

ECONOMIC PROSPECTS AND CHALLENGES IN PAKISTAN

STRUCTURE AND GROWTH

- **ECONOMY CONSISTS OF AGRICULTURE (25%): INDUSTRY (25%) AND SERVICES (50%). AGRICULTURE STILL EMPLOYS MORE THAN HALF OF THE LABOUR FORCE**
- **PAKISTAN'S GDP GROWTH OF 6 PER CENT ANNUALLY BETWEEN 1950-90 WAS ONE OF THE FASTEST SUSTAINED GROWTH AMONG THE DEVELOPING COUNTRIES. CURRENT GROWTH RATE IS 5 PER CENT.**
- **A DYNAMIC AGRICULTURE SECTOR MAINLY IRRIGATED HAS NOT ONLY MADE THE COUNTRY SELF SUFFICIENT IN FOOD BUT ALSO TURNED INTO A NET EXPORTER. PRODUCTIVITY GAINS HAVE SET IN AS INCENTIVE STRUCTURE IS IMPROVED. PRODUCER PRICES ARE AT PRESENT RELATED TO INTERNATIONAL PRICES.**
- **AGRO-BASED INDUSTRIES AND AGRO-RELATED INDUSTRIES ARE HIGHLY COMPETITIVE AND ORIENTED TOWARDS EXPORTS. TAX INCIDENCE ON EXPORT SECTOR IS MINIMAL.**
- **A LARGE EMERGING MIDDLE CLASS WITH GROWING DEMANDS OF AUTOMOBILES, DURABLE CONSUMER GOODS AND SERVICES OF ALL KIND.**

STRUCTURAL REFORMS

PRIVATISATION

- **AN AGGRESSIVE AND TRANSPARENT PRIVATISATION PLAN OVER NEXT 18-24 MONTHS FOR SELLING ASSETS**

IN OIL AND GAS, BANKING, TELECOMMUNICATIONS AND ENERGY TO STRATEGIC INVESTORS. FOREIGN INVESTORS ARE ENCOURAGED TO PARTICIPATE IN PRIVATISATION.

FOREIGN EXCHANGE REGIME

- **LIBERALISED ITS FOREIGN EXCHANGE REGIME AND FOREIGN INVESTORS CAN BRING IN AND TAKE BACK THEIR CAPITAL, REMIT PROFITS, DIVIDENDS, FEES, ETC. WITHOUT ANY RESTRICTIONS.**
- **NON-RESIDENT AND RESIDENTS ARE ALLOWED TO MAINTAIN AND OPERATE FOREIGN CURRENCY DEPOSIT ACCOUNTS.**
- **A MARKET BASED EXCHANGE RATE IN THE INTER-BANK MARKET.**

TRADE REGIME

- **TRADE REGIME HAS BEEN OPENED UP AND THE CURRENT MAXIMUM TARIFF RATE OF 35 PER CENT WILL BE CUT DOWN TO 25 PER CENT WITH ONLY 3 SLABS DURING THE NEXT TWO YEARS.**
- **TRADE-GDP RATIO HAS DOUBLED WITHIN THE LAST TEN YEARS AS IMPORTS ARE LIBERALISED.**

FINANCIAL SECTOR

- **FINANCIAL SECTOR HAS BEEN RESTRUCTURED AND OPENED UP FOR COMPETITION. AT PRESENT 21 FOREIGN BANKS HAVE CAPTURED 20 PER CENT OF MARKET SHARE IN LOANS AND DEPOSITS.**
- **INTEREST RATE STRUCTURE HAS BEEN DEREGULATED AND MONETARY POLICY USES INDIRECT TOOLS SUCH AS OPEN MARKET OPERATIONS, DISCOUNT RATES ETC.**

- **KARACHI STOCK MARKET HAS CAPITALISATION OF ABOUT \$ 9-10 BILLION WITH MORE THAN 700 LISTED COMPANIES AND AVERAGE RETURNS IN THE LAST YEAR HAVE BEEN RELATIVELY HIGH COMPARED TO OTHER EMERGING MARKETS. FOREIGN PORTFOLIO INVESTORS CAN ENTER AND EXIT THE MARKET WITHOUT ANY RESTRICTION.**

DEREGULATION

- **ADMINISTERED PRICES OF PETROLEUM, GAS, ENERGY, AND OTHER KEY INPUTS HAVE BEEN REPLACED BY MARKET DETERMINED PRICES AND IMPORTS AND DOMESTIC MARKETING HAVE BEEN DEREGULATED.**

TAX REFORMS

- **A MASSIVE SURVEY AND DOCUMENTATION DRIVE IS UNDER WAY TO WIDEN THE TAX BASE, EXTEND TAX INCIDENCE TO ALL SECTORS OF THE ECONOMY AND REDUCE MULTIPLICITY OF TAXES AND RATE OF INCOME AND CORPORATE TAX OVER TIME. TAX ADMINISTRATION IS BEING SIMPLIFIED TO IMPROVE TAX COMPLIANCE.**

MACRO-ECONOMIC STABILISATION OUTCOME:

- **PRIMARY BUDGETARY SURPLUS HAS BEEN ACHIEVED.**
- **FISCAL ADJUSTMENT OF ABOUT 2 PERCENTAGE OF GDP.**
- **QUASI-FISCAL DEFICITS REDUCED.**

- **CURRENT ACCOUNT DEFICIT REDUCED FROM 2.8 PER CENT OF GDP TO 1.6 PER CENT. HAD OIL PRICES NOT RISEN THE DEFICIT WOULD HAVE BEEN ONLY 1 PER CENT.**
- **EXPORT GROWTH RATE OF 10 PER CENT.**
- **INFLATION LESS THAN 4 PER CENT.**
- **MONETARY AGGREGATES HAVE BEEN CONTAINED.**
- **THE RATIO OF NON-PERFORMING ASSETS TO TOTAL ASSETS HAS DECLINED SINCE 1997 AS THE QUALITY OF NEW ASSETS IS GRADUALLY IMPROVING.**

