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INTERNATIONAL DEVELOPMENT ASSOCIATION

ECONOMIC DEVELOPMENT

OF

PAKISTAN

VOLUME I

MAIN REPORT

April 26, 1965

South Asia Department

CURRENCY EQUIVALENTS

4.762 rupees	=	U.S. $1.00
1 rupee	=	U.S. $0.21
1 million rupees	=	U.S. $210,000
1 billion rupees	=	U.S. $210 million
1 crore rupees	=	10 million rupees U.S. $2.1 million

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MEMORANDUM ON RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS IN PAKISTAN

Introduction

1. A report entitled "The Economic Development of Pakistan" (AS-109, April 26, 1965), was circulated to the Executive Directors on April 29, 1965. It contained an evaluation of achievements of the Second Five-Year Plan (1960-1965) and an appraisal of the proposed Third Five-Year Plan (1965-1970). This memorandum gives an account of more recent developments in the economic field, in particular those arising from the hostilities between India and Pakistan.

2. During 1964/65 the economy grew by 4.8 per cent and the prospects are that a similar rate of growth may be achieved in 1965/66. This is possible because of the exceptionally good outlook for agricultural production. However, such a rate is well below the growth target of 6.5 per cent per annum for the whole Third Plan.

General Economic Effect of Hostilities

3. The physical damage to productive facilities during recent hostilities with India is reported to have been limited. However, of serious consequence for the development effort have been the disruption of the flow of foreign aid, the diversion of public funds and of foreign exchange reserves to defense, and the loss of momentum resulting from the slowing down of economic activities in the private sector. The hostilities have also disrupted international shipping to Pakistan, delaying the export of the current jute and cotton crops. No shortages of critical supplies developed during the hostilities nor did it become necessary to introduce rationing of foodgrains or price controls or other administrative controls over production and distribution.

Changes in the 1965/66 Budget and Development Program

4. The Minister of Finance, in presenting the Budget of the Central Government to the National Assembly on June 14, announced that it was the intention of the Pakistan Government to implement the Third Five-Year Plan only within the framework of monetary stability and that the 1965/66 annual development program had been formulated in conformity with the Third Plan. Although the Plan's phasing would have required budgeting for Rs. 4,700 million for the public sector, the 1965/66 annual development plan was established at Rs. 4,460 million.

5. Early in October a number of fiscal measures were announced to strengthen incentives for private investment. At the end of October the Government announced a reduction amounting to about 23 per cent in proposed expenditure for the 1965/66 development program. The revised total of Rs. 3,420 million is referred to as the "Hard Core Development Program". The reduction in the development appropriation was attributed to a loss of revenue receipts owing to the hostilities, the slowdown in expected arrivals of foreign aid goods, and the increase in planned expenditure for defense.

6. On November 22 the Finance Minister introduced into the National Assembly a Supplementary Finance Bill. He stated that there would be a reduction of non-development expenditures of the Central and Provincial Governments estimated at Rs. 150 million and announced some new taxation proposals. Those proposals took the form of a defense surcharge of 25 per cent on the existing rates of sales tax, import duties (except on machinery) and excise duties on petroleum products. The net savings arising from (a) the reductions in budgeted development and non-development expenditures, after taking account of the loss of revenues and of receipts from foreign aid, and (b) the revenue from additional taxes (estimated at Rs. 295 million), plus (c) the bulk of the existing provision of Rs. 350 million for contingencies, will all be used for defense. In addition, the Government is raising some funds by voluntary contributions to a Defense Fund and the sale of Defense Bonds. However, no estimate of the comprehensive additional defense expenditures has been given. In the fiscal year ending June 30, 1965, expenditures on defense services amounted to Rs. 1321 million and Rs. 1361 million was originally budgeted for this purpose for 1965/66.

Monetary Policy

7. Because of the inflationary dangers apparent at the beginning of 1965, in January the State Bank had tightened credit controls. After registering a nominal increase of only about Rs. 30 million in the first six months of 1965, the money supply declined by about Rs. 290 million from July 1 to September 30. In October, because of the possibility of deflationary tendencies emerging in the economy, and with the intention of reviving normal economic activity, credit restrictions were eased. This change consisted of a lowering of the statutory cash reserve ratio of commercial banks, the elimination of the quota system which was designed to limit Central Bank advances to the commercial banks, and the reduction of margin requirements on loans for imports and for inventory financing.

Import Liberalization Program

8. The import liberalization program, started early in 1964, was modified on October 2, 1965. While the principle of a Free (unlicensed) List is retained, the number of items on the List was reduced from 56 to 31. The import liberalization program was developed on the assumption of foreign assistance being received in the form of non-project aid, and with the prospect of its severe reduction it has been necessary for Pakistan to eliminate some of the items previously allowed to be imported on the Free List. There was also some tightening of restrictions on all other imports.

These measures have been taken because of the decline in foreign exchange reserves which fell by about a quarter from July 1, 1964, to September 30, 1965. A further loss of reserves was experienced in October.

Prospects for the Third Plan

9. The reduction of the 1965/66 annual development program, referred to above, indicates that public sector development expenditures this year will be below the 1964/65 level. The revised annual development program attempts to ensure that there will be no significant reduction in productive schemes, particularly in agriculture, and that there will be no interruption in schemes where international commitments have already been made or where projects have a bearing on the export effort. The Government proposes to make a comprehensive review of the Third Plan in January 1966, and the Bank is planning to send an economic mission in February to make a review of economic conditions and the prospects for the Third Plan, by which time more information will be available and the Government's review of the Plan should have been completed. On the evidence available now, the recent hostilities have given only a limited setback to the economy; however, the extent to which the economy will recover its former buoyancy, following the measures outlined above, will depend on many factors, including the revival of confidence in the private sector and the availability of foreign exchange.

Consortium

10. At the Seventh Meeting of the Pakistan Consortium, Pakistan requested new aid commitments of $500 million for the year 1965/66. To date, Canada, Germany, Italy and Japan have informed Pakistan of the financial assistance they propose to make available for 1965/66. The amounts are as follows: Canada $25.5 million compared with $23.6 million in 1964/65, Germany $38.1 million (unchanged), Italy $20 million compared with $10 million in the previous fiscal year, and Japan $30 million (unchanged). The United Kingdom, France and the Netherlands are also making new aid available but have not made any formal pledges.

South Asia Department

December 30, 1965

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BASIC STATISTICS

Area:	365,529 square miles
West Pakistan	310,403 square miles
East Pakistan	55,126 square miles
Population: (1963/64 estimates)	109.6 million (300 per sq. mile)
West Pakistan	50.1 million (160 per sq. mile)
East Pakistan	59.5 million (1,070 per sq.mile)
Population Growth:	2.6 - 3 per cent

Political Status: Member of U.N., Commonwealth, CENTO, SEATO, RCD.

Gross National Product (1963/64): (constant prices)		U.S. $9,025.2 million
Rate of Growth	1959/60 - 1964/65	5.2 per cent per annum
	1962/63 - 1963/64	7.5 per cent
Per capita GNP in	1963/64	U.S. $83

Gross Domestic Product at Factor Cost (1963/64) U.S. $8,624.0 million

Of which, in per cent,

	1959/60	1963/64
Agriculture fishing forestry	53.7	50.1
Mining and quarrying	2.2	2.8
Manufacturing	9.6	10.5
Other economic sectors	30.3	32.3
Public administration, defense	4.2	4.3

Per Cent of GDP at Market Prices

	1963/64	Average 1959/60-1963/64	Projected 1969/70
Gross investment	16.9	13.1	19.3
Gross savings	10.2	8.3	14.1
Balance of payments current account deficit	6.9	4.9	6.0
Investment income payments	0.2	0.1	0.8
Government taxation receipts	8.0	7.1	10.2
Government current revenue	11.1	9.4	12.9

Resource gap as Per Cent of Investment

1963/64	39.1 per cent
Average 1960/61-1964/65	38.8 per cent
Projected 1965/66-1969/70	34.4 per cent

Money and credit

Conversion	1 Pak. Rupee = $.21 1 dollar = 4.76 Pak. rupees

Relationship to large monetary or customs area: rate pegged to pound sterling

(Rs. million)	1963/64	Per cent change June '60-June '65 3/
Total money supply	7,988.7	53.4
Time and savings deposits	2,432.1	231.1
Commercial bank credit to private sector	702.0 1/	...
Rate of change in prices	6 - 8 per cent 2/	7 4/

1/ 1962/63 2/ Calendar year 1964 3/ Planning Commission's estimates for 1964/65
4/ IMF Cost of Living Index

Public Sector Operations (Rs. million)

	1960/61	1963/64	Per Cent Change
Govn't revenue receipts	3,197 1/	4,797	50
Govn't non-development expenditures	2,776	3,979	43
Revenue surplus	421	818	94
Govn't development expenditures 2/	1,894	3,500	85
Public investment expenditures 2/	1,823	3,131	72
External assistance to public sector	1,023	1,634	60
Of which Commodity aid	481	788	64
PL 480	160	500	212
Project and Tech. Assist.	382	646	69

1/ Excluding customs on commodity aid. 2/ Excluding Indus.

External Public Debt (In thousands of US dollar equivalents)

	June 30, 1964
Total external public debt	1,341,255
Net of undisbursed	624,760
Total annual debt service (1964/65)	64,012
Of which amortization	41,066
interest	22,949
Debt service ratio	10 per cent

IMF Position - Drawings Outstanding $16 million (gold tranche)

Balance of payments (Rs million)

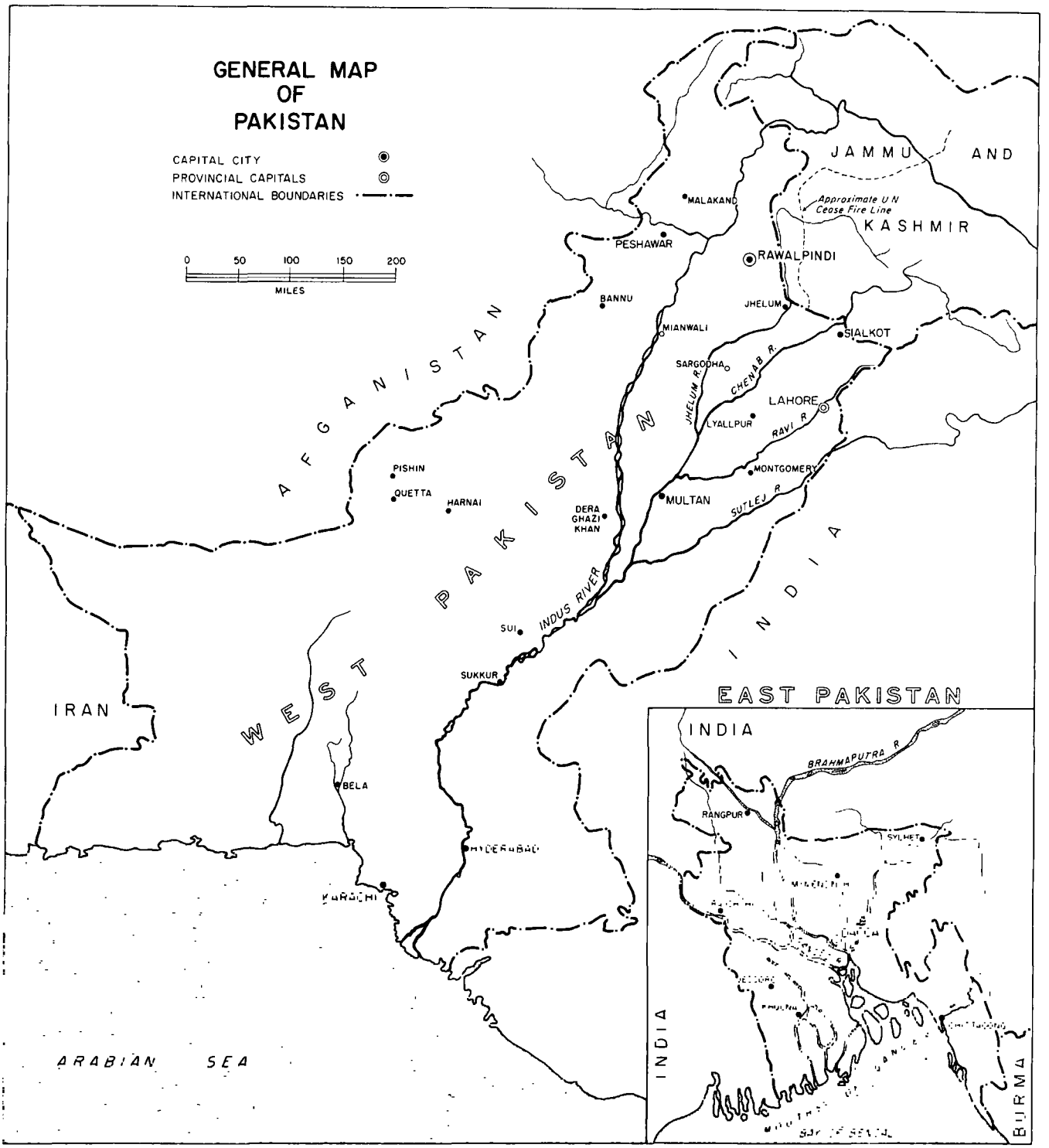
	1963/64	Per cent change 60/61 - 64/65 2/
Total exports merchandise	2271	
Invisibles	514	
Total exports earnings	2785	33.4
Total imports FOB	4840	
Invisibles 1/	1093	
Total imports	5933	81.6
Current account balance 1/	3148	152.0
of which amortization payments	169	

1/ including amortization payments of official debt;
2/ Planning Commission's estimates for 1964/65

	1963/64	Average 59/60-63/64
Commodity concentration of exports (raw jute and raw cotton)	53.8 per cent	54.4 per cent
Gross foreign exchange reserves (Rs.million)*	1,506.9 1/ (or 3 months of imports)	1,456.7 2/ (or 3 months of imports)

1/ December 1964; 2/ December of each year

* These figures do not include IMF Gold tranche, which the Government of Pakistan does not use to compute the ratio of reserves to currency in circulation.



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SUMMARY AND CONCLUSIONS

i. This report assesses the progress of the Second Five-Year Plan (1960/61-1964/65) and examines the general framework of the Third Plan (1965/66-1969/70).

The Second Plan

ii. The Second Plan has been a success. During the first four years of the Plan, a cumulative economic growth of 23 per cent was recorded as against an estimate for the five years of 24 per cent. The likely growth over the whole Plan is 28-29 per cent. Between 1959/60 and 1964/65 private consumption increased by less than 23 per cent but private investment grew by nearly 200 per cent. Pakistan was able to finance 62 per cent of her program from her own resources, 15 per cent more than had been originally contemplated. The disbursement of foreign aid was 23 per cent short of expectations but this was more than compensated by the larger mobilization of domestic rupee and foreign exchange resources. In real terms, total national resources are estimated to have increased by 37 per cent. Aid-financed imports contributed only about 20 per cent of this increase. By the end of the Plan, Pakistan was using 15.4 per cent of these resources for investment compared with 9.5 per cent in 1959/60.

iii. The favorable relationship between gross investment and incremental output (capital/output ratio) was a contributing factor to the growth achieved in the Plan. This resulted partly from the comparatively quick return from investments in the private industrial sector and from investment in quick pay-off inputs, notably water and fertilizer, in agriculture.

iv. Production trends are difficult to measure in agriculture because of the weather variable, but production increased by 3.5 per cent per annum in the first four years of the Second Plan. Of greater significance was the change from stagnation in the 1950's to growth in the 1960's. A major share of investment in agriculture was financed from the savings of farmers' demands for fertilizer, machinery, pesticides and other materials out-running the capacity of the government organizations to deliver. Industry remained the leading sector in the economy with a growth of over 9 per cent annually, mainly in larger-scale establishments.

v. To a large extent, the Pakistan Government has moved from direct controls to reliance on fiscal and monetary measures to regulate the economy. The taxation system has aimed at encouraging more savings and investment and holding down consumption. This policy has accentuated the concentration of economic power, but it has allowed savings to increase and it has produced a climate conducive to private enterprise.

vi. The consolidated revenue surplus of the Central and Provincial Governments increased by 2-1/3 times compared with the first year of the Second Plan and there was available 16 per cent more revenue than originally estimated for financing development. However, the Provincial Governments have had to rely principally on the Center for their development resources since their own receipts have not been sufficient to allow them to much more than cover their mounting recurrent expenditures.

vii. The balance of payments position has been encouraging, particularly on the export side. Little growth was expected in Pakistani exports at the start of the Plan, but actually, it has been averaging 7 per cent. The stagnation of the First Plan period has thus changed to a satisfactory rate of growth and the five year target for exports will have been exceeded by 84 per cent. Exports are now growing faster than GNP. The major cause of the improvement was an upsurge in production of crops such as raw cotton and superior rice and in fish. Despite rapid industrial growth the exports of manufactured products declined in importance from 25 per cent in the first year of the Plan to 22 per cent in 1963/64. At the same time, imports have been lower than expected. This has been achieved by increased import substitution for industrial products and by the relatively slow disbursement of project-type aid for the public sector. The balance of payments deficit over the five years will be 25 per cent lower than expected.

viii. The Pakistan Government has an import policy based on liberalizing the inflow of goods for the development of the economy while retaining controls on other imports or making them more expensive through the exchange rate mechanism. There has recently been a reduction in controls, but the Government has had to be cautious because of possible effects on foreign exchange reserves. The removal last July of 51 items, mainly raw materials and components from import control, has improved the utilization of the existing industrial capacity. While realizing that the import price of essential raw materials should not be too high, the Mission considers that a price level should be sought for imports generally which will not discriminate against domestic production. There appears to be a preference for imported, over local material and equipment because of the exchange rate. The Government in the 1964/65 Budget, with this in mind, made a beginning with increased import and customs duties and sales taxes. More needs to be done in this direction.

ix. It is too early to assess the full effects of freeing imports from quantitative controls in July 1964, but it is believed that the results will justify the financing provided. Raw materials are not now considered in short supply but modernizing and balancing equipment is a limiting factor in expansion.

x. The striking features in the utilization of aid have been that Pakistan resources provided 62 per cent of Plan outlays compared with the anticipated 47 per cent, and the shortfall by 23 per cent in foreign resources used. The Plan estimates had projected a gross inflow of capital of $2,770 million (excluding PL 480 but including the Indus project). It is now estimated that foreign aid disbursements will be about $2,000 million. Considerable delays in the commitment of aid pledges have been the main reason for this relatively slow utilization of aid. There has been improvement in the later years of the Plan. It is likely that the Plan will finish with a pipeline of unused pledges and undisbursed commitments equal to two-thirds of disbursements for the Second Plan and one-third of the foreign aid requirements estimated for the Third Plan. The Mission considers that there may be some reduction during the Third Plan in the fund of $1,086 million of unused commitments and pledges.

xi. Administrative performance was considered in the 1964 report. A number of recommendations were made aimed at improving the system. Some improvement has been seen. To assess one measure of administrative performance, the carry-over of unutilized pledges at the end of the Second Plan will be much lower than at any time during the Plan. It is recommended that the Planning Commission keep more closely in touch with the implementation of projects and that plans be made for the phasing of project preparation, so that there will be an adequate flow, thus preventing the bunching which has been noticeable in the Second Plan. Some of the committees which have been established to advise on tariff structure and other subjects and which have not yet reported should expedite their work. Absence of such studies makes the examination of the proposals of the Third Plan difficult.

xii. It was envisaged in the Second Plan that money supply would increase by Rs. 1,500 million over the Plan period. The Plan did not provide for any drawdown of foreign exchange resources or increases in the size of government net borrowings from the banking system. Credit expansion in the private sector will be only 20 per cent above expectations but public deficit financing has been about equal to the credit expansion to the private sector. The increase in money supply has, therefore, doubled. After a remarkable stability in the first three years, including an accumulation of reserves in the third year, the increase in money supply that occurred in the fourth and fifth years is now exercising some upward pressure on the price level. The State Bank has now taken measures to restrain the rate of credit expansion. However, the Third Plan will start with a backlog of excess liquidity in the economy with potentially inflationary consequences.

The Third Plan

xiii. The principal objectives of the Third Plan are: (1) to increase the rate of economic growth to 6.5 per cent a year compared with 5.2 per cent for the Second Plan; (2) to accomplish this primarily by increasing the mobilization of domestic resources to cover 68 per cent of Plan outlays compared to 62 per cent in the Second Plan; (3) bring about a more balanced growth in the economy by increasing the rate of growth of agricultural output by 1.5 per cent to 5 per cent a year, and by directing a large share of industrial investments to capital goods industries; (4) to increase exports in relation to GNP and imports; and (5) to narrow the discrepancy between per capita income in the two Provinces. The direction of a larger share of investments to capital goods industries will require a sharp increase in industrial investment to be channeled through the public sector, particularly in East Pakistan.

xiv. The Third Plan will be about double the financial size of the Second, and in real terms, probably some 85 per cent larger. The country's total development effort will be about Rs. 57 billion (around $12 billion), including the Indus Basin Works and the Tarbela project if it is undertaken.[1/] The Bank has completed its Study in which the Tarbela project was found to be technically feasible and economically justifiable. In making comparisons between the Plans, it must be remembered that in the Second Plan there was rapidly increasing annual investment amounting to 156 per cent between 1959/60 and 1964/65. The increase as between the last year of the Second Plan and that proposed for 1969/70 is 65 per cent. The Third Plan assumes a steadily increasing rate of investment at about 10.5 per cent per annum.

xv. The allocation of resources (including the Indus Basin Works) between the public and private sectors gives a higher share to the public (60 per cent), which is about the same proportion as in the Second Plan. Excluding the Indus Basin Works, the public sector share is approximately 58 per cent or a little higher than in the Second Plan.

xvi. It is expected that there will be a higher proportion of both public and private investment in East Pakistan in the Third Five-Year Plan period. 52 per cent of Plan funds are earmarked for that Province. The investment in the public sector industries in East Pakistan is planned to increase three-fold compared with the Second Plan.

xvii. The growth strategy of the Third Plan is to maintain the Second Plan growth in non-agricultural sectors of around 7 per cent a year and improve the growth rate in agriculture from 3.5 to 5.0 per cent, by greater emphasis on water investment and better provision of farm supplies. The Mission believes that the growth targets of the Third Plan are feasible, providing agriculture receives the urgent attention it requires.

1/ Without Tarbela, Plan and Indus outlays will be about Rs. 55.3 billion (about $11,613 million).

xviii. The export target is an annual increase of about 9.5 per cent per annum. The Mission considers this rate to be too high and thinks it will be around 8 per cent. One important factor in achieving the growth objective of the Third Plan is the timing and scale of returns on investments. The Government envisages some increase in the capital/output ratio during the Third Plan. This will depend on the project composition of the Plan which has not yet been finally determined.

xix. The growth of population is quite high, estimated at between 2.6 and 3.0 per cent per annum, and this problem is being tackled by increased emphasis on family planning, but the Mission is not optimistic about short-term results and emphasizes that the program must be organized and implemented in a vigorous manner.

xx. Although the domestic resources of the Third Plan are forecast as much larger than those in the Second, the strategy demands an increase in the marginal savings rate only from 21 per cent to 22 per cent. However, the average rate of savings would increase much more, i.e., from around 10 to over 13 per cent. The high level of marginal savings in the Second Plan came from the encouragement given to large-scale industries by the removal of controls and the Government's ability to mobilize public savings through increases in taxes. These two lines of policy will be continued during the Third Plan. However, the contribution of agriculture to the Third Plan growth would increase from 18 to 20 per cent while that of industry would decline from 40 to 33 per cent. This emphasizes the necessity of increasing savings and tax collections in the agricultural sector.

xxi. The industrial strategy in the Plan is to stress more capital goods in relation to consumer goods production. The Mission has considerable reservations regarding this policy, because some of the projects contemplated may not accord with Pakistan's comparative economic advantage and also because the capital intensive character of such industries makes little contribution to the reduction in unemployment. There is also a politically motivated urge to establish similar industries in both East and West Pakistan. The proposal to set up capital goods industries means that under-priced capital will be used more extensively, while labor, whose real cost is often lower than its market price, is under-utilized.

xxii. On the assumption of a 37 per cent growth, the Government estimates that the revenues of the Central and Provincial Governments will increase by two-thirds in the next five years. The revenue surplus is estimated at nearly three times that of the Second Plan. The return from additional taxation has been set by the Planning Commission at Rs. 3 billion, pending a decision on taxation and tariff rates and policies for the Plan period. To obtain Rs. 1 billion of additional domestic resources for the Government financed program, it is planned to transfer private resources to the public sector by associating more private investment with public corporations. The remaining Rs. 1.5 billion of the Rs. 16.5 billion required for the public sector program would be obtained through deficit financing.

xxiii. The Government is requesting $2,700 million of consortium aid and requires about $4,550 million of gross capital inflow of all types ($4,300 million excluding amortization) for the Plan and the Indus project. As compared with the absorption of foreign assistance during the last year of the Second Plan, the average annual foreign aid requirement for the Third Plan may be about one-third greater. From the standpoint of new commitments required, the increase will be less because of the build-up of the aid pipeline in the mid years of the Second Plan.

xxiv. The principal conclusions of the Mission on the mobilization of domestic and external resources for the Third Plan are:

(1) The overall Plan target of mobilizing Rs. 35,500 million ($7,455 million of domestic resources for development expenditures may be achieved if the economy grows as forecast and if financial stability is maintained.

(2) At the same time, it appears likely that there will be a shortfall of Rs. 2 billion or so from the Rs. 16.5 billion that the Government plans to mobilize for public sector development expenditures.

(3) If our less optimistic export forecasts are correct, there will also be $200 million or so less domestically generated foreign exchange for development imports.

(4) If some reduction is required in the public sector program, it may not affect total investment in the economy as a whole or the distribution of investment as between the commodity producing and other sectors.

xxv. It may be difficult to achieve the full public sector program with the inflow of foreign assistance that is being requested without impinging to some extent on resources for the private sector program. Therefore, the Government should adopt a flexible policy towards annual development programs. If the Government considers it essential to meet the full public sector expenditure target in the Plan, it should set higher targets for revenues, net capital receipts or for other non-expansionary domestic financing instead of seeking to mobilize funds through deficit financing. The amount of foreign assistance requested by Pakistan appears to be necessary to carry out a development program of about the magnitude envisaged. The aid requested from the consortium for 1965/66 conforms to the needs of the economy at the start of the Third Plan. It is not much in excess of the level of disbursements expected in 1964/65. A substantial portion of 1965/66 aid should be for commodities or programs that will assist in continuing the trade liberalization program undertaken last year.

xxvi. In respect of Pakistan's future foreign borrowings, the creditworthiness of the country has improved during the Second Plan despite the increase in her external indebtedness. Therefore, while requiring the bulk of assistance on easy terms, she appears capable of borrowing about 20 per cent of her Third Plan funds on conventional terms. About half of these new borrowings would be offset by amortization on existing hard debt.

INTRODUCTION

The purposes of this report are to review the economic progress made by Pakistan during the Second Five-Year Plan (July 1, 1960-June 30, 1965) and to appraise the Third Plan (July 1, 1965-June 30, 1970) from the standpoint of its overall magnitude and objectives. Since, at the time of the Mission's visit in February of this year, the Government had not completed a comprehensive Third Plan document, including descriptions of the new projects it expects to initiate during the Plan period, this report will not contain a detailed evaluation of the sector-by-sector programs. However, it will comment on the more important lines of development envisaged and the sectoral allocations of financial resources. The report also comments on the current economic situation in Pakistan. The Pakistan submission to the Consortium will deal in more detail with these subjects, including the need for foreign assistance in 1965/66.

The last report on Pakistan's economic development program (AS-106a) was circulated to the Executive Directors and members of the Pakistan Consortium on April 28, 1964. It dealt with the first four years of the Second Plan and the prospects for 1964/65. The Bank's report (AS-96a) of February 1963 considered in more detail the general economic structure of Pakistan. That subject is discussed in this report only incidentally to our consideration of the progress achieved during the Second Plan.

CHAPTER 1

ECONOMIC DEVELOPMENTS DURING THE SECOND PLAN

Economic Growth and Use of Resources.

1. By nearly all standards the Second Plan was a success. The Plan target was a 24 per cent growth in real product over the five years. Up to June 30, 1964, actual growth was about 23 per cent, and indications are that over 5 per cent will be achieved in 1964/65. This would mean an average of about 5.2 per cent a year or at least 28 per cent for the Plan period. Plan expenditure is now estimated at about Rs. 26.3 billion ($5,529 million) as compared with Rs. 24.6 billion originally projected.1/

2. The accomplishment in the Second Plan is in sharp contrast with the First Plan (1955-60), when the goal was 15 per cent but the achievement only about 10-11 per cent. Since population growth during the Second Plan is estimated at 13.7 per cent, the growth in production per capita would be in the order of 15 per cent or, say, 2.6 per cent a year compounded. No increase in real income per capita occurred during the First Plan.

3. The following table compares the rates of change of certain key variables during the Plan with expectations when the Plan was drawn up.

Table 1

CHANGES DURING PERIOD 1960/61-1964/65
(Per Cent)

	Planned1/	Probable Actual
Real Growth in GNP (factor cost)	24.2	28-29
Annual Growth in GNP	4.4	5.2
Increase in Population	11.1	13.7
Real Per Capita Income	11.8	14.0
Agricultural Production	14.2	18.7
Manufacturing Production	50.2	51.1
Marginal Savings Rate	25.0	21.0
Share of Domestic Resources in Total Plan Investment Expenditure2/	47.0	62.0
Share of Domestic Foreign Exchange in Foreign Exchange Costs of Plan	none	37.2
Export Growth	17.8	32.9

1/ Second Five-Year Plan, June 1960, p. 34.
2/ Including the Rural Works program but excluding the Indus Basin Works. Total investment (including Indus) is estimated at about Rs. 30.2 billion.

1/ The growth reflected in these data is a little higher than that cited in previous Bank reports on the Second Plan because of a revision in Pakistan's national accounts which is still in progress. The upward revision in growth estimates are partly because the revised estimates of production in the base year (1959/60) are lower than previous data and partly because recent increase in agricultural production has been larger than previous estimates indicated.

4. The only significant cause for concern is the unexpectedly high rate of population growth which, as during the First Plan, considerably exceeded expectations. Although the marginal savings rate fell considerably short of the target, the latter was unrealistic and, thanks to the higher than expected growth rate, total domestic savings will substantially exceed the Plan target.

5. Appendix tables 3 and 5 show the origin and utilization of total national resources during the Second Plan on a year-to-year basis. That output is still subject to considerable variation because of weather and other conditions affecting agriculture is evident from the low growth achieved in 1962/63 (3.4 per cent) as compared with the sharp comeback of 1963/64 (7.5 per cent). The fact that private consumption increased less than 23 per cent, while private investment grew by nearly 200 per cent between 1959/60 and 1964/65 was, of course, the main factor in enabling Pakistan to finance 11 per cent more of her program from her own resources than had been contemplated when the Plan was drawn up. The use of total national resources over the Plan period may be summarized as follows:

Table 2

USE OF NATIONAL RESOURCES
(Rs. Billion - 1959/60 Prices)

	Cumulative 1960/61 - 1964/65		Change during Plan Period	
	Amount	Percent	1959/60 Percent	1964/65 Percent
GNP (Market Prices)	191.7	88.8	90.3	86.7
Imports	24.2	11.2	9.7	13.3
Development Imports	14.9	7.0	4.9	8.5
Non-development Imports	9.3	4.3	4.8	4.8
Total National Resources	215.9	100.0	100.0	100.0
Consumption	177.7	82.3	86.4	78.9
Private	159.2	73.7	78.7	69.4
Government 1/	18.5	8.6	7.7	9.5
Investment	26.9	12.6	9.5	15.4
Private 2/	11.4	5.8	4.8	7.0
Public 3/	15.5	6.8	4.7	8.4
Exports	11.3	5.1	4.1	5.7
Total Utilization of Resources	215.9	100.0	100.0	100.0

1/ Includes Rs. 2,173 million of government current development expenditure.
2/ Includes Rs. 1,030 million of investment in stocks.
3/ Includes Rs. 2,548 million for Indus Basin Replacement Works.
Source: Appendix Table 5.

