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# **PTI Economic Vision**

# PTI analysis of the economy

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-  **Where are we today?**
-  **Where are we headed with business as usual?**
-  **PTI Reform Agenda - What needs to be done to drive Pakistan's economy on a path to sustainable high growth?**



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# Crux of the problem

- 🇵🇰 Flawed energy policy over the years has resulted in a crippling energy crisis
- 🇵🇰 Grossly inadequate tax-to-GDP ratio
- 🇵🇰 The rich and powerful do not pay taxes
- 🇵🇰 Spiraling fiscal deficits and record build up in debt
- 🇵🇰 Negative balance of trade and eroding value of PKR
- 🇵🇰 The economy has been bailed out time and time again by international politics related external capital flows
- 🇵🇰 Due to decades of under investment in Education/Health/Skills the demographic 'dividend' turning into a liability



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# A crumbling state, rising corruption

## Antiquated Governance and Management structure

- 🇵🇰 Unable to meet challenges of the modern era
- 🇵🇰 Weak Institutions getting progressively weaker
- 🇵🇰 Civil Servants and Politicians deeply suspicious of each other
- 🇵🇰 Failure of stakeholders to reach policy consensus

## All pervasive corruption

- 🇵🇰 Lack of transparency
- 🇵🇰 Every decade has seen new and higher records of corruption
- 🇵🇰 Lack of accountability has led to increasing corruption at all levels
- 🇵🇰 The people have become cynical about corruption and have developed higher tolerance levels
- 🇵🇰 Very little push back on corruption across the political divide



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# Mother of all problems...

## Lack of Political Leadership with

- 🇵🇰 Vision
- 🇵🇰 Clarity of Purpose, and
- 🇵🇰 Ability to change the status quo

## Instead we have .....

- 🇵🇰 Political leadership has been a monopoly of a few
- 🇵🇰 Constituency politics remains mired in local power systems and “Biradarism”
- 🇵🇰 Parliamentarians focus on Ministries, symbols of State authority and patronage to increase their constituency power base

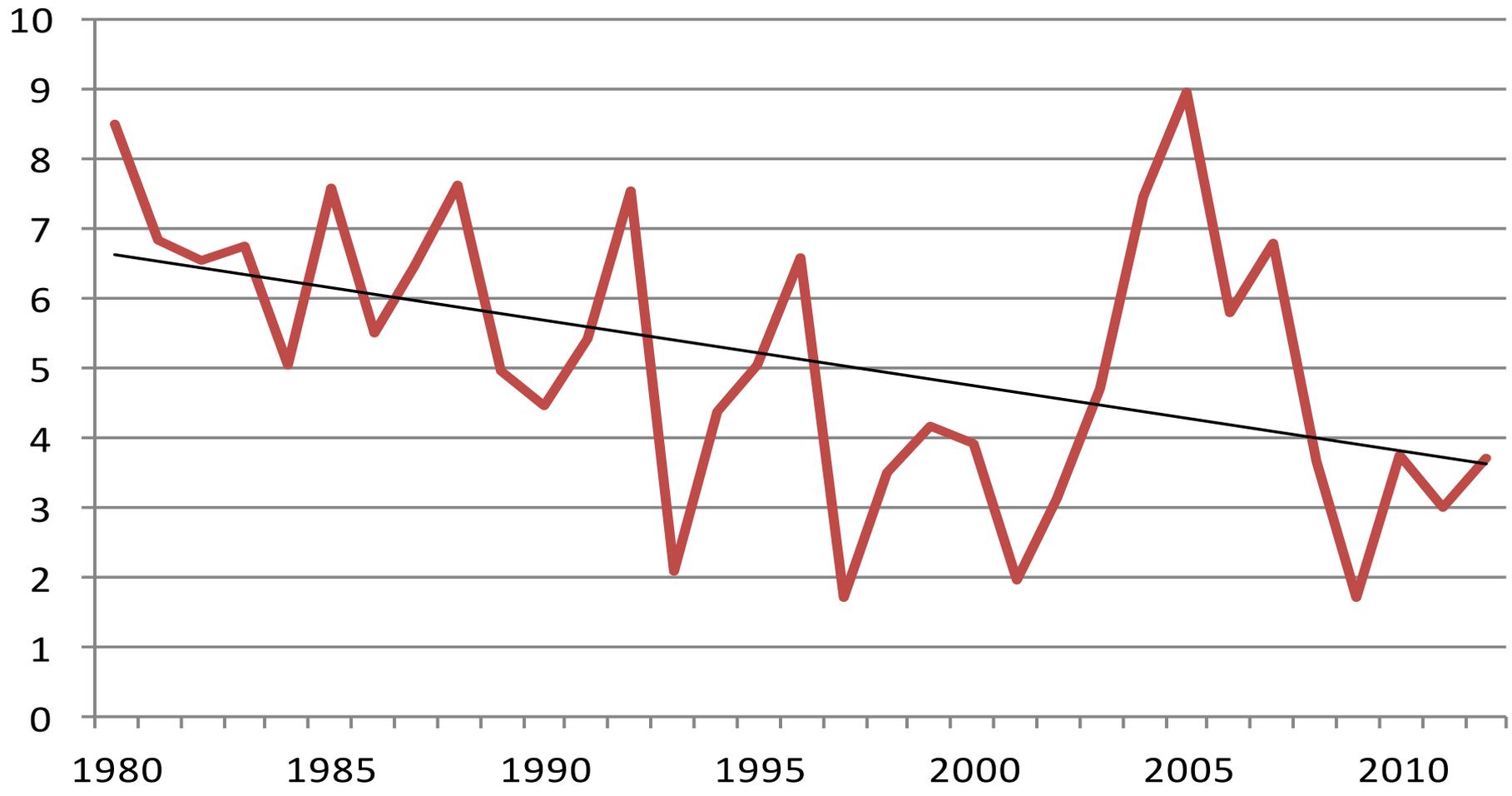


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# Long term decline in the economy

**GDP growth has trended down sharply in the last three decades**

**Decline has accelerated sharply under the current government**



Source: IMF WEO 2012



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# Worst performance ever - Economy (FY08 to FY12)

