

PLANNING COMMISSION

ADVISORY PANEL OF ECONOMISTS

**REPORT ON**

'ECONOMIC STABILIZATION  
WITH A HUMAN FACE'

# TERMS OF REFERENCE OF PANEL

- ❖ **DEVELOP CREDIBLE STABILIZATION PROGRAM**
- ❖ **IDENTIFY STRUCTURAL CHANGES**
- ❖ **IDENTIFY LEADING GROWTH SECTORS**
- ❖ **IDENTIFY MECHANISMS FOR PPPS**
- ❖ **SUGGEST PROGRAM OF SOCIAL SAFETY NETS**

# THE PANEL

- ❖ **PANEL'S FIRST MEETING ON  
12<sup>TH</sup> – 13<sup>TH</sup> SEPTEMBER 2008**
- ❖ **MEMBERSHIP OF 18 SENIOR ECONOMISTS FROM  
ACADEMIA**
- ❖ **5 CO-OPTED YOUNG ECONOMISTS**
- ❖ **REPRESENTATION OF ALL PROVINCES AND  
GENDER**
- ❖ **OVERLAP WITH EAC**
- ❖ **RETREAT OF FIVE DAYS IN LAHORE FOR  
PREPARATION OF INTERIM REPORT**
- ❖ **SUMMARY OF RECOMMENDATIONS FINALISED ON  
15<sup>TH</sup> OCTOBER 2008**

# WORKING GROUPS OF PANEL

- ❖ **SHORT-TERM MACROECONOMIC FRAMEWORK**
- ❖ **SOCIAL PROTECTION STRATEGY**
- ❖ **GROWTH STRATEGY AND DEVELOPMENT PRIORITIES**
- ❖ **INSTITUTIONAL FRAMEWORK FOR DEVELOPMENT**

# FOCUS ON

AS PER TOR OF PANEL

- ❖ ***‘TO DEVELOP A CREDIBLE STABILIZATION PROGRAM FOR ACHIEVING MACROECONOMIC STABILITY WHICH ENSURES A RESPECTABLE GROWTH RATE AND IS BOTH EFFICIENT AND EQUITABLE’***

# PRINCIPLES OF PROPOSED STABILIZATION PACKAGE

- ❖ EMPHASIS ON MOBILIZATION OF DOMESTIC RESOURCES
- ❖ PROTECTION: ADJUSTMENT WITH A HUMAN FACE
- ❖ DELIVERY: DEMONSTRATION OF ABILITY TO USE RESOURCES WELL
- ❖ INTEGRATED STRATEGY

# DESIGN OF STABILIZATION PROGRAM

- ❖ **TWO YEAR PROGRAM**
- ❖ **MINIMIZE TRADE-OFF WITH RESPECT TO GROWTH AND IMPACT ON EMPLOYMENT AND POVERTY**
- ❖ **INDEPENDENT OF QUANTUM OF EXTERNAL ASSISTANCE**
- ❖ **FOCUS ON AVOIDING 'STOP-GO' CYCLE**
- ❖ **'HOME GROWN' PACKAGE**
- ❖ **BALANCING WITH A STRONG SOCIAL PROTECTION PROGRAM**

# THE STABILIZATION PACKAGE

## FISCAL POLICY

### ❖ ECONOMY IN CURRENT EXPENDITURE

- CUT OF RS 115 BILLION OR 6%
- SAVINGS IN DEFENCE EXPENDITURE
- CUT OF RS 85 BILLION OR 5% IN CIVILIAN EXPENDITURE

### ❖ RECRUITMENT BAN, FREEZE ON NON-SALARY OPERATIONAL EXPENSES

# THE STABILIZATION PACKAGE

## FISCAL POLICY

**RAISING TAX-TO-GDP BY 1½% POINTS BY 2009-10,  
RS 75 BILLION IN 2008-09**

### TAXATION PROPOSALS:

- **LEVY OF BROAD-BASED REGULATORY DUTY ON NON-ESSENTIAL IMPORTS**
- **INTRODUCTION OF SERVICES TAX**
- **EXCISE DUTY ON NON-ESSENTIAL GOODS**
- **EQUATING TOP MARGINAL RATE OF INCOME TAX WITH CORPORATE TAX RATE**
- **LEVY OF MINIMUM TAX ON TURNOVER**
- **DEVELOPMENT OF AIT**
- **LEVY OF CAPITAL GAIN TAX ON PROPERTIES**

