The Institute of Chartered Accountants of Pakistan

CA PAKISTAN

MODEL FEDERAL BUDGET 2021-22

AND PROPOSALS FOR GROWTH OF PAKISTAN'S ECONOMY

SUBMITTED TO:

THE HONOURABLE MINISTER OF FINANCE AND ECONOMIC AFFAIRS

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Preamble – Objective of this Proposal

The Institute of Chartered Accountants of Pakistan (the Institute) is an autonomous body established through legislation in 1961, for the purpose of regulating the profession of accountancy in Pakistan. It has been serving the nation for sixty years and throughout these years it has helped foster, nurture and groom young talent for future leadership through its robust education and examination system. There are over 8800 proud professionals bearing the Institute's membership, serving both national as well as international organizations.

Being the custodian of the accounting profession in Pakistan, the Institute has gradually evolved over the years and has ensured transparency, accountability and good governance within the profession. Accountancy as a profession is intimately involved with the finances and financial systems at micro as well as macro levels. The available knowledge pool of its members can contribute towards economic uplift of the country.

In line with this mandate, the Institute's support and facilitation extends not only to the profession but also to the government, the regulators and the business community, at large. The purpose of this document is to compile recommendations for economic reforms that can help improve future outlook of the country. The aim is not to provide short term solutions to meet immediate challenges being faced by Pakistan's economy; rather it has been prepared with focus on overall improvement in the long run.

With latest charts and statistics, some of the policy measures in this document are expected to bring in fruitful results for our economy by improving our GDP and controlling the fiscal deficit.

Message from the

President

It is the first time that the Institute's Economic Advisory and Government Relationship committee has come forward with an initiative to submit sector-specific budget proposals for the federal government. With this initiative, as President, I feel extremely honored to have this opportunity to present this flag bearer project to the stakeholders. The Council of the Institute takes pride in taking the lead and coming onboard with the Government of Pakistan to strive for the betterment of economy.

I would like to congratulate Mr. Ashfaq Yousuf Tola, Vice President of the Institute and Chairman of Economic Advisory & Government Relationship Committee of the Institute, and his team for dedicatedly bringing out this document for timely submission to the concerned Ministry. The aim is to extend partnership between the Institute and the Ministry in aligning our vision to boost economy and attain benefit from the available knowledge pool.

The proposal document is amongst our many initiatives to contribute towards the national uplift. These initiatives also include launching of ICAP-IBA joint research to bring together experts in analyzing prospects for regularization of parallel economy with mainstream economy of the country.

I am pleased to submit this document for consideration of the Ministry of Finance and Economic Affairs, Government of Pakistan.

The Institute and members of its Council will be glad to provide any further assistance, if sought by the policy-makers.

IFTIKHAR TAJ, FCA
President - The Institute of Chartered Accountants of Pakistan

Monday, May 03, 2021

Message from the
Vice President
and Chairman Economic Advisory and Government Relationship Committee

It gives me immense pleasure to bring out this booklet outlining the suggested measures for economic growth of Pakistan coupled with a Model Budget for the coming fiscal year. This is the first instance that such suggestions are being compiled by the Institute through its Economic Advisory and Government Relationship Committee.

Under the leadership and guidance of Mr. Iftikhar Taj, President of the Institute, I along with my team members, specially Mr. Ali Latif, Vice President of the Institute, embarked on the assignment of gathering relevant information and after its thread-bare analysis, come to the conclusions in the form of suggestions pertaining to each sector or sub-sector of the economy, contributing to the Gross Domestic Product (GDP) of Pakistan. Moreover, the Model Budget has been drawn up keeping in view the projections of IMF and the government's policies.

I would further like to emphasize that all the above suggestions and Model Budget for the fiscal year 2021-22 have been finalized after going through the Economic Advisory and Government Relationship Committee. I am thankful to each member of the said Committee as well as of the Council of the Institute for extending there contribution and support in this task.

We look forward to have a feedback on this document from the Ministry of Finance and Economic Affairs, Government of Pakistan and will be glad to have further discussion on any matter in this connection.

ASHFAQ YOUSUF TOLA, FCA
Vice President - The Institute of Chartered Accountants of Pakistan

Monday, May 03, 2021

Present Economic Overview

The international financial institutions have projected a negative growth rate of GDP per capita for Pakistan for the outgoing fiscal year, which underscores the challenges that the new economic team has inherited.

Three years ago, Pakistan's growth rate of GDP per capita was 1.1%, which was slightly positive in fiscal year 2018-19 but turned negative during the last fiscal year (ADB Outlook April 2021). In three years, the Real GDP Growth rate has also slowed down from 5.5% in 2017-18 to a projected 2% by lenders and around 3% by the State Bank of Pakistan.

The economic activity has remained depressed lately due to COVID-19 related containment measures but earlier because of economic stabilization policies adopted by the government to check both the current account deficit that widened to $19 billion in 2018 and the self-inflicted wound of budget deficit by increasing interest rates to 13.25% during most of the period of last fiscal year. We believe that the government shall pursue the approach where economy is leading the taxation rather than the other way round.

Whatever economic growth achieved earlier was because of the agriculture sector, which performed pretty well despite a locust attack in 2020. Agriculture growth increased from 0.6% in FY2019 to 2.7% in FY2020 as good rainfall and improved access to subsidized inputs boosted crop output.

