Economic growth in Pakistan has historically remained volatile, lacking a steady growth path and adding to the economic uncertainty about the country’s economic conditions. Historical data suggests that the economy reached a high of above 10 percent growth level in 1954, but the following year it declined to 2 percent and went up again to above 9 percent in 1969 and 1970. Then it dipped again to 1.2 percent in the following year. Likewise, it reached 7.5 percent in 2004-05 but slowed down to 5.6 percent next year and further dropped to 5.5 percent in 2006-07. From 2007-08 to 2012-13 the economy grew by 3.2 percent on an average.

When the present government came into power in 2013 it particularly focused on the revival of the economy and within a short period of time it achieved considerable gains in restoring economic stability. After taking measures to restore macroeconomic stability, the government focused on higher GDP growth that brings better living conditions to the people through higher increases in per capita incomes, more job opportunities etc. Since 2013-14, the economy has witnessed a smooth upward trend in growth rate. Real GDP growth was above four percent in 2013-14 and has smoothly increased during the last four years to reach 5.28 percent in 2016-17, which is the highest in 10 years.

It is widely acknowledged that Pakistan has immense economic potential. According to a report published by Price Water House Coopers in 2017, Pakistan is projected to become the world’s 20th largest economy by 2030 and 16th largest by 2050. Several other reputed international publications such as Bloomberg, Economist etc, have also acknowledged the impressive economic gains of Pakistan in the last four years.

The accommodative monetary policy stance, increase in development spending, substantial growth in private sector credit, inspired activities in the power sector, friendly and pro-growth policies for real sector growth, such as relief measures and in particular for the agriculture sector, were instrumental in achieving this impressive growth performance.

The outgoing fiscal year has witnessed an impressive growth in agriculture output and in the services sector. The agriculture sector met its growth target of 3.5 percent, helped by government supportive policies and by increased agriculture credit disbursements. During 2015-16, the agriculture credit disbursement was close to Rs 600 billion while during 2016-17, the target was raised to Rs 700 billion. During July-March 2016-17, the disbursement was observed to be 23 percent higher as compared to the previous year. These developments, along with the Prime Minister’s Agriculture Kissan Package together with other relief measures have started yielding positive results.

The large-scale manufacturing output is primarily based on Quantum Index Manufacturing (QIM) data, which show an increase by 5.06 percent from July 2016 to March 2017. Major contributors to this growth are sugar (29.33 percent), cement (7.19 percent), tractors (72.9 percent), trucks (39.31 percent) and buses (19.71 percent). High growth of sugar is based on production of 73.9
Million Tons of Sugarcane as compared to 65.5 million tons last year, which represents an increase by 12.4 percent.

Large Scale Manufacturing growth has picked up momentum and posted a strong 10.5 percent growth in the month of March 2017 compared to 7.6 percent in March 2016. The YoY growth augurs well for further improvement in growth during the period under review.

On average, the LSM growth stood at 5.06 percent during July-March FY 2017 compared to 4.6 percent in the same period last year. The sectors recording positive growth during Jul-Mar FY 2017 are textile 0.78 percent, food and beverages 9.65 percent, pharmaceuticals 8.74 percent, non-metallic minerals 7.11 percent, cement 7.19 percent, automobiles 11.31 percent, iron & steel 16.58 percent, fertilizer 1.32 percent, electronics 15.24 percent, paper & board 5.08 percent, engineering products 2.37 percent, and rubber products 0.04 percent.

Pakistan is bestowed with all kinds of resources which also include minerals. Pakistan possesses many industrial rocks, metallic and non-metallic, which have not yet been evaluated. In the wake of the 18th Amendment, provinces enjoy great freedom to explore and exploit the natural resources located in their authority, with the result that they are currently undertaking a number of projects using their own resources, or in collaboration with the federal government or with donors to tap and develop these resources.

The services sector recorded a growth of 5.98 percent and surpassed its target which was set at 5.70 percent. Wholesale and retail trade sector grew at a rate of 6.82 percent. The growth in this sector is bolstered by the output in the agriculture and manufacturing sectors. The share of Agriculture, Manufacturing and Imports in Wholesale and Retail Trade growth is 18 percent, 54 percent and 15 percent respectively. The Transport, Storage and Communication sector grew at a rate of 3.94 percent. Finance and insurance activities show an overall increase of 10.77 percent, mainly because of rapid expansion of deposit formation (15 percent) and demand for loans (11 percent).

General government services grew by 6.91 percent, mainly driven by the increase in real wages and salaries in this sector. Also other private services contributed significantly.

The observed acceleration of economic growth was bolstered by growth-oriented policies and strategies during the last four years such as the National Power Policy, Kissan Package, Automotive Policy, Textile Policy, Strategic Trade Policy Framework (STPF) 2015-18, the Domestic Resource Mobilization Strategy, improvement in the Ease of Doing Business, and the National Financial Inclusion Strategy.

The Automotive Policy has attracted new entrants such as Hyundai, Renault and Nissan.

The policy interest rate, which is the lowest in a decades and stood at 5.75 percent, was particularly helpful for private sector credit expansion. The Credit to Private Sector (CPS) witnessed growth of 65.0 percent during July-05th May, FY 2017. This credit expansion is instrumental in bolstering further productivity growth in the manufacturing sector. A welcome development is the increasing trend in fixed investment expenditures, particularly in manufacturing, textile, cement, food, electricity generation and other sectors. A sustained growth in credit for fixed investment bodes well for a future increase in Pakistan’s overall intensity to invest.

The capital market reaching historically high levels (the stock market index rose above the 52,000 mark in April 2017) is another sign of investor’s interest in Pakistan’s economy. Revival of investor’s confidence and the inclusion in the Emerging Markets Index by Morgan Stanley Capital International has empowered the Pakistan Stock Exchange to outperform its regional peers over the last four years.

Overall fiscal deficit contracted by an annual reduction of over 1 percent of GDP owing to higher revenue receipts, rationalization of subsidies, and stringent control on current expenditure. Due to prudent expenditure management, the budget deficit was successfully brought down to 4.6 percent in
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FY2016 from 8.2 percent in FY2013. During the current year, the deficit is expected to remain on the downward trajectory observed over the recent years, despite several growth-stimulating relief measures that have been provided by the government such as tax incentives to the agriculture sector through sales tax exemption on pesticide and fertilizers. Similarly, five major exports-oriented sectors (textile, leather, surgical and sports goods and carpets) were allowed zero rating facility. In addition, petroleum prices were subsidized to provide relief to consumers. Moreover, customs duties on the import of raw cotton, staple, nylon and acrylic fibers were exempted and sales tax exemption was allowed on the import of new textile machinery.

The pace of revenue mobilization has witnessed an upward trajectory since FY2013. Overall revenues increased to 15.3 percent of GDP in FY2016, compared to 13.3 percent of GDP recorded in FY2013. Among those, tax revenues increased from 9.8 percent of GDP in FY2013 to 12.6 percent of GDP in FY2016.

FBR tax revenues recorded a significant increase since FY2013 and gradually grew by 60 percent in FY2016 over FY2013. Surpassing the annual target for the first time in seven years, FBR revenues posted a growth of over 20 percent during FY2016. In percentage of GDP, FBR tax collections increased from 8.7 percent in FY2013 to 10.7 percent of GDP in FY2016. During July-April FY 2017, FBR tax collection posted a growth of 8.0 percent.

The overall performance of the banking sector remained robust during the last couple of years. The alignment of the regulatory capital requirements in Pakistan with best international practices coupled with high profitability has helped achieving strong solvency. The Capital Adequacy Ratio (CAR) of 16.2 percent as of end December 2016 is much stronger and higher than the minimum required level of 10.65 percent.