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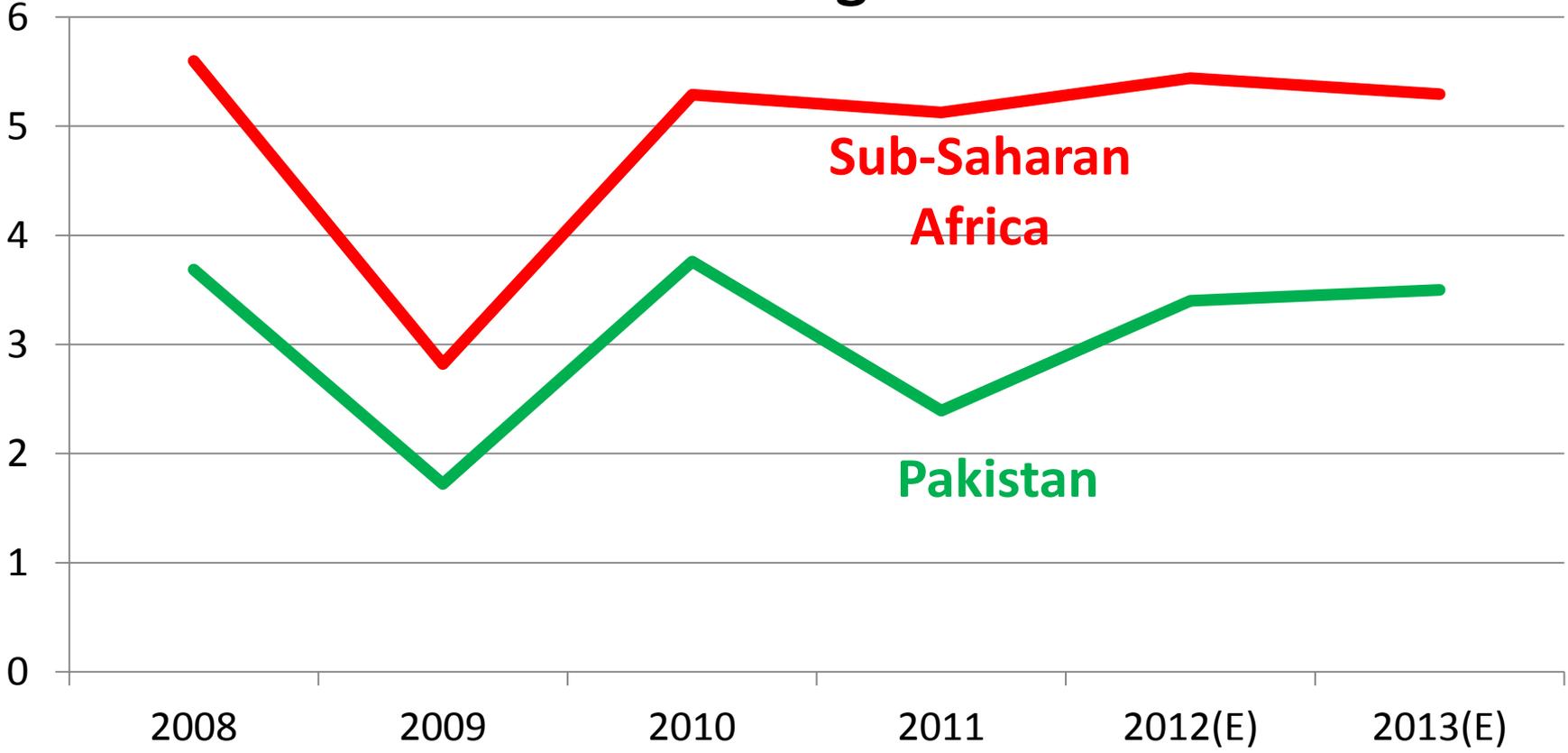
- Lowest 5 year growth period in the last 50 years. Average GDP growth of 3% a year
- In the same period India, Bangladesh and Sri Lanka has posted an average annual GDP growth of 7.8%, 6.8% and 6.1%, respectively
- Inflation as measured by CPI has jumped by 70% in last 4 years (from June 2008 till June 2012). 5 years of double digit inflation for the first time in Pakistan's history
- Investment to GDP ratio has collapsed to 12.5% in FY12 compared to 22.5% in FY07.
- This compares unfavorably with investment to GDP ratio of 35%, 28% and 25% for India, Sri Lanka and Bangladesh



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# International comparison

## Real GDP growth %



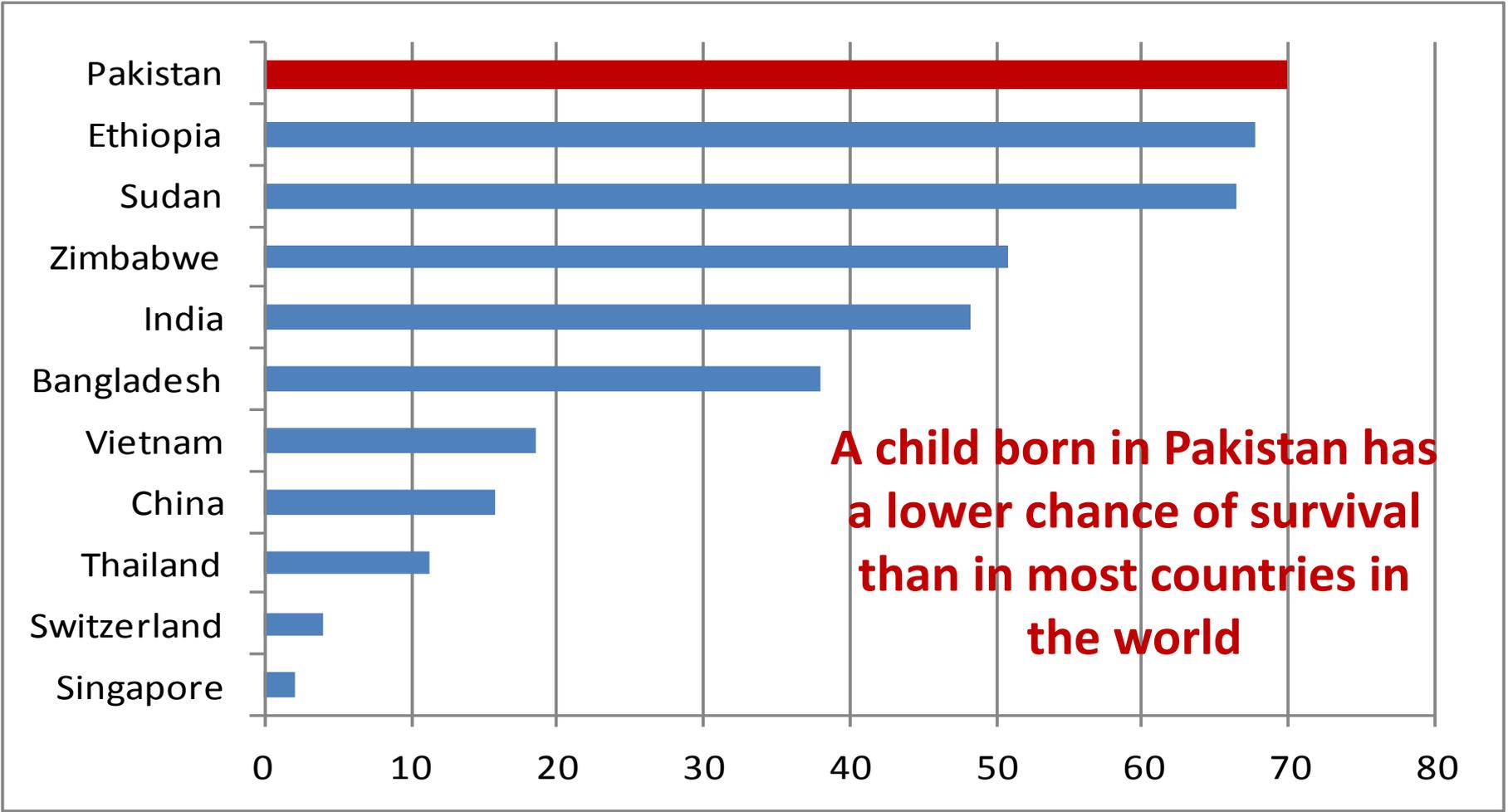
India's per capita growth rate of 6% will double its per capita Income in 12 years & with Pakistan's 1% per capita growth rate it will take an average Pakistani 70 years to double their income



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# Failure of state comes at a very high cost

