

DOCUMENTS (JANUARY – JUNE 2010)

DOCUMENT 1

JOINT PRESS STATEMENT ON PAKISTAN-TURKEY  
SPECIAL RELATIONSHIP

On the occasion of the state visit of H.E. Abdullah Gül, President of the Republic of Turkey. Acknowledging the deep bonds of friendship and goodwill that exist between the peoples and Governments of the Islamic Republic of Pakistan and the Republic of Turkey.

Recognizing that their relationship stems from shared roots in history and heritage; as well as cultural, linguistic, historical and civilisational commonalities.

Recalling the valuable mutual support extended by the peoples and Governments of the Islamic Republic of Pakistan and the Republic of Turkey on national causes and issues of common concern.

Underscoring that this support has been a manifestation of their close friendly relations, and historic affinities, and reaffirming their desire to continue this support.

Appreciating Turkey's special role in promoting peace, security and development in the region, as well as acting as a bridge between the East and the West.

Reiterating their shared desire to build on their geo-economic advantages to advance their genuine special relationship to unprecedented levels.

Recalling the visit by Prime Minister Recep Tayyip Erdogan to Pakistan in October 2009, and the adoption during the visit of the Joint Political Declaration on Intensified Cooperation and Establishment of the High Level Cooperation Council (HLCC).

**The Parties Hereby**

Agree to accord high priority to further enhancement of multi-faceted and broad based cooperation through among other means, increased connectivity, promotion of bilateral trade and investment and further expansion of people to people contacts and exchanges.

**Connectivity, Trade and Finance**

Agree to collaborate closely to upgrade and operationalize road, air and rail connectivity.

Agree to commence periodic cargo train service between the two countries, beginning August 2010.

Express satisfaction in this regard at the ratification and entry into force of the bilateral Road Transport Agreement, which will allow transporters from either country access to territories of Turkey and Pakistan.

Note with satisfaction the growth in bilateral trade, and reaffirm their desire to achieve the target of \$ 2 billion trade volume by the year 2012, through among other means, early finalization of a strategic economic cooperation framework, as well as fast tracked trade facilitation and promotion measures, including early implementation of the Agreement on Abolition of Visas for Businessmen.

The two sides will enter into bilateral preferential trade arrangements, unleashing free market opportunities in both countries.

Agree further to coordinate positions and work closely with a view to ensuring earliest possible implementation of the ECO Trade Agreement, to which both countries are signatories.

Welcome the holding of two Sessions of Pakistan-Turkey CEOs Forum during the current visit of President Abdullah Gül to Pakistan; Agree to utilize the Forum as a special purpose vehicle to encourage win-win partnerships among their respective corporate sectors.

Agree to promote cooperation in the financial sector by, inter alia, encouraging Turkish and Pakistani commercial banks and financial institutions to open branches in the two countries.

Agree also to work jointly for further expansion and consolidation of ECO Trade and Development Bank.

### **Energy, Tourism and Development**

Welcome the signing of the memoranda of understanding in the fields of planning, agriculture and investments; Decide to ensure early implementation of the Agreements, with a view to benefiting fully from each other's experience and expertise in the field of development.

Agree to formulate a Plan of Action on Cooperation in the field of Energy including cooperation in the area of new and renewable energy.

Agree to further strengthen bilateral cooperation in the field of tourism, with particular emphasis on development of Pakistan's tourism sector.

Agree to finalize the Protocol on the Establishment of the Turkish International Cooperation and Development Agency (TIKA) Office in Islamabad at the earliest.

### **Security and Military Cooperation**

Agree to continue to broaden and deepen security cooperation in their campaigns against terrorism and extremism, illicit arms trafficking, as well as counter narcotics and human smuggling.

In line with the existing Military Cooperation Agreements, agree to further intensify ongoing cooperation between Turkey and Pakistan in the area of military training and education, as well as promotion of trade and partnerships in the field of defence production and procurement.

### **Cultural and Educational Cooperation; People to People Exchanges**

The two sides will continue to promote exchanges of cultural delegations and troupes, organization of cultural events, and examine the possibility of establishing cultural centres.

Agree to further enhance educational scholarships.

Agree to encourage and enhance exchanges among parliamentarians, academia, journalists, think tanks and opinion makers in respective countries.

### **International and Regional Forums**

Agree to maintain close contacts and consultations on all issues of mutual interest, and to deepen mutual support at international and regional forums, including the United Nations, OIC and ECO.

Agree to follow up the outcomes of the Trilateral Summit process between Pakistan, Turkey and Afghanistan.

Agree to implement as a matter of priority, various initiatives set out in the Istanbul Statement on Friendship and Cooperation in the Heart of Asia of 26 January 2010, in particular the Minds Platform that would bring together selected members of academia, media, and think-tanks.■

*Ministry of Foreign Affairs, Turkey, April 2, 2010.*  
<http://www.mfa.gov.tr/joint-press-statement-on-pakistan-turkey-special-relationship.en.mfa>

## **DOCUMENT 2**

### **PRESIDENT ASIF ALI ZARDARI'S SPEECH AT THE JOINT SESSION OF PARLIAMENT ISLAMABAD, APRIL 5, 2010**

*Bismillah-ir-Rabman-ir-Rahim*

Madam Speaker!

I submit myself before Allah, in all humility, to address the Parliament at the beginning of its Third Year.

It is a great honor for me, to share with this august House, the achievements of the government and the aspiration of our people.

I wish to thank you for the honor shown to me.

This is indeed a Benazir day, a Benazir moment.

It is a moment enshrined in her philosophy, in her idea for Pakistan.

Indeed, it is a milestone, in the struggle of the people.

There were anxious moments when some people feared that we had failed.

But collectively we were able to resolve differences.

Making History by restoring the 1973 Constitution, and more.

The Eighteenth Constitutional Amendment Bill has already been laid in the Parliament.

I pause to congratulate each one of you.

Because, today belongs to every Pakistani.

I congratulate each and every member of the Parliamentary Committee on Constitutional Reforms, the Parliament and indeed the whole nation, on the laying of this Bill.

I also congratulate all the political parties in the government and the opposition for displaying a true national spirit.

They have all risen above partisan politics, in an unprecedented show of national solidarity.

I wish to thank the Law Minister Dr Babar Awan, and the Ministry of Law, Justice and Parliamentary Affairs, for extending cooperation to the Parliamentary Committee, led by the honorable Raza Rabbani, adviser to the Prime Minister.

I am truly appreciative of the commitment and hard work put in by Mian Raza Rabbani and all members of the Parliamentary Committee on Constitutional Reforms.

Two years ago, standing here I had urged the Parliament, to revisit the 17th Amendment and do away with Article 58 (2) (b).

And last year, repeating the request, I also urged you Madam Speaker, to form an All Parties Committee for this purpose,

History will record, that it was achieved, when the first woman Speaker in the Muslim World, presided over this august House.

Congratulations Madam Speaker.

We have reasons to be proud.

It is the first major Constitutional reform in more than three decades.

Previously there were piecemeal constitutional amendments,

But most of these were brought about to legitimize unelected leaders.

And NOT for the cause of the people.

This indeed is a great achievement of the democratic process.

That has begun to take root.

The amendments will make the Constitution, truly democratic and federal in character, and restore provincial rights and Parliamentary sovereignty.

I need not repeat the salient features of the Constitution.

The Seventeenth Amendment has been repealed subject to amendments and the provinces given autonomy as never before.

We have, therefore, honored our pledge to restore the supremacy of the Parliament.

Finally, the people of Pukhtoonkhwah will get their identity as their province is renamed as Khyber Pukhtoonkhwah.

Madam Speaker!

We are witnessing the power of a democratic government in action.

A democracy, that some people think is fragile.

Fragile it may seem, but IRRESPONSIBLE it is not.

Indeed we could have achieved much more, only if the democratic process had not been repeatedly buried.

And, the Constitution not dismissed with contempt as “a mere 15 page document”

We all know, that the history of our Constitution is a history of subversion.

The repeated suspension of the Constitution by undemocratic forces gravely undermined the Federation.

It led to the tragic neglect of the provinces and disempowered the people.

Sad is the history of our Constitution being abrogated,

But sadder still, that the pillars of the state validated the subversion of the Constitution.

The nation can take pride that it has closed that sorry chapter.

Madam Speaker!

The first Constitution was given to the people in 1973 by the political leaders of the time, led by Shaheed Zulfikar Ali Bhutto and the Pakistan Peoples Party.

It was based on Parliamentary Democracy, Federalism and Islamic principles.

It had the support and backing of all provinces and major political parties.

In a short span of five years, the people of Pakistan made great progress in Freedom, Democracy and Constitutionalism.

- The nation was filled with energy, a sense of purpose and shared destiny.
- The country was buzzing with ideas and enterprise.
- People were given their universal right to a passport, and the economy grew, as money poured in from expatriates.
- The people got jobs and had opportunities in all sectors.
- Fundamental rights were introduced for the first time, and people felt protected.
- The emancipation of women began as they entered the Police Force, Foreign Service and Subordinate Judiciary.
- Azad Jammu and Kashmir got autonomy with its own President, Prime Minister and Judiciary.

- Balochistan got Provincial status, with Provincial Assembly and a High Court.
- The emancipation of the people in the tribal areas and Northern areas began.
- The Simla Accord of 1972 bought the longest peace between India and Pakistan, and brought back the Pakistani prisoners of war, with safety and honor.
- The first PPP government led the historic OIC summit and gave Pakistan its nuclear program.

But, just as people had begun to feel a sense of relevance, on the fateful day of fifth of July 1977, the Constitution was subverted.

The hopes and dreams of a people were shattered,  
A process of national decay set in.

Without learning from history, the Constitution was further distorted by yet another intervention in 1999.

Madam Speaker!

The Pakistan Peoples Party and its allies had promised the nation, that distortions to the 1973 Constitution would be removed.

That the powers of the Parliament would be restored.

I am happy that Allah gave us the opportunity to rise to the expectations of the people.

It shows that given political will, Parliament can deliver.

That if we keep aside our prejudices and egos, we can move mountains.

Strengthening Parliament has been the cornerstone of our political philosophy.

Shaheed Mohtarma Benazir Bhutto refused to weaken democracy by rejecting offers made to her to boycott Parliament, when her Party had only 17 members in the National Assembly.

In line with her philosophy in November last year, I gave up the National Command Authority, and placed it under the Parliament through the Prime Minister,

Although I was neither asked nor required to do so.

We are all answerable to history.

I have said before that I have walked from the gallows to the Presidency. Shaheed Zulfikar Ali Bhutto had declared that he would prefer to die at the hands of dictator rather than at the hands of history.

Shaheed Mohtarma Benazir Bhutto will remain alive in history for standing up to the militants, despite threats and warnings, not only from ordinary people but also from heads of governments.

As the custodian of their legacy I have my eyes on history.

By standing in their shadows today and empowering the Parliament, I hope to walk into the annals of history, Inshallah.

Madam Speaker!

Let us pledge that we will uphold the supremacy of the Constitution.

This requires that each pillar of the state work in its constitutional limits, and does not trample on the domain of others.

For stability and development, each organ of the state must work within the parameters of the Constitution.

We believe in reconciliation, and not confrontation.

I recall that after the martyrdom of Shaheed Mohtarma Benazir Bhutto some had advised confrontation.

We were advised to boycott elections.

And confront dictatorship in the streets.

But we said that democracy was the best revenge.

Today I hope they will admit that our stand has been vindicated to some extent.

In the words of our great leader Shaheed Mohtarma Benazir Bhutto.

I Quote, "We did not come this far, we did not sacrifice this much, to fail. Together we will find a tomorrow better than any of the yesterdays we have ever known"(Unquote)

I want to take this opportunity to say, that the Constitutional Reforms Package is not a favour to anyone.