Financial sector reforms have improved the access to finance, especially for small and medium enterprises through implementation of the National Financial Inclusion Strategy and legislative measures. The government has considered the financial inclusion strategy as a key policy agenda for inclusive economic development. In order to achieve NFIS objectives / goals relating to Digital Payments, Credit for Microfinance and SME Risk Sharing, the government has approved a PSDP funded projects for an amounted US $ 137 million to be implemented in five years with World Bank assistance.

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. It outlines key reform measures under each of the ten Doing of Business (DB) indicators, which include regulatory changes and improving technology allowing agencies to increase the speed and to simplify the procedures involved in making businesses operational. The reforms have been designed to effectively address critical bottlenecks faced by small and medium businesses during all stages of its life cycle. Because 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 the Doing Business Report 2017 and the country has been recognized as one of the top ten reformers globally in the area of business regulation.

Necessary amendments in the FRDL Act have been incorporated to provide better operational guidance for fiscal policy making and safeguarding debt sustainability.

The government has updated its Medium Term Debt Management Strategy (MTDS) 2015/16-2018/19 to ensure that both the level and rate of growth in public debt is fundamentally sustainable and can be serviced under different circumstances while meeting cost and risks objectives. In line with the previous MTDS, the guiding principle remains lengthening of the maturity profile of domestic debt and mobilization of sufficient external inflows in the medium term while making appropriate tradeoffs between the cost and risks.
The cost of domestic debt reduced to single
digit, while the cost of the external debt
contracted by the present government is not
only economical but is also mainly based on
long term funding.

The government has put special focus on the
social sector as well. The performance of the
social sector during the current year remains
impressive. The government aimed to reduce
income inequality to attenuate the degree of
poverty by allocating a significant allocation of
budgetary resources to implement various
social safety net measures. The Benazir Income
Support Program (BISP) is the most prominent
program to supplement the incomes of the
poorest segments of the population. It has been
used by the present government to reach out to
the most deserving people of the country. The
number of beneficiaries has increased from 3.7
million in FY 2013 to 5.4 million at the end of
March 2017. BISP’s annual disbursement
increased from Rs 42.9 billion in FY2013 to Rs
115 billion in FY2017. The quarterly cash grant
has also been gradually enhanced by the present
government from Rs 3000/- per family in FY
2013 to Rs 4834/- in FY 2017.

In addition, other programs such as the Pakistan
Bait-ul-Mal (PBM), Pakistan Poverty
Alleviation Fund and Zakat are playing an
important role in poverty alleviation. Also the
Employees Old Age Benefits (EOBI) provides
monetary benefits to the old age workers. In
addition, Micro Finance Initiatives help the
poor in building their income generating
capacities through the provision of better social
services such as health and education, food
security and access to basic necessities of life.

The Government of Pakistan is cognizant to
increase the flows of resources to the education
sector by ensuring proper and timely utilization
of funds to achieve the target of 4.0 percent of
GDP by 2018. The provincial governments are
also spending sizeable amounts of their Annual
Development Plans (ADPs) on education to
achieve the target. Public Expenditure on
Education as percentage of GDP is estimated at
2.3 percent in FY 2016 as compared to 2.2
percent of GDP in FY2015.

Various health priority programs with special
focus on the major public health problems of
the country have been carried out. These
include Cancer Treatment, Aids Prevention and
Malaria Control Programs. Recently the Federal
Government initiated several programs like the
Prime Minister Health Program, Expansion of
Immunization Program and continued strong
focus on polio eradication across the country to
meet the needs of health care and keep the
people healthy.

The present government has given importance
to assess the demographic situation and the long
awaited 6th National Population and Housing
Census 2017 is under way in Pakistan. The
census data will be helpful for government,
researchers and planners to enhance critical
evidence-based decision making, planning and
strategies for demographic policies. The census
will provide reliable data on population, its
growth and migration trends in different
regions/areas, employment, urban-rural
population, male-female ratio, Afghan refugees
etc. The national population census is also
important for the resource allocation formula
under the National Finance Commission (NFC)
Award.

Sustainable Development Goals are a universal
set of goals, targets and indicators that all UN
member states are expected to use to frame
their development agendas and socio-economic
policies during 2015-2030. Sustainable
Development Goals are much broader in scope
than outgoing MDGs. One of the strengths of
the SDG framework is its recognition of the
direct linkages among human well-being,
economic development and healthy
environment. The government has also
launched the Sustainable Development Goals
(SDGs) adopted by the United Nations General
Assembly which has focused on social,
environmental and economic development. The
parliament has become the first entity to adopt
the SDGs, and has established exclusive SDG
centers in the National Assembly. The
government has shown its commitment by
setting up SDG units with its own resources in
Federal and Punjab while the process of
establishing units in other provinces is under
process for the achievement of its goals.

Pakistan is one of the low forest covered countries with only 5 percent of land area under forest and tree cover whereas the international requirement is 25 percent. To increase the forest coverage the government has launched, the Green Pakistan Program with the main objective to facilitate transition towards an environmentally resilient Pakistan by mainstreaming notions for adapting and enabling environmental policies. The objectives of the program will be achieved by implementing different initiatives and projects.

Notwithstanding these reasonable gains on the economic and social front in the outgoing fiscal year, there remained some areas where results did not improve such as in the balance of payments and in the export-import balance in particular.

Pakistan’s exports have been facing headwinds for the past 2 years mostly due to weak global demand and lower commodity prices. The analysis of data on exports shows that for many product categories, Pakistan exported higher quantities, but lower international prices meant that the country was unable to realize adequate FX receipts. However, these negative effects on exports are bottoming out. The recent data released by PBS show that the YoY export growth in April improved to 5.22 percent and MOM by 0.22 percent.

The rise in overall import payments was mainly driven by higher purchases of fuel and capital equipment. This is understandable, given that Pakistan is transitioning from a low growth to higher growth economy, and is therefore faced with supply-side bottlenecks in energy and infrastructure. The Power generating machinery imports increased by 76.5 percent, textile 20.8 percent, construction 66.8 percent, agriculture 35.8 percent, other machinery 53.1 percent, signalling increasing productivity in the industrial sector.

FDI amounted to $1.733 billion during Jul-Apr, FY2017 compared to $1.537 billion during the same period last year, posting a growth of 12.75 percent. On a YoY basis, it registered significant growth of 17.1 percent in April 2017. The major FDI inflows during the period under review are from China ($ 744.4 million), Netherlands ($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 Foreign Portfolio Investment (FPI) increased to $ 589.7 million during Jul-Apr, FY2017 compared to $ - 404.3 million last year.

Remittances remained lower by 2.79 percent during Jul-Apr, FY2017. However, the recent development activities in the Qatar FIFA World Cup, Dubai Expo, Saudi Arabia’s implementation of its Vision 2030 and particularly the recent visit of the P.M to Kuwait should all be helpful in opening new avenues for employment in these countries and the Ramzan and Eid festivals will also further support remittances. Going forward one can expect improvements in these FX receipts.

The current account deficit during July-Apr, FY17 reached $7.247 billion (2.38 percent of GDP) as compared to $2.378 billion (0.85 percent of GDP), thus widening by 204.8 percent.

Export of services increased by 0.64 percent during July-April FY2017 of which travel, construction, insurance, telecommunication, computer and information services and other business services sectors showed positive growth. The Financial account balance improved by 68 percent during Jul-Apr, FY2017 and reached $ 5.428 billion compared to $ 3.228 billion in the previous year due to the increased FDI inflows by 12.75 percent and positive net Foreign Portfolio Investment receipts. Inflation was contained at 2.86 percent in FY 2016 which is the lowest in 47 years. On average, CPI inflation stood at 4.09 percent during Jul-Apr, FY 2017 against 2.79 percent in the same period of FY2016 due to the increase in aggregate demand and a trend-reversal in

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global commodity prices. However, YoY it increased by 4.8 percent in April 2017 compared to 4.2 percent in April 2016. But the inflation rate will remain significantly below the target of 6 percent.

