

Inaugural Address

SHAUKAT AZIZ

It is a matter of privilege and pleasure for me to attend this annual Conference of the Pakistan Society of Development Economists. Over the past years this gathering has turned into a regular event providing a unique opportunity to scholars, economists and social scientists to deliberate on issues of national and international significance. The participation of eminent scholars and experts from within and outside the country and the large number of papers on various topics to be presented during its four-day deliberations signify the importance of the Conference and augurs well for its success. I feel that in addition to offering a platform for academic and professional interaction, the Conference can also be used for putting forward specific recommendations that may be considered by the government in formulating its policies.

The theme of the Conference, namely “**Governance and Development**”, is critical and timely. It implies that the issue of governance is not only significant in its own right but also has a direct and close bearing on development issues. Experience in Pakistan and elsewhere shows that neglecting the issue of governance and management has severely impaired economic growth and contributed to social and political malaise. It is a happy coincidence that this theme is also occupying a high position in the agenda of the present Government. You may recall that in his address to the nation on 17th October, the Chief Executive, General Pervez Musharraf, has identified good governance as the pre-requisite to achieving the seven aims and objectives that the government has set before it. This seven point agenda, includes the revival of the economy, restoration of investors’ confidence and ensuring swift and across the board accountability.

This Conference is being held at a critical point of time. Some three weeks ago the new government has assumed office under unusual and grave circumstances, with determination to bring about a change for the better. On this occasion I will desist from dilating on the state of the economy and the conditions under which the present Government had to assume office. This august gathering is well aware of the poor and

Shaukat Aziz is Federal Minister of Finance and Economic Affairs, Islamabad.

mismanaged state of the economy, loss of credibility and shattered confidence. One of the critical tasks before our government thus is to attain macro economic stability, rebuild business confidence and accelerate economic growth. In this context it is also important to recover the looted wealth. The government has laid down policy guidelines on the basis of which specific actions have since been initiated. These measures are being visualised in a comprehensive and integrated framework and within short and medium term dimensions. Let me dilate on them briefly.

Accountability is a critical element of good governance. Initiation of the process of impartial, transparent and judicious accountability is high on our agenda. This process is especially directed towards those persons who are guilty of plundering the national wealth and are evaders of taxes. A final date of 16th November has been set for the settlement of defaulted loans and for the recovery of outstanding dues voluntarily; after which stern action will be taken against them. I would like to assure you that the whole process will be undertaken in a non-discriminatory, transparent and judicious fashion. It will not be selective and will not be used as a means of victimisation or persecution. We hope that the people concerned will cooperate in settling this matter which also has deep implications for the financial and fiscal health of the economy.

Another immediate task before us is to rebuild business confidence and ensure macro-economic stability. For this purpose we are visualising a number of steps. Quantifiable parameters are being set for main macro economic indicators such as inflation, money supply, foreign exchange reserves, revenues, expenditure and domestic output (in particular large scale manufacturing). These parameters will be monitored on a monthly basis. Steps are being taken to resolve those issues expeditiously which have caused a serious setback to investors' confidence, such as the issue of IPPs. Inconsistent and conflicting policies and policy statements is a sad experience of recent past. Existing economic and social policies are being reviewed with a view to removing inconsistency, ensuring transparency and restoring business confidence. In this context we will be guided primarily by economic fundamentals and national interests.

An area of deep concern for the domestic economic and social development as well as viability of the external sector is the low rate of national savings. It is an acknowledged fact that with a domestic savings rate of 12 to 14 percent of GNP, no country can achieve a sustained reasonable rate of economic growth as well as cater for social services adequately. Moreover, the persistent wide gap between investment and national savings has resulted in mounting debt burden, equal almost to the national income. We therefore intend to address this issue seriously. Among the measures contemplated include:

- (i) reduce fiscal deficit and contain non-development expenditure;
- (ii) accelerate economic activity and stabilise stock market thereby raising prospects of profits and savings in the corporate sector;

- (iii) take specific steps for promoting household savings;
- (iv) ensure economic and exchange rate stability to encourage home remittances;
- (v) accelerate economic growth and take such actions as would induce the people to save a major share of their incremental income;
- (vi) restructure public sector enterprises to improve their financial position; and
- (vii) improve the incentive package for attracting foreign direct investment and investment by overseas Pakistanis.

These measures will be formulated in a medium term setting.

Fiscal discipline and reduction in budget deficit is a part of stabilisation process and medium term programme of structural changes. A package of tax reforms is under implementation. In addition to raising tax revenues, it emphasises wide ranging GST, rationalisation of customs duties and shift from indirect to direct taxes. We have reviewed this package with stress on broadening the tax base, improving tax collection, reducing corruption and tax evasion and making the system simple and transparent. On the expenditure side, austerity measures will be strengthened and wasteful expenditure avoided. We will, however, ensure that development and essential allocations are protected.

It is a matter of concern that the economic growth rate in Pakistan has slowed down in recent years. An urgent task before us therefore is to revive economic growth. The issue is being addressed both in the short term and medium term frameworks. In the short term, the emphasis is on optimal utilisation of existing productive capacity. In the medium term, the attention will be focussed on accelerating investment in productive sectors as well as in human capital and physical infrastructure. The immediate task before us is to raise the growth rate from the level of 3.1 percent of last year to over 5 percent this year. In this context our attention is focussed on the key sectors of agriculture and manufacturing. Measures for boosting agricultural production are being strengthened. The support price for the next wheat crop has been raised to ensure better return to the farmers and problems relating to the current cotton crop have been resolved. The government is taking special measures to ensure availability of essential inputs like credit, water, seed, fertilisers and pesticides to the farmers to ensure a growth rate of over 4.5 percent in this sector. In the manufacturing sector the current emphasis is on optimal utilisation of the existing capacity with a view to realising a growth rate of 5.8 percent in this sector.

The external sector of Pakistan's economy continues to be weak and vulnerable. Persistent high level of external deficit and heavy reliance on external resources has subjected the economy to outside pressures. It is unfortunate that our exports have stagnated for the past few years while home remittances have declined. Our efforts are therefore directed towards reviving exports and home remittances, improving the balance of payments, attracting foreign direct investment and stabilising the exchange rate. We intend to do it not by adopting control measures but

by following market oriented policies attuned to meeting the challenges of globalisation.

Notwithstanding these economic issues, other daunting challenges before the nation today are the high and rising level of poverty, widening income and wealth disparity, low state of human indicators and rising unemployment. More than a quarter of our people are reported to be living below the poverty line. More than half of the population is unable to read and write. Education, health, sanitation and sewerage facilities are not only inadequate but the quality of these services is deplorable. Similar is the situation of physical infrastructure. These sectors not only need massive investment but urgent attention for upgradation of their quality and efficiency. The conditions of government departments and public enterprises are no better. They are also in need of urgent reforms.

I have attempted to highlight some critical issues facing the nation. The task ahead is daunting, complex and challenging. It not only needs good policies but dedication, sacrifices, honest hardwork and a high quality of governance at all levels. The government has made a modest yet right and determined beginning with sincerity of purpose. Our objectives include economic and social well being of the people, peace and stability and a respectable position for Pakistan in the comity of nations. We share the Quaid's vision of a just, prosperous and progressive Pakistan and, with the grace of Almighty Allah, are determined to work for the realisation of this vision.

With these words I have the pleasure to inaugurate this Conference. I wish you all success in your deliberations.