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Report – Public Talk

"Pakistan's Macro Economy: Current Situation and the Way Forward"

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As part of its Distinguished Lecture Series, the Institute of Strategic Studies Islamabad (ISSI) organized a Public Talk titled *"Pakistan's Macro Economy: Current Situation and the Way Forward,"* on December26, 2019. Dr. Ishrat Husain, Advisor to the Prime Minister on Institutional Reforms and Austerity, was the guest speaker at the occasion.

Welcoming the speaker and guests, Director General, ISSI Aizaz Ahmad Chaudhry, said that ISSI plans to carry out a series of public conversations on the economy of Pakistan, starting with the discussion today on macro economy with Dr. Ishrat Hussain. Later, he said, ISSI hopes to cover other dimensions of the economy of the country including micro economy, trade, planning and development. Introducing Dr. Husain, he said that the latter wore many hats. His illustrious career saw him as an eminent economist, a civil servant, WB executive, Governor State Bank, a renowned author, and presently advisor to the government.

Ambassador Chaudhry said that many in this hall, including him, were not economists, and therefore, struggle to understand what's happening on the economic front in the country and where it is all headed. He hoped that the talk today would help to clarify some of the questions that agitate our minds. He added that a sound economy is central to good governance and stability of a state. Economically developed nations have a much larger say in world affairs. China is a case in point. China's economic might provide it the foundation to project its influence and protect its interest. The reverse is also true. Soviet Union, despite its might and political weight, lost out on economic front. Our economy is suffering from multiple challenges (from stagnating economic growth to growing current account and fiscal deficits to high inflation). As a nation, we are earning less and spending more. Hence, we end up with high fiscal deficits. We are also familiar with the other deficit, the current account deficit – buying from abroad more than selling abroad. Because of these two deficits, we have to borrow first to meet our expenses and also pay for whatever we import from abroad. Therefore, everyone quite well understands why the government had to sign up a program with IMF (worth USD 6 Billion), and also obtain soft loans from friendly countries to bridge these deficits.

Ambassador Chaudhry further said that he wished to understand better from Dr. Husain, how effectively is the government bridging these two deficits? How long would it take to achieve

macro-economic stability? And, in the process how would we bear the costs of adjustments? In this context, he raised a few specific questions that many people in Pakistan are grappling with:

One, the austerity driven model and high interest rates are slowing down our economic growth. The IMF has already projected a decline in Pakistan's annual growth rate to 2.4% in FY 2019-20. Will this shrinking of the size of the economy not lead to further unemployment and hence difficulties for the people and the government? An allied question is, should the government not follow an expansionary fiscal policy so that we don't end up in a recession?

Two, the government is rightly concerned at the high levels of our debt -the debt to GDP ratio which will reach 86% over the next five years. The currency has already depreciated more than 20% in the last year. Where do you see our debt profile taking us in the coming years? And how would we avoid a debt trap?

Three, we are into the 22nd program with IMF. How would this program be different from previous programs? He implied that the program calls for higher costs for utility services. The burden of this adjustment will fall on consumers. Coupled with that is the rising rate of inflation. This could become a huge burden for the masses. How will the government minimize the impact of the inflation and high utility costs, especially for low income group? How would the government control the prices, especially of food and fuel? And will this lead to hyperinflation?

Four, the government is rightly working hard to increase exports. However, by increasing the cost of utilities as required by the IMF, are we not increasing the cost of manufacturing, and hence, making it difficult for our manufacturers and exporters to stay competitive?

Five, the government is also reducing imports. In theory it's good as we should not buy what we cannot pay for. However, by reducing imports drastically, is the government not losing its import duties, and hence, its revenues. Further, will this not make it difficult for our manufacturers and exporters who need machinery and raw materials from abroad?

The present government has rightly accorded top priority to re-setting our economy, and in that context, broadening the tax base is probably the most effective remedy to country's financial ailments. The government is right that everyone must pay taxes. It would be useful to hear from Dr. Husain how, in his view; the tax base can be expanded in the face of opposition from

retailers and many other segments of the society. One recognizes that this is a heavy agenda. Stabilizing economy and pulling it out of such mammoth challenges is not easy. There is no short cut either. However, everyone wants to understand from Dr. Husain as to how in his view our economy as a whole and macro economy in particular can be stabilized in the shortest possible time.

