

# EMBASSY OF PAKISTAN ECONOMIC DIVISION

February 10, 2009

## *FY2009--Mid-Year Economic Review July-December 2008*

**The** Economic Stabilization Program of the government aimed at promoting macroeconomic stability through (i) frequent and timely adjustments in the policy rate to keep the aggregate demand and inflation expectations from spiraling out of control; (ii) rationalization/elimination of subsidies especially on petroleum and electricity; (iii) market driven adjustment in the exchange rate to taper off otherwise unsustainable growth rate of imports; and soothing the stock market has started **showing signs of steady improvement in the economy**. Amidst a perceptible slow-down in the manufacturing and services sectors and a sharp increase in interest rates following contractionary monetary stance, **fiscal and current account deficits are signaling progress**, inflation has started responding to demand management, exchange rate remained stable after depreciating over July-November 2008 and FOREX are building up.

2. Interim Review of Stand-By Arrangement [SBA] signed in November 2008, released by the IMF on January 29, 2009, has said that “**policy implementation has been generally good** thus far, and the program appears to be taking hold. There has been a strong, positive response to the 200 basis point increase in the central bank discount rate...Treasury bill placements have increased significantly and there was also some increase in bank deposits. **The exchange rate has been broadly stable**...at about Rs. 79 per U.S. dollar since Board approval of the arrangement. **This stability reflects improved confidence as well as recent improvements in trade balance** owing mainly to lower import prices, and the **international reserves position has strengthened**. Standard & Poor’s **upgraded Pakistan’s sovereign debt to CCC+** on December 12, 2008. The upgrade took account of the first SBA disbursement and **expectations of a better macroeconomic performance, improved external liquidity, and additional external assistance** from multilateral and bilateral sources.”

3. A review of the first half of FY2009 is summarized below:

### **I. GDP GROWTH**

4. **Given** the macroeconomic imbalances and internal economic as well as financial environment, the GDP for FY2009 has been projected at 3.4 percent. The sectoral growth is estimated at: agriculture [3%], manufacturing [1.5%] and services [4.2%]. The average inflation is projected to hover around 23 percent.

## II. REAL SECTORS

### *Agriculture*

5. **The crop sector** is projected to surpass the growth target as cotton and rice have registered positive growth of 7.3 percent and 13.5 percent respectively. Wheat is expected to grow by 15.7 percent over the last year. However, water shortages impacted the water-intensive crops of sugarcane and maize which fell short of the target. The combined affect of this is reflected below:

**Table 1**

<b>Kharif Crop Production (000 Tons)</b>				<b>Rabi Crops Production (000 Tons)</b>			
<b>Crop</b>	<b>FY2008</b>	<b>FY2009 Estimate</b>	<b>% Change</b>	<b>Crop</b>	<b>FY2008</b>	<b>FY2009 Estimate</b>	<b>% Change</b>
Cotton	11.6	12.1	7.3	Wheat	21.600	25.0	15.7
Sugarcane	63.9	52.1	- 18.5	Gram	0.475	0.65	36.2
Rice	5.6	6.5	13.5	Potato	2.500	2.5	-
Maize	3.6	3.33	- 7.5	Onion	1.800	2.1	16.7

### *Manufacturing*

6. **Large scale manufacturing (LSM)** is showing signs of moderation because of demand management policies and acute power shortages. It registered a negative growth of 5.6% during July-November 2008 as against reasonable growth of 6.9% in the comparable period of last year as indicated at Table 2.

**Table 2**

<b>Growth in Large Scale Manufacturing (%)</b>		
<b>Month</b>	<b>2007</b>	<b>2008</b>
July	5.29	- 4.49
August	8.54	- 6.86
September	7.69	- 6.41
October	8.08	- 2.17
November	4.22	- 7.57
<b>July-November</b>	<b>6.90</b>	<b>- 5.57</b>

### *Services*

7. **Services sector** has exhibited resilience and FDI in the services sector witnessed healthy increase. The FDI inflows in the telecommunications, financial businesses and personal services are up by 6.7 percent, 75.3 percent and 3.0 percent respectively. Wholesale and retail trade points towards a reasonable growth in the services sector. The targeted growth of 4.2 percent is already almost half of last year’s actual 8.2 percent.

