

EMBASSY OF PAKISTAN ECONOMIC DIVISION

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Highlights of the Economy: Fiscal Year 2008

I. REAL SECTORS

The FY2008 has been a challenging and difficult year for Pakistan's economy. It showed signs of stress owing to severe external and internal shocks combined with policy inaction of the previous governments. These shocks include: soaring oil [\$ 66/barrel in June 2007 to \$ 139 per barrel in June 2008] and commodity prices wheat from \$ 223/mt to \$ 425/mt, DAP \$ 435/mt to \$ 828/mt], turbulence in the international financial market [because of subprime crisis and liquidity crunch, investors are getting increasingly risk averse, with a reduction in liquidity flows to emerging economies making the financing of deficits more challenging.], softening of external demand because of slow down in major trading partners' economies, and continued political uncertainty during the year. The impact of oil and commodity prices is estimated around 6.9 percent of GDP. The policy inaction by the previous governments to make necessary adjustments, decline in external inflows and excessive borrowing from the Central Bank has adversely affected most macroeconomic fundamentals during 2007-08.

Notwithstanding these extraordinary events, Pakistan's economy is expected to post a robust growth of 5.8 percent against 6.8 percent last year and growth target of 7.2 percent. On the average, real GDP has been growing at 6.6 percent per annum over the last 5 years [2004-08] reflecting resilience of the economy gained as a result of sustained structural as well as liberalization measures over the last 17 years. Clearly, this suggests that a policy focus on regaining macroeconomic stability through corrective measures and further reforms can reinvigorate the growth momentum of the economy.

The new government has indicated its intention for much needed adjustments, rein-in expenditure growth, broadening the tax base and to diversify the financing of deficit in support of macroeconomic stability. Removal of excessive fiscal stimulus, reversal to automated adjustment of energy prices effective July 1, 2008, recent exchange rate adjustments and continued tight monetary stance over time is also expected to correct country's trade deficit.

HIGHLIGHTS OF FISCAL YEAR 2008

The highlights of the economy during FY2008 are enumerated below:

GROWTH AND INVESTMENT

- **Real GDP** grew by 5.8 percent in 2007-08 as against 6.8 percent last year and growth target of 7.2%.
- **Total investment** could not sustain its record level of 22.9 percent of GDP of the last fiscal year and declined to 21.6 percent of GDP in 2007-08. However, total investment has increased from 16.9 percent of GDP in 2002-03 to 21.6 percent of GDP in 2007-08 — showing an increase of 5.7 percent of GDP in five years.
- **Fixed investment** has declined to 20.0 percent of GDP from 21.3 percent last year.
- **Private investment** grew by 16.3 percent per annum in real terms and 30.7 percent per annum in nominal terms during the period (2004-07). However, it declined substantially to marginal 0.9 percent in real terms and 9.7 percent in nominal terms in 2007-08. The share of private sector investment in domestic fixed investment has increased from less than two-third (64.2%) to almost three-fourth (73.2%) in the last seven years clearly reflecting the growing confidence of private sector in the current and future prospects of the economy.
- **Private sector investment** grew by 9.7 percent this year as against 13.3 percent increase in last year in nominal terms. Major nominal growth in private sector investment is witnessed in, mining & quarrying (15.3%), electricity & gas (11.0%), financial business (11.4%), and wholesale and retail trade (18.4%).
- **Public sector investment** has also increased by 30.0 percent per annum during the last three years and 20.2 percent during the current fiscal year in nominal terms.

PRIVATIZATION

- GoP has privatized around 166 units at Rs. 475.08 billion (approx US\$ 8.9 billion) between January 1991 to February 2007.