It is a national duty, our duty to the people of Pakistan.

Let there be no doubt about it.

Madam Speaker!

May I remind you, that from the first day our government inherited:

- An ailing economy compounded by the neglect of power sector, circular debt and global recession,
- Rising militancy and extremism; and
- A crisis of confidence.

Indeed, time and history has placed a great responsibility, on our shoulders.

We cannot abandon our duty. We have to give solutions and move on.

I realize the economic burden on our nation.

We are aware that prices have risen, and incomes are squeezed.

Notwithstanding the boom in rural economy I realize the economic hardships faced by men, women and children.

But I am confident that we will overcome the challenges left to us by the previous regimes.

To stabilize the economy, the government had to take some very difficult decisions, even at the cost of its popularity, which no political government likes to do.

As a result of those difficult decisions we hope to put the economy on road to recovery.

The foreign exchange reserves have increased and the Karachi Stock Exchange has made impressive gains, without any artificial inducements.

Remittances have increased by nearly 25% a year, due to new incentives.

For the first time, remittances in one month, exceeded 800 million dollars, last September.

A new policy of public-private partnership has been adopted.

International credit rating agencies have upgraded Pakistan.

The government has achieved, international financial respectability, despite all the obstacles.

The crisis of confidence has been one of our most serious political challenges.

That is why we apologized to the people of Balochistan, for the excesses done to them in the past.

But we have done much more than tendering apology.

The government has taken a number of significant measures.

After long years, the NFC Award was finalized with consensus.

I congratulate the government for once again making history.

I had the honor of addressing the Parliament twice in one year.

In my second address to Parliament, I had urged the setting up of a Committee on Balochistan.

The Agahaz i Huqooq Balochistan has been announced.

The government has set up a Commission on Missing Persons.

Indeed once again, Madam Speaker, the honor is also shared with you.

Political reforms have been launched, in Gilgit Baltistan.

A woman has been appointed Governor Gilgit-Baltistan in the name of Shaheed Mohtarma Benazir Bhutto.

The Council of Common Interests has been reconstituted.

A lot more needs to be done

It can be done. It will be done.

*Maana Keh Na Zameen Ko Gulzar Kar Sakai Kuch Khaar Kam To Kar Gai Guzrai  
Jidber Sai Hum*

Madam Speaker!

Poverty has chained the creative potential of our people.

The government introduced The Benazir Income Support Program, to break the cycle of poverty.

Digital Smart Cards have been introduced for transparency.

The Smart Cards will entitle the poor families to accident and health insurance, and many other social benefits.

Interest free loan of Rs 300,000 named Waseela-e-Haq, is given to the female head of the family.

This has been done to empower our mothers and sisters.

These are ground breaking steps towards a welfare state.

I am aware that a crippling power shortage has slowed economic and industrial growth.

We inherited a shortfall of thousands of MW, but will not offer any excuses.

We realize the suffering that load shedding causes to our people.

We are painfully aware of the darkness it spreads, how children study by candlelight, and how the wheels of industry often stop.

We will not dwell on the past, as to how the independent power projects launched by Shaheed Mohtarma Benazir Bhutto, were made controversial.

The government is addressing the problem with the help of the private sector, although some have tried to make the Rental Projects controversial.

Construction of the Neelum Power Project in Azad Kashmir has started.

The Basha Dam has been launched.

It will generate 4500 MW of power, and store over 6.5 million acre feet of water.

The Thar Coal Project has been revived.

The government is mindful of the water issue.

For the first time, a Special Assistant to Prime Minister on Water has been appointed.

We have raised the issue with India.

It was the first thing I raised with Indian leadership in my first contact and I have raised it on every occasion we have met.

We will continue to raise it at every international forum, within the terms of the Indus Waters Treaty.

The government is also addressing water issues between the provinces.

The issues will be resolved through available constitutional and legal mechanisms.

Thirty two small and medium dams will be built in the country.

Work on three of the dams has already started.

For the first time, state land in their command areas will be irrigated and distributed free, among the women of that area.

For the first time in over four decades, agriculture is being revolutionized, through hybrid seed, improved technology and high intensity cultivation.

Madam Speaker!

Women and minorities are the most vulnerable groups.

The government enacted legislation against the harassment of women at the workplace.

We will pursue the pledges made by Shaheed Mohtarma Benazir Bhutto at the Beijing Conference, and in the document on CEDAW.

Women have been made beneficiaries, of the Benazir Income Support Program.

The job quota for women has been increased.

Efforts are continuing, to draw the minorities into the mainstream of national life.

The blasphemy law will not be allowed to be misused, against any one for settling personal and political scores.

An Inter-Faith Complex is being planned in Islamabad, and interfaith Harmony Committees are being established at district level.

Steps have also been taken to integrate the special people in the mainstream of national life.

Madam Speaker!

The second parliamentary year witnessed an exceptionally dynamic Parliament. It passed a record number of bills.

The Prime Minister personally attended the Parliament session 96 times. It is a record. Congratulations Mr. Prime Minister.

Laws have been passed, to protect the weak and the vulnerable, and undo the wrongs done by dictators.

The Protection against Harassment of Women at the Workplace, is one such landmark piece of legislation.

It was our obligation to the women of Pakistan, in the name of Shaheed Mohtarma Benazir Bhutto.

I wish to compliment the Parliament on its performance.

The Government believes in transparent accountability of all.

That is across the board, and NOT selective.

Let everyone be judged by the same yardstick.

Let there be no different laws for different people.

I am happy to state that after consultations with the stake holders, reforms in FATA and amendments to the FCR have been finalized.

These reforms will soon be implemented.

The UN Commission of Inquiry in the assassination of Shaheed Mohtarma Benazir Bhutto, will be submitting its report very soon.

We are also mindful of our obligation to carry out a national investigation.

Madam Speaker!

I can assure you that, health and education and population planning will receive far greater attention and resources than ever before.

We need to work collectively to combat hunger and disease.

For Labour also, the PPP manifesto has guided our action.

After restoring the sacked employees, the government also regularized contract employees.

Now a worker can no longer be dismissed from service for no reason, as was the practice in the past.

The workers have been given the right to seek legal remedies against dismissal.

Trade union activities have been restored

The Benazir Employees Stock Option Scheme has been introduced.

It offers 12% stock shares to workers in state run enterprises.

It benefits 5 hundred thousand families.

For the first time, workers have been made part of the national productive process, through ownership.

Madam Speaker!

Militancy and extremism have been the greatest threat to our national security in recent times.

I assure you we will fight militancy to the finish.

Shaheed Mohtarma Benazir Bhutto said, and I quote,

“We are prepared to risk our lives. But we are not prepared to surrender this great nation to militants”. (UNQUOTE)

The nation has risen to her call.

We will make peace with those, willing to give up violence.

But use force against those, who challenge the writ of the state.

The Government will not allow the use of its soil, for terrorist activities against any other country.

We will also not allow anyone to violate our sovereignty.

I assure you that the sovereignty of Pakistan has been protected and solemnly pledge that it will be safeguarded at all costs.

The nation is proud of the sacrifices made by the members of the Armed Forces, Para-military forces, Police and specially the citizens in fighting militancy.

Their sacrifices will not go in vain.

I also commend the Ministry of Interior led by Mr. Rahman Malik for their courage in confronting militancy.

Madam Speaker!

Our brothers and sisters working abroad are a source of great strength.

They need to be recognized and honored.

Last year the Prime Minister had announced, to give the right to vote to the Pakistanis abroad.

The modalities of giving the right to vote will soon be finalized.

It is a matter of great satisfaction that, 87% of the population has been issued computerized national identity cards.

Compared with only 44 % of what we inherited.

It is a great leap forward towards documentation.

In this regard I appreciate the performance of NADRA.

We are committed to upholding the freedom of media.

The government plans to work with all stake holders, to create an atmosphere of self regulation without state interference.

We respect the majesty of the law.

The government has enhanced the pay scales, allowances and perks of members of judiciary.

We hope to provide easy access to justice, for every one.

Madam Speaker!

Pakistan seeks a stable regional environment.

We believe in investing in relationships.

Our relationship with China remains the bedrock of our foreign policy.

Measures have been taken to promote peace and stability in brotherly Afghanistan.

We strongly support an Afghan-led reconciliation and reconstruction process.

We have improved relations with all countries in the region.

For durable peace we consider it essential to normalize relations with India.

We want an honourable and peaceful settlement of all outstanding disputes, including the water issue, and the core issue of Jammu and Kashmir, in accordance with the wishes and aspirations of the Kashmiri people.

We do not want an arms race in the region.

However, a disproportionate increase in military budget by the largest democracy does not help the cause of arms reduction.

We believe that dialogue alone can ensure peace and understanding.

We can fight militancy better, through dialogue and cooperation instead of doubting each other.

We will continue to strengthen cooperation within the SAARC framework.

We greatly value our relations with all Muslim countries, and will continue to strive for enhanced ties with them.

Partnerships with the United States and Europe have strengthened over the past year.

For the first time the Pakistan- EU Summit was held which was addressed by the head of state.

This is in sharp contrast to the isolation we inherited.

The Prime Minister of the United Kingdom wrote to the heads of the European Union requesting them to address urgently our concerns about market access.

I thank Prime Minister Gordon Brown for this.

The strategic dialogue with the United States is aimed at addressing core issues of Pakistan.

I welcome President Obama's new initiatives toward Pakistan.

Our focus has been, and will remain,  
- Trade and NOT Aid,

The international community is increasingly realizing the importance of Pakistan, and our commitment, in fighting militancy and strengthening democracy.

Madam Speaker!

This is not the end of the road.

Our journey has only just begun.

It is with a sense of purpose that I look ahead.

I call upon the Parliament to pass the Eighteenth constitutional amendment Bill without delay.

The people of Pakistan are keenly watching and waiting for this crucial reforms Bill to pass.

This initiative must lead to new beginnings.

As representatives of the people, let us make common cause to address urgent needs of our people.

The benefits of democracy must translate into a tangible dividend that is visible in people's lives.

As we move on, let us also learn from our mistakes.

The year 2010 should be the year of building of national consensus, on holding elections to local bodies.

It should be the year to mobilize the youth, and draw them into the mainstream of national life.

We need to protect them from sliding into militancy.

We will continue efforts for a Marshall Plan for rebuilding Pakistan and the region.

We will invest in modern technology for better governance and mass outreach.

Pakistan faces serious issues of poverty, water shortages and energy deficits as well as tax collection.

We urgently need to create jobs, increase exports and invest in infrastructure.

I am confident that Inshallah by the end of our term the democratic government will deliver on many more promises.

Madam Speaker!

Allow me to recall the words of Shaheed Zulfikar Ali Bhutto which he said in his address to the Nation on April 14, 1972.

He said, and I quote,

“History beckons us, and our people are ready to march forward. Do we, the members of this distinguished Assembly, have the courage and wisdom to lead our people towards their cherished goal, DEMOCRACY?”

“As Quaid-e-Azam Muhammad Ali Jinnah said, democracy is in our blood. It is in our marrow. When the fruit of democracy is within our reach, shall we now fail to grasp it?” Unquote.

Thank You,  
Pakistan Painsdabad.■

<http://webcache.googleusercontent.com/search?q=cache:xh1hy1RGHvIJ:www.pid.gov.pk/Presidentaddressinth%2520jointsessionONAP;RIL5,2010.doc+%&cd=8&hl=en&ct=clnk>

### DOCUMENT 3

#### SAARC SUMMIT ISSUES 37-POINT DECLARATION; MORE COOPERATION FOR DEVELOPMENT URGED

The 16th South Asian Association for Regional Cooperation (SAARC) summit issued a 37 point joint declaration highlighting the importance of more cooperation to resolve the issues of poverty, energy, terrorism, water, promoting development and improving the living standard of the people in the region.

