Rapid Assessment on the Social Dimensions of the Financial and Economic Crisis: Case of Pakistan

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I. Introduction:

The triggers of the present global financial crisis were in the US subprime mortgage market, the crumple of which engulfed the global financial markets. The slump in the US housing sector is now a global crisis, spreading to both rich and poor economies. This appears to be the worst crisis since the Great Depression of the 1930s wiping out almost 10 trillion US dollar worth of value from stock markets over the past months. Both America and Europe are at the threshold of deep recessions at this time and first signs are already visible. In September 2008, America lost 160,000 jobs; by the end of year there was a reduction of one million jobs in the United States.

Consumer spending is the main engine of growth in the United States and Europe. A significant decline in consumer spending causes economy to go into recession. Once an economy is in recession, there is a negative impact on imports. We see a fairly large reduction in the American imports. Pakistan, though not so much globalised financially, depends significantly on foreign trade. More significantly, its exports including cotton, textiles, leather, sports and surgical goods etc are heavily dependent on the western consumer demand. Therefore, falling employment and hence the declining income of the average consumers in the USA and Europe are bound to have serious impacts on our export potentials. This may start impacting after January 2009 once the buying spree during Christmas sales is over. Similarly, there can be negative impact on the export of low-skilled Pakistani manpower following ever declining oil price with potential depression in infrastructural development activities in the Middle-East. So the government will have to face these economic crises. One positive thing is the falling price of oil and commodities in the international market. This will dampen inflationary pressures.

In the current situation, Pakistan's economy has emerged as the net beneficiary of the world's financial crisis, with over $6 billion gains in the current fiscal year 2008-09.

According to the Finance Ministry, fiscal year 2008-09 that started with skyrocketing oil prices touching $147 per barrel the estimated oil import bill was projected at $14 billion. However, financial crisis in the United States and Europe along with other industrialized countries has reduced the oil demand resulting in continuous decline in world oil prices. The decline in world oil prices which started from $147 a barrel and reached to less than $50 a barrel helped Pakistan to lower its oil import bill projections at around $9 billion with net savings of $5 billion alone on oil import. On the other hand, some $1 billion savings are being projected due to the decline in the prices of edible oil in this fiscal year. Similarly, declining wheat, sugar and fertiliser prices also helped Pakistan to import more wheat especially for arranging strategic reserves as well as meeting requirements of the deficit provinces with estimated savings in terms of millions of dollars. Visible decline in oil and food prices especially wheat has been instrumental in reduction in pressure on country's foreign exchange reserves, as it has been faced with balance of payment problem.

Pakistan has been able to get $7.6 billion Stand-By-Arrangement from the International Monetary Fund (IMF) to meet its balance of payment obligations. At present Pakistan's problems are different from industrialized countries therefore it is using different policies than industrialized countries. Easy fiscal and monetary policies are pursued in the United States, Japan and other European countries with fiscal stimulus of billions of dollars and low interest rates to spur economic growth and to avoid further economic slowdown. Pakistan, in contrast, is pursuing tight fiscal and monetary policies to cut demand and slow down the economy to tackle the balance of payment problem. In this regard, interest rates are being increased to counter inflation and demand in the economy and imports are being discouraged despite the fact that these are the main sources of revenue generation.

Pakistan may face some consequences of world financial crisis as it is adopting tight fiscal and monetary policies in the shape of reduced exports to European Union and United States. Less remittances from countries hit by the crisis and less job opportunities is expected to increase poverty which is already high (The News, 8April 2009). However, as will be elaborated, the negative impact in terms of exports, remittances, reduced job opportunities and increase in number of people living in poverty will be offset by the gains of billions of dollars which Pakistan is receiving from IMF and the United States. Present study is an attempt to explain the impact of financial crisis world is going through on the economy of Pakistan and its policy response to deal with it. The structure of the report is as follows: Pakistan's economic conditions are explained in the next section. National policy response is highlighted in section three. Possible impact of the global financial meltdown is discussed in section four. Results of the rapid assessment and employment impact are discussed in section five. Social implications of the crisis are highlighted in section six. Conclusion and policy implications are presented in the last section.

II. Economy Under Musharaff Rule:

Pakistan experienced high economic growth in the eight years of the general Musharaff's rule from 1999-2008. Real GDP grew at an average of 7% between 2004 and 2008. The economic growth raised the per capita income to US$1025 in 2007-08 from less than US$500 in 2003-04. The agriculture share in the GDP declined by 5% while the shares of industry and service sector increased by 3% and 2% respectively during the period (Table 1).

Table 1: Economic Indicators

Years	GDP		Sectoral Share in GDP			Per Capita Income
	At Factor Cost	Growth Rate	Agriculture	Industry	Services	
	PRs. (million)	(%)	(%)	(%)	(%)	(US$)
1999-00	3,562,018	3.9	25.9	23.3	50.7	526
2000-01	3,632,091	1.8	24.9	23.8	51.3	507
2001-02	3,745,118	3.1	24.1	23.7	52.1	509
2002-03	3,922,104	4.7	24.0	23.6	52.4	586
2003-04	4,215,608	7.5	22.9	25.5	51.6	669
2004-05	4,593,230	9.0	22.4	26.3	51.3	733
2005-06	4,860,476	5.8	22.5	25.9	51.7	833
2006-07	5,192,450	6.8	21.8	26.1	52.1	925

2007-08	5,492,788	5.8	20.9	25.9	53.2	1027

Source: Economic Survey 2007-08.

Pakistan's stock market was the fastest growing market in the world between 2000 and 2008. It received enormous foreign investment in addition to the active contributions by local investors. The Karachi Stock Market (KSE 100 Index) grew from 1,521 points in June 2000 to more than 15,000 points by mid 2008. Privatization proceeds, foreign direct investment, remittances and international aid increased foreign exchange reserves to more than $16 billion by 2008. Macroeconomic stability created conducive environment for investment that reached at 22.9% in 2006-07 (Table 2).[1] The investment was mostly in the services sector which helped it to grow fast.

Table 2: Economic Indicators

Years	Foreign Exchange Reserves	Exports	Imports	Current Account Balance	Total Investment as % of GDP	Inflation
	US $ Million	US $ Million	US $ Million	US $ Million	(%)	(%)
1999-00	2,149	8,190	9,602	-1,143	17.4	3.6
2000-01	2,666	8,933	10,202	-513	17.2	4.4
2001-02	5,439	9,140	9,434	1,338	16.8	3.5
2002-03	10,700	10,889	11,333	3,165	16.9	3.1
2003-04	11,883	12,396	13,604	1,314	16.6	4.6
2004-05	11,227	14,401	18,753	-1,753	19.1	9.3
2005-06	12,939	16,388	24,647	-5,649	22.1	7.9
2006-07	15,801	17,119	26614	-7361	22.9	7.8
2007-08	12303	20100	35400	-14000	21.6	10.3

[1] This was the highest level since 1965.

Telecom and Financial Sectors

Two sectors, Telecom and Finance, specifically achieved phenomenal growth.[2] Deregulation in the telecom sector played a vital role in turning around the scenario in this industry. Most of the growth could be attributed to the cellular sector. There was significant foreign direct investment in the telecom sector. Network coverage spread to around 90% of Pakistan. The growth rate was 100% between 2004 and 2008 with the number of subscribers reaching around 80 million. Companies improved the quality of service, decreased rates and expanded coverage. This, in addition to the availability of cheap handsets, enabled people from less privileged classes of society to have access to such services. As of today 5 major cellular companies are in operation.[3] Fixed line telephone sector, however, experienced much less growth with consumers reaching just 4.8 million by 2007. Wireless local loop subscribers reached 2 million by the end of 2007. There was growth in Internet subscriptions as well, however this service remained out of the reach of less income groups that contributed to the digital divide.

Banking is another sector which performed extremely well. Privatization played an important role. State Bank requirements also encouraged existing banks to increase their branch network significantly. Assets of all banks showed a net expansion of Rs. 4,351 billion by 2007. By 2008, 80% of banking assets were controlled by the private sector. A number of Middle Eastern and European Banks started operations in the country including Barclays, RBS (ABN Amro takeover), Dubai Islamic Bank, Emirates Global Bank and others. A number of local groups established banks, mostly in collaborations with foreign partners. Credit became widely available to businesses and individuals. An ever-increasing number of people obtained leased cars, home loans, personal loans and credit cards. The number sold of electronic and electric devices sky-rocketed. The non-banking financial sector achieved great success as well. For instance, the net assets of mutual funds increased from Rs. 25 billion in FY 2000 to Rs. 313 billion in FY 2007.

Other Sectors

[2] Pakistan Economic Survey 2007-08.

[3] These include Mobilink, Ufone, Telenor, Warid and Zong.

There was growth in other sectors too. Construction and Real Estate markets showed vast improvements. Foreign companies like Emaar and Al Ghurair Giga invested heavily in big construction projects such as Centaurus, Platinum Square, Gold Crest and Giga Towers. Immense investments went into new property and housing schemes. Hotel industry finally began to see light at the end of the tunnel as projects such as Sheraton and Jumeirah in Islamabad, Sofitel in Karachi and Hayat Regency in Lahore were announced. Retail sector also performed well. Malls, super markets and departmental stores sprang in different parts of the country. Foreign stores like Metro, Makro and Carrefour announced their entry. Electronic media expanded rapidly with the introduction of a number of new TV and radio Channels. Advertising industry achieved tremendous growth as well in Print, Television, Radio, Outdoor and Internet media.

Employment Situation:

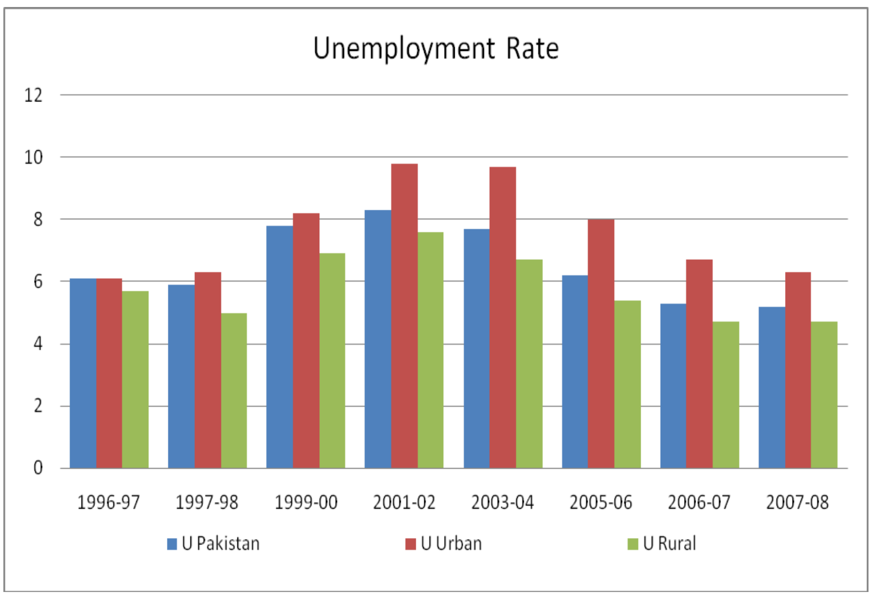
The growth in different sectors of the economy helped in generating millions of work opportunities in the country (Figure 1).

Figure 1: Distribution of Employed by Gender

Source: Labor Force Survey, various issues

This somewhat eased the labor market which was facing disequilibrium due to the over-supply of labor (Table 1 annex). However employment generation was not keeping pace with the growing labor force. It is reflected in the high unemployment rate, especially during the early period of 2000 when the rate peaked at 7.8% in 2001 (Figure 2). Generation of decent and productive employment was therefore among the priority agenda of the military government's national development program. The documents such as the Vision 2030, the Medium Term Development Framework (MTDF) (2005–10), and the Poverty Reduction Strategy Paper (PRSP) show resolve of the government to tackle the unemployment problem.

