

WORKING PAPER (PART-I) FOR NEC MEETING

ECONOMIC PERFORMANCE AND PROSPECTS

Overview

The Annual Plan for 2014-15 envisaged real GDP growth of 5.1 percent based upon sectoral growth projections for agriculture, industry, and services sectors at 3.3 percent, 6.8 percent, and 5.2 percent, respectively. The assumptions underlying the growth target included implementation of proposed reforms envisaged in the budget, enhanced fiscal prudence, financial discipline, improved energy availability, resolution of inter-corporate circular debt and improvement in enabling environment for investment.

2. The start of current year was not encouraging. The province of Punjab was hit by the floods, which damaged infrastructure and Kharif crops in the province. Political standoff and serious security situation shattered investor's confidence. Trade deficit widened and foreign exchange reserves depleted quickly leading to severe exchange rate volatility. Due to energy constraints manufacturing sector's deceleration also continued.

3. Despite these initial odds, there was a spate of good news towards the end of 2014. The fourth and fifth reviews were completed and the IMF Board approved the release of the pending installments of \$1.1 billion. Pakistan was able to float successfully in the international capital market \$1 billion worth of Ijara Sukuk Bonds, albeit at a somewhat high cost. Exchange rate stabilized and Pakistan was able to rebuild its forex reserves. Due to falling international prices, the rate of inflation came down sharply to 2.1 percent by April 2015. International economic agencies and donors have appreciated the revival of Pakistan economy and have given positive rating for the financial and economic stability.

ECONOMIC PERFORMANCE DURING 2014-15

4. For the fiscal year 2014-15, the Annual Plan growth target for the real GDP was set at 5.1 percent with sectoral growth of 3.3 percent, 6.8 percent and 5.2 percent from agriculture, industry and services, respectively. The GDP growth target was consistent with assumptions of slight improvement in energy supplies, normal weather conditions, fiscal adjustment and better investment prospects.

5. *Agriculture* showed mixed patterns in growth of its components as its overall growth marginally improved to 2.9 percent from 2.7 percent last year. The crop sector remained under stress as initially Kharif crops were hit by floods in Punjab and afterwards Wheat productivity was affected due to prolonged winter, late rains and hailing. Sugarcane area under cultivation reduced due to the low price received by the grower in the last season. This

is also reflected in 7.1% reduction in sugarcane output. Rice and Cotton crops showed impressive performance and grew by 3.1 and 9.5% respectively (see table 1). Although three out of five important crops registered negative growth, but Livestock sub-sector posted 4.1 percent growth - highest growth in the last decade. Area and production of important crops is given below in Table 1.

Table 1: Performance of Important Crops

	Area '000' hectares		Percentage Change	Production '000' tonnes		Percentage Change
	2013-14	2014-15		2013-14	2014-15	
Cotton (M. Bales)	2806	2961	5.54	12.8	13.9	9.50
Sugarcane	1,173	1141	-2.73	67460	62652	-7.13
Rice	2,789	2891	3.64	6798	7005	3.05
Wheat	9,199	9180	-0.22	25979	25478	-1.93
Maize	1,168	1130	-3.27	4944	4695	-5.04

Source: Based on PBS Data 2014

6. The performance of other crops comprising minor crops like onion, potato, tomato, fruits etc. during 2013-14 remained below par as it recorded negative growth of 5.4 percent. Keeping in view the cyclical nature of the crop sector, it was expected that 'Other Crops' will post a healthy growth but it could manage the modest growth of 1.1 percent. Overall, agriculture sector grew by 2.9 percent which is lower than the envisaged target growth of 3.3 percent but higher than the growth of 2.7 percent achieved during the last year [Annex-I]. The structural problems and composition of the agriculture sector is constraining growth of the sector at around or below 4 percent even when crop production is considered good.

7. **Manufacturing** sector growth suffered from power outages and low domestic demand for the last few years. Manufacturing sector registered a growth of 3.2% against 4.5% growth last year. Quantum Index of Manufacturing (QIM) posted a growth of 2.5 percent in July-March 2014-15 as against 4 percent in the same period last year. Important contributors to this modest growth are Iron & Steel Products, Leather products, Electronics, Automobiles and Pharmaceuticals. While the growth of 'Food, Beverages & Tobacco', Wood Products, Paper & Board and Engineering Products remained in the negative zone. However, **small and medium manufacturing** sub-sector grew at a constant annual rate of 8.2%.