CHALLENGES AHEAD:

- **HIGH EXTERNAL AND DOMESTIC DEBT BURDEN WHICH PUTS SERIOUS PRESSURE ON BALANCE OF PAYMENTS, FOREIGN RESERVES AND BUDGETARY ACCOUNTS. POLICIES TO EXPAND EXPORTS, WORKERS' REMITTANCES AND FOREIGN DIRECT INVESTMENT SHOULD HELP IN THE MEDIUM TERM WHILE IN THE SHORT TERM DEBT RESCHEDULING WILL PROVIDE SOME RELIEF.**
- **POVERTY HAS RESURGED OVER THE LAST DECADE AS GROWTH RATE HAS SLOWED DOWN AND POOR GOVERNANCE AND WEAK FISCAL POSITION DID NOT PERMIT THE DELIVERY OF GOODS AND SERVICES TO THE POOR. POVERTY-TARGETED PROGRAMS HAVE BEEN INITIATED TO ADDRESS THE POVERTY ISSUE.**
- **MANY KEY ECONOMIC INSTITUTIONS HAVE SUFFERED DUE TO POLITICAL INTERFERENCE IN APPOINTMENTS, CONTRACTS, ETC., AND ARE BEING REBUILT AND STRENGTHENED. SEVEN LARGE PUBLIC ENTERPRISES SUCH AS RAILWAYS, STEEL MILL, WATER AND POWER AUTHORITY ETC., ARE UNDERGOING RESTRUCTURING.**

- **CIVIL SERVICE, JUDICIARY AND LEGAL PROCESSES ARE HIGHLY CUMBERSOME AND COMPLEX AND CREATE UNNECESSARY BUREAUCRATIC HURDLES. REFORMS IN THESE SECTORS WILL RESULT IN DEVOLUTION OF POWER TO ELECTED REPRESENTATIVES WITH THE CIVIL SERVICE ACCOUNTABLE TO THE ELECTED HEADS OF THE DISTRICTS. LEGAL AND JUDICIAL REFORMS WILL IMPROVE THE DELAYS IN ENFORCEMENT OF CONTRACTS.**
- **SOCIAL SECTORS HAVE BEEN NEGLECTED IN THE PAST AND THE SOCIAL INDICATORS ARE UNSATISFACTORY. EMPHASIS IS BEING LAID ON BASIC HEALTH SERVICES, POPULATION CONTROL AND INCREASING GIRLS' ENROLMENT RATIO.**
- **INVESTOR CONFIDENCE REVIVAL AND PRIVATE SECTOR INVESTMENT ARE THE ONLY VIABLE VEHICLES WHICH WILL PROMOTE EMPLOYMENT AND OUTPUT EXPANSION IN THE ECONOMY. PUBLIC SECTOR ROLE HAS TO BE CONTAINED EXCEPT FOR COMPLEMENTARY INVESTMENTS IN PHYSICAL INFRASTRUCTURE AND HUMAN DEVELOPMENT.**
- **PAKISTAN'S SHARE IN WORLD EXPORT MARKET HAS STAGNATED AS EXPORT BASE HAS REMAINED NARROWLY FOCUSSED ON COTTON TEXTILES AND ON A HANDFUL OF COUNTRIES. AN EXPORT ORIENTED STRATEGY HAS BEEN PUT IN PLACE TO RECAPTURE MARKET SHARE IN WORLD EXPORTS.**
- **FOREIGN DIRECT INVESTMENT FLOWS WHICH HAD ACCELERATED IN MID 1990s DUE TO A LIBERAL BUILD, OPERATE AND TRANSFER POLICY, HAVE SUFFERED A SET BACK AS A RESULT OF A LINGERING DISPUTE WITH THE HUB POWER CO – THE LARGEST INDEPENDENT POWER PRODUCER. - NEGOTIATIONS HAVE MADE GOOD PROGRESS IN FINDING AN AMICABLE SOLUTION TO THIS PROBLEM.**

PROSPECTS FOR THE FUTURE

- **GDP GROWTH RATE IS EXPECTED TO RECOVER TO THE HISTORICAL LEVELS OF AVERAGE 6 PER CENT WITH IMPROVED**

GOVERNANCE, DEEPENING OF STRUCTURAL REFORMS AND CONTINUING PRODUCTIVITY GAINS IN AGRICULTURE SECTOR. THIS WILL REDUCE THE INCIDENCE OF POVERTY AND EXPAND DEMAND FOR GOODS AND SERVICES.

- **NON-RESIDENT PAKISTANIS PROVIDE A POTENTIALLY LARGE RESERVOIR OF TECHNICAL SKILLS AND MANAGERIAL EXPERIENCE WHICH CAN IMPROVE THE QUALITY OF THE LABOUR FORCE WHILE ALSO PROVIDE CAPITAL FOR NEW INVESTMENT.**
- **INFLATION RATE WILL CONTINUE TO BE CONTAINED WITHIN A RANGE OF 6-8 PER CENT WITH APPROPRIATE MONETARY AND FISCAL POLICIES.**
- **FISCAL POLICY IS GEARED TO BRING BUDGETARY DEFICIT DOWN TO 3 PER CENT OF GDP IN THE NEXT 3 YEARS. THIS WILL BE ACCOMPLISHED BY INCREASING TAX-GDP RATIO, CONTAINING THE GROWTH IN NON-DEVELOPMENT EXPENDITURE BUT RAISING THE SHARE OF EXPENDITURES ON SOCIAL SECTORS AND POVERTY-ORIENTED PROGRAMS.**