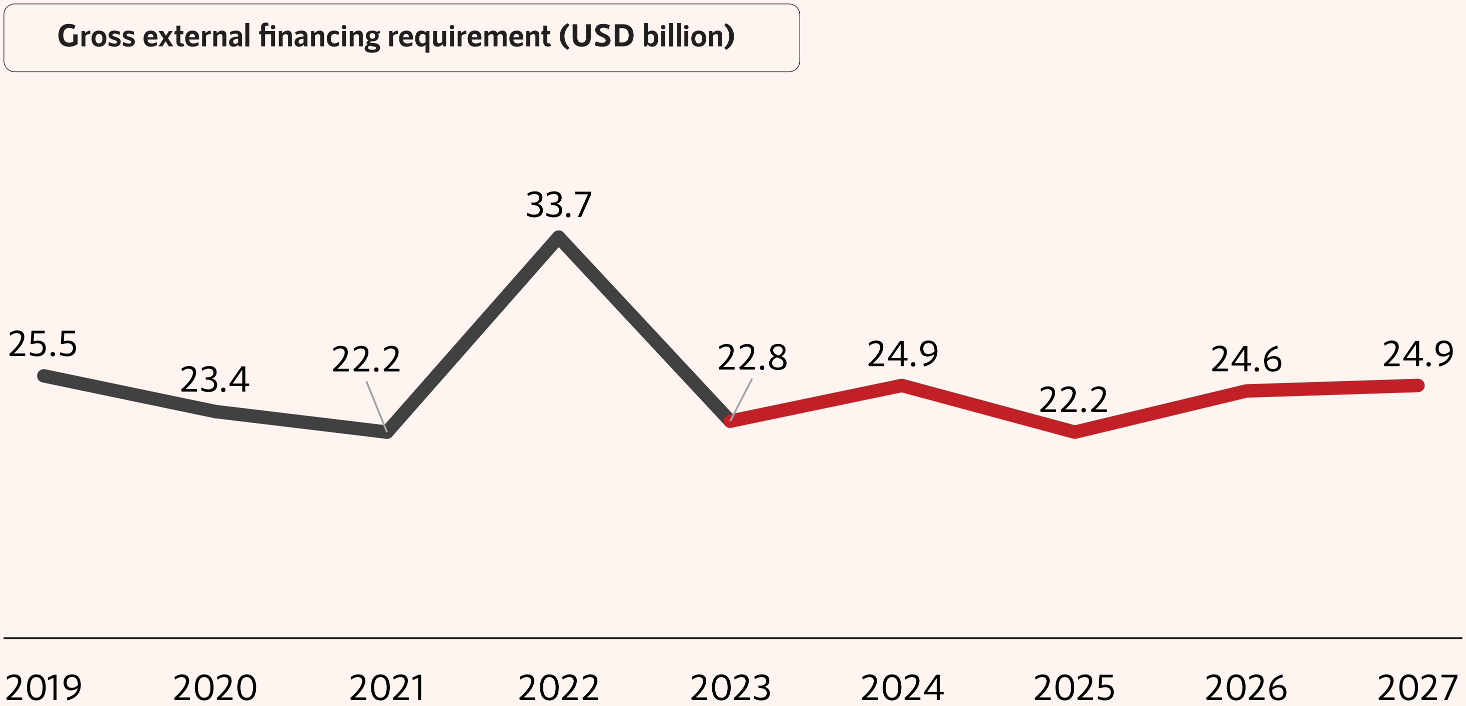
Table of Contents

The economy is near default and likely to remain so, even in the IMF scenario

Over the next 3 – 4 years, the IMF says there will be a huge financing gap, probably larger than our reserves

Towards default:

Pakistan's external financial requirements exceed USD 120 billion over the next 5 years

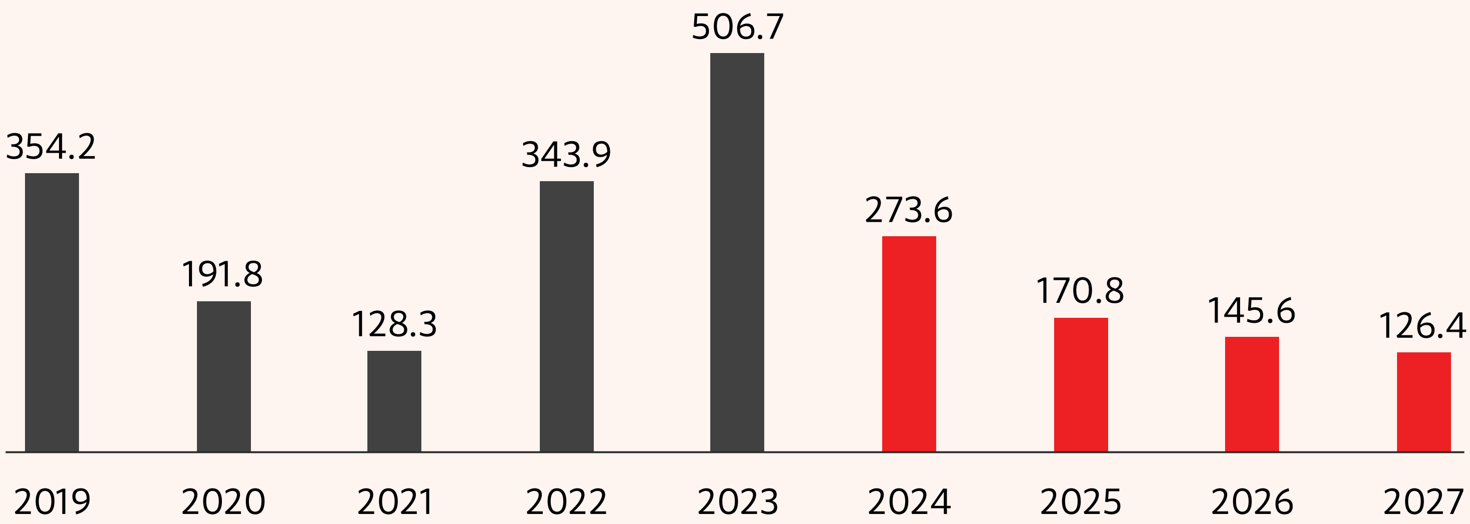


Source: [2019-2023] The Pakistan Economic Survey – [2024-2027] The IMF projections are in red, and we believe they are optimistic

Unfavorable ongoing circumstances:

External financing requirement far exceeds the gross reserves

Gross external financing requirements (% of reserves)

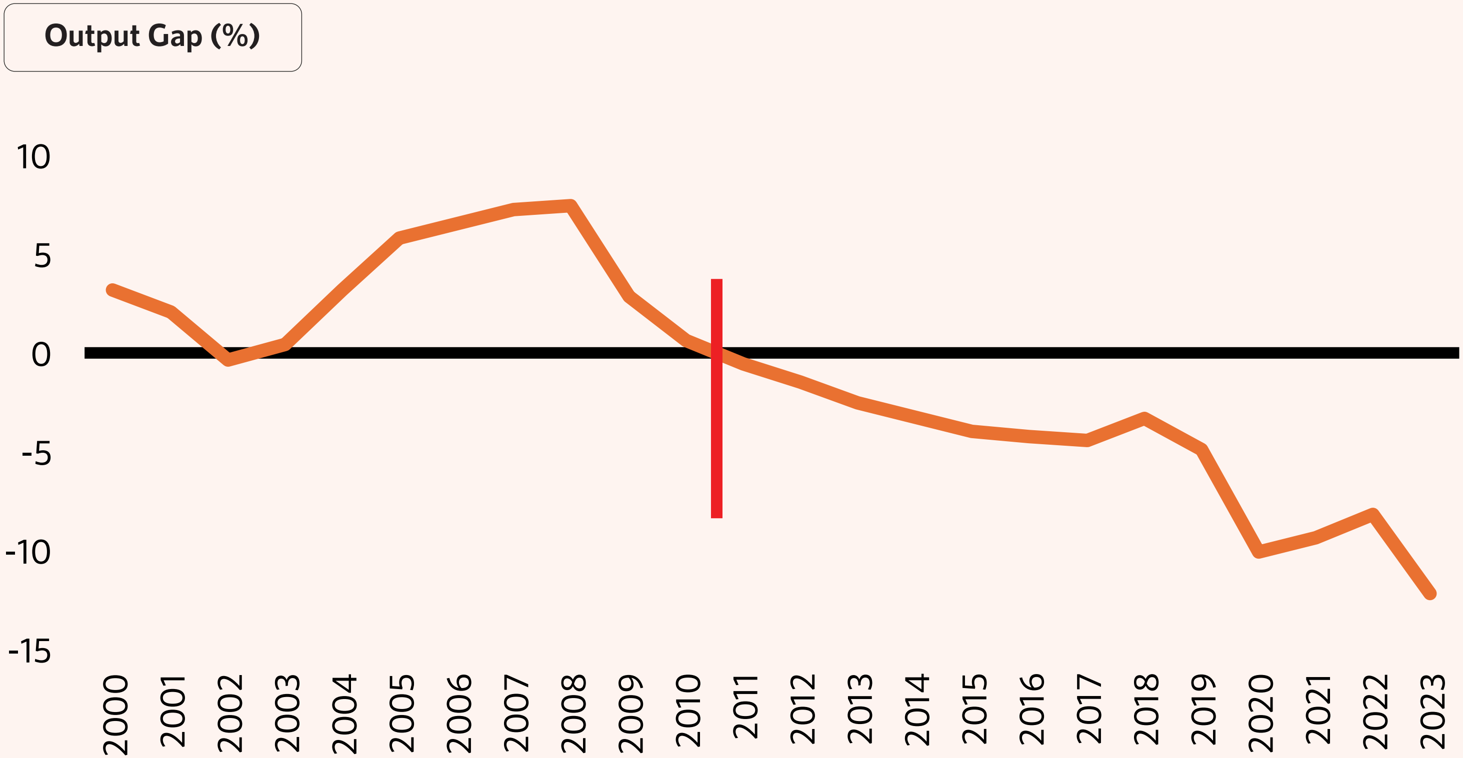


Source: [2019-2023] The Pakistan Economic Survey – [2024-2027] The IMF projections are in red

Entering the 24th IMF program with adjustment still a distant dream

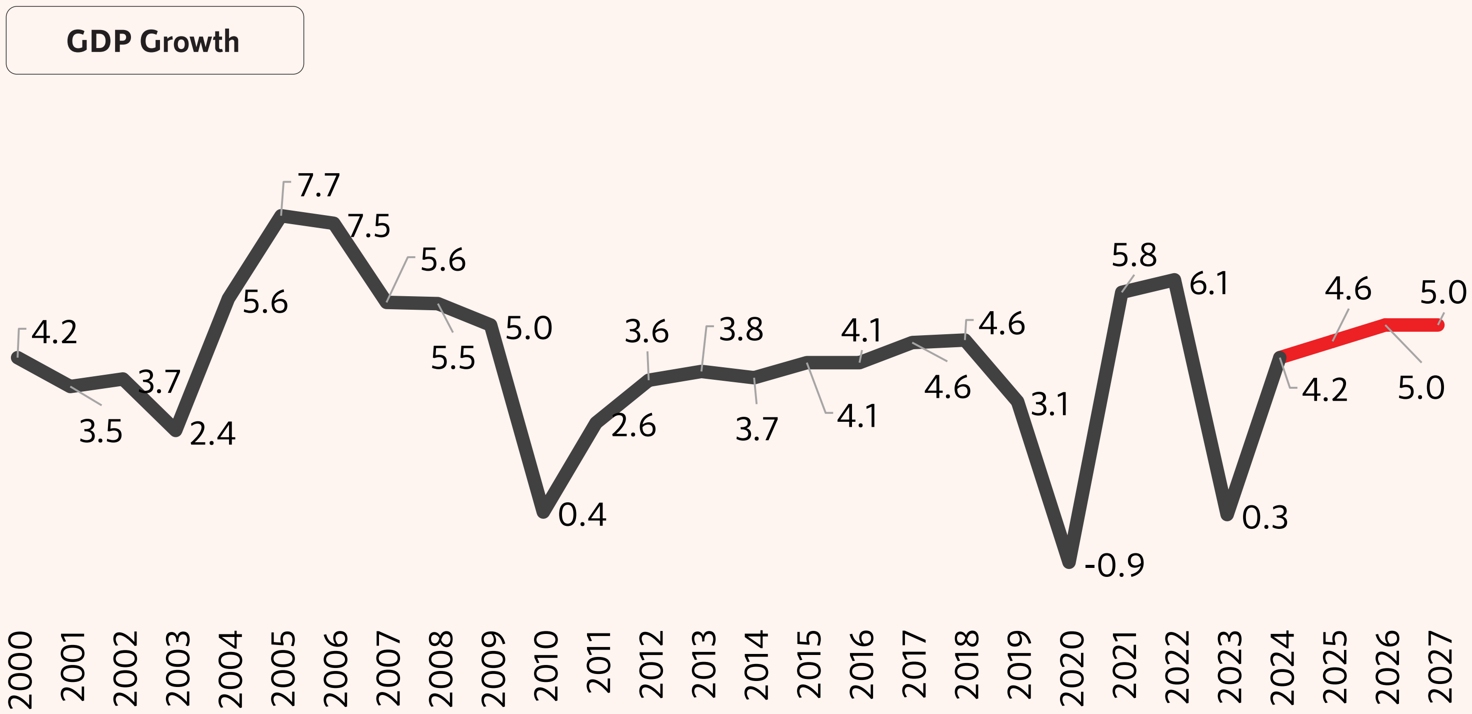
Growth is likely to remain well below what is required by our young and over-indebted economy

Excess capacity increasing as growth remains slow



Source: IMF Report, 2024

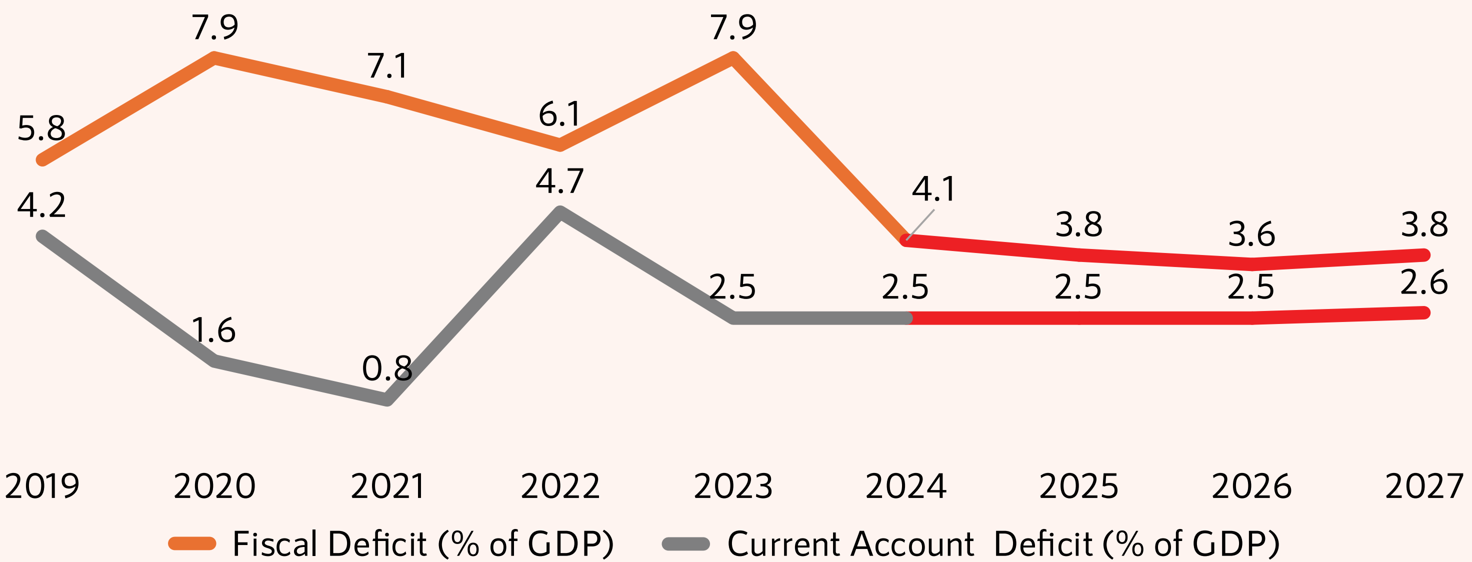
Growth is lackluster and sporadic The IMF projections, though, optimistic remain well below the growth required



