

PUBLIC FINANCE

TMP.

TAX ADMINISTRATIVE MACHINERY AND RATES OF TAXATION

FOR purposes of income-tax administration, the country has been divided into three areas; East Pakistan, North Zone (West Pakistan) and South Zone (West Pakistan) each under a Commissioner of Income-tax.

The Commissioners of Income-tax are assisted in the performance of their duties by Assistant Commissioners of Income-tax, Income-tax Officers, Examining Officers and Inspectors of Income-tax. Income-tax Officers and Examining Officers are responsible for making assessments and collecting the demand raised against the tax payers.

Tax rates

The table on the opposite page gives the details of tax rates other than taxes on companies and the inter-corporate taxes, which are dealt with separately. No tax is levied where the annual income of a tax payer does not exceed Rs. 6,000. In other cases, the following deductions are made from the gross annual income to arrive at the taxable income on which only the tax is computed.

- (i) Personal allowance Rs. 2,000
- (ii) Earned income relief
This is allowed @ 20% of income Subject to a maximum of Rs. 4,000 derived from personal exertion (e.g. business or professional income etc.)
- (iii) Investment allowance
This is allowed @ 20% additional 10% in the case of premia paid for life insurance) of the total income of the

tax payer, subject to an overall limit of Rs. 12,000 which has been raised to Rs. 15,000. But the additional Rs. 3,000 would, however, be available for investment only in the National Investment Trust Certificates and any other investment companies as may be notified by the Government from time to time. The amount of Rs. 15,000 can be invested in respect of the following.

- (a) Contributions to Provident Funds.
- (b) Premia paid for life insurance of the tax payer or the spouse.
- (c) Investments in the new and fresh share-capital of approved public industrial, insurance, finance or transport companies.
- (d) Investments in Post Office Savings Certificates, N.I.T. approved Government loans and approved investment companies.
- (e) Books of professional or technical nature or of general utility.
- (iv) Education allowance.
This is allowed in case of persons whose annual income does not exceed Rs. 25,000 at the rate of Rs. 300 for each child subject to a maximum of Rs. 900.

RATES OF PERSONAL INCOME TAX—1966-67

WHERE TAXABLE INCOME		TAX THEREON	
EXCEEDS (a)	BUT DOES NOT EXCEED	FIXED AMOUNT	FLAT RATE ON AMOUNT EXCEEDING FIGURES IN COL. 1
Rs.	Rs.	Rs.	Per cent
—	1,000	25	—
1,000	2,000	25 Plus	2
2,000	4,000	45 „	10
4,000	6,500	245 „	15
6,500	10,000	620 „	20
10,000	20,000	1,320 „	25
20,000	30,000	3,820 „	35
30,000	40,000	7,320 „	50
40,000	60,000	12,320 „	60
60,000	No upper limit	24,320 „	70

(a) No tax is levied where annual income does not exceed Rs. 6,000.

Refundable surcharge @ 10 per cent of income tax and super tax. Details are given on next page.

RATES OF TAX FOR A REGISTERED FIRM

—	12,000	—	—
12,000	30,000	—	5
30,000	60,000	900 Plus	10
60,000	100,000	3,900 „	20
100,000	No upper limit	11,900 „	30

Note:—Partners of Registered Firms (Partnerships) are liable to pay tax on their share of partnership income together with their income, if any, at the rates specified at item (1) above.

TAX ON COMPANIES

THE system of company taxes has recently been changed radically, so that closely held companies are to pay more taxes. The comparative tables (Tables I-III) on the opposite page show the tax rates in force before and after June 1960.

Tax-holiday for new industrial undertakings and hotels: Industrial undertakings established in Pakistan at any time between 1st April, 1959 and 30th June, 1970 have been granted a 'Tax-holiday' for six, four and two years depending on the areas in which they are located. In addition, on the expiry of the period of tax-holiday the industrial undertakings will be entitled to get depreciation allowance on the written down value of capital assets, i.e. the original cost minus the normal depreciation allowance.

Tax on inter-corporate dividends: The rate of tax on inter-corporate profits (i.e. dividend income received by one company from another company) has been substantially reduced. In the case of dividends received by a company in which public is substantially interested and paid and declared by a company formed and registered in Pakistan under the Companies Act, 1913 in respect of the share

capital issued after the 14th August, 1947, the rate of inter-corporate tax is 15%. In all other cases the rate is 20%.

Tax on dividends to share-holders : The dividends received by share-holders are added to their other income, if any, and taxed in the normal way. No tax on such dividends is payable by a company itself. The first Rs. 3,000 of dividend income have been exempted from tax to encourage small investors.

Tax on Bonus Shares: Tax at the rate of 12.5 per cent is levied on bonus shares and is payable by the company. The share-holders are not taxed again in respect of the value of their shares.

Under the Agreements for the Avoidance of Double Taxation concluded by Pakistan with a number of countries, companies incorporated in those countries receiving dividends from companies in Pakistan, are entitled to rebates of tax ranging from 5 to 6.25 per cent. The total tax liability of foreign investor in the industrial field comes to about 50% if all the profits after payment of taxes are distributed as dividend. Since, however, it is not the normal practice to distribute the entire profits, the actual tax liability would amount to much less than 50% in most cases.

RATE OF TAX PAYABLE BY COMPANIES

RATES OF TAX PAYABLE BY COMPANIES

<i>Nature of Income</i>	<i>Rates of tax 1963-64 (Figures in brackets re- late to companies declaring dividends outside Pakistan)</i>	<i>1964-65 (a)</i>
1) Public Companies:		
Companies having income less than Rs. 25,000	45 (50)	45 (50)
Companies having income more than Rs. 25,000	50 (55)	50 (55)
2) Private Companies:		
Companies having income less than Rs. 25,000	50 (55)	50 (55)
Companies having income more than Rs. 25,000	55 (60)	55 (60)

- a) Industrial Companies with income less than Rs. 50,000 have been granted a rebate of 5 per cent. Companies engaged in mining have been allowed a rebate of 10 per cent. Rebate of 15 per cent has also been allowed in case of every company on so much of the income arising to it outside Pakistan as is brought by it in Pakistan.

II

INCIDENCE OF TAXATION ON FOREIGN COMPANIES (PUBLIC AND PRIVATE) OPERATING IN PAKISTAN THROUGH BRANCHES

<i>Nature of Income</i>	<i>1962-63</i>	<i>1963-64</i>	<i>1964-65</i>
All income	60*	60	60

*Industrial undertakings set up after August 14, 1947 were allowed a rebate of 5 per cent.

