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REPORT**

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**ECONOMIC SCORECARD
OF THE PML (N)
GOVERNMENT IN
2013-14**

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4- Shami Road, Lahore Cantt, Pakistan. UAN: 111-123-586 www.ipr.org.pk

IPR Economic Series

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ACRONYMS

BISP	Benazir Income Support Program
DISCOs	Power Distribution Companies
GDP	Gross Domestic Product
MOF	Ministry of Finance
PASSCO	Pakistan Agricultural Storage & Services Corporation Ltd
PBS	Pakistan Bureau of Statistics
PEPCOs	Pakistan Electric Power Company
PML(N)	Pakistan Muslim League (Nawaz)
PPAF	Pakistan Poverty Alleviation Fund
PSEs	Public Sector Enterprises
SBP	State Bank of Pakistan
T&D	Transmission and Distribution
WAPDA	Water and Power Development Authority

EXECUTIVE SUMMARY

The Prime Minister has apparently asked for a performance report from each Ministry for the first year in office of the PML(N) Government. The best way to access the performance is to determine the extent to which progress has been made in achieving the key targets embodied in the manifesto of the party, presented before the election of 2013.

The PML(N) manifesto attaches prime importance to the economy. The sub-title of the manifesto is 'Strong Economy, Strong Pakistan'. It must be recognized that the manifesto is a very well-prepared document. It clearly states the objectives, strategies, reforms / actions and the targets. Over the five year period, more or less, full implementation of the manifesto is likely to take the country to a trajectory of high growth.

The approach adopted to preparing the economic score card is, first, to determine the target set in the manifesto for 2018, the terminal year of the Government. Second, the extent of change required from the base year, 2012-13, is quantified. Third, the targeted change is allocated equally among the five years. Fourth, the implied target for the first year is taken as the magnitude in 2012-13 plus the annual change required. Finally, the target for 2013-14 is compared with the actual magnitude achieved to determine the extent of success.

A careful analysis of the Manifesto reveals that there are 14 targets for which data is available on the actual performance in 2013-14. There are nine targets for macroeconomic indicators, two for efficiency improvements in the power sector and three related to the social sectors and social protection. It is significant that the manifesto did not include any explicit targets on the external balance of payments.

The performance in the first year, 2013-14, of the PML(N) Government is mixed. Out of the 14 targets, only one has been achieved relating to reduction in the budget deficit. There has been improvement in four indicators but not enough to achieve the respective targets. These are increase in the tax-to-GDP ratio, decrease in losses of Public Sector Enterprises (PSEs), reduction in the public debt-to-GDP ratio and rise in health spending as a percentage of the GDP.

There is virtually no change in four performance measures in relation to the level in 2012-13. These are the growth rate of large-scale manufacturing, level of T&D losses in power sector, education spending as a percentage of the GDP and the level of non-pension social protection spending as a percentage of the GDP.

Unfortunately, there has been a decline in five key areas. This includes the GDP growth rate, rate of inflation, rate of investment, level of non-salary costs and the billing recovery rate of power distribution companies and the level of circular debt in the power sector.

ECONOMIC SCORECARD OF THE PML (N) GOVERNMENT IN 2013-14

MACROECONOMIC TARGETS

GDP growth

The manifesto proposes to increase the GDP growth rate to 6 percent. The base year growth rate is 3.7 percent. Therefore, the annual increase required is about 0.5 percent. As such, the targeted growth rate in 2013-14 was 4.2 percent. According to PBS, the actual GDP growth rate was 4.1 percent. But there is a strong view that this growth rate was overstated and the actual growth rate is between 3.3 and 3.5 percent. Therefore, the analysis reveals that this target was not achieved in 2013-14.

Growth of Large-Scale Manufacturing

A key element in the development strategy of PML (N) government is to promote a strong industrial revival. As such, it is proposed to raise the growth rate of large-scale manufacturing to at least 7 percent. This required a growth rate of 4.6 percent in 2013-14. However, the actual rate achieved is 4 percent.

Rate of Investment

The target for the rate of investment in 2018 is 20 percent of the GDP, as compared to 14.6 percent of the GDP in 2012-13. Therefore, given the methodology described above, the implied target for the rate of investment in 2013-14 was 15.7 percent of the GDP. The actual rate achieved is 14.0 percent. Therefore, there has been a significant shortfall in relation to the target. In fact, the investment rate has actually fallen in 2013-14.

Rate of Inflation

The manifesto targets for an inflation rate of 7 to 8 percent. It was 7.4 percent in 2012-13, which has risen to 8.6 percent in 2013-14. There has been failure in containing the rate of inflation.

Budget Deficit

The manifesto proposes to bring down the fiscal deficit to 4 percent of the GDP, from 8.2 percent of the GDP in 2012-13. This is clearly an ambitious target. For 2013-14 it is 7.4 percent of the GDP. The actual deficit is lower at 5.5 percent of the GDP. Therefore, the Government has made substantial progress in improving the state of public finances of the country.

Tax Revenues

The manifesto aims to raise federal tax revenues from 9 to 15 percent of the GDP by 2018. The implied target for 2013-14 is 10.2 percent of the GDP, while the actual is 9.3 percent of the GDP. Therefore, although there has been some improvement, it is not large enough to meet the target.

Non-Salary Costs

The objective is to reduce non-salary costs by 30 percent by following a strong policy of austerity. The Finance Minister announced such a out in the Budget Speech of 2013-14. The outcome, however, is not a cut but actually a rise of 3 percent in this expenditure.

