

Address to the Nation
By
Chief Executive
General Pervez Musharraf

December 15, 1999

Before I start my scheduled address I would like to say a few words about the great tragedy at Lahore in which precious lives of 100 innocent children were lost. I wish to express my heartfelt condolences to the bereaved families for this irreparable loss at the hands of an evil socio-path and his accomplices. The culprit must be hounded and given- exemplary punishment.

Coming to my address now :

My dear fellow citizens!

Assalam-o-Alaikum:

About 60 days ago, I had identified areas of critical importance adversely affecting the very foundation of Pakistan. Three of the most vital areas were the dismal state of the economy bordering on bankruptcy, inter provincial disharmony striking at the roots of national integration and poor governance, or rather, near absence of governance. Today, I will first take you into confidence over the progress made on these issues and then turn to our Economic Revival Plan.

On the economy, I must admit frankly, that having assessed the extent of damage it is clear that the economy is in much worse a condition than what we initially thought it to be. However, even within this short span of two months, signs of revival of investor confidence are becoming apparent.

* The stock market has shown an upward trend by registering an increase in the index since the 1211 of October.

* During this period we have succeeded in concluding debt rescheduling agreements with several countries and commercial creditors for an amount of over \$2.3 billion.

* Our offer for rescheduling of sovereign bonds was a great success as it received more than 90 percent acceptance. This was a pioneering effort which set a record in the international capital market.

* So far we have renegotiated agreement with 9 Independent Power Producers. This will result in substantial savings of \$749 million.

* After about 4 years of a slow-down in the textile sector, there are now some distinctly positive signals pointing to a turn around; and lastly

* There are strong indications from overseas Pakistanis and foreign investors showing interest in investing in Pakistan. Inshallah some major projects generating significant economic activities are expected to be launched shortly.

Our main focus is to generate economic activity. through developing investors' confidence. This we intend achieving by ensuring stability and continuity of policy and thus attracting resident Pakistanis, Overseas Pakistanis and foreign investment.

There is a general feeling of slow movement on accountability and that this may be a reflection of weakening of our resolve to bring the corrupt to book. Let me assure you my fellow citizens that there is no let-up in our resolve to fulfill our commitment to the nation.

We stand by every word that we have uttered. We will, Inshallah, meet your expectations.

The accountability process is on course and the apparent delay is due to the inherent shortcomings of the investigative structure supporting the National Accountability Bureau and these shortcomings are :

* There are few specialists in our country capable of investigating white-collar crimes, which require experts in banking, tax laws, and commercial transactions. Suitable investigation teams are now being formed.

* The other problem is that there is an extreme shortage of qualified prosecutors. These are also now being inducted.

* And the last problem area is the establishment of courts and appointment of judges which also has taken time.

I would therefore request you to show understanding and bear with us as we proceed gradually, but surely, to our objective. We have, to a great extent, overcome the initial hurdles. Six accountability courts have been established and cases are being filed for trial.

Let me assure you, that with the passage of time the accountability net will keep widening and many more courts will be created all over the country. It must be appreciated that if justice has to be done, it requires a systematic and institutionalised approach avoiding whimsical, impulsive actions.

I want to share with you the details of the campaign to recover defaulted loans. By any standard, our campaign has been very successful. In just 30 days we were able to recover over Rs. 9 billion in cash and in 45 days this figure has now gone upto almost Rs. 10 billion. In addition, a substantial sum has also been obtained through new securities in the form of land titles, properties and other valuables, whose total value is still being assessed. These additional securities have been deposited in the banks by defaulters to make up the shortfall in their collateral.

Based on these recoveries, banks have extended commercially viable repayment arrangements that would regularize a substantial amount of loans.

Compared to all previous efforts, this has been the most successful operation undertaken in less than a month. Of particular satisfaction is the impact this operation has had on repayment of other loans.

Banks have reported that their current dues are recovered promptly. There is generally a change in borrowers' behaviour in making repayments. In fact this was one of our major objectives.

I would also like to correct the misperception that the accountability process is targeting only loan defaulters. The accountability process is actually dealing with financial irregularities in their totality, which include loan defaulters, outright corruption cases like bribes and kickbacks and also misuse of office for manipulation of policies for personal gains.

