

**Document No. 1**

**President Zardari and President Mahmoud Ahmadinejad  
Decided to Vigorously Pursue the Iran Pakistan Gas  
Pipeline Project**

President Asif Ali Zardari and President Mahmoud Ahmadinejad today decided to vigorously pursue the Iran Pakistan gas pipe line project as well as other mega projects between the two countries,

Spokesperson Senator Farhatullah Babar said that the decision was taken during two rounds of meetings between the two leaders, one the delegation level and other one-on-one meeting in Tehran today when they underscored the need to take full advantage of each others' resources and expertise.

The two Presidents also reaffirmed their commitment to work hand in hand in overcoming the challenges resulting from the emergent situation in the region.

Besides bilateral matters the two leaders also discussed situation in Afghanistan and the regional and international situation. While highlighting need for greater trade President Zardari proposed free trade agreement between the two countries, easing of visa restrictions and revisiting the tariff and non-tariff trade barriers.

President Zardari said that the two countries together with Turkey could provide fresh impetus to the Economic Trade Organization that would further strengthen bonds among the people and also promote trade and socio-economic development in the region.

Issues in curbing militancy including enhanced cooperation in the area of border security, curbing narco-trade and illegal trafficking also came under discussion.

Later the President also called on Supreme Leader of Iran Mr. Ayatollah Seyyed Ali Hosseini Khamenei. President Mahmoud Ahmadinejad was also present during the meeting. Pak-Iran bilateral relations, regional situation with special reference to the challenges being faced by Muslim Ummah was discussed during the meeting of the three leaders. ■

The President of Islamic Republic of Pakistan, February 27, 2013,  
<http://www.presidentofpakistan.gov.pk/index.php?lang=en&opc=3&sel=2&pId=1484&pressReleaseYear=2013&pressReleaseMonth=02>

## Document No. 2

### **Message of Prime Minister, Islamic Republic of Pakistan (Pakistan Day March 23, 2013)**

March 23 is a landmark day in Pakistan movement. On this very day, the Muslims of sub-continent adopted the Lahore Resolution which heralded the beginning of practical struggle for attainment of Pakistan. Lahore resolution, later named as the Pakistan Resolution, was a great demonstration of unity by the Indian Muslims. This Resolution implanted in them an extraordinary courage and zeal for a separate homeland. It also provided a meaningful direction to their struggle.

On March 2, 1941, while addressing the Muslim Students Federation, Quaid-i-Azam said, "The only solution for the Muslims of India, which will stand the test of trial and time, is that India should be partitioned so that both the communities can develop freely and fully according to their own genius economically, socially, culturally and politically."

The object of the Muslim struggle was to establish such an independent state where they could freely live their individual and collective life according to their traditions. With the blessings of Allah Almighty, we today have an independent, sovereign and democratic country, and it is now our duty to put the country on the trajectory of development and prosperity, to realize the dream of our forefathers in the pursuit of which they made untiring efforts and rendered exemplary sacrifices.

By the grace of Allah Almighty, a democratic government has achieved the milestone of completing its constitutional tenure, which represents a leap forward in our endeavors for promotion of democratic values and continuity of democracy.

We are reviving the memory of Pakistan Resolution at a time when the country heads towards parliamentary elections and the people are eager and resolute for fair, free and transparent polls in the country.

This is exactly what the Father of the Nation had envisaged, i.e. democracy to flourish and its fruits delivered to the people. Allah Almighty be thanked that He enabled us to rise to the challenge on this count.

I am confident that people will elect the best leadership in forthcoming polls in the country by using their sound political acumen. Only a leadership that represents peoples' aspirations and enjoys their confidence is worthy of realizing the dreams of Quaid-e-Azam and the leaders of freedom movement.

I would like to reiterate today the message of Quaid-i-Azam which he had delivered to the nation on 23 March 1944, "Let's go forward, full of hope for the coming year(s), with faith in our heart, unity in our camp, discipline in ranks, and I am confident of our success..." ■

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### Document No. 3

## **Joint Statement — Deepening Comprehensive Strategic Cooperation between the People’s Republic of China and the Islamic Republic of Pakistan (2013-05-23)**

At the invitation of the Government of the Islamic Republic of Pakistan, Premier Li Keqiang of the State Council of the People’s Republic of China paid an official visit to Pakistan on 22–23 May 2013. During the visit, Premier Li Keqiang met the President and Prime Minister of Pakistan, Chairman Senate, Speaker of National Assembly, leaders of the main political parties, Chairman Joint Chiefs of Staff Committee and Services Chiefs and had an extensive interaction with a cross section of Pakistani society. Premier Li also addressed the Senate of Pakistan. The two sides signed documents of cooperation in political, economic, maritime, aerospace, energy, transportation and cultural fields.

The two sides reviewed with satisfaction the development of China-Pakistan relations, and are of the view that the China-Pakistan relationship has acquired growing strategic significance under the current complex and volatile regional and international situation. This partnership positively contributes to peace and stability in the region. To cement this strategic partnership is the shared objective of both countries.

The two sides decided to further deepen practical cooperation in all sectors and strengthen coordination and cooperation on international and regional issues according to the guiding principles of the Treaty of Friendship, Cooperation and Good-Neighbourly Relations between the People’s Republic of China and the Islamic Republic of Pakistan and on the basis of the existing close cooperation. The two sides agreed to deepen comprehensive strategic cooperation in the following eight areas:

#### **I) Political Relations**

China reaffirmed that China-Pakistan relationship is always a priority in its foreign policy, and will continue to steadily push forward this strategic partnership of cooperation with Pakistan. China appreciates Pakistan’s long-term, staunch support on issues concerning China’s core interests. China will continue to support Pakistan’s efforts to uphold its independence, sovereignty and territorial integrity, respect the development path chosen by the Pakistani people according to their national priorities, and support Pakistan in maintaining social stability and economic development.

Pakistan reiterated that friendship with China is the cornerstone of its foreign policy enjoying a national consensus. Pakistan appreciates the support and assistance of the Chinese government and people for Pakistan’s economic and

social development, Pakistan will continue to vigorously pursue this time-tested and all weather friendship with China. Pakistan will continue to adhere to one-China policy, oppose “Taiwan independence” and “Tibet independence,” support the peaceful development of the relations across the Taiwan Straits and China’s cause of reunification, and support China’s efforts in combating the “Three Evil Forces” of extremism, terrorism and separatism. We regard ETIM as our common threat and stand united in upholding sovereignty and territorial integrity of China.

The two sides believe that maintaining the tradition of frequent exchange of visits and meetings between their leaders, and fully leverage such mechanisms as annual meetings between their leaders is of great importance in advancing bilateral relations. They agree to fully leverage such mechanisms as Foreign Ministers’ Dialogue, Strategic Dialogue and other consultative mechanisms between the relevant ministries and departments, so as to strengthen the strategic communication and coordination between the two countries.

## **II) Economic Cooperation and Trade**

Both sides reaffirmed that expanding bilateral economic relations was a high priority. The two sides agreed to establish an interface between China’s strategy to develop its western region and Pakistan’s domestic economic development with a view to translate their high-level political relationship into results of pragmatic cooperation. To this end, the two sides will strengthen cooperation in trade, investment, energy, agriculture, finance and other fields.

The two sides agree to fully implement the Additional Agreement to Extend the Five Year Development Programme on China-Pakistan Trade and Economic Cooperation and the China-Pakistan Free Trade Agreement, fast track work on the projects identified under the Five Year Development Program, press ahead with the second phase of negotiations of China-Pakistan Free Trade Agreement, further liberalize trade, and advance economic integration between them. China stresses that it will continue to encourage and support Chinese enterprises’ investment in Pakistan, which will contribute to the improvement of Pakistan’s economy and people’s well-being. China will continue to push relevant financial institutions to help finance those bilateral economic cooperation projects that are ripe for implementation. The two sides agreed to start work on the China-Pakistan Agriculture Demonstration Zones on priority.

The two sides agreed to enhance exchanges between young entrepreneurs, and will strengthen communication on trade and investment cooperation.

The two sides agree to jointly carry out economic and technical cooperation in agriculture, health, education and projects that benefit the people. They will hold the third meeting of the China-Pakistan Joint Energy Working Group at an early date to deepen cooperation in conventional energy, renewable energy and civil nuclear energy. The two sides agree to continue the implementation of the currency-swap agreement and strengthen cooperation in the financial sector.

### **III) Connectivity**

The two sides believe that enhancing connectivity between China and Pakistan, an area where they already enjoy good cooperation, is conducive to tapping the potential of trade, logistics and flow of personnel between the two countries as well as the economic integration of the two countries and the region. The two sides will make concerted efforts to continuously improve connectivity between China and Pakistan, accelerate work on the Attabad Lake blocking the Karakorum Highway (KKH), carry forward the project of the upgrading of the KKH and the national highway network post-flood rehabilitation project, and promote cooperation in building transport infrastructure. The two sides agree to jointly develop the Long-Term Plan for China-Pakistan Economic Corridor on the basis of thorough study, so as to promote greater connectivity and further development of investment, trade and economic cooperation between China and Pakistan. Both sides decided to establish a joint working group under the National Reform Development Commission of China and the Planning Commission of Pakistan which will study relevant connectivity ventures.

### **IV) Maritime Cooperation**

The two sides believe that enlarging and deepening maritime cooperation between the two countries is of great importance to enriching the China-Pakistan strategic partnership of cooperation and improving the wellbeing of the two peoples. The two sides agree to enhance bilateral cooperation in the fields of maritime security, search and rescue and disaster relief at sea, maritime scientific research and environmental protection, and blue economy. They also agree to jointly support the construction and development of the China-Pakistan Joint Maritime Research Center, tackle the growing non-traditional threats to maritime security, and effectively safeguard the security of international sea-lanes. The two sides signed the Memorandum of Understanding on Maritime Cooperation Between the Government of the People's Republic of China and the Government of the Islamic Republic of Pakistan and Memorandum of Understanding on Cooperation in the field of Marine Science and Technology Between the State Oceanic Administration of the People's Republic of China and the Ministry of Science and Technology of the Islamic Republic of Pakistan.

### **V) Aviation and Aerospace**

The two sides see their cooperation in aviation and aerospace as an important reflection of their high-level strategic cooperation. They agree to earnestly implement the 2012-2020 'Space Cooperation Outline' between China National Space Administration and Pakistan Space and Upper Atmosphere Research Commission to further enhance bilateral exchanges and cooperation in this field. The two sides welcome the signing of the agreement for cooperation on BeiDou

Satellite Navigation System in Pakistan, and will make continual progress in the remote-sensing satellite system project. The two sides will take necessary measures to actively explore expanding air routes for passenger travel and cargo transportation between the two countries, and increase the number of flights.

## **VI) People-to-People Exchanges**

The two sides believe that the growing people-to-people exchanges and cooperation help to build strong public support for China-Pakistan friendship. The Chinese side supports efforts of the Pakistani side to expand teaching of the Chinese language and will train 1000 Chinese-language teachers for Pakistan in five years. The Pakistani side supports the establishment of a Confucius Institute in Karachi University, and the gradual increase in number of Confucius Institutes in Pakistan.

The two sides agree to launch inter-governmental consultations at an early date to implement the Digital Television Terrestrial Multimedia Broadcasting (DTMB) in Pakistan. They will deepen exchanges between universities, think tanks, press media, and film and television industries, and push forward the establishment of cultural centres in each other's countries. They will maintain the exchange of youth delegations, and strengthen cooperation in the training of young cadres, the exchanges between young entrepreneurs and volunteers. Both sides agreed to celebrate 2015 as China-Pakistan Year of Friendly Exchanges for which various activities will be arranged through mutual consultations.

## **VII) Defence and Security Cooperation**

The two sides believe that the exchanges and collaboration between the armed forces of China and Pakistan are an important pillar of their friendly relations. They highly commend the China-Pakistan Defence and Security Consultations Mechanism, and will maintain the momentum of high-level visits between the armed forces of the two countries, deepen cooperation in counter-terrorism personnel training, joint training, equipment and technology, and exchanges between military academics, and identify new areas for exchanges and cooperation. The two sides agreed to further enhance cooperation in defence technology and production.

The two sides believe that terrorism, separatism and extremism pose serious threats to regional peace, stability and security, and reaffirm their resolve to continue their practical cooperation to jointly combat the "Three Evil Forces" within bilateral and multilateral frameworks.

China recognizes that Pakistan has made great efforts and sacrifices to combat terrorism, and reiterates that it respects the anti-terrorism strategy developed and implemented by the Pakistani side in light of its own conditions. Pakistan reaffirms its resolve to combat terrorism, and commits to continuous, active collaboration with and assistance to China in combating terrorist forces

including the ETIM. China expresses its appreciation and continued willingness to help Pakistan build up counter-terrorism capacity.

### **VIII) International and Regional Issues**

The Asia-Pacific region plays an increasingly important role in global affairs. The two sides are of the view that all regional countries should make united efforts to tackle global and regional issues, maintain peace and stability, resolve disputes peacefully and promote regional common development, as well as to establish an open, transparent, equal and inclusive security and cooperation framework, based on the fundamental principles of International Law. The two sides agree to continue encouraging relevant countries in the region to resolve their differences through consultations and negotiations in accordance with relevant principles of UN Charter. The two sides support multilateral cooperation mechanisms in Asia, and take a positive view of each other's participation in regional and sub-regional cooperation processes.

The two sides recognize that they hold identical views on many international and regional issues of mutual interest. They agree to maintain close communication and mutual support and collaboration in various multilateral fora including the United Nations, the Asia-Europe Meeting, the ASEAN Regional Forum, the Shanghai Cooperation Organization and the Istanbul Process.

The two sides stress that they will enhance communication and cooperation on important global issues such as climate change, food and energy security and UN reform. China and Pakistan are committed to strengthening the solidarity and cooperation between developing countries and safeguarding their common interests.

The two sides believe that the evolving situation in Afghanistan has great implications for the regional security and stability, and the political reconciliation is a key step towards peace and stability in Afghanistan. The two sides reaffirm their support for the "Afghan-owned and Afghan-led" peace and reconciliation process, and will work with the regional countries and the international community to help Afghanistan achieve peace, stability and security. China and Pakistan will strengthen bilateral, trilateral and multilateral consultations on the issue of Afghanistan.

Premier Li Keqiang expressed appreciation for the warm hospitality accorded to him and his delegation.■

Ministry of Foreign Affairs, Islamabad, May 23, 2013,  
<http://www.mofa.gov.pk/pr-details.php?prID=1200>

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## Document No. 4

### President Barack Obama's Speech at National Defence University

#### Text of President Obama's May 23, 2013 Speech on national security (full transcript)

President Obama: Good afternoon, everybody. Please be seated.

It is a great honour to return to the National Defense University. Here at Fort McNair, Americans have served in uniform since 1791, standing guard in the earliest days of the republic and contemplating the future of warfare here in the 21st century.

For over two centuries, the United States has been bound together by founding documents that defined who we are as Americans and served as our compass through every type of change.

Matters of war and peace are no different. Americans are deeply ambivalent about war, but having fought for our independence, we know a price must be paid for freedom. From the Civil War to our struggle against fascism, on through the long twilight struggle of the Cold War, battlefields have changed, and technology has evolved, but our commitment to constitutional principles has weathered every war, and every war has come to an end.

And with the collapse of the Berlin Wall, a new dawn of democracy took hold abroad and a decade of peace and prosperity arrived here at home.

And for a moment it seemed the 21st century would be a tranquil time. And then on September 11th, 2001, we were shaken out of complacency. Thousands were taken from us as clouds of fire and metal and ash descended upon a sun-filled morning.

This was a different kind of war. No armies came to our shores, and our military was not the principal target. Instead, a group of terrorists came to kill as many civilians as they could.

And so our nation went to war. We have now been at war for well over a decade. I won't review the full history. What is clear is that we quickly drove al-Qaida out of Afghanistan, but then shifted our focus and began a new war in Iraq. And this carried significant consequences for our fight against al-Qaida, our standing in the world and, to this day, our interests in a vital region.

Meanwhile, we strengthened our defenses, hardening targets, tightening transportation security, giving law enforcement new tools to prevent terror. Most of these changes were sound. Some caused inconvenience. But some, like expanded surveillance, raised difficult questions about the balance that we strike between our interests in security and our values of privacy. And in some cases, I believe we



compromised our basic values -- by using torture to interrogate our enemies, and detaining individuals in a way that ran counter to the rule of law.

So after I took office, we stepped up the war against al-Qaida, but we also sought to change its course.

We relentlessly targeted al-Qaida's leadership. We ended the war in Iraq and brought nearly 150,000 troops home. We pursued a new strategy in Afghanistan and increased our training of Afghan forces. We unequivocally banned torture, affirmed our commitment to civilian courts, worked to align our policies with the rule of law and expanded our consultations with Congress.

Today Osama bin Laden is dead, and so are most of his top lieutenants. There have been no large-scale attacks on the United States, and our homeland is more secure. Fewer of our troops are in harm's way, and over the next 19 months they will continue to come home. Our alliances are strong, and so is our standing in the world. In sum, we are safer because of our efforts.

Now make no mistake: Our nation is still threatened by terrorists. From Benghazi to Boston, we have been tragically reminded of that truth. But we recognize that the threat has shifted and evolved from the one that came to our shores on 9/11. With a decade of experience to draw from, this is the moment to ask ourselves hard questions about the nature of today's threats and how we should confront them.

And these questions matter to every American. For over the last decade, our nation has spent well over a trillion dollars on war, helping to explode our deficits and constraining our ability to nation-build here at home. Our service members and their families have sacrificed far more on our behalf.

