

SPECIAL REPORT: New year in Naya Pakistan

Prime Minister Imran Khan's government plans to begin the New Year with the launch of a 'diaspora bond', followed by an investment plan. It aims to facilitate the flow of remittances through official channels but will not sign an agreement with the International Monetary Fund (IMF) until its conditions allow a soft landing for the country and the people.

In a detailed interview with Dawn Business and Finance, the prime minister promised a series of initiatives during 2019 to trigger economic activity in housing, Small and Medium Enterprises (SMEs), entrepreneurship, ease of doing business and overall improvement in investor confidence.

Q. Calendar year 2018 was tough for the economy. The growth rate moderated, twin deficits rose, reserves depleted, the rupee lost value by around 25 per cent, inflation hiked and the capital market stayed in negative territory for the better part of the year. Democracy stabilised with the third consecutive transfer of power but the cost of the political transition proved to be high. How can the problem be addressed?

A. The previous government acted with extreme recklessness in managing the economy during its last year in government. It tried to create an artificial bubble in the economy in order to give a false impression of growth and prosperity during the election year.

Rs1.2 trillion of public debt was monetised, there was a build-up of Rs400 billion of circular debt in the power sector within one year alone, government spending was doled out on infrastructure projects without any consideration for the revenue available to finance them. This led to a huge fiscal and current account deficit, depletion of our foreign exchange reserves and brought the economy to a near collapse.

In order to rectify the situation, we firstly need to control our current account deficits by prioritising those sectors in the economy that build our foreign reserves, like exports and remittances, through the formal channel. Imports of non-essential goods need to be cut.

We are already seeing a narrowing of the current account deficit and a rise in exports. On the fiscal side, we need to urgently cutback on unnecessary expenditures to contain the fiscal deficit and fix our tax collecting system.

Q. Despite perceived tough conditions the market is waiting for the IMF deal. When do see it taking effect?

A. We have been in touch with the IMF since our government took over. But the IMF's conditionalities are a serious concern for us. Therefore, we explored alternative financing options and have been quite successful in that regard. \$2bn has been received from the Kingdom of Saudi Arabia. Their \$3bn oil facility will also be starting from the start of next year. Another \$3bn will be provided by the UAE. Therefore, our external financing requirements for the remaining part of the financial year have been addressed.

We will stay engaged with the IMF but will only sign the programme if and when we feel that its conditionalities do not harm our economy and put an undue burden on the people of Pakistan.

Q. The market dreads blacklisting. How confident are you that issues raised by the Financial Action Task Force (FATF) have been managed to the satisfaction of the financial monitoring agency to avoid penalisation?

A. We are treating the issue as a top priority and all the concerned ministries and divisions are moving swiftly to address all aspects that were flagged by the FATF in its last review. Provinces have been taken on-board as well to address the areas that fall under their domain.

We are closely reviewing progress and have made significant headway; not just in words but in policy actions as well since we feel it is first and foremost in Pakistan's own interests to curb terrorism financing and its avenues.

Q. How do you intend to improve revenue collection, boost exports and create jobs in the phase of economic stabilisation?

A. Pakistan's revenue potential is much greater than the current levels. The Federal Board of Revenue (FBR) is being reformed and we are deploying 'out of the box' ideas to net the informal economy. We have already seen a rise of 30pc in annual income tax returns.

However, our priority is to devise tax policies that are progressive and also do not add to the cost and ease of doing business. So we will focus on broadening and shifting the burden of taxation on the items that are consumed by the upper-income groups rather than squeezing the middle-class or the poor.

Exports are a priority for us. We have already reduced their energy costs and are addressing their long stuck refunds with the FBR. Reducing taxes on their inputs is also on the agenda and we believe that if we provide our exporters with a level playing field with regard to their regional competitors, then our export sector will start showing strong growth.

We need dynamism and expansion in the private sector to absorb and create jobs. We are working on removing the obstacles that have always stifled entrepreneurship in the country and creating a favourable investment climate. We are already seeing foreign investors showing a tremendous interest in our market.

Our local businesses are also eager to invest and expand and we are actively communicating with them to put in place the right incentives for them.