# THE STABILIZATION PACKAGE

## FISCAL POLICY

### CUT IN PSDP OF 10% OR RS 63 BILLION

- **CRITERIA FOR RESTRUCTURING**
  - **PRIORITY TO PROJECTS AT ADVANCED STAGE OF IMPLEMENTATION**
  - **PRIORITY FOR SECTORS LIKE AGRICULTURE, WATER, POWER, HEALTH AND EDUCATION**
  - **PRIORITY FOR SPECIAL REGIONS AND BACKWARD AREAS**
  - **PRIORITY FOR NATIONAL SECURITY CONCERNS**
  - **NO NEW PROJECTS**
- **DIVERT RS 37 BILLION FOR EXPANDED PROGRAM OF SOCIAL PROTECTION**

# THE STABILIZATION PACKAGE

## MONETARY POLICY

- **HIKE IN SBP DISCOUNT RATE BY 2% POINTS**
- **HIKE IN RETURNS ON NATIONAL SAVING SCHEMES BY ANOTHER 2% POINTS**
- **INCENTIVIZATION OF CREDIT TO PRIORITY SECTORS**

# THE STABILIZATION PACKAGE

## TRADE AND EXCHANGE RATE POLICY

- **CONTINUATION OF IMPORT MARGIN REQUIREMENTS**
- **REGULATION OF DEFENCE AND PUBLIC SECTOR IMPORTS**
- **LEVY OF BROAD-BASED REGULATORY DUTY ON NON-ESSENTIAL IMPORTS**
- **NOMINAL EXCHANGE RATE TO AVERAGE IN THE EARLY 80s DURING 2008-09**
- **R&D SUPPORT RESTRICTED TO VALUE ADDED TEXTILES AND EMERGING EXPORTS**

# THE STABILIZATION PACKAGE

## POLICY ON ADMINISTERED PRICES

- **IN THE EVENT OF FALLING INTERNATIONAL COMMODITY PRICES, DOMESTIC PRICE REDUCTIONS ONLY IF THE OVERALL SUBSIDY BILL BUDGETED FOR 2008-09 FALLS BY OVER RS 50 BILLION**
- **EXCEPTION IS IMPORTED WHEAT, LOWER ISSUE PRICE IN LINE WITH REDUCTION IN INTERNATIONAL PRICE**