### III. INFLATION

8. **In contrast** to significant abatement in the inflationary pressures across the globe, the inflation rate, as measured by the change in Consumer Price Index (CPI), stood at 24.4 percent during the period July-December 2008 as against 8.0 percent in the comparable period last year. The **food inflation** is estimated at 31.2 percent and **non food** at 19.2 percent against 11.6 percent and 5.4 percent in the corresponding period of last year. Nevertheless, lowering food and energy prices have resulted in marked declines in some measures of inflation recently. The annual rate of growth in the Sensitive Price Index [based on the consumption of low-income groups] dropped 20.5 percent, nearly 9 percent from its peak in November 2008. Consumer prices fell in November-December by a total of 0.6 percentage points. The core inflation is still hovering near 18.3 percent. The inflation trend is reflected at Table 3.

**Table 3 (%)**

	CPI	WPI	SPI	Core Inflation
July	24.3	34.0	33.0	14.7
August	25.3	35.7	33.9	16.4
September	23.9	33.2	31.1	17.3
October	25.0	28.4	32.7	18.3
November	24.7	19.9	29.8	18.9
December	23.3	17.6	25.8	18.8

### IV. MONETARY POLICY

9. **The State Bank of Pakistan (SBP)** is maintaining its tight monetary policy stance. The policy rate was adjusted upward, from 13% to 15% on November 12, 2008 to shave-off aggregate demand. **On cumulative basis, discount rate has been increased by 550 basis points over 18 months.** The money supply (M2) expanded by 0.9 percent against the target of 10.6 percent for FY2009 and 6.4 percent in the comparable period of last year. There has been a noticeable decline in the volume of government borrowings from the SBP for budgetary support from Rs 264.4 billion during Q1-FY09 [July-September] to Rs 44.3 billion during Q2-FY09 [October-

December]. The SBP has decided to keep the policy (discount) rate unchanged at 15 percent during the period January-March 2009 based on the assumptions that the demand pressures have not completely dissipated and are like to persist in second half of FY2009 despite a slowdown in the economic activity.

### *T-Bills and Pakistan Investment Bond Auction*

10. **The authorities** have taken a number of steps to develop a liquid government debt market by (i) prior announcement of the auction calendar for Treasury Bills (T-bills) and Pakistan Investment Bonds (PIBs) and a volume based approach to determine the auction result; (ii) Ministry of Finance will henceforth be responsible for deciding the cut off yields of the primary auctions of T-bills and PIBs on the above premise. State Bank of Pakistan will continue to manage the operational aspect of the auctions and there will be no change in the process as far as the market is concerned; (iii) the segregation of debt and monetary management to work toward introducing limits on the direct government borrowings from the SBP and along with a plan to eliminate the same in a phased manner over next several years.

11. Rs 482.1 billion were realized to the government in the six auctions held since raising the discount rate to 15 percent in November 2008 against the maturities of Rs 321 billion which helped the government to meet its end-December targets under the SBA. Results of recent auctions of T-Bills are enumerated at Table 4.