FOREIGN INVESTMENT

- **Overall Foreign Investment** during the first ten months (July-April) of the current fiscal year has declined by 32.2 percent and stood at \$ 3.6 billion as against \$5.3 billion in the comparable period of last year.
- **Foreign direct investment** (private) stood at \$3481.6 million during the first ten months (July-April) of the current fiscal year as against \$4180.8 million in the same period last year thereby showing a decline of 16.7 percent. Almost 57 percent of FDI has come from three countries, namely, the UAE, US, and UK. US investors with 33.4 percent investment are on the top during the first ten months.
- **Private portfolio investment** witnessed massive decline of 91 percent by recording inflow of \$98.9 million as against \$1097.3 million during the comparable period of last year.
- **Public foreign investment** depicted modest inflow of only \$20.5 million as against outflow of \$66.6 million in the comparable period of last year.

PER CAPITA INCOME

- **Per capita real GDP** has risen at a faster pace in real terms during the last six years (4.5% per annum on average in rupee terms) leading to a rise in average income of the people. Such increases in real per capita income have led to a sharp increase in consumer spending during the last three years.
- **Per capita income** in dollar term has grown at an average rate of 13.5 percent per annum during the last six years rising from \$ 586 in 2002-03 to \$ 1085 in 2007-08.

NATIONAL SAVINGS

- **National Savings** at 13.9 percent of GDP has financed 65 percent of fixed investment in 2007-08 as against 77.7 percent last year.
- **Domestic savings** has declined to 11.7 percent of GDP from 16.0 percent of GDP.

AGRICULTURE

- **Agriculture sector** grew by 1.5 percent as against 3.7 percent last year and target of 4.8 percent.

- **Major crops** registered negative growth of 3.0 percent as against an impressive positive growth of 8.3 percent last year and target for the year at 4.5 percent.
- **Cotton production** at 11.7 million bales in 2007-08 has decreased by 9.3 percent in comparison to 12.9 million bales of last year.
- **Wheat production** is estimated at 21.7 million tons in 2007-08 as against 23.3 million tons last year showing a decrease of 6.6 percent.
- **Rice production** has increased from 5.4 million tons in 2006-07 to 5.6 million tons in 2007-08 showing an increase of 2.3 percent.
- **Sugarcane production** has increased by 16.8 percent in 2007-08 from 54.7 million tons in last year to 63.9 million tons in 2007-08.
- **Total off-take of fertilizer** remained flat (0.5 percent) as nitrogen offtake increased by 11.4 percent while that of phosphate and potash decreased by 25.3 and 33.3 percent, respectively during July - March 2007-08.
- **Livestock** exhibited improvement in growth from 2.8 percent last year to 3.8 percent in 2007-08.
- **Agriculture credit disbursement** of Rs 138.6 billion during July-March 2007-08 is higher by 24.6 percent over last year [Rs 111.2 billion].

MANUFACTURING & MINING

- **Overall manufacturing**, accounting for 18.9 percent of GDP, registered a modest growth of 5.4 percent against 8.2 percent last year.
- **Large-scale manufacturing**, accounting for 70.0 percent of overall manufacturing, registered a growth of 4.8 percent in 2007-08 against the target of 10.9% and last year's achievement of 8.6%.
- **Construction** continued its strong showing, partly helped by activity in private housing market, spending on physical infrastructure, and reconstruction activities in earthquake affected areas. The construction sector is estimated to grow by 15.2 percent in 2007-08 as against extraordinary growth of 17.9 percent last year.
- **Mining and quarrying** sector has registered a growth rate of 4.9 percent as against a target of 4.5 percent and 3.0 percent last year.

FISCAL OPERATION

- **Fiscal Deficit** is likely to be Rs 683.4 billion or 6.5 percent of GDP against target of Rs 398 billion or 4 percent of GDP ---the highest in last ten years.
- **Total revenues** collected during the current year stood at Rs 1545.5 billion, higher than the targeted level of Rs 1476 billion. This increase of Rs 69.5

billion from the budgeted revenues was mainly due to higher than targeted non-tax collections.

