Government of Pakistan
Ministry of Finance, Economic Affairs & Statistics
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# ECONOMIC PERFORMANCE

## Overview of the Economy

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, and 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%.

9. ***Savings and Investment:*** The investment-to-GDP ratio has declined substantially during the last five years from 19.2 percent in 2007-08 to 15 percent in 2014-15. Both domestic and foreign direct investment (FDI) contributed to this downslide. The fiscal dominance over financing needs crowded out private sector investment. Other contributing factors include peculiar security environment and structural rigidities surrounding governance and regulatory environment. The downward sliding investment has detrimental effects on future productive capacity of the economy and growth prospects. Total investment has stagnated around 15 percent of GDP over the period of last four years and 2014-15 was also not much different with 15.1% investment to GDP ratio. Public sector investment has inched up to 3.9 percent of GDP from 3.4 percent last year, while private sector investment declined from 10 percent of GDP in 2013-14 to 9.7 percent in 2014-15. Recently, the private sector has shown some appetite for working capital but long spells of power outages, deteriorating law & order situation and other regulatory bottlenecks kept them away from investment.

10. ***National Savings*** have improved to 14.5 percent of GDP from 13.7 percent in 2013-14. Pakistan's reliance on foreign savings has decreased as marginal increase in investment is somehow compensated with increase in national savings. The SBP decision to ease monetary policy has not significantly impacted the investment climate suggesting that the problem lies with other determinants of investment.

11. ***Fiscal Developments:*** Government during 2014-15 planned to contain the fiscal deficit through enhancing revenues and controlling current expenditure. Fiscal adjustment was envisaged from 5.5percent of GDP in 2013-14 to 4.9% of GDP in the current year. The consolidated total revenue during July-March 2014-15stood at Rs 2,683 billion as compared to Rs 2,477 billion in the same period of last year, thereby posting 8.3% growth. This constitutes 63.6% of the revenue of Rs 4,218 billion budgeted for 2014-15. The growth in consolidated total revenue has been realized on account of 12.8% growth in FBR taxes, while federal non-tax revenues declined by 10.5% mainly due to reduction in mark-up of PSEs & others, reduction in discount retained on crude oil price, passport fee, windfall levy against crude oil, and other non-tax heads.

12. The Federal Board of Revenue (FBR) has collected Rs. 1969 billion during July-April 2014-15 -which is 73.2% of the revised target for the year and is 12.8% higher than the FBR tax collections during the corresponding period of the last year. Both direct and indirect taxes registered growth of 17.2% and 10.2% respectively over the corresponding period of last year. Sales tax, federal excise duty, and customs duty also grew by 6.0%, 15.0%, and 25.1% respectively (Table-2). Despite a downward revision of annual target from Rs. 2810 billion to

Rs. 2691 billion, the FBR would still find it difficult to meet the revised target by the end of the year. This slower growth in the FBR tax collection may be attributed to substantial decrease in prices of petroleum products, record dip in inflation and lower growth in manufacturing sector. Tax collection is lagging behind the target despite a number of administrative and policy reforms initiated by the FBR.

**Table 2: FBR Tax Collection**

(Rs Billion)

| | Target 2014-15 (Revised) | July-April | | % change V=IV/III | FBR collection as % of full year target |
|---|---|---|---|---|---|
| | | 2013-14 | 2014-15 | | |
| I | II | III | IV | V | VI |
| **Total taxes** | **2,691** | **1,745** | **1,969** | **12.8** | **73.2** |
| **Direct taxes** | 1,124 | 658 | 771 | 17.2 | 68.6 |
| **Indirect Taxes** | 1,567 | 1,087 | 1,197 | 10.1 | 76.4 |
| Sales tax | 1,115 | 795 | 843 | 6.0 | 75.6 |
| Federal Excise | 169 | 104 | 120 | 15.4 | 71.0 |
| Customs | 283 | 188 | 235 | 25.0 | 83.0 |

*Source:- Federal Board of Revenue*

13. ***Monetary Developments:*** The State Bank of Pakistan continued with a tight monetary policy for the first quarter of 2014-15 and kept policy rate at 10%. It embarked on monetary policy easing in November 2014 whereby the policy rate was gradually reduced to 8% by March 2015. This reduction is expected to increase export competitiveness by reducing the cost of financing for the exporters. Similarly, with IMF program on track coupled with high possibility of getting planned proceeds from privatization inflow, the net SBP reserves are also projected to increase.