*(**Note**: Following is an abridged version of Dr .Ishrat Husain's presentation. Full text can be viewed on our website: www.issi.org.pk)*

Dr. Ishrat Husain placed the current economic situation in the historical context. For the first decades 1950-199, Pakistan was among the fastest growing economies in the developing world. This achievement was remarkable because Pakistan had inherited an economy without any industrial base; had to rehabilitate and absorb 8 million refugees – almost one fourth of the total population; had to fight a war with a much bigger and stronger neighbor in 1965; lost the Eastern Wing and suffered a trauma in 1971. In the 1970s, all major industries, banks, educational institutions were nationalized. In 1980s, the country participated in the Afghan War against the Soviet Union which created some harsh social and geopolitical consequences. India in this same period was growing at 3% per annum – almost half of Pakistan's growth rate. Per capita income in Pakistan was much higher and poverty was much lower than that in India. Since 1990, the tables have turned. India has surpassed Pakistan not only in per capita income, GDP growth, and human development indicators, but has become one of the fastest growing economies in the world. Bangladesh which was way behind us in all economic and social indicators in 1990, has forged ahead of us and is recording 6 to 7% growth rate with impressive gains in social and human development. Pakistan has become a laggard in South Asia.

Why this reversal of fortune? Dr. Husain explained the reason being Pakistan's institutions of governance which brought about spectacular results in the first forty years have decayed and become dysfunctional. Patronage-based politics has weakened the civil services which formed the backbone of these institutions. He said that Pakistan Industrial Development Corporation (PIDC) along with Pakistan Industrial Credit and Investment Corporation (PICIC) and Industrial Bank of Pakistan (IDBP) brought about an industrial revolution from almost a scratch that led to Pakistan's manufactured experts exceeding that of Malaysia, Indonesia, and Philippines.

Agriculture Development Corporation(ADC) pioneered the Green Revolution in the 1960s, and a country which could not feed 30 million of its population is now self-sufficient, meeting the requirements of 210 million people but also has exportable surplus. Water and Power Development Authority (WAPDA) constructed the largest and highly complex Indus Basin Works including Tarbela and Mangla Dams in the 1960s and 1970s which increased the availability of irrigation water during the Rabi season. Planning Commission was able to attract the best talent trained at the top universities abroad and its five-year plans were the benchmark and reference points for other developing countries. Pakistan International Airlines (PIA) had established itself a leader in aviation industry and many successful airlines today such as Singapore Airline and Emirates were set up by PIA staff.

Coming to the current economic situation where the economy has to be routed to the ICU at such frequent intervals, the question that needs to be answered is: whether there has been an appetite for deep-rooted difficult reforms and political ownership of these reforms? The answer is that there is an in-built asymmetry in the timing of gains and losses from these reforms. Those who are affected adversely by reforms whether by bringing them into tax net or documenting the economy or removing distortions in the valuation of real estate are all entrenched and want to defend their vested interests. As the losses take place immediately they organize themselves to protest and going on strikes and disrupting economic activity. They are supported in these activities by the political parties in opposition to the government and by the media who have also assumed the perpetual role of opposition. The party in power either gets pressurized by its own rank and file, or by the fear of a law and order situation and abandons the reforms and thus reverts to maintaining status quo which was responsible for the ill-health of the economy in the first place.

The gainers from the reforms are not yet identifiable as it would take time for the gains to actualize. Most of the gains are diffused and dispersed widely throughout the economy. The likely gainers would never be able to group or organize themselves in defense of the reforms because they do not yet exist. This has been the main reason as to why we shun away from reforms which are generally unpopular and adopt ad-hoc short-term palliative measures in order to provide some relief. But as the underlying structures remain unchanged, the external and fiscal

imbalances continue to worsen. The country has no other option but to knock on the doors of the IMF or other external donors to bail them out of the crisis's situation.

