

DOCUMENTS (JANUARY – JUNE 2012)

DOCUMENT NO. 1

RESOLUTION TO CONDEMN THE BLATANT INTERFERENCE IN PAKISTAN'S INTERNAL AFFAIRS EVIDENCED BY US CONGRESSIONAL FOREIGN RELATIONS SUB-COMMITTEE HEARING ON BALOCHISTAN ON 8TH FEBRUARY, 2012

“This House strongly condemns the blatant interference in Pakistan’s internal affairs evidenced by US Congressional Foreign Relations Sub-Committee hearing on Balochistan on 8th February, 2012. This House notes with great concern that at a time when Pakistan—US relations are already under severe stress, the holding of such a hearing by the US Congress cannot but jeopardize the healing process and further inflame public opinion against the US by adding to the prevailing sense of mistrust and suspicion regarding US intentions towards Pakistan.

This House, therefore, calls upon the Government of Pakistan to convey to the United States Administration, in no uncertain terms, that:-

- a) such hearings relating to the internal affairs of Pakistan are totally unacceptable and the US Administration needs to play a more proactive role to discourage such ill-informed and motivated debate on sensitive issues relating to a sovereign country;
- b) to re-build mutual trust and confidence, the US Administration should respect and comply with the will of the people of the Pakistan as expressed through various parliamentary resolutions and discontinue “drone attacks forthwith.”■

Sd/-

Ch. Nisar Ali Khan

Leader of the Opposition

National Assembly of Pakistan

National Assembly of Pakistan, February 13, 2012,
http://www.na.gov.pk/en/resolution_detail.php?id=57

DOCUMENT NO. 2**JOINT STATEMENT OF TRILATERAL SUMMIT
ISLAMIC REPUBLIC OF AFGHANISTAN, ISLAMIC
REPUBLIC OF IRAN AND ISLAMIC REPUBLIC OF PAKISTAN
ON "ENHANCING TRILATERAL COOPERATION"
FEBRUARY 17, 2012**

Within the framework of trilateral cooperation His Excellency Hamid Karzai President of Islamic Republic of Afghanistan, His Excellency Mahmoud Ahmadinejad, President of the Islamic Republic of Iran and His Excellency Asif Ali Zardari, President of Islamic Republic of Pakistan held the Third Trilateral Summit in Islamabad on 17 February 2012.

2. The Three Presidents pledged to enhance cooperation among the countries comprehensively for realizing the shared aspiration of their peoples for peace, security, stability and economic prosperity.

3. The Three Presidents stressed the need for implementation of the earlier decisions taken at the Trilateral Summits held at Tehran in May 2009 and June 2011 respectively. While underscoring that the three countries were bound by ties of history, geography, culture and religion, the three sides agreed as follows:

- i. To develop framework of comprehensive cooperation and to take pragmatic steps for realizing mutually beneficial cooperation to promote stability, peace and shared prosperity.
- ii. Ensure respect for sovereignty, independence, unity and territorial integrity, as enshrined in the UN Charter.
- iii. To proceed on the basis of mutual interest, mutual respect, non interference and non intervention in internal affairs.
- iv. Not to allow any threat emanating from their respective territories against each other. All parties agreed to commence trilateral consultations on an agreement in this regard.
- v. Contribute to the development and reconstruction in Afghanistan.
- vi. Broaden cooperation in the political, security, economic, cultural, social and educational fields and enhance people to people contacts including exchange visits of parliamentarians, academicians and journalists.
- vii. Strengthen cooperation for eradicating extremism, terrorism and militancy and to address the root causes of these menaces, condemning the killings of civilians as well as any kind of assassinations.
- viii. Cooperate in combating the problems of narcotic drugs production and trafficking and in combating transnational organized crimes.
- ix. Prioritize cooperation for socio-economic development.
- x. Enhance three-way trade by facilitation measures, including preferential tariff and free trade arrangements as well as barter trade.
- xi. Also expressed commitment to expand trade in transit and encourage the private sector to invest in the three countries.

- xii. Enhance connectivity by promoting project cooperation in infrastructure, road and rail links, transport and communications.
- xiii. Develop mutually beneficial cooperation in the energy, mining and minerals, agriculture and other sectors.
- xiv. Cooperate for the safe, voluntary and early return of Afghan refugees to their homeland in honour and dignity.
- xv. Emphasized the need for enhancing their cooperation at international level, especially within the United Nations system.
- xvi. Mandated the Foreign Ministers to prepare and coordinate a Road Map for Trilateral Cooperation for submission to the next Summit.
- xvii. Also mandated the Interior/Security Ministers to develop a framework of trilateral cooperation particularly in the areas of counter terrorism, counter-narcotics and border management within six months.
- xviii. Further mandated the Commerce Ministers to outline steps for enhancing three-way economic cooperation.
- xix. Mandated senior officials (Deputy Foreign Minister level) to meet regularly to monitor the implementation of the decisions taken by the Trilateral Summits.
- xx. Decided that the Fourth Trilateral Summit shall be held in Kabul by the end of 2012. The exact dates will be communicated through diplomatic channels.

4. Presidents of the Islamic Republic of Iran and the Islamic Republic of Pakistan reiterated their full support for an Afghan-led and Afghan-owned inclusive process of peace and reconciliation. They assured the President of the Islamic Republic of Afghanistan that they would extend full cooperation and stressed that any initiative in this regard must have authentic Afghan ownership.

5. His Excellency Mahmood Ahmadinejad, President of the Islamic Republic of Iran and His Excellency Hamid Karzai, President of Islamic Republic of Afghanistan expressed profound gratitude to President Asif Ali Zardari and Prime Minister Yusuf Raza Gilani of the Islamic Republic of Pakistan for the warm hospitality extended to both delegations and for excellent arrangements made for the Third Trilateral Summit.

6. In witness whereof the Presidents of the three countries have signed this document.

7. Done in Islamabad on 17 February 2012 in three originals in English, Persian/Dari, all texts being equally authentic. ■

Hamid Karzai
President of the I.R.
Afghanistan

Mahmoud Ahmadinejad
President of I.R.
Iran

Asif Ali Zardari
President of I.R.
Pakistan

Press Information Department (PID), Government of Pakistan,
<http://www.pid.gov.pk/recentlink.htm>

DOCUMENT NO. 3**PARLIAMENTARY GUIDELINES FOR REVISED TERMS OF
ENGAGEMENT WITH USA/NATO/ISAF AND GENERAL FOREIGN
POLICY, APRIL 12, 2012**

1. Pakistan's sovereignty shall not be compromised. The gap between assertion and facts on the ground needs to be qualitatively bridged through effective steps. The relationship with USA should be based on mutual respect for the sovereignty, independence and territorial integrity of each other.
2. The Government needs to ensure that the principles of an independent foreign policy must be grounded in strict adherence to the Principles of Policy as stated in Article 40 of the Constitution of Pakistan, the UN Charter and observance of international law. The US footprint in Pakistan must be reviewed. This means (i) an immediate cessation of drone attacks inside the territorial borders of Pakistan, (ii) the cessation of infiltration into Pakistani territory on any pretext, including hot pursuit; (iii) Pakistani territory including its air space shall not be used for transportation of arms and ammunition to Afghanistan.
3. Pakistan's nuclear program and assets, including its safety and security cannot be compromised. The US-Indo civil nuclear agreement has significantly altered the strategic balance in the region therefore Pakistan should seek from the US and others a similar treatment/facility. The strategic position of Pakistan vis-à-vis India on the subject of FMCT must not be compromised and this principle be kept in view in negotiations on this matter.
4. Pakistan reaffirms its commitment to the elimination of terrorism and combating extremism in pursuance of its national interest.
5. The condemnable and unprovoked NATO/ISAF attack resulting in the martyrdom (shahadat) of 24 Pakistani soldiers, represents a breach of international law and constitutes a blatant violation of Pakistan's sovereignty and territorial integrity. The Government of Pakistan should seek an unconditional apology from the US for the unprovoked incident dated 25th –26th November, 2011, in Mohmand Agency in addition the following measures be taken;
 - i) Those held responsible for the Mohmand Agency attack should be brought to justice.
 - ii) Pakistan should be given assurances that such attacks or any other acts impinging on Pakistan's sovereignty will not recur.
 - iii) Ministry of Defence/PAF should formulate new flying rules for areas contiguous to the border.
6. No verbal Agreement regarding national security shall be entered into by the Government, its Ministries, Divisions, Departments, attached Departments, Autonomous Bodies or other Organizations with any foreign Government or Authority. All such agreements or understandings shall cease to have effect forthwith.
7. No overt or covert operations inside Pakistan shall be permitted.
8. That for negotiating or re-negotiating Agreements/MOU's pertaining to or dealing with matters of national security, the following procedure shall be adopted:

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- i) All Agreements/MOU's, including military cooperation and logistics, will be circulated to the Foreign Ministry and all concerned Ministries, attached or affiliated Organizations and Departments for their views;
 - ii) All Agreements/MOU's will be vetted by the Ministry of Law, Justice and Parliamentary Affairs;
 - iii) All Agreements/MOU's will be circulated to the Parliamentary Committee on National Security. The Committee shall vet and make recommendations in consultation with the stakeholders and forward the same to the Federal Cabinet for approval under the Rules of Business of the Federal Government;
 - iv) The Minister concerned will make a policy statement on the Agreements/MOU's in both Houses of Parliament.
9. No private security contractors and/or intelligence operatives shall be allowed.
10. Pakistan's territory will not be provided for the establishment of any foreign bases.
11. The international community should recognize Pakistan's colossal human and economic losses and continued suffering due to the war on terror. In the minimum, greater market access of Pakistan's exports to the US, NATO countries and global markets should be actively pursued.
12. In the battle for the hearts and minds an inclusive process based on primacy of dialogue and reconciliation should be adopted. Such process must respect local customs, traditions, values and religious beliefs.
- (a) There is no military solution to the Afghan conflict and efforts must be undertaken to promote a genuine national reconciliation in an Afghan-led and Afghan-owned process.
 - (b) To strengthen security along the Pakistan–Afghanistan border, including the cross border flow of criminal elements, narcotics and weapons, the feasibility of additional measures including electronic surveillance may be evaluated and the process of local joint Jirgas should be encouraged according to local customs and traditions.
13. That Pakistani territory shall not be used for any kind of attacks on other countries and all foreign fighters, if found, shall be expelled from our soil. Likewise, Pakistan does not expect the soil of other countries to be used against it.
14. The Government needs to review the present focus of foreign policy keeping in view the aspirations of the people of Pakistan. It needs to establish a balance by emphasizing links with our traditional allies and building new relationships for diversifying the sources of economic, military and political support. In this regard it may take the following amongst other steps:
- i) Pakistan's foreign policy must continue to focus on creating a peaceful environment in the region to pursue the goals of economic development and social progress;
 - ii) the dialogue process with India should be continued in a purposeful and result-oriented manner on the basis of mutual respect and mutual interest,

- including efforts for the solution 4 of the Jammu & Kashmir dispute in accordance with the UN Resolutions;
- iii) special attention must continue to be paid to developing close cooperative relations with neighbouring countries;
 - iv) the strategic partnership with China must be deepened in all its dimensions;
 - v) the relationship with the European Union should be strengthened and enhanced in all spheres;
 - vi) relationship with the Russian Federation should be further strengthened;
 - vii) Pakistan's support for the promotion of peace and stability in Afghanistan remains the cornerstone of its foreign policy;
 - viii) Pakistan's special relationship with the Islamic world should be reinforced;
 - ix) Pakistan's full membership of SCO should be actively pursued;
 - x) Pakistan's bilateral relationships in the region and its institutional partnership with ASEAN and GCC countries must be upgraded and strengthened; and
 - xi) Pakistan should actively pursue the gas pipeline projects with Iran and Turkmenistan. ■

Senator Mian Raza Rabbani
Chairman

Syed Haider Abbas Rizvi, MNA
Member

Senator Mohammad Ishaq Dar
Member

Sardar Mehtab Ahmad Khan, MNA
Member

Senator Mushahid Hussain Sayed
Member

Maulana Fazal-ur-Rehman, MNA
Member

Senator Hasil Khan Bizenjo
Member

Mr. Munir Khan Orakzai, MNA
Member

Senator Mir Israrullah Zehri,
Member

Mr. Aftab Ahmed Khan Sherpao,
MNA
Member

Senator Afrasiab Khattak,
Member

Mr. Qamar Zaman Kaira, MNA
Member

Mr. Nadeem Afzal Gondal, MNA
Member

Ministry of Foreign Affairs (MoFA), Government of Pakistan, April 12, 2012,
<http://www.mofa.gov.pk/mfa/pages/article.aspx?id=1134&type=3>

DOCUMENT NO. 4**PRESIDENT'S SPEECH ON 50TH ANNIVERSARY OF PAKISTAN-
EU RELATIONS, MAY 9, 2012**

Bismillah-ir-Rahman-ir-Rahim
50th Anniversary of Pakistan-EU Relations,
09 May 2012
Excellencies,
Federal Ministers
Members of Parliament
Distinguished Guests,
Ladies and Gentlemen

Assalam-o-Alaikum

It is a great pleasure to meet you Excellencies to jointly celebrate the 50th anniversary of relations between Pakistan and the European Union.

I welcome you all to the Presidency.

Pakistan attaches great importance to its excellent relations with the European Union.

Our relations are based on shared democratic values, principles of mutual respect, trust and cooperation.

The 50 year long association reflects the commitment the two sides have made. The European Union is our key partner in peace and development.

The European Union is:

- An important ally in the campaign against terrorism.
- It is our biggest trading partner, and
- It is a major source of direct investment in Pakistan.

The EU has supported democracy and helped Pakistan in difficult times. We value it and thank the European Union and its member states for their support and assistance.

There is a clear upward move in our relations since 2008. I would like to place on record our appreciation for the EU Ambassador in Pakistan Lars-Gunner Wigemark and our Ambassador in Brussels, the current Foreign Secretary Jalil Abbas Jilani for their efforts.

Ladies and Gentlemen,

Presently, we are working with the EU to build a mutually beneficial strategic partnership.

The EU-Pakistan 5-year Engagement Plan and the upcoming Strategic Dialogue are important landmarks in this partnership.

During the last 50 years the EU has passed through momentous changes. It has grown bigger and stronger.

Despite economic difficulties, it has stayed the course and emerged as an important global player.

Pakistan too has faced many challenges and braved many storms in the course of its history.

We are passing through a crucial phase now.

We are again on the frontline in the campaign against terrorism.

This struggle is exacting massive human and economic costs.

Our economic difficulties have been compounded by:

- Back-to-back floods of the last two years,
- Rising international oil prices,
- The energy shortage and
- The climate change

Distinguished Guests,

But positive developments are also taking place simultaneously. We have undergone a silent revolution which has revived the spirit of Pakistan. A democratic and progressive Pakistan has emerged during the past four years.

It is a democratic Pakistan that is in line with the vision of the founding father, Quaid-e Azam Muhammad Ali Jinnah, Shaheed Zulfikar Ali Bhutto and Shaheed Mohtarma Benazir Bhutto.