Nearly 7,000 Americans have made the ultimate sacrifice. Many more have left a part of themselves on the battlefield or brought the shadows of battle back home. From our use of drones to the detention of terrorist suspects, the decisions we are making will define the type of nation and world that we leave to our children. ■

*Washington Post*, May 23, 2013,  
[http://articles.washingtonpost.com/2013-05-23/politics/39467399\\_1\\_war-and-peace-cold-war-civil-war](http://articles.washingtonpost.com/2013-05-23/politics/39467399_1_war-and-peace-cold-war-civil-war)

## Document No. 5

### Overview of the Economy (2012-2013)

The fiscal year 2012-13 started with continuous problems of power and gas shortages along with other internal and external challenges. The energy crisis deepened presenting paradoxical situation. While generating capacity is reported 20,000 MW, actual generation remains far below the demand resulting in nationwide long hours load shedding. The circular debt kept on increasing despite injections of the government, which built pressure on fiscal side. Similarly, the working of PSEs also deteriorated resulted in further supplementing the burden on budget.

The adverse impact of these economic difficulties was further compounded by the ongoing war against extremism which continued unabated and not only on one hand caused irreparable loss to the economy but wiped out mental peace and harmony among the masses of the country. Karachi is the main hub of the economic activities, faced the series of attacks as well as similar incidence occurred in Punjab, KPK and Balochistan. In retaliation to these attacks and terrorists activities long and big sit down stage protests took place which sent a bad signal to outside world about the insecurity prevailing in the country. Investment which is the mirror image of the economy nosedived to 14.2% if to compare with 2008 when it was hovering around 19.21 % (base on year 2005-06). The resilience of economy was tested several times by one crisis than other.

The financial global meltdown in 2008 which shocked the developed and developing economies of the world and its effects are still being felt, Pakistan in no exception to feel the heat. The GDP growth which was at 5.0 % in 2007-08 dropped to 0.4% in 2008-09 (base 2005-06). The inflation reached to highest level of 25 per cent in October 2008. There was unprecedented surge in oil and commodities prices. In addition the behaviour of natural climate during 2010 and 2011 further added to the overall economic suffering.

The economy on average grew since 2008-09 at 2.94%. During FY12 and FY13 the power shortage became so severe that it wiped out 2% from our GDP. Agriculture, Manufacturing as well as Services sector performed below their capacity. Though economy has the growth trajectory of more than 6%, but the worst energy crises, bleeding public sector enterprises, economic mismanagement and menace of informal economy haemorrhaged the system.

The other challenges to the macroeconomic environment emanated from the external front. After remaining in primarily surplus driven by inflows under Coalition Support Fund (CSF), strong remittances and a lower trade deficit, turned current account into deficit of US\$ 1.4 billion in July-April 2012-13. Although the cumulative current account deficit was much lower than the same period of last year, the external outlook remains challenging with scheduled payments to the IMF

in the rest of FY13. The liquid foreign reserves have declined to US\$ 11.5 billion. On domestic front, the growth in FBR revenues remained sluggish, while expenditure on power subsidies and debt servicing increased sharply. Finally the government had to resort increasingly to borrow from SBP to finance fiscal deficit. The fiscal deficit remained at 4.6 per cent during July-March FY13 as compared to 6.4 per cent of the GDP in the comparable period of last year. The improvement came on account of CSF inflows and provincial budget surpluses.

On a positive note, inflation fell significantly, and LSM showed signs of recovery. Fiscal year 2012-13 started with single digit inflation and likely to remain during the current financial year, food and non-food inflation as well as whole sale price index, sensitive price index and core inflation remained in single digit.

The growth in industrial sector increased on the back of recovery in large scale manufacturing, construction and mining and quarrying. Amid of severe energy crisis, the LSM performed well.

The latest data of March FY13 suggests a growth 9.3% on YoY basis and 4.3% on average July-March FY 13. If this trend continues it may help in overall improvement in GDP. However, Services sector remained subdued due to decline in growth rates of transport, storage and communication. Thus overall recent growth of GDP (at new base 2005-06) is registered at 3.6 per cent in FY13 as compared to 4.4 per cent in FY12.

The economy received nominal support from farms income particularly from minor crop and livestock whereas the major crops particularly cotton and rice missed the target but to some extent compensated by the better crops of sugarcane and wheat. The Rabi crop has done well; as fertilizer prices remained relatively stable compared to last year, the government raised the support price for wheat, adequate irrigation water was available at the time of sowing (unlike the kharif season) the frequent rains and moderate temperatures throughout the season helped improving the crop productivity and finally, agri-credit disbursement were higher compared to last year. The kharif crops of rice and cotton, on the other hand, were adversely affected due to heavy rains and localized flooding. Therefore, the overall growth in major crops during FY13 has remained lower than last year.

The outgoing fiscal year has seen some improvement in foreign direct investment in third quarter of current fiscal year. The pace of foreign direct investment at the start of fiscal year was slow which continued till February, but from March it started picked up and in April reached to US\$ 213.6 million posted a growth of 289 per cent over last year US\$ 59.6 million.

During July-April FY13 the foreign direct investment witnessed a growth of 29.7% and stood at US\$ 853.5 million compared to US\$ 658.2 million in corresponding period of last fiscal year. The Foreign Private Investment registered a growth of 80.4 per cent during the period under discussion on account of 445.5 per cent growth in portfolio investment. The main contributions in foreign direct inflows, on average were from United States, UAE and United Kingdom having

share 14.0, 12.6 and 10.2 per cent, respectively. Oil and Gas Exploration remains the significant sector which attracted 23.5 per cent foreign inflows followed by Financial Business and Communications which attracted 18.1 and 10.6 per cent, respectively. The outflow was seen in communications and power sectors.

Despite the global slowdown, the uptrend in KSE-100 index encouraged foreign investment in stock market. The Karachi Stock Exchange (KSE) reached to historical height of 22000 plus points. This positivity of foreign portfolio investment further reinforced the confidence of investors. In capital market the major contribution came from USA, UK and Hong Kong.

This year the National Accounts have been rebased on 2005-06 and System of National Accounts improved from 1993 to 2008. Many countries in the world update their base year periodically, some after five years and some after 10 years or even every year. This become essential on account of continuous process of development and innovations as a number of new products appears in the market and at the sometime many products disappear. Moreover, on the demand side of the economy consumption and investment pattern also face structural changes. All these factors make it necessary and in conformity to international best practice the National Accounts have been rebased to 2005-06 from 1999 to 2000.

Under rebasing of 2005-06, new versions of International Classifications have been introduced. According to the latest international concepts, basic prices instead of factor cost valuation, double deflation, exploration costs, FISIM and many others have been adopted.

The classifications applied are industrial, consumption, product, functions, occupation, etc., which are parallel to the latest available international classifications. The new base has expanded its coverage to include new economic activities. National accounts are now using more surveys, census and studies for the computation of value addition for different sectors. The growth rate recorded of small scale manufacturing has increased from 7.5 per cent in the earlier base to 8.2 per cent. This revision was made following results of the new survey of small household and manufacturing industries. The financial sector has been changed on the basis of SNA 2008. Since this sector's output was neither visible nor directly measurable. SNA 2008 was an indirect measurement method, called "Financial Intermediation Services Indirectly Measured" (FISIM).

A slight improvement in trade sector has been witnessed as the trade deficit contracted by 2.5 per cent on July-April FY13. This improvement was due to 0.15 per cent rise in export and 0.9 per cent decline in import. During the first ten months of current FY13, exports stood at \$20.5 billion as recorded the same in the comparable period of FY12, while imports amounted to \$33.0 billion against \$33.3 billion during the same period of FY12. Trade deficit has been reduced to US\$ 12.5 billion during July-April, FY13 as compared to US\$12.9 billion in the comparable period of FY12. During July-April FY13, the worker's remittances stood at \$11.6 billion against \$10.9 billion last year, showing a growth of 6.4 per cent.

During July to 10th May FY13, money supply (M2) increased by 9.9 per cent (Rs.753.2 billion) against the growth of 9.1 per cent (Rs.606.8 billion) in the comparable period last year. The growth in M2 during July to 10th May FY13 was mainly contributed by the improvement in Net foreign assets (NFA), rise in Net domestic assets (NDA) and credit off take by the Public Sector Enterprises (PSEs). NDA of the banking sector increased by 13.4 per cent (Rs.950.0 billion) as compared to net expansion of 14.8 per cent (Rs.875.0 billion) in the same period last year. The PSEs borrowed Rs.48.9 billion during July to 10th May, FY13 against the retirement of Rs.142.6 billion during the same period last year. Net Foreign Assets (NFA) during the period under review reduced to Rs.196.8 billion as compared to the net contraction of Rs.268.7 billion last year. NFA remained under tremendous pressure due to decline in foreign exchange reserves on account of debt repayment to IMF since February 2012. Till 25th May, Pakistan has repaid \$4.1 billion to IMF. The recent improvement to be compared last year is mainly on account of realization of \$1.8 billion under the Coalition Support Fund (CSF) during the first half of FY13.

Alongside the above developments there have been some weak areas which require serious attention in the short to medium term. First, the foremost is the issue of handling energy crisis on a sustainable basis. The real outcome is to tap more hydel resources and to complete the ongoing along with revival of dormant hydel projects.

Similarly, the PSEs issue also required urgent attention; efforts are underway but need to be put on fast track as it is a burden on fiscal side and putting government into problem in managing fiscal discipline. In the past five year the economy is growing at a slow pace and this slow growth contributed to other serious socioeconomic problem, unemployment, social unrest, lawlessness. At the moment the unemployment rate is 6% and to absorb this rate at least 6-7% growth as well good economic governance is required.

**Global Outlook:** Four years after eruption of the global financial crisis, the world economy is still struggling to recover. During 2012, global economic growth has weakened further. A growing number of developed economies have fallen into a double-dip recession.

Those in severe sovereign debt distress moved even deeper into recession, caught in the downward spiralling dynamics from high unemployment, weak aggregate demand compounded by fiscal austerity, high public debt burdens and financial sector fragility. Growth in the major developing countries and economies in transition has also decelerated notably, reflecting both external vulnerabilities and domestic challenges.

Most low-income countries have held up relatively well so far, but now face intensified adverse spillover effects from the slowdown in both developed and major middle-income countries. The prospects for the next two years continue to be

challenging, loaded with major uncertainties and risks inclined towards the downside.

The IMF has reflected in the forecast that entire world economy growth is forecasted to reach 3.3 per cent in 2013 and 4.0 per cent in 2014. The growth projected for Euro areas is -0.3 per cent for 2013 and for 2014, 1.1 per cent. In contrast USA growth is forecasted to be 1.9 per cent in 2013 and 3.0 per cent in 2014, while for Japan 1.6 per cent in 2013 and 1.4 for 2014. Growth in developing Asian economies is projected at 7.1 per cent in 2013 and 7.3 per cent for the year 2014. The IMF expects growth in oil exporting countries in the Middle East is also not encouraging. Unfortunately, Europe is now caught in a vicious cycle of high debt and low growth. Problems in this area can impact Pakistan's trade, however, emerging markets and developing economies, the expansion of output is expected to be broad based. In Asia, growth has already returned to a healthy pace. In China, external demand, high consumption will keep in its growth. The other economies of the world are expected to benefit from upturn in advance economies. With regard to global inflation it is slowdown, the FAO index suggests that prices are declining down and it will continue in stabilizing commodity prices. But near term risk in Euro Area could reemerge and other downside risk persists.

**Growth and Investment:** The framework for economic growth approved by the government in FY11 identified a coherent approach to growth that targets public service delivery, productivity, competitive markets, innovation and entrepreneurship. The strategy was based on sustained reform that builds efficient and knowledgeable governance structure, and markets in attractive and well-connected locations, however, the desired objectives are yet to be realized. Pakistan's economic problems are structural in nature. Major structural reforms which are needed contains tax legislation, trade reforms, privatization of State Owned Enterprises (SOEs), financial sector reforms, human resource development and social protection.

The real GDP growth for FY 13 has been estimated at 3.6 per cent based on nine month data as compared to 4.4 per cent (revised) in the previous year after rebasing the national accounts at constant prices of 2005-06. The Agriculture sector recorded a growth of 3.3 per cent against the previous year's growth rate of 3.5 per cent. The Large Scale Manufacturing sector grew by 2.8 per cent as compared to the growth of 1.2 per cent last year. The Services sector recorded a growth of 3.7 per cent as compared to 5.3 per cent in FY 12.

Commodity Producing Sector (CPS) consists of agriculture and industry. CPS accounted for 42.3 per cent of GDP after rebasing of national accounts during the outgoing fiscal year. The commodity producing sector has performed better in outgoing fiscal year as compared to last year; its growth rate this year was 3.4 per cent against the growth of 3.1 per cent last year. However, the growth of the commodity producing sector remained far below its potential due to heavy rains, energy crises, law and order situation etc.

Agriculture provides food items and raw materials for industrial units and accounts for 21.4 per cent of GDP, 45 per cent of employment and also contributes in the development of other sectors as a supplier of raw materials to industry as well as a market for industrial products and is also the main source of foreign exchange earnings. The performance of the agriculture sector remained weak due to unfavourable weather conditions which resulted in lower production of cotton and rice. However, this sector posted a growth of 3.3 per cent against the growth of 3.5 per cent last year. The agriculture sector consists of various subsectors which include crops, livestock, fisheries and forestry. The crop sub-sector is further divided into important crops, other crops and cotton ginning.

The important crops account for 25.24 per cent of agricultural value added and registered a growth of 2.3 per cent compared to a growth of 7.4 per cent last year. The important crops included wheat, maize, rice, sugarcane and cotton witnessed growth of 3.23 per cent, 6.74 per cent, -10.05 per cent, 6.98 per cent and -4.19 per cent, respectively. The main reason for the negative growth of rice and cotton was unfavourable weather conditions and affects of rains in the rice and cotton growing areas.

Other crops contributed 12.34 per cent to value addition in overall agriculture. Growth in the production of this sub-sector was recorded at 6.7 per cent against the negative growth of -7.7 per cent last year. Cotton Ginning has a 2.91 per cent share in overall agriculture sector. Cotton Ginning has recorded a growth of -2.9 per cent as compared to 13.8 per cent growth last year. Previously it was a component of manufacturing sector, now under new base 2005-06; it is included in the agriculture sector.

Livestock is an important sub sector of agriculture, which accounts for 55.44 per cent of agriculture value addition. Its share in GDP is 11.9 per cent. This sub-sector is highly labour intensive. It has also emerged as a major source of income for the small farmers as well as the landless rural poor. Livestock has recorded a growth of 3.7 per cent against the growth of 3.9 per cent last year. The fisheries sector having 2.05 per cent share in agriculture recorded a growth of 0.7 per cent against the growth of 3.8 per cent last year. The growth of the forestry sub-sector was recorded at 0.1 per cent as compared to the growth of 1.7 per cent last year. Forests are a key component of our environment and degradation of forests can pose severe socio-economic challenges for the coming generations.

The manufacturing sector is another important sector of the economy having much contribution in the progress of our economy. The manufacturing sector captured 63 per cent share of the overall industrial sector. It has been hard hit by domestic and international factors. Power crises, unstable law and order situation, campaign against terrorism have created uncertain environment, resulted in loss of working hours. All these factors have caused slower growth in manufacturing sector. The growth was recorded at 3.5 per cent compared to the growth of 2.1 per cent last year.

The construction sector is one of the potential components of industrial sector having 11.42 per cent share in overall industrial sector. The construction sector has recorded 5.2 per cent growth as compared to 3.2 per cent growth last year. The increase in growth is due to rapid execution of work on the rehabilitation of the flood affected areas, increased investment in small scale construction and rapid implementation of PSDP schemes and other development projects of Federal and Provincial Governments. The mining and quarrying component contains 14.74 per cent share of the overall industrial sector. Pakistan has economically exploitable reserves of coal, rock salt, limestone and onyx marble, china clay, dolomite, fire clay, gypsum, silica sand and granite, as well as precious and semi-precious stones. The mining and quarrying sector recorded a growth of 7.6 per cent during the year 2012-13 against the growth of 4.6 per cent last year. Much of the country's mining reserve exists in remote areas. Infrastructure improvements are necessary to sustain and achieve higher growth rates in future. The electricity generation & distribution and gas distribution contains 10.86 per cent share in overall industrial sector. This sub-sector has recorded a negative growth at 3.2 per cent as compared to 2.7 per cent last year.

The services sector has emerged as the main driver of economic growth and playing a vital role in sustaining economic activities in Pakistan. The share of the services sector has increased from 56 per cent of GDP in 2005-06 to 57.7 per cent in 2012-13. The services sector consists of the sub-sectors: Transport, Storage and Communication; Wholesale and Retail Trade; Finance and Insurance; Housing Services (Ownership of Dwellings); General Government Services (Public Administration and Defence); and Other Private Services (Social Services). The services sector has recorded a growth rate of 3.7 per cent in 2012-13. This performance was mainly contributed by Finance and Insurance at 6.6 per cent, General Government Services at 5.6 per cent, Housing Services at 4.0 per cent, Other Private Services at 4.0 per cent, Transport, Storage and Communication at 3.4 per cent and Wholesale and Retail Trade at 2.5 per cent. Services sector in our economy has a great potential to grow at a rapid pace. In order to develop the services sector, the government has recognized the needs to liberalize operating rights and has separated regulators from operators.

The expansion of output is the sum of consumption (both private and public), investment (public and private) and net exports of goods and services. Pakistan's economic growth is historically characterized as consumption-led growth like other developing countries. The growth driven by the private consumption expenditure reached to 76.98 per cent of GDP, whereas public consumption expenditures were 10.68 per cent of GDP. Total consumption expenditure has reached to 87.66 per cent of GDP in 2012-13 compared to 88.86 per cent last fiscal year. Total consumption has declined 1.2 per cent of GDP, private consumption decreased by 1.55 per cent of GDP as it declined from 78.53 per cent of GDP to 76.98 per cent of GDP. While public consumption increased by 0.35 per cent of GDP as it increased from 10.33 per cent of GDP to 10.68 per cent



of GDP. Decline in consumption expenditure might be positive thing if consumption is diverted to investment expenditure.

