1. Growth, Saving and Investment

The Medium Term Development Framework (MTDF) 2005-10 has been conceived in the light of recent socio-economic performance of the country, continuing supportive public policies and challenges and opportunities emerging from the global economy. The targets of the year 2004-05 have been surpassed. The low growth trend experienced during 1990s has been reversed. Wide-ranging economic and financial reforms have made the economy open, liberalized and market friendly. As a result, private sector has begun to play an active role in shaping structural changes in the economy. The prospects of achieving higher rates of growth and exports in the post MFA regime of the WTO are brighter. Though stability in both internal and external finances has largely been achieved, its sustainability in the coming years may be viewed with cautious optimism. The availability of social and physical infrastructure, which currently is inadequate to meet the growing needs of the population and urbanization, will have to be enhanced. While focusing on programmes and reforms leading to reduction in poverty and unemployment, efforts have to be made to fairly distribute the benefits of growth across regions and sections of the society. Saving and investment levels though currently rising are still low and will have to be enhanced to achieve the projected growth targets.

1.1. Economic Performance in 2004-05

The growth rate of real GDP for 2004-05 has been estimated at 8.4 percent, which surpasses the target of 6.6 percent by a significant margin. This growth is contributed by 7.5 percent growth in agriculture, 15.4 percent in large-scale manufacturing and 7.9 percent in services sector. Total investment and national savings are estimated at Rs 1102.6 billion (16.8 percent of GDP) and Rs 988.0 billion (15.1 percent of GDP) respectively. The saving-investment gap to the extent of Rs 114.6 billion (around 1.7 percent of GDP) likely to be filled from external resources.

On the basis of impressive performance of major crops, which would surpass the target of 3.5 percent and are estimated to grow by 17.3 percent, it is anticipated that agriculture sector as a whole would also surpass the target of 4.0 percent and is estimated to grow by 7.5 percent. Wheat production was targeted at 20.80 million tonnes, whereas area was targeted at 8.29 million hectares. Wheat production is estimated at 21.1 million tonnes and sown area at 8.3 million hectares, depicting growth in production by 1.5 percent over the targets and 8.3 percent over the last year and an increase in area of 1.2 percent over the last year. The targets for cotton area and production were fixed respectively at 3.14 million hectares and 10.72 million bales. With a sowing area of 3.22 million hectares, there is a bumper crop with an estimated production of 14.6 million bales, bringing about a growth as high as 45.3 percent over the last year and 36.2 percent over the target. The other factor which helped boost agricultural output include favourable weather conditions reinforced by the policy measures such as higher support price, simplified credit policy, increasing availability of fertilizers and pesticides and improved water use efficiency.

In the large-scale manufacturing (LSM), the anticipated growth is 15.4 percent. The major industries showing higher growth are automobiles, tractors, cement, cotton cloth, caustic soda and tyres and tubes. The services sector as a whole is estimated to grow by 7.9 percent with a major contribution from the growth in finance and insurance (21.8 percent) and wholesale and retail trade (12.0 percent). The higher than targeted growth has resulted from high rates of capacity utilization in the manufacturing sector and on account of favourable weather for the agriculture sector.

The transition to the MTDF is characterized by a high growth rate, economic stability on a broad front, improved performance of the manufacturing sector and dynamic agriculture. However, manufacturing needs to be fully leveraged to gain competitiveness through further liberalization of industrial policy, a more market-based regulatory regime and an increased share of hi-tech and medium-tech industries which are the growth industries of the world. Further the existing concentration on production and export structures in the resource based industries needs to be reversed as their share is falling globally. Agriculture is still constrained by the neglect of the non-crop sector, inefficient technological development, failing extension services, sub-optimal use of water and poor marketing. The productivity of services sector is low and there are unbridled wastages. Labour lacks appropriate skills and productivity levels are low. The scientific, engineering and technical manpower is inadequate and R&D is in a bad state. The managerial and entrepreneurial capabilities are also inadequate to meet the growing needs of industry and business.

1.2. Prerequisites for Rapid and Sustainable Growth

An integrated approach to economic development with a stable and predictable policy and regulatory environment are prerequisites for rapid and sustainable growth. A responsive and resilient economic structure together with sound physical, technological and intellectual infrastructure, increased private savings and domestic and foreign investment are also necessary for rapid economic growth.

