YOUTH
PARLIAMENT
PAKISTAN

7th YOUTH PARLIAMENT PAKISTAN

Youth Standing Committee on Finance

Report: Pakistan's Extended Fund Facility (EFF) Plan with IMF; Short-term and Long-term Economic Impact on Pakistan

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Pakistan Institute of Legislative Development And Transparency
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PILDAT is an independent, non-partisan and not-for-profit indigenous research and training institution with the mission to strengthen democracy and democratic institutions in Pakistan. It also serves as Secretariat, Youth Parliament Pakistan.

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Secretariat, Youth Parliament Pakistan
Islamabad Office: P. O. Box 278, F-8, Postal Code: 44220, Islamabad, Pakistan
Lahore Office: P. O. Box 11098, L.C.C.H.S, Postal Code: 54792, Lahore, Pakistan
E-mail: info@youthparliament.pk | Website: www.youthparliament.pk

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PREFACE

After the successful completion of 6 terms since 2007, the 7th Youth Parliament Pakistan was launched in July 2015.

The specific objectives of the Youth Parliament Pakistan (YPP) programme are to inculcate democratic culture and spirit of tolerance for others views among the youth; to expose them to the political and Parliamentary processes; to facilitate youth to express their views on various national, international, regional and local issues thereby helping the government and society at large to better understand the concerns of the youth; to groom the leadership potential of the youth of Pakistan by exposing them to peaceful and democratic resolution of differences especially at a time when various parts of Pakistan are suffering from conflict and extremism. Finally this provides a forum to the youth of Pakistan to understand how the Parliament works as the supreme public representative institution in a democracy.

The 7th Youth Parliament Pakistan, under a revised model, managed to enroll 240 young people from all over Pakistan. 4 Sessions were held, in which 60 new Members participated in 5-day training programme.

Youth Standing Committees of the 7th Youth Parliament Pakistan were tasked to develop cogent policy alternatives for the Parliament and Government of Pakistan. Each Committee was assigned a particular policy area and the Committees managed to develop a set concise policy recommendations in the shape of a Report. Each Committee presented and defended the Report to a Panel of Experts. The 4 Standing Committees for the current term are:

1. **Youth Standing Committee on National Security & Foreign Relations**
2. **Youth Standing Committee on Finance**
3. **Youth Standing Committee on Political and Electoral System**
4. **Youth Standing Committee on Governance**

Report topics given to each of the respective Youth Standing Committee were:
1. Pakistan's National Action Plan (December 2014): What is the State of its Implementation and Possible Proposals for Effective Implementation & Oversight.
2. Pakistan's Extended Fund Facility (EFF) Plan with the IMF and its Short-Term and Long-Term Economic Impact on Pakistan.
3. Is Pakistan more suited to adopt the Proportional Representation (PR) Electoral System versus the First-Past-The-Post (FPTP) Electoral System: Rationale & Proposals
4. What are the best International models for measuring Quality of Governance and why?

The Committees have gone through a process of intensive research, consultations with policy experts and internal review within Committees before putting together their proposals. The initial findings were shared before the House in Youth Parliament and with the Secretariat Youth Parliament Pakistan who gave their comments on these drafts. After incorporating these inputs, the reports are finalised by individual Committees. Going through this rigour the participants not only experienced the process of drafting policy in a democratic fashion but also formulated useful recommendation in the form of this report.

The reports are compiled and finally published for the purpose of dissemination. The reports are also available online at www.youthparliament.pk

The 7th Youth Parliament Pakistan is supported by the Danish International Development Agency, Government of Denmark, as recognition of the importance of young people's development in democracy and democratic practices.

Disclaimer

The Secretariat of Youth Parliament Pakistan has provided unbiased feedback in a timely manner on the research reports and the scientific value of the work done by MYP's. The Secretariat has given guidance in ensuring the content is clear, concise, and relevant to the current pool of knowledge in regard to originality, and interest to the readers. The opinions, findings or recommendations expressed in this report belong to the authors and do not necessarily reflect the views of PILDAT or DANIDA.

Secretariat of the Youth Parliament Pakistan
Pakistan institute of Legislative Development and Transparency February 2016

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Thank You.

Mr. Hasnain Akram (YP1-21-PUNJAB10)
Chairperson, Youth Standing Committee on Finance
Session 1

Mr. Asif Ali khuhro (YP2-41-SINDH02)
Chairperson, Youth Standing Committee on Finance
Session 2

Ms. Marina Marri (YP3-45-SINDH06)
Chairperson, Youth Standing Committee on Finance
Session 3

Mr. Muhammad Mustafa Rizvi (YP4-53-ICT01)
Chairperson, Youth Standing Committee on Finance
Session 4