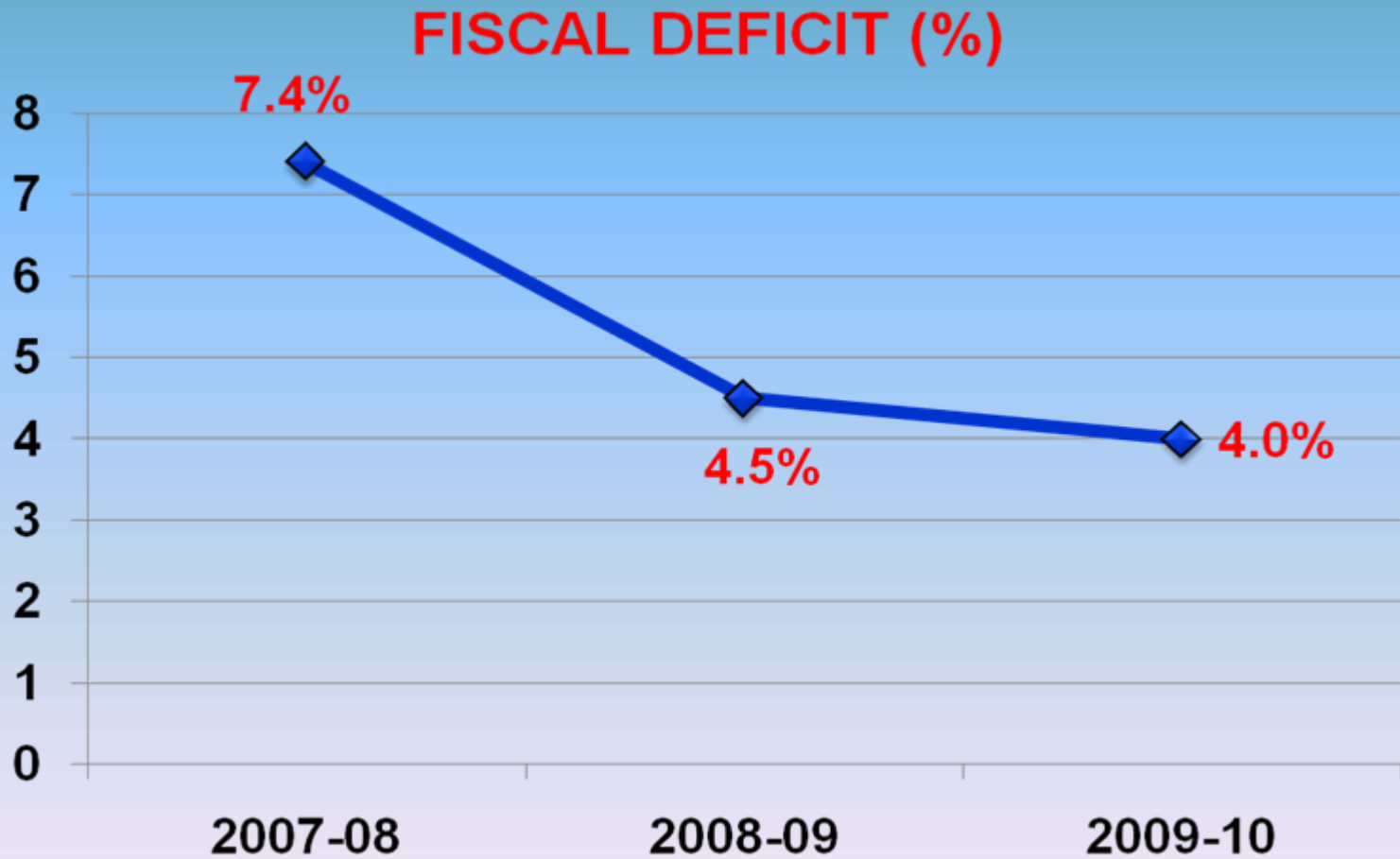
# MACROECONOMIC IMPACT OF STABILIZATION PROGRAM

- ❖ **GDP GROWTH RATE AT 4.4% IN 2008-09 FROM 5.8% IN 2007-08; RISING TO 5.1% IN 2009-10**
- ❖ **FISCAL DEFICIT AT 7.4% IN 2007-08 PROJECTED AT 4.5% IN 2008-09, COMPARED TO PROJECTION WITHOUT PROGRAM OF 6.4%; FALLING TO 4% OF GDP IN 2009-10**
- ❖ **CURRENT ACCOUNT DEFICIT AT 8.4% IN 2007-08 FALLING TO 5.5% OF GDP IN 2008-09 AND 4.4% OF GDP IN 2009-10**
- ❖ **INFLATION 12% IN 2007-08; 22% IN 2008-09; FALLING SIGNIFICANTLY IN 2008-09**