Source: [2000-2023] The Pakistan Economic Survey – [2024-2027] The IMF projections are in red

Deficits with optimistic projections remain high Will this adjustment happen or like the past programs remain elusive

GDP Growth



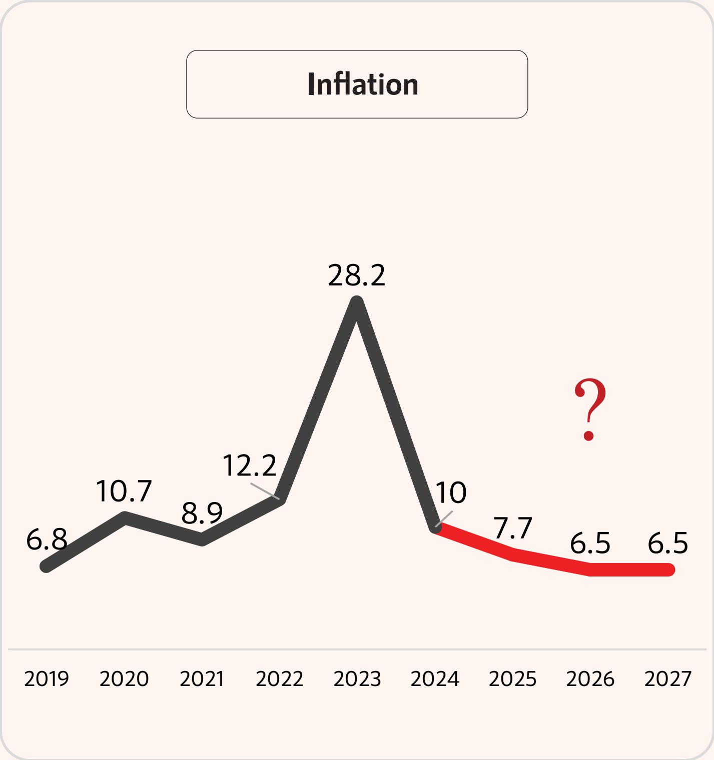
Source: [2019-2023] The Pakistan Economic Survey – [2024-2027] The IMF projections are in red

Reserves:

Expected to remain insufficient

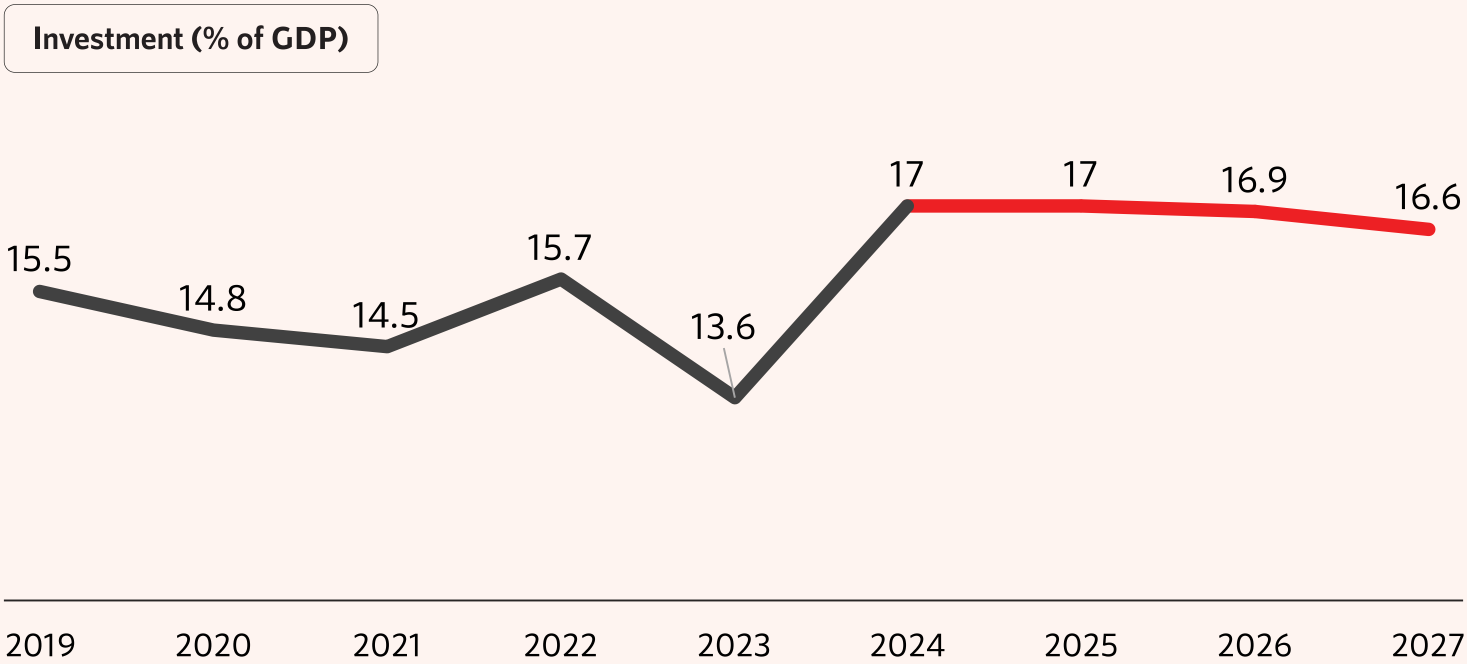
Inflation:

Will pose additional challenges



Source: [2019-2023] The Pakistan Economic Survey – [2024-2027] The IMF projections are in red

Investment is always been far lower than required and expected to remain below needs even with an IMF program



Source: [2019-2023] The Pakistan Economic Survey – [2024-2027] The IMF projections are in red

With this IMF program, a deeper reform is required to increase investment and growth

We recognize

- Restructuring Debt will be difficult and time-consuming
- IMF is a Necessity

We recommend complementary actions with the IMF program to:

- Enhance growth
- Increase exports
- Improve productivity
- Increase investment
- Grow outward-looking listed corporates
- Develop brands and domestic market

Our goals are to increase:

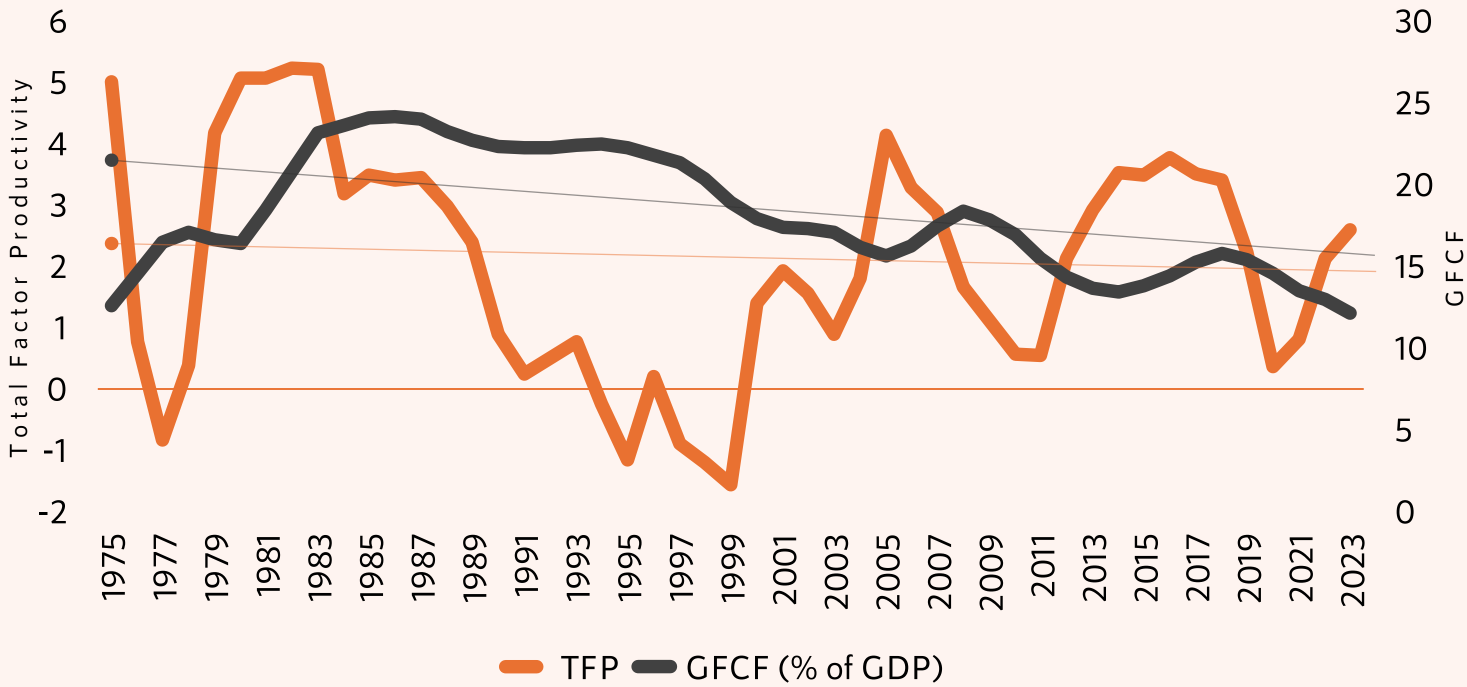
Productivity

The economy's ability to create value and generate wealth

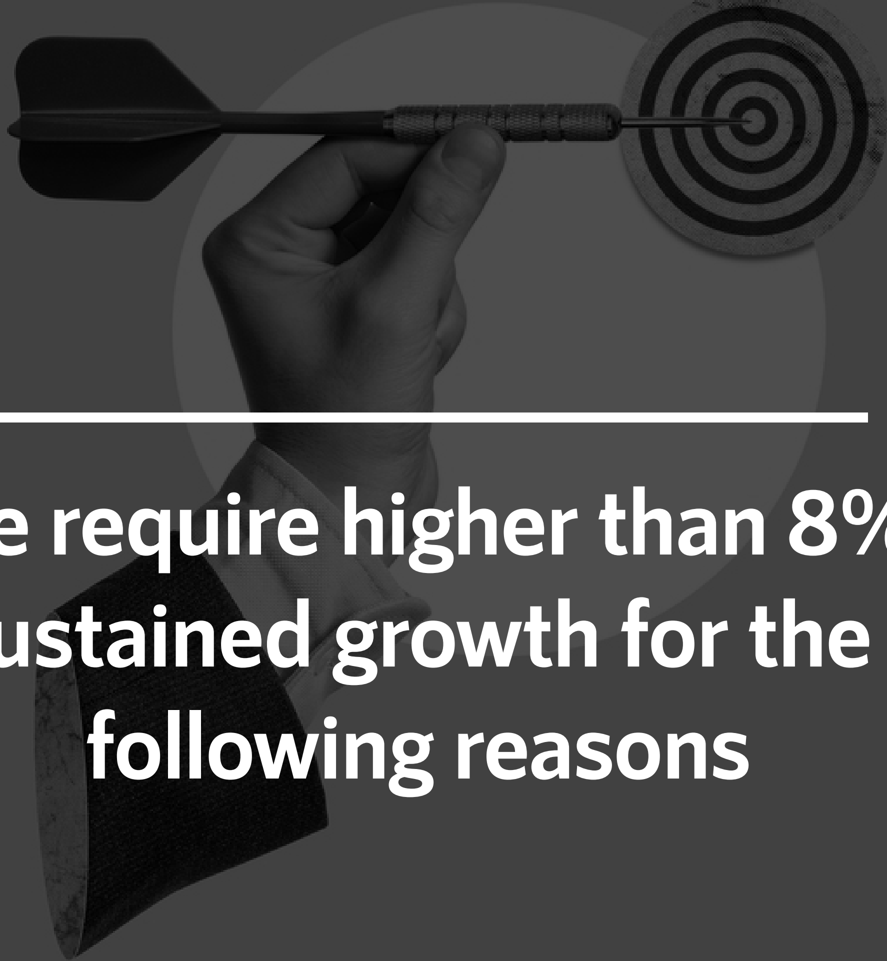
Investment

Resources (such as money, effort, or time) being used to generate future returns

Productivity & investment are on a long-term declining trend: Must be reversed!

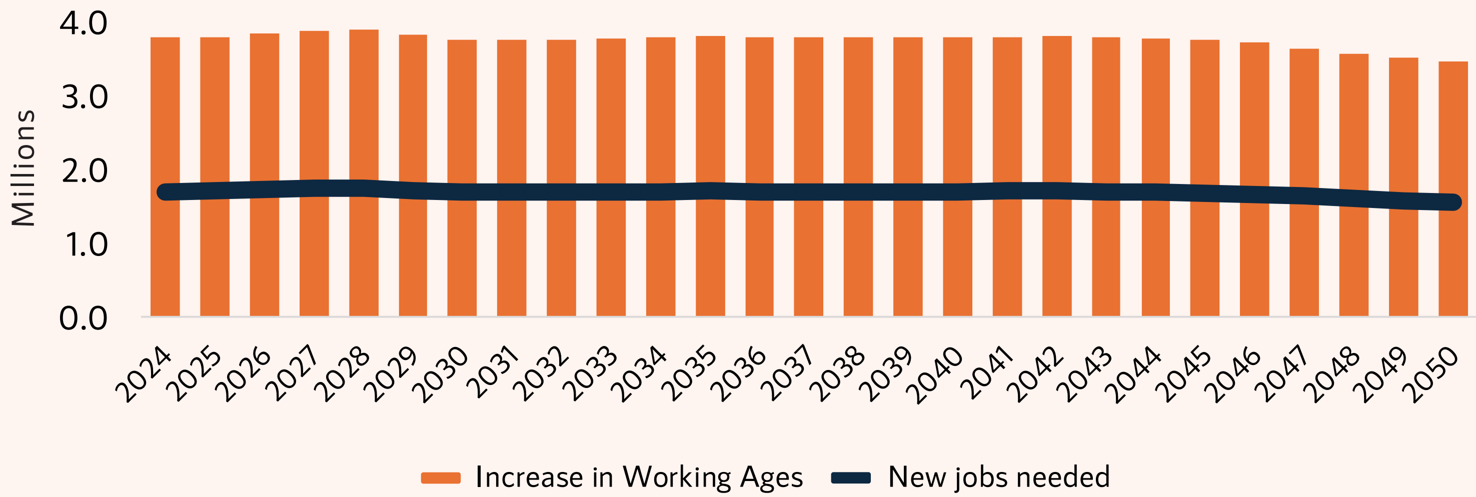


Source: PIDE's calculations



We require higher than 8% sustained growth for the following reasons

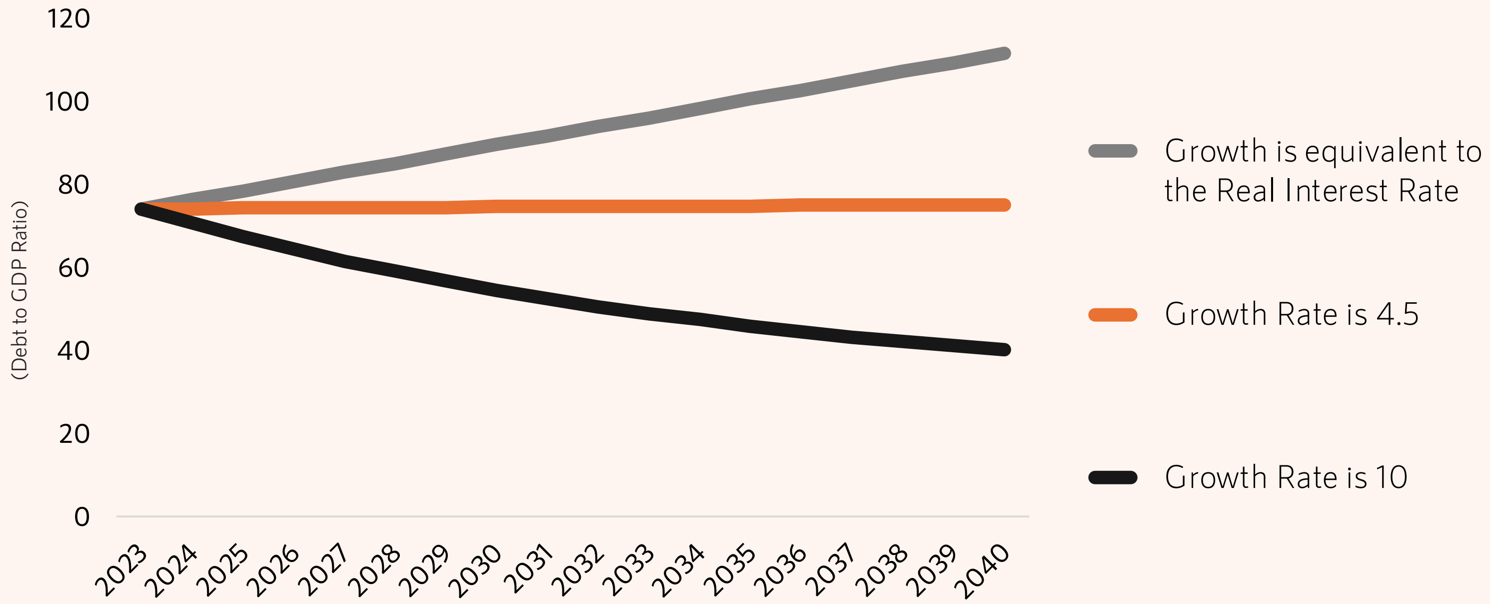
Youth employment requires more than sustained 8% growth for 30 years



