Executive Summary

The Government remained focused on maintaining macroeconomic stability, growth, mobilizing domestic resources and increasing exports, balanced regional development and providing safety nets for the vulnerable groups. Despite numerous challenges, the economy performed better in 2011-12 than many developed and developing economies. These included sharp increase in fuel and commodity prices, recessionary trend globally and weak inflows. Domestically, economy was struck by heavy rains in Sindh and parts of Balochistan costing $ 3.7 billion. Notwithstanding these challenges, the Gross Domestic Product growth this year is estimated at 3.7 percent as compared to 3.0 percent last year.

In comparison, the global recovery is threatened by intensifying strains in the euro area and fragilities elsewhere. International Monetary Fund has maintained its growth forecast of 2.1 percent for United States in the year 2012, negative 0.3 percent for Euro area, 0.8 percent for United Kingdom, 5.7 percent for Emerging and Developing Economies after factoring China (8.2 percent) and India (6.9 percent) and 2.0 percent for Japan.

Despite global slowdown, Pakistan has managed to maintain its exports during July-April 2012 to last year's level which saw a phenomenal growth. Remittances remained buoyant and estimated at close to $ 13 billion, an increase of 16 percent. Recessionary trend globally have, however, impacted capital flows to Pakistan. Current account balance was affected due to sharp increase in oil prices and import of 1.2 million metric tons of fertilizer.

Tax measures enforced by the Government in April 2011 has yielded dividend. July-April 2012 growth in FBR tax revenues demonstrated a growth of 24 percent with Rs. 1445 billion as compared to 1250 billion last year. Efforts are underway to reach the ambitious target of 1952 billion. Non-tax receipts have been less due to non disbursement of anticipated coalition support funds and delaying the expected auction of 3 G license to a later part of summer.

Growth and Stabilization

The economy is now showing signs of modest recovery. GDP growth for 2011-12 has been estimated 3.7 percent as compared to 3.0 percent in the previous fiscal year 2011. The Agriculture sector recorded a growth of 3.1 percent against 2.4 percent last year. The Large Scale Manufacturing (LSM) growth is 1.1 percent during July-March 2011-12 against 1.0 percent last year. Overall, the commodity producing sectors and especially the Agriculture sector have performed better. The Services sector recorded growth of 4.0 percent in 2011-12.

Flood Impact Assessment

This performance has been achieved despite severe monsoon rains triggered floods of an unprecedented scale in Southern Pakistan, engulfing 23 districts of Sindh Province and adjoining areas of northern Balochistan causing damages to crops, infrastructure and human settlements, thus adversely affecting national economy.

According to the World Bank and the Asian Development Bank (ADB) Damage and Needs

Assessment (DNA) Report, approximately, 9.6 million people were affected in Sindh and Balochistan as a result of these rains. The total damages estimated to Agriculture, Energy, Transport and Communication, Health, Environment as well as the Forestry, Water Supply and Sanitation amount to Rs. 324.5 billion (US$ 3.7 billion).The rehabilitation and Cost of recovery is estimated at Rs. 239 billion (US$ 2.8 billion). This is in addition to damages of $ 10 billion to the economy during 2010 floods.

Commodity Producing Sector: The commodity producing sector has performed better in the outgoing fiscal year as compared to last year. Its growth rate this year was 3.3 percent against 1.5 percent during last year.

Agriculture Sector is a key sector of the economy and accounts for 21 percent of GDP. The supportive policies of the government resulted in a growth of 3.1 percent against 2.4 percent last year. Major Crops registered an accelerating growth of 3.2 percent compared to a negative growth of 0.2 percent last year. The major crops including Cotton, Sugarcane and Rice witnessed growth in production of 18.6 percent, 4.9 percent and 27.7 percent respectively. However, preliminary estimates of wheat production showed a negative growth due to late receding of flood waters in lower Sindh which hampered the timely cultivation of the wheat crop. Livestock has witnessed a marginally higher growth of 4.0 percent against the growth of 3.97 percent last year. Fisheries sector showed a growth of 1.8 percent. Forestry recorded a growth of 0.95 percent as compared to the contraction of 0.40 percent last year.

Manufacturing Sector: The growth of the manufacturing sector is estimated at 3.6 percent compared to 3.1 percent last year. Small scale manufacturing maintained its growth of last year at 7.5 percent and slaughtering growth is estimated at 4.5 percent against 4.4 percent last year. Large Scale Manufacturing (LSM) has shown a growth of 1.1 percent during July-March 2011-12 against 1.0 percent last year. The Construction Sector has shown 6.5 percent growth as compared to negative growth of 7.1 percent last year. Mining and Quarrying sector recorded a positive growth of 4.4 percent during July-March of the fiscal year 2011-12 against negative growth of 1.3 percent last year. Electricity and gas distribution witnessed a negative growth of 1.6 percent against - 7.3 percent last year.

Services Sector: The Services sector has registered a growth rate of 4.0 percent during July-March of the fiscal year 2011-12 against 4.4 percent last year. It is dominated by Finance and Insurance at 6.5 percent, Social and Community Services 6.8 percent and Wholesale and Retail Trade 3.6 percent.

