

Growth and Investment

Introduction

Pakistan has seen a noticeable economic turnaround over the last four years due to the implementation of a comprehensive economic revival programme. Key areas of reforms include fiscal consolidation through improved public financial management and tax administration, energy restructuring of energy sector including capacity enhancement, divestment through strategic private partnerships and strengthening of regulatory framework. These reforms are complemented with a number of growth supporting steps such as National Power Policy, Kissan Package, Automotive Policy, Textile Policy, Strategic Trade Policy Framework (STPF) 2015-18, Prime Minister's Package of Incentives for Exporters, Domestic Resource Mobilization Strategy, PSE Reforms Strategy, CPEC and National Financial Inclusion Strategy. On account of these initiatives the macro-economic performance remains robust, with a steadily rising growth of 4.05 percent in FY2014, 4.06 percent in FY2015 and 4.51 percent in FY 2016. The economy continues to maintain its growth momentum above 4.0 percent for the 4th year in a row with highest growth at 5.28 percent in 10 years in FY2017.

A visible improvement has been witnessed during the FY2017 due to pro-growth policies, especially in agriculture, industrial and services sector. Agriculture sector rebounded to 3.46 percent growth as compared to the muted growth last year and services sector performed better than expected. The LSM sector

performance remained moderate, however, given the decades low policy rate and expansion in credit to private sector, it will improve going forward.

The fiscal deficit has been continuously on low trajectory. It was as high as 8.2 percent in FY2013, which has been brought down to 5.5 percent in FY2014, 5.3 percent in FY2015 and 4.6 percent in FY2016 on account of prudent expenditure management. On the other hand the development budget is continuously rising particularly, Federal PSDP gradually increased from Rs.348.3 billion during FY2013 to Rs.800 billion in FY2017, thus showing a cumulative increase of over 129 percent.

FBR revenues collections remain on upward trajectory, despite the pro-growth incentives provided to various sectors, particularly to exports and agriculture. To sustain higher revenue collection, Pakistan has undertaken various tax measures and some important initiatives, such as the Avoidance of Double Taxation Agreements and the OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters. These initiatives would help to reduce and prevent tax evasion in future and further enhance FBR's revenues collection, thus creating space for the government to make more spending for development and growth.

The government's efforts to improve Pakistan's business climate and to attract higher investment inflows have been underpinned by the National Doing Business Reform Strategy

2016, which outlines key reform actions under each of the ten DB indicators, including regulatory changes, improving technology of implementing agencies for reduction in time and simplification of procedures involved in making businesses operational. These reforms have been designed to effectively address critical bottlenecks faced by a small and medium business during all stages of its life cycle. As a result of the successful implementation of key short term reform measures, Pakistan's ranking in the World Bank's Ease of Doing Business index has improved by four points to 144 out of 190 economies in Doing Business Report 2017 and the country has been recognized as one of the top ten reformers globally in the area of business regulation.

The Implementation of National Power Policy 2013 has resulted in the reduction of line losses of power sector's distribution companies and increase in collections due to signing of performance contracts, setting of quarterly performance targets, improved monitoring and enforcement, strengthening of legislations to prevent electricity thefts, up-gradation of electricity transmission and distribution network, provision of incentives to collectors and introduction of mechanism of at-source deduction. In addition, GoP has been able to significantly contain the accumulation of new arrears. Distribution Companies are moving towards the Multi-year Tariff Regime. This will help in implementation of divestment strategy of government for power sector entities.

Over the past four years, Pakistan has witnessed a landmark achievement in the shape of successfully tapping International capital market four times and each time received overwhelming response. The divestment programme, which was resumed after significant gap has helped to raise Rs 173 billion including over US\$ 1.1 billion from foreign investors. Transaction included the sale of minority stakes in United Bank Limited (UBL), Allied Bank Limited (ABL), Habib Bank Limited (HBL), and Pakistan Petroleum

Limited along with the strategic sale of National Power Construction Co. (NPCC).

Under a successful divestment programme, amounting to over \$1.1bn, shares in the banking and oil and gas sectors have been divested and strategic sale of a power company has been carried out. Pakistan Stock Exchange continues to outperform its regional peers over the last four years and has recently been reclassified in the Emerging Markets Index by Morgan Stanley Capital International. Pakistan's economic turnaround has been duly recognized by credit rating agencies, international development partners, think-tanks and independent economists.

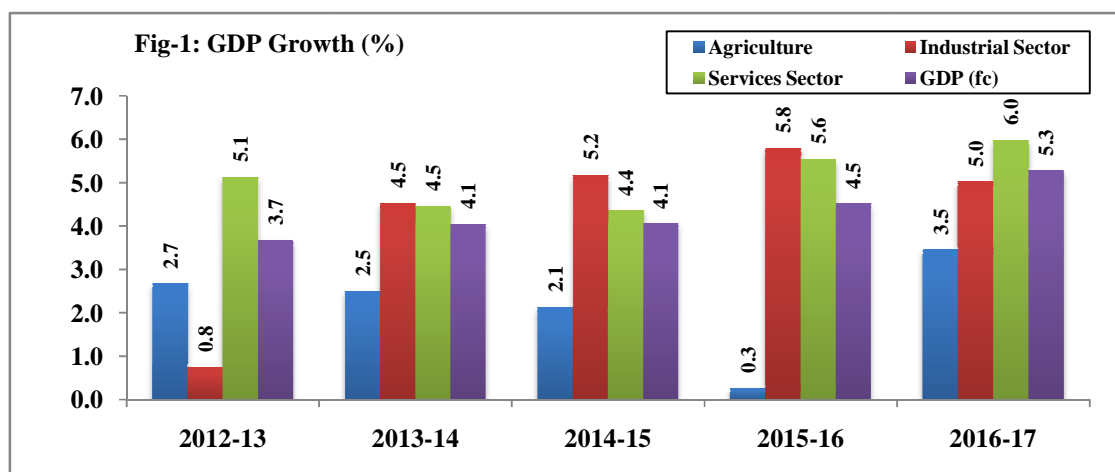
Moody's as well as Fitch have raised Pakistan's economic outlook from negative to stable, while Standards & Poor's revised its rating from stable to positive. The country also successfully completed a \$ 6.64bn Extended Fund Facility programme with the IMF. The IMF in its global economic outlook has added Pakistan in the list of emerging economies.

The maturity of the domestic debt portfolio has also been lengthened and is continuing to diversify our financing sources. All these developments show that Pakistan has made remarkable progress in restoring macroeconomic stability through a combination of stabilization and structural reforms and now all major economic indicators are stable and moving in the right direction.

Economy of Pakistan has continued the growth momentum as the GDP growth reached to 5.28 percent in 2016-17 against the growth of 4.5 percent registered last year. The economic growth in outgoing fiscal year is highest in the last decade, which is an indicator that there is a strong turn around in economic activities of the country. Agriculture sector registered a growth of 3.46 percent against the growth of 0.27 percent last year. Industrial sector witnessed the growth of 5.02 percent against 5.80 percent last year, large scale manufacturing posted growth of 4.61 percent against 3.29 percent last year. Services sector recorded 5.98 percent growth as

compared to 5.55 percent last year. Commodity producing sector on the whole accelerated by 4.26 percent as compared to 3.03 percent last

year. Fig-1 presents an overview of GDP growth and its major sectors over the last years.



Sectoral Performance of Growth

Pakistan has a diverse economy, broadly divided into three main sectors i.e. agriculture, industry and services. A sectoral analysis highlights the performance of various

components of the economy and also establishes interrelationship and importance of various sub-sectors of the economy in the growth process. The sectoral performance of economic growth is presented in Table-1.1.