- The working age population (columns) increases by 4 million a year
- With current labor force participation rates (line) we would require a minimum 8% growth
- With increased labor force participation, especially of females, a higher growth rate is required

Source: PIDE's calculations

To reduce its debt burden, Pakistan needs growth of 7% to 8%



Source: PIDE's calculations

To achieve an 8% growth rate the investment requirement is 28.8%

(Based on current ICOR)

Source: PIDE's calculations

To create large, exporting, listed, outward-looking, professionally-run corporations

- Modernize regulatory framework
- Incentivize exports
- Simplified, stable, and low tax framework
- Promote listed firms
- End import substitution
- Develop brands

Permissions (regulations) are a huge impediment

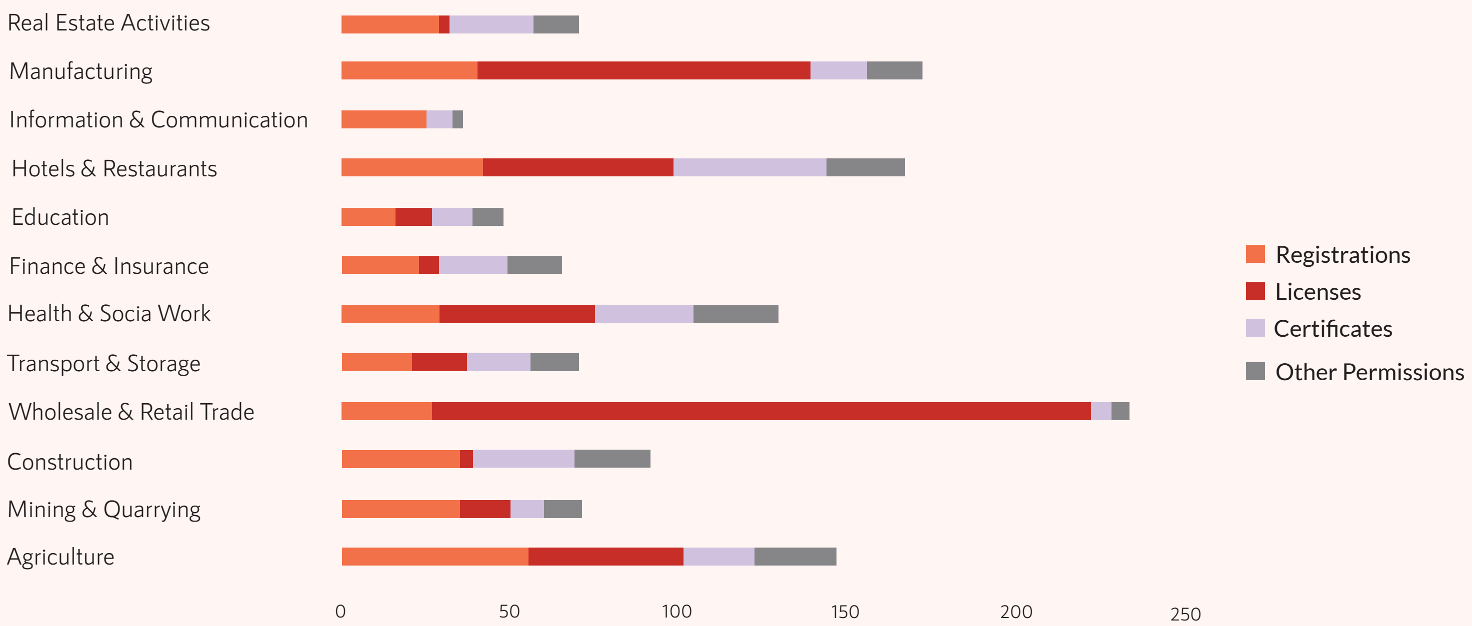
If investment is to be a top priority, we need:

- Huge deregulation
- Efficient and functional markets
- Digital governance and regulation

The picture of regulations: Time and money wasted getting permissions

122 regulatory bodies just under the Federal Government (PIDE Sludge Audits)
Cost more than 50 % of GDP (PIDE Sludge Audits)

Sector-Wise Regulatory Mapping - 2023



Source: PIDE's calculations based on PRMI repository

What is needed: Rules, not permissions with digitization

- Permissions costs time and resources
- Documentation costs are huge (direct and opportunity costs)

Require...

- Clear rules, digitization, and market liberalization
- End the bureaucratic desire for permissions and papers

To end “Permissionistan”, which Pakistan has become

Options

- Piecemeal will not work
- Regulatory guillotine is tried and tested
  - Examples: Hungary, Mexico, South Korea, UAE, etc.

- India achieved this in 1991, and Dubai is still doing it

“Regulatory Guillotine” strategy must be adopted fast

- Cabinet Decision: All Registrations, Licenses, Certificates, and Other Permissions (RLCOs) removed in 3 months, except for prohibited activities

- In that period, fresh RLCOs should be presented to the cabinet with a clear cost-benefit analysis

- After three months only newly approved permissions, if any, will prevail

Control the flow of new regulations

- **Need Pakistani version of**
  - OMB (Office of Management and Budget), USA
  - Paperwork Reduction Act, 1980, USA

- **Regulatory Impact Analysis (RIA) must be mandatory for all future regulations based on the following considerations:**
  - What is the problem you are trying to solve?
  - Why is government action needed?
  - What policy options are you considering?
  - What is the likely cost-benefit of each option?
  - Who did you consult and how did you incorporate their feedback?
  - What is the best option from those you have considered?
  - How will you implement and evaluate your chosen option?
- **Cabinet and Parliament must ask for RIAs everywhere before allowing any regulation**
- **Current regulations must be subjected to RIA on regular basis**

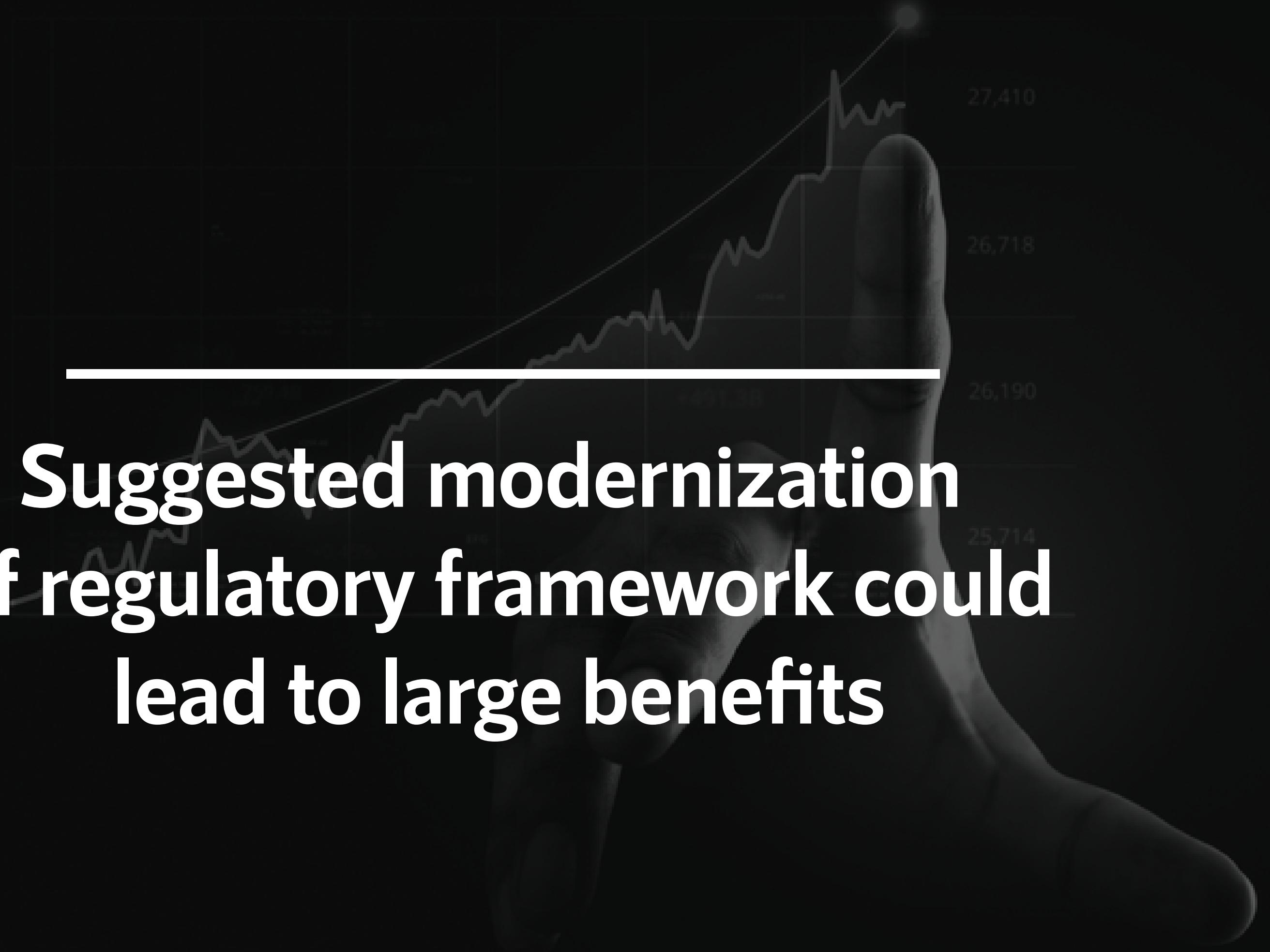
Actions required:

1 Regulatory Guillotine

2 New Act for ensuring good regulation

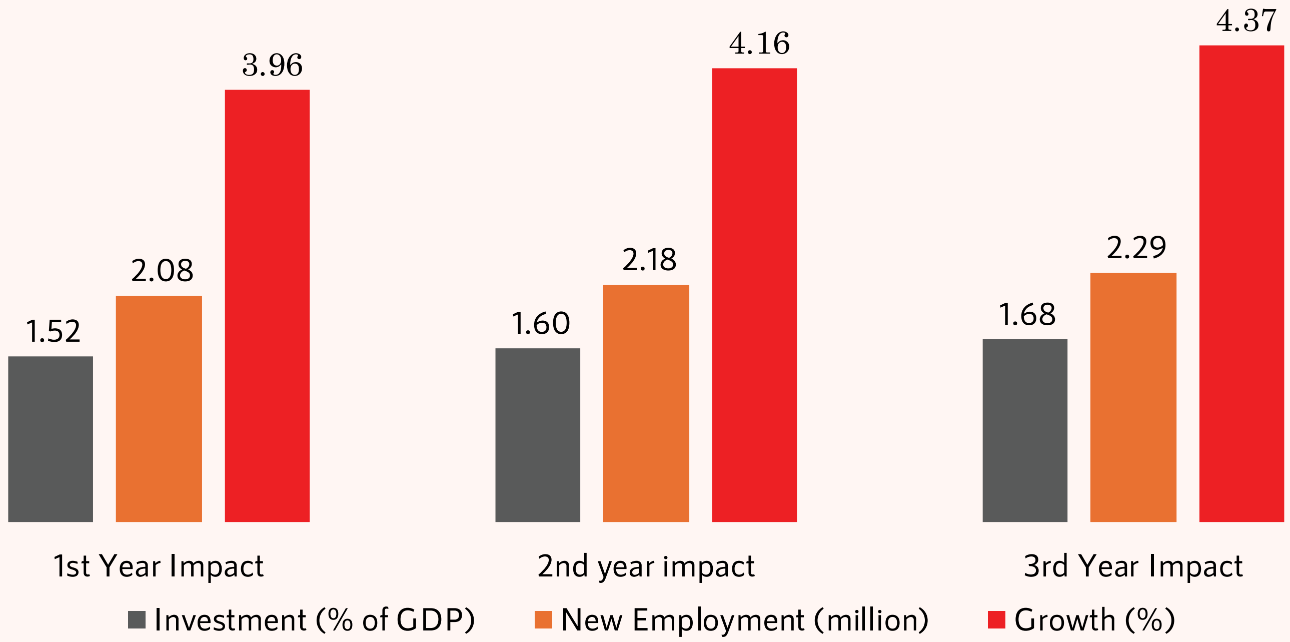
- No rules can be proposed without a proper cost-benefit analysis, given to the public and the Parliament/Cabinet

- The Planning Commission should take the lead role in regulatory modernization
  - It should be doing regular RIAs in all sectors and all fresh regulatory proposals must be presented to the CDWP with RIA before going to the cabinet.