III

RATES OF INTER-CORPORATE TAXES

<i>Types of Company from which dividends are received</i>	<i>1963-64</i>	<i>1964-65</i>
Dividend received by a company in which public is substantially interested and paid and declared by a company formed and registered in Pakistan under the Companies Act, 1913 in respect of the share capital issued after 14th August 1947.	15%	15%
In all other cases.	20%	20%



THE Central budget is divided into two main accounts—Revenue and Capital. The revenue account covers current receipts and expenditures. Principal heads of revenue are customs duties; central excise duties, income tax and corporation tax and sales tax. Other heads include utility services like posts and telegraphs, interest receipts and dividends on Central loans and investments, currency and mint, fees from export-import trade, and fees and royalties from natural gas and oil exploration and production. Although the largest single item of revenue is still the customs duties, the structural changes which are a feature of this fast developing economy have resulted in substantial improvements under other heads also. Collections under income tax and corporation tax and excise duties are gaining an importance. These improvements have also been in the Provincial Government budgets. Since the Provincial Governments are now mainly responsible for economic development in their respective regions, the Central Government took the view that greater resources should be placed at their disposal. Under the Finance Commission recommendations made in early 1962, it was decided that from the financial year beginning July 1, 1962, 50% of income tax, 60% of sales tax, 60% of excise duties on tea, betelnuts, and tobacco, and 100% of the export duties on jute and cotton shall go to the provincial exchequer.

These recommendations, with some modifications, govern the distribution of taxes between the Centre and the Provinces.

In view of the growth of economy and the need to provide more revenues to the Provinces for development purpose the Government, in March 1965, appointed a National Finance Commission to look into the whole matter of allocation of resources to the Provinces from Central taxes. The Commission's recommendations have been given effect in 1965-66. It recommended that the Provinces' share in the net proceeds of income and corporation tax, sales tax, excise duties

on tea, tobacco and betelnuts should be raised from 60% to 65%.

A major part of the revenue expenditure is incurred on the defence services. Other important heads are civil administration and debt servicing. A sizeable amount also goes for development expenditure on social welfare schemes like education, health and community development. In the past, contribution of revenue account to development was negligible because of smaller revenue receipts.

The capital account mainly comprises non-recurrent receipts and expenditures. The capital receipts are broadly classified into two categories, internal and external. Internal resources account for receipts from domestic borrowings, public investments in small savings, recoveries of Central loans from the Provinces and semi-independent bodies, and sale of capital assets. External resources include foreign loans and grants. Rising national income and public savings and increased availability of foreign economic assistance are contributory factors to the growing size of capital receipts.

Capital expenditure is broadly divided into development and non-development outlays. The bulk of this expenditure falls in the former category, and is mainly on investments in economic development projects, about 50% as loans and grants to the Provincial Governments and the rest as direct outlays by the Central Government and loans for the projects of semi-independent bodies. Non-development expenditure is incurred mostly on repayment of debt and payments for reduction of recurring liabilities like the capitalized value of pensions. Capital expenditure in the first few years after Independence, when the country had not yet embarked on planned development, was mostly of a non-development nature. But this trend has since been reversed and non-development expenditure now forms only a small proportion of the total capital budget.

OVERALL BUDGETARY POSITION OF THE CENTRAL GOVERNMENT

REVENUE

CAPITAL

(In million rupees)

Year (July-June)	Receipts	Expenditure	DEVELOPMENT EXPENDITURE					FINANCED BY RESOURCES		
			Direct	Loans to local bodies	Provincial Gov- ernment (net)	Total	Non-development expenditure	Total disburse- ment	Internal including ad-hoc treasury bills & cash balance utiliza- tion	External (net)
1947-48	198.9	236.0	8.1	3.3	86.7	98.1	22.4	120.5	120.5	—
1948-49	667.6	647.0	49.6	5.4	144.0	199.0	299.5	498.5	498.5	—
1949-50	885.4	856.0	100.9	15.1	208.1	324.1	740.0	1,064.0	1,064.1	—
1950-51	1,273.2	1,266.2	70.6	5.8	139.6	216.0	283.5	499.5	499.5	—
1951-52	1,448.4	1,442.3	206.6	14.2	145.8	366.6	539.6	906.2	903.9	2.3
1952-53	1,334.3	1,320.1	225.4	16.2	119.0	385.6	478.5	864.1	790.7	73.4
1953-54	1,110.5	1,108.7	255.3	25.3	439.1	719.7	193.5	913.2	893.5	19.7
1954-55	1,172.7	1,172.6	258.2	34.4	268.4	561.0	103.3	664.3	622.0	42.3
1955-56	1,435.8	1,433.4	379.3	34.9	377.1	791.3	(—)84.7	706.6	683.7	22.9
1956-57	1,331.4	1,330.7	407.2	30.8	340.0	778.0	177.4	955.4	916.4	39.0
1957-58	1,525.0	1,521.8	651.0	78.0	728.2	1,457.2	125.3	1,582.5	1,387.8	194.7
1958-59 (Fifteen months)	1,958.7	1,956.5	733.7	88.1	700.6	1,522.4	104.0	1,626.4	783.4	843.0
1959-60	1,977.5	1,846.5	714.1	104.7	648.5	1,467.3	290.2	1,757.5	1,073.4	684.1
1960-61	2,094.7	1,775.7	612.1	56.8	992.4	1,661.3	167.4	1,828.7	828.5	1,000.2
1961-62	2,198.5	1,885.9	731.9	80.0	1,019.9	1,831.8	86.1	1,917.9	823.7	1,094.2
1962-63	2,138.5	1,805.2	470.1	90.6	2,057.0	2,503.0	103.2	2,606.2	987.7	1,618.5
1963-64	2,646.8	2,394.8	527.2	243.1	2,377.1	2,771.6	142.6	2,989.3	1,245.0	1,744.3
1964-65	3,301.0	2,731.7	784.8	28.4	2,089.8	2,499.1	261.7	2,855.6	1,364.8	1,490.8
1965-66 (Revised)	3,598.3	4,133.9	943.6	9.6	1,776.4	2,393.9	*865.7	3,388.2	1,619.4	1,768.8
1966-67 (Budget)	4,357.8	3,721.0	1234.2	52.9	2,852.0	4,040.2	*443.0	4,793.0	2,285.9	2,507.1

*Including contingency item of Rs 100 million for 1965-66 and of Rs. 150 million for 1966-67.



PROVINCIAL BUDGETS

THE Provincial Revenues are mainly derived from land revenue, irrigation receipts, allocation of Central revenues and grants from the Central Government. Other important heads are: Provincial excise and stamps duties, forests, irrigation and electricity. In West Pakistan, apart from the share of Central revenues, irrigation receipts and land revenue provide most of the Provincial revenues—the land revenue and Central grants constituting the two major sources of revenue.