14. Money supply (M2) in the economy during 1st July 2014 to 8th May, 2015 increased by Rs.730.5 billion (7.3%) as opposed to an expansion of Rs.724.3 billion (7.1%). Net Foreign Assets (NFA) of the banking system showed an increase of 36.6% and stood at Rs 220.1 billion as against Rs 243.7 billion in July-May 2014-15. Similarly, Net Domestic Assets (NDA) of the banking system showed slight increase in growth (5.5%, Rs. 510.5 billion) compared to growth of 4.4% (Rs 380.6 billion) in corresponding period of last year. Net government borrowing increased by Rs 579.7 billion in July-May 2014-15 which was substantially higher than the

increase of Rs 175.1 billion in July-May 2013-14. Details of Monetary Aggregates for the period under review are given in **Table-3**

**Table 3: Monetary Aggregates**

*(Billion Rs)*

| Factors Affecting Broad Money (M2) Growth | Stocks at End of June 2014 | Monetary Impact Since 1st July to | |
|---|---|---|---|
| | | **8-May-15** | **9-May-14** |
| **A. Net Foreign Assets of the Banking System** | 600.99 | **220.07** | **243.71** |
| *Growth* | | ***36.61%*** | ***40.55%*** |
| **B. Net Domestic Assets of the Banking System (1+2+3)** | **9367.04** | **510.47** | **380.61** |
| *Growth* | | ***5.45%*** | ***4.43%*** |
| **1. Net Government Sector Borrowing (a+b+c)** | 6064.25 | 579.66 | 175.06 |
| a. Borrowing for Budgetary Support | 5549.36 | 601.14 | 240.20 |
| i. From SBP of which | 2409.80 | -532.41 | -10.45 |
| - Federal Government (Net) | 2567.68 | -455.50 | 160.25 |
| of which Deposits with SBP | -383.57 | 159.09 | -256.70 |
| - Provincial Government | -154.98 | -70.24 | -165.50 |
| ii. From Scheduled Banks (net) | 3139.56 | 1133.55 | 250.65 |
| b. Commodity Operations | 492.44 | -20.76 | -65.00 |
| c. Others | 22.46 | -0.70 | -0.18 |
| **2.Credit to Non-Government Sector (a+b+c+d)** | 4102.03 | 223.80 | 348.08 |
| a. Credit to Private Sector | 3728.73 | 161.70 | 292.92 |
| b. Credit to Public Sector Enterprises | 378.78 | 62.08 | 55.09 |
| c. PSE Special Account-Debt Repayment with SBP | -24.08 | 0 | 0 |
| d. Other Financial Institutions (SBP Credit to NBFIs) | 18.59 | 0.008 | .062 |
| **3.Other Items (Net)** | -799.24 | -293.01 | 142.53 |
| **Broad Money (M2)** | **9968.04** | **730.54** | **624.32** |
| ***Growth*** | | ***7.33%*** | ***7.05%*** |

*Source: State Bank of Pakistan*

15. ***Inflation:*** Consumer Price Index (CPI) inflation for 2013-14 was targeted at 8% but inflation increased by 4.8 % during July-April 2014-15 as against an increase of 8.7 % in the comparable period of last year. This low pace of inflation was predominantly attributed to deceleration in global oil and commodity prices. Moreover, the prudent monetary stance of State Bank also played its role in control of inflation. Simultaneously, stable Rupee-Dollar parity coupled with low oil prices led to reduced cost of imports. This kept imported inflation in check that eventually resulted in reduced domestic inflationary pressure. Both food and non food

inflation remained subdued during July-April 2014-15. Core inflation stood at 6.9% in the first ten months compared to 8.2% last year. In view of the current developments, the CPI inflation in the coming months would continue to witness deceleration. Average inflation for the year 2014-15 is likely to be within the range of 4.5-4.8 percent. Details of changes in various price indices are given below:

**Table 4: Changes in Price Indices**

(Base year 2007-08)

**(%)**

| Indices | | July-April | |
|---|---|---|---|
| | **2013-14** | **2013-14** | **2014-15** |
| **Consumer Price Index (CPI)** | **8.6** | **8.7** | **4.8** |
| - Food | 9.0 | 9.3 | 3.6 |
| - Non-food | 5.7 | 8.2 | 5.7 |
| - Core | 8.3 | 8.2 | 6.9 |
| **Wholesale Price Index (WPI)** | **8.2** | **8.3** | **0.0** |
| **Sensitive Price Indicator (SPI)** | **10.0** | **10.3** | **2.1** |

Source: Pakistan Bureau of Statistics (PBS)

17. ***Balance of Payments:*** The Annual Plan 2014-15 envisaged export growth of 5.8% and imports growth of 6.2% with the underlying assumptions of global recovery, better fiscal management, improved energy availability, better business environment and improved competitiveness. The overvalued exchange rate with liquidity constraints eroded the competitiveness of exporters have resulted in negative growth in exports (-3.2%) and imports (-1.5%). With estimated trade deficit at $ 13.8 billion and remittances at $ 14.97 billion, the current account deficit for July-April 2014-15 is estimated at $ 1.4 billion against a deficit of $ 2.9 billion in July-April 2013-14.

18. ***Trade deficit*** during the first ten months of this fiscal year deteriorated by $476 million as imports growth outpaced exports growth. Exports stood at $20.2 billion in July-April 2014-15, which is 3.2% less than last year's level. Imports also remained $528 million lesser than the last year's level of $34.6 billion. However, the exports of services have increased by 19.5 percent.