Pakistan hosted 13th ECO Summit on 1st March 2017 in Islamabad. The Prime Minister of Pakistan assumed Chairmanship of ECO until the next Summit. Theme of the Summit was “Connectivity for Regional Prosperity” which is in line with the government’s priorities of enhancing internal/external connectivity. The ECO Member States agreed to ensure continued and enhanced cooperation in the areas of common interest through effective, timely and result-oriented projects and programs within the organization. It will undertake actions to achieve the long term sectoral priorities of ECO on development of transport and communication infrastructure, facilitation of trade and investment, effective use of the region’s vast energy resources and to consider ways and means to promote ECO’s connectivity with other regions in these areas. It underscores the three core principles of ECO vision 2025, i.e. sustainability, integration and conducive environment, emphasize the need to augment cooperation in the areas of trade, transport and connectivity, energy, tourism, economic growth and productivity and social welfare and environment as identified in vision 2025.

Given these positive developments, the broad-based growth is expected to continue. The country’s outlook is brightened and looks promising on the back of agricultural recovery, rebound in industrial activities and inflow of investment under CPEC. The CPEC will not only further develop Pakistan but also strengthen human ties across both sides of the border. Along the CPEC route, new industrial zones should open opportunities for investment, particularly for small and medium sized auxiliary businesses. Joint ventures between Pakistan and Chinese corporations should promote strategic development and mutual assistance. China is rapidly technologically advancing and therefore business collaboration should bring this knowhow on our doorsteps. The expected transfer of technology can provide a much-needed boost of the development and modernization of the SME sector which is critically required. CPEC is not only a short term economic growth booster, but its impact is far reaching and will trickle down in future. The development of infrastructure, energy and communication will provide much needed impetus to the growth of capital formation, productivity growth and employment.

WORLD ECONOMIC ENVIRONMENT

World output has grown by 3.1 percent in 2016 and growth is expected to accelerate to 3.5 percent in 2017 according to the IMF’s April 2017 World Economic Outlook. This acceleration is the result of faster growth in the advanced economies (from 1.7 to 2 percent) as well as in the emerging market and developing economies (from 4.1 to 4.5 percent).

Among the Advanced Economies, the United States, United Kingdom and the Euro Area are among Pakistan’s most important export markets. Growth in the US is expected to accelerate significantly from 1.6 percent in 2016 to 2.3 percent in 2017. Acceleration is also expected in the UK from 1.8 to 2.0, whereas it is predicted to remain stable in the Euro Area at 1.7 percent. But recent soft data (including business cycle indicators) suggest that in all these areas, including the Euro Area, the business climate is improving.

Among the emerging market and developing economies, the highest growing region is Emerging and Developing Asia where growth is expected to stabilize at 6.4 percent. In this region, China’s growth rate would marginally decline from 6.7 percent to 6.6 percent in 2017, India’s would rise from 6.8 to 7.2 percent and the ASEAN-5 from 4.9 to 5 percent. Economic growth would also stabilize in emerging and developing Europe at 3 percent in both 2016 and 2017. Growth rates are expected to increase in the Common Wealth of independent states (from 0.3 to 1.7 percent). Similar developments are expected in Latin America and the Caribbean (from -1 to 1.1 percent) and in Sub-Saharan Africa (from 1.4 to 2.6 percent).
On the other hand, economic growth decelerates in the Middle East and North Africa. In Saudi Arabia growth would decline from 1.4 to 0.4 percent driven by lower oil revenues following cuts in production and remaining low oil price levels.

The higher overall world growth prospects will stimulate world trade in the advanced economies, import growth is expected to strengthen from 2.4 percent in 2016 to 4 percent in 2017. An even stronger increase in world import expansion is expected in the emerging markets and developing economies. Pakistan’s exports are expected to profit from this favorable development in its export markets.

After the decline in commodity prices in 2016, they are predicted to rebound somewhat in 2017. The average oil price in 2016 was $42.84 per barrel in 2016. Its average price in 2017 is expected to exceed this level considerably. Also, prices of non-fuel commodities are expected to rise this year, after an observed decline in the previous year.

Higher commodity prices coupled with improved growth prospects are helpful to lift inflation rates in both advanced and emerging markets and developing economies. In the advanced economies, inflation is seen to accelerate towards the 2 percent level. This development may contribute to interest rate normalization, especially in the US where the Federal Reserve is expected to increase its short-term interest rate target three times this year.

The current positive mood in business and consumer confidence may well feed itself in the short run, stimulating consumption and investment expenditures, as well as asset prices globally. In that case, global growth acceleration may even turnout to be higher than expected.

But at the same time, considerable downside risks remain in place.

The expected upick in economic growth mainly reflects a continuation of the slow cyclical recovery from the 2008-09 and 2011-12 crises, supported by accommodative monetary policies. The growth rate of potential output remains subdued because of demographic headwinds, especially in advanced economies, and the global slowdown in productivity growth. The considerable decline in the growth rate of total factor productivity, both in advanced and emerging market economies after the 2008-09 crises is believed to be mainly associated with weak investment expenditures.

Against the background of slow potential output growth, large programs of fiscal stimulus, notably in the US, could drive the output gap significantly upwards, followed by monetary tightening and dollar appreciation. Emerging market economies may be adversely affected through capital outflows, higher interest rates and exchange rate volatility.

Potential prospects for disruptions to global trade may increase uncertainty and reduce consumer and investment spending. In the US, authorities have stated their intentions to halt further trade agreements and abolish or renegotiate exiting ones. If these would lead to increased tariff and non-tariff protectionism, the increased import costs may undermine consumer’s purchasing power, especially in advanced economies, adding to the risk of global international trade expansion. Trade restrictions may therefore significantly hurt export opportunities in emerging market and developing economies.

Current discussions between the UK and the European Union on their future relations following Brexit, do not seem to have raised excessive uncertainty up till now. But if expectations emerge that the UK would end up leaving the EU without a trade deal, the overall positive economic outlook may be compromised. Also in case no deal can be reached, countries exporting to the UK, including Pakistan may have to renegotiate the bilateral trade agreement which may take a considerable amount of time.

The British Government on March 29, 2017 invoked Article 50 of the EU’s Governing Treaty to formally begin the process of leaving
the EU. Article 50 gives a member country two years to negotiate terms of its exit, among which issues on trade and immigration. This suggests that for the time being, Pakistan's exports will continue to enjoy duty free export. The Government of Pakistan is looking to win over new friends and revitalize the old friendships in the EU to safeguard Pakistan’s interests in the European Parliament and Commission and is also looking for new supporters from within Northern Europe, France and Germany to enjoy the same privileges in the wake of Britain’s formal withdrawal from the EU. It will also conduct a round of trade diplomacy with EU member states to strengthen trade relations and augment support in the European Parliament and the European Commission.

In the recent past, global economic uncertainty and volatility were also conditioned by the economic and financial prospects in China. Shifts towards protectionism in the advanced economies may hit the Chinese economy, which is already facing issues in terms of the quantity and quality of debt. Spillovers from turbulence in the Chinese economies to other economies, may be large and fast.

**Executive Summary**

**Growth and Investment**

Economy of Pakistan has continued the growth momentum as the GDP growth reached to 5.28 percent in 2016-17 which is the highest in 10 years, on the back of rebound growth in agriculture which 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, while Services sector surpassed its target and recorded 5.98 percent growth as compared to 5.55 percent last year.