This lack of political courage and inability to stick to reforms in face of adverse sections is the main explanatory factor for the booms and busts of Pakistani economy in the last 25 years. Pakistan economy had taken a turn for better in the 2000-2007 period – tax revenues had tripled, exports in dollar terms had doubled, FDI had reached $ 7-8 million dollars, current account and fiscal balances were under control, banks were privatized, telecom sector was opened up for competition, local governments were empowered to meet the last services at grassroots level. But these reforms did not survive beyond 2007 because either they were reversed or abandoned for sake of political expediency. He recalled attending a high-powered meeting in February 2008, when all the proposals to increase the prices of petroleum products, food, fertilizers, and utilities in light of international price hike were turned down by the interim government. It was argued that the party in power would lose the elections and let the new government take these tough and unpleasant decisions. Consequently, the indecision of that time breached all the barriers and flooded the economic landscape costing huge subsidies that led to large fiscal imbalance and depletion of foreign exchange reserves. The new government had to approach the IMF, devalue the currency and take other harsh measures.

The other question he was frequently asked is: Until September 2016, the Pakistani economy was doing well, but why in the next 18-24 months did it suffer such serious setbacks in form of unmanageable current account and fiscal imbalances? In my view, discontinuity in economic management and consequential uncertainty created thereby was the main reason for such sharp down fall. After the resignation of the Prime Minister Nawaz Sharif and the cases filed against Finance Minister, there was nobody minding the store till Mr. Miftah Ismail was appointed just before the formation of the caretaker government. The caretaker government adopted a hands-off approach because they interpreted their mandate of non-interference too literally. Then came the elections and formation of new government which also took some time to assess the situation and make up its mind.

The lesson he drew from this episode is that it is in our larger national economic interests that we do away with the caretaker government, as the costs of disruption to the economy far outweigh

any benefit. For example, the last caretaker government stopped funding development projects in April 2018 and it took more than six months before work was resumed after the elections. There must have been cost overruns for this delay. To his mind, a strong fully empowered Election Commission with the Chief Election Commissioner experienced in administration should be allowed to conduct elections and the sitting government should continue to manage the economy thus assuring continuity. After all, all political parties insist that neutral external observers should be allowed to watch the conduct of the elections. The role of caretaker government in actual holding of election is minimal and this task can be transferred to the Election Commission.

The second reason we fell off the road was that we exceeded the maximum speed at which the economy could cruise. Given the huge gap between the domestic production capacity and aggregate demand, any increase in purchasing power of the people spills over towards imported goods. The country does not have sufficient capacity to produce petroleum or petroleum products, machinery and equipment, chemicals, raw material for industry, not even vegetable ghee, pulses, milk powder - all of which had to be imported to meet the demand of a consumption-led economy moving rapidly above its speed limit. So, this is what happened in the last few years. As economic growth rate sped off its maximum limit the import bill became unsustainable and the balance of payment situation got worse. Excessive borrowing was resorted to meet the deficit, raising the debt burden. Tax net was so restricted that the Government did not secure any gains from higher economic growth. Undocumented sectors such as real estate and flight of capital abroad were the conduits used by the beneficiaries of growth. Decisions to increase prices of electricity and gas were also postponed because of the 2018 elections and fiscal deficit got out of hand. Exports recorded negative growth and were able to finance less than half of imports. Exchange rate was maintained at an untenable level that precipitated depletion of foreign exchange reserves. Once reserves are on a dwindling path, the rupee-dollar parity comes under attack and investor confidence is eroded.

Thus, political inaction and hiatus along with an unsustainable growth path triggered the financial crises which ultimately led to going back for an IMF program. The first review of the program has been successfully completed, but it is true that economic growth has slowed down and inflation has risen to 12-13%. Level of economic activity and aggregate demand had to be curtailed to bring the current account and fiscal balances under control. The popular perception

of discontent with the current economic situation has arisen due to this concerted effort of tightening monetary policy and raising interest rate, adjusting exchange rate, documenting the economy and widening the tax net all at the same time aimed at saving the country from becoming insolvent.