Per capita income is regarded as one of the key indicators of economic well-being over a period of time. Per Capita Income in dollar terms grew at a nominal rate of 3.4 per cent in 2012-13 and increased to \$ 1,368 in 2012-13.

Investment plays the key role in the determination of economic growth of a country. Investment has been hard hit by internal and external factors during the last few years and is considered as a key concern. Total investment has decreased from 19.21 per cent of GDP in 2007-08 to 14.22 per cent of GDP in 2012-13.

Fixed investment has declined to 12.6 per cent of GDP in 2012-13 from 17.61 per cent of GDP in 2007-08. Private investment recorded a contraction of 8.7 per cent in 2012-13 compared to 12.8 per cent of GDP in 2007-08. Public investment as a per cent of GDP also decreased to 3.9 per cent in 2012-13 against the 4.8 per cent in 2007-08. The resolve of government is to address this issue and create an enabling environment to revive the confidence of the investors. National savings were 13.5 per cent of GDP in 2012-13 compared to 11.0 per cent in 2007-08. Domestic savings have also decreased from 9.1 per cent of GDP in 2007-08 to 8.7 per cent of GDP in 2012-13. Net foreign resource inflows are financing the saving investment gap.

Foreign direct investment (FDI) has emerged as a major source of private external flows for developing countries. Pakistan during last few years could not attract FDI as per potential of the country due to number of reasons as explained above. Some signs of improvements have been seen in March and April suggesting improvement in investor's confidence and also due to peaceful transition of democracy the investment is likely to pick up. As is evident that post 2013 election, the capital market crossed 22,000 plus points emitting positive signals to the investor's confidence. The new government has a comprehensive plan to create investment friendly environment and to attract foreign investors in the country.

Workers' remittances from overseas have been a major source of foreign exchange earnings during the last few years. Inflows of remittances also improving the standard of living of recipient household and increase domestic demand and indirectly play a role to reduce unemployment.

SBP resolve is to further bring additional remittances through its PRI scheme. The new elected government is also aiming to explore more markets to export its manpower as well as incentives for the remittances to further enhance its growth. The approval of National Policy for Overseas is a welcome development.

According to which legal rights of overseas Pakistanis & their families abroad and in Pakistan are restored and protected. There is motivations and encouragement for overseas Pakistanis to save and send their remittances through legal channels. Workers' Remittances totalled \$ 11569.82 million in July-April of 2012-13, as against \$ 10876.99 million in the comparable period of last year, which indicate an increase of 6.37 per cent over the period.

Remittances from Saudi Arabia and UK recorded massive growth of 12.84 per cent and 27.49 per cent during the period under review. Agriculture: Agriculture is central to economic growth and development in Pakistan. Being the dominant sector it contributes 21.4 per cent to GDP, employs 45 per cent of the country's labour force and contributes in the growth of other sectors of the economy. Overall agriculture development strategy revolves to foster private sector-led development with public sector providing enabling environment through policy interventions and play capacity building role to improve agriculture related practices.

During 2012-13, agriculture sector exhibited a growth of 3.3 per cent on the back of nominal growth in agriculture related sub sectors, Crops grew at 3.2 per cent, Livestock 3.7 per cent, Forestry 0.1 per cent and fishing 0.7 per cent. The agriculture subsector which included important crops, other crops, grew by 2.3 per cent and 6.7 per cent, cotton ginning declined by 2.9 per cent. Important crops accounted for 25.2 per cent of agricultural value added and has experienced a growth of 2.3 per cent in fiscal year 2012-13 against growth of 7.4 per cent in 2011-12. The lower growth in important crops is attributed to decline in production of rice and cotton by 10.0 per cent and 4.2 per cent, respectively.

Other crops that contributed 12.3 per cent value addition in agriculture witnessed a positive growth of 6.7 per cent in 2012-13 against negative growth of 7.7 per cent during the same period last year. The cotton ginning under new base 2005-06 has been included in agriculture value addition showed a negative growth of 2.9 per cent in 2012-13 against the positive growth of 13.8 per cent during the same period last year. The Livestock sector which has a 55.4 per cent share in the agriculture grew by 3.7 per cent in 2012-13. The Fishing sector grew by 0.7 per cent as against last year's positive growth of 3.8 per cent. Forestry sector posted a nominal growth of 0.1 per cent this year as compared to growth of 1.7 per cent last year.

Keeping in view the increasing demand of credit has provisionally set an indicative agriculture credit disbursement target of Rs 315.0 billion during 2012-13 as against Rs. 285.0 billion fixed last year. Out of which Rs. 220.2 billion was allocated to Commercial Banks, Rs. 72.0 billion to Zarai Taraqati Bank Limited (ZTBL), Rs. 13.8 billion to Microfinance Banks (MFBs), and Rs. 9.0 billion to Punjab Provincial Cooperative Bank Limited (PPCBL). During (July-March), 2012-13, banks' disbursement to the agriculture sector surged by 17 per cent year-on-year basis i.e. Rs 231.0 billion or 73.0 per cent of the target, Rs. 315.0 billion as compared to the disbursement of Rs 197.4 billion of last year.

Kharif 2012 started with inventory of 800 thousand tons of urea. Total availability of urea (including 511 thousand tons of imported supplies, 2068 thousand tons of domestic production) was about 3379 thousand tons against the off-take of 2689 thousand tons, leaving inventory of 684 thousand tons for Rabi 2012-13. Availability of DAP was 773 thousand tons comprising 177 thousand tons of inventory, 243 thousand tons of imported supplies and 353 thousand tons of

local production. DAP off-take was 544 thousand tons leaving an inventory of 227 thousand tons to meet the requirements of the Rabi 2012-13.

Rabi 2012-13 started with inventory of 684 thousand tons of urea. Total availability of urea (including 288 thousand tons of imported supplies, 2114 thousand tons of domestic production) was about 3086 thousand tons against the off-take of 2855 thousand tons, leaving inventory of 220 thousand tons of Kharif 2013. Availability of DAP was 903 thousand tons comprising of 227 thousand tons of inventory, 327 thousand tons of imported supplies and 349 thousand tons of local production. DAP off-take was 700 thousand tons leaving an inventory of 197 thousand tons.

The leftover of this season is transferred to next season to meet the requirements of the Kharif 2013.

**Manufacturing Sector:** Manufacturing sector having forward and backward linkages with other sectors of the economy is considered as the main source of economic growth.

Manufacturing sector accounts 13.2 per cent of GDP and employ 13.8 per cent of the labour force. The Manufacturing sector is further divided into three sectors namely Large Scale Manufacturing, Small Scale Manufacturing and Slaughtering. Large Scale Manufacturing (LSM) accounts 10.6 per cent of GDP followed by Small Scale Manufacturing 1.6 per cent and Slaughtering 0.9 per cent.

Large Scale Manufacturing (LSM) witnessed a positive growth of 9.32 per cent during March 2013 as compared to negative growth 1.19 per cent in the comparable period of last year. On average July-March 2012-13 LSM registered a growth of 4.26 per cent as compared to 1.49 per cent in the comparable period of last year.

The production data of Large Scale Manufacturing (LSM) received from the Oil Companies Advisory Committee (OCAC) comprising 11 items, Ministry of Industries and Production 36 items and Provincial Bureau of Statistics 65 items have contributed in LSM growth as 0.73 per cent, 1.35 per cent and 2.18 per cent, respectively.

The LSM group wise increase witnessed in Paper & Board (21.97 per cent), Rubber Products (17.61 per cent), Pharmaceuticals (16.35 per cent), Coke & Petroleum Products (13.31 per cent), Iron and Steel Products (13.24 per cent), Food Beverages & Tobacco (7.30 per cent), Non metallic mineral Products (5.86 per cent) and Textile (0.92 per cent). Most energy intensive sectors recorded negative growths including Engineering Products (15.60 per cent), Wood Products (18.98 per cent), Automobiles (11.84 per cent), Electronics (6.43 per cent), Fertilizers (5.03 per cent), Leather Products (2.33 per cent) and Chemicals (1.08 per cent). The recovery in LSM was broad based such as improved producer's margin on account of falling raw material prices, better sugarcane crop, capacity enhancement in iron & steel and paper & board, strength in construction activities and higher external demand for cotton yarn. The government is also making efforts to improve energy situation to boost industrial growth as the improvement in gas supplies to fertilizers

industries helped to enhance their capacity utilization. The industries like paper & board and steel production constraint eased out by investing in alternate energy arrangement i.e. coal and furnace oil. However, consumer durables continued to struggle with import competition as production of automobiles and electronics declined. The pickup in private construction activities also depict in higher cement dispatches and import of iron and construction machinery that helped to spur overall manufacturing growth. All these positive factors may support to achieve the planned target but until and unless the energy situation is not improved to the required level, the energy intensive industries will continue to suffer.

During July-March 2012-13, in automotive industry only jeeps and tractors managed a significant growth at 67.1 per cent and 34.5 per cent respectively as compared to same period last year. The other sub items of automobile sector such as buses, cars and LCVs registered a negative growth of 8.8 per cent, 23.2 per cent and 30.2 per cent, respectively. The growth in cars suffered on account of amnesty scheme as well second hand imported cars. The Mining and Quarrying sector estimated to grow at 7.6 per cent in 2012-13 as against 4.6 per cent last year.

**Fiscal Development:** During the past five years the economy faced numerous challenges on external and internal front on account of power crisis, persistent inflationary pressures, unprecedented floods, low tax to GDP ratio, high fiscal deficit, mounting public debt, high interest payments, high growth in subsidies on account of circular debt and resource drain through PSEs. Consequently, the expenditure overrun surpassed the revenue increases, thereby resulted pressure on the fiscal deficit.

However, it is worth noting that amid mounting pressures on public spending, government's various corrective measures during the past five years to rationalize expenditure and broadening of tax base have brought fiscal deficit to 6.8 per cent in 2011-12 from 7.3 per cent in 2007-08.

Fiscal deficit during the first nine months of 2012-13 stood at 4.6 per cent against 6.4 per cent of GDP (including debt consolidation of Rs 391 billion arrears of electricity).

On the other hand provincial resource mobilization performed remarkably well during the first nine months of fiscal year 2012-13 with the growth rate of 20.8 per cent. After the announcement of 7th NFC award, provinces received a significant amount of the federal government taxes as their share from the divisible pool along with additional grants. Government continued its efforts to broaden the tax base and simplifying the tax structure.

During the current fiscal year various measures to increase the revenues expected to generate additional tax revenues of Rs 41 billion e.g., the sectors with zero rating facility have been brought under tax as 2.0 per cent sales tax was imposed on local supplies of five leading export sectors (Sports, Surgical, Carpet, Textile and Leather, standardized withholding tax regime at the import stage by imposing a uniform rate of 5 per cent tax on the imports of commercial and

industrial importers, mobile telephone sets, silver, all fibres, yarns, fabrics and goods covered by the five leading export sectors, broadening of sales tax, withholding regime, withdrawal of concessionary rate of 5 per cent on tea.

FBR tax collection for the fiscal year 2012-13 was targeted at Rs.2,381 billion which was 26.4 per cent higher over the actual collection of Rs.1883.0 billion during 2011-12. During first ten months of current fiscal year, FBR tax collection reached to Rs.1505.2 billion against Rs 1,426.2 billion in the same period last year, posting a growth of 5.5 per cent.

**Money and Credit:** Monetary policy in Pakistan has undergone substantial changes in tandem with volatile economic conditions within the country. The current policy stance has been largely supportive of the dual objective of promoting economic growth and price stability along with the revival of credit to private sector.

SBP has adopted relatively an expansionary policy stance for the past two years as the policy rate has been reduced by cumulative 400 basis points from 13.5 per cent in August 2011 to 9.5 per cent in December 2012.

During July-10th May 2012-13, money supply (M2) increased by 9.9 per cent against the growth of 9.1 per cent in the comparable period last year on account of improvement in Net foreign assets (NFA), rise in Net domestic assets (NDA) and credit off take by the Public Sector Enterprises (PSEs). The improvement in NFA however, was mainly on account of realization of \$1.8 billion under the Coalition Support Fund (CSF) during the first half of 2012-13. Despite some improvement, NFA remained under great pressure due to decline in foreign exchange reserves on account of debt repayment to IMF since February 2012 and drying up of external financial inflows. Till 25th May, 2013 Pakistan has repaid \$ 4.1 billion to IMF.

Credit to private sector increased to Rs. 92.9 billion during July-10th May 2012-13 as compared to the expansion of Rs. 235.1 billion in the comparable period of last year. During the current fiscal year, following a decline in policy rate by 250 bps points, weighted average lending rates of commercial banks also reduced by 267 bps points to 10.5 per cent in March, 2013 against 13.1 per cent in June, 2012. Weighted average lending rate (including zero mark-up) on outstanding loans stood at 10.46 per cent, while weighted average deposit rate (including zero mark-up) stood at 5.21 per cent. Banks have also cut the deposit rates from its peak level of 7.11 per cent in July, 2012 to 5.21 per cent in March 2013, in order to avoid fall in their profits.

A declining trend has been witnessed in the banking spread, as it reduced to 4.45 per cent in February, 2013, while it rose to 5.25 per cent in March, 2013. Lending rate is expected to reduce further due to low level of investment and fresh disbursements by the banks. On the other hand, deposit rate is likely to increase from April, 2013 onwards, because the banks will start paying interest on average balance of saving accounts instead of minimum as per directives issued by the SBP.

**Capital Market:** The capital market not only reflects the general condition of the economy, but also smoothens and accelerates the process of economic growth. Various institutions of the capital market like nonbank financial intermediaries allocate the resources rationally in accordance with the development needs of the country. The proper allocation of resources results in the expansion of trade and industry in both public and private sectors, thus promoting balanced economic growth in the country.

In Pakistan, Capital Market mainly consists of stock (equity) and Debt Markets. Pakistan Stock Markets has outperformed during current fiscal year among Global Stock Markets including India, China, Hong Kong, Tokyo, USA and UK. Participation of foreign investment was the main reason behind the better performance of Karachi Stock Exchange (KSE). In addition, the better return on Pakistan Stocks has also attracted the foreigners which they did not find in the other Global Markets, Beside this, the local investors has found the best avenue in the capital market because of consecutive decline in the discount rate.

Pakistan's stock markets showed robust growth during current financial year mainly due to the pre and post-election political environment of the country. The KSE 100 index which was at the level of 13,801.41 at the end of last financial year crossed first the barrier of 19,000 level mark at the end of April, 2013 and was trading around 19,900 level on 10th May before election and then broke all previous records and reached all-time high level of above 22,000.

The KSE 100 index in cumulative terms increased by 57 per cent during current fiscal year (Jul-May). Other factors which contributed to this bullish trend include implementation of long awaited Capital Gain Tax Rules, Demutualization of the stock exchanges, considerable decline in the discount rate by SBP which was brought down to 9.5% in December 2012, substantial foreign interest in stocks and declining inflation.

In global scenario, the US S&P 500 has registered an increase of 15.2 per cent while the UK FTSE 100 was up by 15.1 per cent during Jul-March, FY13. The Index of Tokyo NIKKEI 225, however, stood at 12,397.91 with an impressive increase of 37.7 per cent The Hong Kong market went upward by 14.7 per cent but China Shanghai Composite could not perform and increased only by 0.5 per cent. Beside this, Bombay Sensex Index stood at 18,835.77. It may be noted that as compared with the other world indices, Pakistan Stock market performed well during current fiscal year.

It has been observed over the years that Pakistan's economy mostly relied on the banking system to meet the financing needs of the economy whereas capital markets relatively developed slowly. During the past few years, the significance of debt markets and in particular bond markets has been realized as a complimentary source of finance. The major drivers of financial assets in Pakistan are deposits and government bonds, whereas corporate bonds remain a very small portion.

During July-March, FY13 a total of 6 debt securities issued through private placement which also included two Sukuk issues of Rs.108.393 billion by Pakistan Domestic Sukuk Company Ltd.

**Inflation:** The inflationary trend in the economy subdued during 2012-13. The annualized inflation rate measured in terms of Consumer Price Index (CPI) for (July-May) 2012-13 averaged at 7.5 per cent as against 10.9 per cent recorded in the same period of 2011-12. Food and non-food inflation followed almost the overall inflationary trends. Food inflation averaged at 6.6 per cent against 11.1 per cent last year and non-food inflation at 8.1 per cent as compared to 10.9 per cent in the same period of last year. Similarly, the Sensitive Price Indicator (SPI) and Wholesale Price Index (WPI) each increased by 7.8 per cent and 7.6 per cent during the period under review. The slower increase in inflation is the result of better supply situation domestically and decline in international commodity prices.

The CPI headline inflation on year on year (YoY) basis dropped to 5.1 per cent in May 2013 as compared to 12.3 per cent last year. WPI stood at 4.1 per cent and SPI inflation 6.8 per cent as compared to 7.1 per cent and 8.1 per cent, respectively during the same period last year. Food inflation down to 6.5 per cent on year on year (YoY) basis and that of non-food 4.1 per cent while core inflation stood at 8.1 per cent as compare to 11.3, 13.1 and 11.1 per cent, respectively last year. Food inflation in this fiscal year is much slower than a year earlier, reflecting improved supply while deceleration in non-food inflation stemmed mainly from decreased prices of gas and fuel related component. The lower trend in Wholesale Price Index (WPI) inflation was mainly due to a decrease in wholesale prices of sugar, pulses, fertilizers, fuel and cotton related items while the downward trend in Sensitive Price Index inflation was due to decrease in retail prices of chicken, potatoes, sugar, pulses and fresh vegetables. Trade and Payments: The world trade statistics reflect weakening demand that originated in the euro area transmitting to the rest of the world during 2nd half of 2011 and further declined in 2012. As a result, imports of the United States and Japan also slowed significantly in the second half of 2012. East Asian economies that trade significantly with the major developed countries have experienced commensurate declines in exports. The EU and the US represent the most important destinations of Pakistan exports and their markets absorb 31 per cent and 23 per cent of exports. While China represents the third most important destination with an 11.5 per cent share. UAE, Afghanistan, Oman and Turkey have recently become important destinations.