Consumption: Real private consumption grew at 11.6 percent in fiscal year 2011-12 as compared to 3.7 percent growth last year and real government consumption grew at 8.2 percent as compared to 5.2 percent last year. Private consumption expenditure has reached 75 percent of GDP; whereas public consumption expenditures are 13 percent of GDP. Private consumption has increased on the back of sustained growth in remittances. Total consumption has reached 88.4 percent of GDP in fiscal year 2011-12 as compared to 83 percent last fiscal year. Furthermore, increase in rural income due to higher production of crops and sharp increase in commodity prices also supported the consumption demand.

Per capita real income grew at 2.3 percent in 2011-12 as compared to 1.3 percent growth last year. In dollar terms, it increased from $ 1258 in 2010-11 to $ 1372 in 2011-12.

Real Investment has declined from 13.1 percent of GDP last year to 12.5 percent of GDP in 2011-12; fixed investment has declined to 10.9 percent of GDP in 2011-12 from 11.5 percent of GDP last year. Similarly Private investment also contracted to 7.9 percent of GDP in 2011-12 as compared to 8.6 percent of GDP last year. Public investment as a percent of GDP is 3.0 percent in 2011-12 against the 2.9 percent last year. National savings are 10.7 percent of GDP in 2011-12 as compared to 13.2 percent in 2010-11.

Foreign Direct Investment stood at $ 668 million during July-April 2011-12 as against $ 1293 million last year. The capital flows were affected because of global financial crunch and euro zone crisis. Oil and Gas Exploration remained the major sector for foreign investors. The share of Oil and Gas Exploration in total FDI during July-April 2011-12 stood at 70 percent.

Workers's Remittances witnessed a strong growth of 25.8 percent in 2011 over the previous year 2010. During July-April 2011-12, worker's remittances grew by 20.2 percent at $ 10.9 billion. The buoyancy in remittances is largely attributed to the government's efforts to divert remittances from informal to formal channel. Data on remittances suggests that the monthly average for the period of July-April 2011-12 stood at $ 1.09 billion compared to $ 0.90 billion during the corresponding period last year. The upsurge in the remittances is attributed to the government's efforts of redirecting these flows from informal to formal channels.

Fiscal Development: The Medium Term Budgetary Framework has improved the budget preparation process. Medium-term fiscal framework and budget policies have been incorporated into a medium-term Budget Strategy Paper on rolling basis, which include medium-term indicative budget ceilings for the recurrent and development budgets, and provides an opportunity to discuss the budget between technical and political levels prior to the presentation of the annual budget. The political level involvement includes Cabinet, Standing Committees on Finance & Revenue, and political parties. The Output Based Budget (OBB) has also been institutionalized in the federal government which presents policies of the ministries in the shape of goals, outcomes, outputs and medium-term budgets. The OBB also presents key performance indicators for the outputs to introduce government wide monitoring system.

18th amendment in the Constitution of the Islamic Republic of Pakistan was an historic step forward abolishing the concurrent list transferring additional functions to the Provinces. It was combined with a path breaking 7th National Finance Commission Award in 2010. In addition, the Government resolved long standing demands of the Khyber Pakhtunkhwa relating to Net Hydel Profit and Royalty and Gas Development Surcharge of Sindh and Balochistan. The award also acknowledged multiple criteria for transfer of resources. Share of Balochistan has increased from 5.1 to 9.0 percent. Likewise, Khyber Pakhtunkhwa has been assigned 1 percent of the total divisible pool to mitigate the impact of campaign against extremism. This has allowed transfer of 70 percent of the divisible pool to the provinces and FATA and Gilgit-Baltistan. During the last two years, Federal Government has transferred over Rs. 800 billion additional over 2009-10 resource transfer of Rs. 633 billion. This should help the provinces to earmark more resources to social sectors and development of infrastructure.

Government continued its efforts to broaden the tax base and simplifying the tax structure. Efforts are underway to move towards two main taxes, i.e. income tax and sales tax. As a result, Special Excise Duties and Regulatory Duties have been abolished. A three years plan to phase out Federal Excise Duties is under implementation. Capital Gain Tax has been levied on sales of securities in the stock exchange. Sales tax exemptions and zero ratings have been withdrawn on all items including textile, leather, fertilizer, pesticides, sports goods and tractors except food items, health, education and agriculture produce. The Government has strengthened automated e-filing and electronic payment and refund system to ensure expeditious settlement of refund claims expeditiously. For this, a centralized sales tax refund cheque issuance system is now operational in the Federal Board of Revenue. Broadening the tax base identifying potential taxpayers has remained a key focus for which a dedicated unit has been established in the FBR. These efforts are now paying dividend. Federal Board of Revenue target for 2011-12 was set at Rs. 1952 billion. During first ten months, tax collection stood at Rs. 1,426.0 billion against Rs. 1,149.8 billion in the comparable period of last year, showing an increase of 24 percent. It does not include Rs. 19 billion collected by Sindh province on GST on services.