There have been significant improvements in the revenue position of the Provinces in the last few years, mainly on account of their own improved revenues and better revenue collections by the Central Government and correspondingly higher share to the Provinces. The trend has been relatively rapid since fiscal year 1959-60. During the Second Five-Year Plan period the actual revenue receipts of the Government of East Pakistan rose by 146 per cent and that of the West Pakistan Government by 142 per cent. The revenue receipts from the Central Government showed an increase of 98 per cent in East Pakistan and 51 per cent in West Pakistan during the same

period. In the revised budget of 1965-66 and the budget estimate of 1966-67 there were still further increases in the Provinces.

The major portion of the Provincial revenues, after administrative expenditure, is spent on social welfare and beneficent departments like education, health and agriculture which are their direct responsibility. With the growing emphasis on economic development, the Provincial Governments are progressively attempting to restrict the non-development and administrative expenditure and to divert maximum resources for social and economic development projects. Higher revenue surpluses have enabled them to earmark more funds for capital development expenditure.

The capital expenditure of the Provinces is financed both from their own resources and from loans and grants from the Central Government. The latter provides about 80% of the Provincial development outlays. The capital expenditure of the Provincial Governments is also rising rapidly and contributing to the economic growth of the country.

OVERALL BUDGETARY POSITION OF PROVINCIAL GOVERNMENTS

(In million rupees)

Year* (July-June)	REVENUE				CAPITAL					
	EAST PAKISTAN		WEST PAKISTAN		EAST PAKISTAN			WEST PAKISTAN		
	Receipts	Expenditure	Receipts	Expenditure	Receipts	Expenditure		Receipts	Expenditure	
						Develop- ment	Non- develop- ment		Develop- ment	Non- develop- ment
1947-48	97.5	86.7	180.5	241.0	15.1	35.0	(—) 19.9	76.4	51.6	24.8
1948-49	169.1	160.5	279.5	301.3	7.9	11.9	(—) 4.0	26.2	55.4	(—) 29.2
1949-50	144.3	178.6	299.4	307.0	133.1	35.5	97.6	225.7	141.4	84.3
1950-51	182.0	190.3	359.8	329.7	35.5	42.3	(—) 6.8	129.1	157.0	(—) 27.9
1951-52	201.6	227.5	411.5	376.4	61.9	74.4	(—) 12.5	88.4	183.7	(—) 95.3
1952-53	230.1	258.3	386.3	411.0	106.5	129.9	(—) 23.4	203.3	234.7	(—) 31.4
1953-54	230.3	260.2	425.0	447.0	133.4	115.6	17.8	439.4	318.7	120.7
1954-55	244.2	284.7	475.2	435.3	72.2	67.1	5.1	297.7	301.6	(—) 3.9
1955-56	288.3	285.1	510.6	477.3	79.1	62.4	16.7	229.6	338.2	(—) 108.6
1956-57	303.8	338.5	613.1	548.1	195.2	157.3	37.9	255.0	297.3	(—) 42.3
1957-58	314.1	276.3	610.7	614.7	327.3	249.2	78.1	343.7	317.5	26.2
1958-59 (15 months)	522.8	521.0	880.9	878.3	235.3	275.1	(—) 39.8	632.2	591.4	40.8
1959-60	397.9	378.9	804.9	654.3	233.9	262.4	(—) 28.5	517.6	490.9	26.7
1960-61	447.7	470.9	847.2	700.4	433.6	343.9	89.7	536.6	569.2	(—) 32.6
1961-62	706.1	559.5	1,083.5	803.1	291.6	483.7	(—) 192.1	615.9	519.3	96.6
1962-63	738.7	639.5	1,349.3	1,105.7	802.7	759.7	43.0	785.6	874.0	(—) 88.4
1963-64	940.7	939.2	1,465.9	1,377.2	1,173.2	923.4	249.8	1,196.9	1,197.8	(—) 0.9
1964-65	1,101.4	1,045.9	1,712.9	1,488.4	856.0	966.5	(—) 110.5	877.4	925.6	(—) 48.2
1965-66 (Revised)	1,071.8	987.5	1,711.6	1,660.0	1,155.1	1,107.5	37.9	1,033.8	967.7	21.3
1966-67 (Budget)	1,247.0	1,387.8	1,775.6	1,694.9	1,836.3	1,886.4	(—) 44.9	1,553.6	1,561.7	(—) 40.8

*Fiscal year:—
1947-48 to 1958-59 = April - March.
1958-59 onwards = July - June.



AT the time of Independence, it was decided to merge the finances of Pakistan Railways with the general finances of the country, principally because the Central Government were not in a position to maintain a separate budget for the Railways with confidence. Reliable figures of actual and approximate expenditure and receipts were not available, and the future of the Railways was uncertain. However, in spite of this merging with the general finances, the Railways accounts continued to be maintained on a commercial basis.

In 1961-62 the Railway finances were again separated from the general finances. The Constitution of 1956 envisaged transfer of the Railways to the Provinces but this was not done. However, the new Constitution of June 1962 transferred the control and management of the Railways to the Provinces. It was recognized that the Provincial

Governments, being largely responsible for the implementation of the country's development programme, should exercise control over the Railways. Besides, also the two Provincial Railway systems had quite different problems and needed different treatment.

The table on the opposite page shows that the budget estimates for 1966-67 of Pakistan Eastern Railway and Pakistan Western Railway recorded net surpluses of Rs. 2.7 million and Rs. 20.2 million respectively compared to Rs. 2.8 million and 11.4 million in the revised budget of 1965-66. While total revenue receipts of these two railways in the budget estimates of 1966-67 show improvements of Rs. 75.6 million and Rs. 37.7 million, total expenditures were higher by Rs. 13.7 million and Rs. 26.2 million respectively over the revised budgets of 1965-66.

**BUDGETS OF THE PAKISTAN
EASTERN AND PAKISTAN
WESTERN RAILWAYS**

(In million rupees)

<i>Head of account</i>	PAKISTAN EASTERN RAILWAY		PAKISTAN WESTERN RAILWAY	
	1965-66 (Revised)	1966-67 (Budget)	1965-66 (Revised)	1966-67 (Budget)
Total revenue receipts	230.7	306.3(a)	592.4	630.1
Total revenue expenditure	227.9	241.1	524.9	551.1
Surplus	2.8	65.2	67.5	79.0
Contribution to General Revenues	—	62.5	56.1	58.8
Net Surplus	2.8	2.7	11.4	20.2

Distributed as follows

(a) Contribution to Railway Reserve Fund.	2.8	2.7	—	—
(b) Additional contribution to Depreciation Reserve Fund.	—	—	11.4	20.2

(a) Including Rs 65 million to be raised from Debenture.