Therefore, slowdown in US and European economies and weak demand have significant impact on Pakistan's export growth. The government started the three year policy cycle and presented its first Strategic Trade Policy Framework 2009-12 in September 2009. STPF 2009-12 achieved its export targets at the end of 2010-2011. In spite of various challenges faced by economy, our trade has shown consistent improvement. Our exports increased by 27 per cent in the year 2010-11 and touched a record level of US \$ 25.4 billion.

There was a slight fall of 4.7 per cent in exports during 2011-12, due to external factors like shrinkage in global demand in wake of the global financial crisis and lower prices of cotton in the international market etc. The second Strategic Trade Policy Framework (STPF) for next three-year period, 2012-15 essentially build on the STPF 2009-12 and seeks to identify those aspects of Pakistan's export competitiveness which have been relatively less attended such as focusing on regional trade, promotion of export of services sector, facilitating export industry by overcoming energy crises and many more.

For the promotion of regional trade between India and Pakistan, both governments have in the past two years shown courage and taken steps to follow up. Pakistan took the initiative in November 2011 by announcing that it would apply Most Favoured Nation (MFN) treatment to goods coming from India by the end of 2012 (India granted Pakistan MFN in 1996). In February 2012, both countries announced the conclusion of agreements on customs cooperation, mutual recognition of standards, and redressal of trade grievances. In September 2012, both governments announced a new visa agreement that included provisions designed to facilitate business travel and build an atmosphere of confidence and trust and for that the only way is economic partnership. It is expected that outcomes and benefits of these measures will emerged shortly.

**Public Debt:** Pakistan's public debt reached to Rs.13,626 billion by end-March 2013 that is 59.5 per cent of GDP as compared with 59.8 per cent during the same period last year. The composition of public debt has witnessed major changes over past few years with increasing reliance on domestic debt due to non-availability of sufficient funds from external sources i.e. domestic borrowings increased in share from 50.5 per cent of total public debt in 2008-09 to 64.5 per cent at end-March 2013. As at end-March, 2013, the domestic debt was positioned at Rs.8,796 billion represented an increase of Rs.1,159 billion, whereas, external debt posed at Rs.4,831 billion represented a decrease of Rs.200 billion as compared to end-

June 2012. This decline in external debt is mainly attributed to repayments against IMF loans, translational gain on account of US Dollar appreciation against other major currencies and marginal fresh disbursements.

The servicing of the public debt reached at Rs.936 billion against the annual budgeted estimate of Rs.1,142 billion, thereby, consumed nearly 44 per cent of total revenues during first nine months of ongoing fiscal year.

The total domestic debt increased by Rs.1,159 billion or 15 per cent during first nine months of the current fiscal year. This increase stems from net issuance of market debt namely Treasury Bills (Rs.528 billion), Special Savings Certificate and Accounts (Rs.159 billion), Pakistan Investment Bonds (Rs.144 billion), Market Related Treasury Bills (Rs.105 billion) and Ijara Sukuk (Rs.76 billion). The composition of major components shaping the domestic debt portfolio has undergone a transformation from dominance of unfunded debt to an increasing dependence on short term floating debt that led to shortening of maturity profile of



public debt. The unfunded category comprising about 45 per cent of the aggregate domestic debt stock in 2001-02 has declined to 23 per cent by end-March 2013. Contrary to this, the share of floating debt to total domestic debt has reached 54 per cent by end-March 2013 as compared with 31 per cent in 2001-02 indicating an over reliance on shorter duration instruments.

External Debt and Liabilities (EDL) stock was recorded at US\$ 60.9 billion by end-March 2013, represented a decrease of US\$ 5 billion. As at end-March, 2013, EDL has been dominated by Public and Publically Guaranteed Debt having share of 73 per cent owing to current account deficit which is financed through loans from multilateral and bilateral donors. Borrowing from IMF contributed 9 per cent in EDL Stock as compared with 11 per cent at the end of 2011-12 owing to hefty repayment during first nine months of ongoing fiscal year.

As a per centage of GDP in dollar terms, EDL stock was down by 362 basis points in first nine months of current fiscal year as compared to end-June 2012 and approximated to 25.5 per cent of GDP. The servicing on EDL was recorded at US\$ 5.3 billion during first nine months of current fiscal year. Out of total external debt servicing, an amount of US\$ 3.9 billion was repaid out of which around US\$ 2.0 billion was against IMF loans. During first nine months of 2012-13, appreciation of the US Dollar against other major currencies caused the foreign currency component of public debt to decrease by US\$ 1.5 billion.

**Education:** National Education policy (2009) aims to address the issues of access, equity and quality of education at all levels. Under this policy, the government is committed to allocate 7 per cent of GDP to education and provide free universal primary education by 2015. Under the 18th Constitutional Amendment, the education sector has been devolved to provinces. Now provinces are committed to implement National Education Policy in letter and spirit.

According to Pakistan Social and Living Standard Measurement (PSLM) survey 2011-12, the literacy rate for the population (10 years and above) remained 58 per cent during 2011-12. Literacy remained much higher in urban areas than in rural areas and much higher for men than women. Province wise data suggests that Punjab and Sindh leads with 60 per cent literacy followed by Khyber Pakhtunkhwa with 52 per cent and Balochistan with 46 per cent.

The GER at the primary level excluding Katchi (prep) for the age group 5-9 years at national level during 2011-12 decreased to 91 per cent from 92 per cent in 2010-11. Amongst the provinces, Punjab and Khyber Pakhtunkhwa remained stable with 98 and 89 per cent in 2011-12 while Balochistan and Sindh declined from 69 per cent to 74 per cent and 79 per cent to 84 per cent in 2011-12.

The NER at the national level during 2011-12 slightly increased to 57 per cent from 56 per cent in 2010-11. Punjab witnessed an increase of 64 per cent in 2011-12 as compared to 61 per cent in 2010-11. Sindh data suggests a decline from 53 per cent in 2010-11 to 50 per cent in 2011-2012; Khyber Pakhtunkhwa witnessed a slight improvement from 51 per cent in 2010-11 to 53 per cent in 2011-

12 while Balochistan witnessed a prominent decline from 47 per cent in 2010-11 to 39 per cent in 2011-12 due to unstable law and order situation.

The overall number of enrolments during 2011-12 was 40.1 million as compared to 38.5 million last year. This shows an increase of 4.2 per cent. It is estimated to increase to 41.3 million during 2012-13. The overall number of institutes stood at 231.2 thousands during 2011-12 as compared to 227.4 thousands last year. This shows an increase of 1.7 per cent.

However, the number of institutes is estimated to increase to 233.2 thousands during 2012-13. The overall number of teachers during 2011-12 was 1.44 million compared to 1.41 million last year showing an increase of 2.1 per cent.

This number of teachers is estimated to increase further to 1.50 million during the year 2012-13. An amount of Rs 1429.64 million has been allocated in the Federal PSDP for the expansion and development of basic and college education. In Provincial Annual Development Programmes (ADPs) 2012-13, the Government of Punjab has allocated Rs 15000/- million for 62 new and ongoing development projects of School Education, whereas the Government of Sindh has allocated Rs 12000/- million for 157 new and on-going development projects. The Government of Khyber Pakhtunkhwa has allocated Rs 7116/- million for 57 new and ongoing development projects of Elementary and Secondary Education. The Government of Balochistan has allocated Rs.2150.394 million for 163 new and on-going development projects.

During July-March 2012-13, a total of 6,755 youth received vocational & technical training under the President's Fanni Maharat Programme and Prime Minister's Hunermand Pakistan Programme and 9,837 youth are under training.

HEC is also playing its role in running different scholarship programmes to enhance academic qualification at various levels on merit basis in line with requirements. During the period 2008-13, a total of 6081 scholarships were awarded under different programmes. In the development portfolio of HEC, there are 168 development projects having allocation of Rs.15.590 billion. Health and Nutrition: The government is committed to improve the quality of health care and to achieve the better health outcomes. The health sector in Pakistan has improved and the number of registered doctors has increased to more than 160,289, 12,544 dentists, while 82,119 nurses and 13,678 lady health visitors (LHV) have been registered. The current ratio of population density versus health facilities is 1,127 person against one doctor, 14,406 per dentist and one hospital bed for 1,786 person.

The achievements of health sector during 2012-13 included an addition of 4,200 hospital beds, establishment of 7 Rural Health Centres (RHCs), 32 Basic Health Units (BHUs) and up gradation of 10 existing RHCs and 37 BHUs along with the addition of 4,400 new doctors, 430 dentists, 3,300 Nurses, 4,500 paramedics and 450 Traditional Birth Attendants. To improve the health status of people and to reduce burden of disease a series of programs and projects are on track. These included T.B, Malaria and AIDS Control Programmes.

Improvements in nutrition and food adequacy are important for a healthy productive life. Various programmes remained in progress to address the micro nutrient deficiencies through food fortification and supplementation while a National Zero Hunger Program is being finalized to address hunger and malnutrition in the country. The per capita food intake has increased from 2410 calories daily in 2011-12 to 2450 calories in 2012-13. The per capita protein availability has also increased from 71.5 grams per day in 2011-12 to 72.5 grams in 2012-13.

**Population, Labour force and Employment:** Pakistan is sixth most populous country in the world with an estimated population of 184.35 million in 2012-2013. The growth rate of population during 2012-2013 is 2.0 per cent. Under current circumstances, it is expected that Pakistan will attain fifth position in the world in terms of total population in 2050. Government is making efforts to control the population growth rate through various population welfare programmes and by creating awareness among people. In this regard, the population welfare program has established 2891 family welfare centres (FWC), 340 reproductive health centres and 292 mobile service units during 2011-12. These Population welfare programmes are contributing significantly in controlling population growth rate, fertility rate, infant mortality rate and maternal mortality rate.

According to the Labour Force Survey 2010-11, Pakistan has a labour force of 57.24 million people which is 0.91million more than the last year. Out of which, total number of people employed during 2010-11 were 53.84 million. Most of the labour force in Pakistan works in the rural areas where agriculture is the dominant activity. 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 per cent in 2009-10 to 13.7 per cent in 2010-11 and the share of community/social and personal sector has decreased from 11.2 per cent to 10.8 per cent. Unemployment is the central problem being faced by every developing country in the 21<sup>st</sup> century. The unemployment rate has increased to 6.0 per cent in 2010-11. The unemployment rate in rural area has decreased from 4.8 per cent in 2009-10 to 4.7 per cent in 2010-11 while in urban area the unemployment rate has increased from 7.2 per cent 2009-10 to 8.8 per cent in 2010-11. Often it is perceived that the unemployment rate in rural areas is greater because in rural areas there is a lower chance of employment as compared to the urban areas where employment opportunities are relatively better due to greater economic activities. The apparent reason of this hard reality is that the industrial sector is facing an acute shortage of energy resources and therefore there was a reduction in job opportunities.

The government is committed in producing skilled workers in order to send them abroad to ensure higher foreign exchange. In this regard, MOUs have been signed with a number of labour importing countries e.g. Qatar, Malaysia and Saudi Arabia. The number of emigrant which was 0.45 million in 2011 increased to 0.63

million in 2012 which included 0.26 million unskilled, 0.26 million skilled, 0.1 million semi-skilled workers.

**Social Safety Nets:** The government's commitment to follow a sustained poverty reduction strategy and to allocate a minimum of 4.5 per cent of GDP to social and poverty related expenditures is clearly reflected in the allocations to the pro-poor sectors. The government prioritized 17 pro-poor sectors through the Medium Term Expenditure Framework (MTEF) in the PRSP-II, which provided a link between the policy priorities and the budget reality. Expenditure on pro-poor sectors in 2008-09 stood at 7.4 per cent of GDP.

During 2011-12, total expenditures for these sectors were increased further and amounted to Rs 1,980.819 billion, which was 9.9 per cent of GDP. During July-December of the current fiscal year 2012-13, Rs.775.620 billion expenditures have been made.

Pakistan Poverty Alleviation Fund (PPAF) is the lead institution in the country with the aim to provide assistance in microcredit, water and infrastructure, drought mitigation, education, health and emergency response interventions.

The overall disbursements for its ongoing core operations during the period July-December were Rs.7.5 billion. Benazir Income support program launched by the government with the primary objectives to provide immediate relief to poor. BISP has made progress and provided relief to over 4.7 million beneficiaries including flood affectees and bomb blast victims across the country. As of March 1, 2013, BISP since its inception has spent almost Rs. 165 billion on various activities including cash transfers, graduation program and emergency relief along with conducting a nationwide poverty scorecard survey. BISP has an allocation of Rs.70.00 billion for the fiscal year 2012-13. It has launched a number of programmes including (i) Payment to Recipients, (ii) Waseela-e-Haq, (iii) Waseela-e-Rozgar, (iv) Waseela-e-Sehat and (v) Waseela-e-Taleem to help the needy, and vulnerable segment of the society.

Pakistan Bait-ul-Mal (PBM) is also making a significant contribution towards poverty reduction through its various poorest- of- the poor focused services by providing assistance to destitute, widow, orphan, invalid, infirm and other needy persons irrespective of their gender, caste, creed and religion through its ongoing core projects/schemes. During July to March FY 13, an expenditure of Rs.1504.713 million has been incurred to support programs activities.

Zakat plays an important role in poverty alleviation. Zakat funds are utilized to assist the needy, indigent, poor, orphans, widows, handicapped and disabled. Under the 18<sup>th</sup> Constitutional Amendment, the subject of Zakat has been devolved to the provinces/federal areas. Upto March, 2013 an amount of Rs.3,951.667 million has been distributed in bulk amongst the provinces and other administrative areas.

Peoples Works programme (PWP) I & II are them welfare programmes comprising of small development schemes for provision of electricity, gas, farm to

market roads, telephone, education, health, water supply, and sanitation facilities to the rural poor.

During July-December 2012-13, Rs.32.8 billion has been provided to PWP-I and PWP-II. EOBI provides monetary benefits to old age workers through various programmes such as Old Age Pension on attaining superannuation, Invalidity Pension on sustaining Invalidity affecting insured person's earning more than one third of the normal, Survivors Pension in case of death of insured person/pensioner and Old Age Grant not meeting the benchmark for old-age pension. During the period July to December 2012-13, an amount of Rs. 6,603.492 million has been utilized for 373,433 beneficiaries.

Workers' Welfare Fund is also facilitating the poor labourers in industrial sector by providing funds for scholarships, marriage grant, death grant and housing facilities etc. During July-March 2012-13, Rs.1727.091 million has been incurred on these schemes.

**Transport and Communications:** Performance of Pakistan Railway and Pakistan International Air Lines were not encouraging mainly due to the heavily burdened administrative and management expenditure like in Railway; huge pension payments, over staffing, increased fuel cost, subsidized fares resultantly revenue earning have dropped by 25% and working expenses have increased by 33%. PIA performance also remained sluggish; revenues have declined by 4.7% during 2012 as compared to 2011. Government of Pakistan supported these two organizations and made plans to revitalize their performance and allocated Rs.23 billion in PSDP 2012-13 as a grant to Pakistan Railway. To drag out PIA from its financial crisis, GoP has approved a bailout package amounting to Rs.49 billion. In addition, GoP is also facilitating PIA in extension of guarantees which are being expired and issuing fresh guarantees against loans taken by PIA. GoP is also supporting PIA for induction of five A320 narrow body aircrafts with guarantee amounting to \$46 million for security deposit, spare parts/materials and training.

Pakistan Electronic Media, Telecommunication Sector and Pakistan Post Office performed well in 2011-12. There has been a cumulative investment of approximately US\$ 4.0 billion in the electronic media industry in Pakistan. New jobs more than 200,000 people of diversified skills and qualifications have been provided.

Pakistan Television is operating 6 multiple channels in the country, one TV Channel has been established in Azad Jammu and Kashmir, PTV has also launched English News Channel in January 2013. Pakistan Broadcasting Corporation has started work to transfer precious audio material of historical value from magnetic tapes to computer in MP-3 via Digitalization Project. During the first nine months of current fiscal year, Pakistan Post has received the foreign remittances amounting to US \$ 78.7 million equivalent to Rs. 7,551.2 million. During the period July 2012 to December 2012 an amount of Rs.85,490.0 million has been collected through National Savings Schemes and earned commission amounting to Rs.538.725

million during this period. Teledensity of the country has increased by 71.95 per cent at the end of March 2013.

The cellular mobile network is covering 92 per cent of the land of Pakistan. Cellular industry has shown a healthy growth of 8.4 per cent in cell sites during 2012. Mobile penetration rose 64.9 per cent in 2011-12 against 60.4 per cent in 2010-11. Total mobile subscribers have reached 122.13 million by the end of March 2013 as compared 118.32 million in the same period last year, which is 3.2 per cent increase. Revenues of the telecom sector during 2012 stood at Rs.411.4 billion registering a growth of 13 per cent over the same period last year.

Performance of Ports and Shipping is also encouraging, despite a depressed shipping scenario worldwide, Pakistan National Shipping Corporation and three ports namely Karachi Port, Port Qasim and Gwadar Port have also performed well. PNSC has improved its profitability and earned a profit of Rs.2,558.2 million during July-March 2011-12 against Rs.1466.0 million of same period last year which is 74.5% increase. Similarly total cargo lifted during July-March 2012-13 was 8,730 thousand tonnes against 6009.7 thousand tonnes last year that is 45% increase. KPT handled 28.8 million tonnes of cargo during the first nine months of the current fiscal year against 27.8 million tonnes during the same period last year. Port Qasim handled 18.57 million tonnes of total cargo during the financial year 2012-13 (July-March) as compared to 19.7 million tonnes during the same period last year.

At Gwadar Port, 341.0 tonnes Urea import handled during July-March 2012-13. The total cargo handled at the port up till now is 5.0 million tonnes. Total 145 Ships were called at Gwadar Port since 2008.