Figure 2: Unemployment Rate by Region



Source: Various Labor Force Survey Issues

The emphasis in these documents is both on direct job creation through public sector development programs and indirectly by enhancing growth in different sectors with the assumption that employment is the outcome of growth process.

The growth strategy that focused on the expansion of the labor intensive sectors such as Textiles, Construction, Telecom, and Services, and direct employment generation by small public sector development schemes as well as self employment schemes was a success (Economic Survey 2007-08). The Economic Survey 2007-08 indicates that about ten million new work opportunities were created in the country in the last eight years. The backlog in the labor market was reduced significantly but due to new entrants in the labor force, unemployment remained high. The MTDF estimates show that about 0.85 million workers are being added in the labor force annually in the labor force (Table 3). This shows the gravity of the situation even though these projections under-estimate the situation. The MTDF projections show that the labor force of Pakistan will reach 50.08 million in 2010, the end of the plan period, but it reached at this level in year 2005-06.[4] With rapid growth in the labor force, the employment strategy adopted by the government successfully reduced unemployment to 5.2% in 2007-08 (Fig 2).[5]

Table 3: Projections of MTDF on Labor force and Employment

Year	**Labor Force**			**Employment**		
	Both Sexes	Net Addition	Growth (percent)	Both Sexes	Net Addition	Growth (percent)
2004-05 (Benchmark	45.83	0.87	-	41.88	1.06	-
2005-06	46.69	0.86	1.88	43.05	1.17	2.79
2006-07	47.55	0.86	1.84	44.28	1.23	2.86
2007-08	48.40	0.85	1.79	45.57	1.29	2.91
2008-09	49.24	0.84	1.71	46.94	1.37	3.01
2009-10	50.08	0.84	1.68	48.44	1.50	3.19

Source: MTDF, Planning Commission of Pakistan, 2005

Political Change and Economy:

[4] Underestimation of the labor force in MTDF was the result of wrong assumptions about the growth rates of population and labor force. This nevertheless necessitated revisiting the projections in the light of current trends and growth rates.

[5]Timely Labour Market Information is essential to develop policies and programs to promote decent and productive work opportunities. An effective labor market information system (LMIS) does not exist in Pakistan and therefore it is difficult to access information on the existing manpower situation, sectoral employment, occupational composition, wages, factors affecting labor supply and demand at local, provincial and national level, and the nature and extent of unemployment. We have to therefore rely on different data sources such as administrative records, population censuses and household sample surveys. Among sample surveys and censuses, the Labor Force Survey (LFS) is an important source of information on labor market indicators.

The political developments after the sacking of Chief Justice Iftakhar Muhammd Chaudry in March 2007 forced General Musharaf to announce elections in the end of 2007. Situation started to change swiftly with the caretaker government in the saddle. Important decisions related to economy were postponed and left for the new elected government. Rise in oil and food prices at international level, falling currency value, slippages in budget, failure to pass on the increased oil price to the consumer, heavy government borrowing from State Bank, mismanagement of wheat crisis and corruption had badly hurt the economy. Trade and current account deficits increased. The fiscal deficit reached at unsustainable level of 7.4% of GDP in 2007/08. By April 2008, overall inflation rose to 17.2 percent. The previous government could not match the rise in number of vehicles sold to road infrastructure improvements which led to traffic congestion problems. It did not produce more electricity to take care of the growing energy needs. Shortage of electricity, oil, gas and food posed serious problems for the economy. High economic growth in Pakistan seemed to have been consumption oriented. Agricultural and Industrial sectors were neglected. Availability of credit helped people improve their lifestyles. But at the same time banks were blamed for charging exorbitant interest rates.

Global financial crisis had its impact felt on Pakistan since exports fell and budget cuts were implemented by multinationals operating in the country. Companies tightened their budgets for existing projects and cancelled those for new ones. The boom in some sectors of the economy started to take a hit. Stock market faced the worst crash with foreign portfolio investment leaving the country. These developments have adversely affected social indicators; a few of them are discussed below.

Poverty: In the recent economic boom, all efforts were concentrated on the demand side which instead of creating employment and reducing prices pushed up the prices of various essential items and made the life of the common people difficult. The official estimates claim that poverty in the last eight years came down to 24.8 percent from 35 percent in early 2001. These figures were however not accepted at their face value and stirred discussion among various circles. It was claimed that the figures did not show a true picture of the situation and the real figures were much higher. The rise in the food prices has affected the poor and middle class the most as they spend a major portion of their income on essentials of life. The recent report of Oxfam states that due to food inflation the number of poor increased from 60 to 77 million.[6] As a result of increased prices, people are forced to cut their expenditure even on food. A recent survey indicates that 32 per cent people have to cut their expenditure on food. [7] The survey further shows that rising cost of food, fuel and electricity have adversely affected 56 per cent people in the country. According to another estimate, the poorest one-fifth of the population spends 50-58 per cent of its income on buying cereal. The adviser to prime minister on finance in his meeting with the businessmen in Karachi said 44 per cent of the total population is living below poverty line and 28 per cent in extreme poverty.

Gender Dimension: Female workers in the country suffer more when compared to male workers. There is hardly any documentation on the gender dimensions of economic and social indicators including poverty. However, it is clear that the gender-discriminatory practices prevalent in Pakistan shape men's and women's choices differently. Women suffer from lack of opportunities throughout their lives. In particular, women's access to jobs in the Pakistani labour market is largely determined by rigid social and cultural restrictions on women's mobility and integration in the work place, segmented labour market and employers' gender biases that attach a lower value to female labour due to their family responsibilities. Female labour participation rates in Pakistan are exceptionally low at just 13.7 per cent, compared to 70.4 per cent for men (LFS 2007-08). The data further shows that two thirds of the employed women in Pakistan are in the informal sector and within the informal sector, female employment is highest in the manufacturing sector. Around 70 percent of the women in the informal sector were getting less than the official minimum wage. Majority of women in the formal sector of the economy are concentrated in the secondary sector of the segmented labour market, where jobs are low paid and there are limited opportunities for upward social and economic mobility. Paradoxically women constituted only a negligible 3 per cent share in the relatively well-paid occupation of 'professionals. Across all industry divisions and occupations, the average Pakistani woman received a wage 3.6 times less than an average

[6] Food crisis in Pakistan: real or artificial, Oxfam 2008.

[7] Living Standard Measurement Survey (LSMS) , 2008

male worker. In a study conducted across cities and in the garments, pharmaceutical, food, and plastic goods manufacturing sectors, the overall wages in the informal sector were about 25 percent less than those paid in the formal sector. In the rural areas, women work on farms for no pay at all. The expansion of informal economy, weakening of trade unions and the rising trend for anti-labour and pro-investor national labour legislation are expected to continue in response to the economic, commercial, technological, and political changes that are taking place nationally and globally due to global financial crisis.

Social Protection: Official data reveals that only 6.62 million people out of the total labour force of over 50 million in Pakistan benefits from any form of social protection including social insurance, pensions and survivors' benefits. There is no scheme that specifically covers the workers in the informal sector. They may be home-based workers, employees in small unregistered factories or sub-contracted workers of large-scale manufacturing units. The officials statistics indicate that out of the 6.62 million laborers that are being provided with formal social protection, 2.8 million are covered by the Employees Old Age Benefits Institutions (EOBI) operating at the federal level and the Employees Social Security Institutions (ESSI) operating at the provincial level. The coverage, nevertheless, is only for the private formal sector. The main social insurance schemes, EOBI, and PESSI, together, cover less than three percent of the total employed workforce in Pakistan as only a small number of establishments with five or more workers are registered in these schemes. The number of workers deprived of social protection would further rise in coming years as a result of the changes in EOBI Act that has curtailed its applicability in the formal sector and rendered smaller establishments ineligible to register.

III. Key Policy Initiatives

The elected government started a number of initiatives to stabilize the economy. The widening trade deficit and flight of capital due to rumors of freezing of foreign accounts put the economy in a difficult situation. In November 2008, Pakistan negotiated a loan of $7.6 billion from IMF as foreign exchange reserves had fallen to almost US$ 4 billion and balance of payments had become extremely worse. A stabilization program was negotiated with IMF to receive funding for control the deteriorating economic situation. Both fiscal and monetary measures were suggested to stabilize macroeconomic situation. Some of the key policy interventions are as under:

Fiscal policy One of the main objectives of the fiscal policy was to reduce the fiscal deficit in the current financial year to a sustainable level of 4.2% of GDP. In monetary terms, government envisages to reduce the size of fiscal deficit by PRs 562 billion during the current year. The plan to control fiscal deficit was to increase the tax revenues and reduce government expenditures.

- In this regard, the tax revenue will be increased by 0.6 percentage points of GDP and non-interest current expenditure be reduced by about 1.5 percentage points of GDP. This reduction will be achieved mainly through the elimination of both oil and electricity subsidies by June 2009.

- The government also announced to cut the domestically financed development spending by about 1 percentage point of GDP through better project prioritization during the current fiscal year. A number of steps are already implemented consistent with the planned fiscal adjustments. More specifically:

    - The subsidy on petroleum has already been completely eliminated by adjusting the petroleum prices three times since June 2008.
    - At the same time, electricity tariffs were adjusted by an average of 18% effective September 5, 2008.
    - In addition, steps have been taken to slow the pace of development spending.
    - The research and development subsidy for the textile industry has been fully eliminated.
    - Wheat procurement prices have been raised to international levels, and
    - The general sales tax (GST) rate has been raised by one percentage point to 16%.

- The government plans to reduce borrowing from SBP to zero to finance its spending from October 1, 2008 to June 30, 2009. During this period, the fiscal deficit will be fully financed by available external disbursements, the acceleration of the privatization process, the issuance of treasury bills, and other domestic financing instruments, including Pakistan Investment Bonds, and National Savings Scheme (NSS) instruments.

- A further reduction in the fiscal deficit to 3.3% of GDP is envisaged for 2009/10. The fiscal effort will be facilitated by the full-year effect of the elimination of energy subsidies by end-2008/09 and declining interest payments, following large bullet payments in the three-year period ending in 2009/10.

- For increasing tax revenue, an integrated tax administration organization integrating both the income tax and sales tax administration on a functional basis will be established at the Federal Board of Revenue (FBR). In addition, audits will be reintroduced as part of a risk-based audit strategy that is being implemented by end-December 2008. As part of this process, the government plans to harmonize the income tax and GST laws, including for tax administration purposes, and reduce exemptions for both taxes. To that end, it will submit legislative amendments to parliament by end-June 2009. In addition, the excises on tobacco will be increased in the context of the 2009/10 budget.

- The government's fiscal consolidation efforts will continue over the medium term. The government's fiscal framework assumes a further reduction in the fiscal deficit to 2–2½ percent of GDP by 2012/13. Fiscal consolidation will be supported by a strong tax effort, which will allow for higher spending in infrastructure and the social sectors. Specifically, the government is committed to increase tax revenue by at least 3½% of GDP over the medium term.

Monetary Policy: The government program to deal with the current economic situation envisages a significant tightening of monetary policy. To that end, the SBP recently increased its discount rate by 200 basis points, to 15 percent. Following this first step, interest rate policy will be sufficiently flexible to protect the reserves position, bring down inflation, and allow the government to place T-bills and other securities with commercial banks and non-banks in order to avoid further central bank financing of the budget.

- A further increase in the discount rate will be considered at the time of the monetary policy statement scheduled for end-January 2009. However, the discount rate were planned to be raised earlier if the actual reserves for end-November and end-December 2008 fall short of the monthly floors on the SBP's net foreign assets.
- The conduct of monetary policy is facilitated by significant improvements in liquidity management, including the improvement in the forecasting of the government's cash flow position.
- The SBP and the Finance ministry have agreed on quarterly volumes of treasury bill placements consistent with zero SBP financing of the budget during October 1, 2008–June 30, 2009. In addition, the SBP will review the procedures for liquidity

management, and will adopt and publicize a transparent liquidity management framework by end-July 2009 as part of its Monetary Policy Statement. This framework will contain the following key elements:

- The announcement of an explicit corridor for money market interest rates: the SBP's reverse repo rate will be the ceiling, and a standing repo facility to absorb excess liquidity from commercial banks will serve as the floor of the proposed explicit corridor;
- The treasury will provide the SBP with T-bills, as needed, to conduct its open market operations.