## Infant mortality rate (deaths per 1000 births)



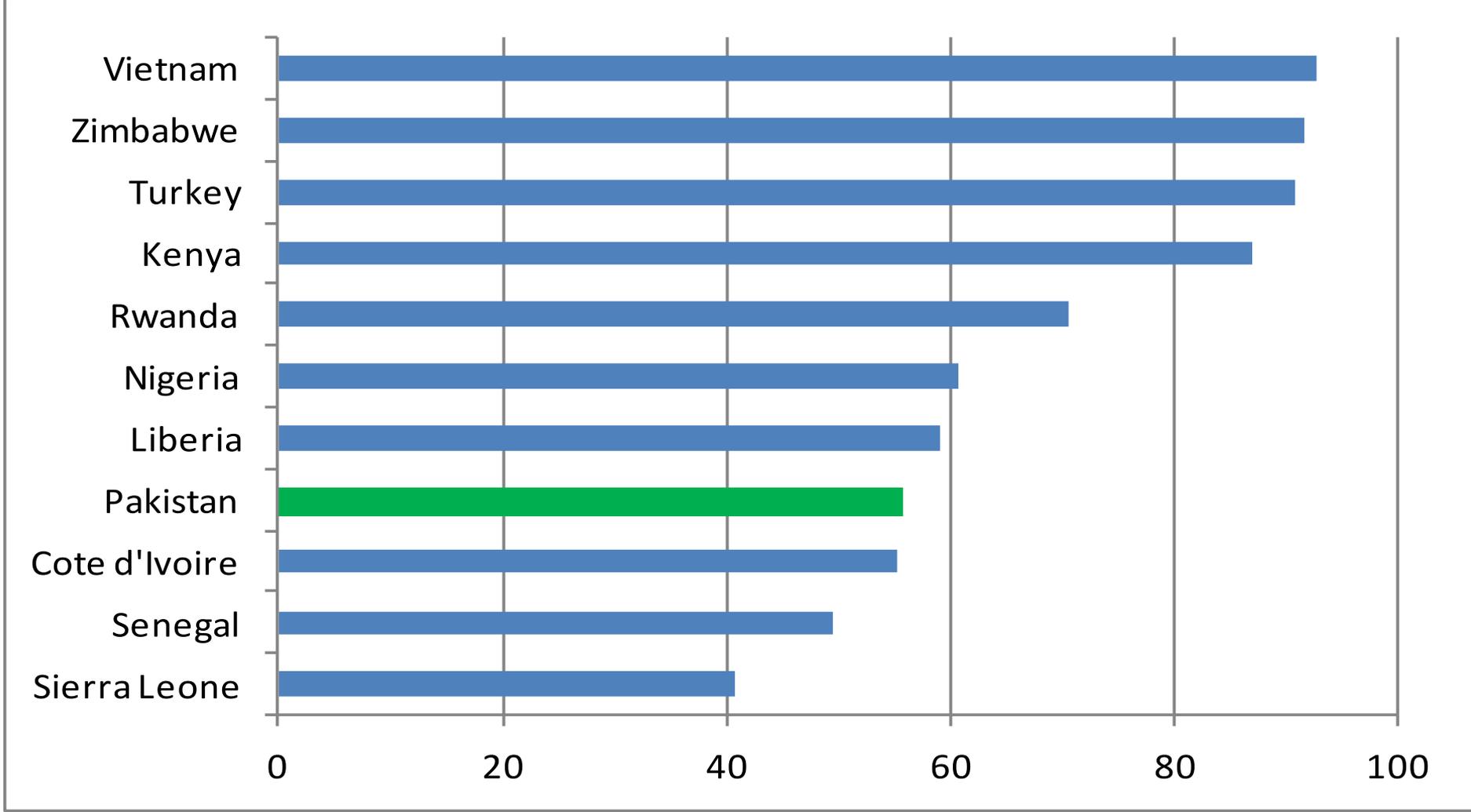
Source: World Bank WDI



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# Failure of state comes at a very high cost

Only 55% of Pakistanis above 15 years of age can read or write their names

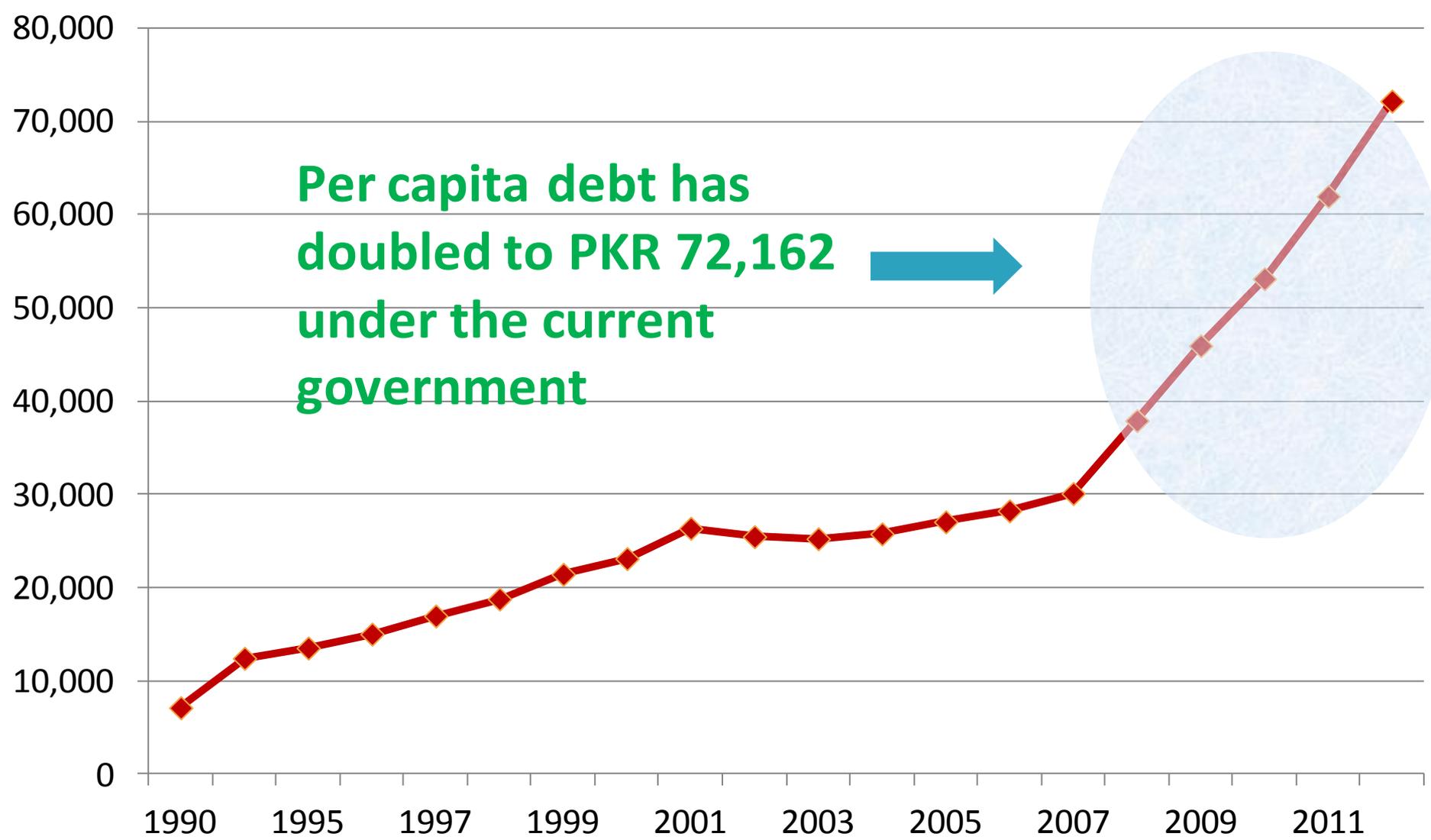


Source: World Bank WDI



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# Record build up in debt, burden on citizens