But Industrial sector contraction had deepened from 2.3% in FY2019 to 2.6% as pandemic-related disruption worsened the impact of Pakistan rupee depreciation and fiscal tightening in the previous fiscal year.

The private consumption, which has remained the largest contributor in economic growth, significantly contracted in last two fiscal years. The investment and savings to GDP ratios remain low, which has adversely affected the productivity of the economy and led to lower than the potential economic growth.

Inflation has also remained the biggest concern and despite all measures taken so far, it remains out of control, largely because of supply side disruptions and increase in the administrative prices under the EFF programme.

The fiscal deficit also remained high at around 9% of the GDP during last two years and it is expected to remain in the vicinity of 8% in this fiscal year too, reflecting adverse impacts of unrealistically high interest rates by the SBP that shifted its policy of setting key rate on the basis of headline inflation instead of core inflation.

Due to rigidity in expenditures, the government has so far not been able to reduce expenditures, which have increased from 22% of GDP in FY2019 to 23.1% as interest payments climbed.

With the high deficit and lower GDP, Gross Public Debt rose to 87.2% of GDP in last fiscal year. The IMF and the World Bank projection show it at 9.4% of the GDP for this fiscal year, which is not expected to come down in next year too.

A major success has so far remained the containment in current account deficit that narrowed from 4.8% of GDP in fiscal year 2018-19 to a 5-year low of 1.1% in FY2020 as imports shrank and remittances surged. This week, the central bank has revised the current account deficit number from 1.1% to 1.7% of the GDP.

The FBR has been able to achieve double-digit growth in the first nine months of the current fiscal year and surpassed the target by more than Rs.100 billion. The provisional net collection grew by 10.9% to Rs.3,395 billion during July-March period of this fiscal here as against Rs.3,060 billion last year. Total domestic tax collection grew by 10.7%, of which direct tax collection grew by 9.1%, sales tax 13.2% and FED increased by 2.8%. In March 2021 alone, the provisional net collection increased by 49.4% to Rs481 billion as against Rs.322 billion in March 2020. For the month of March, the provisional net collection exceeded the target by Rs.114 billion.

Going forward, attaining a tax collection target in the range of Rs5900 billion to Rs6000 billion will be challenging given the third wave of the deadly respiratory disease that has affected many sectors of the economy.

The challenge for the new economic team will be to ensure fiscal stabilization and economic revival at the same time, with an aim to keep the IMF programme on track. The conditions set for the next 6th Review of the IMF programme are unrealistic due to low growth, negative per capita GDP growth and high inflation with low increase in wages.