Table 1.1: Growth Rate (%)

Sectors/Sub-Sectors	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 P
A. Agriculture	2.0	3.6	2.7	2.50	2.1	0.3	3.5
Crops	1.0	3.2	1.5	2.64	0.2	-5.0	3.0
Important Crops	1.5	7.9	0.2	7.22	-1.6	-5.5	4.1
Other Crops	2.3	-7.5	5.6	-5.71	2.5	0.6	0.2
Cotton Ginning	-8.5	13.8	-2.9	-1.33	7.2	-22.1	5.6
-Livestock	3.4	4.0	3.5	2.48	4.0	3.4	3.4
-Forestry	4.8	1.8	6.6	1.88	-12.4	14.3	14.5
-Fishing	-15.2	3.8	0.7	0.98	5.8	3.3	1.2
B. Industrial Sector	4.5	2.6	0.8	4.53	5.2	5.8	5.0
2. Mining & Quarrying	-4.4	5.2	3.9	1.4	5.0	6.91	1.3
3. Manufacturing	2.5	2.1	4.8	5.65	3.9	3.7	5.3
-Large Scale	1.7	1.1	4.5	5.46	3.3	2.9	4.9
-Small Scale	8.5	8.4	8.3	8.29	8.2	8.2	8.2
-Slaughtering	3.7	3.5	3.6	3.38	3.3	3.6	3.6
Electricity Generation & Distribution & Gas Distt.	63.9	1.4	-26.4	-0.74	13.5	8.4	3.4
4. Construction	-8.6	3.1	1.1	5.96	7.3	14.6	9.1
Commodity Producing Sector (A+B)	3.2	3.1	1.7	3.49	3.6	3.0	4.3
Services Sector	3.9	4.4	5.1	4.46	4.4	5.6	6.0
6. Wholesale & Retail Trade	2.1	1.7	3.5	4.77	2.6	4.3	6.8
7. Transport, Storage and Communication	2.4	4.6	4.0	3.90	5.1	4.8	3.9
8. Finance & Insurance	-4.2	1.6	8.3	4.31	6.4	6.1	10.8

Table 1.1: Growth Rate (%)

Sectors/Sub-Sectors	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 P
Housing Services (Ownership of Dwellings)	4.0	4.0	4.0	4.00	4.0	4.0	4.0
General Government Services	14.1	11.1	11.3	2.86	4.8	9.7	6.9
Other Private Services	6.6	6.4	5.3	6.22	6.1	6.8	6.3
GDP (fc)	3.6	3.8	3.7	4.05	4.1	4.5	5.3

Sources: Pakistan Bureau of Statistics

P: Provisional

Commodity Producing Sector

Commodity producing sector includes agricultural and industrial sectors of the economy. It is the most significant component of the economy as it has stronger forward and backward linkages for economic growth and development of the country. The share of commodity producing sector was 40.41 percent of GDP during outgoing fiscal year FY2017 as compared to 40.80 percent last year. It had a share of 41.8 percent in GDP in FY 2013, which is declining over time due to evolutionary stages of economic development as have prevailed in other countries of the world. In commodity producing sector, share of agriculture sector reduced to 19.53 percent due to lower growth in agriculture overtime and share of industry increased to 20.88 percent as compared to 20.4 percent in FY2013 due to better industrial facilitation by the government which led to improve performance of industrial sector in the country. Commodity producing sector has performed better in FY 2017 as compared to last year; it registered a growth of 4.26 percent during outgoing fiscal year as compared to 3.03 percent last year.

Agriculture Sector

Agriculture sector consists of crops, livestock, fishing and forestry sub-sectors. It accounts for 19.53 percent of GDP and employed bulk of the total work force. Agriculture contributes to growth as a supplier of raw materials to industry as well as a market for industrial products and is the major source of foreign exchange. Agriculture sector recorded a growth of 3.46 percent in FY 2017 as compared to 0.27 percent last year. The better performance of

agriculture is due to various measures of government under Kissan package to enhance agriculture produce like support price for production, significant increase in credit to agriculture sector, better arrangements for the provision of inputs like seed, fertilizers, insecticides and better arrangements for marketing. Moreover favorable weather conditions during the FY 2017 also helped to achieve better yield.

Industrial Sector

Industry is the second major component of the commodity producing sector of the economy. It has multi-dimensional direct and indirect linkages, which have spillovers effects on the economy. Industrial sector generates demand for agriculture produce using it as raw materials and also provides supplies of latest machineries and tools to modernize other sectors of the economy. It is a major source of tax revenues and also contributes in the provision of job opportunities to urban and rural labour force. Industrial sector contributes 20.88 percent in GDP; industrial sector recorded a growth of 5.02 percent as compared to 5.80 percent last year. During last three years industrial sector performance remained consistently above 5 percent, which is a clear indicator that industrial revival is taking place due to better policies of the government. It is also an indicator that confidence of businessmen is improving on government policies. Industrial sector has four sub-sectors including mining & quarrying, manufacturing, electricity generation & gas distribution and construction.

Services Sector

Services sector has six sub-sectors including: Transport, Storage and Communication; Wholesale and Retail Trade; Finance and Insurance; Housing Services (Ownership of Dwellings); General Government Services (Public Administration and Defense); and Other Private Services (Social Services). In Pakistan services sector also has a great potential to grow and the government is making best efforts to provide enabling environment to economic agents to tap its potential.

The performance of services sector has been better as compared to commodity producing sector for quite some time. This trend is continued in FY 2017 and services sector grew at 5.98 percent against the commodity producing sector growth of 4.26 percent. Services sector also surpassed the planned target and has emerged as the most significant driver of economic growth and is contributing a major role in augmenting and sustaining economic growth in the country. The share of the services sector has reached to 59.59 percent of GDP in FY 2017. Services sector has witnessed a growth of 5.98 percent as compared to 5.55 percent last year. Performance of services sector remained broad based, as all components of services contributed significantly in positive term, as Wholesale and Retail Trade grew by 6.82 percent, Transport, Storage and Communication by 3.94 percent, Finance and Insurance by 10.77 percent, Housing Services by 3.99 percent, General

Government Services by 6.91 percent and Other Private Services by 6.28 percent.

Contribution to Real GDP Growth

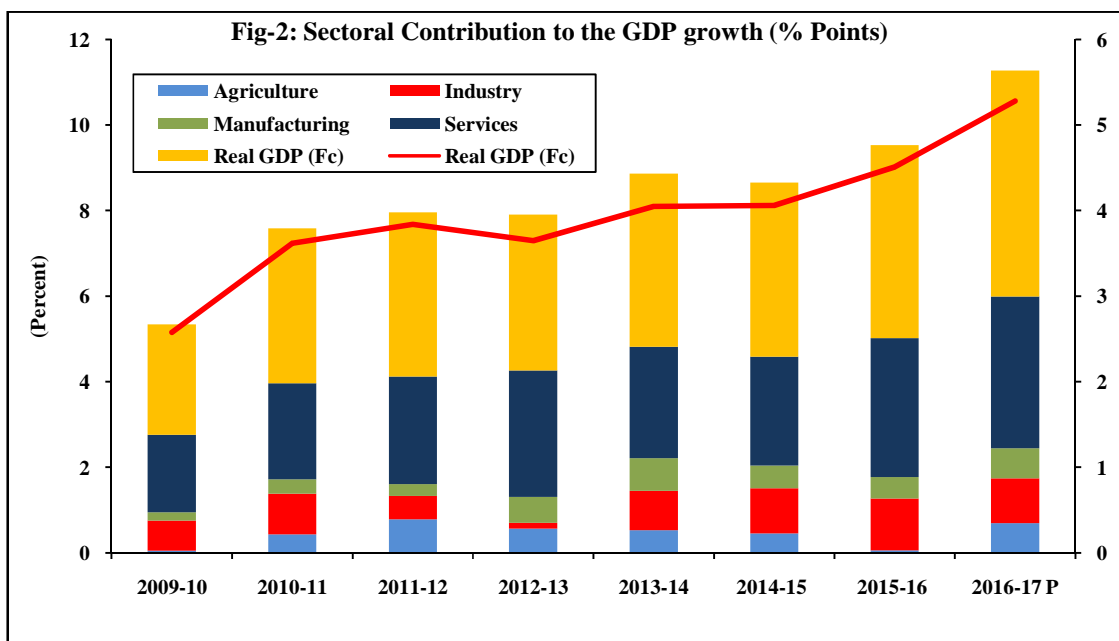
(Production Approach)