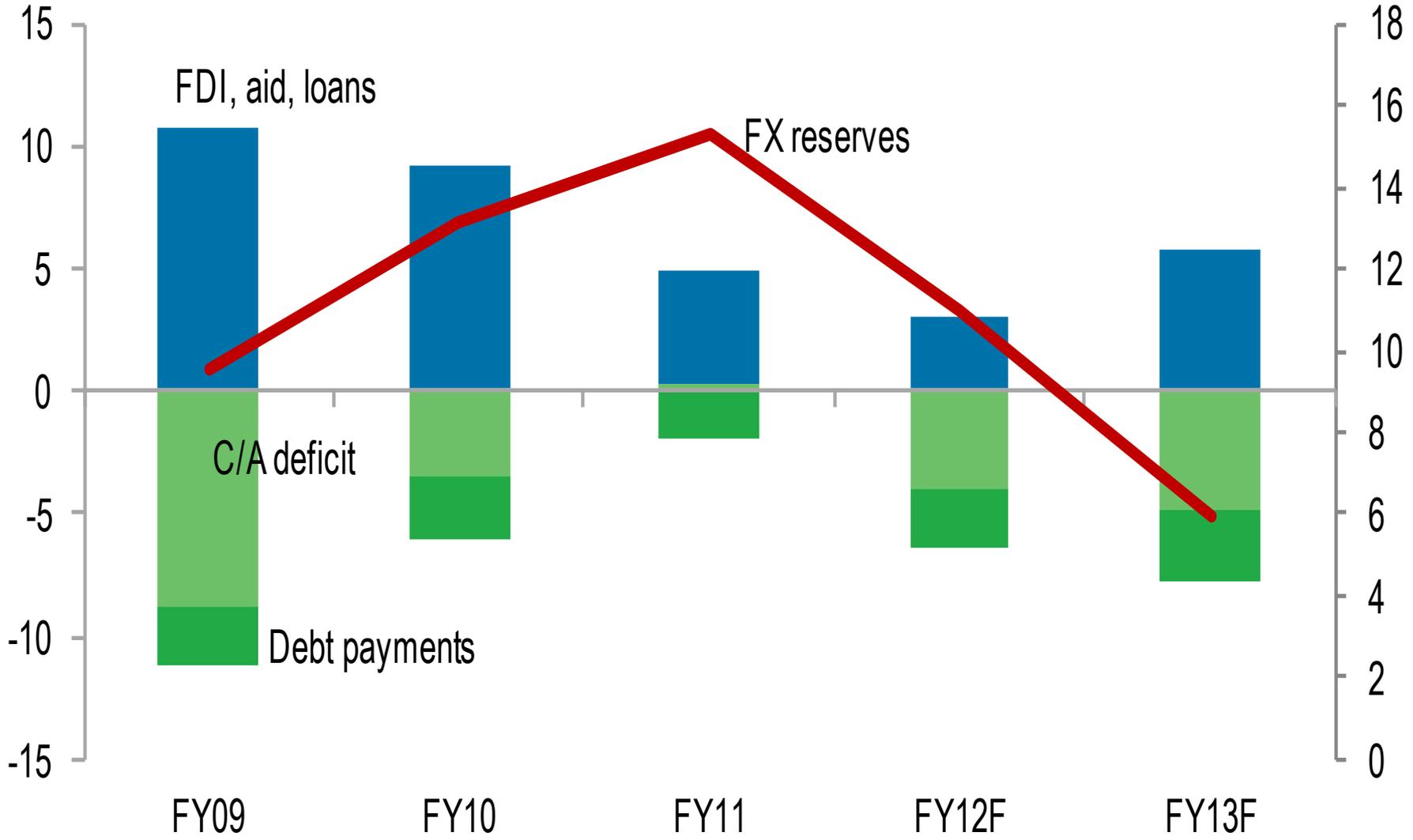


Source: IMF WEO 2012



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# Sharply depleting FX reserves – limited options on table



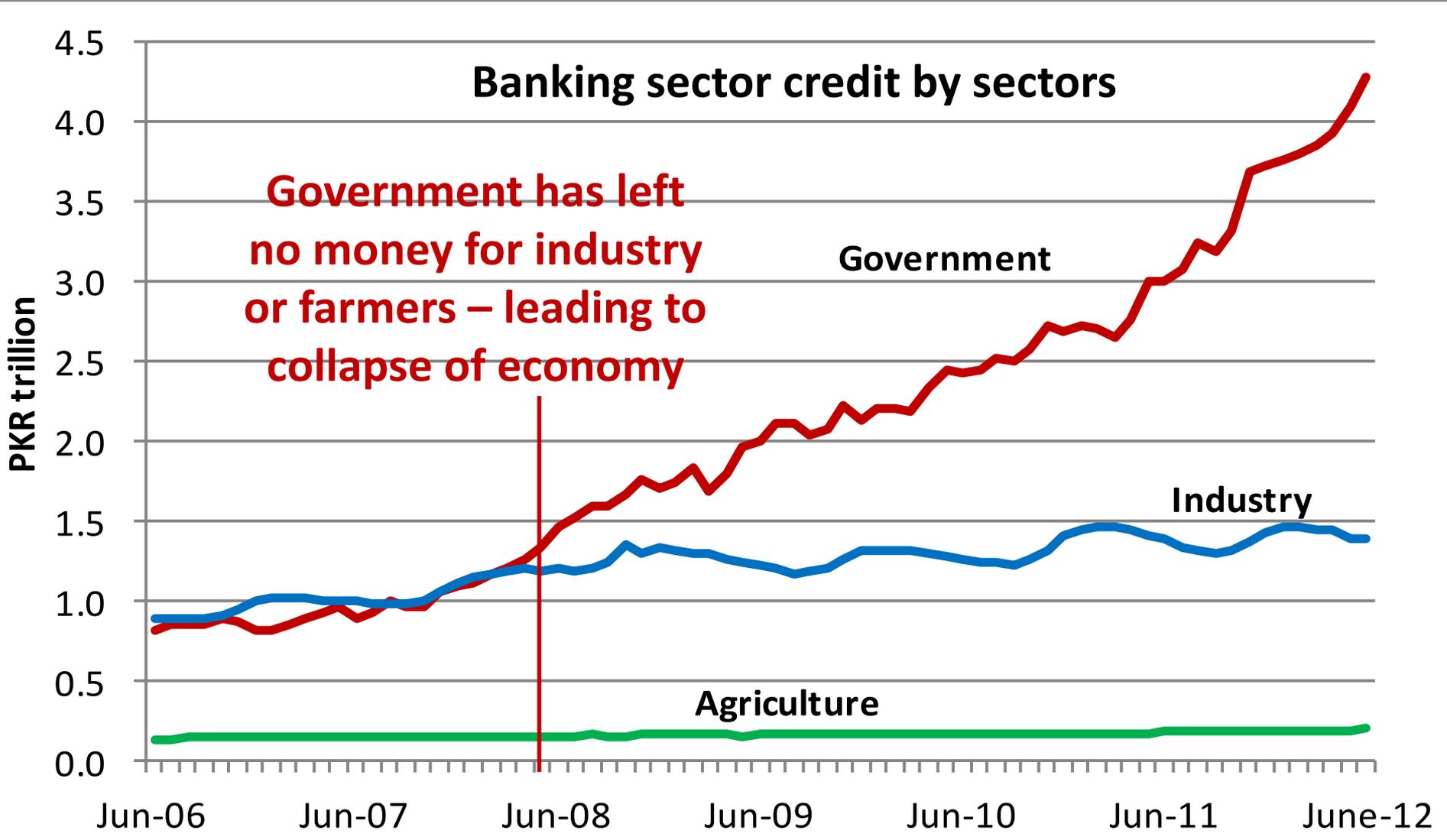
Source: SBP, IMF Article IV 2012



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# Record deficit 8.4% – first time in history