Efforts are being made to manage the fiscal deficit within acceptable level through an expenditure management strategy, austerity measures and reforms in public sector enterprises. The government is committed to simplification of tax regime, broadening the tax and mobilizing domestic resources. The operational expenditure of the federal ministries was reduced by 20 percent. A general ban was placed on recruitment and purchase of durable goods. Official transport assigned to entitled officers of BPS-20 to 22 was monetized to reduce expenditure on POL and repair and maintenance as well as drivers. Subsidy expenditure was rationalized. As a result of these efforts, overall fiscal deficit was at 5.0 percent of GDP in July-April 2012 against 5.5 percent of GDP of the comparable period of last year. It is noteworthy that containing the deficit during the period under review was quite challenging as the burden of financing fell directly on domestic sources due to the non materialization of external inflows.

Unlike the past, it was for the first time in many years that Public Sector Development Program did not face any cut. Despite huge financial constraints, the Government made a special effort to fully fund the PSDP. Accordingly, Rs. 304 billion were released that facilitated in completion of 200 projects. The Government efforts can be gauged from the fact that Rs. 2.2 trillion were provided during the last four years for PSDP.

Money and Credit: The SBP lowered the discount rate by cumulative 200 bps points to 12 percent during the first half of fiscal year 2011-12 in line with inflationary trend in the country. During the first eleven months of the current fiscal year (June 2011-11th May 2012) broad money (M2) witnessed an expansion of 9.1 percent as compared to 11.47 percent as compared to last year. The deceleration in money supply is primarily driven by the significant fall in the Net Foreign Assets of the banking system along with increased government borrowing and a one-off settlement of circular debt. Net Domestic Assets (NDA) during July 2011 - 11th May 2012 stood at Rs. 880.9 billion against Rs. 481.6 billion during the same period last year. The expansion in NDA is mainly contributed by a rise in demand for private sector credit and government borrowings. Conversely, Net Foreign Assets (NFA) witnessed a contraction. During July2011-11th May, 2012, credit to the private sector witnessed a net increase of Rs. 234.8 billion compared to Rs. 107.8 billion in the same period last year. Year-on-year growth in private sector credit was up 7.5 percent by 11th May, 2012.

The weighted average lending rate (including zero mark-up) on outstanding loans stood at 12.8 percent while the weighted average deposit rate (including zero mark-up) stood at 6.98 percent in March 2012. This resulted in a spread of 5.8 percent. The decline in the weighted average lending rate is due to the lag involved in contracting fresh loans in the new declining interest rate environment and the decline in banks return on government securities. It is pertinent to mention that since the SBP was following a tight monetary policy till August 2011 and the interest rates were moving up, the banking spread remained high.

Capital Markets: The KSE 100 index stood at 12,496 on June 20, 2011. It crossed the barrier of 14,000 and closed at 14,618 on 7th May, 2012, the highest level seen in last four years showing a growth of 17 percent over the closing index of last financial year. The Government has now levied Capital Gain Tax on securities. The net investment by the foreign investors in Pakistan's Stock Markets during July-March, 2011-12 reflected a net outflow of US$176 million. This indicates that bullish trend observed in Pakistani equity market is due to the restoration of the confidence of local investors and institutions. During fiscal year 2011-12, the leading stock markets indices of the world observed mixed trends with negative growth of 18.1 percent in China to 19.03 percent positive growth in case of Philippines. Pakistani Stock market performed well as compared to markets of the world during the current fiscal year. This was mainly due to the steps taken by the government to boost the confidence of the equity market investors which included reforms in the Capital gains tax, etc.

The Government has enacted Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012 which will further strengthen the country's stock markets. The law requires stock exchanges to be demutualized within 119 days of its promulgation in accordance with timelines specified for completion of various milestones involved in demutualization exercise. Corporatization, demutualization of stock exchanges would entail converting their structure from non- profit, mutually owned organization to for-profit entities owned by shareholders.

Demutualization would result in increased transparency at stock exchanges and greater balance between interests of various stakeholders by clear segregation of commercial, regulatory functions and separation of trading rights and ownership rights. Demutualization is well-established global trend and almost all stock exchanges worldwide operate in demutualized set up. The enactment of this law has brought Pakistan capital market at par with other international jurisdictions like India, Malaysia, Singapore, USA, UK, Germany, Australia, Hong Kong, Turkey among others. It will help expand market outreach, attract new investors, improve liquidity and enable stock exchange to attract international strategic partners.

Inflation: Price stability remained the priority of the government. The Government has constituted a National Price Monitoring Committee headed by the Finance Secretary with representatives of Federal Ministries and Provincial departments. The Committee meets every month. In addition, the Cabinet and the Economic Committee of the Cabinet monitors the prices of essential items and take corrective measures to ensure that prices remain under check. These efforts have yielded results. Inflation has declined for the third consecutive year. CPI was 10.8 percent during July-April, 2012 from a high of 25 percent in October 2008. It was in single digit in December 2012. This has been achieved despite sharp increase in international oil prices, effect of upward adjustment in the administered prices of electricity and gas, supply disruptions due to devastating floods of 2010 and heavy rains of 2011 and bank borrowings. Food and non-food inflation averaged 11.1 percent and 10.7 percent respectively against 18.8 percent and 10.8 percent in the same period of last year.