Session wise List of Committee Members Youth Standing Committee on Finance

Sr.#	Constituency Number	Name	Designation
First Session			
1	YP1-21-PUNJAB10	**Mr. Hasnain Akram**	Chairperson
2	YP1-24-PUNJAB13	Ms. Momna Khan	Member
3	YP1-31-PUNJAB20	Ms. Omama Mazhar	Member
4	YP1-06-KP02	Mr. Dalir Khan	Member
5	YP1-18-PUNJAB07	Mr. Fahad Shahbaz Khan	Member
6	YP1-10-KP06	Mr. Siraj Muhammad	Member
7	YP1-45-SINDH06	Mr. Sarmad Usmani	Member
8	YP1-58-AJK02	Mr. Omair Sohail	Member
9	YP1-36-PUNJAB25	Mr. Shahzad Ali Gill	Member
10	YP1-39-PUNJAB28	Mr. Zeeshan Ahmad Bajar	Member
11	YP1-11-KP07	Syed Zohaib Zaffar Ali Shah	Member
12	YP1-09-KP05	Mr. Najeeb Ullah Khan	Member
13	YP1-16-PUNJAB05	Mr. Fahad IJaz	Member
Second Session			
14	YP2-41-SINDH02	**Mr. Asif Ali Khuhro**	Chairperson
15	YP2-01-BALOCHISTAN01	Mr. Aamir Nizam Mengal	Member
16	YP2-10-KP06	Mr. Sajid Ullah	Member
17	YP2-11-KP07	Mr. Taimoor Khan	Member
18	YP2-22-PUNJAB11	Mian Muhammad Salman Ayub	Member
19	YP2-33-PUNJAB22	Ms. Nida Shahid	Member
20	YP2-36-PUNJAB25	Ms. Shayama Nousheen	Member
21	YP2-58-AJK02	Mr. Umar Ashraf	Member
22	YP2-18-PUNJAB07	Ms. Aymen Ahmad	Member
23	YP2-32-PUNJAB21	Mr. Muhammad Zeeshan Noor	Member
24	YP2-37-PUNJAB26	Mr. Shoaib Asghar Kahut	Member
25	YP2-39-PUNJAB28	Syeda Anum Arooj Bukhari	Member
26	YP2-40-SINDH01	Mr. Akash Bhagwani	Member
27	YP2-47-SINDH08	Mr. Shayam Sunder	Member
28	YP2-55-FATA01	Mr. Haroon ur Rashid	Member
Third Session			
29	YP3-45-SINDH06	**Ms. Marina Marri**	Chairperson
30	YP3-06-KP02	Mr. Ahsan Nawaz Khan	Member
31	YP3-17-PUNJAB06	Mr. Arooj Aurangzeb	Member
32	YP3-19-PUNJAB08	Mr. Awais Khan	Member

33	YP3-23-PUNJAB12	Mr. Jasir Shahbaz	Member
34	YP3-34-PUNJAB23	Mr. Rizwan	Member
35	YP3-35-PUNJAB24	Syed Muhammad Assad Mukhtar	Member
36	YP3-47-SINDH08	Mr. Muhammad Ahmed Gilal	Member
37	YP3-49-SINDH10	Mr. Sarang Mushtaque	Member
38	YP3-55-FATA01	Mr. Ayaz Haider Bangash	Member
39	YP3-57-AJK01	Mr. Khawaja Khalid Mushtaq	Member
40	YP3-58-AJK02	Mr. Muhammad Anwar Ul Haq	Member
41	YP3-59-GB01	Mr. Ammar Yasir	Member
42	YP3-60-GB02	Ms. Arifa	Member
Fourth Session			
43	YP4-54-ICT01	**Mr. Muhammad Mustafa Rizvi**	Chairperson
44	YP4-04-BALOCHISTAN04	Syed Noman	Member
45	YP4-10-KP06	Ms. Sabeeha Hastam	Member
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51	YP4-45-SINDH05	Ms. Mehwish Malik	Member
52	YP4-52-SINDH12	Ms. Zahida Bakhtawar Khan	Member
53	YP4-58-AJK01	Mr. Abubakr Ayesh	Member
54	YP4-60-GB01	Ms. Mahin Akbar	Member

First Session Report; 7th Youth Parliament Pakistan

Introduction

Pakistan went to the IMF for the first time in 1988 and signed a Structural Adjustment Programme (SAP). The purpose of this SAP was to rectify the economic problems and to stabilize the economy. IMF agreed to lend the money attached with certain conditions i.e. elimination of subsidies, increase in tax-to-GDP ratio, rationalizing government expenditure to decrease fiscal deficit etc. Recently, Pakistan and the IMF have reached an agreement on the bailout package of $6.7 billion spanning over the duration of 36 months. This policy recommendation paper will briefly analyze the impact of the Extended Fund Facility (EFF) of IMF to Pakistan in the short-term and long-term, followed by recommendations and the dissemination plan.

Short-term Impact

IMF has demand that our Government privatize many of our public institutions like railways and PIA. These institutions have been under lose for ages and privatization will lower the economic burden on our government and help us earn income from these privatized institutions. Apart from this, IMF recommended polices has helped us improve our balance of payments, reduce circular debt and increase our foreign reserves. There have also been two major initiatives under the programme to protect the poor as the economy stabilizes. The first was to exempt the lowest consumers of electricity (those using 50 kW hours per month and below) from the electricity price increases. Secondly, there was a significant increase in direct cash transfers under the Benazir Income Support Programme (BISP). It has also helped Pakistan regain access to international capital markets.

Long-term Impact

It has result in our over dependence on further loans and resulted in a stagnant economy, as the largest chunk of our budget is spent in the repayment of our previous loans. The biggest drawback of the EFF and other IMF programs is that they restrict the amount of Government spending and involvement, shrinking of the size of the GDP and hindering growth. It is often imperative for the government to subsidize certain products and machinery; to invest in infrastructure and provide feed-in tariffs in order to incentivize investment. Government spending to reduce unemployment and investment in capacity building programs is checked under the IMF programme which can negatively affect the expansion of the size of economy. Furthermore, IMF imposes stringent conditions, which stymie investment in health and education sectors, therefore crippling public and welfare facilities.