The share of commodity producing sector has reached to 40.41 percent of GDP during outgoing FY2017 as compared to 40.80 percent last year. It grew by 4.3 percent during FY2017 as compared to 3.0 percent during FY2016. Agriculture accounts for 19.53 percent of GDP and employed bulk of the total work force. Agriculture sector recorded a growth of 3.46 percent in FY 2017 as compared to the growth of 0.27 percent last year. The crops subsector comprises of 37.22 percent of agriculture sector and is the basic driver of growth of the agriculture sector as well as GDP on the whole. Crops sub sector recorded a growth of 3.02 percent as compared to the growth of (-4.97) percent last year. Important crops accounting for 23.85 percent of value added of agriculture, its share in GDP is 4.66 percent. Important crops recorded a growth of 4.12 percent in FY2017 as compared to (-5.47) percent last year. Other crops have contributed 11.03 percent in agriculture sector and its share in GDP is 2.15 percent in FY 2017. This sub-sector has registered a growth of 0.21 percent against the growth of 0.59 percent last year. Cotton Ginning has a 2.34 percent contribution in agriculture sector and in GDP its share is 0.46 percent. This sub-sector grew at 5.59 percent as compared to negative growth of (-22.12) percent. Livestock’s share in agriculture sector stood at 58.33 percent while it contributes 11.39 percent in the GDP. Livestock during outgoing fiscal year grew by 3.43 percent as compared to 3.36 percent last year. Forestry subsector has registered a growth of 14.49 percent as compared to growth of 14.31 percent last year. Fisheries contribute 2.12 percent in agriculture and its share in GDP is 0.41 percent; its growth remained at moderate 1.23 percent against the growth of 3.25 percent last year.

Industrial sector contributes 20.88 percent in GDP. This year it recorded a growth of 5.02 percent as compared to 5.80 percent last year. Manufacturing is the most vibrant subsector of the industrial sector having 64.4 percent contribution in the industrial sector and in GDP it accounts for 13.45 percent. Manufacturing sub-sector is further divided in three components including large-scale manufacturing (LSM) with the share of 51.26 percent in industrial sector, small scale manufacturing share is 8.80 percent in industrial sector, while Slaughtering contributes 4.34 percent in the industry. Small scale
manufacturing recorded a growth of 8.18 percent in outgoing fiscal year against the growth of 8.20 percent last year and slaughtering maintained the growth rate of last year at 3.61 percent. Construction as a sub sector contributes 13.13 percent in industrial sector and in GDP its share is 2.74 percent against the share of 2.65 percent last year; it absorbs 7.31 percent of labor force. Construction is considered as one of the potential components of industrial sector in the economy of Pakistan. This sub-sector has witnessed a growth of 9.05 percent against the growth of 14.60 percent last year.

Mining and quarrying contributes 13.91 percent in industrial sector and its share in GDP is 2.90 percent. Mining and quarrying has recorded a growth of 1.34 percent against the growth of 6.86 percent last year. Electricity generation & distribution and Gas Distribution contributes 8.55 percent in industrial sector and in GDP its share is 1.78 percent. This sub-sector has recorded a growth of 3.40 percent during the outgoing fiscal year as compared to 8.43 percent growth last year.

Services sector grew at 5.98 percent against the commodity producing sector growth of 4.26 percent. 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. Wholesale and Retail Trade Sector contributes 18.50 percent in GDP and is also the largest subsector of the services having share of 31.1 percent in the services sector. Wholesale and Retail Trade recorded a growth of 6.82 percent against the target of 5.5 percent, whereas it grew at 4.25 percent last year. Transport, Storage and Communication having a contribution of 13.27 percent in the GDP and has a share of 22.3 percent in services sector; moreover, directly and indirectly it plays an important role in improvement of economic activities in all sectors of the economy. The transport, storage and communication registered a growth of 3.94 percent as compared to 4.82 percent last year.

Finance and Insurance contributes 5.7 percent in services sector and its share in GDP is 3.37 percent in FY 2017. Finance and Insurance comprises the State Bank of Pakistan; all scheduled Banks (domestic and foreign), Development Financial Institutions (DFIs), all Insurances companies, modaraba/leasing companies, money changers and Stock Exchange Brokers. The financial sub-sector consists of all resident corporations principally engaged in financial intermediations or in auxiliary financial activities related to financial intermediation. Finance and insurance witnessed a significant growth of 10.77 percent as compared to 6.12 percent last year. General government services contribute 12.8 percent in services sector and its share in GDP has reached to 7.61 percent in outgoing FY 2017. It has recorded a growth of 6.91 percent as compared to 9.72 percent last year. Housing Services (Ownership of Dwellings) having contribution of 11.1 percent in services sector and its share in GDP is 6.64 percent during FY 2017. This sub-sector has maintained the growth of 3.99 percent as targeted for FY 2017. Other private services have a share of 17.1 percent in services sector and its contribution in GDP has reached to 10.20 percent in FY 2017. Other private services witnessed a growth of 6.28 percent as compared to 6.78 percent last year.

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. 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.

Total investment has reached to the level of Rs 5027 billion as compared to the Rs 4527 billion last year, showing the growth of 11.04 percent in FY 2017. Investment to GDP ratio has reached to 15.78 percent in FY 2017. Fixed
investment have increased to Rs 4517 billion as compared to Rs 4061 billion last year, and recorded growth of 11.23 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 to 9.90 percent. Whereas 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 the clear reflection 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 by Rs 1363 billion in FY 2017 compared to Rs 1103 billion in FY 2016.

National savings plays 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, reflects the current account deficit in the balance of payments. National savings reached to 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.

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, low population growth and stability of Pak Rupee.

Agriculture
Agriculture is the lifeline of Pakistan’s economy accounting for 19.5 percent of the gross domestic product, employing 42.3 percent of the labour force and providing raw material for several value-added industries. It thus plays a central role in national development, food security and poverty reduction. The rapid growth of Pakistan’s urban areas means that demand for high-value perishable products such as fruits, vegetables, dairy, and meat is rising. Government is seeking to increase the yield for rural growers through major infrastructure investments including reliable transport networks and other building blocks for modern supply chains. CPEC will go a long way in the enhancement of agribusiness benefits by exploitation of value-added product innovation and supply chain.

During 2016-17, performance of the agriculture sector remained up to the mark and achieved growth of 3.46 percent close to the target of 3.5 percent and last year’s meager growth of 0.27 percent. This was possible by better harvesting of important crops through greater availability of agriculture inputs like water, agriculture credit and intensive fertilizers offtake. The growth in crops was registered at 3.02 percent against the negative growth of 4.97 percent during the same period last year. The growth of sub sector of important crops, other crops and cotton ginning posted growths of 4.12 percent, 0.21 percent and 5.59 percent, respectively against last year growths of -5.47 percent, 0.59 percent and -22.12 percent respectively. Other sub sectors of Agriculture like Livestock, Forestry and Fishing posted a growth of 3.43 percent, 14.49 percent and 1.23 percent, respectively. The upturn in crop yields by significant margins occurred both on account of increase in production and improved yields. Maize production increased by 16.30 percent against 6.77 percent last year, Sugarcane 12.41 percent against 4.23 percent, Cotton by 7.59 percent against -28.96 and Rice 0.71 percent against -28.96 percent last year). Only wheat production growth remained at par low of last year. Other crops accounted for 11.03 percent in value addition of agriculture grew by 0.21 percent during 2016-17 against 0.59 percent during the same period last year due to decline in the production of vegetables and oilseeds by posting negative growth of 0.73 percent and 5.93 percent, respectively.

Livestock account 58.33 percent in the
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agriculture and it witnessed a growth of 3.43 percent compared to 3.36 percent during corresponding period last year. The Fishing sector contribution stands at 2.12 percent in agriculture value addition and recorded a growth of 1.23 percent compared to 3.25 percent growth of same period last year. Forestry sector having contribution of 2.33 percent in the agriculture value addition witnessed a significant growth of 14.49 percent during 2016-17 due to higher timber production reported by Khyber Pakhtunkhwa.