Pakistan's Constitution guarantees equal rights to all citizens irrespective of faith, cast or gender.

We have taken important legislative and administrative measures for the promotion of rights, including rights of women and minorities.

We have made great strides towards:

- Restoration of parliamentary democracy,
- Devolution of powers and
- Free and fair elections under the 18th, 19th and 20th Amendments.

The 7th National Finance Commission Award has given the provinces a larger share in national income and greater financial autonomy.

Pakistan has embarked on a major economic reform program. The program aims at:

- Fiscal stabilization,
- Mobilizing domestic resources to achieve 15 percent tax-to-GDP ratio over the medium term,
- Phasing out subsidies,
- Restructuring the power sector and other public sector enterprises.

Ladies and Gentlemen,

I believe that many of our domestic challenges can be won by creating new economic opportunities.

The EU can help us through better market access. We are grateful to the EU for extending trade concession package in the aftermath of the floods. I hope it will become operational soon. We are now ready to engage with the EU on GSP plus and a Free Trade Agreement.

Distinguished Guests,

Pakistan also accords high priority to regional trade and cooperation. The year – 2012 – has been designated as the “Year of Regional Trade and Economic Connectivity”.

We have made significant progress on trade and economic cooperation with India.

We are moving towards the grant of MFN status to India despite some hurdles. A peaceful, stable, and prosperous Afghanistan is in Pakistan’s best interest. We are ready to facilitate political reconciliation in Afghanistan.

Pakistan is actively engaged with Afghanistan in developing joint cooperative projects. The Pakistan-Afghanistan Transit Trade Agreement would give impetus to regional development and stability.

China is a trusted friend and our relationship is growing in all fields. Pakistan-China friendship has immensely contributed to greater regional peace and prosperity.

We want to have cooperative and mutually beneficial relations with the United States.

This is an important relationship.

The contours of the relationship will be decided in accordance with the parliamentary guidelines.

Our Parliament has also clearly stated that the relationship with the European Union should be strengthened and enhanced in all spheres.

Finally, I would like to say that the progress made in Pakistan-EU relations in the past 50 years augurs well for future cooperation.

We should redouble efforts to build on this progress to our mutual benefit. I thank you.■

*Ministry of Foreign Affairs (MoFA), Government of Pakistan,
<http://www.mofa.gov.pk/mfa/pages/article.aspx?id=1176&type=3>*

DOCUMENT NO. 5

ADDRESS BY THE PRIME MINISTER AT THE RECEPTION FOR THE BRITISH PARLIAMENTARIANS IN THE HOUSE OF COMMONS, MAY 9, 2012

Honourable Cabinet Ministers,
Lords, Members of Parliament,
High Commissioner Wajid Shamsul Hasan,
Distinguished Ladies and Gentlemen.

I am extremely pleased to interact with the distinguished members of the British Parliament here in these historic premises, which are not only the emblem of parliamentary democracy but also the repository of a rich heritage and traditions.

I am undertaking this visit at the invitation of Prime Minister David Cameron for the first summit review of the Enhanced Strategic Dialogue (ESD), which was initiated by the two of us last year.

The ESD provides a framework for a regular and comprehensive review of our excellent cooperation, covering a wide spectrum of bilateral, regional and international issues of mutual interest. I am satisfied that we have made good progress under the ESD framework. And I look forward to holding detailed and wide ranging discussions with Prime Minister Cameron and other members of his cabinet tomorrow to further intensify this cooperation.

Distinguished friends,

We have reason to be satisfied that relations between Pakistan and the United Kingdom are on a strong footing. Our ties have been traditionally warm and friendly given our shared history, cultural affinities and strong people-to-people contacts.

Let me take this opportunity to express our sincere gratitude to the British government and its people for having stood by us in our difficult times — particularly in the aftermath of unprecedented floods that devastated the country.

Ladies and Gentlemen,

In order to enhance our bilateral trade and investment, our two governments have decided to jointly launch a trade and investment promotion Roadmap. The Roadmap envisages not only to take the bilateral trade to £2.5 billion by 2015 but also enhance investment opportunities.

The United Kingdom has been a consistent advocate for Pakistan to gain enhanced trade access to the European Union. We are appreciative of the UK support for EU trade concessions for Pakistan in the wake of the 2010 floods. And we hope that the United Kingdom would continue supporting Pakistan's request for GSP Plus.

Distinguished Members of Parliament;

We are also together in the common fight against terrorism and extremism. The democratic government has created national ownership to this campaign and has brought all stakeholders on board. Our Parliament has recently reaffirmed Pakistan's commitment to the elimination of terrorism and combating extremism in pursuance of our national interest. We have also repeatedly said that we would not allow our territory to be used for any kind of attacks on other countries and we expect that the soil of other countries would not be used against Pakistan.

The sacrifices made by Pakistan in its campaign against militancy, terrorism and extremism are unparalleled, and our resolve remains unshakeable.

Ladies and Gentlemen,

The Government of Pakistan believes that its agenda for prosperity and development can only be achieved in an environment of peace and security.

It is in this context that we are keen to normalise our relations with all our neighbours, particularly India and Afghanistan. Pakistan strongly believes that a peaceful and stable Afghanistan is an absolute prerequisite for stability and peace in Pakistan. Pakistan is the first to suffer at the hands of strife in Afghanistan and the

first to benefit from peace in Afghanistan. However, the solution to Afghanistan's problem lies inside Afghanistan. It has to come from Afghans and has to be led by Afghans themselves.

My Government has made tremendous strides in building a constructive relationship with India. We have made significant progress on trade and economic cooperation and are in the process of granting MFN status to India despite some hurdles. We have started the Dialogue process with India. We want to resolve all outstanding issues, including Jammu and Kashmir, through an uninterrupted, meaningful and result-oriented dialogue.

Distinguished friends,

I am pleased to note that the Parliaments of the United Kingdom and Pakistan enjoy excellent relations, manifested through a regular exchange of visits by parliamentarians from both sides.

British Parliament is known as the mother of democracy and the Fourm of Commonwealth has been proudly espousing the cause of democracy and the human rights among the member countries. Pakistan became the member of the Commonwealth in 1947 soon after it became independent which was suspended during the military dictatorship of General Zia-ul-Haq during eightiy's. It was restored when Shaheed Benazir Bhutto became Prime Minister after the elections in the country. The membership of Pakistan again suspended during General Musharrf military rule and restored after the incubment government led by me came to power as a result of elections in 2008. Commonwealth indeed represents the aspirations of the people as it has gained glory as a powerful symbol of peopel,s empowerment and rejects the military rule in its totalituy. I am happy to mention that there is not a single political prisioner in Pakistan today. Media is completely free and the civil society is robust and human rights organisations, assertions is making qualitative difference so far as the human rights are concerned. Judiciary is free from any stretch of imagination. In the last Summit of Commonwealth in Perth, Australia, the Fourm was unanimous in supporting the democratic governments of member states to put its support and foil the designs of those who usurp the rights of the people. Let me conclude by thanking you once again for attending this reception. Your presence in such large numbers is a reflection of the importance Pakistan enjoys with the United Kingdom, its government and its people.

I thank you all. ■

Press Information Department (PID), Government of Pakistan,
<http://www.pid.gov.pk/recentlink.htm>

DOCUMENT NO. 6

PRESIDENT'S ADDRESS AT NATO SUMMIT

Bismillah-ir-Rahman-ir-Rahim
Expanded ISAF Meeting
NATO Summit
(Chicago, 20-21 May 2012)

Your Excellency President Barack Obama,
Your Highnesses,
Excellencies,
Distinguished Delegates,
Ladies and Gentlemen,

I am very pleased to join the leaders of NATO and other members of the international community in this important gathering to express our support for peaceful transition in Afghanistan.

This is a defining moment for Afghanistan and the region as a whole. I stand here to confirm our belief that a peaceful, prosperous and stable Afghanistan is in Pakistan's national interest. Our destinies are inter-linked.

As the government and people of Afghanistan increasingly assume the security responsibilities for their country, I am confident that they will meet this challenge.

Success in Afghanistan will confirm once again that partnerships can and do transform the fortunes of a nation.

Excellencies,

The international commitment to Afghanistan must be firm and complete. The international community must stay the course in Afghanistan, and ensure a strong and peaceful Afghanistan beyond 2014. International support to effective and sustainable Afghan National Security Forces in the post transition period is critical.

We remain supportive of all efforts for peace and reconciliation in Afghanistan. We firmly believe that only an inclusive intra-Afghan dialogue can lead to sustainable peace in Afghanistan.

In the context of our agenda today, I am pleased to announce that Pakistan will contribute 5 million dollars to support the Afghan National Security Forces, besides 15 million dollars in training and equipment.

This is in keeping with our commitment to durable peace and stability in Afghanistan.

Excellencies,

Afghanistan is at the heart of our region. It has a pivotal role to play in regional economic development. Yesterday I agreed with Brother Karzai to extend the Afghanistan-Pakistan Transit Trade Agreement to Tajikistan and other Central Asian States. We want to be part of all initiatives to assist and support the economic integration of the region surrounding Afghanistan.

Excellencies,

Pakistan remains committed to eradicating terrorism and extremism. We have lost thousands of lives and suffered enormous economic losses in our fight against extremism.

As we meet here today, our forces continue to carry out operations against terrorist elements and Al-Qaeda remnants.

The Salala incident came as a serious setback. It required that we review our engagement and cooperation. There was a consensus among all political parties in our Parliament on this issue.

Our Parliament gave a roadmap for future engagement with NATO and ISAF. The democratic forces have taken ownership of that road map.

We are bound by the advice of our Parliament and the democratic forces. Our Parliament has spoken in favor of cooperation and a partnership approach.

Such a venture is sustainable on the long-term basis only on the foundation of mutual respect for sovereignty and cooperative spirit.

The Defence Committee of the Cabinet of the Government of Pakistan has considered the issue.

It decided to direct the relevant officials to conclude negotiations for resumption of the Ground Lines of Communication.

Our Parliament has also recommended that foreign fighters and non state actors seeking to destabilize Afghanistan and the region, if found on our soil, must be expelled.

We are devising a comprehensive plan for this purpose. This would require the support of the international community both in terms of resources and capacity building.

It will also require measures aimed at the economic well-being of the people of the areas affected by the military action.

Excellencies,

As citizens of the global village, our destinies are interlinked. We all have a stake in durable peace. We all suffer if violence takes root in any part of the world. The message I bring to you from Pakistan is that we believe in partnerships based on trust and respect. Partnerships that will secure the future of our peoples.

Let us fight together, not just against the forces of terrorism and extremism but also against illiteracy, illicit drugs, hunger, poverty and disease. In the ultimate analysis, ours is a battle for the hearts and minds, of the young and the old and of the men and women alike.

I thank you. ■

Press Information Department (PID), Government of Pakistan,
<http://www.pid.gov.pk/recentlink.htm>

DOCUMENT 7

CHICAGO SUMMIT DECLARATION ON AFGHANISTAN

May 21, 2012

Issued by the Heads of State and Government of Afghanistan and Nations contributing to the NATO-led International Security Assistance Force (ISAF).

Preamble

We, the nations contributing to ISAF, and the Government of the Islamic Republic of Afghanistan, met today in Chicago to renew our firm commitment to a sovereign, secure and democratic Afghanistan. In line with the strategy which we agreed at the Lisbon Summit, ISAF's mission will be concluded by the end of 2014. But thereafter

Afghanistan will not stand alone: we reaffirm that our close partnership will continue beyond the end of the transition period.

In the ten years of our partnership the lives of Afghan men, women and children, have improved significantly in terms of security, education, health care, economic opportunity and the assurance of rights and freedoms. There is more to be done, but we are resolved to work together to preserve the substantial progress we have made during the past decade. The nations contributing to ISAF will therefore continue to support Afghanistan on its path towards self-reliance in security, improved governance, and economic and social development. This will prevent Afghanistan from ever again becoming a safe haven for terrorists that threaten Afghanistan, the region, and the world. A secure and stable Afghanistan will make an important contribution to its region, in which security, stability and development are interlinked.

ISAF nations and Afghanistan join in honouring all those – civilian or military, Afghan or foreign – who have lost their lives or been injured in the fight for our common security and a prosperous, peaceful and stable Afghanistan. We pay particular tribute to the courage of the armed forces of Afghanistan and ISAF countries who live, train and fight next to each other every day. We are determined that all our sacrifices will be justified by our strong long-term partnership, which will contribute to a better future for the people of Afghanistan.

General Principles

Our efforts are part of the broader engagement of the International Community as outlined by the Kabul Conference in July 2010, the Istanbul Process on regional security and cooperation which was launched in November 2011 and the Bonn Conference in December 2011.

We recall the firm mutual commitments made at the Bonn Conference on 5 December 2011, which form the basis of our long-term partnership. In this context, the Government of the Islamic Republic of Afghanistan confirms its resolve to deliver on its commitment to a democratic society, based on the rule of law and good governance, including progress in the fight against corruption, where the human rights and fundamental freedoms of its citizens, including the equality of men and women and the active participation of both in Afghan society, are respected. The forthcoming elections must be conducted with full respect for Afghan sovereignty and in accordance with the Afghan Constitution. Their transparency, inclusivity and credibility will also be of paramount importance. In this context, continued progress towards these goals will encourage ISAF nations to further provide their support up to and beyond 2014.

We emphasise the importance of full participation of all Afghan women in the reconstruction, political, peace and reconciliation processes in Afghanistan and the need to respect the institutional arrangements protecting their rights. We remain committed to the implementation of United Nations Security Council Resolution (UNSCR) 1325 on women, peace and security. We recognise also the need for the protection of children from the damaging effects of armed conflict as required in relevant UNSCRs.

Fulfilling the Lisbon Roadmap and Building the Enduring Partnership

In Lisbon, in November 2010, we decided on the phased transition of security responsibility from ISAF to the Afghan National Security Forces (ANSF), in order to enable Afghans to take full responsibility for their own security. NATO/ISAF and the Government of the Islamic Republic of Afghanistan remain committed to this transition strategy which began in July 2011. Irreversible transition is on track and will be completed by the end of 2014. We also recognise in this context the importance of a comprehensive approach and continued improvements in governance and development.

The third wave of provinces to enter the transition process was announced by President Karzai on 13 May 2012. This means that 75% of Afghanistan's population will soon be living in areas where the ANSF have taken the lead for security. By mid-2013, all parts of Afghanistan will have begun transition and the Afghan forces will be in the lead for security nation-wide. This will mark an important milestone in the Lisbon roadmap. ISAF is gradually and responsibly drawing down its forces to complete its mission by 31 December 2014.

The success of transition has been enabled by the substantial improvement of the ANSF since Lisbon in terms of capability and professionalism. Afghan soldiers are increasingly taking the lead in operations on Afghan soil. Afghan forces, both army and police, have proven able to maintain security in those areas which have already entered into transition.