A harmonious and strong social fabric provides better law and order situation, which is one of the major determinants of domestic and foreign investment. The social fabric can be preserved by reducing regional disparity and wage disparity and by strengthening the middle class through increased income and employment opportunities. For that reason, major investment will have to be made in education with a focus on producing an educated, energetic and technologically equipped working class. The country has to move towards a knowledge-based economy.

1.3. MTDF 2005-10

The performance of the economy in 2004-05 is extraordinary, with a GDP growth rate of 8.4 percent. However, recurrence of such a high level of growth is unlikely next year. This growth emanated from fast growing agriculture sector, contributed by bumper cotton and wheat crops and manufacturing sector growing at a very fast pace. The performance of agriculture and manufacturing sectors is not likely to repeat itself. Production of cotton and wheat crops resulted from a combination of policy measures and extremely favourable weather conditions, a combination which is rare in occurrence. Similarly, in manufacturing sector, slack in capacity utilization has been picked up and the addition to capacity, the two drivers of growth, will accelerate growth in the manufacturing sector with a time lag. Further, due to inflationary pressures the economy is heating up and needs some slowing down. Realism, therefore, demands that the growth rate for the next year should be lower than that of this year. The GDP growth rate for 2005-06 is, therefore, placed at 7.0 percent. Once the reforms are entrenched and growth consolidated, the economy will enter high growth path during the period of MTDF.

The principal objective of the MTDF is to attain high growth of 8.2 percent by the terminal year 2009-10 with a sustained annual average growth of 7.6 percent during the five-year period without compromising macroeconomic stability. The second key objective is to achieve higher level of investment to meet the targeted growth and to effectively address the perennial issues of poverty reduction, employment generation, better access to basic necessities of life including quality education and skill development for upgrading the human resources, better health and environment for the common man. The third crucial objective is to attract foreign investment to a level required to become a fast growing economy like Malaysia. Last but not the least, the MTDF will focus on growth which is just and equitable.

1.4. Growth Strategy

The key elements of the MTDF strategy are as under:

i) In agriculture, not only crops but livestock and fisheries will also be developed where a substantial improvements in yields, product quality and market efficiency are required to meet the growing demand for domestic consumption and exports.

ii) In manufacturing, the production base would be expanded through the development of engineering goods, electronics, chemicals and other high technology-based and value added industries. Its share in GDP will be increased from 18.3 percent in 2004-05 to 21.9 percent in 2009-10.

iii) The social and physical infrastructure would be expanded by investing more in water, energy, education and health and encouraging private sector to move into these sectors.

iv) Adequate infrastructure and supply of trained and skilled manpower would be ensured to meet the requirements of a fast growing economy.

v) To generate employment and to reduce poverty, investment will be encouraged in agriculture and livestock, SMEs, housing and construction sectors.

vi) In the export sector, efforts will be made to increase the role of technology and improve comparative export sophistication.

vii) To encourage higher investment and savings, efforts would be made to provide the enabling environment to foster local and foreign investment and enhance both public and private savings.

The various elements of the growth strategy both at the sectoral level and with respect to investment and savings are discussed in the following paragraphs.

1.5. Sectoral Growth

With an average growth rate of 7.6 percent of real GDP targeted for the five-year period of MTDF, it is envisaged that it would be gradually rising from 7.0 percent in 2005-06 to 8.2 percent in the terminal year 2009-10. The agriculture sector is projected to attain a growth rate of 5.6 percent by the terminal year and on an average would grow at a rate of 5.2 percent per annum during the MTDF period. The livestock sub-sector, which is relatively more pro-poor, is projected to grow at the rate of 3.7 percent on the average during the MTDF period. The manufacturing sector is projected to grow at the average rate of 11.6 percent per annum. To achieve this growth target, the government would have to make all out efforts to further boost production in various sub-sectors like textiles, food and beverages, electronics, automobiles, chemicals (including fertilizers) and engineering goods. The services sector which consists of transport and communication, trade, banking and insurance, ownership of dwellings, public administration and defense and personal and community services is projected to grow from 6.8 percent in 2005-06 to 7.9 percent in 2009-10, giving an average growth rate of 7.3 percent per annum for the MTDF period.