- The SBP is pursuing a flexible exchange rate policy. To that end, intervention in the foreign exchange market (including the provision of foreign exchange for oil imports) will be aimed at meeting the reserve targets. This primary objective will be facilitated by phasing out the SBP's provision of foreign exchange for oil imports according to the following schedule:
    - Furnace oil—by February 1, 2009.
    - Diesel and other refined products—by August 1, 2009.
    - Crude oil—by February 1, 2010.
- The SBP intends to eliminate any exchange restriction. Specifically, the exchange restriction on advance import payments against letters of credit will be eliminated by end-January 2010, subject to a marked improvement in the balance of payments position. No intensification of existing restrictions and no new exchange restrictions or multiple currency practices will be introduced during this period.

- The SBP is preparing a contingency plan to deal with troubled private banks. The plan will contain criteria for SBP liquidity support, assessment of bank problems, and intervention procedures. The SBP has already dealt with problem banks through mergers. Looking ahead, if there are severe strains in the interbank market and interbank lending guarantees appear necessary, these guarantees will be provided in limited amounts only to solvent banks.

- To enhance the effectiveness of SBP enforcement powers, necessary amendments to the Banking Companies Ordinance will be submitted to Parliament by end-June 2009. These amendments will strengthen the SBP's ability to (i) change management in banks; (ii) impose losses on shareholders by writing down their capital; (iii) intervene and take ownership of banks; (iv) appoint administrators to operate banks; and (v) restructure banks.

- The government is expecting a positive outlook of the economy after securing financial support from the IMF in November 2008. This has already improved the foreign exchange reserves position of the country and that is expected to improve the market confidence.

Social Safety Nets: Inflation and the economic slowdown is expected to increase the vulnerability of the poor segments of the society. These groups include the female headed households and people living in poverty. Several measures are envisaged to protect these vulnerable groups.

- The fiscal program for 2008/09 envisages an increase in social safety net spending of 0.6 percentage points of GDP to 0.9 percent of GDP.[8]
- The government has launched the Benazir Income Support Program (BISP) with already allocated budget of PRs 34 billion (0.3 percent of GDP) to provide cash assistance of PRs 1000 per month to 3.4 million poor families. These families will be identified by the elected representatives of the area on the basis of their poverty status. The design of the BISP, in particular the targeting of transfers and the delivery mechanism, will be reviewed in the first half of 2009, in consultation with the World Bank.
- External assistance (mainly in the form of grants) is being sought from donors to finance the additional spending. While a more comprehensive and better-targeted social safety net is being designed, these additional funds will be allocated to scale up other existing programs, in particular cash transfers under the Bait-ul-Maal program. Also, part of the additional resources could be used to cover larger than envisaged electricity subsidies for poor households.

Developments in Fiscal Year 2008-09

The strict implementation of the stabilization program, so far, is paying dividends in the form of improvement in most of the macroeconomic indicators. Decline in the aggregate demand as a result of improved fiscal discipline and tight monetary policy has enhanced the prospects of lower inflation towards the end of the current fiscal year. Fall in aggregate demand is also visible with the reduction in trade deficit in July-February 2009 (Table 2 A). The narrowing trade deficit and robust remittances has caused reduction in the current account deficit and even for the month of February 2009, first surplus in monthly current account surplus is witnessed since June 2007. The improvement allowed

[8] This includes Benazir Income Support Program (BISP), Pakistan Bait-ul Maal, and many other programs.

for a build-up of the country's foreign exchange reserves. The GDP growth is expected to be 2.5% for the year 2008-09 due to the low growth in the industrial sector. The large scale manufacturing (LSM) production data shows a negative growth of 5.35% during July-January 2008-09 in comparison to the positive growth of 5.7% during the same period last year (Table 3 A). Acute power shortages, rising cost of doing business, deteriorating law and order situation in the country are some of the factors responsible for this state. The LSM growth is also affected by a sharp reduction in demand from both domestic and international factors. There was negative growth all around in all major groups with one or two exceptions.

The agriculture sector is expected to grow by 3.3% where all indications are pointing at good growth. With acute water shortages and negative growth in sugarcane and maize, two major crops cotton and rice have registered positive growth of 7.3 percent and 13.5 percent, respectively. The disbursement of the agricultural credit is up by 8.2 percent in July-February 2008-09. The crop sector is projected to surpass the growth target. The livestock sector is growing at normal pace and thus the target of 3.2 percent will be achieved. The agriculture sector is likely to achieve its growth target of 3.3 percent for the current year.

Services sector is expected to grow by 4.1% this year which is half of the growth experienced last year. The FDI inflows in the telecommunications, financial businesses and personal services are up by 6.7 percent, 75.3 percent and 3.0 percent respectively in the first eight months (July-February) of the current fiscal year. Similarly, improved prospects in transportation & storage sub-sectors on the back of relatively better production in major crops, strong contribution by finance and insurance sector and augmented administrative and defense related spending will provide support to expected growth in the services sector.

Fiscal and Monetary Policy:

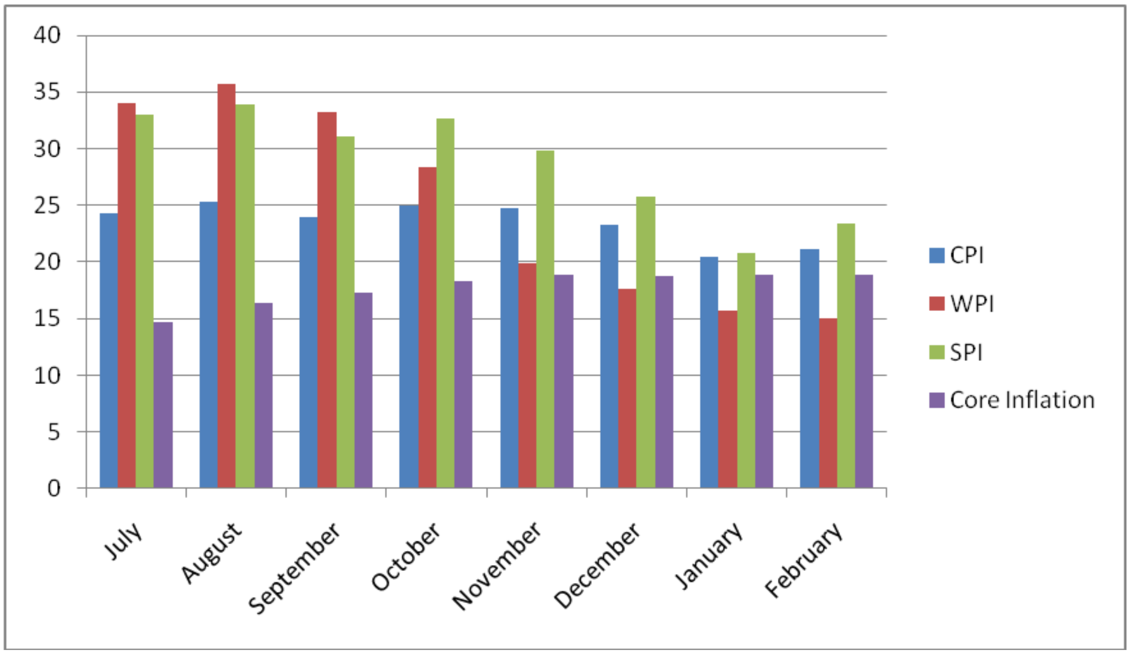
The fiscal deficit during the period hovered around 1.9 percent of the projected GDP for 2008-09 which is consistent with annual fiscal deficit target of 4.2 percent. The fiscal improvement in the first half has largely based on reduction of oil subsidies and a cut in development spending. Tax revenue stood at Rs. 704.2 billion (net) during July-February 2008-09 showing a healthy increase of 20.0% (Table 4 A). The faster growth in revenues is more than off-set by even faster growth of 25.2 percent in the current expenditure. The financing patterns of fiscal deficit remained dominated by the banking system which financed 85 percent of the fiscal deficit and only 15 percent were financed by the non-bank sources. The government remained well ahead of the SBP financing limit allowed by the Economic Stabilization Program. The government received Rs.141.1 billion in gross external inflows against outflow of Rs.104.1 billion which means net availability of Rs.37 billion on account of to finance the deficit remained negligible at Rs.12 billion only.

The SBP has kept its tight monetary policy stance in the period July 01, 2008-March 14, 2009. The policy rate was adjusted upward in November 2008 to reduce some aggregate demand from the economy and kept constant in January 2009. During July 01, 2008-March 14, 2009, money supply (M2) expanded by 2.9 percent against the target of expansion of 8.0 percent for the year (Table 4 A). Government borrowing for budgetary support has recorded an increase of Rs.430.1 billion as compared to Rs.308.0 billion in the comparable period of the last year. The SBP financing has shown a net increase of Rs.320.5 billion and financing from scheduled banks witnessed a net increase of Rs.99.3 billion during July 01, 2008-March 14, 2009. Credit to private sector witnessed a net increase of Rs.103.8 billion during July 01, 2008- March 14, 2009 as compared to Rs.315.5 billion in the comparable period of last year. The SBP undertook aggressive monetary tightening during the period, further increasing the policy rate by 300 bps in two rounds. On a cumulative basis, this means a 550 bps increase during the last 18 months. These policy measures were taken to shave-off aggregate demand.

Inflation:

The inflation in Pakistan has depicted downward trend as a result of fiscal and monetary measures adopted by the government to stabilize economy. The inflation rate, as measured by the changes in Consumer Price Index (CPI), after reaching peak at 25.3 percent in August 2008 eased up since November 2008 but bounced back to 21.1 percent in February 2009 mainly because of spike in the prices of some food items like onion, chicken farm, sugar etc. WPI inflation is following international declining trend but non-food component of the CPI showed some stubbornness till February 2009. The CPI inflation averaged 23.5 percent in July- February 2008-09 as against 8.9 percent in the comparable period of last year (Fig 3). The food inflation is estimated at 28.9 percent in July-February 2008-09 as against 13.0 percent in the comparable period of last year. The relative slowdown in domestic inflation since September 2008 is mainly driven by the deceleration in food inflation whereas non-food component has generally remained stubborn.

Figure 3: Monthly Inflation in Pakistan



External Sector:

Exports managed positive growth amidst hostile international environment and grew by 4.3 percent -rising from $ 11.7 billion last year to $ 12.2 billion in July-February FY09. However, exports fell by 17.7 percent in February 2009 over February 2008 which is really worrying thing for the economy (Table 5 A). The exports growth of 4.3 percent may be regarded as good performance in the wake of extremely difficult international and domestic environment. However, positive growth is mainly because of rice alone. The textile industry which has remained the major driver of the export growth once again depicted sluggish performance and it registered negative growth of 5.6 percent. This downward trend in the textile sector is contributed by both significant fall in the unit value of almost all major textile items and supply constraints reflected through negative growth even in quantity terms. The non-textile exports grew by 18.3 percent on the back of strong performers like chemicals and pharmaceutical (14.5%), engineering goods (70.1%), cement (75.7%) (Table 5 A). These items have very low weight and thus their huge growth could not impact overall quantum of the exports. The export of petroleum products felt the pinch of falling petroleum prices and they declined by 19.4 percent.

Imports registered a negative growth of 1.5 percent in July-February 2009 (Table 6 A). The imports stood at $ 23.8 billion as against $ 24.1 billion in the comparable period of last year. The growth in imports reflects impact of substantial fall in oil and food imports in monetary terms and these two items were responsible for 80 percent of additional imports bill last year. Import compression measures coupled with massive fall in international oil prices have started paying dividends and imports witnessed marked slowdown during the last two months. The merchandise trade deficit improved by 6.9 percent and declined from $12.5 billion in July-February FY08 to $ 11.6 billion in July-February FY09.