Under the stabilization program, it was explicitly recognized that the poor would suffer the most through inflation and price hike. Efforts have been made to protect the poor by reinvigorating, consolidating and expanding the Social Protection Program called EHSAAS which provides cash transfers to 5.2 million poor households. While overall austerity was observed in government expenditures, the budgetary allocation for EHSAAS was doubled to Rs.200 billion. In addition to unconditional cash transfer and cash transfer, girl's education new targeted programs have been started. Insaf Sehat Cards entitles free health services up to Rs. 700,000 at public and private hospitals for the poor families. Premium for this insurance coverage is paid by the government. Undergraduate scholarship program of 200,000 scholarships to finance higher education of talented boys and girls from poor families has taken off this year. Interventions for nutritious food and supplements are also at design stage. Subsidies have protected 75% of domestic electricity consumers from tariff increases. Similarly, the lowest category of gas consumers has not been adversely affected by price adjustments. However, it is a fact that the middle class could not be protected from the onslaught of these price increases because of resource constraints. It must also be recognized that the poor do not have any voice, but the middle class is quite vocal.

Once macroeconomic stability is achieved and maintained, the next step is to resume the path for socially inclusive economic growth, job creation and poverty reduction. This would require some deep-rooted structural reforms whose benefits would become apparent after some time, but whose foundations have to be laid now. The pre-requisite for sustained growth is that we as households, government and corporate sector increase our domestic savings ratio. Unless that happens, our investment ratios would remain inadequate to generate the desired growth rates of 6 to 7% to absorb the youth entering the labor force. If we want these higher growth rates but do not mobilize domestic savings and non-debt creating external flows such as exports, remittances and foreign direct investment, we would have no option but to keep relying on large external borrowing. The effect of that strategy has been observed by all of us in the last thirty years. To achieve a sustainable and socially inclusive but fast-growing economy, we have to adopt a new

model of democratic governance in which the state, markets, civil society and communities play a synergetic and mutually linked role.

State through its executive, judiciary and legislative organs has to ensure that the benefits of economic growth reach a wider set of population, contracts are enforced and justice is expeditious and inexpensive and laws and statutes are designed not for the benefit of small groups, but for the majority. Social protection for the poor and vulnerable and investment in human development should form the essential ingredients of the state's responsibilities. Market forces would be used for allocating resources efficiently, but incomplete or imperfect or non-competitive market structures would be regulated to remove distortions and opportunities for collusion, connivance, cartelization and rent seeking. Legislature would simplify, streamline and strengthen the laws and statutes to ensure that these are not misused by a particular segment of the population for their personal or parochial interests. Judiciary has to ensure that the sanctity of contracts is observed, contracts are enforced, access to justice to the poor is enabled thorough expeditious alternate and dispute resolution mechanisms. Civil society and communities have to play a proactive role as watchdogs on the state and markets and also participate in the delivery of basic services such as education, health, sanitation etc.

He elaborated this further by focusing on some specific structural reforms that have either been initiated or are needed to bring the country back to reach its potential.

a. The 18th amendment to the Constitution and the 7th National Finance Commission has very rightly devolved administrative, legal, and financial powers and authority from the federal to the provincial governments. However, this devolution has remained incomplete so far. The provinces had not transferred powers and resources further down to local governments, where most of the interaction between an ordinary citizen and the government takes place. The new local government laws approved by the provincial assemblies of KP and Punjab are designed to substantially devolve these powers to the grass root level empowering the communities to make decisions about their development and welfare of their citizens. As Pakistan is rapidly urbanizing, the administration and management of metropolitan areas, cities and towns would be entrusted to autonomous, directly elected metropolitan, municipal corporations and town councils which have been

assigned responsibilities along with financial resources and ability to mobilize taxes, fees, user charges, cases for provision of services and development in their respective jurisdictions.

b. The administrative machinery of the civil services as a whole has almost reached at the verge of a breakdown. Therefore, reforms in the police, civil services, organizational structure of the federal and provincial governments and public utilities are being undertaken to reset the direction. The capacity of civil servants to remain neutral and objective, which used to be their hallmark, has to be rebuilt and their morale and motivation revitalized so that they are able to once again regain their lost space in the country's governance structure and processes. Equality of opportunity, transparent and merit-based selection, promotion and career progression, performance measured on the basis of key performance indicators, continuous learning and training, as well as compensation based on performance and weeding out of those who are falling behind the curve are necessary but difficult reforms that could eventually upgrade the quality of civil services at all tiers of the government.