During FY2017 services sector remained dominant in the overall economic growth and also the commodity producing sector maintained its trend in supporting the overall magnitude of economic growth. Commodity producing sector contributed 32.96 percent to overall economic growth, out of which agriculture shared 13.07 percent and the industrial contribution remained 19.89 percent. The bulk of growth contribution came from services sector which was 67.05 percent.

GDP growth 5.28 percent is shared between the services and commodity producing (agriculture and industry) sectors of the economy. Out of the commodity producing sector, agriculture sector shared 0.69 percentage points to overall GDP growth as compared to 0.06 percentage points last year, while industrial sector contributed 1.05 percentage points in FY 2017 as compared to 1.21 percentage points of last year. It is encouraging that during FY2017 both components (agriculture & industry) of commodity producing sectors are significantly contributing in overall economic growth. The services sector contributed most dominantly by 3.54 percentage points as compared to 3.25 percentage in last year. An overview of the sectoral point contribution to the GDP growth of previous eight year is presented in Table-1.2.

Table 1.2: Sectoral Contribution to the GDP growth								(% Points)
Sector	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 P
Agriculture	0.05	0.43	0.79	0.57	0.53	0.45	0.06	0.69
Industry	0.71	0.95	0.54	0.13	0.92	1.06	1.21	1.05
- Manufacturing	0.19	0.34	0.28	0.61	0.76	0.53	0.50	0.71
Services	1.81	2.24	2.51	2.95	2.6	2.55	3.25	3.54
Real GDP (Fc)	2.58	3.62	3.84	3.65	4.05	4.06	4.51	5.28

Source: Pakistan Bureau of Statistics



Contribution to Real GDP Growth

(Expenditure Side Analysis)

Consumption, investment and exports are the main drivers of economic growth under the expenditure approach, which is also recognized as aggregate demand side of the economy. Aggregate demand or the output is the sum of consumption (both private and public), investment (public and private) and net exports of goods and services. Consumption is recognized as the largest and relatively smooth component of aggregate demand, as compared to other components including investment and exports. Pakistani society like other most of the developing countries is a consumption oriented society, having high marginal propensity to consume; as a result consumption of private sector is recognized as the largest component of aggregate demand of the economy.

The sectoral analysis of expenditure approach provides a more wide-ranging insight of growth drivers containing consumption, investment and exports. The private consumption expenditure in nominal terms reached to 79.94 percent of GDP in FY 2017 as compared to 77.76 percent last year, whereas public consumption expenditures were 11.78 percent of GDP as

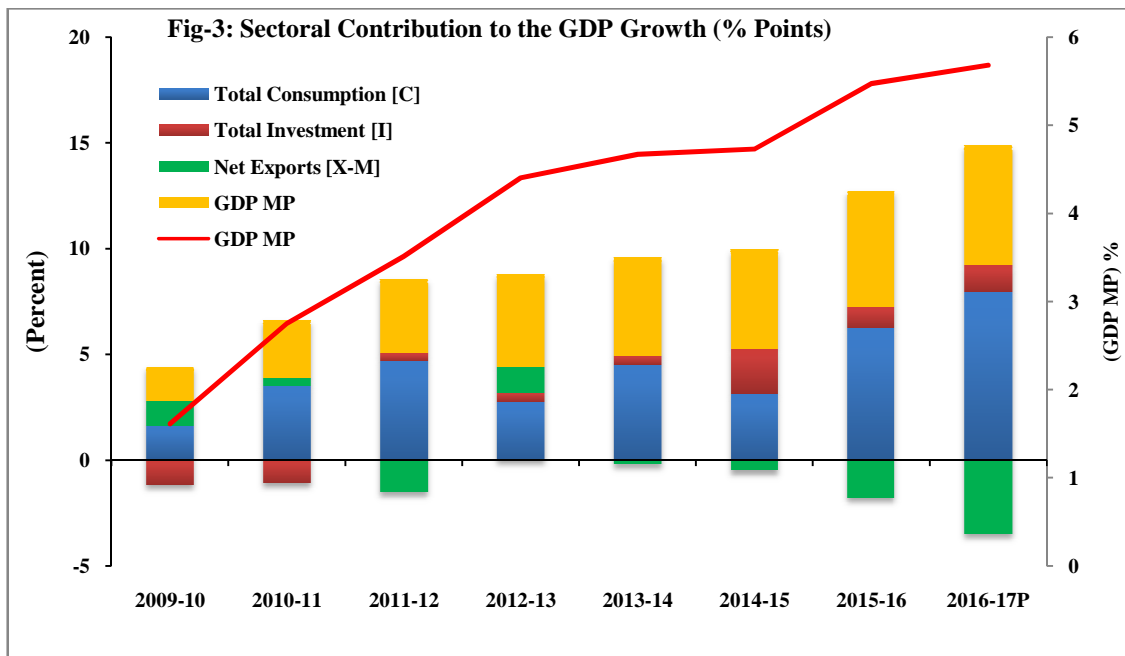
compared to 11.25 percent last year.

During FY2017 the growth continued the previous trend with major contribution by private consumption largely due to remittances inflows, better growth in agriculture, small scale manufacturing and services sector. Consumption shared 7.92 percentage points to overall economic growth, while the investment contributed 1.28 percentage points, and net exports contribution is negative (-3.52) percentage points. Consumption remained the major contributing factor in economic growth; investment also continued its supporting role. The contribution of net exports remained negative due to lower exports and higher imports. However, it is important to note that the imports of machineries and growth supporting inputs have increased significantly, which will increase productive capacity of the economy and boost growth process in coming years. It is encouraging that domestic demand continued for economic growth just like previous years with major contribution from private consumption in sustaining aggregate demand. The point contribution of these determinants to GDP growth is presented in the Table-1.3.