Workers' Remittances

Workers' remittances increased to US$ 4.9 billion in July-February FY09 from US$ 4.1 billion in the comparable period of last year showing an increase of 19.2% (Table 7 A). Remittances declined by 19.7% in October 2008 over October 2007 amidst difficult global environment and uncertainties surrounding domestic economy, however, they recovered to their normal level since November 2008. Deep recession in the US economy, which constitute close to one third of Pakistan's remittances started taking its toll and witnessed marginal negative growth of 0.3 percent. The trend is expected to continue in the coming months, however, overall outlook of remittances from other source countries is positive (Table 7 A).

Foreign Direct Investment (FDI)

The data on FDI shows a marginal increase of 0.2% in FDI during July-February 2008-09 when it touched US$ 2794.4 million as against $ 2789 million in the comparable period of last year. The communication group received FDI inflows with 28.3% stake in overall FDI followed by financial business (23.2%) and oil and gas exploration (17.3%). The power sector has witnessed a massive growth of 103.4 percent but its share remained below 3 percent in FDI (Table 8 A).

Foreign Exchange Reserves (FER)

Substantial decline in the foreign exchange reserves to a low of $6.4 billion by November 25, 2008 forced country to solicit Standby Arrangements (SBA) from IMF. The subsequent recovery in November 2008 owed essentially the inflow of $ 3.1 billion from the IMF following Pakistan's entry into a macroeconomic stabilization program. The foreign exchange reserves stood at $10.3 billion as of March 27, 2009. The import coverage ratio declined to an uncomfortable level of 9.1 weeks as of end-October 2008 from 16.8 weeks of imports as of end-June 2008 but it improved to 12.4 weeks of imports by end-February 2009 (Table 2 A).

Exchange Rate

The exchange rate remained stable for more than 4 years but lost significant value against the US dollar during March-December 2008 and depreciated by 21%. Political uncertainty, trade related outflows and speculative activities were behind this erosion. The rupee got back some of its lost value after signing of Standby Arrangements with the IMF. With substantial import compression and revival of external inflows from abroad in the coming months of the fiscal year, the exchange rate will remain stable at around Rs.80-82 per dollar (Table 2 A).

IV. Impact of Global Financial Crisis

Pakistan is living in a highly integrated world and a major turmoil of this magnitude would definitely create certain implications for Pakistan's economy. The country's economy is already confronted with worst kind of macroeconomic imbalances and obviously need financing desperately. Pakistan's economic growth has slowed down and the ripple effects of this financial crisis may or may not hit with same intensity or severity as it is doing to the developed world, but still there are various channels through which the crisis may hit Pakistan economy. The crisis affected area, United States and Europe, hold a fundamental value for Pakistan's economy. The financial turmoil is more then likely to affect Europe, Japan and North American countries with full intensity.

Pakistan's external sector comprised of trade, foreign investment, remittances, and capital flows is interwoven with these countries. All these indicators of external sector have more than 50 per cent of the stake in this region. The growth model being followed in Pakistan over the years is highly dependent on foreign capital inflows, mainly from these countries. More than one-half of Pakistan's external trade is dependent on these countries. The country could be hurt if demands for its export products dropped significantly, foreign investment declines substantially and if the terms of trade are affected. Pakistan has a very inelastic import structure and if exports are hit by a crisis than the current account deficit is likely to go beyond the sustainable limits.

There is an agreement among analysts that countries with heavy external financing needs are potentially more vulnerable to a credit crunch. Pakistan's current account deficit (CAD) had already touched $14 billion which is 8.5% of its GDP, in 2007-08. In the current fiscal year, the ambitious reduction in the CAD is planned but still need a financing of around $12 billion. If import compression measures fail than the financing needs would be more than that. Pakistan's external inflows projections hinges upon inflows from GDR's and sovereign bonds in the fiscal year 2008-09. In the current situation any inflows under these heads are most unlikely. Standard & Poor has downgraded its long-term credit rating for Pakistan to CCC+ and this is the third downgrading of this calendar year. This rating will hurt some investment prospect as well.

The current crisis is aggravated by rising cost of external borrowing on the one hand and scarcity of availability of external inflows coupled with volatility of oil prices in the international market on the other. Internal security situation is adding miseries to our external woes. Non-debt creating inflows like FDI and portfolio inflows had shown great resilience to external crisis last year but sustainability of this resilience is likely to be hurt. The presence of foreign banks in Pakistan expands access to credit as well as financial services, which can spur efficiency and innovation in domestic banks, however, ripple effect of shocks from the credit squeeze in the US has impact on local financial markets through these banks. Pakistan has concentration of almost all foreign banks in the country. They account for one-tenth of deposits in the country in 2007-08. There are substantial changes taking place in the interrelation with the structure-forming elements in the global financial market which is seriously affecting the financial-credit mechanism in the developing countries, which have not yet developed the financial and economic structures.

Countries like Pakistan sensitively react to the structural changes in the financial space. The banking and the entire financial system is much stronger now, after years of restructuring. Pakistan's financial institutions had not invested in derivatives that had exposure to risky investment bankers. Moreover, better supervisory oversight and risk management practices introduced by the SBP have strengthened bank balance sheets while Bank asset quality, profitability, and capital adequacy have also improved remarkably in recent years. Pakistan's stock markets and the real sector are not integrated to a great deal with international markets which provide some immunity to these two sectors. Pakistan is also fortunate in the crisis by not having fragile instruments like commodity futures, hedge funds, derivative markets, etc. These are few sectors where gravity of the crisis may affect with full intensity.

The economic slowdown in the US and Europe could naturally affect demand for Pakistan's exports. According to the World Economic Outlook (October 2008), world GDP growth is going to see significant reduction in 2008 and onwards, due largely of the sharp decline in income growth of the industrialized economies. It is impossible for Pakistan to avoid economic slowdown due to its integration with the world economy. Import of these countries constitutes around 50% share in Pakistan's exports. The market share of developed economies especially that of USA, in Pakistan's exports is gradually falling, while the share of emerging and other developing Asian economies is recording a gradual increase. Pakistan's exports are moderately elastic to changes in partner countries' income. In terms of composition of exports, country's largest sector of textile exports is at a risk of facing adverse effects of the slowdown in world incomes. This view is also strengthened from a fall in textile and apparel imports of EU and USA during Jul-Nov 08 and first quarter of FY09. Leather goods exports have already started to fall during Jul-Nov FY09. In this scenario, country's export growth is likely to record deceleration in the FY09 as compared to FY08 when high growth was witnessed in exports. The impact of global recession on Pakistan's economy may deepen if protectionist policy is pursued in the developed countries which further restrict Pakistani exports to their markets.

The other likely impact would be on the value of Pakistani currency. The years of its linkage with the dollar has significance for it. Any drastic depreciation of dollar may give a hard hit to Pakistan. In 2007-08, Pakistan has added $4.2 billion to its stock of external debt without borrowing a single penny only because of depreciation of dollar versus major currencies like euro and the Japanese yen. In spite of all our complacency, we have avoided the contagion of sub-prime crisis, but it is the most unlikely proposition that the crisis will not affect Pakistan without taking corrective measures.

V. Results of the Rapid Assessment:

Pakistan's economy is not going to be affected in a big way due to the current global financial mayhem, the assessment shows.[9] The main reason is its isolation from the global especially US and European financial markets. Most of the experts believed that markets closely link to the American and European economies will be facing the brunt of the crisis. Even foreign banks operating in Pakistan may escape the crisis due to their limited market exposure. Pakistan may not face direct consequences of the crisis however its exports are likely to suffer hugely, experts believed. Pakistan's exports to the US accounts for almost a quarter of its foreign exchange earnings from merchandise. As indicated earlier, Pakistan's economy is already in crisis like situation which is unrelated to global financial meltdown. The country is struggling with the widening trade gap and current account deficit as well as sliding rupee and dwindling foreign exchange reserves. The financial meltdown may slow down the much needed foreign capital inflows and significantly affect the chances for Pakistan to raise commercial debt from the international financial markets.

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[9] The rapid assessment of the global financial crisis presented here is based on the interaction with different experts i.e. economists, government officials, bankers, industrialists, businessmen, chambers, employers and workers representatives. These experts were selected from three provinces of Pakistan i.e. Punjab, Sind and Baluchistan. The North West Frontier Province was excluded due to the security concerns. From Punjab, the rapid assessment was carried out in Rawalpindi/Islamabad, Lahore, Gujranwala, Sialkot, and Faisalabad. Karachi and Hyderabad were included from Sind and Quetta from Baluchistan. These are the industrial cities of the country having most of the economic activities.

The Pakistan society of Development Economists Annual General meeting and conference from 31st March-2nd April 2009 provided an opportunity to meet leading national and international economist and listen to their views in a panel discussion on the global financial crisis. This enriched the understanding of the possible impact of the crisis on Pakistan's economy.

Pakistan receives almost half of its portfolio investment and about 25 per cent of total FDI from America. The global recession along with political and economic instability is likely to prevent big American and European companies to invest in Pakistan. Similarly global funds are not expected to return to Pakistani capital market in the near future. The liquidity crunch would make it difficult to raise commercial debt and proceed with privatization program. International credit rating agencies like Moody's and Standards & Poor have already downgraded our sovereign debt outlook, reducing our ability to raise commercial debt from the global markets.

Pakistan may find itself in deep trouble if it fails to attract adequate foreign capital inflows to ease pressure on the precarious balance of payments situation, rein in its growing current account deficit of over eight per cent of its gross domestic product (GDP) and shore up its depleting foreign exchange reserves that dropped to $8.8 billion in December 2008 from record high of $16.4 billion in October 2007. Pakistan is one of those countries whose reliance on commercial external debt is very low. Yet we need to take immediate steps to restore balance of payment situation," insists a financial analyst based in Karachi. The US$6.7 billion funds from the IMF help in rebuilding foreign exchange reserves but that is not a solution to our problems. We have to expand our own export base to come out from crisis on permanent basis.

On trade front, the impact of the slowing American economy is already being felt. According to a yarn exporter, Pakistani hosiery yarn exports to the Far Eastern countries - which produce garments for the American consumers - are already declining sharply and inventories at the mills are piling up. "This decline in imports by the Far Eastern garment producers is indicative of slowing down of the demand in the US market," he argues. However, a representative of the All Pakistan Textile Mills Association says the financial crisis could force most American consumers to turn to low cost, lower end textile products - which form larger part of Pakistan's exports to the US. "The demand for clothing may weaken a bit but Pakistan can make up for that by convincing Washington to allow it greater market access. Market access is most important factor that can help textile exports in case of a recession in the US economy," he says.

Impact on Employment

Pakistan is predominately an agricultural country. Composition of employment shows a continued dominance of agriculture by having 44 percent share in the total employment. Its share in the GDP is about 23 percent showing its importance in the national economy. Manufacturing sector is having a small (13.7 percent) share in the total employment but its share in the GDP is similar to agriculture. The industrial structure of the economy has changed recently by having more focus on dynamic industries, such as: textiles, consumer appliances, auto, engineering, chemicals and Information and communication technologies (ICT) rather than agro based industries. These industries have greater linkages with international market and potential for adverse impact due to worsening economic situation. The wholesale and retail trade accounted for 14.3 percent share in employment (Table 4). A large part of this sector consists of micro and small scale enterprises in the informal sector [SMEDA, 2007]. Social, community and personal services as well as construction are the other important sectors having larger share in the employment.