c. Management and regulatory practices in the government need to be modernized and overhauled. Over centralization and the concentration of power, overly long hierarchical chains, multiple consultations for the sake of form and procedure rather than substance, turf building and turf protection, and the tendency to pass the buck have created a big gap between promises and performance. Public financial management law approved by the Parliament has made a beginning by delegating financial powers from the Ministry of Finance to line ministries. The rules of business have to be rewritten to assign clear responsibilities to ministries, giving them the requisite authority to fulfil their obligations and holding them accountable for results. Inter-ministerial coordination and conflict resolution is beginning to take place at the level of the secretaries' committees. Regulatory guillotine is being applied to axe out-dated laws, rules, regulations and processes. E-government tools under implementation would help ensure transparency and the expeditious pursuit of business and coordination efforts.

d. Poor educational standards, low literacy levels, large numbers of out-of-school children,

rote learning and memorization, out-dated and irrelevant curriculum offerings have made our educational system non responsive to the economic and social needs of the country. Limited accesses to schooling, particularly post primary in the backward districts while well to do families' send their children to the best private schools, have widened inequalities. The government under EHSAAS Scholarship Program has taken the initiative to facilitate talented students from poor families to get undergraduate education at public sector universities and colleges throughout the country. There is huge demand both within the country and outside for technical manpower, but we are producing only school and college graduates who are not employable. A major program to promote technical & vocational training, make higher education more relevant, and reorient scientific research towards national problems has been initiated. Start-ups and entrepreneurship programs have been set up in five major cities. Human capital is the basic factor that would determine whether a country is able to participate in knowledge economy and technological revolution of the 21st century. STEM education right from the primary schools all the way to the universities has to be promoted for inculcating inquisitiveness, creativity and innovation thinking.

e. In the financial sector, access to capital remains restricted to a very small minority while the majority of the farmers, firms, self-employed, employees and households who make large contribution to the country's income are unable to obtain financing from formal institutions as they do not have the collateral and security to offer. As the lower income groups do not have any tangible assets—skills or capital—they have no other option but to be dependent on their landlords, 'arhthis' or money lenders –all of them part of the elite class. Micro finance has opened up the vista for the poor and the coverage has reached almost one quarter of the eligible borrowers. National Financial Inclusion Strategy through digital financial services is an attempt to broaden the base and provide access to the underserved sectors. Data analytics would be used to predict the behavior of potential borrowers, and construct credit scoring models that would enable financial institutions to make credit decisions at low acquisition cost and also mitigate the risk of default. Algorithms are now available to guide the credit decisions, and the banks in Pakistan should adopt this methodology to expand their outreach to underserved sectors and underprivileged individuals and firms. Capital debt market should be developed so

that large credit worthy companies can meet their demand for expansion and new investment not through banks, but capital market.

f. Government enterprises are incurring huge losses as they have been captured by their workers, managers and political and bureaucratic supervisors. Whenever any government wishes to take some tough measures, it is immediately confronted by strikes, shut downs and suspension of transport causing immense hardships to the daily life of common citizens. The government backs down and the status quo ante is restored. By restructuring or privatizing these enterprises, not only losses would be curbed helping improve the fiscal situation and increasing spending on human capital formation, but improved efficiency gains would contribute towards higher growth. It is not realized that the privatization of nationalized commercial banks and the Pakistan Telecom has resulted in huge gains for the budget in form of corporate profits, dividends etc. The residual value of government equity showed a remarkable upswing instead of continuous injection for recapitalization of banks. Pakistani banks today enjoy high capital adequacy ratios and low non-performing loans. Telecom liberalization has significantly reduced user charges and provided mobile phone services to 170 million people and access to internet to 70 million people by auctioning spectrum for 3G and 4G. The government has embarked upon a program whereby these enterprises would either be restructured, sold to strategic investors, merged or liquidated as the case may be.

