Medium Term Development Framework (MTDF) 2005-10

The National Economic Council at its meeting held on May 27, 2005 approved the Annual Plan 2005-06 and authorized the Planning Commission to release it at the time of presentation of the Federal Budget. The Plan covers the 1st Year of Medium Term Development Framework (MTDF) 2005-10. It comprises Growth, Saving and Investment, Balance of Payments, Fiscal and Monetary Development, Poverty Reduction and Human Development and main features of PSDP and Sectoral Programmes. It is in line with the Government's agenda, priority and programmes highlighted in the MTDF. This agenda marks a paradigm shift towards the knowledge economy through an integrated approach. Financial and physical review of Annual Plan 2004-05 and projections and prospects for the year 2005-06 are given as follows:

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 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.

Growth Strategy:

The key elements of the MTDF strategy are as under:

(a) 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.

(b) 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.

(c) 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.

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

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

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

(g) 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.

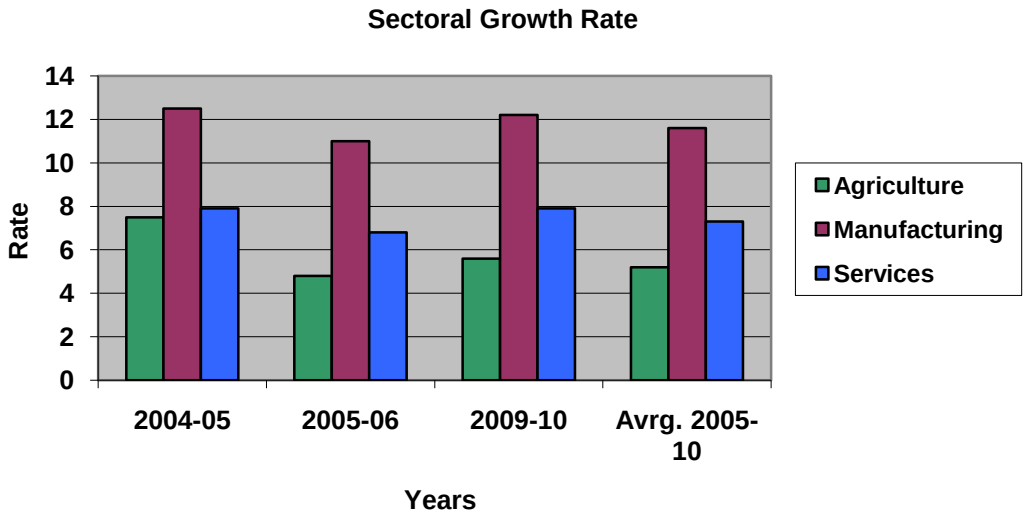
Sectoral Growth:

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 manufacturing sector is projected to row 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 defence and personal and community services is projected to row 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.

GDP and Sectoral Growth Rates

(Percentage)

Sectors	2004-05	2005-06 (Projections)	2009-10 (Projections)	Average 2005-10
GDP	8.4	7.0	8.2	7.6
Agriculture	7.5	4.8	5.6	5.2
Manufacturing	12.5	11.0	12.2	11.6
Services	7.9	6.8	7.9	7.3



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 macro model.

The ICOR for Pakistan on the average has been estimated at 3.9 from 1980-81 to 2002-03. 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, under-utilised 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. Current y in power and automotive sectors, capacity has been fu y utilized, whereas in the cement industry very little idle capacity exists. Nevertheless, there may still exist under-utilised 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 as, 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.

Services Sector:

The services sector is projected to attain growth rates from 6.6 percent in 2005-06 to 7.4 percent in 2009-10, with an average growth rate of 6.9 percent during the period 2005-10. Within the services sector, its various sub-sectors, like transport, storage and communications would grow from 6.4 percent in 2005-06 to 6.8 percent in 2009-10 with an average growth of 6.4 percent during 2005-10. Similarly, the other sub-sectors including wholesale and retail trade, finance and insurance, ownership of dwellings, public administration defence, and community and social services on the average during 2005-10 are expected to grow by 8.6 percent, 5.4 percent, 4.6 percent, 6.3 percent and 5.1 percent respectively.

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:

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

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

(c) 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.

(d) 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.

(e) 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.