Recommendations

Following are the recommendations that are needed in order to revamp the economic impact of EFF on Pakistan

Taxation reforms

i. Progressive taxation
ii. Introduction of land or real estate taxes
iii. Structural reforms in cumbersome dual GST regime
iv. Simplification of tax collection/filing system of FBR
v. Elimination of previous SROs
vi. Conversion of informal sector into formal sector to enhance the tax-base
vii. Stringent actions against tax-evaders and money launderers

Monetary reforms

i. Ensuring the autonomy, both economic and political, of State Bank of Pakistan
ii. Reduction in interest rate/interest free loans to SMEs
iii. Social incentives such as R&D facility, protection and soft loans on flexible repayment
iv. Prioritizing the trade over the aid/loans etc; FDI should be encouraged
v. Use of technology and legislation to address issues relation taxation, including: tax maladministration, tax evasion, money-laundering, and complaints related to taxation

Energy Sector Reforms

i. Up-gradation of transmission lines
ii. Regulatory power of the NEPRA should be enhanced

Rationale for Recommendations

Progressive tax will lead to gentle and gradual forms of income redistribution in the country without threatening economic stability or patterns of growth and tax-base will be broaden and tax to GDP ratio will also be improved. A set of incentives are needed for the informal sector in order to increase awareness of the importance of payment of taxes and encourage the informal sector to enter in to the tax-base of the country. After 18th amendment, the dual GST regime is still to be implemented across-the-board. The government needs to remove the dual system of filing the tax return in order to simplify the process. Federal Tax Ombudsman has been created to provide inexpensive and speedy justice to the taxpayer aggrieved by tax maladministration. A state of the art online complaint filing system is also being put in place to reduce time and cost of complaint filing. The objective of introduction of information technology is to achieve a highly enabled paperless environment. Another important step that needs to be taken is that the SBP should be made independent and free from the political interference to function properly so that an effective monetary policy is implemented.

SMEs should be provided with certain benefits including the provision of subsidized credit, greater access to affordable banking services, transport access, marketing information and establishment of new institutions to provide these services, such as public development banks. They must be given social incentives such as R&D facility, protection and soft loans on flexible repayment. Lower interest rates would also enable the government to engage in more affordable deficit spending. If that deficit spending was targeted on infrastructure and other future productive investments, these could create new investment opportunities for private sector companies, thus "crowding in" the private sector, would further enhance job creation and tax revenues.

If we want long-term economic growth and to be self-reliant, our export needs to be technologically advances, at par with the rest of the world. Investment in technology needs to be made a priority in order to enhance the export-base of our country.

Reforms in the energy sector and privatization will also lead towards the economic prosperity, if adopted rationally. Capacity building of the institutions across the board is need of the hour.

Second Session Report; 7th Youth Parliament Pakistan

Research Question

Pakistan's Extended Fund Facility (EFF) plan with the International Monetary Fund (IMF), its short term and long term economic impact together with the recommendations for making maximum of the positives and mitigating the negative effects of the facility.

What is EFF and why was it necessary for Pakistan?

The IMF assists through its EFF (Extended Fund Facility) the countries that face medium-term balance of payment problems because of structural weaknesses that requires time to address. Assistance under the EFF features longer program engagement to help countries implement medium-term structural reforms—and a longer repayment period.

The PMLN Government after coming into power faced the immediate challenge of insolvency. About US$ 861 million payment to IMF was due by end-June 2013 while the PMLN government inherited around $7.5 billion reserves, this amount could only finance less than three weeks of imports but enough to trigger a capital flight and shaken investor confidence. So, an EFF was deemed crucial for Pakistan's staying afloat. Thus, the IMF approved three years Extended Fund Facility program for Pakistan on September 04, 2013 for SDR 4.4 (US$ 6.64) billion, 425% of quota.

Long Term & Short Term Impacts

There are many short-term macroeconomic adjustments which accompany IMF financing. Such macroeconomic adjustments could potentially have catalytic effects inducing additional bilateral and multilateral financing. Here are some immediate impacts of EFF facilities:
Fiscal Deficit

After the EFF, there was observed a clear slump in the fiscal deficit numbers. The fiscal deficit during the first nine months of FY14 was only 3.2 percent of GDP, which is significantly lower than the average gap of 4.6 percent posted in the last five years. Pakistan and the International Monetary Fund (IMF) agreed on a fiscal deficit target of 4.8 per cent of the GDP (Rs1.63 trillion) for next year against 5.7pc estimated for the current year. The lower deficits helped in achieving economic stabilization. But the caveat is the way the deficit target has been achieved, which has been through cuts in PSDP.

Monetary Policy Impact

In response to the latest IMF deal, the incumbent administration was quick to tighten its grips on the monetary policy. As per the State Bank of Pakistan quarterly report, Pakistan's central bank had raised its interest rates to 10% at the start of last year. This was slashed to 8.5 % in mid-2015, a 42 year low. This is expected to spur investment opportunities for businesses but hurt savings. The decrease in interest rate should be followed by exchange rate depreciation to allow for the recent global developments Vis a Vis depreciation of yuan and the further drop in our export volume and earnings.

International Reserves & Balance of Payments Effect

Before September 2013 when Pakistan signed The IMF EFF Program, Pakistan's external account was stressed by heavy repayments to the IMF, and oil payments. The country's FX reserves declined by US$ 2.8 billion during Jul-Nov 2013, and the PKR depreciated by 8.2 percent. However, pressures started to ease in December 2013 as bulky payments to the IMF subsided, and Pakistan received the second tranche of US$ 544 million as part of the EFF. Presently, the SBP Foreign Exchange Reserves $18.497 billion.

Energy Sector Reforms

As part of the IMF agreement, the government is required to withdraw untargeted subsidies being enjoyed equally by the rich and the poor in gas and electricity tariffs and instead provide direct cash payments to lifeline consumers using less than 200 units of electricity per month. The government had decided to reduce overall subsidies to Rs229 billion from Rs338bn— a reduction of over 32%. The impact of these reforms is expected to be have both benefits and some repercussions for the business sector. Moreover, productive energy consuming sectors should be given priority over the domestic consumers. A regulatory oversight of Independent Power Plants (IPPs) and DISCOS be ensured for their efficiency.