Of the first 26 NAB cases, 40 percent only are loan defaulters while the rest fall in other categories of corruption. While I appreciate the patriotic spirit of all those who have voluntarily settled their dues, I regret the embarrassment and inconvenience caused to individuals whose names erroneously appeared in the loan defaulters list and the Exit Control List. We have tried to streamline the procedures and I hope that such embarrassment will not recur.

With regard to national integration, this will, Inshallah, be achieved through a balanced and just approach towards all provinces. We will ensure equitable distribution of all resources, funds, and employment opportunities.

The first manifestation of our resolve is reflected in the balanced representation that we have given to each province in our cabinet. We will pursue policies that reduce disparities between provinces as also reduce disparities between regions within the provinces.

The root cause of all our ills has been the absence of good governance. Merit was ignored, and, as you all know, most of our institutions were rendered ineffective. We are determined to institutionalise good governance through selection on merit and continuation in any position on the basis of performance. Adopting such an approach over a period of time, we hope that the system of merit will become all-pervasive, isolating and removing all pockets of discrimination and inefficiency.

For the purpose of efficient Governance we have so far established and appointed the National Security Council, the Federal Cabinet, the governors and the Provincial Cabinets, the National Reconstruction Bureau, the National Accountability Bureau and a National Monitoring System. With all these organisations we have now created an infrastructure which will facilitate implementation of subsequent restructuring and reforms.

We are in the process of reforming the financial and banking sector, public sector corporations and the railways. Reconstruction and restructuring of other institutions will follow.

Let me now turn to the Economic Revival Plan.

In my first address I had pointed out that the country was faced with an economic collapse.

Let me give you some indications of the precarious and fragile economic situation that we inherited :

- * The growth rate in GDP has continuously declined from 6% in the 80s to about 3% at present.
- * The overall volume of trade in the past three years has declined by nearly \$3.4 billion.
- * Tax collections in the past year have declined from 12.4% to 10.3% of GDR.
- * Nearly 56% of the current budget is going towards debt- servicing.
- * As on 30 June 1999 total external debt was \$38.8 billion, of which \$6.2 billion is short term, making us vulnerable to the risk of default.
- * Private investment has almost dried out and shares issued in the Stock Exchanges in recent years have been negligible.

The fundamentals of the problem are before you. There are two basic reasons for this sorry state of affairs. Firstly, the Government spent more than its resources permitted, and secondly, we as a people, imported more than what we exported.

This state of affairs could not have been allowed to continue. We cannot barter our future and the future of our children by living beyond our means.

We have to learn to live and grow within our means. This is not easy to achieve; there are hard decisions to be taken; bitter pills to be swallowed. I cannot lead you up a garden path. Let us face reality squarely and be prepared for sacrifices today for the sake of a better tomorrow. The Economic Revival Plan that I am going to present is not meant to be a mini budget but is an effort to stabilize and renew the economy, to reinvigorate our productive and institutional capacity.

At the outset, we need to build the confidence of the business sector in our economy. Nothing has damaged this confidence more than the ill-conceived decision of freezing the foreign currency accounts and the needless entanglement with the Independent Power Producers. With a view to rebuilding this confidence, I would like to declare that :-

* First, although the present Government is not responsible for this callous decision,, I, on behalf of the Government of Pakistan, apologise to all those who were affected by the freezing of the foreign currency accounts in May '98. It was a mistake that should not have been committed. It shattered the confidence of families, of businesses, of Overseas Pakistanis and it damaged our financial credibility. I have directed the Law Ministry to formulate legislative measures that will pre-vent the recurrence of such events in the future.

* The second major irritant, which has damaged our image as an investor friendly country is the issue of the Independent Power Producers. I have asked the concerned authorities to expedite tariff negotiations with the remaining IPPS, and to finalise within 30 days pending investigations and submit a report to me. We will thus be able to finally put this issue behind us and make a new beginning in our bid to attract foreign investment.

There are two basic objectives that I have given to my economic team to achieve.

Firstly, take the country out of the debt trap and be more self-reliant.

Secondly, ensure that all our economic policies positively impact on the common man. Negative implications should be minimised.

Let me now come to the main features of our economic programme.

Our primary focus will be the development of a self-reliant economy. This does not mean autarky or the absence of borrowings. Rather our borrowings should be for productive purposes.

