



# **STATE OF ECONOMY**

**Presentation to Honourable Prime  
Minister, Cabinet Members and Media**

**By**

**Minister for Finance, Revenue, Economic  
Affairs, Statistics and Privatization**

*1<sup>st</sup> January 2014*



# SEQUENCE OF PRESENTATION

<b>1</b>	<b>Where we stood</b>
<b>2</b>	<b>What we have done</b> <ul style="list-style-type: none"><li><b>a. Budget</b></li><li><b>b. Austerity measures</b></li><li><b>c. Settlement of circular debt</b></li><li><b>d. IMF Program</b></li><li><b>e. Building of foreign exchange reserves</b></li><li><b>f. Financing of energy projects</b></li><li><b>g. Prime Minister's new initiatives</b></li><li><b>h. Inflation</b></li><li><b>i. Transparency</b></li><li><b>j. Islamic Banking</b></li></ul>



# SEQUENCE OF PRESENTATION

- |          |   |
|----------|---|
| <b>3</b> | <b>Where we stand now</b> <ul style="list-style-type: none"><li><b>a. Incorporation of companies</b></li><li><b>b. Stock market performance</b></li><li><b>c. Fiscal position</b></li><li><b>d. Filing of tax returns</b></li><li><b>e. Foreign remittances</b></li><li><b>f. Exchange rate</b></li><li><b>g. GDP growth rate</b></li></ul> |
| <b>4</b> | <b>Where we are heading</b>   |





# WHERE WE STOOD



# WHERE WE STOOD (IN JUNE 2013)

- **Economy was weak and fragile:-**
  - **Growth rate averaged less than 3% in the last five years - significantly below our potential**
  - **Inflation averaged around 12%**
  - **Foreign Exchange Reserves at US\$ 11 billion in June 2013 despite significant support from IMF during last 5 years**
  - **Circular debt of Rs 503 billion was crippling the power sector and the economy**



# WHERE WE STOOD (IN JUNE 2013)

- Investment/GDP ratio was declining continuously and had reached 12.6%
- Tax/GDP ratio had declined to 8.5%
- Fiscal deficit of 2012-13 was to close at 8.8%
- Debt to GDP ratio has increased in last five years from 52.6% of GDP to 62.7%
- Public debt:
  - Rs 2.94 trillion on 30<sup>th</sup> June 1999
  - Rs 6.04 trillion on 30<sup>th</sup> June 2008
  - Rs 14.36 trillion on 30<sup>th</sup> June 2013





# WHAT WE HAVE DONE



# BUDGET



- **Prime Minister took oath on 5 June 2013**
- **Government formed on 7 June 2013**
- **Budget presented on 12 June 2013**
- **Fiscal deficit targetted at 6.3% for 2013-14 as against 8.2% (with provincial surplus, 8.0%) for 2012-13**





# AUSTERITY MEASURES

- **Secret service expenditures of 32 Ministries / Divisions / Attached Departments / Autonomous Bodies ceased except ISI and IB**
- **Discretionary funds for Prime Minister and Ministers discontinued**
- **40% cut in Prime Minister Office and 30% cut in all Ministries / Divisions' current expenditure except pay and allowances – saving of around Rs 40 billion**



# AUSTERITY MEASURES

- Working of foreign missions reviewed and being right-sized leading to annual savings of Rs 2 billion
- Cabinet Committee on Restructuring has directed all Ministries / Divisions to review for rationalizing their strengths for the purpose of rightsizing
- Fee/remuneration for government nominated directors in PSEs capped at Rs 600,000/- per annum. Amount over and above will be deposited into government treasury



# AUSTERITY MEASURES



- **Duty free import of luxury cars for VVIPs that was banned through Budget / Trade Policy during 1998-99 was lifted and duty free import of cars to VVIPs was again allowed in 2005-06.**
- **However, the old ban has been re-imposed through budget speech on 12 June 2013**



# CIRCULAR DEBT

- **Circular debt of Rs 503 billion inherited**
- **After retaining GoP's claims of liquidated damages against IPPs amounting to Rs 23 billion, remaining Rs 480 billion settled**



