

**Finance Minister Ishaq Dar's Keynote Address
on Future of Pakistan Economy
at Investment Conference, Islamabad
28th October 2014**

Ladies & Gentlemen,

Assalam Alaikum and Good Morning!

In June 2013, the smooth transition of power from one elected government to another elected one was indeed unprecedented in Pakistan's history. This led to a new beginning for a country which has seen too many martial laws and intermittent disruptions of democratic orders.

The unequivocal verdict given by the people of Pakistan in a most transparent, free and fair General Election 2013 in favour of the leadership of Mian Muhammad Nawaz Sharif and his party PML(N) has seen the transformation of the country into new dimensions of economic development. We have promised to the nation that we will not disappoint it. Pakistan today is way ahead of where it was in June 2013 - just 16 months back.

Challenges faced by the government

When we took the responsibility of the government, the economy was weak and fragile. The growth rate had averaged less than 3% since 2008-09 - significantly below our potential. Inflation had averaged around 12% per annum in five years while national reserves dropped below US\$ 8 billion (SBP US\$ 2.8 billion in February 2014). International predictions were that Pakistan will default in June 2014. Circular debt of Rs. 503 billion was crippling the power sector and the economy. Investment-to-GDP ratio was declining continuously and had reached 12.6%, tax-to-GDP ratio had declined to 8.5% while the projected fiscal deficit for 2012-13 was 8.8%. On the other hand, debt-to-GDP ratio had increased in the last six years from 56.8% of GDP to 63.9% of GDP in June 2013.

Ladies and Gentlemen,

When we started our journey, we were facing the most daunting task of repairing a broken economy. The challenges before the government emanated from both internal and external fronts. On the domestic front, the government has to deal with energy crisis that is responsible for causing 2% loss to the GDP. Other critical issues include meeting the cost of Operation Zarb-e-Azb, resettlement and rehabilitation of IDPs, low saving-to-investment ratio and high

unemployment rate. Recently the country has been hard hit by floods which impacted largely agriculture, infrastructure and livestock sectors.

Externally, the government has to protect the country's interests in a scenario of US drawdown from Afghanistan while relations with our neighbours such as India, Iran and China remain critical. In addition, current political issues, including long marches and sit-ins (dharnas) not only created a bad image of the country but also undermined the economic recovery nurtured since June last year.

Going forward, the global economic slowdown situation as well as decline in global trade are some of the other challenges which impact on the regional economies, including Pakistan. At the same time, the smart growth in Chinese economy remains significant for its trading partners.

Economic reforms agenda

We embarked on a very comprehensive agenda of economic reforms aimed at reinvigorating the economy, spurring growth, maintaining price stability, providing jobs to the youth and rebuilding the key infrastructure of the country. The first and the foremost focus of our vision was on 4 E's i.e. Economy, Energy, Elimination of Extremism and Education/health.

After economy, energy occupies a central position in our program because we had inherited an energy sector that was at the brink of total collapse. Load shedding was running at 16 hours in urban and 20 hours in rural areas. A gigantic circular debt of Rs. 503 billion had stranded a sizable amount of capacity for want of liquidity. To revive growth, addressing energy issues over a short period of time was critical. The circular debt was, therefore, cleared within first two months after oath in office, resulting in addition of 1700MW in the national system, This not only reduced the load shedding issue to some extent but also helped in revival of industrial growth.

It is important to draw a comparison of the economy what we inherited and what we achieved.

Economic indicators

Major achievements

In addition to above, we have certain major achievement that had eluded the previous government for its entire five year term. These include:

- Pakistan successfully tapped international capital markets after a gap of seven years by issuing Euro Bonds worth US\$ 2 billion.