Following is the text of the 37 point declaration issued at 16th SAARC summit which concluded here at Thimphu, the capital of Bhutan where it was hosted for the first time. Thimphu Silver Jubilee Declaration “Towards a Green and Happy South Asia.”

1. The President of the Islamic Republic of Afghanistan, His Excellency Mr. Hamid Karzai; the Prime Minister of the People’s Republic of Bangladesh, Her Excellency Sheikh Hasina; the Prime Minister of the Kingdom of Bhutan, His Excellency Lyonchhen Jigmi Yoeser Thinley; the Prime Minister of the Republic of India, His Excellency Dr. Manmohan Singh; the President of the Republic of Maldives, His Excellency Mr. Mohamed Nasheed; the Prime Minister of Nepal, His Excellency Mr. Madhav Kumar Nepal; the Prime Minister of the Islamic Republic of Pakistan, His Excellency Syed Yusuf Raza Gilani; and the President of the Democratic Socialist Republic of Sri Lanka, His Excellency Mr. Mahinda Rajapaksa, met in Thimphu, Bhutan, on 28-29 April 2010 for the Sixteenth Summit of the South Asian Association for Regional Cooperation (SAARC).
2. The Leaders expressed satisfaction that SAARC had achieved a number of important milestones with the completion of twenty five years of its establishment. The Leaders underscored the relevance and importance of the Association in providing a platform for regional cooperation to accomplish the Charter objectives.
3. In this Silver Jubilee Year of SAARC, the Leaders emphasized the need to develop a ‘Vision Statement’. They agreed to form a ‘South Asia Forum’ for the generation of debate, discussion and the exchange of ideas on South Asia and its future development. The Forum will consist of eminent personalities of diverse background including from all SAARC Member States. The Forum would

provide inputs, based on a comprehensive understanding, for charting out the future course of SAARC in the medium and long run and recommend, if required, the necessary improvements required in the existing mechanisms. Such a forum could function on public-private partnership lines, and allow for multiple inputs beyond governments into the consideration of the future of SAARC.

4. In order to commemorate the 25th anniversary, the Leaders laid emphasis on effective communications and public diplomacy. They drew attention in this regard to the need to reach out to different sections of the South Asian community, particularly its students and youth, private media, private sector, think tanks, civil society, and institutions of economic development.

5. The Leaders agreed that the scope and substance of cooperation had expanded to diverse fields, providing a firm basis for genuine partnership. However, a number of these had not translated into meaningful and tangible benefits to the people. They, therefore, highlighted the need for more efficient, focused, time-bound and people-centric activities and called for appropriate reflection of all the SAARC decisions into the national policies and programmes of Member States. They resolved that the Silver Jubilee Year should be commemorated by making SAARC truly action oriented by fulfilling commitments, implementing declarations and decisions and operationalizing instruments and living up to the hopes and aspirations of one-fifth of humanity.

6. The Leaders, while appreciating that all the Member States had evolved into multi-party democracies, underlined the challenges faced by them in ensuring effective, efficient, transparent and accountable governments. In this regard, they emphasized the need for regional cooperation to strengthen good governance through sharing of experiences, best-practices and establishing institutional linkages. They noted the proposal by Bangladesh to convene an Inter-governmental Meeting in Dhaka on the idea of a SAARC Charter of Democracy on which Bangladesh offered to circulate a Concept Paper.

7. The Leaders recognised the need to draw on the democratic and participatory tradition collectively represented by the Parliamentarians of South Asia for the progress of SAARC. In this context, the Leaders recommended the convening of a "Conclave of SAARC Parliamentarians" in line with the SAARC Charter and directed the SAARC Secretariat to convene a Working Group, comprising nominees of the Member States, to workout the modalities for establishment of such a Conclave.

8. The Leaders emphasized on a greater focus to pursue people-centric development with due emphasis on socio-cultural progress and upholding traditions and values and in that regard, noted the concept of Gross National Happiness (GNH) pursued by Bhutan, inter alia, in ensuring people-centric development, culture, preservation of environment, better governance. They further noted that other Member States might consider Bhutan's experience with

the concept and welcomed Bhutan's offer to host a SAARC Workshop on GNH in 2010.

9. The Leaders emphasized on deepening regional efforts on poverty alleviation, the overarching objective of SAARC. They called for the expeditious mainstreaming of the SAARC Development Goals (SDGs) in the national processes and completion of the Mid-term Review of the SDGs as scheduled. They further noted the useful finding and recommendations made by successive regional studies through the Regional Poverty Profiles (RPPs) and directed the relevant SAARC mechanisms to act on them. In this regard, they welcomed the offer of the Government of Nepal to host the Third Ministerial Meeting on Poverty Alleviation in 2011.

10. The Leaders welcomed Climate Change as the theme for the Summit and reaffirmed their commitment to address this challenge. In this context, they adopted the Thimphu Statement on Climate Change and directed that the recommendations contained therein be implemented in earnest.

11. The Leaders noted that while climate change impacted every country, the SAARC Member States as developing countries were shouldering a major burden, in spite of having contributed least to the problem. They emphasized that global negotiations on climate change should be guided by the principles of equity, and common but differentiated responsibilities and respective capabilities as enshrined in the UN Framework Convention on Climate Change, and should be conducted in an open, transparent and inclusive manner.

12. The Leaders, underscored the need to initiate the process to formulate a common SAARC position for COP16 and thereafter, including on issues such as separate financing for adaptation and mitigation as well as technology transfer. In this regard, they welcomed the offer of Bhutan to host an Inter-governmental Expert Group meeting.

13. The Leaders welcomed the Government of Nepal's initiative to organize a Ministerial Meeting of Mountainous Countries in Kathmandu later this year.

14. In pursuance of the recommendation contained in the SAARC Ministerial Statement on Environment on conservation of aquatic ecosystem, trans-boundary bio-diversity zones, automated network of weather stations and regular and systematic sharing of scientific data, the Leaders called for focus on water management and conservation and development of cooperative projects at regional level in terms of exchange of best practices and knowledge, capacity building and transfer of eco-friendly technology.

15. The Leaders, deeply concerned by the extent of environmental degradation in the region, reiterated the importance of sustainably managing environment and development through adoption of eco-friendly approaches and technologies and that South Asia should become a world leader in low-carbon technology and renewable energies. They welcomed the signing of the SAARC Convention on Cooperation on Environment and called for its early ratification and implementation.

16. The Leaders, concerned by the increasing frequency and intensity of natural disasters, called for effective regional programmes in early warning, preparedness and management including response and rehabilitation while remaining within their respective national laws and procedures. They called for further negotiations and early finalization of the SAARC Agreement on Rapid Response to Natural Disasters.

17. The Leaders noted with satisfaction the ongoing initiatives in promoting gender equality and women's empowerment through regional cooperation. In this regard, the Leaders welcomed the announcement by the Government of Maldives to nominate a Woman Secretary General as the Tenth Secretary General of SAARC.

18. The Leaders appreciated the comprehensive directives of the Colombo Statement on Children of South Asia, specially highlighting the importance of the in-depth assessment of the SAARC Decade of the Rights of the Child (2001-2010) and its follow up. Recognizing the important role young people play in the region, the Leaders directed the development of a SAARC Youth Action Plan, in line with the SAARC Youth Charter, to guide regional cooperation in this area. To achieve this end, the Leaders directed to organize SAARC Youth Summit, involving policy makers and youth leaders from all Member States.

19. The Leaders underlined the important role of the SAARC Development Fund (SDF) for financing regional and sub-regional programmes and projects. They welcomed the ratification of the SDF Charter. The Leaders also welcomed the inauguration and operationalization of the Permanent Secretariat of the SDF including the appointment of its first Chief Executive Officer (CEO). The Leaders also urged the importance of projects being funded through SDF are demand-driven, time-bound and aligned with the developmental priorities of the region. The Leaders also emphasized the need for the Member States to take full advantage of the mechanism of the SDF through expeditious clearance and implementation of the projects and programmes to promote the welfare of the people of the SAARC region, to improve their quality of life and to accelerate economic growth, social progress and poverty alleviation in the region.

20. The Leaders reiterated their commitment to implement SAFTA in letter and spirit. They emphasized the need to realize the full potential, through reduction of the size of the sensitive lists, acceleration of trade facilitation measures, and removal of non-tariff, para-tariff and other barriers. They directed the SAFTA Ministerial Council to work in earnest in these areas in a time-bound manner.

21. The Leaders welcomed the signing of the SAARC Agreement on Trade in Services and expressed that this will open up new vistas of trade cooperation and further deepen the integration of the regional economies. They called for the early ratification of the Agreement. The Leaders also called for the early conclusion of negotiations on the specific schedule of commitments under the Agreement.

22. The Leaders emphasized the need to strengthen the role of private sector in regional initiatives through appropriate mechanisms including through Public-Private Partnership as well as the need for greater intra-SAARC investment promotion efforts.

23. The Leaders underlined the need for taking concrete measures to improve trade facilitation. They directed the relevant SAARC bodies to expedite their work in these areas. They also recognized the importance of development of communication system and transport infrastructure and transit facilities specially for the landlocked countries to promote intra-SAARC trade.

24. The Leaders noted with appreciation that SAARC Commerce Ministers had coordinated SAARC position on WTO Issues and Doha Development Agenda during the Seventh WTO Ministerial Conference and agreed on the SAARC Ministerial Communiqué. They directed the Commerce Ministers to continue the process.

25. The Leaders emphasized the need to strengthen cooperation in education and directed greater interaction among the universities in the region towards undertaking of joint programmes on collaborative research and exchange programmes. They underscored the imperative of recognition of degrees, and where possible facilitation of credit transfers for open and distance education etc. They directed the expeditious finalization of mutual recognition of academic and professional degrees as also harmonization of educational curriculum in South Asia.

26. The Leaders took note of the Reports of the Steering Committee of the South Asian University, and appreciated the progress being made towards establishing the University. They also underscored the importance of establishing regional campuses of the South Asian University. They appreciated the announcement of the CEO of the SAU project office to initialize the first academic session of the University with effect from August 2010. Further they asked the Steering Committee to work towards finalizing the modalities of the University.

27. The Leaders called for collaborative efforts to achieve greater intra-regional connectivity and endorsed the recommendation to declare 2010-2020 as the “Decade of Intra-regional Connectivity in SAARC”. They agreed on the need to expedite negotiations with a view to finalizing the two agreements on Motor Vehicles and Railways.

28. The Leaders, reiterating the centrality of connectivity to further deepen and consolidate regional integration, mandated the Chair to convene an Inter-Governmental Meeting to recommend specific measures to enhance multi-modal connectivity including air, sea and surface transport.

29. Acknowledging the enormity of the challenges related to food insecurity and poverty, the Leaders directed the SAARC Agriculture Ministers to vigorously pursue regional cooperation in agriculture covering all sub-sectors to enhance overall agricultural productivity. They called for regional efforts on increased

sharing of best practices, technologies, techniques, and materials. Given the importance of quality seeds in enhancing productivity, they further directed early consideration of the concept of a regional seed bank, regional testing and certification of seeds, and a framework for transfer of plant genetic material and seeds. They agreed that South Asian agriculture must benefit from collaborative efforts from within and among SAARC countries by undertaking specific initiatives and projects.

30. The Leaders underscored the need for promotion of tourism to enhance greater people-to-people contacts in the region and called for the creation of tourism-friendly environment. They welcomed the offer of the Government of Nepal to host the Third SAARC Ministerial Meeting on Tourism in Kathmandu in 2011 which coincides with the Nepal Tourism Year 2011.

