

This document, prepared by the MacroPolicyLab at the Pakistan Institute of Development Economics (PIDE), presents a comprehensive set of suggestions and strategies aimed at addressing the fragile fiscal situation of Pakistan and maximizing the effective utilization of scarce fiscal resources. Drawing on extensive research conducted at PIDE, the MacroPolicyLab has analyzed key fiscal issues and formulated data-driven policy recommendations to guide policymakers in formulating an impactful annual budget. This policy brief offers actionable insights to support informed decision-making and foster sustainable economic growth, fiscal stability, and equitable development. By leveraging the expertise of the MacroPolicyLab, this document serves as a valuable resource for policymakers seeking evidence-based solutions to navigate the challenges of fiscal management in Pakistan and shape a resilient and prosperous future for the nation.

1 Reducing the fiscal deficit through expenditure reduction

Policy Recommendation: Cut expenditures and increase revenue to reduce the fiscal deficit. Specifically, the government should consider:

- a. Reducing or rationalizing subsidies in energy, agriculture, and food sectors.
- b. Targeting agricultural subsidies more effectively to ensure they reach the intended beneficiaries.
- c. Reviewing and potentially reducing food subsidies, such as those for wheat, sugar, and edible oil.
- d. Highlighting the inefficiency of the current fertilizer subsidy, which costs approximately Rs 200 billion annually but provides only a nominal benefit to low-income groups.

2 Controlling the wage bill through civil service reforms

Policy Recommendation: Implement civil service reforms to control the wage bill. Actions to consider include:

- a. Reducing perks and allowances offered to civil servants, which also reducing the size of the workforce and the wage bill.
- b. Eliminating redundant positions, such as peons, to reallocate financial resources for potential salary revisions.
- c. Monetizing government housing assets valued at approximately Rs 1.45 trillion to unlock their value and eliminate welfare losses.
- d. Discontinuing the use of official cars by senior civil servants and leasing vehicles but in a pool strictly for official duties.

3

Implementing pension reforms for financial sustainability

Policy Recommendation: Undertake comprehensive pension reforms based on actuarial analysis. Key steps to consider are:

- a. Transitioning to a contributory system to ensure long-term sustainability.
- b. Developing pay-off structures that align with actuarial calculations to manage post-retirement benefits effectively.

4

Strengthening the implementation of the Treasury Single Account (TSA)

Address capacity issues and institutional bottlenecks for effective TSA implementation. Key measures include:

- a. Prioritizing civil service reforms to enhance capacity for comprehensive changes in tax administration and state-owned enterprise (SOE) reforms.
- b. Recognizing that technical assistance alone is insufficient to overcome the challenges posed by outdated systems and poor incentives.

5

Overhauling the withholding tax regime

Policy Recommendation: Rationalize and simplify the withholding tax system by eliminating unnecessary complexities. Actions include:

- a. Eliminating 45 revenue non-spinners out of the 88 withholding tax lines, which contribute less than 1% (11 billion according to PIDE estimates).
- b. Streamlining the withholding tax regime to enhance efficiency and ease of compliance.

6

Enhancing the effectiveness of the Public Sector Development Program (PSDP)

Recommendation: Reframe the PSDP within a growth framework and prioritize resource allocation. Key actions include:

- a. Implementing portfolio cleaning and prioritizing the rehabilitation and upgrade of existing public assets.
- b. Rationalizing development expenditures and canceling unproductive foreign debt.
- c. Exploring options for additional resources, such as privatization, commercialization, and developing indicative eligible projects assets.

- d. Strengthening capacity for project development, monitoring, and evaluation of PSDP projects.
- e. PSDP too hardware focused

7

Reducing government footprint and facilitating economic activity

Policy Recommendation: Rethink the government's role in the market to reduce its footprint and foster economic activity. Key actions include:

- a. Setting up adequate regulations and facilitating economic activity instead of directly engaging as a player through numerous agencies.
- b. Promoting competition and productivity by creating an enabling environment for the private sector.
- c. Closing down duplicate government agencies as highlighted in Ishrat Husain report.

8

Streamlining government agencies and Public Sector Enterprises (PSEs):

Policy Recommendation: Initiate urgent reforms to address the expenditure burden and debt accumulation associated with government agencies and PSEs. Key steps to consider include:

- a. Merging overlapping government agencies to reduce expenditures, improve productivity, and enhance efficiency.
- b. Shutting down unproductive government agencies and PSEs that are not fulfilling their objectives.
- c. Expediting the privatization or corporatization process of PSEs, either through complete or partial privatization or transfer of management through stock market.
- d. Ensuring that government agencies and non-privatized PSEs adopt a corporatized governance structure for better management and financial accountability.

9

Exploring non-tax revenue sources

Policy Recommendation: Generate revenue by utilizing government infrastructure and real estate. Actions to consider are:

- a. Collaborating with the private sector to utilize existing government assets and generate economic activity.
- b. Implementing mechanisms to generate revenue from dead capital, including infrastructure and real estate.

Policy Recommendation: Address excessive regulatory bottlenecks to reduce the cost of doing business. Actions include:

- a. Eliminating unnecessary NOC regimes and transitioning towards a more rule-based permission mechanism.
- b. Streamlining regulations to improve the ease of doing business and promote economic growth.

Policy Recommendation: Reconsider trade barriers and prioritize export performance. Key measures to consider are:

- a. Moving towards a long-term trade policy that promotes openness and reduces import bans.
- b. Addressing the export-import gap through targeted policies and incentives for export growth.
- c. Recognizing that Pakistan's per capita imports remain low compared to regional and similar countries, and focusing on improving export competitiveness.

These policy recommendations are crucial for optimizing fiscal resource allocation in Pakistan and should be considered in the upcoming annual budget to achieve sustainable economic growth and fiscal stability.

Drawing on their research conducted at PIDE, the MacroPolicyLab can provide valuable insights on the feasibility, sequencing, and potential impacts of these reforms. They can assist in designing comprehensive action plans, monitoring frameworks, and performance indicators to ensure the smooth implementation and evaluation of the proposed policies. Through their expertise in data analysis, economic modeling, and policy evaluation, the MacroPolicyLab can contribute to evidence-based decision-making and help the government navigate potential challenges and trade-offs.

Moreover, the MacroPolicyLab can offer technical assistance, capacity-building programs, and policy dialogues to support the government's efforts in executing these reforms effectively. By working closely with policymakers, relevant government departments, and other stakeholders, the lab can facilitate knowledge sharing, policy coordination, and stakeholder engagement to maximize the impact of these recommended measures.

The collaborative efforts between the government and the MacroPolicyLab can yield tangible results in optimizing fiscal resource allocation and promoting sustainable economic development in Pakistan. By leveraging the lab's expertise and research capabilities, the government can benefit from innovative policy solutions, implementation strategies, and ongoing support to ensure the successful execution of these policy recommendations.