Pakistan’s agricultural production is closely linked with the availability of irrigation water. During 2016-17, the availability of water for Kharif 2016 stood at 71.4 million acre feet (MAF) showing an increase of 9.0 percent over Kharif 2015 and 6.4 percent more than the normal supplies of 67.1 MAF. During Rabi season 2016-17, the water availability remained at 29.7 MAF, which is 9.7 percent less than Rabi 2015-16 and 18.4 percent less than the normal availability of 36.4 MAF.

The domestic production of fertilizers during 2016-17 (July-March) decreased slightly by 0.3 percent over the same period of last fiscal year. The imported fertilizer also decreased by 5.8 percent. Therefore, total availability of fertilizer also decreased marginally by 1.5 percent during current fiscal year. Total offtake of fertilizer nutrients witnessed increase by 30.5 percent. Nitrogen offtake increased by 33 percent while phosphate increased by 23.2 percent. Potash offtake recorded a significant boost of 82.5 percent during 2016-17 (July-March). Increase in offtake of fertilizer is due to substantial reduction in prices of all fertilizer products as a result of subsidy announcement by the government in June, 2016 as detailed below:

- Cash subsidy on phosphate fertilizer equivalent to Rs 300 per 50 kg bag of DAP.
- Reduction in GST on urea from 17 to 5 percent.
- Cash subsidy on nitrogenous fertilizer equivalent to Rs 156 per 50 kg bag of urea.
- Subsidy of Rs 800 and Rs 500 per bag of SOP and MOP respectively, from 1st February 2017 by Government of Punjab in order to promote the use of Potash.

Better market prices of agriculture produce especially rice, cotton and sugarcane also had positive effect on fertilizer use.

In backdrop of the government’s priority for agriculture sector, Agriculture Credit Advisory Committee (ACAC) has set the indicative agricultural credit disbursement targets of Rs700 billion for FY 2016-17 to 52 participating institutions including 20 Commercial banks, 2 Specialized Banks, 4 Islamic Banks and 10 Microfinance Banks and 16 Microfinance Institutions/Rural Support Programmes (MFI/RSPs)

Agriculture credit is persistently rising. During FY 2015-16, Rs 598.29 billion was disbursed to the target of Rs 600 billion. For FY 2016-17 the target is Rs 700 billion. During FY 2016-17 (July-March), the banks have disbursed Rs 473.1 billion which is 67.6 percent of the overall annual target of Rs 700 billion and 22.7 percent higher than disbursement of Rs 385.5 billion made during the corresponding period last year.

This indicative agriculture target is 17 percent higher than the last year’s disbursement of Rs 598.3 billion. Out of the total target, Rs 340.0 billion have been allocated to five major banks, Rs 102.5 billion to ZTBL, Rs 139.6 billion to 15 Domestic Private banks, Rs 12.5 billion to Punjab Provincial Cooperative bank, Rs 60.1 billion to 10 Microfinance banks, Rs 11.0 billion to four Islamic banks and Rs 34.3 billion to 16 newly inducted MFI/RSPs for FY 2016-17.

**Manufacturing & Mining**

During July-March FY 2017, the Large Scale Manufacturing (LSM) registered an impressive growth of 5.1 percent as compared to 4.6 percent in the same period last year. On Year on Year (YoY), LSM recorded exorbitant growth of 10.5 percent in March 2017 compared to 7.6 percent of the corresponding month last year.

The industry specific data shows that Iron &
Steel products recorded highest growth of 16.58 percent, Electronics 15.24 percent, Automobiles 11.31 percent, Food, Beverages & Tobacco 9.65 percent, Pharmaceuticals 8.74 percent, Non Metallic mineral products 7.11 percent, Paper and Board 5.08 percent, Engineering Products 2.37 percent, Fertilizers 1.32 percent, Textile 0.78 percent and Rubber Products 0.04 percent. The other sectors that showed decline included Wood Product -95.04 percent, Leather products -17.97 percent, Chemicals -2.20 percent and Coke & Petroleum Products -0.32.

In automobile sector, there has been surge in productions of all its sub sectors. Remarkable growth has been witnessed in Farm Tractors which is recorded at 72.9 percent, Trucks 39.3 percent, Jeeps & Cars 4.68 percent, motor cycles 21.4 percent, Buses 19.7 percent during July-March FY 2017 as compared to corresponding period last year, whereas LCVs production declined by 36.9 percent. Automobile sector is among the top growth sector in the large scale manufacturing in Pakistan. The negative growth in case of Light Commercial Vehicles (LCVs) resulted from the discontinuation of Apna Rozgar Scheme but was compensated by increased production of other models and growth in tractors and trucks. The trucks production has risen due to economic activity in the country to meet CPEC related material and freight transport needs.

The Mining and Quarrying sector grew by 1.34 percent in FY 2017. Calcite, Bauxite, Ocher, Sulphur, Chromite, Marble, Coal, Quartz, Gypsum and Lime stone posted a positive growth rate of 138.32 percent, 116.25 percent, and 60.27 percent, 55.22 percent, 42.62 percent, 30.14 percent, 22.84 percent, 18.68 percent, 12.69 percent and 8.47 percent, respectively. However, some minerals witnessed negative growth rate during the period under review such as Barytes -73.00 percent, Magnesite -57.73 percent, Dolomite -40.93 percent, Soap Stone -61.11 percent, Rock Salt -1.73 percent and Natural gas -0.10 percent.

**Fiscal Development**

After having peaked at 8.8 percent of GDP in FY2012 followed by 8.2 percent of GDP in FY2013, overall fiscal deficit narrowed to 4.6 percent of GDP in FY2016, reflecting sustained and substantial consolidation since FY2013.

Total expenditures witnessed a downward trajectory without compromising the expenditures on development projects and social assistance. Particularly, expenditures under Public Sector Development Program (PSDP) have been raised adequately in order to meet the investment requirements. During FY2017 the size of federal PSDP has increased to Rs 800 billion from Rs 348.3 billion during FY2013, showing a cumulative increase of over 129 percent.

During first nine months of current fiscal year, the fiscal deficit stood at 3.9 percent of GDP against 3.5 percent of GDP recorded in the same period of FY2016 on account of higher development expenditures along with various tax incentives to promote investment and economic activity in the country and security related expenditures. On the basis of previous estimates of GDP at Rs 33,509 billion, fiscal deficit was recorded at 3.7 percent during first nine months of current fiscal year against 3.4 percent registered in the comparable period of FY2016. Total revenues grew at 6.2 percent to Rs 3,145.5 billion during July-March, FY2017 against Rs 2,961.9 in the comparable period of FY2016.

Total expenditure has gone up by 10.4 percent to Rs 4,383.6 billion during July-March, FY2017. Within total expenditures, development expenditure (excluding net lending) grew by 14.9 percent to Rs 803.9 billion during first nine months of current fiscal year as against Rs 699.4 billion in the same period of FY2016. Within development expenditure, the spending under PSDP has posted a growth of 19.8 percent to Rs 746.6 billion during July-March, FY2017 against Rs 623.4 billion in the same period of FY2016. Current expenditures grew by 5.8 percent to Rs 3,605.1 billion during July-March, FY2017 against Rs 3,407.0 billion during the same period of FY2016. The containment in current expenditures primarily stemmed from significant decline in mark-up payments and
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subsidies. The mark-up payments grew by 1.4 percent and while current subsidies reduced by 9.8 percent.

During July-April, FY2017 FBR collected Rs 2,518.5 billion as provisional tax revenues against Rs 2,332.1 billion in the same period of FY2016, reflecting a growth of 8.0 percent.

During first nine months of current fiscal year, provincial surplus amounted to Rs 227.6 billion against 221.2 billion in the comparable period of FY2016. During July-March, FY2017, overall tax revenues grew by 14.8 percent to Rs 1,652.6 billion as compared to Rs 1,439.9 billion in the same period of FY2016. Within tax revenues, provincial taxes revenues posted a remarkable growth of 23.5 percent and federal transfers to provinces grew by 13.5 percent.