Table4: Percentage Distribution of Employed Persons by Major Industry

Year	Agri.	Mining Quar.	Manuf	Const.	Elec, Gas,	Trade	Commu	Finan. Insit	Social	Not Defined
1996-97	44.2	0.1	11.1	6.8	1.0	14.6	5.7	1.0	15.6	0.04
1997-98	47.3	0.2	10.0	6.3	0.7	13.9	5.5	0.9	15.4	0.1
1999-00	48.4	0.1	11.5	5.8	0.7	13.5	5.0	0.8	14.2	-
2001-02	42.1	0.1	13.8	6.1	0.8	14.8	5.9	0.9	15.5	-
2003-04	43.1	0.1	13.7	5.8	0.7	14.8	5.7	1.1	15.0	0.1
2005-06	44.1	0.1	13.7	6.2	0.7	14.3	5.7	1.1	14.1	-
2006-07	43.6	0.1	13.5	6.6	0.7	14.4	5.4	1.1	14.4	-
2007-08	43.3	0.1	13.4	6.6	0.7	14.4	5.4	1.1	14.4	-

Source: Labor Force Survey, various issues

The occupational distribution depicts the same picture as the industrial composition. Agriculture related occupations dominate (35.3 percent) the overall jobs followed by craft and related (15.8 percent) and managerial workers (12.01 percent). Almost one fifth of the workers employed in 2007-08 were classified in elementary (unskilled) occupations (Table 5). The trend in employment status shows that the proportion of self-employment, dominant in 1990s, is on decline while there is a commensurate rise in unpaid family helpers (UPFHs). An increasing number of households are now involved in the household economic activities rather than looking jobs outside. Another worrisome pointer is the declining share of "employer" category. The employers/entrepreneurs are the most dynamic force in an economy that bring businesses with new ideas and create more employment opportunities.

Table 5: Percentage Distribution of Employed Persons by Major Occupations

Year	Managers	Prof.	Ass. Prof.	Clerics	Service	Agri	Craft	Operators	Unskilled
1996-97	8.62	3.50	2.80	2.89	7.77	36.82	9.87	4.82	22.93
1997-98	9.76	3.00	2.95	1.84	6.02	39.91	12.71	3.68	20.13
1999-00	11.00	2.21	4.17	1.56	4.58	40.03	15.05	3.28	18.13
2001-02	11.56	2.08	4.74	1.71	5.67	34.69	16.20	3.92	19.44
2003-04	11.48	1.98	4.88	1.64	5.16	34.92	15.88	3.75	20.32
2005-06	12.01	1.70	5.10	1.40	5.40	35.30	15.80	4.10	19.30
2006-07	12.3	1.60	5.0	1.40	5.60	36.4	15.3	4.1	18.3
2007-08	12.2	1.60	5.0	1.40	5.50	36.3	15.3	4.1	18.2

Source: Labor Force Survey, various issues

The LFS estimates show that about 73% of the total non-agriculture employed workforce is engaged in the informal sector activities (Table 9 A).[10,11] The informal sector consists of all household enterprises owned and operated by own account workers, employing less than ten workers excluding those engaged in agriculture activities. Although it is present both in rural and urban areas but expanding rapidly in urban areas as compared to rural areas and females have occupied a bigger slice of this expansion. Wholesale and retail trade (35%) ranked as number one in generating informal sector jobs followed by manufacturing (21%). Community, Social and personnel services (17.7%), construction (138%) and transports (11.1%) are the other leading sectors generating

[10] The informal sector is difficult to estimate because of non-recording of activities falling in this sector.

[11] The share increases to 85% if agriculture sector is included.

activity in the informal sector. Craftsmen account for (31%) of the informal sector jobs followed by managers (25.6%). Elementary occupation is the other conspicuous category having higher proportion (20.5%) of informal sector jobs. Employees and self employed categories dominate in informal sector and account for 44.8% and 41.8% jobs respectively. About 12% of the employment is of unpaid family helpers in the informal sector (Table 9.1 A).

Projected Employment Trends

The MTDF has projected that about 7.28 million new work opportunities will be created in the economy up to 2010 with an average of 1.45 million jobs annually. These projections are based on the sectoral GDP growth rate targets and an overall employment elasticity of 0.4 (Table 6).

Table 6: Employment Elasticity and Sectoral Growth Rates (Projections)

Sectors	Employment Elasticity	GDP Growth Rates (percent)					
		2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Agriculture	0.24	4.0	4.1	4.2	4.3	4.4	4.5
Mining	- 0.32	5.5	5.6	5.7	5.8	5.9	6.0
Manufacturing	0.16	10.2	9.9	10.0	10.2	10.3	10.4
Construction	0.90	9.5	10.6	10.8	11.0	11.8	12.8
Elect &Gas	0.34	10.0	10.8	11.0	11.2	11.6	12.4
Transport	0.58	4.5	4.8	5.0	5.2	5.4	5.5
Trade	0.71	8.4	8.9	9.6	9.6	9.7	9.8
Finance	0.52	3.5	3.6	3.7	3.8	3.9	4.0
Services	0.92	5.1	7.0	7.3	7.5	7.7	7.7
Overall	0.40	6.5	7.0	7.1	7.3	7.5	8.0

Source: MTDF, Planning Commission of Pakistan, 2005

The overall labor demand upto 2010 will be 49.18 million with a deficit of about 0.9 million jobs which will significantly reduce the backlog of unemployed labor force. The gender based projections show that 41.35 million males and 7.09 million females will get employment opportunities upto 2010.[12] The sectoral projections indicate that higher employment opportunities will be generated in agriculture sector (18.2 million), followed by services (8.96 million) and trade (8.72 million) sectors, respectively. Although manufacturing sector is expected to grow fast but its share in employment is not going to change significantly due to its higher capital intensity and low employment elasticity.

Using elasticities of the MTDF and expected growth rate of 3.5 percent in 2008-09, overall employment is calculated which is going to be generated in the country. The estimates suggest that about 0.64 million new work opportunities will be created during 2008-09 against projected 1.29 million. The total volume of employment will be 46.21 million and not the MTDF projected 46.76 million. This means there will be 3.03 million unemployed in the country instead of 2.30 million during 2008-09. The unemployment rate (6.26) will be higher than the projected 4.75 percent. Because sectoral growth rates are not available therefore it is not possible to estimate the employment generation in different sectors but looking at the trend we can say that most of the projected job loss will be in those sectors which are closely linked with international economy i.e. services and manufacturing sectors. Agriculture sector will be least affected due to its minimal linkage with the global economy.

The current situation is however not clear as yet because events are still unfolding and new picture is emerging on daily basis. The growth rates for year 2008-09 are revised downward again. Now it is expected that economy will grow 2.5% rather than 3.5%. The expected growth in agriculture sector is 3.3% while it is 4.1% in the services sector. The industry is registering negative trend of 5.35%. The projection with these growth rates, using the elasticity of MTDF and employment data of 2007-08, shows that only about half a million (0.49 million) new jobs will be added in 2008-09 and those too in the agriculture (0.17 million) and services sector (0.66 million) only. Even in services sector, quite a few sub-sectors are shedding jobs.

A survey by daily Jang newspaper recently indicated that hundreds of thousands of people employed in different sector have lost their jobs due to the world economic recession in Pakistan (The News, 14 January 2009). The data shows that about 285,000

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[12] These projections will hold only if low participation of females continues.

workers lost their jobs in banking sector, 61200 in computer industry, 115000 in construction, 120200 in electronic industry, 37000 in media and publication while about 69000 workers have been sacked in telecom sector.[13] The projections based on the expected growth rates of -5.5% in the manufacturing sector indicate that there will be a net loss of 0.09 million jobs in the sector. Assessment of the only textile sector shows that more than a million workers have lost their jobs so far. This sector is very important for Pakistan's economy as 67% Pakistani exports consist of cotton and textile products. More than 4 million workers are employed in this sector; 2.2 million of them in Faisalabad city only (Pakistan and Gulf Economist, January 2009).

The presently observed drop in growth is going to increase unemployment rate in the country which shows declining trend after reaching at peak in 2001-02. The latest LFS 2007-08 data released by federal Bureau of Statistics (FBS) also show decline in the unemployment rate (Fig 2). But things are expected to change now and we may witness surge in unemployment rate. The size of the labor force estimated by MTDF is 49.24 million while the actual estimates are close to 52.62 million (LFS 2007-08). With the growth of 0.49 million, total employment will reach at 49.58 million in 2008-09. Considering the actual size of labor force as 52.62 million, there will be a deficit of 3.04 million jobs. This means unemployment rate will increase in year 2008-09 and reach at 5.8%. This rise in unemployment rate indicates that impact of the global financial crisis is now showing signs. This is going to increase poverty in the country which, according to some experts is already as high as 45%.

Foreign Employment: Pakistani manpower export has been mostly to the oil rich Middle Eastern countries including Kingdoms of Saudi Arabia, Kuwait, Oman and UAE. The official statistics show that about 4 million Pakistanis have proceeded abroad for employment during the period 1971-2008 (Table 10 A). The trend shows wide fluctuations in manpower export in the last three decades. In 2003, the manpower export reached at its peak; 214 thousand workers proceeded for employment in different

[13] No details are available of the survey methodology and reliability of the results. However this clearly indicates that the major job loss is in those sectors which have strong linkage with international economic system.

countries. Kingdom of Saudi Arabia remains the most attractive country for Pakistani migrant workers followed by the United Arab Emirates (UAE). Oman, Kuwait, Bahrain, Libya and Qatar are the other countries employing a good number of Pakistani workers. The registered export of manpower to Far East Asian countries (Malaysia and South Korea), Europe and United States remain low. The latest month-wise data upto January 2009 shows an increase in the number of people leaving for employment in foreign countries (Table 7).[14]

Table 7: Month-wise information on Pakistanis Proceeded Abroad for Employment

Month	2007	2008	2009
January	18,669	31,010	33,913
February	19,481	30,969	34062
March	20,527	33,141	34254
April	21,137	38,174	36502
May	24,496	40,664	
June	23,424	39,032	
July	25,653	39,387	
August	29,542	38,401	
September	25,011	35,027	
October	26,320	38,180	
November	30,872	37,515	
December	21,979	28,814	
Total	**287,111**	**430,314**	

Source: Bureau of Emigration and Overseas Employment (BE&OE), 2009.

This indicates that Pakistan is still escaping the negative effect of global financial crisis on foreign employment. The exodus of laid-off expatriate workers back to Pakistan is yet to come. The worst part of this scenario is partial awareness at the government level. No concerned ministries, departments and officials have any estimate, as to how many people were unemployed and to what intensity the exodus of Pakistani expatriates would be. Ministry of Labour & Manpower, Board of Investment, ILO, Friends of Pakistan (a

[14] There is no information available on return migrants therefore it is not possible to capture the volume of return migrants. However recently, Ministry of Labor, Manpower and Overseas Pakistanis have prepared National Emigration Policy which recommends collection of information on different aspects of migrants and return migrants.

representative organization of about 10 million acclaimed overseas working Pakistanis), Immigration Department and Ministry of Overseas Pakistanis, all have no specific data, which can tell the number of non-resident Pakistanis coming home after losing jobs. A number of Pakistanis have lost jobs abroad, but many of them were still staying there waiting for their children examination to end in June 2009 - especially in Middle East and the West.

Last month, Pakistan witnessed an abnormal increase of about 19 per cent in remittances received for the first 10-monhts of fiscal year 2009 against same period of last year. Experts were of the view that this massive increase in remittances can be an indication that non-residents are transferring their savings to Pakistan before leaving their host counties. Director General, Bureau of Emigration and Overseas Employment (BE&OE) informed that his ministry and department maintains the data of Pakistanis going abroad for job but no data of expat workers coming back. He further said that his department has noticed an increase of five to six per cent of people going abroad for job in March 2009 as compared to corresponding month in 2008. Another expert of the Employers' Association of Pakistan (EAP) said that many of the Pakistanis returning from abroad were working in IT and software designing departments, while majority of construction labour working in Dubai was from India and Bangladesh and not Pakistan. That is the reason we did not see lot of Pakistanis returning.

