

***Pakistan Economic
History, Current
Situation,***

Challenges and Way Forward

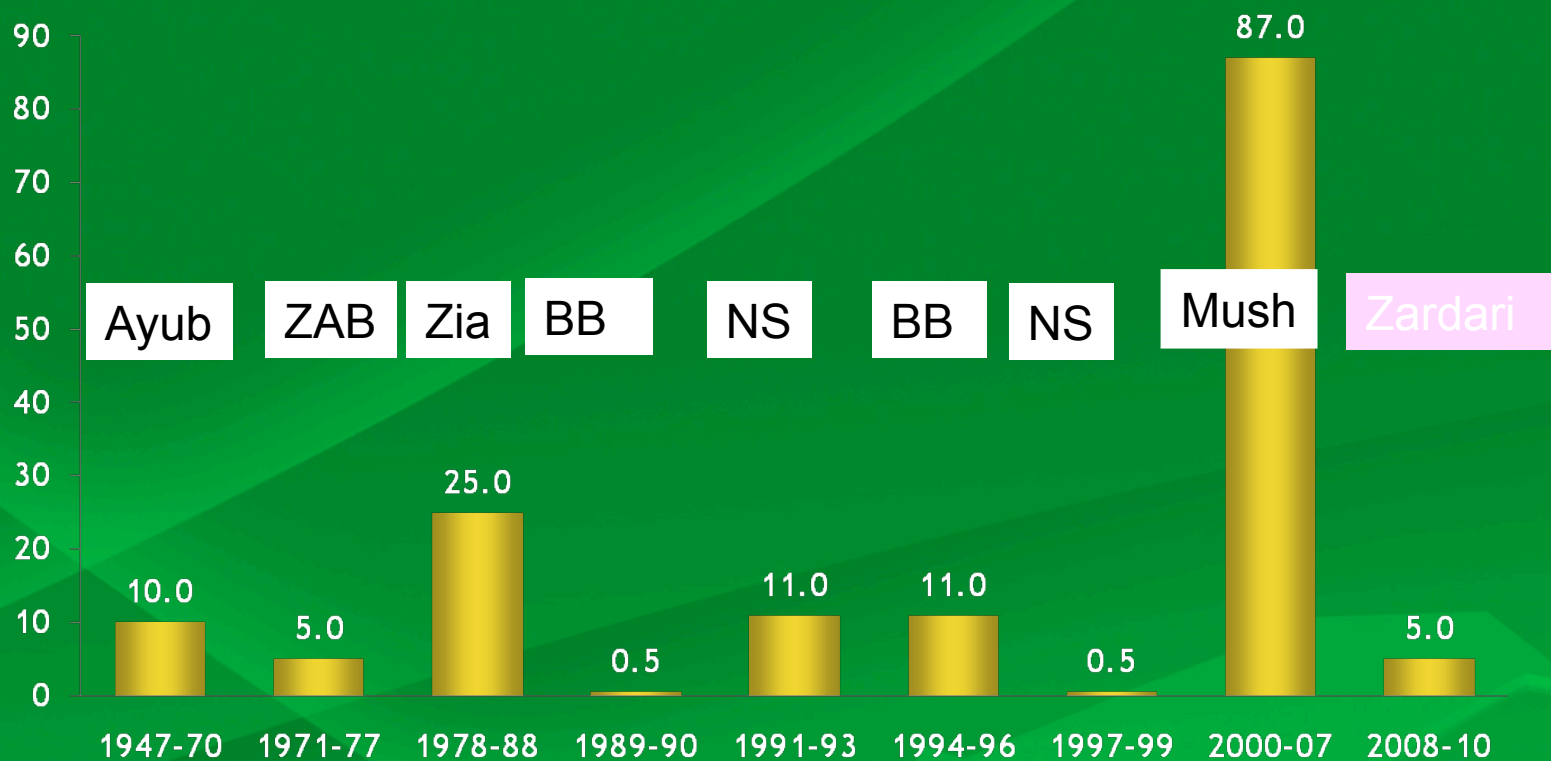
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March 16, 2011

Outline

- Past Performance 1947 - 2010
- Recent Economic downturn
- Where do we want to see Pakistan in the next ten years
- Demographic Challenges
- Addressing these challenges

Additions to GDP – Various Periods



1947 -- 1958

STRUCTURE;

- AGRICULTURE 53%,
- SERVICES, 39%,
- INDUSTRY 8%.

GDP GROWTH AVERAGE 3.2%

- INDUSTRY 9.6%

POLICY OF IMPORT SUBSTITUTION HIGH PROTECTION

- LICENCING SYSTEM, OFFICIAL EXCHANGE RATE
- CONTROLLED LOW INTEREST RATES
- LOW AGRICULTURAL PRICES
- HIGH INDUSTRIAL PROFITS
- KOREAN WAR BOOM

AYUB 1958 -- 1969

AGRICULTURE 41.5%,

INDUSTRY 15%,

SERVICES 42%

GROWTH 6%

MANUFACTURING 9.1%,

- GREEN REVOLUTION SEEDS, FERTILIZERS, AND MECHANISATION
- MANGLA DAM, TUBEWELLS
- FIVE YEAR PLANS DRIVN BY PRIVATE SECTOR
- BONUS VOUCHER SYSTEM MULTIPLE EXCHANGE RATES
- CHEAP CREDIT
- PIDC

- DEVELOPMENT OF ENTREPRENEUR CLASS – 22 FAMILIES
- SEATO CENTO FOREIGN AID TO BRIDGE INVESTMENT SAVING GAP
- 1965 WAR

Bhutto and Socialism 1971--77

- GDP GROWTH 5%
- AGRICULTURE 2.3%
- INDUSTRY 3.2%
- DEVALUATION
- NATIONALIZATION PRIVATE INVESTMENT COLLAPSED

- DESTRUCTION OF LARGE GROUPS
- INFLATION 26.7% 1974-75
- HIGH PUBLIC DEBT
- REMITTANCES AND OIL PRICES

ZIA 1977 -- 1988

- GDP GROWTH 6%
 - AGRICULTURE 4.1%
 - INDUSTRY 8.8 %
- AFGHAN WAR AID
- REMITTANCES
- FISCAL DEFICITS 8%

- INFLATION 8%
- SOME DEREGULATION AND LIBERALIZATION
- STARTING DENATIONALIZATION
- COTTON PRODUCTION – NEW SEEDS

THE LOST DECADE 1989--1999

- GDP GROWTH 4%
 - AGRICULTURE 3.3%
 - Industry 5.9%
- ACCELERATED PRIVATIZATION
- FINANCIAL REFORMS
- END OF AFGHAN WAR REDUCTION IN

AID

- POLITICAL MUSICAL CHAIRS
INCONSISTENT POLICY.
- NUCLEAR EXPLOSION AND
IMPOSITION OF SANCTIONS
- SELECTIVE DEFAULT

Macroeconomic Performance in Pakistan: Historical Perspective

Growth (%)	1960's	1970's	1980's	1990's
GDP	6.8	4.8	6.5	4.6
- Agriculture	5.1	2.4	5.4	4.4
- Manufacturing	9.9	5.5	8.2	4.8
- Services	6.7	6.3	6.7	4.6
Share (%) in GDP				
Total Investment	-	17.1	18.7	18.3
National Savings	-	11.2	14.8	13.8
Total Revenue	13.1	16.8	17.3	16.9
Total Expenditure	11.6	21.5	24.9	24.1
Budget Deficit	2.1	5.3	7.1	6.9

Macroeconomic Performance in Pakistan: Historical Perspective

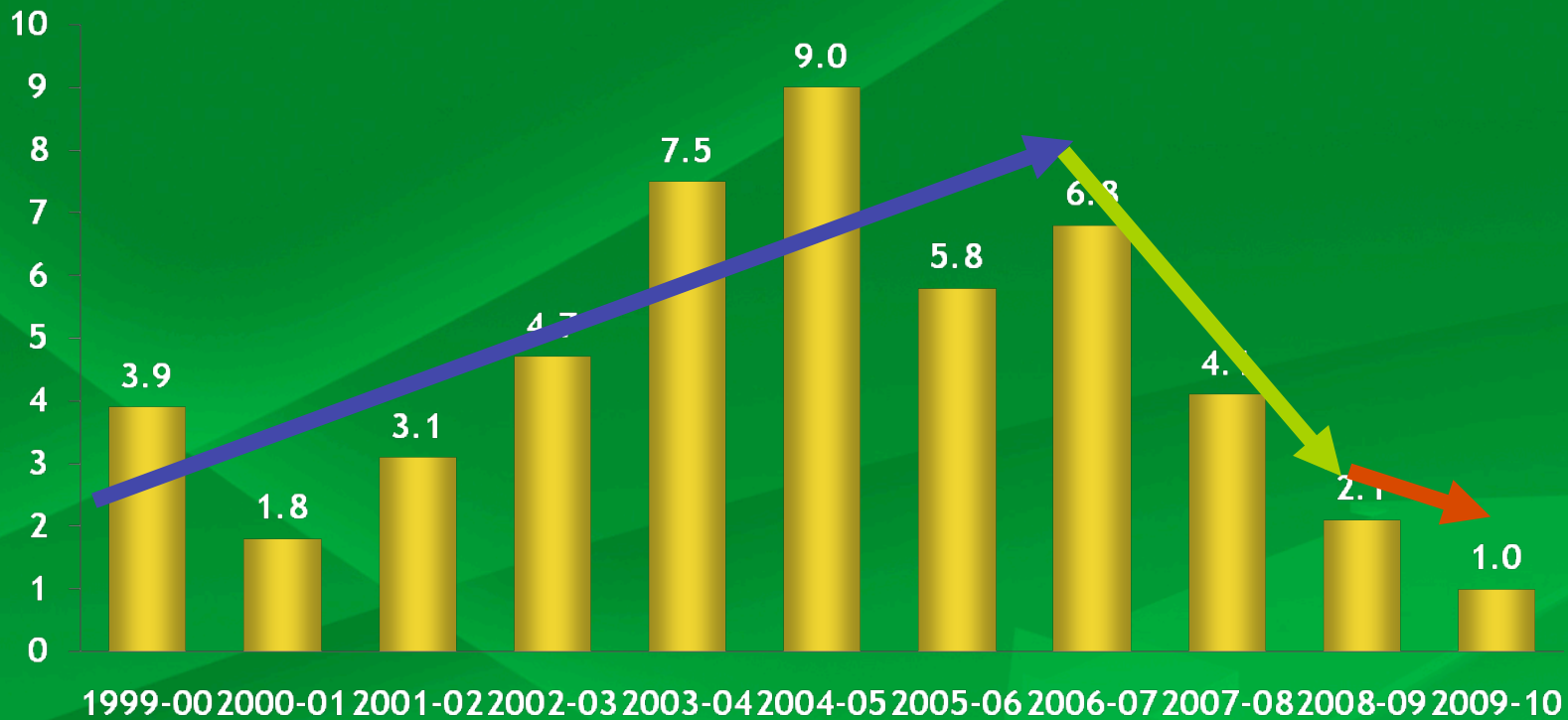
Share (%) in GDP	1960's	1970's	1980's	1990's
Total Exports	-	-	9.8	13.0
Total Imports	-	-	18.7	17.4
Trade Deficit	-	-	8.9	4.4
Current Account Deficit	-	-	3.9	4.5
Human Resources/ Social Development				
Un-employment Rate	-	-	1.4	5.7
Literacy Rate	-	-	29.5	40.7
Male	-	-	39.0	51.6
Female	-	-	18.7	28.6
Expenditure on Education	-	-	0.8	2.3
Expenditure on Health	-	0.6	0.8	0.7

1999–2007



Real GDP Growth

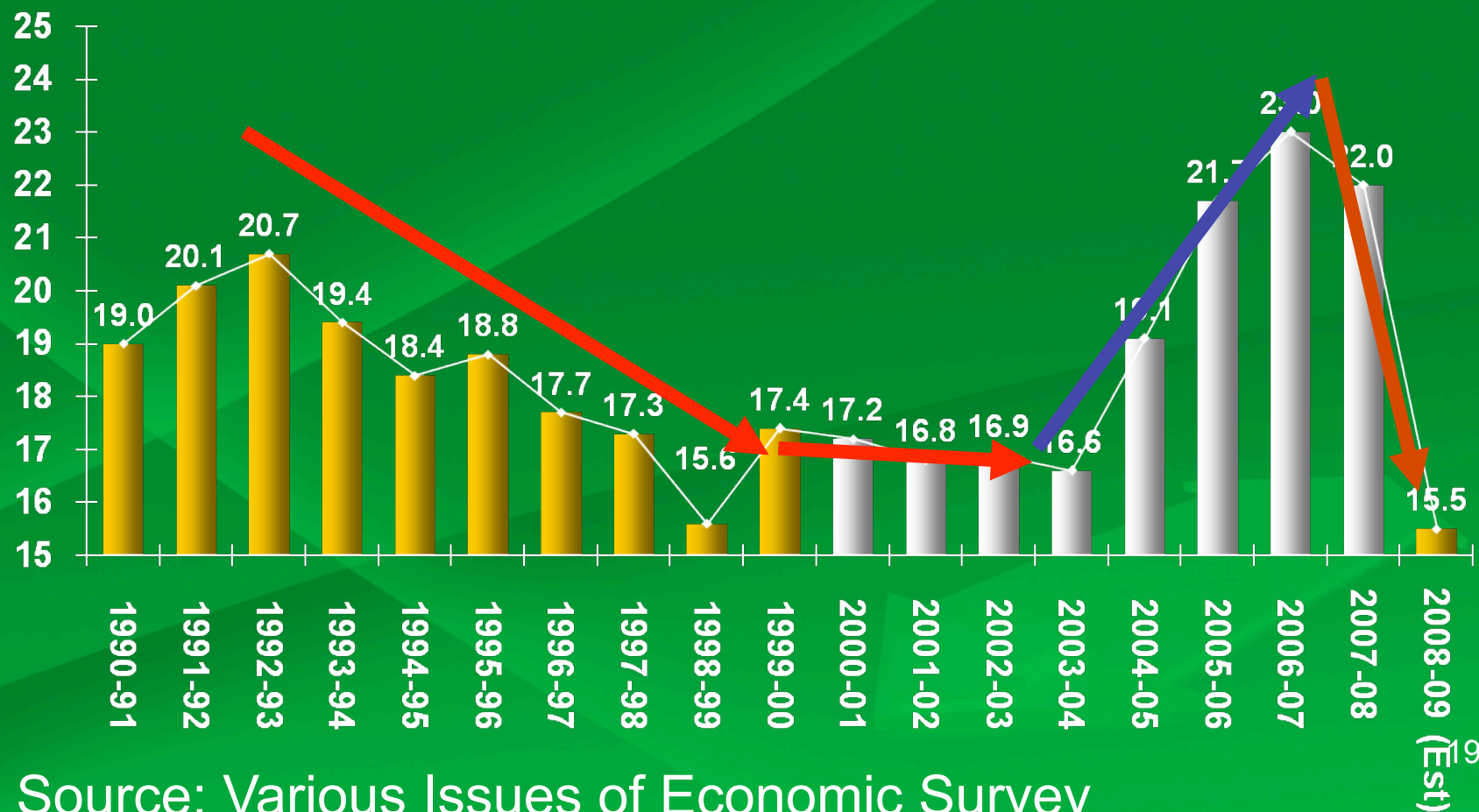
Real GDP growth (% change)



Source: Ministry of Finance

Investment rate started declining again

Investment recovered strongly to an average of 26.4% p.a. during 2004-2007 registered the largest decline in Pakistan history in 2009



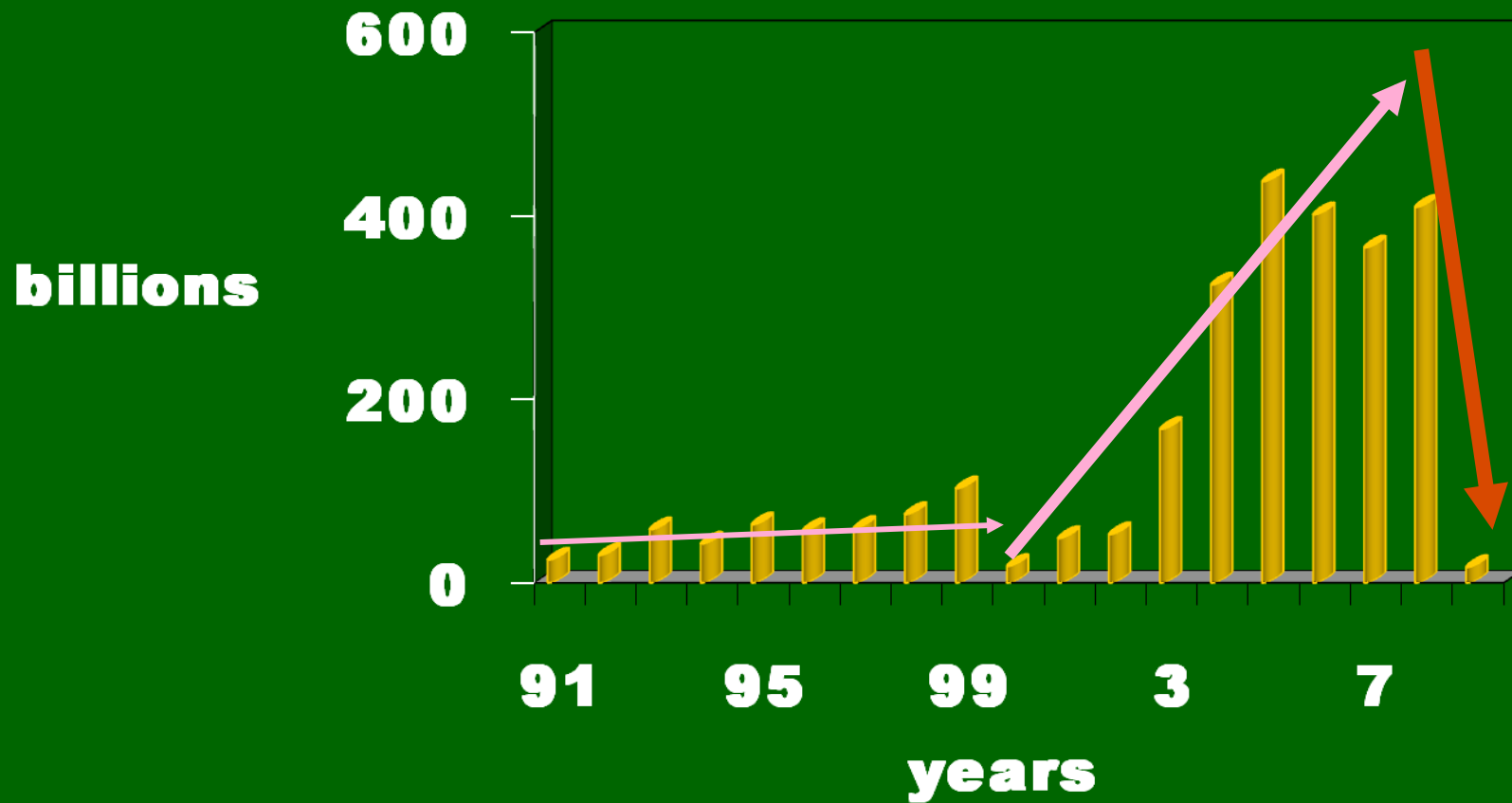
Source: Various Issues of Economic Survey

Recent Trends Remittances (\$ Million)

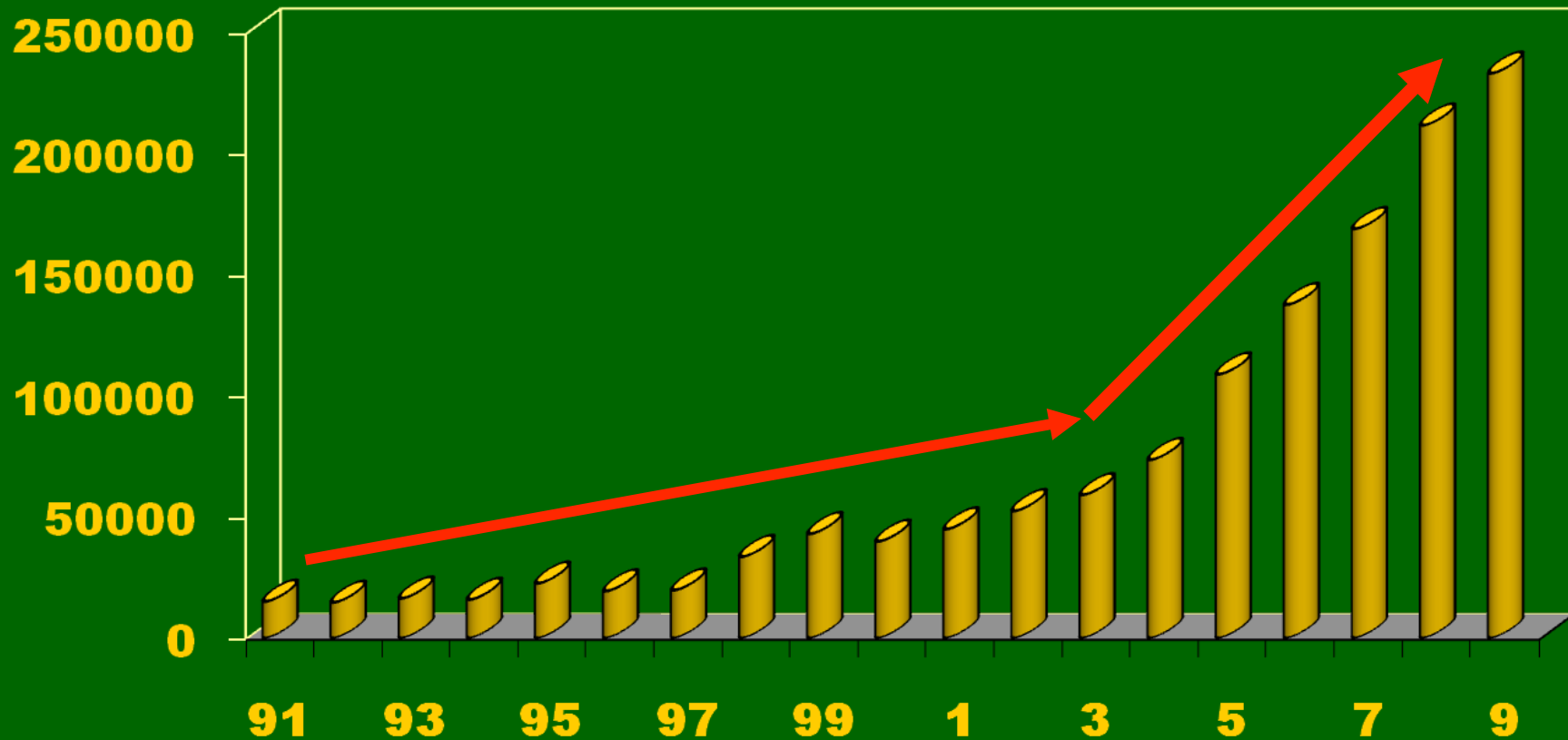


Yearly Changes in Net Credit to The private Sector

Net Credit To the Private Sector



Agriculture Credit



The country remained vulnerable to external shocks as Forex Reserves plummeted by the end of the 1990s (US \$ billion)