**Table 4**

<b>Auction Date</b>	<b>Amount Rs Million</b>	<b>3 Months</b>	<b>6 Months</b>	<b>12 Months</b>
19.11.2008	103,467.68	13.6934	14.0108	-
03.12.2008	81,473.36	13.8437	14.0108	
17.12.2008	70,543.29	13.8397	14.0108	
31.12.2008	67,795.02	13.8472	13.9959	14.2529
09.01.2009	79,356.69	13.8545	14.0093	14.2609
28.01.2009	79,504.93	13.7338	13.9958	14.1589
	482,140.97			

### *Credit to Private Sector*

12. **Credit to private sector** demonstrated a net increase of Rs 155.8 billion during the first half of Fy2009 as compared to Rs 240.2 billion in the comparable period of last year. The deceleration in growth of overall private sector credit is most visible in a fall in demand for working capital in the textile, construction, commerce and trade, and real estate sectors. In particular, import financing has

witnessed substantial decline which is in line with the recent lower pace of import growth. Weak external demand and frequent power and gas outages that disrupted production partly explain the fall in the demand for private sector credit. The rise in input costs (such as wage bill, utilities, raw material) also discouraged economic activities contributing towards a reduction in demand for credit. The credit for fixed investment, however, compensated for this decline to some extent keeping the overall flow of advances to private businesses at almost the same level as last year. The consumer financing and banks investment in private sector securities and shares also declined substantially contributing towards the deceleration in overall credit.

### ***Government Borrowings***

13. **Government borrowing** from the banking system for budgetary support rose considerably since the beginning of FY09. However, after reaching a maximum of Rs339.4 billion on 13th December 2008, it has somewhat stabilized at Rs260 billion as on 17th January 2009. More importantly, the composition of government borrowing from the banking system also changed significantly after the liquidity easing measures announced in October 2008. The government has retired some of its debt to the SBP and financed its borrowing needs from the scheduled banks. Consequently, the stock of Market Related Treasury Bills (MRTBs) has come down to Rs1305 billion as on 28th January 2009 from a high of Rs1430 billion on 3rd December 2008.

### ***Lending and Deposit Rate***

14. **Weighted average lending rate** has declined slightly from 15.5 percent in October 2008 to 14.7 percent in November 2008. Weighted average deposit rate on the other hand has increased from 6.2 percent in October 2008 to 6.5 percent in November 2008 implying narrowing the spread. The weighted average yields on 6 months T-bill remained around 14 percent in November and December 2008.

## **V. CAPITAL MARKET**

15. **Capital Market** is beginning to show some signs of recovery in January 2009 after initial high volatility following removal of floor on December 12, 2008. After declining sharply through end-December 2008, the KSE-100 Index rebounded slightly in January 2009 reflecting the settlement of outstanding amounts under the Continuous Funding System (CFS). The global economic melt-down, credit crunch and security environment is impacting the investors' confidence. Karachi Stock Exchange (KSE-100) Index closed at **5,865 points on December 31, 2008 down**

from its peak of 15,676 points on April 18, 2008 losing 62.6 percent. The aggregate market capitalization (AMC) was Rs 1,858.7 billion [US\$ 23.5 billion] on December 31, 2008, down by 50.8 percent (in Rupee) and 57.4 percent (in US Dollar) as compared to Rs 3,777.7 billion or US\$ 55.2 billion on June 30, 2008. The AMC reached its highest level of Rs 4,791 billion on April 18, 2008. The government has entered into an agreement with the National Investment Trust (NIT) on creating a fund [NIT-State Enterprise Fund, NIT-SEF] of Rs 20 billion to buy shares in eight government-owned companies.

## VI. FISCAL POLICY

### *Fiscal Deficit*

16. The fiscal deficit is estimated to be 1.9 percent of GDP at the end of H1-FY09 which is consistent with annual fiscal deficit target of 4.2 percent. The fiscal improvement has been primarily because of phasing out subsidies on petroleum products, upward tariff revision of electricity [average 18%] and gas and consolidation of development spending.

### *Revenues*

17. **Tax Revenue** collected by the *Federal Board of Revenue (FBR)* stood at Rs. 552.5 billion (net) during July-December 2008 as compared to Rs. 435.1 billion in July-December, 2007, posting a healthy increase of 27.0%. The FBR has achieved 95 percent of the revised target of Rs 581 billion for first half of FY2009 [See **Table 5**]. Tax revenue target has been revised to **Rs 1360** billion revised prior to SBA.

