EMBASSY OF PAKISTAN
ECONOMIC DIVISION

July 1, 2009

Macroeconomic Outlook for FY2010

The difficult economic and financial outlook globally suggests for continued forceful action both on the financial and macroeconomic policy fronts to create the conditions for a return to sustained growth. IMF views "greater international cooperation essential to avoid exacerbating cross-border strains. Building on the positive momentum created by the April G20 summit in London, coordination and collaboration is particularly important with respect to financial policies to avoid adverse international spillovers from national actions. Given the extent of the downturn and the limits to monetary policy action, fiscal policy must play a crucial part in providing short-term support to the global economy. Governments have acted to provide substantial stimulus in 2009, but it is now apparent that the effort will need to be at least sustained, if not increased, in 2010, and countries with fiscal room should stand ready to introduce new stimulus measures as needed to support the recovery. Growth is projected to reemerge in 2010, but at 1.9 percent it would be sluggish relative to past recoveries. These projections are based on an assessment that financial market stabilization will take longer than previously envisaged, even with strong efforts by policymakers. Thus, financial
conditions in the mature markets are projected to improve only slowly, as insolvency concerns are diminished by greater clarity over losses on bad assets

and injections of public capital, and counterparty risks and market volatility are reduced."

Source: World Economic Outlook April 2009

2. Given this global economic and financial outlook, macroeconomic outlook for Pakistan for FY2010 based on (i) declining inflation and fiscal deficit (ii) improving current account balance (iii) stabilizing security situation (iv) clarity in economic and social framework as enunciated in Nine Points Agenda of the government seems *positive conditioned on* mobilizing tax revenue, fixing the power sector and improving governance. It is anticipated that:

- *Real GDP* will grow by 3.3% to be contributed by sectoral growth rates of agriculture (3.8%), manufacturing (1.8%) and services (3.9%) against 2.0% in FY2009

- *Nominal Growth* is expected to be 13.2%

- *Prospects of economic growth in 2009-10* hinges crucially on the revival of the manufacturing sector, competitiveness of exports pursuing an appropriate interest and exchange rate policies and investment in skill development

- *Inflation* would be contained at 9.5% which will facilitate in adjusting the discount rate downward stimulating private sector borrowing and investment

- *Economy* has started showing some signs of recovery in the latter half of 2008-09. The lesson learnt is that fiscal adjustment should not be at the expense of development expenditure but through additional resource mobilization

- *Overall Fiscal Deficit (OFD)* for the year 2009-10 has been projected at Rs.722.6 billion or 4.9% of GDP. It includes Rs.50 billion (0.3% of GDP) on account of provision for relief, rehabilitation, reconstruction and security of IDPs which would be financed through external grants. The comparable level of OFD for 2009-10 would therefore be at the level of 4.6% of GDP

- *Net external financing* (loans and grants) for the year 2008-09 were estimated at Rs.165.2 billion. For 2009-10 it is projected at Rs.312.3 billion which includes Tokyo Pledges of US $ 2 billion

- *Non-bank Financing* for the year 2009-10 is estimated at Rs.246.3 billion. The main components of non bank financing are National Saving Schemes, receipts on account of Prize Bonds, Pakistan Investment Bonds and Sukuk Bonds receipts

- *Bank Financing* for 2009-10 has been budgeted at Rs.144.6 billion

- *Privatization Proceeds* for 2009-10 is expected at Rs.19.4 billion as the global capital markets recover from downturn

- *FBR Tax Receipts* during FY2010 are at Rs.1377.5 billion i.e. an increase of 16.8% over the revised estimates 2008-09. This comprises *direct taxes* of Rs.557.3 billion and *indirect taxes* of Rs.820.2 billion to attain 10.2% tax-to GDP ratio

- *Total federal expenditure* (current and development) for 2009-10 is estimated at Rs.2482.3 billion

- *Total debt servicing* for 2009-10 is estimated to be Rs.779.6 billion

- *Defence expenditure* for 2009-10 is Rs.342.9 billion, indicating an increase of 9.5% over revised estimates 2008-09

- *Total development expenditure* for the year 2009-10 has been budgeted at Rs.783.1 billion or 4.4% of GDP against Rs.516.6 billion budgeted and Rs.437.8

billion in the budget and revised estimates 2008-09 respectively. This show an increase of 79.0% over RE 2008-09 and more than 51.6% over BE 2008-09

- *Allocation for KANA and FATA* has also been increased from Rs.16 billion to Rs.25.5 billion for KANA and from Rs.8.7 billion to Rs.12.9 billion for FATA, an increase of 59.4% and 48.3% respectively

- *PSDP allocation for Balochistan* has been increased from Rs.42 billion to Rs.50 billion.

- *Other development expenditure* of the federal government is enhanced to Rs.157.1 billion (an increase of 102%). The allocation for 2009-10 is tabled below:

Other Development Expenditure

	Rs. Billion
Benazir Income Support Program	70
Internally Displaced Persons	50
Export Investment Support Fund	10
Venture Capital Fund	2.5
SME Development Support Fund	2.5