Remittances: It is the most stable source of foreign capital inflow for Pakistan. With the current financial turmoil in the West, the country may escape the immediate negative consequence due to the capital flows especially remittances from the Middle East and the United States. It used to receive less than one billion US dollars before 9/11 event. But the situation changed altogether and remittances through formal channels increased many folds. The month-wise data from July 2008-Febrary 2009 shows increase in the volume of remittances as compared to same period of previous years (Table 7.1). Pakistan receives major chunk of remittances from Gulf countries where construction activity was at boom. The situation is however changing and a number of big project are on hold. This may adversely affect Pakistani workers and their earnings. Similarly over the years the US has become the single most important source of remittances for Pakistan, a good part of which originates not with the Pakistani workers of which there are not too many in America, but from the professionals whose incomes will suffer if the US goes into a long and deep recession. The current data shows drop in the remittances from US. This largest source of external finance for Pakistan is coming under pressure.

Social Implications of the Global Financial Crisis

There is an apprehension within the development circles that the economic impact emanating from the global financial downturn is likely to hit development budgetary allocations hard over the coming months. Such a situation is indeed plausible. Lack of full integration of Pakistan's financial markets with international markets is expected to prevent the country from the adverse impact getting imported. At the same time, the government will have fewer options to raise additional resources to support the social sector budget. Pakistan has to comply with the stabilization program negotiated with the IMF to receive funding. It is feared that brunt of adjustment would fall on the social sectors, in particular on education and health as happened in the past under IMF program resulting in reduced opportunities for the poor to come out of poverty.

Rise in the interest rate, under the IMF program, is already hurting industry with increase in the cost of borrowing. This is going to set recessionary trend in the country and force businesses to lay off labor resulting in higher unemployment and poverty level. Surprisingly when major economies are reducing interest rates to avoid recession, the IMF is asking Pakistan to increase its interest rate. The estimates show worsening of income distribution and concentration of income among the rich groups. This is already creating social unrest. Providing concessions to rich and penalizing the poor would weaken political government and increase its fragility affecting foreign investment and the delivering social services.

Poverty and income inequality are closely linked. The more unequal the income distribution, the larger is the incidence of poverty for a given poverty line. While inequality is rising persistently in the country, there is no plan so far to reduce inequality.[15]

[15] The rising inequality is evident from the increase in the Gini co-efficient from 0.27 in 2001 to 0.29 in 2005.

ADB (2007a) study shows that adverse income distribution effects have reduced the effects of growth on poverty in Pakistan. To increase the effects of growth on poverty, there is a need to pursue policies that can affect the poor directly by reducing income inequality, inflation, access to credit in particular micro credit, raising educational achievement and better health facilities for the poor.

Another channel through which poor can get affected is the depreciation of the local currency. While depreciation of exchange rate may make exports more competitive and give rise to exporters' income, the rise in cost of imported inputs may offset the gain. Increase in the import price also increases prices of the items such as cooking oil, fertilizer, fuel, energy, medicines transport fares which would erode the real income of the poor. Women may also get hit with the rise in food prices since they are responsible for feeding the family. Real earnings of women may fall as most of them are employed in the informal sector. Urban poor will be affected more as consumer with the fall in the value of local currency.

The financial downturn has hit at a time when Pakistan is facing difficulty in achieving the Millennium Development Goals. Evidence by the half way mark reviews (year 2008) underscore the need for greater investments in the social sector. Pakistan is in the process of finalizing development instruments for its next planning cycle; the Poverty Reduction Strategy Paper-II, which has recently been placed in public domain for stakeholder review, has an ambitious agenda for a range of interventions for poverty reduction. The Medium Term Development Framework 2010-15 is also in the pipeline and inputs are solicited for an agenda setting exercise to recast its vision. All these strategic planning tools will need resources for implementation and it appears that our resource realities will not be able to support the plans, these instruments aspire to deliver. Within this financially constrained milieu, there are a number of imperatives for the government in terms of planning and ensuring financial allocations for a social policy agenda. The first priority should be to synchronize planning and to review various national development strategies and associated operational frameworks

The Government of Pakistan can use the present global financial crisis as an opportunity to broaden the base of social protection arrangements initiated as part of the recently established Benazir Income Support program (BISP) to include social protection measures for other areas where poor and vulnerable households run the risk of spending catastrophically as in the case of health. In addition to increase in the size of the coverage, a critical imperative for cash transfer schemes is to reduce opportunities for political interference in targeting and ensure transparency in management of resources. In today's financially constrained environment, the government should make use of instruments of Debt forgiveness such as PRSP and debt swaps to free up fiscal space for the social sectors. The recent signing of the debt swap for EUR 40 million under the umbrella of the Debt to Health initiative of the Global Fund on AIDS, TB and Malaria by Germany, Pakistan and the Global Fund on November 30 in Doha can be an entry point to maximizing the role of debt forgiveness tools.

Social Dialogue and Conditions of Work:

The constitution of Pakistan recognizes the fundamental human right to work and earn a decent living under conditions of freedom and dignity.[16] Pakistan signed both, the UN Universal Declaration of Human Rights, 1948 that recognizes the right to work, to freely choose employment and to have just and favorable working conditions, and the 1998 ILO Declaration on Fundamental Principals and Rights at Work that pledges to "promote opportunities for women and men to obtain decent and productive work in conditions of freedom, equity, security and human dignity." Pakistan has ratified all core Conventions that codify the four most basic human rights related to the world of work.[17] The notion of decent work includes economic dimensions as well as social aspects, particularly participation and dialogue, and is inextricably linked to social justice and democracy.[18] The types of instrumental rights that promote social justice and democracy,

[16] According to the Article 37c of the Constitution of Pakistan, "the state shall make provision for securing just and humane conditions of work…". Similarly the Article 3 states "…shall ensure the elimination of all forms of exploitation and the gradual fulfillment of the fundamental principle, from each according to his ability, to each according to his work".

[17] These include the right to organize and engage in collective bargaining, the right to equality at work, the abolition of child labour and the abolition of forced labour.

[18] The ILO defines decent work as '…productive work in which rights are protected, which generates an adequate income, with adequate social protection.

and lead to equitable development include ‘…political freedoms, economic facilities, social opportunities, transparency guarantees and protective security.

Despite constitutional provisions and the ratification of international standards, majority of workers in Pakistan are still struggling to secure their fundamental rights. Long working hours, low wages, poor health and safety conditions, rising contractual work and increasing curbs on freedom of association and collective bargaining characterize the transforming nature of work relations in Pakistan presently. Successive governments have scrapped a number of protective clauses and introduced restrictive labour legislation to attract FDI. Labour Inspection Policy has been redrafted to limit the monitoring of labour laws implementation. Unsettled labor disputes are on rise due to the inadequate capacity of labour judiciary to provide justice and oversight. These developments have negatively affected the power and size of the labour organizations.

The Finance Bill 2006 introduced amendments in several labor laws and in the penal code which further eroded labour rights in Pakistan in clear violation of Article 73 of the Constitution. The amendments were introduced in the Factories Act 1934, Standing Orders Ordinance 1968, Shops and Establishment Ordinance, 1969, West Pakistan Industrial & Commercial Employment (Standing Orders) Ordinance 1968 and the Employees Old Age Benefits Institution Act 1976. These amendments were related to increase in working hours and over time; have allowed the employers to make women work till 10 pm in two shifts; added “contract worker” to the definition of “worker” without entitlement of overtime, and curtailed the number of establishments for registration with EOBI only to those employing more than 20 workers.

The domestic economic conditions and global financial crisis has pushed present democratic government in a situation where they could not bring significant improvements in the lives of workers. Rights to freedom of association and collective bargain remain restricted. A number of workers lost their lives due to inadequate health and safety arrangement at workplace. Hundreds of workers lost jobs due to current financial crisis. There was no increase in the wages as compared to sky rocketing inflation. Even though the present government has replaced the Industrial Relations Ordinance (IRO) 2002, with the new Industrial Relations Act (IRA) 2008, the trade unions still have serious reservations about the newly enacted Act. The government organized Pakistan Tripartite

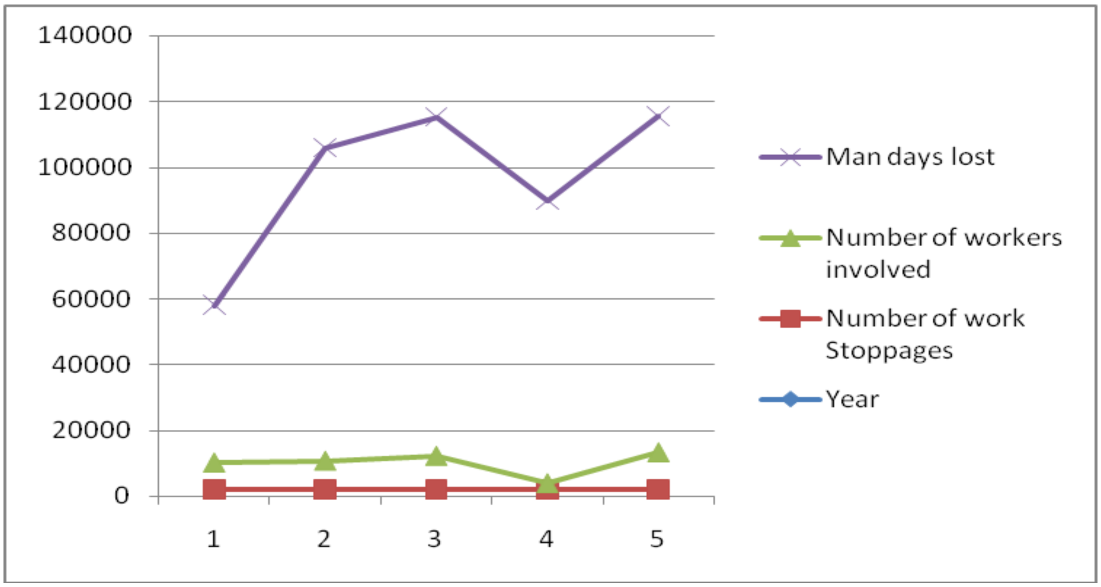
Labour Conference in February 2009 to review IRA 2008 for consensus. This could not please labour leaders who complain that the workers were not consulted while formulating the IRA 2008. The government claims that the new Act is for a shorter duration and would be replaced by a comprehensive law by 2010. It is recommended that the provisions of ILO Conventions No 87 and 98 relating to Freedom of Association and Collective Bargaining be incorporated while modifying the IRA 2008 to make it acceptable to the workers' organizations. The coverage of the social protection schemes may also be extended to all workers particularly the vulnerable informal sector, home-based women workers and sub-contracted workers.

Workers' Views:

Representatives of the workers show frustration with the worsening conditions of work. They think that the opportunities of decent employment are shrinking due to the slowing down of economic activity, power shortages, and global economic conditions. In their opinion, employers are reluctant to improve working conditions. Because of changes in labor laws, especially in the inspection related laws, a number of accidents and fire incidences surfaced recently. This has created fear among workers community. The situation is not going to improve in near future. Workers feel that decent work is important for country's growth, development and poverty reduction. To promote decent work, government should expand the social security coverage, especially pensions, health insurance, and protection of the vulnerable groups so that workers could survive in these difficult times. The stakes of workers should also be increased by involving them as share holders in the industries to give them sense of ownership and extending financial help to them. They also suggested allocating more resources for developing health services for raising their productivity and welfare.

It is pertinent to state that industrial harmony and peace is essential for industrial development and attraction of FDI. This can be achieved through the promotion of workers' fundamental rights, especially freedom of association, collective bargaining and prevention of discrimination. There is an increase in the industrial dispute recently and a number of incidences of conflicts (Fig 4). This is not desirable for workers, employers and government. To improve these conditions the labor laws should be amended and brought in conformity with ILO Conventions ratified by the Government of Pakistan particularly ILO Conventions Nos.87 and 98 and 11 pertaining to freedom of association and collective bargaining.