Money and Credit

Keeping in view the macroeconomic stability, SBP kept the policy rate at 5.75 percent in May 2016 and maintained the same in the subsequent monetary policy decisions, which is the lowest rate since early 1970s.

Healthy credit expansion, along with higher production of Kharif crops, recovery in LSM/industrial growth, uptick in CPEC related activities in energy sector and favourable business environment supported SBP’s decision to keep the policy rate unchanged during FY2017.

Credit to private sector increased to Rs 457.4 billion during July-21st April, FY2017 compared to Rs 296.8 billion in the same period of last year, registered a significant growth of 54.1 percent. Private sector borrowed Rs 155.1 billion for fixed investment during Jul-Mar FY2017 as compared to Rs 140.3 billion availed in the corresponding period of last year, registered a growth of 10.5 percent. Loans for working capital increased by Rs 150.9 billion during first nine months of FY2017 compared to Rs 65.4 billion in the same period of last year, witnessed significant growth of 130.7 percent. A healthy uptick in private sector credit augurs well for growth.

During the period July-21st April, FY2017, Broad Money (M2) witnessed expansion of Rs 762.2 billion (5.94 percent) compared to the expansion of Rs 667.7 billion (5.92 percent) in the same period last year. Within Broad Money, NFA of the banking system during July-21st April, 2016-17 declined by Rs 350.7 billion, which is in sharp contrast to an expansion of Rs 101.9 billion in the same period of last year. The NDA of the banking system observed an expansion of Rs 1,112.9 billion (9.42 percent) during July-21st April, FY 2017 compared to Rs 565.7 billion (5.40 percent) in the same period of last year. Pick up in credit to the private sector, credit to Public Sector Enterprises (PSEs) and rise in government borrowing from the banking system were the major causative factors of monetary expansion during July-21st April, FY2017.

Net government borrowing from the banking system reached to Rs 689.9 billion during July-21st April, FY2017 against the borrowing of Rs 446.0 billion over the previous year. During the period 1st July-21st April FY2017, government borrowing for budgetary support amounted to Rs 805.0 billion against the borrowing of Rs 536.4 billion in the same period of FY2016. Government borrowed Rs 868.5 billion from SBP during July-21st April, FY2017 compared to the retirement of Rs 498.5 billion in the same period last year. On the other hand, government retired Rs 63.5 billion to Scheduled banks during 1st July-21st April FY2017 against the retirement of Rs 1,034.9 billion last year.

The financial system also remained stable during FY2017. Assets base of the financial sector has expanded at a decent pace of 11.93 percent in CY16 and reached to Rs 15.831 trillion by end December, 2016 as compared to Rs 14.143 trillion as of end December, 2015. NPLs to total loans ratio declined to an eight years’ low level of 10.1 percent in Q4CY16. Capital Adequacy Ratio (CAR) at 16.2 percent as of end December 2016 is much stronger and higher than the minimum required level of 10.65 percent.

Capital market

The SECP, being the apex regulator, continues to push with the reform agenda to address
challenges of a fast growing capital market. The reforms agenda, chalked out with support from the stakeholders included the successful integration of the stock exchanges at Karachi, Lahore and Islamabad into a joint trading platform, introduction of a central counterparty for clearing and settlement, transfer of risk management to the clearing company, and promulgation and implementation of modern and comprehensive laws such as the Securities Act and the Futures Market Act.

Instituting a fool-proof procedure of investor protection and building investors’ confidence remains the prime goal of SECP’s reform agenda. In this regard Securities Exchange Commission of Pakistan has developed a Capital Market Development Plan (CMDP) for (2016-18) devising way forward for the Pakistan capital market. It is a roadmap for initiatives envisaged by the SECP for development of the capital market in the near future and has been formulated after extensive stakeholder consultation including suggestions and feedback from leading market professionals, and includes key reforms based on international best practices and benchmarks.

Pakistan Stock Exchange was ranked the fifth best performing stock market in the world in the year 2016 by Bloomberg on account of total return of 46 percent for the year. The PSX return of 46 percent also stood out as the best in MSCI Frontier Markets and compared favourably with the PSX average gains of 20 percent over the past 10 years and average return of 24 percent over the last 20 years.

The period during July 1, 2016 to May 08, 2017, witnessed an overall positive and bullish trend for the stock market in Pakistan. The KSE-100 Index demonstrated exceptional performance of equity market during the period mainly due to improved macroeconomic indicators, wide-ranging reform measures undertaken by SECP, better security situation and high spirit on Pakistan’s reclassification in MSCI EM Index. The KSE-100 index which was at 37,783.54 level as on 30th June 2016 gained 14,604 points and remained at the level of 52,387.87 as on 15th May, 2017 showing a growth of 38.7 percent. In terms of market capitalization it increased from Rs 7,588.47 billion as on 30th June 2016 to Rs 10,289.95 billion on 15th May, 2017 depicting a growth of 35.6 percent. During this period, the Index touched its highest point at 52,387.87 on May 15, 2017, whereas its lowest point was at 37,966.76 on July 4, 2016.

Inflation

The current year started with inflation at 4.1 percent in July 2016. It reached to 4.9 percent in March 2017 and then slow down to 4.8 percent in April 2017. On average during Jul-April FY 2017, it recorded at 4.1 percent. The target for current year is 6.0 percent, the present trend suggests that it will remain below the target. Food and non-food inflation have been estimated at 3.9 percent and 4.3 percent as compared to 2.1 percent and 3.3 percent respectively, in the same period last year. Core inflation during July-April recorded at 5.1 percent as against 4.1 percent during the same period last year. The uptick in inflation is due to revival of international commodity and oil prices, along with rise in domestic demand due to pick up of economic activities.

All inflationary indicators have been contained to single digit during current fiscal year due to better supply position of essential items, and regular monitoring of prices and supply chain by the National Price Monitoring Committee along with District Price Control Committees.

Increasing oil and commodity prices remains a concern. Global commodity and oil prices are expected to move in upward direction, which will be affecting domestic inflation. However, given the increase in agriculture production and sufficient food supplies, stable exchange rate, effective monetary policy, inflation is expected to remain below the target.

Trade and Payments

A reversal in global oil prices accompanied by falling exports the trade deficit widened by 33.1 percent to US$ 17.8 billion in July-March FY2017, remittances and Coalition Support Fund inflows both remained slower over the same period last year, however, the impact was
offset by an improvement in the income account, mainly due to lower profit repatriations by oil and gas firms. The current account deficit increased to US$ 6.1 billion in July-March FY2017, against US$ 2.4 billion in July-March FY2016. As a percentage of GDP it stood at 2 percent compared to 0.9 percent of the comparing period last year.

During July-March FY 2017 exports declined by 1.3 percent and stood at US$ 16.1 billion as compared to US$ 16.3 billion in July-March FY2016. However Year on Year exports in March, 2017 increased by 1.4 percent. The imports increased by 14.0 percent in July – March FY2017 as compared to last year. Services trade deficit fell by 1.9 percent during the first nine months of FY2017. This year Pakistan has received inflows amounting to US$ 550 million on account of CSF during July –March of FY2017 against US$ 937 million during last fiscal year. Remittances could not continue its upward growth trajectory during July-March FY2017 the remittances remained US$ 14.058 billion as compared to 14.388 billion during same period last year. Year on year basis remittances inflow dropped marginally by only 1 percent, however, on month on month basis March-February about 20 percent of decent increase is recorded. The trend will continue in coming months and is expected that the target of US$ 20.2 billion for FY 2017 will likely to be achieved. Net FDI inflows rose 14.8 percent to US$ 1.6 billion in July- March FY2017, against US$ 1.4 billion same period last year. In October, FY2017 foreign currency reserves hit all time high at $24.03 billion, of which net reserves with SBP were $18.93 billion and scheduled banks $ 5.10 billion. However, with the current account deficit widening and not being fully offset by financial inflows, the country’s total liquid FX reserves as on end-March FY2017, declined to US$ 21.57 billion of which SBP US$16.47 billion and Commercial Banks US$ 5.10 billion. The average exchange rate during July-May 04 FY2017, at 104.79 to a dollar, was down marginally (0.5 percent) against last year’s comparable average of 104.30. The stability in the exchange rate was a result of the still elevated level of liquid reserves available with SBP.