The completion of transition, however, will not mean the end of the International Community's commitment to Afghanistan's stability and development. Afghanistan and NATO reaffirm their commitment to further develop the NATO-Afghanistan Enduring Partnership signed at Lisbon in 2010 in all its dimensions, up to 2014 and beyond, including through joint programmes to build capacity such as the Building Integrity Initiative. In this context, NATO and the Government of the Islamic Republic of Afghanistan will now deepen their consultations towards shaping the Enduring Partnership.

Meanwhile, we welcome the fact that a number of ISAF countries have concluded, or are in the process of concluding, bilateral partnership agreements with the Government of the Islamic Republic of Afghanistan. These bilateral partnership frameworks will form the basis of cooperation and friendship between an independent, sovereign and democratic Afghanistan and those countries on the basis of equality and mutual interest.

Beyond 2014

In order to safeguard and build on the substantial progress and shared achievement, ISAF nations reaffirm their enduring commitment to Afghan security beyond 2014; the Government of the Islamic Republic of Afghanistan continues to welcome that support.

ISAF, including the NATO Training Mission – Afghanistan, has played a key role in taking the ANSF to the levels they have now reached. The Government of the Islamic Republic of Afghanistan reaffirms that NATO has a crucial part to play, with partners and alongside other actors, in training, advising and assisting the ANSF and

invites NATO to continue its support. As transition of security responsibility is completed at the end of 2014, NATO will have made the shift from a combat mission to a new training, advising and assistance mission, which will be of a different nature to the current ISAF mission.

We agree to work towards establishing such a new NATO-led mission. We will ensure that the new mission has a sound legal basis, such as a United Nations Security Council Resolution.

Sustaining the ANSF

With the support of ISAF nations, Afghanistan is committed to developing an ANSF which is governed by the Constitution and is capable of providing security to all Afghans. It will operate under effective civilian leadership, in accordance with the rule of law, and respecting human rights.

At the International Afghanistan Conference in Bonn on 5 December 2011, the wider International Community decided to support the training, equipping, financing and capability development of the ANSF beyond the end of the transition period. NATO Allies and ISAF partners reaffirm their strong commitment to this process and will play their part in the financial sustainment of the ANSF. We also call on the International Community to commit to this long-term sustainment. The pace and the size of a gradual managed force reduction from the ANSF surge peak to a sustainable level will be conditions-based and decided by the Government of the Islamic Republic of Afghanistan in consultation with the International Community. The preliminary model for a future total ANSF size, defined by the International Community and the Government of Islamic Republic of Afghanistan, envisages a force of 228,500 with an estimated annual budget of US\$4.1 billion, and will be reviewed regularly against the developing security environment.

Sustaining a sufficient and capable ANSF is the responsibility of the Government of the Islamic Republic of Afghanistan supported by the International Community. As part of the wider International Community, and building upon existing mechanisms, we will play our part in developing appropriate, coherent and effective funding mechanisms and expenditure arrangements for all strands of the ANSF. Such mechanisms will be flexible, transparent, accountable, cost-effective and will include measures against corruption. They will also distinguish between funding for the army and the police as well as for further capacity development within the relevant Afghan ministries and security institutions.

As the Afghan economy and the revenues of the Afghan government grow, Afghanistan's yearly share will increase progressively from at least US\$500m in 2015, with the aim that it can assume, no later than 2024, full financial responsibility for its own security forces. In the light of this, during the Transformation Decade, we expect international donors will reduce their financial contributions commensurate with the assumption by the Afghan government of increasing financial responsibility.

As the Afghan National Police further develop and professionalise, they will evolve towards a sustainable, credible, and accountable civilian law enforcement force that will shoulder the main responsibility for domestic security. This force should be capable of providing policing services to the Afghan population as part of the broader Afghan rule of law system. This will require an adequate plan to be developed by the

Government of the Islamic Republic of Afghanistan, supported as appropriate by the International Police Coordination Board (IPCB) or its successor. Both the Afghan National Army and the Afghan National Police will play a crucial role in ensuring security and stability, and in supporting legitimate governance and sustainable economic growth across the country.

Towards a Peaceful, Stable and Prosperous Afghanistan

A political process involving successful reconciliation and reintegration is key to a peaceful and stable Afghanistan. In this context, we reiterate the importance of the principles decided at the Bonn Conference. These are that the process leading to reconciliation must be truly Afghan-led and Afghan-owned, and must be inclusive and representative of the legitimate interests of all Afghan people, regardless of gender or status. Reconciliation must also contain the reaffirmation of a sovereign, stable and united Afghanistan, the renunciation of violence, the breaking of ties to international terrorism, and compliance with the Afghan Constitution, including its human rights provisions, especially on the rights of women.

A peaceful, stable and prosperous Afghanistan will positively contribute to economic and social development in the wider region, and deliver progress in the fight against narcotics trafficking, illegal migration, terrorism and crime. In this context, regional cooperation and support for stability in Afghanistan is key. There are two important events on the way to securing the future commitment of key regional and international partners. The upcoming Kabul Ministerial Conference on the Istanbul Process will launch an initial set of regional confidence-building measures while at the Tokyo Conference the International Community and Afghan leadership will discuss a framework for future development assistance.

Our task is not yet complete. But in the light of our substantial achievements, and building on our firm and shared commitment, we are confident that our strong partnership will lead Afghanistan towards a better future. ■

North Atlantic Treaty Organization (NATO), May 21, 2012,
http://www.nato.int/cps/en/SID-3B4188E7-687750FC/natolive/official_texts_87595.htm?

DOCUMENT NO. 8

PAKISTAN ECONOMIC SURVEY – 2011-12 EXECUTIVE SUMMARY

The Government remained focused on maintaining macroeconomic stability, growth, mobilizing domestic resources and increasing exports, balanced regional development and providing safety nets for the vulnerable groups. Despite numerous challenges, the economy performed better in 2011-12 than many developed and developing economies. These included sharp increase in fuel and commodity prices, recessionary trend globally and weak inflows. Domestically, economy was struck by heavy rains in Sindh and parts of Balochistan costing \$ 3.7 billion. Notwithstanding these challenges, the Gross Domestic Product growth this year is estimated at 3.7 percent as compared to 3.0 percent

last year.

In comparison, the global recovery is threatened by intensifying strains in the euro area and fragilities elsewhere. International Monetary Fund has maintained its growth forecast of 2.1 percent for United States in the year 2012, negative 0.3 percent for Euro area, 0.8 percent for United Kingdom, 5.7 percent for Emerging and Developing Economies after factoring China (8.2 percent) and India (6.9 percent) and 2.0 percent for Japan.

Despite global slowdown, Pakistan has managed to maintain its exports during July-April 2012 to last year's level which saw a phenomenal growth. Remittances remained buoyant and estimated at close to \$ 13 billion, an increase of 16 percent. Recessionary trend globally have, however, impacted capital flows to Pakistan. Current account balance was affected due to sharp increase in oil prices and import of 1.2 million metric tons of fertilizer.

Tax measures enforced by the Government in April 2011 has yielded dividend. July-April 2012 growth in FBR tax revenues demonstrated a growth of 24 percent with Rs. 1445 billion as compared to 1250 billion last year. Efforts are underway to reach the ambitious target of 1952 billion. Non-tax receipts have been less due to non disbursement of anticipated coalition support funds and delaying the expected auction of 3 G license to a later part of summer.

Growth and Stabilization

The economy is now showing signs of modest recovery. GDP growth for 2011-12 has been estimated 3.7 percent as compared to 3.0 percent in the previous fiscal year 2011. The Agriculture sector recorded a growth of 3.1 percent against 2.4 percent last year. The Large Scale Manufacturing (LSM) growth is 1.1 percent during July-March 2011-12 against 1.0 percent last year. Overall, the commodity producing sectors and especially the Agriculture sector have performed better. The Services sector recorded growth of 4.0 percent in 2011-12.

Flood Impact Assessment

This performance has been achieved despite severe monsoon rains triggered floods of an unprecedented scale in Southern Pakistan, engulfing 23 districts of Sindh Province and adjoining areas of northern Balochistan causing damages to crops, infrastructure and human settlements, thus adversely affecting national economy.

According to the World Bank and the Asian Development Bank (ADB) Damage and Needs Pakistan Economic Survey 2011-12 Assessment (DNA) Report, approximately, 9.6 million people were affected in Sindh and Balochistan as a result of these rains. The total damages estimated to Agriculture, Energy, Transport and Communication, Health, Environment as well as the Forestry, Water Supply and Sanitation amount to Rs. 324.5 billion (US\$ 3.7 billion). The rehabilitation and Cost of recovery is estimated at Rs. 239 billion (US\$ 2.8 billion). This is in addition to damages of \$ 10 billion to the economy during 2010 floods.

Commodity Producing Sector: The commodity producing sector has performed better in the outgoing fiscal year as compared to last year. Its growth rate this year was 3.3 percent against 1.5 percent during last year.

Agriculture Sector is a key sector of the economy and accounts for 21 percent of GDP. The supportive policies of the government resulted in a growth of 3.1 percent against 2.4 percent last year. Major Crops registered an accelerating growth of 3.2 percent compared to a negative growth of 0.2 percent last year. The major crops including Cotton, Sugarcane and Rice witnessed growth in production of 18.6 percent, 4.9 percent and 27.7 percent respectively. However, preliminary estimates of wheat production showed a negative growth due to late receding of flood waters in lower Sindh which hampered the timely cultivation of the wheat crop. Livestock has witnessed a marginally higher growth of 4.0 percent against the growth of 3.97 percent last year. Fisheries sector showed a growth of 1.8 percent. Forestry recorded a growth of 0.95 percent as compared to the contraction of 0.40 percent last year.

Manufacturing Sector: The growth of the manufacturing sector is estimated at 3.6 percent compared to 3.1 percent last year. Small scale manufacturing maintained its growth of last year at 7.5 percent and slaughtering growth is estimated at 4.5 percent against 4.4 percent last year. Large Scale Manufacturing (LSM) has shown a growth of 1.1 percent during July-March 2011-12 against 1.0 percent last year. The Construction Sector has shown 6.5 percent growth as compared to negative growth of 7.1 percent last year. Mining and Quarrying sector recorded a positive growth of 4.4 percent during July-March of the fiscal year 2011-12 against negative growth of 1.3 percent last year. Electricity and gas distribution witnessed a negative growth of 1.6 percent against—7.3 percent last year.

Services Sector: The Services sector has registered a growth rate of 4.0 percent during July- March of the fiscal year 2011-12 against 4.4 percent last year. It is dominated by Finance and Insurance at 6.5 percent, Social and Community Services 6.8 percent and Wholesale and Retail Trade 3.6 percent.

Consumption: Real private consumption grew at 11.6 percent in fiscal year 2011-12 as compared to 3.7 percent growth last year and real government consumption grew at 8.2 percent as compared to 5.2 percent last year. Private consumption expenditure has reached 75 percent of GDP; whereas public consumption expenditures are 13 percent of GDP. Private consumption has increased on the back of sustained growth in remittances. Total consumption has reached 88.4 percent of GDP in fiscal year 2011-12 as compared to 83 percent last fiscal year. Furthermore, increase in rural income due to higher production of crops and sharp increase in commodity prices also supported the consumption demand.

Per capita real income grew at 2.3 percent in 2011-12 as compared to 1.3 percent growth last year. In dollar terms, it increased from \$ 1258 in 2010-11 to \$ 1372 in 2011-12.

Real Investment has declined from 13.1 percent of GDP last year to 12.5 percent of GDP in 2011-12; fixed investment has declined to 10.9 percent of GDP in 2011-12 from 11.5 percent of GDP last year. Similarly Private investment also contracted to 7.9 percent of GDP in 2011-12 as compared to 8.6 percent of GDP last year. Public investment as a percent of GDP is 3.0 percent in 2011-12 against the 2.9 percent last year. National savings are 10.7 percent of GDP in 2011-12 as compared to 13.2 percent in 2010-11.

Foreign Direct Investment stood at \$ 668 million during July-April 2011-12 as against \$ 1293 million last year. The capital flows were affected because of global financial crunch and euro zone crisis. Oil and Gas Exploration remained the major

sector for foreign investors. The share of Oil and Gas Exploration in total FDI during July-April 2011-12 stood at 70 percent.

Workers's Remittances witnessed a strong growth of 25.8 percent in 2011 over the previous year 2010. During July-April 2011-12, worker's remittances grew by 20.2 percent at \$ 10.9 billion. The buoyancy in remittances is largely attributed to the government's efforts to divert remittances from informal to formal channel. Data on remittances suggests that the monthly average for the period of July-April 2011-12 stood at \$ 1.09 billion compared to \$ 0.90 billion during the corresponding period last year. The upsurge in the remittances is attributed to the government's efforts of redirecting these flows from informal to formal channels.

Fiscal Development: The Medium Term Budgetary Framework has improved the budget preparation process. Medium-term fiscal framework and budget policies have been incorporated into a medium-term Budget Strategy Paper on rolling basis, which include medium-term indicative budget ceilings for the recurrent and development budgets, and provides an opportunity to discuss the budget between technical and political levels prior to the presentation of the annual budget. The political level involvement includes Cabinet, Standing Committees on Finance & Revenue, and political parties. The Output Based Budget (OBB) has also been institutionalized in the federal government which presents policies of the ministries in the shape of goals, outcomes, outputs and medium-term budgets. The OBB also presents key performance indicators for the outputs to introduce government wide monitoring system.

18th amendment in the Constitution of the Islamic Republic of Pakistan was an historic step forward abolishing the concurrent list transferring additional functions to the Provinces. It was combined with a path breaking 7th National Finance Commission Award in 2010. In addition, the Government resolved long standing demands of the Khyber Pakhtunkhwa relating to Net Hydel Profit and Royalty and Gas Development Surcharge of Sindh and Balochistan. The award also acknowledged multiple criteria for transfer of resources. Share of Balochistan has increased from 5.1 to 9.0 percent. Likewise, Khyber Pakhtunkhwa has been assigned 1 percent of the total divisible pool to mitigate the impact of campaign against extremism. This has allowed transfer of 70 percent of the divisible pool to the provinces and FATA and Gilgit-Baltistan. During the last two years, Federal Government has transferred over Rs. 800 billion additional over 2009-10 resource transfer of Rs. 633 billion. This should help the provinces to earmark more resources to social sectors and development of infrastructure.

Government continued its efforts to broaden the tax base and simplifying the tax structure. Efforts are underway to move towards two main taxes, i.e. income tax and sales tax. As a result, Special Excise Duties and Regulatory Duties have been abolished. A three years plan to phase out Federal Excise Duties is under implementation. Capital Gain Tax has been levied on sales of securities in the stock exchange. Sales tax exemptions and zero ratings have been withdrawn on all items including textile, leather, fertilizer, pesticides, sports goods and tractors except food items, health, education and agriculture produce. The Government has strengthened automated e-filing and electronic payment and refund system to ensure expeditious settlement of refund claims expeditiously. For this, a centralized sales tax refund cheque issuance system is now operational in the Federal Board of Revenue.