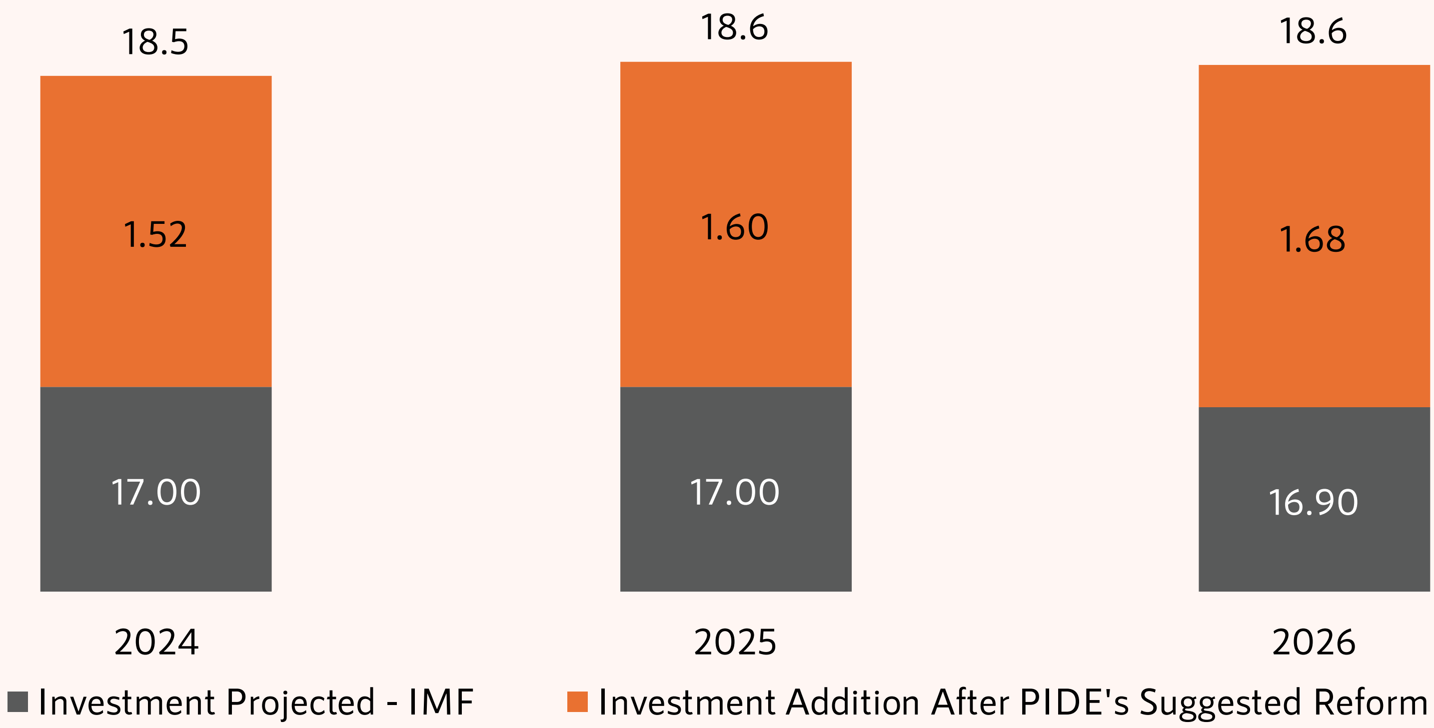
Suggested modernization of regulatory framework could lead to large benefits

Impact of the "Regulatory Guillotine"



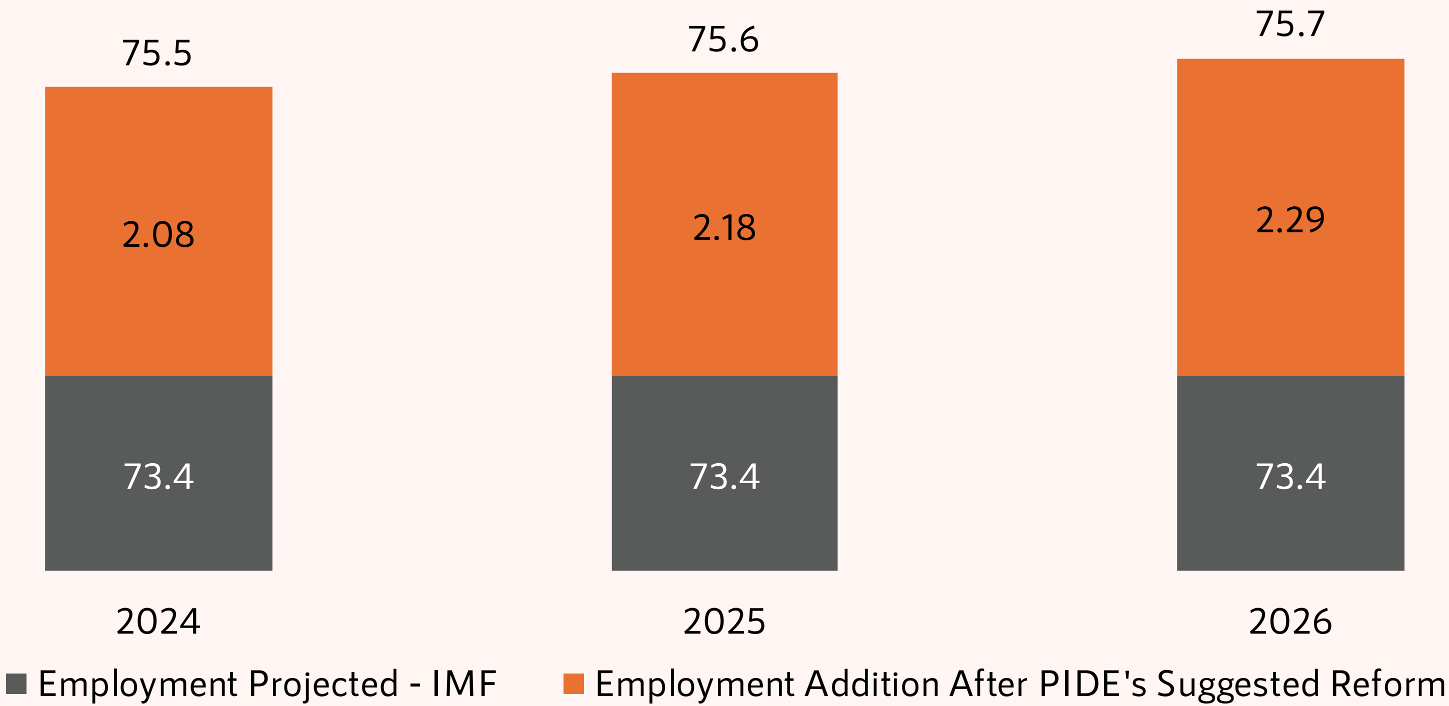
Source: PIDE's calculations based on input-output and forward linkages

Impact of the “Regulatory Guillotine” on Investment (% of GDP)



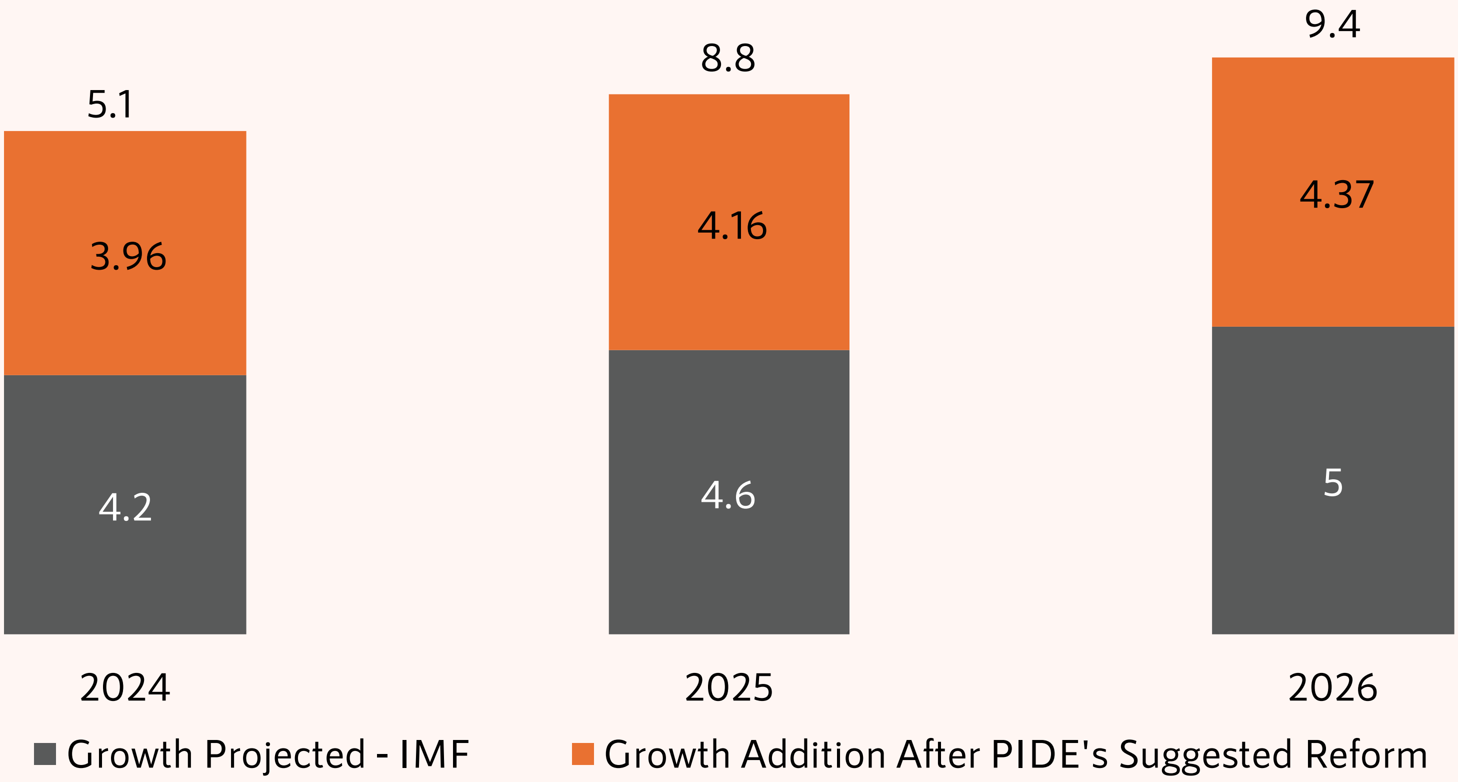
Source: PIDE’s calculations based on input-output and forward linkages

Impact of the “Regulatory Guillotine” on job creation



Source: PIDE’s calculations based on input-output and forward linkages

Impact of the “Regulatory Guillotine” on economic growth



Source: PIDE’s calculations based on input-output and forward linkages

Fiscal Consolidation is more than chasing taxes

Extremely important to look at the expenditure side and the use of assets

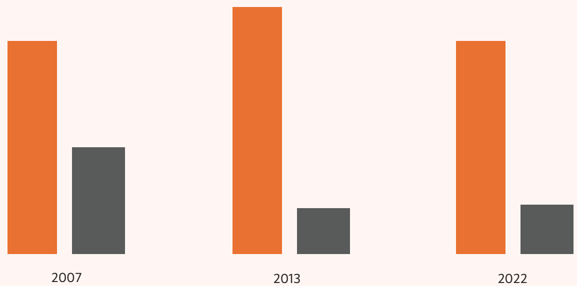
- We have chased taxes for 23 programs unsuccessfully
- Our tax system is cumbersome, distortionary, and volatile creating huge uncertainty in the economy
- Government expenditures and balance sheets are always ignored to our extreme detriment

Documentation is scary and costly:

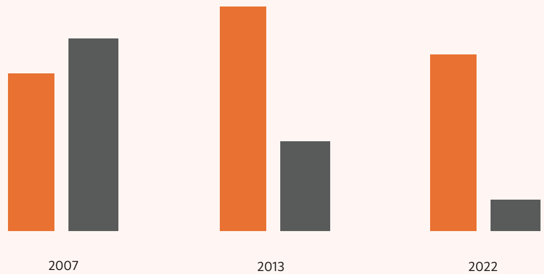
1 - Businesses do not corporatize to escape the burden of documentation and random tax changes

2 - Documentation can be made easy and simple. Taxation should be simple and stable

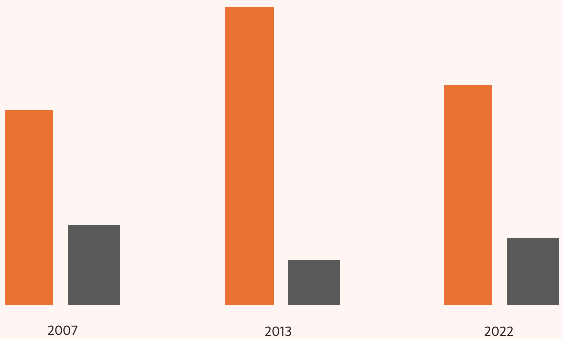
Manufacturing: Percentage of Firms Indentifying Tax Rates as a Major Constraint



Manufacturing: Percentage of Firms Indentifying Tax Administration as a Major Constraint



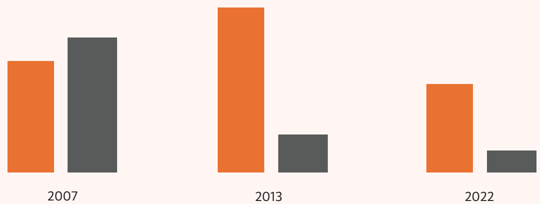
Services: Percentage of Firms Identifying Tax as a Major Constraint



Services: Percentage of Firms Indentifying Tax Administration as a Major Constraint

Source: World Bank Enterprise Survey

Pakistan Bangladesh



Tax simplification and policy certainty

- Urgent priority should be to simplify taxes this budget in a revenue-neutral manner
- Hold stable for 10 years – no new taxes in every budget

- Uncertainty and instability in taxation have:
  - Driven investment underground (PIDE- State of Commerce Report)
  - Stunted firm growth
  - Inhibited corporatization and listing

Tax proposals

- Income tax regime
  - Uniform tax rate across all sources of income
    - Agriculture Income – losses carried forward and adjusted
  - Presumptive tax regime elimination
    - Tax on turnover, Alternative Corporate Tax should be withdrawn
- Uniform taxes on AOP, sole proprietor, and corporations
- Inter-corporate dividend income, selling assets less than a year treated as normal income, 5 years adjusted with inflation and no tax beyond 5 years
- Eliminate withholding taxes and move to Advance Income Tax

Tax proposals

General Sales Tax

- The sales tax system needs to be harmonized/equalized across goods and services.
- Early implementation of POS through outsourcing – 6 months
- VAT mode, with low and same rate for goods and services

Excise Duty

- Excise Duty should be further increased on tobacco and beverages, or any other products declared harmful to health and environment

Simplifying taxes will bring gains

	2024	2025	2026
1. Customs reforms			
Customs revenue (PKR billion)	20.00	25	30
Exports growth (%)	0.01	0.01	0.01
GDP growth (%)	0.03	0.03	0.03
Tax collection (PKR billion)	40.00	50	60.00
2. Domestic tax reforms			
Sales tax (PKR billion)	624.59	687.05	755.7
Income tax (PKR billion)	196.34	215.90	237.5
Federal excise tax (PKR billion)	20.00	22.00	22.00
GDP growth (%)	0.01- 0.02	0.01	0.01
Ease of doing business	✓	✓	✓
Total tax increase (PKR billion)	900.94	1,000.03	1,107.54

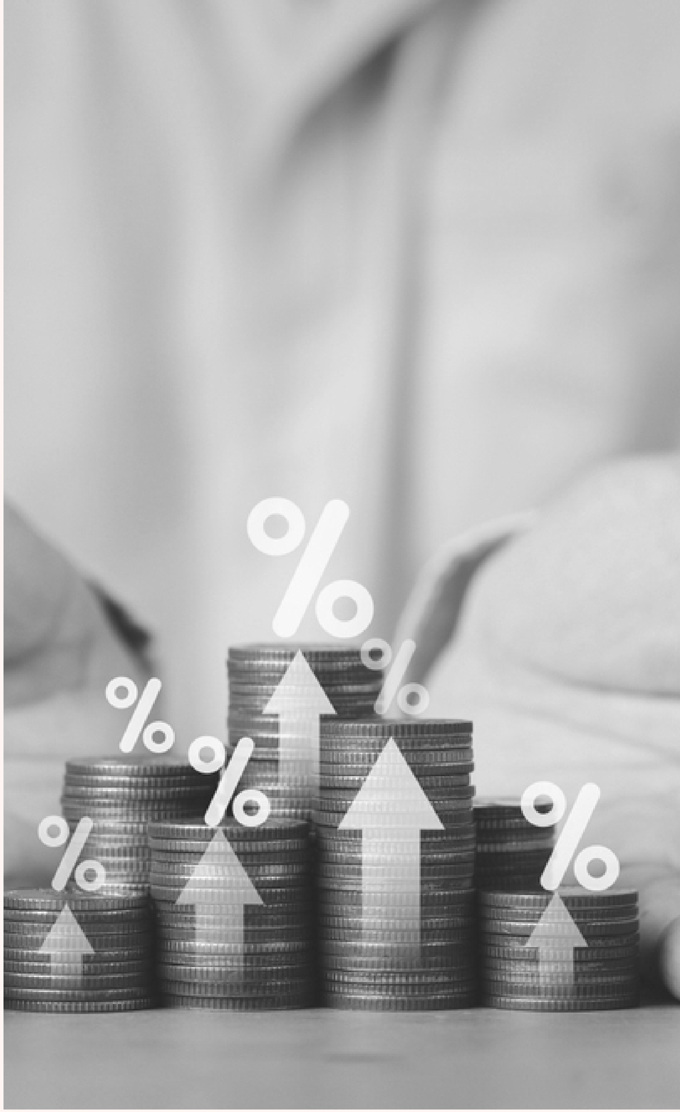
Source: PIDE's calculations

Tax exemptions and administrative reforms

- Stop all kinds of concessionary financing and discrimination between businesses through fiscal incentives
- Tax administration – automated, streamlined minimizing human interaction
- Abolish the “filer” - “non-filers” distinction
- Abolish “FBR Rates” for property valuations

Administrative reforms are a must!

- Tax administration should be automated and streamlined minimizing human interaction
- Let a responsible and accountable tech-savvy group emerge to collect revenue
- Let an independent service well-versed in technology and modern auditing techniques run the place.
- Halt the audit of tax returns for first-time filers for the next five years



Bold decisions are needed in this budget!