- Successful auction of 3G-4G licenses. As against the target of Rs. 50 – 79 billion in the last few years, the target of Rs. 120 billion in FY14 was achieved. We still have two unsold licences worth Rs. 50 billion approximately which will be auctioned at appropriate time.
- Resumption of program lending by World Bank and ADB, that has enabled us to access some US\$ 1.5 billion from these institutions.
- Successful revival and resumption of the privatization program, whereby we have already divested the shares of United Bank Limited (about US\$ 400 million) and PPL (subscription Rs. 30 billion, which is the highest ever in our stock market history; and realization of Rs. 15.3 billion).
- We are now moving to disinvest OGDCL shares worth around US\$ 800 million while work on issuance of International Sukuk for US\$ 1 billion is also underway.
- We have listed public securities for trading in the stock exchange to enable individuals who cannot buy them in the open auction to invest in such securities; and
- In order to strengthen the social safety net, allocation for National Income Support Program (NISP) has increased from Rs. 40 billion in FY13 to Rs. 118 billion in FY 15. At the same time, monthly stipends have been increased from Rs. 1000/- per beneficiary family in FY13 to Rs. 1500/- in FY15. Likewise, number of beneficiaries has been increased from 4.1 million in FY13 to 5.3 million in FY15.

International recognition

On the basis of the above significant achievements and progress, international think tanks and research groups have recognized Pakistan's impressive economic turnaround.

- Japan's JETRO has declared Pakistan as likely to be the second choicest place for foreign direct investment.
- Jim O'Neill, a Goldman Sachs economist, and BBC forecasted that Pakistan, currently world's 44th largest economy, would be world's 18th largest economy by 2050, if it continues with its economic reform agenda
- OICCI raised Pakistan's Business Confidence Index from -34 to +2.
- Moody's raised our economic outlook from negative to stable.
- In Nielsen's Global Survey of Consumer Confidence, Pakistan's index rose to 99 in the 1st Quarter of 2014 from the lowest level of 86 in the 3rd Quarter of 2011.

Future of the Economy

The government has a long term development plan aimed at creating a globally competitive and prosperous country, with particular emphasis on achieving macroeconomic stability through

inclusive growth. We aim to achieve over 7% growth by FY 2018. This is necessary to address poverty incidence and unemployment while improving socio-economic indicators including health and education. We are also working to improve the energy mix to avoid the need for tariff increases and to attract foreign direct investment. A brief account of our Future Road Map is as follow:

- GDP to grow gradually to around 7%;
- Inflation to remain in single digits i.e. no more than 8%;
- Fiscal Deficit to be brought down to 4%;
- Foreign Exchange Reserves to be built to US\$ 22 billion;
- Investment-to-GDP Ratio to be increased to 20%;
- Industrial sector to grow by 8%;
- Public Debt to be brought down to 55% of GDP;
- Tax-to-GDP Ratio to be increased to 15%;
- Exports to be increased to US\$ 32 billion;
- Foreign Direct Investment to be increased to US\$ 5.5 billion;
- Expending around 4% of GDP on education and health;
- Poverty Alleviation and support to vulnerable sections of the society;
- Power cuts to be minimized; and
- Shortage of natural gas to be met with enhanced supplies through increased exploration/production as well as imports both overland and sea.

Ladies and Gentlemen,

The economic recovery nurtured since June 2013 got undermined due to long marches and sit-ins from August till October 2014. The losses suffered on account of sit-ins include depreciation of Pak rupee by around 4 percent resulting in capital loss on foreign liabilities, volatility in stock market, delay in completion of 4th Review under IMF program, delay in building up foreign exchange reserves that were targeted to reach US\$ 15 billion by end September 2014 on account of delay in inflows of around US\$ 2.4 billion as well as postponement of four high profile foreign visits including that of Chinese President thereby eroding investors' confidence.

However, due to government's concerted efforts, the economy has already started coming back on track:

- Inflation has been contained in single digit to 7.5% during the September 2014 quarter of current fiscal year FY15, as compared to 8.1% of last year.
- Revenue collection has improved by over 13% over last year.

- The foreign exchange reserves have improved to US\$ 13.20 billion as on 24th October 2014.
- Remittances have grown by 19.5% over last year.
- Current account posted a surplus in September 2014.
- Karachi Stock Exchange is again performing well with the KSE Index trading back to around 30,000 level and market capitalization has reached again around US\$ 73.0 billion

To further strengthen the economy, following steps have been taken by the government:

- Vision 2025 has been approved to ensure sustainable and inclusive growth.
- National Power Policy (2013) has been approved to provide a roadmap for providing affordable energy and improve energy mix to avoid the need for tariff increase.
- To contain inflation, regular price monitoring, effective monetary policy and smooth supplies of commodities is being ensured.
- Fiscal austerity measures have been adopted alongside increase in tax collection to reduce fiscal deficit and to create fiscal space for development projects.
- To enhance export promotion, the government has decided to set up the Export-Import (EXIM) Bank of Pakistan to enhance export credit and to reduce cost of borrowing for exporting sectors. At the same time, markup rate on exports finance has been reduced from 9.4% to 7.5%.
- Under Public Sector Enterprises Reform Strategy, the government has initiated restructuring plan to reduce the losses of various SOEs like Pakistan Steel Mills, Pakistan Railway and PIA.