The growth targets for the MTDF period are summarized in Table-1. The details of growth targets are given at Annex-I, and sectoral shares at Annex II. The main elements of the macroeconomic framework, generated by the Planning Commission's macroeconomic model, are given at Annex III and Annex IV.

Table 1
GDP and Sectoral Growth Rates

(Percentages)

Sectors	2004-05	2005-06 (Projections)	2009-10 (Projections)	Average 2005-10
GDP (fc)	**8.4**	**7.0**	**8.2**	**7.6**
Agriculture	7.5	4.8	5.6	5.2
Major Crops	17.3	6.6	7.4	7.0
Livestock	2.3	3.5	3.9	3.7
Manufacturing	12.5	11.0	12.2	11.6
Large-Scale	15.4	13.0	13.8	13.4
Services	7.9	6.8	7.9	7.3

To meet the average annual growth target of 5.2 percent in the agriculture sector, availability of improved seeds, fertilizers and credit will have to be ensured by (a) boosting the present level of certified seeds, (b) boosting the fertilizer off-take, (c) undertaking strong measures to reform irrigation and drainage system for increasing water availability, (d) utilizing fully the agriculture credit (both for development and production purposes) and (e) providing legal safeguards against adulteration of critical inputs such as fertilizers, pesticides and seeds. The research activities in bio-technology and genetic engineering will be strengthened to evolve disease-resistant and high-yielding crop varieties and special promotion programmes for wheat, oilseeds and pulses will be initiated to broaden the agricultural base and to reduce imports of these items. Greater emphasis will also be placed on livestock and fishery development. The commercial potential of livestock will be enhanced through breed improvements, higher milk yield, disease control, better marketing and insurance arrangements. In fisheries, post-harvest handling, new hatcheries, sea-food processing industry and quality control will accelerate growth in the sub-sector. At the same time, social forestry and energy plantations will be promoted in the private sector.

The growth targets for manufacturing sector have been fixed on the basis of the recent recovery and the impressive performance of the sector is expected to sustain itself and with further value addition and diversification, the share of manufacturing would increase from 18.25 percent of GDP during 2004-05 to about 21.9 percent of GDP by 2009-10. Since industrialization plays a crucial role in modernizing the economy and improving the balance of payments, the manufacturing sector would be strengthened to achieve the objective of export diversification. The emphasis would also be placed on the development of small and medium enterprises (SMEs) and this sector is expected to grow at an annual average rate of 7.8 percent during 2005-10.

The large-scale manufacturing is projected to grow at an annual average rate of 13.4 percent during 2005-10. The growth target would be achieved mainly through foreign investment and improvement in industrial productivity, which is of foremost significance for revitalization of growth and exports. To improve productivity, emphasis will be laid on the formation of cluster-based technology parks embodying research and development and human resource development (HRD). The growth of information technology and its contribution to the economy could only be achieved if the demands for IT-enabled services are accelerated. Basic metals such as iron and steel, copper, aluminum constitute a major portion of raw materials used by the local engineering industry. Iron and steel industry provides the essential base for the industrial economy whilst per capita steel consumption indicates the level of development of a country. This industry has direct impact on the development of both upstream and downstream industries. The enhancement of the domestic iron and steel production capacity will be a key thrust of industrial strategy.

Pakistan is rich in mineral resources. It has substantial deposits of iron ore, coal, copper and oil and gas. However, these deposits have not been fully tapped and utilized properly. Efforts will be made to provide appropriate infrastructure and set up plants for processing/enrichment of these mineral resources.

Due to strong linkages with the rest of the economy, the income multiplier of housing investment is very high. Higher investment in the housing sector has a great potential to foster growth and reduce unemployment. There is a backlog of 6 million housing units and the additional requirement during the MTDF period will be 3 million units. For the growth of housing and construction sector, various steps need to be taken such as (i) opening of new sectors in big cities, (ii) building new cities by establishing industrial estates, (iii) encouraging new housing schemes in the public sector and encouraging housing societies to facilitate mortgages, (iv) disposing off some of the government owned land in private commercial areas currently being used for less productive purposes, (v) enhancing the supply of institutional finance and developing long term fixed rate financing options, (vi) increasing the proportion of smaller plots for low-income group and (vii) supplying affordable credit for rural housing.

