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Money Matters
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Turnaround in 2020

After a decade of stagnant exports, 2020 will be the year where we see a revival of the export industry. Since coming into government in August 2018, our top priority has been to make local exports more competitive in the international markets and boost foreign currency income. Towards this goal, the government has realigned the exchange rate to remove the anti-export bias and provided subsidy to the industry to make it more competitive in the international markets.

This includes subsidy on gas and power. Similarly, the export industry has been provided subsidy on bank credit. On top of subsidies, the government is also working on enhancing market access for exports. The recently signed FTA II with China gives additional duty-free access for local exporters. These measures will help break the $26 billion barrier for exports in 2020. This will be a new record for Pakistan and will provide significant boost to the growth momentum for the economy.

Exports of services are another area of focus for the government and boost in tourism, including opening of the Kartarpur corridor is expected to boost foreign income receipts.

Fiscal year 2019/20 saw record high remittances as a result of greater confidence of the overseas Pakistanis and incentives to banks to bring flows through banking channels. This was the first time that remittances crossed the $20 billion barrier. We are targeting remittances to continue to accelerate in 2020.

In the year 2020, we will see the return of foreign investment in Pakistan. After four years for net outflows, foreign portfolio investments into the local debt and equity markets have picked up sharply. This is positive for the capital markets and will support higher FDI inflows in 2020.

CPEC phase II will give additional stimulus

In 2020 the benefits of CPEC will start to trickle into the productive sectors of the economy including industry and agriculture. The first phase of CPEC (early harvest projects) addressed key infrastructure gaps in the economy with focus on energy and transport bottlenecks.

The big projects under CPEC targeted to be completed in 2020 include the trade and transport connectivity projects of KKH Phase-II Havelian-Thakot (118km) road and the Sukkur-Multan (392km) highway. These projects will significantly reduce the transit time and encourage greater trade of goods and services. Whereas Rs40 billion in Chinese grants is being invested in Gwadar for upgrading the airport and roads infrastructure.

The big project targeted to be launched in 2020 is the up gradation of the Railways Main Line (ML-1), a $9 billion project which will significantly enhance the railway infrastructure for trade in goods and services.

Phase II of CPEC will build on the success of the early harvest projects and in 2020 resources will be focused towards generating greater economic activity and job creation.

CPEC Phase II focuses on industrialisation, socioeconomic development, agriculture modernisation, and tourism promotion. Central to Phase II is the development of three special SEZs on a priority basis namely Rashakai (Nowshera), Allama Iqbal (Faisalabad) and Dhabeji (Thatta).

The SEZs will help to attract large FDI into Pakistan and help to reverse the tide of de-industrialisation over the last 10 years. The government has announced incentives including tax holidays to attract business to make investments in Pakistan through joint ventures with local industry.

Growth recovery and job creation

Greater investor confidence and pick up in exports and remittances will support recovery in growth in 2020. Macroeconomic stability has been achieved with the CAD and fiscal deficits both showing significant improvements. These improvements have led to Moody's international rating agency upgrading Pakistan's outlook to ‘positive’.

Growth recovery and job creation will be supported by higher government PSDP spending in 2020. Key investments in CPEC related projects including SEZs and infrastructure are being fast tracked.

PSDP spending is now focused towards key investments to bridge gaps in public infrastructure with a focus on new water storage facilities including three major dams, transport connectivity (roads, railways and mass transit) and up gradation of the weak power transmission and distribution infrastructure, a major contributor towards high costs and losses in the power sector.

On top of the budgeted PSDP spending, the government has finalised strategy to attract higher private sector investments into infrastructure projects through Public Private Partnerships (PPP). This will provide an additional stimulus for economic growth and create job opportunities for the youth.

Revival of the agriculture sector is a key priority for the PTI government. Growth in major crops over the last five years has been negative 0.2 percent, reflecting low investment and productivity.

In 2020, the National Agriculture Emergency Programme will support Rs287 billion in new investments in the agriculture sector through 13 targeted projects aimed at enhancing productivity, oil seed development, water conservation and fish farming. These investments will support higher growth in 2020.

Government has also provided incentives to banks to increase credit availability to farmers, and as a result during first months of FY20 agriculture credit off-take has increased 24 percent year-on-year.

Growth in 2020 will also be supported by a pickup in construction sector. The government has approved incentives for low-cost housing sector, which include subsidy on down payment by beneficiaries of affordable housing. On top of this, tax credits will be given to developers of low-cost housing schemes.

The Rs100 billion PM Kamyab Jawan program has been launched to create new job opportunities for the youth.

The Youth Entrepreneurship Scheme (YES) aims to provide interest free and concessional loans to young entrepreneurs to scale up business and create new employment opportunities. The Start Up Pakistan initiative aims to provide entrepreneurship training to over one million youth and launch 10,000 start-ups. These initiatives under the PM Kamyab Jawan program will provide significant opportunities for job creation in 2020.

Inflation has peaked and will decline in 2020

Inflation is the biggest challenge facing the economy in 2019. CPI inflation accelerated to 10.8 percent during July-November FY20 compared to 6.1 percent in the same period last year. Rise in inflation is a direct consequence of the economic challenges inherited by the PTI government. This includes large twin deficits and record high circular debt.

When PTI government took office, current account deficit had hit record levels of $20 billion, with dwindling foreign exchange reserves and large external debt payments looming ahead. To avoid a default on debt obligations the government had no option but to realign the exchange rate. Between August 2018 to December 2019, the currency devalued by 25 percent (from 124 to 154). This has been a major contributor to rising inflation.

Similarly, the government inherited a power sector on the verge of a default. The power sector circular debt had ballooned to Rs1.2 trillion, whereas the circular debt in the gas companies had reached Rs160 billion by June 2018. This forced the government to adjust tariffs towards greater cost recovery, further adding to inflationary pressures.

Through significant reduction in the twin deficits, we are targeting to reduce inflation in 2020. Greater stability in the exchange rate, zero borrowing from SBP and tighter monetary policy are all measures geared towards bringing down the burden of inflation. On top of these policy measures the government has also increased subsidies to shield consumers from rising power and gas costs. Similarly, government has allocated higher subsidies at utility stores and 'roti tandoors' for citizens.

Moving towards a welfare state

PTI government strongly believes in making Pakistan a welfare state and in the FY20 Budget the government substantially increased pro-poor spending under the Prime Ministers Ehsas program. Budget allocation for the PM Ehsas program has increased significantly to Rs190 billion in FY20. This includes unconditional cash transfer program (BISP) of Rs5,500 per quarter to 5.1 million beneficiaries. Under the Waseela-e-Taleem program, 3.2 million children in 50 districts are receiving conditional cash transfer of Rs1,000/quarter to reduce drop-out ratio. PM has recently launched 200,000 Ehsaas undergraduate scholarships program for the unprivileged children.

Similarly, government has made a record allocation of Rs152 billion for merged districts of FATA for 10 million of the most marginalised and vulnerable households. While health coverage under the Sehat Sahulat Program worth Rs720,000 per year per family has been extended to 42 districts impacting 3.2 million households.

More budgetary resources have also been allocated to shield the most vulnerable households from rising cost of living. Higher subsidies on power and gas are provided to the poorest households.

In 2020 the government will significantly scale up the PM Ehsas program and allocate a higher share of budgetary resources towards the poorest and most marginalised households across Pakistan. This will be a step towards realisation of our dream to make Pakistan a welfare state.

The writer is the Minister of Planning, Development and Special Initiatives