Improving Investment Climate

Ladies and Gentlemen,

Investment is a mirror image of the economy. It is unfortunate that our investment has nose-dived to 12.6% on account of external and domestic factors. To achieve and ensure sustainable growth, increase in investment-to-GDP is imperative.

Our government is focused on improving investment climate in the country through the implementation of Investment Strategy 2013-17 that hinges upon the following main pillars:

- Public-Private Sector Dialogue (PPD) for policy formulation
- FDI Generation and Promotion Campaign

- Investment Facilitation (one window operation)
- Development of Special Economic Zones (SEZs)
- Coordination networks with stakeholders

Pakistan has taken several initiatives over the years to boost investment in the country. This includes the promulgation of the Special Economic Zones Act to encourage domestic and international investors to establish industrial infrastructure. The Industrial clusters can be established throughout the country by public sector entities, through public-private collaboration or solely by the private sector.

The fiscal benefits under the Special Economic Zones law include a one-time exemption from custom duties and taxes for all capital goods imported into Pakistan for the development, operations and maintenance of a Special Economic Zone (both for the developer as well as for the zone enterprise) and exemption from all taxes on income for a period of ten years.

The Board of Investment has undertaken an exercise in consultation with Finance Division, SECP, FBR, EOBI, provincial governments as well as the private sector to improve the investment climate in the country by reducing the procedures, cost and time, focusing on the following Ease of Doing Business indicators:

- Starting a Business
- Paying Taxes
- Trading Across Borders
- Getting Credit
- Getting Electricity and
- Enforcing Contract

The Board of Investment is managing overseas and domestic investment conferences and exhibitions to market the investment opportunities in Pakistan and to explore the possible joint ventures. Other efforts being made for investment promotion include:

- Extending facilitation services to foreign delegations and individual investors intending to invest or visit Pakistan to explore investment opportunities in different sectors.
- To make the investment facilitation more effective an exercise is being carried out to highlight the role of Board of Investment as “One Stop Shop” in collaboration with other stakeholders.

- As envisaged in the reviewed Investment Policy 2013, an Overseas Pakistanis Investment Cell (OPIC) has been established in the Board of Investment to attract investment from this potential segment.
- Close interaction with business chambers, honorary Investment Counselors and foreign missions is being strengthened.
- Facilitations are being made to redress investors' grievances.

Regional trade and investment relations

Ladies and Gentlemen,

It is equally important to have diplomatic and trade relations with the world to have an open window for the investment opportunities. Pakistan has diplomatic and trade relations with most nations of the world. At the international level, Pakistan is a member of the United Nations, the Organization of the Islamic Conference, the Commonwealth, the World Trade Organization as well as the IMF, the World Bank, the Asian Development Bank and the Islamic Development Bank.

Regionally, Pakistan is a member of the Economic Cooperation Organization, an organization that promotes economic and trade ties between Iran, Pakistan, Turkey and the Central Asian Republics.

Pakistan is also a founding member of the South Asian Association for Regional Cooperation, which includes Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal and Sri Lanka, with China and Japan participating as observers.

There has been a progressive transformation of Pakistan's relations with the United States over the past decade. Over this period, the bilateral relationship has improved substantially through a process of deepening and broadening of ties beyond cooperation in counter-terrorism. The US has shown interest in supporting Pakistan's economic development, educational reforms and measures to increase trade and investment links. The US is Pakistan's largest trade partner, accounting for nearly 20 percent of Pakistan's total export in FY 2014. The US is also one of the major foreign investors in Pakistan. Earlier this month, the USAID organized a Business Opportunities Conference for the Diamir Basha Dam Project in Washington to showcase this project of critical importance to Pakistan to US investors, construction and engineering companies.

