

## Glimpses of grim and stubborn Pakistan's Economy

Pakistan economy is negatively affected by the catastrophic floods in 1<sup>st</sup> quarter of 2010-11; internal and cross border terrorism; administrative infrastructural instability due to political immaturity; rising prices of oil & other commodities; persistently high inflation; deteriorating law and order situation within the country; and decreasing revenue collections resulting into high budgetary deficits. The government, despite of support from United States of America (US), Friends of Pakistan (FoP) and International Monetary Fund (IMF), practically seems helpless in combating the macroeconomic economic instability causing increase in poverty level, unemployment, price hike in consumer products, minimal business / manufacturing activities and rising populations.

US Government, FoP and IMF authorities expressed their strong resolve for the Government of Pakistan (GoP) to pursue prudent macroeconomic policies for enhancing Pakistan's medium-term growth prospects and extended full cooperation to GoP for taking specific measures to improve economic stabilization through fiscal reform for protecting the masses. by focusing on measures to reduce the budget deficit in 2011/12 through higher revenue by broadening the tax base, including steps to implement reforms in the General Sales Tax and create space for more credit to the private sector as well as quasi-fiscal operations like procurement of agricultural commodities in order to reduce inflation, assure fiscal sustainability and protect the external position to assure continuing financial stability.



## Highlights of the Economy

- Financial Position of Pakistan in International Monetary Fund as of April 30, 2011

		SDR in Million	%Quota		
<b>I. General Resources Account:</b>					
Quota		1,033.70	100.00		
Fund holdings of currency (Exchange Rate)		6,266.60	606.23		
Reserve Tranche Position		0.12	0.01		
<b>II. SDR Department:</b>			<b>%Allocation</b>		
Net cumulative allocation		988.56	100.00		
Holdings		771.51	78.04		
<b>III. Outstanding Purchases and Loans:</b>			<b>%Quota</b>		
Stand-by Arrangements		4,936.04	477.51		
Emergency Assistance		296.98	28.73		
ECF Arrangements		396.25	38.33		
<b>IV. Latest Financial Arrangements:</b>					
	<b>Date of</b>	<b>Expiration</b>	<b>Amount Approved</b>	<b>Amount Drawn</b>	
<b>Type</b>	<b>Arrangement</b>	<b>Date</b>	<b>(SDR Million)</b>	<b>(SDR Million)</b>	
Stand-By	Nov 24, 2008	Sep 30, 2011	7,235.90	4,936.04	
ECF <sup>1/</sup>	Dec 06, 2001	Dec 05, 2004	1,033.70	861.42	
Stand-By	Nov 29, 2000	Sep 30, 2001	465.00	465.00	
<b>V. Projected Payments to Fund <sup>2/</sup></b>					
(SDR Million; based on existing use of resources and present holdings of SDRs):					
	<b>Forthcoming</b>				
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Principal	129.21	1,418.11	2,399.61	1,379.29	303.04
Charges/Interest	87.48	108.18	57.39	19.40	3.86
<b>Total</b>	<b>216.69</b>	<b>1,526.29</b>	<b>2,457.00</b>	<b>1,398.69</b>	<b>306.90</b>
<sup>2/</sup> When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.					
VI. Implementation of HIPC Initiative:			Not Applicable		
VII. Implementation of Multilateral Debt Relief Initiative (MDRI):			Not Applicable		
VIII. Implementation of Post-Catastrophe Debt Relief (PCDR):			Not Applicable		

Courtesy: IMF website

SDR signifies Special Drawing Rights

- The lethal combination of low growth and high inflation is accompanied by a high fiscal deficit, growing unemployment and a rising debt burden.