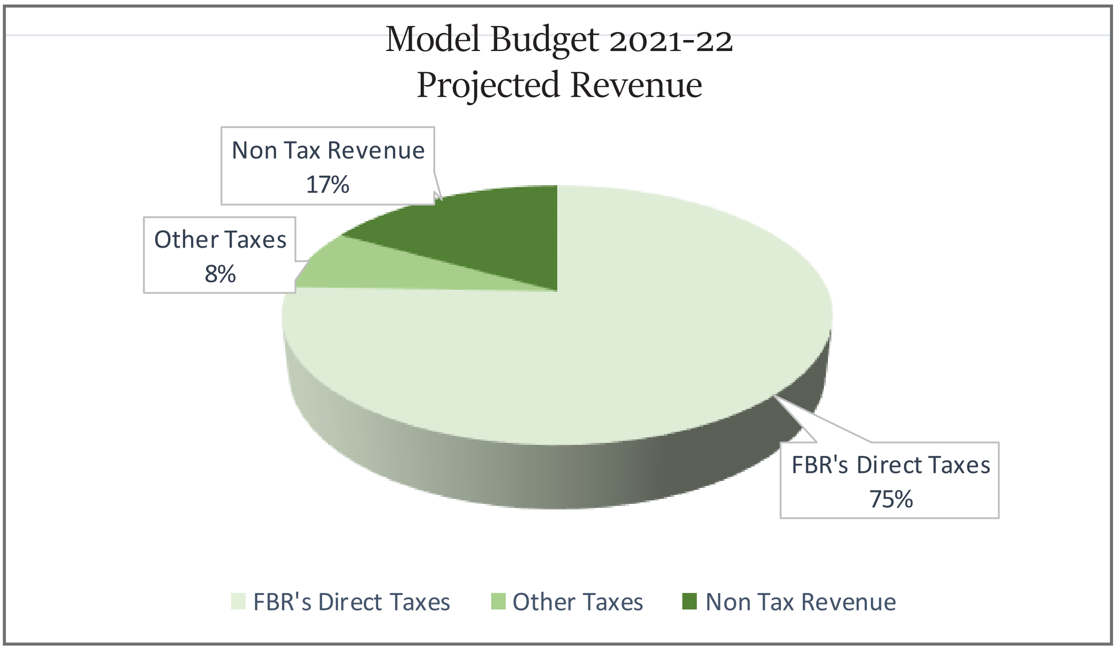
ICAP's Model Budget at a Glance

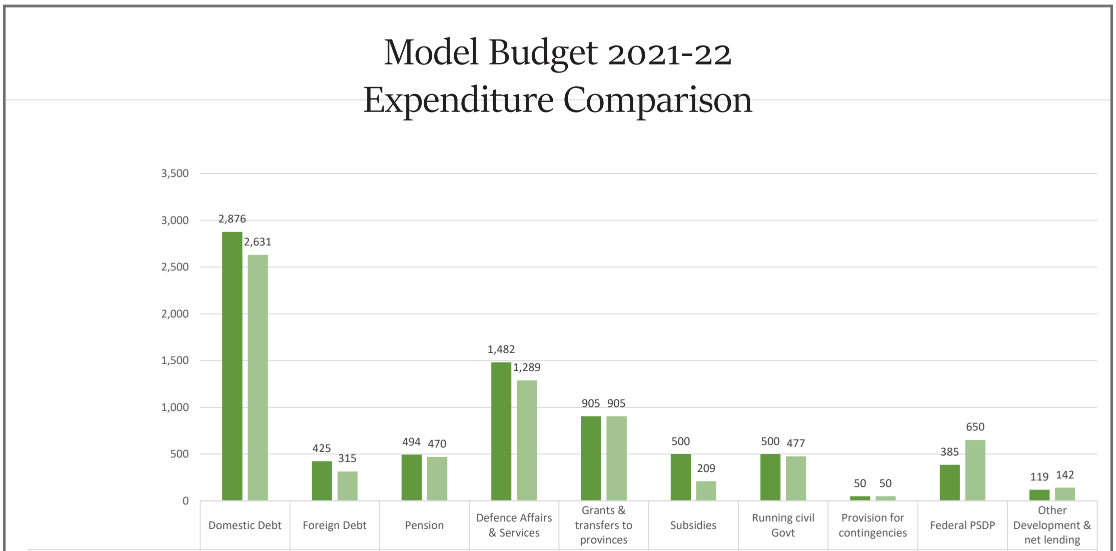
Based on financial priorities of the nation, the model budget is presented below. Basis of the budget estimates are explained in notes that follow the table.

(Please note that the budget estimates are as per the Institute's analysis)

Budget at a Glance 2021-22	Note	ICAP's Proposed Budget 2021-22	Budget 2020-21	Difference	Growth
		------------ Rs. (in billions) ------------			%
Receipts					
FBR's direct taxes	1	6,000	4,963	1,037	21%
Other taxes	2	551	501	50	10%
Non tax revenue	3	1,220	1,109	111	10%
Gross revenue receipts		**7,771**	**6,573**	**1,198**	**18%**
Less: Transfer to provinces	4	3,600	2,874	726	25%
Net revenue- Federal share		**4,171**	**3,700**	**471**	**13%**
Expenditure					
Current		**7,232**	**6,346**	**886**	**14%**
Domestic debt	5	2,876	2,631	245	9%
Foreign debt	6	425	315	110	35%
Pension	7	494	470	24	5%
Defence affairs &services	8	1,482	1,289	193	15%
Grants & transfers to provinces	9	905	905	0	0%
Subsidies	10	500	209	291	139%
Running civil government	11	500	477	23	5%
Provision for contingencies	12	50	50	0	0%
Development		**504**	**792**	**-288**	**-36%**
Federal PSDP	13	385	650	-265	-41%
Other development & net lending	14	119	142	-23	-16%
Total Expenditure		**7,736**	**7,138**	**598**	**8%**
Federal Budget Deficit	**15**	**-3,565**	**-3,438**	**-127**	**4%**
IMF's Projected GDP		**47,390**	**45,567**	**1,823**	**4%**
Fiscal Deficit as % of GDP		**-7.52%**	**-7.54%**		

Source: Finance Ministry, SBP, IMF and Budget Document 2020-21





	Domestic Debt	Foreign Debt	Pension	Defence Affairs & Services	Grants & transfers to provinces	Subsidies	Running civil Govt	Provision for contingencies	Federal PSDP	Other Development & net lending
ICAP Proposed Budget 2021-22	2,876	425	494	1,482	905	500	500	50	385	119
Budget 2020-21	2,631	315	470	1,289	905	209	477	50	650	142

Note 1 (FBR's direct revenue)

Official figures show that from July to March of FY2020-21, FBR's tax revenue stood at Rs.3,394 billion – 10.34% or Rs.318 billion higher against last year's collection of Rs.3,076 billion. It still needs Rs.1,569 billion more to reach the targeted tax revenue of Rs.4,963 billion for FY2020-21. Reaching the target revenue seems unlikely in the remaining period. In our estimate, FBR's tax revenues can reach to around Rs.4,500 billion during the current fiscal year.

IMF and Pakistan have reached a Staff-Level Agreement under IMF's Extended Fund Facility which revived Pakistan's 'suspended' IMF program. The plan envisages FBR's tax collection target of Rs.6,000 billion for 2021-22 which would be 21% higher as compared to Rs.4,963 billion (revised target of Rs.4,301 billion) for 2020-21, and 26% (27.6% when compared to revised target) higher than IMF's revised target for the same period.

The target seems unlikely to achieve in view of projected GDP at 4% and inflation at 8%. The realistic target, therefore, may not be more than Rs.5,265 billion. The collection of remaining Rs.735 billion is still possible but only if strong and radical regulatory actions are taken. Scope and quantum of taxation needs to be widened to those segments from where no or insignificant taxes are generated in order to bring in the required revenue. For example, the share of agriculture and wholesale trade in total direct taxes is around 1.5%, although these sectors make up 42% in aggregate of the real GDP. Similarly, the exports constitute 10% of the GDP but only contribute 1% in direct taxes.

There is an urgent need to tap the potential of these sources for their optimum contribution towards national exchequer which will not only remove inequities in tax regime; but will also provide the much-needed additional revenue to the government.