NATIONAL INCOME

THE national income statistics of Pakistan reveal an accelerated pace of growth for both national and per capita income, during the Second Plan period. The G.N.P. at constant factor cost (base 1959-60) stood at Rs. 4,098.7 crores in 1964-65, a rise of 30.4% over the Plan period as against a rise of only 12.7% during the First Plan. This indicates a rise of 67.5% over the G.N.P. of 1949-50, which stood at Rs. 2,446.6 crores. The G.N.P. is estimated to have risen further by 4.8% in 1965-66 to Rs. 4,296.5 crores, the opening year of the Third Five-Year Plan. For the country as a whole, the per capita income at Rs. 365 in 1964-65 (at constant factor cost of 1959-60), means a gain of 14.8% during the Second Plan period, surpassing the Plan target by 2.8%. This compares with a rise of only 0.6% during the First Plan and 1.6% in the period 1949-50 to 1954-55. The overall rise in per capita income between 1949-50

and 1964-65, the closing year of the Second Plan, was 17.4% comparing 1965-66 with 1949-50, the rise is 19.6% to Rs. 372.

A reassuring factor is the strengthening of our economic base. This will be evident from the significant changes in the contributions made by the various sectors to the G.N.P. since 1949-50, Agriculture, which had contributed 59.9% in 1949-50, was responsible for 48.1% in 1964-65 and 46.5% in 1965-66. On the other hand, the share of Manufacturing, which was only 5.8% in 1949-50 has risen to 11.4% and 11.8% in 1964-65 and 1965-66 respectively. The share of the Construction Sector has increased more than five-fold, from 1% in 1949-50 to 5.4% in 1965-66. The contributions of electricity, gas, water and sanitary services sectors to the G.N.P. have also gone up at an increasing rate.

GROSS NATIONAL PRODUCT AT CONSTANT FACTOR COST
of 1959-60

(In crore rupees)

Sector	1949-50 (July-June)	1950-51	1951-52	1952-53	1953-54	1954-55	1955-56	1956-57	1957-58	1958-59	1959-60	1960-61	1961-62	1962-63	1963-64 *	1964-65 *	1965-66
1. Agriculture	1,466.9	1,511.2	1,454.9	1,491.7	1,605.3	1,565.4	1,513.5	1,626.6	1,608.9	1,592.3	1,675.3	1,728.5	1,818.3	1,827.2	1,941.1	1,976.1	1,995.6
(a) Major Crops	830.4	869.8	798.1	814.9	912.8	873.2	829.2	929.4	900.0	893.1	963.4	1,001.5	1,071.5	1,060.6	1,141.9	1,171.2	1,169.3
(b) Minor Crops	245.3	240.4	245.0	256.8	260.8	250.2	233.0	234.9	236.8	216.1	218.0	222.9	231.6	238.1	258.4	251.8	261.3
(c) Livestock	297.5	304.9	312.4	319.8	327.3	334.7	342.1	349.6	357.0	364.4	371.9	379.3	386.8	394.2	401.6	409.1	416.5
(d) Fishing	86.6	89.4	91.7	92.8	95.1	97.9	99.8	102.8	103.7	106.9	111.1	113.7	116.9	121.9	126.1	130.3	134.1
(e) Forestry	7.1	6.7	7.7	7.4	9.3	9.4	9.4	9.9	11.4	11.8	10.9	11.1	11.5	12.4	13.1	13.7	14.4
2. Mining and quarrying	2.7	3.7	4.1	4.2	4.5	4.5	5.0	5.5	5.9	6.4	7.0	8.2	8.8	10.0	11.7	13.1	14.4
3. Manufacturing	143.3	153.9	164.5	179.2	199.9	222.0	243.9	258.0	269.1	281.8	293.0	362.2	363.0	397.3	435.1	471.1	498.1
(a) Large-scale	34.6	42.7	50.7	62.8	80.8	100.2	119.3	130.5	138.7	148.4	156.5	186.0	219.1	249.6	285.6	311.6	338.5
(b) Small-scale	108.7	111.2	113.8	116.4	119.1	121.8	124.6	127.5	130.4	133.4	136.5	140.2	143.9	147.7	169.4	155.5	159.6
4. Construction	23.8	23.8	34.0	36.4	43.9	41.5	45.8	52.9	55.8	60.2	65.1	79.6	98.2	108.6	151.0	192.1	229.8
5. Electricity, gas, water and sanitary services	3.3	3.6	3.9	3.8	4.4	4.7	5.4	6.9	7.8	8.0	10.7	12.0	12.5	17.3	23.3	28.3	34.3
6. Transportation, storage and communications	123.9	128.2	135.2	141.7	146.6	158.8	162.2	167.4	172.3	191.0	185.7	200.8	200.4	221.9	231.6	242.4	266.6
7. Wholesale and Retail Trade	285.6	302.0	300.2	311.0	321.1	326.1	325.1	339.2	349.1	348.4	366.5	393.8	424.1	448.9	485.6	510.9	524.8
8. Banking and Insurance	7.7	8.4	9.2	9.9	10.8	11.1	13.5	16.6	16.2	18.4	22.4	24.7	26.8	29.9	32.5	35.7	40.0
9. Ownership of dwellings	138.7	141.8	145.8	148.5	152.6	155.9	160.5	164.1	168.5	172.4	177.2	181.4	186.0	191.7	196.6	201.7	206.7
10. Public Administration and Defence	106.3	110.7	130.7	125.1	123.8	124.3	128.6	125.5	122.3	133.5	133.1	136.7	141.9	146.7	167.7	184.4	222.4
11. Services	148.0	153.5	159.1	164.9	170.0	177.3	183.8	190.4	196.7	203.9	211.2	219.8	227.9	236.5	245.3	254.4	262.6
12. Gross Domestic Product	2,450.2	2,540.8	2,541.6	2,616.4	2,782.9	2,791.6	2,787.3	2,953.1	2,972.6	3,016.3	3,147.2	3,311.7	3,507.9	3,636.0	3,939.9	4,110.2	4,295.3
13. Net Factor Income from Rest of the World	(—)3.6	(—)3.5	(—)2.1	(—)2.5	(—)5.3	(—)0.8	(—)3.9	(—)3.4	(—)0.7	(—)1.9	(—)3.3	(—)3.1	(—)3.6	(—)7.6	(—)9.3	(—)11.5	(+)1.0
14. Gross National Product	2,446.6	2,537.3	2,539.9	2,613.9	2,777.6	2,790.8	2,783.4	2,949.7	2,971.9	3,014.4	3,143.9	3,308.6	3,504.3	3,628.4	3,928.4	4,098.7	4,296.3
15. Population (in Lakhs)	787.8	805.9	824.4	843.4	862.8	882.6	902.9	923.7	944.9	966.6	988.8	1,014.5	1,040.9	1,067.9	1,095.6	1,124.1	1,154.4
16. Per capita income (in Rs.)	311	315	308	310	322	316	308	319	315	312	318	326	337	340	359	365	372