Foreign Exchange Reserves recently were in comfortable zone



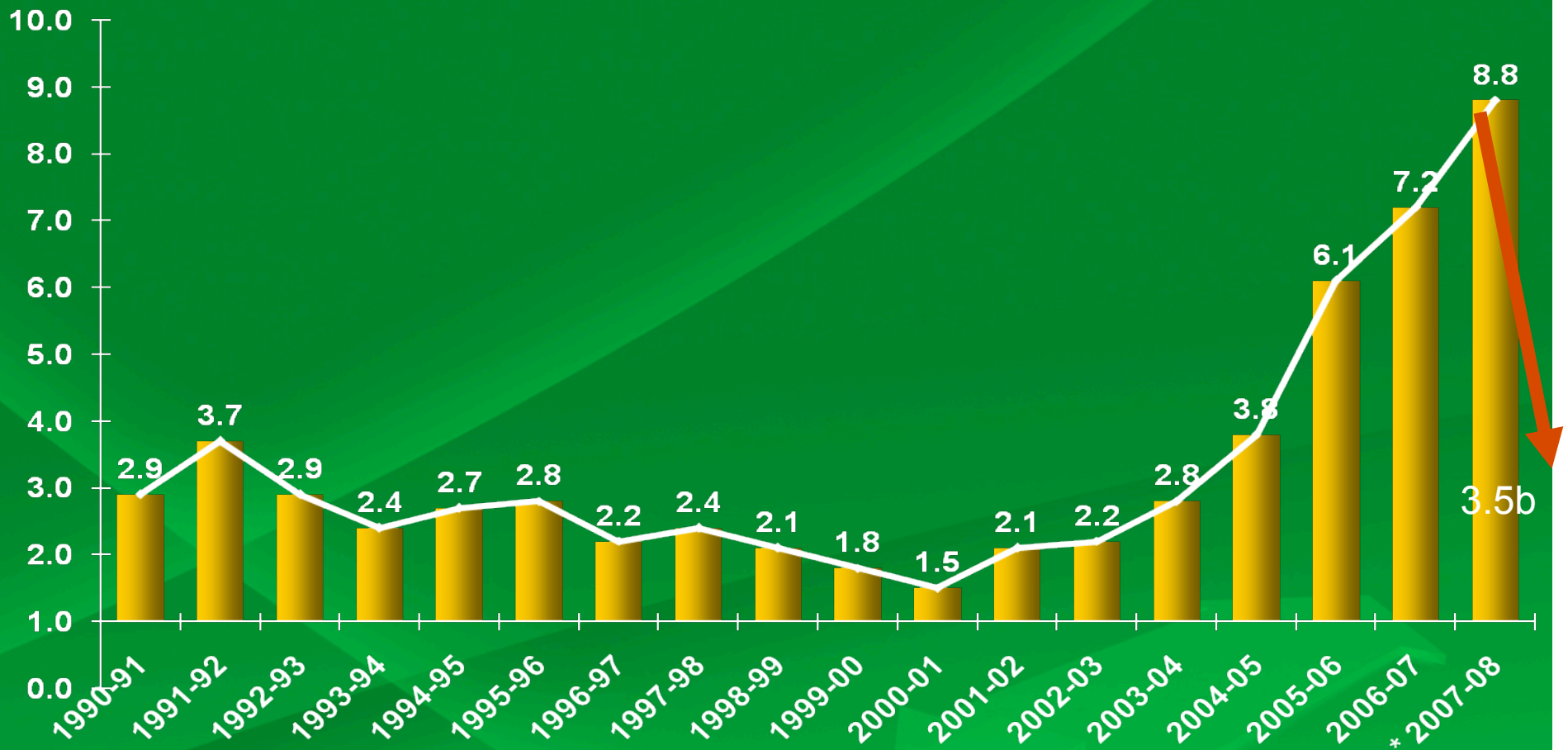
Source: SBP

Federal Tax Collection (Billion \$)



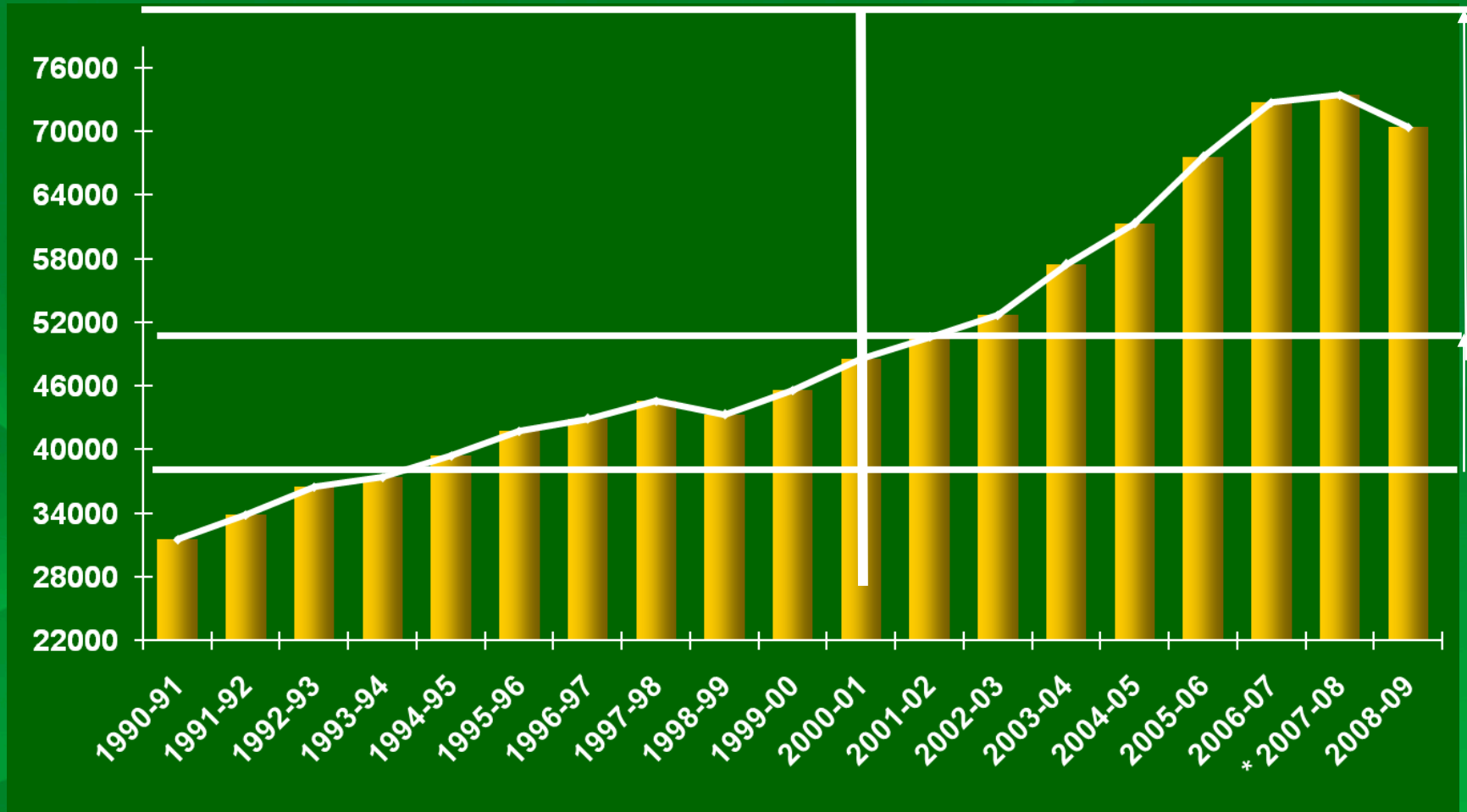
* Projection

Development Spending (Billion \$)



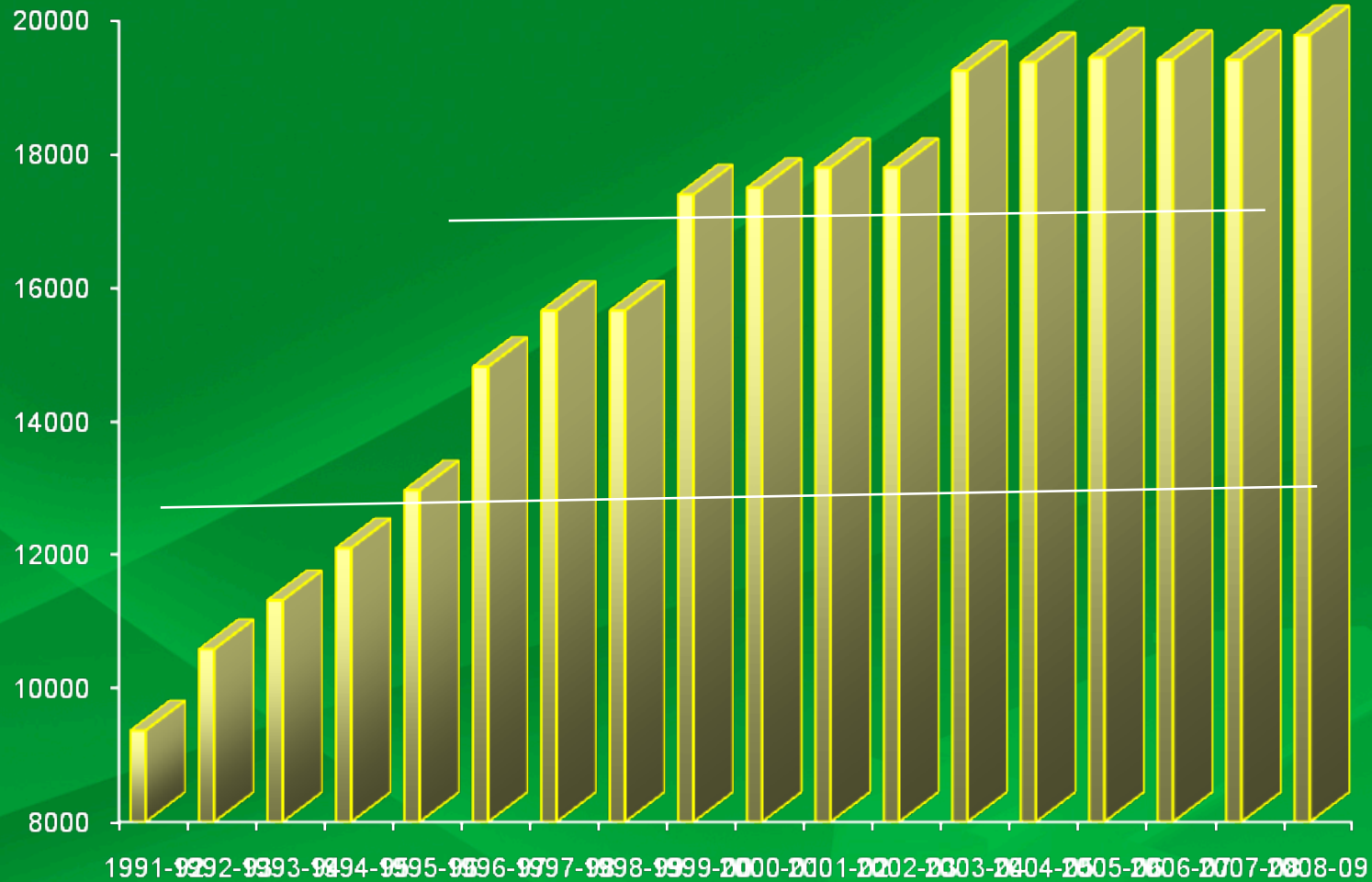
* Projection

Electricity Consumption (GWH)



* Projection

Installed capacity (MW)

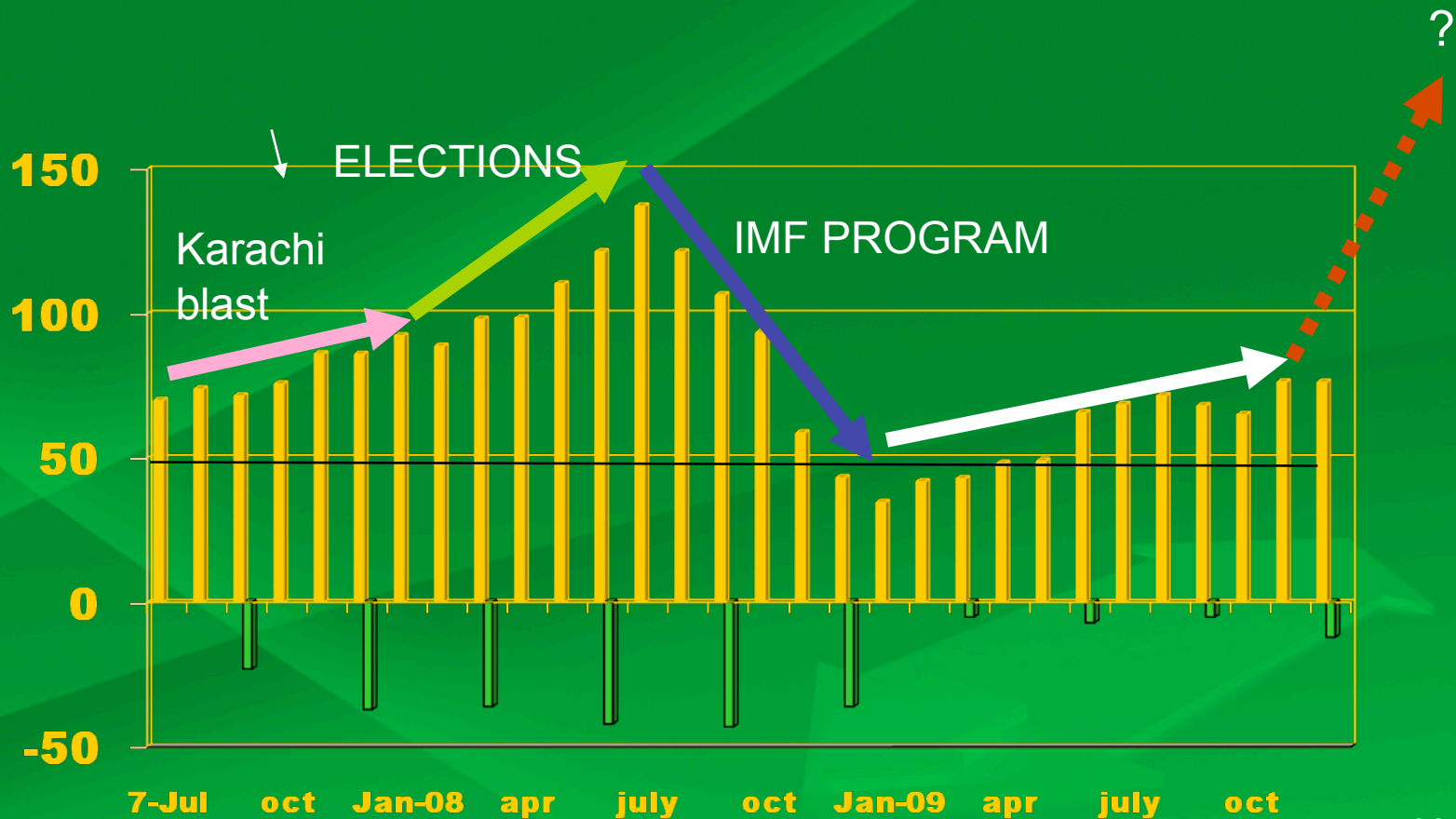


Resource Mobilization by FBR: Historical Evidence

Time-Series	Collection (Millions of Rupees)	Average Annual Growth Rate during the Decade (%)
1948-49	310.6	1940s: 44.6
1958-59	1,281	1950s: 12.9
1968-69	3,902	1960s: 14.9
1978-79	22,399	1970s: 21.0
1988-89	91,020	1980s: 13.4
1998-99	308,509	1990s: 13.0
2004-05	591,085	Since 2000: 11.6
2005-06	713,400	20.7
2006-07	846,200	18.6
Overall	Growth (%)	1948-2007: 15.2

Recent economic downturn

OIL PRICE MOVEMENT IN US DOLLARS AND CURRENT ACCOUNT DEFICIT

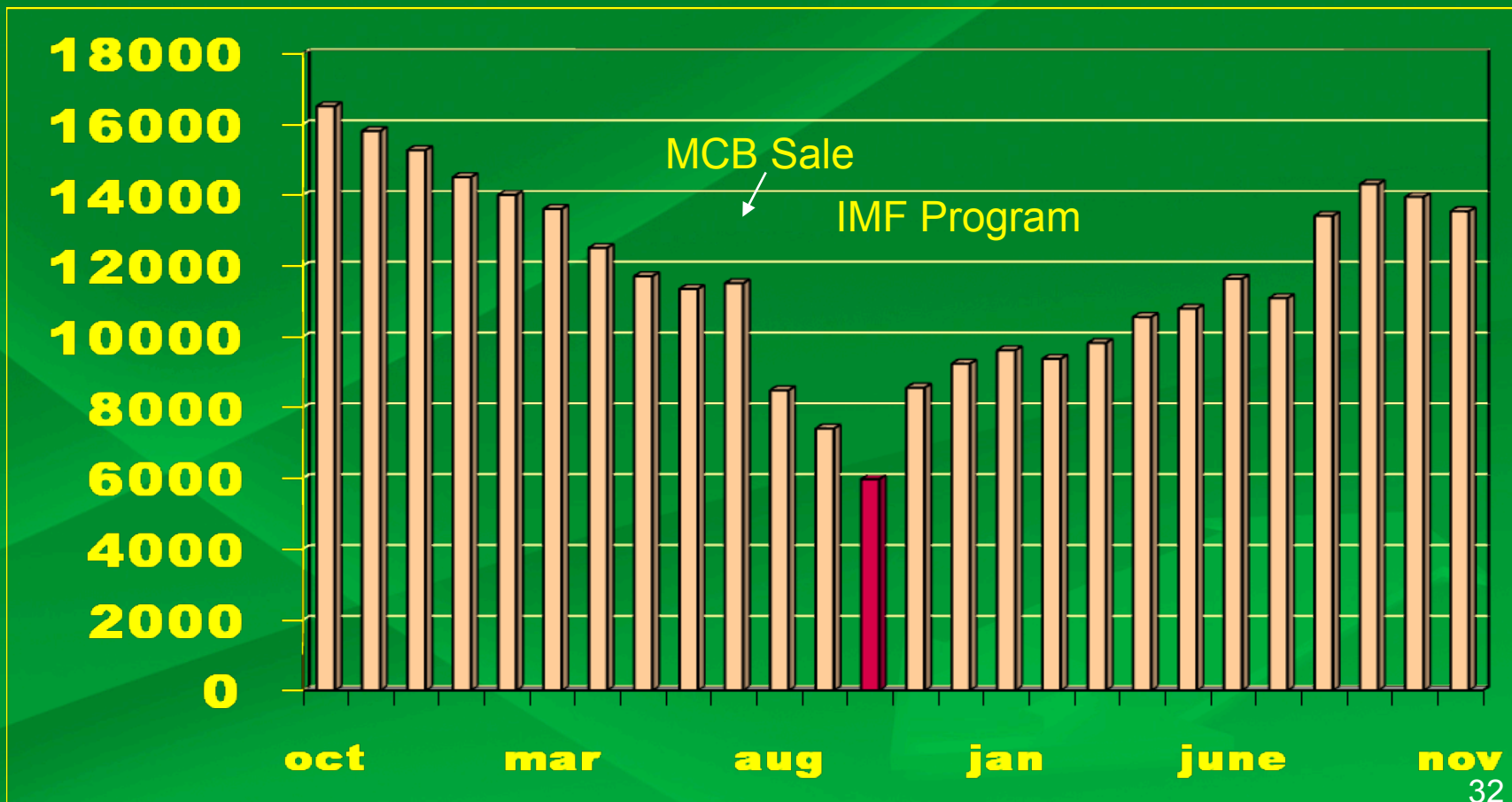


Oil Import Bill (\$ Billion)