Also, fulfilling IMF's condition of standard GST rate of 17%, which is expected to add Rs.326 billion to revenue, may prove counter-productive and fuel inflation.

Moreover, the government should move to outsource the maintenance and operation of digitized data from FBR (as prevalent in Turkish model) since its revenue automation portal, PRAL, has touched its maximum capacity. The idea is to shift the focus to broadening the tax base in order to keep the system as an asset in the long run rather than a liability.

Note 2 (Other taxes)

Federal Government's other taxes include other indirect taxes, Mobile Handset Levy, Airport Tax, Gas Infrastructure Development Cess, Natural Gas Development Surcharge and Petroleum Levy. These were budgeted for 2020-21 at Rs.501 billion. With the assumption of 10% growth, other taxes are projected to increase from Rs.501 billion to Rs.551 billion for 2021-22.

Note 3 (Non-tax revenue)

The non-tax revenues of the Federal Government, which include income from property and enterprise, receipts from civil administration, etc., and miscellaneous receipts, were set at Rs.1,109 billion for 2020-21. For next year, it is assumed that non-tax revenues would also rise by 10% to Rs.1,220 billion.

Note 4 (Transfer to provinces)

Under 7th National Finance Commission (NFC) Award, in pursuance of the Constitution of Pakistan, provinces get their due share from the divisible pool. NFC Award allocates financial resources among Federal Government and Provincial governments whereby the Centre gets 40% and all the provinces (including Gilgit-Baltistan and AJK), in aggregate, receive the remaining 60%. Provincial share for 2021-22 is kept at Rs.3,600 billion which stands at Rs.2,874 billion in current year's budget.

Note 5 (Domestic Debt)

According to State Bank of Pakistan (SBP), the country's outstanding central government's domestic debt was Rs.24,502 billion as of January 2021. The IMF estimates annual domestic debt to appreciate by Rs.2,876 billion in 2021-22 which, for 2020-21,was projected at Rs.2,631 billion. Till December 2020, the increase in domestic debt was recorded at Rs.1,356 billion.

Note 6 (Foreign Debt)

As per SBP's report, Pakistan's central government's external debt outstanding as of January 2021 stood at Rs.12,034 billion. The IMF projects country's annual external debt to see an increase of Rs.425 billion for 2021-22 as against Rs.315 billion budgeted for 2020-21. The increase in foreign debt till December 2020 was Rs.118 billion.

Note 7 (Pension)

The budget earmarked for Pension was Rs.470 billion in 2020-21 and the expenditure till the end of first half of the fiscal year was Rs.210 billion. It is assumed that budget for Pension will increase by 5% to Rs.494 billion in the next fiscal year.

Note 8 (Defence affairs and services)

The budgeted Defence expenditure stood at Rs.1,289 billion for 2020-21 while the actual expenditure till December 2020 was Rs.486 billion. It is proposed to be enhanced to Rs.1,482 billion in 2021-22 reflecting a jump of 15%.

Note 9 (Grants and transfers to provinces)

Grants and transfers to provinces are budgeted at Rs.905 billion for 2021-22 with no change as compared to the current year's budget. At the end of first half of the current fiscal year, the grants and transfers to provinces were Rs.265 billion.

Note 10 (Subsidies)

Provisions for subsidies were Rs.209 billion in 2020-21 budget which are expected to be enhanced by 139% or Rs.291 billion to Rs.500 billion in the coming fiscal year. At the end of December 2020, subsidies were Rs.128 billion.

Note 11 (Running civil government)

The civilian government's expenditure budgeted for 2020-21 stood at Rs.477 billion while the actual expenditure for the first half was Rs.195 billion. With the assumption of 5% increase, it is projected at Rs.500 billion for the next fiscal year.

Note 12 (Provision for contingencies)

Provisions for contingencies are projected to be retained at Rs.50 billion for 2021-22 with no change from the current year.

Note 13 (Federal PSDP)

Against the current year's budget of Rs.650 billion on PSDP, the Federal Government consumed Rs.175 billion till December 2020. Considering the pace of development, it is assumed that Federal PSDP will be Rs.386 billion during 2021-22. We understand that the government is targeting high GDP growth and hence, we recommend not to cut PSDP.

Note 14 (Other development and net lending)

The quantum of budget allocated to other development and net lending was Rs.142 billion in 2020-21 whereas the actual spending in first 6 months of the fiscal year stood at Rs.54 billion. In view of the on-going pace, other development and net lending is projected to increase by 10% in 2021-22 to Rs.119 billion.

Note 15 (Federal budget deficit)

The Federal Government has estimated the annual budget deficit of Rs.3,438 billion for the fiscal year 2020-21 which is 7.54% of the projected GDP. In 2021-22, the deficit is expected to rise to Rs.3,565 billion. Keeping in view the IMF's projected GDP growth for Pakistan at 4% in 2021-22, the budget deficit would marginally decrease to 7.52% of GDP.

Sensitivity Analysis of FBR's Revenue and Consequent Impact on Fiscal Deficit

In the present economic condition which is also affected by Covid-19 pandemic, it is more than likely that the FBR may not be able to reach tax revenue target of Rs.6,000 billion in the next fiscal year.