Losses of Public Sector Enterprises

The manifesto aims to eliminate PSE losses of Rs 400 billion annually by restructuring or privatization. Over a five year period, this requires an annual reduction in losses of Rs 80 billion. As such, these losses should have been brought down to Rs 320 billion. The actual losses in 2013-14 of the power sector (in the form of a tariff differential subsidy), Railway, PIA and the Steel Mill add up to almost Rs 375 billion. Therefore, this target has not been achieved.

Level of Public Debt

The manifesto lays emphasis on the reduction in the burden of public debt. According to the Fiscal Responsibility and Debt Limitation Act of 2005, the ceiling on the level of public debt is 60 percent. In 2012-13, it was 64.8 percent. As such, the target for 2013-14 was 63.8 percent. The actual level is 64.3 percent. There has been some improvement but not enough to meet the target.

TARGETS FOR POWER SECTOR

Transmission and Distribution Losses:

The target over the five year period or earlier is to bring down transmission and distribution losses in the power sector to 10 percent. PEPCOs losses were 17.5 percent in 2012-13. Therefore, the annual reduction required is 1.5 percent and these losses should have come down to 16 percent in 2013-14. But the WAPDA data reveals that transmission and distribution losses have remained virtually unchanged in 2013-14.

Billing Recovery Rate

The manifesto sets the target for elimination of losses in billing by the DISCOs. In 2012-13, the recovery rate was 94 percent, which should have improved to 95.2 percent in 2013-14. Instead, there has been a decline in billing collection, especially from government consumers, and the recovery rate has fallen to 90 percent.

SOCIAL SECTORS

Education Spending

The PML (N) manifesto targets for an increase in public expenditure on education to 4 percent of the GDP by the end of its tenure. The level was 2.1 percent of the GDP in 2012-13, which ought to have increased to 2.5 percent of the GDP in 2013-14. According to the revised estimates for 2013-14, the Federal and Provincial Governments combined have spent 2.1 percent of the GDP on education. Therefore, there has been no enhancement in the level of expenditure in relation to the GDP.

Health Spending

The target for health spending is 2 percent of the GDP. In 2012-13, public expenditure on health was 0.7 percent of the GDP. This implies a target of 1 percent of the GDP for 2013-14. The actual level achieved is 0.8 percent of the GDP.

Non-Pension Social Protection Spending

It is proposed in the manifesto to raise this spending to 2 percent of the GDP, as compared to 1 percent of the GDP in 2012-13. Accordingly, the target for 2013-14 was 1.2 percent of the GDP. The sum total of the subsidy to lifeline consumers of electricity (below 200 kwh a month), grants to and expenditure on Benazir Income Support Program (BISP), Utility Stores Corporation, PASSCO, PPAF and Baitul Maal by the Federal Government and food subsidy plus other schemes by the Provincial Governments is in the range of Rs 260 billion in 2013-14. This is equivalent to just over 1 percent of the GDP. Therefore, the allocation for social protection has not increased in relation to the GDP.

The summary of the economic score card in the first year, 2013-114, of the PML(N) Government, in relation to the targets in its manifesto, are given in Table 1. The performance is mixed. Out of the 14 targets in the manifesto only one target has been achieved. There has been improvement in four indicators, but not enough for achievement of the target. In four other performance measures, there is no change in relation to 2012-13. The negative aspect of the score card is a fall in as many as six indicators.

Clearly, the Economic Ministries have a lot of scope for improvement in their performance in 2014-15. There should be stronger prioritization of the targets and better coordination among the Ministries. Also, a checklist ought to be prepared on implementation of reforms / actions included in the manifesto.

**TABLE 1
ECONOMIC SCORECARD OF PML(N) GOVERNMENT
IN 2014-15**

TARGET ACHIEVED	
1.	Budget Deficit Reduction
IMPROVEMENT, BUT TARGET NOT ACHIEVED	
2.	Tax Revenue
3.	Losses of PSEs
4.	Level of Public Debt
5.	Health Spending
NO CHANGE	
6.	Growth of Large-Scale Manufacturing
7.	Transmission and Distribution Losses in Power Sector
8.	Education Spending
9.	Non-Pension Social Protection Spending
DETERIORATION	
10.	GDP Growth Rate
11.	Rate of Inflation
12.	Rate of Investment
13.	Non-Salary Costs
14.	PEPCO Billing Recovery Rate
1	

Statistical Appendix
Manifesto Targets Versus Actual Performance, 2013-14

Variable	Target for Five Years		First Year Target		Actual	Achieved Yes / No
	From	To	Annual Change	Target		
MACROECONOMIC						
• Investment (% of GDP)	15	20	1	16	14	No
• GDP Growth (%)	3.7	6			3.3 – 3.5	No
• Budget Deficit (% of GDP)	8	4	-0.8	7.2	5.5	Yes
• Tax Revenues (% of GDP)	9	15	1.2	10.2	9.3	No
• Current Expenditure* (Index)	100	70	-6	94	10.3	No
• PSE Losses (Rs in Billion)	400	0	-80	320	355	No
• Rate of Inflation		7-8		7-8	8.6	No
• Large Scale Manufacturing Growth (%)	4	7-8	0.6	4.6	3.9	No
• Public Debt	64.8	60	1.0	63.8	64.3	No
POWER SECTOR						
• T&D Losses	17.5	10	1.5	16.0	17.5	No
• Billing Recovery	94	100	1.2	95.2	90.0	
SOCIAL						
• Non-Pension Social Protection Spending (% of GDP)	1	2	0.2	1.2	1.1	No
• Education Spending (% of GDP)	2.1	4	0.4	2.5	2.1	No
• Health Spending (% of GDP)	0.7	2	0.3	1.0	0.8	No

*excluding salaries, allowance and pensions. Operating Costs only.

Source: PML (N) Manifesto

Pakistan Economic Survey

MOF, PRSP Secretariat

SBP