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Prime Minister Gilani vows to restore macroeconomic stability

Prime Minister Syed Yousuf Raza Gilani today reiterated the Government's resolve to restore macroeconomic stability through proper coordination between the monetary and fiscal authorities.

Inaugurating the one-day Development Finance Conference, organized by the State Bank of Pakistan on the eve of its 60th Anniversary, at Learning Resource Centre, SBP Karachi, Mr. Gilani said that the recently concluded 2007-08 fiscal year was 'a challenging economic year.' He said that the country currently faces four major economic challenges including a deceleration in economic growth, rising inflation, instability in exchange rate and high fiscal and external account deficits, and added that the Government is committed to address these challenges.

"High growth in macroeconomic imbalances testifies that the country was living beyond its financial affordability," Mr. Gilani said. "These challenges are daunting but our resolve is equally stronger," he said and added that he is confident that through better coordination between fiscal and monetary authorities, the Government will succeed in restoring financial stability in a reasonable time frame.

Mr. Gilani said that the Government aims to bring down fiscal deficit to 4.7% of Gross Domestic Product in the current 2008-09 (FY09) fiscal year from around 7.0% in the last fiscal year. "The Government is aiming to contain fiscal deficit in the range of 3.0% to 3.5% of GDP in the medium term," he said and added the Government also intends to keep economic growth in the 6% to 7% range in the next five years.

"Our focus will be on quality of growth in agriculture, manufacturing and the services sector," he said and added that tackling energy crisis and overhauling of tax policy and tax administration will be Government's key policy objectives. He also said that the Government will take all necessary measures to promote private sector development, because the Government genuinely believes that the private sector is the real engine of growth, and the main source of employment generation.

"The Government should not be in the business of running businesses," he said and added that the Government's role should be to facilitate and create conducive environment, where the private sector can play its role effectively "Private sector led initiatives, together with an aggressive export drive will set the country, on a higher and sustainable growth path," Mr. Gilani added.

Talking about recently announced Federal Budget, the Prime Minister said that his Government has scaled down and reoriented subsidies. Scaling down subsidies was required to remain within the budget deficit of 4.7% and the reorientation is primarily to provide a targeted subsidy that aims to provide relief to the poor, notwithstanding, over 40% of Government's fiscal deficit is on account of the subsidy bill, he added.

Referring to the issue of Development Finance, Mr. Gilani welcomed State Bank's effort to establish a holistic Development Finance Group to broaden and deepen financial access across the country to meet the requirements of the economy, infrastructure and industry, and the population at large. He said efforts to develop a regulatory framework and guidelines for agriculture, livestock, fisheries etc. as well as for SME, Housing and Microfinance, are going to catalyze lending and added proper training being delivered for specialized lending will also contribute to this goal.

Mr. Gilani said the provision of banking services to under-served segments of the population as envisioned by the State Bank of Pakistan, directly helps and reinforces the measures being taken by the Government. The Government has provided a comprehensive incentive regime in the Federal Budget for the agriculture sector, he said and added with the support of SBP, commercial banks have managed to promote delivery of agricultural credit, which is likely to reach an all-time high of Rs 200 billion, and will facilitate at least two million borrowers – double the level of the last few years – of which 75% are small borrowers.

The Prime Minister said that the Government also plans to revamp Zarai Taraqiati Bank Ltd. to broaden its outreach. He said the Government has also waived the levy of 5% federal excise duty on the premiums of crop insurance while other developmental programs entail special initiative for 'White Revolution' for which an allocation of Rs 1.5 billion has been made for the livestock and dairy sector, and Rs 1.1 billion has been allocated for development of fisheries sector.

He congratulated Dr Shamshad Akhtar, Governor State Bank of Pakistan, for receiving two Best Central Bank Governor Awards conferred to her by two prestigious, world-renowned publications. "Let me congratulate SBP, its management and staff at this auspicious occasion and encourage them to continue performing their role in promoting economic and financial stability in the country," Mr. Gilani added.