19. ***Workers' remittances*** have continuously witnessed an increasing trend after a brief interval in the last year when it seemed that a saturation point had been reached. Average growth in remittances over the period of last six years was 19%, while remittances reached $15 billion during July-April 2014-15 as against $ 12.9 billion in the corresponding period of last year, thereby showing an increase of 16.1%. Remittances from UAE (34.1%), Saudi Arabia (19.9%), and GCC countries (14.7%) registered phenomenal growth, while remittances from EU countries have shown sharp decline of 15.9% during first ten months of current fiscal year.

## NATIONAL ACCOUNTS COMMITTEE MEETING

National accounts committee meeting, chaired by the Secretary Statistics Division, was held on May 18th 2015, in the committee room of Pakistan Bureau of Statistics at Islamabad, to review the estimates of GDP. Provisional estimates for the year 2014-15 for Gross Domestic Product (GDP) and Gross Fixed Capital Formation (GFCF) have been prepared on the basis of the latest data available. These estimates are based on six to nine months provisional information projected for the whole year. The estimates of 2012-13 and 2013-14 for GDP and GFCF presented before the 94th meeting of National Accounts Committee (NAC), held on May 15, 2014 at Islamabad, have under-gone changes based on the latest available information. Summary is given in the table below.

| S. No. | Sectors/Sub-sectors | 2012-13 (f) | 2013-14 (r) | 2014-15 (p) (Rs.Million) | Growth Rates 2012-13/ 2011-12 | 2013-14/ 2012-13 | 2014-15/ 2013-14 | Contribution to GDP growth 2014-15 |
|---|---|---|---|---|---|---|---|---|
| A. | **Agricultural Sector** | 2103600 | 2160223 | 2222337 | 2.68 | 2.69 | 2.88 | 0.61 |
| | 1. Crops | 844860 | 871905 | 880661 | 1.53 | 3.20 | 1.00 | 0.09 |
| | i) Important Crops | 524839 | 566607 | 568219 | 0.17 | 7.96 | 0.28 | 0.02 |
| | ii) Other Crops | 258670 | 244762 | 247440 | 5.58 | -5.38 | 1.09 | 0.03 |
| | iii) Cotton ginning & Misc. | 61351 | 60536 | 65002 | -2.90 | -1.33 | 7.38 | 0.04 |
| | 2. Livestock | 1169712 | 1201944 | 1251443 | 3.45 | 2.76 | 4.12 | 0.48 |
| | 3. Forestry | 45695 | 42616 | 43957 | 6.58 | -6.74 | 3.15 | 0.01 |
| | 4. Fishing | 43333 | 43758 | 46276 | 0.65 | 0.98 | 5.75 | 0.02 |
| B. | **Industrial Sector** | 1996364 | 2085276 | 2160685 | 0.61 | 4.45 | 3.62 | 0.74 |
| | 1. Mining and Quarrying | 294727 | 299588 | 311095 | 3.88 | 1.65 | 3.84 | 0.11 |
| | 2. Manufacturing | 1310522 | 1369003 | 1412453 | 4.62 | 4.46 | 3.17 | 0.43 |
| | i) Large Scale | 1061342 | 1103695 | 1129994 | 4.19 | 3.99 | 2.38 | 0.26 |
| | ii) Small Scale | 156691 | 169676 | 183654 | 8.28 | 8.29 | 8.24 | 0.14 |
| | iii) Slaughtering | 92489 | 95632 | 98805 | 3.63 | 3.40 | 3.32 | 0.03 |
| | 3. Electricity Gen. & Dist., Gas Dist. | 165275 | 174482 | 177866 | -26.38 | 5.57 | 1.94 | 0.03 |
| | 4. Construction | 225840 | 242203 | 259271 | 1.08 | 7.25 | 7.05 | 0.17 |
| A+B | Commodity Producing Sectors | 4099964 | 4245499 | 4383022 | 1.66 | 3.55 | 3.24 | 1.35 |
| C. | **Services Sectors** | 5716248 | 5965957 | 6261314 | 5.13 | 4.37 | 4.95 | 2.89 |
| | 1. Wholesale & Retail trade | 1808124 | 1880004 | 1943499 | 3.53 | 3.98 | 3.38 | 0.62 |
| | 2. Transport, St. & Comm. | 1304697 | 1364255 | 1421737 | 4.03 | 4.56 | 4.21 | 0.56 |
| | 3. Finance & Insurance | 302392 | 315032 | 334513 | 8.32 | 4.18 | 6.18 | 0.19 |
| | 4. Housing Services (OD) | 664542 | 691091 | 718704 | 4.00 | 4.00 | 4.00 | 0.27 |
| | 5. General Government Services | 703717 | 723823 | 792180 | 11.32 | 2.86 | 9.44 | 0.67 |
| | 6. Other Services | 932776 | 991752 | 1050681 | 5.26 | 6.32 | 5.94 | 0.58 |
| | | | | | | | | |
| D. | **Total GVA** | 9816212 | 10211456 | 10644336 | 3.65 | 4.03 | 4.24 | 4.24 |