- Tax simplification
- Administrative changes, especially digitization
- Documentation through markets means
- Tax policy consistency for 10 years
- FBR to focus on administrative changes and efficiency
- No harassment

IMF program looks only at the income statement

Immense Value lies in poor utilization of assets

Government assets built but not utilized for high returns

- Examples are:

Roads

Convention center

Stadiums

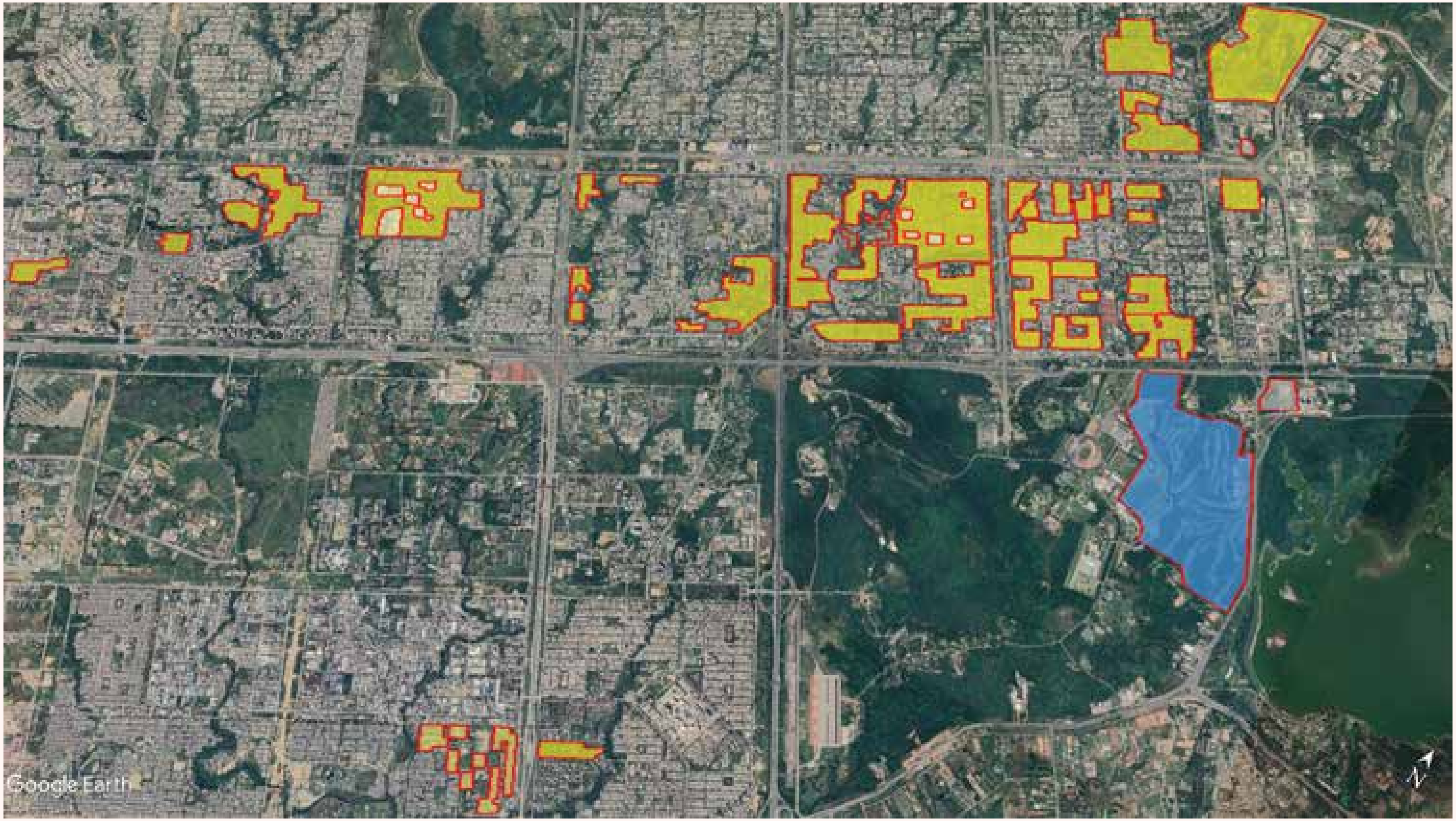
Auditoriums

Real estate

Office space

A major example
State-captured real estate
An underutilized resource

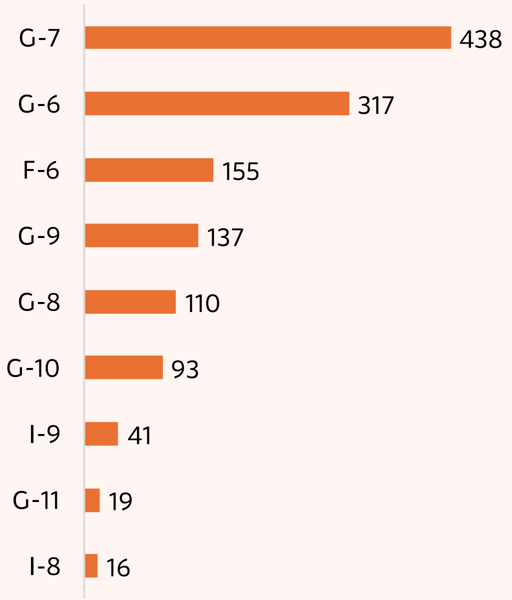
- Most valuable asset that the state has
- Inhibiting city's downtown growth everywhere in Pakistan
- Contributing to sprawl
- Preventing construction, development, and growth
- Huge impediment to investment



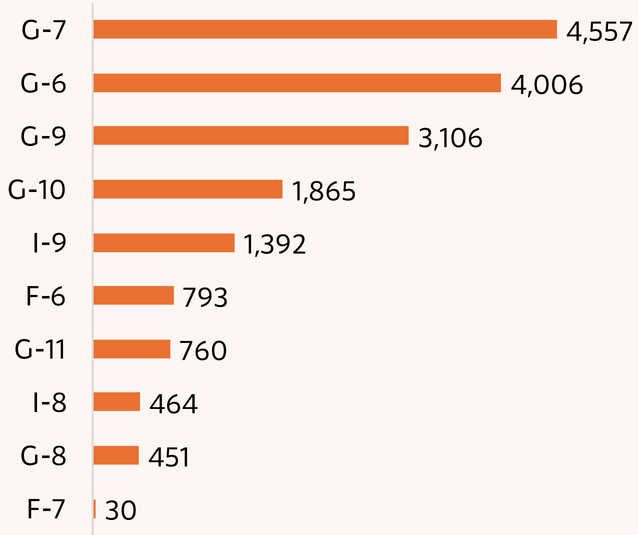
Yellow marks the public sector housing in the most valuable areas of Islamabad
There is much more if we add un-needed office and leisure buildings

17,471 government houses for government employees in Islamabad – occupied 1,325 acres of land

Area occupied by Public Houses (Acres)

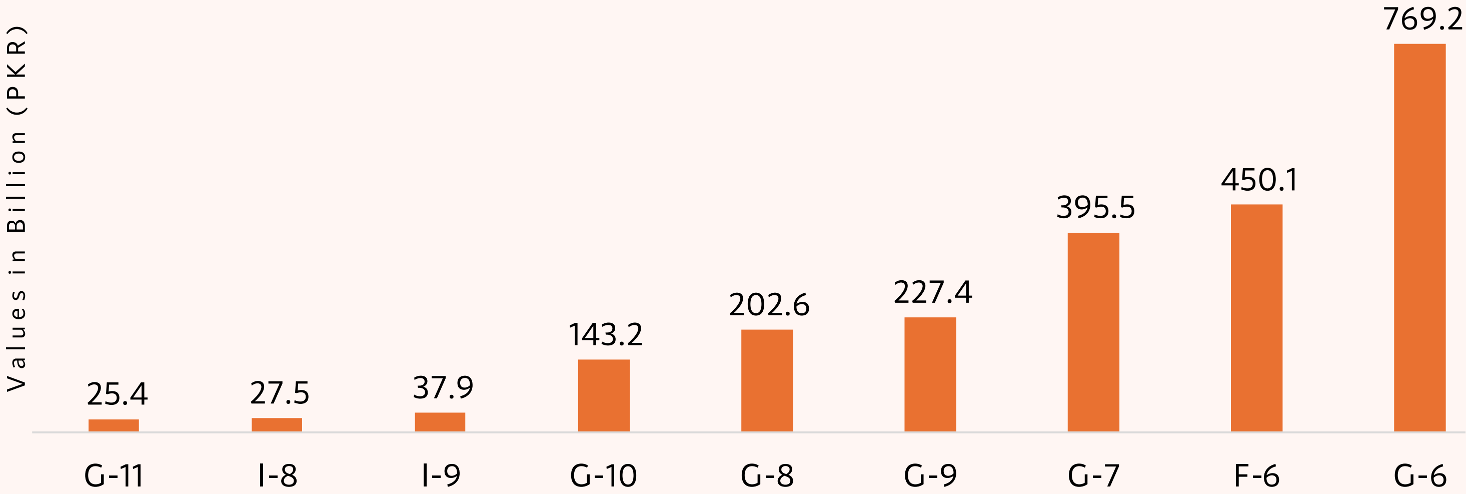


Public Servants Houses Across Sectors (Numbers)



Source: PIDE's calculations

The market value of only the land in its present state, excluding the structure with current zoning and building regulations, is a staggering PKR 2,278.6 billion.



Source: PIDE's calculations

Way Forward: Efficiently utilization of the State-captured real estate

Monetization: Market-based house rent

	Higest	Average	Median	Lowest
BPS	**228.1**	89.6	66.4	30.5
1 & 2	**68,444**	26,889	19,933	9,157
3 to 6	**114,073**	44,815	33,221	15,261
7 to 10	**114,073**	44,815	33,221	15,261
11 to 13	**136,888**	53778	39,866	18,313
14 to 16	**159,703**	62,741	46,510	21,365
17 to 18	**250,961**	98,594	73,087	33,574
19	**296,591**	116,520	86,376	39,678
20	**410,664**	161,335	119,597	54,939
21	**501,923**	197,187	146,174	67,148
22	**570,367**	224,076	166,107	76,304

Source: PIDE's calculations

Annual monetization cost

At Highest Rental Value
Rs. 741 billion

At Median Rental Value
Rs. 135.9 billion

At Average Rental Value
Rs. 222.7 billion

Rezoning and presenting market-based high-rise mixed-use development with proper public and green spaces could:

- Bring in investment of more than USD 58.8 billion (Rs. 16,433 billion)
- Generate more than 351,000 job opportunities
- Will add 44.4 million sq. ft of space to commercial activities along with other spaces
  - Generate rental income of more than Rs. 446.8 billion annually

If this is done right...

- For an annual cost of PKR 741 billion
- USD 59 billion could be invested, with an annual rental value of PKR 447 billion and 350,000 jobs along with 445 million commercial space
- This will generate tax revenue from PKR 160 to 300 billion
- On a public-private partnership the revenue could be much larger
- For this to be done, considerable planning and thought must go into it

Asset register and utilization

- Exercise similar to the state-captured land should be done for all underutilized state-owned assets
- Taxing people to finance underutilized assets should be carefully reviewed
- Need a high-level professional commission to develop an asset register along with mechanisms for asset utilization
- Public-private partnership could play a big role here

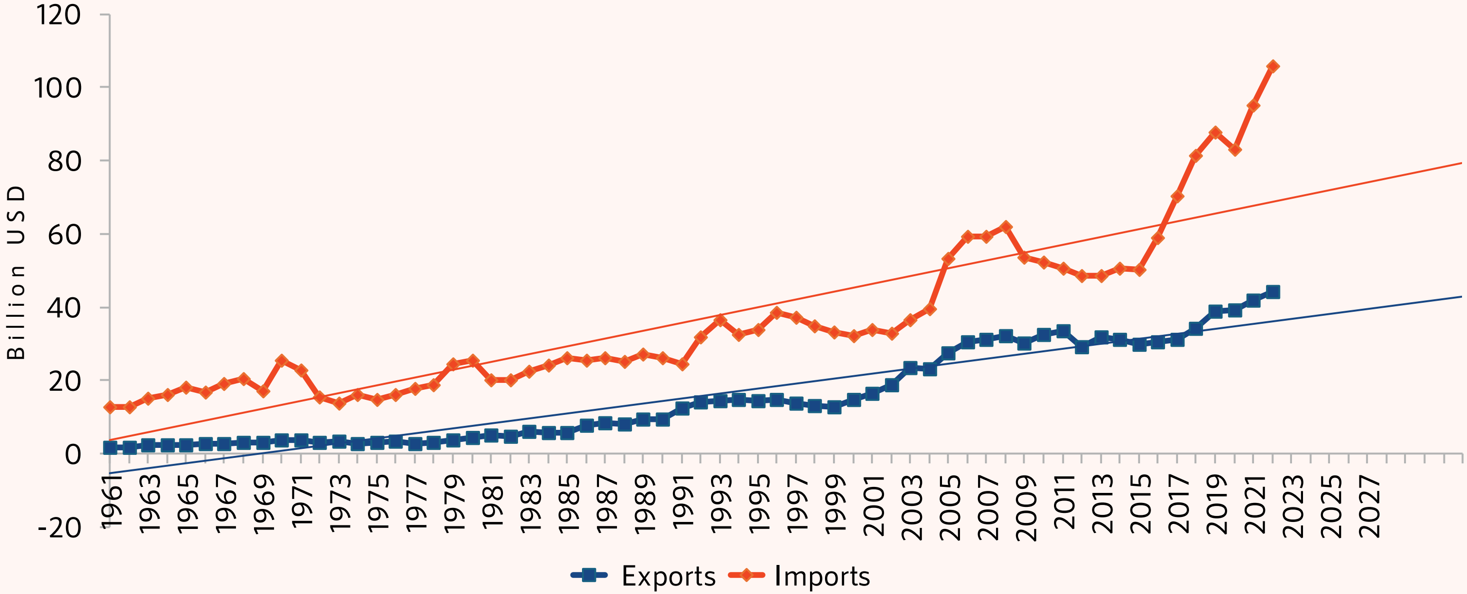
The economy had been opened in the early 2000s We must open it again

- IMF should not accept RDs and ACDs for revenue purposes
- Tariff system must be kept clean and open
- IMF should also not accept an appreciated exchange rate based on tariffs and non-tariff measures

How we closed the economy – for revenue gain

- Regulatory duties
- Additional custom duties
- GST on imports
- Federal excise duties
- Non-tariff barriers
- Exchange rate regulations
- Profit repatriation
- L/C control
- All this amounts to protecting an overvalued exchange rate
- Finally, impacts exports through both exchange rate overvaluation and restrictions on imported inputs

The long-term trend of exports is lagging behind imports: Unsustainable trade balance scenario



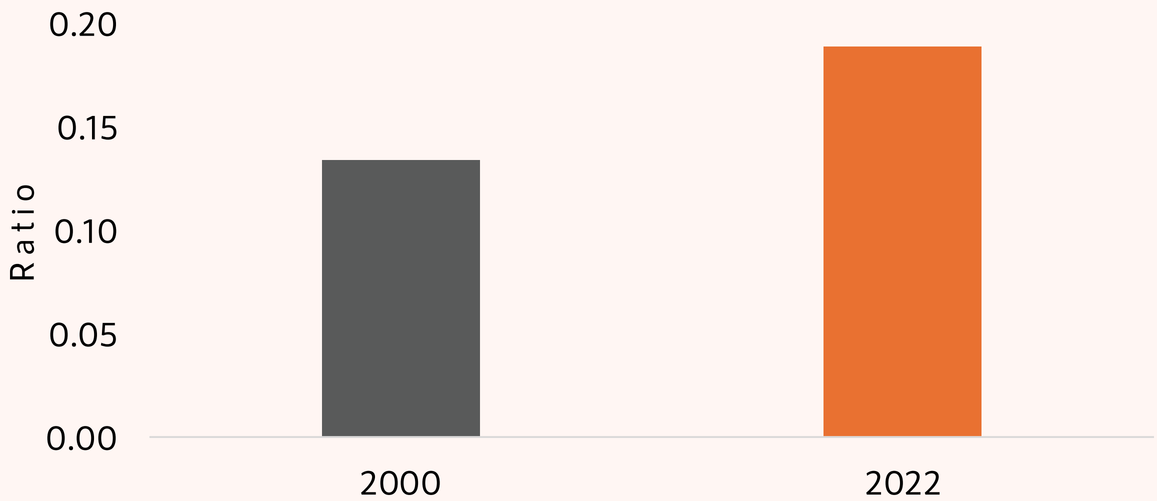
Source: PIDE's calculations

Growth of exports and imports

- Imports and exports are interdependent
- Import substitution has made all KSE-100 firms inward-looking – this MUST CHANGE
- Export must become a national priority
  - Trade policy must be pro-exports instead of anti-export as currently
- All our large firms must become exporters
  - We must have multi-billion dollar firms – not our current stunted firms