Energy: Energy outages hampered economic growth of Pakistan for last few years. Since early 2000s, the energy sector (especially its sub sector electricity) received greater attention because of the faster rate of growth in its demand. The crisis has affected every one, thus resolving energy crisis got immediate priority in manifestos of all political parties which competed in the election 2013. There is no doubt that there exists high correlation between growth rate of GDP and that of energy consumption.

During calendar year 2012, net primary energy supply remained 64,727 thousand TOEs compared to 64,522 thousand TOEs last year thus posting growth of 0.32 per cent, however, on average the growth rate of net primary energy supply remained 1.8 per cent for last six years. The final energy use during current year became 40,026 thousand TOE as almost 29 per cent (18,462 thousand TOEs) was used in transformation while 10 per cent (6,239 thousand TOEs) was used in diversion which included 3 per cent transport and distribution losses (1,999 thousand TOE). Statistics on energy consumption by source revealed that gas and oil were holding largest share.

In Pakistan oil and gas are two key components of energy mix contributing almost 65 per cent (oil 15% and gas 50%) share to the 64.7 million TOE of energy supplies during 2012 while share of coal and nuclear is almost 7 per cent and 2 per

cent, respectively. The total oil resource potential is 27 million barrels with production of 66,032 barrels per day. 24, 573 thousand barrels (67,140 barrels per day) of crude oil is extracted or produced locally while almost double of it 47, 104 thousand barrels was imported during 2012. Likewise, 8,395 thousand tonnes of petroleum was produced domestically while 11, 507 thousand tonnes was imported. In 2012 the import bills increased to US\$ 10,292 million. The main users in the consumption of petroleum products remained transport and power which jointly have almost ninety per cent share in total consumption. Almost 65 per cent electricity is generated by thermal in which contribution from furnace oil and diesel was 52 per cent in power generation.

During 2012 total production of gas remained 1,559 billion cubic feet that is equivalent to 32 million TOEs which shows a growth of 6 per cent when compared to last year in billion cubic feet while in TOEs it shows a growth of 4.5 per cent. The highest share in consumption of gas was in power sector (27.5 %) followed by industry (22.6 %) during July-March 2012-13 while the transport sectors posted negative growth of 16 per cent during period under discussion. Two Gas utility companies (SNGL & SSGCL) have invested Rs. 1513 million on Transmission Projects, Rs. 11,925 million on Distribution Projects and Rs.1, 898 million on other projects bringing total investment to about Rs. 15,336 million. 237588 additional gas connections included 236997 Domestic, 221 Commercial and 370 Industrial were provided across the country during the period under discussion.

Despite 3,377 MW was added since 2008-09, the generation capacity could not be operated at full due to constraints in fuel availability. The installed capacity in the PEPCO system was 20,986 MW as of June 2011; with hydro 6627 MW and thermal 14,359 MW. During the period July-March 2012-13 its consumption increased to 57,754 GWh from 56,930 GWh in corresponding period 2011-12 posted a growth of 1.4 per cent. The number of consumers has been increasing due to rapid expansion of electric network to villages and other unelectrified areas. During the period under discussion, the progressive number of electrified villages was 8995. By March 2013, the number of consumers has been increased to 21.704 million. The government in its bid to diversify its energy mix, has been giving due attention towards fast track development of Alternative/Renewable Energy (ARE) resources in the country. 50 MW project in Jhampir developed by M/s Fauji Fertilizer Company is completed and providing electricity to National Grid (HESCO) since December 2010 and another project of capacity 56.4 MW developed by M/s Zorlu Enerji Ltd (Turkish company) has also been completed, however, it will achieve commercial operation soon. 3000 Solar Home Systems have been installed in 49 villages of district Tharparkar, Sindh. Likewise 15000 units of Solar Water Heaters have been imported. These heaters have been deployed all over the country especially in Balochistan, Gilgit Baltistan, Khyber Pakhtunkhwa and Northern Punjab. Also 1429 units of Solar Water Pumping System have been imported and these will be installed for community drinking and agriculture purpose all over Pakistan.

**Environment:** Like other developing countries, Pakistan is also facing environment problems mainly due to demographic growth, lack of public awareness and education, catastrophic mismanagement of water and other natural resources and ill planned urban and industrial expansion. Air pollution, inadequate water supply, sanitation, agricultural soil degradation, deforestation and rangeland degradation are other core environmental challenges. Vehicle emissions represent the greatest source of air pollution in the country. Indoor air pollution in Pakistan is also very high and poses a serious problem. Biomass burnt in poorly ventilated homes has severe health consequences, particularly for women, young children and the elderly who are most likely to be exposed to indoor pollutants.

Pakistan faces serious deterioration of surface and ground water quality because of unabated industrial, municipal, and agricultural pollution. The associated adverse health and productivity impacts are significant, with the poor bearing the brunt. Hence, polluted water is the cause of a rising incidence of water borne diseases such as diarrhoea, dysentery, cholera, pneumonic, and hepatitis. Commercial and household plastic bags are another spreading menace in the country. Due to lack of resources and weak planning at the implementation level of local bodies, only about 60 per cent of urban solid waste can be transported to final disposal sites, which generally are open dumping system.

The International Union for Conservation of Nature and other partners are jointly implementing National Impact Assessment Programme (NIAP) in the country. The programme involves interventions at the policy level through introduction of Strategic Environmental Assessment (SEA), capacity building at all levels and sectors, development of tools, procedures and mechanisms, improved understanding of impact assessment processes, for “Integration of the principles of sustainable development into country’s policies and programmes.”

Pakistan Environmental Protection Agency (Pak-EPA), with the approval of the Ministry of Climate Change and after obtaining consent of the Law and Justice Division, notified a regulation effective from April, 2013 prohibiting manufacturing, import, sale and use of non-degradable plastic bags and other plastic products within the limits of Islamabad Capital Territory. This landmark step taken by the Ministry of Climate Change will have long term benefits to control spread of waste.

The concept of Green Economy, still under defining debate at the global level, can become a reality in Pakistan by tackling the resource inefficiencies within the water, energy and agriculture sectors as well as addressing the damaging trends of unregulated urbanization and rising unemployment. The Government of Pakistan has also made institutional arrangements to handle climate change issues, which among others include the Prime Minister’s Committee on Climate Change (PMCCC) and a multi stakeholder and inter-ministerial Core Advisory group on climate change. ■



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**Document No. 6****Speech of President to The Joint Session of  
The Parliament June 10, 2013**

*Bismillah Ir Rahman-Ar Rahim*

Mr. Speaker,

Honourable Members of the Parliament

*Assalam-o-Alaikum*

I am thankful to Allah, to be standing here today in all humility, to address the Parliament at the beginning of its First Year.

It is an honour to be the first elected civilian in the history of Pakistan to oversee the transfer of power in a democratic manner.

It is a cause for which Shaheed Benazir Bhutto dedicated her life.

It is a cause for which I spent 11 and a half years in prison.

It is a cause for which Prime Minister Muhammad Nawaz Sharif suffered imprisonment and exile.

Democracy has arrived.

I wish to thank you for the great honour shown to me.

Mr. Speaker,

I should begin by congratulating once again the new elected Prime Minister Mr. Muhammad Nawaz Sharif.

He has been entrusted with a great responsibility by the voters and the elected Parliament.

I wish him good luck in the discharge of his responsibilities.

I am confident he will rise to the expectations of the people.

I wish to congratulate you Mr. Speaker on your election as the custodian of this august House. Your election as the Speaker is a demonstration of trust reposed in you by the elected members of the National Assembly. I wish to congratulate all the newly elected members of the National Assembly.

I wish to particularly welcome the women and Non-Muslim Members of Parliament. Their empowerment is part of our state policy that cuts across political divide. I appreciate the members of the last Parliament for passing historic Constitutional amendments as well as laws.

I also wish to compliment the former Prime Ministers for their able leadership.

And I wish to recognize the Chairman Senate, Senator Nayyer Hussain Bokhari and former Speaker, Madam Dr. Fehmida Mirza, for their high standards and impartial conduct. I should also like to congratulate the people of Pakistan for their participation in the elections. They demonstrated courage in defying threats by the enemies of democracy.

Their participation shows that the ethos of our people is democratic. There is no place for Dictators in Today's Pakistan. I wish to salute the people for their courage. They have spoken through their vote. Their voice has been heard. It has been demonstrated by the smooth transfer of power. And I commend all political parties and their leaders for accepting the poll results despite reservations. Together they have added to the grace and glory of democracy.

Mr. Speaker,

This is no ordinary day.

It is a great day in our history.

Together we have fulfilled our promise to democracy.

Together we have fulfilled our promise of smooth transition of power from one democracy to another democracy.

This democratic, peaceful transition marks the success of a prolonged struggle.

A dream has come true.

A promise has been redeemed. It is a triumph of all political parties and democratic forces.

It is a triumph of the people of Pakistan.

Let there be no doubt or mistake about it.

Collectively our people have written a new chapter in our History.

Collectively the people of Pakistan deserve to be commended.

Mr. Speaker,

I recall standing here five years ago to deliver my first address to the Parliament.

Then I had urged the Parliament to empower itself. I had called upon it to revisit the 17th Amendment. I had urged it to take away the powers of the President under Article 58 (2)(B) of the Constitution.

A year later I repeated the request.

We urged the Speaker, the first woman Speaker in the Muslim World, to form an All Parties Committee for this purpose.

It is a matter of great satisfaction and pride that Parliament purged the Constitution of undemocratic Articles. It is a great honour for the members of the august House. It will always remain the first line in their biography. They have reasons to be proud. They brought about the first major Constitutional reform in more than three decades. Previously there were piecemeal constitutional amendments, But these were designed to promote the personal interests of dictators. They were not meant to strengthen democracy or empower the people. The outgoing Parliament made a lasting contribution. It made the Constitution truly democratic. Provincial rights as well as Parliamentary sovereignty have been restored.

It abolished the Concurrent Legislative List and transferred all subjects to the Provinces. It banished Article 58(2) (b) that hung over the Parliament like a sword. The Council of Common Interests has been strengthened, Oil, gas and natural resources within a province now belong jointly to the Province and the Federal

Government. The Parliament also has an oversight role, in the selection of the Chief Election Commissioner. Let no one think of subverting the Constitution. The suspension and abrogation of the Constitution is an act of High Treason. No Court shall validate it. These are no small achievements. And all of it was achieved with consensus. I wish to compliment every single member of the outgoing parliament. I also wish to commend the previous government, the coalition partners and indeed all political parties who made it possible. Together they worked for democracy to take roots.

Mr. Speaker,

Freedom, Democracy and Constitutionalism lead the nations to greater progress and glory.

The first Constitution was given in 1973 by political leaders of the time, led by Shaheed Zulfikar Ali Bhutto.

The fundamental rights were introduced for the first time.

The people felt protected.

As a result our people made great progress.

They were filled with energy and guided by a sense of purpose.

That progress was halted when the Constitution was subverted on July 5, 1977.

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

There was yet another assault on the Constitution in 1999.

For decades we have been reeling under the forces of decay.

It is a sad reflection that the Constitution has been abrogated.

Unfortunately its abrogation was endorsed by the pillars of the state.

That must come to an end.

There have been calls to punish those who subverted the Constitution.

It is for this august Parliament and the government to devise an appropriate and wise policy.

I assure you of my support in this.

Mr. Speaker,

We can achieve a lot if we keep aside our prejudices and egos.

Let us renew our commitment to the principles of democracy and the rule of law.

Let us vow to uphold the supremacy of the Constitution.

Each pillar of the state must operate within its constitutional limits.

Let no organ of the state trespass into the domain of others.

We need reconciliation and not confrontation to go forward. Let not democratic forces challenge one another. Democratic forces must come together and join ranks. We are confronted with serious challenges. Economic hardships have caused pain. Power shortages, rising militancy and extremism have compounded economic woes. We have to find solutions to our problems.

The Basha Dam has already been launched. It will generate 4500 MW of power and store over 6 million acre feet of water. Work on it and other energy projects like the Thar Coal need to be stepped up. We are faced with a huge task. I am confident the new government will overcome the challenges.

Peace and reconciliation in Balochistan must receive high priority.

We need to address the issue of missing persons.

A Commission on Missing Persons has already been set up.

It has also made some progress.

But a lot more needs to be done.

It can be done.

The cycle of poverty must be broken.

A programme of poverty alleviation and women empowerment has already been launched.

The poor women expect the program to continue and strengthened further.

Women and minorities are the most vulnerable groups.

Efforts to protect and empower them need to be kept up.

We need to further strengthen interfaith harmony.

We need to take measure to prevent the misuse of the blasphemy law for settling personal and political scores.

The disabled and special people need to be integrated in the mainstream of national life.

We need to have a mechanism for transparent accountability of all.

It must be across the board and NOT selective.

Let everyone be judged by the same yardstick.

Militancy, extremism and terrorism pose the greatest threat to our national security.

The nation is united against militancy.

We need strong leadership to overcome the threat.

We are ready to make peace with those willing to give up violence.

But we should also be ready to use force against those who challenge the writ of the state. We will undertake economic development of the affected areas.

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

We will also not allow anyone to violate our sovereignty.

The sovereignty of Pakistan must be protected at all cost.

It will be.

Our Armed forces, Para military forces, Police and the citizens have made great sacrifices in fighting militancy.

The nation is proud of their sacrifices.

Their sacrifices will not go in vain.

Mr. Speaker,

Expatriate Pakistanis are a national treasure.

They need to be recognized and honoured.

We need to work towards giving them the right to vote.  
Devolution set into motion need to be taken forward.  
It needs to be taken further to the level of local bodies.  
The government is committed to upholding the freedom of the media.  
There is also need to create an atmosphere of self-regulation without state interference.  
Pakistan seeks a conducive and stable regional environment.  
Our relationship with China remains the cornerstone of our foreign policy.  
Relations with China are not affected by internal political changes.  
We believe in investing in relationships.  
My nine visits to China are a manifestation of this investment.  
My trips to Central Asia and seven visits to Turkey demonstrate our eagerness to strengthen ties with these countries. We look forward to peace and stability in Afghanistan.  
We wish success to the Afghan-led reconciliation and reconstruction process.  
We are seeking to improve relations with all countries in the region.  
The Prime Minister has already given the guideline.  
The goal of prosperity and development will not succeed without regional peace.  
We want to improve relations with India.  
Steps have been taken to liberalize trade with India.  
We want a peaceful settlement of the water issue.  
We seek a peaceful resolution of the Jammu and Kashmir issue, in accordance with the wishes of the Kashmiri people.  
We do not want an arms race in the region.  
We believe in dialogue to resolve issues.  
Dialogue alone can ensure peace and understanding.  
We are determined to root out militancy.  
It is not an issue of any single country.  
Militancy threatens all countries in the region and indeed the whole world.  
It calls for sincere and collective efforts of all.  
We can fight militancy better, through dialogue and cooperation rather than doubting each other.  
We greatly value our relations with the Muslim world.  
We will continue to strive for further improving our ties with them.  
We also value partnerships with the United States and Europe.  
We need to further strengthen it on the basis of mutual trust, mutual benefit and respect for sovereignty.  
Drone attacks are a serious violation of sovereignty and international law. They are also counterproductive and are not acceptable.

Mr. Speaker,

We need to take some hard decisions and without delay.  
Delaying decisions do not avoid problems.

They only invite crises.  
We need to carry forward the fruits of democracy to the grass roots.  
We cannot afford confrontation.  
We need reconciliation.  
We need to learn the truth about past mistakes in order not to repeat them.  
This calls for a Truth and Reconciliation Commission.  
I am confident that as democracy takes roots we will be able to deliver on it.  
I have no doubt that we will rise to the dream that our founding fathers had about Pakistan.  
I wish the new government and the Parliament good luck.  
Thank You.  
*Pakistan Paindabad!* ■

National Assembly of Pakistan, June 10, 2013,  
[Http://www.na.gov.pk/uploads/1370837679\\_969.pdf](http://www.na.gov.pk/uploads/1370837679_969.pdf)

## Document No. 7

### Text of Budget Speech — Pakistan Federal Budget 2013-2014

By Federal Finance Minister, Mr. Muhammad Ishaq Dar

*Bismillahir-Rehmanir-Rahim*

#### PART-I

Mr. Speaker,

1. As I rise to present the first budget of the newly elected government. I want to thank Allah (SWT) for bestowing this singular honour on me. It is not a mere occasion of presenting a budget. It is marking a major transition in the country, where one elected government has completed its full term and after holding the general elections, transition to a new democratic government is being peacefully accomplished. The nation should be proud of the fact that this one step is a leap forward in establishing a democratic polity in the country.

2. As the Prime Minister, in his address in the National Assembly has said, a new beginning in Pakistan is about to start. He has given the message of HOPE and OPTIMISM. He has declared that Pakistanis are second to none and that our destiny is nothing but progress. He will lead the nation to a new world, where Pakistan will regain its lost status in the comity of nations, reassert its due respect and identity in the world and elicit due reverence and dignity in return.

3. On the economic front he has laid out comprehensive a agenda of reform to reinvigorate the economy, spur growth, maintain price stability, provide jobs to the youth and rebuild the key infrastructure of the country.

Mr. Speaker,

4. My enthusiasm, however, is seriously dampened as I discover that the new government is inheriting a broken economy. From economic growth to prices, from revenues to expenditure, from public debt to circular debt, from monetary expansion to interest rates, from exchange rate to foreign exchange reserves and sustainability of balance of payments, I wish I could identify one single area where their economic management was in the best national interest. Indeed, there has been complete absence of management rather the economy was run on autopilot and its inherent strengths and weaknesses played out at their own without any real contribution of policy. Viewed in this perspective, the verdict of the last elections may be termed as the public accountability of the mismanagement practiced at an unprecedented level by the outgoing government.