31. The Leaders recognized the need to enhance cooperation in the energy sector to facilitate energy trade, development of efficient conventional and renewable energy sources including hydropower. They emphasized the need to undertake studies to develop regional energy projects, promote regional power trade, efficiency, conservation and development of labeling and standardization of appliances, and sharing of knowledge and technologies.

32. The Leaders agreed that an Action Plan on Energy conservation would be prepared by the SAARC Energy Centre (SEC), Islamabad with inputs from the Member States and submit to the inter-governmental mechanism for consideration. They called for the creation of a web portal on Energy Conservation for exchange of information and sharing of best practices among SAARC Member States.

33. The Leaders noted the proposal from India for preparing a Roadmap for developing a SAARC Market for Electricity (SAME) on a regional basis, as SAARC is considering electricity trading, supported by enabling markets in the Member States.

34. The Leaders strongly condemned terrorism in all its forms and manifestations and expressed deep concern over the threat which terrorism continues to pose to peace, security and economic stability of the South Asian region. They reiterated their firm resolve to root out terrorism and recalled the Ministerial Declaration on Cooperation in Combating Terrorism adopted by the Thirty-first Session of the Council of Ministers in Colombo. They emphasized that the linkages between the terrorism, illegal trafficking in drugs and psychotropic substance, illegal trafficking of persons and firearms all continue to remain a matter of serious concern and reiterated their commitment to address these problems in a comprehensive manner. The Leaders emphasized the need to strengthen regional cooperation to fight terrorism and transnational organized crimes. They reaffirmed their commitment to implement the SAARC Regional Convention on Suppression of Terrorism and its Additional Protocol and SAARC Convention on Narcotic Drugs and Psychotropic Substances. They re-emphasized the importance of coordinated and concerted response to combat

terrorism. The Leaders also recognized in this regard the value of the proposed UN Comprehensive Convention on International Terrorism and noted the progress made during the recent rounds of negotiations and called for an early conclusion of the Convention.

35. The Leaders welcomed the hosting of the Third Meeting of SAARC Home/Interior Ministers and related Meetings in Islamabad to review the implementation of relevant SAARC Conventions. They underscored the importance of the SAARC Convention on Mutual Assistance in Criminal Matters and called for its ratification.

36. The Leaders welcomed the Observers from Australia, the People's Republic of China, the Islamic Republic of Iran, Japan, the Republic of Korea, Mauritius, the Union of Myanmar, the United States of America and the European Union and appreciated their participation in the Summit. They acknowledged that Australia and Myanmar were attending the Summit for the first time. They appreciated the interest shown by the Observers to work with SAARC.

37. The Leaders welcomed the offer of the Government of Maldives to host the Seventeenth Summit of the Heads of State or Government of the South Asian Association for Regional Cooperation (SAARC) in 2011. ■

*Pakistan Times* (Islamabad), April 29, 2010.  
<http://pakistanimes.net/pt/detail.php?newsId=10733>

## DOCUMENT 4

### EXECUTIVE SUMMARY OF ECONOMIC SURVEY 2009-10

#### Executive Summary

A measure of macroeconomic stability achieved over the past two years has kindled a moderate recovery in the economy, despite one of the most serious economic crises in the country's recent history. The economy grew by a provisional 4.1% in the outgoing year, after a modest growth of 1.2% in 2008-09. However, the recovery is still fragile and the stabilization needs to be consolidated so that the gains over the past two difficult years are not lost.

First, the durability of the economic turnaround is far from assured given the significant challenges the economy faces. Second, not all sectors of the economy or regions of the country appear to have participated so far in the modest upturn. Finally, in order to meet the employment aspirations of the large number of entrants to the labour force, a higher sustained growth rate will need to be achieved in the medium-term.

A combination of limited fiscal space and rising spending, debt, and inflationary pressures, significantly reduce the government's ability to spend in order to stimulate the economy. Under the circumstances, the prudent course for

policy in the near term remains the pursuit of greater fiscal consolidation through domestic resource mobilization, in conjunction with reducing the size of government, and improving the efficiency of public sector spending.

The macroeconomic context remains difficult in the near term with continuing challenges. The global economy remains in turmoil, with uncertain prospects for demand for Pakistan's exports. In addition, the energy and water shortage, and the internal security situation, could constrain growth in 2010-11. However, the economy could benefit from large initial productivity gains as capacity utilization begins to increase from a low base. For the longer term, however, without a resolution of Pakistan's perennial structural challenges, such as raising the level of domestic resource mobilization or promoting higher productivity in the economy, growth and investment will continue to be constrained, and the growth prospects volatile.

## Growth

Despite severe challenges, the economy has shown resilience in the outgoing year. Growth in Gross Domestic Product (GDP) for 2009/10, on an inflation-adjusted basis, has been recorded at a provisional 4.1%.

This compares with GDP growth of 1.2% (revised) in the previous year.

For the outgoing year, the Agriculture sector grew an estimated 2%, against a target of 3.8%, and previous year's growth rate of 4%. While the Crops sub-sector declined 0.4% over the previous year, Livestock posted a healthy rise of 4.1%. Industrial output expanded by 4.9%, with Large Scale Manufacturing (LSM) posting a 4.4% rate of growth. The Services sector grew 4.6%, as compared to 1.6% in 2008-09.

Overall, the Commodity Producing Sectors are estimated to have expanded at a 3.6% pace, which represents a significant turnaround from the anaemic growth rates of the previous two fiscal years.

The stronger pace of economic growth in 2009-10 has occurred on the back of several favourable developments, which have included:

- Substantial transfers to the rural sector over the past two years via the government's crop support price policies, which, combined with higher worker remittances, have sustained aggregate demand in the economy;
- A larger-than-expected cotton output, which offset the moderately negative impact on the wheat crop caused by a delay in seasonal rains;
- An ongoing improvement in external demand for Pakistan's exports, mainly textiles;
- The revision of previous year's growth rate, a downward adjustment from a provisional 2% to a revised 1.2%, has also provided support to

the headline growth rate for the current year, with the impact estimated at over one percentage point.

The more positive outturn for economic growth in the current fiscal year comes in spite of costs the economy has had to bear in the last two years on account of the internal security situation, combined with the severe energy shortfall. The latter is estimated to have reduced overall GDP growth by approximately 2.0% in 2009-10. Despite the security situation, overall military spending as a proportion of budget outlays has declined. Another focus has been the rehabilitation of Internally Displaced Persons (IDPs) and reconstruction of affected areas. It is pertinent to note that during 2009, Pakistan had one of the largest IDPs population in the world, with an estimated over 3 million people displaced from their homes in Swat, Bajaur, Malakand division, and South Waziristan agency (SWA).

The timely availability of water for agriculture was also significantly lower this year, continuing a secular trend of decline over the past several years. Water availability has now become one of Pakistan's top inter-generational policy and development concerns.

A shortfall in the inflow of external assistance, including from the Friends of Pakistan consortium, combined with delays in the release of refunds from the Coalition Support Fund, led to heavy borrowing by the government in domestic credit markets, leading to valid fears of crowding out of credit to the private sector.

Signs of a turnaround in segments of the economy notwithstanding, there are continuing areas of concern and reasons for caution. The recovery in economic growth is fragile, and will remain so till the weaknesses in the macroeconomic framework are forcefully addressed. In order to effectively provide sustainable employment opportunities for the young entrants to the labour force, a higher growth will be needed. In fact, according to the latest Labour Force Survey (for 2008-09), the unemployment rate has increased to 5.5% (from 5.2%), largely due to the increase in urban unemployment to 7.1% (from 6.3%).

Furthermore, the observed trend of improvement in the headline growth rate is likely to have been restricted to the more formal, and hence larger-scale, part of the economy, given its relatively greater insulation from energy shortages. The small and microenterprise sectors, which employ the bulk of the non-agricultural labour force, and are less well captured in the national accounts data, are much less insulated, and therefore significantly more vulnerable to shocks such as wide spread disruptions to energy supply.

It is important to address the structural constraints to long run sustainable growth. This will also provide greater visibility to markets and investors with regard to Pakistan's economic prospects in the medium to longer term, and will be a key catalyst for higher private capital inflows and investment.

Given the long standing constraints under which macroeconomic policy is operating, with high inflation, low domestic resource mobilization, and rising debt servicing pressure, it is clear that Pakistan cannot afford an expansionary policy stance at this stage. A policy stimulus, without the requisite reserves or fiscal space, will only worsen macroeconomic imbalances. On the other hand, greater fiscal consolidation can have longer lasting and more far-reaching effects on growth, by reducing the crowding out of the private sector through public sector borrowing leading to lower interest rates.

### **Investment**

At current market prices, Gross Fixed Capital Formation (GFCF) has been estimated to have declined 0.6%, after recording a 5.5% increase in 2008-09. A decline in fixed investment by the private sector has accounted for the overall change, with an estimated contraction of 3.5% for the year. The bulk of the decline has occurred in Electricity & Gas, Large Scale Manufacturing, Transport & Communication, and Finance & Insurance.

Clearly, this development is not salutary for the long run prospects of the economy. However, given the challenging circumstances in which the economy had to operate during 2009-10, it is not surprising that the private investment response has remained subdued. A substantial decline in Foreign Direct Investment (FDI) inflows for the period also contributed to the decline in fixed investment in 2009-10. FDI accounts for a high share of gross fixed investment in Pakistan, with a share of close to 20 percent.

The decline in FDI inflows was in line with the steep drop in global flows of Foreign Direct Investment (FDI), which fell 32 percent in 2009 according to estimates of the International Institute of Finance (IIF). For the period July to April 2009-10, FDI totalled US\$ 1.8 billion as compared to US\$ 3.2 billion in the same period of FY09. This represents a decline of 45 percent.

A large part of the decline in FDI for the period was recorded under Telecommunications (a net decline of US\$ 607 million), and Financial Services (a fall of US\$ 548 million). Combined, the decline in these two sectors, which related to a few “lumpy” transactions last year, amounted to 81 percent of the overall reduction in FDI in 2009-10. Investment levels in some sectors remained healthy, including in Oil and Gas exploration (FDI of US\$ 605 million), Communications (US\$ 222 million), Transport (US\$ 104 million), Construction (US\$ 86 million), and Paper and Pulp (US\$ 81 million). Despite a steep decline, inflow of FDI into Financial Services was recorded at US\$ 133 million for the period.

A worrying development was the large net disinvestment recorded under the IT Services sector for the year (amounting to US\$ 95 million). Overall, out of the major industry categories, 12 recorded higher FDI for the period, while 24 industries witnessed a net reduction in FDI inflow.

## Stabilization

Pakistan has achieved impressive initial gains in restoring macroeconomic stability in the aftermath of the balance of payments crisis of 2008. As a result of determined policy effort:

- The fiscal deficit was reduced to 5.2 percent of GDP in 2008/09, from 7.6 percent of GDP in 2007/08, a fiscal adjustment of 2.4 percent of GDP. For 2009/10, the fiscal deficit is aimed to be kept in check at 5.1 percent of GDP, despite the absorption of unprecedented security-related spending.
- The external current account deficit was contained to 5.6 percent of GDP (US\$ 9.3 billion) in 2008/09, from a high of 8.3 percent of GDP in 2007/08 (US\$ 13.9 billion). The current account deficit is expected to decline to under 3 percent of GDP in the current year;
- Foreign exchange reserves have been rebuilt to nearly US\$ 15 billion, from their low of under US\$ 6 billion in October 2008, though much of the accumulation is due to releases from the IMF;
- Inflation declined from 25% in October 2008, to a recent low of 8.9% in October 2009, though it has accelerated sharply of recent and is showing persistence;
- International credit rating agencies upgraded Pakistan (from CCC+ to B- by S&P, while Moody's revised its outlook to Stable [August 2009]);

However, challenges in consolidating these early gains have emerged, with inflation in the economy reappearing, and fiscal pressures increasing.