Table-1.3: Composition of GDP Growth

Point Contribution							
Flows	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17P
Private Consumption	3.51	3.92	1.69	4.32	2.26	5.31	6.72
Public Consumption	0.00	0.74	1.05	0.16	0.86	0.90	1.20
Total Consumption [C]	3.51	4.66	2.74	4.49	3.12	6.21	7.92
Gross Fixed Investment	-1.16	0.33	0.34	0.33	2.03	0.95	1.19
Change in Stocks	0.04	0.06	0.07	0.07	0.08	0.09	0.09
Total Investment [I]	-1.11	0.38	0.42	0.41	2.10	1.04	1.28
Exports (Goods & Serv.) [X]	0.33	-2.05	1.53	-0.18	-0.73	-0.17	-0.02
Imports (Goods & Serv.) [M]	-0.02	-0.52	0.28	0.04	-0.24	1.61	3.50
Net Exports [X-M]	0.35	-1.54	1.24	-0.22	-0.50	-1.78	-3.52
Aggregate Demand (C+I+X)	2.73	2.99	4.68	4.71	4.50	7.08	9.18
Domestic Demand (C+I)	2.40	5.04	3.15	4.89	5.23	7.25	9.20
GDP MP	2.75	3.51	4.40	4.67	4.73	5.47	5.68

Source: Pakistan Bureau of Statistics



Composition of Gross Domestic Product

Pakistan has been experiencing structural transformation in its economy like other growing economies; its GDP structure has undergone significant changes during last few decades. Developments in the fields of science and technology with latest innovations contributed in picking up all sector of the economy but the pace of transformation varies among various sectors depending on the dynamics of the sectors. Manufacturing and services sectors got relatively more paybacks as compared to agriculture sector. Government's

plans and policy measures also played their role in picking up all sectors of the economy. Like other countries agriculture sector has some obstacles including structural, cultural and climatic factors due to which it could not grow consistently at higher rate in sustainable ways. In Pakistan manufacturing and services sectors performed better and benefitted more from government policies along with scientific and technological developments as compared to agriculture as agriculture is largely weather dependent, which makes it volatile and inconsistent in performance as surplus income

and new investment focused on non-agriculture have higher and consistent profit opportunities. Composition of the economy has changed over time, in 1969-70 agriculture was the largest commodity producing sector with 38.9 percent contribution in GDP, which has reduced to 19.53 percent in FY 2017; indicating that the share of the agriculture has been declining over

time in favor of the non-agriculture sector. The share of services sector has increased to 59.59 percent in FY 2017 showing an increasing share of the services sector in GDP over time. The share of all major sectors and associated sub-sectors of GDP in recent years is presented in Table-1.4.

Table 1.4: Sectoral Share in Gross Domestic Product (GDP)

Sectors/Sub-Sectors	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17P
Commodity Producing Sector (A+B)	42.9	42.6	41.8	41.6	41.4	40.8	40.4
Agriculture	21.7	21.6	21.4	21.10	20.7	19.9	19.5
1. Crops	8.8	8.8	8.6	8.5	8.2	7.4	7.3
Important Crops	5.3	5.5	5.4	5.5	5.2	4.7	4.7
Other Crops	2.9	2.6	2.6	2.4	2.4	2.3	2.2
Cotton Ginning	0.6	0.7	0.6	0.6	0.6	0.5	0.5
2. –Livestock	11.9	11.9	11.9	11.7	11.7	11.6	11.4
3. –Forestry	0.5	0.5	0.5	0.5	0.4	0.4	0.5
4. –Fishing	0.5	0.5	0.4	0.4	0.4	0.4	0.4
B. Industrial Sector	21.2	21.0	20.3	20.5	20.7	20.9	20.9
1. Mining & Quarrying	3.0	3.0	3.0	2.9	3.0	3.2	2.9
2. Manufacturing	13.4	13.2	13.4	13.6	13.6	13.5	13.5
-Large Scale	11.0	10.8	10.8	11.0	10.9	10.7	10.7
-Small Scale	1.5	1.5	1.6	1.7	1.7	1.8	1.8
-Slaughtering	0.9	0.9	0.9	0.9	0.9	0.9	0.9
3. Electricity Generation & Distribution & Gas Distt	2.4	2.4	1.7	1.6	1.8	1.8	1.8
4. Construction	2.4	2.4	2.3	2.3	2.4	2.7	2.7
C. Services Sector	57.1	57.4	58.2	58.4	58.6	59.2	59.6
1. Wholesale & Retail Trade	18.8	18.4	18.4	18.5	18.3	18.2	18.5
2. Transport, Storage and Communication	13.1	13.2	13.3	13.3	13.4	13.4	13.3
3. Finance & Insurance	3.0	2.9	3.1	3.1	3.2	3.2	3.4
4. Housing Services (Ownership of Dwellings)	6.7	6.7	6.8	6.8	6.8	6.7	6.6
5. General Government Services	6.2	6.7	7.2	7.1	7.1	7.5	7.6
6. Other Private Services	9.1	9.4	9.5	9.7	9.9	10.1	10.2
GDP (fc)	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Pakistan Bureau of Statistics

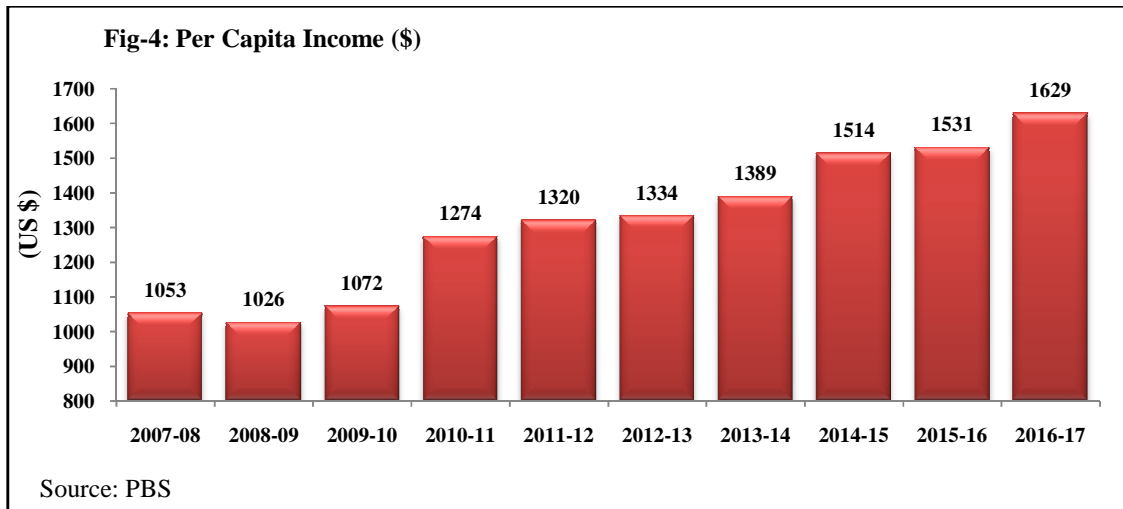
Per Capita Income

Per capita income is one of the main indicators of economic well-being. It is historically one of the most commonly used economic indicator which captures the level of economic development of the country and also compares well-being among different countries of the world. Per capita income reflects average standards of living of people in the country. It is calculated as Gross National Product at market

prices in dollar term divided by the country's population size. Per Capita Income in dollar terms has witnessed a growth of 6.4 percent in FY 2017 as compared to 1.1 percent last year.

The per capita income in dollar terms has increased from \$ 1,531 in FY 2016 to \$ 1,629 in FY 2017. Main contributing factors for the rise in per capita income are higher real GDP growth, lower growth in population and stability of Pak Rupee. Fig-8 shows

improvement in per capita income over last ten years.



Investment and Savings

The process of economic growth and investment/capital formation is closely integrated. According to World Bank (1989), GDP growth is higher for those countries, which have relatively higher investment/GDP ratio. Investment and business environment in Pakistan remained fragile in past years due to internal and external factors. Now situation has improved and investment is moving on an upward trajectory on the back of improved macroeconomic fundamentals and government policies. The government’s efforts to improve Pakistan’s business climate to attract higher investment inflows have been underpinned by the National Doing Business Reform Strategy 2016. As a result of the successful implementation of key short term reform measures, Pakistan’s ranking on the World Bank’s Ease of Doing Business index has improved by four points to 144 out of 190 economies in Doing Business Report 2017 and the country has been recognized as one of the top ten reformers globally in the area of business regulation.