We have to lessen the debt burden because this burden makes it difficult for us to increase our expenditures on education, health and other social sectors for the poor.

We have succeeded in rescheduling our external debt to both the official and commercial creditors for a limited period of time. However, we need to do much more in this regard. For this purpose we have identified precise policy measures .- .

(1) It is the intention of my Government to seek relief in debt from our creditors and use the savings solely for poverty reduction programs.

(2) We would reactivate the privatization program on the following principles : (a) the strategic assets should remain outside the program; (b) a law should be framed to determine the manner and methods of privatization to ensure realization of highest price, transparency and fair-play; and (c) the proceeds from privatization should be used exclusively for retirement of debt. It is unfortunate that since the inception of privatization, we have sold units worth more than \$1.5 billion but only a small portion of this was used for retirement of debt and the rest was spent elsewhere. We will not let this happen again.

(3) The domestic cost of borrowing is very high and steps are being taken to reduce it by about 2 percentage points.

(4) Fourth, the Federal and Provincial Governments will gradually eliminate borrowing to finance non-development expenditures.

(5) Fifth, I would like to impress upon expatriate Pakistanis the critical role they can play in lessening this burden. Their remittances through official channels, will help improve the balance of payments and reduce the need for foreign borrowings. On the Government's part, I have asked the State Bank of Pakistan to take necessary steps to ensure that commercial banks deliver these remittances without any delay.

(6) Finally, a high level committee is being constituted to suggest measures for the establishment of an efficient debt management system and to reduce the debt servicing burden.

In the coming years we would like to focus on four areas for the revival of the economy.

- (a) Revitalising the agriculture sector.
- (b) Promoting small and medium scale industries.
- (c) Encouraging oil and gas exploration and development.
- (d) Developing information technology and software.

Despite the fact that we possess an extensive agrarian structure and the fact that about 65 percent of our people earn their livelihood, from agriculture, our country spends more than \$1 billion on the import of wheat and edible oil alone. Yet the prospects for growth in the agriculture sector are phenomenal. We will take several initiatives to unleash this vast potential.

(1) increase wheat and oil seeds production to conserve on imports. In this regard the increase in wheat support price from Rs. 240 to Rs. 300 will have a positive impact on the next year's crop

(2) ADBP will be revitalised and its effectiveness will be improved to reach out to the small farmer.

(3) Credit for agriculture will be augmented.

(4) Agricultural prices as far as possible will be related to market mechanisms. Government will intervene only under exceptional circumstances to protect farmers.

(5) Water conservation is a very high priority for this Government both in terms of rehabilitation of the irrigation system and for the revitalization of the on farm water management projects in all provinces. Special attention will also be paid to the specific needs of all regions and to tap their potential for agricultural productivity.

(6) Our country has an abundant livestock population and this Government will therefore encourage the development of exports in milk and meat products.

(7) Fisheries will be promoted through sustainable exploitation of our marine Exclusive Economic Zone off the Sindh and Balochistan coast lines, through institutional support for value-added exports and the provision of credit.

(8) Large tracts of evacuee agricultural land in the Tharparkar area in Sindh, which are being cultivated by poor and land-less farmers for the past 28 years, will be allotted to them.

(9) State land not distributed so far will be allotted to land-less peasants. The Army's monitoring system will ensure that the land allotted to the poor remains in their possession. A special credit package will be made available to the small farmers to help them develop their land and make it productive.

Pakistan's growing industrial base has been damaged by the rapid shift of policies in recent years. I want to assure our business community that our policy in this sector will be consistent and transparent.

I will explain the main features of this policy :-

(1) The highest priority will be for small and medium industry. The Government will facilitate more credit and advisory support.

(2) Industrial finance will be revived through a restructuring of the banking and financial sector and by lowering the cost of funds.

(3) We will establish a new financial institution to be known as the Corporate and Industrial Restructuring Corporation. This entity will help revive sick industrial units. In cases where rehabilitation is not possible, the new corporation will ensure early liquidation.

(4) Government will ensure an enabling environment and provide infra-structural and institutional support. Laws relating to trademarks, intellectual property rights, industrial relations, workers compensation, bonded labour and work conditions will be reviewed and improved.

(5) The Tariff Commission will be made autonomous. Misuse of SR0s based on nepotism and corruption will be eliminated.