Mr. Speaker,

5. I will point out four or five key indicators to allow the members to appreciate how poorly the economy has performed in the last five years:

- a. The growth rate has averaged less than 3% in the last five years, which is significantly below our potential; if the growth in population, which is about 2% per annum, is considered, it becomes clear that the increase in per capita income over this period has been merely 1%, which is not satisfactory.
- b. The inflation has averaged around 13%, which is unprecedented in the last four decades.
- c. The exchange rate was around Rs.62/\$ and it now stands at about Rs.100/\$ depreciating by a whopping 60%.
- d. State Bank Reserves were around \$11.1 billion and they are leaving behind \$6.3 billion despite having obtained significant support from IMF;
- e. There was virtually no circular debt of mentionable size; today, and after paying about Rs1481 billion in tariff differential subsidies, it is known to all that a gigantic circular debt of Rs.503 billion is crippling the power sector and fiscal system of the country.
- f. The average deficit in the last five years was recorded at about 7%, which is unprecedented in country's recent history.
- g. The public debt stood at Rs.5,602 billion on 31st March 2008, which is now projected to rise to 14,284 billion by 30th June, 2013, implying a 2.5 times (255%) increase in country's indebtedness. Even on the basis of Debt to GDP comparison the ratio rose from 52.6% of GDP to 63.5% representing an increase of nearly 10 percentage points in country's debt

burden. I might add here that the total public debt of Pakistan which accumulated between 1947 and 30th June 1999 was around Rs.3000 billion.

6. These are just a few glimpses of the economic landscape that PML (N) has inherited. I have mentioned them for the sake of setting a benchmark from where we are starting. We are dismayed by this inheritance but not discouraged or disheartened. If anything, our resolve to put things right has only strengthened after realization of the severity of challenges we are facing. Under the leadership of Mian Muhammad Nawaz Sharif our party is determined to turn the tide and not just restore the health of the economy but take it to new heights by enabling it to realize its full potential.

Mr. Speaker,

7. The budget I have the honour to present today is not a mere balancing of revenues and expenditures of the government. It is the statement of economic policy of the PML (N) government that we will pursue during the course of our tenure. It is based on the Manifesto our party announced before it launched its election campaign. In this respect, it is the declaration of our intent to fulfill all promises that we made to the nation while seeking this broad-based mandate the nation has bestowed on Mian Muhammad Nawaz Sharif.

### **Economic Vision**

Mr. Speaker,

8. At the outset, I would like to articulate the economic vision that will be guiding our efforts in rebuilding the economy. It comprises the following elements:

- a. First, we want to build an economy that is not dependent on others except through trade and investment, based on competitive advantage and market considerations. We are a strong nation of nearly 185 million people and a nuclear power. As much as we need to defend our frontiers, we need to protect our economic sovereignty also, which would only be possible when we refuse to live on handouts and foreign goodwill. Self-reliance has to be our real goal, for only then we will earn the needed respect in the ranks of the nations.
- b. Second, the private sector has to be the lynchpin of economic activities, shouldering the largest burden of economic functions. A government too occupied in carrying out business activities that can best be done by the private sector through a market mechanism is indeed a prescription for distorting the entire economic system and creating inequities in its functioning. Of course, markets have to be regulated so that competitive environment is ensured. Indeed, because we were too occupied in



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managing businesses we have grossly neglected the regulatory role of the government, to the detriment of safeguarding consumers' interests.

- c. Third, the only areas where government's presence in economic affairs can be justified is where investments are too large for private sector to undertake and/or markets are unlikely to function for lack of adequate commercial returns even though social returns will be very high, such as in education, health, population welfare and large infrastructure projects. Since social sector functions have been devolved to provinces, and for whom we will make adequate resources available, at the federal level.
- d. Our primary focus would be to radically alter and upgrade the fast depleting physical infrastructure of the country, most notably in the case of power sector where widespread shortages are seriously stifling the growth potential of our economy.
- e. Fourth, all segments of the population must share the burden of resource mobilization for running the government. The culture of exemptions and concessions must end to build a self-reliant economy. By the same token, if for reasons noted earlier, government has to undertake an economic service, full cost of operations must be recovered. Non-recovery of cost, through subsidies and non-payment, may provide temporary relief, but it is an assured prescription for disruptive supplies and unviable operations for the companies providing those services.
- f. Fifth, government must limit itself within the broader limits imposed by the available resources, primarily determined by revenues collected through different taxes. On this account government's performance generally has been dismal, as it has been incurring expenditures far in excess of our income. I will say more on this later in my speech.
- g. Sixth, we have to protect our weak and poor segments of population. People of this country or for that matter any other nation, are our real strength. The marginalized groups represent a reservoir of potentialities which if realized will change the destiny of any nation. It is in this perspective that we have to treat our poor and weak segments of population with care and inclusion. Such are also the groups most vulnerable to extremist ideologies if neglected. Building a reliable and accessible social safety net for these peoples is an imperative that we will be committed to fulfill.

9. Even though this is a simple vision we have strayed from this path for a long period of time. In the meanwhile, powerful interest groups have emerged who would like the country to continue to walk along the familiar but distorted path. In our view, we have lost considerable time in failing to give a predictable and stable path to our economy. We should not waste any more time in creating a definite and unmistakable direction for our economy so that investors can make long-term

decisions, both domestic and foreign and our identity, inherent in the above vision, is firmly established in the eyes of the world.

10. This budget will unfold the implementation plan for this vision. This vision will not be realized tomorrow rather it is a long journey that we have to travel steadfastly. However, a journey of thousand miles starts with first steps, and that is what, Mr. Speaker, this House will see that in this budget we will be laying the foundations for realization of this vision. Main Elements of Budget Strategy.

Mr. Speaker,

11. Let me turn to specific policy measures we are adopting in the present budget to address challenges facing the economy and their solutions:

- a. Reduction of fiscal deficit: At the outset, let me state that the main plank of our budget strategy is to reduce fiscal deficit so that its ill effects that pervade through the entire economy can be avoided. The revised estimate for deficit for 2012-13 is Rs.2024 billion or 8.8% of the GDP and we plan to reduce it to
- b. Rs.1651 billion or by nearly 2.5 percentage points to 6.3% of the GDP. We need to further reduce it but we have to do so gradually and in the medium term we do plan to reduce it to 4% of GDP.
- c. Raising Tax Revenues: I will lay down tax policy and specific measures in the second part of my speech.
- d. Arresting Inflationary Pressures: The following measures will help in arresting the inflationary pressures:
  - i. Reduction in deficit will have salutary effect on inflation.
  - ii. Regular price monitoring will be undertaken with a view to ensure adequate supplies of all commodities. Extensive networks of Juma and Itwar bazaars all across the country will be established and wherever required imports will be used to ward-off of domestic shortages.
  - iii. We will be using public savings and cheap foreign borrowings to finance deficit and reduce the burden of debt servicing. New domestic saving schemes will be introduced aimed at enhancing public access to government securities which are presently heavily concentrated amongst the banks and given their high spreads much of the benefits of government borrowings are flowing to banks than to general depositors.
  - iv. Finally, we will be inducting professional managers in debt management and taking advantage of numerous opportunities to diversify our debts both domestic and international.
  - v. Elimination of borrowings from State Bank will be pursued vigorously. However, I am at pain to point out that the SBP Act, 1956, which was amended by this parliament in 2012 imposing two

important constraints on the government borrowings from the State Bank, which is basically printing of money, has been consistently violated by the government. First, government could borrow from SBP only for a maximum period of 3 months, and at the end of each quarter those borrowings will have to be retired. Second, the then existing stock of debt from the State Bank, some Rs.1400 billion, was to be retired in a period of 8 years. Rather than any retirement, neither was any consideration given to the quarterly limit, nor was the process to return the debt stock of Rs.1400 billion initiated. Having been increased by 64%, this stock of debt now stands at Rs.2300 billion. We are now faced with this onerous responsibility to retire this debt in 6 years at the rate of nearly Rs.400 billion annually.

- e. Resolving the Energy Crisis: Notwithstanding its enormity, PML (N) government is fully committed to solving the energy crisis facing the nation. We have chalked out a program and we are *inshallah* putting it in operation forthwith. The plan includes the following elements: First, I am pleased to announce that Prime Minister Mian Muhammad Nawaz Sharif has taken an historic decision to settle the entire circular debt in 60 days, so that every available and economically viable source of power could be brought on line. Second, as a result of this, we are confident that the duration of loadshedding in the country will begin to come down. Third, for this monumental effort to have the desired effect on the continued viability of the sector, it is imperative that we must do all that is needed to stop its recurrence in the future. I urge all consumers to pay their bills, for without recovery of cost no service can be provided indefinitely. Fourth, the office of the Federal Adjuster will be reorganized and strengthened so that it will ensure expeditious recovery of arrears of electricity from the provincial governments. Fifth, Prime Minister will soon announce a comprehensive plan to incentivize and encourage further investment in energy projects in Pakistan.
- f. Nandipur Project: I would also like to inform this House that a highly economical power project, Nandipur for 425 MW, which initially had a cost of Rs.23 billion was a victim of criminal negligence and its imported machinery has remained stranded for the last three years for want of clearance of certain documents from government departments. Today its cost has risen to Rs.57 billion. We have taken immediate cognizance of this situation and are making necessary efforts to have the documents released and obtain fresh approval from the competent forums. As soon as these are in place in the next few weeks, work on its construction will start immediately and *inshallah* shall be completed in 18 months. In the meanwhile, let me make it abundantly clear that all those responsible for inflicting this phenomenal loss on the nation shall be brought to justice.

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- g. Reducing un-targeted subsidies: As I noted earlier, we must save country's finances by relieving it from the burden of untargeted subsidies. We are conscious of the need for the weaker sections of the population to be helped by the government. Accordingly, any scheme of subsidy, whether in electricity, gas, fertilizer, sugar and wheat must be targeted to reach to those weaker segments. We therefore plan to rationalize the present subsidies and discourage their indiscriminate use and evolve targeting mechanism to ensure that deserving recipients should benefit from them.
  - h. Improving Balance of Payments: Our biggest woe at the moment is near absence of foreign resources, critically needed to sustain our balance of payments and provide additional resources for development. *Inshallah*, we are giving an economic vision and implementing it in this budget that will significantly raise the confidence of our development partners. We will soon sort our issues with IFIs and normal flows will begin to flow in the country. More importantly, we will ensure a transparent auction of 3-G licenses that will fetch a considerable amount of foreign exchange. We will also strive to secure the payment of \$800 million from the *Etisalat* that is due for more than 5 years. On the back of improved relations with IFIs, we will return to international capital markets so that additional resources can be mobilized from this source also. We also plan to reinvigorate the privatization program that will also provide us requisite foreign resource and be a catalyst for revival of foreign investment in the country.
  - i. Creating New Jobs: As I have already stated, much of the new jobs will have to be created primarily in the private sector. However, government will also play its part in this regard. In a short while I will give you more details of the public sector development plan. For now, let me say that despite reducing fiscal deficit we are raising the development expenditure from a budgeted Rs.360 billion in the current year to Rs.540 billion which is a significant increase of nearly 50%. The provincial governments will make another investment of about Rs.615 billion taking the total public sector investment to Rs.1,155 billion which is a healthy 4.4% of GDP. Clearly, there is room for further increase in development spending but given the resource constraint we have protected development expenditure and increasing it also as compared to current expenditures. This investment will create numerous jobs in various sectors of the economy and spur other economic activities, which will create further opportunities for gainful pursuits by our people.
  - j. Raising Investment for Growth: Our biggest economic challenge is to radically increase the level of investment in the economy. I have already noted some of the steps we are taking to reduce budget deficit, bring down inflation and pave the way for a reduction in the interest rate, all of which will make room for private investment.

- k. **Reforming Public Sector Corporations:** We are determined to fully reform and restructure public sector corporations so that their bleeding is stopped. At the outset, we have decided to appoint professional managers in all public sector corporations through a competitive and transparent process of recruitment. All such corporations that can be profitably privatized will be put to a credible process of privatization. Finally, where privatization is not a possible option either a management contract will be negotiated or fully independent management will be inducted to run the corporations on pure professional grounds. Alongside, full financial restructuring will be carried out to enable them to run on sound commercial basis.
1. **Protecting the Poor:** In its manifesto, the PML (N) has outlined a detailed strategy for social protection. Indeed, I am pleased that in 2008 when PML (N) was part of the federal government for a brief period, as Finance Minister I had designed a project of income support fund. It was a program for supplementing the income of poorest of families on totally apolitical basis with a clear methodology for identifying the target population. However, the purity of the program was compromised and it was also politicized. We owe to our poor families that such a program should continue with appropriate safeguards and should in fact be extended to a larger portion of the target population. I am pleased to announce that the Prime Minister Mian Nawaz Sharif has decided that the Income Support Program will continue and will also be expanded. From Rs.40 billion spent under the program during the outgoing year, we will be raising its size to Rs.75 billion, which is an increase of 87.5% in the program. However, we will bring significant changes in its design and build an explicit exit strategy for the recipients to ensure that this support does not promote dependency rather it only helps them break out from poverty and be able to find a job. I am also pleased to announce that the amount of Rs.1000 per month under the income support program is increased by 20% to Rs.1200 per month.

### **Medium-term Macroeconomic Framework**

Mr. Speaker,

12. These are immediate challenges and our responses as we tackle them. But our vision requires deeper reflection on the problems of our economy. There has to be a long-term view of enhancing country's productive capacity. Accordingly, this budget is part of a medium term framework spanning 2013-14 to 2015-16 and hence we have a larger time frame in mind while formulating our economic policy.

The key features of this framework are:

- a. GDP growth to gradually rise to 7% by FY 2015-16.
- b. Inflation will be maintained in single digit throughout the medium term.
- c. Investment to GDP ratio will rise to 20% at the end of medium term.

- e. Fiscal deficit to be brought to 4% of GDP by 2015-16.
- f. Pakistan's foreign exchange reserves will be increased to more than \$20 billion at the end of medium term.

13. Evidently, these targets are ambitious but these are imperative for the revival of the economy and quite consistent with its potential. Besides, we have the determination to turn around the destiny of this nation and its for this reason people have given us this mandate.

### **Development Plan**

Mr. Speaker,

14. Let me now share some of the key initiatives that we are taking in the development budget. I will keep my attention to only those sectors that will contribute most to the economic development.

### **Water**

15. Allah (SWT) has blessed Pakistan with one of the best water resources in the world. We have also inherited an extensive network of irrigation canals, water courses and barrages and our early leadership had the vision of building such mega projects as Tarbela and Mangla that have enabled us to support our agriculture, so central to our economic life. But unfortunately we have failed to add to such critical projects or maintain these precious assets. To meet the growing needs of water it is imperative that we build new reservoirs and use every cusec of available water for development of energy.

16. It is this vision in view that is reflected in our development plan allocation for the water sector. We are investing Rs.59 billion for the water sector projects that will include such projects as Katchi Canal (Dera Bugti and Nasirabad), Raine Canal (Ghotki and Sukkur), Kurram Tangi Dam (North Waziristan), Extension of Pat Feeder Canal to Dera Bugti, Gomal Zam Dam (South Waziristan), Ghabir Dam (Chakwal), completion of Mangla Dam raising, lining of water courses in Sindh and Punjab, flood protection and drainage schemes all over the country.

### **Power**

Mr. Speaker,

17. I need not underline the significance of the power sector in Pakistan and what our people are suffering due to widespread shortages. Nothing has consumed the time and energy of PML (N) leadership more than the problem of energy and its immediate resolution. There are some urgent but durable steps we are taking that I have announced in the budget to resolve the central problem behind the energy crisis, namely the circular debt. However, our real concern is to develop additional resources of energy so as to permanently overcome the problem of shortages. The largest amount of resources, accordingly, is being devoted to create more

economical capacity in the country. During the current year a sum of Rs.225 billion will be invested in this sector of which Rs.107 billion will come from the PSDP and the remaining will be mobilized by PEPCO-WAPDA through government support. The projects included in the program include Neelum-Jhelum Hydro Power Project (1000 MW), Diamir-Bhasha Dam and Hydropower Project (4500 MW), Tarbela Fourth Extension Project (1410 MW), Thar Coal Gasification Project (100 MW), Chashma Civil Nuclear Power project (600 MW), Two Karachi Nuclear Coastal Power Projects (2200 MW) with Chinese assistance, Keyal Khawar Hydro Project (122 MW), Allai Khawar Hydro Project (122 MW), Combined Cycle Power Project at Nandipur (425 MW), Upgradation of Guddu Power Project (747 MW gas-based), conversion of oil based power projects to coal at Muzaffargarh and Jamshoro (3,120 MW) and numerous projects to improve the transmission lines, grid-stations and distribution systems.

18. It can be judged that we have a long-term plan to add cheap power to the national grid and substitute the current dependence on fuel oil to cheaper alternatives. The improvements in fuel mix will mean future tariffs will not be rising as fast as they have been in the recent past.

## Highways

Mr. Speaker,

19. Since the time Mian Nawaz Sharif took the bold decision of building the Islamabad-Lahore Motorway, no comparable project has been undertaken, despite the fact that since its construction the size of the economy has increased manifold and indigenous needs for connectivity are also multiplying. It is with this urgency that we have carefully examined the entire portfolio of national highways and have reprioritized it in accordance with the needs of the country.

20. Both urban and rural populations need communications for their economics. Farmers will not be able to get good prices for their produce nor can urban producers be cost effective in the absence of communication links that can efficiently transport their products to target markets. Indeed, we must treat development of efficient communication as an important instrument of poverty reduction, since a significant number of poor people are disconnected with the places of economic opportunities and remain poor for lack of access to such places.

21. It is amazing that Gwadar Port was constructed and no significant effort was made to provide connectivity with the north even though nearly a decade has passed since its completion. Coastal Highway was made to bring things to Karachi, completely neutralizing the benefits that were supposed to accrue with a new port at Gwadar.