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

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

Balance of Payments:

For MTDF, exports (gross) are projected to increase from US$ 14,050 million in 2004-05 to US$ 28,125 million in 2009-10 at an annual compound growth rate of 14.9 percent. Imports (c&f) are projected to increase from $ 19,291 million in

2004-05 to $ 36,491 million in 2009-10 at an annual compound growth rate of 13.6%. The deficit trade balance is projected to increase from $ 3,555 million in 2004-05 to $ 5,211 million in 2009-10.

Investment Requirements in Pakistan:

To sustain a average GDP growth of 7.4 percent per annum during 2005-10, the investment level will have to be raised from 19.7 percent in 2004-05 to 25.6 percent of GDP in 2009-10. To support higher levels of investment, the ratio of fixed investment to GDP would have to rise from 18.1 percent in 2004-05 to 24.2 percent in 2009-10. For this purpose the level of investment in private sector would be raised from 13.5 percent of GDP in 2004-05 to 16.5 percent during 2009-10. The public sector investment would increase from 4.6 percent of GDP in 2004-05 to 7.7 percent in 2009-10. The investment requirements for the plan period are summarized in Table I:

Investment Requirements
(As percent of GDP)

	2005-06 Targets	**2009-10 Projections**
Total investment	21.5	26.0
Fixed investment	19.4	24.3
Public	5.9	6.8
Private	13.5	17.5

Public Sector Development Programme:

Public spending on major infrastructure and goals will be as follows:

Public Sector Development Programme

(All figures in Rs. billion)

Sector	**2005-06**	**2009-10**
Water resources	48.9	47.7
Transport & communications	47.9	79.5
Power	20.5	183.2
Fuel	0.6	1.0
Education & vocational training	16.3	33.8
Higher education	12.2	29.5
Information technology	4.6	6.3
Science & technology	3.9	17.6
Health & nutrition	14.4	21.6
Environment	4.3	7.1
Culture, sports, tourism and youth	1.3	2.1
Khushal Pakistan Programme I	4.4	4.4
Khushal Pakistan Programme II	7.5	3.6
Local / District Government	7.4	17.4
Federal and provincial spending on agriculture & livestock	4.4	15.0

Agriculture Development:

Following are the targets for production of different crops:

(All figures in 000' tonnes)

Items	Targets	
	2005-06	**2009-10**
Grains:		
Wheat	22139	25436
Rice	5000	6371
Maize	2905	3457
Other Cereals	621	713
Cash Crops:		
Cotton (Lint)	2560	2892
Sugarcane	50095	56716
Tobacco	90	90
Pulses:		
Gram	833	1067
Others	314	494
Oilseeds:		
Cottonseed	5120	5783
Rape & Mustard & Canola	240	503
Sunflower	575	1006
Others	159	201
Vegetables:		
Potato	2001	2527
Onion	1943	2361
Other Vegetables	3559	5116
Fruits	6570	9445

Export Development:

Following are the targets for export during the MTDF 2005-10:

Export Projections for 2005-10

(All figures in US$ million)

Commodities	Targets				
	2005-06	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Textile & Garments:					
Raw cotton	55	50	45	40	35
Yarn	1323	1389	1459	1532	1608
Fabrics	2103	2270	2450	2644	2853
Garments	2819	3095	3400	3735	4104
Madeups	517	569	626	688	757
Bed wear	1809	2080	2392	2751	3164
Towels	528	634	760	912	1095
Tents & canvas	84	88	93	97	102
Arts silk & syn. tex	556	595	637	682	729

Other textiles	80	80	80	80	80
Other Core Categories:					
Rice	701	739	780	824	870
Leather goods	878	975	1085	1208	1347
Sports goods	362	387	414	443	474
Wool raw / Carpets	252	262	272	283	294
Surgical instruments	159	169	179	189	201
Petroleum products	362	417	479	551	634
Molasses	51	55	57	59	60
Developmental Categories:					
Fish & fish preparations	193	212	233	256	282
Fruits & vegetables	163	179	197	217	238
Chemicals (incl. Pharma)	390	507	659	857	1114
Engineering goods	231	324	457	647	920
Marble & granite	22	24	27	29	32
Gems & jewellery	41	48	57	67	79
I.T. Services	50	63	78	98	122
Meat & meat preparations	23	26	30	35	40
Poultry	9	12	15	20	26
Others:					
Guar & guar products	26	28	29	30	32
Cement	48	56	64	73	84
Sugar	42	42	42	42	42
Oil seeds	18	22	26	31	37
Handicrafts	22	24	27	29	32
Tobacco	22	24	27	29	32
Spices	27	29	31	33	35
Other categories	1697	2338	3311	4673	6525