Trade and Payments: The Government pursued vigorously to secure concessional duties package on 75 items from the European Union. The World Trade Organization approved the package this year. It is expected that this will boost Pakistan's exports to EU, one of the major trading partner of Pakistan. Exports witnessed a strong performance last year attaining the highest level ever of $ 25 billion showing a growth of 30 percent. It reflected both the price and quantity effect. Despite euro zone crisis, impacting the demand for Pakistan goods, Pakistan has successfully maintained its exports at last year's until April this year. Exports during July-April 2012 were $ 20.5 million compared to $ 20.46 billion last year. The Afghan Transit Trade Agreement (APTTA) has encouraged formal trade between Pakistan and Afghanistan and the volume has risen to around $ 2.5 billion annually. Efforts are underway to formalize Free Trade Agreements and Preferential Trade Agreements with many countries. It will help boosting Pakistan's exports. Efforts are also in hand to normalize trade relations with India.

Imports grew by 14.5 percent and stood at $ 33.1 billion during July-April 2012. The current account deficit stood at $ 3.4 billion in the same period. It was largely as a result of high oil prices and import of fertilizers. Continued support from current transfers in the form of workers' remittances helped in containing current account balance.

Pakistan has witnessed some geographical diversification in exports. During 2005-06, 47.2 percent of the country's exports were concentrated in five markets (USA, UK, Germany, Hong Kong and U.A.E.) of the world and remaining share of all other countries was 52.8 percent. This concentration is on continuous decline since 2005-06 and recently the share of these five markets stood at 35.7 percent whereas the share of all other countries increased to 64.3 percent during July-December 2011-12. This improvement in geographical diversification was mainly the result of Strategic Trade Policy Framework (STPF-2009-12) introduced by the government and the resulting increase in exports to China, Afghanistan and Bangladesh.

Pakistan's foreign exchange reserves reached to $ 16.5 billion at the end-April 2012 compared to $ 17.0 billion at end-April 2011. The exchange rate averaged at Rs. 85.50/US$ during July-April 2010-11, whereas it averaged at Rs. 88.55/US$ during July-April 2011-12. The Pak Rupee depreciated by 3.4 percent during July-April 2011-12 over the depreciation of 2.2 percent in July-April 2010-11 period.

Public Debt: Pakistan's public debt stood at Rs. 12,024 billion as of March 31, 2012. During first nine months of the ongoing fiscal year, total public debt registered an increase of Rs. 1,315 billion which includes Rs. 391 billion consolidated by the Government into public debt against outstanding previous year's subsidies related to food and energy sectors. Public debt as a percent of GDP stood at 58.2 percent by end-March 2012. During July-March 2012, $179 million was added to the EDL stock. At the end of March 2012, servicing of the public debt stood at Rs.720.3 billion against the budget amount of Rs. 1034.2 billion.

Population, Labour Force and Employment: Pakistan is endowed with demographic dividend with a bulging young population. They can be a productive asset of the country if put to proper training and skill development. Pakistan is also facing rapid urbanization. The population in urban areas has increased from 65.3 million in 2010-11 to 67.5 million in 2011-12. Accordingly, cities development is one of the key pillars of Pakistan's growth framework.

According to the Labour Force Survey 2010-11, Pakistan has a labour force of 57.2 million people which is 0.9 million more than the last year. Out of this potential labour force, the total number of people were employed during 2010-11were 53.8 million, which is 0.6 million more than the last year. The total labour force working in the agricultural sector remained unchanged during the period 2008-2011. In manufacturing sector, the participation rate has increased from 13.2 percent in 2009-10 to 13.7 percent in 2010-11. Efforts are being made to develop an efficient, equitable and rights based labour market that provides the mechanisms for productivity growth in the economy which results in real wage increases.

The government is making sincere efforts to boost overseas employment which will not only reduce the unemployment burden in the country but will also enhance remittances. In this regard, MoUs have been signed with number of labour importing countries such as Malaysia, Kuwait, and Qatar etc. Emigrants sent abroad in 2010 were 0.4 million and 0.5 million in 2011. Saudi Arabia, Gulf State including United Arab Emirate (UAE), Oman and Kuwait are the largest market of Pakistani workers.

Transport and Communication: The transport and communication sector is a major contributor to government revenues. Sustainable economic development is dependent on a robust and low cost transport system. Enhanced export competitiveness is also contingent upon the efficient performance of this sector. The government is committed to implementing a comprehensive and modernizing transport and logistics sector through continuous reforms in all of its sub sectors. The Ministry of Communications has prepared a draft National Transport Policy which covers all modes of transport sectors i.e. (i) Roads, (ii) Railways, (iii) Ports and Shipping and (iv) Aviation. This policy also includes the National Transport Corridor Improvement Program (NTCIP) to make it more productive and environment friendly.

The National Highway Authority completed 12 projects of flyovers, bridges, interchanges and the upgrading of roads during the last one year at a cost of Rs. 19.6 billion. At present, 46 development projects of roads covering 2,985 kms are ongoing costing Rs. 245 billion in different sections/packages. These projects include construction of roads, river bridges, tunnels, flyovers and interchanges. NHA has also launched and awarded 16 new development projects covering over 500 kms, including construction of a number of bridges, flyovers and interchanges costing Rs. 71 billion. NHA is simultaneously constructing 12 bridges across the rivers. These are: on river Chenab 4, on river Sutlej 2, on river Swan 1 and on river Indus 5.