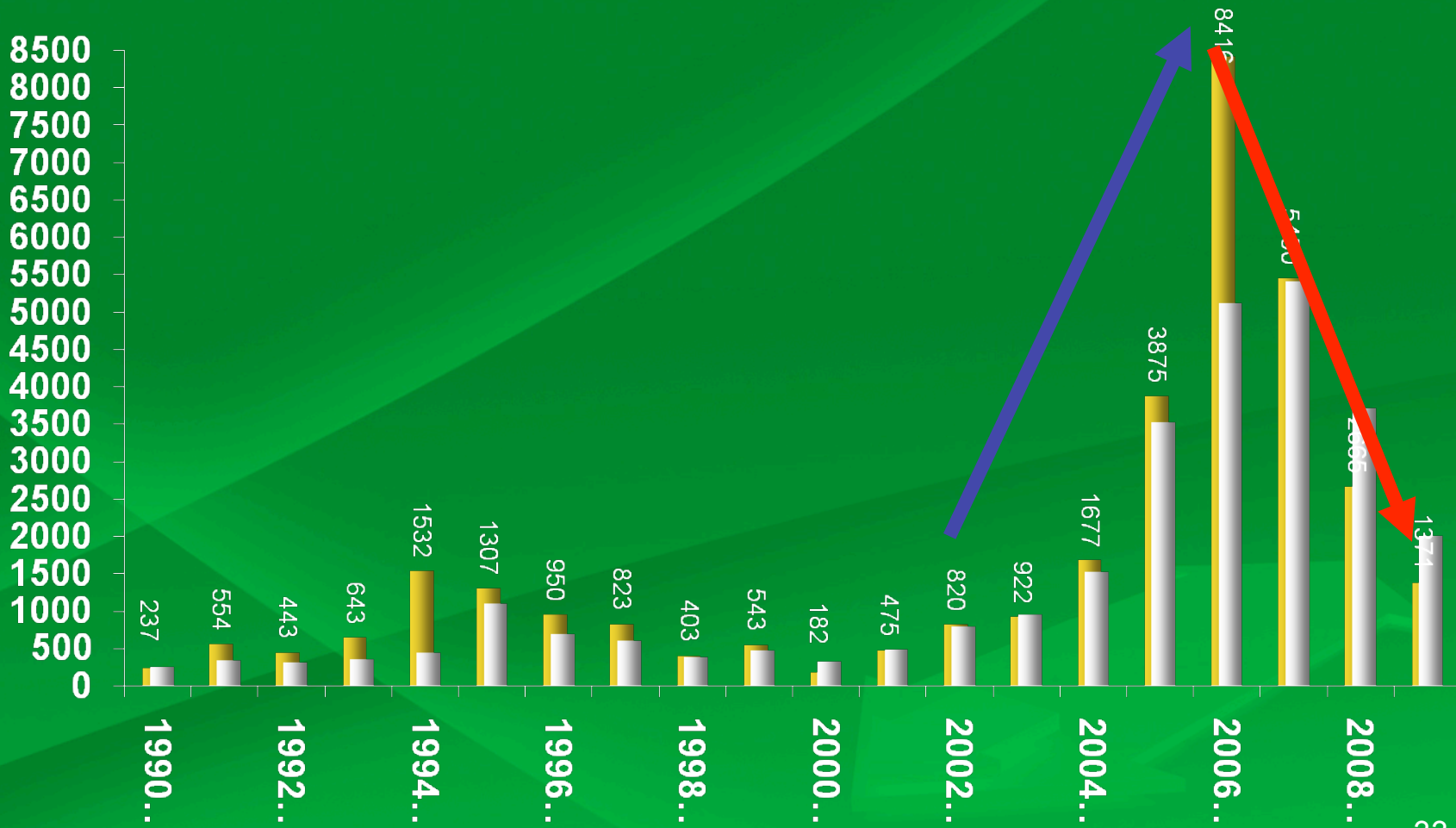
Reserves from October 2007 to November 2009

Millions of Dollars



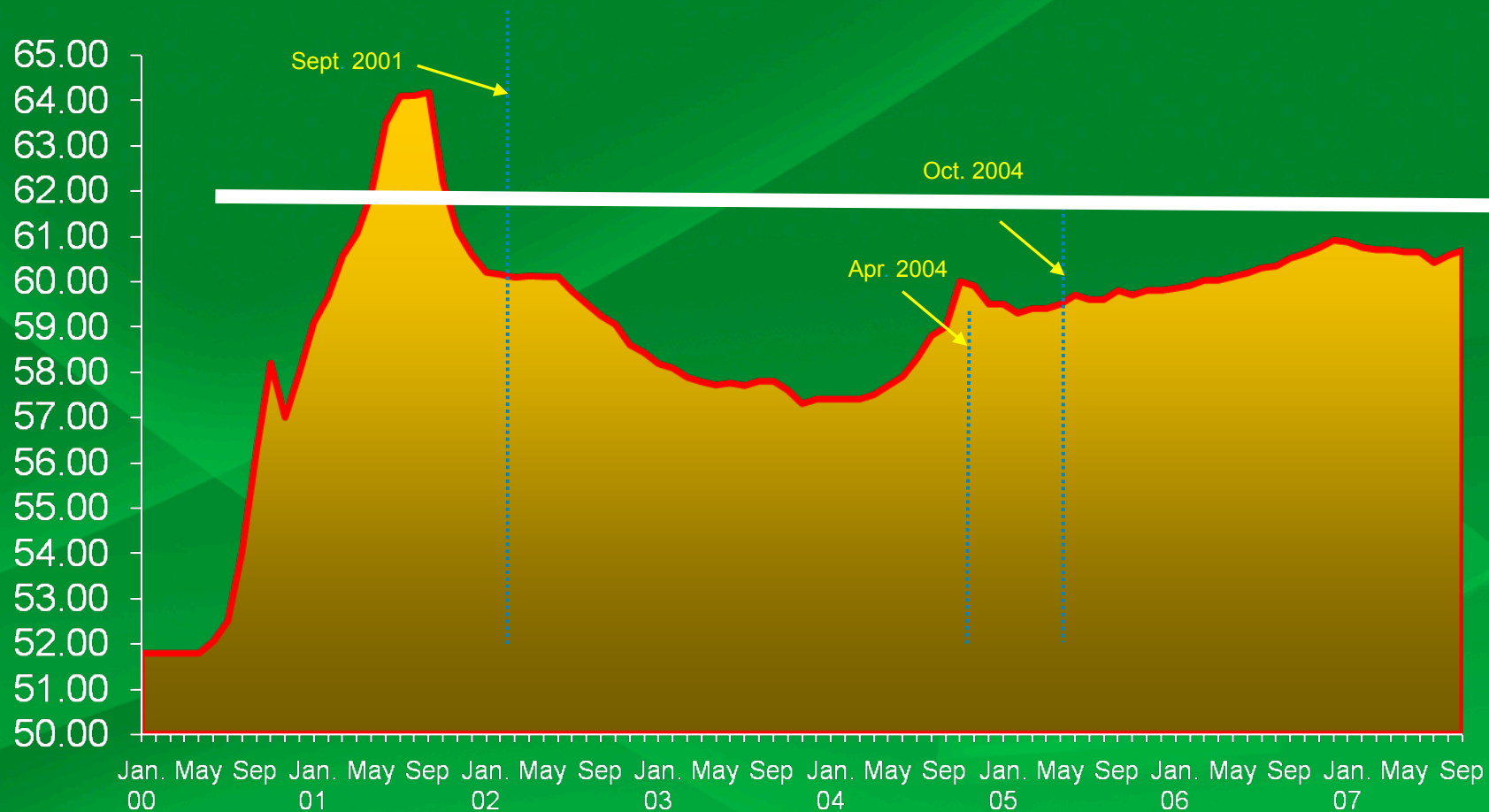
Foreign Investment (US \$ million)

Foreign Investment was Rising Sharply: touched 5.8% of GDP in 2006-07

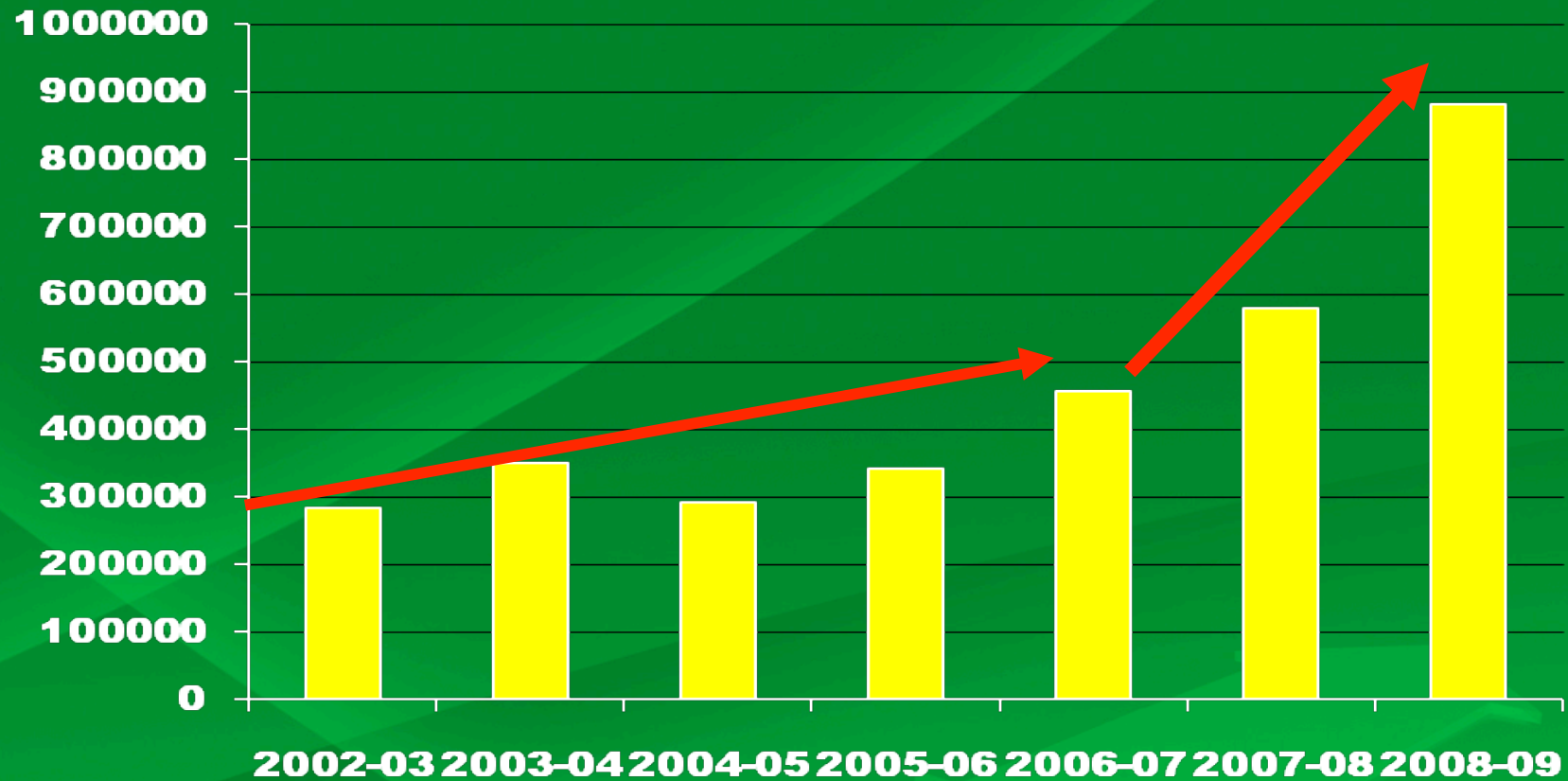


Exchange Rate Movement (Rs/US \$)

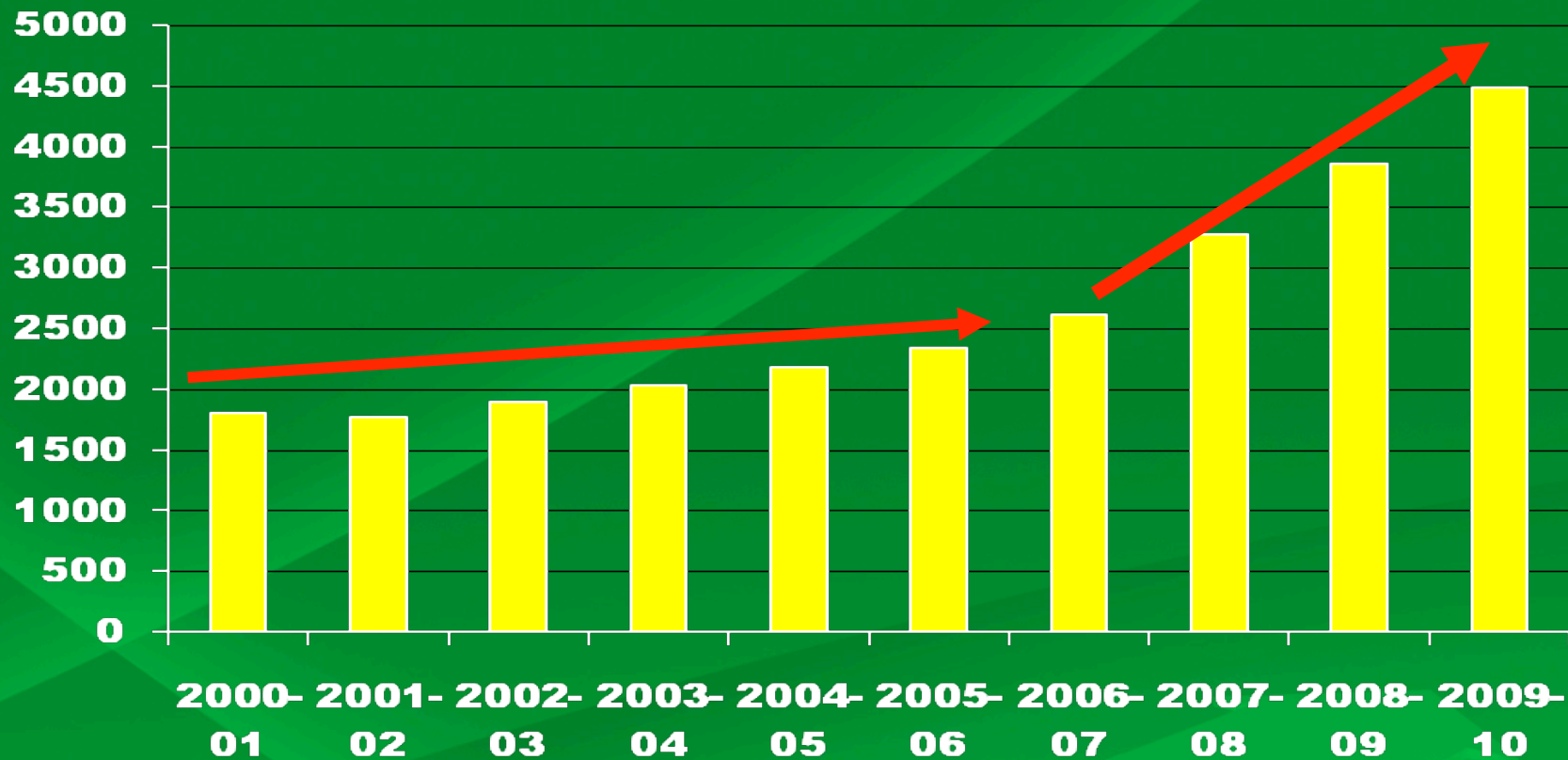
Pakistan's exchange rate has appreciated during July 01 until April 04; depreciated a bit and since March 2005 onward had remained stable until



Debt servicing (Rs millions)



Internal debt (Rs billion)



FOREIGN DEBT INCREASED TO USD 56 BILLION

PUBLIC DEBT (As % of GDP)

Public Debt Burden Declined Sharply

(End June)



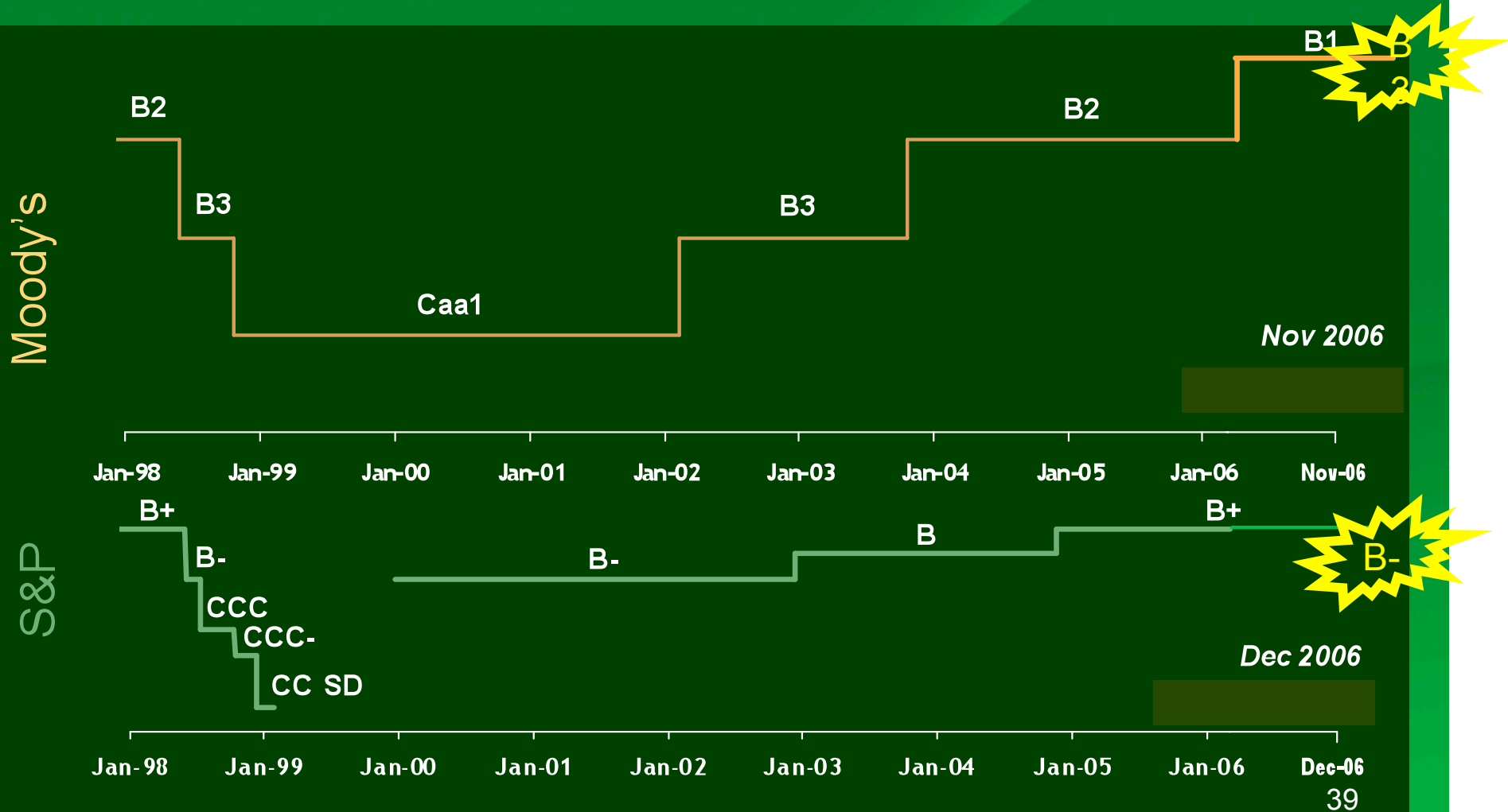
Inflation remained in the double digit during most of the period in the 1990's

Inflation (%) (Base year 2001 = 100)



Source: FBS

Progress is Reflected in the Ratings Momentum on Pakistan



A GLANCE AT CURRENT PUBLIC FINANCE POSITIONS

(FEDERAL AND PROVINCIAL CONSOLIDATED)

- **Revenue Side**
- Tax Revenue
 - Federal
 - Provincial
- Non-Tax Revenue
 - Federal
 - provincial
- **Expenditure Side**
- Current
 - Federal
 - Provincial
- Development (PSDP)
- Net Lending to PSEs
- Statistical Discrepancy

SUMMARY OF FEDERAL BUDGETARY POSITION FY: 2009- 10 (BE)

RECEIPTS

A. Tax Revenue* (73.9%)

B. Non-Tax Revenue (26.1%)

Expenditure

Including Surcharge on

1. Natural Gas

2. Petroleum

EXPENDITURE

D. Current Expenditure

(78.6%)

E. Development

(PSDP) (21.4%)

SOURCES OF Provincial / District Government Taxes

o Direct Taxes

- Land Revenue
- Urban Immovable Property Tax
- Tax on Transfer of Property
- Agriculture Income Tax
- Capital Gains Tax
- Tax on Professions, Trade, and Callings

continue

○ Indirect Taxes

- Stamp Duty
- Motor Vehicle Tax
- Entertainment Tax
- Provincial Excise Duties
- Misc. Duties (cotton duty etc.)