Import substitution policy has failed

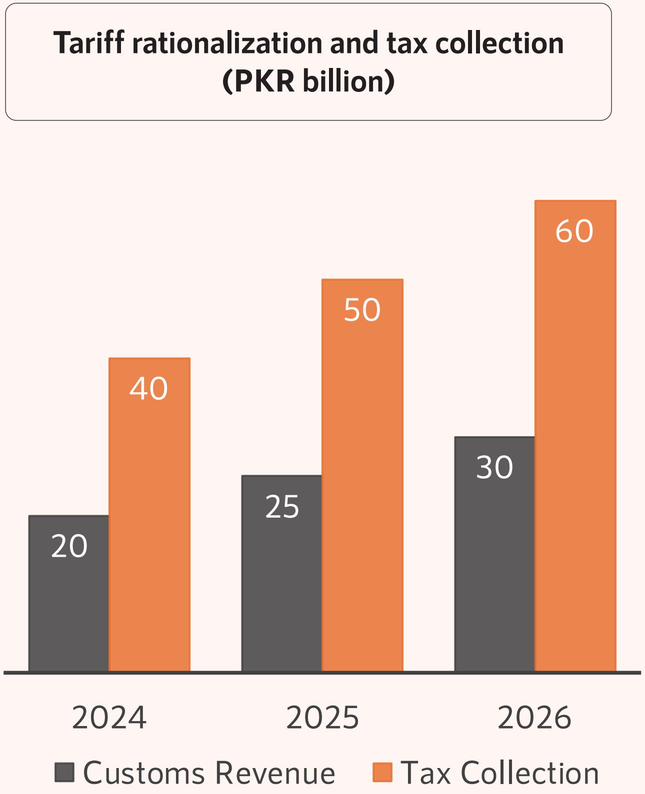
The ratio of Imported Intermediate Inputs to Total Imports



- Import substitution policy followed since independence has proven ineffective
- Localization is a disaster – as all economic experience has always suggested

Source: PIDE's calculations

Tariff rationalization is needed to remove anti-export bias



Source: PIDE's calculations

- Cascading tariff structure creating an anti-export bias

Solution:

- Remove multiple tariff rates on the same item, which incentivizes mis-invoicing
- Remove Additional and Regulatory duties; leads to smuggling
- End import substitution – phase out protection, SROs
  - Phased over three years
  - In the first phase, bring most tariff rates within 5 slabs i.e., 0, 5, 10, 15 and 20

Decisions

- Remove additional custom and regulatory duties
- SROs-based exemption should be removed in three years
- Remove tariff cascading
- Export subsidies must be linked with export performance
- Tax incentives for corporate exporters, e.g., 1– 3% corporate income tax concession for every USD 100 million value of export

Time to become a serious market economy

- Currently, markets are seriously over-regulated, over-bureaucratized, and stunted in Pakistan
  - Most markets lack transparency, information, and often are controlled by bureaucrats
  - Transactions – speedy, informed, and efficient lead to investment and GDP growth

Energy market

- Decades of huge losses
- Decades of attempting to make a market
- Decades of governance failure

- Let’s make it a decentralized competent and professionally regulated and managed market now

Power sector crisis

- Electricity losses are not merely a theft (Kunda) issue
- Lack of management and planning (capacity)
- Over centralized decision making

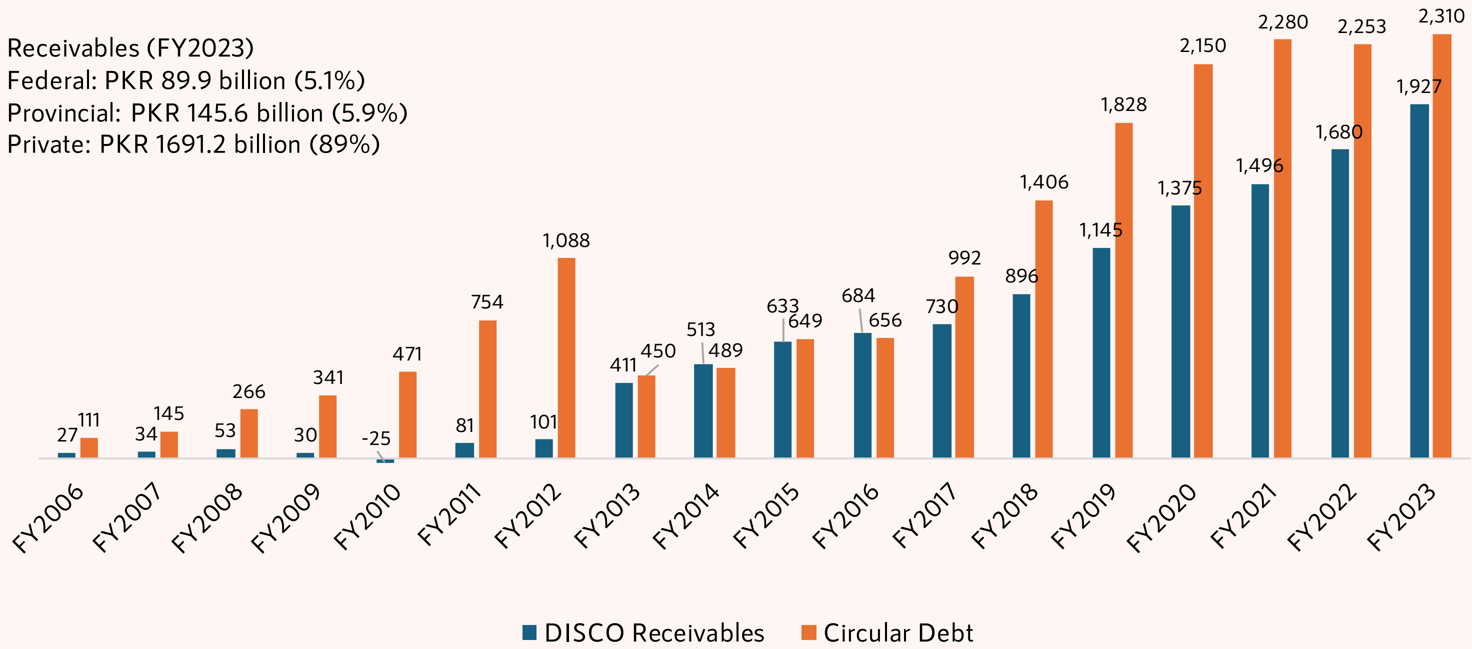
Electricity Circular Debt- structural issue (PKR billion)

	FY2022	FY2023	Q1-2024
Payable to Power Producer	1351	1434	1750
GENCO Payable to Fuel Suppliers	101	111	96
Amount Parker in PHL	800	765	765
Total	2,252	2,310	2,611
Breakups			
Budgeted but Unreleased Subsidies	-12		
Unclaimed Subsidies	-133	70	
Interest Charges (PHL+IPP)	134	143	45
Pending Generation Cost (QTA+FCA)	414	250	110
Non-Payment by KE	107	-53	43
DISCO Losses	133*	160	77*
Under Recoveries	180	236	165
Prior Year Adjustments	-285	-447	-147

* % T&D Losses not accounted for in Tariffs. Total T&D losses include technical losses (Theft roughly 50 to 60%)

Source: PIDE's calculations

Important circularity: tariff increases circular debt, in turn, circular debt leads to tariff increase



Source: PIDE's calculations

Decisions – improved governance

- Independent, empowered Power Commission – comprising only technocrats, under the supervision of Parliament or its assigned Committee* with limited time (3 to 5 years) and a clear agenda to clean up the mess of the power sector
- Independent boards – no political appointments, no bureaucratic interference
- Boards appoint CEOs on merit on performance bonuses
- Decentralization – Principal Accounting Officers must be the CEOs of entities DISCO, etc.
    - DISCOs responsible for administrative and financial matters
    - Clear targets and accountability
- Unbundle DISCOs – horizontally for better administration; and vertically for ensuring retail competition**

*Conflict of interest and merit will be a serious concern

**Strengthen Field Offices, not Head offices

Decisions – commercialization & corporatization

- Compulsory disclosure of all energy companies on the stock market
  - Limit of 5% share for each shareholder
  - Institutional investors (pension funds), not private conglomerates
  - Shareholders must have the right to appoint directors
- Management contracts should be actively considered

Decisions – policy

- Rationalize power entities – too many*, e.g., do we need PPIB, PITC, CPPA, PPMC, etc.
- Independent Regulatory Authority (with explicit legal and regulatory powers) – no political interference
- Complete moratorium on IPPs, new capacity under CTBCM
- Energy transition through net-metering and off-grid solutions
- Revisit – uniform tariff across the country**

*No coordination and in certain cases overlapping functions, impeding progress

**It acts as a disincentive for the DISCO to improve and grow

Decisions – new tariff design

- Revise uniform tariff policy – tariffs based on the actual cost of services for all consumer categories*
  - No slabs – flat linear tariff
  - No tariff-based subsidy or cross-subsidy – direct cash transfer for addressing poverty

*More than 74% of the consumers are charged a tariff below the average national tariff, these are not necessarily poor and lower-middle-income households;

- 25% of people (50 million) don't have access to grid electricity, and the demand for about 90 million is under-met;
- Installation of two to three meters, or illegal practices to remain in lower slabs

Decisions – tariff simplification and reduction

- No cross-subsidy*
- No revenue-based load shedding**
- Better load management planning***
- Electricity bill – not be used as an FBR Agent****

*For FY2023, the average base tariff was PKR 24.82, industry due to cross-subsidy paid PKR 60/ kWh in peak hours With a 1% increase in energy tariffs, investment declined by 0.33% in firms, and total sales revenue went down by 0.51% in firms

**Revenue-based load shedding more than 3000 MW, for FY2023, capacity cost in average base tariff was PKR15.01/kWh

***in FY2023, PKR 46.6bn was paid to power plants for Part Load Adjustment Charges, which increased fuel cost adjustments for end-consumers

****Besides income tax for non-filers, the consumer is paying PKR 9.67/kWh including PKR3.23/kWh financial cost surcharge

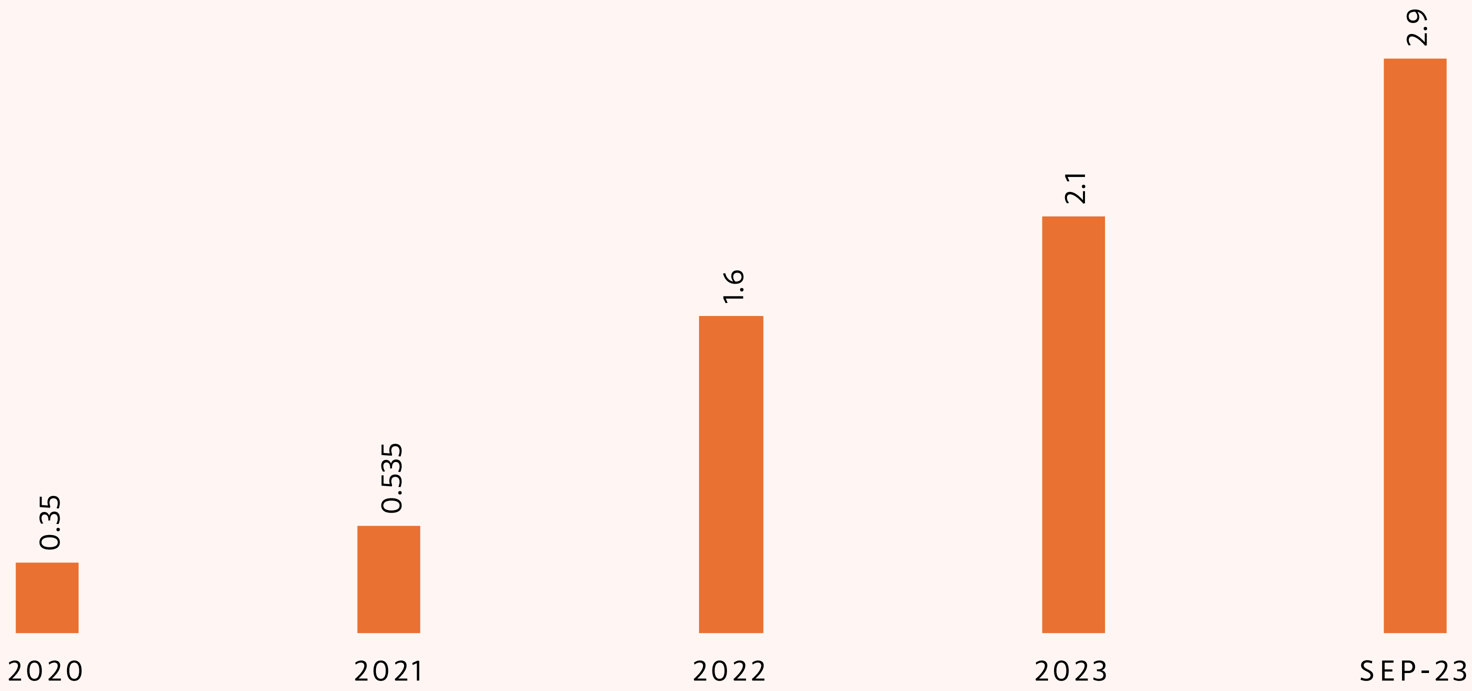
Gas crisis

- Indigenous gas resources going down, T&D assets expanding*
- SSGCL and SNGPL – financial returns linked to T&D assets and not their operational efficiency**
- Gas allocation – political decision
- Gas pricing – not based on cost of service
- Over-regulated, centralized decision-making

*From FY2019 to FY2023, gas production declined by 17% and T&D assets goes up by 11%

** In FY2023, T&D losses in the gas system were equivalent to 41% of LNG imports, translating to about US$1.54 billion

Gas Debt Building up – due to cost price differential and managerial inefficiency (PKR Trillion)



Source: IMF and Petroleum Division

Decision – develop market for gas

- De-regulate gas sector
  - Market-based pricing, no subsidy or cross-subsidy
  - Gas allocation based on economic value addition*
- Single regulator (upstream, midstream, and downstream) with explicit legal and regulatory powers – no political interference

*Gas supply cost to households much higher than the gas supply cost to the power sector or industry

In peak winters, 60% of gas is used for space and water heating and 40% for cooking. Gas-based appliances are highly energy-intensive. The efficiency level of gas-based geysers is less than 30%. Only substituting heating demand can generate 5,042 GWh of power

Decision – restructure gas companies

- Unbundle gas companies – multi-seller distribution model to ensure competition
  - Abolish ROA formula*
  - Adopt a business model

*16.6% return on assets

LNG imports

- Government sole player - no competition
  - Procedural delays in import decisions - PPRA Rules
  - No accurate demand projections
  - Weak global bargaining position
- Two floating storage and regasification units with government guarantees of take-or-pay
- SNGPL and SSGCL pipelines (monopoly) used to transport LNG

Decision – LNG Market

- Allowing third-party access to LNG imports
  - Private sector (including industry) to import directly from the spot market
- Virtual pipeline to increase competition and decrease dependence on gas companies
- Allow entry into LNG transmission market