The Cabinet Committee of Restructuring (CCOR) approved a restructuring framework for Pakistan Railways (PR). New Board of Directors of PR has been instituted, involving academia, management professionals, rail experts and executive functionaries. The Government arranged Rs. 6 billion loan for repair of locomotives and freight operations are also being prioritized for revenue generation. PR is being provided Rs. 2.3 billion per month from the budget to finance pay and pensions of Railway employees. An Asset Management Company is being established for optimum utilization of PR's assets. Private sector involvement is the focus moving forward, the Chamber of Commerce and Industries Lahore has been engaged for their freight transportation from

Karachi to Lahore. Commercial management of rail operations and outsourcing of non-core functions is being initiated with an aim to improve efficiency of rail operations. Private Sector is also running a passenger train.

During the financial year, 16 kms of track was rehabilitated on the Pakistan Railways network besides doubling the previous 15 kms of track. Construction of a D Class railway station at new Multan City, renovation of Khudian Khas, Usmanwala, Raiwind and Kanganpur railway stations was carried out. Signaling system of four railway stations damaged during the riots of 2007 was rehabilitated during the period. During February 2012, 52 new design passenger coaches were imported from China. Remaining 150 passenger coaches will be manufactured at Pakistan Railway Carriage Factory Islamabad by June 30, 2013. In addition, 22 passenger coaches have been rehabilitated at the Pakistan Railway Carriage Factory Islamabad during the last year. A new dry port was set up at Prem Nagar near Raiwind industrial area, Lahore through public-private partnership.

Teledensity in the country has increased by 68.3 percent in April 2012, showing 6.7 percent growth as compared to the previous year. Mobile penetration rose to 64.9 percent in 2011-12 against 60.4 percent in 2010-11. Fixed Local Loop teledensity now stands at 1.93 percent. Total mobile subscribers has reached 118.3 million by the end of March 2012. Subscribers of Local Loop (FLL + WLL) are 5.9 million, out of which 3.10 million belong to FLL and 2.8 million belong to WLL. Broadband subscribers reached 1.9 million at the end of February 2012.

There has been a cumulative investment of approximately US$ 2.5 billion in the electronic media industry in Pakistan. More than 200,000 new jobs with diversified skills and qualifications have been provided. Additionally, over 7 million people have been accommodated through indirect employment. With the current growth rate of more than seven percent per annum in this sector, it is estimated that the cumulative investment in the electronic media industry will reach above $ 3.0 billion by the end of the current financial year.

Energy: Energy is considered to be the lifeline of economic development. Pakistan’s economy has been growing at an average growth rate of almost 3 percent for the last four years and demand of energy both at the production and consumer end is increasing rapidly. The Energy Committee headed by the Finance Minister presented a well articulated Energy Recovery Plan to the Cabinet in November 2011 which was approved after due deliberations.

The Plan focused on: (i) improving governance structure: it included dissolution of PEPCO and replaced by Central Power Purchase Authority, constituting new Boards of Directors (BODs) of 8 DISCOs and NTDC comprising professionals, issuance of explicit guidelines of professionalizing the BOD, hiring professional CEOs for DISCOs, GENCOs and CPPA, and business plans for each DISCO and GENCO to be developed by the newly hired CEO and approved by the new Board; (ii) Supportive legislative framework: NEPRA law was amended authorizing NEPRA to notify fuel adjustment, Cabinet has approved amendment making electricity theft a serious crime; (iii) Financial Sustainability of the System: the Government has increased electricity tariff by 90 percent and Rs. 1.25 per kwh very recently to recover the full cost of electricity supply which is still Rs. 3 per kwh below the determined tariff; (iv) Resolution of Circular Debt: the Government has provided Rs. 1122 billion from the budget during the last four years to resolve circular debt issue. However, extremely low collection than required (90 percent of the billed amount) by DISCOs always leaves a high balance as receivables; (v) Supply Side Management: reduction in transmission and distribution losses as well as running the most efficient plants; (vi) Demand Side Management: Standard Operating Procedure (SOP) issued for recovery of private receivables, a limit of 45 days for payment overdue has been set for disconnection, Loss mapping in each DISCO initiated to identify losses and their sources, Government facilitating recovery of dues of Provincial and Federal Government departments, and Media campaign for prudent use of electricity; (vii) Promoting Private Sector Participation (viii) changing fuel mix and (ix) changing energy mix moving towards hydel and coal based generation. In addition, the Government has launched a major energy conservancy program that includes two holiday a week, closing the markets at 8:00 pm, lighting alternate pole of the Municipalities and using air conditioners in offices after 11:00 p.m.