Privatization

Unemployment will shoot up in the short run. Political disturbances are strongly expected along with the judicial challenges. Twenty six percent of PIA's shares to strategic investors by end-June 2014 were planned but has been rescheduled owing to strong political opposition. Receipts from privatization will help contain the fiscal deficit and lessen the burden of bleeding Public sector enterprises will be lifted from the national exchequer. However in the long run, the increased challenge of unemployment will have to be looked into.

Inflation Impact

Pakistan's Inflation rate has been sustainably decreasing overtime. It was 7.7% in 2013 at the outset of EFF Program and presently it is around 4.8% on average. The fall in international commodity prices has contributed to the lower inflation. Inflation rate has been stable over the past several months owing to the facts that subsidies haven't been withdrawn fully.

Human Development and Social Sector Costs

The IMF mantra has always been 'Stabilization first, growth later' but the recent global developments seem to challenge this conventional wisdom. Studies have proved that the most adversely affected sector of IMF facilities have been the human development and social sector. PSDP cuts to meet tax shortfalls aid and abet unemployment that in turn worsens the poverty prevalent in Pakistan. In the long run, the debt carrying capacity of the country shrinks, propelling it into a vicious cycle of more debts. This call for careful scrutiny of the composition of PSDP.

Rise in Unemployment

Presently, the unemployment rate in Pakistan is around 6% while in 2007, it was estimated to be about 5%. This was aided and abetted by the privatization schemes, cuts in PSDP and the falling export sector.

SBP Independence & Lending

Although the National Assembly has passed the State Bank of Pakistan (Amendment) Act- 2015, it should be ensured that the Act be implemented in letter and spirit. The excessive borrowing by the government from the SBP for budgetary support and fiscal deficits has contributed to inflation in economy and mistrust on part of economists on the influence of government on SBP. About Rs. 980.7 billion in June 2015.

Recommendations

There are two main impediments, which are not enabling Pakistan in honoring its commitments to IMF: The recent fuel crisis and intermittent load shedding.

Privatization

Privatization always heralds massive labour layoffs which breed bitter protests and general ill will towards government. Voluntary Separation Schemes (VSS) are under consideration for the laid off government employees but the government usually seeks loans from Asian Development Bank (ADB) for that as well. We recommend providing employment opportunities to the laid off or any one competent family member of the laid down employees in the due process of restructuring institutions. Such measures can be implemented by introducing skill development programs in the industry's requiring adequate human resources. Moreover, the government must avoid making privatization decisions in haste and ensure transparency.

Energy Tariff & Industries

Extended fund facility impacts energy tariff in an adverse way for which we recommend to introduce a progressive tariff break up that eases low/poor consumers and charges comparatively higher to more wealthy class of people in the society. Financial instruments especially suited to the needs of SMEs be developed by banks. Interestingly, although banks' financing to small and medium enterprises rose in FY14, the number of borrowers declined, indicating that additional lending didn't contribute to financial inclusion.

Documentation of Economy

The documentation of economy must be ensured. For that the present government is already taking multiple steps e.g., incentivizing tax returns filing via imposing Withholding Tax (WHT) on banking transactions by non-filers. We recommend initiating and expediting the process of consolidating the National Identity Card (NIC) numbers with the National Tax Numbers (NTN). Moreover, federal excise duty on luxury and addictive items (cigarettes, alcohol, branded fashion items and clothing etc.) be increased. National Tax Numbers (NTN) must be shown to the Securities and Exchange Commission of Pakistan (SECP) to obtain business registration licenses.

Developmental Projects

The focus must be on the quality of the public sector development expenditure. We propose the government to form committees comprising technical advisors to carefully scrutinize the development projects and give their appraisal notwithstanding the politics. Only those programs which pass the lens of a rigorous cost benefit appraisal may be allowed to run. Populist programs with little actual value be scraped up. This requires immense political will and commitment on part of government but must be done for country's sake. Wasteful, nonproductive expenditures and bad policies must be done away with because a penny saved is a penny earned. Expenditures should be allocated in efficient manner i.e. Consonance of budgetary allocations with strategic priorities low priority / less effective and high Priority / highly effective.

It should be noted that deficit is not always an adverse phenomenon; temporary deficit is a cure if used to finance spending in productive sectors for medium to long-term benefits, like:

i. Spending on infrastructure to improve trade
ii. Alternate and cheap energy sources
iii. Education, research, technology

Financing SMEs
There is need to divert banks' focus away from large companies to SMEs, farmers and the household sector. The share of SMEs in banks' total financing also slipped from 5.99pc in FY13 to 5.61pc in FY14 i.e., bank financing to SMEs was relatively sluggish than that for other borrowers. The increases in power tariffs is bound to adversely impact the SME sector but we propose to mitigate this incremental cost in businesses by improvement in credit facilities which should be easily accessible to SME's; be they in trading or manufacturing.

Subsidies
Government should realign the general consumer and producer subsidies. It is better to have targeted subsidies instead of general subsides for now.

Restructuring Securities
This committee recommends restructuring current saving products i.e., T-Bills and PIBs, to attract more deposits from citizens and foreign investors.

Budget Formulation Process
Budget Cycle should be followed with proper check and balance from the point of budget formulation to budget auditing and & assessment so that revenues and expenditures are properly recorded and justified keeping in view the targets set forth.

Involve all the stake holders during budget preparation get input from all departments/ agencies/ local governments, professionals and public at large in a systematic way so as create the sense of responsibility and ownership.

Many IMF facilities were availed by Pakistan on the lieu of defensive lending. To avoid getting into the vicious cycle of defensive lending of IMF, foreign exchange reserves must be enhanced and exports are crucial for that. Foreign Direct Investment (FDI) must be invited to Pakistan to build forex by diminishing the tax law for corporate sector.