A Quick Review of Consolidated Public Finance (Rs. Billion)

Category	FY05	FY06	FY07	FY08	FY09	FY10 BE	FY10 A
Total Revenue	900	1077	1298	1499	1851	2155.4	2078
Tax Revenue	632.6	753	889.7	1050.7	1204.7	1593.5	1472.8
Non-Tax Revenue	267.4	323.6	408.3	448.7	646.2	561.9	605.3
Total Expenditure	1117	1402	1676	2277	2531	2877.4	3007
Current	943.1	1121	1375.3	1857.6	2041.6	2260.9	2386
Development + NL	252.2	367.1	424.7	423.4	455.7	616.5	652.8
Unidentified	-78.5	-86.3	-124.5	-4.4	34	0	-31.6
Overall Deficit	-216.8	-325.2	-377.5	-777.2	-680.4	-722.1	-929.1
Financing	<i>217</i>	<i>325.2</i>	<i>377.6</i>	<i>777.2</i>	<i>680.4</i>	<i>722.1</i>	<i>929.1</i>
External	120.4	148.9	147.2	151.3	149.7	332	188.9
Internal	96.6	176.3	230.4	625.9	530.7	390.5	740.2
Bank	60.2	70.9	102	519.9	305.6	144.1	304.6
Non-Bank	8.1	8.1	56.9	104.3	223.8	246.3	435.6
PPs	28.3	97.3	71.5	1.7	1.3	0.1	0

Source: PES 2009-10 & SBP Annual Report 2009-10

Growth in Fiscal Sector Variables (Percent)

Category	FY05-06	FY06-07	FY07-08	FY08-09	FY09-10 BE	FY09-10
Total Revenue	19.6	20.6	15.5	23.4	16.5	12.3
Tax Revenue	19.0	18.2	18.1	14.7	32.3	22.3
Non-Tax Revenue	21.0	26.2	9.9	44.0	-13.0	-6.3
Total Expenditure	25.5	19.5	35.9	11.2	13.7	18.8
Current	18.9	22.7	35.1	9.9	10.7	16.9
Development + NL	45.6	15.7	-0.3	7.6	35.3	43.3
Unidentified	9.9	44.3	-96.5	-872.7	-100.0	-192.9
Overall Deficit	50.0	16.1	105.9	-12.5	6.1	36.6
<i>Financing</i>	49.9	16.1	105.8	-12.5	6.1	36.6
External	23.7	-1.1	2.8	-1.1	121.8	26.2
Internal	82.5	30.7	171.7	-15.2	-26.4	39.5
Bank	17.8	43.9	409.7	-41.2	-52.8	-0.3
Non-Bank	0.0	602.5	83.3	114.6	10.1	94.6
PPs	243.8	-26.5	-97.6	-23.5	-92.3	-100.0

Structure of Federal Taxes

Year	FBR Revenue (Rs. Billion)	Tax/GDP Ratio	Direct Taxes	Indirect Taxes			
				Customs	Sales	Excise	Total
			20.0	50.0	16.0	25.0	91.0
1990-91	111.0	11.0	[18.0]*	(54.9)^	(17.6)^	(27.5)^	[82.0]*
			85.0	86.0	56.0	55.0	197.0
1996-97	282.0	12.0	[30.1]	[43.6]	[28.4]	[27.9]	[69.9]
			103.0	74.5	53.9	62.0	190.4
1997-98	293.7	11.0	[35.0]	[39.1]	[28.3]	[32.6]	[65.0]
			110.4	65.0	72.0	60.8	198.1
1998-99	308.5	10.0	[35.8]	[33]	[36.3]	[30.7]	[64.2]
			112.6	61.6	116.7	55.6	234.0
1999-00	346.6	9.1	[32.5]	[26.4]	[49.9]	[23.7]	[67.5]
			124.6	65.0	153.6	49.1	267.7
2000-01	392.3	9.4	[31.8]	[24.3]	[57.4]	[18.3]	[68.2]
			142.5	47.8	166.6	47.2	261.6
2001-02	403.9	9.2	[35.3]	[18.3]	[63.7]	[18]	[64.7]
			148.5	59.0	205.7	47.5	312.2
2002-03	460.6	9.6	[32.2]	[18.9]	[65.9]	[15.2]	[67.8]

Continued

Structure of Federal Taxes

Year	FBR Revenue (Rs. Billion)	Tax/GDP Ratio	Direct Taxes	Indirect Taxes			
				Customs	Sales	Excise	Total
2003-04	518.8	9.2	165.3 [31.9]	89.9 [25.4]	219.1 [62]	44.6 [12.6]	353.6 [68.1]
2004-05	588.4	9.1	176.9 [30.1]	117 [28.5]	235.5 [57.2]	58.7 [14.3]	411.4 [68.9]
2005-06	713.4	9.4	224.6 [31.5]	138 [28.3]	294.6 [60.4]	55 [11.3]	487.9 [68.5]
2006-07	847.2	9.8	333.7 [39.4]	132.3 [25.8]	309.4 [60.3]	71.8 [13.9]	513.5 [60.6]
2007-08	1007	9.8	[39.6]	[24.7]	[60.3]	[14.6]	[60.4]
2008-09	1161	9.1	443.5 [39.6]	148.4 [22.5]	451.8 [62.5]	117.5 [14.8]	717.7 [60.4]
2009-10	1327.7	9.1	528.9 [39.8]	161.5 [20.2]	516.1 [64.6]	121.2 [15.1]	798.8 [60.2]

Review of Provincial Budget

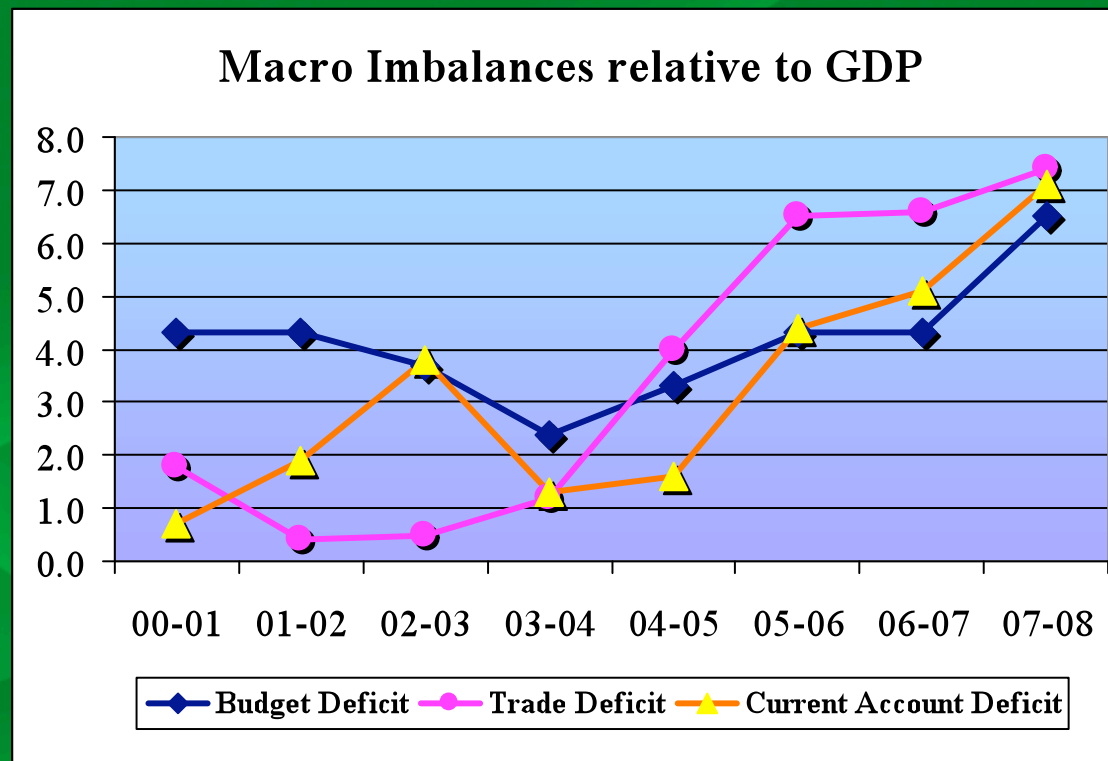
Items	Punjab		Sindh		KP		Baluchistan		Total	
	07-08	08-09	07-08	08-09	07-08	08-09	07-08	08-09	07-08	08-09
	RE	BE	RE	BE	RE	BE	RE	BE	RE	BE
A. Total Tax Revenue	256.4	329.9	158	188.7	59.1	76.2	30.7	35.2	504.1	630
Provincial Taxes	30.6	40.4	16.4	19.8	2.4	3.9	0.9	1	50.3	65.1
Share in Federal Taxes	225.8	289.6	141.6	168.9	56.7	72.2	29.8	34.2	453.8	564.9
B. Non-Tax Revenue	42.2	36.6	12.1	10.5	3.1	3.5	2.3	2.5	59.6	53.1
C. All Others	6.2	7.3	8.7	12.8	17.5	20.7	15.8	14.8	48.2	55.5
Total Revenues (A + B +C)	304.7	373.8	178.7	211.9	79.7	100.4	48.8	52.2	611.9	738.6
a) Current Expenditure	232.2	257	163.9	181	61.5	67.3	40	47.5	497.5	552.8
b) Development Expenditure	138	160	62.3	77.3	32.9	41.6	28.8	15.7	262	294.7
Total Exp (a + b)	370.2	417	226.2	258.3	94.4	108.9	68.8	63.3	759.5	847.4

Prov. Taxes as percentage of

Total Tax Revenue	11.9	12.2	10.4	10.5	4.1	5.1	2.9	2.8	10.0	10.3
Total Expenditure	8.3	9.7	7.3	7.7	2.5	3.6	1.3	1.6	6.6	7.7

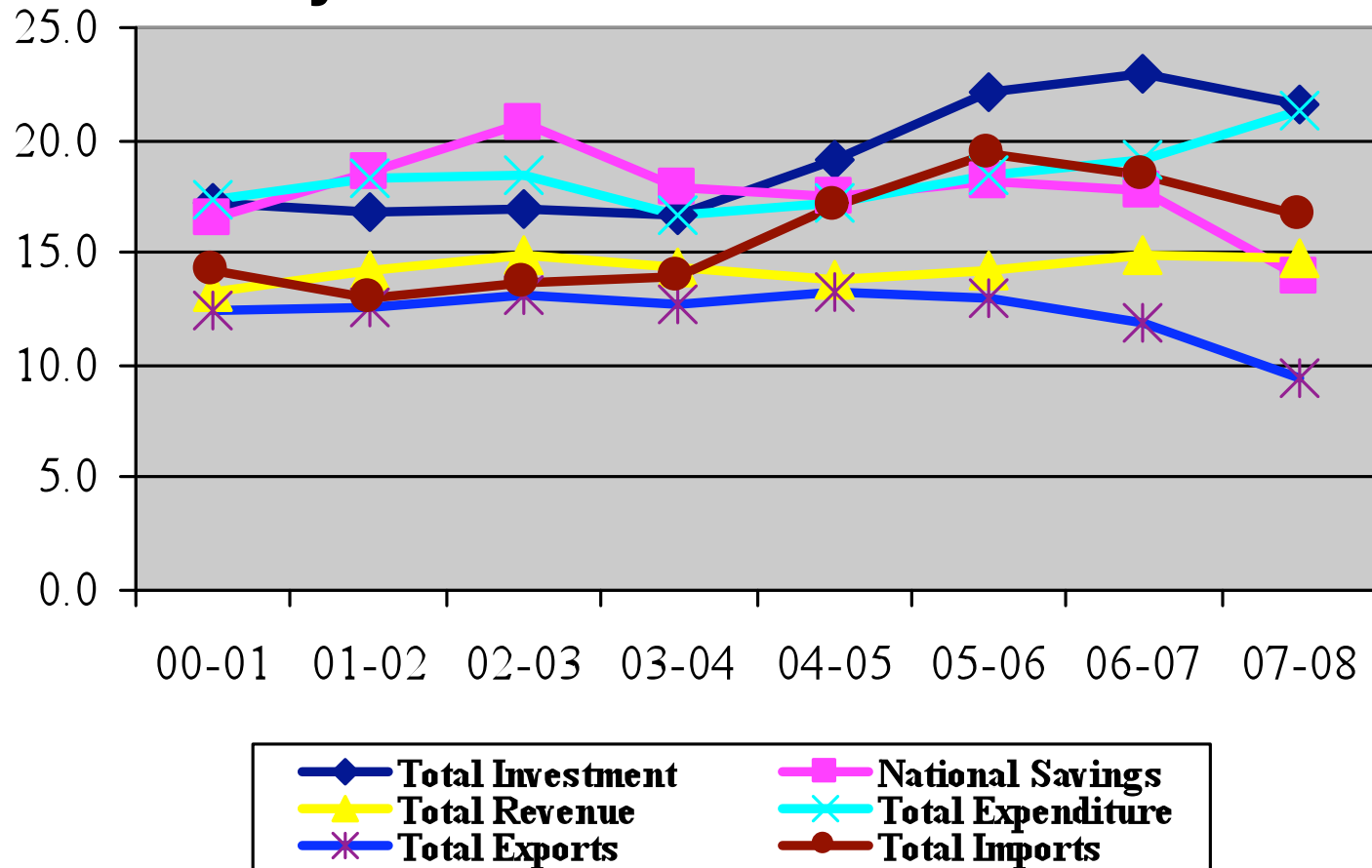
Relatively Recent Macroeconomic Performance

BD
7.6,
4.3
TD
9.3, 6.5
CAD
8.5, 5.1



Relatively Recent Macroeconomic Performance

Key Variables relative to GDP



TI
 22, 19.7
 TR
 14.6,
 14.6
 TE
 22.2,
 18.6
 TX
 12.2, 9.6
 TM
 21.5,
 16.1

REVENUE, EXPENDITURE AND DEFICIT SITUATION

	GDP At Market Prices (Rs. Billion)	Percentage of GDP			
		Total Revenue	Total Expenditure	Overall Budget Deficit	Primary Balance (TR – NI Exp)
1999-00	3,826	13.5	18.8	5.4	1.7
2000-01	4,210	13.3	17.4	4.3	2.2
2001-02	4,453	14.2	18.3	4.3	1.6
2002-03	4,876	14.9	18.5	3.7	0.5
2003-04	5,641	14.3	16.7	2.4	1.1
2004-05	6,500	13.8	17.2	3.3	0.04
2005-06	7,623	14.2	18.5	4.3	-0.8
2006-07	8,723	14.9	19.1	4.3	-1.3
2007-08	10,282	14.6	22.1	7.4	-2.8
2008-09	13,095	14.6	18.6	4.3	0.8

ECONOMIC CHALLENGES



Challenges

- After a period of reasonable growth (2002-07), Pakistan economy began experiencing severe difficulties beginning late 2007 as the economy hit by 4 crises:
 - Unsustainable policy-induced imbalances in the economy, leading to a macroeconomic crisis
 - An external terms of trade shock, with the extraordinary rise in food and prices in 2008
 - The global financial crisis, which greatly amplified the negative effects on the economy
 - Intensification of war on terror

Economy-Backdrop

(Cont...)

➤ As a result:

- The fiscal deficit rose to 7.6% in 2007-08
- The current account deficit surged to a record 8.5% of GDP;
- Inflation touched 25% at its peak, in August 2008;
- SBP's foreign exchange reserves depleted from \$14.2 billion in October 2007 to \$3.4 billion October 2008 (One month import cover)
- Rupee lost 22% of its value between March and October 2008

Macroeconomic Challenges

- Growth Deceleration with consequences of income erosion, unemployment and poverty
- Unsustainable revenue-expenditure gap
- Structural imbalances because of:
 - Low savings rate, low tax-to-GDP ratio and growing demand for expenditures
 - Domestic resource scarcity is financed by foreign savings
- Rising Inflation because of supply shocks and monetary overhang
- Fiscal and monetary tightening: Impact on growth
- Rising Cost of Production and industrial competitiveness

Measures to Regain Macroeconomic Stability

In response, the government committed itself to restoring macroeconomic stability

- Adoption of stabilization program at the time of Budget 2008-09
- Fiscal deficit target with strong adjustments in the petroleum and electricity prices
- Tariff adjustments and expenditure cuts made to reduce aggregate demand;
- Tight monetary policy to contain inflationary spiral;

Measures to Regain Macroeconomic Stability

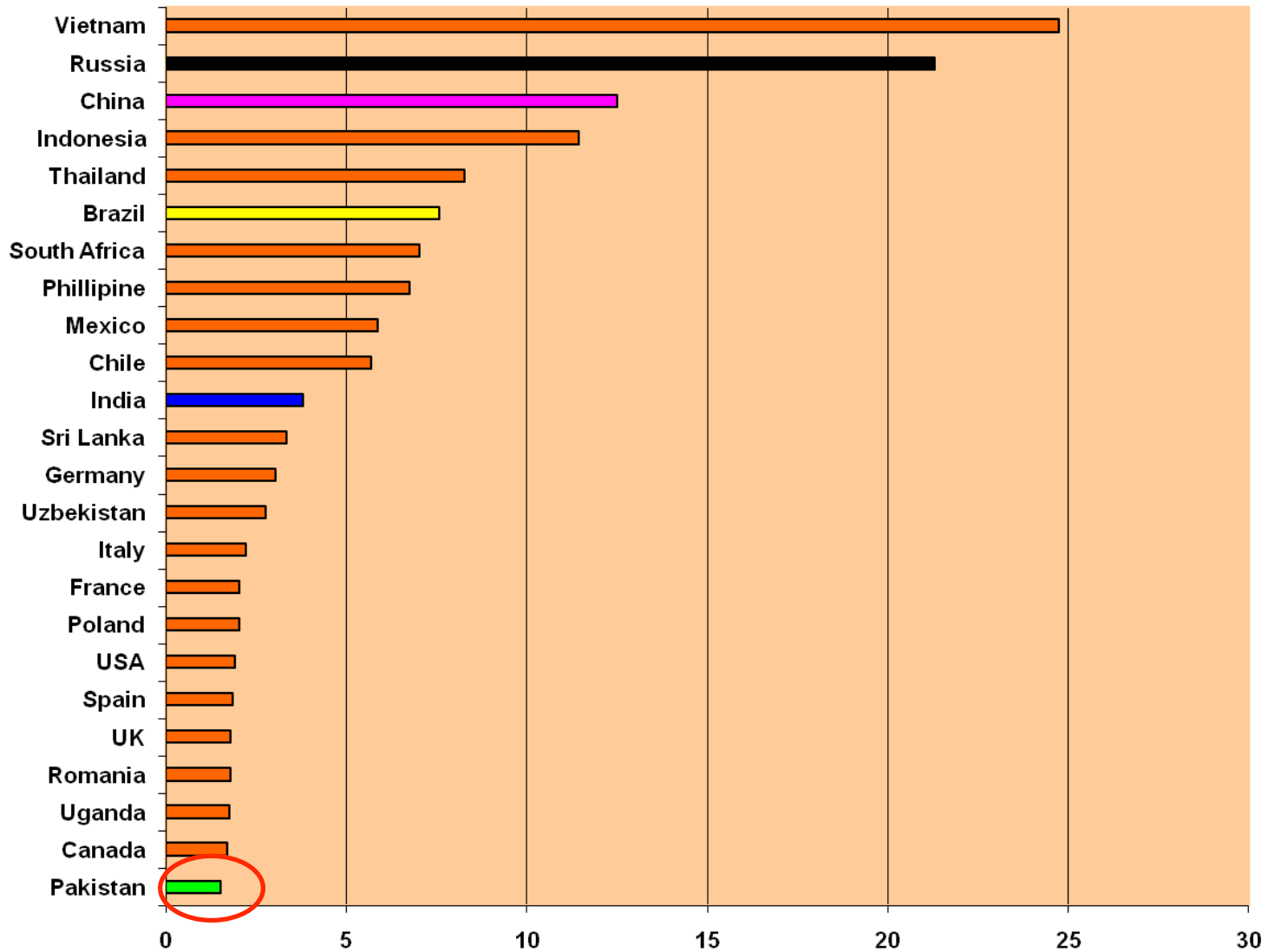
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- Prioritized the development expenditures
- Program for elimination of subsidies on food, fuel and power adopted
- Zero net borrowing from SBP for budget financing
- Tax administration reforms
- Pakistan negotiated SBA with the IMF in Nov-2008 to get required support.

DEMOGRAPHIC CHALLENGES

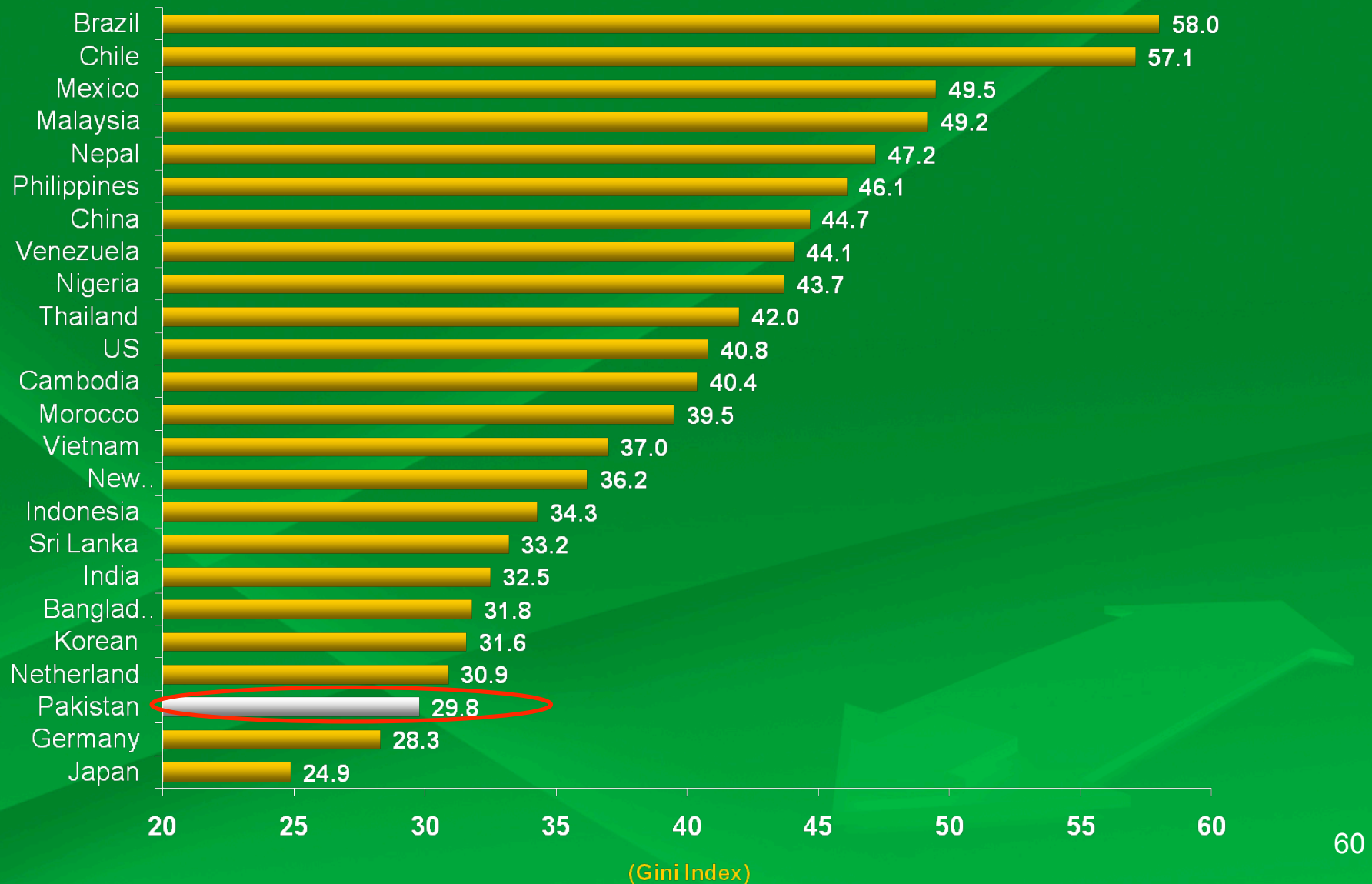


REGIONAL INEQUALITY -- MAXIMUM TO MINIMUM RATIO
INTERNATIONAL COMPARISON
(Per Capita Gross Regional Domestic Product)