In this scenario, following is the Sensitivity Analysis under two assumptions. These assumptions are elaborated further:

Budget at a Glance 2021-22	Assumption 1	Assumption 2
	------------ Rs. (in billions) ------------	
Receipts		
FBR's direct taxes	5,750	5,500
Other taxes	551	551
Non tax revenue	1,220	1,220
Gross revenue receipts	7,521	7,271
Less: Transfer to provinces	3,450	3,300
Net revenue - Federal share	**4,071**	**3,971**
Expenditure		
Current	**7,232**	**7,232**
Domestic debt	2,876	2,876
Foreign debt	425	425
Pension	494	494
Defence affairs &services	1,482	1,482
Grants & transfers to provinces	905	905
Subsidies	500	500
Running civil government	500	500
Provision for contingencies	50	50
Development	**504**	**504**
Federal PSDP	385	385
Other development & net lending	119	119
Total Expenditure	**7,736**	**7,736**
Federal Budget Deficit	**(3,665)**	**(3,765)**
Projected GDP	**47,390**	**47,390**
Fiscal Deficit as % of GDP	**-7.73%**	**-7.94%**

Source: Finance Ministry, SBP, IMF and Budget Document 2020-21

Assumption 1:

In case FBR's tax collection in 2021-22 remains at Rs.5,750 billion instead of the targeted Rs.6,000 billion, the projected federal budget deficit would be around Rs.3,665 billion. This would be Rs.100 billion more or 7.73% of GDP in a single year when compared to 7.52% of GDP originally projected in the model budget.

Assumption 2:

If FBR only manages to collect Rs.5,500 billion in 2021-22, against the target of Rs.6,000 billion, the budget deficit would swell by Rs.200 billion from currently projected Rs.3,565 billion to Rs.3,765 billion. In relation to GDP, the budget deficit would be 7.94% compared to 7.52% as projected for 2021-22.

Sector-wise Contribution to GDP

Pakistan's is a mixed economy driven by various sectors contributing to the overall growth. To understand the economy and challenges faced by it, it is imperative to get acquainted with the mix of contributing segments.

The flow of Real Gross Domestic Product(GDP) for FY 2019-20 (Provisional) is as under:

Sectors	Amounts (Rs.in millions)	Contribution
A. Agriculture	**9,469,395**	**24.36%**
Crops [(i) + (ii) + (iii)]	3,614,278	38.17%
(i) Important Crops	*2,273,148*	*62.89%*
(ii) Other crops	*1,144,441*	*31.66%*
(iii) Cotton Ginning and Misc.	*196,689*	*5.44%*
Livestock	5,460,927	57.67%
Forestry	216,387	2.29%
Fishery	177,803	1.88%
B. Industrial sector	**7,381,423**	**18.99%**
Mining & Quarrying	1,081,703	14.65%
Manufacturing [(i) + (ii) + (iii)]	4,818,863	65.28%
(i) Large Scale	*3,712,779*	*77.05%*
(ii) Small Scale	*621,977*	*12.91%*
(iii) Slaughtering	*484,107*	*10.05%*
Electricity/Gas Generation & Distribution	686,118	9.30%
Construction	794,739	10.77%
C. Services Sector	**22,027,662**	**56.66%**
Wholesale and Retail Trade	6,977,278	31.68%
Transport, Storage and Communication	3,886,460	17.64%
Finance and Insurance	1,047,683	4.76%
Housing Services	2,276,352	10.33%
General Government Services	3,423,931	15.54%
Other Private Services	4,415,958	20.05%
Real GDP (A+B+C)	**38,878,480**	**100.00%**

Source: Pakistan Bureau of Statistics

Proposed Measures for Economic Recovery

After carefully reviewing each relevant sector including the sub-sectors falling thereunder, ICAP submits the sector-specific proposals for revitalization of economy summarized as under:

A. Agricultural sector

Crops

- **Farm to Market Approach:** Although agriculture is a provincial subject, we recomend that under the aegis of the federal government, the coordinating body can be formed to oversea and implement farm-to-market authority with respect to provinces and facilitate them in achieving their objectives.

  Most of the farmers do not have direct access to the market due to which the role of middleman remains crucial. Because of his presence as an intermediary, farmers normally do not get fair prices for their produce. In view of this, there is a need to build connecting roads within and across provinces that can provide direct market access to the farmers. Two of the practices adopted by the neighbouring countries can be benchmarked.

  In one country, the Ministry of Agriculture and Rural Affairs (MARA) initiated the formation of National Farmer Cooperatives with the aim of helping out small farmers gain direct access to market. This requires, active connection with key urban agricultural products marketing entities, local wholesale market, and supermarkets. It also envisaged to resolve issues related to transportation of farm produce, in close coordination with the local government or rural and agricultural department.

  In other country, a new Electronic National Agriculture Market (e-NAM) platform was launched with an aim to facilitate farmers. Two main features of the platform include:

  - Warehouse-based trading module to facilitate trade directly from warehouses based on e-Negotiable Warehouse Receipts

  - Farmer Producer Organization (FPO) trading module whereby FPOs can trade their produce from their respective collection centers, without bringing the produce to Agriculture product markets

  Furthermore, the direct sale to the appropriate market should then be followed by swift payments to farmers through proper banking channels.

- **Locust and pest control:** For locust outbreak that turned serious towards the last part of 2019 and beginning of 2020 – damaging over 115,000 hectares of crops – including consistent supply of ingredients like pesticides, seeds, etc, can be ensured. The research institutes are also required to upgrade their systems in collaboration with China and other western countries, with the aim of developing effective chemicals that can control the spread of locusts and other pests.