## Inflation

After a period of containment, inflationary pressure has intensified since October last year on account of a number of adverse developments, including the washing out of the base effect from the previous year and a sharp spike in global commodity prices that has persisted since 2008 and which is exerting strong upward pressure on domestic prices. To some extent, this also reflects the excessive public sector borrowing, as well as adjustments in public utility prices, generated by losses in the public sector enterprises, especially electricity.

As a result, after easing to a recent low of 8.9% in October 2009, overall CPI inflation accelerated to 13.3% year-on-year in April, with food inflation at 14.5% and non-food inflation at 12.2%. Core inflation, as measured by the rate of increase in prices of non-food, non-energy components of the CPI basket, registered an increase of 10.6% year-on-year. On a period-average basis, overall inflation was recorded at 11.5% for July to April. The State Bank of Pakistan expects the average CPI inflation for the current fiscal year to remain close to 12%.

The refuelling of inflationary pressure is evident in all price indices, with the Wholesale Price Index (WPI) rising steeply, from 0.3% in August 2009 to 22% in April 2010. Similarly, the Sensitive Price Index (SPI) has recorded a 16.7% year-on-year increase for April, versus 6.7% in October 2009.

The resurgence of inflation is not restricted to Pakistan and is both a global as well as a regional phenomenon, though with varying orders of magnitude. Global food inflation, as proxied by the UN's Food and Agricultural Organisation's FAO Food Prices Index, had risen to 20 percent year-on-year in January 2010, before declining to 13 percent in April, while India's food price inflation rose over 19 percent year-on-year in December 2009, before settling at 17 percent in March. By comparison, year on- year CPI food inflation in Pakistan was recorded at 14.5 percent in April.

In terms of mitigation strategies, policy options have been limited for much of the current fiscal year in the backdrop of high - and rising - international commodity prices. Imports under these conditions are not likely to dampen domestic prices, except to the extent of excess pressure caused by domestic shortfalls, if any.

Improved availability through better administrative measures against hoarding is likely to have some effect at the margin. This will have a greater effect, however, if employed in conjunction with close vigilance of use of bank credit for commodity purchases by the private sector. The revival of the price magistracy system can also be an effective "localized" tool in the fight against price inflation in essential food items.

In the longer run, improvements in agricultural productivity hold the key to mitigation of food price inflation. So far, governments have followed an extensive farming policy, using the crop support price as an intervention tool. However, there are clear limitations to this strategy, including the diminishing responsiveness of output to price incentives, the impact on the general price level, and the implication for recourse to budgetary resources, especially in the case of wheat. A shift to more intensive agriculture is the need of the hour, with returns to farmers linked to better yields (volume-based) rather than to a price-based mechanism of support.

A further critical element in the containment of price pressure in the economy will be continuation of prudent macroeconomic policies, including monetary policy, which is essential to prevent a spill-over from food and energy components of the CPI to the broader household consumption basket - which to some extent is inevitable under the circumstances. Demand management is still an essential component of the overall policy mix to prevent an entrenchment of inflationary expectations. Segments of society vulnerable to the effects of policy-induced price adjustments will require wider - but better targeted - coverage of social safety nets.

## Poverty & Income Inequality

In the absence of an official recent poverty survey, it is unclear what the distributional effects of developments in the global as well as domestic economic landscape over the past two years have been. The reduction in inflation from 25 percent to single digits represents the most significant benefit of the stabilization as far as the poor are concerned. Yet greater unemployment and the fairly steep adjustment in administered prices of food and energy, has, in all likelihood, adversely impacted vulnerable segments of the population, especially those on low and fixed incomes, and in the urban areas.

On the other hand, a substantial rise in inflows of worker remittances, partly in response to a government policy initiative, combined with unprecedented transfers in 2008 and 2009 to the rural economy under the government's crop procurement program, are likely to have provided significant support to large segments of the population. Cash transfers under the Benazir Income Support Program (BISP), amounting to an estimated Rs. 35 billion in 2009-10, are very likely to have been an additional source of support to those in need.

Hence, on the whole, a more careful examination of the distributional impact of recent developments is required, in order to design better-targeted policy responses.

## Public Finances

Pakistan's public finances have come under increasing strain over the past two years due, in large part, to substantial outlays on electricity subsidies. Despite a sharp upward adjustment over the past two years, amounting to over 60% for some consumer categories, electricity tariffs have still not reached cost-recovery for the public sector utilities. In large part, this is due to two adverse developments in operation for much of the last over one year. First, lower rainfall reduced power generation from the dams. Second, the adverse shift in the energy generation mix towards fuel oil, has been accompanied by a near-doubling of international oil prices between January 2009 and April 2010.

The continued haemorrhaging of fiscal resources by the power sector is also partly a result of unchanged end-user tariffs between 2003 and 2007.

Lower than budgeted external assistance pledges also compounded difficulties in fiscal management during 2009-10. It led to sharp cutbacks in outlays for the public sector development program, which had been pitched at an unrealistically high level.

The heavy recourse by the government to borrowing from the domestic banking system led to fears of crowding out of the private sector. However this was obviated by weak credit demand from the private sector, as well as improved liquidity in the banking system. Nonetheless, there was an unintended consequence: interest rates moved upward as a result.

After a sluggish start, however, and despite a difficult economic situation, tax collection has risen nearly 14% for July to April 2009-2010, as compared to the corresponding period of 2008-09. As a percent of GDP, however, tax collection remains low.

All told, the developments outlined above are likely to result in a moderate over-shoot of the budgeted target for the overall fiscal deficit. Against a budgeted 4.9% of GDP, the revised outturn in 2009-10 is projected to be 5.1%.

During the outgoing year, the basis was laid for two fundamental, potentially “game-changing”, developments in public finances. First, the Seventh National Finance Commission (NFC) Award was successfully concluded after a lapse of 19 years, with a fundamental shift in the basis for determining the vertical (from Centre to Provinces), as well as horizontal (between Provinces) distribution. Effective from July 1, 2010, the 7th NFC Award will more than double the quantum of annual resource transfer to the Provinces. With the devolution of expenditures to the Provinces under the 18th Constitutional Amendment set to become effective from 2011-12, the interim period is likely to cause a degree of strain on federal finances.

Second, in a major policy effort to broaden the tax base, legislation was laid before the national as well as provincial assemblies to introduce an integrated, broad-based and modernized system of the GST (leading to a Value Added Tax (VAT)) as originally intended in 1990. Key elements include concerns about the lacunae introduced in the legal framework over time. This requires needed amendments to the law at both national and provincial levels. In addition, modernization of the tax administration to ensure arms length dealing with taxpayers, with verifiable and timely refunds, and addressing concerns with rent seeking and governance in the FBR. It is estimated that the move to VAT could yield up to 3 percent of GDP in additional revenue over a period of three to five years, although the estimates for the coming year by leading tax experts are appropriately modest at around 0.7 percent of GDP.

Looking ahead, easing the budget constraint assumes even greater urgency. Addressing two decades of under-investment in critical sectors of the economy - social sector, water reservoirs, physical infrastructure, including the increasing need for maintenance of existing capital stock - cannot be postponed for much longer and will require vast resources. Catering to a rapidly rising population, in conjunction with the need to put in place targeted social safety nets, will further add to the resource requirements.

Meeting the expected expenditure requirements in the medium term will require redressing the fundamental weaknesses in the structure of public finances. These perennial weak links have remained unaddressed in the past, and include a low, and declining, ratio of tax collection to GDP; weak incentives for improvements in provincial finances, which could possibly have been weakened further by the new NFC award; and, leakages in public sector expenditure.

## Economic Reform

Cognizant of the limitations of the growth strategy followed in the past, which has inevitably produced boom-bust cycles followed by a balance of payments crisis, the government has embarked on a fundamental change of the development paradigm.

The new development strategy seeks to foster sustainable and more equitable growth by means of structural improvements in the productive sectors of Pakistan's economy, involving a broad range of policy actions across sectors. The current status of some of the important reforms is as under:

- Raising the Tax-to-GDP ratio is a key pillar of the government's economic strategy. To this effect, a proposed law to implement a broad-based Value Added Tax (VAT) with minimal exemptions from July 1, 2010 has been presented to Parliament.
- In addition, other measures such as improving tax administration and reinstating tax audits have been taken. The cumulative effect of these policy measures is expected to be an increase of Pakistan's Tax-to-GDP ratio to 13 percent by 2013 (from 8.9 percent in 2008-09).
- Under Social Protection, the government has launched the Benazir Income Support Program (BISP). An allocation of Rs 70 billion has been made in the Federal Budget 2009-10, with the aim of targeting 5.5 million poor and vulnerable Households in Pakistan with a cash transfer of Rs 1,000 per month to each. The size of BISP makes it the largest social protection scheme in the country's history, and it works in conjunction with other safety nets such as Bait-ul-Maal, Zakat Fund, and provincial programmes such as the Sasti Roti scheme.
- A Cabinet Committee on Restructuring (CCoR) has been formed to restructure key Public Sector Enterprises (PIA, PEPCO, Railways, TCP, USC, Pakistan Steel Mills, NHA) with a view to stop leakages caused by annual losses amounting to approximately 1.5% of GDP. The eventual aim is to turnaround these PSEs into profitable, self-sustaining ventures under Public-Private Partnership mode.
- Under reform of the power sector, electricity tariffs have been raised between 40-55% in less than two years, in an effort to reduce the level of subsidies absorbed in the budget, while simultaneously moving to a full cost-recovery tariff for the power utilities. Under a new Act of parliament, adjustment in tariff for changes in fuel prices for power generation has been made automatic.
- The government successfully concluded the Seventh National Finance Commission (NFC) Award - only the fourth in Pakistan's

entire history, and the first for the last 19 years. This Award greatly augments the quantum of resource transfer from the Centre to the Provinces.

In conjunction with the higher resource transfer to the provinces, the Centre will also devolve some major functions/expenditure heads to the sub-national governments in line with the provisions of the 1973 Constitution.

### **External Account**

Amid still-difficult global economic conditions, large costs to exports imposed by the war on terror, and a severe energy crisis faced by Pakistan's economy, the external sector witnessed an overall improvement during 2009-10. This recovery was mainly contributed by a sharp narrowing of the current account deficit which more than offset the declining financial account surplus during the period. In addition, macroeconomic stabilization measures taken by the government also significantly contributed to overall improvement in the external sector of Pakistan.

The external current account deficit is expected to contract to around 2.8 percent of GDP in the outgoing year. This large improvement is mainly on the back of a steep decline in imports for much of the year, improving exports as world demand is gradually restored, and a continued increase in worker remittances, which are expected to reach 4.8 percent of GDP for the full fiscal year. Worker remittances have increased from US\$ 6.4 billion in July-April 2008-09 to US\$ 7.3 billion in ten months of the current fiscal year (July-April). A large part of the recent increase in remittances, which appears to be secular in nature, has emanated from a policy initiative of the government in early 2009 called the Pakistan Remittance Initiative (PRI). With the potential for formalising the remittances market estimated between US\$ 16 billion (World Bank) and US\$ 21 billion (PRI) annually, further success on this front can have far-reaching positive effects on stability of Pakistan's balance of payments in the years ahead.

An added factor that is likely to extend support to the external account in the months ahead, and possibly for much of 2010-11, is the collapse in global commodity prices induced by the Eurozone-wide contagion from the ongoing Greek debt crisis. Since the start of the difficulties in Greece earlier in 2010, international oil prices have fallen by over 11 percent. However, developments on this front could potentially also impact remittances and exports, especially if the fall out is not contained, and spreads to other regions. On balance, it appears for now that, in immediate terms at least, the deflation in import payments will outweigh the other factors. If so, this could insulate the external account from pressure in the near term.