- **Tax collection** is estimated Rs 1.0 trillion, short by Rs 25 billion than target
- **Tax revenue-to-GDP ratio** stood at only 10 percent of GDP during 2007/08 as compared to an average of 18 percent for the developing countries indicating that substantial tax policy reforms are still needed to broaden the tax base.
- **The indirect tax-to-GDP** ratio stood at around 6 percent, while **the direct tax-to-GDP ratio** was calculated to be 4 percent.
- **Gross and Net tax collection** increased by 12.3% and 16.3% respectively.

EXPENDITURE

- **Revised Estimates** for 2007-08 stood at Rs 2228.9 billion against budgeted Rs. 1875 billion
- **Oil Subsidy** is projected at Rs 175 billion against targeted level by Rs 160 billion.
- **Import of** 1.7 million tons of wheat at all time high prices because of smuggling and early export
- **Interest payments** are project at Rs 503.2 billion against budgeted Rs 375 billion

BORROWINGS AND PUBLIC DEBT

- **Borrowing increased** from Rs 324 billion (net of privatization proceeds) to Rs 683.4 billion (with no privatization proceeds)—an increase of 111 %
- **External resource** of Rs 119.4 billion are expected to materialize against budgeted Pakistan could
- **Domestic Borrowings** increased to Rs 564 billion against budgeted Rs 131 billion
- **Public debt** as a percentage of GDP stood at 85 percent in end-June 2000, has declined to 55.2 percent by end-June 2007
- **Public debt** as percentage of GDP stood at 53.5 percent by end March 2008.
- **Domestic Debt** rose by Rs 409.9 billion over end-2007 stock of Rs 2610.2 billion and increased to Rs 2030.1 billion or 30.3 % of GDP
- **External debt and liabilities (EDL)** at the end of March FY08 were US\$ 45.9 billion, a net addition of \$ 5.4 billion represents a 13.3 percent increase over the stock at the end of FY07.
- **New disbursements in external debt** are only \$1.2 billion while \$4.2 billion are added to the stock of external debt because of translation effect.

- **EDL** were 236.8 percent of foreign exchange earnings (FEE) but declined to 127.1 percent in the same period.
- **EDL** were nearly 5.8 times foreign exchange reserves (FER) at the end of FY02 but have declined to 3.4 percent by end-March 2008.
- **Interest payments** on external debt were 7.8 percent of current account receipts but declined to 2.5 percent during the same period.

MONEY AND CREDIT

- **Money Supply (M2)** during July-May 10, 2007-08 grew by 9 percent against the annual target of 13.7 percent and last year's expansion of 14 percent for the same period.
- **Net domestic assets** increased to Rs.656.7 billion as compared to increase of Rs.395.5 billion in the same period of last year.
- **Net foreign assets** have recorded a contraction of Rs.289 billion against the increase of Rs.84.6 billion in the same period of last year.
- **Government borrowing** for budgetary support has recorded an increase of Rs.362 billion as compared to Rs.212 billion in the same period of last year.
- **Credit to private sector** amounted to Rs.369.8 billion during July-May 10, 2007-08 as compared to Rs.263.4 billion in the same period last year.
- **Credit to manufacturing sector** recorded to be Rs.193 billion compared with Rs.119 billion in the same period of last year.
- **Weighted average lending and deposit rates** increased to 10.9 percent and 4.2 percent in March 2008 while weighted average yields on 6 months T-bill increased to 9.4 percent in March 2008.

CAPITAL MARKETS

- **KSE-100 Index** closed at 12,130.5 points on May 30, 2008, down by 1,642 points (or 11.9 percent) from the end June position of the last year.
- **Nevertheless**, the index broke the psychological barrier of 15,500 points as it was all-time high of 15,676 points on April 18, 2008
- **Aggregate Market Capitalization** declined abruptly by Rs 273 billion, from Rs 4,019 billion in June 2007 to Rs 3,746 billion in May 2008.
- **Foreign portfolio investment** showed a net outflow of US\$45 million during first nine months of fiscal year 2007-08.