1.6. Services Sector

The services sector plays a vital role in sustaining the growth rate of Pakistan's economy. With a share of over 50 percent in GDP, it makes substantial contribution towards poverty alleviation and improvement of the living conditions of the common man. The MTDF broadly aims at achieving the following objectives for the development of services sector:

i) To sustain an average growth rate of 7.3 percent per annum in the combined output of services.

ii) To reduce the gap between receipts and payments of services in the balance of payments.

iii) To diversify the existing structure of output of services by inducing domestic and private investment in business, finance, information technology (IT) and foreign trade related services.

iv) To encourage private sector participation (exclusively or through public-private partnership) in areas still dominated by the public sector e.g. ports, roads, highways, mass transit, civil aviation, telecommunication, broadcasting, telecasting, health and education services.

v) To encourage and assist private sector in setting up specialized research establishments and training institutions to cater to the state of the art services both for domestic as well as foreign markets.

vi) To improve regulatory framework by encouraging individuals to form professional bodies/associations in areas of their interest.

vii) Standardization, recognition and accreditation of services institutions and facilities with international standards and bodies.

During the MTDF period 2005-10, the share of industry will rise and that of agriculture and services will decline mainly because of high industrial growth. However, the annual average growth of services will be 7.3 percent compared to the average growth of 6.0 percent during 2001-05. More important, the composition of services output is likely to change because of the inter-and intra-occupational movement of labour force on the one hand and consequential shifts in producers' demand on the other. Experience shows that during the process of socio-economic growth, various components of services react differently to the stimuli of development, which in turn, affect the composition of output and pattern of inter-sectoral demands for each other's outputs.

The key requisites for an economically vibrant services sector will be good infrastructure (information and communication technology, roads, etc), good communication skills and a clear understanding of how these tools can be harnessed. The physical focal points where all activities converge will be at the level of SMEs, which are the principal generators of employment and are also in most need of upgrading skills and internal processes.

Information and communication technologies (ICTs) are an important pillar of modern economic framework. An efficient, low cost, high band width and high availability system will help provide an important tool for exploiting a major paradigm shift of the twenty first century, i.e. the death of distance. The physical and national distances are now irrelevant to the process of analysis, decision-making, commerce, banking, manufacturing and designing.

Pakistan has seen an explosive growth in the ICT sector in the last few years. The number of mobile phones achieved their 2007 target two years earlier, and the recent deregulation of long distance international (LDI), wireless local loops (WLL) and other sections have served to provide faster, better and wide coverage, all at lower costs. Nearly 60,000 IT professionals are operating in the country with an annual turnover of Rs 12.0 billion (or $ 200 million) of which 15 percent is exported. New opportunities are opening up in electronic designing, call centers and tourism services.

For manufacturing related services, the type of companies/services which could be eligible for incentives are those providing the following value-added services:

i) Integrated logistic services comprising the entire supply chain management, including procurement of software and hardware, warehousing, distribution (transportation and freight services), packaging activities and customs clearance.
ii) Countries which set up regional headquarter (HQ) in Pakistan, with at least five countries under this HQ.
iii) Electronic Design Services (CAD, Microelectronics, WEB, Textiles).
iv) Back Office Operations: Electronic billing, Call Centres/agencies.
v) Digital Transformations/Arching (conversion of old drawings to digital, converting of paper archives to digital format, preservation of paper based national treasuries).

The factor productivity improvements generally arise from better management, skilled/trained manpower and efficient use of technology either imported or developed locally through R&D. It will be necessary to modernize all sectors of the economy and evolve technology specific to each sector. The skills formation will be a key ingredient of technology to be developed. The National Productivity Council has been accorded a pivotal role for productivity enhancement through its institutional strengthening. The tariff rationalization and export orientation are also expected to result in improved competitiveness and diversified comparative advantage through inter-sectoral linkages.

Tourism in Pakistan is still in early stages of development. The MTDF recognizes its importance not only as an economic venture, but also as a means of employment generation at the local level. Continuous improvements will be made in tourism products and services, marketing and promotion, infrastructure, institutional and regulatory framework. The MTDF projects tourist trade to grow at the rate of 10 percent per annum.