## Public Debt

Pakistan's total public debt stood at an estimated Rs. 8,160 billion as of end-March 2010. At this level, public debt is equivalent to 56% of GDP, and 379% of total budgeted revenue for the year. Of the total, Rupee-denominated debt amounted to 31% of GDP, while foreign currency-denominated debt was the equivalent of 25% of GDP.

The bulk of the increase in public debt in the first nine months of 2009-10 has been recorded under higher-cost domestic debt, with the government forced to borrow from the onshore credit markets in the absence of meaningful flows of external assistance, barring disbursements under the IMF loan. Domestic debt rose 22% in annualized terms during July to March. Another source of increase has been the depreciation of the Rupee against the US dollar between July 2009 and March 2010, amounting to 4.4%. The weaker Rupee added 17% to public debt in the first nine months of the year.

Public debt has risen rapidly since 2005-06. While the relative debt burden, measured either as a percent of GDP or of total revenue, does not depict a significant deterioration in the debt dynamic, the net annual addition to the debt stock has been fairly rapid over the past 4 years.

The primary sources of accumulation in the public debt stock since 2005-06 have been:

- Currency translation losses on foreign exchange-denominated debt. For 2007-08 and 2008-09, the cumulative depreciation of over 25% of the Rupee against the US Dollar is estimated to have increased the public debt stock by approximately Rs. 235 billion, or a total of 11% increase on this count alone over the past two years.
- Non-recognition of large subsidy payments to the oil and power sector from prior years that were absorbed in the budget in 2007-08 and 2008-09;
- A sharp reduction in non-debt creating inflows, such as FDI, in the wake of the global financial crisis;
- The augmented access to IMF resources provided to Pakistan in the form of the Stand By Arrangement (SBA) signed in November 2008, amounting to a total of US\$ 11.3 billion, of which approximately US\$ 7.3 billion has been disbursed;
- Overall, a lower inflow of external assistance, which forced the government to higher-cost domestic borrowing;
- Lumpy repayment of maturing Defence Savings Certificates (DSCs) since 2007, that had not been budgeted for;
- The inability of the government to take advantage of the historically low interest rate environment in the 2003 to 2007 period, by locking into longer tenure debt such as the five- and ten-year Pakistan Investment Bonds (PIBs).

In terms of servicing of the public debt, interest payments were budgeted at 4.4% of GDP for 2009-10, while total debt servicing including repayment of foreign loans and credits, was budgeted at 5.8% of GDP. Budget estimates of interest and principal repayment of foreign loans and credits during 2009-10 amounted to nearly 40% of total revenue, and approximately 30% of expenditure.

It is important to note, however, that the figure for public debt does not include publicly-guaranteed debt, such as borrowing by state-owned enterprises for commodity operations against an explicit government guarantee. In addition, in line with international convention and past practice, only that portion of the IMF loan that has been used for deficit financing by the government is recorded under public debt, while the remainder is shown under “monetary authorities” (i.e. the central bank).

In the context of a rising stock of public debt, it is important to make the nexus between, on the one hand, the weak tax effort that has characterised Pakistan’s policy landscape for the last several decades, and on the other, the reversal of the favourable debt dynamic that had been set in motion earlier. If Pakistan’s tax-to-GDP ratio had been a modest 13% since 2005, when economic conditions were extremely favourable for a breakthrough in broadening the tax base, instead of around 10%, the public debt would have been around 44% of GDP currently, or a full 12% of GDP lower. The lower public debt stock would have translated into savings in interest payments since FY05, which would have represented a substantial expansion of the resource envelope the government is currently working with.

## Outlook for the Economy

The medium term prospects for the economy are promising, provided the current path of reform is not abandoned. Pakistan has achieved fairly impressive early success in its efforts to stabilize the economy from a parlous state of affairs in the aftermath of the macroeconomic crisis of 2008. Protecting the recovery is of paramount importance, and the government needs to keep a restrictive stance on public spending. Greater realism about the prospects and accurate forecasts about resources and available funds for the development plans at each level of government is needed.

A number of interlinked actions are needed in the coming year:

- Checking inflation-this involves limiting borrowing by the government and the public sector.
- Bringing people to the centre stage, by appropriately designed employment and training programs to protect those in strife-affected areas, and new entrants to the labour force.
- But there are major risks to the growth and stabilization prospects if there is

- Non-implementation of the reform of the GST, leading to a VAT, or other significant tax broadening measures;
- This might affect the phased nature of fiscal devolution envisaged under the Eighteenth Constitutional amendment (to be effective from 2011-12), in the context of the frontloaded transfers to the provinces under the Seventh NFC Award (effective from July 1, 2010);
- Larger-than-budgeted security related expenditures;
- Inadequate targeting of subsidies;
- Failing to reform public sector enterprises, including the power sector, with no resolution of the energy circular debt issue;
- Continued overhang of commodity financing debt stock, if unchecked, threatens to constrict access to bank credit by the private sector, while simultaneously increasing the interest rates in the economy;
- A deterioration of the internal security situation.

The tipping of the world economy into a severe recession in the wake of the Euro-zone debt crisis, could hurt Pakistan's exports as well as remittances on the one hand, but could reduce international prices of key commodities such as oil, on the other.

With relatively low levels of capacity utilization in the economy, a turnaround in investor confidence can unleash large productivity gains even with low levels of fixed investment. Nonetheless, overall, a combination of rising fiscal pressures, a developing debt overhang, and an uncertain path of inflation in the near term, significantly reduces policy space to stimulate the economy.

For the longer term, efforts to meaningfully address Pakistan's perennial structural challenges, such as the abysmally low tax/GDP ratio and low overall productivity in the economy, are more than likely to unlock Pakistan's substantial economic potential. ■

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<http://www.thenews.com.pk/print1.asp?id=243143>

## DOCUMENT 5

### TEXT OF BUDGET SPEECH 2010-11

Madam Speaker!

1. Let me start by thanking Allah for granting me the privilege and the responsibility for presenting the Federal Budget, for the fiscal year 2010-11, the third budget of this Government. I also want to start by recognizing the historic role of this House. This House is democratically elected. It has met high

standards of parliamentary discourse and has passed landmark legislation. Above all, this House has resorted the 1973 Constitution to its original purity. For this I want to congratulate you Madam Speaker, the Leader of the House, Prime Minister Yusuf Raza Gilani, the Leader of the Opposition, Chaudhry Nisar Ali Khan and all the members. It is only appropriate that the Constitution has been restored by a coalition led by the party of Shaheed Zulfikar Ali Bhutto, the architect of the 1973 Constitution who brought the leadership of the entire federation to come together in one of the shining moments of our history. I may also congratulate President Asif Ali Zardari for his leadership in making the passage of the 18th amendment possible. Let us also celebrate that Pakistan has again found collective solutions on key outstanding issues like 7th NFC Award, the granting of provincial rights and the abolition of the concurrent list.

2. It is my intention to introduce in this budget a fresh approach to economic management that will complement these momentous political reforms with responsible economic and fiscal management. The people clearly want a government that is capable of taking hard decisions and leading them to a bright future.

3. These are extraordinary times. Over the last two years the world has gone through the worst recession since the 2nd World War. The global economy has contracted following the sub-prime crises in the USA. We have seen iconic names crash to the ground. AIG and Citi Group lost most of their capitalization; Lehman Brothers and other well known names vanished. This global storm ravaged many countries and continues to do so. No region of the world has been unaffected. Unemployment in the USA touched a 25 years high above 10%. Currently, the downturn is severely affecting some European countries like Greece, Spain and Portugal which were thought to be more stable and are part of the EU. Greece alone has been recently bailed out by the IMF and the EU, with one of the largest rescuer packages ever.

4. Pakistan's economy also suffered due to the global down turn, the security situation in the neighborhood, and policy weaknesses. The fragility in our fiscal and balance of payments situation was exposed. The economy recorded an inflation rate of 25% \_ the highest in the last three decades. Economic growth fell to 1.2 per cent – the lowest in three decades. Pressures mounted on reserves. The exchange rate had to depreciate.

5. In the face of this unprecedented economic crisis, your government had to take difficult, even unpopular decisions. These decisions included: (i) adjusting the price of those items, whose international prices had risen; (ii) curtailment of expenditures; (iii) and adoption of a tight monetary policy. The government also had to enter into a programme with the IMF to secure balance of payments support and prevent a default.

6. Throughout the adjustment process, the weak segments of society and the poor were not forgotten. To name one example: The Benazir Income Support

Programme was introduced. This program alone provides Rs. 1000 a month to support 3.5 million households.

7. I am happy to report that we are seeing the beginning of an economic recovery. Inflation has moderated considerably although we still need to bring it down further. GDP growth has begun to turn upward reaching 4.1 per cent in the outgoing year. Foreign exchange Reserves have surpassed US\$16 billion. Remittances are up sharply to a record level of US\$ 8.5 billion. The premium on Pakistani debt has decreased substantially while our credit rating has improved. I am reminded of a famous quote of Shaheed Mohtarma Benazir Bhutto who once remarked:

“ . . . the success of a nation, as we head towards a new century, shall be based upon its level of exports, hard currency reserves, its per capita GNP, and creative genius of its citizens”.

8. We seem to be heading towards this thought process of Shaheed Mohtarma. We have been successful in achieving a measure of macroeconomic stabilization, checking inflation, restoration of a growth momentum, effectively managing our international commitments, and developing innovative schemes for the disadvantaged. There are, however, areas where we could have done better; domestic resource mobilization, reform of public sector enterprises and in dealing with severe energy shortages. I also remain conscious that job creation is less than adequate.

9. This budget represents several departures from the past. In making this budget, we have placed our faith in the people of Pakistan. Our first point of differentiation is that this budget is based on transparency in the budgetary process. We have had a widespread consultation with many segments of society. These consultations have included Economists, Chambers of Commerce, Consumer groups, parliamentary Committees, Provincial Governments, media and industry representatives. All information, statistics and data have been openly shared. This budget has become, perhaps the most debated, scrutinized and commented upon budget in Pakistan's history.

10. Keeping our faith in the public and honesty of approach, the second differentiating feature is that we have kept the budget realistic. This realism in budgeting will allow federal and provincial departments and institutions and other economic agents plan better. In this manner, expectations of participants in the economy are anchored and they have better predictability of their plans.

11. The third differentiating feature of the budget is that it is the first budget after the new NFC Award. The co-operation, partnership, and enhanced role for the provinces is an integral part of this budget, reflecting the will of the people. The additional transfer of financial resources to the provinces means more money for law and order, education, health, drinking water and municipal services. Correspondingly, this means reduced fiscal space for the federal government and an incentive for better management of its diminished resources. It also means that Federal Government spending on social sectors would be

limited generally to tertiary levels of education and health with major responsibility for these sectors shifted to the provinces.

12. The fourth differentiating feature of the budget is that we are operating in the framework of international commitments. It is important that we as a sovereign nation keep our commitments and do not erode our international credibility. While maintaining our commitments we must ensure that we become self-reliant and less dependent on foreign loans and assistance.

13. The fifth and most important aspect of our current situation is that of security. We are faced with a situation where our armed forces, jawans, rangers, paramilitary, police and other security forces are sacrificing their lives and engaged in hardship for the safety of our land and citizens. I want to salute them all. I want them to know that this House and the whole nation is behind them. We will do all we can to support our valiant soldiers.

14. Before turning to the objectives of the budget, I would like to place the budget in the perspective of economic management. In today's world, economic management of a modern internationally open economy is a continuous year-long task. The budget is but one important instrument of economic management. However, the importance of this once a year ritual should not be overly exaggerated. There are important linkages between the budget and other instruments of government policies, including monetary; trade; pricing of agriculture, electricity, gas and petroleum products as well as various economic packages. We need to sharpen our understanding of the role of the government and its interventions and make them more effectively ultimately results depend on the impact of a combination of these policies. This is what economic management is all about.