6. In real terms the availability of total national resources for the Pakistan economy increased about 37 per cent over the Second Plan. Aid-financed imports contributed about 7.5 per cent of this increase or roughly one-fifth.

7. While total consumption rose about 27 per cent, it declined appreciably as a proportion of total resources. Per capita consumption rose by about 13 per cent, or less than half the increase in aggregate consumption. By the end of the Plan, Pakistan was using 15.4 per cent of her resources for investment (17.8 per cent of GNP) as compared with 9.5 per cent (10.5 per cent of GNP) in 1959/60. A fifth of the absolute increase in investment was due to the Indus Works, and the remainder to the Plan.

8. Even at the end of the Plan, Pakistan's performance measured by the relation of gross savings and government revenues to GNP was quite modest as was the percentage of total resources used for investment. However, the increases are encouraging and augur well for the Third Plan. In 1964/65, probably about 10.5 per cent of Gross Domestic Product (market prices) will be saved and about 11 per cent will accrue to the Government in the form of taxes and other revenues. Comparable figures for 1959/60 were about 6.3 per cent and 8 per cent.

9. A contributing factor to the growth achieved during the Second Plan was the favorable relationship between gross investment and incremental output (capital/output ratio). This ratio seems to have averaged about 2.4 over the Second Plan period (Appendix table 11). Considering the large amount of infrastructural investment required to cope with the great distances and difficult terrain of the country, and particularly its division into two regions separated by over 1,200 air- and 3,000 sea-miles, such a favorable result is rather surprising, particularly in view of the inclusion of Indus with a limited, and as yet, unrealized development potential. The results are attributable largely to (1) the comparatively quick return from investment in the private industrial sector; (2) agricultural inputs, notably water and fertilizer, in the private agricultural sector; and (3) the fuller utilization of excess capacity partly because of import liberalization.

10. At the inception of the Second Plan, the public sector was expected to use about 64 per cent (as compared with the 62 per cent that now seems likely) of the total resources available, so that there has been some relative shortfall in its performance, as compared with expectations, whereas the private sector has substantially exceeded its investment target.

Production.

11. Agriculture. Indications are that during the first four years of the Second Plan, agricultural production increased about 3.5 per cent per year.1/ Production of major crops which represent about 60 per cent of the agricultural GNP increased by 4.6 per cent a year. Rice, cotton and sugar cane

1/ Based on estimates of GNP at factor costs (1959/60 prices).

increased over base period (1959/60) production by 39, 42 and 38 per cent respectively. Jute, tea and tobacco exhibited no significant trend. Estimates of GNP growth in agriculture and production of principal crops are in Appendix tables 3 and 8.

12. Preliminary estimates for 1964/65 indicate a slight drop in rice and cotton production from the record 1963/64 levels, but tea, wheat and sugar cane are expected to increase. Jute production declined for the third successive year. Prospects are that total agricultural output in 1964/65 will probably not exceed the record 1963/64 level. Assuming that 1964/65 output equals that of 1963/64, the annual rate of growth during the Second Plan would be 3.1 per cent per year in terms of GNP, and Second Plan targets for rice, cotton, sugar cane and total foodgrains would have been exceeded.

13. Whether the actual rate of growth during the Second Plan period has been 3.1 per cent or 3.5 per cent per year is not too important. The important thing is that the agricultural sector has moved from its stagnant position through most of the fifties to progress and growth. The table below summarizes production from the principal crops in the last fifteen years:

Table 3

PRODUCTION OF PRINCIPAL CROPS
(Thousand tons)

	Annual Average				Plan
	1950/51-1954/55	1955/56-1959/60	1960/61-1963/64	1963/64	Target 1964/65
Rice	8,334	8,409	10,636	11,629	10,164
Wheat	3,220	3,644	4,015	4,118	4,329
Other foodgrains	1,095	1,165	1,211	1,234	1,428
Total foodgrains	12,649	13,218	15,862	16,981	15,921
Cotton 1/	1,536	1,680	1,999	2,370	2,292
Jute 1/	5,333	5,954	5,900	5,875	7,300
Sugar cane	10,764	13,975	19,526	21,248	20,800
Tea 2/	48.5	52.5	52.0	55.0	63.8
Tobacco 2/	196.7	202.3	215.4	228.4	254.7

1/ Thousand bales.
2/ Million pounds.

All crops, with the exception of jute, have had substantial increases. Jute production has declined steadily for the past three years as a result of low prices and unfavorable weather. However, improvement in prices since

November 1964 can be expected to result in a larger crop in 1965/66. Tea production should also increase over the next several years because of new plantings during the Second Plan period.

14. The major factors behind this increase in agricultural output have been the development of additional water resources in West Pakistan and improved flood control and drainage in East Pakistan. Increases in other inputs such as fertilizer have also contributed.

15. The Second Plan provided for public development expenditures of Rs. 2,520 million for agriculture and Rs. 2,580 million additional for water development. It is estimated that about 83 per cent of the allocation for agriculture and 100 per cent of the allocation for water will have been spent by June 30, 1965. In addition, the Plan estimated Rs. 880 million for private investment in agriculture. Although data on private investments and savings are fragmentary, a survey of private investments in 1962/63 indicated that private investments in the agricultural sector, excluding housing, orchards and livestock, amounted to about Rs. 800 million in the one year alone, of which about Rs. 90 million were for private tubewells and farm machinery. On this basis, private investment during the Second Plan would amount to roughly Rs. 4 billion, more than four times the Plan allocation. The Agricultural Development Bank of Pakistan, cooperatives and direct government loans to cultivators provided roughly Rs. 1,200 million of credit, about half of which was on a medium- and long-term basis. This would indicate that a major share of the private investment in agriculture was financed out of the savings of the farmers and landowners.

16. The importance of the private investment effort can be illustrated by the water developments in West Pakistan. Out of a total potential availability of 114 million acre feet in the Indus Basin, only 52 million acre feet had been developed at the beginning of the Second Plan. During the Second Plan period private tubewells developed an additional 4.7 million acre feet while public tubewells developed 2.5 million acre feet, and public surface water development provided 3 million acre feet. Thus water availability increased nearly 20 per cent in only 5 years.

17. In East Pakistan, public investment in the Coastal Embankments Project involving construction and strengthening of 1,600 miles of tidal embankments and various other flood protection and drainage works made a significant contribution to increased output. Progress was made toward completing the Kushtia Unit of the Ganges Kobadak Project, the Teesta subproject and the Ground Water and Pump Irrigation Project, but the effective use of the water for irrigation has been slow in developing. The Ganges Kobadak Project has shown relatively little increase in area irrigated in 1964/65, although some improvements in practices were reported. Difficulties were also being encountered in organizing farmers to develop irrigation under the Ground Water and Pump Irrigation Project.

18. The Planning Commission estimates that, for the country as a whole, about 2.1 million acres of new land have been brought under irrigation and that 7.2 million acres have been provided with improved irrigation drainage or flood protection during the Second Plan. The total land affected by these improvements was about 17 per cent of the cropped area in 1963/64. With increased water availability, more intensive cropping becomes possible and the supply of complementary inputs becomes essential. Fertilizer use moved from 31,000 tons (NPK equivalents) in 1959/60 to 111,000 tons in 1963/64 and is projected to be 160,000 tons in 1964/65. Plant protection activities of the Government have been trebled but still only 12 per cent of the acreage is being treated. Progress has also been made in increasing the use of improved seed, but the Government is finding it difficult to meet the demand. Subsidized programs for fertilizer, plant protection, seed multiplication and distribution and mechanization cost about Rs. 900 million during the Second Plan, or almost half of the Government's development expenditures for agriculture (excluding water development).

19. However, until 1963/64 the supply of all agricultural inputs was subject to government restrictions either because of government monopolies or severe import restrictions. The basic philosophy was that government must teach the peasant the value of these inputs and that government control was necessary to prevent improper use by cultivators and malpractices by middlemen. The sharp increase in fertilizer sales which occurred in 1963/64 as a result of the liberalization of fertilizer distribution shows quite clearly that farmers are prepared to expand fertilizer usage and that private enterprise is better equipped to handle distribution than government agencies. There is growing evidence that farmers' demand for farm machinery, pesticides and seed has also outrun the capacity of government agencies.

20. The justification for continued government control and large-scale subsidization of farm inputs has been usually couched in terms of the needs of the small, low income farmers who cannot afford to pay the full price for these services, and the need for equitable distribution of scarce input items. In fact, however, the restricted availability of supplies and services and financing have probably been more important hindrances to development than price. Moreover, larger, more influential farmers have received the bulk of the subsidized services often at the cost of repeated trips to government offices and crop losses resulting from unnecessary delays.

21. Various reorganizations of agricultural agencies carried out early in the Second Plan led to some disruption of existing programs. These included the abolition of the Village AID program and the establishment of the Agricultural Development Corporations (A.D.C.) in each wing; the change from the Land Utilization Committee and the Soil Reclamation Board to the Land and Water Development Board; the reorganization of the Agriculture Department in West Pakistan; the establishment of the West Pakistan wholesale supply cooperative; and the establishment of the Agricultural Development Bank of Pakistan. Most of these changes were necessary and have contributed to the recent growth of agriculture, but the uncertainties before and after each major reorganization caused serious delays in the implementation of the Plan. This was particularly true of the Agricultural Development Corporations whose contributions have been much short of expectations.

22. Industry. During the First Plan (1955-1960) investment in industry was only about 38 per cent of the Plan target. Foreign exchange difficulties were mainly responsible for the shortfall. However, production in large and medium-scale industry rose by more than 80 per cent between 1954 and 1959, whereas the Plan target was for an increase of 65 per cent.

23. The Second Plan target for investment in industry was Rs. 6,107 million, over three times the actual First Plan investment. The private sector was expected to invest Rs. 3,719 million and the public sector Rs. 1,460 million. In addition, the Plan made provision for Rs. 928 million of working capital. In fact, the private sector has invested about Rs. 4,440 million and the public sector Rs. 1,352 million. This total is about 95 per cent of the five-year target (Appendix table 10). The dynamic private industrial sector exceeded its target by over 20 per cent.

24. The Second Plan aimed at increases in production of 65 per cent in large- and medium-scale industry and of 25 per cent in small-scale and cottage industry. In 1964/65, it is expected that the contribution of the manufacturing sector to gross national product will be about 11 per cent compared to 9.5 per cent in 1959/60. Industry contributed about 20 per cent of the growth in GNP during the Second Plan period.

25. Large-scale manufacturing output rose by about 65 per cent in the first four years of the Plan and the total increase is estimated at 87 per cent, i.e. over 13 per cent per annum. The largest increases up to 1963/64 were for chemical fertilizers, basic metals, newsprint, vegetable oil and petroleum processing. Relatively small advances were made in cotton and woolen cloth, soda ash and such items as soap and beverages. (See Appendix table 9 and Annex 3 for analysis of output by specific industries). It is extremely difficult to assess the growth in small-scale manufacturing (plants of less than fifty employees).1/ The rate of growth during the Second Plan for small-scale industry has been estimated at 2.6 per cent per annum, much below the Plan target of 4.6 per cent.

26. The rate of growth for total manufacturing activities is estimated to have been around 9 per cent during the Second Plan, around 11 per cent per annum in East Pakistan and about 8 per cent per annum in West Pakistan. This is not unreasonable in view of the fact that in East Pakistan large-scale manufacturing sectors started from a lower base.

Factors which affect these growth rates are:

(a) Entrepreneurial capacity and profit incentives favorable to industrial investment.
(b) Credit to promote investment, specially foreign exchange from development banks (PICIC, IDBP).
(c) Improved supply of raw materials.
(d) Larger (though still limited) demand for products being produced.

1/ In 1959/60, the relative weights in value added for the small-scale and large-scale manufacturing sectors was 43.6 and 56.4 per cent respectively.

27. Industry and Import Liberalization. Up until about mid-1964, Pakistan industry, with some notable exceptions such as textiles, was operating well below even one-shift capacity. The main factor hindering the full utilization of capacity was the shortage of industrial raw materials, components and spare parts.

28. In January 1964 an important liberalization measure was taken by placing four iron and steel items on free import list, which meant that eligible importers could import these items from the United States (which was providing the financing) without import license. In July 1964, a major extension of the liberalization policy was announced and the free list was expanded to 51 items, largely intermediate products. With minor changes, the free import list has been continued for the first half of 1965 and it is the stated government policy to continue it within the limits of foreign exchange availability. Since machinery to implement the enlarged list did not begin to function till August 1964 and given the time required for placing orders and arrival of goods, it is too early for a proper analysis of the impact of the free list on the utilization of industrial capacity. However, recent studies indicate that the degree of utilization of capacity is definitely rising and is approaching 100 per cent (from around 75 per cent) in many lines.1/ However, in most factories visited by the Mission, the degree of utilization of capacity was still only fair. Moreover, the sample may show above average utilization as it included several relatively well-organized industries which had the technical and managerial talents to operate efficiently. The major reasons for excess capacity are the still irregular supply of imported raw materials and components, the general shortage of skills and the lack of markets.

29. Industry is still a profitable field for the Pakistan entrepreneur and the rupee capital is available in the form of profits to be reinvested.2/ The Mission heard some complaints concerning a relative decline of profits in some industries due to keener competition because of the more liberal import policy. However, profits remain high although reliable information on their amount is scarce. In 1963 net profits after tax as a percentage of net worth

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1/ Some notion of the effect of the import liberalization can be gained by studying the price of specific items. Reduction in steel prices has been attributed to the introduction of the free import list. The prices of G.P. sheets have come down from Rs. 1,500 per ton in July 1964 to Rs.1,330 per ton in December 1964, a fall of 11.5 per cent. For the same period, prices of G.I. wire have gone down from Rs. 1,915 per ton to Rs. 1,475 per ton and of structurals (joists) from Rs. 1,400 per ton to Rs. 1,225 per ton. In other cases, reduction of over 20 per cent has occurred in Chloromycitin, tanning substances, carbon black, laboratory glassware, scientific instruments, pigments, condensed milk and gum.

2/ About 75 per cent of gross profit (including depreciation) is said to be reinvested in representative large-scale industries.

were about 14 per cent for cotton textiles and jute goods, 42 per cent for sugar, 20 per cent for cement, 10 per cent for tobacco, 8 per cent for engineering, paper and board (see Annex 3). A tentative comparison with the level of profitability in Latin America and the United States is also given in the Annex. Combined with a liberal tax incentive system, these profits provide a good basis for further investment.

30. More detailed discussion of Pakistan's industrial development during the Second Plan, together with the controls used and financing provided, is in Annex 3 .

Trade and Finance.

31. Financial Policy. In the main, the fiscal and monetary strategy and policies outlined in the Second Plan were followed effectively. As intended, there were significant departures from an extensive use of direct controls in favor of reliance on fiscal and monetary measures to regulate the economy. The budget and taxation systems were used to encourage more savings and mobilize increasing resources for government financed development expenditures and for holding down consumption. This was accomplished by extending or raising excises, sales taxes and import tariffs, reducing export duties to promote larger exports, and modifying direct taxes to strengthen incentives for increased production and investment. Subsidies and other measures were also used to secure desired resource allocation. However, only a beginning was made to achieve a more income-elastic tax system. Tax policy was not effective in checking the concentration of economic power and, indeed, such checks might have reduced private savings. Over most of the period, the fiscal and monetary measures followed by the Government resulted in financial stability.

32. Fiscal Performance. An outstanding feature of the fiscal performance has been the buoyancy of the revenue surplus. Despite a rise in non-development expenditures of about 48 per cent during this period, there was available for government financed development undertakings 16 per cent more revenue resources than had been projected.

33. Taxes have roughly doubled in volume from Rs. 2.0 billion in 1959/60 to about Rs. 4.0 billion in 1964/65, and tax receipts on the average have increased about a fifth each year or from 6.1 per cent of GNP in 1959/60 to an expected 8.7 per cent in 1964/65. Half the increase, or Rs. 1 billion, has come from excises and customs. Increased collections from the sales tax produced another Rs. 440 million of the increase. Returns from these three categories of indirect taxes increased about 90 per cent. Income and corporate taxes have increased less rapidly from a level of Rs. 370 million in 1959/60 to an estimated Rs. 633 million in 1964/65. However, these direct taxes increased from about 14.6 to 15.9 per cent of total tax revenue. Land revenue collections, which are the responsibility of the Provincial Governments, increased even more slowly from the 1959/60 rate of Rs. 220 million to Rs. 307 million estimated for 1964/65.

34. The non-tax receipts of the Central and Provincial Governments (revenues from railways, posts and telegraphs and other public undertakings charges for irrigation and electricity and miscellaneous receipts) also about doubled from 1960/61 to 1964/65. Total non-tax revenues were about 30 per cent above the Plan target of Rs. 4,150 million.

35. The Plan target for the increase in administrative expenditure was 4 per cent per annum and for the rise in the recurrent cost of development schemes, 14 per cent yearly. In these projections an allowance was made for an anticipated long-delayed adjustment in government pay scales. In fact, the increase in normal administrative expenditure has averaged about 6 per cent per year, whereas the expenditures of development departments have gone up about 16 per cent annually. The burden of debt services has increased rapidly and surpassed the five-year Plan expectation of Rs. 1.4 billion by well over Rs. 1.0 billion. The debt service and defense expenditures together accounted for the entire excess of non-development spending over the target.

36. The Second Plan set forth a tentative target of Rs. 200 million for contributions from local bodies to national development. The local bodies or Basic Democracies in 1959 were given increased tax powers as well as additional responsibilities for development work, but only fragmentary data are available on their financial contribution. The Planning Commission estimates, however, indicate that the target was reached.

37. At the provincial level, government income has increased, partly as a result of the Provinces' own slightly improved revenues but primarily on account of better revenue collections by the Central Government and a corresponding higher share distributed to the Provinces.1/ On the other hand,

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1/ The share of the two Provinces in centrally collected taxes is worked out as follows:

(a) 50 per cent of the net proceeds of Income Tax including Corporation Tax but excluding the tax on federal emoluments.
(b) 60 per cent of the net proceeds of the Sales Tax.
(c) 60 per cent of the Excise Duties on tea, betel-nuts and tobacco.
(d) 100 per cent of Export Duties on jute and cotton.
(e) 100 per cent of the Estate and Succession Duty in respect of agricultural land.
(f) 100 per cent of taxes on capital value of immovable property.

The apportionment between the two Provinces is according to the following formula:

(a) Sales Tax.	70 per cent on the basis of population and 30 per cent on the basis of incidence.
(b) Estate and Succession Duties in respect of agricultural land and taxes on the capital value of immovable property.	Each Province receives an amount equal to the collection in the Province concerned.
(c) Other Taxes and Duties.	On the basis of population.

The "net proceeds" of a tax or duty is the total proceeds thereof reduced by the cost of collection. On the basis of population, East Pakistan receives 54 per cent and West Pakistan 46 per cent of the proceeds assigned to the Provinces.

the growing recurring costs of completed development schemes, debt servicing of foreign loans and other factors have increased non-development expenditures over the 1960/61 rate by 94 per cent in East Pakistan and 80 per cent in West Pakistan. Excluding taxes shared with the Central Government, the provincial deficit on non-development account has increased from about Rs. 143 million in the first year of the Second Plan to an estimated Rs. 478 million in 1964/65. Provincial revenue sources are financing a smaller proportion of the expanding non-development spending.

38. The increase in public savings during the Second Plan period was at a rate almost double the rate of growth in GNP and roughly kept pace with the rate of increase in total domestic savings. The Central and Provincial Governments also mobilized receipts from small private savings, public borrowing from non-bank sources, sale of public industrial assets, depreciation funds of the railways, posts and telegraphs, other reserve funds, and other non-expansionary sources. Total public financial resources rose from 8.7 per cent of GNP in 1959/60 to about 12.1 per cent in 1964/65. They amounted to nearly 12 per cent of the additional income generated in the economy during the Second Plan.

39. Money and Credit. The Second Plan envisaged that money supply could be allowed to increase by Rs. 1,500 million over the five-year period. This increase was to come about through net increase in credit to the private sector. The Plan did not provide for any drawdown of the country's foreign exchange resources, nor for any increase in the size of the Government's net borrowings from the banking system.

40. It is estimated that the Plan will end with the net credit expansion to the private sector only 20 per cent above expectations but with almost an equal amount of public deficit financing. The result is that even with some reduction of foreign exchange reserves, the increase in money supply will be more than double that anticipated, amounting to a cumulative expansion of over 53 per cent. The situation is summarized in the following table:

Table 4
FACTORS IN MONEY SUPPLY
(Millions of Rupees)

	1960/61	1961/62	1962/63	1963/64	1964/65 1/	Total
1. Private Bank Credit	416.5	690.2	792.1	914.4	1250.0	4063.2
Time deposits	-281.5	-279.6	-428.1	-496.9	-700.0	-2186.1
Net change	135.0	410.6	364.0	417.5	550.0	1877.1
2. Government borrowings	372.0	-114.1	402.3	421.2	500.0	1581.4
Counterpart funds	-264.1	403.7	-237.5	205.5	100.0	207.6
Net deficit financing	107.9	289.6	164.8	626.7	600.0	1789.0
3. Foreign sector	-60.0	-79.0	273.5	-196.7	-250.0	-312.2
4. IBRD Indus Account	--	-186.1	54.2	66.4	50.0	-15.5
5. Unclassified	-157.2	-208.5	25.1	88.2	50.0	-202.4
Changes in money supply	25.7	226.6	881.6	1002.1	1000.0	3135.0
Per cent increases	0.4	3.8	14.4	14.3	12.5	53.2

1/ Planning Commission estimates.
Sources: Appendix table 19.

41. During the first two years of the Plan stability in money supply was maintained and the monetary overhang at the start of the Plan was absorbed in the growth of the economy. In the third year the accumulation of reserves added substantially to money supply. Thereafter, public deficit financing (plus the drawdown of counterpart funds) started to grow while private bank credit continued to expand. In December 1964, foreign exchange reserves almost fell to the statutory limit of 30 per cent of currency in circulation, leading Pakistan to draw its gold tranche of $16 million and to arrange a standby of $37.5 million from the IMF.

42. The price level had also remained stable in the first years of the Second Plan. During 1964, a substantial rise in prices occurred, with a perceptible acceleration during the second half. The general index of wholesale prices in November 1964 was 6.2 per cent above November 1963, which in turn was only 1.1 per cent above November 1962. The cost of living reflected the following increases:

Table 5

INCREASES IN COST OF LIVING
(Per Cent)

	1963	1964
General cost-of-living index for industrial workers in:		
Lahore	4.0	10.3
Narayanganj	0.1	12.7
Consumers' price index for Government and commercial employees in Karachi	3.5	6.9

43. Food items accounted for most of these increases. However, the consumers' price index for government and commercial employees in Karachi showed increases in 1964 for all expenditure groups, ranging from 2.2 per cent for clothing and footwear to 11.2 per cent for housing and household needs, with 8.9 per cent for food items. It is reported that the fast rate of urbanization is creating bottlenecks for the supplies of such items as pulses and meat, dairy products and vegetables which will take time to remove. Though no data are published on wages, manifestations of social unrest due to the rise in the cost of living have been reported, and some wage increases have been granted in the public and semi-public sectors.

44. One important factor accounting for the unusually strong demand for bank credit has been the import liberalization program. Larger imports, some of which were speculative, and a fuller utilization of industrial capacity, created a strong demand for credit in 1964. Some restrictive credit measures could have been usefully applied simultaneously with the liberalization of imports in July 1964.

45. During the first fortnight of January 1965, the State Bank considered it essential to take measures to restrain the rate of monetary expansion.1/ They are designed to contain the unusual buoyancy of private bank credit. Their selectivity in favor of exports and of small business should be welcome. The penalties they put on speculative imports and inventories have received a less enthusiastic reception. They are not so strong as to curtail the long-term expansion of credit needed for the development of agriculture, industry and commerce.

46. From the standpoint of total monetary supply, the State Bank can do little to restrain the expansionary influence of the Government's deficit financing. Commodity procurement operations and the development program, for which such financing is needed, have a high priority.

47. A part of the unusual expansion that occurred during the second half of 1964 was due to seasonal and accidental factors, whose effects may be expected to diminish during the second half of 1964/65. But, there is little doubt that, if the Government does not take steps to reduce its reliance on the banking system, the rate of money expansion for the whole of 1964/65 will be at least as high as it was in 1963/64, even though the drawdown of foreign exchange reserves will be greater.

1/ On the recommendations of the Credit Committee established in 1962, the State Bank introduced in August 1963 a quota system with graduated interest rates for State Bank lending to commercial banks. Under this system, borrowing at the rate of 4 per cent is limited to individual bank ceilings equal to the statutory balances the bank holds with the State Bank, above which the rate is increased in steps up to 6 per cent as borrowings from the State Bank exceed this quota. An exception is made for borrowing against loans of up to Rs. 25,000 to small businesses. This latter provision is in response to the Government's concern about the lack, since Partition, of adequate credit facilities for the small-man.

In January 1965 the State Bank took action in three fields: (1) tightening of the quota system and expansion of its coverage to include all types of loans and advances from the State Bank; (2) imposition of a 25 per cent marginal requirement against the opening of L/Cs for imports; and (3) increase in the cash reserve requirements of the banks from 5 per cent to 7½ per cent to be effective from April 1965. Borrowings from the State Bank by IDBP and ADBP and by commercial banks to finance the small-man (up to Rs. 25,000) and to finance exports are exempt for the purview of the quota system.

48. Balance of Payments. Although overall Plan expenditures have exceeded the target by about 9 per cent, aggregate imports during the Plan are now expected to be about Rs. 1.7 billion below the original projection of Rs. 26 billion (excluding Indus Basin imports). This is attributed partly to a higher than expected amount of import substitution. The larger proportion of investments in the private sector (whose import dependence is considerably less than the public sector) may also have contributed.

49. In the Second Plan, Pakistan's exports (including invisibles) are now estimated to yield total earnings of about Rs. 13.2 billion, almost Rs. 2 billion more than projected in the Plan frame. As a consequence of the lower imports and higher exports, the quinquennial deficit in the balance of payments, covered by foreign assistance, is now smaller than estimated, by about Rs. 3.7 billion or 25 per cent.

50. The balance of payments for the Plan period is summarized in the following table.1/

Table 6
FIVE-YEAR BALANCE OF PAYMENTS 1960-1965

	Original Estimates		Latest Estimates	
	Rs. Billion	US$ Billion	Rs. Billion	US$ Billion
Development Imports	8.83	1,854	13.28 1/	2,789
Non-Development Imports	12.30	2,583	7.02	1,483
Debt Service	1.45	304	0.95	200
Indus Basin Imports	1.86	391	1.53	322
PL 480	3.44	722	3.09	649
Total Payments	27.88	5,854	25.87	5,433
Foreign Exchange Earnings	11.25	2,362	13.25	2,783
Total Deficit	16.63	3,492	12.62	2,650
Less: Indus 2/ and PL 480	5.68	1,193	4.72	992
Plan Deficit	10.95	2,299	7.90	1,658

1/ Including materials for production of capital goods not included in original estimates.
2/ Including $80 million for Indus rupee purchases, of which only $21 million was used.

1/ Unfortunately the breakdown of imports between development and non-development in the original estimates is not comparable with the latest estimates in the table because of a classification shift of materials for capital goods production from non-development to development imports.

Pakistan's balance of payments position has thus proved to be considerably better than anticipated in every respect, including debt service.

51. Imports. Pakistan's total imports (net of debt service) increased from Rs. 3.75 billion in 1960/61 to an estimated Rs. 6.65 billion in 1964/65, or about 12 per cent a year. Much of this increase was induced by the investment effort; development imports, which account for 55 per cent of the total payments, increased by almost 100 per cent over the same period, while non-development imports other than those under PL 480 increased by about 32 per cent.

52. Development imports have formed a quite stable portion of development expenditure (excluding the Indus Works) as is shown in the following table. This appears to indicate that the small domestic capital goods industry has expanded about in line with the increase of development expenditures.

Table 7

IMPORT DEPENDENCE OF DEVELOPMENT EXPENDITURES
(Millions of Rupees)

	1960/ 1961	1961/ 1962	1962/ 1963	1963/ 1964	1964/ 1965	Total
1. Development Expenditure 1/	3,349	4,444	4,787	6,345	7,455	26,330
2. Development Imports 1/	1,905	2,142	2,402	3,069	3,768	13,286
2. as Percent of 1.	57	48	51	49	49	50
Of which:						
(a) Capital Goods c.i.f.	1,267	1,573	1,855	2,221	2,708	9,644
(b) Raw Materials c.i.f. and Technical Assistance	638	569	537	848	1,060	3,642

1/ Excluding Indus.

53. Imports of consumer goods increased by a modest 13 per cent, and part of this increase is attributable to the availability of export bonus vouchers and another part to liberalization of the import of medicines and

books.1/ Intermediate goods, which are used in the domestic production of consumer goods and of capital goods in a proportion of about 2:3, have shown a more sizeable increase from Rs. 866 million to Rs. 1,455 million, or by 67 per cent. This reflects the process of increasing import substitution for consumer goods, the raw materials for which have to be imported.

54. Imports of raw materials going into the production of consumer goods have been growing faster than those going into capital goods production. This is explained by the early stage of development of the capital goods industry in Pakistan. During the last 15 years, industrialization has been concentrated on consumer goods, but it is expected that in future an increasing volume of capital goods will be produced locally.

55. Imports under the U.S. PL 480 program amounted to about $650 million during the Second Plan. Despite rising foodgrain production, imports of wheat averaged about 1.3 million tons a year and appear to be stable or rising slightly. The higher per capita income with a relatively high income elasticity for food probably accounts for this.

56. Import Policy. Pakistan will be entering the Third Plan with an import system that has been substantially liberalized, compared with the system that prevailed at the beginning and during the earlier years of the Second Plan. There has been significant progress towards eliminating quantitative controls and permitting the flow of imports to respond to the requirements of the market, particularly in respect of industrial raw materials and components.2/

1/ Under the Export Bonus Scheme, an exporter who earns $210 in foreign exchange has to sell this to the State Bank of Pakistan at the official rate of exchange, of Rs. 4.76, that is for Rs. 1,000. But in addition, if entitled to bonus as most manufactured items are, he receives in addition a voucher that entitles him, or the person to whom he sells it, to purchase foreign exchange at the official rate of Rs. 4.76 for a percentage of the value of his exports. The bonus percentage is either 30 or 20 per cent, depending on the item. If the bonus is 30 per cent (as it is in most cases) and the voucher is sold at 150 per cent of the official rate, the exporter would receive Rs. 450 from the bonus if he sold it on the Karachi Stock Exchange at present. Added this to the Rs. 1,000, his effective export rate would be 45 per cent above the official rate or Rs. 6.90 to the dollar. The import rate on goods imported with the vouchers would be 150 per cent higher than the official rate or about Rs. 12 to the dollar.

2/ The freeing of the requirements of industries from controls has been in stages. Before July 1960, no imports were permitted except against individual licenses. Allocations for industries were based on government assessment of plant requirements for single shift operations. In that year, 118 industries were permitted to import raw materials on the basis of a single request rather than assessment of needs. In 1961, eleven types of raw materials were placed under so-called OGL (Open General License). The term OGL was a misnomer, as the system was still rigid. The number of OGL items was subsequently enlarged, and an export incentive was built into the scheme by granting additional import licenses in a limited amount for imports of raw materials against evidence of export performance.

57. The most important recent change in import policy was the removal, in June 1964, from import control (putting on the "free list" means freedom from licensing, not from tariffs) of 51 items, most of which were intermediate materials and components. The impact of this action on industrial production is discussed above. It supplemented, on a broader front, the action taken in January 1964, when four iron and steel items, financed with U.S. commodity aid, were placed on the free list. Prior to liberalization, these 51 items constituted about 39 per cent of all imports other than those under project aid.

58. Notwithstanding the heavy ordering of these items, particularly in November and December 1964 (which was attributable partly to anxieties about the continuation of liberalization and to the impending elections), the Government in January announced the continuation of the "free list", and the import policy for the current shipping period (January-June 1965) is virtually unchanged.