Broadening the tax base identifying potential taxpayers has remained a key focus for which a dedicated unit has been established in the FBR. These efforts are now paying dividend. Federal Board of Revenue target for 2011-12 was set at Rs. 1952 billion. During first ten months, tax collection stood at Rs. 1,426.0 billion against Rs. 1,149.8 billion in the comparable period of last year, showing an increase of 24 percent. It does not include Rs. 19 billion collected by Sindh province on GST on services.

Efforts are being made to manage the fiscal deficit within acceptable level through an expenditure management strategy, austerity measures and reforms in public sector enterprises. The government is committed to simplification of tax regime, broadening the tax and mobilizing domestic resources. The operational expenditure of the federal ministries was reduced by 20 percent. A general ban was placed on recruitment and purchase of durable goods. Official transport assigned to entitled officers of BPS-20 to 22 was monetized to reduce expenditure on POL and repair and maintenance as well as drivers. Subsidy expenditure was rationalized. As a result of these efforts, overall fiscal deficit was at 5.0 percent of GDP in July-April 2012 against 5.5 percent of GDP of the comparable period of last year. It is noteworthy that containing the deficit during the period under review was quite challenging as the burden of financing fell directly on domestic sources due to the non materialization of external inflows.

Unlike the past, it was for the first time in many years that Public Sector Development Program did not face any cut. Despite huge financial constraints, the Government made a special effort to fully fund the PSDP. Accordingly, Rs. 304 billion were released that facilitated in completion of 200 projects. The Government efforts can be gauged from the fact that Rs. 2.2 trillion were provided during the last four years for PSDP.

Money and Credit: The SBP lowered the discount rate by cumulative 200 bps points to 2 percent during the first half of fiscal year 2011-12 in line with inflationary trend in the country. During the first eleven months of the current fiscal year (June 2011-11th May 2012) broad money (M2) witnessed an expansion of 9.1 percent as compared to 11.47 percent as compared to last year. The deceleration in money supply is primarily driven by the significant fall in the Net Foreign Assets of the banking system along with increased government borrowing and a one-off settlement of circular debt. Net Domestic Assets (NDA) during July 2011—11th May 2012 stood at Rs. 880.9 billion against Rs. 481.6 billion during the same period last year. The expansion in NDA is mainly contributed by a rise in demand for private sector credit and government borrowings. Conversely, Net Foreign Assets (NFA) witnessed a contraction. During July 2011-11th May, 2012, credit to the private sector witnessed a net increase of Rs. 234.8 billion compared to Rs. 107.8 billion in the same period last year. Year-on-year growth in private sector credit was up 7.5 percent by 11th May, 2012. The weighted average lending rate (including zero mark-up) on outstanding loans stood at 12.8 percent while the weighted average deposit rate (including zero mark-up) stood at 6.98 percent in March 2012. This resulted in a spread of 5.8 percent. The decline in the weighted average lending rate is due to the lag involved in contracting fresh loans in the new declining interest rate environment and the decline in banks return on government securities. It is pertinent to mention that since the SBP was following a tight monetary policy till August 2011 and the interest rates were moving up, the banking spread remained high.

Capital Markets: The KSE 100 index stood at 12,496 on June 20, 2011. It crossed the barrier of 14,000 and closed at 14,618 on 7th May, 2012, the highest level seen in last four years showing a growth of 17 percent over the closing index of last financial year. The Government has now levied Capital Gain Tax on securities. The net investment by the foreign investors in Pakistan's Stock Markets during July-March, 2011-12 reflected a net outflow of US\$176 million. This indicates that bullish trend observed in Pakistani equity market is due to the restoration of the confidence of local investors and institutions. During fiscal year 2011-12, the leading stock markets indices of the world observed mixed trends with negative growth of 18.1 percent in China to 19.03 percent positive growth in case of Philippines. Pakistani Stock market performed well as compared to markets of the world during the current fiscal year. This was mainly due to the steps taken by the government to boost the confidence of the equity market investors which included reforms in the Capital gains tax, etc.

The Government has enacted Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012 which will further strengthen the country's stock markets. The law requires stock exchanges to be demutualized within 119 days of its promulgation in accordance with timelines specified for completion of various milestones involved in demutualization exercise. Corporatization, demutualization of stock exchanges would entail converting their structure from non-profit, mutually owned organization to for-profit entities owned by shareholders. Demutualization would result in increased transparency at stock exchanges and greater balance between interests of various stakeholders by clear segregation of commercial, regulatory functions and separation of trading rights and ownership rights. Demutualization is well established global trend and almost all stock exchanges worldwide operate in demutualized set up. The enactment of this law has brought Pakistan capital market at par with other international jurisdictions like India, Malaysia, Singapore, USA, UK, Germany, Australia, Hong Kong, Turkey among others. It will help expand market outreach, attract new investors, improve liquidity and enable stock exchange to attract international strategic partners.

Inflation: Price stability remained the priority of the government. The Government has constituted a National Price Monitoring Committee headed by the Finance Secretary with representatives of Federal Ministries and Provincial departments. The Committee meets every month. In addition, the Cabinet and the Economic Committee of the Cabinet monitors the prices of essential items and take corrective measures to ensure that prices remain under check. These efforts have yielded results. Inflation has declined for the third consecutive year. CPI was 10.8 percent during July-April, 2012 from a high of 25 percent in October 2008. It was in single digit in December 2012. This has been achieved despite sharp increase in international oil prices, effect of upward adjustment in the administered prices of electricity and gas, supply disruptions due to devastating floods of 2010 and heavy rains of 2011 and bank borrowings. Food and non-food inflation averaged 11.1 percent and 10.7 percent respectively against 18.8 percent and 10.8 percent in the same period of last year.

Trade and Payments: The Government pursued vigorously to secure concessional duties package on 75 items from the European Union. The World Trade Organization approved the package this year. It is expected that this will boost Pakistan's exports to EU, one of the major trading partner of Pakistan. Exports

witnessed a strong performance last year attaining the highest level ever of \$ 25 billion showing a growth of 30 percent. It reflected both the price and quantity effect. Despite euro zone crisis, impacting the demand for Pakistan goods, Pakistan has successfully maintained its exports at last year's until April this year. Exports during July-April 2012 were \$ 20.5 billion compared to \$ 20.46 billion last year. The Afghan Transit Trade Agreement (APTTA) has encouraged formal trade between Pakistan and Afghanistan and the volume has risen to around \$ 2.5 billion annually. Efforts are underway to formalize Free Trade Agreements and Preferential Trade Agreements with many countries. It will help boosting Pakistan's exports. Efforts are also in hand to normalize trade relations with India.

Imports grew by 14.5 percent and stood at \$ 33.1 billion during July-April 2012. The current account deficit stood at \$ 3.4 billion in the same period. It was largely as a result of high oil prices and import of fertilizers. Continued support from current transfers in the form of workers' remittances helped in containing current account balance. Pakistan has witnessed some geographical diversification in exports. During 2005-06, 47.2 percent of the country's exports were concentrated in five markets (USA, UK, Germany, Hong Kong and U.A.E.) of the world and remaining share of all other countries was 52.8 percent. This concentration is on continuous decline since 2005-06 and recently the share of these five markets stood at 35.7 percent whereas the share of all other countries increased to 64.3 percent during July-December 2011-12. This improvement in geographical diversification was mainly the result of Strategic Trade Policy Framework (STPF-2009-12) introduced by the government and the resulting increase in exports to China, Afghanistan and Bangladesh.

Pakistan's foreign exchange reserves reached to \$ 16.5 billion at the end-April 2012 compared to \$ 17.0 billion at end-April 2011. The exchange rate averaged at Rs. 85.50/US\$ during July-April 2010-11, whereas it averaged at Rs. 88.55/US\$ during July-April 2011-12. The Pak Rupee depreciated by 3.4 percent during July-April 2011-12 over the depreciation of 2.2 percent in July-April 2010-11 period.

Public Debt: Pakistan's public debt stood at Rs. 12,024 billion as of March 31, 2012. During Pakistan Economic Survey 2011-12 first nine months of the ongoing fiscal year, total public debt registered an increase of Rs. 1,315 billion which includes Rs. 391 billion consolidated by the Government into public debt against outstanding previous year's subsidies related to food and energy sectors. Public debt as a percent of GDP stood at 58.2 percent by end-March 2012. During July-March 2012, \$179 million was added to the EDL stock. At the end of March 2012, servicing of the public debt stood at Rs.720.3 billion against the budget amount of Rs. 1034.2 billion.

Population, Labour Force and Employment: Pakistan is endowed with demographic dividend with a bulging young population. They can be a productive asset of the country if put to proper training and skill development. Pakistan is also facing rapid urbanization. The population in urban areas has increased from 65.3 million in 2010-11 to 67.5 million in 2011-12. Accordingly, cities development is one of the key pillars of Pakistan's growth framework.

According to the Labour Force Survey 2010-11, Pakistan has a labour force of 57.2 million people which is 0.9 million more than the last year. Out of this potential labour force, the total number of people were employed during 2010-11 were 53.8 million, which is 0.6 million more than the last year. The total labour force working in

the agricultural sector remained unchanged during the period 2008-2011. In manufacturing sector, the participation rate has increased from 13.2 percent in 2009-10 to 13.7 percent in 2010-11. Efforts are being made to develop an efficient, equitable and rights based labour market that provides the mechanisms for productivity growth in the economy which results in real wage increases.

The government is making sincere efforts to boost overseas employment which will not only reduce the unemployment burden in the country but will also enhance remittances. In this regard, MoUs have been signed with number of labour importing countries such as Malaysia, Kuwait, and Qatar etc. Emigrants sent abroad in 2010 were 0.4 million and 0.5 million in 2011. Saudi Arabia, Gulf State including United Arab Emirate (UAE), Oman and Kuwait are the largest market of Pakistani workers.

Transport and Communication: The transport and communication sector is a major contributor to government revenues. Sustainable economic development is dependent on a robust and low cost transport system. Enhanced export competitiveness is also contingent upon the efficient performance of this sector. The government is committed to implementing a comprehensive and modernizing transport and logistics sector through continuous reforms in all of its sub sectors. The Ministry of Communications has prepared a draft National Transport Policy which covers all modes of transport sectors i.e. (i) Roads, (ii) Railways, (iii) Ports and Shipping and (iv) Aviation. This policy also includes the National Transport Corridor Improvement Program (NTCIP) to make it more productive and environment friendly.

The National Highway Authority completed 12 projects of flyovers, bridges, interchanges and the upgrading of roads during the last one year at a cost of Rs. 19.6 billion. At present, 46 development projects of roads covering 2,985 kms are ongoing costing Rs. 245 billion in different sections/packages. These projects include construction of roads, river bridges, tunnels, flyovers and interchanges. NHA has also launched and awarded 16 new development projects covering over 500 kms, including construction of a number of bridges, flyovers and interchanges costing Rs. 71 billion. NHA is simultaneously constructing 12 bridges across the rivers. These are: on river Chenab 4, on river Sutlej 2, on river Swan 1 and on river Indus 5.

The Cabinet Committee of Restructuring (CCOR) approved a restructuring framework for Pakistan Railways (PR). New Board of Directors of PR has been instituted, involving academia, management professionals, rail experts and executive functionaries. The Government arranged Rs. 6 billion loan for repair of locomotives and freight operations are also being prioritized for revenue generation. PR is being provided Rs. 2.3 billion per month from the budget to finance pay and pensions of Railway employees. An Asset Management Company is being established for optimum utilization of PR's assets. Private sector involvement is the focus moving forward, the Chamber of Commerce and Industries Lahore has been engaged for their freight transportation from Karachi to Lahore. Commercial management of rail operations and outsourcing of non-core functions is being initiated with an aim to improve efficiency of rail operations. Private Sector is also running a passenger train.

During the financial year, 16 kms of track was rehabilitated on the Pakistan Railways network besides doubling the previous 15 kms of track. Construction of a D Class railway station at new Multan City, renovation of Khudian Khas, Usmanwala,

Raiwind and Kanganpur railway stations was carried out. Signaling system of four railway stations damaged during the riots of 2007 was rehabilitated during the period.

During February 2012, 52 new design passenger coaches were imported from China. Remaining 150 passenger coaches will be manufactured at Pakistan Railway Carriage Factory Islamabad by June 30, 2013. In addition, 22 passenger coaches have been rehabilitated at the Pakistan Railway Carriage Factory Islamabad during the last year. A new dry port was set up at Prem Nagar near Raiwind industrial area, Lahore through public private partnership.

Tele density in the country has increased by 68.3 percent in April 2012, showing 6.7 percent growth as compared to the previous year. Mobile penetration rose to 64.9 percent in 2011-12 against 60.4 percent in 2010-11. Fixed Local Loop tele density now stands at 1.93 percent. Total mobile subscribers have reached 118.3 million by the end of March 2012. Subscribers of Local Loop (FLL + WLL) are 5.9 million, out of which 3.10 million belong to FLL and 2.8 million belong to WLL. Broadband subscribers reached 1.9 million at the end of February 2012.

There has been a cumulative investment of approximately US\$ 2.5 billion in the electronic media industry in Pakistan. More than 200,000 new jobs with diversified skills and qualifications have been provided. Additionally, over 7 million people have been accommodated through indirect employment. With the current growth rate of more than seven percent per annum in this sector, it is estimated that the cumulative investment in the electronic media industry will reach above \$ 3.0 billion by the end of the current financial year.

Energy: Energy is considered to be the lifeline of economic development. Pakistan's economy has been growing at an average growth rate of almost 3 percent for the last four years and demand of energy both at the production and consumer end is increasing rapidly. The Energy Committee headed by the Finance Minister presented a well articulated Energy Recovery Plan to the Cabinet in November 2011 which was approved after due deliberations.

The Plan focused on: (i) improving governance structure: it included dissolution of PEPCO and replaced by Central Power Purchase Authority, constituting new Boards of Directors (BODs) of 8 DISCOs and NTDC comprising professionals, issuance of explicit guidelines of professionalizing the BOD, hiring professional CEOs for DISCOs, GENCOs and CPPA, and business plans for each DISCO and GENCO to be developed by the newly hired CEO and approved by the new Board; (ii) Supportive legislative framework: NEPRA law was amended authorizing NEPRA to notify fuel adjustment, Cabinet has approved amendment making electricity theft a serious crime; (iii) Financial Sustainability of the System: the Government has increased electricity tariff by 90 percent and Rs. 1.25 per kwh very recently to recover the full cost of electricity supply which is still Rs. 3 per kwh below the determined tariff; (iv) Resolution of Circular Debt: the Government has provided Rs. 1122 billion from the budget during the last four years to resolve circular debt issue. However, extremely low collection than required (90 percent of the billed amount) by DISCOs always leaves a high balance as receivables; (v)

Supply Side Management: reduction in transmission and distribution losses as well as running the most efficient plants; (vi) Demand Side Management: Standard Operating Procedure (SOP) issued for recovery of private receivables, a limit of 45 days for payment overdue has been set for disconnection, Loss mapping in each

DISCO initiated to identify losses and their sources, Government facilitating recovery of dues of Provincial and Federal Government departments, and Media campaign for prudent use of electricity; (vii) Promoting Private Sector Participation (viii) changing fuel mix and (ix) changing energy mix moving towards hydel and coal based generation. In addition, the Government has launched a major Pakistan Economic Survey 2011-12 energy conservancy program that includes two holiday a week, closing the markets at 8:00 pm, lighting alternate pole of the Municipalities and using air conditioners in offices after 11:00 p.m.