SMEs should have been a vital part of our economy but have long been ignored, so we are framing policies to promote and finance SMEs. All of this would lead to wealth and job creation.

Our flagship housing project will also be a huge engine of job creation and economic growth given its direct and indirect linkages with more than 100 industries.

Q. How much are you ready to bend to accommodate the business community that control resources the country needs to perk investment?

A. The business community is not demanding anything that can be considered unreasonable. They want an atmosphere where they are not harassed by government agencies and wish to see the right tax policies in place. The job of the government is to create an enabling environment.

Unfortunately the opposite has been taking place in the past where government policies and departments have made life difficult for investors.

Subsidies were incorrectly directed towards certain business groups that thrived at the expense of genuine entrepreneurship. We are ending this culture of crony capitalism and reforming our financial institutions.

Q. CPEC lost steam in 2018. Are you hopeful that the implementation will pick-up pace in the year ahead?

A. No budgetary allocation for any CPEC project has been altered. We are more engaged with China today than we ever were in the past. We will build on this relationship and enhance cooperation so there is no chance of delay in any implementation. Moving on from infrastructure, the next phase of CPEC is trade and industry. This will help create jobs and aid in technology and skills transfer for our businesses and people.

Q. PTI supporters expect drastic changes in the economic policy framework. Can you please list some steps the ruling party is contemplating?

A. The Pakistani people are acutely aware of the dire crises in which the previous government left the economy. So the first step was to rescue the economy, reduce the current account deficit that had soared to \$19bn and fill the financing gap. We have made good progress on all these counts.

Our economic policy will be driven by domestic resource generation and export, an investment and productivity growth model and not on imported debt capital and consumption fuelled growth.

We will restore the focus on agriculture and SMEs as they are the most relevant yet most ignored sectors of our economy. We will not shy away from taking bold steps to enhance ease of doing business in the country and in promoting wealth creation.

For example, we have already separated the policy wing from the FBR so that tax policies are not used purely for revenue generation. The people will also notice that government policy will no longer be used for personal gains or crony capitalism.

Q. Do you intend to reverse the trend of financial devolution that has increased the share of provinces at the cost of the federal government?

A. Devolution is actually a great concept provided it is accompanied with great responsibility. We will work with the provinces to harmonise policies, build capacity and encourage and incentivise them to take fiscal responsibility for balancing their budgets.

Q. The goodwill for the ruling party amongst overseas Pakistanis could not be capitalised in the initial phase. Is there a plan to facilitate their greater engagement in building 'Naya Pakistan'?

A. Overseas Pakistani's have always been supportive of change in Pakistan. We will use their ideas and expertise and invite them to invest and create enterprises in Pakistan. Already we have seen a huge rise in remittances since our government took over. We will also be launching a 'diaspora bond' for the overseas people this month and are creating an attractive investment package for them.

Q. Should people expect better social service delivery and equal economic opportunities under your rule?

A. The Riasat of Madina was a welfare state. That is the ideal we strive for. Everything we do, all our struggles, have always been and will always be for this purpose.

We have already launched the Rs18bn Poverty Graduation Programme that seeks to transfer assets other than cash to the poor. Similarly, an extension in the 'Sehat Ka Insaaf' card into other provinces has been initiated. Shelter homes have been set-up across the country and many other programmes that aim to directly address social service and empowerment of the poor have already been launched.

Q. Reportedly renewal of work visas is becoming difficult in Saudi Arabia and most GCC countries. What strategies have been developed to accommodate them with respect to jobs?

A. Our foreign office is in touch with all countries where Pakistani's are employed. Each country has its own economic and political conditions and priorities that we cannot dictate but our embassies have been directed to extend all support to our citizens and their visa issues.

Q. In terms of dollars (sent illegally abroad), how much has your government brought back from abroad so far? What amount do you expect to bring back by the end of this fiscal year?

A. We have collected a huge amount of data within the first 100 days of this government in terms of bank account details and information on properties held by Pakistani's in dozens of countries worldwide. We will shortly initiate investigations and prosecutions based on this data as per law.

An Assets Recovery Unit has been created and is directly reporting to the prime minister and a special cell in the FBR has been created.

Khaleeq Kiani