# CIRCULAR DEBT

## NON-PAYMENT HAD RESULTED INTO

- Sovereign guarantees of GoP were called / invoked
- Nine IPPs had gone to Supreme Court against GoP
- Interest cost for each day of delay @ 14% (4% + KIBOR) amounting to Rs 67 billion per year
- Foreign governments were agitating due to non-payment to their nationals who had shares / stakes in IPPs
- Approximately 1,700 MW of power was not available resulting into massive loadshedding
- Almost nil industrial growth



# CIRCULAR DEBT

## SETTLEMENT OF CIRCULAR DEBT

- Government decided to pay in 60 days as per announcement in annual budget on 12 June 2013
- Circular debt was cleared in less than 45 days
- Complete updated details of settlement placed on Finance Ministry's website ([www.finance.gov.pk](http://www.finance.gov.pk))



# ISSUANCE OF CURRENCY NOTES



	Issuance	Deposit / surrender	Net issuance
<b>1<sup>st</sup> July – 30<sup>th</sup> November 2013</b>	<b>Rs 672 billion</b>	<b>Rs 466 billion</b>	<b>Rs 206 billion</b>
<b>1<sup>st</sup> July – 30<sup>th</sup> November 2012</b>	<b>Rs 614 billion</b>	<b>Rs 408 billion</b>	<b>Rs 206 billion</b>



# CIRCULAR DEBT

## BENEFITS OF SETTLEMENT

- Addition of 1,700 MW in the national grid
- Large Scale Manufacturing grew by 6.8% in 1<sup>st</sup> quarter ending on 30<sup>th</sup> September 2013 as compared to 0.4% in same period last year
- Re-employment of labour / employees on re-opening / revival of industries
- Increase in job opportunities due to industrial growth
- Withdrawal of cases from Supreme Court
- Cases of invoked sovereign guarantees became infructuous





# CIRCULAR DEBT



## BENEFITS OF SETTLEMENT

- Increased investors' confidence
- Massive reduction in loadshedding in commercial and domestic sector. In the last 2 ½ months it was virtually zero. However, due to canal closure and decline in hydel generation, some loadshedding has become inevitable
- Agreement of four IPPs for conversion from furnace oil to coal-based within 24 months would lead to savings and lower cost of electricity generation



# CIRCULAR DEBT



## FINANCIAL GAIN TO THE COUNTRY

<b>Financial cost if circular debt was not paid</b>	<b>14% of Rs 480 billion</b>	<b>Rs 67.2 billion</b>
<b>Less cost to be borne on Pakistan Investment Bonds (PIBs)</b>	<b>10% of Rs 128 billion</b>	<b>Rs 12.8 billion</b>
<b>Annual net gain / savings</b>		<b>Rs 54.4 billion</b>



# CIRCULAR DEBT

## RE-EMERGENCE OF CIRCULAR DEBT

- **To arrest its re-emergence:-**
  - **Provision of Rs 220 billion subsidy made in the budget**
  - **Rs 101 billion paid to date**
  - **In addition, Rs 30 billion being released today**
  - **Reported outstanding amount is due to non-payment primarily by provinces and private consumers**
  - **Institution of Federal Adjustor being re-activated in consultation with provinces**



# IMF PROGRAM



- **Foreign exchange reserves of US\$ 18.2 billion (including US\$ 7.9 billion received under Stand By Arrangement of 2008 from IMF) had fallen to US\$ 11 billion when PML(N) Government was sworn in**
- **In June 2013, an outstanding liability of US\$ 3.1 billion was still payable to IMF**



# IMF PROGRAM



- **Extended Fund Facility (EFF) of US\$ 6.64 billion negotiated in September 2013**
- **Foreign exchange reserves falling on account of overall negative inflows, thereby resulting in decline of forex reserves of US\$ 11 billion (June 2013) to US\$ 8.4 (December 2013)**