The contribution of Hydel in electricity generation increased to 33.6 percent in 2011. Karachi Electricity Supply Corporation (KESC) contributed 8.3 percent, Pakistan Atomic Energy Commission (PAEC) 3.6 percent, Kot Addu Power Company (KAPCO) 6.2 and the Hub Power Company (HUBCO) 9.1 percent to total electricity generation. Independent Power Producers (IPPs) have contributed almost 25 percent. The Government is implementing a number of priority hydel projects such as 969 MW-Neelum Jhelum, 1410 MW-Tarbela 4th Extension, and Patrind in the private sector. Almost 96 percent of the work on the main dam at Mangla, spillway and allied facilities are completed and resettlement work is in progress. Likewise 99.7 percent work on Satpara and 72.1 percent on Gomal Zam dam have been completed. 7100 MW-Bunji, 4320 MW-Dasu, 80 MW Kurrum Tungi Dam, 740-MW Munda Dam and 4500 MW-Diamer Bhasha Dam are in the pipeline. Pakistan is one of the beneficiaries of Tetra-partner power import project under the head of Central Asia-South Asia (CASA-1000) electricity trade. In addition, a number of thermal projects are under implementation including 747 Guddu refurbishment.

Pakistan has huge coal reserves estimated at over 185 billion tones. Thus the long term trend shows that there was an increase of production of coal; an average 7.7 percent change occurred during the last ten years. Federal as well as Sindh Governments are actively pursuing to provide necessary infrastructure at Thar for exploiting these coal reserves for power generation. Two blocs have been leased out on pilot basis. Efforts are underway to provide the missing transmission link between Matiari and Thar.

The Government is also working on different gas pipelines as well as import of LNG and LPG to address the gas shortages. In this regard, Liquefied Natural Gas (LNG) Policy 2011 has been notified which encourages private parties to develop LNG projects and sets them free to participate in any segment of the LNG value chain. The gas sector supply increased by 4.9 percent in July-March 2011-12 as compared with the corresponding period of last year. The average production of natural gas during July-March 2011-12 was 4236.1 million cubic feet per day (mmcf) as against 4050.6 (mmcf) during the corresponding period of last year showing an increase of 4.6 percent.

Social Safety Nets: The government is committed to a sustained poverty reduction strategy and to allocate a minimum of 4.5 percent of GDP to social and poverty related expenditures. The government prioritized 17 pro-poor sectors through the Medium Term Expenditure Framework (MTEF) which provides a link between the policy priorities and the budget realities. Expenditure on pro-poor sectors in 2007-08 stood at 5.6 percent of GDP, 7.5 percent in 2008-09, 7.6 percent in 2009-10. Total expenditures in 2010-11 were 6.9 percent of GDP. This was first year of the 7th National Finance Commission Award when 70 percent of the divisible pool was

transferred to the provinces as well as transition was taking place as a result of 18th amendment.

The floods of 2010 and heavy rains of 2011 significantly hurt the efforts to improve standard of living of the people. The floods and rains affected approximately 20 million people directly and a much larger proportion indirectly; the loss to infrastructure and livelihood sources further impacted the people of these areas.

The Benazir Income Support Programme, a flagship program of the Government, has made a remarkable progress by providing much needed relief to over 4 million recipients all over Pakistan. Over the last 4 years, BISP was provided over Rs. 178 billion out which Rs. 153 billion were contributed from domestic resources. A total amount of Rs. 122 billion has been disbursed to its recipients up to March 2012. The number of recipients is expected to be increased to 7 million once the on-going processing of data collected during the “nation-wide poverty scorecard targeting survey” is completed. BISP has launched a number of programmes including (i) Payment to Recipients, (ii) Graduation Initiatives, (iii) Waseela-e-Haq, (iv) Waseela-e-Rozgar, (v) Waseela-e-Sehat and (vi) Waseela-e-Talcem to mitigate the impact of stabilization program as well as inflation.

The Pakistan Poverty Alleviation Fund (PPAF) is yet another element of the country’s poverty reduction strategy. The PPAF is dedicated for micro credit, enterprise development, community based infrastructure and energy projects, livelihood enhancement and protection, social mobilization, and capacity building. The overall disbursements for core operations during the period of July-December 2012 were Rs. 8.5 billion.

Pakistan Bait-ul-Mal is making a significant contribution towards poverty reduction through its various services by providing assistance to destitute, widows, orphans, invalid, infirm and other needy persons irrespective of their gender, caste, creed and religion through its ongoing core projects/schemes. A total of Rs. 1.8 billion has been utilised upto February 2012 on schemes such as individual Financial Assistance, child support program, vocational schools, sweet homes etc.

After devolution of the subject of Zakat, the Provinces/Federal Areas are directly managing the distribution of Zakat to the beneficiaries. Zakat funds have been utilized for assistance to the needy, indigent, poor, orphans, widows, handicapped and disabled for their subsistence and rehabilitation. Up to March 2012, a total amount of Rs.7.8 billion was distributed amongst the provinces and other administrative areas.

Peoples Works Programme (PWP) I & II are welfare programmes comprising small development schemes providing village electrification, gas, farm to market roads, education, health and other services to create jobs at the local level. PWP-I & II have been provided over Rs. 38 billion during 2011-12.

Employees Old Age Benefits Institution provides monetary benefits to the old age workers through various programmes such as the Old Age Pension, Invalidity Pension, Survivors Pension and Old Age Grants. During the period of July-March 2012, Rs. 8 billion has been disbursed to 350,485 beneficiaries. Workers Welfare Fund is also facilitating the poor labourers in industrial sector by providing funds for housing facilities and marriage grant, death grant and scholarships etc. During (July-March) 2011-12, Rs. 2.5 billion has been incurred for these schemes. Government has also taken various micro-finance initiatives in collaboration with all stakeholders to generate employment opportunities and to eliminate poverty.

The Government has provided huge subsidies during the last four years to the vulnerable and poor to mitigate the impact of stabilization, floods and international prices. These include: Rs. 1122 billion for the power sector, Rs. 104 billion for the petroleum sector in addition to foregone income of Rs. 136 billion from Petroleum Levy by adjusting it downward to keep the petroleum prices lower than the international market, Rs. 110 billion on fertilizer and Rs. 137 billion for food items such as sugar, wheat and subsidized items through Utilities Stores. In addition, Federal Government provided Rs. 42 billion to the flood affectees through Watan Card as well as Citizens Compensation Damages Program.

Environment: Pakistan continued to face challenges to achieve environmentally sound development. This has become increasingly difficult to achieve in the backdrop of back to back flooding and rains across the country as well as other exogenous and endogenous factors. The quality of the natural environment is not only an extremely important issue from the point of view of individual survival but it will also emerge as one of the principal human security issues in Pakistan. The environmental challenges include climate change impacts, loss of biological diversity, deforestation and degradation of Air and Water quality.

A number of projects have been funded by the government to improve the capacity of relevant institutions to deal with increasing environmental degradation. In addition, there are a number of projects funded by the donors in which the government is a partner. These are being currently implemented to improve overall environment of the country. Government efforts alone, because of the limited resources at its disposal, are not enough and demand a much larger participation and Pakistan Economic Survey 2011-12 support from other stakeholders including industry, civil society, and the public at large as well as the donors. National Climate Change Policy 2011 provides a framework for addressing the issues that Pakistan faces or will face in future due to the changing climate.

The level of access to drinking water is quite impressive in Pakistan. According to Pakistan Bureau of Statistics report (PBS) Pakistan Social and Living Standards Measurement Survey 2010-11, access to drinking water to urban and rural population of Pakistan is 94 and 84 percent, with an average of 87 percent in 2011. Sanitation facilities are also improving. According to a report released by the WHO/UNICEF Joint Monitoring Program (JMP) 2012, 92 percent people had access to drinking water by 2010 in Pakistan while this ratio was 85 percent and 89 percent in 1990 and 2000 respectively. The MDG target is to achieve the ratio of 93 percent by 2015.

Going forward, the government will continue to pursue policy of macroeconomic stability, growth and creating jobs, mobilizing domestic resources, incentivizing the private sector, and strengthening the social safety nets.

State of Economy in 2008

It is important to appreciate the state of economy inherited by the democratically elected Government and the challenges it faced as the Government presents 5th budget for the first time in the history of Pakistan. By the time this Government assumed responsibilities in March 2008, a combination of large exogenous price shocks (oil and food), global financial turmoil, huge expenditure on security and policy lapses during the political transition had set a stage for full blown crisis. More specifically:

- Real GDP growth slowed down in 2007-08 reflecting weaker performance of the agricultural and manufacturing sectors.
- Headline CPI 12-month inflation rose to 25 percent in October 2008, with core inflation (excluding energy and food) increasing to 18 percent.
- External current account deficit widened to about \$14 billion or 8½ percent of GDP in 2007/08.
- Fiscal deficit rose to 7.6 percent of GDP in 2007/08 mainly because of a substantial increase in energy and food subsidies and import prices.
- Gross reserves declined from \$ 16 billion to \$ 11 billion.
- Domestic pressures and the global financial crisis led to rising dollarization and an outflow of deposits from the system in 2008 which contributed to a deterioration of liquidity conditions.
- Karachi KSE-100 index dropped by one third, prompting the Karachi Stock Exchange Board to impose a floor on the decline of all stock prices on August 27, 2008.

The Government had no choice but to go to IMF to strengthen international reserves and ensure fiscal stabilization. Just when the economy was transitioning from stabilization to growth, Pakistan was struck by the great floods of 2010. It caused severe damages to infrastructure, roads, bridges, power stations, refineries, schools, hospitals, crops and livestock. A large number of human lives were lost. The total loss was estimated to be around \$ 10 billion. It was followed by yet another spell of severe rains in Sindh and parts of Balochistan in 2011 causing a loss of additional \$ 3 billion.

The security development in the country during 2008-09, particularly in the North-West, required beefing up of security forces and mobilization of additional resources to deal with the situation. In addition, humanitarian crisis spawned by the security situation displacing over 3 million people resulted in huge budgetary costs.

Achievements Since FY2008

Inspite of huge challenges during the last four years including global economic contraction especially in the advanced economies, financial turmoil, great floods of 2010, extraordinary rains in 2011, persistently rising energy prices, continuing security situation, the Government succeeded in:

- Maintaining macroeconomic stability by pursuing tight monetary policy and fiscal discipline.
- Revival of Growth: Economy is recovering from the floods and exogenous shocks and real GDP growth is estimated at around 3.7 percent on the back of pick up in agriculture and large scale manufacturing growth as compared to 3 percent last year.
- Inflation: Average inflation seems remain close to the targeted 11 percent, declining from the peak of 25 percent.
- External Sector: Pakistan's external account registered an unexpected improvement during FY11 providing much needed breathing space to the economy. The exports surged to \$ 25.4 billion showing a growth of 28.4 percent whereas the imports registered an increase of 14.7 percent. As a result, the trade deficit, which had been a major factor in the deterioration of the external account in the past, remained in check, and contracted by 8.7 percent as compared to the preceding year. FY11 current account balance posted a small surplus of \$ 0.3 billion as compared to 8.5 percent deficit in

2008. This year, exports have maintained last year trend during July-April 2012 despite adverse global environment.

- Strong flow of remittances: The rising trend in remittances continued for the fourth consecutive year in FY12 as remittances are estimated close to US\$ 13 billion as compared to \$ 6.2 billion in FY08.
- Build up of Foreign Exchange Reserves: The improvement in the overall external balance despite the contraction in financial account surplus helped build up foreign exchange reserves during FY11. Thus, by the end of June 2011, Pakistan's overall foreign exchange reserves stood at a record level of US\$ 18.2 billion. Currently, these are at \$ 16.4 billion despite repayment to the IMF as well as discharging all our obligations.

Several New Initiatives of the Government

This Government has undertaken several new initiatives during the last four years. The most significant initiatives include:

- 7th National Finance Commission Award: The Award was path-breaking as (i) it moved away from population as the sole basis for horizontal distribution of resource and gave due weightage to population, poverty/backwardness, revenue collection, revenue generation and inverse population density; (ii) it increased share of Balochistan to 9.09 percent (iii) 70 percent share of the divisible pool is now being transferred to the Provinces and Special Areas (iv) transfer to the provinces increased from Rs. 633 billion in FY10 under 6th NFC Award to Rs. 999 billion in FY11 and Estimated Rs. 1,204 billion in FY12.
- 18th Amendment in the Constitution abolishing the concurrent list and transfer of 17 federal ministries to the provinces.
- Autonomy to Gilgit-Baltistan.
- Aghaz-e-Haqooq-e-Balochistan Pakistan Economic Survey 2011-12.
- Additional Resources to less developed areas in 4 years: It included (i) Rs 32 billion to Gilgit-Baltistan in 2 years (ii) Rs 71 billion to AJK and (iii) Rs 110 billion to FATA.
- Public Sector Development Program: PSDP over a period of 4 years was Rs 2.2 trillion. Current year's PSDP outlay is Rs 730 billion as compared to Rs 480 billion last year. It was spent to complete 657 projects in 4 years.
- Peoples' Works Program: Rs 130 billion were earmarked under Peoples Works Program-II (Rs 110 billion) and Rs 20 billion under PWP-I in 4 years for implementation of hundreds of schemes for electrification, gas supply, road, water supply and sanitation.
- Citizens' Damages Compensation Program: Federal Government provided Rs 42 billion to the flood affectees.
- Subsidies: Over the 4 years, Government has provided so far (i) over Rs 1122 billion towards tariff differential subsidy to maintain the notified tariff lower than the determined tariff (ii) Rs 104 billion in petroleum subsidy (iii) Rs 110 billion for fertilizer subsidy and (iv) Rs 137 billion in food subsidy. In addition, the Government lost Rs 136 billion in revenue by adjusting the petroleum levy downward.
- Benazir Income Support Program: Additional resources of Rs 178 billion allocated for disbursement through BISP to vulnerable groups including Rs 153 billion from the budget.