**Table 5** (Rs in billion)

Revenue Head	Target	July-December		Change
	2008-09	2007	2008	(%)
A) Direct Taxes	496.0	164.6	210.3	27.8
B) Indirect Taxes	754.0	270.5	342.8	26.8
1. Sales Tax	472.0	169.3	217.2	28.3
2. Federal Excise	112.0	39.5	52.9	32.5
3. Customs	170.0	61.6	72.8	18.0
<b>Total Net Collection</b>	<b>1250</b>	<b>435.1</b>	<b>552.5</b>	<b>27.0</b>

### *Domestic Debt*

18. The **stock of domestic debt** grew by 9.3 percent during H1-FY09 as against 10.5 percent in the comparable period of last year. The main contribution came from a large increase in floating debt whereas the stock of permanent debt demonstrated a moderate decline. The total outstanding domestic debt stood at Rs 3569.5 billion on December 31, 2008. The break up is reflected at Table 6.

**Table 6** (Rs in billion)

<b>Debt Instrument</b>	<b>End-June 2008</b>	<b>July-Dec 2008</b>
Permanent Debt	608.4	607.5
Floating Debt	1637.4	1892.9
Unfunded Debt	1020.4	1069.1

## VII. EXTERNAL SECTOR

### *Exports*

19. **Exports** grew by 10.6 percent in July-December 2008 and stood at \$ 9.6 billion as against \$ 8.7 billion in the corresponding period of last year [Table-7]. Rice alone has contributed 64 percent of the additional amount mobilized from exports. Without rice, the growth has been 4.0 percent. The non-traditional exports grew by 15.3 percent on the back of strong performers like chemicals and pharmaceutical (31.5%), engineering goods (89.4%), cement (91.7%).

**Table 7** (US \$ Million)

<b>Particulars</b>	<b>July-December</b>		<b>Change</b>	<b>Absolute Increase/Decrease</b>	<b>% Contribution to Increase in Exports</b>
	<b>2007</b>	<b>2008</b>	<b>(%)</b>		
A. Food Group	973.7	1,643.8	68.8	670.1	73.2
B. Textile Group	5,228.4	5,137.5	-1.7	-90.9	-9.9
C. Petroleum Group	527.7	465.9	-11.7	-61.9	-6.8
D. Other Manufacturer	1,621.2	1,868.7	15.3	247.5	27.0
E. All Other Items	307.1	457.5	49.0	150.4	16.4
<b>Total</b>	<b>8,658.2</b>	<b>9,573.4</b>	<b>10.6</b>	<b>915.2</b>	<b>100.0</b>
Non-Textile	3,429.8	4,435.9	29.3	-	-
Share of Textile	60.4	53.7	-	-	-
Share of Non-Textile	39.6	46.3	-	-	-

Source: FBS

### *Imports*

20. **Imports** reached to \$ 19.1 billion as against \$ 17.0 billion in the comparable period of last year, thereby, depicting a growth of 12.9 percent. The non-food and non-oil imports showed negative growth of 0.6 percent. However, After touching a record high of \$147.3/bbl on 11th July 2008, oil prices have slumped to around

\$40/bbl as on 27th January 2009; a fall beyond national and international expectations and projections. This drastic fall in international prices will provide a much needed respite for the trade account and coupled with tight monetary policy and prudent exchange rate management will strengthen the balance of payments position. CPI inflation is also likely to benefit from this development. The import trend is reflected at Table 8.