g. The present efforts to widen the tax base and document the economy are facing stiff resistance. In the past, these efforts could not bear fruit because of protests, strikes and political pressures. The present government is committed to enforce a whole set of taxation reforms. Restructuring of the Federal Board of Revenue (FBR) and provincial revenue collecting authorities, simplification of tax codes, increased use of electronic data bases talking to each other, minimal contact between tax payers and tax collectors, risk based audit, bringing new tax payers in the tax base, gradually reducing withholding taxes and more transparent valuation methods for assessing import duties and sales tax, reduction of import tariffs, mobilization of urban property tax and agriculture income tax are some of the measures that would correct some of the distortions, minimize leakages and corruption and maximize revenue collection. These measures would help the country

in lowering the public debt ratio to 70% by FY 2024 and then on a downward slope.

h. There are some "rent thick" sectors such as real estate, construction, railways, ports, airports, highways, media and telecommunications, mining, oil and gas , food procurement in which the government enjoys disproportionate powers in determining the financial health of a company through administered prices, award of contracts, concession agreements, spectrum allocations and grant of licenses, tariff determination, and permits. These sectors have to be made more transparent and exposed to competition. For example, in power sector the new Renewable Energy Policy has introduced open competitive bidding for tariff determination instead of upfront cost plus guaranteed rates of return, and capacity payments. These policies prevalent since 1994 have made our exports non-competitive and prohibitive for our households. Circular debt amounting to Rs. 1.6 trillion in addition to trillions of rupees paid out of budget as subsidies is a direct outcome of these flawed policies. Government has brought down the flows of circular debt from Rs. 38 billion every month to Rs. 10-12 billion and has a plan to bring it to zero. Multiple buyers and multiple sellers with the transmission company only recovering wheeling charges would enter into contracts without any interference by the government. Guaranteed rates of return on equity would be dispensed with. Gas companies would be split into generation, transmission, distribution companies, and market competition would be introduced. The present model of price setting relies upon a cost-plus methodology with a guaranteed rate of return allowing uncounted for gas losses.

i. Pakistan's exports have performed dismally compared to its neighbors. Export-GDP ratio has declined to 7.5% –one of the lowest in the developing world. The composition of export goods basket has remained almost unchanged since 1990s and low tech, resource-based items dominate this basket. In addition to product concentration, the destination is limited to a few select markets such as EU and the US, while penetration in other dynamic markets is negligible. The government is according highest priority to export expansion by promoting competitiveness in mid-tech and sun-rise industrial products and services. Artificial crutches to support the sun-set industries would be gradually taken away as market-determined exchange rate, realistic interest rate and low tariffs on raw materials and components would guide allocation of resources. Incentives that would be

performance-based and time-bound ought to be given for new exportable products and for new export markets. Logistic costs to reach ports including Gwadar Port should be comparable to those prevailing in other competitor countries. The government would support research and development and commercialization of new products and through Export-Import Bank facilitate exporters to penetrate new markets. Joint ventures with foreign companies that link Pakistani exports to global supply chain, bring in technology and marketing along with FDI should also be given incentives for limited period of time.

j. Although the Government should not choose the winners but indicate the priority sectors in which the private businesses should invest under a policy consistent, predicable and enabling environment. The criteria that would guide the selection of priority sectors would be (i) Export-Manufacturing industries and information technology-oriented services; (ii) Maximum employment generation – direct and indirect; (iii) Transfer of technology. Using these criteria, the sectors and sub-sectors that have been chose are productivity enhancement in cotton, wheat, oil seeds; efficient utilization of irrigation water through lining of water courses; modernization of agricultural marketing; small and medium enterprises; low cost housing, tourism and information technology. Nine Special Economic Zones would be established under CPEC attracting Chinese and other foreign investors to locate their industries. The Commission on Science and Technology and Commission on Information Technology should bring in all S & T Organizations under one Umbrella and encourage collaboration and integration in the value chain including multi-disciplinary research.

Finally, Dr. Husain touched upon on judicial reforms. He said that the dispensation of justice in Pakistan has become time consuming, expensive, convoluted, and unnecessarily layered. State revenues and bank loans amounting to hundreds of billions of rupees are held up due to litigation. Property titles and exchanges of deed have lost their sanctity because of prolonged disputes and complex processes prescribed by courts. Markets are based on sanctity of private property and contracts. A judicial system that is unable to ensure protection and security of property rights of an individual and firms would inadvertently generate an ethos where the mighty and powerful are able to enforce these contracts on their own terms through extra legal

means. After favorable verdict is announced, it still takes years to get decrees granted by the courts executed.