- **Availability of equipment and machinery:** Availability of quality agricultural machinery and equipment, such as tractors, at the right time and at economical prices, to the farmers' community should be ensured. All such requisite machines shall be given without burdening taxes.

- **Farmers' Risk Mitigation:** Government should focus on formulating such policies that aim to tackle unforeseen situations of the farmers.

  In one of the countries of western region, for example, the policy makers have introduced schemes for their farmers in case of natural disasters or calamities. These schemes are significantly subsidized with the share of the support in the total insurance premium being close to 80% in the case of the multi-risk insurance schemes and 35% in the case of insurance schemes against natural hazards.

- **Farmers' Education:** Investment in agri-based education system can treamline rural poverty. With this initiative, farmers' community also has the opportunity to improve their skills and employ their knowledge in farming.

- **Crop Prioritization:** A defined and clearly stated plan to prioritize the type of crops required at national level can help attain economies of scale within each crop cycle. Consideration of the pros and cons of each crop, specifically, the price parities and potential export opportunity that does not create additional burden on economy is essential. Furthermore, rural/agricultural authorities have a major role to play in disseminating accurate and timely information to all stakeholders.

- **Financial Inclusion:** It is necessary that the system of supplying agricultural produce is tied with corresponding financial considerations. Networks of banks should be made to reach the rural areas to provide necessary services to the farming community. Government may also explore engagements with FinTech startups and promote the development and use of apps to assists the farmers manage their finances.

Livestock

- **Strengthening Milk Produce:** Pakistan is the 4th largest milk producing country in the World. In 2019-20, milk production was 61 million tons and around 20% of this milk production had been wasted (15% due to faulty transportation and lack of chilling facilities and 5 % in suckling calf nourishment) which is a loss of 12 million tons per annum. In an effort to transform this sector and capitalize on the production, new plants from United States Department of Agriculture (USDA) can be imported for better production, storage and less wastage. Converting liquid milk to a powder form can also bring in huge revenue for our economy.

- **Strengthening Meat Produce:** Apart from milk production our meat market is shrinking. It had only 4708 thousand tons' production in 2019-20, of which 53.4 thousand tons were exported (1.13 % of total production). The loss in market for export of meat and its share pertains to lack of investment in upgrading value chains. This means that in this sector, there is capacity to increase export on meat by 3 to 4 times of current value. However, this can only happen when meat growth is ensured by adopting new avenues and halal certification to capture global markets. Further we have to control livestock smuggling to Afghanistan and other international markets so that the benefits remain within the country and are not lost due to operational glitches.

Forestry

- Government's initiative of 'Ten Billion Tree Tsunami Program' is bringing in positive returns for the economy. However, in developing urban land much of the forest lands have been under an impact that can turn out to be lethal for environment and future of the country.

Fishery

- Modernization is a need of the fishery sector. Value added supply chain can help direct market access for export to fishermen and also can aid in bringing change in fishery landscape.

B. Industry

Over the years this sector has faced multiple problems some of which are highlighted below, together with their suggested solutions:

Mining & Quarrying

- Despite the fact that Pakistan is richly endowed with quality minerals, the Mining and Quarrying sector has exhibited insipid performance with its contribution to GDP remaining at 2.78%.

- 70% area of Khyber Pakhtunkhwa comprises of mountains and rocks, potentially containing huge deposits of various metallic and non-metallic minerals and various precious and semi-precious gemstones. Sindh also has rich coal and granite reserves. The Mines & Mineral Development Department intends to have 30% of country's energy produced on coal by year 2030. As regards Balochistan, the nature has gifted this land with a vast variety of natural resources. It has large deposits of limestone, gypsum and coal (raw material for cement manufacturing) and investment opportunities for installation of cement factories are available in this province. The province is also said to have deposits of precious and other metals like gold, copper and iron.

- However, proper attention has not been given to the exploration and development of mineral sector in the past in view of financial constraints, heavy risk investment and lack of infrastructure as the deposits are located in remote and far flung areas. If properly explored and developed, these areas can become a good source of revenue for the country.

- The government may introduce new technologies and systems for mining and extraction. Nevertheless, considering its huge potential, government is committed to make this sector as one of the most profitable and rapidly growing sector of the economy. Although these matters fall under the ambit of provincial governments, the federal government can still support it.

Manufacturing

- **Large Scale Manufacturing:** Large Scale Manufacturing (LSM) has long remained under constrained economic environment under the shadow of exchange rate depreciation and restrictive monetary and fiscal policies. Costs of industrial inputs, frequent and repetitive implementations of stabilization and revenue measures and lower domestic demand have been the key factors behind this lackluster performance of LSM. The government should offer similar incentives to manufacturing sector as have been given to construction sector. Since it covers a large part of the GDP, the said incentives are likely to give a boost to the economy and push the GDP towards achieving the growth rate of 6% and beyond.
- **Small Scale Manufacturing:** With a view to allow growth in Small Scale Manufacturing (SSM), the government needs to facilitate the units falling under this sector with proper market access and ensure availability of loans at minimal mark-up so that SSM industry is able to realize its full potential and generate a significant contribution in GDP.
- **Slaughtering:** This industry is closely linked with the sub-sector of livestock. Therefore, the measures suggested for that sub-sector, such as development of upgraded value chains; exploring new avenues and technology; obtaining globally recognized halal certification; and controlling smuggling of livestock, are expected to positively impact the slaughtering industry in a similar manner.