Source: World Bank

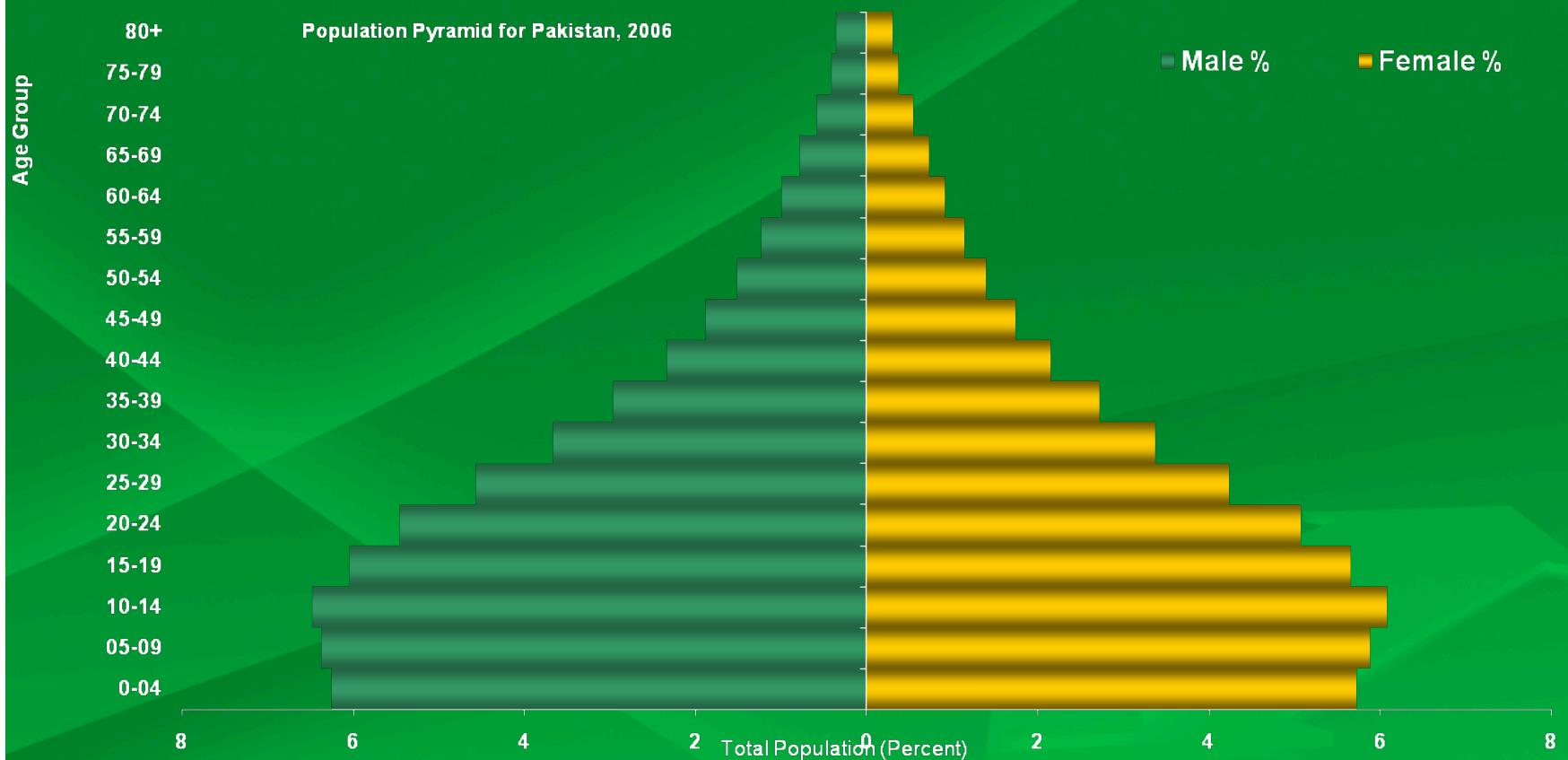
Unequal States – Income inequality



Source: London Economist 2008. Asian Development bank

Pakistan is assured of a Demographic Dividend by investing in Human capital

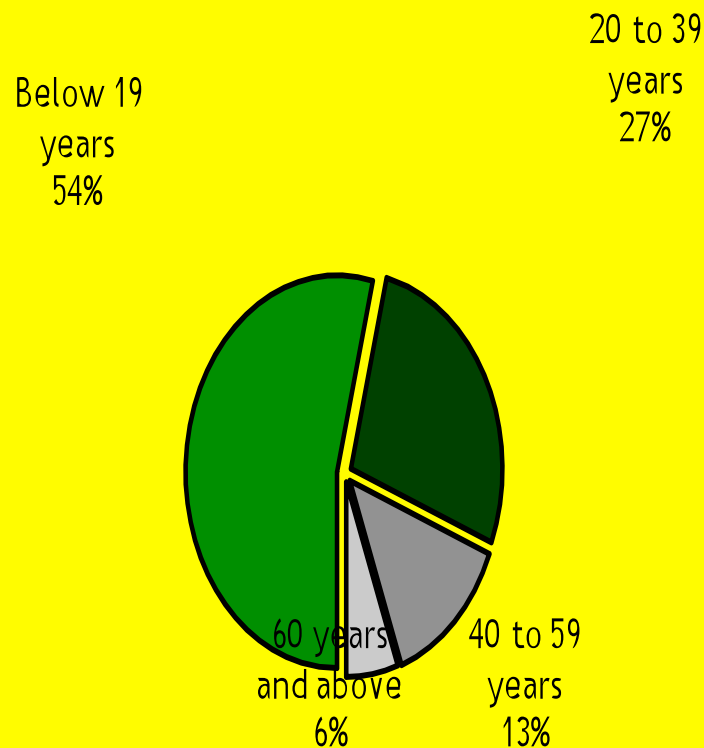
101.6 million (63%) Pakistanis are less than 25 years old



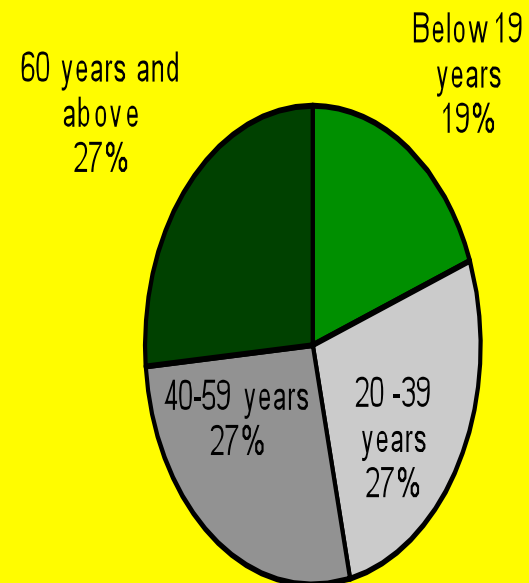
Source : Economic Survey 2004-05, 2005-06; House Hold Survey 2004-05

A Young And Growing Population: Increasing Consumerism

Pakistan Population Demographic



Japan Population Demographic

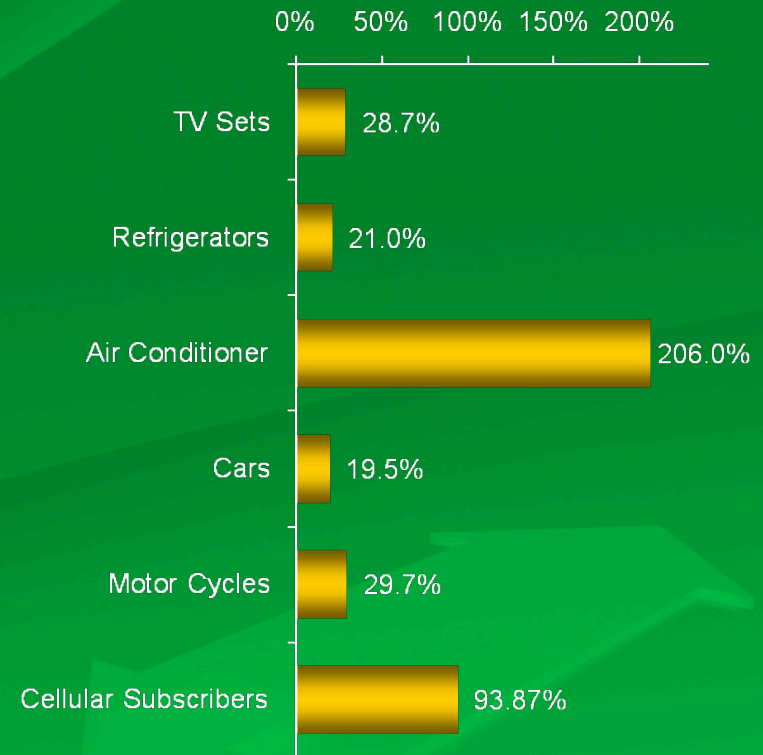


Emergence of a strong middle class

Household Income Distribution (%)



Average Growth per annum in selected consumer durables since June 1999



Source : Economic Survey 2004-05, 2005-06; House Hold Survey 2004-05

Strategic Demographic Highlights: Compelling Economic Proposition

Rising disposable income
Growing population
Compelling size of middle class
Asset values rising
Rising remittances

Low cost raw materials & manpower
Motivated work force
Pro investment policies
Improving infrastructure
Entrepreneur culture
Stable exchange rate

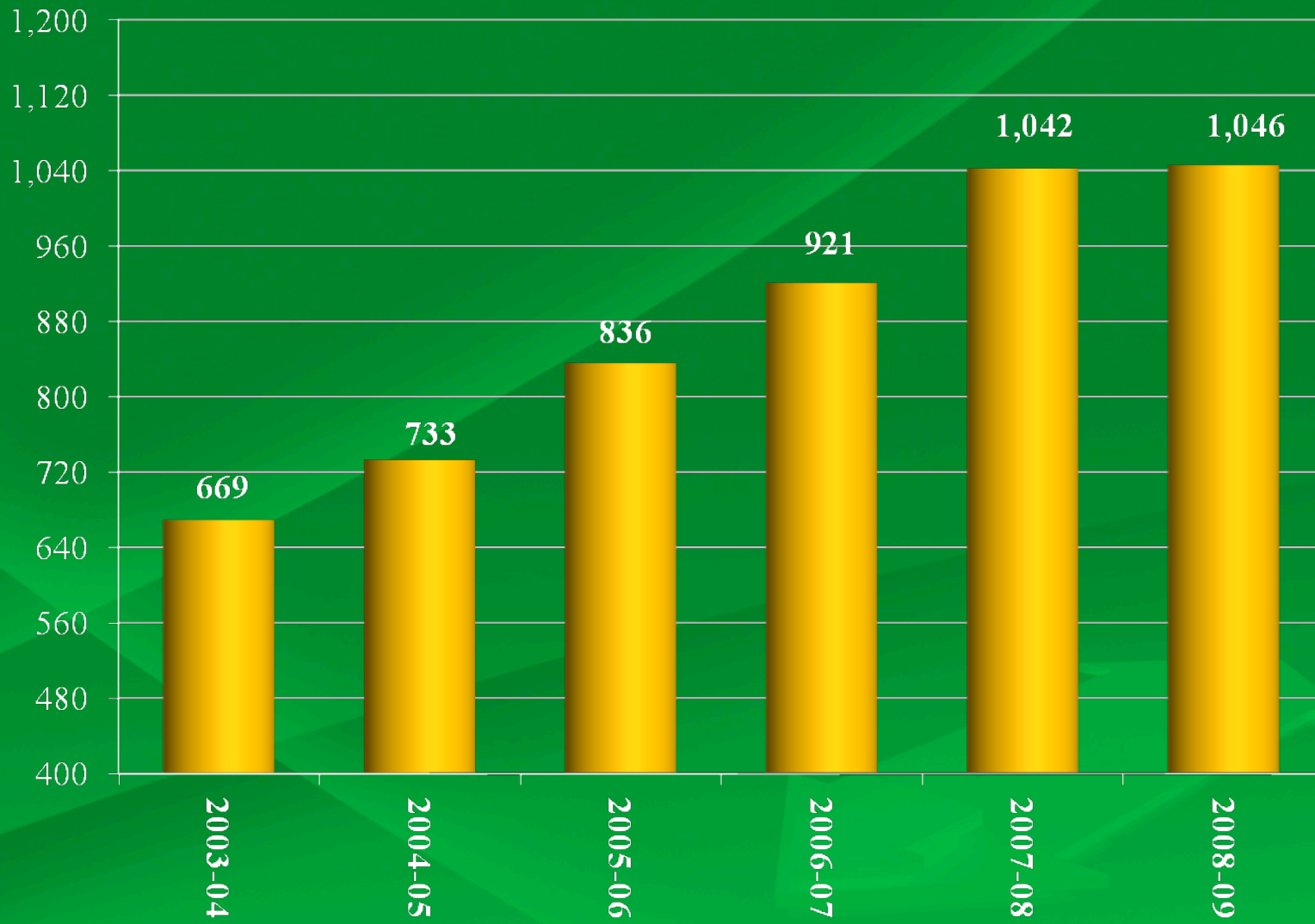
Comparable advantage
Favorable geographical location
Corporates globalizing
Low tariff regime

Accelerating Consumerism

Surging Domestic & Foreign
Investment

Growing Trade Intensity
And export competitiveness

Per Capita Income (\$)



Foreign Investment (\$ Million)

	July-October		(%) Change
	2008-09	2009-10	
Foreign Private Investment	1,172.5	940.4	-19.8
- Foreign Direct Investment	1,329.5	621.8	-53.2
- FDI (Excl Privatization Proceeds)	1,329.5	621.8	-53.2
- Portfolio Investment	-157.1	318.7	302.9
Foreign Public Investment	-16.8	-30.3	-
Total	1,155.7	910.1	-21.2

Source: SBP

Workers' Remittances (\$ Million)

	July-November		(%) Change
	2009	2010	
Total	2,966.5	3,832.6	29.2
USA	767.1	797.2	3.9
Saudi Arabia	600.2	708.4	18.0
UAE	534.2	854.2	59.9
Other GCC Countries	496.2	544.9	9.8
U.K	189.0	408.5	116.2
EU Countries	81.0	123.9	52.9
Other Countries	230.7	294.6	27.7

• Source: SBP

Strategy for Demographic Dividend? Attaining 7-8% growth

**Pillar I: Macroeconomic Stability and Sectoral
Drivers of Economic Growth (Agriculture,
manufacturing, services, Minerals)**

**Pillar II: Crafting a Competitive Advantage for
Domestic and Global Markets**

**Pillar III: Harnessing the Potential of the People
& employment generation**

- **Pillar IV: Financial Sector Deepening and Economic Development**
- **Pillar V: World Class Infrastructure (Water, Hydel Power, logistics & cities)**
- **Pillar VI: Effective Governance and Management**
- **Pillar VII: Targeting the Poor and the Vulnerable**

Energy Challenges

- Immediate improvement of Governance and Credibility required
- Starting major hydel power projects particularly Kalabagh that can generate 3600 MW and can supply power as early as 2013 –
- Cost of this power will be less than Rs 1.5 /Kwh substantially reduce the oil consumption

- Eliminate subsidies
- Ensure continuity of Financial flows into the country
- Reduce the political risk premium of the country by reducing tensions and generating reconciliation
- Export Push and greater market access into USA and EU

- Public private partnerships for infrastructure
- Privatization of White elephants and deregulate economy
- Revival of investment reduce cost of capital to single digits

FISCAL CHALLENGES

Real GDP Growth (%)



Source: FBS

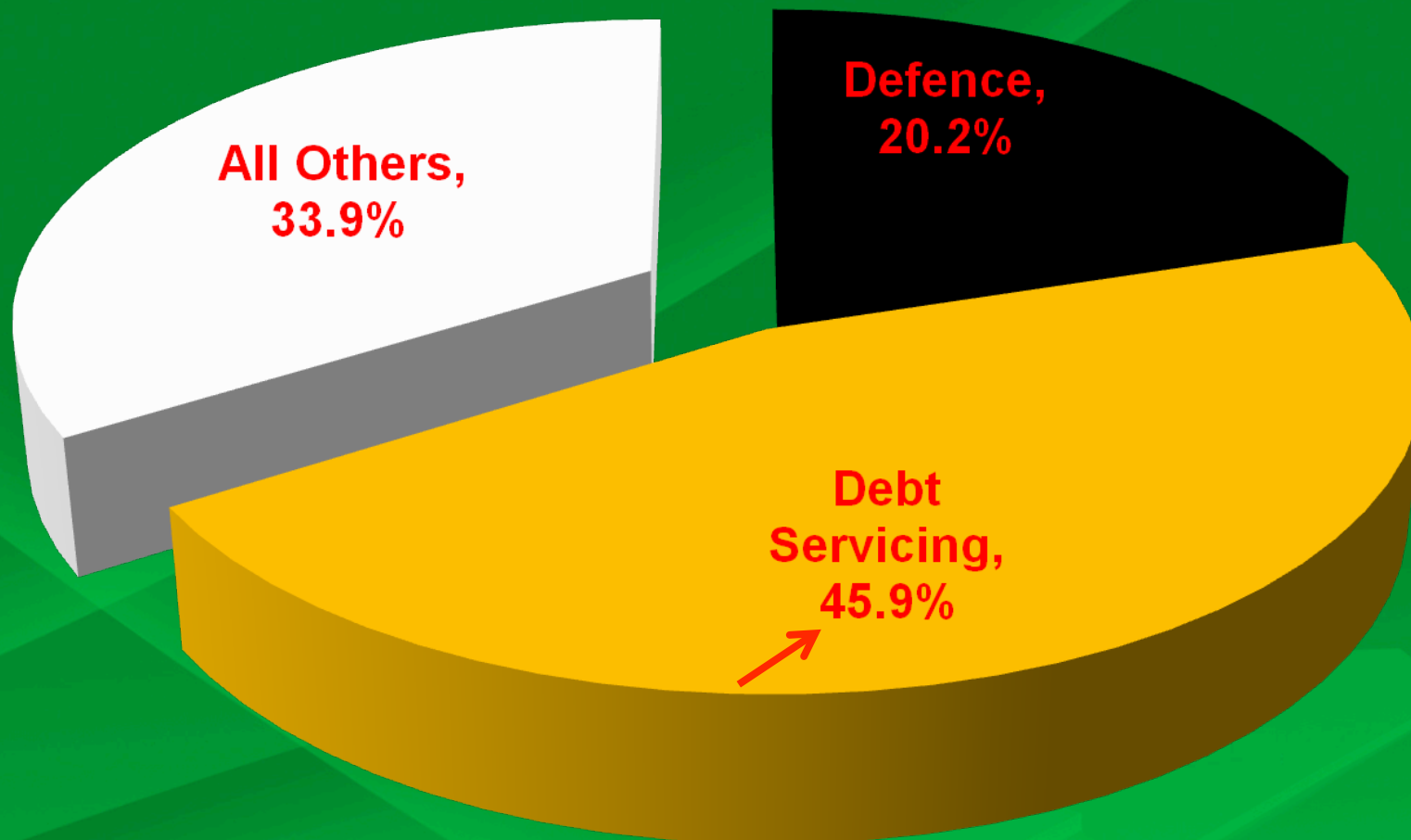
Structure of Expenditure (% Share)

Items	2005-06	2006-07	2007-08	2008-09	2009-10 BE
Current	77.8	79.5	85.2	88.9	81.0
Interest	23.5	30.1	30.6	35.8	30.2
Defence	24.0	20.4	17.8	17.8	16.0
Running of Civil Govt + Pension	14.0	16.4	11.3	11.9	11.0
Subsidies	6.3	6.0	20.0	15.7	9.1
Grants	10.1	6.5	5.4	7.7	14.6
Development	22.2	20.5	14.8	11.1	19.0
TOTAL	100.0	100.0	100.0	100.0	100.0

Structure of Expenditure (%of GDP)

Items	2005-06	2006-07	2007-08	2008-09	2009-10 BE
Current	10.3	10.9	13.2	11.7	11.7
Interest	3.1	4.1	4.8	4.7	4.4
Defence	3.2	2.8	2.8	2.3	2.3
Running of Civil Govt + Pension	1.8	2.3	1.8	1.6	1.6
Subsidies	0.8	0.8	3.1	2.1	1.3
Grants	1.3	0.9	0.8	1.0	2.1
Development	2.9	2.8	2.3	1.5	2.7
TOTAL	13.2	13.7	15.5	13.1	14.4 ₇₆

Structure of Current Expenditure (% Share)



Immediate Issues

- A sharp slowdown in economic growth has impacted government revenue, while the global financial crisis has worsened the environment for raising private external capital flows
- Structure of budgetary expenditures affords little flexibility: security-related expenditures + debt servicing absorb 60% of government revenue
- In order to meet IMF program targets, GoP has resorted to development spending cutbacks – a counter-productive strategy
- Budget FY10 envisages substantial hike in development spending to reinvigorate economic growth (Case for fiscal stimulus)

Immediate Issues

- Revenue collection lacks vigor;
- Exports growth requires acceleration from current deceleration;
- Development spending should be increased to mitigate the economic slow down;
- Administrative action to align domestic prices with international trends;
- There may be implications for banking system in the wake of industrial slow-down and weak exports demand.