59. The Government has had to approach the liberalization of imports carefully, since it has been hard to gauge demand in the market after over a decade of controls and with an exchange rate that made the landed cost of most goods very low in relation to domestic prices. This was evident from the price paid for bonus vouchers (Appendix table 24). In the case of most consumer goods except those imported against bonus vouchers (mainly durable consumer goods, and some quasi-luxuries and certain capital equipment), a combination of high import duties and quantitative restrictions was necessary to contain demand. Where these restrictions are handled liberally, as in the case of medicines, domestic prices were very low by any standard. Similarly, all capital goods, including those financed with foreign aid, bear very low import duties, and since they are usually priced into the economy at the par rate, tend to stifle domestic attempts at producing similar goods.[1/] The solution, applied so far in a few cases, of banning the import of directly competitive goods, is certainly not the right answer. The last Bank report pointed out that the present exchange rate system tends to give an artificial stimulus to demand for those goods that are imported under direct licensing at the par rate, and that the only practical solution would be to combine the lifting of quantitative controls with a policy designed to bring effective domestic demand into line with available foreign exchange resources.

60. The Mission recognizes the need to keep the price of essential raw materials at a reasonably low level if, in coming years, new producers' goods industries, based partly on imported raw materials, are to be established on an economical basis, and are to withstand competition from aid-financed capital goods on which it would be impractical to impose high protective

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1/ Duties on capital goods are about 7½ per cent in East and 12½ per cent in West Pakistan. Consumer goods tariffs average about 50 per cent and intermediate goods 15 - 20 per cent.

duties. But a price level should be sought also for these imported raw materials that will not continue to discourage the use of similar or alternative domestic materials.

61. The acceleration in the disbursement of commodity aid made available during the last three years, has, of course, been effective in reducing the excess of domestic demand over the supply of foreign exchange. Indeed, it has made it possible to initiate the removal of quantitative controls without substantial price measures directed at restraining effective demand. But a rising level of commodity aid should not be postulated to continue for the future on grounds merely of meeting internal demand not associated with higher levels of investment and economic growth.

62. With the natural practice by private as well as government agencies to make present and future cost calculations on the basis of c.i.f. prices for imported capital and intermediate goods, rather than the real cost of foreign exchange, a propensity to prefer imported goods over "expensive" local alternatives clearly exists, and tends to build import dependence into the economy. The Government has recognized the need to encourage the use of resources that can be found domestically, and, with the intent of correcting some of the undervaluation of imports, it requested regulatory powers in the 1964/65 budget to enhance import duties, customs and sales taxes, each by a maximum percentage of 25 per cent of the existing duty or 10 per cent ad valorem. The authority was given for the fiscal year 1964/65. Some import duties were accordingly enhanced by 10 per cent ad valorem, but the overall increase so far has been less than 5 per cent. Only about a third of the authority given by the legislation has been used. It is expected that the Committee on Tariffs and Taxation, which is studying the problem at present, will make their recommendations on these matters in the near future.

63. It is clear that substantial increases in the import tariff would bring down commercial profit margins in the import trade. The Mission thinks that this is one sector of the economy which is in need of drastic rationalization. It is difficult to assess the total number of active importers in the country, but from available information it appears that in East Pakistan alone, the number of importers must be close to 15,000, handling an annual volume of about $200 million equivalent. This would make for an average of $13,000 per firm but considerably less for the majority of them.[1/] In West Pakistan, the situation would seem to be not much different. Most of these importers could be better employed in an economy generally short of managerial talent.

64. It should be expected that the removal of quantitative controls would in due course tend to eliminate that part of the import trade whose business had been, in the past, limited to creaming off the scarcity value of import licenses. No such effects have been reported so far; this may be due to special measures

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1/ Small importers are said to handle only 25 per cent of the $200 million.

taken to protect small traders, particularly in East Pakistan. The Mission does not think that such measures can be economically justified.

65. Domestic wholseale prices have come down by 10 per cent to 25 per cent for those items which were placed on the free list in January 1964. Representatives of private industry pointed out to the Mission that, beneficial as the import liberalization was felt to be, it still contains some elements of inconsistency where non-availability of crucial items under regular licensing made it difficult to realize the full benefit of the free list. This criticism has been met in part by putting such items on the bonus import list. Also, the marginal deposit requirement introduced in December was felt to be overly effective in restraining demand as, of course, it was intended to do. However, there was no disagreement in the fact that substantial improvements had been made possible in the utilization of industrial capacity.

66. Exports. When the Second Plan was drawn up, a very modest 2 per cent annual growth of exports was forecast; this was subsequently raised to 3 per cent, still less than the expected growth in GNP and quite out of proportion with the expected growth of imports.1/ Actual export performance, however, has been much better. So far, it has been at a compound rate of 7.2 per cent a year, rising from $442 million in 1959/60 to $585 million in 1963/64. The overall Plan target may be exceeded by 15 per cent.

67. The success of Pakistan's exports during the Second Plan was not a consequence of changes in market conditions abroad or unusually favorable weather. Nor can it be attributed to special measures of export promotion, since the Export Bonus Scheme had largely played out its role when the Plan projections were made. The principal cause was a sudden break-through in the production of exportable crops, chiefly raw cotton, rice and fish, and has to be viewed in the context of the overall growth of the economy. Very largely, the economic growth during the Plan must be attributed to the performance of agriculture; the same is true for exports. The proportion of manufactured goods in total exports declined from 25 per cent in the first year to 22 per cent in 1963/64. For cotton textiles, not even the original target is being reached, and in the case of jute goods, it is likely to be exceeded only by a small margin, if at all.

1/ Pakistan's exports in 1959 were just about the same as a decade earlier. This stagnation was interrupted only by the Korean boom, the subsequent slump, and later by a short-lived improvement after the 1955 devaluation. In 1959 the Export Bonus Scheme came into operation. It provided a partial upward adjustment of the effective rate of exchange; about 37 per cent of all exports benefited from the scheme, and these registered a 165 per cent increase in one year. However, the impact of the scheme worked itself off; physical limitations on production assumed greater importance as the Second Five-Year Plan got underway in 1960.

68. The composition of exports expected for 1964/65 as compared with the base year is shown in the following table.

Table 8

COMPOSITION OF EXPORTS 1959/60 and 1964/65
(Millions of Dollars)

	1959/60	%	1964/65	%	5-Year Increase %
Raw Jute	160	36	172	27	+8
Jute Manufactures	47	11	74	11	+57
Raw Cotton	36	8	84	13	+134
Cotton Manufactures	48	11	36	6	-26
Hides and Skins	20	5	15	2	-25
Wool	17	4	19	3	-8
Rice	10 1/	2	29	5	+198
Fish	10	2	19	3	+91
Other Exports	40	9	82	13	+104
Invisibles	66	15	111	17	+69
CIF/FOB Adjustments	-13	-3			
Total	441	100	641	100	+45

1/ Estimate.

69. Natural fibers and their products are still the predominant elements accounting for 73 per cent of total merchandise exports in 1963/64. The performance of jute, cotton and their manufactures, the key items, is discussed in Annex 3 . Their markets are neither easy to hold nor fast growing, and, since the war, they have been subject increasingly to technological substitution. Of the other 27 per cent, three-quarters are primary commodities; the proportion of manufactured goods other than textiles in total exports is only 7 per cent.

70. The proportion of exports in Pakistan's GNP is still very low and it is not changing rapidly.1/

1/ Exchange earnings as percentages of GNP have been as follows:

1959/60	1960/61	1961/62	1962/63	1963/64	1964/65
6.4	6.4	6.3	6.9	6.5	6.7 a/

a/ Estimate.

Utilization of Foreign Aid.

71. The Plan estimates had projected a gross inflow of capital of $2,770 million over the Five-Year Plan period excluding PL 480. This figure included private foreign investment and technical assistance as well as foreign grants and loans. $2,300 million of this was expected to be disbursed for the Plan and $470 million for the Indus Basin Project. It is now estimated that foreign aid disbursements (in this sense) will be $2,015 million, of which $1,672 million will be for the Plan and $343 million will be for the Indus Works. Our discussion of the costs of the overall development program including Indus, is deferred till the next chapter. Here we will consider only the utilization of aid for the Plan.

72. The breakdown of foreign financing for the Plan, including the Rural Works Program, is shown in the following table:

Table 9

PLANNED AND ACTUAL FINANCING OF SECOND PLAN
(Millions of Dollars Equivalent)

	(1) Planned		(2) Actual (Est)		Percent
	Amount	Percent	Amount	Percent	(2) of (1)
Expenditure					
Plan	4830	93	5361	97	111
Works Program	336	7	168	3	50
Total	5166	100	5529	100	107
Financing					
Project Aid and Loans	1365	28	825	15	60
Commodity Aid and Loans	735	14	694	12	94
Sub-total	2090	42	1519	27	73
Private Foreign Investment	126	2	95	2	75
Technical Assistance	74	1	90	2	122
PL 480 Counterpart	464 1/	9	414 2/	7	89
Sub-total	664	12	599	11	90
Foreign Resources	2754	53	2118	38	77
Pakistan Resources	2412	47	3411	62	141
Total:	5166	100	5529	100	107

1/ $338 million (Rs. 1,600 million) for Works Program and $126 million (Rs. 600 million) for Plan.
2/ $168 million (Rs. 800 million) for Works Program and $246 million (Rs. 1,172 million) for Plan.

73. The most striking feature in addition to the shortfall of foreign resources of 23 per cent (27 per cent if only "aid" in the stricter sense of project and commodity assistance is considered) is the concomitant fact that Pakistani resources have met 62 per cent of Plan outlays as compared with about 47 per cent originally intended. If Plan expenditures had not exceeded expectations, the foreign resources actually received would have covered 42 per cent of such expenditures (instead of 38 per cent). The 41 per cent, by which the use of Pakistan's own resources have exceeded expectations, was made necessary to the extent of about two-fifths by an increase in Plan expenditures and three-fifths by a shortfall in the disbursement of project aid. The dominant role of the shortfall in project aid is evident from the table. The net capital inflow (foreign resources received less foreign debt service for the Plan was $1,902 million, as compared with the $2,450 million originally intended.

74. At the inception of the Second Plan, foreign aid requirements were computed in terms of disbursements and there was insufficient appreciation of the delay between the commitment of funds and their disbursement. By the end of the Plan period, however, the foreign aid pipeline probably will have increased by about $646 million or over 110 per cent. While total foreign resources used were 23 per cent less than contemplated by the drafters of the Plan, total funds pledged, together with private investments, technical assistance and PL 480, amounted to over $3,000 million.

75. The remainder of this discussion has to do only with project and commodity aid for the Plan, thus excluding PL 480, private investment, and technical assistance. The actual disbursement of aid in this narrower sense is likely to reach only 73 per cent of the target as table 9 shows.

76. The utilization of such assistance pledged or committed from consortium as well as non-consortium sources (including estimates for the last half of 1964/65) is shown in the following table.

Table 10

UTILIZATION OF AID, 1960/61 - 1964/65
(Millions of Dollars)

	Consortium Members	Other	Total
Funds Available			
Opening Pipeline	295	12	307
Consortium Pledges	1816	--	1816
Outside Consortium	309	173	482
Total:	2420	185	2605
Funds Committed			
Prior to Plan	295	12	307
First Four Years	1546	84	1630
1964/65 (estimate)	504	31	535
Total:	2345	127	2472
Estimated Uncommitted Pledges - July 1, 1965	75 1/	58	133
Funds Disbursed			
First Four Years	990	48	1038
1964/65 (estimate)	465	16	481
Total:	1455	64	1519
Undisbursed Commitments (Pipeline)	890	63	953
Pipeline plus Uncommitted Pledges	965	121	1086

1/ Assuming funds for the Karachi Steel Mill and related projects are all committed ($82 million) by July 1, 1965.

Source: Appendix Table 6.

77. Details as to the phasing of commitments and disbursements over the Plan period are shown in Appendix table 6 . Considerable delays occurred in the commitment of aid pledges in the earlier years of the Plan. In the first two years, the amounts annually committed were only slightly greater than disbursements from the then existing pipeline. Since on average only about 10 per cent of project aid is disbursed in the year of commitment and about 35 per cent in the second year, this earlier slowness in commitments severely limited the flow of disbursements in subsequent years. The main reason for these delays must be sought in the limited availability of new projects ready for execution, but procedural difficulties also played a role. As it turned out, this limitation in the availability of aid in the early years did not have balance of payments consequences as severe as might have been expected,

had the calculations of the Plan's import component and the country's export capability been correct. In the middle of the Plan, commitments began to swing upwards; while project aid disbursements showed only a gradual acceleration 1962/63 was the turning point both for a larger volume of commodity aid and substantially higher export earnings, the combination of which gave greater flexibility for investment, particularly in the private sector, and permitted a smooth transition from a controlled economy to domestic decontrol and substantial liberalization of imports. This helped to improve the investment climate, and together with fiscal and other incentives made it possible to exceed Plan targets for investment in the privately financed sector by more than a third.

78. The annual rate of commitments reached a peak of almost $700 million in 1963/64, a considerable part of which had been carried from preceding years in the form of uncommitted consortium pledges, held up pending the completion of feasibility reports and their approval by creditor countries and the Bank.

79. Total availabilities of pledges for fiscal year 1964/65 were $613 million, of which $435 million were new pledges. Commitments up to December 31, 1964 amounted to $232 million. The proposed commitment rate in the current 6-month period therefore is $303 million; whether this figure is reached will depend, among other things, on the speed with which arrangements for the Karachi Steel Mill can be finalized. If the steel mill funds are committed, it appears that the carryover of uncommitted pledges will be about $75 million.

80. It appears that Pakistan will end the Plan period with a pipeline of unused pledges and undisbursed equal to about two-thirds of disbursements during the Second Plan and about one-third of foreign aid requirements now estimated for the Third Plan. Most of this build-up occurred during the third and fourth year of the Plan, when many projects reached a stage of preparation when funds could be committed to them. The last year of the Plan will probably show a relatively small further accretion to the pipeline (see Appendix table 6). As is indicated below, the Mission feels that some reduction of the fund of $1,086 million unused commitments and pledges may be possible during the Third Plan despite the increase contemplated in overall Third Plan outlays. All of the uncommitted pledges at the end of the Second Plan will be earmarked for projects then under consideration by aid-giving countries and agencies. Therefore, it can realistically be regarded as part of the end-of-Plan pipeline.

81. Nearly 40 per cent of the project assistance furnished to Pakistan during the Second Plan was committed and disbursed for projects in the private sector. There appears to have been little difference in the speed with which project aid was used in the two sectors. In both the public and private sectors, about 46 per cent of commitments (including undisbursed commitments at the beginning) were disbursed during the Plan period. Data showing the commitment and disbursement of project assistance by categories of the Plan are not yet available for 1964/65. However, its distribution for the first four years is shown in Appendix table 30 .

82. In its 1964 report (AS-106a), the Bank examined in some depth Pakistan's administrative performance during the Second Plan. A number of recommendations were made for improved organization and staffing in the agencies most immediately concerned with the preparation and execution of the Plan. The Evaluation of the Second Plan (Chapter 6), prepared by the Planning Commission, discussed the improvements in public administration that have been made or that are now in progress, and concludes that substantial progress has been achieved, though more improvement is needed in certain areas. The Mission agrees with this evaluation. The rate of aid utilization is one indicator of administrative performance. The carryover of unused pledges remaining at the end of the current year is likely to be much smaller than at any time since the establishment of the consortium and will be a result of special problems in finalizing aid negotiations on certain projects together with the terms on which certain aid is offered, rather than slowness in project preparation per se. In respect of the rate of disbursement and the consequent size of the pipeline, non-project aid is being disbursed about as rapidly as it is committed, allowing for the inevitable delays in allocating it to the private or quasi-private sector. The closing level of pipeline for this type of aid may be a little smaller than at the start of the Plan. The disbursement of project aid is only now reaching the amount that was contemplated as an average for the Second Plan as a whole. Considering the level that Plan expenditures have now reached, the disbursement of project aid is clearly still quite slow. This, as well as difficulties and problems which the Mission observed in connection with a number of projects, leads us to repeat the recommendation in last year's report that the Planning Commission establish a section charged with keeping closely in touch with the implementation of projects. This should not interfere at all with the Provinces' responsibility for project preparation and execution.

83. In respect of the preparation of Third Plan projects, a large number of feasibility studies have been completed or are nearing completion. The projects that will emerge from these studies, together with the large number of on-going projects, should permit a steadily rising level of development expenditure. What seems to be deficient or lacking are plans for the appropriate time-phasing of projects. For example, decisions as to which projects are to be undertaken during the first year of the Third Plan and which left for later had not yet been taken at the time of the Mission's visit.

84. In respect of a broader field, preparations for the Third Plan have also moved quite slowly. The special committee that was established a year or longer ago to prepare recommendations on new sources of government revenue for the Plan has not yet reported. Also, the overhaul of the tariff structure to provide a substitute for direct import controls is still awaited. These delays in reaching decisions on matters of basic economic and fiscal policy make the task of preparing as well as reviewing the Third Plan more difficult.

CHAPTER 2

THE THIRD PLAN - GENERAL FRAME

Size of the Plan

85. The financial magnitude of the Third Plan is about double the Second, Rs. 52 billion ($10,920 million) as compared with about Rs. 26 billion.1/ In real terms the increase proposed is somewhat less. Prices of investment goods increased about 8 per cent over the Second Plan period and assuming this rate to continue through the Third Plan, the latter would be roughly 85 per cent larger than the Second Plan in real terms. By any standards the Third Plan represents a very substantial stepping-up of the country's investment effort.

86. For the Third, as in the Second Plan, the Government is treating investment in the Indus Basin Works as outside the frame of the Plan. The foreign exchange and a large portion of the rupee costs of this undertaking have, of course, been provided by the group of friendly oountries through the Indus Fund. The costs of the proposed Tarbela project are also not included in the Plan. The proposed Third Plan expenditures, together with projected disbursements on the Indus Works are shown in Table 1 in comparison with corresponding expenditures and financing for the Second Plan. Since no decision has been reached as to when and whether the Tarbela project will be undertaken during the Third Plan, its costs and financing are not included in this table. These data do, however, include the Rural Works Program, which was treated as outside the Second Plan but which has now been incorporated as an integral part of the Third Plan. Thus just over Rs. 55 billion (about $11.6 billion) would be spent on all development undertakings in Pakistan during the Third Plan period if Tarbela is excluded.

1/ About Rs. 25,500 million of this was spent on the Second Plan itself and about Rs. 800 million on the Rural Works program. Projected expenditures on the latter are included in the Third Plan.

Table 1 (a)

PAKISTAN DEVELOPMENT PROGRAM
(Millions of Dollars)

	Second Plan			Third Plan 1/		
	Total	Foreign Exchange	Rupees	Total	Foreign Exchange	Rupees
Expenditures						
Plan and Rural Works Program	5523	2772	2751	10920	4725 2/	6195
Indus Basin Works	590	343 3/	247	691	409	282
(1) Total Expenditure	6113	3115	2998	11611	5134	6477
Financing						
External	2622	2047	575	4333	3661	672
Of which						
Private investment	95	95		147	147	
Technical assistance	90	90		105	105	
PL 480 counterpart	575 4/		575	672		672
Indus Fund	343	343		409	409	
Other foreign assistance	1519	1519		3000	3000	
(2) Pakistan's own resources	3491	1068	2423	7278	1473	5805
Percent (2) of (1) (including Indus)	57	34	81	63	28	90
Percent (2) of (1) (excluding Indus)	62	39	88	66	31	94

1/ Plan expenditures and financing are Planning Commission estimates. Indus expenditures are Bank estimates.

2/ Using Planning Commission estimate that foreign exchange is 43 per cent of total Plan expenditures. Compares with 50 per cent in Second Plan.

3/ Includes $21 million from the Indus Fund for the purchase of rupees from the State Bank of Pakistan used for the Indus Basin Works.

4/ $414 million equivalent for the Second Plan and Rural Works Program and $161 million equivalent for Indus.

Table 1 (b)

PAKISTAN DEVELOPMENT PROGRAM

(Millions of Rupees)

	Second Plan			Third Plan 1/		
	Total	Foreign Exchange	Rupees	Total	Foreign Exchange	Rupees
Expenditures						
Plan and Rural Works Program	26300	13200	13100	52000	22500 2/	29500
Indus Basin Works	2802	1627 3/	1175	3289	1947	1342
(1) Total Expenditure	29102	14827	14270	55268	24436	30832
Financing						
External	12481	9744	2737	20625	17426	3199
Of which Private investment	450	450		700	700	
Technical assistance	430	430		500	500	
PL 480 counterpart	2737 4/		2737	3199		3199
Indus Fund	1633	1633		1947	1947	
Other foreign assistance	7230	7230		14300	14300	
(2) Pakistan's own resources	16621	5083	11533	34643	7011	27633
Percent (2) of (1) (including Indus)	57	34	81	63	28	90
Percent (2) of (1) (excluding Indus)	62	39	88	66	31	94

1/ Plan expenditures and financing are Planning Commission estimates. Indus expenditures are Bank estimates.

2/ Using Planning Commission estimate that foreign exchange is 43 per cent of total Plan expenditures. Compares with 50 per cent in Second Plan.

3/ Includes $21 million from the Indus Fund for the purchase of rupees from the State Bank of Pakistan used for the Indus Basin Works.

4/ $414 million equivalent for the Second Plan and Rural Works Program and $161 million equivalent for Indus.

87. In making comparisons between the two Plans, it must be borne in mind that during the Second Plan Pakistan had a rapidly accelerating annual rate of development expenditures which increased about 156 per cent between 1959/60 and 1964/65. As between the last year of the Second Plan and 1969/70, the increase proposed is 68 per cent. Thus comparing the aggregates for the two Plans over-emphasizes the acceleration in spending that is involved. What is envisaged is a steadily increasing annual amount of development spending and foreign resource inputs during the Third Plan, with the former increasing about 11 per cent a year and the latter about half that rate or 5.6 per cent annually.

88. Table 1 also shows the proposed sources of financing for this development effort. Appendix Tables 31 and 32 give the expenditures and financing for the Plan and for the Indus undertaking separately. The latter would be entirely financed from external sources. On the foreign exchange side, the financing would be from the funds already committed by the Indus Club, and on the rupee side from PL 480 counterpart.

89. The authors of the Plan contemplate that, despite the sharp increase in investment envisaged, the mobilization of domestic resources through private and public savings would increase considerably more than the increase in investment. During the Second Plan period, about 57 per cent of total development outlays (including Indus) was raised internally. For the Third Plan period, this would be about 63 per cent. For the Plan itself (excluding Indus) the Pakistan contribution is planned to be 66 per cent as compared with about 62 per cent in the Second Plan. This will involve a marginal rate of domestic saving of 22 per cent as compared with 21 per cent for the Second Plan

90. It will be observed from Table 1 that the direct and indirect foreign exchange component of the development program (including Indus) is expected to decline from about 51 per cent in the Second Plan to 43 per cent in the Third. This is based on an estimate of the Planning Commission and seems to reflect expected import substitution in the capital equipment field. The mission feels that this assumption may be a little optimistic. However, the larger Rural Works Program during the Third Plan will make for a somewhat lower foreign exchange component. During the Second Plan about 34 per cent of the foreign exchange costs of the Plan plus Indus was met from Pakistan's own foreign exchange earnings. This would decline to 28 per cent for the Third Plan. Thus, although exports are expected to increase at a rapid rate (9.5 per cent is forecast by the Government and about 8 per cent by the Mission), the proportion of export earnings available after paying for consumer goods imports and meeting debt service is not likely to increase quite as rapidly as gross investment.

Development Expenditures as Compared with Investment

91. It is necessary to distinguish between Plan expenditures and the total gross investment taking place in the economy. The latter is the more relevant for growth analysis. Plan expenditure includes a certain amount for development, but not strictly investment purposes. Expense involved in the initial operation of public projects is an example. This type of outlay is estimated at about Rs. 4,600 million for the Third Plan,

roughly 9 per cent of total Plan expenditure. On the other hand, investment in the non-monetized sector of the economy and inventory investment are not included in the Plan. These two elements are estimated at Rs. 3,950 million, roughly balancing the non-investment expenditures in the Plan (see Table 2). However, there is no statistical basis for determining investment in the non-monetized sector and the amount included is estimated by assuming that a small percentage (2%) of farm income is invested in the non-monetary sector. Obviously any such estimate is a guess.1/

1/ By doing a census type survey of investment for 1962/63 and extrapolating by treating investment in other years as a function of inputs of steel, cement, machinery and equipment, (using 1962/63 parameters) the Planning Commission has estimated gross fixed investment in broad sectors for the Second Plan. Using parameters derived from this analysis the investment output relationships proposed for the Third Plan have been checked for consistency with the overall and sectoral growth targets using input/output model projections. More detailed work with a larger number of sectors is required but the results to date indicate a fair degree of consistency in the Plan.

Table 2

PLAN EXPENDITURES AND GROSS INVESTMENT 1960 - 1970

(Million Rupees, current prices 1960-65, constant 1965 prices thereafter)

	Actual				Estimate			Projection					
	59/60	60/61	61/62	62/63	63/64	64/65	Total Second Plan	65/66	66/67	67/68	68/69	69/70	Total Third Plan
Plan Expenditures:													
Private Sector	890	1457	2051	2077	2734	3181	11500	3500	3900	4350	4850	5400	22000
Public Sector (a)	1870	1894	2364	2722	3200	3850	14030	4400	4950	5500	6050	6600	27500
Public Works	-	-	-	100	300	400	800	500	500	500	500	500	2500
Total Plan Expenditures (a)	2760	3351	4415	4899	6234	7431	26330	8400	9350	10350	11400	12500	52000
Non-monetized Investment	400	400	450	430	450	450	2180	470	490	510	530	550	2550
Changes in Stocks	430	170	40	320	250	250	1030	300	250	250	300	300	1400
Indus Basin Works	-	100	210	780	890	925	2905	822	822	822	822	-	3288
Total Plan Expenditures & Other Investments	3590	4021	5115	6429	7824	9056	32445	9992	10912	11932	13052	13350	59238
Less: Non-investment Plan expenditures	160	246	355	463	544	655	2263	740	830	920	1010	1100	4600
Total Gross Investment	3430	3775	4760	5966	7280	8401	30182	9252	10082	11012	12042	12250	54638

(a) Including non-investment development expenditures.

Allocations as Between the Public and Private Sectors

92. Of the Rs. 52 billion of Third Plan expenditures, public sector expenditures (including the financing of private sector investment from public funds) are not to exceed Rs. 30 billion. For the Second Plan, public sector development outlays (including the Rural Works Program) is expected to be about Rs. 14.8 billion out of Rs. 26.3 billion. The share of the public sector would thus increase a little from about 56 per cent to 58 per cent as between the two Plans. Public development expenditure as a percentage of the total of such expenditures has been increasing steadily over the last fifteen years, rising from only 29 per cent in 1949/50 to 50 per cent in 1959/60 and to over 57 per cent in 1964/65. However, there is a considerable amount of public development expenditure used to finance private investment, and non-Plan investment (stocks and non-monetized investment) is largely in the private sector. Taking account of these factors the share of private investment in the total (excluding Indus) will probably not change much as between the two Plans. The share of the public sector may rise a little because of the public sector industries planned for East Pakistan.

93. As in other mainly private enterprise economies, the Plan investment targets for the public sector are more explicitly defined (in terms of sectors and projects) than is true of the private sector. The former is an operational program while the latter is an "indicative" one, reflecting the planners' conception of how private sector development should proceed. This is not to say that the Government is without means of steering private investment into lines it considers best for national growth. The sanctioning of industrial investment and the advancing or withholding of Pakistan Industrial Bank and Agricultural Development Bank credit are the most direct of these means. Import controls, tariffs and fiscal measures are others, the first of which is gradually being supplanted by the second and third. The export bonus scheme, inasmuch as it provides different export rates for different commodities and the program of providing tax relief as incentive for new industries, are other means at the Government's command for encouraging or discouraging particular private investments. Recently in East Pakistan, the East Pakistan Industrial Development Corporation arrangements for joint participation in the jute goods industry with the private sector is another means used to influence the direction of private investment.

Regional Allocation of Investment

94. The Third Plan provides that about 54 per cent of public sector and 52 per cent of total investment will be in East Pakistan. The investment in public sector industries in the Eastern Province is expected to increase threefold during the Third as compared with the Second Plan. During the last five years, a particular effort has been made to accelerate the rate of development in East Pakistan and, according to the revised national accounts estimates, the growth of per capita income from 1959/60 to 1963/64 was 2.7 per cent per year in East Pakistan as compared with only 2.4 per cent in the West. The same relationship obtained between the growth in GNP which, during the first four years of the Second Plan, averaged 5.4 per cent in East Pakistan and 5.0 per cent in West Pakistan. In 1963/64

per capita income in West Pakistan was still 25 per cent higher than in East Pakistan.

Growth Target

95. The overall increase in real GNP now projected for the Third Plan is 37 per cent or 6.5 per cent a year compounded, about 1.3 per cent a year larger than during the Second Plan. This target had just been established when the Bank Mission left Pakistan. The previous one was 30 per cent. The bench marks from which Third Plan growth will be measured are the trend values for 1964/65.[1/]

96. The raising of the sights was because recent improvements in national accounts estimates indicated that a higher rate of growth had been achieved during the Second Plan than previously thought, with resulting higher "bench marks" (1964/65) for savings, investment and other parameters of growth for the Third Plan. The higher rate of growth will, according to Pakistani estimates be, in a sense, self-generating, since it will evoke higher levels of domestic resource mobilization. On this basis the overall level of the Plan was raised from Rs. 45,500 billion to Rs. 52,000 billion without increasing the requirement for foreign assistance. The growth targets for the productive sectors of the economy are shown in Table 3. The national accounts show a growth in the agricultural sector of 3.5 per cent a year and in the rest of the economy of 7.1 per cent per annum during the Second Plan. Broadly speaking, the growth strategy of the Third Plan is to maintain this rate of increase in non-agricultural sectors and step-up the growth of the agricultural sector by 2 per cent, i.e. from 3.5 to 5.0 per cent a year. This is an over-simplification, since the different elements in the non-agricultural sector are calculated to grow at disparate rates. Obviously, also, the composition of Gross Domestic Product as between the agricultural and non-agricultural sectors will change as will the composition of the non-agricultural part of production. As Table 3 shows, the most striking change in the annual growth rates is in construction, which is largely connected with the stimulus given to that sector by the Indus Basin and Rural Works program during the Second Plan.

1/ Based on a ten-year least squares computation.

Table 3

SECTOR GROWTH

	Annual Growth Rates %		Percent Contribution to GNP	
	Second Plan	Third Plan	1964/65	1969/70
Agriculture	3.5	5.0	49.0	46.7
Manufacturing	8.6	9.0	10.9	12.7
Large Scale	13.0	12.9	7.1	9.5
Small Scale	2.6	3.0	3.8	3.2
Mining	9.8	11.1	0.3	0.4
Construction	22.2	11.8	4.4	5.5
Public Utilities	21.5	18.4	0.8	1.1
Transport and Communication	5.8	5.5	6.2	6.2
Other Services	5.3	5.5	25.1	24.5
Unallocated1/	4.7	5.2	3.3	2.9

1/ Central Government, PIA, Banking and Insurance.
Source: Planning Commission.

97. The most important factor in Pakistan's accomplishing the growth objective of the Third Plan, in addition to the amount of investment, is the timing and scale of return on this investment. The Government envisages some increase in the capital/output ratio during the Third Plan, the basis for this conservative assumption being that the social sectors and long gestation industrial projects will receive a larger portion of total investment funds. It seems unlikely, however, that projects with a long pay-off period will be relatively more important during the Third as compared with the Second Plan. Of course, the share of large-, as compared with small-scale industries will increase as it has been doing over the last 15 years, and this may cause industrial investment to require a longer gestation period. On the other hand, in agriculture, with greater emphasis on water investment and on providing more nearly adequate farm supplies, this should mean that Third Plan investments in this sector will yield a faster and larger return than investment in agriculture and water did during the Second Plan. This is implicit in the assumption that the spread between agricultural and industrial growth will be narrowed during the Third Plan, a process that was already underway during the last five years. For these and other reasons discussed below, it seems likely that the growth target of the Third Plan can be achieved if agricultural production receives the urgent attention it requires.