INFLATION

- **Inflation** as measured by the changes in **Consumer Price Index (CPI)** stood at 10.3 percent during July-April 2007-08, as against 7.9 percent in the comparable period of last year.

- **Food inflation** is estimated at 15.0 percent and non-food 6.8 percent, against 10.2 percent and 6.2 percent in the corresponding period of last year.
- **Wholesale Price Index (WPI)** during July-April, 2007-08 have increased by 13.7 percent, as against 6.9 percent of last year.
- **Sensitive Price Indicator (SPI)** has recorded an increase of 14.1 percent during July-April, 2007- 08, as against 11.1 percent of last year.

EXTERNAL SECTOR

- **Exports** were targeted at \$ 19.2 billion or 12.9 percent higher than last year.
- **Exports** during the first ten months are up by 10.2 percent – rising from \$ 13847.3 million to \$ 15255.5 million.
- **Imports** were targeted to increase by 5.9 percent in 2007-08 to \$ 32.3 billion from last year's level of \$ 30.5 billion.
- **Imports** are up by 28.3 percent during ten months 2007-08 – rising from \$ 25.0 billion to \$ 32.0 billion, showing an increase of almost \$ 7.0 billion.
- Major contributions to this year's **additional import** bill have come from petroleum groups (40%). Raw material (21%) and food groups (16.3).
- **Trade deficit** widened to \$ 17 billion in the first ten months of the current fiscal year as against \$ 11 billion in the same period last year and is likely to touch \$ 20.5 billion or 12.3 percent of GDP
- **Current Account Deficit** further widen to \$ 11.6 billion (6.8% of GDP) in the first ten months (July-April) of the current fiscal year from 6.6 billion (4.6% of GDP) in the same period last year.

REMITTANCES AND RESERVES

- **Workers' remittances** totaled \$ 5.31 billion in the first ten months of the fiscal year against \$ 4.45 billion in the same period last year, depicting an increase of 19.5 percent
- **Total Foreign Exchange Reserves** stood at \$ 12,344 million at the end of April 2008 significantly lower than end June 2007 level of \$ 15,646 million.
- **Pakistan Rupee** after remaining stable for more than 4years, depreciating by 6.4% against US Dollar during July – April 2008.

II. SOCIAL SECTORS

EDUCATION

- **Overall literacy rate** (10 years & above) was 45 percent in 2001 which has increased to 55 percent in 2006-07, indicating a 10 % increase

- **Male literacy rate** (10 years & above) increased from 58 percent in 2001 to 67 percent in 2006-07
- **Female Literacy** rate increased from 32 to 42 percent for female during the same period.
- **Literacy** remains higher in urban areas (72%) than in rural areas (45%) during 2006-07.
- Higher Education Commission (HEC) has awarded 5,837 PhD scholarships (3,237 indigenous, 2,600 foreign) over the past three years to promote R&D

HEALTH AND NUTRITION

- **945 hospitals**, 4755 dispensaries, 5349 basic health units & sub health centers and 903 maternity and child health centers in Pakistan.
- **127859 doctors**, 8195 dentists ,62651 nurses and 103285 hospital beds
- **Population and health facilities ratio** turnout to be 1225 persons per doctor,19121 person per dentist, 2501 persons per nurse and 1517 persons per bed which shows an improvement over the last year.
- **Various health programs** with a special focus on major public health problems include the national programs for the prevention and control of tuberculosis, malaria, HIV/AIDS, hepatitis, blindness and program on maternal, neonatal and child health etc.

POPULATION, LABOUR FORCE AND EMPLOYMENT

- **Current population is 160.9** million with a growth rate of 1.80 percent.
- **Life expectancy** for males is 64 years and for females is 66 years.
- **2.6 million labour force** is estimated as un-employed in 2006-07 and unemployment rate is 5.3 percent.
- **Share of agriculture** in employment has increased from 43 percent in 2003-04 to 43.61 percent by the year 2006-07, with manufacturing (13.54%) and trade(14.43%) & services(14.41%) absorbing a growing share of the work force.
- **To generate employment**, the government has not only started President's Rozgar Scheme under which an average loan size of Rs.100,000 is given for a maximum period of five years.