*Provisional

PLANNING

ACHIEVEMENTS
OF THE
SECOND FIVE-YEAR PLAN

THE pace of development in the five years, 1960-65 has been remarkable. The actual increase in national income over the Plan period was 30.4% compared to the target of 24%. It has increased at an average compound rate of over 5% per year as against 2.2% during the First Plan period.

A heartening feature is that the country has been able to rely much more on its own resources. Against the contemplated expenditure of Rs. 11,550 million through foreign aid or loans, utilization of foreign assistance during the Plan period was Rs. 8,740 million. Foreign assistance thus financed only 32% of the Plan expenditure,

instead of the expected 50%. While the Plan estimated receipts of Rs. 11,250 million from exports, actual exports were Rs. 13,230 million; the annual rate of increase being 7% as against the Plan estimate of 3%. The industrial sector has produced fairly healthy rate of growth i.e. 11.5% per annum. The agricultural production showed an increase of 3.4% per annum in the Second Plan.

Of special significance is the acceleration in development activity in East Pakistan, both for the overall rate of growth and for regional balance. Public sector development expenditure undertaken by the Provincial Government rose from Rs. 456 million in 1960-61 to Rs. 1,421 million in 1964-65, a rise of 211% compared to an increase of 103% in the total public financed programme in the country. Over the same period, the West Pakistan Government's development

expenditure rose from Rs. 715 million to Rs. 1,586 million or by 122%.

The faster economic growth rate during the Second Plan period absorbed the 3.6 million additions to the labour force. This was mainly possible because of higher growth in the agriculture sector, from 1.3% annual average in 1960 to 3.4% during the Second Plan, when agricultural employment rose faster than in the preceding decade, largely due to extension of the cultivated area. The industrial growth rate also helped in providing more job opportunities to the urban labour force, whereas, the Rural Works Programme, initiated in the year 1961-62, also provided a significant amount of additional employment in rural areas. The dispersal of development projects in various regions was a great help in improving the employment situation.

THE THIRD FIVE-YEAR PLAN

A development programme of Rs. 52,000 million is envisaged for the Third Five-Year Plan (1965-70). Of this, Rs. 30,000 million has been allocated to the Government-financed sector and Rs. 22,000

million to the private sector; Rs. 27,000 million is allocated for East Pakistan and Rs. 25,000 million for West Pakistan.

MAIN OBJECTIVES

The principal objectives of the Third Plan are;



- (a) A minimum increase of 37% in national income.



- (b) To reduce disparity in per capita income between East and West Pakistan from a provisionally estimated 25% at the beginning of the Plan to about 20% by 1970.



- (c) To provide 5.5 million new job opportunities.



- (d) To strengthen the balance of payments by raising foreign exchange earnings to Rs. 4,800 million by 1970, compared to Rs. 3,050 million in 1965.



- (e) To develop basic industries for the manufacture of capital goods.



- (f) To improve agriculture through a massive Works Programme.



- (g) To arrest the menacing growth of population.



- (h) To diminish inequalities in the distribution of income, wealth and economic power and provide a measure of social security.

SIZE OF THE THIRD PLAN

THE Third Five-Year Plan development programme is Rs. 52,000 million, a level necessary to maintain the rising tempo of development that already exists in the economy and to attain the main Plan objectives. It is also required for the country's long-range strategy of accelerating the growth rate without an undue strain on consumption. The proposed outlay is expected to lead to an annual rate of growth of 6.5% compared with 5.2% during the Second Plan period and the target of an average rate of 7.2% for the Perspective Plan. In determining the size of the Plan, due consideration has been given to the expected availability of financial resources and the capacity of the country for effective implementation.

The public sector programme is Rs. 30,000 million and the private sector Rs. 22,000 million. In order to implement a net programme of Rs. 30,000 million in the public sector, sectoral programmes totalling Rs. 34,500 million have been drawn up. This should provide a certain degree of flexibility in programming and facilitate the preparation of a larger portfolio of projects, particularly for negotiating foreign assistance.

Comparative priorities in development expenditure during 1950-70 is given below:—

Field of Development	(Per sent)			
	Pre-Plan (1950-55)	First Plan (1955-60)	Second Plan (1960-65)	Third Plan (1965-70)
1. Agriculture	6	7	13	15
2. Industry, fuels and minerals	36	31	28	26
3. Water and Power	13	17	19	15
4. Transport and communications	14	17	17	18
5. Physical planning and housing	22	20	15	13
6. Education	5	6	4	5
7. Health	3	2	1	2
8. Manpower and social welfare	1	—	Neg*	1
9. Works programme	—	—	3	5
	100	100	100	100

*Negligible

SECTORAL ALLOCATION UNDER THE THIRD PLAN

(In million rupees)

Field	Public	Private	Total	Per cent of total expenditure
Agriculture	4,670	4,000	8,670	15
Water and Power	8,400	650	9,050	15
Industry	4,470	8,300	12,770	24
Fuels and Minerals	690	750	1,440	2
Transport and Communications	6,460	3,900	10,360	18
Physical Planning and Housing	3,025	4,000	7,025	13
Education	2,730	300	3,030	5
Health	1,330	40	1,370	2
Social Welfare	125	40	165	1
Manpower	100	20	120	
Works Programme	2,500	—	2,500	5
Total	34,500	22,000	56,500	—
Less expected shortfall	(—) 4,500	—	(—) 4,500	—
Total	30,000	22,000	52,000	100



FINANCING OF THE THIRD PLAN

THE development programme of Rs. 52,000 million can be financed with only a modest increase in the present levels of external assistance and by maintaining the marginal rate of saving realised during the Second Plan period. The main problem is to mobilize an adequate proportion of these resources for the public sector programme, fixed at Rs. 30,000 million. Current projections of resources in the public sector indicate that, in addition to revenue surplus, and a modest resort to deficit financing, responsibility for financing a part of the programmes of the public corporations will have to be transferred from the Government budgets to the capital market. In the private sector, estimates of resource availability and the experience of the Second Plan support an investment programme of Rs. 22,000 million.