The public investment has often been taken as a catalyst for private investment. The government focused on increasing public sector development spending. There is phenomenal

increase in PSDP since 2013 from Rs 348.27 billion during FY 2013 to Rs.800 billion in FY 2017. A number of massive infrastructure, power and other projects have been initiated which remained instrumental in attracting private sector investment. Over the medium term the target is to increase investment to 20 percent of GDP from its present level of 15.78 percent.

Total investment has reached to the level of Rs 5026 billion as compared to the Rs 4526 billion last year, showing growth of 11.05 percent in FY 2017. Investment to GDP ratio has reached 15.78 percent in FY 2017. Fixed investment has increased to Rs 4517 billion as compared to Rs 4061 billion last year recording growth of 11.23 percent, and fixed investment as percentage of GDP is recorded at 14.18 percent. Private investment has registered a growth of 6.63 percent and private investment as percentage of GDP reached 9.90 percent. Public investment grew by 23.55 percent, and as percentage of GDP it has increased from 3.79 percent to 4.28 percent, which is a clear reflection that government expenditure strategy is development oriented. It has spillover effects on private sector investment as private sector development is facilitated through public sector development spending particularly on infrastructure. Public Sector Investment

increased to Rs 1363 billion in FY 2017 compared to Rs 1103 billion in FY 2016.

Savings has long been considered as an engine for economic growth. Countries that had made sustained accumulation of fixed capital have been able to achieve higher and sustained economic growth and development than other countries. The accumulation of fixed capital over long run can only be possible through sufficient savings.

Savings create capital formation and it further leads to technical innovation and progress which help the economies with large-scale production and increases specialization, helps to accelerate the productivity of labour, further resulting in increased GDP.

National savings play a dominant role in achieving desired level of investment to reach the planned target of economic growth. Contribution of national savings to domestic

investment is the mirror image of foreign savings required to meet the investment demand. The foreign savings are needed to finance saving investment gap. National savings were 13.1 percent of GDP in FY2017 against 14.3 percent last year. Domestic savings are recorded at 7.5 percent of GDP in outgoing fiscal year as compared to 8.2 percent of GDP last year. The slight decline in savings may be due to lower profits on saving schemes but government efforts under new initiatives to encourage savings along with higher GDP growth will increase saving capacity and savings will increase in coming period. Net foreign resource inflows finance the saving investment gap. It is essential for sustainable growth that saving investment gap should be filled in a prudent way. The government is trying to gear up both savings and investment to increase required growth and to absorb surplus labour force in development process of the country. Table 1.5 presents saving and investment level over time.

Saving-Investment Gap

Table 1.5: Saving-Investment Gap (Rs. billion)			
	Investment	National Savings	Saving-Investment Gap
2005-06	1,588	1,251	-337
2006-07	1,736	1,290	-446
2007-08	2,043	1,175	-868
2008-09	2,316	1,590	-727
2009-10	2,350	2,019	-331
2010-11	2,581	2,599	18
2011-12	3,022	2,607	-416
2012-13	3,348	3,107	-241
2013-14	3,684	3,362	-322
2014-15	4310	4036	-274
2015-16	4527	4173	-354
2016-17	5027	4168	-858

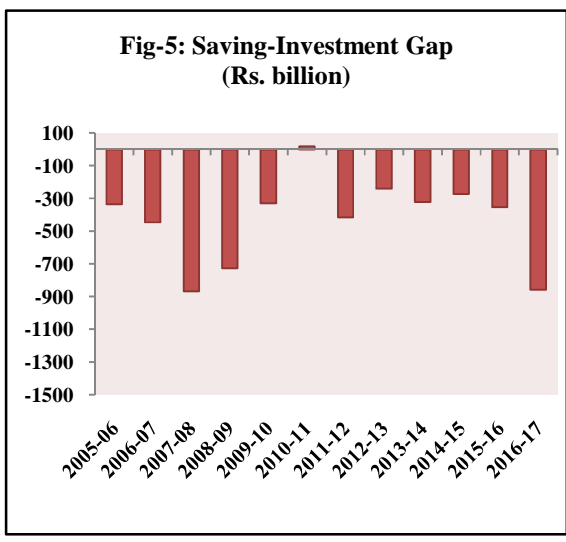


Table 1.6 shows saving and investment as percentage of GDP and Fig-9 indicates saving-investment behaviour. Private investment recorded last year was Rs. 2958 billion and it expanded to Rs. 3154 billion during outgoing

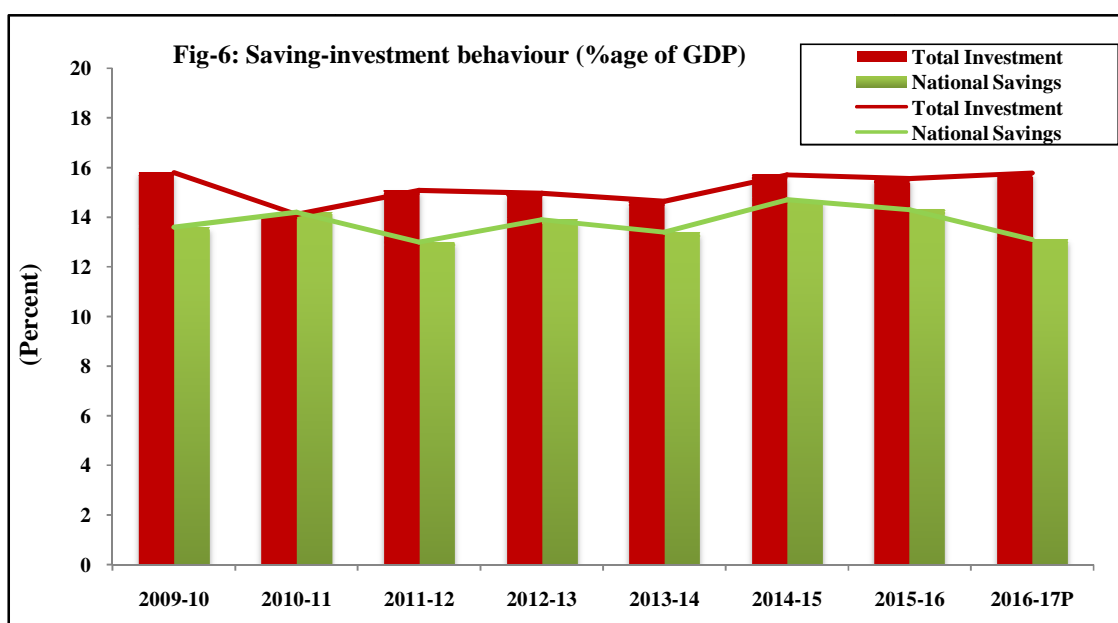
fiscal year. This increase in private investment is an indicator that investment climate is improving in the country and private investors are showing confidence in government policies.