POVERTY

- **2005-06 inflation-adjusted poverty line** used is Rs.944.47 per adult equivalent per month, up from Rs.878.64 in 2004-05.

- **Headcount ratio**, i.e., percentage of population below the poverty line has fallen marginally from 23.94 percent in 2004-05 to 22.32 percent in 2005-06, an improvement of 1.62 percentage points.
- **Poverty in rural areas** declined from 28.13 percent to 27.0 percent, showing an improvement of 1.13 percentage between 2004-05 and 2005-06.
- **Poverty in Urban areas** also registered a decline from 14.94 percent to 13.1 percent during 2004-05 and 2005-06, thereby, depicting an improvement of 1.84 percentage points in the period.
- **Expenditures on pro-poor sectors** in 2006-07 at 5.7 percent of GDP were well above the requirement under the Law.

TRANSPORT AND COMMUNICATION

- **Total road network** is about 260,000 km of which around 60% is paved. Road density is 0.32 km/km² which is low and compares unfavorably with other South Asian countries (Bangladesh-1.7 km/km², Sri Lanka-1.5 km/km² and India-1.0 km/km²).
- **Government intends** to generate/ mobilize all possible resources to double road density to 0.64 km/km².
- **Tele-density in the country** has jumped from a mere 6% to 57% (Mar- 08) in few years.
- **Total subscriber base stands** at 82.5 million (Mar 2008) whereas it was 34.5 million in 2006.
- Currently there are a total of almost 12,689 Broadband subscribers, 3.5 million internet subscribers; total users crossed 17 million marks. Currently around 3,008 cities are connected to internet cities.

ENERGY

Oil and Gas

- **Transport sector consumes** 50.9 percent of the petroleum products, followed by power sector (32.8 percent), industry (11.0 percent), household (1.9 percent), other government (2.2 percent), and agriculture (1.2 percent) during last 10 years i.e. 1997-98 to 2006-07
- **Crude oil production per day** has increased to 70,166 barrels from 66,485 barrels per day last year, showing an increase of 5.54 percent.
- **Overall production of crude oil** has increased to 19.3 million barrels during July-March 2007-08 from 18.2 million barrels last year showing an increase of 5.9 percent.

- **Natural gas average production per day** stood at 3,966 million cubic feet during 2007-08 as compared to 3,876 million cubic feet last year, showing an increase of 2.3 percent.
- **Overall production of gas** has increased to 1,090,620 million cubic feet during July-March 2007-08 as compared to 10,62,124 million cubic feet in the same period last year, showing an increase of 2.7 percent.
- **Power sector consumes** 36.8 percent of gas, followed by fertilizer (20.7 percent), industrial sector (19.8 percent), household (17.4 percent), commercial sector (2.7 percent) and cement (1.1 percent) during last 10 years i.e. 1997-98 to 2006-07.

Electricity

- **Installed generation capacity** has increased to 19,566 MW during July-March 2007-08 from 19,440 MW during the same period last year, showing a marginal increase (0.65 percent)
- **Installed capacity of WAPDA** stood at 11,654 MW during July-March 2007-08 of which, hydel accounts for 55.6 percent or 6,474 MW, thermal accounts for 44.4 percent or 5,180 MW.
- **Villages electrified** increased to 126,296 by March 2007 from 113,605 upto 2005-06, showing an increase of 11.2 percent.

CNG

- 2,068 CNG stations are operating in the country. By March 2008 about 1.7 million vehicles were converted to CNG as compared to 1.35 million vehicles during the same period last year, showing an increase of 26 percent.

ENVIRONMENT

- Cost of environmental neglect and degradation to Pakistan's economy has amounted to Rs. 365 billion during the current year.

Millennium Development Goals

- Pakistan is likely to achieve many of the Millennium Development Goals (MDGs) 2015 Targets