Medium Term Challenges

Medium Term Challenges for Pakistan:

- 1) Achieve successful completion of stabilization agenda
 - 2) Transit from *stabilization* to a *sustainable, equitable and job-creating growth*
- This will entail:
- Focus on productive sectors of the economy- agriculture and manufacturing
 - Enhancing productivity level through improvements to human capital base and physical infrastructure
 - Ensuring availability of cost-effective energy

Medium Term Challenges (Cont...)

- Enhanced market access for Pakistan's exports
 - Galvanizing internal resources via a meaningful widening of tax base
 - Effectively countering the security challenge
- 3) Rapidly enhance coverage of well-targeted social safety nets for the poor and vulnerable
 - 4) Achieve food security

Challenges to Macroeconomic projections

Risks to the Economy

- Slower recovery in trading partners will lead to lower demand for exports, lower workers remittances
- Delay in donor support will delay countercyclical fiscal policy (US\$ 5.7 bill.)
- High commodity prices
- Adverse security environment
- FBR revenues-VAT

Pressing Macroeconomic Issues

- High Trade Deficit and Rising CAD
 - Poor export performance, paying price for heavy reliance on textile;
 - The export to import ratio declined from 56% to 48%;

- Seven items -- POL, Edible Oil, Wheat, Cotton, Fertilizer, Iron & Steel, and oil rigs had additional cost of Rs. 477.4 Billion in the overall imports of Rs. 2242.3 B till May over last year. The rest of the import bill was just a routine matter. Thus, the real concern and policy action should have revolved around these items only.

REVENUE GENERATION AND ITS CHALLENGES

Foreign Trade Sector: Aggregate Position

- Total Exports in 2005-06 and 2006-07 close to US \$ 16 billion and in 2007-08 US \$ 20.1 billion; July-April 07-08 US\$ 16.4 b and July-April 08-09 US \$ 16 b.
- Total Imports two years ago US \$27 billion, in 2007-08 around US \$ 35 billion, July-April 07-08 US\$ 28.7 b and July-April 08-09 US \$ 26.7 b.
- Resultantly the trade balance and CAD that worsened have improved slightly (8.5% from 10.1% and 5.1% from 6.7%, respectively)
- Previously foreign flows in the shape of portfolio investment and FDI rescued the economy, in 2007-08 draw down on reserves also.

Export Side

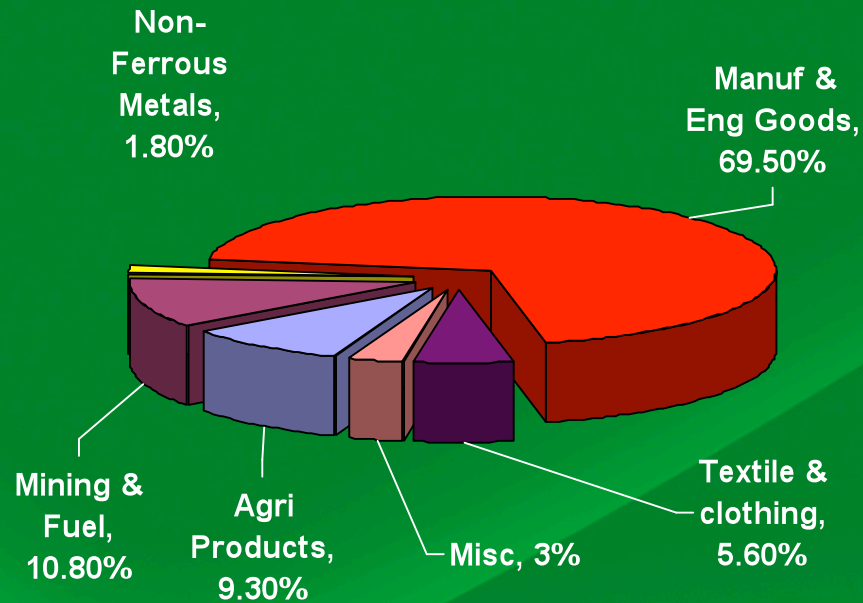
- Narrow concentration: Nearly 73% of total exports during July-April 2007-08 related to five commodity-groups: 53% cotton manufacturers, 6.1% leather products, 7.1% rice, 2.9% synthetic textile, and 1.6% sports goods
- Within cotton-group five commodities had 80% share: cotton yarn 13%, cotton cloth 18%, Knitwear 17%, Bed wear 18%, and RM Garments 14%.
- There is no substantial change in this composition over the last ten years.
- The destination of exports have also remained few without major changes.

Import Side

- Nearly 80% of Pakistan's imports related to only four commodity-groups;
- 40% to POL products, 16% food products, 21% raw material and only 4% machinery;
- Within food-group edible-oil is the main import item followed by sugar, pulses, and tea. Last year wheat was also a big ticket item;
- Within raw material, fertilizer , iron and steel scrap and chemicals have the largest weight;
- The sudden rise in international prices of imported products resulted into additional import bill of nearly US \$ 4 b in first ten months of 2007-08 but with the collapse of these prices the burden on national exchequer has reduced.

TRADE BREAKUP World vs Pakistan-2003

World Trade Breakup



Pakistan Trade Breakup

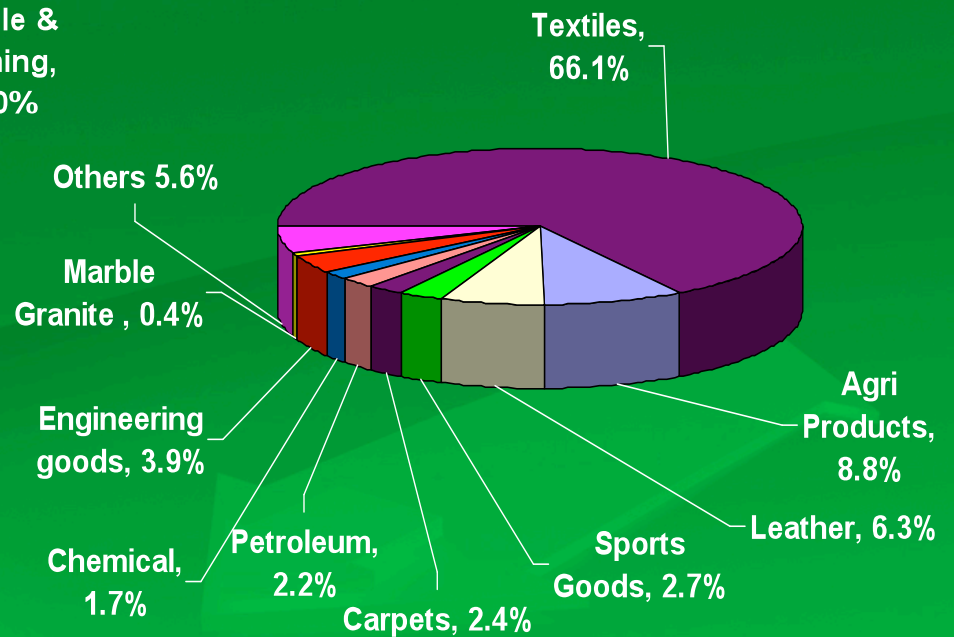


TABLE-2
FEDERAL TAX COLLECTION BY MAJOR COMPONENTS

(Rs. Million)

YEARS	DIRECT TAXES			INDIRECT TAXES			FEDERAL TAX RECEIPTS	
	Collection	Share in total taxes (%)	Annual Growth (%)	Collection	Share in total taxes (%)	Annual Growth (%)	Collection	Annual Growth (%)
1	2	3	4	5	6	7	8	9
1997-98	103,182	35.1	21.3	190,449	64.9	-3.3	293,631	4.1
1998-99	110,207	35.7	6.8	198,302	64.3	4.1	308,509	5.1
1999-00	112,950	32.5	2.5	234,154	67.5	18.1	347,104	12.5
2000-01	124,585	31.8	10.3	267,692	68.2	14.3	392,277	13.0
2001-02	142,505	35.3	14.4	261,565	64.7	-2.3	404,070	3.0
2002-03	151,898	33.0	6.6	308,729	67.0	18.0	460,627	14.0
2003-04	165,079	31.7	8.7	355,764	68.3	15.2	520,843	13.1
2004-05	183,372	31.1	11.1	407,015	68.9	14.4	590,387	13.4
2005-06	224,988	31.5	22.7	488,454	68.5	20.0	713,442	20.8
2006-07	333,737	39.4	48.3	513,499	60.6	5.1	847,236	18.8
2007-08	387,861	38.5	16.2	620,230	61.5	20.8	1,008,091	19.0
2008-09	443,548	38.2	14.4	717,602	61.8	15.7	1,161,150	15.2

TABLE - 6
TAX - GDP RATIO

(Rs. Million)

YEARS	GDP * (mp)	DIRECT TAXES		INDIRECT TAXES		SURCHARGES *		TOTAL TAXES <i>WITHOUT SURCHARGES</i>		TOTAL TAXES <i>WITH SURCHARGES</i>	
		Collection (Net)	Tax/GDP Ratio (%)	Collection (Net)	Tax/GDP Ratio (%)	Collection (Net)	Tax/GDP Ratio (%)	Collection (Net)	Tax/GDP Ratio (%)	Collection (Net)	Tax/GDP Ratio (%)
1	2	3	4	5	6	7	8	9	10	11	12
1996-97	2,428,312	85,060	3.50	197,027	8.11	27,317	1.12	282,087	11.62	309,404	12.74
1997-98	2,677,656	103,182	3.85	190,449	7.11	42,911	1.60	293,631	10.97	336,542	12.57
1998-99	2,938,379	110,207	3.75	198,302	6.75	61,927	2.11	308,509	10.50	370,436	12.61
1999-00	3,826,111	112,950	2.95	234,154	6.12	38,912	1.02	347,104	9.07	386,016	10.09
2000-01	4,209,873	124,585	2.96	267,692	6.36	30,200	0.72	392,277	9.32	422,477	10.04
2001-02	4,452,654	142,505	3.20	261,565	5.87	54,854	1.23	404,070	9.07	458,924	10.31
2002-03	4,875,648	151,898	3.12	308,729	6.33	68,230	1.40	460,627	9.45	528,857	10.85
2003-04	5,640,580	165,079	2.93	355,764	6.31	61,400	1.09	520,843	9.23	582,243	10.32
2004-05	6,499,782	183,372	2.82	407,015	6.26	26,769	0.41	590,387	9.08	617,156	9.50
2005-06	7,623,205	224,988	2.95	488,454	6.41	50,800	0.67	713,442	9.36	764,242	10.03
2006-07	8,673,007	333,737	3.85	513,499	5.92	18,071	0.21	847,236	9.77	865,307	9.98
2007-08	10,284,380	387,861	3.77	620,230	6.03	18,071	0.18	1,008,091	9.80	1,026,162	9.98
2008-09	13,095,039	443,548	3.39	717,602	5.48	18,071	0.14	1,161,150	8.87	1,179,221	9.01

* Source: Pakistan Economic Survey 2008-09

TABLE - 7
TAX - GDP RATIO OF DIRECT TAXES

(Rs. Million)

YEARS	GDP * (mp)	INCOME TAX		OTHER DIRECT TAXES		TOTAL DIRECT TAXES	
		Collection	Tax/GDP Ratio (%)	Collection	Tax/GDP Ratio (%)	Collection	Tax/GDP Ratio (%)
1	2	3	4	5	6	7	8
1997-98	2,677,656	97,135	3.63	6,047	0.23	103,182	3.85
1998-99	2,938,379	103,189	3.51	7,018	0.24	110,207	3.75
1999-00	3,826,111	105,337	2.75	7,613	0.20	112,950	2.95
2000-01	4,209,873	117,462	2.79	7,123	0.17	124,585	2.96
2001-02	4,452,654	136,542	3.07	5,963	0.13	142,505	3.20
2002-03	4,875,648	145,366	2.98	6,532	0.13	151,898	3.12
2003-04	5,640,580	157,448	2.79	7,631	0.14	165,079	2.93
2004-05	6,499,782	173,768	2.67	9,604	0.15	183,372	2.82
2005-06	7,623,205	209,735	2.75	15,253	0.20	224,988	2.95
2006-07	8,673,007	315,152	3.63	18,585	0.21	333,737	3.85
2007-08	10,284,380	367,959	3.58	19,902	0.19	387,861	3.77
2008-09	13,095,039	422,441	3.23	21,107	0.16	443,548	3.39

* Source: Pakistan Economic Survey 2008-09

TABLE - 8
TAX - GDP RATIO OF INDIRECT TAXES

(Rs. Million)

YEARS	GDP * (mp)	CUSTOMS		FEDERAL EXCISE		SALES TAX		TOTAL INDIRECT TAXES	
		Collection	Tax/GDP Ratio (%)	Collection	Tax/GDP Ratio (%)	Collection	Tax/GDP Ratio (%)	Collection	Tax/GDP Ratio (%)
1	2	3	4	5	6	7	8	11	12
1996-97	2,428,312	86,094	3.55	55,265	2.28	55,668	2.29	197,027	8.11
1997-98	2,677,656	74,496	2.78	62,011	2.32	53,942	2.01	190,449	7.11
1998-99	2,938,379	65,292	2.22	60,905	2.07	72,105	2.45	198,302	6.75
1999-00	3,826,111	61,659	1.61	55,784	1.46	116,711	3.05	234,154	6.12
2000-01	4,209,873	65,047	1.55	49,080	1.17	153,565	3.65	267,692	6.36
2001-02	4,452,654	47,818	1.07	47,186	1.06	166,561	3.74	261,565	5.87
2002-03	4,875,648	68,836	1.41	44,754	0.92	195,139	4.00	308,729	6.33
2003-04	5,640,580	91,045	1.61	45,552	0.81	219,167	3.89	355,764	6.31
2004-05	6,499,782	115,374	1.78	53,104	0.82	238,537	3.67	407,015	6.26
2005-06	7,623,205	138,384	1.82	55,272	0.73	294,798	3.87	488,454	6.41
2006-07	8,673,007	132,299	1.53	71,804	0.83	309,396	3.57	513,499	5.92
2007-08	10,284,380	150,663	1.46	92,137	0.90	377,430	3.67	620,230	6.03
2008-09	13,095,039	148,403	1.13	117,455	0.90	451,744	3.45	717,602	5.48

* Source: Pakistan Economic Survey 2008-09

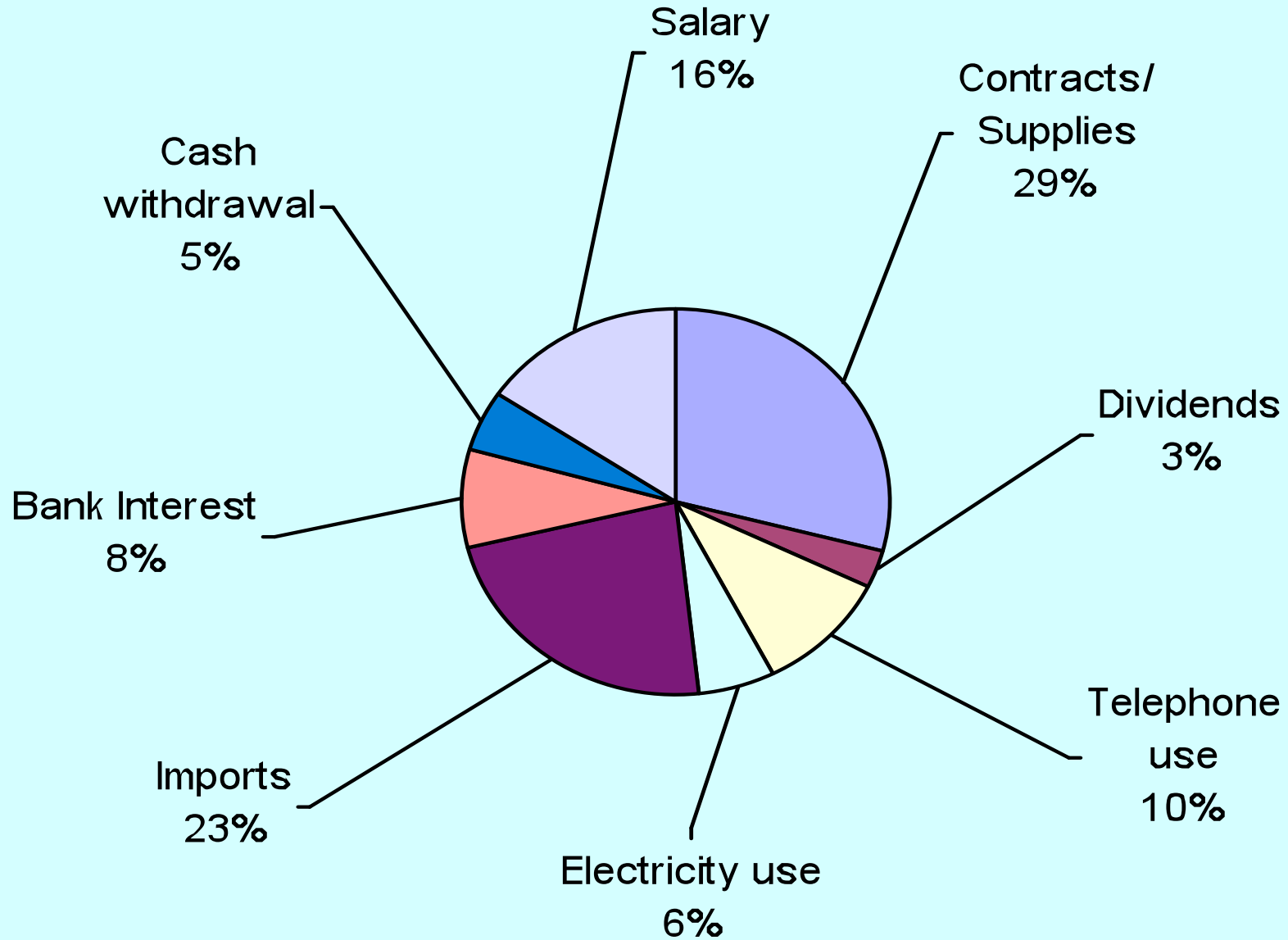
Tax Heads	Collection	Projections	Growth (%)
	FY: 09-10	FY: 10-11	
Direct Taxes	526.0	656.3	24.8
Sales Tax	516.3	633.8	22.8
Federal Excise	124.8	141.0	13.0
Customs Duty	160.3	173.3	8.1
All Taxes	1,327.4	1,604.4	20.9

	Collection Q1: 10-11	Collection Q1: 09-10	Growth (Absolute)	Growth (Percent)
Direct Taxes	95.7	85.3	10.4	12.2
Sales Tax	133.7	117.1	16.6	14.2
Federal Excise	26.9	28.4	-1.5	-5.2
Customs Duty	37.2	33.1	4.1	12.4
All Taxes	293.5	263.9	29.6	11.2

S.No.	Description	Collection		% Growth
		2010-11	2009-10	
1.	Collection on Demand	2,395	10,878	-78.0
2.	Voluntary Compliance	31,805	19,511	63.0
3.	Collection at Source	70,153	61,749	13.6
4.	Other Direct Taxes	2,657	2,244	18.4
	Direct Taxes (Gross)	107,010	94,379	13.4
	Refunds	11,292	9,033	25.0
	Direct Taxes (Net)	95,718	85,345	12.2

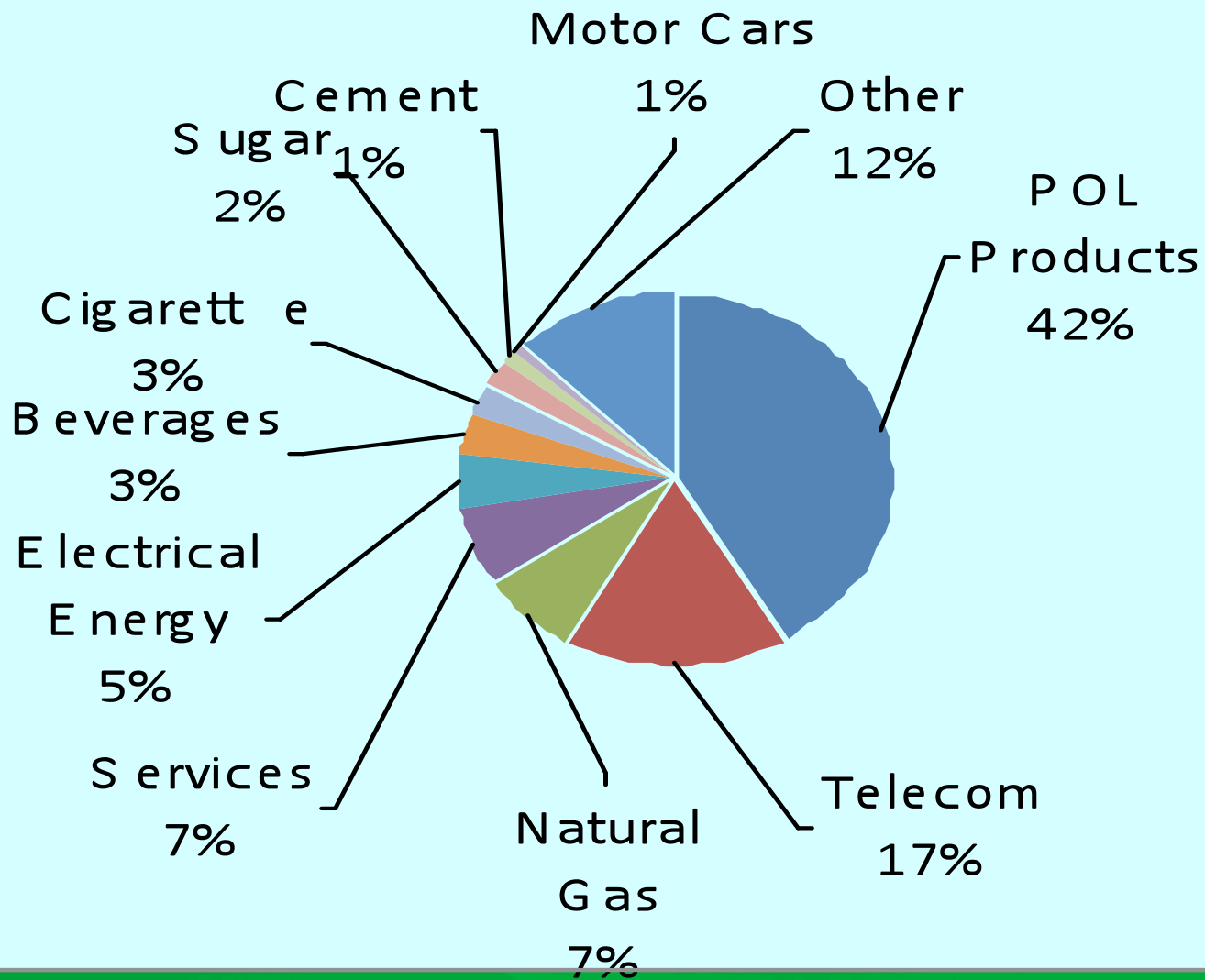
Tax Heads	Q1: 10-11	Q1: 09-10	Growth (%)
Contracts/ Supplies	17,314	18,089	-4.3
Imports	13,663	10,366	31.8
Salary	9,264	7,132	29.9
Telephone use	6,085	5,264	15.6
Bank Interest	4,870	4,042	20.5
Exports	4,460	3,674	21.4
Electricity use	3,419	3,366	1.6
Cash withdrawal	2,961	2,894	2.3
Dividends	1,845	1,399	31.9
Sub-Total	63,881	56,225	13.6
Other WHT	6,272	5,524	13.5
Total WHT	70,153	61,749	13.6
Share in Gross	65.6%	65.2%	