The next growth area in the government's program will be the energy sector. The bill for oil imports in this year is likely to be over \$2.5 billion. Pakistan's demand for energy will continue to grow as we develop. To move towards self reliance in the energy sector, we will take these initiatives :-

(1) The process of exploration and development of oil and gas fields will be accelerated and increased foreign investment in this sector will be encouraged.

(2) The development of recently discovered, large reservoirs of gas will be expedited.

(3) Regulatory authorities will be established for the orderly operations and development of the oil and gas sectors.

(4) Conversion of power plants from furnace oil to gas will be encouraged.

(5) Upstream infrastructure including pipelines will be developed for efficient transportation of imports and discovered resources.

(6) The petroleum sector will be deregulated and the privatization process expedited for greater efficiency, for new investment and for retirement of public debt.

(7) Margins of oil marketing companies will be rationalised so that they can invest in storage and other infrastructure for oil.

(8) The price of LPG will be deregulated and the use of CNG will be encouraged.

The fourth priority of our program is the development of information technology and the software industry. Key elements of this policy are :-

(1) The telecommunications part of the Ministry of Communications will be separated and placed under the existing Ministry of Science and Technology as a division. Another new division to be called Information Technology Division will be created in the Ministry of Science and Technology in order to stimulate growth in this critical sector.

(2) A large pool of IT professionals will be developed. Charters for IT based universities will be liberally granted.

(3) IT and software industry will be eligible for export finance.

(4) The use of the inter-net will be expanded and the FITC tariff structure for data communication will be substantially reduced to encourage increased use by the I. T. industry.

MY fellow citizens:

I have emphasised poverty alleviation as part of our primary objectives. We plan to initiate specific programmes in this direction :

(1) An annual allocation of Rs. 15 to 20 billion will be made through budgetary re-adjustments for small public works in the poorest and low income urban and rural areas. This programme will generate significant employment for the poor and will impact a large number of households in terms of their incomes. The Monitoring System of the Army will conduct third party audit of this program. I am pleased to announce that the Armed Forces have voluntarily cut their Defence spending and have contributed Rs. 7 billion to this programme.

(2) In the poorest of rural areas the program will include development of farm to market roads, desilting of canals, lining of water courses, construction of spurs, culverts, ponds and soil conservation. In the poorest urban areas, schemes of water supply and sewerage and garbage collection and disposal will be included.

(3) The food stamps program for the poor is being revitalised and a special allocation will be set aside from the receipts of General Sales Tax for this purpose. ,

(4) A Committee has been formed to conduct a comprehensive reappraisal of the entire Zakat and Ushr system so as to ensure its utilization for the most deserving.

(5) Our Government will establish a new Bank for enhancing the access of poor people to credit. The Micro Credit Bank will do business with established community organizations, with NGOs involved in micro credit and with individuals. The Micro Credit Bank will also promote the process

of establishing community organizations which can sustain credit operations and promote the savings habit among the poor. Small infrastructure projects will also be financed by the Bank. On completion these projects will be maintained by the community organizations.

Let me now turn to the fundamental reason why the State has been failing to meet its obligations to the people. With the exception of those nations which are endowed with income from natural resources, the only source of state revenues the world over is taxes paid by the citizens. It would be naive to expect that a state could be strong and stable where the culture of tax compliance is widely disregarded. In fact, a state cannot survive where those who pay taxes are those who cannot escape, where tax revision is rampant, where the influentials proudly claim that no one can stop them at the Customs, where certain classes of people are completely exempted from tax.

Equally important, no state can survive whose tax machinery is corrupt, oppressive, complicated and punishes the honest tax payer in a bid to protect the interests of tax evaders. where there is the unfortunate culture of promoting spurious economic activities through tax exemptions.

At the center of our national rebuilding efforts is the promotion of a cultured of tax compliance. We will come down very hard on those who are tax evaders as well as on their abettors in this crime. We have resolved to lay the foundation of a completely documented economy where the cost of tax evasion will be very high. Those who engage in this act against civil society will be pushed to its very fringes.

The tax reforms program I am announcing is based on the principles of minimizing the number of both federal and provincial taxes, lowering the tax rates and broadening the bases, simplification in assessment procedures and an efficient system of dispute resolution.