# IMF PROGRAM

- **Why we chose IMF:**
  - **As was generally predicted internationally that Pakistan will go in default by early 2014, one option was to declare default and go to Paris Club.**
  - **This would have had grave consequences like no development partners i.e WB, ADB, IDB, OPIC, IFC, JICA and others, would have dealt with Pakistan resulting into no financing of development projects like Dasu, Jamshoro, Neelum-Jhelum, transmission lines, Karachi Circular Railway, motorways, energy etc**
  - **As an honourable country, we decided to honour our international commitments**



# IMF PROGRAM

- **New program shall not add to the present public debt burden**
- **Inflows (US\$ 2.18 billion) less than the outflows (US\$ 3.1 billion) during current financial year**
- **Pakistan had no choice but to borrow new money to pay off installments of old debts which had become due**
- **Major purpose was also to send a signal to international community that Pakistan as a sovereign and dignified country can manage to honour its past international commitments, under the leadership of Prime Minister Nawaz Sharif**



# IMF PROGRAM

- **Current program is mainly home-driven, emanating from PML(N) Manifesto on the basis of which General Elections 2013 were contested**
- **Following IMF documents were placed on Finance Ministry's website ([www.finance.gov.pk](http://www.finance.gov.pk)) on 4<sup>th</sup> Sep 2013**
  - ***Memorandum on Economic and Financial Policies for 2013/14 – 2015/16 (MEFP)***
  - ***Technical Memorandum of Understanding (TMU)***





# IMF PROGRAM



- **Having seen our budgetary measures and economic reforms, positive signals for the country are:**
  - **Re-engagement of World Bank / ADB / IDB / JICA and others**
  - **Overseas Private Investment Corporation (OPIC) and International Finance Corporation (IFC) have tripled their allocations/credit lines for Pakistan**



# IMF PROGRAM



- **Standard & Poor's has given a stable outlook on Pakistan**
- **Overseas International Chambers of Commerce raised its index for Pakistan from (-) 34 to (+) 2**



# **PLAN FOR BUILDING FOREIGN EXCHANGE**

## **RESERVES IN CALENDAR YEAR 2014**

### **BALANCE OF PAYMENTS FACILITIES (IN PROGRESS)**

<b>World Bank (IDA-16)</b>	<b>US\$ 1 billion</b>
<b>Asian Development Bank</b>	<b>US\$ 400 million</b>
<b>Commercial banks</b> <b>(US\$ 525 m - rcvd US\$ 100 m)</b>	<b>US\$ 425 million</b>
<b>Islamic Development Bank</b> <b>(€ 750 m – rcvd € 200 m)</b>	<b>US\$ 730 million</b>
<b>Global Rupee bond / IFC</b>	<b>US\$ 1 billion</b>



## ...Contd/2



<b>Euro Bond floatation</b>	<b>US\$ 1 billion</b>
<b>Remittance-based bond floatation</b>	<b>US\$ 1 billion</b>
<b>Shares disinvestment through stock market</b>	<b>US\$ 1 billion</b>
<b>Etisalat (pending for 7 years)</b>	<b>US\$ 800 million</b>
<b>Auction of spectrum licences (March 2014) (Up to US\$ 2 billion approx)</b>	<b>US\$ 1.2 billion</b>



## ...Contd/3



<b>Recovery of pending Coalition Support Fund:</b>	<b>US\$ 1.54 billion</b>
<b>Oct 12 – Mar 13: US\$ 798 m (already billed)</b>	
<b>Apr 13- Sep 13 - US\$ 750 m (billing in process)</b>	
<b>TOTAL (Planned additions) during 2014</b>	<b>US\$ 10.095 billion</b>

### Notes:

1. Above planned financing items may be replaced or substituted by some other alternatives
2. Expected increase in export earnings through GSP Plus status by European Union of US\$ 1.5 billion is not included in above



# FOREX RESERVES PROJECTIONS

<b>Reserves as on 1<sup>st</sup> January 2014</b>	<b>US\$ 8.406 billion</b>
<b>Add : Planned additions during calendar year 2014</b>	<b>US\$ 10.095 billion</b>
<b>Less : Projected current account deficit</b>	<b>US\$ 2.480 billion</b>
<b>Net Projected Reserves as on 31<sup>st</sup> December 2014</b>	<b>US\$ 16.021 billion</b>