98. The export target for the Third Plan calls for an annual increase in foreign exchange earnings of about 9.5 per cent. The Mission's evaluation of this target is given in Chapter 4. The export projections

will involve further important shifts in their composition away from agricultural raw materials towards manufactured products. The agricultural component of exports has already declined from 90 per cent in 1951/52 to about 52 per cent in 1964/65, largely because of the growth of the textile industry. As indicated above, the expansion of exports during the Third Plan is expected to reduce gross foreign capital requirements from about 9 to 8.2 per cent of GNP.

99. The principal indicators that Pakistan is moving towards self-sufficiency during the Third Plan are that the ratio of the increase in imports to increase in GNP (marginal import rate) is expected to decline from 15.5 per cent in 1965/66 to 12.1 per cent in 1969/70 and the fact that the relative increase in capital requirements measured by the capital/output ratio (assumed as about 2.8 per cent) times the growth rate (6.5 per cent) is about 18, or lower than the projected marginal rate of saving of 23 to 24 per cent. This means that the resource gap at the assumed growth rate should narrow in relation to investment, and later absolutely. Other supporting evidence is that exports should increase faster than imports by a fair margin (8.1 as compared with 7.2 per cent per annum).

100. The growth in population estimated at between 2.6 and 3 per cent per annum is being tackled by increased emphasis on family planning during the Third Plan. The Mission is not optimistic about the near-term results and, however successful, the program will not affect the size of the labor force during the next 15 years or so. However, it seems probable that the rate of increase of capital stock during the Third Plan will be considerably greater than the increase in the labor force, so that productivity per worker should continue to rise even after taking into account some increase in the capital/output ratio.

Points of Emphasis in the Third Plan

101. The principal objectives of the Third Plan may be summarized as follows: (1) to increase the rate of economic growth of the economy by about 1 per cent per annum as compared with the Second Plan; (2) to accomplish this primarily by increasing the mobilization of domestic resources, and thus reduce the resource gap as a percentage of total investment; (3) bring about a more balanced growth in the economy by increasing the rate of growth of agricultural output by 1.5 per cent a year and by directing a larger share of industrial investment towards capital goods industries; this will require a sharp increase in the proportion of total industrial investment that is channeled through the public sector particularly in East Pakistan; (4) increase exports in relation to GNP; and (5) narrow the discrepancy between per capita income in the two Provinces.

102. Aside from financial limitations, the principal constraints during the Third Plan are likely to be (1) the required regional division of investment; (2) social welfare objectives which may (in the short-run at least) run somewhat counter to optimum savings and return on investment; (3) lack of basic and technical education; and (4) public administration.

CHAPTER 3

DOMESTIC RESOURCES FOR THE PLAN

103. This chapter will consider the feasibility of mobilizing the amount of domestic resources which the Planning Commission considers will be necessary to carry out the Plan. In the concluding chapter we will discuss the overall investment target for the economy as a whole, its implications for domestic consumption, and the external assistance that appears necessary to achieve the growth target of 6.5 per cent a year.

104. Two considerations are paramount in assessing the feasibility of mobilizing Rs. 35,500 million of domestic financial resources for development during the Third Plan: First, the economy's capacity to generate the required levels of income and savings; second, the prospect of transferring an adequate proportion of the savings into private and public development expenditure. With the economy growing during the Second Plan at 5.2 per cent a year in constant prices, it was possible to mobilize over Rs. 16,000 million (Table 1, Chapter 2) of domestic resources for development purposes as the average rate of domestic savings increased from about 6.5 to 10.5 per cent of the gross domestic product. Under the assumptions of foreign assistance in the Third Plan frame, the domestic financial resources required would mean the average savings rate would have to be raised to around 14 per cent of the gross domestic product. This implies that a little more than a fifth of the total additional income generated would be saved.

105. During the Second Plan, the Mission estimates that the marginal savings rate was about 21 per cent and the Third Plan calls for it to increase only to 22 per cent, assuming, of course, that the planned economic growth actually occurs.1/

106. While the increase appears modest, to expect an economy with per capita GNP of around $80 to save nearly a quarter of any addition shows a considerable confidence in the willingness of the people to undergo austerity and of the Government to adopt strong measures.

107. The Planners pointed out, however, that, owing to the higher levels of per capita income during the Third Plan than in the Second, the per capita marginal rate of saving could decline from about 33 per cent to 28 per cent. On a per capita basis, proportionately less of the additional income would be required to be saved, thus imposing relatively less austerity on the nation.

1/ One percentage point addition to the marginal rate of savings means over Rs. 1.7 billion of additional domestic resources for the Plan.

108. The strategy of the Third Plan calls for continuing the favorable treatment accorded in the Second Plan to the sectors of the economy which are most productive of savings such as large-scale industry. However, it is expected that industry's relative contribution to the increase in GNP will be a little less during the Third Plan than in the Second (20 per cent as compared with 18 per cent), while that of agriculture will increase (33 per cent to 40 per cent). Because of industry's proven propensity to save, this may tend to reduce the marginal savings rate unless more inducements (and/or requirements) are given to the agricultural sector to save and invest. Better supplies of agricultural inputs, particularly machinery, and new efforts in the field of agricultural taxation are necessary to this end.

109. The Mission feels that the comparatively high level of savings achieved during the Second Plan was due in large part to two factors: (1) the encouragement given to savings and investment by the removal of controls; and (2) the Government's ability to mobilize public savings through increases in taxes. Both these lines of policy are to be further pursued during the Third Plan, though concrete steps to be taken are not yet always clearly established. However, the Mission feels that Pakistan can and will take the necessary action to accomplish the overall savings objectives of the Third Plan, assuming, of course, that the present high priority given to economic development continues.

Division between Public and Private Sectors.

110. The Government is setting a target of Rs. 19,000 million for private domestic savings and Rs. 16,500 million for public savings to meet the domestic resources requirements of the Third Plan. The comparison with the Second Plan is shown in the following table:

Table 1.
FINANCING OF DOMESTIC RESOURCES REQUIREMENTS
UNDER SECOND AND THIRD PLANS
(Rs. Million)

	1959/ 1960	1964/ 1965 (Est.)	2nd Plan Revised Estimates	Percent	Third Plan	Percent
Government financed Sector:						
Revenue Surplus	30	1382	3963 1/	24.4	11600 1/	32.7
Net Capital Receipts (Incl.Local Bodies)	214	400	1746	10.8	2400	6.8
Borrowings from Banks	--	365	911	5.6	1500	4.2
Possible Additional Sources	--	--	--	--	1000	2.8
Total:	244	2147	6620	40.8	16500	46.5
Private Sector						
Domestic Savings	776	2589	9620	59.2	19000	53.5
Total:	1020	4736	16240	100.0	35500	100.0

1/ Including additional taxation and customs duties on Commodity Aid.
Source: Planning Commission.

111. Thus the Third Plan will involve a considerably larger transfer of development resources from the private to the public sector in proportion to total domestic savings than the Second Plan. At the same time, domestic savings retained for investment in the private sector would have to be approximately doubled.

112. Private Sector. The assumption that this larger transfer of financial resources to the Government is compatible with the private investment target depends on private economic activity continuing to pick up momentum. The rise in domestic private savings flowing into fixed monetized investment from about Rs. 800 million in 1959/60 to around Rs. 2,600 million in 1964/65 is remarkable. A further increase to Rs. 3,000-4,000 million by 1969/70 appears feasible. Domestic private investment of this magnitude is dependent upon continued fiscal incentives favorable for investment and other positive factors influencing the investment climate. The recent trade liberalization should be one of such incentives.

113. The Plan contains only very rough estimates of the specific sources of the Rs. 19 billion of private development funds. The Government estimates that self-financing and reinvestment of profits will contribute Rs. 10 billion, bank credit expansion Rs. 6 billion and net issues on the capital market Rs. 3 billion. The Rs. 6 billion of bank credit expansion includes credit advanced by specialized government corporations (except PICIC, which provides foreign loans). The contributions from these sources in the Second Plan are estimated at Rs. 4.5 billion, Rs. 4 billion and Rs. 1.12 billion, respectively. Thus self-financing and issues on the capital market are expected to increase by about 120 per cent and 168 per cent respectively, while bank credit expansion would increase by 50 per cent. The bank credit expansion seems compatible with monetary stability but perhaps not if the public sector also requires substantial deficit financing. Experience during the Second Plan indicates that the other targets may be attainable. The overall private savings target would involve a private sector marginal savings rate of about 10 per cent of GNP, the same as that achieved during the Second Plan.

114. The bulk of the private savings is expected to come from the industrial sector through reinvested earnings, new capital issues and other forms of self-financing. This, of course, is the fastest growing part of the economy. Self-financing of investment in the agricultural sector, stimulated by price incentives and other measures, and self-financing in housing are expected to increase significantly. In particular, the Government is looking for a spurt in private investment in East Pakistan in response to fiscal incentives, distribution of foreign loans through PICIC and IDBP and through a modified industrial investment schedule.

115. Given the amount of credit expansion proposed, the savings and investment targets for the private sector may be reached. However, this will mean a continuance of austerity in consumption and wages during the Plan period.

116. Public Sector. In the Mission's view, securing sufficient domestic resources to finance the public sector program will present a more serious problem because of the relatively larger portion of total domestic savings destined for the public sector, the lack, at present, of a firm program for securing all the necessary revenues, and the greater commitment of the Government to the public sector program because of the nature of the planning and plan implementation processes in Pakistan. As noted above, the public program is "operational", whereas the private program is "indicative".

117. The Government estimates that the consolidated revenues of the Central and Provincial Governments on the basis of a 37 per cent growth rate will increase by approximately two-thirds. It is also expected that non-development expenditures will increase more slowly than revenues, rising by 36 per cent from Rs. 16.7 billion to about Rs. 22.8 billion. Excluding debt servicing and recurring expenditures of the development departments, the increase in administrative expenditure (including defence) has been about 6 per cent a year and the comparable figure for the Third Plan is under 3 per cent. The resulting revenue surplus, which is the principal item of government domestic development financing, is estimated at Rs. 11.6 billion or about triple the Second Plan volume of Rs. 3.96 billion (including returns from new taxes and increases in rates). The returns from additional taxation, a key element in the forecast, are tentatively set by the Planning Commission at Rs. 3.0 billion, pending the report of a high level Commission on Taxation and Tariffs, appointed by the National Economic Council both for this purpose and to recommend improvements in tax administration and in the tariff structure.1/

118. The net proceeds of the capital transactions of the Central and Provincial Governments, including the local authorities, are estimated at Rs. 2.4 billion and compare with about Rs. 1.7 billion raised during the five years ending 1964/65. Gross receipts in this category are estimated at almost Rs. 900 million above the Second Plan but a third of this increase will be utilized for meeting the increased liability on account of foreign loan repayments.

119. To obtain one billion of the remainder of Rs. 2.5 billion of domestic resources required for the government-financed development program, it is planned to transfer private resources to the public sector by associating more private investment with public corporations, particularly the PIDC's. The remaining Rs. 1.5 billion would be obtained by means of

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1/ The Commission on Taxation and Tariff was appointed on March 23, 1964, to study taxation measures which could be taken at Central, Provincial and local levels for mobilizing additional resources for the Third Plan; to study the working of tax collection machinery at Central and Provincial levels; and to review and make recommendations for rationalizing the existing tariff structure. It has not yet reported.

deficit financing. This contrasts with the commitment of the Government in the Second Plan not to undertake any net deficit financing, although deficit financing (about Rs. 1.8 billion for the public sector as a whole) did take place. As in the Second Plan, the relative role that deficit financing is to play is to be determined yearly when the budget is formulated in the light of the prospective yields from existing and new taxes, capital receipts, expansion of private credit and other factors influencing the fiscal and monetary position.

120. The fiscal program is summarized in the following table:

Table 2
DOMESTIC RESOURCES FOR FINANCING DEVELOPMENT PLAN EXPENDITURES
(Millions of Rupees)

	1964/ 1965 (Est.)	1969/ 1970 (Proj.)	Second Plan	Third Plan	Percentage Increase 1964/65 over 1959/60	1969/70 over 1964/65	3rd Plan over 2nd Plan
Government-financed Sector	2147	3790	6620	16500	780	77	149
1. Revenue Receipts	5094	8170	20700	34355	93	60	66
Taxes	3981	6500 1/	15700	27631	99	63	76
Non-tax Revenues	1113	1670	5000	6724	74	50	34
2. Non-development expenditures	3712	5180	16741	22755	42	40	36
Defense	1297	1434	5496	6890	35	11	25
General administration	1126	1320	5441	6462	28	17	19
Development Departments	817	1515	3456	5855	78	85	69
Debt Services	472	911	2348	3548	31	93	51
3. Surplus on Revenue Account (1-2)	1382	2990	3963	11600	4507	116	193
4. Net Capital Receipts (Incl. Local Bodies)	400	500	1746	2400	87	25	37
5. Borrowing from Banks (Govn't only)	365		911	1500			65
6. Possible Additional Sources	--	300 2/	--	1000			

1/ Including estimated additional taxation of Rs. 920 million.
2/ Arbitrary estimate based on total.

121. The Mission believes that the revenue objectives can be accomplished, although this will not prove to be easy either politically or administratively. The projected growth of the Pakistan economy should provide sufficient margin for meeting the target, i.e. that of increasing government tax revenues by approximately three-fourths over the Second Plan. This would mean that total tax revenues would have to increase approximately 12 per cent a year as between the average for the two Plans. However, the increase from 1964/65 to the final year of the Third Plan would be less, about 10.2 per cent a year (1.57 times the projected growth in GNP).

122. During the Second Plan tax revenues increased more than twice as fast as the gross national product but they comprised a smaller proportion of GNP than is estimated in the Third Plan, 7.6 per cent compared with slightly less than 10 per cent. However, the proportion of the annual increment in GNP that would be taken in taxes would approximate the take in the Second Plan, that is, roughly 15 per cent. These relationships are indicated in the following table:

Table 3

TAX REVENUE EFFORT OF CENTRAL AND PROVINCIAL GOVERNMENTS
(Millions of Rupees)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	GNP (Market Prices)		Tax Revenues		% Annual Increase in:			
	Total	Annual Increment	Total	Annual Increment	GNP	Tax Revenues	Col.(4) as % of Col.(2)	Tax Revenues as % of GNP
1959/60	32710	--	2000 1/	--	--	--	--	6.1
1960/61	36110	3410	2430 1/	425	10.4	21.5	12.5	6.7
1961/62	37760	1650	2750 1/	324	4.5	11.7	19.6	7.2
1962/63	39930	2170	2950	201	5.7	7.3	9.3	7.3
1963/64	42960	3030	3400	448	7.5	15.1	14.8	7.9
1964/65 (Estimate)	45540	2580	3980	583	6.0	17.1	22.6	8.7
1969/70 (Projected)	62770	3910	6500 2/	510	6.6	8.5	13.0	10.3
Annual Average								
Second Plan	40460	2570	3100	396	6.8	14.7	15.4	7.6
Third Plan	55420	3450	5530 2/	504	6.6	10.3	14.6	9.9

1/ Excluding customs duties on Commodity Aid.
2/ Assuming Rs. 3,000 million of additional taxation during the Plan period.

123. Further discussion of Pakistan's tax system, changes in recent years and an analysis of the bases for the projections is in Annexes 8 and 9.

124. Non-tax revenues are expected to yield about Rs. 6.7 billion compared with Rs. 5.0 billion in the Second Plan. The nearly two-fold gain in non-tax receipts from Rs. 640 million in 1959/60 to an estimated Rs. 1,113 million in 1964/65 might suggest that the Third Plan projection of a 34 per cent increase by 1969/70 is too modest. It implies that non-tax receipts would be lagging a little behind the growth of the economy. However, this conclusion of under-estimation may not be warranted. Debt services (i.e., interest receipts primarily on loans from the Central Government to the Provincial Governments and on loans extended by the latter to municipalities, railways and public corporations) were the principal source of non-tax revenues in the Second Plan and are expected to maintain this position in the Third Plan. This source of revenue is not likely to increase rapidly. With new post offices opening, postal and telephone and telegraph traffic expanding, and expansion of the telecommunication system, net receipts from these sources are expected roughly to double in volume. Receipts from other sources (i.e., fines, fees, forfeitures, and collections for services rendered by General Administration and Beneficient Departments, irrigation receipts, Currency and Mint receipts, revenues from sale of timber and other forest receipts, "extraordinary" receipts, etc.) are projected at their estimated 1964/65 levels or at slowly rising trends.1/

125. The projections of non-development spending in the Third Plan imply that there will be no necessity for large increases in defense outlays. They also imply that it will be possible to keep the average annual increase in administration expenses at approximately 3 per cent. The Second Plan experience strongly suggests that the Central and Provincial Governments may be unable to maintain non-development expenditures at these rates.

126. A deceleration in the upward trend in ordinary civilian expenditures from an average rate in the Second Plan of roughly 5½ per cent per year to an average rate in the Third Plan of about 3½ per cent is hardly to be expected. This would imply no significant salary adjustments during the

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1/ In the case of net irrigation receipts in West Pakistan and receipts from Civil Administration and Beneficient Departments in East Pakistan, the levels are below those achieved in the Second Plan. However, net receipts other than interest receipts, posts and telegraphs and currency and mint would in aggregate increase approximately 35 per cent over the Second Plan volume. Government enterprises such as posts and telegraphs are pushing up rates and tariffs and it may be possible to transfer some of the additional income to Government; raising fees, fines, etc. could also provide opportunities for augmenting non-revenue receipts.

next five years. The non-development expenditures of the development departments are expected to increase by approximately 85 per cent during the next five years compared with roughly 78 per cent during the Second Plan. In view of the prospective expansion of capital outlays in the Third Plan, there is a danger that the current expenditures required by the old and new capital investments may be much larger than presently envisaged.

127. Most of the outlays will fall on provincial budgets. The non-development expenditures of the Provincial Governments have escalated sharply with the widening of their administrative responsibilities under the new 1962 Constitution and increased expenditures of development departments and debt services in both Wings. In the three years ending in June 1965, not counting debt services, they will have grown by approximately a third in West Pakistan and by a fourth in East Pakistan. On a comparable basis the projections for the next five years indicate an even more rapid growth, averaging about 15 per cent per year in the West and 13 per cent per year in the East. Even if these rates of increase are sharply reduced, unless new sources of provincial tax revenues are located and effective measures are taken to increase non-tax revenues much more rapidly than estimated, the small but dwindling revenue surplus of the Provincial Governments, made possible by tax sharing with the Center, will disappear. The Provincial Governments would then be turning increasingly to the Center for more tax sharing and grants to finance current expenditures, draining these funds away from development uses. The findings and recommendations of the Financial Commission in respect to the taxes to be reserved for the Center, the possibilities of transferring certain taxes to the Provinces, the tax-sharing formulas, etc., will be reflected in the Third Plan as finally written.

128. In summary, it seems likely that the non-development expenditures are understated by perhaps 5 per cent and that the revenue surplus in the Third Plan on this account might turn out to be around Rs. 1.0 billion smaller than visualized.

129. The Third Plan projection of Rs. 2,400 million of net capital receipts, including contributions from local bodies, should not be too difficult to attain considering the experience during the Second Plan and the magnitude of domestic savings envisaged during the next five years. Savings mobilized in this form are expected to rise moderately from an estimated level of Rs. 400 million in 1964/65 to about Rs. 500 million a year in the Third Plan. If the ratio of net capital receipts to gross domestic savings achieved during the past five years could be maintained during 1965/66-1969/70, net capital receipts would easily exceed Rs. 3,400 million, or Rs. 1 billion larger than projected. This would offset the probable under-estimation of current expenditures, but of course it is contingent upon efforts to mobilize small savings and sell government assets to the private sector.

130. The Government regards its projections of revenue surplus and net capital receipts as conservative and sees the possibility that domestic resource mobilization through these means may be larger. However, if actual domestic and foreign resources fall short of the Rs. 30,000 million ceiling established on the implementation of the public sector program, the Government sees several possible choices ahead. One, which the Mission strongly supports, is to look to private enterprise to take on some of the undertakings presently reserved for the public sector. This might be done on a joint venture basis (see Annex 3). Revising the pricing policies of public enterprises to realize some profits is another possibility. The pricing policies of the public enterprises should be re-examined with a view to enabling them to carry more of the burden of their future expansion out of their own resources.

131. Finally, the Government would rely on deficit financing tentatively estimated at Rs. 1,500 million, which it regards as consistent with the likely demand for money and credit needs of the private sector during the Third Plan. The Mission does not favor this as a planned development resource. The private sector is likely to require all the credit expansion compatible with monetary stability. The Government would be well advised to seek all possible financing of the development program through non-expansionary means rather than commit itself to deficit financing for 9 per cent of its required domestic resources.

Conclusion.

132. The Mission feels that the overall savings target of the Third Plan may be achieved. However, the problems connected with transferring sufficient funds to the public sector, so that 46 per cent of total domestic development financial resources are used for government-financed projects, are formidable and some have not yet been resolved. This is evident perhaps in the Government's reliance on deficit financing and other uncertain sources of funds to make up 15 per cent or so of public sector domestic resources. The Mission does not predict that no funds from these sources can or should prudently be used. However, in one way or another, their mobilization or use will affect the scale of investment possible in the private sector. This, together with the uncertainties surrounding the PL 480 program alluded to in the next chapter, leads to the conclusion that about Rs. 2.5 billion of the domestic resources counted on for the public sector program may not be forthcoming without impinging on the private sector program. This shortfall might be increased to about Rs. 3 billion if the Tarbela project is undertaken fairly early in the Third Plan period.

CHAPTER 4

EXTERNAL RESOURCES

133. The gap between the proposed Plan expenditure of Rs. 52 billion and the domestic resource projection of Rs. 35.5 billion discussed in the preceding chapter would be met by an inflow of foreign resources of Rs. 16.5 billion ($3,465 million) which is the gross foreign assistance requirement estimated for the Plan. In addition, to complete the Indus Basin Works, which would be financed with foreign resources, an estimated disbursement of about Rs. 3 billion will be required.

134. If the proposed Tarbela project is undertaken early in the Plan period, an additional requirement for foreign resources of perhaps about Rs. 2 billion would be involved. Thus, Pakistan's total resources gap during the Third Plan, assuming the postulated mobilization of domestic resources would be between Rs. 19.5 billion ($4,095 million) and Rs. 21.5 billion ($4,515 million) depending upon whether and when the Tarbela project is undertaken.

135. In table 1, chapter 2, which excludes Tarbela, external financing is given as Rs. 20,625 million and internal as Rs. 34,643 million for the Plan and Indus. The reason for the difference between these amounts and the Rs. 19,500 million external and Rs. 35,500 million internal resources referred to above is that the Third Plan postulates Rs. 2,200 million of PL 480 counterpart to be used for the Indus Basin Works and Rs. 1,000 million for the Plan. These amounts have been included as external resources in the table in Chapter 1. However, according to present estimates, the Indus Basin Works, excluding Tarbela will only require about Rs. 1,340 million during the Third Plan. Thus there would be Rs. 860 million for other purposes, and in the aforementioned table this is reflected in a reduction of Pakistani resources from Rs. 35,500 million to about Rs. 34,640 million. If Tarbela is undertaken early in the Third Plan, between Rs. 600 million and Rs. 1,000 million would probably be required for its rupee financing. In this event, the rupee requirements for Indus and Tarbela could be approximately covered from PL 480 counterpart, if PL 480 supplies come up to the Planning Commission's estimates and Rs. 35,500 million of domestic resources are generated for the Plan.

136. The Mission finds it very difficult at this stage to estimate PL 480 absorption. The Planning Commission estimate would involve an increase of about $150 million or $30 million (23 per cent) a year over the Second Plan. In the face of the target increase in domestic agricultural production of 5 per cent a year (substantially more for foodgrain production) to also postulate an increase in the absorption of PL 480 supplies implies a substantial increase either in per capita domestic food consumption or in exports of agricultural products or both. An increase in the former may well occur, but the export position is uncertain because of PL 480 policies in respect of the export of agricultural products (mainly rice) while Pakistan is receiving PL 480

wheat. In our own estimates of Pakistan's official capital requirements (table 1, chapter 6), we have assumed PL 480 counterpart of $10 million a year less than the Planning Commission's estimates. If the problem with U.S. authorities is resolved satisfactorily, the generation of about Rs. 2,500 million of PL 480 counterpart during the Third Plan may be feasible. This would be about Rs. 500 million short of the amount required for Indus, Tarbela and the Plan.1/ However, the uncertainty of the situation counsels a conservative evaluation of the domestic resources for the Third Plan as mentioned in chapter 3.

137. Apart from the Rs. 1 billion of PL 480 counterpart, Rs. 15.5 billion ($3,255 million) of other foreign resources would be required for the Plan. Of this, about Rs. 700 million ($147 million) might be met from net private foreign investment and Rs. 500 million ($105 million) from technical assistance. This would have Rs. 14.3 billion ($3,000 million) to be met from project and non-project loans and grants.

138. The Planning Commission has estimated that Rs. 22.5 billion ($4,725 million) of development imports (capital equipment and materials to make capital equipment plus technical assistance) will be required for the Plan itself. The Mission believes this estimate is reasonable though perhaps a little conservative. Deducting for private investment and technical assistance receipts anticipated, this would leave about $4,473 million of development imports to be covered from the above-mentioned $3,000 million of foreign aid and about $1,473 million of Pakistan's foreign exchange earnings. The rest of this chapter will examine whether Pakistan's export prospects are sufficiently promising to finance this flow of development imports together with the requirements for non-development imports and foreign debt service.

139. The following table summarizes the balance of payments for the Second Plan and for the Third Plan as estimated by the Government.

1/ If started in 1966 the Tarbela project would involve disbursements totalling about $350 million up to June 30, 1970, according to estimates of the Bank Group. About $225 million of this would be in foreign exchange and $125 million equivalent (roughly Rs. 600 million) in rupees. At the end of the Second Plan, the undisbursed commitments for the Indus project should be about $600 million. There is no firm basis at present for calculating the final cost of the Basin Works, but barring events that might increase such costs, the residual left for Tarbela is estimated at between $165 million and $230 million. $275 million to $340 million additional in foreign exchange would be required up to 1976 for the completion of the project.

The rupee costs of Tarbela during the Third Plan are, of course, small in relation to the rupees the Government hopes to raise for the public sector for the Plan and the rupee costs of the Indus Basin Works which total about Rs. 18 billion. Rupee requirements for Tarbela would be between 3 and 4 per cent of this amount.

Table 1

BALANCE OF PAYMENTS ESTIMATES
(Millions of Dollars)

	Second Plan	Third Plan	Per cent Increase
Expenditures			
Development Imports	2,789	4,725	69
Non-development Imports (including net invisibles)	1,483	2,140	44
PL-480 Imports 1/	649	798	23
Indus Basin	322	409	27
Debt Service	200	596	198
Total	5,433	8,668	60
Foreign Exchange Earnings	2,783	4,200	51
Deficit	2,650	4,468	69
Financing			
Project Assistance Plan	825	1,853	125
Non-project Assistance Plan	694	1,156	67
PL-480	649	798	23
Indus Basin Fund	343 2/	409	19
Technical Assistance	90	105	17
Private Foreign Investment	95	147	55
Subtotal	2,696	4,468	66
Short-term capital and change in reserves (-increase)	-46		

1/ Mission estimates PL-480 imports are larger than PL-480 counterpart availabilities because of rupees used for U.S. purposes, changes in counterpart balances etc.

2/ Includes $21 million used to purchase rupees from the State Bank.

Source: Planning Commission.

140. The Government estimates imply that export earnings available for Plan purposes will be 33 per cent larger than in the Second Plan in spite of the substantial increase in debt service. However, the disbursements of project and non-project aid for the Plan will be about twice as large as in the Second Plan, which is about the proportionate increase in the Plan.

141. The commodity export targets set by the Government compared with those of the Mission are as follows for the base and final years of the Plan:

Table 2

EXPORT TARGETS FOR THIRD FIVE-YEAR PLAN
(million rupees)

	1964/65 Estimates	1969/70 Government Estimates	1969/70 Mission Estimates
Primary Commodities			
Jute	820	750	750
Cotton	400	550	550
Hides and Skins	70	80	80
Wool	90	90	90
Rice	140	350	300
Fish	90	250	170
Miscellaneous	140	250	250
Total	1,750	2,320	2,190
Manufactures			
Jute Manufactures	350	800	700
Cotton "	170	350	350
Paper and Newsprint	20	50	20
Other	230	600	500
Total	770	1,800	1,570
Invisible Earnings	530	680	700
TOTAL EARNINGS	3,050	4,800	4,460

Exports

142. Our more detailed comments on Pakistan's export targets are in Annex 1 . Only general comments on some of the principal items are given below. About 88% of Pakistan's present merchandise exports are what may be called traditional exports, namely, primary commodities and textile goods made from jute and cotton. The substantial acceleration of export earnings in recent years had increased this proportion slightly from what it was at the beginning of the Second Plan. The increases have been predominantly in raw cotton and rice. The future outlook is for the maintenance of the present pattern, with the major shift occurring in the case of jute and cotton from the raw fibers to fabrics. Products of other light industries are expected to increase faster than overall exports, but their share in the total is unlikely to grow by more than a few percentage points.

143. On the supply side, the overall growth targets for exports between 1964/65 and 1969/70, and prospects of their being achieved, are therefore very largely a function of agricultural development. As pointed out in the next chapter, prospects in the next five years are particularly good for agricultural production in West Pakistan, owing to the presently very favorable relation between yields and additional inputs of fertilizer and irrigation water. Cotton, fine rice, and miscellaneous primary commodities are produced almost entirely in West Pakistan. The mission believes that the Government is right in setting ambitious targets for the export of these items, and thinks that it is reasonable to expect that their combined earnings could increase from a present level of PRs.680 million to about PRs.1,100 million in 1969/70, or by over 60%. The most important single commodity, however, is raw jute, accounting for over one-fourth of total export earnings. Here the scope for increased production is less bright, and with drastic expansion of use by domestic mills it is expected that export earnings from raw jute will decline somewhat.

144. The target for both jute and cotton manufactures is at least to double the present value of exports, which of course implies not only a large effort by industry by also in the supply of the fibers. While there is hardly any doubt about the availability of cotton in the volume proposed for both export and mill consumption, the same cannot be said for jute. Although the potential for agricultural development in East Pakistan is very large if viewed from the purely technical angle, with the high fertility of the soil and the relatively low cost of lift irrigation water, structural and administrative problems at the present stage make it difficult to achieve an early breakthrough. Jute production has in fact been stationary over

the last five years; a major effort as well as a considerable amount of ingenuity for the improvement of production and marketing will be a precondition for meeting the proposed requirements of both export and mill consumption. To achieve the export target for cotton textiles, it will be necessary to reduce the attractions of the home market relative to exports, thus inducing manufactures to lower export prices.

145. While the targets for the major raw materials, although conspicuously high, appear on the whole to be capable of achievement, the Mission has serious doubts in the case of fish about the realism of increasing exports by over 150 per cent from a present level of Rs. 90 million. Similar doubts exist with regard to the new target for miscellaneous manufactures.

146. On the demand side, Pakistan is not a typical country with a "commodity problem". The largest single export item -- raw jute -- today accounts for not more than 27 per cent of all earnings and its foreign markets, although not growing fast, are relatively stable by comparison with sugar or coffee. And the next largest item, raw cotton, is a relatively safe bet because of Pakistan's small share in world exports; furthermore, whatever may happen to those two commodities, it will not happen at the same time. On other export items, Pakistan is even more a marginal supplier than for cotton.

147. Pakistan's problem lies more in her terms of trade which have long been declining because of the predominance of raw material exports, and they are not likely to improve significantly during the Third Plan. Whatever gains may be made in export prices of raw materials can be offset by rising import prices.

148. However, there is not much choice for Pakistan's export strategy. To maximize earnings, raw material exports have to be promoted along with the policy of diversification. Clearly, however, exports of manufactures have to be expanded as fast as quality considerations permit. The Mission endorses the objective of doubling them in five years, even though this implies some sacrifice to domestic consumers. During the Second Plan, about 13 per cent of the increment in the value added by manufacturing industries was exported; during the Third Plan, this ratio should go up to 18 per cent, which means that, with the same rate of growth in output, there will be a slower growth of domestic consumption.