15. The ultimate objective of the budget – indeed of all government endeavours – is to improve the welfare of the people. The citizens of Pakistan are at the center of the budget. In order to achieve this goal we have decided to lay primary focus on the following objectives:

16. Our First objective is that we must protect the economic recovery. Stabilizing the economy is a precondition for generating the momentum for growth. The recovery that has been achieved remains fragile. The dangers of slippage are high. The international situation remains fragile. The security concerns have not vanished. The budget deficit is still high. And we continue to remain dependent on external assistance. We will therefore continue to follow – indeed reinforce – fiscal austerity. Waste will be eliminated, expenditures tightly controlled, and the policy mix carefully managed for a strong and stable recovery.

17. The second objective is that we must check inflation. High inflation is devastating, especially for the poor. The best relief package we can offer is to do whatever we can to reduce inflation. Why did inflation rise? This issue is debated all the time. Different points of view are forwarded by experts. But on one point all agree – that “inflation is primarily a monetary phenomenon.” What this

means, and is true for Pakistan, is that it is caused by excessive credit expansion. In our case, we have borrowed heavily, our borrowing continues to increase rapidly, including from the State Bank. All of us know such borrowing from the State Bank means a rise in the rate of inflation.

18. The third objective is to achieve a measure of self reliance through better domestic resource mobilization. By this means we will be able reduce our reliance on loans. Indiscriminate borrowing over the last four years has brought us to a debt level of 55 per cent of GDP which is approaching the limit under the Fiscal Responsibility and Debt Limitation Act. This borrowing by the government also means higher interest rates and crowding out of the private sector. If we do not control our expenditures, and raise resources, we run the risk of being permanently in debt. High fiscal deficits have also curtailed our development budget.

19. The fourth objective is the reform and enhancement of our social protection regime. Innovative schemes, better targeting of the subsidies for the needy and eliminating waste could allow rapid poverty alleviation.

20. The fifth object is the deduction of the burden of public sector enterprises with out which we will never be able to achieve a sustainable fiscal situation. All efforts to gain control of the economic situation are hostage to a few badly managed public sector enterprises. The productivity and efficiency of every sector of our economy is badly compromised because of the failure of the PSEs.

21. The sixth objective would be that the recovery must not be jobless. Employment generation will be an important test of our policies. Our youth the largest segment of our population will expect this

Madam Speaker!

22. The seventh objective would be to make the country fertile for investment. Our nascent recovery can only be sustained through increased investment and results by the private sector. Indeed the role of the government should be primarily that of facilitating investment. We want to be able to show the people of Pakistan that the growth rate achieved growth. We must make Pakistan attractive for investment. Survey of competitiveness and cost of doing governance and markets in Pakistan. In order to attract investment we also need to emphasize productivity and efficiency given our limited resources availability.

23. Let me now elaborate on two areas that have a direct bearing on some of the objectives listed above: energy and food security. Both these areas will receive greater attention and will be allocated greater amounts both in the public sector development program and from external assistance programs such as the Kerry Lugar, World Bank, Asian Development Bank and other bilateral assistance programs.

Madam Speaker!

24. Energy shortages have darkened homes, closed down factories and shops, making life difficult and slowing down economic activity. The government is fully conscious of the difficulties faced by the people due to the prevailing energy crisis. The crisis has arisen because of poor policy choices in the past and under development of domestic energy sources such as hydel, coal, and natural gas. It is compounded by high oil prices and inefficiencies due to public sector management.

25. We have used a consultative approach with some success in dealing with immediate shortages. An Energy Summit was convened with the participation of all Chief Minister and private sector stakeholders to frame a conservation plan for the electricity sector. As a result of the initiatives agreed during the summit, including the key issue of inter corporate circular debt. The nation witnessed some relief in load shedding. Nearly, 1000 MW was saved which brought some relief to domestic consumers as well as provided some extra energy to the industry.

26. Prime Minister's Vision of the power Sector contains and number of measures to increase supply, manage demand through energy conservation and take administrative measures to streamline the transmission and distribution of electricity. In the short-term, efficiency and conservation measures being undertaken are:

- Diversion of natural gas to power plants to improve their efficiency.
- Rehabilitation of generation and transmission infrastructure.
- Free distribution of 30 million energy savers.

27. We also propose to take measures to enhance the supply of electricity. In the medium and long term we plan to create an optimal energy mix to produce energy at affordable prices through hydel, coal and renewable sources.

28. In order to secure private sector investment in the power sector in a transparent manner, an Energy Development Fund is being established in consultation with Asian Development Bank. The proposed fund is likely to be started with seed money of Rs. Billion.

29. We have also taken steps to increase the availability of gas and the Iran Pakistan Pipeline project has finally been signed after 17 years of work. The government is also committed to import LNG in transparent manner.

30. I must stress that a deep structural reform effort is required in the energy sector if we are to provide affordable energy to the growing economy. We intend to take this action forward this year. In FY 20-11, an allocation of Rs. Billion has been made for hydel, thermal and nuclear energy projects to the augment generation and improve transmission.

Madam Speaker!

31. The second area of our focus is food security, with emphasis on the development of agriculture and water resources. In this effort we will emphasize sharp increase in productivity. Agriculture must find more productive solutions based on more efficient markets that provide incentives for improved technology with better water and input utilization. In addition to food availability we seek to ensure that the poor have the means to purchase food, and this is critical in Supporting the vulnerable. Without adequate purchasing power the poor may starve in the midst of plenty.

32. Our special programme for food security and productivity enhancement for smaller farmers, covering 13,000 villages starting with 1,012 villages in all provinces, has commenced successfully and is expected to gather momentum.

33. We are committed to managing our water resources better. Several initiatives have been taken. I would like to draw your attention to the raising of Mangla Dam, Gomal Zam Dam and Satpara Dam, which would be complete in FY 2010-11. This will substantially add to the availability of water.

34. Diamir-Basha Dam shall be launched as a mega project in FY 2010-11 which would generate 4500 MW electricity and store 6,450 MAF water. It is gratifying to share that the “resettlement chapter” has been conclusively settled by the Government which would now enable us to fast track this project.

35. As a testimony to our efforts at attaining food security the combined budgeted allocation in Development Budget 2010-11 for water, food and agriculture, livestock and dairy development sectors is in excess of Rs 40 billion.

Madam Speaker!

36. Let me now turn to the reform of PSEs, which is one of our important budgetary objectives. Lack of attention to this reform is subverting all efforts at stabilization and economic revival.

37. Pakistan’s public sector enterprises are inefficient and have very poor management, generating huge losses which are then passed on to the economy and the budget. Power sector enterprises alone cost the exchequer around Rs 180 billion in FY 2009-10 while Railways, PIA, TCP, PASSCO, Steel Mills, NHA and Utility Stores add an additional Rs 65 billion. The large loss of Rs. 245 billion destabilizes the entire budgetary process exposing us to breaching our debt ceiling. As a result we are continually seeking external assistance. Not dealing with this issue makes our entire budgetary process and expenditure control unmanageable. It also leaves no room for development expenditure. This is an issue that we wish to address with some urgency in the coming year.

38. Let me commit that restructuring of the eight major Public Sector Enterprises would be the major objective of the Government during FY 2010-11. A restructuring model along with timelines, approved by the Cabinet will be implemented. Hemorrhaging in the PSEs is causing a drag on our economy. We must make these PSEs financially solvent.

Madam Speaker!

39. I would now provide some details of the social protection program of the government which has linkages with our efforts to protect the poor and the vulnerable while driving growth.

40. At present, our subsidies regime does not distinguish between the rich and the poor, and much of our subsidy spending goes to the well to do groups in society that do not need it. We must ensure that only the poor receive public subsidies.

41. The government is deeply sensitive to the needs of the poor. For the first time we have developed a subsidy program that clearly targets only the poor the Benazir Income Support Programme (BISP). This will remain the government's main program for targeted cash grants to the poorest of the poor. Rs 46 billion would be disbursed in the outgoing year, and we will increase the outlays to Rs 50 billion next year to benefit four million families.

42. The Government will develop innovative schemes for benefiting the poor. In this connection, a health insurance scheme (Waseela-e-Sehet) has been introduced on a pilot basis to provide health insurance cover of Rs 25,000/- per family per year for hospitalization.

43. The government is fully conscious that beneficiaries of BISP need to graduate into income earning individuals. We are designing a comprehensive exit strategy based on international best practices. Several initiatives have already been taken. For example, Waseela-e-Haq provides self employment through setting up of small businesses. Vocational training to one person of a beneficiary family is also been launched.

44. In addition, Pakistan Baitul Maal shall continue to run pro-poor programmes with an allocation of Rs 2 billion.

Madam Speaker!

45. A landmark achievement of the government is giving ownership to workers in state-owned enterprises under Benazir Employees Stock Option Scheme. To empower the workers and give them ownership rights, 12% shares have been given to the workers in State-owned Enterprises. The scheme would help improve productivity and add value to the earnings of the workers.

Madam Speaker!

46. Our Government historically has been conscious of labour rights. Consequently, under the new Labour Policy for FY 2010-11 the minimum wage of workers has been raised from Rs 6,000 to Rs 7,000. To ensure its implementation, it has been made mandatory for the employer to make salary payments to the workers through banks. Similarly, dowry grant for daughters of workers has been enhanced to Rs 70,000. To ensure its implementation, it has been made mandatory for the employer to make salary payments to the workers through banks. Similarly, dowry grant for daughters of workers has been

enhanced to Rs. 70,000 and the facility would be available for all the daughters instead of two as was the previous policy. The wage threshold for receiving social security benefits by the workers has been raised to Rs 10,000/-.

47. Our youth is the future of the nation. A key goal of our economic policy is the development of skilled youth engaged in productive employment. For this we have developed the “National Internship Program” which provides a one year internship to young unemployed postgraduates from all over the country. The interns work on various governmental projects and receive a monthly stipend of Rs. 10,000. Their employability increase after completion of their internship. More than 27,000 interns have benefited in FY 2009-10. Rs 3.6 billion have been allocated in the budget for the National Internship Programme in FY 2010-11.

Madam Speaker!

48. I now present the Salient Features of the Budget 2010-11.

- i. The overall size of the budget, including provinces, is projected at Rs. 3259 billion which is 10.7% higher than the current year’s outlay. The total revenues are projected at Rs. 2574 billion. This translates into a projected fiscal deficit of Rs. 685 billion (4.0% of GDP). Gross federal revenues (tax and non-tax) are projected at Rs. 2411 billion.
- ii. FBR collection is projected at Rs. 1667 billion (tax-to-GDP ratio of 9.8).
- iii. A sum of Rs. 1033 billion will be transferred to the provinces under the 7th NFC Award compared to Rs. 655 billion estimated during the current financial year.
- iv. The federal budgetary outlay is proposed at Rs. 2229 billion (13.1% of GDP).
- v. As an austerity measure, a cut shall be imposed on all budgeted non-salary current expenditure which shall stand frozen at 2009-10 level.

Madam Speaker!

49. Government remains committed to capital investment necessary to support our growth. The size of the PSDP 2010-11 is Rs. 663 billion including Federal Component of Rs. 280 billion plus Rs 10 billion for Earthquake Rehabilitation (ERRA).

50. We have kept PSDP 2010-11 at a realistic level. This will facilitate predictable, timely and automatic releases for project implementing agencies.

51. We prioritized available resources for completion of ongoing projects and managed to complete 216 projects in transport, power and the social sectors which include:

- a. Mansehra-Naran-Jhalkhad road.
- b. Completion of 106 km of Nutal-Sibbi-Dhadar road.
- c. 124 km of D.I.Khan-Zam Tower-Mughal Kot.