Resisting Political Opposition
Policy changes, even prudent ones at times have serious political repercussions. This makes it a challenge to face the political opposition. The present government has shown resistance to the pressure and interest groups especially against privatization and tax reforms, which is a welcome step. The government should maintain its stance.

Conclusion
Pakistan has a history of sustained relationship with the IMF as the political leadership has never shown the political will and commitment to bring structural reforms to the country's economic system. To break this addiction to easy money, Pakistan must bring reforms that enhance the tax base, strengthen the external sector to bring FDI and forex and documentation of economy to break out from this vicious cycle of borrowing from IMF to supplement our Balance of Payment (BoP) crisis.

Third Session Report; 7th Youth Parliament Pakistan

Introduction

Pakistan has been a member of the International Monetary Fund since July 11, 1950. A consequence of recent birth and independence, Pakistan was not financially strong to support itself. Plagued with poverty and unstable economy, the country availed funding opportunities for the world's largest financial institution, the IMF. Its subscription of the latest tranche of the Extended Fund Facility has raised concerns from within the government and many non-state actors. While the Nawaz administration struggles to find solutions to the daunting array of economic and energy related challenges coupled with pseudo-Islamist insurgents from all over the world, many question its economic policies and strategies put in order to combat these problems.

Nawaz administration's main focus towards addressing the country's debilitating crisis and restoring macroeconomic stability rests heavily on foreign debt. With a pragmatic approach towards engaging several countries which include the United States, China, Russia and European states, the administration is working profoundly towards an improved outlook of the country to encourage aid as well as trade.

For macroeconomic stability, the administration requested for a $6.6-billion loan from the IMF as part of its Extended Fund Facility (EFF), as a consequence of which, the financial ratings firm – Moodys – has improved the country's outlook rating basing its decision on Pakistan's strengthening foreign exchange reserves.

On the security front, Operation Zarb-e-Azb, the implementation of the National Action Plan and rising above political expediencies and initiatives to restore peace in Karachi and Balochistan have not only won laurels on the home front but have also been acknowledged by the international community.

Most of this may seem impressive on documents and media articles; but ground realities are far from the truth. However, the issues are complex in nature and need an in-depth understanding.

Extended Fund Facility

When a country faces serious medium-term balance of payments problems because of structural weaknesses that require time to address, the IMF can assist with the adjustment process under an Extended Fund Facility (EFF). Compared to assistance provided under the Stand-by Arrangement, assistance under an extended arrangement features longer program engagement—to help countries implement medium-term structural reforms—and a longer repayment period. http://www.imf.org/external/np/exr/facts/eff.htm

The EFF was established to provide assistance to countries: (i) experiencing serious payments imbalances because of structural impediments; or (ii) characterized by slow growth and an inherently weak balance of payments position. The EFF provides assistance in support of comprehensive programs that include policies of the scope and character required to correct structural imbalances over an extended period.

In the fall of 2013, soon after the Nawaz administration took office, they recognized an immediate need for a loan due to the deteriorating economic situation left behind the previous government. The foreign reserves were extremely low dollar rate was inching up constantly and inflation increasing.

The Government representatives (Finance Minister Mr. Ishaq Dar) requested the IMF to provide a loan to improve the countries financial imbalances.

EFF structure for Pakistan

The EFF plan for Pakistan includes a 36-month arrangement (an amount of US$6.64 billion to be released, 425 percent of quota). First tranche ($544.5 million, 34.8 percent of quota) became available on September 6 2013, and the remainder was evenly phased thereafter subject to quarterly reviews. It has a comparatively longer repayment period of 4½–10 years, with repayments in twelve equal bi-annual installments.

The EFF will carry a floating interest rate – currently at 3 percent - and a repayment period of 10 years, including a four-year grace period. Up till September 2015 Pakistan has received a total amount of $4.2 billion through the EFF program of the IMF. The remaining $2 billion is divided into four equal tranches of $500 million.

Short -Term Impact

Once the International Monetary Fund agrees to provide a bail-out package and consequently releases funds, it will directly impact the foreign reserves positively.

Ideally, this should stabilize the currency, which will in turn decrease inflation or keep it constant. This will increase the consumption of the people of the state which in turn will increase demand. When the demand increases, production also increases resulting in expansion of businesses and subsequently employment opportunities. An increase in employment increases per capita income, which in turn improves the living standards.

Additionally, when the inflation is low, the central bank of the country decreases the interest rate to keep real interest rate constant. This boosts economic activity as individuals and companies borrow money from banks and invest it further to start industries and businesses, this will automatically generate employment and have a positive effect in the standards of living.

However, the IMF loans also have minimal or a negative impact on purchasing power of local consumers, it rather benefits the government in boosting its position in the global economy (improving ratings outlook by Moody's and Standards and Poor). It also re-enforces foreign investor confidence in the local economy.

On the other hand, since the government has to repay the loans, it increases taxes on the entire population. Today, a single Pakistani owes an estimated amount of Rs. 87, 000.

IMF Report on Pakistan

Up to date

Pakistan's economy continues to improve. Real GDP growth is expected to increase to 4.5 percent this fiscal year, helped by macroeconomic stability, low oil prices, planned improvements in the domestic energy supply, and investment related to the China-Pakistan Economic Corridor. Inflation dropped to 1.8 percent in July, but is expected to increase in the coming months with the anticipated stabilization of commodity prices. Despite declining exports, the external current account deficit narrowed to 0.8 percent of GDP in FY 2014/15 owing to favorable oil prices and strong growth of remittances. Foreign exchange reserves of the SBP continued to increase at a healthy pace, and reached US$13.5 billion at end-June 2015, covering three months of imports.