Growth and Investment

Table 1.6: Structure of Savings and Investment (As Percent of GDP)

Description	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17P
Total Investment	14.11	15.08	14.96	14.64	15.71	15.55	15.78
Changes in Stock	1.60	1.60	1.60	1.60	1.60	1.60	1.60
Gross Fixed Investment	12.52	13.48	13.36	13.04	14.11	13.95	14.18
-Public Investment	3.23	3.75	3.52	3.17	3.75	3.79	4.28
-Private Investment	9.29	9.73	9.84	9.87	10.36	10.16	9.90
Foreign Savings	-0.10	2.07	1.08	1.28	1.00	1.22	2.69
National Savings	14.2	13.0	13.9	13.4	14.7	14.3	13.1
Domestic Savings	9.7	7.84	8.7	7.7	8.6	8.2	7.5

Source: EA Wing Calculations
P: Provisional



Foreign Direct Investment

The global integration of economies has provided an opportunity to developing countries to adopt liberalized policies to attract foreign direct Investment (FDI). Special Economic Zones (SEZs) have helped in attracting FDI. Pakistan has a great potential to attract foreign investment due to abundant resources, large market with growing middle class and better geographical location relative to other countries. Due to better policies and initiatives of present government, Pakistan is becoming a favourite destination for investors and investment climate is improving on fast track.

The FDI Strategy 2013-17 outlines a conceptual framework for cooperation of economic sectors in Pakistan in both public and private sectors, towards mobilizing the Private Investments (domestic and foreign) that are required to achieve Pakistan's economic targets. Board of Investment (BOI) is providing orientation and facilitation to investors through a comprehensive facilitation package of investment.

BOI hosted the first meeting of Heads of Economic Cooperation Organizing (ECO) Investment Promotion Agencies (IPAs) in

Islamabad on 26th December, 2016. The representatives of the ECO countries (Afghanistan, Iran, Turkey and Azerbaijan) presented their country statements with regard to Investment policy, business environment, regulatory frameworks, role of IPA's and potential of trade & investment available in their countries. Enhanced cooperation was stressed in investment and trade areas as vital to economic integration of the Member States.

BOI organized Pakistan – Italy Investment and Trade Forum in collaboration with Italian Embassy in Pakistan on 6th December, 2016. A delegation of fifty prominent Italian businessmen belonging to Infrastructure and construction, renewable energy, mechanics for agriculture and food processing, mechanics for textile and leather, and mechanics for marble and stones participated in the forum. It was the first ever comprehensive business mission of Italy in Pakistan and the second largest business delegation to South-East Asia after China, 250 prominent businessmen from Pakistan side participated in the Forum. The event provided an opportunity for Pakistani Business Community to showcase to the Italians, the opportunities that Pakistan has to offer and the potential of its growing market.

The Pakistan-Turkey Investment Round Table meeting was also organized on 17th November, 2016 in Islamabad during the official visit of Turkish President Mr. Recep Tayyip Erdogan to Pakistan. The Investment Round Table was attended by Ministers from Pakistan and Turkey as well as Presidents and CEO's of different National and Multinational Pakistani and Turkish Companies.

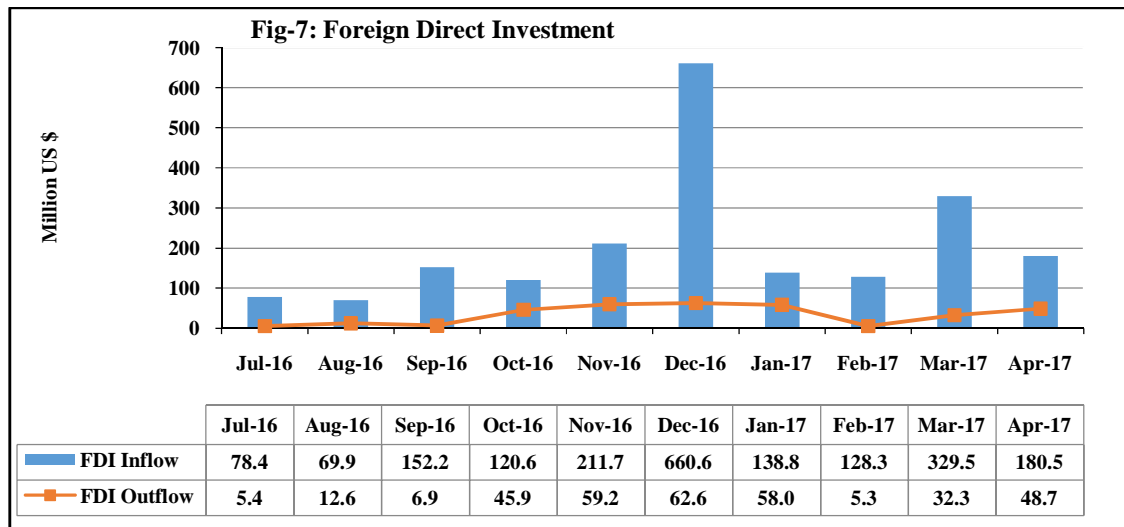
BoI also organized Pakistan-Belarus Investment and Business Forum on 05th October, 2016 at Islamabad during the visit of President of Belarus to Pakistan. The forum was jointly inaugurated by President of Belarus and Prime Minister of Pakistan. A fifty four member Belarusian delegation participated in the event where as 146 officials and private sector businessmen comprising various sectors such

as agriculture, dairy, textile, fertilizer, automotive, machinery and chemicals sectors attended the forum. The Ministries (Industries & production, Petroleum & Natural Resources, National Food Security and Research and Textile) made presentations and highlighted the investment opportunities and sectoral policies.

BoI in coordination with Business France organized roundtable business forum on 13th September, 2016 at Paris, France. Chairman, BOI led a seven member's delegation and made a detailed presentation on Investment Climate in Pakistan. Chairman, BoI also met the representatives from both private and public sectors including French Federation of Energy Producers, President France-Pakistan Friendship Group, Gemalto, Total, Credit Agricole Bank, French Finance Minister etc.

BoI also shared a presentation on Investment Environment, Legal Framework and Special Economic Zones in Pakistan with Chamber of Commerce & Industry, Oman. It highlighted economic turnaround in Pakistan, ongoing FDI activity, potential for exports to Oman, Ports connectivity, ferry service, CPEC and cooperation in Oil & Gas sector.

During July-April FY 2017 FDI amounted to \$1.733 Billion compared to \$1.537 Billion during same period last year, posting growth of 12.75 percent. While on YoY basis, it registered a significant growth of 17.1 percent in April 2017. The major FDI inflows during the period under review were from China (\$ 744.4 Million), Netherland (\$478.6 Million), France (\$171.0 Million), Turkey (\$137.7 Million), US (\$103.2 Million), U.A.E (\$ 48.4 Million), UK (\$47.6 Million), Italy (\$ 47.4 Million), Japan (\$ 42.1 Million) and Germany (\$ 40.5 Million). Food, Power, Construction, Electronics, Oil & Gas exploration, Financial Business and Communication remained the main recipient sectors. FDI inflows continued to maintain a moderate pace marked by improvement in multinationals' confidence in the country's economy.



Worker's Remittances

According to World Bank's Migration and Remittances Report (2017), remittance flows to developing countries are estimated to have declined by 2.4 percent in 2016, after a decline of one percent in 2015. This is the first time in recent history that remittances flows have declined for two successive years. Remittances were impacted by weak economic growth in Europe, the Russian Federation, and the Gulf Cooperation Council (GCC) countries and exchange controls, burdensome regulations, and anti-migrant policies in many countries. Remittances to the South Asia region declined by 6.4 percent in 2016 in the face of lower oil prices and fiscal tightening in the GCC countries. According to the World Bank Report, Pakistan is the fifth top remittance receiving country in the world. In 2016, remittances to India declined by 8.9 percent and in

Bangladesh, declined by 11.1 percent but remittance flows to Pakistan increased by 6.39 percent in the same period. In Pakistan, workers' remittances have contributed positively in the stability of external account balances during recent years.