**Public Debt**

Gross public debt was Rs 20,873 billion as at end March 2017 while net public debt was Rs 18,893 billion. Gross public debt recorded an increase of Rs 1,194 billion during first nine months of current fiscal year. Out of this total increase, increase in domestic debt was Rs 1,121 billion while government borrowing from domestic sources for financing of fiscal deficit was Rs 1,018 billion. This differential is mainly attributed to increase in government credit balances with the banking system. Similarly, increase in external debt contributed Rs 73 billion in public debt. Revaluation gains on account of appreciation of US Dollar against other foreign currencies reduced the impact of net external inflows on external public debt portfolio.

Pakistan’s public debt dynamics witnessed various positive developments during first nine months of current fiscal year. Some positive developments are as follow:

- Government continued to adhere to the targets set forth in Medium Term Debt Management Strategy (MTDS) to ensure public debt sustainability.
- Weighted average interest rate on the domestic debt portfolio has been further reduced while cost of external debt contracted by the government is not only economical but is also dominated by long term funding.
- Government successfully issued a 5-year US$ 1,000 million Sukuk at the lowest ever rate of 5.5 percent in international capital market.
- In order to facilitate the investors of Central Directorate of National Savings (CDNS), CDNS has been allowed direct membership of Clearinghouse. Accordingly, CDNS became only non-banking member of National Institutional Facilitation Technologies (Pvt.) Limited (NIFT).
- Government launched first-ever registered premium prize bond which is only issued in
investors’ names with unique features of both the profits paid biannually and the prize money through quarterly draws.

An improvement was observed in most of the public debt risks indicators during last three and half years in-line with the objectives set forth in Pakistan’s first MTDS (2013). Refinancing risk of the domestic debt portfolio reduced through lengthening of the maturity profile as percentage of domestic debt maturing in one year was reduced to 52.7 percent at the end of December 2016 compared with 64.2 percent at the end of June 2013. Exposure to interest rate risk was also reduced as the percentage of debt re-fixing in one year decreased to 45.5 percent at the end of December 2016 compared to 52.4 percent at the end of June 2013. Similarly, share of external loans maturing within one year was equal to around 31.9 percent of official liquid reserves at the end of December 2016 as compared with around 68.5 percent at the end of June 2013 indicating improvement in foreign exchange stability and repayment capacity.

EDL stock was US$ 75.7 billion as at end March 2017 out of which external public debt was US$ 58.4 billion. External public debt recorded an increase of US$ 0.7 billion during first nine months of current fiscal year. The impact of net fresh external borrowing was partially offset by revaluation gains during first nine months of current fiscal year. Within external debt, the largest component is the multilateral debt and bilateral debt, constituting around 87 percent of the public external debt as at end March, 2017. The loans from multilateral and bilateral development partners are primarily aimed at removing structural bottlenecks from Pakistan’s economy and are instrumental in enhancing Pakistan’s potential output by promoting efficiency and productivity.

### Education

The overall education condition is based on key performance indicators such as enrolments, number of institutes and teachers which has witnessed improvements. The total number of enrolments at national level during 2015-16 stood at 46.223 million as compared to 43.948 million during 2014-15. This shows an increase of 5.2 percent and is estimated to increase 47.834 million during 2016-17. The total number of institutes stood at 252.8 thousands during 2015-16 as compared to 252.6 thousands during last year. However, the number of institutes is estimated to increase to 257.1 thousands during 2016-17. The total numbers of teachers during 2015-16 were 1.630 million as compared to 1.588 million during last year showing an increase of 2.6 percent. This number of teachers is estimated to increase further to 1.667 million during the year 2016-17.

Household Integrated Income and Consumption Survey (HIICS) 2015-16 at National/Provincial levels with urban/rural breakdown, which is especially designed by merging HIES and Family Budget Survey (FBS). The main aim of FBS was to derive weights for rebasing of price statistics, by covering urban and rural areas alongwith income and other social indicators. According to the HIICS, 2015-16, the literacy rate of the population (10 years and above) remained at 58 percent as compared to previous conducted PSLM Survey, which were conducted at both District and Provincial level respectively at alternate years, at National/Provincial level in 2013-14. The data shows that literacy remains much higher in urban areas (74 percent) than in rural areas (49 percent), with male (81 percent) and female (68 percent) in urban areas. Province wise data suggest that Punjab and Sindh leads with 62 percent and 55 percent respectively, followed by Khyber Pakhtunkhwa with 53 percent and Balochistan with 41 percent.

Public expenditure on Education as percentage to GDP increased by 2.3 percentage in FY 2016 as compared to 2.2 percentage of GDP in FY2015. The expenditures on education are increasing gradually since FY 2012. The education related expenditure recorded at Rs 663.36 billion in FY2016 compared to Rs 599.05 billion in FY 2015 registered an increase of 10.74 percent.

The Higher Education Sector plays a critical role in the production of the human capital, and
the generation and transmission of knowledge, critical to achieving a high growth rate and a competitive position in the global knowledge economy. The financial support of the government to Higher Education has resulted in revival of the sector. During first three quarters i.e. 2016-17 (July-March), the government has released Rs 8.0 billion for the development projects reflected under PSDP 2016-17. Similarly, Rs 5.4 billion and 0.574 billion have also been disbursed to the Prime Minister’s laptop Scheme and Afghan Scholarship schemes.

- Prime Minister’s Fee Reimbursement Scheme for less developed areas (selected regions) was successfully executed and is continued during FY 2016-17. The scheme is focused on building capacities and enabling them to compete in the normal course. And in future it would provide manpower for public sector universities. Reimbursement to around 17,137 students of less developed areas is being carried out this year.

- “An Initiative of Aghaz-e-Haqooq-e-Balochistan (Indigenous and Overseas)” is focused towards providing scholarships in MS leading to PhD and PhD studies to less privileged areas of Balochistan, who despite possessing academic merit are unable to overcome the financial difficulties. This project covers tuition, accommodation and living expenses as well. In FY 2016-17, 31 candidates availed the overseas scholarships while 16 candidates availed the indigenous scholarships.

The project “Provision of Higher Education Opportunities for Students of Balochistan and FATA Phase II (President’s Directives)” is based on the provision of higher education opportunities to students from Balochistan and FATA through enrolling them in an educational institution of other province and supporting them by paying their tuition fee and other living expenses. The quantitative target of the programme is to provide financial support to a total of 3900 students (2500 Undergraduate and 1400 Post-graduate). The scholarship distribution ratio for the students of Balochistan and FATA is 50:50.

**Health and Nutrition**

To reduce the incidence of disease and to improve the health status, various health priority programs remained operative during fiscal year 2016-17 such as Cancer Treatment, Aids Prevention and Malaria Control Programs. Recently the Federal government initiated several programs like Prime Minister Health Program, Expansion of Immunization Program and continued its strong focus on polio eradication. For the current year, total outlay for health sector is budgeted at Rs 145.97 billion which included Rs 37.5 billion for development and Rs 108.5 billion for current expenditure showing an increase of 9 percent over last year.