## Fiscal deficit of PKR 1,720bn (SBP)





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**Business as usual  
is not sustainable**



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# We cannot afford another 5 years of status quo

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## Pakistan will become the 'poor man' of the 21<sup>st</sup> century

🇵🇰 Per capita debt will rise to PKR 145,000 per Pakistani

🇵🇰 Record inflation will push another millions of Pakistani's below the poverty line

🇵🇰 Power shortfall will rise from 6,000MWs (1/3 of total demand) to 11,000MWs in 5 years (1/2 of demand)

🇵🇰 Gas shortfall will more than double to 3.5bcfd from 1.6bcfd

🇵🇰 Unemployment will rise by millions over next 5 years



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# **PTI Reform Agenda**

# Time has come for institutionalized reforms



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## Without deep and Institutionalized reforms the economy

 Cannot be put on a sustained growth path

 Will not be able to provide the minimum level of basic services to its people

 Will be unable to provide employment to the millions of youth coming on the job market each year

 Cannot come out of the inflation trap



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# PTI reform program vs. status quo (PPP/PMLN/allies)

- Economy will grow at an average of more than 6% under PTI vs. 3% under status quo
- Inflation will be brought down to 7% vs. 12% under status quo
- Industry will grow at 9% under PTI vs. 1% under status quo
- Investment spending will rise to 21.4% under PTI after collapsing to 12.4% under status quo
- Tax revenue will rise to 15% of GDP under PTI vs. less than 10% of GDP under status quo
- Welfare spending on citizens will rise more than four fold to PKR 4.6trn under PTI vs. 0.9trn under status quo
- Fiscal deficit will be brought down to 4.5% of GDP under PTI vs. 8.4% of GDP under status quo

# National Emergency declaration



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## Get the Country working again with a 5 point Emergency Plan:

 **1. Energy sector reform (PTI plan has already been released)**

 **2. Institutional reform**

 Anti-Corruption/Accountability

 Governance reform

 **3. Expenditure reform**

 **4. Revenue Collection reform**

 **5. Human Capital Development**

 Health/Education/Skill Development

# Energy Emergency



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## Make Pakistan an Energy Secure state

- Resolve Circular Debt through moving to lower cost production
- Divert all resources to maximising Energy production
- Bring Load shedding to manageable proportions urgently
- Initiate PTI medium term Energy plan to reduce Cost of Generation and Line losses etc
  - Provinces to play their role in resolving the Energy crisis
- Electricity & Gas shortages to be eliminated within PTI's first term of government



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# Accountability Emergency

## Independent, empowered Accountability mechanism

- 🇵🇰 **NAB to have its own investigative and prosecution arm outside the purview of the Executive**
  - 🇵🇰 Take up all mega scandals of past and present
- 🇵🇰 **Create Teams of motivated and empowered investigators for each mega scandal**
  - 🇵🇰 Investigate and bring to justice
- 🇵🇰 **Special Task Force to recover looted national wealth stashed outside the Country**
- 🇵🇰 **All recovered assets of corruption to be used for educating the youth of Pakistan**

# Institution Reform Emergency (contd)



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## **Railway Ministry abolished**

-  Railway to work under Independent, fully autonomous Board....no Govt. interference
-  Within 12 months railway to be back on track

## **PIA removed from Ministry of Defence control**

## **Strategic government institution to manage SOE's – similar to Malaysia's Khazanah**

-  Fully Autonomous Board
-  Mandate to revitalize within two years
-  CEO's to be appointed by Boards, not PM



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# Institution Reform Emergency

## Frontal Attack on Vested Interest

- Strengthen and empower SECP, CCP, OGRA, NEPRA etc. to act against:
  - Cartels
  - Speculators
  - Hoarders
  - Gas and electricity thieves
  
- Protect land and property owners from exploitation by Real estate Mafia and Qabza groups
  
- Eliminate culture of specific SRO's

# Governance reform Emergency



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- 🇵🇰 **Implement Civil Service Reforms**
  - 🇵🇰 Results based Management
  - 🇵🇰 Encourage functional specialization
  - 🇵🇰 Monetize all civil service benefits and perks
- 🇵🇰 **Incentivize high performing civil servants and enable professionals the opportunity of working in the Government**
- 🇵🇰 **PFC for every province to ensure equal/non-Political distribution of Funds to Districts based on objective laid down criteria**
- 🇵🇰 **A DFC for every Districts to ensure equal distribution of funds to Tehsils and then Villages**
  - 🇵🇰 Direct funding for villages and municipalities to generate local economic activity across the length and breadth of Pakistan (as announced in PTI Local govt. Policy)
- 🇵🇰 **Decentralize governance and empower communities for generating economic activity at the grass roots level**



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# Expenditure Emergency

## **Begin at the TOP**

-  All Governor houses, PM house, symbols of Pomp and Glory to be shut down and converted to places of public use
-  Expense of president house to be cut by half
-  CM Camp Offices to be restricted to one (CM Punjab has 6 Camp offices!!!)

## **Reduce number of Federal Ministries to 17 from the present 37**

## **Limit perks of Ministers, MNA's, MPA's and civil and military bureaucrats**

## **Abolish policy of free and subsidized plots**

## **All state Institutions, including Defense to participate in Expenditure reduction**

## **Eliminate all discretionary funds**

## **No development funds of Parliamentarians**



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# Revenue collection Emergency

- 🇵🇰 **Make FBR fully Autonomous**
  - 🇵🇰 Insulate from Political Influence
  - 🇵🇰 Eliminate pressure for “Lucrative” postings
- 🇵🇰 **GOP to make tax policy, FBR to implement independently**
- 🇵🇰 **Use deployment of technology and increase transparency to fight leakages**
- 🇵🇰 **Operationalize access to information laws to empower citizens to join the fight against corruption**
  - 🇵🇰 Independent estimates that Rs 900 Billion escapes the tax net every year
- 🇵🇰 **Raise revenue by ensuring Tax collection without raising Tax rates**
  - 🇵🇰 Minimum Assets Tax—adjustable against Income tax
  - 🇵🇰 All Income to be taxable (Agriculture, real estate, stock market etc).
  - 🇵🇰 End “Soft” Amnesty schemes
- 🇵🇰 **Once the Reform measures kick in, reduce tax rates to reduce the burden on citizens and business**



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# Revenue collection Emergency

- **Provincial government must play their due role**
  - “Law of pre-eminent domain” - state takes over under-declared property
  - End to Benami Transactions
  - Agriculture Tax from Large Landowners
  - GST on Services
  
- **Give evaders time to declare correctly and then apply full force of Law**



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# Health sector Emergency

## Health care for the poor

- 🇵🇰 **Increase spending from 0.86% of GDP to 2.6% of GDP in 5 years**
  - 🇵🇰 A sixfold increase in absolute terms
- 🇵🇰 **Provide Primary Health Care (PHC) to the poor of Pakistan**
  - 🇵🇰 All BHU's, RHC's revitalised with Doctors, Staff and medicines
    - 🇵🇰 Rural Health Centre to be the fulcrum of PHC delivery
  - 🇵🇰 Focus on Mother and Child health care
- 🇵🇰 **All DHQ/THQ Hospitals to be modernised**
- 🇵🇰 **Focus on Health Care Delivery in every District**
- 🇵🇰 **Create jobs in healthcare (nurses, LHW's, LHV's, doctors, paramedics etc)**
  - 🇵🇰 Dramatically increase the number of nurses , LHVs and paramedics
  - 🇵🇰 Increase the number of doctors, with special focus on Dentists and Eye doctors