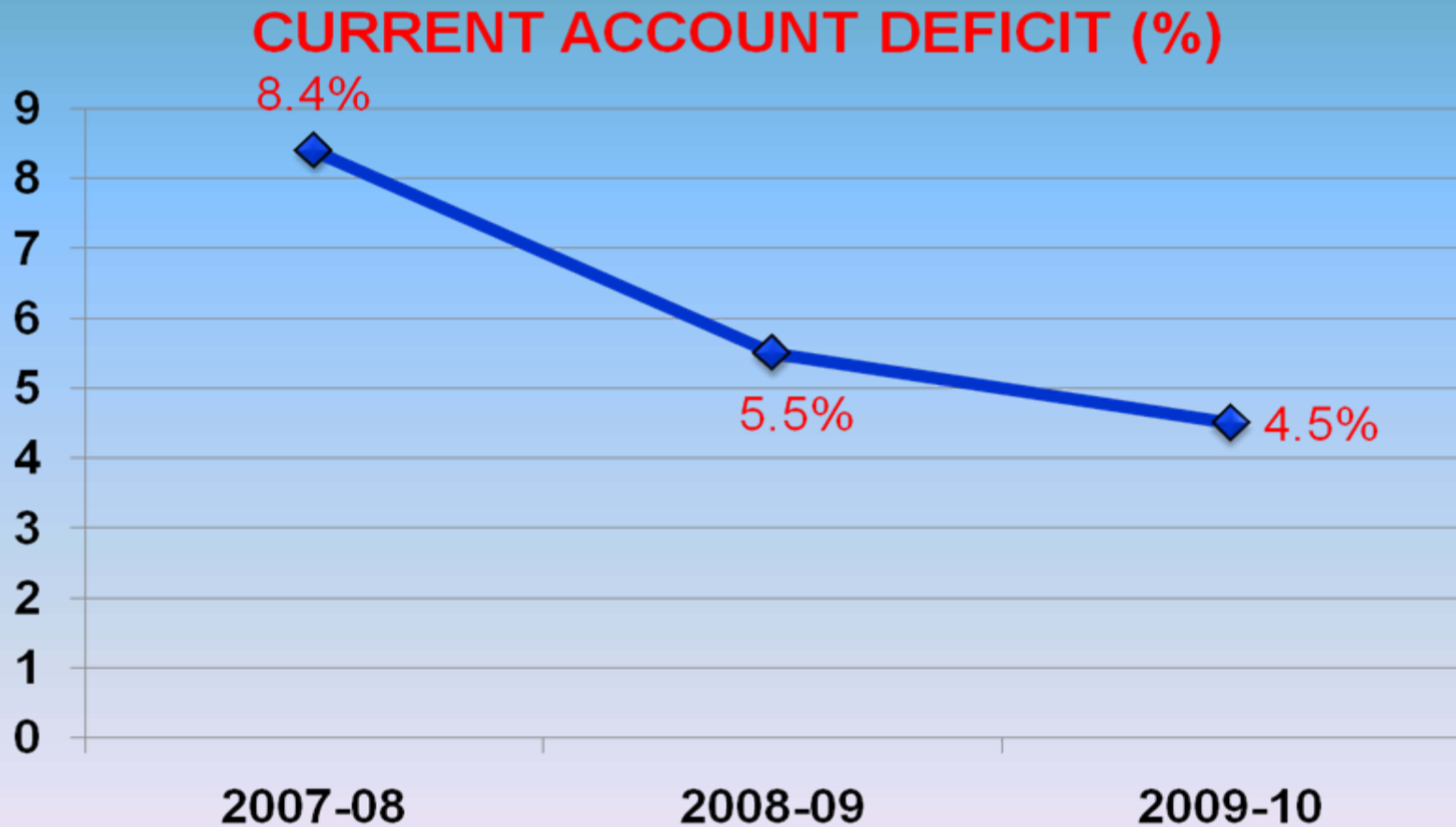
# IMPACT OF STABILIZATION PROGRAM



# IMPACT OF STABILIZATION PROGRAM



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# IMPACT OF STABILIZATION PROGRAM

## INFLATION (%)



# PROJECTED BALANCE OF PAYMENTS

*(following stabilization program)*  
2008-09 AND 2009-10

(US \$ Billion)