Figure 4: Work Stoppages (Strikes/Lockouts) due to Industrial Disputes



On bad labor market conditions, workers feel that government is not doing enough to create work opportunities for 1.5 million young people who are entering in labor force annually. They suggest the adoption of National Economic and Self Reliance Policy for agricultural as well as industrial development to raise employment opportunities for young people entering into labor market every year. Social dialogue among all stakeholders including workers, employers and Government representatives is an important instrument to evolve economic, social and financial policies with a vision to meet the challenges of poverty, unemployment, inflation and technological development.

VI. Conclusion and Policy Recommendations

The global financial crisis along with rising commodity and fuel prices, power shortages, unsustainable balance of payments position and falling value of rupee severely curtailed the economic activity and forced country to adopt IMF sponsored macroeconomic stability program. Domestic socio-political upheavals further added to multifaceted problems faced by the country. After endorsement of Economic Stabilization program by the IMF, the economy got confidence back. By February 2009, early signs indicate that the inflation for fiscal year will be around 20 percent with end-year inflation of around 10 percent. Elimination of subsidies, partial transfer of oil payments to the foreign exchange market, and fall in the international oil prices will provide great help in stabilization efforts. The downside risk to the stabilization program may come from slippages on account of FBR revenue collection and slowdown in exports neutralizing, to some extent, steep fall in import growth. The negative large-scale manufacturing (LSM) growth and falling credit to the private sector are indication of falling real economic activity, however, still better growth prospects in the agriculture and the services sector will keep hope of real GDP growth at 2.5 % in 2008-09.

Recent global financial crisis and extremely vulnerable security environment added risks to the economy. The trade data for the month of February 2009 provide food for thought about imminent risks to the external sector. The external data for the March 2009 will provide ample evidence of the impact of global financial crisis on our external sector. Some of the immediate, medium and long term policy recommendation came out from the rapid assessment are as under.

Immediate Measures:

1. Interest rate is recently used excessively for controlling inflation. This policy needs immediate attention because high interest rate raises the cost of capital and severely hampers the industrial growth. There is a need to realize at policy making level that interest rate is not the only option in controlling inflation but one of many options available. Although it benefits in stabilizing exchange rate and curbing double digit inflation, but its negative effect on GDP growth, unemployment and conditions of work especially the real wage is more pronounced. Under the current economic conditions, it has raised cost of capital for industry and many businesses reached at the brink of closure. State Bank has recently reduced the discount rate by 100 basis points but it is not enough. There is a need to look further into the matter with the objective to reduce it at a level not harmful for industry and businesses.

2. Under the IMF conditions, government has announced to reduce budget deficit to 4.7 percent of the GDP. This will be achieved through reduction in the development expenditure which is going to affect the poor segments of the society. Reform of the budgetary deficit may be very necessary but some policy coherence is needed so that all reforms are not simultaneous but phased, sequenced and timed. It is recommended that government should reconsider cuts in the

development expenditures for reducing fiscal deficit. Under the current bad economic conditions, the cut in the development expenditure is surely going to hurt more than it may help. Therefore the budget deficits need not be reduced so drastically and all at once and devolvement expenditures should not be cut.

3. Taking into account the Foreign Currency Reserves position due to capital flight from the country is a reminder to have some capital controls. The present weak Foreign Currency Reserves situation is expected to persist in the next few years and cannot sustain flight of capital abroad. It is good time to consider some capital control.

4. Workers representation in the national policy initiatives must be ensured. Industrial harmony and peace cannot be attained unless workers' fundamental rights, especially freedom of association, collective bargaining, prevention of discrimination and forced labour are not promoted.

5. There is a need to incorporate the provisions of ILO Conventions No 87 and 98 relating to Freedom of Association and Collective Bargaining while modifying the IRA 2008 to make it acceptable to the workers' organisations and extend coverage of social protection schemes to all workers particularly the vulnerable informal sector, home-based women workers and sub-contracted workers.

6.

Medium Term:

7. Promotion of decent work for country's growth, development and poverty reduction is important. In this respect social security coverage may be expanded, especially pensions, health insurance, and some protection to the vulnerable groups.

8. The labour laws should be amended and brought in conformity with ILO Conventions ratified by the Government of Pakistan particularly ILO Conventions Nos.87 and 98 and 11 pertaining to freedom of association and collective bargaining.

9. Allocating adequate resources for developing health services which will enable the workers to raise their productivity and promote welfare of the workers.

10. The stakes of workers should be increased by involving them as share holders in the industries to give them sense of ownership.

11. Holding Social dialogue among all stakeholders including workers, employers and

Government representatives to evolve economic, social and financial policies with a vision to meet the challenges of poverty, unemployment, inflation and technological development.

Long Term:

12. There is a need to adopt National Economic and Self Reliance Policy for agricultural as well as industrial development to raise employment opportunities for 1.5 millions young labor force entering into labor market every year.

13. The current crisis in energy and food requires massive increases in public investment in the infrastructure, especially in the large dams for electricity and water availability. Emphasis should be on developing cheaper energy generation capacity through alternative sources such as coal, wind and sun. The power shortage is causing loss of millions of jobs in various industries and commercial institutions.

Annexure

Table 1: Population, Labor Force and Labor Force Participation (LFP) Rates

Year	Population			Labor Force		LFP Rate (%)
	Total (Mn)	Growth Rate	Working age* (%)	Total Mn	Increase Mn	
1996-97	126.72	2.61	84.65	36.30	1.57	28.6
1997-98	129.97	2.41	88.52	38.20	1.90	29.3
1999-00	136.01	2.23	92.05	39.4	1.20	29.4
2001-02	145.80	2.06	99.60	42.39	2.99	29.6
2003-04	148.72	1.90	103.40	45.23	2.84	30.4
2005-06	155.37	1.90	108.78	50.05	4.82	32.2
2006-07	158.20	1.82	111.40	50.94	0.89	32.2
2007-08	160.97	1.75	124.64	51.78	0.84	32.2

Labor Force Survey; various issues

Table 2: Key Economic Indicators: July-February 2007/8-2008/9

	July-February			
Items	Units	2007-08	2008-09	%Change
Large-scale Manufacturing	%	5.2	-5.4	-
Inflation	%	8.9	23.5	-
- Food	%	13.0	28.9	-
- Non-Food	%	5.9	19.3	-
- Core Inflation*	%	6.8	17.8	-
Tax Collection (FBR)	Rs. Billion	585.4	702.5	20.0
- Direct Tax		216.7	256.3	18.3
- Indirect Tax		368.7	446.1	21.0
- Sales Tax		228.1	283.4	24.3
- Import Related		126.1	133.0	6.0
- Domestic		102.0	150.4	47.0
- Customs Duty		86.6	93.0	7.3
- Central Excise		54.0	69.7	29.0

Exports (FOB)	$ Million	12,482	13,015	4.3
Imports (FOB)	$ Million	21,776	21,878	0.5
Trade Balance	$ Million	-9,294	-8,863	4.6 Improvement
Remittances	$ Million	4,126.0	4,919.0	19.2
Current Account Deficit	$ Million	8,645.0	7,455.0	13.8
Foreign Investment (Total)	$ Million	2,873.4	1,892.1	-34.2
-FDI (Private)	$ Million	2,789.1	2,794.4	0.2
-Portfolio (Private)**	$ Million	113.8	-367.0	-422.5
-Public Investment**	$ Million	-29.5	-535.3	-1714.6
FOREX Reserves (End Feb.)	$ Billion	14.1	10.1	-
Exchange-Rate (Avg. Feb.)	Rs /US$	62.6	79.6	21.4 (Depreciation)
Lending Rate (Avg. Jan.)	%	11.3	14.1	

Table 3: Growth in LSM (%)

Month/Year	**2007-08**	**2008-09**
July	5.29	-4.47
August	8.54	-6.86
September	7.69	-6.41
October	8.08	-2.17
November	4.22	-7.57
December	-4.00	-1.64
January	9.45	-8.91
July-January	**5.71**	**-5.35**

Table 4: Monetary Growth

	Flows During the Period (Rs. Billion) 1st July to 14 March		
	2007-08	15-Mar-08	14-Mar-09
Net Foreign Assets (NFA)	-317.4	-232.3	-283.5
Net Domestic Assets (NDA)	941.4	541.7	418.2
-Net Government Borrowing	583.8	308.4	430.1
-From SBP	688.7	367.0	320.5
Credit to Private Sector	408.4	315.5	103.8
Broad Money	624.0	309.4	134.7
Reserve Money	270.0	131.4	-4.26
Growth in M2	15.35%	7.61%	2.87%
Reserve Money Growth	22.28%	10.85%	-0.29%

Table 5: Structure of Exports ($ Million)

Particulars	July-February		Change	Absolute Increase/ Decrease	% Contribution to Increase in Exports
	2007-08	**2008-09**	**(%)**		
A. Food Group	1,425.1	2,099.3	47.3	674.3	136.2
B. Textile Group	6,854.0	6,470.4	-5.6	-383.6	-77.5
C. Petroleum Group	730.8	589.2	-19.4	-141.6	-28.6
D. Other Manufacturer	2,232.7	2,444.4	9.5	211.7	42.7
E. All Other Items	417.9	552.4	32.2	134.5	27.2
Total	**11,660.5**	**12,155.7**	**4.2**	**495.2**	**100.0**
Non-Textile	4,806.5	5,685.3	18.3	-	-

Share of Textile	58.8	53.2	-	-	-
Share of Non-Textile	41.2	46.8	-	-	-

Source: FBS

Table 6: Structure of Imports

	Particulars	July-February		% Change	Absolute Increase	% Cont. of absolute increase
		2007-08	2008-09			
	Total Imports	24,137.9	23,770.5	-1.5	-367.4	100.0
	Food Group	2,511.3	2,749.6	9.5	238.4	-64.9
	Wheat Unmilled	369.0	838.0	127.1	469.0	127.7
B	Machinery Group	3,497.9	3,698.0	5.7	200.1	-54.5
	Power Gen. Machine	647.9	1083.1	67.2	435.2	-118.5
C	Petroleum Group	6,340.2	6,921.2	9.2	581.0	-158.1
D	Textile Group	1604.7	1037.4	-35.4	-567.3	154.4
E	Agri Chemicals Group	3,653.6	3,528.9	-3.4	-124.7	33.9
	Fertilizer	625.5	365.7	-41.5	-259.8	70.7
F	Consumer Durables	3,259.2	2,026.5	-37.8	-1,232.7	335.5
	Road motor Vehicles	855.8	622.8	-27.2	-233.0	63.4
G	Telecom	1,427.9	716.3	-49.8	-711.6	193.7
H	Raw Materials	2,192.2	2,096.3	-4.4	-95.9	26.1
I.	Others	1,862.4	2,165.0	16.2	302.6	-82.4
	Non-Food, Non-Oil	15,286.4	14,099.7	-7.8	-1186.7	258.1
	Non-Oil Imports	17,797.7	16,849.3	-5.3	-948.3	323.0

Source: FBS

Table 7: Workers' Remittances

Countries	**July-February (**$ Million)		**% Change**
	2007-08	**2008-09**	
Total	4,126	4,919	19.2
USA	1,160	1,157	-0.3
Saudi Arabia	762	962	26.3
UAE	682	1,035	51.9
Other GCC Countries	619	783	26.6
U.K	293	344	17.5
EU Countries	116	150	29.2
Other Countries	494	488	-1.2

Table 7.1: Month-wise Workers' Remittances

Month/Year	FY09	FY08	FY07	%age change	
				FY09	FY08
July	627.21	495.69	377.01	26.53	31.48
August	592.30	489.51	434.84	21.00	12.57
September	660.35	516.05	421.74	27.96	22.36
October	466.13	580.24	410.61	-19.67	41.31
November	620.52	505.58	448.61	22.73	12.70
December	673.50	479.26	475.21	40.53	0.85
January	637.30	557.07	391.33	14.40	42.35
February	641.32	502.76	457.18	27.56	9.97
July-February	4,918.63	4,126.16	3,416.53	19.21	20.77
Monthly average for period July-February	614.83	515.77	427.07	19.21	20.77