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# Education Emergency

- 🇵🇰 **Khud Mukhtar Pakistani – one education system**
- 🇵🇰 **Increase spending from 2% of GDP to 5% of GDP in 5 years**
  - 🇵🇰 Fivefold increase in absolute terms
- 🇵🇰 **Decentralise Service Delivery to District**
  - 🇵🇰 All hiring within district
  - 🇵🇰 Empower Community to help manage schools
- 🇵🇰 **Voucher system to Fund students to go to Private Schools to fill gaps where Govt schools are not enough**
- 🇵🇰 **Focus on Girls Education (Double number of Girls High Schools in 5 years)**
- 🇵🇰 **Special programme to modernise and upgrade Govt. sector Colleges for near term impact**
  - 🇵🇰 Involve and empower community to share burden of Management
- 🇵🇰 **Sports and extra curricular activities like debates to be specially emphasized for developing the potential of youth**

# Skill Development Emergency

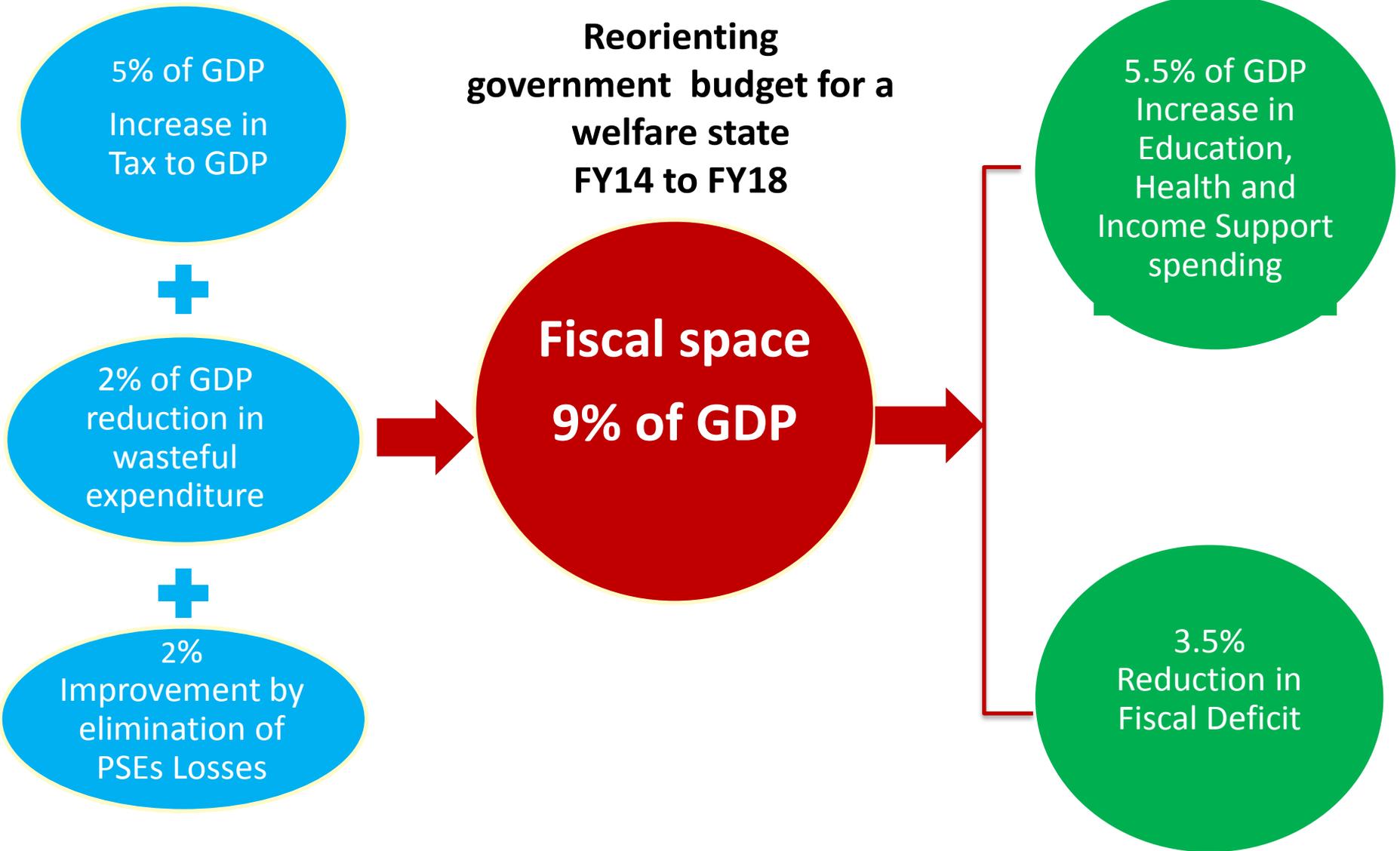


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- 🇵🇰 **Leverage private / public / NGOs for mega skill development program**
  - 🇵🇰 Target 2 million youth in skill development centers at the end of Year 2
    - 🇵🇰 Remove poverty as a barrier to entry
    - 🇵🇰 Provide stipends for poor students
  - 🇵🇰 Fund students, not schools
  - 🇵🇰 Focus on employable skills and Placement Service to match students and jobs
  - 🇵🇰 Focus on social service delivery providers (paramedics, nurses etc.)
  - 🇵🇰 Carry out comprehensive regulatory reform
  - 🇵🇰 Develop manpower skills for exports

# Khud Mukhtar Pakistan - Elite to Citizen

## Increase spending on poor & middle income households





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# **The Foreign Exchange Challenge**



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# Khud Mukhtar Pakistan

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-  Time and time again the Pakistani nation has run out of foreign Exchange and been forced to beg for Bailouts
-  PTI has evolved and will implement policies to reduce and then Eliminate dependence on Foreign Aid



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# Addressing the external vulnerabilities

## **Export strategy to boost FX earnings**

-  Industrial Export Corner – To be housed within existing Industrial Zones
-  SME Export Vendor Scheme – similar to export finance scheme (EFS) of SBP
-  Rural Export Development Program – Agriculture based value added exports
-  Diversify export base to higher value added goods, diversify to new markets

## **Fix flawed energy policy to reduce large trade deficits**

-  Reduce oil imports (USD 14bn in FY12, 36% of total imports) through converting existing generation plants to coal. Save USD 4bn annually on oil imports.
-  Resolve energy crisis for higher manufacturing output and higher exports

# Addressing the external vulnerabilities (cont'd)



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## Give confidence to overseas Pakistani's to invest home

-  Enhanced focus on remittances from Overseas Pakistanis
-  Non-resident bonds to be floated
-  Ensure legal protection of Overseas Pakistanis investment

## Bring back Foreign Investment

-  Target wealth funds in China and Middle East for large investments in energy, minerals and infrastructure



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**Dire need to restore  
growth & create jobs**



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# Growth strategy – increase investment and trade flows

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- Investment spending to rise to 21.4% of GDP by FY18 (12.4% in FY12)
- Fully exploit the ignored indigenous God-given natural resources of Pakistan
- Boost agriculture output and farm incomes
- Rapid industrial growth for generating jobs, boosting exports
- Regional Trade to diversify markets
- Jumpstart economic growth to absorb 2mn youth to labor force every year

# Large mineral resources can boost growth

## One of the largest coal reserves in the world

□ Thar Desert contains the world's 7<sup>th</sup> largest coal reserves:

175 Billion Ton = 50 Billion TOE = 2000 TCF  
 Total Thar Coal Reserve      More than Saudi Arabia & Iranian Oil Reserves      68 times higher than Pakistan's total gas reserves