1.7. Investment and Savings

The growth rate of GDP depends on the level of investment, addition to the labour force, HRD and technological change. Traditionally, in projecting the growth rate of GDP, investment is considered to be the binding constraint. Depending upon the targeted growth rate, the level of investment is determined through the parameter of incremental capital output ratio (ICOR). The MTDF projections keep this in view, but are essentially the result of the Planning Commission's macromodel.

The ICOR for Pakistan on the average has been estimated at 3.9 from 1980-81 to 2002-03. However, this period consists of high growth rates of 1980s and low growth of 1990s, and it can be argued that it overstates the ICOR because during the 1990s, capital may not have been optimally utilized. The ICOR during the 1980s has been 3.5; the growth rate during the 1980s was 6.5 percent and the total factor productivity increased by 2.6 percentage points per annum. Over the last couple of years, growth rate has increased sharply. The ICOR declined to 2.5 in the 2003-04. In the past, underutilized capacity existed in the power, cement, automobiles, consumer durables and textiles industries and only recently high growth rate has been achieved due to better capacity utilization in these industries. Currently in power and automotive sectors, capacity has been fully utilized, whereas in the cement industry very little idle capacity exists. Nevertheless, there may still exist underutilized capacity in textiles and construction related input industries.

The ICOR can be brought down if the future growth is concentrated in the sectors with lower capital-output ratios and through factor productivity improvement. The capital output ratios are lower in agriculture, small-scale manufacturing, construction, wholesale and retail trade and services sectors. They are higher in mining and quarrying, electricity and gas, transport and large-scale manufacturing sectors. Since Pakistan is deficient in infrastructure and energy demand is expected to rise rapidly, the ICOR would tend to rise. Moreover, implementation of mega projects, whose output would come after a fairly long period, would tend to increase the ICOR. Even within large-scale manufacturing sector, chemicals and engineering industries which are more capital-intensive are expected to grow at a more rapid rate. Nevertheless, liberalization of the economy, second generation reforms and the promotion of micro, small and medium enterprises would help in improving the total factor productivity and reduce the magnitude of ICOR.

Against the background of the above factors, the ICOR in the next five years will be gradually rising from 1.85 in the benchmark year 2004-05 to 2.67 in the year 2005-06 and finally to 2.71 in the terminal year of the MTDF. The reduction in the value of ICOR in 2004-05 indicates the dominant role of the agriculture sector in determining the productivity of the capital and the growth rate not only for the agriculture sector but also for the entire economy. The exceptionally large growth in the agriculture sector as well as that of GDP for the year 2004-05 gives positive support to the possibilities of achieving lower value of ICOR.

The MTDF projects a rising growth rate for the agriculture sector from 4.8 percent in 2005-06, the first year of MTDF to 5.6 percent in the year 2009-10 with the comparatively lower level of investment required for the agriculture sector. This indicates that in juxtaposition to its historically maintained value, the ICOR would assume a lower value for the period of MTDF though this value would be rising every year by a small margin.

To achieve high GDP growth of 7.6 percent on average per annum during 2005-10, the required size of total investment would rise by 12.3 percent per annum from Rs 1102.6 billion (16.8 percent of GDP) in 2004-05 to Rs 1967.6 billion (20.7 percent of GDP) in 2009-10 at 2004-05 prices. The fixed investment would be raised by 12.7 percent per annum from Rs 999.3 billion (15.3 percent of GDP) to Rs 1815.7 billion (19.1 percent of GDP) in the terminal year of the MTDF. The public investment would be increased from Rs 286.2 billion (4.4 percent of GDP) to Rs 712.1 billion (7.5 percent of GDP), whereas the private sector investment would increase from Rs 713.1 billion (10.9 percent of GDP) to Rs 1103.6 billion (11.6 percent of GDP). About 65.2 percent of the fixed investment over the MTDF period would originate from the private sector, while the remaining 34.8 percent would be contributed by the public sector. The PSDP would increase rapidly by 24.2 percent per annum over the next five years.