149. Pakistan's industry is young but has shown some signs of vigor. For those industries which have a profitable home market, strong incentives are needed to activate their export capability. Others, like the jute industry, have been most effective in promoting their sales abroad. This is a hopeful sign; the strategy in the Third Plan is to diversify exports by adding more manufactured goods to the existing range. Still, at this early stage, products of

advanced technology, such as petrochemicals, electronic equipment and components, automotive parts, refrigeration equipment and machine tools, will only start to make their appearance during the Third Plan and their export will be experimental. In the long run there is little doubt that Pakistan will have the skills and the wage advantages for embarking on a policy of exporting, besides textiles, some of the more advanced products of industry on a large scale; but with present facilities, the decision has to be for maximum output of those commodities whose exportability has been demonstrated. Within total exports, manufactured products account for about 27 per cent at present, and this ratio is to go up to 38 per cent by the end of the Third Plan.

150. In summary, the Mission feels that Pakistan may achieve about 93 per cent of the growth in exports aimed at in the Third Plan. This would mean an annual growth of about 8 per cent a year or 46 per cent overall. This compares with the Government's estimate of 9.5 per cent annually.

Imports.

151. The Mission has not attempted to make a detailed estimate of imports on an item by item basis. However, the Planning Commission has made an estimate (partially by input-output analysis) by main categories for the base year (1964/65) and the last year of the Plan 1969/70. The results of this analysis compared with 1960/61 are shown in the following table:

Table 3
IMPORTS DURING SECOND AND THIRD PLAN[1/]
(Rs. Million)

	Actual 1960/61	Estimate 1964/65	Projections 1969/70	Annual % Increase Second Plan	Annual % Increase Third Plan
Capital goods f.o.b.	1,166	2,450	3,050	20.4	4.5
Raw materials for capital goods f.o.b.	549	870	1,570	12.2	12.5
Freight/increase	127	348	440	28.6	4.8
Tech. Assistance	63	100	100	12.2	--
Total development imports	1,902	3,768	5,160	18.7	6.5
Consumer goods	570	645	760	3.2	3.3
Raw materials for consumer goods	317	585	920	16.5	9.5
Freight/Insurance	67	134	165	19.0	4.3
Invisibles	328	370	465	3.1	4.7
Total Non-development imports	1,282	1,734	2,310	7.7	5.9
Total	3,184	5,502	7,470	14.7	6.3

1/ Excluding Indus and PL 480.
Source: Planning Commission.

152. Using the results for these two years, imports for the Plan as a whole were estimated as shown in table 1 above. The total import requirement (excluding debt service) would be Rs. 38,815 million. The Mission made an independent estimate of import requirements by subtracting gross domestic savings from gross investment and adding the difference (the internal resources gap) to our projection of exports. As is shown in table 1, chapter 6, our total was Rs. 39,769 million. We then checked our derived imports against estimated year-to-year final demand (exports plus investment plus consumption) and found that the import dependency ratio was fairly stable (in fact rising slightly) as compared with the last years of the Second Plan (see table 1, chapter 6).

153. The most striking change as between the annual increase in imports during the Second and Third Plans (see table 1 above) is in the imports of capital goods.

154. In the absence of import substitution, the Plan requirements for imported capital goods would increase very substantially in the next five years. During the Second Plan period, the increase in capital goods imports was in pace with the increase in Plan expenditures (excluding works program), namely 20.5 per cent per year. The average annual increase in these expenditures during the next five years is expected to be 11.2 per cent. If imports of capital goods would keep in the same relation, they would reach Rs. 4,170 million by 1969-70. The Planning Commission projects a figure of only Rs. 3,050 million implying an annual increase of 4.5 per cent. This is in line with the emphasis on capital goods industries in the industrial sector of the Third Plan. The projected growth rate for the latter is 10.6 per cent per annum while it is only 7.9 per cent per annum for consumer goods output. The implication of this for the balance of payments is that import substitution will be primarily in the intermediary and capital goods fields. The remaining scope for import substitution of an economical kind is small in consumer goods.

155. Not the whole explanation for the relatively slower growth of capital goods imports is on account of direct import substitution; in fact the change in the physical mix of sectoral investments from the Second to the Third Plan (A greater proportional share fo education, health, rural works and social investment within the total Plan -- see next chapter) results in a greater proportional use of the country's own physical resources for over-all investment. It is not possible at this stage to quantify this effect. The Planning Commission assumes that the foreign exchange component of the Third Plan will be 43.3 per cent as against 50.5 per cent for the Second; this takes account of both import substitution and the change in investment patterns. A third element, the increase in non-investment outlays in the Third Plan (a large part in the form of subsidies and free supply of Government services to agriculture) has only a negligible effect on imports, since they grow in about the same proportion as total Plan expenditures. The projections of imports imply that the combined effect of these factors in the case of capital goods imports is a reduction of import requirements in 1969/70

by Rs. 1,120 million. As a consequence the ratio of capital goods imports (f.o.b.) to total development expenditures would decrease from about 33 per cent in the Second Plan to 27 per cent during the Third Plan period (see table 4 below). Direct import substitution of capital goods is projected to be Rs. 322 million, which would leave about Rs. 800 million to be accounted for by the change in the Plan composition in favor of investments with a lower import component. This indirect substitution effect would seem to be quite large and the Mission feels that it may be somewhat overstated. Of course, if imports of capital goods are larger than anticipated, requirements for materials to produce capital goods domestically would be reduced, although not in proportion.

156. In the field of intermediary manufactured goods, the scope as well as the need for import substitution is considerably larger than in capital goods industries. Some substitution should also be expected in freight charges through substnatial investment presently contemplated for shipping. But this is likely to be partly or wholly offset by the structural change in industrial output. Consumers goods industries which produce the greater part of manufacturing output have so far relied heavily on domestic raw materials (cotton, jute, food), and their import component is only about 16 per cent. Capital goods and intermediary goods industries which are to grow considerably faster during the Third Plan, have to rely on imported raw materials to the extent of about 47 per cent; and this percentage is likely to grow even higher because of the higher quality of their inputs. The existing foundries and rerolling mills, importing pig iron and billets, have a higher ratio of domestic value added to the value of output than the proposed heavy electrical machinery plants or the machine tool factories, importing high grade steel alloys, aluminum and copper.

157. Detailed enough material is not available for the Mission to make an accurate estimate of these factors. The Planning Commission, while projecting a five-year increase in total industrial production of 52.3 per cent, calculated an increase in the requirement of raw material imports considerably larger, namely, by 71.1 per cent. This would mean that even after assuming some import substitution in intermediary products, the net additional foreign exchange cost attributable to industry's growing import dependence would be as much as Rs. 274 million in the last year of the Third Plan. This compares with a saving of Rs. 322 million through import substitution of investment goods. Although the Mission thinks that the basic considerations underlying these projections are correct, there would seem to be some ground for expecting an overall met import substitution a little larger than Rs. 48 million.

158. The import dependence of Plan investment would appear to be somewhat under-estimated for the Third Plan, particularly if the rates of increase in table 3 above are compared, where development imports are expected to increase by just 6.5 per cent per year, compared with 18.7 per cent during the Second Plan. This is, however, somewhat misleading because of the delays in foreign aid disbursements during the early years, resulting in a rapid increase in subsequent years.

Table 4

IMPORTS AS PERCENTAGES OF PLAN EXPENDITURE

	Second Plan	Third Plan
Capital goods f.o.b.	33.2	26.7
Raw materials f.o.b. for investment	11.2	11.8
Total development imports c.i.f.	50.5	43.3

The preceding table shows that the change in relation to the Plan as a whole is a slight increase in import dependence for raw materials for investment, reflecting the requirements of expanded domestic production of capital goods, and which cannot be entirely offset by import substituion in intermediary goods. The implied trend in the import dependence of the whole economy has been checked by the Mission against table 1, page 78 below, where it increases substantially during the Second Plan and remains about stable during the Third[1/], mainly on account of the factors mentioned in paragraph 155. On the whole, the Mission thinks that Pakistan's import projections during the Third Plan are slightly on the low side.

159. As indicated above, the Plan assumes that $1,473 million will be available from Pakistan's foreign exchange earnings for development imports. Since our estimate of foreign exchange earnings are about $4,000 million and non-development imports plus debt service totals about $2,740 million, it would appear that only about $1,260 million would be available for development imports from Pakistan's exports. Thus a shortfall of around $200 million appears to exist between the requirements of the Plan and the sources of financing postulated by the Planning Commission. This, of course, is only 4.5 per cent of development imports and certainly well within the margin of error inevitable in these calculations. It is much smaller than the gap of about $450 million ($600 million with Tarbela) in domestic resources for the public sector which was indicated as likely in the previous chapter. It may be concluded that Pakistan will need to disburse at least as much and maybe a little more foreign aid than is indicated in table 1 above, in order to carry out this Plan.

1/ If the Indus Works expenditures are taken out from this table, the import dependence shows an increase from 9.6 per cent in 1959/60 to 11.2 per cent in 1964/65, and a gradual increase thereafter to 11.7 per cent in 1969/70.

Chapter 5

PLAN ALLOCATIONS AND PROGRAMS

160. The Third Plan divides total development expenditures Rs.30 billion to the government-financed, and Rs.22 billion to the private sector. The expenditure programs within this broad division were still being prepared when the Bank mission was in Pakistan. However, the planned outlays by principal categories are about as follows in comparison with the estimated actual expenditures during the Second Plan.

Table 1

SECTORAL ALLOCATIONS
(Millions of Rupees)

	(1) Second Plan (Est.)		(2) Third Plan (Proposal)		(3) Increase
	Amount	Percent	Amount 2/	Percent	(2) over (1) Percent
Agriculture	3,500	13.3	8,942	15.4	155
Water and Power	4,881	18.6	8,528	15.2	75
Industry	6,365	24.2)	14,745	26.1	103
Fuels & Minerals	894	3.4)			
Transport and Communications	4,494	17.1	10,114	17.9	125
Housing 1/	3,892	14.8	7,176	12.7	84
Education	1,000	3.8	2,882	5.1	188
Health	394	1.5	1,330	2.3	236
Manpower and Social Welfare	79	0.3	283	0.5	258
Works Program	800	3.0	2,500	4.8	212
Less Expected Shortfall			- 4,500		
	26,300	100.0	52,000	100.0	98

1/ And physical (town) planning.
Source: Estimated from Third Five-year Plan, March 1965.

161. Thus, in general, the breakdown of the allocations are quite similar as between the two Plans particularly if the agricultural and water sectors are viewed in combination. The largest percentage increases are in the social welfare fields of education and health and the rural works program, though less than 8 per cent of the total outlay is planned for the two former areas. This is a reflection of the administrative problems connected with a rapid acceleration in

these fields and perhaps also of a desire to concentrate on physical production at this stage of development. However, there is a very pressing need to improve both primary (literacy rate is about 15 per cent) and technical education in Pakistan. The elimination of illiteracy is recognized as an important goal in Pakistan's longer term planning discussed in the next chapter. The mission feels that even a larger expansion of the education allocation during the Third Plan would be desirable.

162. The sectoral allocations indicated above are, of course, only a guide to annual development programming. During the Second Plan there were significant departures from the original allocations both between and within the public and private sectors, mainly for administrative and other pragmatic reasons. The authorities would be well advised to preserve flexibility during the Third Plan as well. The shortfall of resources that the mission foresees for the public sector, particularly if Tarbela is undertaken, and the managerial and other advantages of having the private sector undertake some of the industries, and agricultural supply functions now earmarked for the public sector, are compelling reasons for such flexibility.

163. The Mission's comments on the principal sector programs are summarized as follows. More detailed discussions of each sector are in their respective annexes.

Agriculture

164. The Third Plan calls for a sharp acceleration of growth in the agricultural sector from the 3.5 per cent per year during the Second Plan to 5 per cent per year. To achieve this, the highest priority is being given to measures to increase water availability and use of fertilizer. The Plan calls for maintaining strong farm incentives and strong support for the entire range of agricultural programs. Allocations of public development expenditures for agriculture and water have been roughly doubled over the levels achieved in the Second Plan and provisions are also being made for a considerable increase in development credit for financing private on-farm investments. Together these programs amount to over 30 per cent of planned development expenditures (35 per cent including the Rural Works Program). Provisions have also been made for increasing the supply of essential farm inputs and gradually transferring responsibilities to the private sector. Research and extension activities are to be strengthened further and increased emphasis is to be given to land consolidation, colonization, range land development, soil conservation and agricultural marketing.

165. Water Development. Experience during the Second Plan demonstrates clearly that water has been the major limiting factor in both West and East Pakistan. In West Pakistan, the problem has been one of trying to spread too little water over too much land. In East Pakistan the problem has been too much water in the rainy season and not enough in the dry season. This has resulted in periodic droughts, floods, water-logging, salinity and consequent low yields.

The 20 per cent increase in water availability developed during the Second Plan has been the major growth factor in West Pakistan. The improvements in flood control and drainage resulting from the Coastal Embankment Project and other smaller works have been important factors in East Pakistan. With better control of water and reduced crop losses, more intensive cropping has been made possible and farmers have been in a better position to invest in other inputs such as better varieties of seeds, fertilizers and farm machinery.

166. In the Third Plan, public investments in water will be roughly doubled. In West Pakistan, the aim is to develop 24 million acre feet of additional water, almost a 40 per cent increase in irrigation water. Efforts will be concentrated on developing the sweet water areas and considerable encouragement is to be given to private tubewell development. The low lift pump irrigation programs in East Pakistan will be accelerated and possibilities for large scale sale of small low lift pumps to individual farmers and development of private tubewells will also be given priority. Major emphasis is to be given to completion of the Coastal Embankments Project and other on-going projects and rapid implementation of a major flood control program for East Pakistan. As a result of these programs, in both wings 5.5 million acres of land will be newly irrigated and 21.7 million acres will receive an improved water supply. This is expected to provide about 35 to 40 per cent of the planned increase in output and provide the basis for improvements in cropping practices and increases in other inputs.

167. In both East and West Pakistan, apart from on-going projects which have already been financed, there are very few major projects which have reached the stage of detailed formulation. Considering the lags which can be expected between detailed project formulation, financing, construction, operation and actual use of the water, an all-out effort will be required to carry out the water development program. This will call for rapid completion of on-going projects, maximum support to private sector development and a sharp acceleration in preparation of new projects. On the basis of past performance and the present status of the preparation of projects, the Mission doubts whether a development of this magnitude can be carried out in the five-year period.

168. Fertilizer and Other Inputs. Fertilizer use which has increased from 31,000 nutrient tons (NPK) to an estimated 162,000 tons (NPK) during the Second Plan is expected to increase to 484,000 tons (NPK) at the end of the Third Plan. The Plan calls for construction of additional fertilizer plants, continuation of subsidies to offset high costs of domestic production, continued imports at a level sufficient to avoid recurrence of shortages and further transfer of distribution to the private sector. Necessary credit arrangements are also to be provided. Fertilizer is expected to produce about one-third of the planned increase in agricultural output. However, since demand is already in excess of domestic supply, every effort will have to be made to step up imports and to expedite construction of new plants.

169. Plant protection, improved seed, mechanization, improved practices and increased labor inputs are expected to provide the remaining 30 per cent of the planned increase in output. Plant protection becomes increasingly important with intensification of production and higher yields. On the present subsidized government operated basis only 12 per cent of the cultivated area is covered and the target is to reach 19 per cent in 1969/70. The mission does not believe that this is adequate and that immediate steps should be taken to encourage maximum private sector participation. Similarly, the improved seed and the mechanization programs place too much emphasis on subsidized government services and do not provide sufficient scope for private sector development. (Annex 2).

170. Agricultural Administration and Development. The public sector program for agricultural development has lagged behind targets set in the Second Plan. The major reorganization of agricultural agencies carried out during the first several years of the Plan was undoubtedly disruptive. On the other hand, the sharp increase in private tube-well development and the unfilled demand for tractors, farm machinery, fertilizers and plant protection services show clearly that farmers have become development minded. The increase in agricultural output which has been achieved in spite of the limited availability of essential farm inputs and the inadequate farm credit system indicates a considerable scope for further acceleration of growth.

171. To date, developmental expenditures for agriculture proper have consisted largely of subsidies for various inputs and expenses associated with building up a large governmental bureaucracy engaged in large part in administering a wide range of services. The mission believes that Pakistan could absorb a much higher level of inputs if a larger share of the supply and service functions were turned over to the private sector and government concentrated on those areas which cannot be handled by the private sector. This could bring about a substantial savings in development expenditures and personnel currently earmarked for subsidized inputs and services and make it possible to provide adequate support for the essential agricultural functions of government.

172. While considerable progress has been made in strengthening and expanding research and extension services, a number of serious gaps remain. In the past water has been the most important limiting factor. As a result of the water development program, water is no longer a limiting factor in many areas. Suitable crop varieties and fertilizer are becoming increasingly important in maximizing crop output. This calls for an accelerated research program aimed at developing more high yielding varieties responsive to conditions of optimum water and fertilizer application. It also calls for a further expansion in extension activities to expedite the transfer of results from the research stations to the better farmers.

173. With the increased intensification of agriculture which is currently underway, the cash requirements of farmers for fertilizer, seed, farm machinery, tubewells and land improvement can be expected to increase sharply. To date, a substantial part of the investments in tubewells and farm machinery has come out of private savings and non-institutional forms of credit. The Third Plan provides for only a modest increase in institutional forms of farm credit. "Taccavi loans" (direct government loans) will be maintained at about current levels and expenditures on cooperative credit are to be increased somewhat. The Agricultural Development Bank of Pakistan, which has been the principal source of agricultural development credit, plans to increase its lending operations by about 50 percent in the next five years. The mission believes that a much greater increase will be necessary if the objectives of the Plan are to be realized.

174. Conclusions. In summary, the proposed growth rate of 5 per cent per year during the Third Plan is extremely ambitious. To achieve this rate an all-out effort will be required. Immediate steps should be taken to assure action in the following key areas:

1. Water. A general acceleration of the public water development program, particularly the preparation of flood control, irrigation, drainage and reclamation projects integrated into the respective provincial water resource development plans and maximum encouragement to private tubewells and low-lift pumps.

2. Fertilizer. Highest priority to fertilizer imports and construction of additional fertilizer plants to prevent recurrence of current shortage (including timely release of necessary foreign exchange for fertilizer imports).

3. Strengthening and expanding extension and research activities in order to carry out an intensive campaign to stimulate proper use of fertilizer (phosphatic as well as nitrogenous), plant protection measures, improved seed and improved cultural practices.

4. Maximum encouragement to private sector participation in the production and distribution of all inputs with a view toward reducing government's role as rapidly as is consistent with an orderly transition and acceleration in the use of inputs.

5. A sharp increase in institutional credit to farmers, particularly the lending activities of the Agricultural Development Bank of Pakistan.

6. Maintaining adequate incentives to farmers through a market support system aimed at a gradual improvement of the terms of trade.

Until project preparation has proceeded much further, it is not possible to pass final judgment on the financial allocation for agriculture but it is probably about the minimum required to do the job envisaged.

Industry

175. The industrial sector of the Plan had been programmed only in a general way when the mission was in Pakistan. In West Pakistan an inventory had been made of major industrial projects underway or in the planning stage. In East Pakistan, this analysis was still in progress. A few preliminary studies have been undertaken for some projects in the chemical and engineering sectors. This work had not yet provided a substantial basis for Plan projections.

176. Based on general projections given to the mission, production by industries producing investment goods and intermediate products would increase at 10.6% per annum compared with 7.9% for consumer goods industries. The share of the former in total industrial output would rise from about 33 per cent in 1964/65 to about 36 per cent in 1969/70. The manufacturing sector as a whole would grow by 9.5 per cent per annum versus 9.2 per cent per annum during the Second Plan. Large scale industry would grow 12.1 per cent per annum compared to 13.3 per cent. The contribution of industry to economic growth during the Third Plan would be about 18 per cent as compared with 20 per cent during the Second Plan.

177. It is assumed that the relative share of factory industries in the total manufacturing output would increase at the expense of cottage and other small scale industries. Though there would be a higher growth than in the past in the latter activities (by about 3 per cent a year versus 2.6 per cent during the Second Plan), the share of small scale industries would decline from about 32 per cent of total industry in 1964/65 to 24% in 1969/70. However, the productivity assumptions for small industry are not specifically stated and the basic data available for estimating value added in this sub-sector are extremely weak. The mission recommends that necessary benchmark data should be collected through a quinquennial census of small industries in both the Provinces.

178. The employment impact of the proposed expansion in factory industries is still under study. It is assumed that the increases for employment promotion in organized industries in the urban areas will continue and include fuller utilization of existing industrial capacity by the introduction of multiple shifts and removing handicaps, such as the non-availability of raw materials and spare parts. However, in some industries such as petrochemicals and steel, it is necessary to use high productivity techniques. Since the Third Plan stresses the need to develop more capital intensive industries, it will be difficult to reconcile the need to provide more industrial employment opportunities, especially in the urban areas, with the introduction of industries which are not labor intensive.

179. Of the total projected increase of Rs. 3,089 million industrial output during the Third Plan, the Planners expect Rs. 1,954 million to be absorbed by the domestic market and Rs.1,135 million to be exported. Rs. 900 million of the domestic absorption would be import substitution and Rs. 1,054 million normal increase in domestic demand. Thus, about two-thirds of the increased industrial production will be directly related to the "international" sector of the economy, i.e., exports and import substitution, emphasizing the need for greater attention to Pakistan's competitive position.

180. Despite the mission's reservations on some of the industries, we feel that the target of Rs. 900 million of import substitution may be met during the Third Plan, though some of the projects suggested will not be ready in time to yield import substitution by 1969/70. Since import substitution will occur once the plant is built, whether or not it is economic, one can speak with greater assurance about import substitution capability than about exports.1/

181. The mission believes that the projected overall industrial growth rate of 9.5 per cent a year is attainable. The share of large, as compared with small scale, industries will increase as it has been doing over the last fifteen years. Large scale industries should grow at a rate of 12.1 per cent per annum, which is below the average rate of 13.3 per cent registered during the last five years. The reason for the small deceleration is that consumer goods will grow at a slightly lower rate than during the Second Plan. The mission feels that this assumption is acceptable, although Plan targets for important items such as sugar and edible oil may be on the low side. However, it is also felt that Plan targets for textiles and jute goods are optimistic and, given the weight of these industries in the total industrial output, one may expect that, on the whole, consumer goods will not go faster during the Third Plan than during the Second Plan.

182. Intermediate goods would grow at a higher rate during the Third Plan, i.e., 10.5% per annum. A large part of the increase will be due to the development of fertilizers, various metal products, paper and cement, for which there is a growing market. Several new plants are under construction or are to be undertaken soon.

183. Production of capital goods will continue to bring only a small contribution to total industrial output and the Plan assumes that it is not likely to grow faster than during the Second Plan, i.e. 10.8 per cent per annum. Since most of the heavy capital goods projects included in the Plan will not be in full production before 1969/70, such an approach seems realistic.

1/ See Chapter 4.

184. On balance, the assumption of a slightly higher increase in intermediate products should not result in an overall industrial growth rate superior to that achieved during the Second Plan. The Pakistan industrial structure should remain what it has been for a number of years, based on consumer goods and only progressively shifting towards the output of intermediate and, to a minor extent, heavy capital goods.

185. Investments in organized industry would grow from Rs. 5,656 million during the Second Plan to about Rs. 13,000 million during the Third Plan. Two-thirds of planned investments would be made by the private sector. East Pakistan would absorb about 55 per cent of total investments. However, investment costs are still largely tentative and only a small part of the projection is supported by specific cost estimates for industrial projects. For that reason, they can only be used as partial check on the econometric calculations on which the global investment targets for manufacturing are based.

186. The calculations of investment requirements were based upon the assumption that there would be a gradual increase in the ratio of investment to output from about 1.65 in 1960/65 to about 3.0 in 1965/70. This would result mainly from more capital intensive investments. Although the mission agrees that the capital/output ratio is likely to increase during the Third Plan, the percentage of "capital intensive" industries is not likely to be so much higher than it was during the Second Plan as to justify such a steep increase of the capital/output ratio. The mission feels that there is a tendency to a systematic over-evaluation of the investment requirements for fixed capital, perhaps by as much as 25 per cent.

187. Since it is important to arrive at a reasonably correct view of the need for industrial investments (particularly from the point of view of the balance of payments outlook and the need for industrial finance), the mission recommends that a critical review be made of the basic assumptions underlying the investment cost estimates. The cooperation of industrial associations and major firms should be obtained in revising these estimates. More weight should be given to the peculiar circumstances currently facing each industry and relatively less weight to econometric calculations, useful as the latter are for checking.

188. Investment Policy. One important objective of the investment program during the Third Plan will be to shift the emphasis from consumer goods industry to the establishment of capital goods industries[1/] and so to reduce the country's dependence on foreign assistance for the import of capital goods. The mission has substantial reservations regarding this policy, both because of the capital-intensive character of capital goods industries and the comparative small contribution they will make to reducing unemployment.

1/ Steel mills, heavy machinery, machine tools, heavy chemicals, heavy electricals.

189. Undoubtedly, Pakistan, as other developing countries, finds herself in a difficult situation as she tries to diversify her economy and move in the direction of a balanced structure. She envisages herself as faced with an inelastic demand abroad for the products of her consumer goods industries, but at the same time she will have real difficulty in achieving large enough markets at home and abroad for capital goods industries so that the economies of scale can be obtained. There is also a danger that the pace of investment and industrial growth will be gradually slowed after the painless and profitable take-over of the existing market from foreign competition has been accomplished. This can be seen, for instance, with the textile industry which had a relatively slow growth during the Second Plan. One possibility would then be to induce investment in the production of the equipment and intermediate goods used in the consumption goods industries. That is, import substitution could be extended to the prior stages of production.

190. The Planners apparently feel, with justification, that profits to be obtained from capital goods production in Pakistan will be comparatively low. For this reason, most of these industries are proposed for the public or semi-public sectors leading to questions of management and real costs to the economy. What is required instead is that profits from private consumer goods industries be diverted from reinvestment there to investment in equipment and material supplying industries. But the capital market is not sufficiently developed to make this kind of reallocation of profits easy. The most likely place for reinvestment of profits is in the industry where they are earned. Development banks and some big industrialists are becoming progressively interested in non-consumption goods industries, but this development is still at an early stage. Moreover, capital is required in much larger amounts per unit of output in the steel or the machine tool industry than it is in the consumer goods industries. This puts an even greater strain on already scarce capital resources.

191. The principal argument for balanced economic growth, namely that it will produce external economies such as cheaper factors of production and sources of materials, must be weighed against the obvious drawback of the limited market. Eventually, Pakistan will develop new sources of raw materials and such a development should be given high priority. By developing local raw materials and perhaps new consumer goods industries to utilize their products, Pakistan will achieve some of the important linkage effects that balanced growth is expected to produce. However, this is a long-term consideration and in the shorter run several industries are being constructed which, by their capital intensive character, result in the utilization of the relatively scarce factor, capital, the real cost of which is higher than its market price. On the other hand, labor, the real cost of which is considerably lower than its market price, goes comparatively underutilized. Therefore, we may conclude that, while there are some possibilities in Pakistan of producing capital goods, there are very important limiting factors involved.

192. The Third Plan will continue to rely on private enterprise for achieving most of its investment and industrial targets. However, the size of the public sector allocation for industries is proportionately larger than in the Second Plan, i.e., 35 per cent of the total compared to 24 per cent in the Second Plan. The reason given is that there is a "need for accelerating the pace of industrialization in East Pakistan where private capital or initiative is not adequate". In fact, the potential investment capacity of the private sector in the East Wing is unknown. Some industries (such as the jute industry) have shown high rates of return and actual private investment during the Second Plan seems to have been about 20 per cent above Plan targets. One of the weaknesses of the private sector in East Pakistan remains the persistent lack of skills and entrepreneurship. The same is true of the public sector except where imported talent is used.

193. In order to give to East Pakistan a larger share in industrial investments, the Plan allocates a very substantial amount to the State-owned Industrial Development Corporation (EPIDC). However, the mission was informed that government now considers the allocation to the "public" sector should in fact cover a number of projects in which EPIDC (and also West Pakistan PIDC) would have some participation, but which could also be financed by development banks, domestic and/or foreign private investors and the general public. The mission strongly supports that approach. Those public sector schemes of the Third Plan in which domestic or foreign companies have an interest should be set up under such arrangements whenever possible. Several investors have already expressed interest in new projects included in the public sector. Government is still working on the future allocation for industry in the public sector. The mission hopes that the final allocation will clearly show the projects which are intended to be financed by joint ventures, and will indicate the tentative amount of EPIDC participation in such ventures. Then the total amount of funds earmarked for government investments in industry could be substantially reduced.

194. Conclusions. The mission is generally in agreement with the industrial program in terms of the projected overall growth rate. However, we believe that the magnitude of industrial investments is over-estimated to achieve this growth target. We also have reservations regarding the possibility of raising investments in East Pakistan to the projected high level in such a short period of time. The mission recommends that a critical review be made of the basic assumptions underlying the investment cost estimates. Most important, the Government should approach the development of highly capital intensive industry very cautiously and, where such industries are undertaken, if possible, obtain the participation of the private sector, financially and managerially. The mission is not impressed with the argument frequently heard in Pakistan that where the market will accommodate only one plant (usually one in each wing) it must be in the public sector to avoid monopoly pricing. International prices plus tariff would govern selling prices in Pakistan unless the present undesirable practice of banning imports is continued and extended.

Power

195. The Third Five-year Plan proposes to more than double capital expenditures on power from Rs. 1,772 million during the Second Plan to Rs. 3,628 million for the Third. Investments to be made in East Pakistan would be 40 per cent of total expenditures against 20 per cent during the Second Plan.

196. The program would concentrate heavily on transmission and distribution schemes, which are now the bottleneck in the electric supply industry. Expenditures on transmission and distribution would then be about two-thirds of the total allocation.

197. Installed capacity would reach 2.6 million kw in 1969/70 against 1.1 million kw in 1964/65, indicating the scale of the program. East Pakistan capacity would grow from 0.2 million kw to 0.7 million kw., which may be overly optimistic unless demand increases at a much faster rate than now seems likely. West Pakistan (including Karachi) would have 1.5 million kw capacity in 1969/70 compared to 0.64 million in 1964/65. The target may also prove somewhat optimistic, but seems attainable on the demand side if the tubewell program gains even more momentum and the industrial targets can be achieved.

198. In West Pakistan, an estimate of load growth has been made for the WAPDA system in the form of a power market survey. A special question is the tubewell pumping loads, which are especially difficult to forecast. The load is projected to grow over 120 per cent between 1965 and 1970. WAPDA's forecast for 1970 has been judged somewhat optimistic by the Bank study, "Report on a Dam in the Indus at Tarbela". The report forecasts a total load of 930 mw in 1970 versus 1,005 mw envisaged by WAPDA. Realistic judgments regarding the proper projection of load requirements for planning purposes must await completion of the comprehensive phase of the study of the water and power resources of West Pakistan, sponsored by the World Bank. WAPDA's and the Bank's preliminary results are indicated in Annex 4.

199. Projections made by WAPDA for the period up to 1970 indicated that, in West Pakistan, it would be desirable to allocate 60 per cent of the total Plan allocation for power to distribution. The actual allocation seems to be 57 per cent. This ratio confirms the distribution problem now existing in the grid area. It is estimated that 100,000 new customers will be connected in each year of the Plan. The provision of these service connections is covered by a planned allocation of Rs. 425 million. All efforts should be made to improve the distribution system during the next five years. Since it is known that resources are urgently needed to improve the distribution system, which is getting almost 60 per cent of the total Plan allocation, the mission feels that the proposed expenditure of Rs. 1,708 million for the WAPDA program in West Pakistan should not be considered excessive.

