SBP issued following clarification/rebuttal on March 21, 2019

Factually incorrect statement about SBP in Express Tribune of 19 March 2019

Apropos your lead story on 19 March 2019 entitled, "World Bank sees Pakistan's potential to be a $2 trillion economy in 28 years", while quoting from a World Bank report the story says,' The report says the State Bank of Pakistan (SBP) has been undermined by rent seeking behavior and complex security situation." However the actual statement in the World Bank report reads: "The **state** has often been undermined by rent seeking behavior and a complex security situation, particularly over the past 40 years" [Page 23, Para 2].

The entire World Bank report, along with the 7 accompanying policy notes does not link SBP with rent-seeking behavior and the security situation. Thus, the statement reported in your story is factually incorrect and creates a reputational issue for the State Bank. You will agree that robust fact checking before filing a story could help in avoiding any misleading information printed and thus any potential damage to an institution's repute.

You are requested to publish a prominently displayed correction/corrigendum in next print edition. This correction should include the original sentence in your story, as well as the actual sentence in the World Bank report. The paper should also correct the relevant sentence in the online version of the story.

SBP respects your newspapers professional approach towards reporting and balanced editorial policy. We expect Express Tribune to continue with its tradition of accuracy in journalism while promptly correcting any inadvertent mistake."

Following news items published in Express Tribune, Karachi on March 19, 2019

World Bank sees Pakistan's potential to be a $2 trillion economy
Express Tribune/By Shahbaz Rana

ISLAMABAD: Pakistan could become a $2 trillion economy in the next 28 years if it remains steadfast in its reforms and manages to reduce its population growth rate to 1.2%.

"With sustained reforms, Pakistan could be a $2 trillion economy when it will turn 100 in the next 28 years," said the World Bank (WB) Country Director Patchamuthu Illangovan while sharing the main findings of the 'Pakistan @100- Sharing the Future 2047' report on Monday.

"The $2 trillion economy means an upper middle-income country where per capita income will be $5,702 but it will have to halve its population growth rate to 1.2% by 2047," he added.

However, business, as usual, would mean that the size of Pakistan's economy will be only $1 trillion and the per capita income will be just $2110. By 2047, Pakistan's population will be 376 million at current growth rate, said the country director. The size of Pakistan's economy is now only $275 billion.

The Washington-based lending agency released the report on Monday in a gathering of government functionaries, academia, diplomats and financial institutions. The report says the State Bank of Pakistan (SBP) has been undermined by rent-seeking behaviour and complex security situation.

According to the report, Pakistan's economy right now is captured by four influential groups that have frustrated efforts to bring reforms but the country now stands at a crossroad and it has to decide whether it wants to become an upper middle-income nation or stay poor.

It argues that in the 1960s, the chief economist of the Planning Commission, Mahbub-ul-Haq, claimed that 22 families controlled 66 per cent of the industrial wealth and 87 percent of banking and insurance.

“More recent analysis suggests that elite capture continues to constrain economic policymaking”. Since the 1980s, the share of industrialists in the National Assembly and parliament has doubled, blurring the barrier between politicians and businessmen.

It added policy uncertainty and a lack of trust in policy implementation affect firms’ reactions to reforms and may affect the effectiveness of otherwise well-designed and implemented policies.

“Elite capture in Pakistan has affected policymaking, as in certain circumstances political leaders lack incentives to formulate policies in response to citizens’ demands, or to work toward effective policy implementation,” says the report.

The WB report states that a unique feature of Pakistan’s history is that economic, social and security policies gave rise to various elite factions that sustain economic and political power until today.

While citing a reference of a study, the report underlines that “there exist at least four influential groups that gained power through historic events and continue to leverage their influence on the political system for personal gain”. These are civil servants, landowners, industrialists, and the military.

The WB states that there was evidence that Pakistan’s elites have used this power in the past to undermine reforms that would have reduced their influence.

For instance, landowners and industrialists have leveraged their political representation to oppose reforms that would have enhanced tax-revenue collection from agriculture and the private sector.

The influential military class favours a security-centric policy framework to maintain its influence and access to state resources, which reduces the scope for regional cooperation.

“While each group affects development differently, they share the common trait of having gained and retained influence throughout Pakistan’s history.”

The shortcomings of Pakistan’s institutional framework that have enabled elites to retain power persist today and are precisely those factors that prevent effective reform implementation.

It argues that instability in the political system has reduced accountability and skewed leaders’ incentives away from long-term reforms. The characteristics of Pakistan’s political system have weakened the link between citizens and political leaders that is so crucial to sustaining the triangular relationship.

First, frequent regime changes from civilian to military governments have highlighted the power of the military to sanction political leaders, competing with the sanctioning power of voters.

Second, Pakistan’s political system is characterised by an incumbency disadvantage, which means that incumbent politicians have a reduced likelihood of being re-elected.

As a result, the direct accountability between citizens and political leaders is undermined, as politicians face the risk of being sanctioned even if they implement citizens’ demands, simply because they are incumbents. This shortens leaders’ incentives and time horizon, leading them to prioritise short-term projects and making them more likely to engage in extractive behaviour.

The WB also highlights the role of industrialists in financing political campaigns. It says campaign financing regulations in Pakistan provide a key channel for elites to gain political influence.

Pakistan lacks a transparent and public mechanism to fund political campaigns and instead requires candidates and parties to privately finance campaigns. As a result, in many instances parties must rely on wealthy patrons to fund their campaigns.

This means that it is not just electoral support from citizens that matter for the selection of politicians, but also who provides financial support.

To obtain this financial support, parties tailor their programmes explicitly or implicitly to the demands of financiers, which in many instances involves safeguarding preferential legislation and slowing down reforms.

At the same time, campaign financing regulations provide a barrier to entry for political alternatives, further limiting political competition and reducing political leaders’ accountability to citizens.

“Pakistan can boost its growth by investing in people, improving productivity, reforming institutions and protecting the natural environment,” said the WB Group Vice President South Asian Region Hartwig Schafer.

The decisions over the next decade will determine Pakistan’s future where it will stand in 2047. Will Pakistan rise to the challenges ahead and transform its economy or will Pakistan continue with the mixed record of reform implementation, failing to address the key constraints to growth, while another generation of Pakistanis sees limited welfare improvements, says the WB.

Pakistan’s high birthrate, the highest among neighbouring countries, also threatens to overwhelm education and health services that are already overstretched.

The WB also notes that Pakistan’s macroeconomic challenges are structural in nature, unlike the impression given that these are cyclical problems.

These structural problems are that the revenue system is unable to meet the government’s financing needs and consumption-led growth is putting pressure on external sector.

The economic growth has declined because the country is not investing enough in either physical or human capital, and because misguided economic policies mean that limited resources are not used in the most productive way.

The limited fiscal space, the result of rigid current expenditures and low revenue mobilisation, has given rise to low public investment levels. The low tax revenues and high current expenditures leave limited space for public investments. The WB says the current expenditures exhibit structural rigidities due to high debt-servicing costs, high defence expenditures, and significant subsidies, salaries, and wages.

The WB recommends broadening the tax net by including the agriculture sector, which accounts for over 20 per cent of the GDP but generates a meager 0.22 per cent of total direct tax revenue. The tax system is also riddled with legal loopholes that facilitate tax evasion and need to be rectified.

The WB also emphasises opening of Pakistan’s economy. It says the well-connected industries and firms are often protected from foreign and domestic competition in a variety of ways, limiting the positive impact that increased competition has on productivity.

“Productivity is also affected by weak public services provision—whether it be energy, livable cities, a healthy and educated population, or security,” the report adds.