The contribution of Hydel in electricity generation increased to 33.6 percent in 2011. Karachi Electricity Supply Corporation (KESC) contributed 8.3 percent, Pakistan Atomic Energy Commission (PAEC) 3.6 percent, Kot Addu Power Company (KAPCO) 6.2 and the Hub Power Company (HUBCO) 9.1 percent to total electricity generation. Independent Power Producers (IPPs) have contributed almost 25 percent. The Government is implementing a number of priority hydel projects such as 969 MW-Neelum Jhelum, 1410 MW-Tarbela 4^{th} Extension, and Patrind in the private sector. Almost 96 percent of the work on the main dam at Mangla, spillway and allied facilities are completed and resettlement work is in progress. Likewise 99.7 percent work on Satpara and 72.1 percent on Gomal Zam dam have been completed. 7100 MW-Bunji, 4320 MW-Dasu, 80 MW Kurram Tungi Dam, 740-MW Munda Dam and 4500 MW-Diamer Bhasha Dam are in the pipeline. Pakistan is one of the beneficiaries of Tetra-partner power import project under the head of Central Asia-South Asia (CASA-1000) electricity trade. In addition, a number of thermal projects are under implementation including 747 Guddu refurbishment.

Pakistan has huge coal reserves estimated at over 185 billion tones. Thus the long term trend shows that there was an increase of production of coal; an average 7.7 percent change occurred during the last ten years. Federal as well as Sindh Governments are actively pursuing to provide necessary infrastructure at Thar for exploiting these coal reserves for power generation. Two blocs have been leased out on pilot basis. Efforts are underway to provide the missing transmission link between Matiari and Thar.

The Government is also working on different gas pipelines as well as import of LNG and LPG to address the gas shortages. In this regard, Liquified Natural Gas (LNG) Policy 2011 has been notified which encourages private parties to develop LNG projects and sets them free to participate in any segment of the LNG value chain. The gas sector supply increased by 4.9 percent in July-March 2011-12 as compared with the corresponding period of last year. The average production of natural gas during July-March 2011-12 was 4236.1 million cubic feet per day (mmcfd) as against 4050.6 (mmcfd) during the corresponding period of last year showing an increase of 4.6 percent.

Social Safety Nets: The government is committed to a sustained poverty reduction strategy and to allocate a minimum of 4.5 percent of GDP to social and poverty related expenditures. The government prioritized 17 pro-poor sectors through the Medium Term Expenditure Framework (MTEF) which provides a link between the policy priorities and the budget realties. Expenditure on pro-poor sectors in 2007-08 stood at 5.6 percent of GDP, 7.5 percent in 2008-09, 7.6 percent in 2009-10. Total expenditures in 2010-11 were 6.9 percent of GDP. This was first year of the 7^{th} National Finance Commission Award when 70 percent of the divisible pool was transferred to the provinces as well as transition was taking place as a result of 18^{th} amendment.

The floods of 2010 and heavy rains of 2011 significantly hurt the efforts to improve standard of living of the people. The floods and rains affected approximately 20 million people directly and a much larger proportion indirectly; the loss to infrastructure and livelihood sources further impacted the people of these areas.

The Benazir Income Support Programme, a flagship program of the Government, has made a remarkable progress by providing much needed relief to over 4 million recipients all over Pakistan. Over the last 4 years, BISP was provided over Rs. 178 billion out which Rs. 153 billion were contributed from domestic resources. A total amount of Rs. 122 billion has been disbursed to its recipients up to March 2012. The number of recipients is expected to be increased to 7 million once the on-going processing of data collected during the “nation-wide poverty scorecard targeting survey” is completed. BISP has launched a number of programmes including (i) Payment to Recipients, (ii) Graduation Initiatives, (iii) Waseela-e-Haq, (iv) Waseela-e-Rozgar, (v) Waseela-e-Sehat and (vi) Waseela-e-Taleem to mitigate the impact of stabilization program as well as inflation.

The Pakistan Poverty Alleviation Fund (PPAF) is yet another element of the country's poverty reduction strategy. The PPAF is dedicated for micro credit, enterprise development, community based infrastructure and energy projects, livelihood enhancement and protection, social mobilization, and capacity building. The overall disbursements for core operations during the period of July-December 2012 were Rs. 8.5 billion.

Pakistan Bait-ul-Mal is making a significant contribution towards poverty reduction through its various services by providing assistance to destitute, widows, orphans, invalid, infirm and other needy persons irrespective of their gender, caste, creed and religion through its ongoing core projects/schemes. A total of Rs. 1.8 billion has been utilised upto February 2012 on schemes such as individual Financial Assistance, child support program, vocational schools, sweet homes etc.

After devolution of the subject of Zakat, the Provinces/Federal Areas are directly managing the distribution of Zakat to the beneficiaries. Zakat funds have been utilized for assistance to the needy, indigent, poor, orphans, widows, handicapped and disabled for their subsistence and rehabilitation. Up to March 2012, a total amount of Rs.7.8 billion was distributed amongst the provinces and other administrative areas.

Peoples Works Programme (PWP) I & II are welfare programmes comprising small development schemes providing village electrification, gas, farm to market roads, education, health and other services to create jobs at the local level. PWP-I & II have been provided over Rs. 38 billion during 2011-12.