Stress on internal resources

In the financing of the Third Plan the emphasis is on the mobilization of internal resources, to the extent of Rs. 35,500 million

or about 68% of the total capital outlay of the Plan. The rest of the capital needed was to be obtained from external resources in the form of foreign aid, loans and private investment. The accent of Pakistan's development plans is of necessity on rapid and all round development over several five-year periods, each requiring greater effort than the previous one. Economic development policy is inevitably long-term and must be vigorously and continuously pursued, focussing attention on securing the increase in investment which is crucial to speedy development. This raises two major problems, the effective mobilization of domestic savings and the conservation and expansion of foreign exchange resources. The fiscal, monetary, commercial and industrial policies of the present Government have been directed to these prime considerations, with necessary adjustments from time to time in the light of the changing economic situation.

FINANCING OF THE THIRD PLAN

(In million rupees)

<i>Item</i>	<i>Local Currency</i>	<i>Foreign Currency</i>	<i>Total</i>
Revenue surplus	8,600	—	8,600
Net capital receipts	2,400	—	2,400
Additional taxation	3,000	—	3,000
Deficit financing	1,500	—	1,500
Possible additional resources	1,000	—	1,000
Project loans (including Technical Assistance)	—	7,000	7,000
Commodity loans	—	5,500	5,500
P.L. 480 counterpart funds	—	1,000	1,000
Private loans and credits	—	2,300	2,300
Private foreign investment	—	700	700
Private domestic savings	19,000	—	19,000
Total	35,500	16,500	52,000

THE net public sector programme of the Third Plan stands at Rs. 34,500 million (net Rs. 30,000 million). Out of this Rs. 16,240 million is allocated to East Pakistan as against Rs. 13,830 million to West Pakistan and Rs. 4,430 million for Central programmes. It is expected that about 55% of the total public sector development programme will be financed from domestic resources compared to 47% in the Second Plan.

As regards the allocations of the Government financed programme and its regional distribution, these are determined by the objectives and strategy of the Third Plan. The gross allocation of Rs. 16,240 million to East Pakistan compares with an estimated expenditure of Rs. 5,686 million during the Second Plan—a rise of 186%; Whereas, the corresponding increase in public sector expenditure in West Pakistan at Rs. 13,830 million will be only 133%. The major part of the Central programme of Rs. 4,430 million will be in the transport and communications, physical planning and housing and fuels and mineral sectors.

The relative emphasis on development programmes of various sectors also differs in the two Wings. Water and power, for example, accounts for nearly 29% of the public sector allocations in West Pakistan compared to 21% in East Pakistan, due to the necessity of completing many on-going schemes and the requirements of salinity and waterlogging. Likewise, while industry accounts for 17% public sector allocations in East Pakistan, only 8% is allocated for this purpose in West Pakistan. This was necessary because of the relative paucity of entrepreneurial talent and private capital in the East Wing. An acceleration in public expenditure programmes was thus necessary for the attainment of the objective of a balanced industrial development of the two Wings at an early date. Social sectors like housing, education, health and social welfare, account for 21% of the public sector allocations in both Wings of the country.

SECTORAL ALLOCATIONS BY EXECUTING AUTHORITIES

(Public Sector)

(In million rupees)

<i>Sector</i>	<i>East Pakistan</i>	<i>West Pakistan</i>	<i>Centre</i>	<i>Total</i>
Agriculture	2,090	2,190	390	4,670
Water and power	3,700	4,350	350	8,400
Industries	3,000	1,220	250	4,470
Fuels and minerals	100	90	500	690
Transport and communications	2,400	2,260	1,800	6,460
Physical planning and housing	1,260	945	820	3,025
Education	1,400	1,150	180	2,730
Health	660	560	110	1,330
Social welfare	65	40	20	125
Manpower	65	25	10	100
Works programme	1,500	1,000	—	2,500
Total	16,240	13,830	4,430	34,500
Less expected shortfall				—4,500
			Total	30,000

PRIVATE SECTOR

PPRIVATE investment roughly quadrupled over the Second Plan period, rising from Rs. 805 million in 1959-60 to Rs. 3,180 million in 1964-65. For the Third Plan, Rs. 22,000 million have been earmarked for private investment.

The bulk of the allocations are for industry, housing, transport and communications. Rs. 8,300 million, or 38% of the private sector programme, is earmarked for industry. The proposed

Rs. 22,000 million is equally divided between East and West Pakistan. The expenditure targets are based on the planned objectives and priorities. The purpose of indicating a tentative break-down of private development outlay in the Plan is not to tie the private sector in a straight jacket but to provide guidelines for the private investor as well as public authorities, and also to show the relationship between private and public development expenditures.

REGIONAL DISTRIBUTION OF PRIVATE SECTOR ALLOCATIONS

(Rupees in million)