**Table 8** (US \$ Million)

	Particulars	July-December		% Change	Absolute Increase	% Cont. of absolute increase
		2007	2008			
	<b>Total Imports</b>	16,950.9	19,132.8	12.9	2,181.9	100.0
A	<b>Food Group</b>	1,605.4	2,218.5	38.2	613.1	28.1
	Wheat Unmilled	80.6	734.0	810.7	653.4	29.9
B	<b>Machinery Group</b>	2,529.9	2,900.4	14.6	370.5	17.0
	Power Gen. Machine	408.9	853.8	108.8	444.9	20.4
C	<b>Petroleum Group</b>	4,242.9	5,881.3	38.6	1,638.4	75.1
D	<b>Textile Group</b>	955.3	867.6	-9.2	-87.7	-4.0
E	<b>Agri Chemicals Group</b>	2,731.6	2,838.1	3.9	106.4	4.9
	Fertilizer	528.8	363.6	-31.2	-165.2	-7.6
F	<b>Consumer Durables</b>	2,446.1	1,627.9	-33.4	-818.2	-37.5
	Road motor Vehicles	643.6	483.9	-24.8	-159.7	-7.3
G	<b>Telecom</b>	1,083.9	594.7	-45.1	-489.2	-22.4
H	<b>Raw Materials</b>	1,517.0	1,513.6	-0.2	-3.4	-0.2
I.	<b>Others</b>	1,412.8	1,700.2	20.3	287.4	13.2
	<b>Non-Food, Non-Oil</b>	11,102.59	11,033.01	-0.6	-69.6	-3.2
	<b>Non-Oil Imports</b>	12,708.04	13,251.52	4.3	543.5	24.9

Source: FBS

### **Balance of Trade**

21. The merchandise trade deficit widened to \$9.6 billion in July-December 2008 as against \$8.3 billion in the comparable period last year on shipment data basis. Although the deepening global economic slowdown has impacted Pakistan's export growth, a simultaneous reduction in import bill actually lowered the trade deficit in November and December 2008 compared to the first four months of FY09. The declining import growth (from 21.6 percent during Jul-Nov, FY09 to 15.4 percent in Jul-Dec, FY09) reflects both the reduced quantum of imports and falling international commodity prices. While the decline in import quantum is quite visible on cumulative basis in a number of commodities, including crude oil and petroleum products, the price impact has yet to be realized fully. For instance, the international oil prices are hovering around \$40 per barrel currently; however, the full benefit of this decline has not yet been realized since the average crude oil price paid in H1-FY09 is around \$109 per barrel. Nonetheless, it is expected that price impact will become more evident in coming months as the current import contracts are structured at new and lower international prices.

## *Workers' Remittance*

22. **Workers Remittances** aggregated to \$ 3.64 billion in July-December 2008 as against \$ 3.066 billion in the comparable period of last year, posting an increase of 18.7 percent amidst difficult global environment. United States continued to be the largest source of workers` remittances, accounting for 24.8% followed by Saudi Arabia, UAE, other GCC countries and UK. The remittances from oil rich countries like Saudi Arabia, the UAE and the Gulf Cooperation Council Countries (Bahrain, Kuwait, Qatar, and Oman) combined amounted to \$2010.8 million or 55.2%. The oil rich countries along with the United States accounted for more than three fourth of the remittances during the first six months of the current fiscal year 2008-09.

**Table 8** (US \$ Million)

	July-December		% Change
	2007	2008	
<b>Total</b>	<b>3,066.3</b>	<b>3,640.0</b>	<b>18.7</b>
USA	874.21	903.5	3.35
Saudi Arabia	563.06	714.9	26.97
UAE	500.3	699.4	39.79
Other GCC Countries	457.2	596.5	30.47
U.K	227.2	239.8	5.5
EU Countries	89.0	111.4	25.2
Other Countries	261.0	294.5	12.8

## *Foreign Direct Investment*

23. **Foreign direct investment (FDI)** has reached \$ 2327 million during July-December 2008 as against \$ 2066 million in the comparable period of last year, thereby, registering an increase of 12.6 percent. If privatization proceeds of \$133 million received in the comparable period of last year are excluded, then FDI inflows witnessed an increase of 20.4 percent. The communication group spearheaded the healthy rise in FDI inflows with 33.1% stake followed by financial business (26.5%) and oil and gas exploration (16.0%). The power posted a massive growth of 87.4 percent but its share remained below 3 percent in total FDI [Table-9]. USA has been the single largest investor in Pakistan during first six months of 2008-09 accounting for 20.8% of the total FDI followed by Mauritius (11.4%), Singapore (9.6%), Malaysia (8.8%), UK (7.4%) and Switzerland (3.6%).