1% = 25%  
 Thar Coal Reserve      Pakistan's Power Generation Capacity in 2010

Development of Block II alone would bring in investment of **USD 12 Billion**

Entire Thar Coal Reserves can be used to generate **100,000 MW** of electricity for over **200 years**



Location of Thar Coal Field

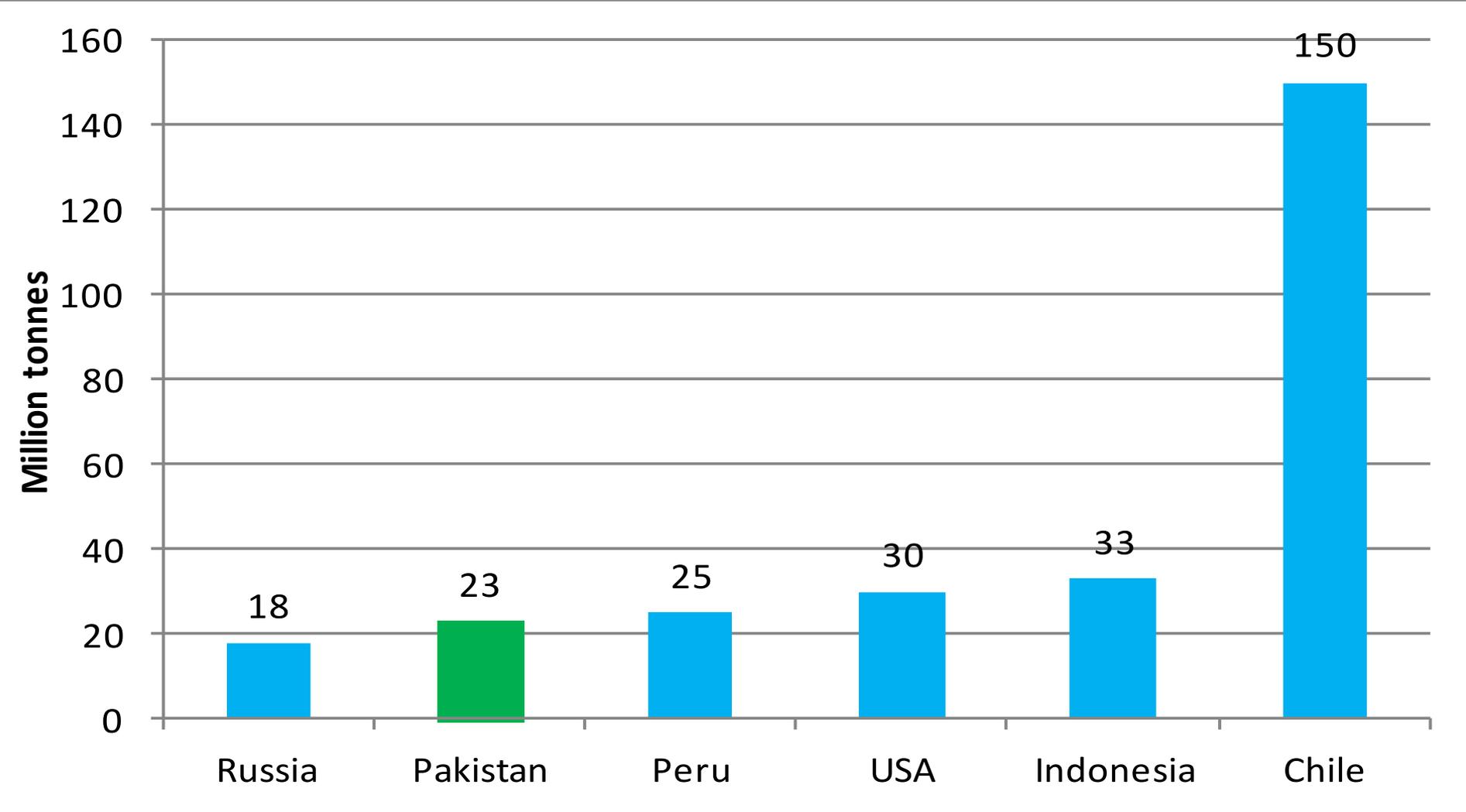
Source:: GSP data/report – Energy equivalent is based on Shenhua report/RWE



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# Large mineral resources can boost growth

## Pakistan has the 5<sup>th</sup> largest copper reserves



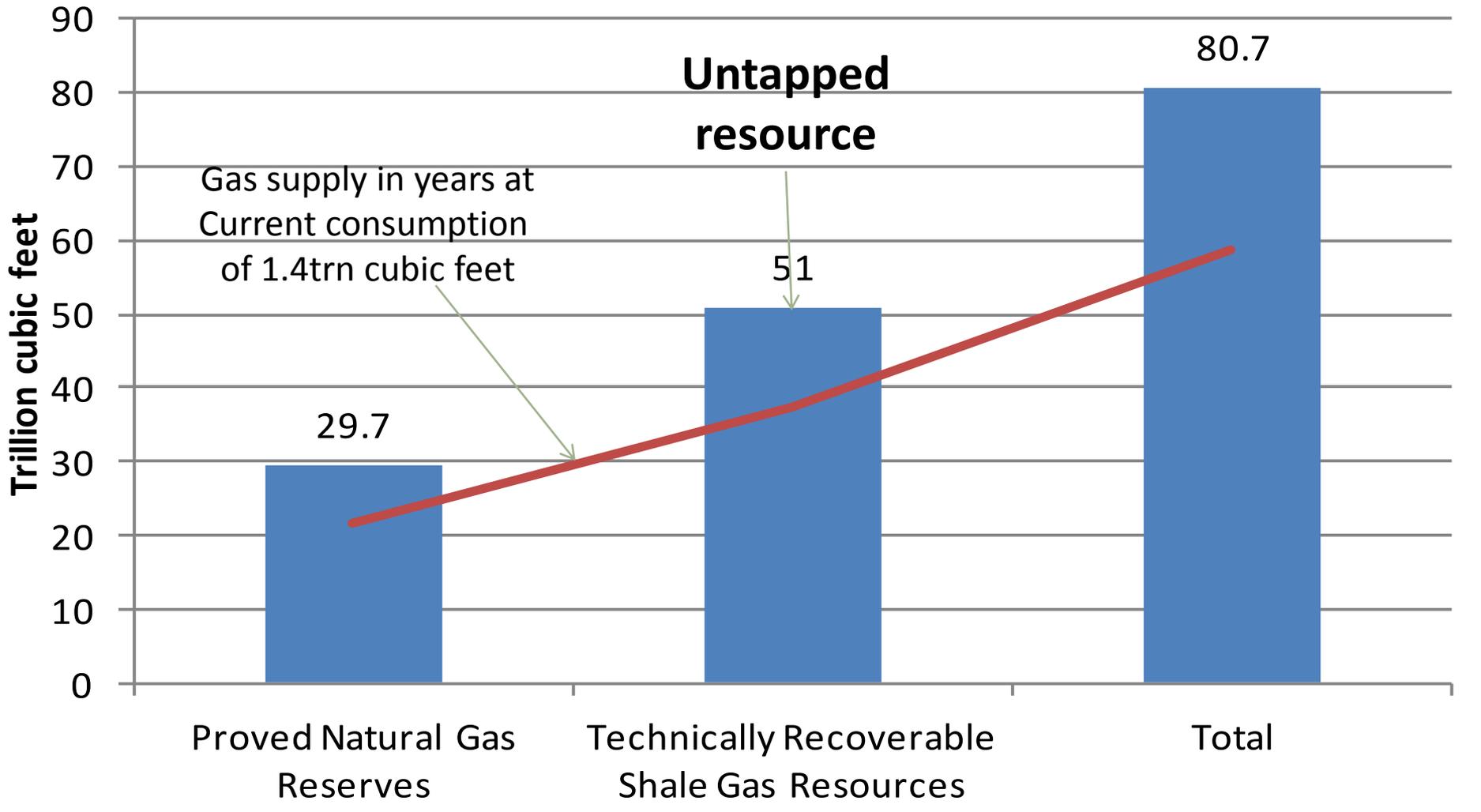
Source: Barrick Gold Canada, US Geological Survey 2008