	Actual 2007-08	Projected	
		2008-09	2009-10
<b>I. Current Account Balance</b>	<b>-14.0</b>	<b>-9.0</b>	<b>-7.8</b>
<b>Trade Balance</b>	<b>15.3</b>	<b>-10.5</b>	<b>-9.5</b>
Exports	20.1	21.1	23.5
Imports	-35.4*	-31.6	33.0
<b>Invisible Balance</b>	<b>1.3</b>	<b>1.5</b>	<b>1.7</b>
<b>II. Capital Account</b>	<b>7.8</b>	<b>4.5</b>	<b>7.5</b>
FDI	5.2	4.0	5.0
FPI	0.0	-1.5	0.0
Other Investment (Aid, etc.)	2.6	2.0**	2.5
<b>III. Financing Gap</b>	<b>-6.2</b>	<b>-4.5</b>	<b>-0.3</b>
Reserves Depletion	5.8	-	-
Others	0.4	-	-

\*FOB imports, in cif terms imports are close to \$ 40 billion.

\*\*Net IFIs: 1.5 billion; IDB etc: \$ 0.5 billion

# FINANCING NEEDS IN 2008-09

❖ **BALANCE OF PAYMENTS FINANCING GAP OF US\$ 4.5 BILLION**

❖ **US\$ 5 BILLION REQUIRED FOR BUILDING FOREIGN EXCHANGE RESERVE COVER OF 3 MONTHS OF IMPORTS**

**THEREFORE, TOTAL FINANCING NEEDS OF \$ 9.5 BILLION**

❖ **STRONG STABILIZATION PROGRAM WILL IMPROVE PROSPECTS OF SUPPORT FROM INTERNATIONAL COMMUNITY**

# SOCIAL IMPACT OF STABILIZATION PACKAGE

## POVERTY

- ❖ INCREASE BY 2.7% POINTS IN 2008-09;  
NUMBER OF POOR MAY INCREASE BY 5  
MILLION
- ❖ INCREASE BY 2% POINTS IN 2009-10

## EMPLOYMENT

- ❖ 3% GROWTH IN EMPLOYMENT IN 2008-09 AND  
2009-10
- ❖ NUMBER OF UNEMPLOYED MAY INCREASE BY  
1.8 MILLION BY 2009-10

**THEREFORE, NEED FOR STRONG SOCIAL  
PROTECTION STRATEGY**

# PROTECTING THE VULNERABLE

## THE HUMAN FACE OF STABILIZATION

- ❖ INCREASE ALLOCATION FOR INCOME/FOOD SUPPORT PROGRAMS (BISP AND PUNJAB) FROM RS 56 BILLION TO RS 84 BILLION TO ENHANCE COVERAGE FROM 5 MILLION TO 7.5 MILLION HOUSEHOLDS BY CUT ELSEWHERE IN PSDP
- ❖ START EMPLOYMENT INTENSIVE PUBLIC WORKS PROGRAM AND NATIONAL EMPLOYMENT GUARANTEE PROGRAM IN DISTRICTS WITH HIGH POVERTY LEVELS WITH FUNDS AVAILABLE IN THE PEOPLES' WORKS PROGRAM
- ❖ INITIATE PILOT SCHOOL NUTRITIONAL PROGRAM
- ❖ BUILD-UP ON AN URGENT BASIS A NATIONAL SOCIAL POLICY PLATFORM FOR IMPLEMENTING EFFECTIVELY TARGETED SOCIAL PROTECTION MEASURES

# THE REPORT ALSO HIGHLIGHTS MEDIUM TERM MEASURES

**FOR ACHIEVING SUSTAINABLE AND EQUITABLE  
GROWTH INCLUDING:**

- ❖ **PROMOTING INTERNATIONAL COMPETITIVENESS**
- ❖ **ACCELERATING AGRICULTURAL GROWTH WITH  
EQUITY AND EMPLOYMENT**
- ❖ **ADDRESSING SUB-REGIONAL INEQUALITIES**
- ❖ **PROMOTING CROSS-BORDER REGIONAL TRADE**

# MEDIUM-TERM INSTITUTIONAL REFORMS FOR

- ❖ **STRENGTHENING AN INCLUSIVE ECONOMIC STRUCTURE**
- ❖ **INTER-GOVERNMENTAL FISCAL RELATIONS**
- ❖ **EFFECTIVE LOCAL GOVERNMENTS**

**THANK YOU**