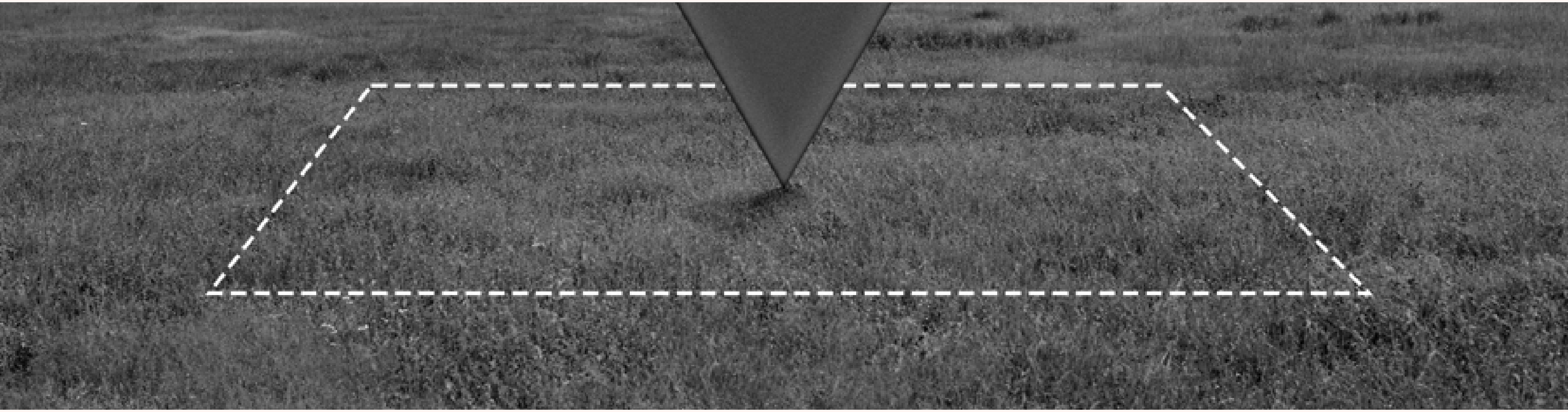
Real estate market: Hyped, inefficiently regulated, limitedinformation, and least transparent

- An easy market to organize
- Huge investment potential
- Can drive growth

Let us define real estate properly

- Real estate is large construction, developing city centers and commercial areas – and not at all mean **"Plotistan or Housing Societies"**

- Urgent paradigm shift required
  - Prioritize deregulation of the city's downtown to facilitate large investments
  - Set city limits with flexible building regulations (especially heights) to stop sprawl



Real estate: Most talked about

- Currently, fragmented market, insider trading (qabza)
- Market organization – big payoff, possible PKR 300 billion revenue gain
- Artificial administered prices – DC rate and FBR valuation
  - Multiple land rates for taxation purposes act as a barrier to allowing the real estate market to develop.
  - Information hiding has been incentivized through regulation
- Real estate agents – wield considerable influence
- File trading has become a predominant transaction due to regulatory negligence
- Zoning rule leading to urban sprawl and further market segmentation

Real estate market

Losing potential revenue and creating black money by fixing the FBR rate and not allowing the market to work

Artificial Administered Price Yields Low Taxes
(Evidence from Rawalpindi)

Potential Revenue	Realized FBR	Tax Gap
PKR 30.76 billion	PKR 18.96 billion	PKR 11.79 billion

FBR valuation is 65% of the Market

Tax Gap from 50 cities PKR 300.5 billion

Source: PIDE's calculations

Decisions:

Establish credible online multiple-listing and an auction market. The state has the preemptive right to buy at 150% of the transaction price

Multiple Online Listing Model

Step 1

Contract Agreement
Buyer & Seller agreed on a price against a propert

Step 2

Contract Listing
Property should be listed in the exchange forum for 7 days

Step 3

Online Bidding
Different potential buyers can bid

Step 4

Contract of Sale Certificate
Managing Authority issue the certificate

Decisions

- Abolish FBR valuation and DC rates
- File trading must be regulated by SECP – file is a security
- Regulation must be separated from the real estate business
  - Organize the real estate brokerage business
- Review and update rental laws
- Zoning must be relaxed substantially for vertical and mixed-use development in all cities

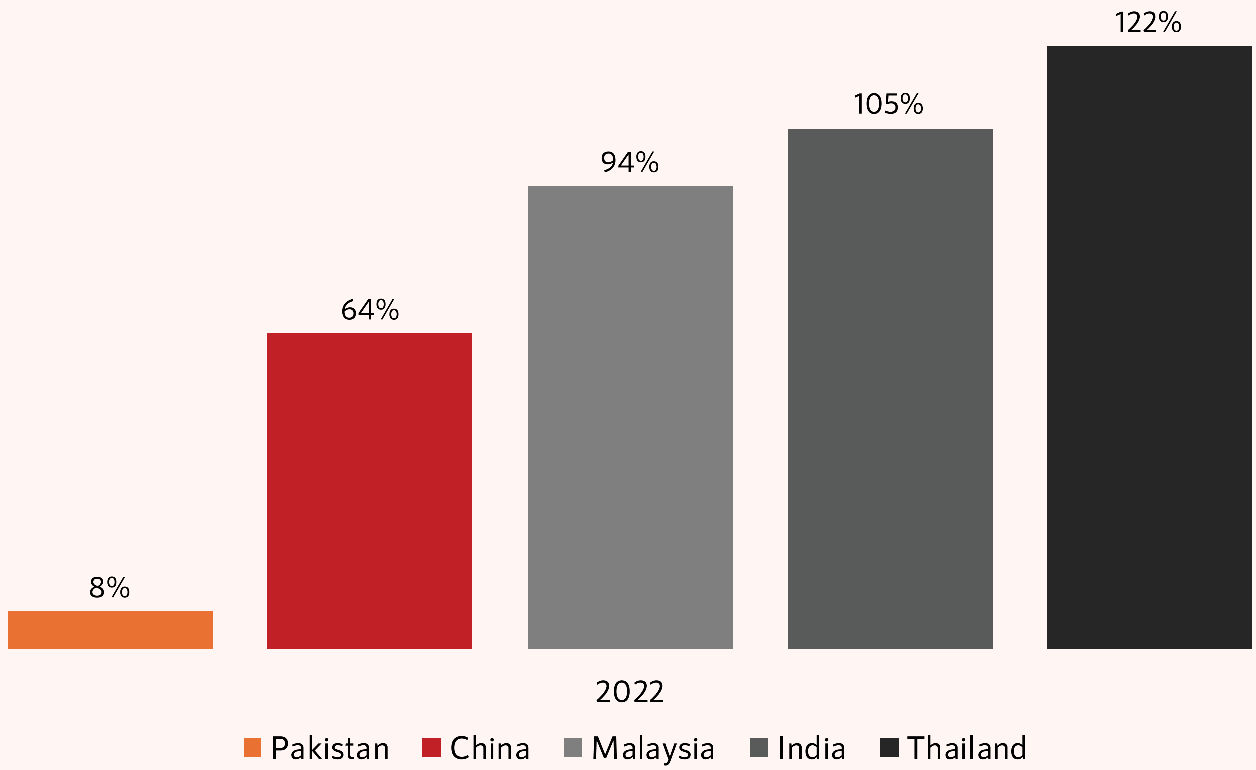
Capitalism requires a shareholder economy

- Increased supply of listed companies will attract local and foreign savings and deemphasize investment in plots

Current state of the stock market

- The stock market shrinking, thin with few IPOs
  - PIDE reported that 31 families (Mehboob ul Haq – 22 in 1967) dominate KSE-100
  - Several government entities form a large part of the KSE-100 at about 12%.
  - The multinational sector and foreign holding companies constitute about 28%.
  - Local companies, even after 60 years of financial market development, remain a small part of the market at about 30%.
  - NIT continues to own 7% of the market with very little oversight

Market Capitalization (% to GDP)



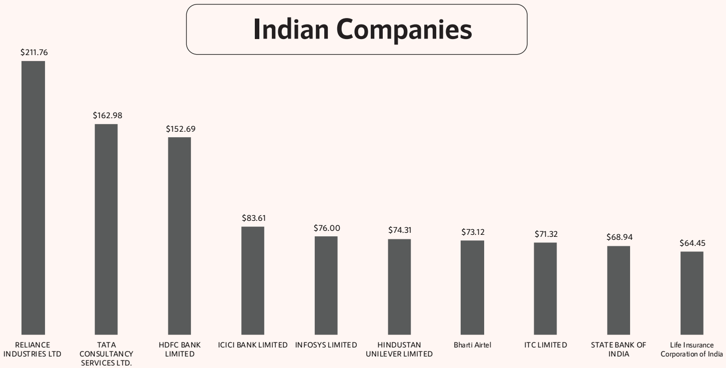
Stunted family-owned firms will not lead to high growth

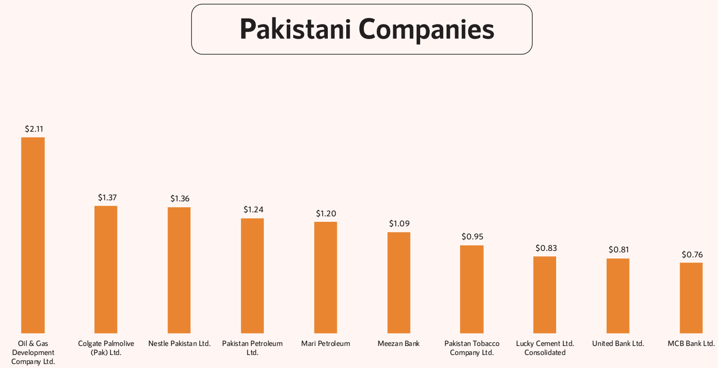
The policy should be to develop large exporting listed corporations

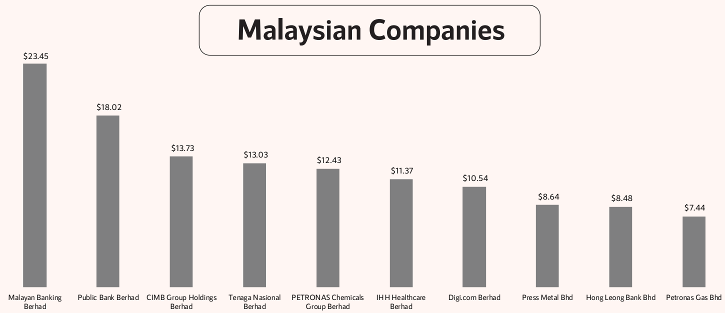
- Our companies are very small as well as inward-looking family-owned businesses that are not listed on the stock exchange
- Current policies need to change if we want **large, exporting, listed, outward-looking, professionally-run corporations** driving the economy

Stunted Firms in Pakistan

(Market Capitalization of top ten listed firms – USD billion)







Source: https://www.value.today/

Corporate governance matters

- Pakistani companies are very small with low growth
- We need large listed and exporting multi-billion dollars corporates
- Majority of corporations in Pakistan are family-owned, small, and not listed
  - Board members are predominantly male
  - Board members are well-connected
  - They are drawn from a fairly narrow group

Snapshot of exporting firms listed at PSX - 2022

Total firms listed at PSX	53	100%
Exporting firms	171	32%
More than 50% export sales to total sales	40	8%
More than USD 10,000 exports	76	44%
Percentage of exports sales of listed firms to total exports	0.02%	
Total exports sales by listed firms at PSX	USD 5,517,621	
Minimum exports	USD 7,960	
Maximum exports	USD 358,133	
Average exports	USD 32,267	

Source: PIDE's calculations

Stock market is important

Global Evidence

1% increase in per capita corporate assets holding — 0.4% increase in per capita income

PIDE's Estimates

1% increase in per capita corporate assets holding — 0.3% increase in per capita income

Source: PIDE's calculations

Decisions

- Incentivize listing: tax incentive of 1– 3% in corporate income tax for each 10% listed on the stock exchange for 5 –10 years
- Soften corporate takeovers: the market to determine the takeover price
- Allow holding companies to operate and develop a market presence
- Avoid double taxation

Decisions

- Privatization: Priority through the stock market
  - Triple benefit – develop market, transparency, and benefit spread
  - Can be done 10% or less at a time to determine market price
- Monopoly – limit individual ownership to 5% or pension funds and mutual funds own 10%
- Privatize NIT

Branding: Where innovation and value addition happen

- Branding happens in well-developed value chains, especially in a well-functioning retail market
- Retail business in Pakistan has been seriously stunted by zoning and over-regulated cities

Brands are a result of market development

Stage	Type	Characteristics	Upstream Infrastructure & Legal Needs
First	Small shops along well-traveled routes	Limited convenience, high margin, low turnover, limited inventory, high search costs, no consumer protection	Small manufacturers
Second	Supermarkets and shopping clusters especially markets of a similar good, e.g., cloth market, diamond market, etc.	Improvements in convenience, margin, turnover, inventory, and search costs over the first phase as more competition develops but still market participants lack the financial strength to truly benefit consumers	Craft and small manufacture
Third	Department stores	Offering convenient one-stop shopping, brand names that invest in quality and consumer protection. Low search costs as departmental store maintains large inventories	Distribution, wholesale, and warehouse activity. Professional management

Stage	Type	Characteristics	Upstream Infrastructure & Legal Needs
Fourth	Chains of stores	Bringing the department store's reliability and consumer benefits close to all consumers. Large turnovers with margins dropping	Growth in distribution, wholesale, and warehouse activity. An open economy supplies this network. Supporting legal framework for long-distance management and contracting
Fifth	Convenience stores and discount stores	Big companies with deep pockets use their buying power and marketing ability to do a high volume, high turnover, low margin business. Consumer welfare enhanced	Supporting financial markets and an open economy that allows a global reach. Warehouse and distribution companies are large partners
Sixth	Shopping malls to house the above activities	Increased convenience makes shopping a pleasant experience	Development of institutional investors who invest in large physical investments such as shopping malls and financial and legal systems that support this form of a specialized multi-contracting business

Decisions

- **Branding** & domestic markets
  - Prioritize flexible zoning rules to allow large showrooms and department store space

- **Value brand** – exports related incentives/ concessions
  - For Every 100 million in branded exports, 1-3% further corporate income tax concession for 10 years

Banking Sector

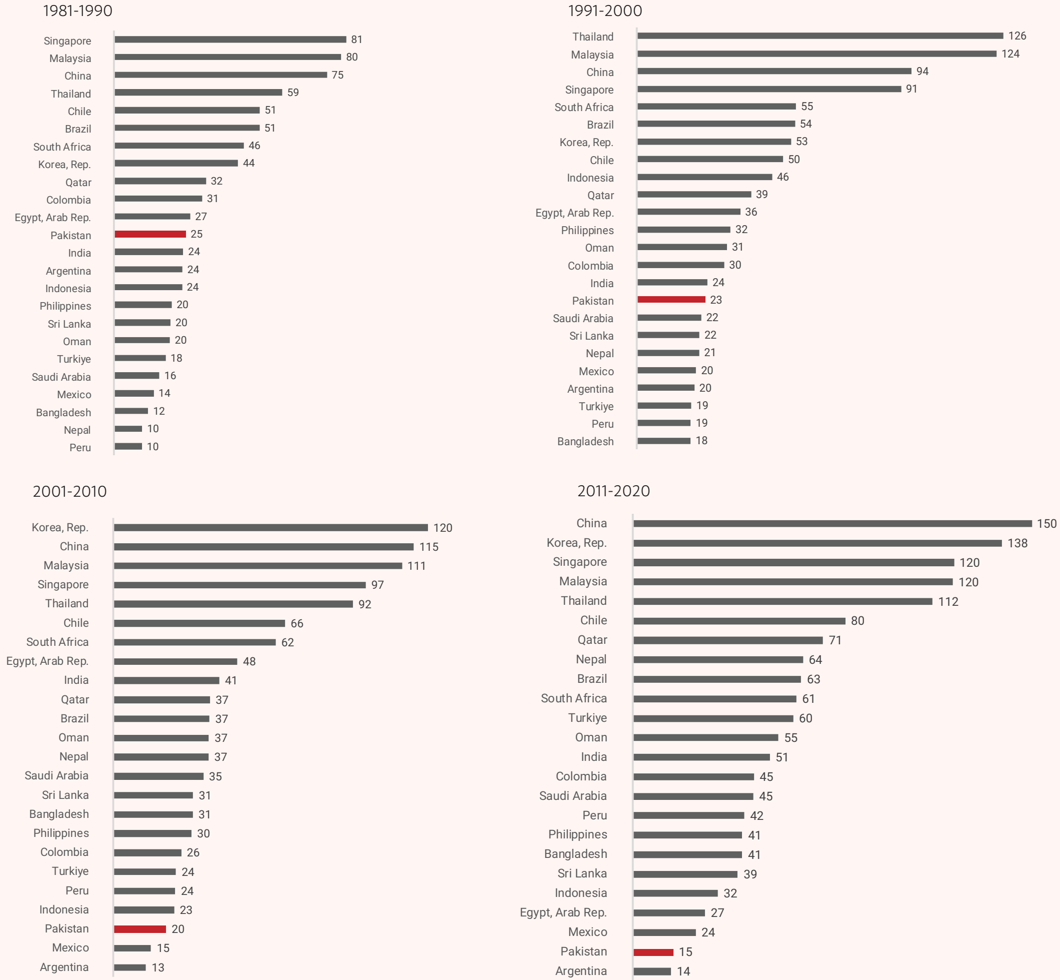
"...banks are the happiest engines that ever were invented for creating economic growth"

