



Pakistan
Young Leaders'
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Finance



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Ahsan Abdullah and Awais Sher Bajwa

Introduction

This paper is prepared for the delegates of the Finance Committee of the Pakistan Young Leaders Conference 2010 at Oxford (“the Conference”). The purpose of this paper is to facilitate the delegates of the Conference having an objective/focus to their research on the areas set out below. It will be expected of the delegates that they will come at the Conference prepared for their viewpoints to be challenged by other delegates – a process which will enable the Finance Committee to arrange proposals for further discussion at the Young Leaders Conference 2010 at Islamabad in February 2010.

Topic 1 – Managing Current Resources

Pakistan’s economic fundamentals continued to gain traction in the wake of sound economic policies and on-going structural reforms during the first seven years (2000-07) of the current decade. Such performance not only put Pakistan on the radar screen of global investors but also helped it achieve the status of one of the fastest growing economies in the Asian region. With economic growth averaging seven per cent per annum for most of this period, Pakistan succeeded in reducing poverty by half; the private sector remained buoyant; industry, exports and imports grew at higher double-digit levels; the country’s debt burden reduced to half; foreign exchange reserves remained at a comfortable level and provided stability to the exchange rate; foreign investors exhibited greater confidence in economic management; Pakistan exited from the IMF programme and re-entered the international capital and equity markets.

Pakistan’s macroeconomic environment deteriorated dramatically in 2007-08 when many cataclysmic events unfolded on the domestic and external scene in an uninterrupted fashion. Heightened political tension and deteriorating security environment on the domestic front, and an unprecedented rise in oil, food and other commodity prices along with global financial turmoil on the external front adversely affected performance. The absence of effective policy response to address these large domestic and external shocks further accentuated the macroeconomic difficulties.

By the end of 2007-08, Pakistan was facing four major challenges:

- Deceleration in growth,
- Rising inflation,
- Large fiscal and current account deficits, and
- Rapidly depleting foreign exchange reserves.

In line with the IMF programme, Pakistan pursued tight fiscal and monetary policies in 2008-09 with a view to reducing macroeconomic imbalances. These policies paid off handsome dividends as fiscal and current account deficits reduced from 7.5 per cent and 8.3 per cent of GDP respectively a year ago to 5.2 per cent and 5.6 per cent. Inflationary pressure also eased somewhat.

Prudence demanded that Pakistan should have continued with the same policy stance in the current year (2009-10) as well. Tight macroeconomic policies were needed in the year 2009-10 to consolidate gains on macroeconomic front. It appears that the government has lost its patience and embarked on an expansionary fiscal policy and a relatively easy monetary policy with a view to reviving economic growth, creating employment opportunities and reducing poverty.

Some questions that the delegates may wish to consider:

- Does the current policy stance seem viable in the face of high fiscal and current account deficits on one hand and rising trend in the international price of oil on the other?
- Why has Pakistan undertaken such a massive spending based on uncertain external flows and unprecedented borrowing?
- The IMF has allowed its resources to be used for budgetary instead of balance of payments support – this is a major departure from the past. What would have instigated this strange behaviour from the IMF and its likely impact on the future of Pakistan’s macroeconomic situation?

Topic 2 – Unemployment, Poverty & Vicious circle

Areas of interest would be:

- Effectiveness of Micro-Finance schemes (Grameen Model) to break vicious circle of poverty.
- Rural development schemes.
- Technical training institutes so as to train labour/idea about Human Resource Development.
- Educational institutes with scholarships/grants and exposure to the training/skills required for tertiary sector jobs.