Graph-4: Contribution of major WHT during Q1: CFY



	Returns/Statements		
	FY:10-11	FY:09-10	Growth (%)
Returns			
Corporate Cases	1,740	1,544	12.7
AOPs	32,998	29,225	12.9
Salaried Individuals	106,959	109,516	-2.3
Non-Salaried Individuals	565,971	548,115	3.3
Sub Total Returns	707,668	688,400	2.8
Statements			
Salary certificates/statements	18,278	18,142	0.7
employees statements	1,184,447	1,054,650	12.3
Importers	2,116	12,212	-82.7
Exporters	4,770	8,225	-42.0
Retailers up to 5m turnover	13,336	13,485	-1.1
Above 5m turnover	457	571	-20.0
Contractors/ Suppliers	12,280	24,124	-49.1
Other	22,400	28,487	-21.4
Sub Total Statements	1,258,084	1,159,896	8.5
Total	1,965,752	1,848,296	6.4

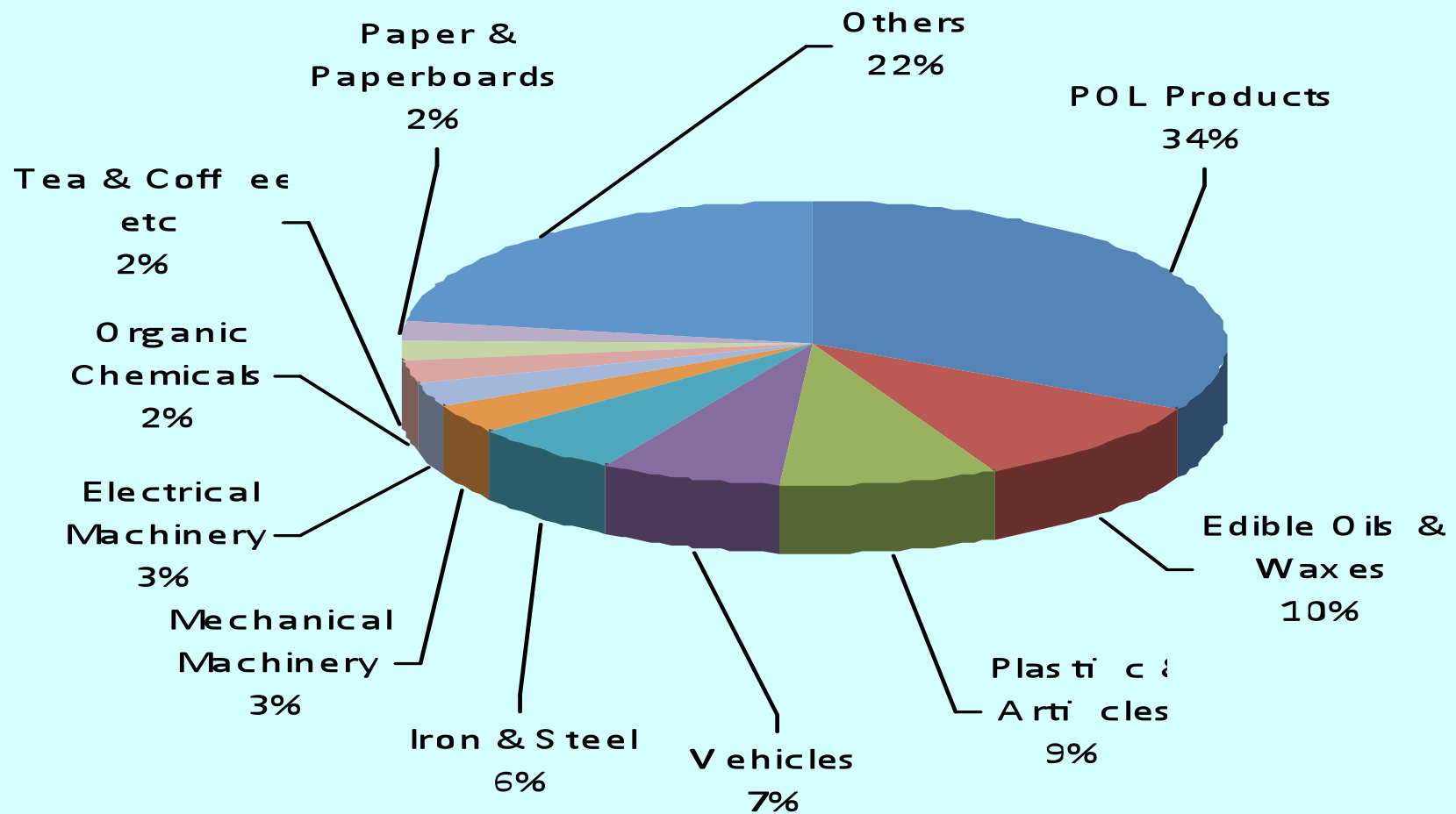
Graph 5: Major Sectors Contribution in Sales Tax Domestic



<i>SNo.</i>	Sectors	July-September		
		FY:10-11	FY:09-10	Growth(%)
1	POL Products	29,052	26,720	8.7
2	Telecom	11,549	10,888	6.1
3	Natural Gas	5,173	5,207	-0.7
4	Services	4,845	2,912	66.3
5	Electrical Energy	3,329	3,300	0.9
6	Beverages	2,230	1,757	27.0
7	Cigarettes	1,948	1,761	10.6
8	Sugar	1,505	3,788	-60.3
9	Cement	739	1,408	-47.5
10	Motor Cars	672	957	-29.7
	Sub Total	61,042	58,698	4.0
	Other	8,702	6,239	39.5
	Grand Total	69,744	64,937	7.4

	July - September		
	No of Registrants	No of Filers	Compliance (%)
<i>Manufacturers</i>	25,568	23,351	91.3
Importers	26,882	24,083	89.6
Exporters	6,089	5,256	86.3
Distributors	5,124	4,430	86.5
Wholesalers	19,118	16,562	86.6
Retailers	3,496	2,953	84.5
<i>Services</i>	8,450	6,861	81.2
Total	94,727	83,496	88.1 102

Graph 6: Contribution By Major Import Sectors



PCT	Description	CD Collection July-September		
		FY:10-11	FY:09-10	Growth (%)
87	Vehicles and Parts	6,748	4,366	54.6
15	Edible Oils	4,530	3,177	42.6
84	Mechanical Machinery	2,765	2,609	6.0
27	Petroleum Products	2,335	3,739	-37.6
85	Electrical Machinery	2,212	2,489	-11.1
39	Plastic & Articles	2,036	1,516	34.3
72	Iron & Steel	1,563	1,460	7.1
48	Paper & Paperboard	1,266	1,149	10.2
54	Textile Materials	921	449	105.1
9	Tea/Coffee etc	831	654	27.1
29	Organic Chemicals	794	939	-15.4
55	Staple Fibre	681	377	80.6
32	Dyes, paints etc	657	604	8.8
33	Cosmetic and Perfumery	616	451	36.6
34	Soap & Artificial Waxes	584	428	36.4
	Sub Total	28,539	24,407	16.9
	Other	10,877	10,341	5.2
	Grand Total	39,916	34,748	14.9

Year	GDP(MP) (Rs. in million)	Total Taxes (Rs. in million)	GST Total (Rs. in million)	GST/Tax Revenue %	GST/GDP %
1	2	3	4	5	6
1999-2000	3,826,111	347,104	116,711	33.6	3.1
2000-2001	4,209,873	392,277	153,565	39.1	3.6
2001-2002	4,452,654	404,070	166,561	41.2	3.7
2002-2003	4,875,648	460,627	195,139	42.4	4.0
2003-2004	5,640,580	520,783	219,167	42.1	3.9
2004-2005	6,499,782	590,387	238,537	40.4	3.7
2005-2006	7,623,205	713,442	294,798	41.3	3.9
2006-2007	8,673,007	847,236	309,396	36.5	3.6
2007-2008	10,242,799	1,008,091	377,430	37.4	3.7
2008-2009	12,739,336	1,161,150	451,744	38.9	3.5
2009-2010	14,668,423	1,327,809	516,348	38.9	3.5 ¹⁰⁵

DOMESTIC CHALLENGES

- ❑ Changing Governments
- ❑ Seven times bigger hostile neighbor
- ❑ Instability on Western Border & Terrorism
- ❑ Fixing the Power Sector
 - Generation Mix
 - Quality and not just Quantity
- ❑ Education for masses – especially technical education
- ❑ Technology gap – need for quantum leap

contd

- Pakistan has extreme poverty
- Pakistan has crisis in Governance and corruption
- Pakistan's human resource is unskilled but young
- Pakistan's natural resources are fast diminishing due to mismanagement and global warming – especially water and forest resources

contd

- Pakistan lacks both technological as well as financial resources
- Pakistan has law and order problems and is fighting a war against terror
- Pakistan has a trust deficit with its foreign economic partners and investors

INVESTMENT CHALLENGES AND BUSINESS CLIMATE

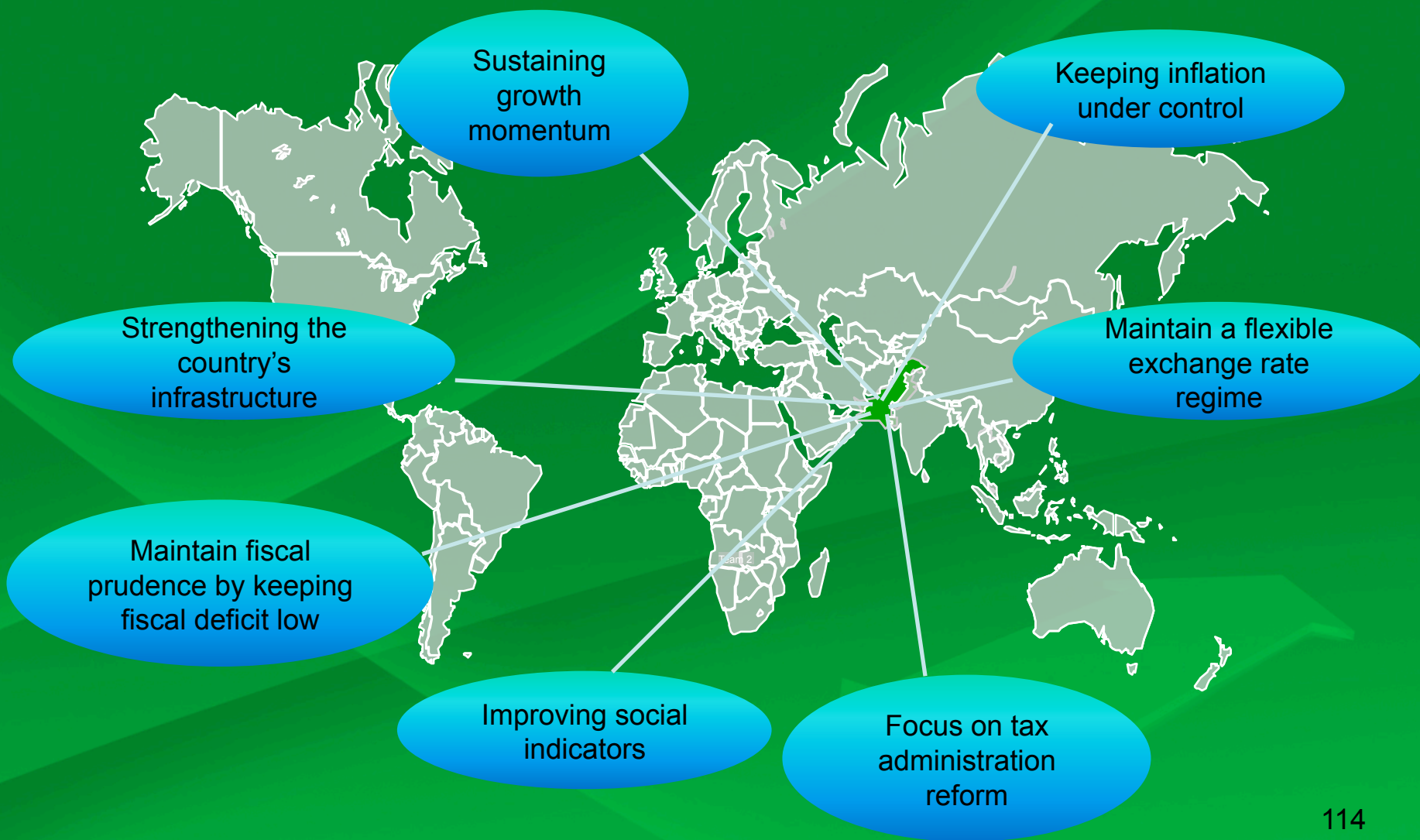
Why Direct Foreign Investment is slow to come to Pakistan

- Low transparency indicators and good governance
- Large transaction costs because of inefficiency of institutions and administrative bottlenecks
- Law and Order Situation and Terrorism
- Bad profile of Pakistan in the world
- Lack of skills and education
- Bad work habits
- Low implementation of standards
- Lack of Energy resources
- Lack of infrastructure

- Low participation of women in economic activity
- High cost of doing business due to high utility costs
- Mismanagement of resources
- Small Markets,
- poverty and low skills – increase in marginal cost of labor
- Cultural and traditional restraints – traditional socio-economic setup
- Lack of technology and financial resources
- Low institutional role in Markets

WAY FORWARD

Policy Roadmap For The Next Five Years



Future Vision for Policy Makers

- The Government will have to have a long term policy for sustainable and equitable growth, keeping in view the following restraints:
- **Poverty** has to be eliminated through skill enhancement; financial and political empowerment of vulnerable groups. More robust **safety nets** need to be developed for protecting poor from economic, political and environmental shocks

- **Youth** has to be facilitated on priority basis, and **school education**, teacher training and teaching methodologies for the masses will have to be universal, on scientific lines, purposeful and market oriented. **50%** of the country's population is youth and children and holds the key to the future sustainable development

- **Health facilities** will have to be based on some form of basic health prevention, clean drinking water for all, subsidized basic medicines as well as **community based** and work related **group insurance** for the poor and patients with chronic diseases' and maternity related issues

- **Water resources** and **energy resources**

have to be sustained, developed and conserved for agricultural, industrial and municipal usage

- **Production of Food** items need to be enhanced for overall **food security** of the people as well as have to be subsidized for the poor and the children for a healthy productive and sustainable community

- The public sector should on emergency basis enhance through private partnerships **new and alternate, environmental friendly energy sources** as well as built stronger infrastructure in the country and help export oriented private sector to **bring down its cost of production** without effecting directly the prices of these products

All new projects as well as old industries and waste disposals should be on line with **national environmental quality standards** (NEQS) and **National Conservation Strategy** for a more sustainable and cleaner economic development

- **Forest cover** of indigenous and medicinal plants needs to be redeveloped for a more and overall sustainability of the climate, water resources and economic development in Pakistan
- **Intra-provincial accords** should be encouraged for greater economic cooperation between different regions of Pakistan, which will equitably develop all regions as well as promote intra-provincial harmony

Development needs should be shifted back to rural areas so that **rural-urban migration** should be discouraged and sustainability of the rural areas stressed

Have **small but democratic, efficient and transparent Organizations** that help develop the market and provide greater protection to the venerable sections of the society and help increase opportunities and incomes of the people

Fiscal Reforms include:

- Tax registration drive
- Issuance of new National Tax Numbers to be used for all taxes
- Audits for 20 per cent of tax returns
- Computerized process to establish selection of business and individuals for audit
- Overhaul of income tax

- New laws to be enacted based on genuine self assessment etc
- Direct tax base to be expanded through reforms of agricultural income and wealth taxation GST has been extended to various services that were previously subjected to excise taxes, as well as on additional services which were previously not taxed

- Exemption in areas of GST, income tax, & costume duties have been reduced considerably
- Structures of provincial taxes has been streamlined with the reduction of a number of provincial taxes and rationalization of the remaining taxes
- Measures are being taken to improve the quality of tax administration

PUBLIC Enterprise Reform and Privatization

- To streamline, restrict and corporate public enterprises in order to reduce burden on budgetary resources.
- Timetable for the privatization of banks as well as enterprises in gas, petroleum, power, and industrial sectors in order to collect an estimate US\$ 4 billion over a medium term

Future Issues for Pakistan's Policy makers

- Raise standard of living of the people, justice and equity
- Sustainable economic growth and protection of resources for future generations
- Security of life, property, contracts and businesses

- Improved and wider markets for greater choices and access to opportunities
- Organizations that are small but efficient and ensure the above goals
- Greater coherence between industry, agriculture, skills and services sectors

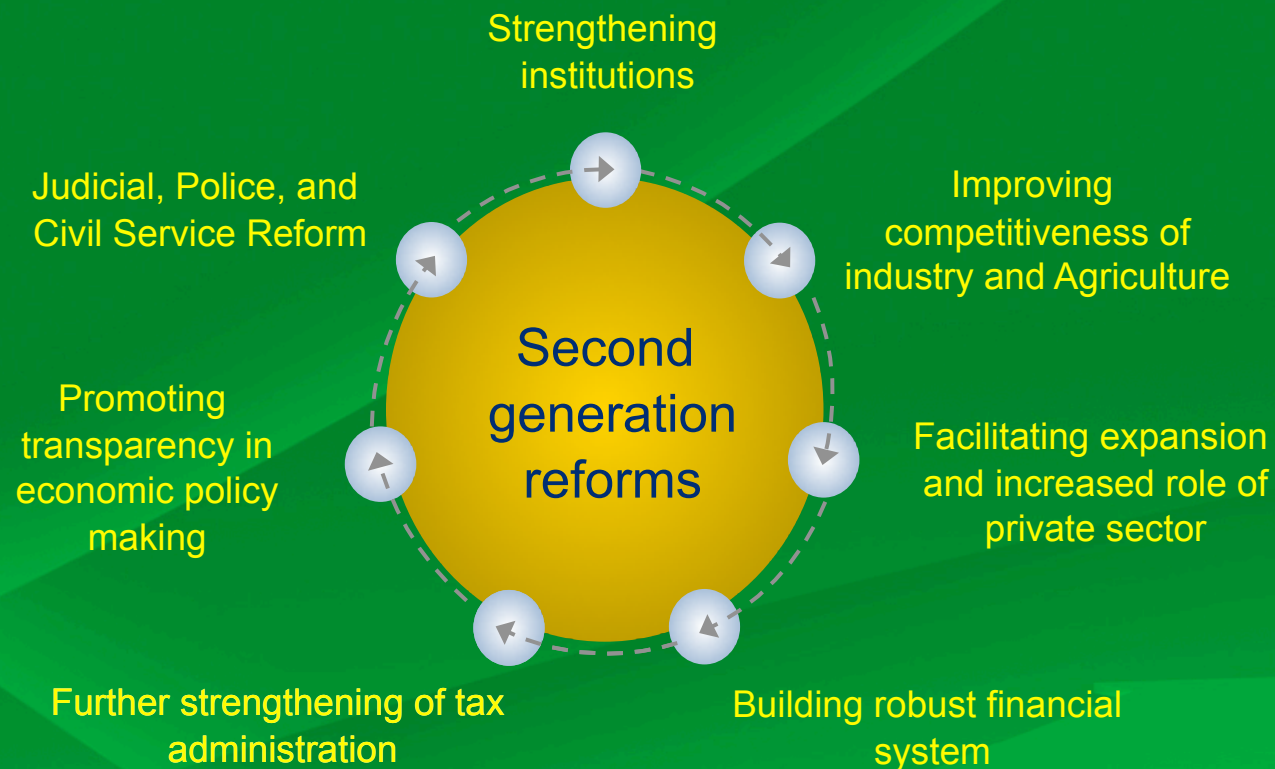
- Greater access to financial and technological resources for better management of the economy through the market
- Cater for the energy needs of the people
- Conserve water and other natural resource and their better management

Economic vision should include

1. Food Security Vs Import of Food
2. Enhance the energy productivity from indigenous sources
3. Greater Export orientation vs. Import substitution and self-sufficiency
4. Technology and capital intensive vs. labor intensive and agricultural based industrial sector

5. Modern base of new demand led and technology pushed Industries
6. Higher skills, productivity and education to a larger portion of the population
7. Grater role of transport and communication in economic development
8. Sustainability of natural resources and environment protection