Since this is a new beginning, it is only reasonable that an opportunity is provided to undo past mistakes. Accordingly, a tax amnesty scheme is announced :-

(1) On truthful disclosure of all tax-evaded assets, a payment of only 10% as tax will allow people to bring these assets on to their books. This amnesty will be available until 31 March 2000.

(2) Th Government has decided that no black money whitener schemes will be allowed in the future. However, I want to assure you that the immunities, protection and exemptions on existing investments, deposits, bonds, foreign currency accounts etc., will be fully honoured. The Finance Minister will provide further details in this regard.

In terms of tax reforms :-

(1) The government will ensure that agriculture incomes are taxed on the same lines as incomes from any other source. The Provincial Governments will design appropriate mechanisms, which will be introduced in June 2000.

(2) As in most other developing countries throughout the world, General Sales Tax is the major source of revenues. It is also the basic tool for documenting the economy. Now that we are starting. a new chapter in our taxation history, there is no reason that the scope or potential of this tax be circumscribed in any manner Accordingly, this tax will be applied at all stages. At each stage, the application will be simplified and adapted to the needs of each sector. I hope that all citizens will work together in our shared national interest.

(3) A number of taxes in force at present will be phased out gradually. At the federal level primary sources of revenue will be income tax, sales tax and custom duties. Similarly the provincial governments will be encouraged to minimize the number of taxes.

Policy measures relating to simplification and reform of tax administration will be announced by the Finance Minister. Four highlights are :

(1) A Tax Ombudsman will be appointed to hear and decide complaints against tax authorities.

(2) In consultation with the respective Chief Justices, Revenue Benches will be established in the High courts and Supreme Court to deal with tax disputes.

(3) Tax refunds will be allowed by the CBR within a specified period. In case of delay the tax payer will be entitled to a return on the refund. A mechanism will be announced in January 2000.

(4) Accrued refunds due from the CBR will be eligible for offset against taxes payable.

Existence of a safe and secure civic environment is a prerequisite for economic activities. Ensuring peaceful law and order conditions in all major business centers of the country will be a high priority of our Government.

I am also fully aware of the difficulties people face in the payment of their utility bills. I have directed concerned officials to take all necessary steps to ensure that people face no difficulty in payment of their, utility bills.

I would now like to announce a benefit package :

(1) The 10% withholding tax on income from national saving schemes is being withdrawn and refunds will be made to those who have encashed their savings from September 1999 to- date.

(2) Old age pension of workers will be increased by 48% from Rs. 425 per month to Rs. 630 per month by the employees Old Age Benefits Institution.

(3) Death grant will be increased from Rs. 50,000 to Rs. 75,000 to the family of the deceased worker by the Workers Welfare Fund.

(4) Marriage grant of Rs. 20,000 will be provided to surviving daughters of the deceased workers from the Workers Welfare Fund.

(5) Low paid employees in BPS I- 16 will be provided an ad-hoc relief of Rs. 100 per month .with effect from 1 January 2000. This is to compensate for the recent increase in fuel prices. The private sector is also expected to grant a similar relief.

(6) All electricity payments on agricultural tubewells stand deferred without surcharge till 31st May 2000. New electricity connections for agricultural tubewell can be installed with. only to 25% down payment and the rest payable in 24 installments.

MY fellow citizens !

We have assumed the burden of governance at a time when the country is passing through the most difficult period of its history. We are attempting to turn a situation of adversity into an opportunity. It is a great challenge. But we have faced challenges in the past, though of less

severity. We have shown resilience and an ability to emerge triumphant. We therefore need to galvanize ourselves and summon all our energies to forge ahead. This is not the time to look for relief. It is the time to display courage and steadfastness. All great nations have risen from the depths of their ruination. It may be our chance to prove that we are indeed a great nation, the only Islamic nation with nuclear power, with over 130 million dynamic people. What is needed is the will, in every individual, to change, and to change for the better, to earn respect and dignity, to become a worthy nation. In this great and holy month of Ramzan which embodies both the spirit and substance of sacrifice, my fellow citizens, let us pledge that we will meet the challenge of change. I have no doubt that there is a bright tomorrow, a promising future that awaits us.

Let us remember that in the Holy Qur'an, Almighty Allah has given us a message that is most relevant for us as we begin this new journey.

Verily, never will Allah change the condition of a people, until they change what is in themselves.

Pakistan Paindabad.