# PROJECT & TRADE FINANCE FACILITIES (IN PROGRESS)

<b>World Bank (IDA-16) (Dasu Hydel)</b>	<b>US\$ 700 million</b>
<b>Asian Development Bank (Jamshoro)</b>	<b>US\$ 900 million</b>
<b>China Eximbank (K2-K3)</b>	<b>US\$ 6.478 billion</b>



## ...Contd/2



<b>IDB trade facilities</b>	<b>i. US\$ 250 million; ii. US\$ 1.5 billion (for 3 years)</b>
<b>Saudi Fund for Development (SFD)</b>	<b>US\$ 125 million</b>
<b>JICA's indicative financing for KCR (PM's meeting with Japanese PM at NY, followed by FM's meeting with Japanese Dy PM / FM in October 2013)</b>	<b>US\$ 2 billion (Low cost, 40 years with 10 year moratorium)</b>





## ...Contd/3



**IFC country line for private investors**

**Enhanced from US\$ 1 billion to US\$ 3 billion**

**OPIC country line for private investors**

**Enhanced from US\$ 500 million to US\$ 1.5 billion**



# FINANCING STATUS OF ENERGY

## PROJECTS

<b>Re-activation of Nandipur project (already done)</b>	<b>Additional 425 MW (525 MW if on gas)</b>
<b>K2-K3 projects (Rs 6 billion out of local portion released)</b>	<b>2,117 MW</b>
<b>Jamshoro coal power project (US\$ 900 m approved by ADB)</b>	<b>1,320 MW</b>
<b>CASA-1000 (US\$ 200 m – Pakistan's share already arranged)</b>	<b>1,000 MW</b>
<b>Wind power (Financed by OPIC and private sector)</b>	<b>500 MW approx</b>
<b>Energy park at Gadani (under implementation by MoW&amp;P)</b>	<b>6,600 MW</b>



## ...Contd/2



<b>Dasu hydropower project (WB financing of US\$ 700 m in progress)</b>	<b>4,600 MW</b>
<b>Diamer-Bhasha dam (with 8 MAF water reservoir) (planned from indigenous resources)</b>	<b>4,500 MW</b>
<b>Accelerated work on Neelum-Jhelum power project (financing in place)</b>	<b>969 MW</b>
<b>Current generation</b>	<b>14,000 MW approx</b>
<b>TOTAL</b>	<b>36,131 MW approx</b>

**Note: In addition to above, Bunji hydropower project (under study)  
– 7,100 MW**



# PRIME MINISTER'S NEW TAX INCENTIVES

- Tax incentives announced on 28 November 2013
- Non-filers of tax returns as well as dormant NTN holders to avail concession by 28 February 2014
- For investment scheme, commercial operation date fixed on or before 30<sup>th</sup> June 2016 to avail incentives under the PM package for industrial growth



# PRIME MINISTER'S YOUTH PROGRAM

## STATUS OF SCHEMES ANNOUNCED IN BUDGET ON 12 JUNE 2013

PM's Fee Reimbursement Scheme for Less Developed Areas	Implemented
PM's Youth Business Loans	Under implementation
PM's Scheme for Provision of Laptops	Approved by ECNEC on 31 <sup>st</sup> Dec 2013
PM's Interest Free Loans Scheme	In progress
PM's Youth Training Scheme	In progress
PM's Youth Skills Development Scheme	In progress



# INFLATION



## Main reasons:

- I. International oil prices causing increase in domestic POL prices (subsidy approved by PM for first 7 months till 31<sup>st</sup> Jan 14 amounts to Rs 17.6 billion)
- II. Non-payment of circular debt of Rs 503 billion
- III. Revenue shortfall in 2012-13

Budgeted:	Rs 2,381 billion
Actual:	Rs 1,946 billion
Shortfall:	Rs 435 billion
- IV. Profiteering and hoarding



# CARETAKER SUMMARIES



- V. Summary to increase electricity tariff:**
  - **For 15 months, despite NEPRA awards, there was no increase due to political expediency**
  - **Caretakers decided to increase the electricity tariff**