During July-April FY2017, remittances reached the level of US\$ 15.6 billion compared with US\$ 16 billion in July-April FY2016. During July-April FY2017, the major share of remittances is from Saudi Arabia 29.0 percent (US\$ 4,517.2 million), U.A.E 22.2 percent (US\$ 3,468.4 million), USA 12.4 percent (US\$ 1,929.3 million), Other GCC countries 12.1 percent (US\$ 1,881.2 million), U.K 11.8 percent (US\$ 1,846.7 million), EU 2.4 percent (US\$ 374.4 million) and Other Countries 10.1 percent (US\$ 1,579.0 million). Remittance inflows from 2009-10 onwards are presented in table 1.7.

Table: 1.7 -Country Wise Worker's Remittances Million US\$

Country	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 Jul-April
USA	1,771.19	2,068.67	2,334.47	2,186.24	2,467.65	2,702.70	2522.92	1929.29
U.K.	876.38	1,199.67	1,521.10	1,946.01	2,180.23	2,376.20	2579.06	1846.68
Saudi Arabia	1,917.66	2,670.07	3,687.00	4,104.73	4,729.43	5,630.40	5968.4	4517.2
U.A.E.	2,038.52	2,597.74	28,48.86	2,750.17	3,109.52	4,231.80	4365.27	3468.41
Other GCC Countries	1,237.86	1,306.18	1,495.00	1,607.88	1,860.03	2,173.00	2422.68	1881.22
EU Countries	252.21	354.76	364.79	357.37	431.85	364.1	417.69	374.43
Other Countries	812.08	1003.88	935.4	969.26	1,059.00	1,241.70	1638.58	1579.05
Total	8,905.90	11,200.97	13,186.62	13,921.66	15837.71	18,719.80	19914.6	15596.28

Source :State Bank of Pakistan

It is important to note that slow down in remittances to Pakistan is mainly attributed to the following factors:

- a) Sharp decline in oil prices;
- b) In Middle East work on a number of development projects has been slowed/stopped. Consequently, a number of companies have adopted policies of wage cuts and slashed down employment in different sectors, particularly in construction sector;
- c) Increased customer disclosure requirements in US that raised the compliance cost for Banks/MSBs led to a decline in remittances from US during the current fiscal year;
- d) Money Service Businesses (MSBs) in UK and Australia are facing problems in transferring funds due to closure of bank accounts as banks adopted wholesale de-risking policy in these jurisdictions. MSBs without a bank account have to share their income with other entities for transferring their funds. Consequently, MSBs find third party settlement more convenient than transferring funds through banking system, which is supporting Hawala transactions;
- e) In FY17, decline in remittances from UK is mainly due to solely responsible to a sharp depreciation in British Pound (around 19 percent relative to pre-Brexit poll).

It is expected that inflow of remittances would increase in the last two months of FY2017 on account of month of Ramadan and Eid ul Fiter hat would help compensate the decline in remittances during the entire fiscal year. The present government is trying to increase its labour force participation in infrastructure activities in the Gulf region.

Moreover, Pakistan Remittance Initiative (PRI), jointly launched by Ministry of Finance, State Bank of Pakistan and Ministry of Overseas Pakistanis, is also making efforts to promote the use of formal channels for the remittances transfer by enhancing domestic and overseas outreach of financial sector. PRI, in coordination with banks, is also conducting awareness sessions at Protectorate of Emigrant Offices across Pakistan.

Global Developments

The global dynamics in political economy remained significant and their impact is realized on the global economic activities and trade performance. World growth is forecast to increase from an estimated 3.1 percent in 2016 to 3.5 percent in 2017 and 3.6 percent in 2018, with the main impetus to growth in world output coming from buoyant financial markets and recovery in manufacturing and trade. The rise in global activities is mainly from developments in emerging markets and developing economies. Economic performance of many emerging economies and developing countries are projected to pick up noticeably due to expected improvement in commodity exports, supported by the partial recovery in commodity prices.

Growth in the group of emerging markets and developing economies is forecast to remain at 4.5 and 4.8 percent in 2017 and 2018, respectively. In advanced economies, the rising momentum is mainly driven by forecast of higher growth in the United States, from 1.6 percent in 2016 to 2.5 percent in 2018, reflecting the assumed expansionary fiscal policy and an improvement in confidence of economic agents.

The outlook has also improved for Japan and in some members of the Euro area based on a cyclical recovery in global manufacturing and trade that started in the second half of 2016. Growth in the United Kingdom is projected to be 2.0 percent in 2017 before declining to 1.5 percent in 2018 reflecting the stronger-than-expected performance of the U.K in the aftermath of the June 2016 referendum in favour of leaving the European Union (Brexit).The Japanese economy appears better poised for a recovery due to strong net exports. A comprehensive revision of the national accounts led to an upward revision of historical growth rates. Growth prospects in some members of Euro area have improved. France and Portugal observed economic recovery as a result of strong domestic demand.

Turkey, as a free-market economy has

performed well since 2000, in the backdrop of macroeconomic and fiscal stability, making it an upper-middle-income country. In the first-half of 2016, the economy decelerated against the backdrop of political unrest and rising geopolitical conflicts. Following a revised 4.7 percent increase in the first-quarter, GDP expanded 3.1 percent annually in the second-quarter, the slowest increase since 2015.

Growth in commodity-exporting advanced economies is forecasted to recover in 2017 with projected increase of 1.2 percent in Norway, 1.9 percent in Canada, and 3.1 percent in Australia. This recovery is also supported by accommodative monetary policies, supportive fiscal policies, infrastructure investments improving sentiment following the upturn in commodity prices.

Among other advanced economies in Asia, recovery in economic growth for 2017 is projected in Hong Kong 2.4 percent and Singapore to 2.2 percent, partially due to expected recovery in China's import demand. In contrast, a marginal decline in growth is forecasted for South Korea to 2.7 percent in 2017 reflecting weaker private consumption due to expiration of temporary supportive measures, ongoing political uncertainty and high household debt.

Economic performance in emerging markets and developing economies has remained mixed. China growth remains better primarily due to continued policy support in the form of strong credit growth and reliance on public investment to achieve growth targets. Economic activity slowed in India due to impact of currency exchange initiatives. Brazil remained in recession in 2016 but some recovery is expected in 2017 and it will further strengthen in 2018, while geopolitical factors held back growth in parts of the Middle East and Turkey.

The growth outlook for the Middle Eastern countries has weakened in 2017. Saudi Arabia has an oil-based economy. A long-term plan known as Saudi Vision 2030 along with National Transformation Programme has been launched to reshape the economy. By diversifying the economy and implementing a

gradual but sizeable and sustained fiscal consolidation, the kingdom is undergoing the biggest economic shakeup in the country's history in an attempt to reduce its reliance on oil. Lower oil prices continued to spark a domestic financial crisis in 2016. The real GDP growth slowed to 1.4 percent in 2016 from 4.1 percent in 2015. Growth in Saudi Arabia, is forecasted to slow by 0.4 percent in 2017 primarily due to lower oil production and ongoing fiscal consolidation, but it will start picking up to 1.3 percent in 2018.

The UAE is one of the Middle East's most important economic centers. A massive construction boom, an expanding manufacturing base and a thriving services sector are supporting economic diversification. Although UAE has become a regional trading and tourism hub, particularly Dubai, most of the UAE remains heavily dependent on oil revenues. As a result, the economy has been strongly affected by the decreasing oil prices since the second-half of 2014. In 2015, it was hit by low oil prices, a slowdown in government spending, falling real estate prices in Dubai, and lower global trade volumes.