Ladies and Gentlemen,

Pakistan believes in maintaining good relations with all neighbouring and regional countries to contribute to regional prosperity and development. Pakistan continues to enjoy close and stable

relations with China. The two countries share a common interest in preserving the balance and stability of the region. The political and economic fundamentals of Pakistan-China relations remain sound, with bilateral

trade of US\$ 11.3 billion in FY 2014, and are reflected in frequent high level exchanges between the two governments. Economic cooperation between the countries includes Chinese investments and financial assistance in port, railway, mining, coal and civil nuclear power projects.

In July 2013, during Prime Minister Sharif's first official visit to China, the countries signed a memorandum of understanding on the China-Pakistan Economic Corridor. The eventual aim is to enhance connectivity of Pakistan and China with all regional countries in Asia and Central Asia by building further rail, road, gas, oil pipelines and fiber optic links.

Early this morning, I returned to Islamabad from Beijing where I, on behalf of Pakistan signed the Memorandum of Understanding for establishing the Asian Infrastructure Investment Bank with Authorized Capital of US\$ 100 billion, which aims to provide financing for meeting infrastructure deficit in Asian countries and promoting regional connectivity. Clearly, the China-Pakistan Economic Corridor dovetails very well with the upcoming Asian Infrastructure Investment Bank strategy and will ultimately transform the region.

Pakistan is implementing development projects in Afghanistan in the areas of health, education, infrastructure and house-building, and has provided a general assistance package of US\$ 500 million. Pakistan and Afghanistan are also trading partners with trade between the countries totaling US\$ 1.9 billion in FY 2014. Both countries continue to develop bilateral economic cooperation and are working together on a number of regional projects relating to roads, rail, energy and connectivity. On October 11, 2014, I had the privilege of signing in Washington with Afghanistan Finance Minister an agreement on CASA-1000 transit fee which we finalized at mutually agreed price of US cent 1.25 per kw/h. This agreement resolved an issue that was pending since many years.

Pakistan and Iran enjoy cordial relations grounded in common religion, history, culture and geography. The government remains committed to furthering economic relations with Iran by intensifying trade links. The proposed Iran-Pakistan gas pipeline project represents an important bilateral initiative, particularly given Pakistan's energy needs for a sustainable economic environment. An expected earliest lifting of world sanctions on Iran will accelerate the bilateral relations between both countries.

Pakistan and Turkey enjoy cordial relations and the government seeks to enhance the economic relationship further. The government concluded a Pakistan-Turkey Preferential Trade Agreement in the first quarter of 2014 which is expected to significantly increase trade in the short to

medium-term. Turkey invests significantly in Pakistani energy, infrastructure and urban development projects.

Ladies and Gentlemen,

Pakistan has diplomatic, trade and investment relations with most nations of the world. However, there is a need for further promotion of trade and economic cooperation. Oil and gas exploration, financial business, communications, construction and chemicals are traditionally major sectors attracting foreign direct investment in the country. In future, the potential of foreign direct investment exists in power, LNG, gas, infrastructure development and petro chemicals sectors. In addition, textile sector would attract local investment in the country owing to GSP Plus status given by European Union at the beginning of this year. Finally, other sectors in manufacturing like electrical machinery, electronics, transport equipment (automobiles), rubber and rubber products, metal products and leather and leather products have potential to attract foreign investment into the country.

Conclusion

Despite the recent setbacks due to domestic events which I have mentioned earlier, I am sure that we will, InshaAllah, not only meet our medium-term economic targets but also give the country's economy the right direction and put it on the path of sustainable and inclusive growth.

National interest is supreme and we shall pursue economic development of the country no matter what the impediments are. Recent events have indicated that democratic system has gained sufficient strength in the country to overcome such self created difficult times. Let me here express her our government's firm resolve that no obstacle or hurdle in investment would be tolerated and no one will be allowed to play negatively with the economy and the bright destiny of our country.

Pakistan's Constitution, laws and governance structure protects foreign investment and our Board of Investment will continue to facilitate the investors as One Stop Shop. We believe that foreign investment would contribute in making Pakistan world's 18th biggest economy much earlier than 2050, the year predicted by Jim O'Neill.

I thank you all.

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