# CARETAKER SUMMARIES



- **Summary for PM on rationalization of power tariffs:**
  - **15 May 2013 – moved by M/o W&P**
  - **16 May 2013 – endorsement by Finance**
  - **17 May 2013 – approval by caretaker PM**
  
- **Decision approved by PM withheld and not implemented**





# CARETAKER SUMMARIES

---

**VI. Because of revenue shortfall explained above, caretakers agreed with multilateral donors to increase taxes equal to 0.7% of GDP**



# CARETAKER SUMMARIES



- **Summary for PM containing 20 proposals of FBR regarding tax / revenue measures:**
  - **16 May 2013 – Moved by Finance**
  - **17 May 2013 – Approval by caretaker PM**
  - **23 May 2013 – President deferred the decision and returned the summary**



# INFLATION



- Inflation a cause of serious concern
- Regular monitoring by ECC and National Price Monitoring Committee

	<b>1<sup>st</sup> July – 30<sup>th</sup> Nov 2013</b>	<b>1<sup>st</sup> July 2012 – 30<sup>th</sup> Jun 2013</b>
<b>Average CPI</b>	<b>8.8%</b>	<b>7.4%</b>
<b>Average SPI</b>	<b>10.7%</b>	<b>7.8%</b>



# INFLATION TREND



- **Core inflation excluding food and energy currently declining. SPI also falling in last 5 weeks**  
Percentage change over previous week

<b>Week ended on</b>	<b>SPI</b>
<b>07/11/2013</b>	<b>1.20</b>
<b>13/11/2013</b>	<b>0.46</b>
<b>21/11/2013</b>	<b>0.95</b>
<b>28/11/2013</b>	<b>-0.54</b>
<b>05/12/2013</b>	<b>-1.04</b>
<b>12/12/2013</b>	<b>-0.82</b>
<b>19/12/2013</b>	<b>-0.67</b>
<b>26/12/2013</b>	<b>-0.22</b>



# DECLINING PRICES - EXAMPLES

<b>Commodity</b>	<b>Peak Price / kg (with dates)</b>	<b>Price / kg (on 26<sup>th</sup> Dec 2013)</b>	<b>% change</b>
<b>Tomatoes</b>	<b>122</b> (7 <sup>th</sup> Nov 2013)	<b>42</b>	<b>-65.87</b>
<b>Onions</b>	<b>60</b> (7 <sup>th</sup> Nov 2013)	<b>39</b>	<b>-35.19</b>
<b>Potatoes</b>	<b>71</b> (21 <sup>st</sup> Nov 2013)	<b>32</b>	<b>-54.3</b>



# INFLATION



- **Sugar price at Utility Stores Corporation has been reduced by Rs 5 per kg**
- **DAP price has been reduced from Rs 4,000/- per bag in 2012 to Rs 3,500/- per bag in 2013**



# WE BELIEVE IN TRANSPARENCY



- PML (N) Government posted all details of the then IMF Program on website in 1998-99
- Current IMF Program placed promptly on Finance Ministry's website on 4 Sep 2013 – the day it was approved
- Full details of recipients and sources of financing related to settlement of circular debt placed on Finance Ministry's website



# WE BELIEVE IN TRANSPARENCY



- **Pakistan Bureau of Statistics (PBS) has been made autonomous**
- **Till recently National Accounts were prepared annually**
- **To provide information on regular basis, National Accounts will now be prepared quarterly**





# WE BELIEVE IN TRANSPARENCY



- **Quarterly National Accounts for 1<sup>st</sup> quarter ending on 30<sup>th</sup> September 2013 were released on 11<sup>th</sup> December 2013**
- **Quarterly accounts for 2<sup>nd</sup> quarter ending on 31<sup>st</sup> December 2013 will be presented by 31<sup>st</sup> March 2014**



# WE BELIEVE IN TRANSPARENCY



- Re-basing was previously done at different intervals
- Annual National Accounts were re-based in 1980-81, 1999-2000 and 2005-06
- Policy decision in PBS Governing Council meeting to re-base every ten years
- Next re-basing will be in 2015-16 and then in 2025-26