22. We are according top most priority to connect the Gwadar Port to the north by rapidly completing the various sections of Turbat-Basima-Ratodero and other smaller sections of M-8 so that the real benefits of the port will begin to flow to the people. We will also accelerate the work on M-4 connecting Faisalabad to

Khanewal and Multan. We plan to undertake a fresh initiative to build M-9 linking Karachi-Hyderabad on Public Private Partnership basis and we are confident that we will succeed in executing this project within the shortest possible time. I would like to announce on this occasion that the network of motorways which was conceived by Mian Muhammad Nawaz Sharif will InshaAllah be completed during our tenure in office. This network will guarantee vast expansion in domestic trade, significant reduction in cost of transportation of goods from north to south, cheap transport for people to move around in different parts of the country and increased opportunities of tourism in the country.

23. Besides, the motorway network the Prime Minister has opened a preliminary dialogue with the Chinese government for constructing a high quality modern expressway linking Gwadar with Kashgar. This will be the modern equivalent of ancient silk-route. This is a visionary project and will unleash an historic progress in the region and provide a critical opening for Pakistan with our northern neighbourhood.

24. Apart from these strategic projects, we are investing in a large number of national highways, bridges, rehabilitation and reconstruction of national roads destroyed by the floods and regional roads for connectivity. A sum of about Rs.63 billion has been kept in the budget for the road sector. Numerous job opportunities will be created while undertaking the above projects.

## **Railways**

Mr. Speaker,

25. One of the most unfortunate examples of wasting our inherited infrastructure at the time of Partition can be found in the state in which our railway is found today. Once a most effective, extensive and efficient network of communication is not even a shade of its past. The speed with which the railways' significance in the transport sector has declined indicates that it is headed for near extinction. This is simply unacceptable. The world over, rail transport is regaining its lost glory as more investments are made and faster trains are built for both passenger and goods transport. What is more, this mode has been declared as environment friendly and hence it should be preferable to vehicular traffic that is degrading our road infrastructure and increases our dependence on fossil fuels.

26. Our railway is the victim of bad governance, low investments in maintenance, induction of new locomotives, upgradation of rolling stocks, replacement and modernization of primitive signaling system, efficient communication network, track maintenance and doubling of the track on mainline. Stagnant tariffs, declining market share in both passenger and goods transport, rapidly falling revenues have all contributed to bringing railway to a point where its pay and pension, of nearly Rs.34 billion, is paid through a subsidy from the government.

27. An inherently commercial and profitable organization today stands in a state of huge losses, countless stores of precious amounts of refused rails, rolling stocks,



locomotives and rebuilding factories suffering from low capacity utilization. It is, however, not a poor organization, as it owns priceless lands, the main artery of rail link and large number of branches connecting far flung areas of the country, numerous bridges, countless buildings, factories, historic railway stations and a very large cadre of technical and civil servants. They are highly skilled, but presently they are demoralized and demotivated, as they see no hope for their betterment tomorrow. The real problem, therefore, in a sense, is not lack of resources, but their utterly inefficient utilization. All this can be changed with leadership, vision, commitment and a plan, to be faithfully implemented, that would aim at complete leveraging of railway assets, infrastructure and improving incentives of employees to perform better.

28. We are committed to revive Pakistan Railways and lay the foundation for restoration of its past glory. Minister for Railways is developing a detailed plan for the above purpose, but let me outline the basic features of the agenda we shall pursue:

- a. Through an Act of the Parliament, Pakistan Railways will be converted into a proper corporation, with due security of job and terms and conditions of the employment of the existing employees.
- b. The railway shall be managed by an independent Board to be drawn from amongst the professionals from the fields of public transport, engineering, management, accountancy, finance, law and public administration.
- c. With the approval of the Board and the Federal Government, railway administration will design a policy for public private partnerships for the profitable utilization of all railway assets.
- e. Development funding for railway will be gradually increased for locomotives, doubling of track, addition to rolling stocks, rehabilitation of signaling system and modernization of communication links. Next we are allocating Rs.31 billion for different projects of railway compared to the revised estimate of Rs.20 billion for 2012-13.
- f. Feasibility studies will be completed for linking Pakistan through rail from Gwadar to Afghanistan, on one side, and Gwadar to China, on the other.
- g. Karachi Circular Railway project will be expedited through the help of Government of Japan.

## **Human Development**

Mr. Speaker,

29. The most precious resources of any nation are their people. Indeed, it is said that the real development is embodied in the people, no matter how much of its outer manifestation is reflected in physical developments. Accordingly, we must treat expenditures on human development as investments as they lay the foundation of future growth at an accelerated pace.

30. Incidentally, the three main subjects of human development, namely education, health and population welfare have been devolved to the provinces under the 18th Constitutional Amendment. However, the responsibility for higher education, regulatory responsibilities and international coordination remain with the federal government. I would like to mention the following.

Initiatives that will be undertaken for the promotion of this sector:

- a. A sizeable allocation of Rs.18 billion has been made for the Higher Education Commission, which will support development plans of different universities all over the country. It may be noted that on the current side also a hefty allocation of Rs.39 billion is made for HEC. Thus a combined outlay of Rs.57 billion will be made for higher education.
- b. The enrollment in higher education will increase from 1.08 million students in 2012-13 to 1.23 million students in 2013-14, showing an increase of 14% in the population of students pursuing higher education.
- c. The number of foreign scholarships will rise to 6,249 from 4,249, showing an increase of 2000 scholarships during 2013-14.
- d. Federal Government, despite devolution, is continuing to fund a number of national health initiatives. This year we are allocating nearly Rs.21 billion for these programs.
- e. The programs include Expanded Program of Immunization (EPI), National Maternal Neonatal and Child Health Program, National Program for Family Planning and Primary Healthcare and several national programs for prevention and control of important diseases such as blindness, TB, Hepatitis and AVN Influenza.
- f. Most importantly, funding for the provincial programs for population welfare will continue to be provided by the federal government. This year an allocation of nearly Rs.8 billion is made for this purpose.

### **Industry and Regional Trade**

Mr. Speaker,

31. It is now well known that over the last five years our industry has been suffering from gross neglect of policymakers, lack of institutional support, energy bottlenecks, absence of adequate credit facilities, and poor state of infrastructure, poor governance and burdensome regulatory regimes across both provincial and federal governments. These are very serious impediments and not surprisingly, as a consequence, investment has declined sharply in the country during the last five years and industrial growth has averaged a paltry 1.8 per cent. With this growth rate, we cannot possibly hope to attain the overall growth rate of 7 per cent that we have targeted to achieve by the last year of our medium term budgetary framework 2015-16.

32. We are conscious of the centrality of the manufacturing sector in the overall socioeconomic development of Pakistan and its potential to create jobs for our youth. Our plans will remain unrealistic unless we are able to revive the industrial sector. I would like to announce the following measures that we will undertake in the near future to accelerate industrial development in the country:

- a. The policy of developing Export Promotion Zones with comprehensive incentive packages, which we had earlier supported with enthusiasm, will be reviewed and necessary amendments made to make it more attractive.
- b. In collaboration with the provincial governments new industrial estates will be established throughout Pakistan, fully equipped to provide all the required infrastructure for industrial undertakings.
- c. Even while in Opposition, we played a pivotal role in introducing the Special Economic Zones Act 2012. This legislation required earnest commitment and serious effort to bear fruit. Not much has been done to put this Act in operation. We will now bring this legislation to fruition by implementing it in letter and spirit, backed by a strong public policy commitment.
- d. We have a comprehensive plan to develop the Gwadar Special Economic Zone, which will be watershed for the economy of not just Balochistan, but of the whole country. The Zone will be linked with major economic centres in Pakistan as well as neighbouring countries. Through Gwadar, we hope to make Pakistan a regional center and conduit of international trade, beginning from China and Central Asia to the last limits of the West. The potential of transformation of Pakistan becoming a regional gateway of international trade is limitless.
- e. We will earnestly develop strong trade relationships with all our neighbours, primarily to expand markets for industries and to improve the regional terms of trade.
- f. State institutions will be strengthened to provide a healthy, reliable, and conducive economic environment for the growth of trade, commerce and industry.
- g. With improved macroeconomic framework, more credit will be available for the private sector investment.
- h. The revival of privatization program will create more opportunities for the private sector to invest and manage newer assets that were previously run in the public sector.

## Housing

Mr. Speaker,

33. A 'roof over the head' is the right of every Pakistani. Unfortunately, the housing gap is rising ever so fast in the country. While the private sector land developers have catered for the needs of the middle and upper-middle classes, nothing has been done to provide decent housing for the low and lower-middle classes. With no prospect of profitmaking, it is quite understandable that the private sector remained oblivious to the needs of these otherwise very important societal groups. During our last tenure, we introduced housing schemes for the poorest of poor throughout the country, especially in the rural and semi-urban areas. Under these schemes, land was provided free of cost. Although Ministry of Housing and Works is developing the detailed plan, I would like to share the main features of the policy on provision of housing to the poor:

- a. Wherever feasible, 3-Marla housing schemes will developed on government land for the homeless, to whom plots will be given free of cost.
- b. At least 1,000 clusters of 500 houses each will be developed for low-income families through public private partnerships.
- c. To ensure cost-effective access to credit for housing, government will be picking up a portion of the financing cost on behalf of the borrower. A provision of Rs.3.5 billion is kept in the budget for this purpose.
- d. Schemes on the model of Ashiyana Housing Scheme will also be developed in which the government will provide opportunities to low income families to own their house on payment of easy instalments.

## Budget Estimates

Mr. Speaker,

34. Let me place before the House the estimates of revenues and expenditures for the next fiscal year.

35. For 2013-14, the gross revenue receipts of the federal government are estimated at Rs.3,420 billion compared to the revised figures of Rs.2,837 billion for 2012-13, showing an increase of about 21%. This is remarkable revenue effort we are projecting and I shall share more details of this in Part-II of my speech.

36. The share of the provinces out of this amount will be Rs.1,502 billion compared to Rs.1,221 billion outgoing year, and showing an increase of about 23%. Net resources left with the federal government will be Rs.1,918 billion compared to the revised estimates of Rs.1,616 billion for outgoing year, showing an increase of about 19%. The level of transfers to the provinces is historic. We are happy to share this larger revenue as under the new constitutional arrangements provincial responsibilities, particular relating to social sectors have been significantly

enhanced. We are sure that higher resource transfer will enable them to bring the critical social services and law and order facilities to the doorstep of our people.

37. Total expenditure for 2013-14 is budgeted at Rs.3,591 billion compared to the revised estimates of Rs.3,577 billion for 2012-13, showing a negligible increase. This is the first indication of an austere budget in line with the imperatives of the economy. The current budget is estimated at Rs.2,829 billion for 2013-14 against a revised estimate of Rs.2,720 billion for 2012-13, showing an increase of 4%. However, keeping in view the development needs, investment requirements of the country and urgency of creating additional job opportunities, we have provided adequate development resources. Against a budgeted estimate of Rs.360 billion for PSDP, we have budgeted it at Rs.540 billion showing an increase of nearly 50%.

38. The federal deficit is projected at Rs.1,674 billion for 2013-14 compared to the revised estimate of Rs.1,962 billion for outgoing year. By requiring a small surplus of Rs.23 billion from the provinces, compared to a revised deficit of Rs.62 billion outgoing year, we have projected an overall fiscal deficit of Rs.1,651 billion for 2013-14 compared to the revised estimate of Rs.2024 billion outgoing year. This gives deficit to GDP ratio of 6.3% for 2013-14 compared to an alarmingly large deficit of 8.8% incurred outgoing year.

Mr. Speaker,

39. It is evident that our government is laying the foundation of a sound economy, which is the most important challenge our country is facing. We have not gone for populism but have responded to the imperative of the situation in hand. An adjustment of nearly 2.5% is not a mean achievement and we are confident that we will deliver it.

## **PART-II**

Mr. Speaker,

40. Allow me to start Part II of my speech, which relates to taxation proposals.

41. As a nation, we need to make appropriate decisions so that Pakistan can live within its own means, bring down deficit to reasonable limit and mobilize requisite resources for development.

42. The PML (N) Government seeks to encourage overall economic activity in the country and create an conducive environment which facilitates genuine investors and business. As we all know, when business flourishes, employment opportunities are created, investment flows into the country and ultimately, there is peace and prosperity.

Mr. Speaker,

43. To achieve these objectives, the Government has decided not to put additional burdens on those people who are already paying their due share of tax, but to make efforts to ensure that those who are not paying anything should be forced to

contribute something to the national exchequer. The revival of national economy is the main focus of the PML (N) government. This requires fundamental and structural reforms in the area of Taxation.

Mr. Speaker,

44. The earlier PML (N) government raised Tax to GDP ratio to 13%, which was the result of simplification of tax laws, making taxes broad based, plugging loopholes in the system and holding tax machinery more accountable. The reform process was halted with the illegal and arbitrary dismissal of the PML (N) government and as a result, the Tax to GDP ratio declined gradually and is presently at alarming rate of 9%. The focus of the budget 2013-14 is improvement in Tax to GDP ratio finally reaching to 15% by 2018.

Mr. Speaker,

45. The immense economic challenges being faced by the country require a smooth flow of revenue generated through our own resources, reducing reliance on aid and foreign loans. It is of utmost importance that we become self reliant. The country is going through a severe energy crisis. Mobilization of adequate resources is required to address this issue so that suffering of our people are mitigated.

Mr. Speaker,

46. The broad themes of our government's taxation policy are (i) taxing those who are not paying any tax, (ii) enhancing efficiency of the tax machinery, (iii) removing anomalies and distortions in the tax system, (iv) simplifying the tax procedures, (v) broadening of the tax base, (vi) rationalization of tax rates and exemptions, (vii) encouraging corporatization and documentation (viii) taxpayers facilitation and (ix) to eradicate maladministration and corruption in F.B.R.

Mr. Speaker,

47. A fair and equitable tax system lays more emphasis on direct taxes, so that the affluent classes of society pay more. Unfortunately, in our taxation system, indirect taxes have a major share, leading to tax burden on common man. This year, a paradigm change has been made in proposing tax measures, as the overwhelming revenue proposals relate to direct taxes.

## **Income Tax**

Mr. Speaker,

Relief Measures

48. A number of relief measures are being proposed under the Income Tax Ordinance through this Finance Bill.

49. These measures are highlighted below:

- a. With effect from fiscal year 2014-15, the maximum corporate tax rate will be reduced by 1% annually to coming down to 30% from the present 35%. This will promote a culture of corporatization in the country.
- b. The income tax exemption of 5 years for investments made in Special Economic Zones will be increased to 10 years. This will be helpful in increasing investments in such zones.
- c. The facility of exemption certificate for the manufacturers on import of raw material was withdrawn a few years back which adversely affected the cash flow and resulted in overpayments and creation of refunds. In order to facilitate the manufacturing sector, facility of exemption certificate on import of raw material is being reintroduced subject to payment of tax liability determined for any of the preceding two years, which is higher.
- d. Currently goods transport vehicles are subjected to minimum tax on services and income tax paid at the time of payment of provincial motor vehicle tax, which is final tax. This renders the transport sector to double taxation, which is unjustifiable. For the facilitation of the transport sector, Income Tax paid along with provincial motor vehicle tax is being made adjustable.
- e. The facility of carry forward of Unadjusted Minimum Tax was restricted to the corporate sector which was discriminatory to the non-corporate sector. In order to provide a level playing field to all taxpayers, this facility is also being extended to Individuals and AOPs.
- f. Likewise, reduction in Minimum Tax was restricted to the distributors of cigarettes in corporate sector. Being discriminatory to small taxpayers working in the status of AOPs and Individuals of this sector, reduced rate of minimum tax is also being extended to the individuals and AOPs.

### **Broadening of Income Tax**

50. It is well known that our tax base is extremely narrow. The most important need of tax reforms is to broaden the net as widely as possible to bring in all those people who have the ability to pay taxes. It is equally desirable that those who are already in the net should face a rational, predictable and simple regime for tax compliance. For all these objectives following measures are being adopted:

- a. Huge expenses are incurred on functions such as marriages etc. but remain un-documented, which restricts a proper analysis of income earnings. In order to document such expenses an adjustable withholding tax is being introduced which the Hotels/Clubs/Marriage Halls/Restaurants etc. shall collect from persons arranging the functions. Being an adjustable tax, people shall be encouraged to file income tax returns, which shall serve the purpose of broadening of tax base;
- b. To align income tax and sales tax and to discourage fake invoices, it is proposed that all persons registered under the sales tax law shall be made

withholding agents for Income Tax purpose on payments on account of purchases, services and contracts.

- c. To ensure that the taxpayers do not abuse the facilities and reliefs provided in the Income Tax Law to avoid proper taxation by consistently declaring losses and contribute to the exchequer equitably, the rate of minimum tax shall be enhanced from 0.5% to 1%.
- d. The construction sector contributes Rs.1 billion to the national exchequer, which is not proportionate to its potential. Its taxation is normally spread over multiple years depending upon the period of construction. In order to simplify taxation of construction sector minimum tax on builders and developers is proposed. The tax shall be paid at the rate of Rs.50 per sq. ft. of the constructed area; or Rs.100 per square yard of the developed land, as the case may be.
- e. The rates of tax on salary introduced last year overburdened the middle-income group. This anomaly has been corrected through this Finance Bill by rationalizing the rates of tax on salaries in way that each income group pays tax according to its capacity.
- f. Rate of tax on Business individuals and AOPs shall be rationalized with the addition of two new slabs. This will gradually increase the rate from current maximum of 25% for income exceeding Rs.2.5 million to 35% for income above Rs.6 million.
- g. To encourage corporatization, separate rates of WHT for non-corporate taxpayers i.e. commercial imports, contracts, supplies and services are being proposed.
- h. New adjustable withholding tax is being proposed for foreign based films and dramas to make them competitive with the local film industry.
- i. To bring dealers/Arhtis of commodities in tax net, WHT on the basis of registration category is being introduced. Market committees shall collect this adjustable tax from such dealers.
- j. To tax affluent class on the basis of its expenses, it is proposed that adjustable withholding tax may be introduced @ 5% on annual fee of Rs.200,000 paid to an educational institution.
- k. Traders are not contributing to the tax revenue in keeping with their share in GDP. Adjustable withholding tax is accordingly proposed to be collected from wholesalers and retailers in specified sectors @ 0.1% and 0.5%. The rate of tax to be collected from wholesalers and dealers is being reduced to 0.1% from 0.5%. The manufacturers, distributors and commercial importers shall collect this tax.
- l. Agriculture sector enjoys exemption from payment of federal tax but this facility has been misused as untaxed non agriculture income is concealed in the garb of agriculture income. In order to check the misuse of law, it is proposed that credit of agricultural income shall be given only if provincial income tax on such income has been paid. It will also facilitate



in enhancing the revenue of Provinces from agricultural income.(13) The law for obtaining information from bank regarding its customers is being aligned with international practices. The objective is to strengthen the National data warehouse at FBR for tax base broadening.