Employees Old Age Benefits Institution provides monetary benefits to the old age workers through various programmes such as the Old Age Pension, Invalidity Pension, Survivors Pension and Old Age Grants. During the period of July-March 2012, Rs. 8 billion has been disbursed to 350,485 beneficiaries.

Workers Welfare Fund is also facilitating the poor labourers in industrial sector by providing funds for housing facilities and marriage grant, death grant and scholarships etc. During (July-March) 2011-12, Rs. 2.5 billion has been incurred for these schemes. Government has also taken various micro-finance initiatives in collaboration with all stakeholders to generate employment opportunities and to eliminate poverty.

The Government has provided huge subsidies during the last four years to the vulnerable and poor to mitigate the impact of stabilization, floods and international prices. These include: Rs. 1122 billion for the power sector, Rs. 104 billion for the petroleum sector in addition to foregone income of Rs. 136 billion from Petroleum Levy by adjusting it downward to keep the petroleum prices lower than the international market, Rs. 110 billion on fertilizer and Rs. 137 billion for food items such as sugar, wheat and subsidized items through Utilities Stores. In addition, Federal Government provided Rs. 42 billion to the flood affectees through Watan Card as well as Citizens Compensation Damages Program.

Environment: Pakistan continued to face challenges to achieve environmentally sound development. This has become increasingly difficult to achieve in the backdrop of back to back flooding and rains across the country as well as other exogenous and endogenous factors. The quality of the natural environment is not only an extremely important issue from the point of view of individual survival but it will also emerge as one of the principal human security issues in Pakistan. The environmental challenges include climate change impacts, loss of biological diversity, deforestation and degradation of Air and Water quality.

A number of projects have been funded by the government to improve the capacity of relevant institutions to deal with increasing environmental degradation. In addition, there are a number of projects funded by the donors in which the government is a partner. These are being currently implemented to improve overall environment of the country. Government efforts alone, because of the limited resources at its disposal, are not enough and demand a much larger participation and support from other stakeholders including industry, civil society, and the public at large as well as the donors. National Climate Change Policy 2011 provides a framework for addressing the issues that Pakistan faces or will face in future due to the changing climate.

The level of access to drinking water is quite impressive in Pakistan. According to Pakistan Bureau of Statistics report (PBS) Pakistan Social and Living Standards Measurement Survey 2010-11, access to drinking water to urban and rural population of Pakistan is 94 and 84 percent, with an average of 87 percent in 2011. Sanitation facilities are also improving. According to a report released by the WHO/UNICEF Joint Monitoring Program (JMP) 2012, 92 percent people had access to drinking water by 2010 in Pakistan while this ratio was 85 percent and 89 percent in 1990 and 2000 respectively. The MDG target is to achieve the ratio of 93 percent by 2015.

Going forward, the government will continue to pursue policy of macroeconomic stability, growth and creating jobs, mobilizing domestic resources, incentivizing the private sector, and strengthening the social safety nets.

State of Economy in 2008

It is important to appreciate the state of economy inherited by the democratically elected Government and the challenges it faced as the Government presents 5^{th} budget for the first time in the history of Pakistan.

By the time this Government assumed responsibilities in March 2008, a combination of large exogenous price shocks (oil and food), global financial turmoil, huge expenditure on security and policy lapses during the political transition had set a stage for full blown crisis. More specifically:

- ***Real GDP growth slowed down*** in 2007-08 reflecting weaker performance of the agricultural and manufacturing sectors.
- ***Headline CPI 12-month inflation rose to 25 percent*** in October 2008, with core inflation (excluding energy and food) increasing to **18 percent**.
- ***External current account deficit widened to about $14 billion or 8½ percent of GDP*** in 2007/08.
- ***Fiscal deficit rose to 7.6 percent of GDP in 2007/08*** mainly because of a substantial increase in energy and food subsidies and import prices
- ***Gross reserves declined from $ 16 billion*** to $ 11 billion
- ***Domestic pressures and the global financial crisis led*** to rising dollarization and an outflow of deposits from the system in 2008 which contributed to a deterioration of liquidity conditions
- ***Karachi KSE-100 index dropped by one third***, prompting the Karachi Stock Exchange Board to impose a floor on the decline of all stock prices on August 27, 2008.

The Government had no choice but to go to IMF to strengthen international reserves and ensure fiscal stabilization. Just when the economy was transitioning from stabilization to growth, Pakistan was struck by the great floods of 2010. It caused severe damages to infrastructure, roads, bridges, power stations, refineries, schools, hospitals, crops and livestock. A large number of human lives were lost. The total loss was estimated to be around $ 10 billion. It was followed by yet another spell of severe rains in Sindh and parts of Balochistan in 2011 causing a loss of additional $ 3 billion.

The security development in the country during 2008-09, particularly in the North-West, required beefing up of security forces and mobilization of additional resources to deal with the situation. In addition, humanitarian crisis spawned by the security situation displacing over 3 million people resulted in huge budgetary costs.