“The authorities have continued to make good progress in implementing their economic program, although some targets were missed. All end-June 2015 program targets related to monetary policy were met, in some cases with a significant margin. However, the end-June 2015 performance criteria on the budget deficit and government borrowing from the SBP were missed with a small margin. In addition, the indicative targets on tax revenue and accumulation of circular debt deviated from end-June 2015 program targets. The mission welcomes the authorities' commitment to attain upcoming budget deficit and tax revenue targets, diversify sources of budget financing, and strengthen control over energy sector arrears.

“Overall, the authorities' reform program has significantly reduced near-term risks with substantial narrowing of the budget deficit and rebuilding of the foreign exchange buffers. Alongside, increasing social spending under BISP is helping the most vulnerable.

Policy Recommendations

The impact of Extended Fund Facility (EFF) from International Monetary Fund (IMF) to Pakistan in 2013-14 has been in both micro and macro sectors of economy. The immediate consequence was a sudden increase in Foreign Reserves, which helped stabilize the Pakistani Rupee against Dollar in International Exchange Market. This also helped Pakistan to overcome the negative [external] financial image it has attained over the 2008-2013 period as an un-favorable Country for foreign investment.

Another benefit is when the Government of Pakistan had access to International Funding it reduced the burden on National savings, which solved the problem of "crowding out" effect for the local enterprises, which previously were not able to take loans from banks because of heavy government borrowing from local banks.

Recommendations with rationale

Given that the Parliament was not taken into the confidence when the load was taken, we recommend an explanation of the EFF in detail to the Parliament and hold an open house for any related questions.

The bailout programme includes a privatization plan, which means a massive lay-off, many employees losing their jobs. The committee recommends improving the management of loss making enterprisers by privatizing the operational part with partial shares to make the government organizations more profitable, taking the strain off the ex-chequer and helping improve employment rate as well.

Though the economic conditions seem to improve, exports are continuously decreasing despite GSP plus status by Europe.

The committee recommends bringing in European company's production units through Tax Free zones, One Window Set-ups for registration. Attract investors through Diplomatic channels giving security in Tax

Free Zones. Make a secretariat for facilitating foreign investors and managing all their corporate and bureaucratic affairs.

Taking loans has another negative impact, currently every Pakistani already owes Rs87,000 per head to internal and external loans. Taking more tax on harsh conditions and 3% interest rate for short-term relief, will only deepen the foreign exchange issues in the future. For this, the committee recommends more reliance on exports for foreign exchange, rather than loans. Modernization of agriculture to innovate new methods will help in increasing exports, and to become more competitive in rates to compete with regional competitors.

Taxation policies implemented on the conditions of IMF are primarily in-direct taxation or transaction on turnovers rather than income, excessive withholding of tax. The tax net is not being increased with number of taxpayers remaining the same, but rather only tax filers are being increases.

The Committee recommends decrease of in-direct taxation, and emphasizes more on direct taxation, with strengthening of FBR and Auditors to determine the tax liability of the business community of Pakistan. Random auditing percentage needs to be increases, with IT help in fishing out suspicious banking transaction in non-tax payers systems.

For more clearer and honest information, the government of Pakistan needs to set up a committee that is neither influenced by the government or the IMF so that the report has facts and shows the accurate picture of the state of the economy.

Critique

International Monetary Fund believes to bring structural reforms in Pakistani Economy, however, the rule of quarterly review in former years, and now the policy of bi-yearly review should be changed to a yearly review. This committee believes that four months or six months are not enough to bring structural reforms. IMF should allow Pakistan to introduce changes on yearly basis and then review its performance over the period of whole fiscal year. This will allow the Government to plan, introduce and implement changes in a better manner. The current practices of changing policies overnight are causing a disturbance in economy, which adversely affects local businesses and consumers.

This committee believes that International Monetary Fund should not put conditions on Pakistan in Energy Sector. World Bank and Asian Development are already working in that sector and International Monetary Fund do not have specialised expertise and regulation in that sector. Pakistani government's policy on energy should not be intervened. It should only monitor the revenue collection from Energy Sector but shall not go beyond that domain.

After availing EFF from International Monetary Fund, the country experienced lowest levels of inflation, however, it will be wrong to associate the later with the former. The sudden improvement in Pakistani Economy improved the purchasing power of local consumers, however, it also increased the demand push inflation, and has it not been for the decrease in oil prices, the government would have been facing a higher inflation than it did in 2014-2015 fiscal year.

Moreover, it is generally believed that improvement in Foreign Reserves boosted Pakistani's position in Global Economy and restored foreign investor confidence in local economy. However, it is not entirely to be connected with IMF. The general improvement in law and order situation in country as well as the government's trade and investment agreements with other countries and the Pakistan China Economic Corridor has diverted International attention towards Pakistan as a potential investment region.

Fourth Session Report; 7th Youth Parliament Pakistan

Executive Summary
Extended Fund Facility (EFF) is the program offered by IMF. It provides assistance in support of the programs intended at restructuring imbalances i.e. minimizing twin deficit gap. These changes focus on eliminating subsidies, widening tax base, depreciating the exchange rate, privatization and financial austerity.

The EFF loan facility would be availed from 2013-2016. It will bring in an investment of 6.64 billion dollars; it has to be paid in twelve equal installments with an interest rate of 4.5%-10%.

The Government's reason for availing this facility was to address the issue of the twin deficits: the deficit because of excess of imports over exports and the deficit because of excess of expenditures over revenue.

The public's perception of the policy is negative because of its negative short-term impacts. Living standards have fallen because of the gradual decrease of subsidy on electricity, skyrocketing fuel prices, decreased purchasing power parity, increased taxes, and cheap exports and expensive imports due to depreciation of exchange rate. It is also perceived that this loan comes with other strings attached that compromise Pakistan's political and economic well being.