200. In East Pakistan, the WAPDA power program is estimated to cost Rs. 1,481 million against Rs. 353 million during the Second Plan. The estimated load in 1970 would be 713 mw against 180 mw in 1965. The mission considers this forecast as optimistic on the demand side. Agricultural use of power is expected to jump from 10 mw in 1966 and 20 mw in 1968 to about 120 mw at the end of the Plan. Some increase can be expected as a result of newly installed tubewells, but such a sharp increase over just one or two years is over-optimistic. Also, the forecast assumes a very large growth in power consumption in small towns and villages, but time will be required before the distribution system can be improved to the extent needed to handle the increase. Finally, industrial use is supposed to grow at a very fast rate. The mission has some doubts regarding the full achievement of industrial targets in East Pakistan which are discussed in Annex 2 . For the above reasons, it is doubtful whether the deficits in capacity will be as large as implied in the Plan. Some shortage may develop during the early years of the Plan and until capacity is built at Karnafuli, Siddhiranj and Khulna, but the number of new plants proposed for 1969/70 is definitely on the high side.

201. A large allocation of Rs. 578 million has been provided for secondary transmission and distribution and for rural electrification. This reflects the urgent need to improve the distribution system. However, the proposed 3,500 miles of new lines is unrealistic given the administrative capabilities of WAPDA and the heavy requirements in foreign exchange. A balance will have to be struck between the need to improve the existing distribution system and the desire to connect many small localities to the main line. One of the most costly items is the rural electrification scheme which aims at bringing power to about 2,000 villages. If a village is located near a tubewell in which electricity is to be installed, there may be good justification for immediate electrification of the village. However, the number of consumers that WAPDA expects will take electricity once it is brought to the villages is way out of proportion with what can be achieved. In other words, the mission feels that the difference in income level between the villages and the larger urban areas has been underestimated.

202. The mission realizes that East Pakistan needs cheaper, more abundant and better distributed power. To achieve these objectives it is quite legitimate to provide for a generous provision under the Third Plan, but it must also be realized that many of the Second Plan schemes remain to be completed and that WAPDA's present capabilities to undertake a very large number of new projects at the same time are limited. For these reasons, we feel that the allocation of Rs. 1,481 million for power in East Pakistan is definitely high.

203. Transport and Communications. Better transport facilities are necessary in Pakistan if an improved rate of growth is to be achieved. In the Third Plan a larger allocation has been provided in order to move the planned increase in agricultural and industrial production. With this increase in planned production will go a change in traffic patterns. The railways and IWTA, while continuing to carry the long haul mineral and agricultural production, will lose some traffic to road transport particularly in West Pakistan.

204. The Third Plan proposes to continue with general aims of earlier Plans. The priority of transport has increased slightly being given about 18 per cent of total expenditure compared with 17 per cent in the First and Second Plans. In East Pakistan much improved land, water, road and air transport is contemplated and in West Pakistan ongoing road projects, renewal of railway equipment and improvement in port facilities and expansion of the shipping fleet.

205. Inter-modal transport studies are being undertaken and as a result there may well be further changes in emphasis. If roads are to gain in importance, then road transport will have to expand with larger truck fleets and concommitant maintenance and spare parts services. Emphasis on road transport should lead to more domestic assembly of trucks or the import of a greater number of complete vehicles. The development of a spares and components industry would be of great value to the economy, by reducing the requirement for foreign exchange.

206. The increase in the international shipping fleet raises questions since in the present state of the world shipping market many countries are eager to sell new or old ships to Pakistan. The ships will have to be used well to cover their costs.

206. With such large areas and the division of the country, there is a great need for better communications. Telephones are to be increased in number, there are proposals for improved postal services between the Provinces, for a co-axial cable to join the Wings and for a submarine cable between Karachi and Chittagong. The relative importance of these various programs needs to be assessed. As far as the mission was able to judge the allocation for transport and communications seems reasonable.

207. Education. The main objectives in the education sector in the Third Plan are to widen the base of primary education and make available increased facilities for technical and vocational training. With the aim of reducing wastage in primary schools and consolidating university education as well as diversifying courses in secondary schools, larger finances are proposed.

208. Quality as against quantity is the rationale. Although it is open to question whether more funds should be devoted to education, there would still remain the difficulty of obtaining at an early date an adequate supply of teachers and other personnel to mount a larger program. The position should be kept under review in annual programs and continuing research and improvement in statistical information on education should be undertaken in order that the program can be as flexible as possible and use resources most efficiently.

209. Health, Manpower, Social Welfare, and Housing. An increase of 1 in the percentage allocation has been proposed for the health and social welfare sectors in the Third Plan. Emphasis is to be placed on preventive rather than curative medicine. It is proposed to do this by improving water supplies, sewerage services and similar facilities. Since many of the diseases in Pakistan are water-borne, these can be controlled through improving water supplies, which although important to the health of the population are projects within the housing and physical planning sector. Rural health centers and other organizations for providing advice are to be increased in number but the shortage of skilled manpower will prevent a great expansion of services within the period of the Third Plan.

210. Family planning has been given much greater importance in the Third Plan. The program is included in the health sector where it is possible that it will not receive the attention it deserves. The importance of success or failure in population control is such that the subject might be made the responsibility of a separate ministry. There will be family planning advisers in all the important ministries associated with the program but while advice is valuable, energetic administration of the program will be vital for its success. Much thought and effort is being given to the problem.

211. Linked with this question of population control is that of manpower and employment. Unemployment is one of the gravest problems facing Pakistan; it is estimated that almost one-fifth of the available manpower is wasted every year for lack of opportunity. It is said that the Second Five-Year Plan absorbed all the new additions to the labor force, thanks partially to the employment created by the Rural Works Program. It is calculated that employment for some 6.5 million persons will be generated by investments during the Third Five-Year Plan, cutting a little into the unemployed backlog. The possible use of labor intensive schemes requires further study as the capital intensive methods employed by developed countries are not of particular advantage to Pakistan.

212. Most of the housing and town planning investment will be in the private sector and is therefore outside the direct control of Government. An exception is construction on the new capitals at Islamabad and Dacca but requirements for these were largely provided in the Second Plan. The reduction, percentage-wise in the allocation for housing may be more a wish than a reality in view of the urbanization going on and the activity of the private housing sector.

213. The Mission regrets that more resources cannot be devoted to social welfare programs in the Plan. However, imaginative administration can make up, in part, for the lack of financial resources.

CHAPTER 6

PROSPECTS

The Perspective Plan.

214. The Planning Commission has outlined broad goals for the economy during the twenty years from 1965 to 1985. The Third Plan has been formulated within this general framework. In addition to more than quadrupling GNP (annual target growth rate 7.2 per cent) and tripling per capita income, four other major objectives to be accomplished by the end of the twenty-year period or sooner are in this Perspective Plan. They are: (1) full employment by about 1975; (2) equalize per capita incomes in the two Provinces; (3) universal literacy; and (4) elimination of requirements for further net capital inflow after 1985.

215. We will not attempt to appraise the Perspective Plan which is primarily a set of targets and broad policies. It is an excellent statement of objectives. The Government intends to revise it every time a new Five-Year Plan is prepared, and presumably project it for another five years so that a twenty-year perspective is held always in view. It is of interest, however, to examine to what extent the lines of development expected during the Third Plan will advance the economy towards the attainment of these long-range objectives.

216. The growth rate set as the objective of the Perspective Plan appears to have been attained only in 1963/64, a year of exceptional agricultural production, and it is well above the target for the Third Plan. The Mission has not taken issue with the Third Plan growth rate. Pakistan certainly needs encouragement to strive for as substantial a degree of progress as possible within the limits of resources and capabilities. However, there is a possibility that the Second, and even more so the Third Plan growth rates will not be easy to exceed. During the late 1950's the Pakistan economy was largely stagnant and some elements, such as exports, were declining. The growth achieved during the Second Plan was a recovery from that condition. For this reason, it may not be easy to exceed it in the future. Also, only four years (1964/65 results are still uncertain) is too short a period, particularly in a predominantly agricultural economy on which to base long-term trends. The very favorable agricultural results in 1963/64 had a lot to do with the growth for the Second Plan as a whole.

217. The Perspective Plan target assumes that manufacturing industry will continue to be the leading sector and will increase its share of GNP from 12 to 21 per cent over the twenty years, while the share of agriculture will decline from 49 to 36 per cent. This is in line with current trends, but both sectors will have to continue to grow a little faster than projected for the Third Plan to attain the Perspective Plan target. It appears that the amount of investment and saving projected for the Perspective Plan period is high (to increase marginal savings above 22 per cent will be difficult), but the Mission feels that the capital/output ratio of about the present level is reasonable and this is roughly what is projected for the Perspective Plan. Domestic savings will naturally be affected by

attempts to more nearly equalize income distribution both between and within the Provinces. At the same time, the Mission agrees with the Planners that a higher level of consumption is not inconsistent with and rather is a condition for rapid economic growth in the long run.

218. In respect of the full employment objective (defined as decreasing unemployment from over 20 per cent in 1965 to about 5 per cent of the labor force in 1985), experience during the Second Plan does not make for optimism. Hopefully, the rate of growth of the population may start to decline before 1985. if the family planning program succeeds, but this will not affect the labor force during the Perspective Plan period. The Planning Commission estimates that the labor force will increase by 7 million in 1980-85, culminating in a total increase of 27 million over the twenty-year period. The use of rural works type investment is proposed to offset the capital-intensive character of industrial investment. One must conclude that no plans are being considered to adequately cope with Pakistan's unemployment problem.

219. The objective of equalizing per capita incomes in the two Provinces is politically, rather than economically, motivated. Whether it can be achieved without accepting a lower return on investment, and thus lower average incomes in the country as a whole than otherwise would be possible, depends a great deal on the development of improved administration in East Pakistan and also curbing population growth in that Province. Otherwise, the allocation of larger public sector investment resources to East Pakistan may contribute to the objective but at a considerable price in terms of the economic growth of the whole economy. The concern expressed in the Plan that differential growth rates favoring East Pakistan may be difficult to reverse when parity is achieved seems somewhat premature.

220. The goal of universal literacy by 1985 should be vigorously pursued but will require more attention to primary education than it is given in the Third Plan.

221. The last objective of becoming independent of net capital inflow after 1985 is premised upon considerably larger capital inflows in the interim (particularly during the next ten years) than Pakistan has had in the past, substantial as they have been. During the Third Plan, Pakistan's internal and external resource gap will continue to increase, but if exports and savings materialize as expected, it will start to decrease as a proportion of total investment. This, of course, is a first step in the direction indicated by the Perspective Plan. No one can say at this stage how long it will require to reach the point where only refinancing of old debt will be required. This will depend not only on the factors determining Pakistan's economic growth but also on the level of real per capita income and consumption that Pakistan and her friends abroad consider satisfactory for the political and social stability of the country.

221a. The Perspective Plan assumes that the marginal rate of saving will rise from 22 per cent in the Third Plan to 28 per cent in 1975-80. Also, the propensity to import will be reduced from 12 per cent in 1970 to 4 per cent in 1985. These are quite optimistic assumptions. Nevertheless, our calculations indicate that, with these assumptions, while the requirement for net capital inflow would start to decline during the Fourth Plan, it will not be eliminated by 1985 or even by 1990 (Appendix table 35). Furthermore, even if future official capital is secured on very easy terms (2 per cent, 5 years grace, 25 years repayment), amortization will increase about as fast as the need for net capital inflow declines. The assumptions in Appendix table 35 are those of the Planning Commission's, used in preparing the Perspective Plan.

Third Plan Prospects.

222. Pakistan has clearly enjoyed a rapidly accelerating rate of economic growth during the last decade, and the Mission feels that this will continue during the Third Plan. If the level of investment resources envisaged is available, the Third Plan growth target (6.5 per cent a year) appears to be reasonable though the hazards surrounding its accomplishments are obviously considerable in a country so heavily dependent on agriculture and the natural risks associated therewith. While this Third Plan growth target is high even in relation to the successes of the Second Plan, it is not out of line with the results in the last two years. The most crucial sector will, of course, be agriculture. If the increase in the annual agricultural growth rate from 3.5 to 5 per cent is achieved, the 37 per cent cumulative growth in real terms for the economy as a whole should be within reach. Therefore, a speed-up in the use of resources directed towards quick returns in agriculture will be essential.

Requirement for External Investment Resources.

223. Using as independent variables the 6.5 per cent a year annual growth rate projected for the Third Plan, the rate of growth of exports estimated in Chapter 4 (over 8 per cent), a marginal rate of savings of 22 per cent, and the capital output implied by the investment levels postulated in the Plan, the Mission has calculated the external capital requirements Pakistan will probably need to carry out the Plan. The results of this projection are shown in Table 1. In this computation, the difference between gross investment and gross domestic savings (internal resource gap) has been added to the Mission's estimate of exports plus net factor income payments abroad to calculate the required level of imports. The latter was then checked against the economy's total use of economic resources (final demand). The resulting import dependency ratio is consistent with previous experience. Also the close similarity between our derived import requirements and those directly calculated by the Planning Commission by input-output analysis gives us some confidence in our results (see Chapter 4).

224. The total national resources provided by this flow of imports plus gross domestic product will provide the investment resources required for the Plan plus consumption per capita increasing between 3.0 and 3.2 per cent a year.

225. The gross inflow of foreign resources required for all purposes except amortization of foreign debt during the Third Plan would be about $4,307 million and, including the foreign debt repayment, slightly over $4,554 million. After allowing for PL 480 imports, private foreign investment and of technical assistance, the gross official capital requirement would be reduced to about $3,633 million for the five-year period (last line in Table 1). This includes, of course, the expenditures on the Indus Replacement Works.1/ If the disbursement estimated for the latter is excluded (the

1/ But not the Tarbela project.

estimated $409 million for this will come from the Indus Fund), the residual to be covered from the present foreign aid pipeline or from new commitments would be $3,225 million.

226. The Mission believes that the substantial aid pipeline which is likely to be nearly $1.1 billion (including uncommitted pledges) at the end of the Second Plan could be drawn down by at least $200 million during the Third Plan. This would reduce the additional aid requirement to about $3 billion.

227. Looking at the problem from the standpoint of the consortium, a further reduction may be made for aid from non-consortium sources. The Mission believes that $200 million or so may be forthcoming. In round numbers, the Third Plan as now proposed seems to require about $2.8 billion in consortium aid. The Pakistan request is for $2.7 billion.

228. The Mission agrees with that amount as a fair estimate of the aid required to carry out a Plan of Rs. 52 billion. We feel that, if this level of aid is not forthcoming, either the overall level of the Plan expenditures would have to be reduced or the structure of the program would have to be changed to reduce its foreign exchange content, combined with measures to further raise the rate of domestic saving.

Mobilization of Domestic Resources.

229. During the Second Plan, 57 per cent of total development funds (including Indus) were mobilized by the domestic economy, and 43 per cent were obtained from abroad. This involved a marginal rate of saving of about 21 per cent. For the Third Plan, the Government expects to mobilize nearly 63 per cent internally (68 per cent excluding Indus), involving a marginal rate of saving of about 22 per cent. The average rate of saving would have to rise to 13.5 per cent during the Third Plan as compared with about 10 per cent for the Second. We believe that this is a reasonable target.

230. However, the Mission is not equally sanguine about the financing for the public sector program of Rs. 30 billion while maintaining financial stability. In Chapter 3 we concluded that there is considerable scope for imposing new taxes or raising existing tax rates to realize about Rs. 3 billion additional taxes, assuming that the economy grows at about the rate envisaged in the Plan. This would mean an increase in the portion of GNP accruing to the Government from about 11 to 13 per cent. This is still a modest percentage of the national product to be set aside for government expenditures. However, public savings within the present revenue framework plus the additional taxes would provide only about 14.3 billion of the Rs. 16.5 billion required for the public sector.

231. This would indicate that the public sector program is over Rs. 2 billion higher than present public savings estimates warrant. The Government intends to make up this shortfall be deficit financing (Rs. 1.5 billion) and from certain other schemes for increasing transfers from the private to the

public sector. In view of the likely requirements of the private sector for new credits, the Mission does not believe that any dependence should be placed on meeting public sector expenditures by deficit financing. During the last few years, the private sector credit requirements have absorbed all the monetary expansion that the economy could safely stand.

232. As for additional transfers from the private sector, it must be borne in mind that in principle all private savings are already fully earmarked for private sector investments or they would have to come from new credit creation which might have inflationary consequences. On the other hand, some of the measures suggested, such as securing private investments in joint ventures with the public sector, have merit. Also, some government expenditures classed as development and included in the Plan which represent free government services should, in future, be provided against payment. This would reduce the net demand on government budgets and accomplish part of the desired transfer of resources from the private sector.

233. Therefore, while there are elements of doubt in the financing of the public sector program and a somewhat lower expenditure target would be wise, we believe the problem can be met if the Government does not adopt an inflexible policy regarding annual expenditure targets and adapts them to its best year-to-year estimates of available financial resources. We do not feel, in any case, that the foreign aid requirement is overstated. It is based, in part, on quite an optimistic export forecast and on quite a low estimate of the foreign exchange content of the Plan. Therefore, the proposed inflow of externally financed resources would still be required even if total Plan expenditures should fall somewhat below present expectations.

Aid Requirement for 1965/66.

234. The Government expects that its requirement for foreign aid will increase progressively over the course of the Third Plan[1/] and has requested $500 million of new pledges for 1965/66. $300 million of this would be for project commitments and $200 million for non-project aid. It seems probable that Pakistan will end the Second Plan with upwards of $75 million of pledges of project aid still uncommitted but firmly earmarked for projects. Our analysis of the trade liberalization program to date indicates that in order for this program to have its intended impact of substantially raising utilization of existing capacity and providing the business community with confidence in the future of the liberalization program, the request for non-project aid should be met. Although the implementation of many projects remains slow, the rising tempo of commitments and disbursements (Appendix table 6) indicates that Pakistan will be able to utilize effectively the foreign aid requested.

1/ The annual phasing of the Third Plan increases from Rs. 8,400 million in 1965/66 to Rs. 12,500 million in 1969/70.

Foreign Debt Position.

235. Pakistan's external public debt has been increasing substantially in recent years. By the end of 1964, including the undisbursed portion, it amounted to about $1,714 million as compared with approximately $1,200 million a year before (Appendix table 1). Judging by the additional commitments expected in the last six months of the Second Plan, the total may be just over $2 billion by June 30, 1965. A little over half of this or about $1,060 million will probably have been disbursed by that date, leaving a pipeline of around $953 million (Appendix table 6) at the start of the Third Plan.

236. Thanks to the favorable terms on which over 60 per cent of Pakistan's foreign aid requirements have been met in recent years, foreign debt service has been increasing much less rapidly than the principal amount of debt outstanding. The additional debt likely to be incurred during the last year of the Second Plan (1964/65) will increase her debt service payments over the period of the Third Plan by only about 23 per cent, even though debt outstanding is likely to increase by about 47 per cent in that year.

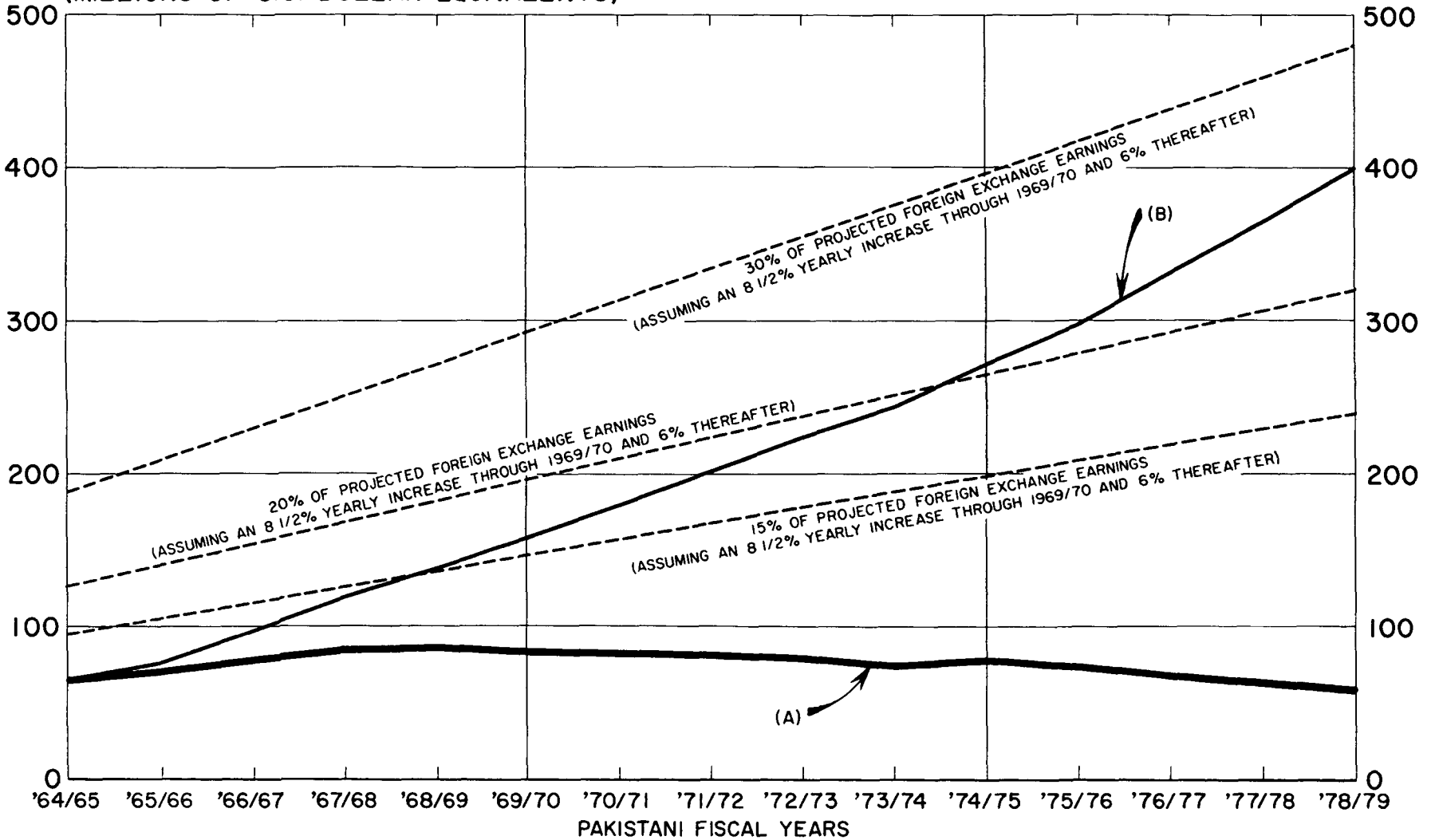
237. The service on Pakistan's existing foreign public debt through 1978/79 is shown by the heavy line at the bottom of the chart (line A). The relatively flat contour of the curve reflects the favorable terms on which aid has been received.

238. Pakistan's export performance during the Second Plan and the even more optimistic outlook for the Third Plan has made her debt service ratio, present and future, considerably less ominous than it was formerly thought to be. Thus, although service on existing debt rises from about $64 million in 1964/65 to over $85 million in 1968/69 (the peak year of service on present debt), exports are expected to increase about proportionately so that the ratio would remain at about 10 per cent. Including service on the new debt that should be incurred to finance the Third Plan, the debt service ratio will rise to about 17 per cent by 1969/70.

239. In the chart (line B), we have projected Pakistan's foreign public debt service through 1978/79 under the assumption that the amount of foreign assistance required will average about $600 million a year and that it will be provided on the same terms as last year's consortium pledges. We have assumed that the growth of exports will not continue at the Third Plan rate after 1970 but will decline to 6 per cent a year. This seems realistic in view of the likely reduction in the growth of such items as jute manufactures. We would expect, however, that this would be compensated by a corresponding slow-down in the growth of imports. In any event, these longer-term projections do not alter the fact that debt service is likely to require over 20 per cent of Pakistan's foreign exchange earnings starting about 1974/75.

PAKISTAN: EXTERNAL PUBLIC DEBT SERVICE PROJECTIONS

(MILLIONS OF U.S. DOLLAR EQUIVALENTS)



(A): Service on existing debt plus major additions to December 31, 1964.
(B): Service on existing debt plus major additions to December 31, 1964 plus $227 million before June 30, 1965 and $600 million per annum thereafter on the following terms:
Hard loans: $180 million – 18 years including 3 years' grace, 5 1/2% per annum.
$ 60 million – 25 years including 7 years' grace, 3 1/2% per annum.
Soft loans: $360 million – 40 years including 10 years' grace, 3/4% per annum during grace period and 2% per annum thereafter.

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Out of $600 million a year gross capital inflow, by 1978/79 over $216 million would be required for amortization. The resulting net capital inflow of $384 million is only a little over half that required for Pakistan's Perspective Plan (Appendix table 35). In an economy so heavily dependent on agriculture this must be considered rather large, thus emphasizing again the need for as much aid as possible on easy terms. However, thanks to her export performance and prospects as well as the overall growth of the economy, Pakistan now appears to be more creditworthy for some additional loans on conventional terms. The Mission would hope that they will not need to exceed about 20 per cent of her aid requirements.

Economic Policies.

240. In the 1963/64 and 1964/65 budgets, the Government took tax measures adequate to meet the fiscal requirements of the Second Plan and particularly in 1964/65 to substitute tariffs and internal taxes for direct import controls as a means of containing demand for imports. However, the Government has utilized only a portion of the authority given to it in the 1964/65 budget to impose higher levies on imported goods. The Mission believes that this authority should be much more fully utilized in the future to the advantage of both the balance of payments and the fiscal position of the Government and should be extended to items not on the free list. Also, in the field of taxation, we have made a number of other recommendations (see Annex 9), notably, suggestions made in previous reports that the time has now come to reduce the incentives given to industries in the form of tax holidays and to treat income from agriculture on the same basis as other incomes insofar as direct taxation is concerned. Certainly, these and other measures will be necessary to meet the financial requirements of the public sector program.

241. In respect of monetary policy, the Mission feels that the measures (see paragraph 45) taken early this year were necessary and in no way incompatible with the Government's trade liberalization program. In fact, they were very necessary to enable this program to be carried out without a continuing excessive drain on the country's foreign exchange reserves. A better balanced flow of industrial materials, components and spare parts is required as the next step in trade liberalization. However, the Mission does not believe that further large-scale import liberalization should be undertaken until the increase in exports forecast by the Government becomes a reality. In this connection, it would be desirable to abolish the remaining export tax on raw jute in order to provide adequate incentives for increase in production which will be necessary to meet the export targets. In respect of exports of industrial products, the Mission understands that the Government intends to continue the present simplified export bonus arrangements. While this scheme needs to be continued for the time being, it should be further simplified and modified to become a more effective instrument of export promotion and import liberalization.

242. In addition to the obvious need of Pakistan for rapid economic growth, the country's most serious problems are the apparently still rising rate of population growth and the large amount of unemployment or underemployment in both the rural and urban areas. While a program of population control is clearly essential, it will not cope with unemployment over the next several Five-Year Plans. While recent estimates of the growth in jobs during the Third Plan indicates that some inroads will be made into the 20 per

cent unemployment, the Mission has doubts regarding its statistical basis for this forecast. During the Second Plan, the growth of jobs barely kept pace with the increase of labor force. While the tripling of the rural works program may contribute considerably to reducing rural unemployment, the capital intensive character of much of the planned industrial investment in the Third Plan may result in a larger investment per new worker than the economy can afford. The Mission believes that the Government needs to take more account of this factor than it has done up to now in sanctioning projects.

Table 1

PAKISTAN'S CAPITAL INFLOW REQUIREMENTS

(Current prices 1959/60-1964/65; Projections at 1964/65 prices)

	Actuals							Projections					
	59/60	60/61	61/62	62/63	63/64	Estimates 64/65	Total Second Plan	65/66	66/67	67/68	68/69	69/70	Total Third Plan
						(Million Rupees)							
GNP (market prices)	32705	36112	37759	39931	42961	45541		48528	51755	55192	58859	62764	
GDP (market prices)	32738	36144	37796	40009	43057	45675		48715	52029	55543	59287	63274	
GDP annual increment		3406	1652	2213	3046	2618		3040	3314	3514	3744	3987	
GDP % annual increase		10.4	4.6	5.9	7.6	4.3		6.7	6.8	6.8	6.7	6.7	
Population (000)	98880	101450	104090	106790	109560	112400		115320	118320	121390	124550	127790	
Per capita GDP	331	356	363	375	393	406		422	440	458	476	495	
Gross investment	3430	3775	4760	5966	7280	8401	30182	9252	10082	11012	12042	12250	54638
Public sector	1710	1648	2009	2359	2956	3595	12567	4160	4620	5080	5540	6000	25400
Private sector	1720	2027	2541	2827	3434	3881	14710	4270	4640	5110	5680	6250	25950
Indus works	-	100	210	780	890	925	2905	822	822	822	822	-	3288
Capital/Output ratio including Indus	1.0	2.2	2.1	1.7	2.4	2.5		2.5	2.6	2.7	2.8	2.9	
Capital/Output ratio including Indus	1.0	2.3	2.2	2.0	2.8	2.8		2.8	2.9	2.9	3.0	2.9	
Gross Domestic Savings	2075	2310	3202	4024	4397	4787	18720	5497	6294	7127	8011	8952	35881
Resource Gap	1355	1465	1558	1942	2883	3614	11462	3755	3788	3885	4031	3298	18757
Net factor income payments	33	32	37	78	96	134	377	187	274	351	428	510	1750
Current account deficit	1388	1497	1595	2020	2979	3748	11839	3942	4062	4236	4459	3808	20507
Exports (goods/services)	2080	2286	2384	2748	2785	3050	13253	3254	3530	3828	4150	4500	19262
Imports (goods/services)	3468	3783	3979	4768	5764	6798	25092	7196	7592	8064	8609	8308	39769
Amortization payments	67	67	80	127	169	194	637	195	219	238	252	271	1175
Total foreign payments	3535	3850	4059	4895	5933	6992	25729	7391	7811	8302	8861	8579	40944
Consumption	30663	33834	34594	35985	38660	40888		43218	45735	48416	51276	54322	
Annual increase %		10.3	2.2	4.0	7.4	5.8		5.7	5.8	5.9	5.9	5.9	
Per capita consumption	310	334	332	337	353	364		375	387	399	412	425	
Annual increase %		7.7	-0.6	1.5	4.7	3.1		3.0	3.2	3.1	3.2	3.2	
Final demand	36173	39895	41738	44699	48725	52339		55724	59347	63256	67468	71072	
Import dependence	9.6	9.5	9.5	10.7	11.8	13.0		12.9	12.8	12.8	12.8	11.7	
						(Million $)							
Net capital inflow = current account deficit	292	314	335	424	626	787	2486	828	853	890	936	800	4307
(of which: official interest)	6	7	8	13	16	22	66	36	54	70	86	103	349
Amortization	14	14	17	27	35	41	134	41	46	50	53	57	247
Gross capital requirement	306	328	352	451	661	828	2620	869	899	940	989	857	4554
Private foreign investment	18	19	19	17	19	21	95	24	28	32	36	40	160
Technical Assistance		13	13	16	27	21	90	23	25	28	30	30	136
PL 480 Imports		106	68	145	125	155	649	125	125	125	125	125	625
Subtotal		138	100	178	221	197	834	172	178	185	191	195	921
Gross Official Capital Requirement		190	252	273	440	631	1786	697	721	755	798	662	3633
Aid/Loans Disbursements		196	248	340	450	578	1812						
Exchange reserves and short term capital (net)		-6	+4	-67	-10	+53							

EXPLANATORY NOTES - Table 1

1. GDP equals GNP plus net factor income payments abroad. Third Plan projections of GDP are based upon a 6.6% compound growth of GNP and independent projections for net factor income payments. For the latter, interest on official debt is taken from provisional debt service projections, and private interests and dividend payments abroad were assumed to grow from the 1964-65 level at the same rate as GNP.

2. Gross Investment figures are taken from Table 2, Chapter 3. Public sector investments equal Plan expenditures less non-investment development expenditures. Private sector investments equal Plan expenditures plus non-monetized investments plus changes in stocks. All Plan expenditure data are from material submitted by the Planning Commission. Non-monetized investment projections for the Third Plan are calculated on the basis of 2% of agricultural income; changes in stocks during the Third Plan are Mission estimates, and expenditures for the Indus Basin Works are projected arbitrarily at Rs. 822 million per annum in the first four years of the Third Plan, assuming that they would be completed by mid-1969.