- Benazir Employees Stock Option Programme: Under this scheme, 12 percent shares of 80 State Owned Enterprises were transferred to 500,000 employees of those SOEs making them shareholder.
- Internship Program: The Government also provided 100,000 internship to Master degree holders paying them Rs 10,000 per month.
- Railways: Railway was provided Rs 119 billion over the last 4 years; Rs 85 billion under current budget and Rs 34 billion for development budget.
- Energy Sector: Government injected professionalism in power sector by restructuring Board of Directors of some PSEs, initiated alternate energy program, put hard budget constraint and resolved circular debt issue partially.
- Tax Simplification: The government took many steps to (i) simplify the taxation system (ii) minimum tax slab increased from Rs 100,000 to Rs 350,000 (iii) expanding the tax base by bringing new tax payers in the net (iv) improve the tax administration (v) Special Excise duties were eliminated (vi) gradual elimination of federal excise duty (vii) abolishing regulatory duties on 392 items (viii) elimination of zero ratings on key sectors.
- Doubling the FBR Tax Revenues: As a result of these efforts, FBR revenue has moved from Rs 1 trillion in 2007-08 to around Rs 2 trillion in 2011-12. ■

Ministry of Finance, Government of Pakistan,
http://www.finance.gov.pk/survey/chapter_12/ExecutiveSummary.pdf

DOCUMENT NO. 9

TEXT OF BUDGET SPEECH - PAKISTAN FEDERAL BUDGET 2012-13

Budget Speech PART-I

Bismillahir Rehmanir Raheem

Madam Speaker,

I want to start by thanking Almighty Allah for giving me the responsibility to present the fifth budget of the elected government. This is a historic occasion. The nation should be proud of this achievement. The world can see that democracy is thriving in Pakistan.

This Parliament has made landmark legislations, and I want to appreciate the Leader of the House, Prime Minister Yousuf Reza Gilani for making the parliament the centre of political life of the nation. It is appropriate that he has become the longest-serving Prime Minister in the history of our nation. I also want to acknowledge the contributions of the leadership of the opposition and all the political parties, who have worked for the success of democracy.

And I want to recognize your role Madam Speaker also. The leadership that you have provided to this House and that Mr. FarooqNaek provided as Chairman of the Senate is noteworthy.

Above all, we must recognize the wisdom and sagacity demonstrated by the President Asif Ali Zardari in leading the country during this transition. He returned the powers of the President to the parliament. He adopted reconciliation in national

politics. History will remember the leadership of our times for their role in making Pakistan strong.

In 2008, this nation began a new journey. Democracy made a come back. The people elected this Parliament. The rule of law was established. A President was elected unanimously. Politics of reconciliation was introduced. The Constitution was restored. The Judiciary has been active. The media has been free. The Leader of the Opposition became the Chairman of the Public Accounts Committee. Institutions were strengthened. The provinces were empowered. The Eighteenth Amendment gave them more authority. The Seventh NFC Award gave them more resources. Eighteen Ministries were transferred to the provinces. The concurrent list was abolished. Normal political activity was allowed in FATA. Gilgit-Baltistan was granted new administrative status. As a nation, we have managed the challenges of an inherited economic crisis, regional conflict, global turmoil, and the great floods of 2010 – this shows the resilience of the Pakistani nation. It's a testimony to the will of our people to overcome adversity and realize their destiny. Let me salute the Armed Services of Pakistan, the Para-Military and Police, the FC for the innumerable sacrifices they have rendered in protecting our country. Above all, let me acknowledge the men and women of Pakistan for their love for the country and their willingness to work hard who make it strong.

What We Inherited?

It is important that we must realize the economic situation that this government inherited, when the people entrusted them with this responsibility in 2008[;]

- (1) Real GDP growth had slowed down;
- (2) Headline CPI 12-month inflation had been rising since 2006 and peaked at 25 percent in October 2008;
- (3) External current account deficit 8½ percent of GDP
- (4) Fiscal deficit rose to 7.6 percent
- (5) Gross reserves declined from \$16 billion to \$6 billion.
- (6) Karachi KSE-100 index dropped by one third, prompting exchange authorities to close down the market.
- (7) Within months, the rupee had depreciated from sixties to the eighties.

There was no escape from starting a Fund program, which we received as we had queued up early before countries affected by 2008 financial crisis approached the Fund for support. Although we have not achieved all of our objectives, the program helped us in stabilizing the economy. For the last nearly two years, when Pakistan specific calamities have affected us, we managed the economy without funding from the IMF. Rather we have repaid \$1.2 billion of the loan amount.

During the last four years, we have faced volatility in international prices, the great floods of 2010, devastating rains in Sindh and parts of Baluchistan and adverse security situation. These have caused slow-down in foreign investment. It is remarkable that our domestic businesses have continued to perform, and also succeed in holding on to their foreign buyers under these circumstances.

The world economic outlook remains weak particularly in the Eurozone where considerable amount of our trade and investment is focused. It is not clear how the

Eurozone crisis will play out. International oil prices and trade and investment from Eurozone will be affected depending on how this crisis is unfolded.

Despite such daunting challenges, it is the resilience of our economy and the strength of our people that we have maintained growth in the economy. The growth rate in the last two years has averaged around 3.4% compared to less than 2% in the previous two years. This is a reasonable performance and the current year growth of 3.7% shows an upward trend.

With grace of Allah, we have succeeded in achieving economic stabilization and are now confident that growth will soon resume to its potential. It will now share elements of the economy showing stability and note some of our continuing challenges.

Economic Achievements of the Government

Madam Speaker,

Our primary goal has been to stabilize the economy.

Macroeconomic Stability

At the outset, let me state that Pakistan has a stable macroeconomic framework. We have maintained a stable external position which we have managed in the absence of IMF disbursement during the last two years. We have returned \$1.2 billion in loans from the IMF. Yet we have adequate reserves, our exchange rate is relatively stable, our exports have again performed remarkably well and our remittances are increasing. Our higher imports are primarily due to global price oil shock and we are not alone is facing this external challenge.

Continuing Reforms

We have continued with economic reforms. Those who thought the end of Fung program would lead to irresponsible economic management and loss of discipline have been proven wrong. In the last two years, we have displayed more fiscal discipline than even in the past.

The following are the key reforms undertaken during this period:

- (1) Sales tax exemptions, except those on food items, agriculture produce, education and medicines, have been removed.
- (2) Zero-rated regimes eliminated on domestic sales; expanding coverage.
- (3) Sales tax rate reduced from 17% to 16%;
- (4) All special excise duties have been removed.
- (5) 392 regulatory duties have been abolished.
- (6) Major rationalization in excise duties; FEDs have been eliminated or rates decreased.
- (7) Focus of tax policy has been shifted to enforcement, audit and diligent follow-up of court cases;
- (8) Austerity in expenditures was continued for the second consecutive year and current expenditures, other than those for defense and debt servicing, have

been kept constant, or in some cases, brought down in nominal terms; Civilian Government expenditure 10% than last year.

- (9) Poverty reducing and social safety net expenditures have been increased while ensuring the targeting;
- (10) Development expenditures have also been protected and fully utilized;
- (11) Public sector reforms have moved forward with the appointment of professional managers in PIA, Pakistan Steel Mills, GENCO, DISCOs and reconstitution of the Board of Directors of most of these entities. More reforms in other public sector corporations are underway;
- (12) Debts parked outside budget were brought into books and commodity debt significantly reduced.
- (13) Interest rate brought down by 200 bsp by Central Bank in response to easing of inflationary pressure.

National Finance Commission Award and its implications

One of the revolutionary steps adopted by this government is finalization of the 7th NFC Award. It is a watershed in federal provincial relationship. Through this award, federal government gave a much larger share of federal taxes to the provinces. The combined effect of divisible pool transfers and other related grants to the provinces, Gilgit-Baltistan, AJK and FATA comes to nearly 70% of divisible pool. To appreciate the extent of such transfers, note that in 2009-10 Rs.633 billion were transferred to the provinces which have risen to Rs.1204 in 2011-12, a doubling of the amount in two years.

This huge transfer of resources imposed major adjustment for the federal government in the short-run. While we grapple with this challenge, we are confident that higher transfers will enable the provinces to provide health, education and other services now exclusively in their responsibility.

18th Amendment and its Implications

It again goes to the credit of this Parliament for passing the 18th Constitutional Amendment with consensus.

This Amendment has devolved eighteen ministries to the provinces. The combination of higher autonomy and larger resources will allow provinces to better serve the people.

Welfare Measures and Poverty Reduction

Despite the challenges we have faced, the welfare of the poorest segments of population was always in our minds. Insulating and protecting them from the vagaries of swinging economic conditions is an important goal of economic policy.

The flagship program of the government in this regard is the Benazir Income Support Program (BISP). It is a program recognized as one of the best international practices.

The program aims at covering nearly 7 million vulnerable households in the country for provision of Rs.12,000 per year. Women are the recipient of cash support

in the family, understandably as they are the ones managing the households. The program has many additional features that allow funds for training, health insurance and small business to graduate from the program.

Apart from this, we have undertaken a number of initiatives to broaden the social safety net programs for the aid and support of the poor and calamity affected population. Pakistan Poverty Alleviation Fund, Bait-ul-Maal, Citizen Damage Compensation Program (CDCP), provision of low-mark-up loans for affected farmers etc. are some of the programs through which hundreds of billions of additional funds have been provided to mitigate the sufferings of the poor.

There are other programs of support. We are providing electricity at one-sixth the cost of production to about eight million lifeline families whose consumption is below 50 units per month. Instead of paying Rs. 600 per month, they need to pay less than Rs. 100. The total subsidy given on electricity on consumption under 700 units in a month comes to around Rs. 180 billion annually. We are giving a subsidy of at least eight billion rupees per year for sugar. In addition to this, are the continuing poverty alleviation programs like the Bait-ul-Maal, under which Rs. 1000 billion have been distributed to the poor over the past four years.

We have been giving employment opportunities for the educated unemployed. In the National Internship Program, 100,000 Masters Graduates were provided training in high demand areas. We facilitated the employment of at least 1.6 million Pakistanis abroad during the last four years. We created hundreds of thousands of jobs in the public sector. And, we converted thousands of contract employees into permanent employees to give them security.

As part of Peoples Government's legacy, empowerment of women has also been one of our primary concerns. We have empowered women in several ways. During the last four years, the parliament has passed no less than 24 bills to protect women's rights and to empower them.

Prices

A key objective of economic policy is to maintain price stability. Inflation is affected by the international oil and commodity prices, seasonality and shortages in agriculture produce and government expenditures financed through printing of money. In our country, much of the inflation is either because of international prices and supply shocks.

The explosive inflation nearly 25% in late 2008 is now firmly behind us. There is gradual decline in the rate of inflation during the last four years. This year it has been brought down to 11% and we are targeting single digit inflation for the next fiscal year. In fact, there has been a decline in inflation for three years in a row. Due to our austerity last year, we froze nominal expenditure of government in the current year the running of the civilian government is 10% less than last year.

Tax Collections

In the first four years of our government, tax collections will be doubled from about Rs.1008 billion in June 2008 to nearly Rs.2000 billion in June 2012.

Much of this growth has been achieved in the last two years, where tax revenues rose from Rs.1327 billion to Rs.1950 billion representing an increase of 46% during the period. Such a collection performance is unprecedented in country's history. This was done while reducing the rate of sales tax, eliminating a large number of special excise duties and nearly abolishing all regulatory duties on imports, to facilitate production and growth.

By the grace of Allah, this performance has been achieved by going after those who were outside the tax net, by strengthening the enforcement regime, by massively improving the tax administration, vigilant follow-up of cases under litigation and carefully auditing the performance of the withholding agents.

Agriculture

Agriculture Sector is the backbone of Pakistan economy. Despite two consecutive floods, the sector has rendered outstanding performance in the last two years. This year, in particular, agriculture sector has given more production in all the major Khareef crops, namely rice, cotton and sugarcane, which have recorded unprecedentedly good production.

For the agriculture sector, we have spent this year nearly Rs.50 billion in subsidies on fertilizer when local production was not possible due to gas shortages. We have also helped sugar growers by procuring sugar from domestic sources. This has enabled sugar mills to make timely payments to sugar growers. As a result of our policies, Pakistan is now exporting wheat and sugar.

Industry

After sluggish performance in recent years, industrial sector has begun to record positive growth. Industry will grow by 3.4% compared to 3.1% last year. However, this is still below its potential as excess capacity remains in the industrial sector which will pick up as the economy gains further pace.

This growth has been registered despite shortages of electricity and gas. Prominent sub-sectors where growth has been registered are sugar, cement, automobiles, textiles and chemicals. The government has given incentives to industry, opened regional and international markets and provided facilitation.

Power Sector

Power sector remains a source of concern for the government. Electricity is mostly generated through furnace oil because of limited gas availability. Thus, the cost of generation has risen as the international prices of oil rise. For 18 months oil price is averaging about \$110 per barrel, unprecedented in country's history. We have not passed the full impact of higher cost to the consumers and shared the burden costing us roughly Rs. 250 billion. The total amount of subsidies to power sector in the last five years is Rs.1250 billion. This is a huge burden on country's fiscal system. After NFC award, federal resources cannot carry this burden for too long.

Tariff subsidies are not the only problem with the power sector. There are system losses, non-collection of dues, interest charges on delayed payments and host of management issues. Government is undertaking reforms to set the system right, but

these are painful reforms and will not be implemented overnight. The government has added 3500 MW to the system. Regarding hydroelectric power, we are working on numerous projects such Neelum-Jhelum (1000 mw), Kohala (1000 MW), Jinnah (100), Munda-Dam, Kurram-Tangi, 4th Extension of Tarbella Hydroelectric power station (1400 MW) which will add some 5000 MW of cheap electricity to the national grid.

Work is in progress on Pak-Iran gas pipeline as well as Turkmenistan-Afghanistan-Pakistan-India pipeline, both of which will bring as much as 2 BCF gas for Pakistan. Simultaneously, we are finalizing plans for import of LNG that would provide another 0.5 BCF gas. Projects in solar, nuclear, wind and Thar coal are also being pursued.

Full Impact of Petroleum Prices

We have also tried to give consumer relief by not passing all the increases in international prices. Government had to sacrifice its revenues to the tune of Rs.70 billion to prevent prices from rising to the international level

Development Expenditure

As economic growth is picking up, we have to sustain its momentum and accordingly we are significantly raising the overall public sector investment. This year the National Economic Council (NEC) has approved an Annual Development Plan (ADP) from Rs.730 billion to Rs.873 billion reflecting an increase of Rs.120 billion or 25% from last year. The federal share of ADP is planned at Rs.360 billion, representing an increase of Rs.60 billion from Rs.300 billion last year, or 20%.

This year the entire Rs. 300 billion were released and utilized in the Federal PSDP. At the federal level, we have completed over 200 projects during the year including such important projects like Chashma Nuclear, Khan Khowar Hydro, Rainee Canal Phase-I and roads etc.

The development strategy of the Government is not to spread available resources too thinly across numerous projects, but to concentrate on completion of projects to deliver benefits to the public at the earliest. The core priorities of the Government in next year's PSDP include:

- (1) Completion of ongoing projects
- (2) Regional balance, with a focus on underdeveloped areas
- (3) Projects with welfare of women and children
- (4) Infrastructural development, especially in the energy and water
- (5) Projects in higher education

I will now share with you the PSDP allocations that have been approved by the NEC for the Next Financial Year[.]

- (1) Out of the total Federal PSDP outlay of Rs.360 billion, the Government has allocated Rs.346 billion or 96% to ongoing schemes.
- (2) Rs.69 billion for power sector and Rs.115 billion additional by federal entities like WAPDA and electric companies.
- (3) Water Sector has been allocated Rs.48 billion
- (4) Rs.44 billion will be spent for the social sector.