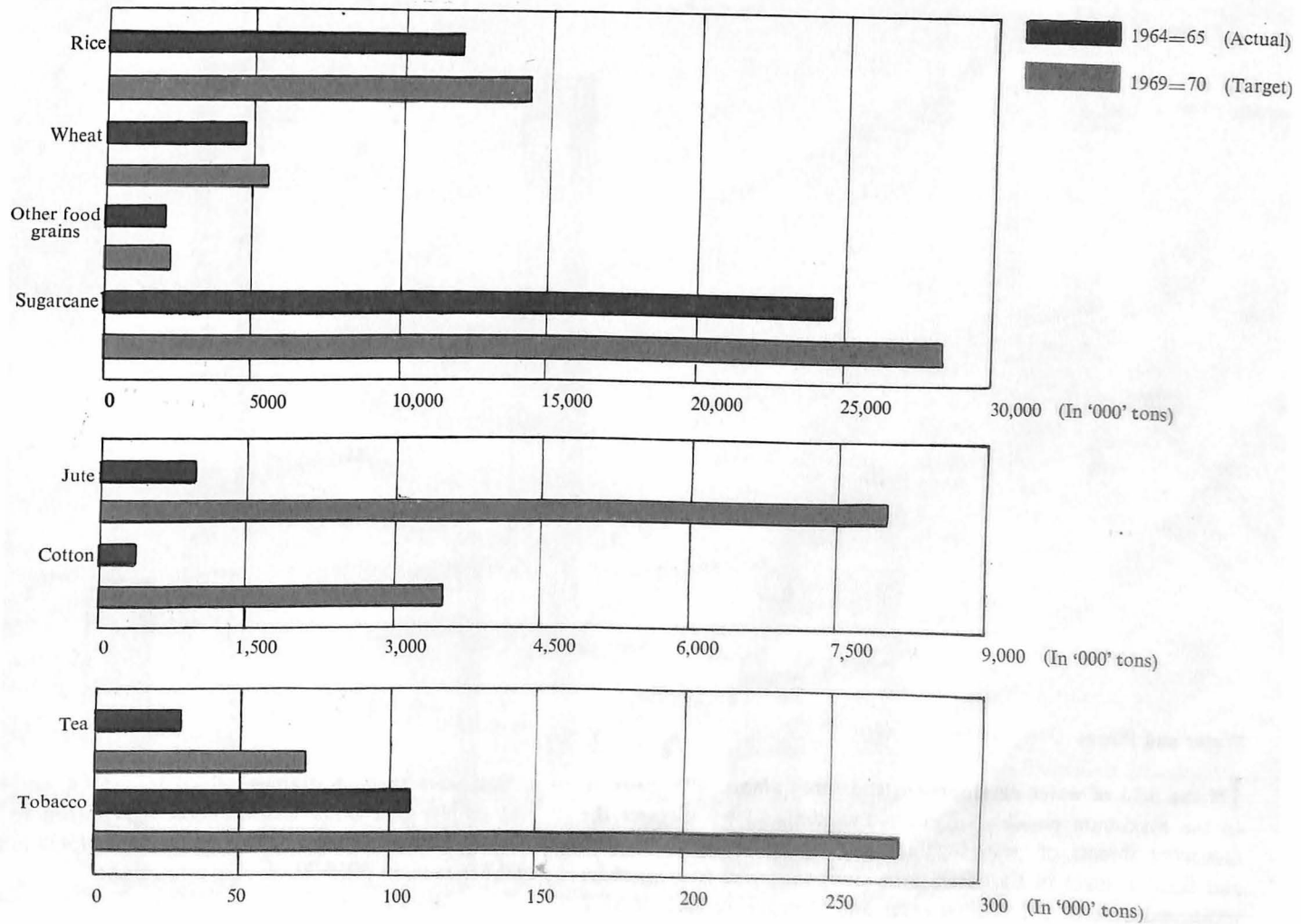
<i>Field of Development</i>	<i>East Pakistan</i>	<i>West Pakistan</i>	<i>Total</i>
Agriculture	2,100	1,900	4,000
Water and power	100	550	650
Industry	3,800	4,500	8,300
Fuels and minerals	300	450	750
Transport and Communications	2,100	1,800	3,900
Physical planning and housing	2,350	1,650	4,000
Education	200	100	300
Health	20	20	40
Manpower	10	10	20
Social welfare	20	20	40
	11,000	11,000	22,000

PHYSICAL TARGETS

THERE was considerable progress during the Second Plan in establishing a strategy for agricultural development, in defining agricultural policies, and in strengthening the organizational and institutional framework for agriculture. While the initiative of individual farmers must remain the main basis for development, every encouragement will be given to co-operation. Strong price incentives will be provided to encourage investment and improved methods. Support price and buffer stock operations will be expanded to encourage the shift from subsistence to cash crop farming. Storage facilities will be expanded which, together with price stabilization measures, will increase the farmer's returns. Cropping patterns will be developed to encourage the optimum use of land and water and to maximize incomes of farmers. Every encouragement will be given to exports. Increased provision will be made for all inputs, water, fertilizer, improved seed, plant protection and farm implements. However, highest priority will be given to water and fertilizer which account, in large part, for the growth achieved during the Second Plan, and which, experience now shows, yields the quickest returns. Fertilizer will be made available in whatever quantities demanded by farmers. If the large increases in fertilizer production provided in the industrial sector are insufficient, resources will be provided for imports. The Government subsidy on fertilizer will continue throughout the Third Plan, but this policy will be

reviewed periodically. Distribution of fertilizer will be shared by the ADCs, the Cooperatives and private trade. Competition between these agencies will ensure distribution efficiency and lowest costs to farmers. Major improvements will be made in the supply and terms of credit to support the rapidly increasing investment. The extension service will be strengthened by increasing the staff and improving the training programmes. The service will be freed of responsibilities for distribution of farm supplies to permit it to concentrate on improvement of farm methods. These will be enlarged and improved programmes of agricultural education and research. These long gestation programmes, which make only a modest contribution in the short run, provide the indispensable basis for the agriculture technology of the future. In summary, every effort will be made to strengthen the agricultural organisations and programmes without diffusion of effort and with the highest priority for the quick response factors. This agricultural strategy during the Second Plan has raised the growth rate in agriculture from 1.3% per annum in the decade of the 1950s to 34% per annum during the Second Plan period. Based on this experience and on the larger programme of improved method, a target of 5.0% growth added in agricultural value has been set for the Third Plan. This period should witness a transformation of Pakistan's agriculture.