3. The capital output ratios are derived by comparing gross investment in the year to which they apply with the resulting increment in GDP in the following year. Throughout the ten-year period they are derived from GDP and Investment projections and serve only to indicate the trend.

4. Gross Domestic Savings for the Second Plan period are calculated by deducting the current account deficit from gross investment (= Gross National Savings) and adding net factor income payments abroad. For the Third Plan period, Gross National Savings are projected from the base year 1964-65 on the basis of a 22% marginal savings rate on GNP. To arrive at Gross Domestic Savings, projected factor income payments are again added to GNS.

5. The Resource Gap is the difference between gross investment and gross domestic savings.

6. Exports for the Third Plan are Mission estimates and differ from the Pakistan Government projections in that they are increasing at about 8.1% per annum compound rather than 9.5%. Imports of goods and services include factor income payments abroad but not amortization of debt; the series is derived in the Third Plan period by adding the current accounts deficit to exports.

7. Consumption equals GDP minus gross domestic savings.

8. Final Demand equals consumption plus gross investment plus exports. The Import Dependence, relating imports of goods and services to final demand, serves as a test to measure the adequacy of the level of derived imports. This level can also be compared with the import projections based on detailed input evaluation (see paragraph 151).

STATISTICAL APPENDIX

1. External Public Debt
2. Estimated Contractual Service Payments on External Public Debt
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5. National Expenditure in Constant Prices
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22a. Classification of Scheduled Banks' Advances by Major Economic Groups

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30. Distribution of Commitments and Disbursements of Project Assistance
31. Indus Basin Works
32. Third Plan
33. Balance of Payments For the Second Plan
34. Balance of Payments Projections for the Third Plan
35. Capital Requirements - Perspective Plan

Table 1: PAKISTAN - EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF JUNE 30, 1964 WITH MAJOR REPORTED ADDITIONS JULY 1 - DECEMBER 31, 1964

Debt Repayable in Foreign Currency

(In thousands of U.S. dollar equivalents)

Item	Debt outstanding June 30, 1964		Major reported additions July 1 - December 31, 1964
	Net of undisbursed	Including undisbursed	
TOTAL EXTERNAL PUBLIC DEBT /1	624,760	1,341,255	372,890
Privately-placed debt	36,868	78,384	-
IBRD loans	129,724	311,523	-
IDA credits	1,976	179,350	63,790
U.S. Government loans	276,593	403,865	309,100
Export-Import Bank /2	19,150	28,089	500
AID	242,367	360,700	308,600
Wheat loan	15,000	15,000	-
Lend-lease silver	76	76	-
Loans from other governments	170,064	348,698	-
Canada	5,214	5,874	-
France	-	3,534	-
Germany	69,529	163,857	-
Japan	25,623	44,031	-
United Kingdom	69,698	119,674	-
Yugoslavia	-	11,728	-
Loans from USSR	9,535	19,435	-

/1 Frame agreements have not been included except in so far as actual contracts are known to exist. Pakistan's frame agreements are as follows:

a) with Yugoslavia $10,000,000 equivalent (contracts to the value of $11,728,000)
b) with China $60,000,000 (no contract)
c) with USSR (contracts to the value of $24,639,000)
d) with Italy $63,000,000 (contracts to the value of $3,054,000)
e) with Switzerland SwF 43,000,000 (no contract)
f) with France $35,000,000 (contracts to the value of $3,534,000)

/2 Does not include the following loans:

a) $15,069,600 from Export-Import Bank to Pakistan Government (unallocated)
b) $2,500,000 from Export-Import Bank to Industrial Development Bank - Pakistan (unallocated)

Statistics Division
IBRD-Economics Department
March 24, 1965

Table 2: PAKISTAN - ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF JUNE 30, 1964 WITH MAJOR REPORTED ADDITIONS JULY 1 - DECEMBER 31, 1964 /1

Debt Repayable in Foreign Currency

(In thousands of U.S. dollar equivalents)

GRAND TOTAL

YEAR BEGIN-NING JULY 1	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTI-ZATION	INTEREST	TOTAL
1964	1,312,279	41,066	22,946	64,012
1965	1,615,848	41,331	28,895	70,226
1966	1,574,517	46,581	31,603	78,184
1967	1,527,937	53,227	31,764	84,991
1968	1,474,710	54,810	30,682	85,492
1969	1,419,900	52,684	31,072	83,756
1970	1,367,217	51,701	29,830	81,531
1971	1,315,515	53,253	27,678	80,932
1972	1,262,262	53,912	25,503	79,415
1973	1,208,351	50,831	23,443	74,275
1974	1,157,519	55,461	21,269	76,730
1975	1,102,059	53,693	19,219	72,912
1976	1,048,366	49,507	17,445	66,952
1977	998,859	46,593	15,928	62,521
1978	952,266	44,240	14,592	58,832

PRIV.-PLACED DEBTS - TOTAL

YEAR BEGIN-NING JULY 1	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTI-ZATION	INTEREST	TOTAL
1964	77,408	11,440	2,398	13,838
1965	65,968	6,822	2,958	9,781
1966	59,146	6,762	2,999	9,761
1967	52,384	8,013	2,885	10,898
1968	44,371	7,791	2,477	10,267
1969	36,580	5,914	2,052	7,966
1970	30,666	4,899	1,736	6,635
1971	25,767	4,899	1,450	6,348
1972	20,868	4,899	1,163	6,062
1973	15,970	3,915	891	4,806
1974	12,055	3,425	668	4,093
1975	8,630	2,903	473	3,376
1976	5,728	2,861	301	3,162
1977	2,866	1,611	129	1,740
1978	1,255	360	70	430

Table 2: PAKISTAN - ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF JUNE 30, 1964 WITH MAJOR REPORTED ADDITIONS JULY 1 - DECEMBER 31, 1964 /1 (CONT.)

Debt Repayable in Foreign Currency

(In thousands of U.S. dollar equivalents)

IBRD LOANS

YEAR BEGINNING JULY 1	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTIZATION	INTEREST	TOTAL
1964	311,523	10,922	6,865	17,787
1965	300,601	13,082	7,962	21,044
1966	287,519	16,566	9,117	25,683
1967	270,953	17,122	8,797	25,919
1968	253,831	18,626	8,513	27,139
1969	235,204	19,036	10,160	29,196
1970	216,168	19,926	10,088	30,014
1971	196,242	20,706	9,506	30,212
1972	175,536	21,073	8,916	29,989
1973	154,463	16,576	8,228	24,804
1974	137,887	15,456	7,323	22,780
1975	122,431	11,274	6,536	17,810
1976	111,158	9,282	5,950	15,232
1977	101,875	9,119	5,458	14,576
1978	92,757	8,214	4,976	13,190

IDA LOANS

YEAR BEGINNING JULY 1	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTIZATION	INTEREST	TOTAL
1964	179,350	-	122	122
1965	243,140	-	550	550
1966	243,140	-	897	897
1967	243,140	-	1,187	1,187
1968	243,140	-	1,398	1,398
1969	243,140	-	1,566	1,566
1970	243,140	-	1,673	1,673
1971	243,140	15	1,720	1,735
1972	243,125	175	1,766	1,941
1973	242,950	907	1,809	2,716
1974	242,043	1,887	1,812	3,699
1975	240,156	1,960	1,797	3,758
1976	238,195	1,960	1,783	3,743
1977	236,235	1,960	1,768	3,729
1978	234,274	1,960	1,753	3,714

Table 2: PAKISTAN - ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF JUNE 30, 1964 WITH MAJOR REPORTED ADDITIONS JULY 1 - DECEMBER 31, 1964 /1 (CONT.)

Debt Repayable in Foreign Currency

(In thousands of U.S. dollar equivalents)

U.S. GOVT. LOANS - TOTAL

YEAR BEGINNING JULY 1	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTIZATION	INTEREST	TOTAL
1964	403,865	2,781	3,348	6,129
1965	681,930	2,955	5,072	8,027
1966	678,975	3,013	5,709	8,721
1967	675,962	3,207	6,041	9,248
1968	672,755	3,468	6,273	9,742
1969	669,287	3,477	6,278	9,755
1970	665,810	2,981	6,089	9,070
1971	662,829	3,952	5,946	9,897
1972	658,877	6,674	5,818	12,492
1973	652,204	11,016	5,719	16,735
1974	641,188	17,450	5,595	23,045
1975	623,739	22,041	5,400	27,441
1976	601,697	22,051	5,182	27,234
1977	579,646	22,062	4,967	27,029
1978	557,584	22,072	4,750	26,822

US GOVT. LOAN - EXIM

YEAR BEGINNING JULY 1	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTIZATION	INTEREST	TOTAL
1964	28,089	2,402	1,057	3,459
1965	27,033	2,644	1,203	3,847
1966	24,389	2,694	1,176	3,870
1967	21,695	2,880	1,130	4,010
1968	18,815	3,134	1,025	4,159
1969	15,682	3,134	851	3,984
1970	12,548	2,629	670	3,299
1971	9,920	2,116	535	2,651
1972	7,804	632	436	1,067
1973	7,173	632	399	1,031
1974	6,541	632	364	995
1975	5,910	632	328	960
1976	5,278	632	291	922
1977	4,647	632	256	888
1978	4,015	632	219	851

Table 2: PAKISTAN - ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF JUNE 30, 1964 WITH MAJOR REPORTED ADDITIONS JULY 1 - DECEMBER 31, 1964 /1 (CONT.)

Debt Repayable in Foreign Currency

(In thousands of U.S. dollar equivalents)

US GOVT. LOAN - OTHER

YEAR BEGINNING JULY 1	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTIZATION	INTEREST	TOTAL
1964	375,776	379	2,291	2,670
1965	654,897	311	3,870	4,181
1966	654,586	319	4,532	4,851
1967	654,267	327	4,911	5,238
1968	653,940	335	5,248	5,583
1969	653,605	343	5,428	5,771
1970	653,262	352	5,419	5,771
1971	652,910	1,836	5,410	7,246
1972	651,073	6,042	5,383	11,425
1973	645,031	10,384	5,320	15,704
1974	634,647	16,818	5,231	22,049
1975	617,829	21,410	5,072	26,482
1976	596,419	21,420	4,892	26,312
1977	574,999	21,430	4,711	26,142
1978	553,569	21,441	4,531	25,971

LOANS FROM OTHER GOVTS.

YEAR BEGINNING JULY 1	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTIZATION	INTEREST	TOTAL
1964	320,698	14,139	9,562	23,701
1965	306,559	15,697	11,641	27,338
1966	290,862	17,465	12,271	29,736
1967	273,397	22,109	12,345	34,455
1968	251,287	22,150	11,613	33,763
1969	229,137	22,472	10,709	33,180
1970	206,666	23,101	9,992	33,094
1971	183,564	22,887	8,849	31,736
1972	160,677	20,297	7,674	27,970
1973	140,381	17,624	6,671	24,295
1974	122,757	16,448	5,787	22,235
1975	106,308	14,720	4,970	19,690
1976	91,588	13,351	4,229	17,580
1977	78,237	11,841	3,606	15,447
1978	66,397	11,633	3,043	14,676

Table 2: PAKISTAN - ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF JUNE 30, 1964 WITH MAJOR REPORTED ADDITIONS JULY 1 - DECEMBER 31, 1964 /1 (CONT.)

Debt Repayable in Foreign Currency

(In thousands of U.S. dollar equivalents)

LOANS FROM SOVIETS

YEAR BEGINNING JULY 1	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTIZATION	INTEREST	TOTAL
1964	19,435	1,785	649	2,434
1965	17,650	2,775	711	3,486
1966	14,876	2,775	610	3,385
1967	12,101	2,775	509	3,284
1968	9,327	2,775	408	3,183
1969	6,552	1,785	307	2,091
1970	4,767	795	250	1,045
1971	3,973	795	209	1,003
1972	3,178	795	167	961
1973	2,384	795	125	920
1974	1,589	795	83	878
1975	795	795	42	836

/1 Includes service on all debt listed in Table 1 prepared March 24, 1965 except the following loans for which the amortization terms are not readily available:

a) NF 1,415,968.25 French credit for Pahartari Textile and Hosiery Mills No.2, Chittagong
b) NF 3,400,000 French credit out of £ 10,000,000 Superphosphate and Sulphuric Acid Plant
c) £ 10,000,000 from ECGD of the U.K. Government to Govt. of Pakistan
d) $ 7,200,000 AID loan to Govt. of Pakistan
e) $ 3,400,000 AID loan to Govt. of Pakistan
f) $ 6,000,000 AID loan to Govt. of Pakistan
g) $ 12,500,000 AID loan to Govt. of Pakistan

Statistics Division
IBRD-Economics Department
March 24, 1965

Table 3

GROSS NATIONAL PRODUCT AT FACTOR COST OF 1959/60
1959/60 to 1964/65
(Millions of Rupees)

	1959/60	1960/61	1961/62	1962/63	1963/64	Estimate 1964/65	1964/65 Index 1959/60=100
Industrial Origin of Gross Domestic Product:							
Agriculture, forestry, fishing	16753	17285	18183	18272	19366	20140	120.2
Mining	70	82	88	100	110	120	171.4
Manufacturing, large-scale	1565	1765	1993	2254	2550	2900	185.5
Manufacturing, small-scale	1365	1402	1439	1477	1515	1540	112.8
Construction	651	796	982	1086	1510	1880	288.7
Transport, Communications	1857	2008	2004	2219	2309	2430	130.8
Electricity, Gas, Water	107	120	125	173	233	280	261.6
Wholesale, Retail Trade	3665	3893	4140	4376	4697	5070	138.3
Banking, Insurance	224	247	268	299	325	360	160.7
Public Administration, Defense	1331	1367	1419	1467	1677	1790	134.5
Ownership of Dwellings	1772	1814	1860	1917	1985	2060	116.2
Other Services	2112	2198	2279	2365	2453	2560	121.2
Gross Domestic Product, factor cost	31472	32977	34780	36005	38730	41130	130.7
Net Factor Income from Abroad	-33	-31	-36	-76	-93	-130	
Gross National Product, factor cost	31439	32946	34744	35929	38637	41000	130.4
Plus Indirect taxes	1316	1485	1610	1725	2110	2280	
Less Subsidies	-50	-68	-108	-154	-208	-286	
Gross National Product at market prices	32705	34363	36246	37500	40539	42559	130.1
Population (in millions)	98.9	101.5	104.1	106.8	109.6	112.4	113.7
Per capita income (rupees)	318	325	334	336	353	368	115.7

Source: Central Statistical Office and Planning Commission.

Table 4

NATIONAL EXPENDITURE IN CURRENT PRICES, 1959/60-1964/65

(Rs. Million)

	1959/60	1960/61	1961/62	1962/63	1963/64	1964/65	Value Index 1964/65
Gross National Product (at factor cost)	31,439	34,622	36,192	38,258	40,955	43,365	137.8
Indirect Taxes	1,316	1,562	1,680	1,837	2,226	2,439	185.4
Subsidies	-50	-72	-113	-164	-220	-263	526.0
Gross National Product (at market prices)	32,705	36,112	37,759	39,931	42,961	45,541	139.5
Imports:							
(i) development	1,730	1,965	2,312	2,692	3,469	4,068	235.2
(ii) non-development	1,460	1,885	1,747	2,193	2,464	2,764	189.7
Total National Resources	35,895	39,962	41,818	44,816	48,894	52,373	140.2
Private consumption	27,742	30,879	31,437	32,550	34,306	35,982	129.7
Government consumption	2,563	2,776	2,882	3,090	3,979	4,276	166.8
Government current development expenditure	240	246	355	463	544	655	272.5
Total consumption expenditure	30,535	33,901	34,674	36,103	38,829	40,913	133.9
Public investment (including local government, Works Program)	1,795	1,823	2,184	2,602	3,131	3,670	204.3
Private investment (incl. non-monetized)	1,055	1,682	2,326	2,263	3,009	3,210	320.2
Indus Basin Replacement Works	-	100	210	780	890	950	-
Stock formation	430	170	40	320	250	250	-
Total Investment expenditure	3,280	3,775	4,760	5,965	7,280	8,400	256.5
Exports	2,080	2,286	2,384	2,748	2,785	3,040	146.2

Source: Planning Commission.

Table 5

NATIONAL EXPENDITURE IN CONSTANT PRICES (1959/60-1964/65)

(Rs. Million)

	1959/60	1960/61	1961/62	1962/63	1963/64	1964/65	1964/65 (Index 1959/60=100)
Gross National Product (at factor cost)	31,439	32,946	34,744	35,929	38,637	40,525	128.9
Indirect taxes	1,316	1,485	1,610	1,725	2,110	2,280	173.5
Subsidies	-50	-68	-108	-154	-208	-286	482.0
Gross National Product (at market prices)	32,705	34,363	36,246	37,500	40,539	42,559	130.0
Imports:							
(i) Development Imports	1,730	1,850	2,405	2,830	3,610	4,170	241.0
(ii) Non-development imports	1,410	1,850	1,620	1,320	2,140	2,380	168.8
Total National Resources	35,895	38,063	40,271	42,250	46,289	49,109	136.8
Private consumption	27,742	29,915-	30,779	31,127	33,085	34,106	122.9
Government consumption	2,563	2,680	2,820	2,960	3,830	4,053	158.2
Government current development expenditure	240	238	347	443	524	621	259.2
Total consumption expenditures	30,535	32,833	33,946	34,530	37,439	38,780	127.0
Public investment (incl. local Government and Works Program)	1,795	1,760	2,040	2,280	2,720	3,307	184.3
Private investment (incl. non-monetized)	1,055	1635	2,140	2,005	2,605	3,150	298.6
Indus Basin Replacement Works	-	35	195	685	775	858	-
Stock formation	430	170	40	320	250	250	-
Total investment expenditure	3,280	3,660	4,415	5,290	6,350	7,565	230.7
Exports	2,080	1,570	1,910	2,430	2,500	2,764	132.9

Source: Planning Commission.

Table 6

COMMITMENTS, DISBURSEMENTS AND PIPELINE 1/

(In Millions of Dollars)

	Commitments			Disbursements			Pipeline		
	Project	Non-Project	Total	Project	Non-Project	Total	Project	Non-Project	Total
June 30, 1960							199	108	307
1960/61	131	90	221	82	101	183			
June 30, 1961							248	97	345
1961/62	144	86	230	118	94	212			
June 30, 1962							274	89	363
1962/63	351	130	481	143	134	277			
June 30, 1963							482	85	567
1963/64	513	185	698	201	165	366			
June 30, 1964							794	105	899
1964/65 2/	333	202	535	281	200	481			
June 30, 1965							846	107	953 3/
Total	1,472	693	2,165	825	694	1,519			

1/ Consortium and non-consortium. Excluding private investment, technical assistance and PL 480. Commitments include loans authorized.

2/ Government estimate. During first half of 1964/65, commitments (excluding previous authorizations) were about $250 million and disbursements $207 million.

3/ Pipeline as of December 31, 1964 was $953 million.

Table 7

AREA UNDER PRINCIPAL CROPS IN PAKISTAN
For the Years 1950/51 to 1963/64

(Thousand Acres)

Crops	1950/51-1954/55 Average	1955/56-1959/60 Average	1960/61	1961/62	1962/63	1963/64 Estimate
Rice	23226	22767	24804	23964	24414	25437
Wheat	10363	11741	11603	12310	12592	12151
Bajra	2282	2066	1844	2055	2104	1831
Jowar	1267	1173	1177	11269	1204	1156
Maize	1010	1107	1207	1191	1151	1249
Barley	546	557	536	544	561	495
Total food grains	38694	39413	41171	41333	42026	42319
Gram	2705	3198	2881	3093	3168	3179
Total food crops	41399	42611	44052	44426	45194	45494
Sugarcane	853	1161	1238	1388	1630	1526
Rape and Mustard	1687	1191	1791	1704	1818	1673
Sesamum	209	206	211	250	246	194
Jute	1521	1466	1518	2061	1723	1700
Cotton	3209	3494	3242	3488	3435	3672
Tea	74	77	78	79	81	84
Tobacco	194	195	198	220	219	203
Total under crops	49146	51129	52328	53616	54346	54546

Source: Ministry of Agriculture.

Table 8

PRODUCTION OF PRINCIPAL CROPS IN PAKISTAN
For the Years 1950/51 to 1963/64
(thousand tons)

Crops	1950/51-1954/55 Average	1955/56-1959/60 Average	1960/61	1961/62	1962/63	1963/64 (Unofficial) Rough Estimate
Rice (cleaned)	8334	8409	10533	10575	9808	11629
Wheat	3220	3644	3786	4002	4148	4014
Bajra	345	322	301	364	416	356
Jowar	235	226	218	245	248	234
Maize	389	464	439	487	486	522
Barley	126	153	135	132	143	122
Total foodgrains	12649	13218	15412	15805	15249	16877
Gram	581	674	636	650	705	718
Total foodcrops	13230	13892	16048	16455	15954	17595
Sugarcane (cane)	10764	13975	15412	18548	22897	21248
Rape and Mustard	279	325	308	305	361	297
Sesamum	36	33	31	37	37	33
Jute	5333	5954	4457	6969	5145	
(thousand bales)			(4500)1/	(6800)	(6300)	(6200)
Cotton (lint)	1536	1680	1711	1840	1993	
(thousand bales)			(1625)	(1722)	(2050)	(2350)
Tea (million lbs.)	48.5	52.5	42.3	58.8	52.0	55.0
Tobacco (" ")	196.7	202.3	189.0	224.8	224.2	212.7

1/ Trade sources in parentheses.
Source: Ministry of Agriculture and Central Statistical Office.

Table 9

INDICES OF INDUSTRIAL PRODUCTION

Discontinued Index

Year	Mining	Manufacturing	Industrial production (Mining and manufacturing)
1950	100.0	100.0	100.0
1951	108.5	123.6	122.0
1952	133.6	155.4	153.2
1953	147.7	202.4	196.7
1954	149.9	265.3	253.2
1955	158.8	336.6	318.0
1956	184.9	381.7	361.0
1957	192.8	404.2	382.0
1958	219.3	430.8	408.6
1959	227.7	482.5	455.9
1960	268.2	510.3	485.1
1961	297.9	539.8	514.4

Revised Index

Base: 1959/60 (July - June) = 100

1959/60	100.0	100.0	100.0
1960/61	114.7	107.0	107.8
1961/62	124.0	118.9	119.2
1962/63			
July-September	133.9	123.8	124.4
Oct.-December	145.4	133.9	134.6
Jan.-March	141.5 1/	131.7	132.3
1963/64			
July-September	141.8 1/	147.8	147.4
Oct.-December	157.1 1/	156.5	156.5
Jan.-March	166.0 1/	149.1	150.1

1/ Provisional.
Source: Central Statistical Office.

Table 10

SECTORAL ALLOCATIONS

(Millions of Rupees)

	(1) Second Plan (Est.) Amount	(1) Second Plan (Est.) Percent	(2) Third Plan (Proposal) Amount 2/	(2) Third Plan (Proposal) Percent	(3) Increase (2) over (1) Percent
Agriculture	3500	13.3	8942	15.4	155
Water and Power	4881	18.6	8528	15.2	75
Industry	6365	24.2	14745	26.1	103
Fuels and Minerals	894	3.4			
Transport and Communications	4494	17.1	10114	17.9	125
Housing 1/	3892	14.8	7176	12.7	84
Education	1000	3.8	2882	5.1	188
Health	394	1.5	1330	2.3	236
Manpower and Social Welfare	79	0.3	283	0.5	258
Works Program	800	3.0	2500	4.8	212
Less Expected Shortfall			-4500	--	--
	26300	100.0	52000	100.0	98

1/ And physical (town) planning.
Source: Third Five-Year Plan, March 1965.

Table 11

PRODUCTIVITY OF INVESTMENT

(Millions of Rupees)

	Allocation	Capital/Output Ratio Last Year of Second Plan	Resulting Increase in Output
Agriculture, Water and Power	15,270	2.3	6,639
Industry, Utilities and Construction	15,700	2.5	6,280
Transportation	8,970	8.0	1,121
Other	12,000	2.3	5,217
Total	52,000	2.8	19,257

Table 12

Direct and Indirect Tax Receipts of Central and Provincial Governments

(Rs. Million)

Tax	Actual 1960/61	Actual 1961/62	Actual 1962/63	Actual 1963/64	Estimate 1964/65	Projections[1/] 1965/66	Projections[1/] 1966/67	Projections[1/] 1967/68	Projections[1/] 1968/69	Projections[1/] 1969/70	Total Second Plan	Total Third Plan
Tax Revenues (total)	2,425	2,749	2,950	3,398	3,981	4,610	5,030	5,500	5,990	6,500	15,503	27,630
Direct Taxes (total)	741	855	867	1,031	1,139	1,306	1,442	1,600	1,794	1,938	4,633	8,080
Income and Corporation	381	459	503	570	633	718	802	897	1,026	1,115	2,546	4,558
Land Revenue	242	261	222	283	307	354	377	410	443	467	1,315	2,051
Agricultural Income	18	13	13	19	15	35	45	55	65	76	78	276
Stamp and Registration	72	84	89	95	104	109	113	118	125	130	444	595
Other	28	38	40	64	80	90	105	120	135	150	250	600
Indirect Taxes (total)	1,684	1,894	2,083	2,367	2,842	3,304	3,588	3,900	4,196	4,562	10,870	19,550
Excise Duties	435	455	555	763	900	991	1,086	1,191	1,321	1,451	3,108	6,040
Custom Duties[2/]	621	731	823	832	1,080	1,250	1,300	1,360	1,410	1,450	4,087	6,770
Sales Taxes	467	492	552	680	750	850	930	1,030	1,112	1,228	2,941	5,150
Other	161	216	153	92	112	213	272	319	353	433	734	1,590

1/ Including additional taxation of Rs. 3,000 million distributed annually by IBRD on the basis of tentative unpublished preliminary estimates by Planning Commission.

2/ Excluding customs on Commodity Aid.

Source: Planning Commission, Ministries of Finance, East and West Pakistan.

Table 13

Tax Receipts Of Central and Provincial Governments

(Rs. Billion)

Collection Source and Tax	Actual 1960/61	1961/62	1962/63	1963/64	Estimate* 1964/65	Projections 1/ 1965/66	1966/67	1967/68	1968/69	1969/70	Total Second Plan	Third Plan
Tax Receipts (total)	2.53	2.85	2.95	3.40	3.98	4.61	5.03	5.50	5.99	6.50	15.70	27.63
Customs (total)	.72	.83	.82	.83	1.08	1.25	1.30	1.36	1.41	1.45	4.28	6.77
Commodity Aid	(.10)	(.10)	-	-	-	-	-	-	-	-	(.20)	-
Excise Duties	.40	.42	.51	.71	.85	1.04	1.19	1.34	1.52	1.70	2.89	6.79
Sales Tax	.47	.49	.55	.68	.75	.85	.93	1.03	1.11	1.23	2.94	5.15
Income and Corporation Tax	.38	.46	.50	.57	.63	.72	.80	.90	1.01	1.12	2.55	4.54
Land Revenue	.24	.26	.22	.28	.31	.29	.30	.30	.30	.31	1.32	1.50
Other Taxes	.31	.39	.34	.32	.36	.46	.51	.58	.64	.70	1.72	2.89
Central Government	2.04	2.33	2.44	2.81	3.34	3.87	4.25	4.66	5.08	5.53	12.96	23.40
Customs (total)	.72	.83	.82	.83	1.08	1.25	1.30	1.36	1.41	1.45	4.28	6.77
Commodity Aid	(.10)	(.10)	-	-	-	-	-	-	-	-	(.20)	-
Excise Duties	.40	.42	.51	.71	.85	1.04	1.19	1.34	1.52	1.70	2.89	6.79
Sales Tax	.47	.49	.55	.68	.75	.85	.93	1.03	1.11	1.23	2.94	5.15
Income and Corporation Tax	.38	.46	.50	.57	.63	.72	.80	.90	1.01	1.12	2.55	4.54
Other Taxes	.07	.13	.05	.01	.03	.03	.03	.03	.04	.04	.30	.15
East Pakistan	.21	.26	.19	.25	.27	.27	.29	.31	.32	.33	1.18	1.52
Land Revenue	.11	.15	.08	.13	.15	.13	.13	.13	.13	.13	.61	.66
Agricultural Income Tax	.02	.01	.01	.02	.01	.02	.02	.02	.02	.02	.06	.10
Provincial Excises	.01	.01	.01	.01	.01	.01	.02	.02	.02	.02	.06	.08
Stamps	.03	.04	.04	.04	.05	.05	.05	.05	.05	.05	.20	.23
Other	.05	.06	.05	.05	.05	.06	.07	.09	.10	.11	.25	.45
West Pakistan	.27	.26	.32	.34	.37	.45	.50	.54	.59	.64	1.56	2.71
Land Revenue	.13	.12	.15	.15	.16	.16	.17	.17	.17	.18	.71	.84
Agricultural Income Tax 2/	.003	.003	.003	.003	.003	.02	.03	.03	.04	.05	.02	.17
Provincial Excises	.02	.02	.04	.04	.04	.04	.04	.04	.03	.03	.15	.18
Stamps	.03	.03	.03	.04	.05	.05	.06	.06	.07	.07	.17	.30
Motor Vehicles	.02	.03	.03	.04	.04	.05	.05	.06	.07	.08	.16	.30
Other	.07	.06	.07	.07	.08	.13	.15	.18	.21	.23	.35	.92

See Footnotes on Page 2.

1/ Including additional taxation of Rs. 3.0 billion distributed annually by IBRD on the basis of tentative unpublished preliminary estimates of Planning Commission.

2/ In West Pakistan paid only by those who pay Rs. 250 or more Land Revenue or have 100 acres or more of land. Land revenue in West Pakistan is paid by about 6 million but the agricultural income tax by only 12,000; in East Pakistan levied only on those with gross income of Rs. 3,000 or more and who have 30 acres or more; in the East largely confined to a tax on tea gardens or corporate farms. Province collects only 60 per cent of the amount payable. Forty per cent is considered as a tax on industrial income and is collected by the Center.

Source: Planning Commission, Ministries of Finance, East and West Pakistan.

Numbers are rounded and do not necessarily add to totals.

* Budget estimate.