Electricity/Gas Generation & Distribution

- Energy systems around the world are undergoing rapid transitions exploring new sources and ways to use energy. These trends are expected to bring widespread change for businesses, governments and individuals in the coming decades. Government will have to stay abreast with this changing scenario. The generation and transmission capacity of existing systems will have to be increased with the aim of improving the performance of this sector and to cope up with emerging dynamics.
- Sindh has large coal reserves of the country. It is estimated that around 185 billion tons of coal naturally exists in Lakhra, which is on east of Indus and Thar. If properly explored and utilized, the energy crisis of the country can be coped up.

Construction

- The government has moved in a right direction by offering the incentive package in construction sector which includes tax exemptions, Rs.30 billion subsidy for Naya Pakistan Housing Scheme and amnesty for people investing in this sub-sector. However, since the amnesty was time bound, it is suggested to extend it till December 2021 so as to better counter the adverse effects of COVID-19 pandemic.

- China-Pakistan Economic Corridor being part of major economic uplift initiative of the country, is likely to create opportunities for local businesses and trades. However, it is also important to make sure that the local labor and workforce is not ignored or marginalized during the process.

- The government is facilitating through banks an easy access of finance to developers (Development Financing) and buyers of properties and houses. However, more efforts are part to increase the quantum of such finances; specially to the end users (Mortgage Financing).

C. Services

Services sector accounts for 56.66% share in total GDP. With the major share in the economic activity of Pakistan, it is important to ensure its steady growth.

Wholesale and Retail Trade

- The wholesale & retail trade (WRT) is a well-recognized sector all over the world. The growth in population, individual income levels, availability of bank loans and aggressive marketing techniques has raised the demand for consumer goods. The growing demand and consumption, accordingly, provided impetus to the producers and suppliers at all levels, hence wholesale & retail trade has flourished manifold in the country. Nonetheless, despite many positive aspects, it is noted with concern that the tax contribution by the sector remained dismal and below the expectations and potential. If the largest sub-sector, in terms of establishments in the country, pays due taxes, it would be an immense support for the government to reach a reasonable level of tax-to-GDP ratio. As such, this sub-sector needs taxation reforms and reduction in tax rate. It can be expected that with lower level of tax rates this sector would be encourage to discharge its liability towards the state which would result in a significant rise in revenues for the government.

- Apart from above, it is also observed that this sub-sector lacks in proper documentation and hence, the government needs to introduce an efficient but hassle-free system of tracking of goods to cut profiteering. Due to significant base of parallel economy, the documentation drive at gradual pace is also essential.

Transport, Storage, and Communication

- Although this sector significantly contributes towards the economy, however, there is a vast room for improvement in railway transport services which contributes insignificantly at present.

- According to Pakistan Economic Survey 2019-20, during COVID-19 pandemic and resultant lockdown, there was a decline of 45.74% in railways and 6.49% in air transport while road transport declined by 9.58%. In view of this, we should consider an alternate mode and launch ferry transport service in the transportation of goods at intercity level.

- Building of modern infrastructure can be helpful in terms of timings and costs. This, in turn, will reduce the cost and consequently, the inflation.

Finance and Insurance

- Financial sector is the backbone of the economy as it provides support to all other sectors. Therefore, financial inclusion for majority of the population is very important and necessary. The economy of a neighbouring country has ensured that a large segment of its masses (80%) have banking access. According to World Bank's Global Financial Inclusion Index 2017, Pakistan's financial inclusion is at lowest compared to its peer group. Only 21% (expected to have reached to 25% now) of Pakistan's total population have access to the formal bank accounts. Whereas, 79% of population either lacks access to banking sector or does not use its services, which indicates that they are more dependent on informal economy. In addition to this, it is estimated that 42% of GDP (i.e. 18% of GDP from wholesale and retail trade and 24% of GDP from agriculture) employs millions of people in undocumented economy.

- Due to huge base of parallel economy, it is desirable that the recipe of our economy shall be based on the following factors:

  - Lower interest rate: Lower interest rate will help the government to reduce in debt servicing in the short term, medium term and long term by approximately Rs.300 billion to Rs.400 billion. Besides, it will also give boost to businesses to operate on optimum level. Lower interest rate will also facilitate in bringing down the inflation.

  - Stable currency parity: Due to very small market appetite, it is recommended to have stable rate of currency parity which will facilitate the exporters in taking a long term view of their businesses.

  It is also recommended that stringent exchange controls shall be imposed on luxurious imports and abnormal trading of foreign exchange. However, to subside the impact on export related manufacturing businesses, they shall be compensated across the board through subsidy. For example, in case of textiles, subsidy shall be distributed from cotton growers to exporters and not just to the exporters.

- In order to fight and discourage informal economy, Pakistan should target cash economy through its action plans the same way the Turkish Government is following presently. Turkish authorities have allocated $769 million to combat parallel economy during 2021-2023. The key objectives of Action Plans include; (a) increasing voluntary compliance; (b) strengthening audit capacity; (c) increasing the deterrence of the sanctions; (d) sharing database; and (e) raising public awareness. Therefore, in order to combat Pakistan's large informal economy, policymakers must pursue periodic Action Plans in the same pattern. The Institute is planning to conduct research with IBA for curbing parallel economy and will propose the Action Plans to the government.