# ISLAMIC BANKING



- **World Islamic Banking market currently stands at US\$ 1.6 trillion**
- **Steering Committee for promotion of Islamic Banking formed**
- **Committee will review previous reports, formulate comprehensive policy framework for Islamic Financial System, suggest practical steps to implement Shariah-based financial system etc**
- **First meeting held on 19 December 2013**
- **Report expected by end December 2014**





# WHERE WE STAND NOW



# INCORPORATION OF COMPANIES

- Incorporation of new companies has increased by 17% from 1<sup>st</sup> July to 30<sup>th</sup> November 2013 as compared same period in 2012
- 2,597 dormant companies have re-activated since July 2013



# STOCK MARKET



	<b>11<sup>th</sup> May 2013</b>	<b>26<sup>th</sup> Dec 2013</b>	<b>Growth</b>
<b>KSE index</b>	<b>19,916</b>	<b>25,370</b>	<b>27.38%</b>
<b>Market capitalization (Rs)</b>	<b>Rs 5.27 trillion</b>	<b>Rs 6.16 trillion</b>	<b>22.1%</b>
<b>Market capitalization (US\$)</b>	<b>US\$ 50.0 billion</b>	<b>US\$ 57.0 billion</b>	<b>11.1%</b>



# FISCAL POSITION

## (AS ON 30 NOVEMBER)



	<b>1<sup>st</sup> July – 30<sup>th</sup> November 2013</b>	<b>1<sup>st</sup> July – 30<sup>th</sup> November 2012</b>	<b>Growth</b>
<b>FBR Revenue</b>	<b>Rs 792 billion</b>	<b>Rs 679 billion</b>	<b>17%</b>
<b>Budget deficit</b>	<b>2.2% (Rs 570 billion)</b>	<b>2.9% (Rs 690 billion)</b>	



# FILING OF TAX RETURNS



	<b>1<sup>st</sup> July – 16<sup>th</sup> December 2013</b>	<b>1<sup>st</sup> July – 16<sup>th</sup> December 2012</b>	<b>% increase</b>
<b>Number of tax returns filed</b>	<b>814,981</b>	<b>744,866</b>	<b>10%</b>





# FOREIGN REMITTANCES



<b>1<sup>st</sup> July – 30<sup>th</sup> November 2013</b>	<b>1<sup>st</sup> July – 30<sup>th</sup> November 2012</b>	<b>Growth</b>
<b>US\$ 6.4 billion</b>	<b>US\$ 5.9 billion</b>	<b>7%</b>



# EXCHANGE RATE



- **Speculative activities in the market mainly behind Rupee - Dollar exchange rate volatility**
- **Exchange rate has already improved from around Rs 110.90 to Rs 105.50 in last few weeks**
- **Aforesaid improvement in exchange rate has resulted in massive saving of Rs 362 billion from the gross public debt of Pakistan**
- **With expected foreign exchange inflows in near future and other appropriate measures by SBP, the Pak Rupee is expected to further strengthen in the days to come, inshaAllah**



# GDP QUARTERLY GROWTH RATE



Sector / Industry	Change (%)	
	1 <sup>st</sup> July – 30 <sup>th</sup> September 2013	1 <sup>st</sup> July – 30 <sup>th</sup> September 2012
Agriculture	2.5	2.7
Industry	5.2	3.1
Services	5.7	2.9
<b>Total</b>	<b>5.0</b>	<b>2.9</b>

**Note: Within industrial growth, large scale manufacturing registered growth of 6.8% as against 0.4% last year**





# WHERE WE ARE HEADING



# ROADMAP

## 3-YEAR MEDIUM TERM TARGETS

- GDP growth to gradually rise to around 6 – 7%
- Investment/GDP to rise from 12.6% to 20%
- Tax/GDP ratio to rise from 8.5% to 13 %
- Fiscal deficit to be brought down from 8.8% to 4% of GDP
- Foreign exchange reserves to be increased to around US\$ 20 billion
- Public debt to be reduced to below 60% of GDP as per statutory requirement





# WITH ALLAH'S BLESSINGS

- *We honour, what we say*
- *We deliver, what we promise*
- *We work in silence and wait for success to speak*





**THANK YOU**