Second generation reforms

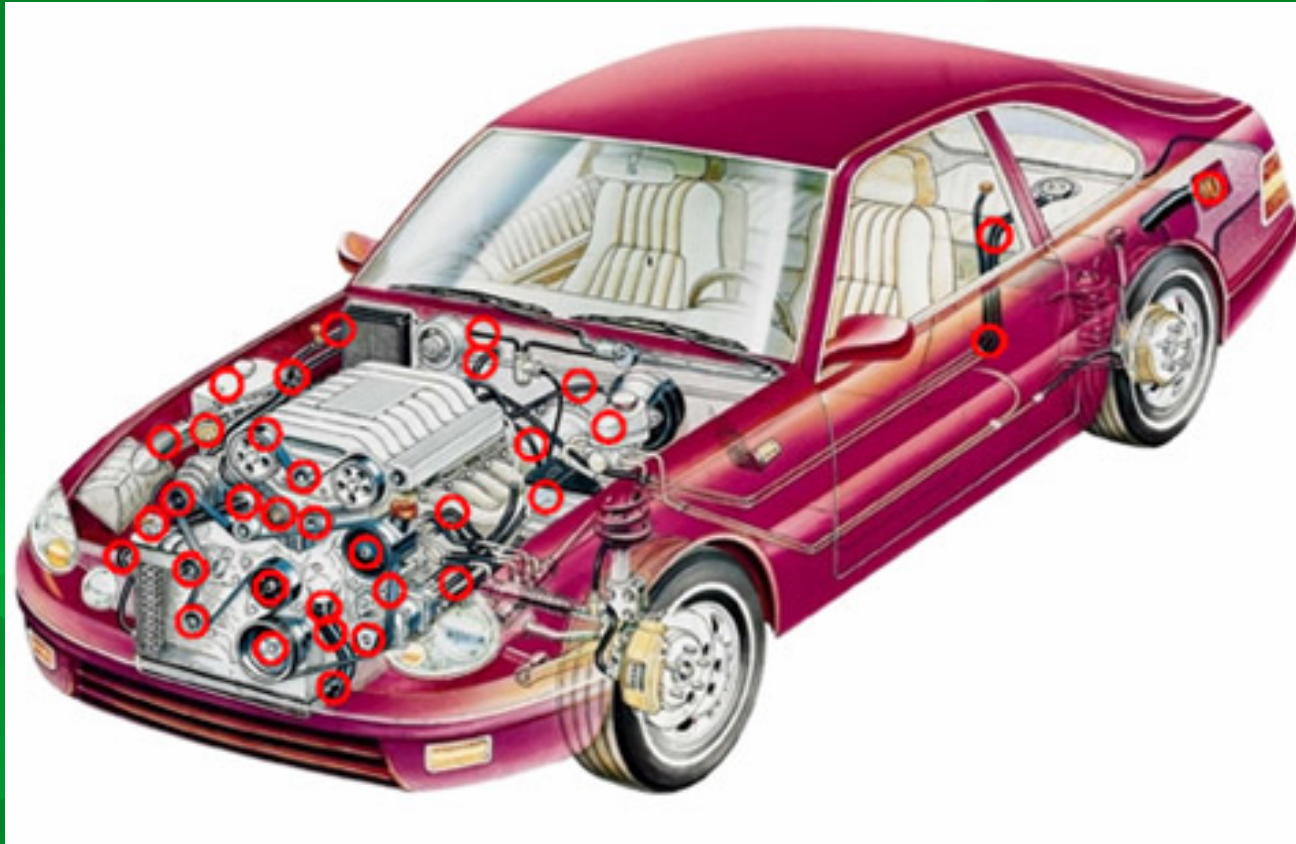


Opportunities: At the Center of Asian Growth

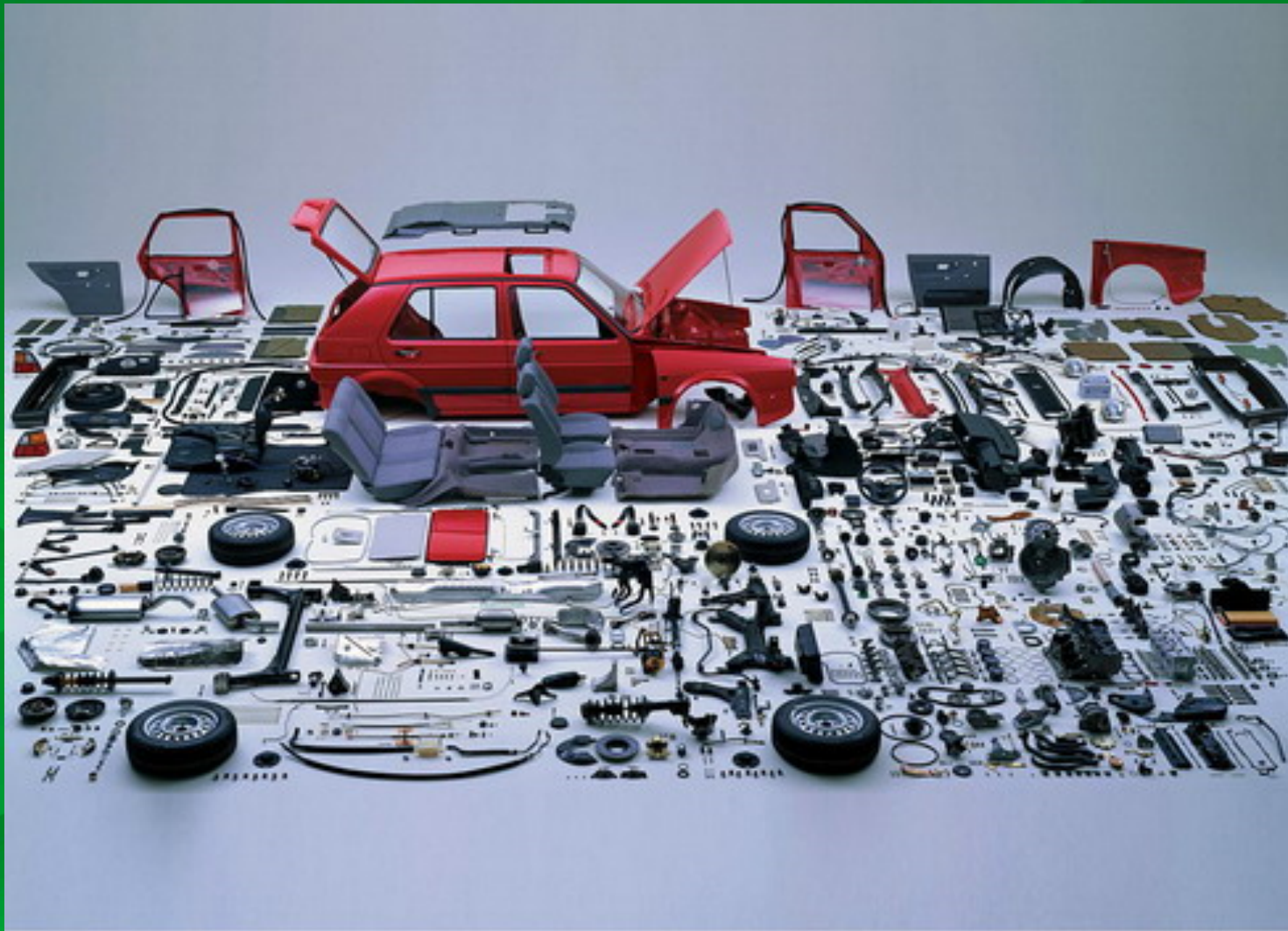
Pakistan becoming Asia's trade, energy and transport corridor



System



Not a System

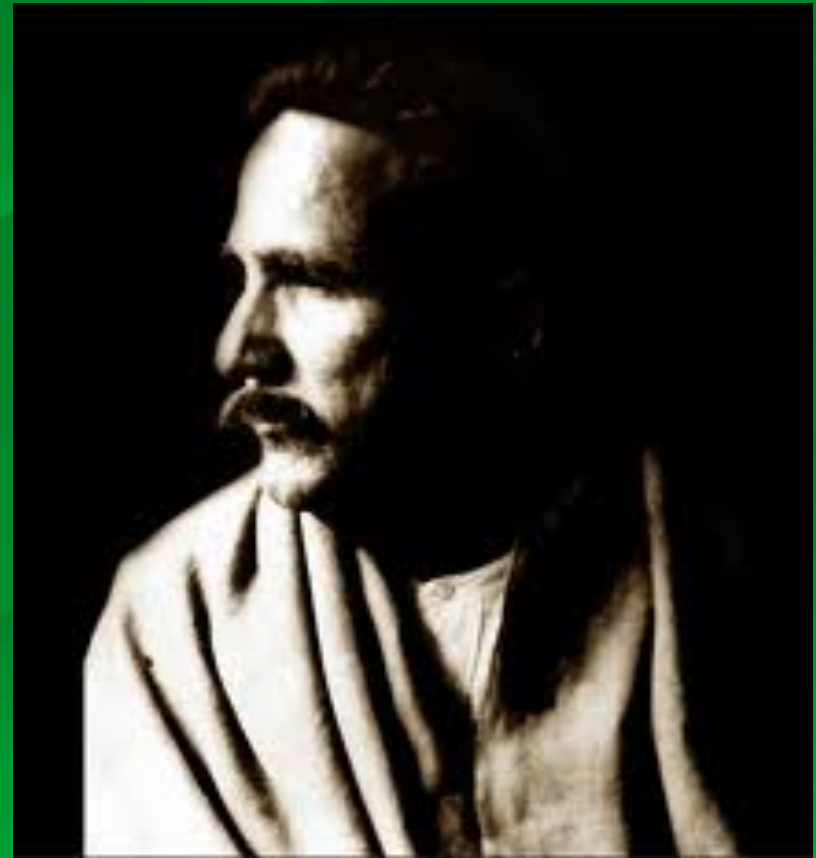


**Why Institutional is more imp
than individual?**



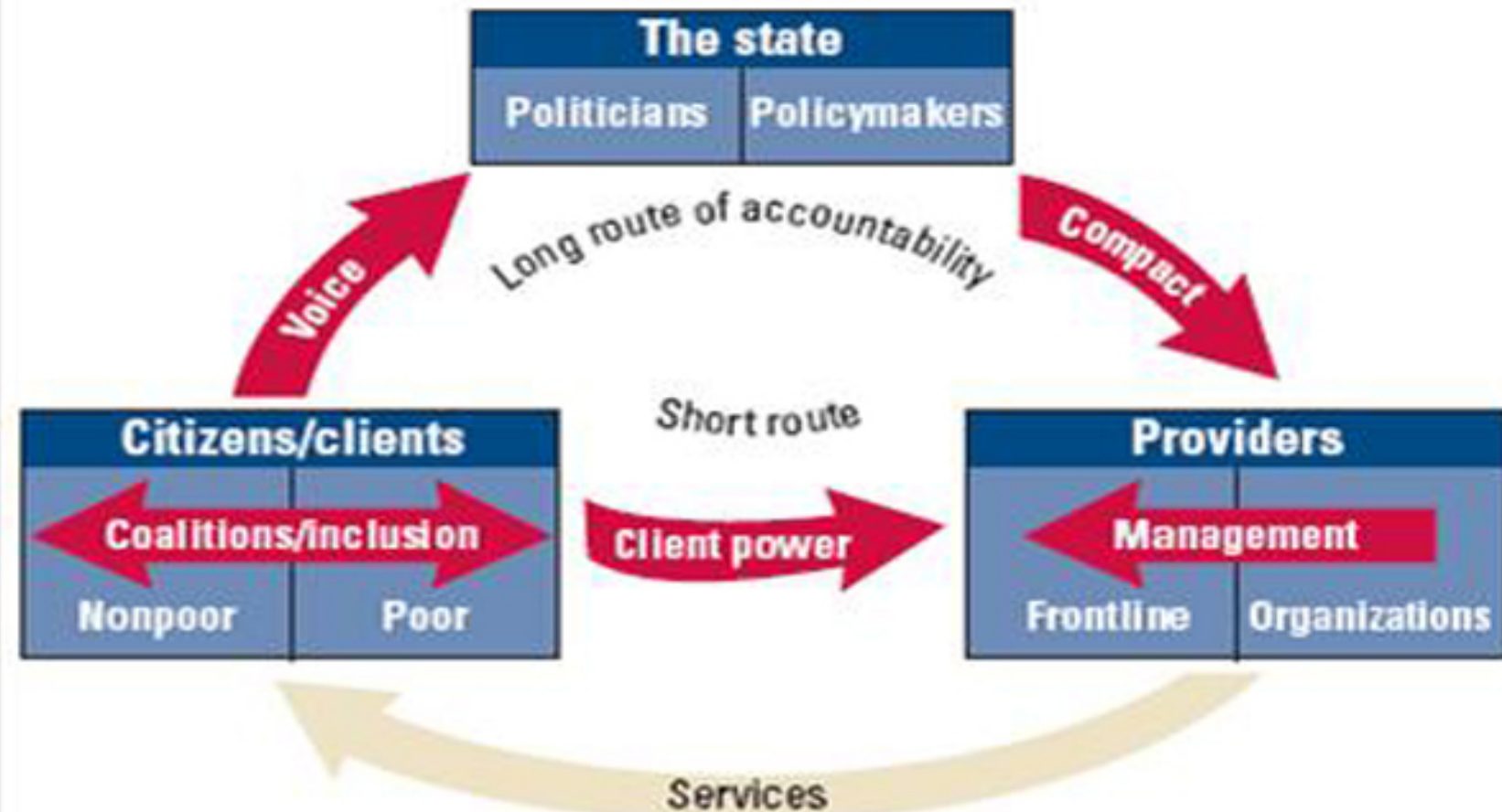
Individual & Institution

- *Fard qaim rabt-e
-millat say hai tanha
kuch nahin*
- *Mauj hai darya
mein bayroon-e
-darya kuch nahin*

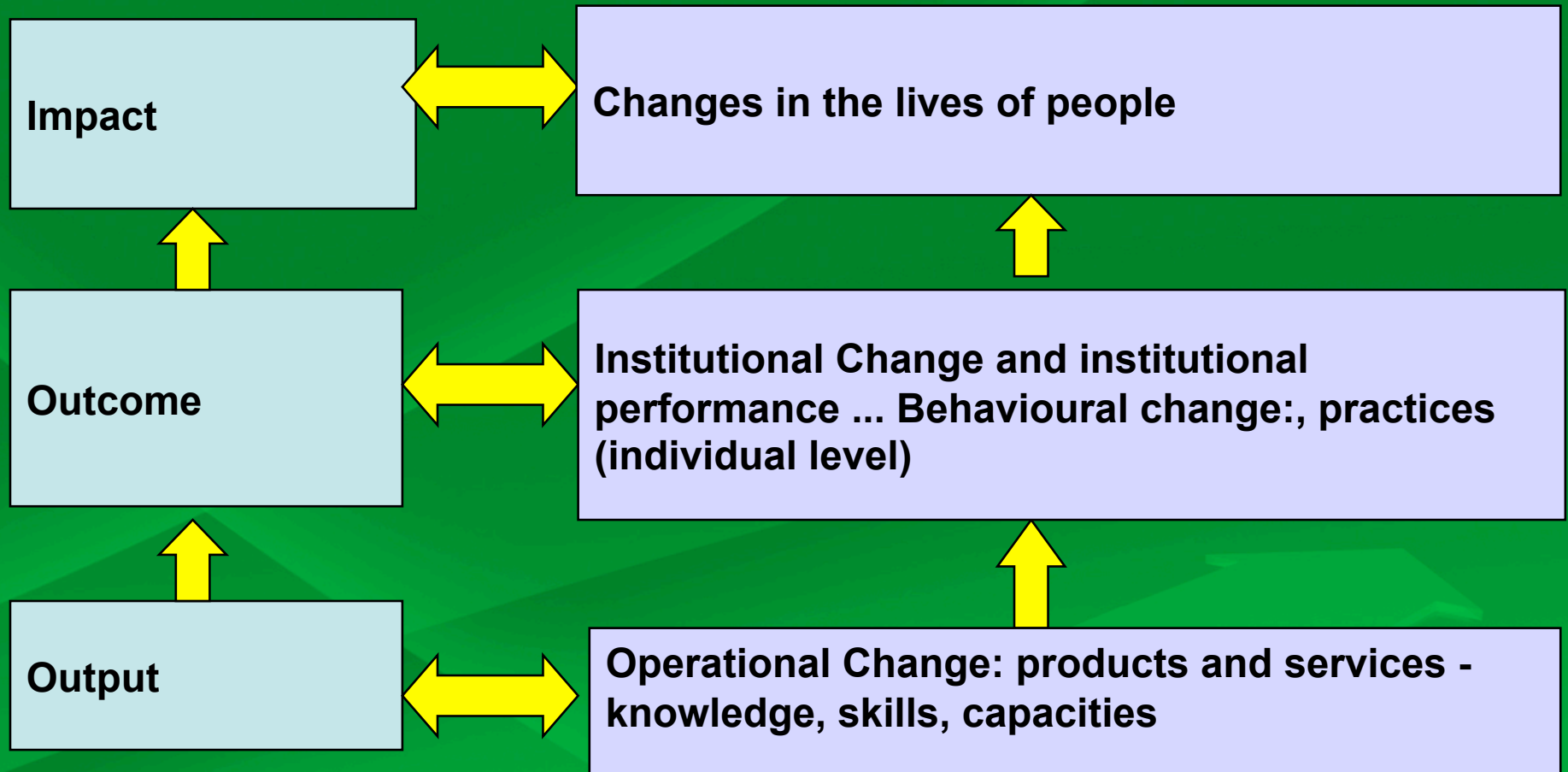


The Accountability Framework

Figure 3.2 Key relationships of power



Types of Change



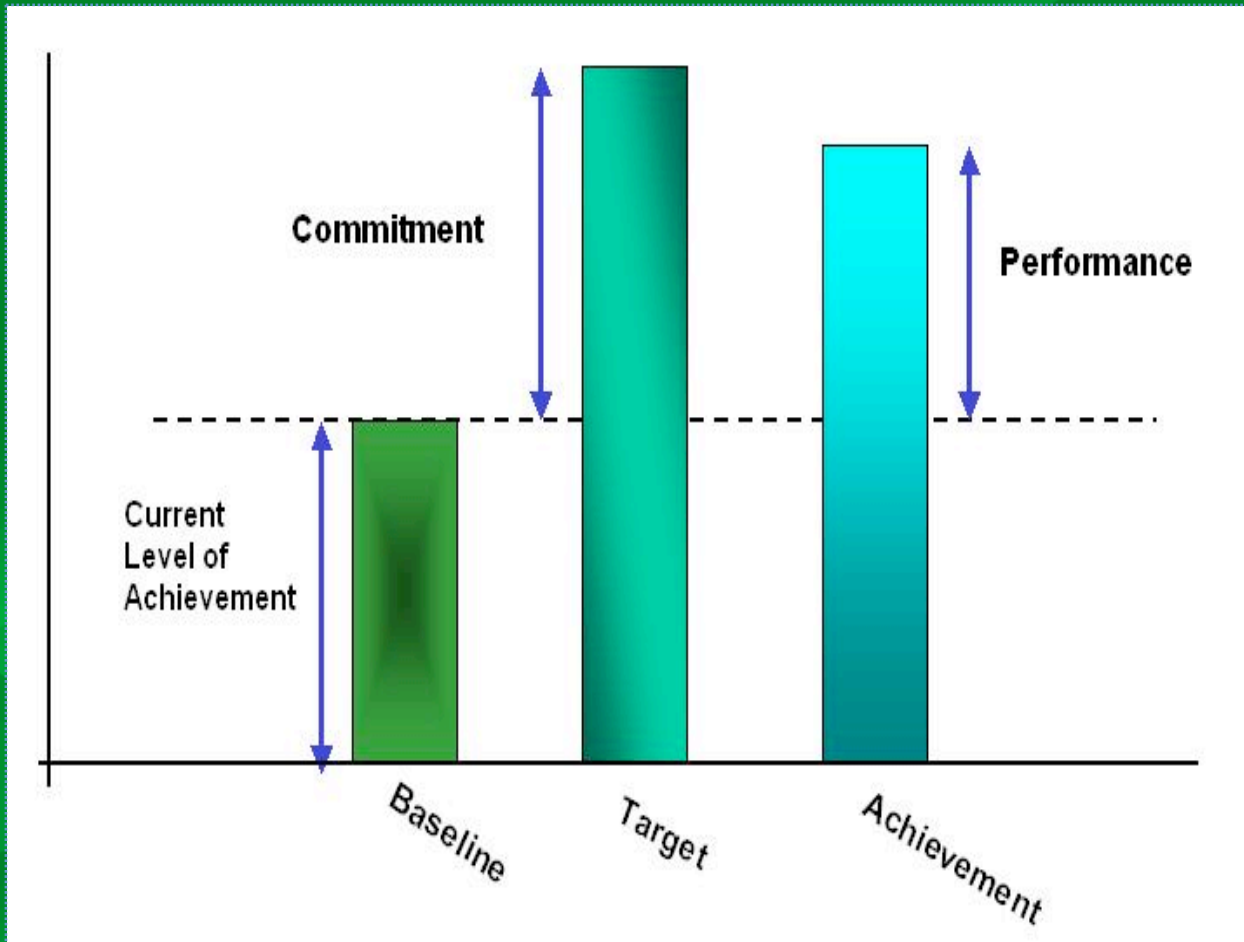
Movement And Performance



- *Muneer is shehr main
aasaib ka saya hay ya
kuch hey*
- *Keh harkat taiz ter hay
aur safar aahista aahista*



Indicators



Key Phases

Strategic Planning

- Formulating SMART results
- Setting targets
- Selecting indicators

Performance Measurement

- Monitoring performance data
- Reviewing & reporting performance

Performance Management

- Evaluation and Lessons
- Using performance information for managing

IN A NUTSHELL...



Sources

- Various Govt Publications including Economic Surveys of last 10 years
- State Bank Of Pakistan Annual and Quartely Reviews last 10 years
- FBR 's Annual Reports and Various Quartely Reviews
- Talks by Dr Salman Shah at NMC and NIM
- Talks by Dr Athar Maqaood at NMC and NIM¹⁴⁵

Thankyou