The policy has not been as successful yet. Other than the reasons mentioned above, the government has failed to widen the tax base which is crucial. The energy sector also presents a dismal picture with huge line losses, circular debt, mismanagement, corruption, pilferage and failure to produce more energy. Furthermore, Pakistan is heading nowhere with the privatization of it's worn out and obsolete state run corporations.

Given the reasons above, the policy is not expected to create exceptional results in the long run. Perhaps, Pakistan's record over the recent past suggests that the deficit has become a chronic disease and it seems as if Pakistan has started to alleviate this long term structural problem through short term policies of IMF out of habit.

We have to change our policy in such a way that Pakistan becomes self sufficient and does not require assistance from IMF again in the long run. For this purpose, dynamic changes in the economic policies are required in the long run.

Statement of the Problem:

Pakistan has been facing the chronic problem of twin deficit gap: its imports bill of Rs 40 billion exceeds its export revenue of Rs. 24 billion and the federal government's budgeted expenditures of 4.6 trillion are significantly higher than its budgeted revenue earnings of Rs5.96 trillion. A one time deficit may be addressed through loans but a consistent annual deficit over a period of time starts a vicious cycle: further borrowing is carried out to match the deficit and to repay the previous loans as well. It is, hence, expected that Pakistan will avail IMF's External Fund Facility once again in 2016- after completely availing the current facility.

The problem, therefore, is the chronic twin deficits and it needs to be addressed in such a way that Pakistan becomes self-sufficient in the long run and does not have to rely on IMF or any other external source for coping up with the deficit.

Critical Analysis

Tax Collection
There are a number of reasons that have aggravated the current situation to this extent. The tax collection is a fundamental problem that significantly decreases the revenues and increases the deficit. Pakistan's current GDP to tax ratio is one of the lowest among the developing countries at less than 13% while its income tax collection rate stands at a dismal 0.35% of the population file their income tax. Furthermore, there are distortions in the tax system, which have been created by the government itself in a desperate attempt to increase the revenue. A pertinent example is the withdrawal tax of 0.6% that was imposed on a transaction that withdrawal of money from the banks. Thus, the revenues never suffice against the aggregate expenditure.

Corruption
Corruption has been identified by prospective investors as one of the most significant issues that inhibit investment in Pakistan. The problem is present virtually everywhere, from setting up a firm and dealing with regulatory authorities to supplying final product in the market. This is a crucial problem that –even with a serious commitment to resolve- can take at least five years to be rectified because it requires changes in attitudes and mindsets.

Institutional Issues
Furthermore, institutional problems also prevent the growth of business in the economy. Obsolete and

inefficient state institutions are to be blamed for this dilemma. The FBR has become a corrupt institution and it's personnel has been accused of helping people evade filing of tax returns through bribery. Rather than increasing the tax base by widening the tax base, it eventually helps more people evade the tax.

Ease of doing Business

An issue pertinent to the one mentioned above is the ease of doing business. This includes problems like mismanagement, delays, complex regulations regarding investment and daily procedures, uncooperative government authorities, complicated tax regulations and the time required to file taxes etc. The administrative inefficiency leads to a decrease in willingness of the general public to invest, to file tax returns and to trust the government and its policies.

State Owned Corporations

Moreover, some of the state owned institutions have become a white elephant for the government. PIA is a prime example where mismanagement, overstaffing, politicization, red tapeism and administrative inefficiencies have led to billions of losses. It made a loss of Rs 36 billion in the fiscal year 2013-14. Other corporations like Pakistan Railways and Pakistan Steel Mills present a similar and deplorable state. These losses increase the expenditure and widen the revenue-expenditure deficit.

Weak Contract Laws and Implementation

Public Procurement Regulatory Authority (PPRA) is responsible for prescribing regulations for public procurement. However, it is understood that its employees are de-motivated and inefficient. There is also a lack of necessary legislation regarding regulations and contracts. Weak contract laws and poor enforcement leads to unmotivated investors because investors do not have guarantee regarding their daily business dealings and contracts.

Import Bill

Pakistan's import bill mainly consists of oil, manufactured goods, machinery and capital goods used in production. Pakistan has failed to reduce the imports bill. Besides, its Terms of Trades has also been decreasing consistently. Furthermore, currency depreciation has aggravated the gap between imports and exports because Pakistan's imports are inelastic in nature. Pakistan needs to reduce its import bill if it is to get rid of external funding in the long run.

Federal Govt. Expenditures

Federal government expenditure can be compared to a giant mammoth in Pakistan. The affluent expenditure on official trips, wastage of resources in public sector institutions and state owned corporations, large number of perks given to officials, mismanagement of resources and obsolete governance system, all, contribute to the increase in government expenditure.

Energy Sector

Energy sector is an epitome of mismanagement, wastage, corruption, narrow-mindedness and lack of planning. The problem of circular debt is the most important one: the distribution companies fail to collect revenue from the general public because of line losses and pilferage. Consequently, they are not able to pay back the credit to the production companies. It is estimated that 40% of the electricity is lost because of line losses and theft. Furthermore, the power plants are not producing up to their capacity level: they are mostly working at 40%-50% of their maximum efficiency level.

Most importantly, government offers a total subsidy of Rs 137.6 billion in total to the consumer in one fiscal year and it forms a major proportion of government's annual expenditure. Government is gradually reducing this subsidy and it must persist with this policy- no matter what the short-term consequences are- if it is to reduce revenue expenditure gap and if it aspires to end its reliance on IMF in the long run.

Recommendations

The policy goal is to ensure that Pakistan becomes self-dependent in dealing with the twin deficit gaps in the long run. Those sectors which could prove to be the most important in helping eradicate the twin deficit gap have been identified below. Further policy goals of each sector have been explained further.