- ✚ The relatively low growth rather decline in GDP has been recorded during the year 2010-11 which remained at 2.4% as compared to the budgeted GDP ratio of 4.5%, whereas actual GDP for the year 2009-10 was 4.1%.
- ✚ The sense of despondency and despair arising from rising insurgency and a difficult security situation on our Eastern and Western Borders, has been compounded by the Abbottabad operation of May 2, creating new strains in Pakistan`s relation with the US and seriously affecting the US aid to Pakistan.
- ✚ The Real GDP is estimated to grow at 2.4 percent on the back of strong performance of services sector as against actual growth of 3.8 percent last year and target of 4.5 percent.
- ✚ The growth in the agriculture is estimated at 1.2 percent on the strength of 3.7 percent growth in the livestock sector.
- ✚ Major Crops accounting for 31.1 percent of agricultural value added registered negative growth of 4.0 percent compared to a negative growth of 2.4 percent last year and a target of 3.7 percent.
- ✚ Minor crops registered a growth rate of 4.8 percent compared to the target of 3.0 percent and massive negative growth of 7.8 percent last year.
- ✚ Output in the manufacturing sector has witnessed expansion of 3 percent in 2010-11 as compared to expansion of 5.5 percent last year on the back of strong performance from small and medium manufacturing sector
- ✚ Large-scale manufacturing grew 1.7 percent in July-March 2010-11 as against 4.9 percent of last year.
- ✚ The services sector grew by 4.1 percent against the target of 4.7 percent and actual outcome of 2.9 percent of last year. Within services sector Wholesale and retail trade sector grew at 3.9 percent as compared to 4.6 percent last year and the target for the year of 5.1 percent. Finance and insurance sector recorded

negative growth of 6.3 percent in 2010-11 as against contraction of 11.3 percent last year. Public administration and defence posted a stellar growth of 13.2 percent as compared to 2.5 percent in last year. Social Services Sector grew by 7.1 percent which is slightly higher than the target of 5.0 percent but lower than last year's actual growth of 7.8 percent.

- ✚ Pakistan's per capita real income has risen by 0.7 percent in 2010-11 as against 2.9 percent last year.
- ✚ The total investment has declined from 22.5 percent of GDP in 2006-07 to 13.4 percent of GDP in 2010-11. Fixed investment has decreased to 11.8 percent of GDP from 13.4 percent last year.
- ✚ The national savings rate has decreased to 13.8 percent of GDP in 2010-11 as against 15.4 percent of GDP last year. Domestic savings has also declined substantially from 16.3 percent of GDP in 2005-06 to 9.5 percent of GDP in 2010-11.
- ✚ The agriculture growth in the year 2010-11 is estimated at 1.2 percent as compared with 0.6 percent during 2009-10.
- ✚ Cotton production has decreased from 12,913 thousand bales in 2009-10 to 11,460 thousand bales in 2010-11, showing a decrease of 11.3 percent.
- ✚ Wheat production has increased from 23,311 thousand tons in 2009-10 to 24,214 thousand tons in 2010-11, showing an increase of 3.9 percent.
- ✚ Rice production has decreased from 6,883 thousand tons in 2009-10 to 4,823 thousand tons in 2010-11, showing a decrease of 29.9 percent.
- ✚ Sugarcane production has increased by 12 percent to 55.3 million tons in 2010-11 from 49.4 million tons last year.
- ✚ Gram production has increased from 562 thousand tons in 2009-10 to 523 thousand tons in 2010-11, showing a decrease of 6.9 percent. Maize production



has increased from 3,262 thousand tons in 2009-10 to 3,341 thousand tons in 2010-11, showing an increase of 2.4 percent.