- d. Procurement of 69 DE locos by Pakistan Railways.
  - e. Doubling of track from Lodhran-Khanewal.
  - f. 72 MW Khan-Khawar Hydropower project is due for commissioning this month.
  - g. Right Bank Outfall Drainage-III project is ready for commissioning.
  - h. Higher Education Commission completed 86 projects.
  - i. Minister of Health expanded its Lady Health Worker's programme from 90,000 to 104,000 workers.
52. Early completion of projects will be the key objective of PSDP in 2010-11. Some of the important projects marked for completion are as follows:
- a. 300 MW Chashma Nuclear Power Plant.
  - b. 1600-1800 Km of highways.
  - c. 200 Km on Gwadar-Ratodero Road upto Hoshab.
  - d. Rahim Yar Khan-Bahawalpur Additional Carriageway (166 Km).
  - e. Gomal Zam dam.
  - f. Satpara dam.
  - g. Impoundment of water in Mangla Dam which will add 3 MAF of storage.
  - h. Karachi Bulk Water Supply Scheme, Chaghi Water Management and Agricultural Development.
  - i. Polytechnic Institute for Girls in Turbat.

Madam Speaker!

53. We are also very serious about expenditure control. Some important steps that are being taken in this regard are as follow:

- 1 Obtain cabinet approval for any supplementary grants beyond 10% of the approved budget.
- 2 Personal report or quarterly budget out turn to the National Assembly to ensure parliamentary over sign.
- 3 Streamline releases against PSDP allocations with upfront authority release of funds to ensure smooth implementation of development projects.
- 4 Ensure the proposals for approval of ECC/ Cabinet having fiscal impact would be Budget neutral i.e additional revenues or savings would be identified at the time of approval.

Madam Speaker!

54. After the 18th amendment a Transition Committee has been constituted with a mandate to oversee the transition of subjects to the provinces in the cost while concurrent list. He said Committee would finalize devolution of such subjects before June 2011. It is expected that the number of federal such subjects before June 2010. It is expected that the number of federal ministries and divisions would be reduced during this period creating some fiscal space.

Madam Speaker!

55. Allow me to submit the highlights of taxation proposals for the year 2010-11. The tax measures being proposed by the government are fair, just and equitable guided by the principle of 'ability to pay' in context of a war economy.

### Customs

56. No customs duty on any product will be increased. For twenty nine categories of products, customs duties will be simplified and reduced.

57. In order to reduce the price of vegetable ghee and oil, reduction in duty on import of Crude Palm Oil is proposed from Rs. 9,000/M to Rs. 8,000/mt. This measure will provide relief to the general public.

58. To provide relief to the sick, concessionary import of 6 additional medical raw materials and medicines is being proposed. The import of X-ray film is also proposed to be exempted from customs duty.

59. In order to address the energy crisis and to encourage use of Renewable Energy Resources, import of four dedicated items in use of these resources is proposed to be allowed at a concessionary rate of 5% import duty. The government has already allowed duty free import of Energy Saving Lamps. In order to encourage local manufacturers of these lamps, five more inputs used in their production are being proposed to be exempted from customs duty.

60. In order to reduce the manufacturing cost of soap and detergent, duty rates on their raw materials, Coconut Acid Oil and Sodium sulphate are proposed to be reduced from 15% to 10%.

61. In order to encourage value addition and export of rice, its processing machines are proposed to be exempted from customs duty.

62. Road sweeping Lorries imported by civic bodies are being proposed to be allowed at concessionary rate of 5% duty.

Madam Speaker!

63. The Government of Pakistan is committed to reform the existing system of General Sales Tax. The existing General Sales Tax (GST) has degenerated into an unfair tax, with multiple rate (between 16% and 25%). Exemptions and domestic zero rated facilities for vested groups and the privileged. It has also contributed greatly the opportunities for corruption and rent seeking. The proposed GST reforms, will address both policy and administrative shortcomings of our current GST to remove all the deficiencies listed above.

64. The proposed GST reform:

- Will eliminate multiple tax rates and replace it with a single lower rate of 15%.
- Will not apply on health, education and food items consumed by the poor.

- Will not apply to turnover less than Rs. 7.5 million per year where as the current threshold is Rs. 5 million per year.
- Will automated thus reducing possibilities of corruption and refund delay.
- Will broaden the tax base instead of burdening the existing tax payer thus introducing greater equity in to the tax system.

65. We expect the proposed GST reform to be in place by October 1, 2010 in consultation with all the provinces and other stakeholders.

66. Meanwhile as an interim measure the GST rates are proposed to be raised by 1 percentage point. Once the reform GST is in place the proposed single lower rate of 15% will become effective. In addition, an accompanying relief measure of the GST reform will be the abolition of the current 1% Special Excise Duty presently levied on most items of imports and local manufacture.

### **Federal Excise Duty**

67. FED incidence on all categories of cigarettes is proposed to be enhanced. It is also proposed to levy FED at Rs. 1 per filter rod of cigarettes. This levy is proposed to be adjustable by registered manufacturers which will also discourager illicit production of low quality and harmful cigarettes. It will generate additional revenue to cope with the healthy system costs of efforts of smoking.

68. In order to fulfill Government's obligation under the 7th NFC Award, the rate of FED on natural gas is proposed to be increased to Rs. 10 per MMBTU.

69. To discourage consumption of electricity intensive appliances, levy of FED @ 10% ad valorem on air conditioners and deep freezers is proposed.

### **Income Tax**

Madam Speaker!

70. A number of relief measures in income tax have been proposed in the Finance Bill. These are:

Exemption limit for the salaried taxpayers to be enhanced from Rs. 200,000 to Rs. 300,000 benefiting approximately 430,000 taxpayers.

Exemption limit for non salary income is also proposed to be raised from Rs. 100,000 to Rs. 300,000 per year benefiting approximately 350,000 taxpayers.

Rate of income tax collected along with monthly electricity bill from industrial and commercial consumers is proposed to be reduced from 10% to 5%. This will [be] a relief of Rs. 4.5 billion to the 66,000 tax payers.

Under the Prime Minister's Fiscal Relief package to Khyber Pakhtunkhwa, FATA & PATA additional tax relief of about Rs. 2 billion have been provided to benefit 300,000 taxpayers of this province.

Instead of monthly withholding tax statements, now only quarterly withholding statement will be required to be e-filed. A large number of taxpayers will benefit from reduction in this sizeable compliance requirement, which will further bring down the cost of doing business in the country.

Taxation on interest free/concessionary interest loans provided by an employer is proposed to be waived.

71. In order to further facilitate taxpayers and incentives to the foreign investment a number of steps are also proposed to be taken for improvement in Direct Taxes:

Rate of final withholding tax on non-specified payments to non residents is to be reduced from 30% to 20%.

Tax free payments to non-residents on profits on debt will be allowed.

10% tax credit for balancing, modernization and replacement to all companies. A 5% tax credit is proposed to be allowed to a company in the tax year of its enlistment.

10% withholding tax as final charge on profit on debt (in debt instruments), and also for the investment in government securities (treasury bills and PIBs) to allow hassle free compliance by non residents.

72. Number of taxation measures, aimed at rationalizing tax structure are proposed as below:

It is proposed that income tax be raised for the Association of Persons (AOPs) at a flat rate of 25% against the existing progressive rate averaging up to 20%. This step will encourage corporatization.

Tax on short-term Capital Gain on stocks/shares will be charged at 10% where shares are held for a period less than six months and at 7.5% where they are held for more than six months and less than 12 months. However, stocks held for over one year will not be subject to CGT.

The withholding tax rate payable by commercial importers is proposed to be increased from 4% to 5%.

A withholding tax on banking transactions including withdrawal through demand draft, pay order, RTCs, CDRs etc. will be charged at 0.3% where such transaction exceeds Rs. 25000 in a day.

Turnover tax on loss making companies and AOPs is proposed to be increased from 0.5% to 1%.

Withholding tax on domestic air travel is proposed to be charged at 5% on gross value of the ticket.

Madam Speaker!

73. I would now like to address the issue of compensation of government servants. The recommendations of the Pay and Pension Commission as adopted by the government would be implemented over the next three years. The following decisions are being announced for implementation with effect from 1st July 2010:

- a. Federal Government employees will be allowed an adhoc monthly allowance equal to 25% of one month's basic pay. This benefit would not be available to such federal government employees who are already in receipt of a monthly allowance equal to one month's basic pay.
- b. Medical allowance for employees in BPS-1 to 15 would be doubled. For employees working in BPS-16 to 22, medical allowance will be allowed at 15% of monthly basic pay.
- c. Pensioners who are retired after 2001 will be allowed 15% increase and those who retired prior to 2001 will be allowed 20% of pension drawn.
- d. Pensioners who retired in BPS-1 to 15 will be allowed medical allowance at 25% of pension drawn while those retired in BS 16 to 22 will be allowed medical allowance at 20% of pension drawn.
- e. The minimum monthly pension is proposed to be raised from Rs. 2000 to Rs. 3000.
- f. The rate of family pension is proposed to be enhanced from 50% to 75%.
- g. A number of other minor allowances for employees in BS- 1 to 16 namely, night duty allowance, conveyance allowance for late sitting staff, daily allowance and special pay are proposed to be raised substantially.

Madam Speaker!

74. I may now announce a new intervention which aims at employment generation for rural unskilled workers. Under this scheme the unskilled workers in rural areas would be guaranteed employment for one hundred days in a year. The main feature of this scheme would be carrying out of small local level works with a guaranteed daily wage equal to the minimum wage. A pilot scheme will be launched in 120 union councils in 12 least developed districts, and others that have suffered the most due to the security situation. A training element will also be added to provide skills that facilitate absorption into the labor market. An amount of Rs. 5 billion shall be provided for this programme, which shall be financed from the savings to be made by freezing the non-salary component of the non-development expenditure of the civil government at the level of last year. 200,000 households are expected to benefit from this scheme in FY 2010-11.

75. I would like thank my Cabinet colleagues and members of this august house for their support in the finalization of this Budget. I would also like to thank all others who have tirelessly contributed in the preparation of this Budget.

76. Before I conclude, let me recap what I had stated at the beginning of my speech. I had said that in this budget we would attempt to lay down a direction for the economic management of the country. The intention was to present a

way forward in which each of us as a citizen could participate and contribute to a common cause.

77. Our morale as a nation should be strengthened as our economy does not face the kind of stress being faced by many other economies. Policy action on many fronts is underway. The path of recovery is slowly taking hold but key structural issues present challenges to economic management. The Budget seeks to address these challenges to shape a more austere, efficient and fundamentally self reliant economy.

78. We will continue to chart a stable course for the economy, build efficiency in the way we do business, increased jobs for the under privileged and lay down policies that encourage investment opportunities for the entrepreneurs. Let there be no doubt in the minds of the people that there exists tremendous upside potential in the economy and the country. It is up to all of us to harness the potential to the best of our ability.

79. We have shown our ability to put aside our political differences and face difficult challenges in a spirit of harmony and togetherness. Continuing with this spirit we have the ability to carve out a golden future for our country. Government will continue to play the role of providing an enabling environment for all the citizens to fully engage in the process of economic development.

80. Let me conclude with the words of the father of the nation, Quaid-e-Azam Muhammad Ali Jinnah on the occasion of the creation of our nation which are perhaps equally relevant today.

81. "Let us now plan to build and reconstruct and regenerate our great nation... It is in your hands. We have undoubtedly talents. Pakistan is blessed with enormous resources and potentialities. Providence has endowed us with all the wealth of nature and now it lies with man to make the best of it."

82. Madam Speaker, Even today our destiny is in own hands! Let us as a nation united go forward and make it into a reality!■

<http://www.columnpk.com/text-of-budget-speech-2010-11/>  
(accessed June 6, 2010).