Energy sector

Eliminate the subsidy that is available to consumer. This could help reduce expenditures by almost Rs 137.6 billion in a fiscal year. This is currently being carried out gradually and should be continued consistently.

Control line losses and theft. Line losses and theft reduce the revenue from end user by almost 40%. This results in inability of distribution companies (DISCOs) to pay the production companies.

Independent Power Plants should be set up that cater the electricity needs of small localities. Small power plants are easy to manage and maintain. This policy has been implemented in India and it has proved immensely successful. India has also progressed a lot in setting up bio-gas plants.

Vertical integration between distribution companies and production companies can help answer the problem of circular debt. The distribution companies will not need to pay back the credit in such a short time and will be able to avail time for recovering revenue.

Privatization

Some of the state owned corporations are a burden on the government and add to its expenditures. They are also mismanaged, corrupt and inefficient. Pakistan International Airlines and Pakistan Railways are perfect examples of this case. They must be privatized. However, a careful and scrupulous feasibility analysis must be carried out before any state owned corporation is privatized. PTCL is one such example where partial privatization was carried out and it has proved very successful. A similar model can be followed. Privatization of Railways has been carried out in most of the European countries.

Replacing Imports

Barriers to entry in the market must be removed. Recently, Volkswagon –a German automobile production company- tried to enter in Pakistan's automobile industry but the cartel of the already operating three companies has compelled it to delay its entry. The competition commission needs to take care of these issues; it must ensure that competition continues in the market.

Open Licenses should be provided to those investors who are willing to invest in those industries whose products form a major proportion of Pakistan's import bill. These industries include machinery, chemicals and manufactured goods.

Tax amnesty schemes for investing in these industries can be introduced periodically to incentivize investors.

Government should help build related industrial sectors by providing infrastructure, roads, telecommunication services, electricity and gas. Thailand, Japan, Singapore and India are perfect examples of the economies who have replaced their imports by building their own industries; India does not import automobiles anymore and TATA has become a home name in India.

Contracts

Pakistan Procurement Regulation Authority (PPRA) is responsible for prescribing regulations for procurements from public sector organizations. Their responsibility should be extended to regulating the private sector. It should ensure relevant legislation and its enforcement. Examples include compulsion of registration, mandatory commercial licenses, allowance of transactions through company accounts only and removal of futile and unnecessarily complex regulations.

Ensure transparency of these contracts through making the activities regarding enforcement of legislation public.

Incentivize the employees of PPRA by increasing their monetary and non-monetary benefits so that they are motivated to work and effectively enforce the contract rules and regulations.

Ease of doing business

i. To provide relaxation to newly established business in regards of taxation.
ii. Availability of loans concessional basis should be ensured.
iii. Quick and easy documentation procedures regarding business dealings.

Impose quality standards on Imports

Under the rulings of WTO, no country is allowed to impose tariffs or other import restrictions. An alternative trade protection strategy could be imposing quality restrictions on imports and defining a certain import criteria for the imported commodities. This should help curb imports and reduce deficit in the short run. European Union has utilized these standards effectively in curbing the imports.

Corruption

Computerized system for leasing out contracts in Government departments should be introduced. This should help reduce massive corruption that occurs when transactions are being carried out by public sector departments and corporations.

Feedback system from general public should be introduced and changes should be made according to the suggestions.

Specialized and professional officials, especially in top management should be hired on merit.

Reducing Government expenditure

Government should end subsidies on commodities, particularly on electricity.

Government should establish check and balance on cash outflow. There is no check and balance on the transactions that are carried out on day to day basis and government officials have been accused of pilfering the money for themselves. This should apply on virtually every department.

A culture of austerity should be introduced regarding the perks and non-monetary benefits that are given to officials.

Efficiency should be increased so that wastage and mismanagement is reduced. A more strict independent monitoring system should be introduced.

Tax base

i. Amnesty schemes should be extended to the big fish so that they can be brought into the tax net.
ii. The wide scale informal economy in Pakistan needs to be brought within the tax net. A wide scale survey must be conducted about businesses that operate informally (such as tuition centers).
iii. Tax evaders –the big fish- should be blacklisted and should not be allowed to avail state's facilities.
iv. Tax fraud legislation should be enacted regarding income tax so that people can be compelled to pay income tax.

Reforms in FBR and other Institutions

i. Honest and professional members must be hired in FBR. Professional managers are very effective at countering mismanagement. Singapore's reason for development is that it hired specialized and qualified personnel for all its state departments and institutions. Pakistan should take similar steps.
ii. Increase in salaries and perks of FBR officials. Contingent benefits related to catching the evaders and fraudulent individuals should be introduced so that the employees can be motivated to be more effective.
iii. The tax data info should be made available to public for scrutiny.
iv. Formation of a bureau to monitor government expenditures and to minimize them. The bureau should work independently of the FBR and Ministry of Finance. It should monitor government's major expenditure avenues and revenue collection opportunities and ensure that efficiency is maintained.
v. Private firms such as Ferguson should carry out independent auditing in order to reduce mismanagement and corruption. Auditing should be carried out of FBR, NEPRA and WAPDA.
vi. Complication in the procedures of tax collection should be reduced. Currently they are very difficult to understand and are very time consuming. They should be simple and quick to follow.
vii. E-governance should be enhanced and should be made more effective and user-friendly. This will also help widen the tax base in the case of FBR. It will also help increase revenue collection from electricity consumers.

YOUTH
PARLIAMENT
PAKISTAN

Secretariat, Youth Parliament Pakistan
Islamabad Office: P. O. Box 278, F-8, Postal Code: 44220, Islamabad, Pakistan
Lahore Office: P. O. Box 11098, L.C.C.H.S, Postal Code: 54792, Lahore, Pakistan
E-mail: info@youthparliament.pk | Website: www.youthparliament.pk