- m. In order to expand the tax base, it is decided to utilize data collected by the Federal Board of Revenue and NADRA in a systematic manner. In this regard profiling of 500,000 persons identified on the basis of financial transactions traced shall be carried out. Besides, display of NTN at business premises is also being made mandatory to broaden the tax net. These measures will increase out reach of the department and promote the culture of voluntary compliance.

### **Introduction of Income Support Levy Act**

Mr. Speaker,

51. It is incumbent on all of us who are blessed with exceptional favours from Allah (SWT) to contribute to the welfare of those not so fortunate. Many of us who may have earned our assets while working abroad have negligible tax liabilities under the existing laws and double taxation treaties. Yet we must share the burden of helping our weaker segments of population. In order to mobilize additional resources for enhancing the income support program for the poorest families in Pakistan, it is proposed to impose a small levy on such persons. This levy shall apply on net moveable assets of persons on a given date @ of 0.5%. The receipts under this head will be credited to income support program of the government. Voluntary contributions will be also be solicited to mobilize additional resources. Let me admit that I shall be amongst the first ones who will be hit by this levy. According to my estimation, I will have to pay an additional Rs.2.5 million on this count this year, but I will be too happy to make this contribution for the welfare of our poor people.

### **Sales Tax and Excise Duty**

Mr. Speaker,

52. Several measures have been proposed for broadening the bases of sales tax and excise duties for bringing into the tax net those who have remained outside so far. Our policy is that persons who remain unregistered will have to bear a greater burden than those who are registered. These measures are highlighted below.

- a. An additional amount of sales tax of 5% is being imposed through electricity and gas bills of those having commercial or industrial connections but remain unregistered. Once they get registered, it will no longer apply to them.

- b. All taxable supplies made to unregistered persons will include 2% further tax, for encouraging registration. Again, once they get registered, they will no longer have to bear this charge.
- c. The sales tax withholding agents will now withhold the full amount of sales tax on purchases made from such unregistered persons.
- d. Certain important measures are being initiated to enhance the efficiency of the tax machinery and increase its enforcement capacity. These measures are explained here.
- e. To reduce leakage in sectors prone to evasion, the government is planning to initiate electronic monitoring of production processes through video links, tax stamps and labels, electronic tracking, etc. Effective monitoring without human intervention will help introduce a transparent, automatic, and error-free way to ensure proper payment of taxes by these sectors.
- f. FBR has already developed a sophisticated computerized system, called CREST, which has recently helped to detect and recover billions of rupees from the textile sector. This system will be enhanced and expanded, so that leakages of revenue in other sectors can also be detected and recovered.
- g. It is also proposed to introduce a simplified and centralized mechanism to block illegal refunds and input tax adjustments, to stop fake and flying invoices, and to prevent bogus registered persons from committing tax frauds.
- h. To ensure proper monitoring of taxable activities, the registration of registered persons will be placed in the jurisdiction where its business premises are located.
- i. In view of serious resource constraint it is imperative that additional resources should be mobilized immediately.
- j. Accordingly, it is proposed to raise the standard rate of sales tax from 16% to 17%.
- k. Supplies made under international tenders used to be zero rated, but were made exempt last year to stop creation of refunds and associated malpractices. However, this measure created a disadvantage for local competitors, as they could no longer claim input tax adjustment. To create a level playing field for both local and foreign competitors for international tenders, it has been decided to remove the disparity and place both local and foreign competitors under the same standard tax regime.
- l. Zero-rating of sales tax on local supplies tends to create distortions and promotes malpractices. But since ordinary people also use many of these zero-rated items, sales tax is not being imposed on them and they are being exempted from sales tax.
- m. It has been decided to expand the list of items in the Third Schedule to the Sales Tax Act. The measures will not only require manufacturers and importers to print retail prices on consumer goods, but also enable the

government to capture the tax involved till the retail stage instead of the benefit going to unregistered wholesalers and retailers.

- n. The five export-oriented sectors were enjoying zero-rating on local supplies over the past several years, which has recently been changed to a reduced rate regime. However, even expensive imported goods like branded clothes, leather bags, and sports goods are enjoying the reduced rate of 2%. Some items enjoying the reduced rates have multi-purpose use in other industries, which creates distortions. To remove these problems, finished goods and items having multi-purpose use are being taken out of the reduced rate regime.
- o. In 2010, due to the prevailing situation, a general exemption of duties and taxes was extended to the tribal areas and some districts of Khyber Pakhtoonkhwa. These were supposed to be time-bound exemptions, and the income tax exemption has already expired. However, the notifications for sales tax and federal excise exemptions did not have any expiry clause. The continued exemption is creating a distortion and difficulties for businesses in other regions. It is, therefore, proposed to be withdrawn.
- p. In case of federal excise, manufacturers of edible oil and ghee complained of distortion, as those using locally produced oil or imported oilseeds were not paying any tax. To remove this anomaly, locally produced oil and imported oilseed are being subjected to the similar tax regime as imported edible oil.
- q. Presently, financial services offered by banking and nonbanking sectors are subject to federal excise duty. There is no duty if other persons provide the same services. To remove this disparity, it is proposed that federal excise duty at the same rate may be imposed on all such financial services.
- r. At present, imported edible oil is subject to tax. However, canola seed is being freely imported. This is not only a disparity but also hurts the local oil seed production. To remove this disparity, it has been decided to impose beginning from China and Central Asia to the last limits of the West.
- s. The Federal excise duty on cigarettes is simplified and restructured, from three slabs based on a composite formula, to two slabs based on a specific rate.
- t. It is proposed to allow the aerated beverage industry to pay tax on capacity or fixed basis. It would not only facilitate them, but would help them contribute a handsome additional amount to the exchequer. It would eliminate corruption and make the system transparent and clear. It will also encourage the industry to expand. The detailed notification for implementing the new regime will be issued shortly.

## Customs

Mr. Speaker,

53. Let me say that Pakistan's import regime over the decades has become fraught with a complex system of discriminatory exemptions and concessions. Every year national exchequer suffers a cost of Rs. 100 billion on account of these exemptions. In today's world of free trade and level playing field this cannot go on. We have to adopt a simple tax and tariff structure by abolishing the culture of SROs.

54. In order to resolve this long protracted issue, a high level committee headed by Chairman, FBR is being constituted. The committee will examine and finalize its report after consulting all the stakeholders and submit its recommendations to the ECC for tariff rationalization and minimization of concessionary regime.

55. Power shortage has become a chronic problem for the whole country. While major initiatives are being taken to address the power generation and supply situation, a major shift towards the use of renewable energy resources is also a need of the time. In this context various measures are being included in the current budget to encourage use of alternate energy resources by simplifying the procedure for duty free import of solar and wind energy machinery and equipment. At the same time, duty on energy saving devices like energy saving tubes, solar water pumps etc. is also being exempted.

56. Despite prevailing economic situation, every possible effort is being made to provide some respite to the suffering poor of Pakistan. Availability of clean water is fundamental right of every Pakistani. In order to address the spread of water borne diseases through use of filtered water, rate of customs duties on water filtration equipment is being reduced.

57. Use of imported POL products as a major source of energy has not only led to high import bill, but has also created a negative environmental impact. Therefore, use of alternate energy efficient Hybrid Electric Vehicles (HEVs) needs to be encouraged. It is, therefore, proposed that HEVs up to 1200cc will be exempt from duties and other taxes. From 1201cc to 1800cc 50% relief from duties and other taxes will be provided and from 1801cc to 2500cc, 25% relief is proposed. No relief will be available for vehicles beyond 2500cc.

58. Betel nuts and betel leaves are injurious to health. In order to discourage their consumption, custom duty on both these items shall be increased.

Mr. Speaker,

59. The proposed tax measures are the most important need of the economy. It will help us in reducing fiscal deficit and also reduce our dependence on external resources. Thus this is an important move toward achieving self-reliance.

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### PART-III

#### New Programs for Youth

Mr. Speaker,

60. One of the key messages Prime Minister had given during election campaign was his commitment to toward the welfare of our youth. Amongst all sections of our population it is our youth that must not be struck despair and despondency. It is in fulfillment of his promises with the youth that following new programs will be launched in next year's budget:

- a. Prime Minister's Youth Training Program: Amongst the youth, the most vulnerable group are those who have completed a 16-year degree program but have not been able to find a decent job, mostly for lack of appropriate experience and training. It is the most cherished desire of the Prime Minister that the government must handhold this group of highly educated youth to inspire confidence and assurance in their lives.
- b. Accordingly, he has directed that a comprehensive scheme be developed for such youth in government offices, corporations, bodies and authorities at all levels. All those completing a 16-year degree program and below the age of 25 years will be eligible for selection under the scheme. A one-year training program will be designed for these graduates during which they will be entitled for a stipend of Rs.10,000 per month. Ministry of Education, Training and Standards for Higher Education will administer the scheme and each applicant will apply on-line and his/her degrees will be verified also on-line by HEC. I am confident that this scheme will provide a useful training to qualified youth nearer their homes and will enable them to fare better in the job market.
- c. Prime Minister's Youth Skills Development Program: Under this program 25,000 young persons up to the age of 25 and will minimum qualification of middle, will be imparted training in a number of trades across the country. National Vocational and Technical Training Commission (NAVTTTC) will manage the program in collaboration with provincial TEVTA authorities. Six months training will be given for which fee will be paid by the government. Emphasis will be placed on such trades as are in demand abroad or will enable the graduates to become self-employed.
- d. Small Business Loans Scheme: With a view to enable our youth to start their own business, small business loans will be made available through the banking system. Under the scheme loans ranging from Rs.100,000 to Rs.2,000,000 will be available at a mark-up cost of 8%. The remaining cost will be borne by the Government. In the first year of the scheme, 50,000 loans will be offered. The scheme will be strengthened in the light of experience gained in first year of operation.

- e. Prime Minister's Scheme for Provision of Laptop: To promote access to information and communication technology it has been decided that provision of a laptop for distinguished student pursuing higher education should be made. All students pursuing a degree program from one of the HEC recognized universities or institutions and meeting merit criteria to be developed by HEC would be eligible to get a laptop. HEC will announce the details of the scheme shortly.
- f. Fee Reimbursement Scheme for Less Developed Areas: Under an existing scheme bright students from less developed areas are provided tuition fee support while pursuing higher education at Master's and Doctorate levels. Presently, it is available to students from Balochistan, FATA, Gilgit-Baltistan.
- g. There is no reason why this support should not be expended to other less developed areas such as those of Interior Sindh and Multan, Bahawalpur and D.G. Khan Divisions of South Punjab, which are equally less developed. Accordingly, students from these areas pursuing higher education on merit will also be eligible for tuition fee support.
- h. Prime Minister's Micro Finance Scheme: To enable our men and women to undertake micro enterprise activities, it is decided to allocate Rs.5 billion to launch a scheme of Qarz-e-Hassana (loans without mark-up). These will be made available through selected micro finance providers including Akhuwat, NRSP and Provincial RSPs. Fifty per cent of the beneficiaries of this scheme will be women.
- i. Prime Minister's Housing Finance Scheme: Under this scheme, a mortgage facility of Rs. 1.5 million to Rs. 5.0 million will be offered at a mark-up rate of 8%. The remaining cost will be borne by the government. Fifty thousand people will benefit from this scheme.

Mr. Speaker,

### **Good Governance**

#### Public Works Programs for Parliamentarians

61. Before I close budgetary proposals, let me announce a historic decision taken by Mian Muhammad Nawaz Sharif. This relates to the public works programs undertaken on the recommendations of the parliamentarians. There were two programs for this purpose PWP-I and PWP-II. The PWP-I was well structured and was based on equal amount for all parliamentarians with an allocation of Rs.5 billion. This program is being retained. However, the other program had no structure and depended on the discretion of the Prime Minister. Rs.22 billion were budgeted for this programme at the beginning of the current financial year, which was revised upwards to Rs.47, and finally the year is ending with an expenditure of Rs.42 billion. This program will be stopped forthwith.

Mr. Speaker,

62. This one decision is the forerunner of the new style of governance the Prime Minister will bring to the job to move Pakistan ahead with dignity and honor. Secret Service Expenditures<sup>63</sup>. In recent days the nation has also come to know that in the name of secret service expenditures a long list of ministries and departments have been incurring such expenditures, which are excluded from the requirement of audit. This exclusion from audit was meant for such expenditures incurred by agencies connected with the national security. We have taken immediate cognizance of this matter and yesterday Ministry of Finance has issued necessary instructions for immediate ceasing of such of such expenditures and return of unspent balances. Simultaneously, the allocations for the next year have been cancelled. Henceforth, such secret service expenditures will be made only by agencies connected with national security. Appropriate amendment in law and rules is being made for this purpose.

### **Discouraging VVIP Culture**

64. In 1997, the Prime Minister Mian Muhammad Nawaz Sharif had withdrawn the exemption given to VVIPs for duty and tax-free import of luxury vehicles for personal use. Consequently, in the Import Policy Order 1998, which I had announced, the Entry No 1.15 of the Import-Export Procedure was deleted that allowed imports of such vehicles. However, unfortunately such an exemption was accorded in violation of this provision in 2005. Our government would like to reiterate that this ban on duty and tax-free vehicles will continue without exception.

### **Austerity Measures**

65. We are passing through difficult times and its incumbent on us that we reduce our expenditures as much as possible. For this purpose, we have decided to take the following austerity measures to be applicable in the new fiscal year:

- a. The most pressing need of the government is to consolidate its unwieldy size. Prime Minister has decided not to use the full strength of the Cabinet that is provided in the Constitution, which are 49.
- b. To conserve precious resources, the Prime Minister has decided to start the exercise from his own Office. His office will be lean and mean. Furthermore, he is also applying significant cuts to the budgetary allocations for his office. From the budget of Prime Minister's Office, against a revised expenditure of Rs.725 million during 2012-13, the budget estimate for 2013-14 is only Rs.396 million showing a decrease of 45%. From the budget of Prime Minister House, excluding salaries and allowances, 44% budget has been cut.
- c. Other than the obligatory expenditures of debt servicing, defence, pay and allowances of civil servants and grants, there will be a 30% cut on all other

expenditures in accordance with the announcement of the Prime Minister. This will save Rs.40 billion;

- d. With the exception of operational vehicles of law enforcing agencies and critical development projects, no car will be purchased;
- e. The discretionary grant of federal ministers is removed.

### **Relief Measures for Retired Government Employees**

66. Despite austerity drive we are mindful of the difficulties being faced by retired government employees. To mitigate their difficulties it has been decided to increase pensions by 10% from July 1, 2013, with the additional relief to low pensioners, whose minimum pension is increased from Rs.3000 to Rs.5000.

### **Ramzan Package**

67. The Holy month of Ramzan is just around the corner. To ease the burden on our people, we are designing a comprehensive plan for providing relief during this month by significant reduction in prices of major kitchen items through the Utility Stores Corporation. An amount of Rs.2 billion has been allocated in the budget for this purpose. These items include: sugar, flour, rice, ghee, oil, daal channa, baisan, dates, squashes and syrups, milk, tea and spices.

### **Concluding Remarks**

Mr. Speaker,

68. As I said at the beginning, we have inherited a broken economy but we are determined to face the challenge of its reconstruction squarely. There is no evasive action that we plan to undertake neither is we burying our heads in the sand. Lofty ideals are never achieved by turning your back on the adversities encountered on the way. Under the circumstances, the nation should appreciate that the path we have selected is tortuous but once traversed, it will lead the nation to prosperity and progress that is consistent and in line with the possibilities and potentialities possessed by us.

69. This is the lesson we can learn from our Great Quid Muhammad Ali Jinnah, who under a serious medical condition chose to travel to Dhaka to quell a disenchantment facing the nascent state. While concluding a long but highly inspiring speech before one the most largely attended public meetings on 21 March 1948, the Quid said, and I quote:

Finally, let me appeal to you – keep together, put up with inconveniences, sufferings and sacrifices, for the collective good of our people. No amount of trouble, no amount of hard work or sacrifice contribution is enough for the collective good of your nation and state. It is in that way, that you will build a Pakistan as the fifth largest state in the world, not only in population as it is but also in



strength, so that it will command the respect of all the other nations of the world.

70. Curiously, I find that Allama Muhammad Iqbal, who first conceived the idea of Pakistan, had a similar message for us we he formulated this powerful and apt description of our potentialities.

Mr. Speaker,

71. Let's start our journey on the road identified by Quid-i-Azam and Allama Iqbal the two great leaders of Pakistan movement. Allah (SWT) will be our Guide and Supporter.

Pakistan, Paindabad. ■

Ministry of Finance, Pakistan, June 12, 2013,  
[http://www.finance.gov.pk/budget/FinalBudgetSpeech\\_13\\_14\\_english.pdf](http://www.finance.gov.pk/budget/FinalBudgetSpeech_13_14_english.pdf)