- ✚ Exports earning of the Textile products in 2010-11 (July-March) showing an increase of 29.9 percent.
- ✚ During 2010-11 (July-March) in automotive industry cars, LCVs/Jeeps and two/three wheelers registered a positive growth of 16.4 percent, 20.5 percent and 12.6 percent, respectively.
- ✚ Tax collection by the FBR was targeted at Rs 1667 billion for fiscal year 2010-11. However, the target was downward revised to Rs 1,588 billion, as a result of devastation caused by floods during July and August 2011. Revenue collections of FBR stood at Rs 1,156 billion during July-April 2010-11, thereby reflecting 12.6 percent growth over Rs 1,026.5 billion collected during the corresponding period last year.
- ✚ Among the four federal taxes, the highest growth 15.6 % has been recorded in sales tax receipts, followed by customs (12.6 %), direct tax (10.7 %) and federal excise duty (7.0%).
- ✚ SBP has raised the discount rate to 14 percent on 30th November 2010, and decided to keep the rate unchanged at 14 percent.
- ✚ The government borrowing from the banking system for budgetary support and commodity operations stood at Rs 342.2 billion during July-April, 2011. Government has borrowed Rs 196.3 billion from the State Bank of Pakistan (SBP) , while Rs 275.9 billion has been borrowed from the scheduled banks. In the month of May 2011, the government has further reduced its borrowing stock from the SBP to attain the target of net zero borrowing from the SBP.
- ✚ Net inflow of foreign investment in Pakistan from July –March 2010-11 was US\$ 301.5 million which as compared to US\$431.9 million in the last corresponding period, it is important to mention that noteworthy contribution was made during the first two quarter of 2010-11.



- ✚ The inflation rate as measured by the changes in Consumer Price Index (CPI) stood at 14.1 percent during (July-April) of the current fiscal year 2010-11, as against 11.5 percent in the comparable period of last year.
- ✚ The food inflation is estimated at 18.4 percent and non-food 10.4 percent, against 12.0 percent and 11.0 percent in the corresponding period of last year.
- ✚ Overall exports recorded a positive growth of 27.8 percent during the first ten months (July-April) of the current fiscal year against an increase of 8.0 percent in the same period of last year. In absolute terms, exports have increased from \$15,773.2 million to \$20,154.2 million in the above said period.
- ✚ Imports during the first ten months (July-April) of the current fiscal year (2010-11) increased by 14.7 percent compared with the same period of last year, reaching to \$32.3 billion. The overall import bill is higher by \$4.1 billion, reflecting the impact of higher global crude oil & Commodity Prices.
- ✚ Worker's Remittances totalled \$ 9.1 billion in July-April 2010-11 as against \$ 7.3 billion in the comparable period of last year, depicting an increase of 23.8 percent.
- ✚ Foreign direct investment (private) stood at \$1232 million during the first ten months (July-April) of the current fiscal year as against \$1725 million in the same period last year thereby showing a decline of 29 percent.
- ✚ Foreign Exchange Reserves amounted to \$ 17.1 billion by the end of April, 2011. Of which, reserves held by State Bank of Pakistan stood at \$ 13.7 billion and by banks stood at \$ 3.4 billion.
- ✚ The overall literacy rate (10 years & above) which was 57.4 percent in 2008-09 has increased to 57.7 percent in 2009-10, indicating 0.5 percent increase over the same period last year.



- ✚ Production of crude oil per day has increased to 65,996.50 barrels during July-March 2010-11 from 65,245.69 barrels per day during the same period last year, showing an increase of 1.15 percent.
- ✚ The average production of natural gas per day stood at 4050.84 million cubic feet during July-March 2010-11, as compared to 4,048.76 million cubic feet over the same period last year showing an increase of 0.05 percent.
- ✚ The power sector consumed 23.81 percent of gas followed by industrial (20.15 percent), household (16.75 percent), fertilizer (15.04 percent), commercial (2.45 percent) and cement sector (0.05 percent) during July-March 2010-11
- ✚ The total installed capacity of PEPCO system is 20,681 MW as of March 2011, compared to 20,190MW in first nine months of the last fiscal year.
- ✚ Total installed capacity of WAPDA stood at 11,439 MW during July-March 2010-11 of which hydel accounts 57.30 percent or 6,555 MW, thermal accounts for 42.70 percent or 4,884 MW.

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