- (5) Rs.37 billion have been provided for special areas, including FATA, Gilgit-Baltistan and AJK.
- (6) Rs.16 billion have been allocated for higher education.
- (7) Rs.84 billion for Transport and Communications sector including Rs.51 billion for NHA and Rs.23 billion for Railways.

Focus on Regional Development

An important objective our development strategy is to ensure balanced regional growth. Federal government is responsible for special needs of Balochistan, and all needs of GilgitBaltistan, FATA and AJK from its own programs.

Balochistan

It is important for the Parliament as well as people of Balochistan to know what have done by way of special efforts to make for the past deficiencies in our obligations toward Balochistan:

- (1) The share of Balochistan was increased in the divisible pool to 9.09 percent.
- (2) In the first year after the NFC Balochistan's resources were doubled.
- (3) The government also accepted the right of Balochistan to the payment of Rs.120 Billion in royalty from the sale of gas between 1954 to1991.
- (4) The Federal Government is financing 11,500 jobs for the educated Baloch youth.

In addition, the Balochistan Package also includes:

- (1) Internships for 15000 youths
- (2) Provision of Agriculture Tubewell Subsidy of Rs.4.00 billion
- (3) Filling of 2400 vacant posts in Federal Government
- (4) Regularization of all contractual employees from Balochistan
- (5) Significant share of Baluchistan in the Federal PSDP.

Gilgit-Baltistan (GB)

- (1) In 2009, the longstanding dream of a more participatory system of governance was introduced in GB. The offices of Governor, Chief Minister, and Ministers have been created. A Gilgit-Baltistan Council, democratically elected and headed by the Prime Minister, has been introduced.
- (2) The financial allocation for GB has been enhanced to bring this part of the country into the mainstream. The block development allocation for GB has been raised to Rs.16 billion during the period of Democratic Government.
- (3) Other initiatives for GB's development include:
 - Appointment of 5,000 police officials
 - 100% increase in the salaries of GB police force
 - Monthly financial support for 50,000 households under Benazir Income Support Program
 - Royalty of Diamer-Bhasha Dam for local people

- PSDP mega projects worth Rs.10 billion
- Improvement of the Sust Dry Port to enhance trade links with China
- Expansion of Gilgit and Skardu airports
- Subsidy on 150,000 metric ton wheat
- Allocation of Rs.5.5 billion for institutional capacity-building

Federally Administered Tribal Areas

The People's Government fully realizes that the Federally Administered Tribal Areas are amongst the most under-developed areas of Pakistan and that sustained affirmative action is required to bring this region at par with the rest of the country.

The Government is also alive to the extremely difficult circumstances that the people of the area are passing through. It is for the accelerated development of the people of FATA that the Government provided over Rs.110 billion to FATA over the past four years. These allocations also included subsidies for wheat and electricity. For the next financial year Rs.17 billion have been allocated in the PSDP, Rs.10 billion for power subsidy and Rs.11 billion for current spending.

AJK

In the same spirit, the People's Government has paid special attention to the welfare of the people of Azad Jammu and Kashmir. Over the past four years, the Government has provided Rs.72 billion in budgetary and development support. For the next financial year, Rs. 12 billion have been allocated for development and Rs.16.5 billion have been allocated for current expenditure. A ways and means loan of Rs.8.5 billion is in addition to this. It must be mentioned that the Government is also executing mega hydel power projects like the Neelum-Jhelum in AJK, which will play a pivotal role in the development of the area.

Remittances from Overseas Pakistanis

The most outstanding support Pakistan has enjoyed is from its expatriate community. They have remitted unprecedented amounts in the last two years. From about \$9 billion in 2009-10 to over \$13 billion this year, there is an increase of 45% in two years.

Let me also dispel a misgiving some people have tried to create regarding such extraordinary increase in remittances. More than 75% of remittances are less than \$500 per month, showing the family-help nature of such transfers. Also, we have not made any changes in foreign remittances regulatory regime, which is the same that was framed some 3 decades ago. However, we have set up the Pakistan Remittance Initiative and contacted more than 300 foreign financial institutions to participate in remittance business and establish counter-part arrangements with Pakistani institutions. Also, we have encouraged global corporations engaged in money transfer business to come to Pakistan and do business here. These initiatives are behind the outstanding performance of foreign remittances that have helped stabilize the Balance of Payments situation.

Imports, Exports and Balance of Payments

Pakistan has experienced phenomenal performance in exports in the last two years. Last year, exports increased by 28%, crossing the \$25 billion mark. This year, in spite of global downturn, we will be able to maintain this high level of exports. Our imports are likely to rise 15% this year, primarily due to higher oil prices. We had to import about 1.2 million tons of urea at a price of more than \$500 dollar per ton, costing a large sum of nearly \$700 million. This was imperative to save our agriculture sector which otherwise would have suffered immensely because of less domestic production. We have still not received nearly \$1.2 billion in Coalition Support Fund, which had an effect both on our external receipts as well as on the budget.

Fiscal Situation

We recognize the importance of fiscal restraint and the need for fiscal balance. To achieve this, we have followed austerity on the expenditure side and extraordinary mobilization of taxes on the revenue side. However, the policy of not passing the entire burden of oil price increased and electricity prices and to preserve the safety nets for the vulnerable groups, have added to government expenditures. The reduced fiscal space, post NFC has also curtailed government's ability to maneuver in the short run.

We had targeted a fiscal deficit of 4% in the budget. However, for the reasons outlined above, the deficit is projected to be 5.5%.

Budget Estimates for 2012-13

Let me place before the House the salient features of the Budget 2012-13:

- (1) The outlay of the federal budget for FY 2012-13 is proposed to be Rs.2,960 billion, which is 0.6 % higher than the revised outlay of Rs.2,940 billion for the outgoing financial year.
- (2) The gross federal revenues have been estimated at Rs.3,234 billion during FY 2012-13 as compared to Rs.2,732 billion budgeted for Financial Year 2011-12, reflecting an increase of 18.3%
- (3) FBR is expected to generate Rs.2,381 billion, reflecting an FBR tax to GDP ratio of 10.1%.
- (4) Out of federal revenue collections, a sum of Rs.1,459 billion will be transferred to the provinces under the 7th NFC Award as compared to Rs.1,203 billion during the Current Financial Year, which means an increase of over 21.3%.
- (5) The net federal revenues are estimated at Rs.1,775 billion during Financial Year 2012-13 in comparison to the Rs.1,529 billion budgeted in Financial Year 2011-12, which indicates an increase of 16.1%
- (6) This is expected to produce a federal budget deficit of Rs. 1,185 billion
- (7) Provincial surplus is estimated at Rs.80 billion during Financial Year 2012-13
- (8) The consolidated fiscal deficit is estimated at Rs.1,105 billion or 4.7% of the GDP as against 5.5% of the GDP in Financial Year 2011-12, excluding debt consolidation of Rs.391 billion, which is 1.9% of the GDP.
- (9) Allocation to Benazir Income Support Program will be enhanced from Rs.50 billion this year to Rs.70 billion next year

(10) Rs.10 billion will be allocated to Export Development Fund

Benefits for the Vulnerable Groups/Safety Nets

The Government has planned several far-reaching new initiatives for Financial Year 2012-13 to benefit those groups who deserve the special care and attention of the state. Let me share some of these initiatives with you:

A targeted subsidy on food items will be given by the Government to help lower income consumers through the Utility Stores Corporation. Under this scheme, BISP cardholders will be given a special additional discount of 10 percent at utility stores on essential food items, including sugar, ghee, rice, dall channa, dall moong, and wheat flour. This means that the poor will be able to buy these items at 17 percent below their market rates. To give the poor easy access to this concession, the Government also plans to establish 2000 new utility stores. The scheme is expected to bring immediate relief to 35 hundred thousand families.

To generate job opportunities, one hundred thousand unemployed educated youth will be given an opportunity to work and develop their skills through internships and technical training. Under the National Internship Programme, 40,000 internships, in both government and private sector organizations, will be offered to Master's Degree holders and another 40,000 to Bachelor's Degree holders. In addition, 20,000 Bachelor's Degree holders will be trained in skills that are in demand home and abroad. This intervention is estimated to cost the Government Rs.9.5 billion in Financial Year 2012-13.

The province of Balochistan and the regions of FATA and Gilgit-Baltistan comprise the most underdeveloped areas of Pakistan. The Federal Government is already implementing a number of development projects in these areas for special dispensation, but we need to take further affirmative action for their socioeconomic uplift, so as to bring them at par with the rest of the country.

The Federal Government has, therefore, decided to promote higher education in Balochistan, FATA and Gilgit-Baltistan by paying the tuition fees of all students studying for masters and PhD in reputable universities of Pakistan. This measure is expected to cost the Government Rs.500 million annually.

Relief to Government Employees

The People's Government has always made an effort to ensure that Government servants do not face acute hardships on account of low public sector salaries vis-à-vis the private sector. To ensure that the Government acquires and retains competent civil servants who can serve the citizens of Pakistan with peace of mind, our Government has increased pay by more than 100% during the last four years. Similar relief has also been provided to pensioners. And now, I am pleased to announce that in the Next Financial Year, an ad hoc relief allowance of 20% in pay and pension is being given. This is the fifth successive increase in pay and pension given by this Government.

Madam Speaker,

Let me now turn to the Part-II of my speech which relates to tax proposals.

Taxation Proposals

As a country, we have not been successful in mobilizing revenues. Success on this front has eluded all governments. Consequently, our tax system is characterized by following features:

The overall Tax-GDP Ratio is less than 10% (FBR at 8.6%, overall at 9.6% in FY11);

Only about three million people pay income taxes.

About 50% of registered corporate taxpayers and withholding agents file tax returns. Only around 100,000 persons are registered under sales tax. Under-invoicing and undervaluation have become a norm in our business practices. Collusion between the taxpayers and tax collectors persists despite reforms. We are acutely aware of the centrality of revenue mobilization in country's economic development and sovereignty. For this reason, we have thus taken difficult decisions to broaden the tax net, to bring in sectors that were enjoying exemption, to identify new taxpayers and to make sure that the rich abide by law and contribute towards achieving this very important national goal. As I mentioned earlier, our government has collected an unprecedented amount of taxes during its tenure and particularly during the last two years. This success is the result of the resolve of the government and the co-operation of the business community. The good news is that the overall Tax-GDP Ratio is expected to improve from 9.6% in 2010-11 to 10.3% in the current fiscal year. A lot more needs to be done to build upon this good result.

While we have tried to meet the national goal of raising revenues, we have also ensured that this is achieved without extra burden on the existing honest taxpayers. We do not want those who are paying to be burdened further. We want to lessen the load on the honest tax partners. In fact, our approach is to reduce taxes and rates so the people and businesses are not faced with too many taxes, or high rates. We only want to go after those who are powerful, well connected, and well organized and simply do not pay taxes at all.

Let me share the good news with all honest taxpayers --- salaried employees, individual businesspersons, corporations, --- there is no extra burden on you. There is only relief for you. You have done your duty to be an honest taxpayer. We will now do our duty to give you relief.

The government has ensured that the interests of the salaried class and public servants are protected. Every year, we have increased salaries, allowances, pensions and other benefits of government employees. We have also given tax cuts to the salaried persons and tax payers in the lower brackets.

Madam Speaker,

Let me draw your attention to our provisions for Income Tax.

In 2009-10, we increased the basic income tax exemption limit from Rs.100,000 to Rs.300,000, benefitting 1.2 million taxpayers in the lower brackets. Last year, we raised this exemption to Rs. 350,000. In continuation of this fiscal support to the salaried class, the basic exemption limit for Income Tax is being further enhanced to Rs.400,000 this year. Similarly, the exemption limit for business individuals and Association of Persons (AOPs) is also being enhanced to Rs.400,000. This will benefit many taxpayers.

We have also decided to reduce the tax slabs to 5 only. Importantly, a major relief will be that only the portion of income exceeding a tax bracket would be charged at the higher tax rate. A taxpayer with an income of Rs. 35,000 per month previously paying Rs. 10,500 would only pay Rs. 1000 as tax. Apart from fundamentally simplifying the income tax system, this measure will provide relief of Rs. 8 Billion and benefit all existing income tax payers by reducing the effective income tax rate.

Under the present scheme of taxation, if an employee obtains a loan from the employer at a concessional rate, it is taxed at 13%. In order to facilitate such employees, it is proposed that such loans up to Rs.500, 000/- shall be exempt from income tax. Loans above this limit shall be taxed at the maximum rate of 10%.

As a relief measure to pensioners, amount received from approved income payment plans or annuity plans invested from any balance of voluntary pension schemes upon retirement will be exempt from tax if invested for a period of ten years.

Madam Speaker,

The tax collection has improved due to the cooperation of law abiding businesses and individuals. The government appreciates them. To recognize them, a taxpayers' Honour Card is being introduced. It will entitle its holders to concessions and facilities at various public and private forums such as NADRA, Passport offices, Airports, Customs, Immigration, FBR and other public offices. FBR will also honour them by displaying their names on its official Web Site.

Madam Speaker,

We want to give incentives in income tax to promote business activity and lessen the burden on our business. I turn to some of the important measures. These represent the acceptance of demands from the Chambers of Commerce and Business Community.

Under the existing income tax structure, the businesses are being taxed at the minimum rate of 1% of their turn over, even if they are reporting losses. To mitigate the hardship faced by registered businesses the rate of minimum tax on turn-over in this budget is being reduced from 1% to 0.5%. We should consider moving away from this method of collection entirely in the near future.

The government wants to phase out the presumptive tax regime (PTR) in three years. We are thus reducing the rates of tax from 5% to 3% for commercial importers, from 1% to 0.5% for exporters and from 3.5% to 2.5% for suppliers to give them the incentive to opt out of the PTR.

Withholding tax on profits paid on intra-group debt is being abolished. Currently there is a withholding tax on cash withdrawals if they exceed Rs. 25000 per day. This limit is being enhanced to Rs. 50,000 per day. To rationalize the rates of depreciation, the value of vehicles is being enhanced to Rs.2.5 million, while the initial rates for new buildings are being reduced to 25%.

Capital Markets are important for economic development of a country. To develop them and give confidence to the investors, the changes made through the Finance (Amendment) Ordinance, 2012 may be incorporated into the Statute through the Finance Bill.

To encourage the Capital Markets, exemption on the profit and gains of a Venture Capital Company and Fund is being extended upto the year 2024.

To promote investment in securities and insurance, the limit of investment as a proportion of taxable income is being increased from 15% to 20% and from Rs. 500,000 to Rs. 1 million, whichever is lower. The required retention period of shares is being reduced from 3 years to 2 years.

To encourage a competitive market for Retirement Schemes, transfer of funds between retirement funds will be exempt from tax. Further, retirement funds shall be exempt from withholding tax provisions on Capital Gains Tax.

Dividends received by banks from money markets and income funds will be taxed progressively over a period of two years as normal business income. Dividends will be taxed at 25% in tax year 2013 and at 35% from tax year 2014 onwards to eliminate tax arbitrage.