**Table 9** (US \$ million)

	2007-08	2008-09	% Change
Textiles	14.7	23.0	56.4
Chemicals & Petro-Chemicals	48.9	43.5	- 11.0
Petroleum Refining	43.0	47.7	11.0
Oil & Gas Explorations	331.3	372.2	12.4
Cement	80.4	29.1	- 63.9
Transport Equipment (Automobiles)	53.2	45.3	- 14.9
Power	35.6	66.7	87.4
Trade	94.3	86.4	- 8.4
Communications	722.2	770.5	6.7
Financial Business	351.4	615.9	75.3
Personal Services	52.6	54.2	3.0
Others	238.8	172.9	- 27.6
<b>All Groups</b>	<b>2066.3</b>	<b>2327.3</b>	<b>12.6</b>

### *Current Account Balance*

24. *Current Account Deficit* expanded by 20.1 percent during July-December 2008. It widened to \$ 7.269 billion as against \$ 6.053 billion last year. In the month of December 2008, the current account deficit was just \$ 458 million as against \$2.1 billion in October 2008. Drastic reduction in imports growth as well as better performance of the private inflows is contributing to improvement in the current account deficit [Table 10].

**Table 10** (US \$ Million)

Month	July-December 2008	
	2007-08	2008-09
July	- 816	- 1039
August	- 754	- 1533
September	- 700	- 1267
October	- 723	- 2172
November	- 1752	- 800
December	- 1308	- 458
<b>Gross</b>	<b>- 6053</b>	<b>- 7269</b>

### *Exchange Rate*

25. **The exchange rate** had adjusted considerably in the wake of rising external current account deficit and depleting reserves. After a cumulative depreciation of 11.5 percent in FY08 and a further slide of 13.5 percent up till 30th January 2009, dollar-rupee parity has stabilized around Rs 79.

**Table 11-Trends in Exchange Rate**

	End month exchange rate (Rs/US\$)*	App./Dep. (%)	
		Monthly	Cumulative since end June 2008
Jun-08	68.28	-	-
Jul-08	71.49	-4.49	-4.49
Aug-08	76.25	-6.24	-10.45
Sep-08	78.04	-2.29	-12.50
Oct-08	81.62	-4.40	-16.35
Nov-08	78.78	3.61	-13.33
Dec-08	79.10	-0.40	-13.68
30-Jan-09	78.98	0.15	-13.54
1st July to 18th October 2008			-17.32
19th Oct 2008 to 30th Jan 2009			4.6
* Weighted average mid rates			

26. As soon as the macroeconomic stabilization program was announced, the exchange rate stabilized and in fact appreciated by 4.6 percent during 19th October 2008 to 30th January 2009. Recent announcement of scaling back of SBP intervention in the foreign exchange market for furnace oil payments (effective from 2nd February 2009) will facilitate the market determination of exchange rate. This increasing flexibility in the exchange rate will help in absorbing the impacts of evolving external shocks and overall augurs well for the economy. Despite this flexibility in the nominal exchange rate, higher domestic inflation relative to the prevailing inflation in the trading partners has resulted in an appreciation of the rupee in real terms. On cumulative basis, the Real Effective Exchange Rate (REER) index has appreciated by 1.2 percent during H1-FY09.