8. **Services Sector** has registered a growth rate of 5.0% against the target of 5.2% for FY15. Major contributors to this growth are 9.4% growth in government services (due to increased expenditures on Zerb-e-Azb and increase of salaries), 6.2% growth in finance & insurance and 4.2 % growth in transport, storage and communication. Better performance of finance & insurance sector is contributed by Non-Scheduled banks with 25.9% growth in GVA and by Scheduled banks with 6.1% growth) The growth of wholesale and retail trade sub-sector is mainly aligned to the performance of agriculture and industrial sector growth – which were both subdued during 2014-15, so WRT sub-sector couldn't meet the target of 6.1% and managed to grow by 3.4%.

Gross Domestic Product
(2005-06 Prices)

Items	% Change			
	2013-14	2014-15		2015-16
	Revised	Target	Prov.	Target
1. COMMODITY PROD. SECTORS	3.5	5.0	3.2	5.1
A) AGRICULTURE	2.7	3.3	2.9	3.9
Important Crops	8.0	1.5	0.3	3.2
Other Crops	-5.4	4.5	1.1	4.5
Cotton Ginned	-1.3	5.0	7.4	5.0
Livestock	2.8	3.8	4.1	4.1
Fishery	1.0	2.0	5.8	3.0
Forestry	-6.7	2.0	3.1	4.0
B) INDUSTRY	4.5	6.8	3.6	6.4
Mining & Quarrying	1.6	6.5	3.8	6.0
Manufacturing (I+II+III)	4.5	6.9	3.2	6.1
I) Large-Scale Manufacturing	4.0	7.0	2.4	6.0
II) Small & Household	8.3	8.4	8.2	8.3
III) Others*	3.4	3.6	3.3	3.7
Construction	7.2	7.5	7.0	8.5
Electricity Generation & Gas Distribution	5.6	5.5	1.9	6.0
II) SERVICES	4.4	5.2	5.0	5.7
Transport, Storage & Communications	4.6	4.5	4.2	6.1
Wholesale & Retail Trade	4.0	6.1	3.4	5.5
Finance and Insurance	4.2	5.8	6.2	6.5
Housing Services	4.0	4.0	4.0	4.0
General Government Services	2.9	4.3	9.4	6.0
Other Private Services	6.3	5.8	5.9	6.4
GDP(bp)	4.0	5.1	4.2	5.5

*Covers slaughtering of animals in accordance with Islamic Sharia (Zabiha).

***Source: PBS and Planning Commission

Annex-II							
Macroeconomic Framework							
(Current Market Prices)							
Items	2012-13	2013-14	2014-15	2015-16	% Growth		
	Final	Revised	Prov.	Target	2013-14/ 2012-13	2014-15/ 2013-14	2015-16 2014-15
	(Rs. Billion)				% Growth		
GDP (bp)	21,497	23,904	25,822	28,873	11.2	8.0	11.8
Indirect Taxes (Net)	882	1,164	1,562	1,799	31.9	34.2	15.2
GDP (mp)	22,379	25,068	27,384	30,672	12.0	9.2	12.0
Net Factor Income from Abroad	1,162	1,429	1,678	1,825	23.0	17.4	8.8
GNP (mp)	23,541	26,497	29,061	32,497	12.6	9.7	11.8
External Resources Inflow (net)	241	322	166	295	33.4	-48.6	78.0
Total Resources/ Uses	23,782	26,819	29,227	32,792	12.8	9.0	12.2
Total Consumption	20,434	23,063	25,087	27,354	12.9	8.8	9.0
Total Investment	3,348	3,756	4,140	5,438	12.2	10.2	31.4
Fixed Investment	2,990	3,355	3,702	4,948	12.2	10.3	33.7
Public incl. General Govt.	788	842	1,057	1,212	6.8	25.6	14.7
Private	2,202	2,513	2,645	3,735	14.1	5.2	41.2
Changes in Stocks	358	401	438	491	12.0	9.2	12.0
National Savings	3,107	3,434	3,974	5,144	10.5	15.7	29.4
	As % of GDP (mp)						
Total Investment	15.0	15.0	15.1	17.7			
Fixed Investment	13.4	13.4	13.5	16.1			
Public incl. General Govt.	3.5	3.4	3.9	4.0			
Private	9.8	10.0	9.7	12.2			
National Savings	13.9	13.7	14.5	16.8			
External Resources Inflow (net)	1.1	1.3	0.6	1.0			
Memo Items							
Inflation	7.1	6.9	3.6	6.0			
GNP (mp) Per Capita (Rs)	128,968	142,312	153,060	167,915	10.3	7.6	9.7

Source: PBS & Planning Commission