Housing Service

- The most critical and important element in determining the growth of the housing sector is the construction sector itself. The government's project of Naya Pakistan Housing Programme is a very good initiative but to apply it at every level of urban population, government needs to have a proper organized model. The mixed model of urban governance would be most suitable for housing as well as the institutional framework of different provinces, in which federal, provincial, and local governments play their part in facilitating the provision of affordable housing. To avoid issues such as complex institutional framework, limited policy vision, multiplicity of housing institutions and poor housing finance; the federal government should have the authority to develop policy frameworks and plan major housing programs for all the provinces, in coordination with provincial governments. For federal-level housing projects, the executing body must be a federal one, whereas the provincial governments should be authorized to initiate their own provincial housing projects with the consent of the federal government. Likewise, the federal government projects will be implemented through the provincial executing body, and the same principle applies to local government.

- In regularization of sector, there is a need for capacity building of the regulators. However, it is difficult to find reliable data for prices. Pricing, being the grey area, is most easily manipulated. In our country, real estate sector is the haven of unrecorded economies and a person can easily indulge in tax evasion through incorrect price recording in documents.

Pakistan's Export Competitiveness Analysis

- There is a genuine realization among many that Pakistan will not be able to match the economies the size of China and India because of the economies of scale, and the advanced technological and human resource base available to them. If the example of China is considered, one has to admire the path of growth that country has embarked on. With every passing day China is capturing more and more share in global trade market. It has become the largest exporter of the world with the fastest growing economy where per capita income doubles in every 10 years and the real purchasing power rise significantly every year. The key to this staggering rise to becoming an economic superpower is that China focused on development of its infrastructure which generated productivity. Whereas, in Pakistan, there is a dearth of research institutes and therefore, a low ratio of well-trained University graduates in the field of science and technology and even lower number of technicians per million inhabitants relative to countries such as China and even India. It is imperative that government, in collaboration with relevant industries, invests in research and development (R&D) by joining the resources and develop a pool of scientists who can find solutions to the problems and explore new opportunities or avenues for the industry. The liaison between local institutions and the industry also needs to be fortified.

- Pakistan's inconsistent trade and industrial policies, along with infrastructure bottlenecks, and low value addition, etc. have also contributed in slow growth of textile exports. In addition, the 'incentive structures' offered by the policy-makers have, in fact, resulted in inefficiencies instead of encouraging investment in the human resources, technological advancement, R&D, SMEs; or reducing cost of doing business; for creating sustainable exportable surplus. Whenever, large fluctuation in international commodity prices is witnessed, our high dependence on international cotton prices becomes a critical issues, which exposes textile exports vulnerability and fuels economic instability. In 2020, international average cotton prices are lowered by 60% as compared to 2011 i.e. they have dropped from $1.55 per pound in 2011 to $0.62 per pound in 2020. As a result, Pakistan's net textile exports dropped by 13% from $10.21 billion in 2011 to $8.89 billion in 2020. However, this reduction in price of cotton did not affect textile exports of Bangladesh since 78% to 83% of such exports consist of readymade garment. Bangladesh's earnings from exports of readymade garments have remained 1.3 to 2.5 times more than Pakistan during the last 10 years. With continuous value addition in textile sector, Bangladesh's exports of readymade garments have surpassed Pakistan's total exports since 2015. To bring stability, integrated long term textile policy is the need of the hour, alongwith effective allocation of resources to develop industrial base. Offering incentives to businesses through cheap credit, subsidies or tax breaks could create exportable surplus for country.

- According to 'China and the World' full report of June 2019, China is a huge market and its share of global goods trade increased from 1.9 percent in 2000 to 11.4 percent in 2017. In an analysis of 186 countries, China is the largest export destination for 33 countries and the largest source of imports for 65.

Most of these imports is by Asian countries, whereas, Pakistan's share in China's market is less than 10%. As reported by SBP, "In Financial year 2019, share of exports to China is 7.7%. As a close ally with China why we can't grow that share to at least 10%? This will turn out to be the billion dollars profit for our domestic market and will guarantee growth in the total export and eventually, in GDP". Now the question is how to capture that part of export. We know that Pakistan's textile sector roughly contributes 60% of total export earnings of the economy. It is also observed that about 55% of China's exported apparel is made from imported fabric. In this area, China is the largest trading partner of Malaysia, Singapore, the Philippines and South Korea. Considering the fact that Pakistan is a labor abundant country where the low labor cost per unit in textiles is the main source of its competitive advantage at present, there is no reason why Pakistan cannot enhance its exports by supplying high quality, low cost fabric to China and as a result, partially replacing the Chinese imports from Japan, Korea and Taiwan whose goods are of higher cost.

- Apart from the above, it is important to realize that Pakistan's competitive advantage in textiles' export is static in nature, based on a number of factors; but, in a rapidly changing global economic environment, a country cannot rely upon such an advantage for long. The need is to shift focus to dynamic competitive advantage. The country must remain aware of changing trends and put efforts to produce more value added, end-user goods rather than producing intermediate goods. The strategy should be to concentrate on products having the balanced potential of productivity and demand.
- It would also be interesting to see to what extent China and India, whose skill mix and endowment factors are sufficiently developed, will allow rapid upgradation in a number of technology intensive sectors. This will make them exit from traditional labor intensive sectors which would provide opportunities for countries such as Pakistan having labor-intensive products.

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