Alexander Hamilton (1781)

Fundamental issues

- Limited diversity
- Regulatory hurdles & weak legal infrastructure
- High levels of non-performing loans
- Government borrowing crowding out credit to private sector
- Large informal sector hindering access to formal financing

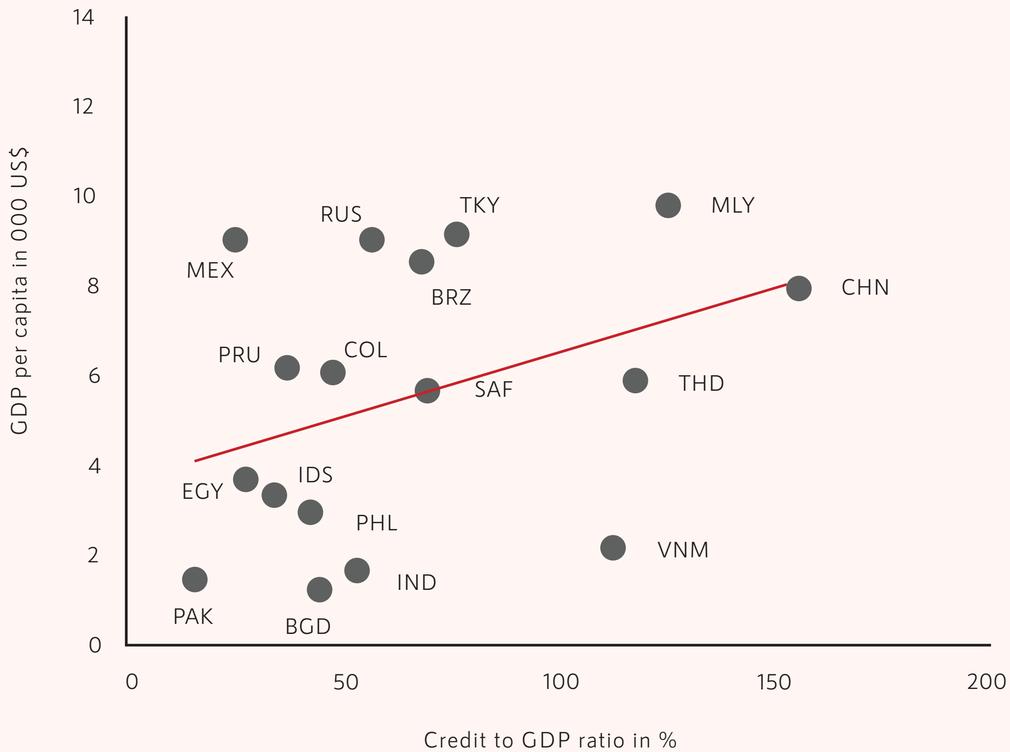
Domestic credit to the private sector has been lowest and growing lower in Pakistan



Source: PIDE's calculations

Finance-Growth nexus

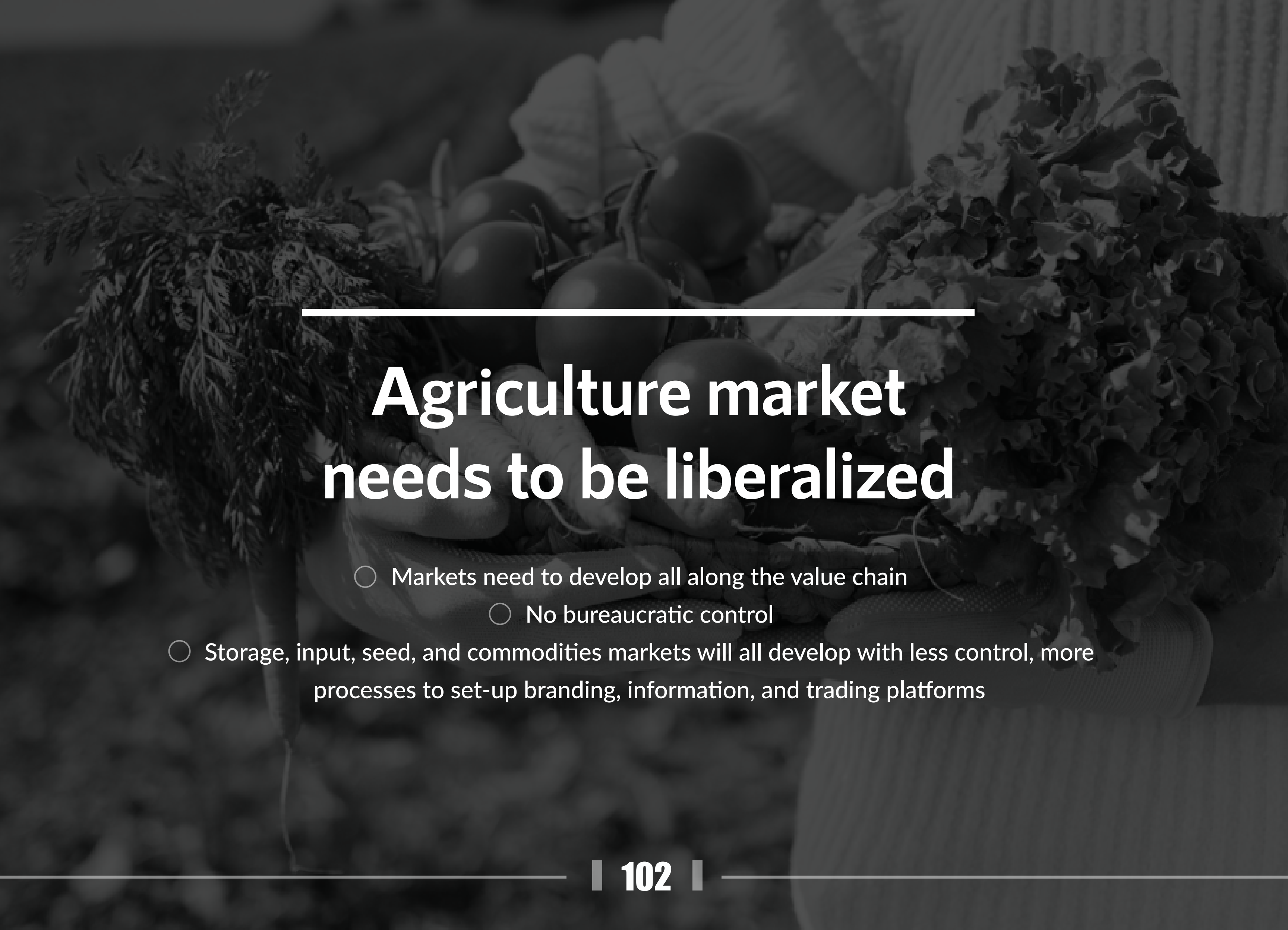
A developed banking sector –robust predictor of contemporaneous and future long-run economic growth



Source: State Bank of Pakistan

Decisions

- Develop nonbank financial entities
- Soften entry into banking
- Allow local, regional, and thrift institutions to develop
- Develop a foreign exchange market
- Expand the network of primary dealers



Agriculture market needs to be liberalized

- Markets need to develop all along the value chain
- No bureaucratic control
- Storage, input, seed, and commodities markets will all develop with less control, more processes to set-up branding, information, and trading platforms

Seed industry

- Bureaucratic and lengthy procedures for the approval of a variety
  - Slows seed business and promotes low-quality seeds
  - Regulations impose unnecessary costs on seed production and sale
  - Mandatory certification (which has no market value) causes disadvantages to consumers because firms transfer seed certification costs to farmers
- The private sector is ready to lead the process, but hesitant to share germplasm for government approval due to a conflict of interest
- The private sector views seed testing at FSC&RD as time-consuming and having no value in the market

Seed industry: cost of regulations

- Currently only 37% of high-quality seeds are available for all crops.
- Inefficiency in the seed market leads to small farmers without high-quality seed.
- The cumulative potential gain – **PKR 1,722 billion** – if high-quality seed is accessible

Commodity operations (Wheat) must be discontinued

- **Phased out in 3 years**
  - Interventions in case of emergencies (to be defined in legislation) requiring parliamentary approval
- **Open up the market (allow import and export)**
  - Cartelization and hoarding is a myth in an open economy
- **Public storage from commodity operation is costly and wasteful**
  - Well known that this has a hidden debt of PKR 1 trillion
  - Sovereign guarantees are given to banks for buying wheat at very high rates

Support price for wheat

- Evidence has shown that the support price mechanism has failed
  - Prices not stabilized nor lower-income consumers helped (only flour mills and retailers' benefit)

- Procurement of wheat has led to low investment and R&D. thus yield stagnated between 28 to 30 mound/acre over the past two decades. Growth remains around 1.7% over 42 years

Wheat: cost of regulations

Total Procurement Cost (money lent from banks)	**= Rs. 645.48 billion**
Cost of Interest on Lending	**= Rs. 88.80 billion**
Cost of Procurement	**= Rs. 46.37 billion (@Rs.7/kg)**
Value of wastage	**= Rs. 64.58 billion**

Total Cost (rental cost of warehouses is not included yet) = 199.75 billion

Institutional expenditure engaged in the process of procuring

PASSCO budget	**= Rs.700 million**
Food Department Budget in Punjab	**= Rs.273 billion**

Circular Debt = 680 Billion in Punjab Only

Decisions

- Discontinue support price
- Abolish commodity operations
- Discontinue seed registration and testing, let the market work based on brands
  - Establish new rules for truth in labeling and setting up seed companies
  - Stop seed-by-seed registration
  - Clear penalties for malfeasance
- Encourage private storage by offering tax incentives for 5 years on certified storage
  - Government should get out of storage business

Our Targets: with proposed interventions could be more ambitious than the IMF

- Official reserves 4 - 5 months of Imports in 3 years
- Financing gap to be reduced to zero in 3 years
- Inflation down to 10% in 18 months
- Fiscal deficit reduction by 4 %age points by the end of 3 years
  - Primary balance decreases steadily to 1%

Decision required and impacts

Reform - 1

	Time Line	Impact: Annual investment growth	Annual employment creation (million)	GDP Growth
Regulatory Guillotine	6 Months	1.60%	2.08	3.9 - 4.3%
New Act for ensuring good regulation	6 Months			

Reform - 2

	Time Line	Revenue Impact (PKR billion): Gain	Loss
Tax simplification and ease of documentation	2 Months	850	-
Remove regulatory duty, remove additional tariff	2 Months	-	300
Remove exemptions	2 Months	600	-
Tariff rationalization [new slabs 0, 5, 10 15, 20]	2 Months	50	-
opening up	2 Months		
		Net increase 1,200	

Reform - 3

	Time Line
RAPID export growth	
Realistic exchange rate policy	2 Months
Profit repatriation	2 Months
No bans on imports	2 Months
Stop import substitution	1 to 3 years
Gradual removal of localization	1 to 3 years
Tax concession on export volume (1% on corporate income tax)	2 Months
Tax concession on branded exports (1% against USD 100 million export)	2 Months

Impact

Outward looking firms

Innovation & technology adoption

Brand promotion

Efficient foreign exchange market

Reform - 4

	Time Line
Real Estate Market	
Abolish DC & FBR valuation rates	2 Months
Multiple listing & auctions	2 Months
Flexible zoning rules	2 Months
Organizing the real estate market	2 Months

Impact

Efficient Real Estate Market

Generate addition revenue PKR 300 billion

Reform - 5

Energy Market	Time Line	Impact
Electricity: Empowered Power Commission [no PAO]	1 Months	T&D loss reduce 50%
Decentralization, PAO DISCO	2 Months	
Unbundle DISCO + DISCO governance + Automatic metering/billing	1 to 3 year	Receivable reduce to PKR 361 billion within 2 years
Tariff redesign	2 Months	
Gas: Third - party access RLNG imports	1 Month	Circular debt will evaporate in 2 years
Market - based allocation policy	1 Month	
Revise ROA formula	2 Months	
Market - based gas pricing (wellhead, consumer end)	2 Months	
Unbundle gas companies	6 Months	
Single regulatory	2 Months	

Reform - 6

Stock Market	Time Line	Impact
Incentivize listing (1-3% concession on corporate income tax)	2 Months	Efficient Stock Market
Privatization should be through Mtock Market	4 Months	Emergence of Large Corporation
Soften take overs	2 Months	Direct impact on growth

Reform - 7

	Time Line	Impact
Banking Sector		
Develop non bank financial entities	1 year	Reduction of informal economy
Soften entry into banking	2 Months	Financial Diversification
Expand the network of primary dealers	4 Months	Direct impact on growth

Reform - 8

	Time Line	Impact
Agriculture Market		
Develop seed brands	4 Months	Potential Gain PKR 1,722 billion
Discontinue commodities operations	1 year	Reduce fiscal cost, reduce circular debt
Eliminate support price	2 Months	Movement towards high value crops

Reform - 9

	Time Line	Impact
State Capital Real Estate		
Monetization at Market Prices	2 Months	Bringin new investment USD 58.8 billion in Islamabad alone Create more than 350,000 new jobs, 445 million sq. ft. commercial space with PKR 447 billion. This will generate tax revenue from PKR 160 to 300 billion

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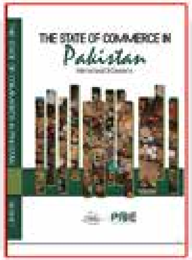


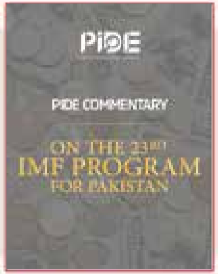

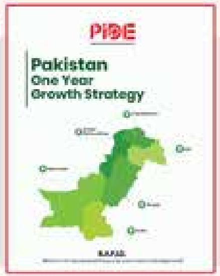

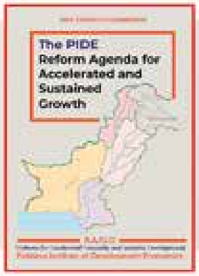

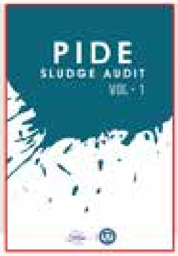

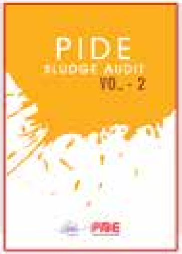

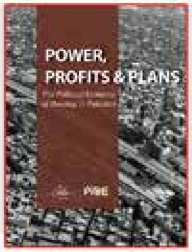

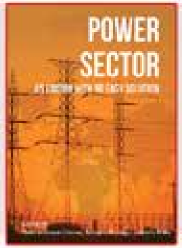

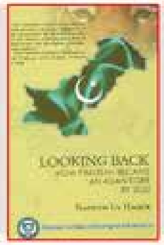

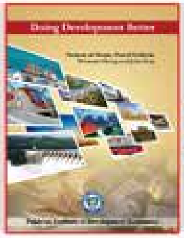

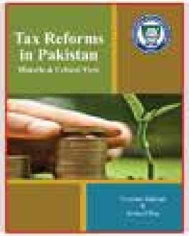

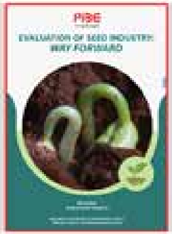

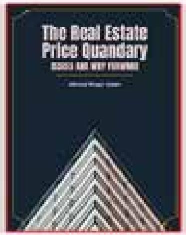

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