

PAKISTAN

After witnessing severe macroeconomic difficulties in 1998 and 1999, Pakistan's economy showed strong signs of recovery in 2000. However, to achieve faster growth and reduce poverty levels in the country, the Government needs to accelerate structural reforms. The balance-of-payments situation remains a concern.

Economic Indicator (percent)	1997	1998	1999	2000	2001
GDP growth	1.9	2.0	3.1	4.5	5.0
Inflation rate	11.8	7.8	5.7	3.6	4.5
Current account/GDP	-6.1	-3.0	-3.8	-2.4	-2.0

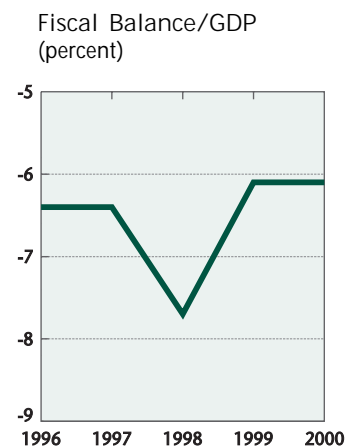
Economic Assessment. Pakistan's economic growth in 2000 showed signs of recovery, and was accompanied by a fall in the inflation rate, an improvement in exports, and a relatively stable foreign exchange rate. Despite these positive developments, the Government needs to reduce the fiscal deficit, restore foreign investor confidence, and sustain higher economic growth, thereby reducing the poverty level.

Real GDP grew by 4.5 percent in 2000 compared with 3.1 percent growth the previous year. One of the main reasons for this was significant growth in agriculture of 5.5 percent, especially in cotton, wheat, and rice crops. The performance of manufacturing in general and large-scale manufacturing in particular, was weak, as they grew by only 1.6 percent and less than 0.1 percent, respectively. This was due mainly to a 24 percent decline in sugar production.

Total investment and fixed investment as a share of GDP stagnated at around 15.0 and 13.4 percent, respectively, in 2000. National savings in 1999 are estimated to finance 81.3 percent of total investment while the remaining 18.7 percent is financed by foreign savings. The national savings rate as a share of GDP increased from 11.1 percent to 12.2 percent, while foreign savings decreased from 3.8 percent to 2.8 percent of GDP in 2000, partly because of lower foreign investor confidence in light of the political uncertainties.

The CPI declined to 3.6 percent in 2000 compared with 5.7 percent the previous year. The rise in food prices was the lowest in the last two decades, at around 2 percent in 2000 compared with 6.2 percent the previous year. The slower growth in money supply, at 3.2 percent, also played an important role in reducing inflation.

The fragile balance-of-payments situation remains a principal area of concern. The trade deficit reached \$1.7 billion in 2000, double the Government's target of \$800 million. A negative resource transfer from donors also put pressure on the balance of payments. Foreign exchange reserves as of June 2000 totaled \$1.39 billion, or less than two months of import cover.



2000 refers to fiscal year 1999/2000, ending 30 June.

Structural Issues. Although the Government reduced the fiscal deficit from 7.7 percent of GDP in 1998 to 6.1 percent in 1999 and 2000, its current size is unsustainable. A comprehensive fiscal adjustment program is essential for restoring macroeconomic stability. Unsatisfactory tax revenue levels and substantial debt-service payments are constraining policy choices, particularly by limiting much-needed outlays for infrastructure and social sectors. In this context, the main focus of the Government's fiscal reform is directed at improving revenue performance through broadening the tax base and strengthening tax administration. According to the federal budget for 2001, the fiscal deficit is projected to decline to 4.5 percent of GDP

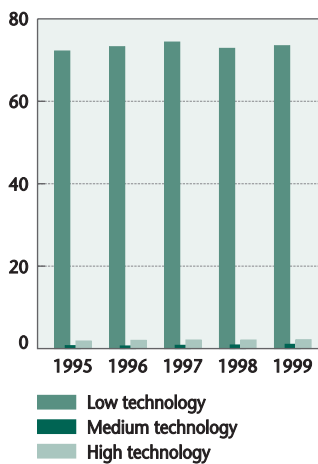
Another area needing immediate attention is the increase in poverty. Slow economic expansion, high population growth, lack of social safety nets, and poor governance in the 1990s have had adverse effects on the country's poor and vulnerable. Recent data show that the incidence of caloric-based poverty increased from 17.3 percent in 1988 to 22.4 percent in 1993 and further to 32.6 percent in 1999.

The Government's short- and medium-term development objectives are focused on poverty reduction. Its strategy takes into account the nexus of economic, social, and governance dimensions. A four-track approach has been identified by the Government: (i) broad-based economic growth with income-generating opportunities for the poor and a pattern of growth that is relatively labor intensive; (ii) achieving the highest possible growth path that is consistent with the available financial and human capital under a governance architecture that is both humane and efficient; (iii) improved access to education, skill training, primary health care, nutrition, and other social services that help the poor become productive employees or make them capable of starting their own businesses on a small scale; and (iv) provision of safety nets for vulnerable groups.

In December 1999, the Government identified four priority areas for reviving the economy, namely revitalizing the agriculture sector, promoting small and medium industries, expanding the petroleum and gas sector, and promoting information technology. In addition, in an attempt to correct macroeconomic imbalances and improve economic efficiency, the reform program covers the financial sector and capital markets, civil service, judicial and legal areas, and fiscal concerns. Initiatives have also been proposed for privatizing public enterprises and decentralizing administrative authority, as well as devolving power and responsibility where feasible to grassroots level.

Forecast. Short- to medium-term economic prospects depend on the pace and success of economic reforms, especially improved quality of governance. If the Government implements these reforms in a timely manner, GDP growth is expected to be 5.0 percent in 2001. The inflation rate is expected to be around 4.5 percent, on the assumption that monetary expansion will be around 9 percent. External trade is expected to improve in 2001, with 11.0 percent growth in exports and a 3.6 percent rise in imports, based on a sustained increase in agricultural production, revival of manufacturing, and stable prices of oil and gas products. The trade account is expected to show a narrower deficit of \$1.3 billion in 2001, reducing the current account deficit to about 2 percent of GDP from 2.4 percent of GDP in 2000.

Technology Exports as Share of Total (percent)



Ratio of Reserves to Short-Term External Debt (percent)