For the desired level of investment, national savings would have to go up from Rs 988.0 billion (15.1 percent of GDP) in 2004-05 and to Rs 1739.5 billion (18.3 percent of GDP) by the end year of the MTDF. The cumulative investment for the MTDF period would be Rs 7951.9 billion (19.5 percent of GDP) which would be financed to the tune of 88.3 percent by national savings of Rs 7018.4 billion (17.2 percent of GDP). Higher level of national saving will entail reduction of consumption to GDP ratio from 86.8 percent in 2004-05 to 82.6 percent in 2009-10. The tax structure will also be reformed such that tax/GDP ratio would rise from 10.1 percent in 2004-05 to 11.4 percent in 2009-10. To bridge the savings-investment gap, Rs 933.5 billion (2.3 percent of GDP) will be required from external resources during the MTDF period. The details of year-wise investment and savings during MTDF are presented in Table-2 and at Annex IV.

Table 2
Savings and Investment at 2004-05 Prices

(Rs Billion)

Items	**2004-05**	**2005-06 Projections**	**2009-10 Projections**	**2005-10 (Total)**
Total Investment	1102.6	1257.4	1967.5	7951.9
Fixed Investment	999.3	1145.6	1815.7	7298.5
Public	286.2	356.2	712.1	2536.7
Private	713.1	789.5	1103.6	4761.8
External Resources	114.6	153.5	228.1	933.5
National Savings	988.0	1103.8	1739.5	7018.4
As % of GDPmp				**(Averages)**
Total Investment	16.8	18.0	20.7	19.5
Fixed Investment	15.3	16.4	19.1	17.9
Public	4.4	5.1	7.5	6.2
Private	10.9	11.3	11.6	11.7
External Resources	1.8	2.2	2.4	2.3
National Savings	15.1	15.8	18.3	17.2
NFI*	1.9	1.3	0.9	1.2
Domestic Savings	13.2	14.5	17.4	16.0

**Net Factor Income from Abroad*

It has been observed that the countries receiving a major share in the Foreign Direct Investment (FDI) are those which opened their trade and investment regime, maintained macroeconomic stability, had large domestic markets, a predictable institutional environment, markets free from excessive state control and developed physical and human infrastructure. In the race for attracting FDI, Pakistan lagged behind in the past due to macroeconomic instability, inconsistent economic policies, inadequate infrastructure and complex bureaucratic decision making processes.

Until recently, the level of FDI in Pakistan was very low. It was only $ 322.4 million in 2000-01, which reached a level of $ 798.0 million in 2002-03 and further to $ 949.4 million in 2003-04. The sectoral break-up reveals that transport, storage and communication, oil and gas, trade, textiles and petrochemical and petroleum refining are the major sectors which attract FDI. During 2004-05, the FDI is likely to rise to $ 1.1 billion. Textile sector is gradually increasing its share in the total FDI. The increased investment in this sector is the outcome of Balancing, Modernization and Replacement (BMR) being undertaken in view of the quota-free trade under WTO. The transport sector recently opened new avenues for FDI and the area of intra-city transport could capture larger investment from the Middle East investors.

In line with the strategy for containing the level of foreign debt, Pakistan has put in place a most liberal policy to attract non-debt creating foreign direct investment. Besides macroeconomic stability and wide-ranging structural reforms, Pakistan now has a robust financial system. However, the cost of doing business remains high due to bureaucratic hurdles and red-tapism resulting in higher transaction costs, high utility prices, multiplicity of taxes and their high rates. The legal and regulatory infrastructure also needs improvement. The MTDF proposes to deal with these problems in a decisive manner.

1.8. Strategy to Boost Savings

For achieving an average growth rate of 7.6 percent in the real GDP and to match 12.3 percent per annum growth envisaged in investment in the MTDF period, Pakistan is required to achieve a saving rate that is broadly in line with the investment requirements. The key issue in boosting national savings is to increase public savings through a strong tax reform programme, including financial liberalization, which would initiate a virtuous circle of a higher growth bringing about further increase in private savings, the most important component of which are household savings.

National savings comprise public and private domestic savings and net factor income from abroad. Public savings include savings by general government and savings by the public sector corporations/enterprises, and contain elements of both revenue and capital accounts of the budget and self-financing by public corporations/enterprises, banking/insurance companies in the public sector and local bodies. Private savings consist of corporate savings and household savings. Corporate savings are derived from balance sheets of joint stocks companies i.e. the sum of depreciation and retained earnings. The difference between private savings and corporate savings yields household savings.