To bring certain undocumented sectors into the tax net, manufacturers are being made withholding agents to collect 1% adjustable tax on sales made to distributors and dealers.

Sales Tax

Madam Speaker,

Let me turn to sales tax.

This government has reformed the general sales tax system last year, by eliminating zero rating; reduction of the multiplicity of rates; and expanding coverage to all sectors except food, health, and education. This process of reform must continue, to realize the full potential of this task.

To avoid multiplicity of rates and decrease the burden on the consumers, all GST rates above 16% are being brought down to 16%.

To discourage fraudulent refunds and streamline local supply chains in plastic, sprinkler, drip and spray equipment, mono filament yarn and net cloth, and remeltable scrap, it is proposed to eliminate zero-rating of these items. These items shall, however, be exempted from sales tax.

Local waste paper is one of the major inputs used in the manufacturing of paper. The waste paper is collected and supplied by the unorganized sector, leading to a high rate of abuse through a market for flying invoices. To curb this practice, it is proposed to exempt local supply of waste paper from sales taxes.

Cotton-seed is zero-rated while Cotton-seed-oil is exempt from sales tax. The mills producing Cotton-seed-oil are, therefore, not required to issue any sales tax invoice and their production remains undocumented. The Oil and Ghee manufacturing units using undocumented purchases may suppress their production to evade sales tax.

It is proposed to zero-rate Cotton-seed-oil to keep it in the documented sector and provide level playing field to the tax compliant Oil and Ghee manufacturing units.

The current sales tax of the steel sector, fixed in 2008, is at the rate of Rs. 6 per unit of electricity consumed. To harmonize it with the current market prices, this rate is being enhanced to Rs. 8 per unit of electricity consumed.

Smuggling of goods causes injury to the local industry, and discourages legal imports. High rates of duties and taxes on these goods provide incentive for underinvoicing.

It is being proposed that sales tax on black tea be reduced from 16% to 5% to encourage legal import of tea.

Federal Excise

Madam Speaker,

Let me turn to Federal Excise Duty.

To bring prices down and give incentives to the private sector, the Government intends to phase out Federal Excise Duty (FED) in the next two years. To ensure this, FED was abolished on 15 items, last year, and the rates were brought down on many more. The Government intends to further eliminate FED on the additional 10 items including base lube oil, lubricating oils, filter rods, and skin care products.

The Dairy Industry has great potential in Pakistan. Pakistan is the fifth largest producer of milk in the world. But a very large quantity of local milk is never processed. To promote investment in dairy development, it is proposed to abolish Federal Excise Duty leviable on livestock insurance.

To develop capital markets, FED on services rendered by Asset Management Companies is also being abolished.

To boost the construction activity and generate jobs, last year, the FED on cement was reduced from Rs. 750/ PMT to Rs. 500/ PMT. This year, it is being further reduced from Rs. 500/ PMT to Rs. 400/ PMT.

FED is leviable on foreign travel to or from Pakistan. However, collecting FED on foreign travel into Pakistan is practically difficult and not in conformity with international best practice. Therefore, it is proposed that FED may be collected on embarkation of passengers from Pakistan.

Custom Duty

Relief Measures:

Madam Speaker,

I now turn to Custom Duty.

The government wants to reduce the tariffs, simplify procedures and create a conducive environment for boosting the economic activities. In order to reduce the prices and to provide relief to general public, the highest tariff rate is being reduced from 35% to 30%.

Education is the main priority of the government. Therefore, to make text books, exercise books, pencils, pens and inks available at cheaper prices, customs duty on 18 raw materials and 9 components for manufacturing of stationery items are being exempted.

New tariff headings are being created in the Pakistan Customs Tariff, to align our tariff structure with export partner countries (e.g. USA, EU). This measure shall eliminate operational problems of exporters, particularly textiles.

The Government is fully aware of the hardships being faced by the people of Pakistan because of energy shortages. To mitigate people's suffering, it is being contemplated to provide fiscal relief on the import and installation of alternate energy sources, UPS and generators.

Madam Speaker,

Promotion of the Construction Industry generates economic activities in thirtyeight downstream industries. To promote the use of scrap of rubber and shredded tyres as a substitute fuel by manufacturing plants, such as cement, duty on scrap of rubber and shredded tyres is being reduced from 20% to 10%.

To ensure availability of medicines at affordable prices, customs duty on 88 pharmaceutical raw materials is being reduced from 10% to 5%.

To promote energy-efficient Hybrid Electric Vehicles (HEVs), the rate of duty and taxes presently applicable to HEVs and their batteries is being reduced by 25%.

In order to encourage legal import of self-copy and self-adhesive papers, their high rate of customs duty is being reduced to 10%.

Administrative Measures

Madam Speaker,

To align Pakistan Customs Tariff with international conventions, it is being updated in conformity with the latest WCO nomenclature.

New departments are being created in Customs to deal exclusively with Transit trade issues, including the prevention of smuggling.

To separate the judicial functions from the executive in Customs, offices for adjudication are being created in the Customs department to address this demand.

The government provides incentives to the local industry through reduced rates of import duties through SROs. These complicated procedures are being simplified and the anomalies are being rectified. These measures will reduce the cost of doing business.

Concluding Remarks

Madam Speaker,

We have given a budget that will build hope and lay the foundation of a better tomorrow in which not only economic stability will be maintained but growth will be accelerated. Our young population is our assurance for a strong and prosperous Pakistan, provided we can create job opportunities for the use of their capabilities.

Growth is the answer and this will be our main focus during the year.

There is no limit to the economic potential of Pakistan. The challenge is to create the enabling environment in which this can be realized. May Allah bless this country and our people. Ameen!

Pakistan Zindabad. ■

Pakistan Web, June 1, 2012,

<http://www.pakistan.web.pk/threads/budget-speech-2012-13-full-text-of-budget-speech-pakistan-federal-budget-2012-13.25773/#axzz24jiRTX5n>

DOCUMENT No. 10**SPEECH OF SYED YUSUF RAZA GILANI PRIME MINISTER OF
PAKISTAN AT 6TH ANNUAL CONVOCATION CEREMONY
NATIONAL DEFENCE UNIVERSITY
ISLAMABAD, JUNE 14, 2012**

Assalam o Alaikum and Good Morning,

It is indeed a matter of great pleasure for me to speak to this distinguished gathering of intellectuals and scholars at the National Defence University. I would take this opportunity to warmly congratulate the graduating students, the management and faculty of NDU for developing and maintaining an excellent academic environment at the University.

I have been visiting NDU on various occasions for the last four years. NDU presents a fine blend of students from civilian and military backgrounds, besides a sizeable number of military officers from foreign countries. The alumni of NDU are lucky in the sense that they find ample opportunities and extensive interaction with academics, intellectuals, think tanks and scholars of national and international repute. These unique features of NDU make it an important and national seat of empirical learning.

President NDU has referred to certain significant academic pursuits initiated by the University during the last few years. Let me begin by saying that education provides the solid basis on which the edifice of an informed and developed society is built up. We, in the government, look up to the universities to lead in the task of transforming our society as well as meeting the challenge of growing economy by promoting innovation and entrepreneurship. I expect that all universities including NDU would assume the crucial role for contributing to a prosperous future.

Ladies and Gentlemen!

I am very pleased to note that NDU has already been playing its role in creating awareness by fostering harmony in various disciplines. It is a matter of satisfaction that the University generates extensive academic activities including seminars, workshops and discussions that focus on broad strategic issues at the global level.

The input provided by NDU helps policy makers in taking public policy decisions. In the same context, holding of *National Security Workshop is remarkable contribution* through which a wide spectrum of our society including participants from political background, bureaucracy and civil society get sensitized to developments at the international level.

The *Media Workshop* by NDU is yet another important forum as it imparts professional training and skills to the media persons.

Ladies and Gentlemen!

It is heartening to learn that NDU has established a *Centre of Excellence for National and Military History. *In view of its futuristic importance, my government would provide support to strengthen the Centre.

I am sure that the rich experience and wide-ranging exposure that you got here brought about depth in your understanding of national policy, warfare, strategy, and international affairs. Of particular significance is the emphasis on nuclear strategy and conflict resolution, which have taken ever greater primacy in our part of world, especially after the nuclearization of both Pakistan and India.

Thus, I am very pleased to note that NDU has not only emerged as the foremost national think tank but also as a University that offers unique blend of civil and military expertise and knowledge to its civilian students as well.

This, I think is a valuable step in grooming national talent that is critical in our cherished goal of nation-building.

Ladies and Gentlemen!

I believe that this is the right Forum for sharing the challenges that the nation is confronted with today. Besides other serious issues, I would only focus on four main areas and what the democratic government is doing to meet the challenges in an upfront manner.

Firstly, the foreign policy of Pakistan in a complex and turbulent world.

Secondly, revival of economy in the background of global recession, and floods.

Thirdly, the energy crisis, which has been affecting the pace of our economic growth.

And finally, the efforts for political stability at home because I believe that a country, which is stable domestically, is better positioned to achieve its foreign policy objectives.

We are living in a world that is highly interconnected and interdependent.

Today, the strength of a country is measured not in terms of its ability to impose unilateral decisions, but to create a win-win situation for all.

It is in this regard that we have undertaken a paradigm shift by striving to make our neighborhood peaceful, stable, and prosperous on the basis of peaceful co-existence.

For us the most important capital in the world is Kabul, and the government of Kabul is the most important partner. A peaceful, stable and sovereign Afghanistan is an absolute prerequisite for stability and peace in Pakistan.

Pakistan is the first to suffer at the hands of strife in Afghanistan, and the first to benefit from peace in Afghanistan. However, we strongly believe that the solution of Afghanistan will have to come from within Afghanistan. It will have to be led by the Afghans and owned by the Afghans.

It goes without saying that our relationship with India has been stable and peaceful. We have tried to transform this relationship by approaching it in a positive rather than in a traditional manner.

Ladies and Gentlemen!

Normalizing trade with India has been an issue that no previous governments wanted to touch, but we decided to look at this issue from a purely national and regional perspective.

We also resumed full dialogue with India, discussing all issues including Siachin, Sir Creek, counter terrorism, water issues, and the most important of all, the core issue of Jammu and Kashmir.

Pakistan and China have a unique relationship, which is deeply rooted and mutually beneficial. The intensification of high-level contacts between Pakistan and China are a manifestation of taking this relationship to new heights.

Pakistan-United States relations are multi-dimensional and important. We are trying to have an open, transparent and mutually beneficial relationship with the US on the basis of our national interests, and in the light of recommendations made by the Parliament.

Our relations with the European Union have expanded and deepened. We are grateful for the EU initiative on tariff concessions to our exports. In order to transform this relationship into a long-term partnership, we are currently working on a strategic dialogue with the EU.

Pakistan attaches great importance to its relations with the Russian Federation. The President and I have undertaken several visits to Russia to inject new dynamism into our relationship. We have, in fact, turned a new page in our relationship with Russia.

Pakistan enjoys close and fraternal relations with all brotherly Islamic countries. We also seek to deepen our engagement with East Asia, Africa and Latin America. As an active member of the international community we uphold the principles of the United Nations. It is a measure of our standing in the international community that Pakistan was elected as a member of the United Nations Security Council in 2011.

Ladies and Gentlemen

I am happy to inform you that despite huge challenges during the last four years, the democratic Government succeeded in maintaining macro economic stability by pursuing tight monetary policy and fiscal discipline. We revived economic growth to 3.7% and reduced inflation to 10.8 % from 25% in 2008.

Exports increased to \$ 25.4 billion, an increase of 28.4 percent; trade deficit contracted by 8.7% as compared to preceding year. Current account balance during Financial Year 2011 posted surplus of \$ 0.3 billion as compared to 8.5% deficit in 2008. Remittances have been estimated to be \$ 13 billion this year as compared to \$ 7.8 billion in 2008; foreign exchange reserves increased to \$ 16 billion during FY-2011 from \$ 11.39 billion in 2007-08.

This must be understood in the background of global recession, Euro-zone crisis and two unprecedented floods in the country.

For the next financial year, GDP target is set at 4.3%; inflation to be reduced to 9.5%; Fiscal deficit to be reduced to 4.7% of GDP from the present 5.5%; tax ratio to be raised by increasing tax revenue collection to Rs. 2381 billion; remittances are likely to increase to \$14 billion; one hundred thousand jobs for the youth; allocation for BISP raised from Rs. 50 to Rs. 70 billion; defence budget to be raised to Rs. 545 billion with 10% increase.

I would now throw light on the steps this government is taking to resolve energy crisis and ensure energy security of the country. So far, Power Generation Projects totalling 3400 MW have been added to the system in last 4 years.

Ladies and Gentlemen!

In the *short term measures*, Hydro Electric power plants with a capacity of 381 MW will be joining the National Grid in 2012 these include Allai Khawar, Duber Khawar, Jinnah Hydro, Gomal Zem, and Satpara dams.

In Public Sector Thermal Power Plants with a capacity of 1675 MW, including Nandipur (425MW) and Guddu (750 MW) are planned for commissioning by early 2013. Chichoki Mallian (525 MW) will come into the national grid by year 2014.

In our *mid term policy *framework for power generation, 2396 MW will be added in the national grid. These include Neelum Jhelum Hydropower Project of 969MW and Tarbela 4th extension of 1400 MW, to be completed by 2016.

Another most important development undertaken by our Government is conversion of our expensive oil/gas based power plants to clean coal with the assistance of Asian Development Bank (ADB) which will be completed in 18 months.

As the *long term initiative*, the Government, has initiated projects like Kohala hydropower Project (1100 MW), Diamer Basha (4500MW), Dasu (4320 MW), Bunji (7100 MW), and Munda (740 MW). These projects are at various stages of development and will deliver power to national grid on completion.

Ladies and Gentlemen!

All along these four years it has been our endeavour to pursue the policy of dialogue and reconciliation to tackle the challenges. We successfully evolved consensus on all national policies. Political pluralism, in my view, is a necessary condition for success of any democratic polity. It provides the basis for creating harmony within different federating units with different languages, background and local cultures.

The various legislative and political reforms through the 18th, 19th and 20th Constitutional Amendments, the 7th NFC Award, extension of Political Parties Act to FATA and reforms in FCR, Gilgit-Baltistan Governance and Self-empowerment Order 2009 are some of the significant outcomes of policy of reconciliation.

The task of national building, I believe, needs patience and perseverance.

It cannot be done over night.

Ladies and Gentlemen!

Let me assure you that we are fully aware of the problems and needs of NDU. I direct the Planning Commission to look around and identify a suitable Campus facility to the "Faculty of Contemporary Studies" in coordination with relevant ministries.

The President NDU has listed certain challenges and problems faced by this University. Let me assure you once again that my government will fully support you in your efforts to further develop this University.

At the end, I once again extend my heart-felt congratulations to all graduating students, their parents and families on successful completion of their studies.

I thank you all.

Pakistan Paindabad.■

Press Information Department (PID), Government of Pakistan,
<http://www.pid.gov.pk/recentlink.htm>