### **Foreign Exchange Reserves**

27. **Foreign Exchange Reserves** declined substantially in the initial months of FY09 dropping from \$11.4 billion at end-June 2008 to a low of \$6.4 billion by November 25, 2008. The hemorrhaging of the foreign exchange reserves was arrested following inflow of US \$ 43.1 billion after concluding Stand-By Arrangements with the IMF. The foreign exchange reserves stood at \$10.2 billion on January 23, 2009. The import coverage ratio declined to an uncomfortable level of 9 weeks as of end-October 2008 from 17 weeks of imports as of end-June 2008 but improved to 14 weeks of imports by end-December 2008.

### **External Debt and Liabilities**

28. *External debt and liabilities (EDL)* at the end of December 2008 stood \$ 50.850 billion, an increase of \$ 4.566 billion from end-June 2008 stock of US\$ 46.284 billion. The EDL stock has increased by 9.9 percent.

### *Foreign Economic Assistance*

29. The commitment and disbursements of foreign economic assistance during July-September 2008 were as follows:

30.

(US \$ Million)

Particular	Grants	Loans	Total
Commitments	298.56	711.03	1009.60
Disbursements	64.50	715.00	779.50

## CONCLUSION

30. **The precarious and unsustainable** balance of payment position and heavy reliance of the government on borrowings from the SBP remained the major sources of macroeconomic instability in the **initial months of FY2009**. High international commodity prices, global financial crisis, and slowing economic growth worldwide aggravated the domestic vulnerabilities. Nevertheless, **it is comforting to see that the extent of risks and vulnerabilities is moderating following the implementation of Economic Stabilization Program and IMF SBA**. Factors such as the vulnerability of the external sector due to high oil and other commodity prices; anticipated weakness in workers' remittances due to speculative sentiments; persistence of high imports and weak prospects of foreign investment have all moderated considerably owing to improvements related to each area. **International commodity prices, especially oil, has declined sharply; remittances have so far shown robust growth and imports are decelerating. The financial inflows which dried up during 2008 are likely to be restored with the macroeconomic stabilization program in place. On the fiscal front, the budget deficit is on decline and government borrowing has at least stopped ascending sharply.** Nevertheless, it would be naïve not to keep in view the newly emerging risks and challenges.

31. **The global economic environment** has begun to change in a manner that has both favorable and adverse repercussions for the Pakistan economy. On the positive front, there has been a steep and noticeable fall in international commodity prices which is expected to reduce the import bill and moderate the rate of increase in inflation. Oil prices (WTI) fell from the highest level of \$133.93 per barrel in June 2008 and are currently hovering around \$40 per barrel. Similarly, wheat and rice

prices that peaked in March/April 2008 at \$439.7 per metric ton and \$1015 per metric ton have fallen to \$220.1 and \$550.8 in December 2008. Nevertheless, the global financial crisis has led to prospects of a prolonged and deep recession in major economies and a considerable deceleration in growth in emerging markets. The crisis has squeezed the ability, and more recently, the capacity (due to rising unemployment and defaults) of the households and businesses to obtain credit from an already strained financial system. The fallout of this global slowdown and credit crisis is likely to reduce the demand for exports of Pakistani products and supply of financial flows to Pakistan's economy. On the fiscal side, the risk of missing the full year target [revised] of tax revenues has increased in the wake of slowing economic activity which has necessitated aligning of expenditures with the resources, since otherwise a rise in fiscal deficit may increase the risks of inflationary SBP borrowing or the crowding out of private sector credit.

32. To conclude, the democratic Government is committed to follow through the Economic Stabilization Program and tackle the structural weakness for economic recovery and sustaining macroeconomic stability. The authorities have accelerated their efforts preparing a plan to deal with the circular debt; adopted an action plan comprising key reforms such as the integration of income tax and sales tax departments and replacement of the current general sales tax with a broad-based VAT; finalizing the modalities to reform social safety net [BISP] for devising an objective mechanism to target the poor households; and focusing on consolidation of development spending. The rolling-out of the Poverty Reduction Support Paper-II would help in mobilizing additional concessional assistance to support Pakistan.