The contribution of public savings in the national savings is negligible. Hence vigorous efforts are required to enhance the public savings by increasing tax revenue at the rate of 10.3 percent per annum in real terms. The rate of increase of current expenditure at 9.3 percent would be lower compared to an increase in total revenues of 10.5 percent over the MTDF period. Public savings would be increased by rationalizing the non-development expenditures, privatizing the state-owned enterprises (SOEs), improving the efficiency of public sector units, expanding the tax base by bringing more people under the tax net and improving the efficiency of tax administration.

To encourage private savings, the real interest rates would have to be positive. The bank spread (difference between borrowings and lending rates) is still high which needs to be reduced to a level compatible with the international standards. The innovative saving schemes and investment bonds would be introduced to mobilize resources. The corporate savings in Pakistan are also low because of small size of the corporate sector. The corporate business is built on equity shares (stocks), commercial law, civil courts system and capital markets – all of which require continuing reform. The corporate tax rate needs to be brought down. The increase in investment will generate its own savings, either through increase in output or through income redistribution in the long run. The improvement in infrastructure by the public sector would crowd in the private sector because it would reduce the initial cost of establishing an enterprise.

Further, the private savings would be increased through liberalization of financial markets, greater financial intermediation, controlling inflation, channeling resources from informal sector and floatation of new shares, bonds and short-term commercial papers for subscription in the capital markets.

The government and corporate sectors would be encouraged to improve their productivity. This is essential because factor productivity is low in all sectors of the economy. The consequence would be reduced expenditures and increased profits. The improved factor productivity would also significantly reduce the investment requirements without compromising growth.

The household savings can be developed through long-term saving instruments, such as pension schemes, life insurance, shares and mutual funds. A three-prong strategy would include pension systems built on mandatory but privately managed pension schemes, supported by a public minimum pension guarantee and voluntary individual retirement savings. The current provident funds system in Pakistan provides defined contribution plan only for about 6.0 percent of the labour force. This has to be raised by a significant margin.

The household savings would be promoted by motivating the masses to change their spending habits and through provision of incentives to save. The people have to be educated to keep their spending within affordable means at ceremonies such as marriages, funerals etc and to guide them to reduce the number of costly functions by making them simple and cheaper. There is also a need to educate the people to live within their means. Controlling the wasteful expenditure in the public sector would also impact positively on the household savings.

At present, the producers/sellers are enjoying the benefits of deregulated and free markets. They have created cartels and monopolies and are charging high prices from the public by adopting the unfair business practices. This leaves little surplus income with the middle and lower middle class to save. The government would develop an effective regulatory framework to govern the deregulated and free market economy and protect the consumer.

Around one-third of the population in Pakistan is hardly making both ends meet. They do not have enough income to save. They are living with negative savings. There is a need to increase the income of the people so that they could save out of the enhanced level of income. In this regard, investment will be made in employment and income generating projects/activities. The skill development of the workforce would be focused to enhance their income and market demand. In addition, emphasis would have to be laid on reducing the population growth.

Conclusion

During the MTDF period, the average growth rate of real GDP of 7.6 percent per annum will be achieved rising from 7.0 percent in the first year and culminating at 8.2 percent in the terminal year. This would be made possible by the higher public and private investment and the improved total factor productivity (TFP).

The private sector faced with challenges of liberalization and opening of the economy is bound to improve its competitiveness in domestic as well as in the foreign markets. To improve competitiveness in the manufacturing and services sectors, the private sector will have to enhance its productivity through the induction of modern and efficient technologies and improved management practices. The large PSDP spending on education and skill development, infrastructure and provision of support services would help enhance the efficiency and productivity of both private and public sectors. At the same time, the higher level of investment in agriculture in the form of human resource development, R&D, improved water availability through lining of canals and water courses, support services, infrastructure development and supporting policies would significantly contribute in raising the factor productivity of agriculture sector. The private sector dynamism and the government resolve to play the role of a facilitator for private sector by providing a conducive, knowledge-based and supportive environment would greatly help achieve the investment and growth targets specified in the MTDF 2005-10. During this period, the emphasis is on consolidating the gains of growth and to institutionalize it in the range of 7-8 percent.