In 2017, UAE is expected to focus on non-oil sectors to drive the GDP growth. The importance of non-oil economic activities has grown steadily. From 2017 onwards, UAE is expected to lead economic growth in the Arabian Gulf as oil production is expected to rise due to investments in oilfield development.

It is expected that most of the of Middle Eastern countries will perform relatively better in 2018. In Egypt, broad reforms are supposed to impact significantly on growth dividends and growth is expected to increase from 3.5 percent in 2017 to 4.5 percent in 2018.

Iran has adopted a comprehensive strategy encompassing market-based reforms as envisaged in the government's 20-year vision document and the sixth five-year development plan for 2016-2021. Afghanistan is strategically located between South and Central Asia and offers lucrative business opportunities. Over 30 years of conflict has left Afghanistan one of the poorest countries in the world. Large population

continues to suffer from shortages of housing, clean water, electricity, medical care, and jobs. Afghanistan's economy is recovering from decades of conflict and has improved significantly, largely because of the international assistance owing to the recovery of the agricultural and service sector. The country is highly dependent on foreign aid despite the progress made over the last decade. In 2017 the government will face multiple challenges as this year was strategically and economically critical for Afghanistan. Stronger growth is predicated on improvements in security, political stability, reform progress, and continued high levels of aid.

Russia has been in recession for nearly two years as oil prices have slumped and western sanctions have been imposed. The combination of falling oil prices and sanctions hit the country hard, causing capital flight. The IMF is of the view that the steps Russia took to mitigate the crisis had helped lessen the impact of recession. According to the IMF and World Bank, Russia's economic outlook has improved and is set to return to growth as soon as next year.

Economic activity is projected to accelerate slightly in 2017 in ASEAN- economies (Indonesia, Malaysia, Philippines and Vietnam). Thailand is forecasted to recover from a temporary dip in tourism and consumption in late 2016. Growth in 2017 is projected to be 5.1 percent in Indonesia, 4.5 percent in Malaysia, 6.8 percent in the Philippines, and 6.5 percent in Vietnam. In these economies, the recovery in growth is strengthened to a significant extent by stronger domestic demand and, in the Philippines, by higher public spending in particular.

Most of the African countries are expected to record a strong to modest economic growth in 2017 which will further strengthen in 2018 on the back of reforms initiatives and increase in domestic and global demand. Despite continuing geopolitical uncertainty, rise in oil prices and concerns about rising fiscal and current account imbalances, the collective impact has so far been significantly muted. While the current regional and global outlook offers some optimism, there are nevertheless some important domestic risks to which all policy makers need to be ready to respond. Macroeconomic imbalances continued to pose a risk to global economic growth.

In South Asia, Pakistan's growth performance is improving continuously as the country continued on the path of achieving higher and broad based economic growth due to comprehensive reform initiatives of the government. The broad based recovery momentum is expected to continue at healthy pace with growth forecast of 6.0 percent in FY 2018 supported by ongoing reforms process and infrastructure development drive under the CPEC.

Pakistan's economy builds on strong economic fundamentals that have undergone substantial structural transformation and in fuelling rapid changes in consumption and production patterns along with infrastructure development spending. The enhanced, cheaper and easy access to credit is boosting new entrepreneurship as well as changing consumption pattern. The emerging and growing middle class is becoming an increasingly dominant force in the development process of Pakistan.

Table-1.8: Comparative Real GDP Growth Rates (%)

Region/Country	2010	2011	2012	2013	2014	2015	2016	2017	2018 (P)
World GDP	5.4	4.2	3.5	3.4	3.5	3.4	3.1	3.5	3.6
Euro Area	2.1	1.5	-0.9	-0.3	1.2	2.0	1.7	1.7	1.6
United States	2.5	1.6	2.2	1.7	2.4	2.6	1.6	2.3	2.5
Japan	4.2	-0.1	1.5	2.0	0.3	1.2	1.0	1.2	0.6
Germany	4.0	3.7	0.7	0.6	1.6	1.5	1.8	1.6	1.5
Canada	3.1	3.1	1.7	2.5	2.6	0.9	1.4	1.9	2.0
Emerging Market and Developing Economies	7.4	6.3	5.4	5.1	4.7	4.2	4.1	4.5	4.8

Growth and Investment

Table-1.8: Comparative Real GDP Growth Rates (%)									
Region/Country	2010	2011	2012	2013	2014	2015	2016	2017	2018 (P)
China	10.6	9.5	7.9	7.8	7.3	6.9	6.7	6.6	6.2
Hong Kong SAR	6.8	4.8	1.7	3.1	2.8	2.4	1.9	2.4	2.5
Korea	6.5	3.7	2.3	2.9	3.3	2.8	2.8	2.7	2.8
Singapore	15.2	6.2	3.9	5.0	3.6	1.9	2.0	2.2	2.6
Turkey	8.5	11.1	4.8	8.5	5.2	6.1	2.9	2.5	3.3
Russia	4.5	4.0	3.5	1.3	0.7	-2.8	-0.2	1.4	1.4
Vietnam	6.4	6.2	5.2	5.4	6	6.7	6.2	6.5	6.3
ASEAN									
Indonesia	6.4	6.2	6	5.6	5	4.9	5.0	5.1	5.3
Malaysia	7.5	5.3	5.5	4.7	6	5	4.2	4.5	4.7
Thailand	7.5	0.8	7.2	2.7	0.9	2.9	3.2	3.0	3.3
Philippines	7.6	3.7	6.7	7.1	6.2	5.9	6.8	6.8	6.9
South Asia									
India	10.3	6.6	5.5	6.5	7.2	7.9	6.8	7.2	7.7
Bangladesh	6	6.5	6.3	6	6.3	6.8	6.9	6.9	7.0
Sri Lanka	8	8.4	9.1	3.4	4.9	4.8	4.3	4.5	4.8
Pakistan*	2.6	3.6	3.8	3.7	4.05	4.06	4.5	5.3	6.0
Middle East									
Saudi Arabia	4.8	10.3	5.4	2.7	3.7	4.1	1.4	0.4	1.3
Kuwait	-2.4	10.9	7.9	0.4	0.6	2.1	2.5	-0.2	3.5
Iran	6.6	3.7	-6.6	-1.9	4.0	-1.6	6.5	3.3	4.3
Egypt	5.1	1.8	2.2	3.3	2.9	4.4	4.3	3.5	4.5
Qatar	18.1	13.4	4.7	4.4	4.0	3.6	2.7	3.4	2.8
UAE	1.6	4.9	7.1	4.7	3.1	3.8	2.7	1.5	4.4
Africa									
Algeria	3.6	2.8	3.3	2.8	3.8	3.8	4.2	1.4	0.6
Morocco	3.8	5.2	3	4.5	2.6	4.5	1.5	4.4	3.9
Tunisia	2.6	-1.9	3.9	2.4	2.3	1.1	1.0	2.5	3.1
Nigeria	11.3	4.9	4.3	5.4	6.3	2.7	-1.5	0.8	1.9
Kenya	8.4	6.1	4.6	5.7	5.3	5.6	6.0	5.3	5.8
South Africa	3	3.3	2.2	2.5	1.7	1.3	0.3	0.8	1.6

Source: World Economic Outlook (IMF), April 2017.

*: Finance Division, Government of Pakistan, P: Projected.

Conclusion

The present government after coming into power initiated a number of major steps for removal of bottlenecks like energy shortage, restructuring of PSEs, creating conducive

investment climate, bridging fiscal & current account deficits. The government remained successful in achieving macroeconomic stability and is now focused on attaining highest sustainable and inclusive economic growth.