Concluding his talk, Dr. Husain said that the current economic situation is improving as macroeconomic stability is achieved, but the benefits to the common citizens would be gradually discernible with resumption of socially inclusive economic growth and job creation. For that to happen, the State, markets and civil society have to work together in harmony and unison showing perseverance and tolerating tough structural reforms. We have to move up the development trajectories that open up opportunities and build up capabilities for the majority of the population –away from the present trajectory that benefits a minority i.e. the elites of this society.

The presentation was followed by a Question and Answer session moderated by Ambassador Aizaz Ahmad Chaudhry, DG ISSI.

While answering the question about the country's debt, Dr. Husain said that it was not advisable to think for the country to default on its obligations, because that is negation of the international contracts. There will be no exports, no remittances and would disrupt the country's economy. Restructuring of debt should take place and the present government has brought the debt ratio to around 85% of GDP, through the various austerity measures.

On a question about institutional reforms, he said that, there is a need to bring reforms in the bureaucratic workings through specialization, equality of opportunity, and performance-based promotions and compensations but it will take time. The PM's directives have taken precedence over from the 5-year plans, but there is a need to increase the capacity to implement the plans.

Dr. Husain, while answering a question about the real estate sector said that it was a parking place for black money and people avoiding the tax net creating a parallel economy crowding out the formal economy, and therefore, there is a need to document it. GoP Naya Pakistan Housing Scheme is trying to formalize the real state sector along with stimulating the construction sector leading to job creation. No country can progress if you have a negative mind-set which is sadly prevalent in the Pakistani society. The future of Pakistan is closely associated with development in the science and technology sector and work needs to be done on it to achieve indigenization.

While answering the final question on tax reforms he said to increase the tax revenue the GoP aims to increase the number of filers and that is why there is resistance to it. There is a need to increase the direct taxes to reduce the indirect taxes and bring down GST. For this purpose, the NADRA database is being used to find the tax evaders. The export sector suffered after 2010 mainly due to energy shortfall that hit the country, and there was a need to give preference to the industrial sector rather than the domestic sector, which did not take place leading to a decline.

Ambassador Khalid Mahmood, Chairman BOG ISSI, concluded the talk by thanking the guests and the participants of the event. He said that the economy continues to present a contrasting picture between stability and recession. The most significant sign of stability is the stemming of declining foreign reserves, which have risen to USD 10.8 billion as of December 2019 – the highest since May 2018. It is however important to note that this build-up is not a result of any structural improvement in country's balance of payments. Much of it owes to borrowings and some FDI. The current account improvement owes exclusively to a 21% decline in imports as opposed to a paltry growth of about 4.7% exports in current fiscal year. The remittances were constant at the last year level. With import demand significantly down, the pressure on the exchange rate has abetted and it also experienced some improvement. The approval of the first review by the IMF is also a positive development; it however has warned that risks remained.

If one looks beyond this window of stability, the economic scene is not so inspiring. Inflation, high interest rate, poor tax growth, possible over-runs in expenditures, declining production in industry and agriculture and consequent adverse implications for growth, employment, poverty and income distribution remain the major concerns. The key policies pursued by the government of Pakistan have seen massive devaluation, more than doubling of the interest rate, unprecedented increase in taxes and excessive increase in petroleum prices. The biggest affectees are ordinary people. Inflation has been the most hurting to the low-income group as most of it relates to food inflation. A rethinking in economic policy is in order as the present framework of the IMF program will not allow growth of the economy.

Undoubtedly Pakistan's macro economy has shown some welcome improvement for which the government of Pakistan deserves full credit. But at the micro level, the situation is not so sanguine. Hopefully, in not too distant a future, the twain shall meet. The nation has to swallow a

bitter pill for some time. It would do well if it is made a bit sugar coated, particularly for the vulnerable section of the society.

PICTURES OF THE EVENT