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# Large mineral resources can boost growth

## Large untapped gas reserves – 60 years of gas at current consumption



Source: US EIA



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# Rapid Industrial growth for job creation & export growth

- **SME focus with performance based incentives**
  - Access to finance, with performance based incentives
  - Create market linkages including domestic & exports
  - Management & Technical capacity building
  - Remove energy & skill shortages
  
- **Set up Industrial zones with modern infrastructure**
  - Industrial infrastructure in and around every district/cluster to create local employment
  - Incentives for industries based on local endowments



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# Rapid Industrial growth for job creation & export growth (cont'd)

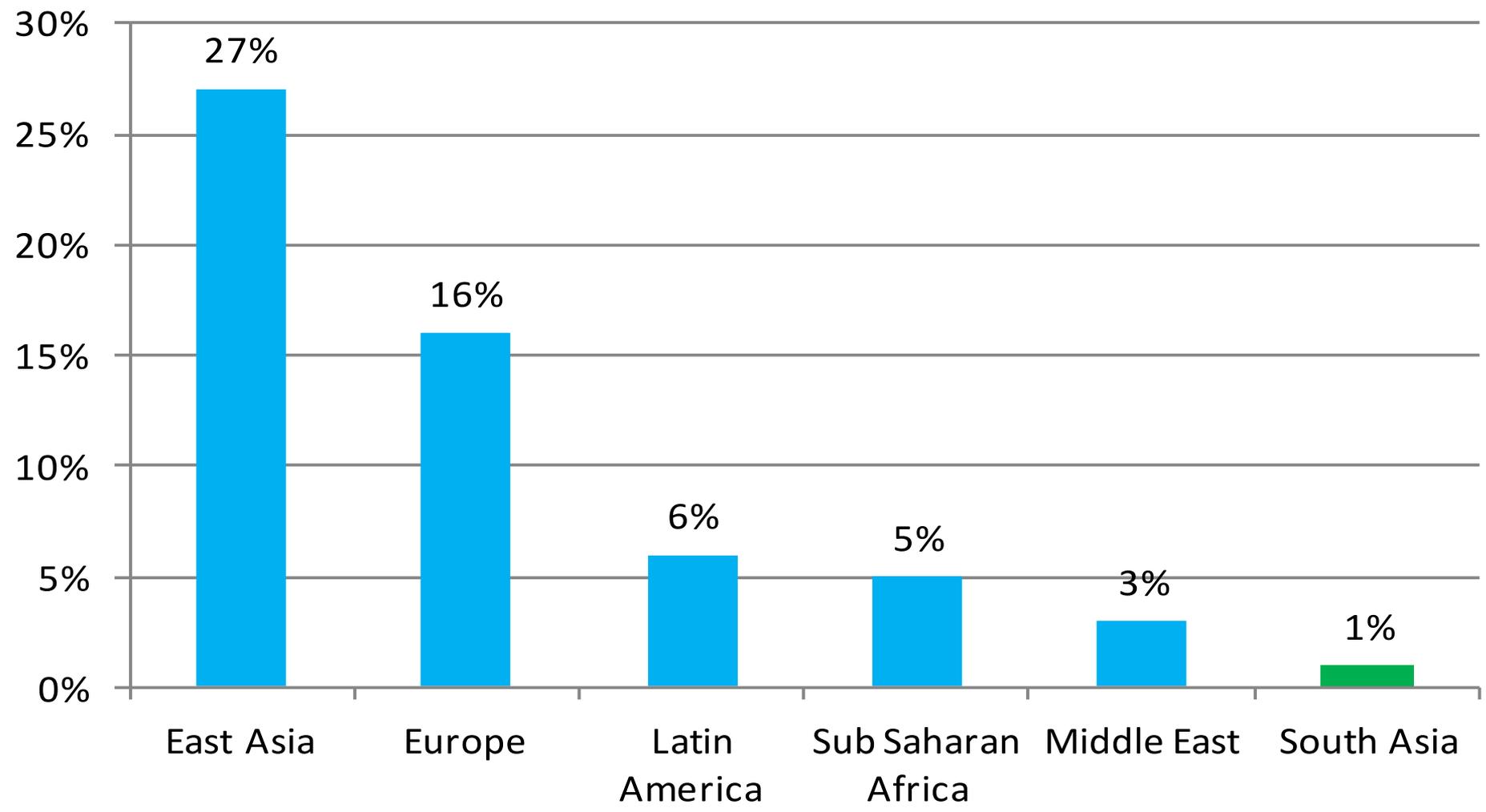
-  **Make Pakistan the world leader in Islamic Finance**
  -  Float flexible vehicles for Venture Capital and Private Equity investment
  -  Develop short (musharika) and long term (Sukuk) debt market
-  **Harness the potential of expatriate Pakistanis for mega projects through retails bonds, IPOs**
-  **Establish Infrastructure Lending Bank (IPDF model) to encourage public-private partnership**



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# Regional Trade is the lowest in the world

## Intra-regional trade as a % of GDP



Source: World Bank



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# Agriculture

## Focus on Farmer Profitability

### 🇵🇰 Reducing Cost of Production

- 🇵🇰 Modern tillage to reduce use of diesel per acre (incentivize introduction of modern and high quality implements)
- 🇵🇰 Efficient use of water (Lined watercourses, efficient farm layout)
- 🇵🇰 Use less Energy per acre (Incentivized / Subsidized program to replace inefficient tube wells by efficient, modern technology)

### 🇵🇰 Increase Yield

- 🇵🇰 Mega program of Agriculture Financing - focus on small farmers
- 🇵🇰 Provision of Certified Seeds and technology package at farmer doorstep
- 🇵🇰 State of the art research institutions with participation of all stakeholders

### 🇵🇰 Efficient Markets

- 🇵🇰 Farmer should not suffer after a big harvest
- 🇵🇰 Create storage capacities to insulate against force selling at harvest and avoid post-harvest losses.
- 🇵🇰 Radically increase number of farmer markets to bring market closer to farmers

# Agriculture



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## **Using Farmers to fight Inflation**

-  Task forces for major kitchen table items to dramatically increase productivity within 5 years (Pulses, Onions, Tomatoes, vegetables etc)

## **Community Dairy Farming in every village of Pakistan**

-  Reduce cost of Fodder
-  Use of Silage
-  Marketing

## **Make Dairy farming profitable for small and medium farmers**

-  Turn dairy farming into rural Pakistan's premier Industry

## **Village Councils under PTI's Local Govt Plan to be empowered to aggregate farm inputs and market output**



# Reduce inflation & alleviate poverty

## Supply side

Reduce cost of producing energy & energy shortages

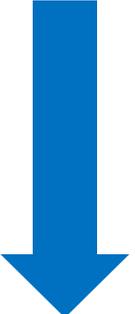
Increase output & improve agriculture competitiveness

Efficient markets & Effective regulators

Lower tax rates



12%



## Demand side

Increase savings

Eliminate money printing



7%



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**Thank You**