Table 7.2: Country-Wise Workers' Remittances

(Million US Dollar)

Item	February	January	July-February				
			Amount			%age change	
	2009	2009	FY09	FY08	FY07	FY09	FY08
Cash	641.30	637.28	4,918.22	4,124.15	3,414.98	19.25	20.77
1. USA	127.48	125.54	1,156.51	1,160.39	891.97	-0.33	30.09
2. U.K.	54.12	50.14	344.08	292.87	281.50	17.49	4.04
3. Saudi Arabia	123.64	123.76	962.30	761.84	640.79	26.31	18.89
4. UAE	166.62	169.50	1,035.55	681.88	513.69	51.87	32.74
Dubai	89.07	94.04	646.42	474.63	383.92	36.19	23.63
Abu Dhabi	73.02	70.64	357.86	186.70	112.73	91.68	65.62
Sharjah	4.47	4.62	30.76	18.93	16.20	62.49	16.85
Other	0.06	0.20	0.51	1.62	0.84	-68.52	92.86
5. Other GCC	93.09	93.76	783.39	618.83	467.86	26.59	32.27
Bahrain	11.67	11.77	99.58	91.37	82.26	8.99	11.07
Kuwait	33.09	33.21	287.94	241.87	177.65	19.05	36.15
Qatar	26.61	28.09	212.73	147.05	103.98	44.67	41.42
Oman	21.72	20.69	183.14	138.54	103.97	32.19	33.25
6. EU Countries	18.31	20.33	150.05	116.12	97.50	29.22	19.10
Germany	6.81	7.63	61.80	52.30	51.39	18.16	1.77
France	1.97	2.08	11.33	5.95	6.21	90.42	-4.19
Netherland	0.67	0.66	7.53	5.96	4.70	26.34	26.81
Spain	2.60	3.12	16.77	11.62	3.87	44.32	200.26
Italy	2.26	2.50	17.46	9.36	8.42	86.54	11.16
Greece	0.79	0.81	5.09	3.38	1.79	50.59	88.83

Sweden	0.29	0.32	3.12	3.31	2.40	-5.74	37.92
Denmark	0.68	0.76	8.12	13.21	9.91	-38.53	33.30
Ireland	1.84	1.99	16.02	6.05	3.69	164.79	63.96
Belgium	0.40	0.46	2.81	4.98	5.12	-43.57	-2.73
7. Norway	1.73	1.66	15.81	18.24	12.63	-13.32	44.42
8. Switzerland	1.30	1.66	12.12	14.87	11.49	-18.49	29.42
9. Australia	2.38	2.33	20.48	23.61	18.75	-13.26	25.92
10. Canada	5.98	5.69	51.55	63.41	54.95	-18.70	15.40
11. Japan	0.32	0.30	2.95	2.80	2.92	5.36	-4.11
12. Other Countries	46.33	42.61	383.43	369.29	420.93	3.83	-12.27
FEBCs* & FCBCs**	0.02	0.02	0.41	2.01	1.55	-79.60	29.68
TOTAL	641.32	637.30	4,918.63	4,126.16	3,416.53	19.21	20.77

*Foreign Exchange Bearer Certificates and ** Foreign Currency Bearer Certificates

Table 8: FDI Inflows by Economic Group (Jul-February) $ Million

	2007-08	**2008-09**	**% Change**
Textiles	20.5	27.6	34.7
Chemicals & Petro-Chemicals	67.5	63.6	-5.8
Petroleum Refining	56.1	74.0	31.9
Oil & Gas Explorations	418.2	483.1	15.5
Cement	86.0	30.9	-64.1
Transport Equipment (Automobiles)	67.0	58.5	-12.7
Power	39.3	79.8	103.4
Trade	123.9	121.5	-2.0
Communications	828.1	790.7	-4.5
Financial Business	714.8	647.2	-9.5
Personal Services	68.0	63.2	-7.1
Others	299.7	354.3	18.2
All Groups	**2789.1**	**2794.4**	**0.2**

Table 9: Percentage Distribution of Non-Agriculture Workers in the Informal Sector

Years	Pakistan			Urban			Rural		
	Total	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**	**Male**	**Female**
1997-98	67.8	68.1	64.5	63.3	64.0	53.1	73.1	73.0	74.7
1999-00	65.8	65.8	65.7	63.8	64.1	60.7	68.0	67.6	73.1
2001-02	64.6	64.7	63.0	61.1	61.1	60.7	68.3	68.5	65.7
2003-04	70.0	70.4	65.7	67.2	67.8	61.6	72.9	73.3	69.9
2005-06	72.9	74.2	65.2	71.0	71.2	69.1	74.8	74.3	79.4
2006-07	71.9	72.0	70.7	70.7	71.4	64.3	73.1	72.7	76.6
2007-08	72.8	72.8	72.6	70.4	70.8	67.5	75.1	74.9	76.7

- **Table 9.1: Informal Sector Workers-Distribution by Major Industry Division**

Major Industry Division	**2006-07**			**2007-08**		
	Total	**Male**	**Female**	**Total**	**Male**	**Female**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Manufacturing	20.6	16.9	57.3	21.3	17.0	57.1
Construction	13.4	14.6	1.2	13.8	15.3	1.7
Wholesale & Retail Trade	34.6	37.3	7.6	34.5	37.6	8.9
Transport Storage and Communication	11.2	12.3	0.3	11.1	12.3	0.9
Community Social and Personal Service	18.7	17.2	33.5	17.7	16.1	31.2
Others(includes mining, & Quarrying; electricity, gas and Water and Finance, Insurance, real estate and business	1.5	1.7	0.1	1.6	1.7	0.2

Services						

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- **Table 9.2: Informal Sectors Workers-Distribution by Major Occupation Group**

Major Occupational Group	2006-07			2007-08		
	Total	**Male**	**Female**	**Total**	**Male**	**Female**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Legislators, Senior Officials & Managers	24.9	26.7	5.9	25.6	27.9	7.1
Professional	1.6	1.5	2.5	1.7	1.8	1.5
Technician &Associate Professionals	3.8	3.2	9.8	4.5	3.4	13.2
Clerks	0.4	0.5	-	0.3	0.3	0.1
Service and sales workers	9.5	10.1	3.1	9.6	10.4	3.2
Craft and Related Trade Workers	-	-	-	0.2	0.2	0.3
Plant and Machine Operators and Assemblers	6.1	6.7	0.2	6.7	7.4	0.5
Elementary (unskilled) occupations	22.6	22.9	19.9	20.5	21.2	15.0

Table 10: Country wise Manpower Export by Pakistan

Country	1971-2000	2001	2002	2003	2004	2005	2006
S Arabia	1,648,279	97,262	104,783	126,397	70,896	35,177	45,594
UAE	626,705	18,421	34,113	61,329	65,786	73,642	100,207
Oman	212,131	3,802	95	6,911	8,982	8,019	12,614
Qatar	50,481	1,633	480	367	2,383	2,175	2,247
Bahrain	65,987	1,173	1,022	809	855	1,612	1,630
Kuwait	106,307	440	3,204	12,087	18,498	7,185	10,545
Libya	63,701	713	781	1,374	375	261	67
Yemen	3,796	25	73	85	157	81	127
Malaysia	1,993	64	59	114	65	7,690	4,757
S. Korea	3,634	271	564	2,144	2,474	1,970	1,082
UK	1,059	800	703	858	1,419	1,611	1,741
USA	802	788	310	140	130	238	202
Italy	405	824	48	128	581	551	431
Spain	159	362	389	202	254	290	183
Others	96,578	1,351	798	1,094	969	1,633	1764
Total	2,882,017	127,929	147,422	214,039	173,824	142,135	183,191

Source: Bureau of Emigration and Overseas Employment (BE&OE), 2007.

List of ILO Conventions Ratified by Pakistan
Pakistan had ratified 35 ILO Conventions, including eight core labour rights Conventions

Convention	**Date**	*Status*
C1 Hours of Work (Industry) Convention, **1919**	14:07:1921	*Ratified*
C4 Night Work (Women) Convention, **1919**	14:07:1921	Ratified
C6 Night Work of Young Persons (Industry) Convention, **1919**	14:07:1921	*Ratified*
C11 Right of Association (Agriculture) Convention, **1921**	11:05:1923	*Ratified*
C14 Weekly Rest (Industry) Convention, **1921**	11:05:1923	*Ratified*
C15 Minimum Age (Trimmers and Stokers) Convention, **1921**	20:11:1922	*Denounced on 06:07:2006*
C16 Medical Examination of Young Persons (Sea) Convention, **1921**	20:11:1922	*Ratified*
C18 Workmen's Compensation (Occupational Diseases) Convention, **1925**	30:09:1927	*Ratified*
C19 Equality of Treatment (Accident Compensation) Convention, **1925**	30:09:1927	*Ratified*
C21 Inspection of Emigrants Convention, 1926	14:01:1928	*Ratified*
C22 Seamen's Articles of Agreement Convention, **1926**	31:10:1932	*Ratified*
C27 Marking of Weight (Packages Transported by Vessels) Convention, **1929**	07:09:1931	*Ratified*
C29 Forced Labour Convention, **1930**	23:12:1957	*Ratified*
C32 Protection against Accidents (Dockers) Convention (Revised), **1932**	10:02:1947	*Ratified*
C41 Night Work (Women) Convention (Revised), **1934**	22:11:1935	*Denounced on 14:02:1951*
C45 Underground Work (Women) Convention, **1935**	25:03:1938	*Ratified*

C59 Minimum Age (Industry) Convention (Revised), **1937**	26:05:1955	*Ratified*
C80 Final Articles Revision Convention, **1946**	25:03:1948	*Ratified*
C81 Labour Inspection Convention, **1947**	10:10:1953	*Ratified*
C87 Freedom of Association and Protection of the Right to Organise Convention, **1948**	14:02:1951	*Ratified*
C89 Night Work (Women) Convention (Revised), **1948**	14:02:1951	*Ratified*
C90 Night Work of Young Persons (Industry) Convention (Revised), **1948**	14:02:1951	*Ratified*
C96 Fee-Charging Employment Agencies Convention (Revised), **1949**	26:05:1952	*Ratified*
C98 Right to Organise and Collective Bargaining Convention, **1949**	26:05:1952	*Ratified*
C100 Equal Remuneration Convention, **1951**	11:10:2001	*Ratified*
C105 Abolition of Forced Labour Convention, **1957**	15:02:1960	*Ratified*
C106 Weekly Rest (Commerce and Offices) Convention, **1957**	15:02:1960	*Ratified*
C107 Indigenous and Tribal Populations Convention, **1957**	15:02:1960	*Ratified*
C111 Discrimination (Employment and Occupation) Convention, **1958**	24:01:1961	*Ratified*
C116 Final Articles Revision Convention, **1961**	17:11:1967	*Ratified*
C118 Equality of Treatment (Social Security) Convention, **1962**	27:03:1969	*Ratified*
C138 Minimum Age Convention, **1973**	06:07:2006	*Ratified*
C144 Tripartite Consultation (International Labour Standards) Convention, **1976**	25:10:1994	*Ratified*
C159 Vocational Rehabilitation and Employment (Disabled Persons) Convention, **1983**	25:10:1994	*Ratified*
C182 Worst Forms of Child Labour Convention, **1999**	11:10:2001	*Ratified*

Constitutional Rights

- Article 11 of the Constitution prohibits all forms of slavery, forced labour and child labour;
- Article 17 provides for a fundamental right to exercise the freedom of association and the right to form unions;
- Article 18 proscribes the right of its citizens to enter upon any lawful profession or occupation and to conduct any lawful trade or business;
- Article 25 lays down the right to equality before the law and prohibition of discrimination on the grounds of sex alone;
- Article 37(e) makes provision for securing and humane conditions of work, ensuring that children and women are not employed in vocations unsuited to their age or sex, and for maternity benefits for women in employment.