AGRICULTURAL PRODUCTION

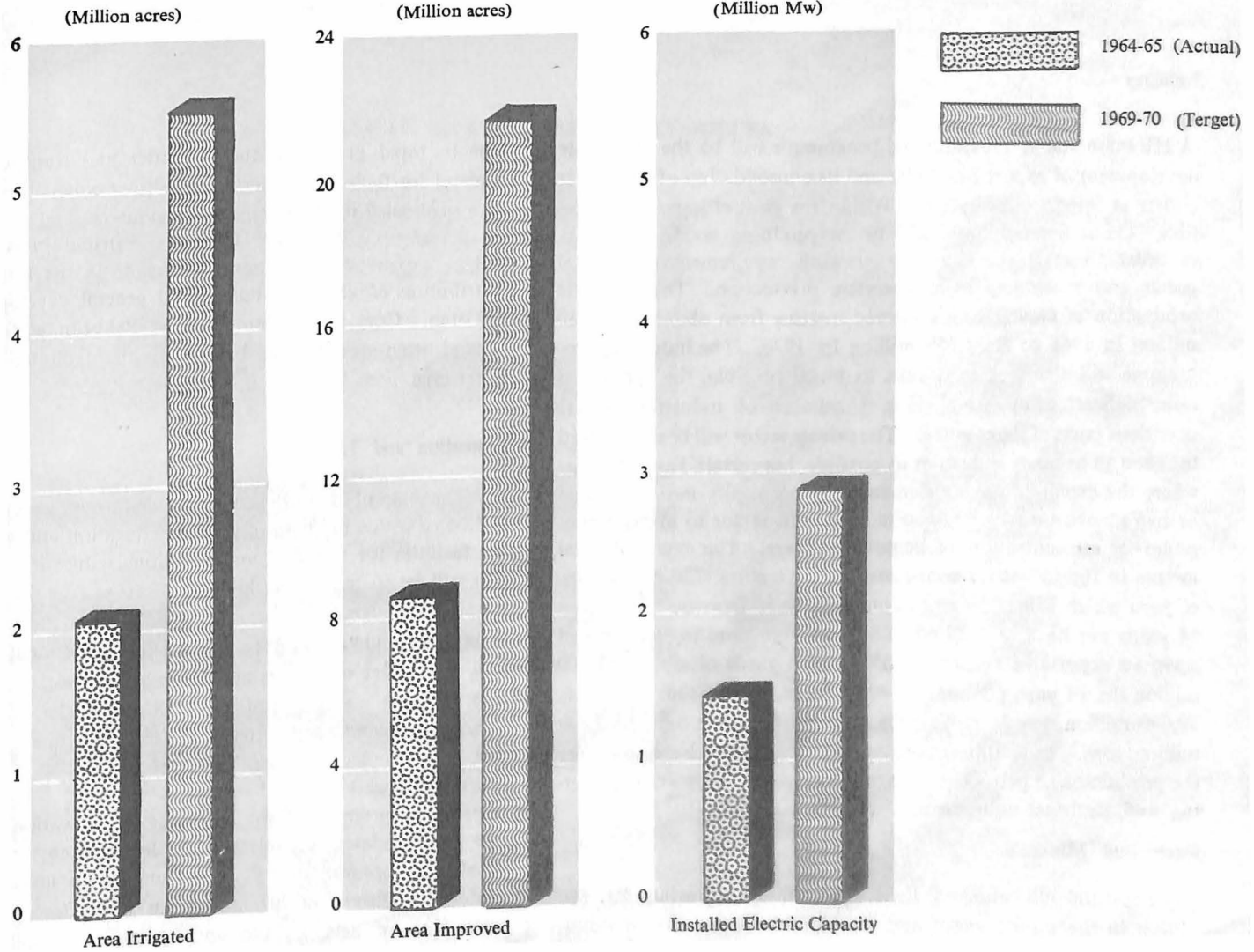


Water and Power

IN the field of water development, the programme will provide in the maximum possible irrigation facilities and try to meet the menacing threats of waterlogging and salinity in West Pakistan and flood control in East Pakistan. It is proposed to irrigate an additional area of 5.5 million acres and improve an area of 21.7

million acres through drainage, flood protection, anti-waterlogging and salinity and other measures. It is proposed to increase the power capacity installed by 1,452 m.w., from 1,435 m.w. in 1964-65 to 2,888 m.w. in 1969-70.

WATER AND POWER



Industry

THE main aim of the industrial programme will be the immediate development of export capability and its consolidation of the earlier efforts at import substitution. Within the field of import substitution, the major emphasis will be on producer goods industries in order to meet the country's growing requirements of capital goods and machinery from domestic production. The domestic production of capital goods showed increase from about Rs. 1,080 million in 1965 to Rs. 1,650 million by 1970. The industrial programme will also seek to diffuse, as far as possible, the benefits of industrialization by establishing a number of industrial centres in various parts of the country. The private sector will be encouraged to invest in as many industries as possible, but certain key industries where the extent of present demand may not justify more than one or two plants, may be retained in the public sector to avoid monopolies or concentration of economic power. The main physical targets in the industries sector are; cotton textiles, 720 million lbs. of yarn which will allow cloth consumption to increase from about 14 yards per head in 1964-65 to 18 yards per head in 1969-70 and leave an exportable surplus of 250 million yards of cloth and 100 million lbs. of yarn per annum; white sugar, 640,000 tons; cigarettes 30,000 million, tea 74 million lbs., cement 6 million tons, steel 1.2 million tons. In addition, substantial capacity will be installed for the production of petrochemicals, machine tools and heavy engineering and electrical equipment.

Fuels and Minerals

The total allocation of Rs. 1,440 million will include Rs. 690 million in the public sector and the balance in the private sector.

Due to rapid growth in the industries and transport sector, the demand for fuels and minerals will rise steeply. During the Third Plan geological investigations for various minerals and prospecting for oil and gas will be intensified. Gas distribution in West Pakistan will be expanded and a beginning made in the transmission and distribution of gas for industry and general development in East Pakistan. Coal production in West Pakistan is to be doubled. Special attention will also be paid to the exploitation of recently discovered coal deposits in East Pakistan.

Education and Training

The main object of the education and training sector programme will be to widen the base of primary education and greatly increase the facilities for technical and vocational education. A particular aim will be to reduce the high drop-out rate at the primary level. At the secondary stage, emphasis will be on the introduction of diversified courses and greater facilities for students in industrial arts, agriculture, commerce and home economics. In higher education, existing colleges and universities will be consolidated to improve academic standards. The teacher education programme will be expanded to provide increased facilities for training in scientific, vocational and technical subjects. The educational research programme of the Institutes of Education and Research and other related organisations will be strengthened. A large scholarship programme will be maintained to support meritorious students. Provision has also been made for adult education, promotion of arts, culture and sports.

INDUSTRIAL AND MINERAL RESOURCES

<i>Item</i>	<i>Accounting Unit</i>	1964-65	1969-70
Jute manufactures	(Thousand tons)	380	800
Cement	—	2,200	6,000
Steel ingots	—	13	1,200
Writing and printing paper	—	25	100
Board	—	20	100
Newsprint and mechanical paper	—	47	100
White sugar	—	300	640
Nitrogenous fertilizers in terms of ammonium sulphate	—	555	2,500
Philosophic fertilizers in terms of triple superphosphate	—	7	5,500

Transport and Communications

The Third Plan proposes a total programme of Rs. 1,200 million for the telecommunication services; 15,000 additional telephones will be provided, and telegraph and telephone services and inter-wing communications will be further improved. Postal services,

particularly in the rural areas, will be expanded by opening 2,000 new post offices raising the total to 13,800. This will, on the average, provide one post office for every 10,000 people. Television facilities will be expanded with greater emphasis on educational programmes.

TRANSPORT AND COMMUNICATIONS

<i>Item</i>	<i>Unit</i>	1964-65	1969-70
Railways			
Locomotives (steam) Diesel Electric	Number	418	635
Passenger Coaches	"	3,461	3,872
Other coach vehicles	"	1,901	2,049
Wagons	"	56,787	62,267
High type roads	Miles	13,300	15,700
Buses	Number	17,200	23,450
Trucks	"	34,900	48,200
Telephones	(Thousand Numbers)	135	285
Post Offices	Number	11,800	13,800



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