Achievements since FY2008

Inspite of huge challenges during the last four years including **global economic contraction** especially in the advanced economies, **financial turmoil, great floods of 2010, extraordinary rains in 2011, persistently rising energy prices, continuing security situation,** the Government succeeded in:

- ***Maintaining macroeconomic stability*** by pursuing tight monetary policy and fiscal discipline
- ***Revival of Growth*****:** Economy is recovering from the floods and exogenous shocks and real GDP growth is estimated at around 3.7 percent on the back of pick up in agriculture and large scale manufacturing growth as compared to 3 percent last year
- ***Inflation:*** Average inflation seems remain close to the targeted 11 percent, declining from the peak of 25 percent
- ***External Sector*****:** Pakistan's external account registered an unexpected improvement during FY11 providing much needed breathing space to the economy. The exports surged to $ 25.4 billion showing a growth of 28.4 percent whereas the imports registered an increase of 14.7 percent. As a result, the trade deficit, which had been a major factor in the deterioration of the external account in the past, remained in check, and contracted by 8.7 percent as compared to the preceding year. FY11 current account balance posted a small surplus of $ 0.3 billion as compared to 8.5 percent deficit in 2008. This year, exports have maintained last year trend during July-April 2012 despite adverse global environment
- ***Strong flow of remittances:*** The rising trend in remittances continued for the fourth consecutive year in FY12 as remittances are estimated close to US$ 13 billion as compared to $ 6.2 billion in FY08
- ***Build up of Foreign Exchange Reserves*****:** The improvement in the overall external balance despite the contraction in financial account surplus helped build up foreign exchange reserves during FY11. Thus, by the end of June 2011, Pakistan's overall foreign exchange reserves stood at a record level of US$ 18.2 billion. Currently, these are at $ 16.4 billion despite repayment to the IMF as well as discharging all our obligations

Several New Initiatives of the Government

This Government has undertaken several new initiatives during the last four years. The most significant initiatives include:

- ***7th National Finance Commission Award:*** The Award was path-breaking as (i) it moved away from population as the sole basis for horizontal distribution of resource and gave due weightage to population, poverty/ backwardness, revenue collection, revenue generation and inverse population density; (ii) it increased share of Balochistan to 9.09 percent (iii) **70 percent share of the divisible pool is now being transferred to the Provinces and Special Areas (iv)** transfer to the provinces increased from Rs. 633 billion in FY10 under 6th NFC Award to **Rs. 999 billion in FY11 and Estimated Rs. 1,204 billion in FY12**
- ***18th Amendment in the Constitution*** abolishing the concurrent list and transfer of 17 federal ministries to the provinces
- ***Autonomy to Gilgit-Baltistan***
- ***Aghaz-e-Haqooq-e-Balochistan***

- ***Additional Resources to less developed areas in 4 years*:** It included (i) Rs 32 billion to Gilgit-Baltistan in 2 years (ii) Rs 71 billion to AJK and (iii) Rs 110 billion to FATA
- ***Public Sector Development Program:*** PSDP over a period of 4 years was Rs 2.2 trillion. Current year's PSDP outlay is Rs 730 billion as compared to Rs 480 billion last year. It was spent to complete 657 projects in 4 years
- ***Peoples' Works Program*:** Rs 130 billion were earmarked under Peoples Works Program-II (Rs 110 billion) and Rs 20 billion under PWP-I in 4 years for implementation of hundreds of schemes for electrification, gas supply, road, water supply and sanitation
- ***Citizens' Damages Compensation Program*:** Federal Government provided Rs 42 billion to the flood affectees
- ***Subsidies: Over the 4 years,*** Government has provided so far (i) over Rs **1122 billion** towards tariff differential subsidy to maintain the notified tariff lower than the determined tariff (ii) Rs 104 billion in petroleum subsidy (iii) Rs 110 billion for fertilizer subsidy and (iv) Rs 137 billion in food subsidy. In addition, the Government lost Rs 136 billion in revenue by adjusting the petroleum levy downward
- ***Benazir Income Support Program:*** Additional resources of Rs 178 billion allocated for disbursement through BISP to vulnerable groups including Rs 153 billion from the budget
- ***Benazir Employees Stock Option Programme*:** Under this scheme, 12 percent shares of 80 State Owned Enterprises were transferred to 500,000 employees of those SOEs making them shareholder
- ***Internship Program*:** The Government also provided 100,000 internship to Master degree holders paying them Rs 10,000 per month
- ***Railways*:** Railway was provided Rs 119 billion over the last 4 years; Rs 85 billion under current budget and Rs 34 billion for development budget
- ***Energy Sector*:** Government injected professionalism in power sector by restructuring Board of Directors of some PSEs, initiated alternate energy program, put hard budget constraint and resolved circular debt issue partially
- ***Tax Simplification*:** The government took many steps to (i) simplify the taxation system (ii) minimum tax slab increased from Rs 100,000 to Rs 350,000 (iii) expanding the tax base by bringing new tax payers in the net (iv) improve the tax administration (v) Special Excise duties were eliminated (vi) gradual elimination of federal excise duty (vi) abolishing regulatory duties on 392 items (vii) elimination of zero ratings on key sectors
- ***Doubling the FBR Tax Revenues*:** As a result of these efforts, FBR revenue has moved from Rs 1 trillion in 2007-08 to around Rs 2 trillion in 2011-12.