Table 14

Capital Receipts and Liabilities of Central and Provincial Governments
(Rs. Billion)

Item	Actual 1960/61	Actual 1961/62	Actual 1962/63	Actual 1963/64	Estimate* 1964/65	Projections 1965/66	Projections 1966/67	Projections 1967/68	Projections 1968/69	Projections 1969/70	Total Second Plan	Total Third Plan
1. Capital Receipts (total)	.38	.46	.49	.47	.55	.56	.61	.66	.70	.75	2.35	3.28
Unfunded Debt (net)	.10	.14	.15	.13	.13	.14	.15	.16	.16	.17	.64	.77
Sale of PIDC assets	.05	.02	-	.01	.04	.01	.05	.07	.08	.09	.11	.30
Reserve Funds												
Posts & Telegraph	.02	.02	.02	.02	.02	.03	.04	.04	.05	.06	.09	.21
Railways & Other	.09	.17	.17	.15	.18	.22	.19	.20	.21	.22	.76	1.04
Borrowings from Non-Bank Sources	.07	.04	.08	.07	.09	.09	.09	.10	.11	.11	.33	.50
Other Receipts	.05	.08	.08	.09	.09	.08	.09	.09	.10	.11	.42	.47
Central Government	.30	.36	.26	.24	.28	.30	.32	.34	.35	.38	1.44	1.68
Unfunded Debt (net)	.08	.11	.12	.10	.10	.11	.11	.12	.12	.13	.51	.58
Sale of PIDC Assets	.05	.02	-	-	-	-	-	-	-	-	.07	-
Posts & Telegraph Depreciation Funds	.02	.02	.02	.02	.02	.03	.04	.04	.05	.06	.09	.21
Railways and Other Reserve Funds	.09	.17	.08	.05	.08	.08	.08	.08	.08	.09	.47	.41
Borrowings from Non-Bank Sources	.07	.04	.05	.05	.06	.07	.07	.08	.08	.09	.27	.37
Other Receipts	-	-	-	.02	.02	.02	.02	.02	.02	.02	.03	.10
East Pakistan	.02	.05	.06	.07	.10	.06	.09	.11	.11	.12	.30	.49
Unfunded Debt (net)	.01	.01	.01	.01	.01	.01	.01	.01	.01	.01	.04	.06
Sale of PIDC Assets	-	-	-	.01	.04	-	.03	.04	.04	.04	.05	.15
Railway Depreciation Reserve Funds	-	-	.02	.02	.02	.02	.02	.02	.02	.03	.05	.11
Market Loans	-	-	-	-	.01	.01	.01	.01	.01	.01	.01	.05
Other Receipts	.01	.04	.04	.03	.03	.02	.02	.02	.03	.03	.15	.12
West Pakistan	.05	.06	.17	.17	.17	.21	.20	.22	.24	.26	.62	1.12
Unfunded Debt (net)	.01	.02	.02	.02	.02	.02	.03	.03	.03	.03	.09	.14
Sale of PIDC Assets	-	-	-	-	-	.01	.02	.03	.04	.05	-	.15
Railway Depreciation Reserve Funds	-	-	.08	.09	.08	.12	.09	.10	.10	.11	.25	.51
Market Loans	-	-	-	.02	.02	.02	.02	.02	.02	.02	.04	.08
Other Receipts	.04	.04	.06	.03	.05	.05	.05	.05	.05	.06	.24	.25

	Actual				Estimate*	Projections					Total	
	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	Second Plan	Third Plan
2. Capital Liabilities	.12	.08	.09	.13	.15	.17	.20	.21	.26	.32	.56	1.16
Defense Services 1/	.04	.02	.01	-	-	-	-	-	-	-	.07	-
Foreign Debt Services	.04	.05	.06	.07	.08	.10	.13	.17	.22	.28	.31	.91
Other Liabilities	.02	.02	.03	.06	.07	.07	.07	.03	.04	.04	.19	.25
3. Net Capital Receipts	.27	.38	.40	.34	.40	.45	.45	.51	.51	.50	1.79	2.42
Central Government	.20	.27	.17	.12	.13	.13	.11	.13	.10	.05	.88	.52
East Pakistan	.02	.05	.06	.07	.10	.06	.09	.11	.11	.12	.30	.49
West Pakistan	.05	.06	.17	.15	.17	.21	.20	.22	.24	.26	.62	1.12
Local Bodies 2/	(.03)	(.03)	(.04)	(.05)	(.05)	.05	.05	.06	.07	.07	(.20)	.30

* Budget estimate.

1/ All liabilities on account of defense are being charged to revenue account effective from 1963/64.

2/ Estimated net capital receipts for local bodies are included in the total for 1960/61 through 1964/65.

Source: Planning Commission, Ministries of Finance, East and West Pakistan.

Table 15

DISTRIBUTION OF TAXES COLLECTED AT CENTER, EAST AND WEST PAKISTAN

(Rs. Million)

Tax	Center Share			West Pakistan			East Pakistan			Total		
	1962/ 1963	1963/ 1964	1964/ 1965	1962/ 1963	1963/ 1964	1964/ 1965	1962/ 1963	1963/ 1964	1964/ 1965	1962/ 1963	1963/ 1964	1964/ 1965 1/
Customs Receipts	676	747	941	41	39	19	46	46	22	763	832	982
Excise Duties	499	602	720	43	51	60	51	61	70	593	714	850
Sales Tax	216	273	296	168	220	238	140	187	201	524	680	735
Income and Corporation Tax	277	297	331	100	126	139	123	147	163	500	570	633
Land Revenue	-	-	-	145	153	157	77	130	150	222	283	307
Other Taxes	55	80	92	177	190	223	112	116	116	344	386	431
Total Taxes:	1723	1999	2380	674	779	836	549	687	722	2946	3465	3938

1/ 1964/65 Budget Estimates Source Ministry of Finance, Pakistan, Finance Department East and West Pakistan.

Table 16

PROVINCIAL REVENUE RECEIPTS

(Rs. Million)

	West Pakistan			East Pakistan		
	1962/ 1963	1963/ 1964	1964/65 (Budget Estimate)	1962/ 1963	1963/ 1964	1964/ 1965
Land Revenue	148	153	157	80 1/	130	150
Agriculture Income Tax 3/	3	3	3	10	16	12
Provincial Excises	35	36	37	12	13	14
Stamps	33	40	47	42	43	45
Motor Vehicles	30	38	39	6	7	7
Other	52	73	83	24	37	38
Subtotal - taxes	301	343	366	174	246	266
Other Revenues:						
Irrigation	88	58 2/	59	-	-	-
Forests	27	30	33	15	17	17
Other Receipts 4/	160	231	223	109	58	49
Subtotal-non-tax	275	319	315	124	75	66
Grand total	576	662	681	298	321	332

Note: Excludes Central Grants for which credit is taken in the Provincial Revenue Receipts.

1/ Low because of storm damage.
2/ Reduction because of increased costs of administration. Gross receipts are expected to be higher in 1964/65.
3/ In West Pakistan paid only by those who pay Rs. 250 or more Land Revenue or have 100 acres or more of land. Land revenue in West Pakistan is paid by about 6 million but the agricultural income tax by only 12,000; in East Pakistan levied only on those with gross income of Rs. 3,000 or more and who have 30 acres or more; in the East largely confined to a tax on tea gardens or corporate farms. Province collects only 60 per cent of the amount payable. 40 per cent is considered as a tax on industrial income and is collected by the Center.
4/ Excluding credit for debt service.

Source: Ministries of Finance, East and West Pakistan.

Table 17

MONEY SUPPLY

(Rs. Million)

Date		Currency in Circulation	Demand Deposits (General)	Other Deposits With S.B.P. Excluding IMG A/c No. 1	Money Supply
June	1949	1725.6	902.7	34.8	2663.1
June	1950	1747.6	999.9	36.8	2784.3
June	1951	2029.8	1098.2	36.5	3167.5
June	1952	2238.3	1045.2	37.7	3321.2
June	1953	2238.7	1118.1	21.1	3377.9
June	1954	2418.4	1201.8	20.1	3640.3
June	1955	2603.4	1270.2	29.5	3903.1
June	1956	3052.7	1431.2	72.6	4556.5
June	1957	3432.1	1490.1	88.3	5010.5
June	1958	3626.7	1689.2	46.0	5361.9
June	1959	3646.3	1869.6	43.9	5559.8
June	1960	3815.0	1997.1	43.7	5855.8
December	"	4179.3	1932.8	47.0	6159.1
June	1961	3845.7	1990.7	45.1	5881.5
December	"	4054.2	2100.0	51.2	6205.4
June	1962	3865.4	2190.1	49.3	6104.8
December	"	4103.3	2358.6	50.2	6512.1
June	1963	4157.2	2779.8	49.6	6986.6
October	"	4165.5	2740.5	45.1	6951.1
December	"	4537.2	2881.5	50.8	7469.5
March	1964	4790.8	3018.3	51.0	7860.1
June	"	4661.1	3274.0	53.6	7988.9
July	"	4586.9	3285.0	56.8	7928.8
August 1/	"	4604.3	3471.6	61.6	8137.5

1/ Provisional.
Source: State Bank of Pakistan.

Table 18

SUMMARY OF MONETARY ACCOUNTS
FOR THE SECOND PLAN PERIOD

(Millions of Rupees)

	June 1960	June 1961	June 1962	June 1963	June 1964	June 1965	1960-65 Absolute Change	Percent Change	Contribution to Change
Money Supply	5852.7	5878.4	6105.0	6986.6	7988.7	8988.7	3135.0	53.4	
Causative factors									
1. Private sector									
Bank borrowings	1489.8	1906.3	2593.0	3388.6	4303.0	5553.0	4063.2	272.7	
Time Deposits	946.0	1227.5	1507.1	1935.2	2432.1	3132.1	-2186.1	231.1	
Net	543.8	678.8	1086.4	1453.4	1870.9	2420.9	1877.1	345.1	+59.9%
2. Government sector									
Bank borrowings	4956.1	5328.1	5214.0	5616.3	6037.5	6537.5	1581.4	31.9	
Counterpart funds	570.7	306.6	710.3	472.8	678.3	778.3	207.6	36.4	
Net	5526.8	5634.7	5924.3	6089.1	6715.8	7315.8	1789.0	33.9	+57.0%
3. Foreign exchange reserves	1963.7	1903.7	1824.7	2098.2	1901.5	1651.5	-312.2		- 9.9%
4. IBRD Indus A/c	--	--	186.1	131.9	65.5	15.5	-15.5	)	
								)	- 7.0%
5. Other	...	...	...	...	...	...	-202.4	)	
									100.0%

Table 19

CAUSATIVE ANALYSIS OF CHANGES IN MONEY SUPPLY DURING THE FIRST AND SECOND PLANS

(Millions of Rupees)

	1955/ 1956	1956/ 1957	1957/ 1958	1958/ 1959	1959/ 1960	Total First Plan	1960/ 1961	1961/ 1962	1962/ 1963	1963/ 1964	1964/ 1965 Est.5/	Total Second Plan
Changes in Money Supply	653.4	454.0	351.4	197.8	296.1	1952.7	25.7	226.6	881.6	1002.1	1000.0	3135.0
% Increase		10.0	7.0	3.7	5.3		0.4	3.8	14.4	14.3	12.5	53.4
Causative Factors												
1. Private Sector1/	99.5	237.0	41.5	-4.2	357.5	731.3	416.5	690.2	792.1	914.4	1250.0	4063.2
Less Time Deposits	-44.4	-4.8	-131.6	-53.2	-192.6	-426.6	-281.5	-279.6	-428.1	-496.9	-700.0	-2186.1
Net	55.1	232.2	-90.1	-57.4	164.9	304.7	135.0	410.6	364.0	417.5	550.0	1877.1
2. Public Sector2/	321.5	862.1	706.5	250.3	124.0	2264.4	372.0	-114.1	402.3	421.2	500.0	1581.4
Counterpart funds	-155.2	-446.1	-35.8	-26.8	-157.9	-1020.8	-264.1	403.7	-237.5	205.5	100.0	207.6
Net	166.3	416.0	670.7	223.5	-33.9	1242.6	+107.9	289.6	164.8	626.7	600.0	1789.0
3. Foreign Sector	846.6	217.1	-282.3	236.0	160.7	1178.1	-60.0	-79.0	273.5	-196.7	-250.0	-312.2
4. IBRD Indus A/c	--	--	--	--	--	--	--	-186.1	54.2	66.4	50.0	-15.5
5. Other factors	-70.0 3/	22.9	53.1	-90.0 3/	-55.1	139.1	-157.2 4/	-208.5	25.1	88.2	50.0	-202.4
Total (1+2+3+4+5)	653.4	454.0	351.4	197.8	296.1	1952.7	25.7	226.6	881.6	1002.1	1000.0	3135.0

1/ Loans of banks to private sector and banks' investments in private securities.
2/ Loans of banks and of State Bank to government sector and their investments in government securities.
3/ Includes devaluation adjustments. 4/ Includes $12.5 million payment to IMF for increase in quota.
5/ Planning Commission's latest estimates. "Other factors" includes also the German and U.S. loan accounts and unclassified items.

Source: State Bank of Pakistan.

Table 20

SCHEDULED BANKS' BORROWINGS FROM THE STATE BANK AND EXCESS RESERVES

(Millions of Rupees)

		Borrowing from State Bank	Excess Reserves
1955		178.4	51.4
1956		214.4	45.9
1957		147.1	32.3
1958		181.4	35.1
1959		97.5	31.2
1960		411.7	34.1
1961		497.8	36.7
1962		501.8	33.1
1963	September	423.5	42.8
	October	263.1	81.7
	November	440.5	39.3
	December	408.8	50.4
1964	January	735.9	35.1
	February	852.0	50.0
	March	902.9	54.8
	April	957.8	44.3
	May	873.3	61.2
	June	783.1	50.8
	July	817.2	104.9
	August	659.2	19.7
	September	886.2	36.7
	October	1018.7	26.2
	November	1177.1	24.4
	December	1376.8	18.1
1965	January 22	1552.1	N.A.

Source: State Bank of Pakistan.

Table 21

CLAIMS OF THE BANKING SYSTEM ON GOVERNMENT
June 1960 - December 1964

(Millions of Rupees)

End of	Loans from Commercial Banks to Governments		Total Bank Credit	State Bnk. Loans to Governments	Investments in Governments' Securities by:			Governments' Permanent Debt Outstanding
	Food Procurement	Total			State Bank 1/	Commercial Banks	Total	
June 1960	158.8	159.1	1617.4	125.4	2196.8	1199.6	3396.4	2701.3
June 1961	330.0	330.7	2202.8	15.0	2183.9	1278.0	3461.9	2694.2
June 1962	326.6	326.7	2861.5	95.9	2353.7	1258.3	3612.0	2872.4
June 1963	336.6	378.1	3670.1	56.3	2559.4	1298.2	3857.6	3024.6
June 1964	--	605.3	4791.3	132.5	2997.3	1411.1	4408.4	3576.1
Dec. 1964	--	631.8	6002.9	12.8	3264.4	1681.1	4945.5	--

1/ Held by the Issue Department.
Source: State Bank of Pakistan.

Table 22

CLASSIFICATION OF SCHEDULED BANKS' ADVANCES
(In Per Cent of Total)

(1) By Major Economic Groups

	June 30 1960	June 30 1964	September 30 1964
Agriculture, Forestry, Fishing	4.9	7.4	7.2
Manufacturing	38.4	34.6	35.4
Of which: Textiles	(14.3)	(16.0)	(15.3)
Metal Products	(2.5)	(2.8)	(3.3)
Commerce	43.3	38.4	37.1
Other Economic Groups	13.4	19.6	20.3
Total	100.0	100.0	100.0

(2) By Securities Pledged

Stock exchange securities	9.6	7.9	6.9
Merchandise	65.8	56.0	54.0
Of which: Export Commodities	(24.4)	(19.0)	(18.4)
Import Commodities	(18.5)	(16.6)	(18.2)
Other Merchandise	(21.8)	(19.7)	(16.5)
Rice	(8.6)	(12.8)	(10.7)
Machinery and Fixed Assets	2.4	6.6	6.8
Other Securities	22.2	29.5	32.3
Total	100.0	100.0	100.0

Source: State Bank of Pakistan.

Table 22a

CLASSIFICATION OF SCHEDULED BANKS' ADVANCES
BY MAJOR ECONOMIC GROUPS

(Millions of Rupees)

Economic Group	June 30 1960	June 30 1961	June 30 1962	June 30 1963	June 30 1964	Sep.30 1964
A. Agriculture, Forestry, Hunting and Fishing	42.8	120.0	208.1	232.7	320.8	337.1
B. Mining and Quarrying	15.2	14.2	12.5	11.6	21.7	29.6
C. Manufacturing	554.0	618.3	895.3	1236.5	1542.3	1658.9
Of which:						
Food Industries except beverages	41.4	46.2	54.7	110.5	92.1	91.3
Textiles	206.2	234.2	387.3	508.1	695.0	719.2
Paper and paper products	17.6	9.7	6.2	21.1	10.2	7.4
Chemicals	14.4	25.8	40.7	54.9	76.0	79.9
Metal products	36.6	60.7	51.7	79.4	120.9	153.9
Machinery	11.5	5.1	4.2	36.9	45.4	52.2
Electrical machinery	10.6	10.2	15.2	36.6	53.1	50.6
Transport equipment	25.6	10.3	29.4	31.5	30.5	37.4
D. Construction	15.5	11.1	73.3	90.5	91.9	122.2
E. Electricity, Gas, Water	2.6	53.6	18.5	7.3	14.4	49.9
F. Commerce	624.6	771.6	827.7	1315.7	1666.1	1738.4
G. Transport, Storage, Communications	15.2	27.7	51.0	76.3	113.0	96.9
H. Services	77.8	154.5	272.2	257.6	340.7	413.9
I. Employees and Activities not adequately described	97.3	149.5	243.1	79.9	231.1	240.0
Total:	1445.0	1920.4	2592.7	3308.0	4342.0	4687.0

Source: State Bank of Pakistan.

Table 23

NEW LOANS MADE BY INSTITUTIONS
OTHER THAN COMMERCIAL BANKS

(Millions of Rupees)

	1960/61	1961/62	1962/63	1963/64
Government loans "taccovi"	25	34	38	49
Cooperatives	117	107	106	--
ADBP	77	95	81	85
IDBP 1/	--	195	258	331
PICIC	--	--	170	193
HBFC	--	29	49	--
Total:	--	--	702	--

1/ New loans and advances net of repayments and including rupee loans and advances against opening of L/Cs as well as foreign currency loans.

Source: Government services and institutions concerned.

Table 24

READY PRICES OF BONUS VOUCHERS

(In Rupees)

End-Month		Premium per Rs. 100 at Official Rate
June	1960	143.00
September	1960	124.00
December	1960	136.00
March	1961	118.00
June	1961	108.00
September	1961	103.75
December	1961	154.00
March	1962	176.00
June	1962	133.50
September	1962	162.00
December	1962	158.00
March	1963	172.25
June	1963	162.50
September	1963	165.50
December	1963	159.25
January	1964	154.75
February	1964	151.25
March	1964	146.25

Source: State Bank of Pakistan.

Table 25

INDEX NUMBERS OF WHOLESALE PRICES
BY GROUPS OF COMMODITIES

(1959/60 = 100)

	General	Food	Raw Materials	Fuel Lighting Lubricants	Manufactures
1960/61	102.99	100.50	119.15	99.21	101.24
1961/62	105.88	106.63	107.30	98.70	102.12
1962/63	104.80	104.92	105.06	98.96	104.92
1963/64	104.62	104.62	105.32	104.49	105.82
November 1962	106.05	107.28	102.51	98.64	104.43
November 1963	107.26	107.82	106.36	104.59	105.76
November 1964	113.89	114.90	118.83	104.51	106.05
East Pakistan					
November 1962	110.25	113.84	95.32	99.67	103.30
November 1963	109.14	111.40	100.82	108.14	102.26
November 1964	113.62	114.84	113.75	103.33	104.55
West Pakistan					
November 1962	100.87	97.82	106.99	98.20	104.82
November 1963	104.78	102.67	109.80	103.10	106.94
November 1964	113.87	115.00	121.98	105.01	106.56

Source: Central Statistical Office.

Table 26

INDEX NUMBERS OF WHOLESALE PRICES BY COMMODITIES

Commodity	1956/57	1957/58	1958/59	1959/60	1960/61	1961/62	1962/63	1963/64 1/	October 1963/64	October 1964/65
Rice	104.58	94.27	96.39	100	91.32	95.60	103.03	92.73	107.91	98.64
Wheat	95.32	95.75	95.83	100	114.36	106.14	100.31	110.88	105.26	122.13
Gram	74.75	78.23	94.20	100	105.54	106.71	107.85	97.17	95.45	128.59
Other Pulses	116.64	108.71	89.99	100	106.59	103.55	102.37	101.04	100.06	129.16
Vegetable Ghee	99.55	120.74	111.78	100	99.26	97.83	93.96	93.63	92.89	103.47
Gur	96.47	80.55	73.09	100	122.73	122.83	82.67	107.61	95.57	170.41
Salt	101.19	102.12	99.90	100	85.92	105.60	96.91	93.96	97.29	92.36
Jute	125.68	101.56	77.97	100	219.88	119.88	103.15	103.56	104.71	145.32
Cotton	98.36	96.70	86.20	100	109.11	100.12	96.73	97.09	94.30	101.75
Wool	99.35	89.84	84.44	100	96.70	98.06	96.05	109.38	105.54	108.83
Hides	68.60	67.97	74.84	100	99.54	94.05	96.62	86.35	83.93	81.34
Skins	64.67	71.90	79.64	100	74.45	68.67	65.47	64.82	64.40	69.60
Oilseeds	93.83	125.06	111.25	100	99.14	101.59	104.33	109.51	100.75	149.22
Tobacco	84.34	86.32	72.48	100	104.88	96.54	96.54	92.16	108.42	113.46
Cotton yarn	97.15	113.98	96.96	100	110.84	110.98	106.66	111.85	111.06	113.03
Cotton manufactures	96.68	91.30	78.31	100	99.43	100.65	97.24	95.54	95.98	96.62
Jute manufactures	91.84	87.82	79.90	100	129.07	113.49	104.91	97.62	96.61	108.94
Tobacco products	111.02	100.44	100.96	100	100.51	101.72	116.24	125.59	127.80	129.90
General	95.37	95.62	93.94	100	102.99	105.88	104.80	104.62	108.07	114.58

1/ Compiled as an average.
Source: Central Statistical Office.

Table 27

GENERAL COST-OF-LIVING INDEX NUMBERS FOR INDUSTRIAL WORKERS IN SELECTED CENTERS

(April 1948-April 1949=100)

Period	West Pakistan			East Pakistan
	Karachi	Lahore	Sialkot	Narayanganj
1958/59	118.32	103.44	99.31	117.25
1959/60	125.04	110.65	107.76	122.51
1960/61	127.32	118.36	116.85	123.32
1961/62	130.01	124.38	117.44	128.13
1962/63	128.02	120.33	114.60	132.36
1963/64	131.87	127.13	122.58	133.20
December 1962	127.46	120.51	114.46	130.71
June 1963	131.40	119.93	114.68	135.84
December 1963	130.39	125.31	120.26	130.84
June 1964	132.74	128.52	122.00	133.54
December 1964	139.08	138.20	126.49	147.58
Per Cent Increases				
December 1963/December 1962	2.3	4.0	5.1	0.1
December 1964/December 1963	6.7	10.3	5.2	12.7
December 1964/June 1964	4.8	7.8	3.7	10.5

Source: Central Statistical Office.

Table 28

CONSUMERS' PRICE INDEX FOR GOVERNMENT AND COMMERCIAL EMPLOYEES (CLERICAL) IN KARACHI BY EXPENDITURE GROUPS
(Base: 1956=100)

Period	General Index	Food	Clothing and Footwear	Housing and Household	Miscellaneous
1950	90	92	77 1/	91	90
1951	91	94	80 1/	91	92
1952	96	103	79 1/	93	92
1953	98	102	97	95	94
1954	98	100	96	95	96
1955	97	97	93	95	97
1956	100	100	100	100	100
1957	107	109	119	103	100
1958	111	114	130	100	101
1959	106	114	107	97	98
1960	115	125	127	101	99
1961	116	131	122	102	96
1962	116	131	121	102	97
1963	119	134	121	102	99
1964 2/	121	139	122	102	100
December 1963	119	134	122	103	100
June 1964	122	141	122	102	100
December 1964	127	146	124	115	103

1/ Excluding footwear.
2/ Index compiled as an average for eight months only, January-August, 1964.
Source: Central Statistical Office.

Table 29

TOTAL FOREIGN TRADE

(Rs. Million)

	Imports			Exports		
	Total	West Pakistan	East Pakistan	Total	West Pakistan	East Pakistan
1947-48 1/	359	319	40	703	456	247
1948-49 2/	1459	1177	282	958	529	429
1949-50	1297	912	385	1194	565	629
1950-51	1620	1167	453	2554	1342	1211
1951-52	2237	1474	763	2009	922	1087
1952-53	1384	1017	366	1510	867	642
1953-54	1118	824	294	1286	641	645
1954-55	1103	783	320	1223	491	732
1955-56	1325	964	361	1784	742	1041
1956-57	2335	1516	819	1608	698	909
1957-58	2050	1314	736	1422	434	988
1958-59	1578	1025	554	1325	444	881
1959-60	2461	1806	655	1843	763	1080
1960-61	3188	2173	1014	1799	540	1259
1961-62	3109	2236	873	1843	543	1301
1962-63	3819	2800	1019	2034	785	1249
1963-64	4424 3/	2975	1441	1683 4/	577	1101

1/ August 15 to June 30.
2/ July to June.
3/ Provisional.
4/ July-May only.

Note: Data on Sea-borne trade with India are included since April 1948 and land-borne trade since July 1949.

Date on exports to Afghanistan are included since July 1949, whereas data on imports from Afghanistan are included from March 1951.

Data on Land-borne trade with Iran are included since July 1949.

Totals may not add due to rounding.

Source: Central Statistical Office.

Table 30

DISTRIBUTION OF COMMITMENTS AND DISBURSEMENTS OF PROJECT ASSISTANCE (1960/61-1963/64)

(Millions of Dollars)

	(1) Commitments 1/	(2) Disbursements	(3) Percent (2) of (1)
Agriculture	46.6	21.7	46.6
Water and Power	318.7	114.8	36.0
Industries	411.0	192.7	46.9
Fuels and Minerals	51.0	11.7	22.9
Transport and Communications	428.0	196.1	45.8
Housing and Physical Planning	62.1	4.7	7.6
Education	13.0	--	--
Health	14.3	2.5	17.5
Total:	1,344.7	544.2	40.5

1/ Includes pipeline as of June 30, 1960.
Source: Draft Evaluation Report (Table 4.8).

Table 31

INDUS BASIN WORKS

(In Millions of Dollars)

	Second Plan		Third Plan	
	Total	Foreign Exchange	Total	Foreign Exchange
Expenditure				
Indus Basin Works	590	343 1/	691	409
(1) Subtotal	590	343	691	409
Financing				
Pakistan's Own Resources	86	--	--	--
Indus Club for Basin Works	343	343	409	409
PL-480	161	--	282	--
(2) Total	590	343	691	409

1/ Includes $21 million for the purchase of rupees under the original agreement.

Table 32

THE THIRD PLAN

(In Millions of Dollars)

	Second Plan		Third Plan	
	Total	Foreign Exchange	Total	Foreign Exchange
Expenditure				
Development Program	5,523	2,772	10,920	4,696
(1) Total	5,523	2,772	10,920	4,696
Financing				
Pakistan's Own Resources	3,405	1,068	7,278	1,444
External Resources:	2,118	1,704	3,642	3,252
Private Foreign Investment	95	95	147	147
Technical Assistance	90	90	105	105
PL-480 Counterpart	414	--	390	--
Aid Requirement	1,519	1,519	3,000	3,000
(2) Total	5,523	2,772	10,920	4,696

Table 33

BALANCE OF PAYMENTS FOR THE SECOND PLAN
(Rs. Million)

	1960-61	1961-62	1962-63	1963-64	1964-65 (Estimates)	Total 2nd Plan	Annual Percentage Increase
IMPORTS:							
I. Development:							
Capital goods	1,166	1,410	1,690	2,019	2,450	8,735	20.5
Raw materials for investments	549	459	415	652	870	2,945	12.2
Freight charges & insurance	127	209	220	270	348	1,174	28.5
Technical assistance	63	64	77	128	100	432	12.3
Sub Total	1,905	2,142	2,402	3,069	3,768	13,286	18.7
II. Non-Development							
Consumer goods	570	547	563	598	645	2,923	4.4
Raw materials for consumer goods	317	334	306	339	585	1,881	16.5
Freight/insurance	67	92	93	95	134	481	19.0
Invisibles	328	331	352	357	370	1,738	3.1
Sub Total	1,282	1,304	1,314	1,389	1,734	7,023	7.7
III. Debt servicing	100	120	188	243	300	951	31.6
Total Imports and Payment	3,287	3,566	3,904	4,701	5,802	21,260	15.3
FINANCED BY:							
I. Own Earnings	2,286	2,384	2,748	2,785	3,050	13,252	7.0
II. External Resources	924	1,165	1,475	1,963	2,502	8,129	28,5
Project assistance	390	562	681	957	1,350	3,940	37.0
Non-project assistance	481	449	636	788	952	3,306	18.7
Technical assistance	63	64	77	128	100	432	12.3
Foreign private investment	90	90	81	90	100	451	2.2
III. Change in Reserves	-56	97	-307	70	250	54	---
IV. Short term Movements	33	-80	- 12	-117	--	-176	---
Total P.L. 480 Imports	503	323	691	832	740	3,089	
Indus Basin Imports	60	170	300	400	450	1,380	

Source: Planning Commission.

Table 34

BALANCE OF PAYMENTS PROJECTIONS FOR THE THIRD PLAN
(Rs. Million)

	1965-66	1966-67	1967-68	1968-69	1969-70	Total Third Plan	Annual Percentage Increase
IMPORTS:							
I. Development:							
Capital goods	2,520	2,630	2,790	2,930	3,050	13,920	4.5
Raw materials for investments	950	1,050	1,170	1,380	1,570	6,120	12.7
Freight charges	355	365	390	410	440	1,960	4.2
Technical assistance	100	100	100	100	100	500	---
Sub Total	3,925	4,145	4,450	4,820	5,160	22,500	6.5
II. Non-Development:							
Consumer goods	670	700	720	740	760	3,590	3.3
Raw materials for industries	600	670	750	820	920	3,760	9.0
Freight charges	135	135	140	155	165	730	4.3
Invisible payments	390	400	410	445	465	2,110	4.8
Sub Total	1,795	1,905	2,020	2,160	2,310	10,190	5.8
III. Debt Servicing:	380	470	560	650	750	2,810	20.0
Total Payments	6,100	6,520	7,030	7,630	8,220	35,500	7.3
FINANCED BY:							
I. Own earnings	3,280	3,570	3,950	4,400	4,800	20,000	9.5
EXTERNAL RESOURCES	2,820	2,950	3,080	3,230	3,420	15,500	6.5
Project assistance	1,620	1,680	1,740	1,820	1,940	8,800	
Non-project assistance	1,000	1,050	1,100	1,150	1,200	5,500	
Technical assistance	100	100	100	100	100	500	
Private foreign investment	100	120	140	160	180	700	
Indus imports	383	383	383	383	--	1,532	
P.L. 480 imports	760	760	760	760	760	3,800	

Source: Planning Commission, except for Indus imports which are Mission estimates.

Table 35

CAPITAL REQUIREMENTS 1/
PAKISTAN - PERSPECTIVE PLAN
(Millions of Dollars)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Resource Gap	697.	716.	700.	673.	649.	804.	890.	849.	806.	760.	745.	730.	621.	517.	406.	375.	436.	380.	320.	255.	183.
Gross Capital Inflow	775.	806.	807.	798.	795.	975.	1081.	1065.	1067.	1070.	1103.	1146.	1100.	1056.	1001.	1023.	1135.	1133.	1121.	1100.	1064.
Of which:																					
Grants and P.L. 480	176.	148.	150.	153.	155.	153.	100.	100.	100.	100.	100.	100.	100.	100.	100.	100.	100.	100.	100.	100.	100.
Direct Investment	21.	24.	28.	32.	36.	40.	50.	50.	50.	50.	50.	50.	50.	50.	50.	50.	50.	50.	50.	50.	50.
Official Borrowing	578.	634.	629.	613.	604.	782.	931.	915.	917.	920.	953.	996.	950.	906.	851.	873.	985.	983.	971.	950.	914.
Amortization	41.	41.	46.	53.	63.	77.	83.	91.	118.	151.	183.	224.	271.	316.	360.	402.	443.	485.	522.	555.	583.
Net Capital Inflow	787.	765.	761.	745.	732.	898.	998.	974.	948.	920	921.	922.	829.	740.	641.	622.	693.	649.	599.	544.	481.
Net Official Borrowing	590.	593.	583.	560.	541.	705.	848.	824.	798.	770.	771.	772.	679.	590.	491.	472.	543.	499.	449.	394.	331.
Total Debt Service 2/	78.	90.	107.	125.	146.	171.	191.	216.	261.	310.	358.	416.	479.	539.	595.	648.	699.	753.	801.	845.	881.
Exports	640.	701.	767.	840.	920.	1008.	1096.	1191.	1295.	1408.	1533.	1663.	1804.	1957.	2123.	2310.	2425.	2546.	2673.	2806.	2940.
Debt Service Ratio	12.	13.	14.	15.	16.	17.	17.	18.	20.	22.	23.	25.	27.	28.	28.	28.	29.	30.	30.	30.	30.

1/ This projection is based on the following assumptions:

	1965-70 %	1970-75 %	1975-80 %	1980-85 %
GDP Growth Rate	6.5	7.3	7.5	7.5
Export Growth Rate	9.5	8.8	8.6	5.0
Import Growth Rate	6.2	4.7	3.6	3.5
Incremental Capital/Output Ratio	2.8	2.9	2.9	2.9
Marginal Savings Rate	24.0	25.0	28.0	26.0

2/ 2 per cent interest, 5 years grace, 25 years repayment.