**Population, Labour Force and Employment**

Pakistan is the sixth most populated country in the world with an estimated population of 199.71 millions. The estimated population growth and fertility rate is 1.86 and 3.0 respectively. The government is well aware of the issue of high population growth and fertility rate and trying to overcome through different programs like establishment of Family Welfare Centers (FWC), Reproductive Health Services Centers (RHSC), Regional Training Institutes and Mobile Services Unit. Another major initiative taken by the government is conducting the National Population and Housing Census that would be helpful to government and planners in decision making and formulating a strategy for population control. The census will provide reliable data on population, its growth and migration trends in different regions/areas, employment, urban-rural population, male-female ratio, Afghan refugees etc. The national population census is also important for the resource allocation formula under National Finance Commission (NFC) Award.

Pakistan is blessed with energetic youth and this workforce can be a productive asset of the country if properly trained through skill development programs. The government is cognizant of this fact and has initiated
different skill development programs and training institutes for the youth which are being imparted through the establishment of vocational training centres. Focus on technical and vocational education will not only improve individual performance but also increase national productivity. There are about 9.0 million overseas Pakistanis working around the globe. The main concentration of overseas Pakistanis is in Middle East 54.80 percent, Europe 26.81 percent and America 11.90 percent. During 2016, around 0.84 million labour force proceeded to different countries, especially Saudi Arabia and Middle East which not only contributed the economies of the host country through their services but also earned remittances for the county.

### Transport and Communications

Total length of roads in Pakistan including GB and AJK is 264.401 thousand kilometres. Presently, NHA network comprises of 39 national highways, motorways, expressway, and strategic roads with total stretch of 12,131 kms. NHA existing portfolio consists of 50 ongoing projects costing Rs 1,605.6 billion. During last five years, NHA has rehabilitated/constructed the 3,934.04 Kilometers length of roads over the country. NHA successfully attracted private sector investment and has awarded/supported five (05) projects worth over Rs 144 billion. NHA is authorized to plan and develop China-Pak Economic Corridor (CPEC) connecting Khunjrab to Gwadar. Currently CPEC projects worth Rs 700 billion related to NHA are ongoing.

The network of Pakistan Railways comprises of 7,791 route kilometers, 451 Locomotives (DL 439 + Steam 12), 1,732 passengers coaches and 15,948 freight wagons. Prem Nagar dry port Lahore is the first successful model of joint venture between Pakistan Railways and two private parties. Up gradation of Mainline-1 (ML1) and construction of dry port and cargo handling facilities have been included, as Early Harvest Projects (EHP) under China-Pakistan Economic Corridor (CPEC).

For revival of PIA, efforts are underway to improve the financial health of the Corporation by reducing its losses through various means and modes. Presently, PIA operates to 50 destinations including 28 international and 22 domestic. PIAC have recently signed agreements for acquisition of 20 percent aircraft on dry lease. The average age of fleet has also been reduced presently to 10 years which will further reduce to 8 years after grounding of above 20 years old A-310. PIA is perusing aggressive to induct fuel efficient narrow body aircraft i.e. A320 in order to overcome fleet constraints.

PNSC fleet comprises of 09 vessels of various type / size with a total deadweight capacity of 681,806 metric tons being the highest ever carrying capacity since its inception. Direct operating expenses decreased to Rs 6,607 million from Rs 6,734 million. PNSC plans to add more oil tankers to its fleet.

The cargo handled at KPT improved by 15.3 percent in FY 2016 over FY 2015. During July – March FY 2017, the cargo handled data suggests a growth of 6.9 percent over the same period last year showing improved economic activity. Imports and exports through KPT have grown by 8.2 and 2.2 percent respectively during July- March 2016-17 as compared with previous year corresponding period.

Test operations of the country’s biggest port, the Pakistan Deep Water Container Port, has commenced from dated 09-12-2016 when the first container ship was accommodated at its berth No.4. The new Port is located at the Keamari Groyne East of Karachi Port, and has the capacity to cater for mother ships. This new port is expected to play a major role in the CPEC. In the first phase of development, the terminal operator has constructed berths No.3 and 4 while berths No.1 and 2 are left for completion under second phase. The terminal operator has already brought in equipment, including five ships to shore gantry cranes and a power station with a generation capacity of 28 megawatts is also made available. The port has the capacity to handle 3.1 million TEUs a year and have a storage yard to accommodate 550,000 TEUs per year.
Port Qasim handled 26.677 million tonnes of total cargo during the financial year 2016-17 (July-March) as against the corresponding period 2015-16, reflecting an increase of 12.2 percent.

In Balochistan province, Gwadar is the first port on the south western Arabian Sea coastline which is about 635 km from Karachi and 120 km from the Iranian border by road. Gwadar Port is located just outside the Strait of Hormuz, near the key shipping routes from Arabian Gulf to Far East and Europe. Gwadar Port is a strategic warm-water, deep-sea port and phase-1 of the port has been developed jointly by Government of Pakistan and the Government of the Peoples Republic of China with a total cost of US$ 288.0 million.

Gwadar Port is fully functional with three multipurpose berths, each 200 meters in length dredged to 14.5 meters in depth alongside the berth, handling a ship of 50,000 DWT capacity. By 2055, it is anticipated that Gwadar Port will be the largest site of its kind in Pakistan, with a 50 km sea front and 10,000 hectares of port backup area.

To resolve the port connectivity with the highway network, “Gwadar Port East bay Expressway” project has now been agreed upon for funding under CPEC. The proposed expressway will connect the Gwadar Port with the Mekran Coastal Highway, passing along the east bay of Gwadar City, with a total length of 18.98 Km, including 4.3 Km along-the-shore and 14.6 Km on-shore sections. A double track rail link along the expressway is also part of the project.

The Information Technology sector is exhibiting accelerated progress with total IT turnover of US $3.1 billion, including both exports and domestic revenue. The Broadband penetration has jumped from 3.7 million to 40.7 million. The IT and Telecom sectors are expanding and generating new jobs as businesses utilize modern ICT technologies such as e-commerce, e-banking, e-health, e-education, and business related to IT applications. Telecom operators have invested a significant amount of US$ 287.6 million during July-December, 2016. The main driver behind this investment is the cellular mobile sector which has invested US $262 million during the first two quarters of FY2016-17.

By the end of March 2017, the total number of mobile subscriptions in Pakistan reached 139.11 million with the net addition of 5.9 million subscribers during the July, 2016 to March, 2017, of FY 2016-17. 3G and 4G LTE subscribers have reached 39.88 million by March 2017, registering an increase of 10.3 million subscriptions to 3G & 4G LTE networks in 09 months (July 2016-March 2017).

At the end of March 2017, broadband subscribers stood at 42.36 million as compared to 32.29 million at the end of last fiscal year depicting 31 percent growth over the last nine months. The number of net subscriber additions in the period stood at 10 million.

There has been an impressive growth rate of approximately 97 percent in IT remittances over the last four years. Hence, Pakistan’s IT exports are estimated to have crossed $2.8 billion a year at present as per estimation standard of Bearing Point. Annual domestic revenue is around $500 million. Hence, total revenue of IT industry is estimated to be around $3.3 billion a year at present.

According to estimates there has been a cumulative investment of approximately U.S $4.0 billion in the electronic media industry in Pakistan. Electronic media sector has generated direct employment for more-than 250,000 people of diversified skills and qualifications. With the current growth rate of more than seven percent per annum, it is estimated that the cumulative investment in the electronic media industry will surpass U.S $5.0 billion by the end of the current financial year. The Pakistan Electronic Media Regulatory Authority also conducted bidding during the current 2016-17 for award of 52 FM Radio licenses in 50 cities across Pakistan which concluded at Rs 253.690 million.

Pakistan Television Corporation Limited (PTV) is the only public sector broadcasting channel which telecast national & international
programs in big cities and also remote and economically backward areas of the country in order to keep the people of remote areas to aware about the current affairs of the country as well as the whole world. At present 7 multiple channels are broadcasting its different programs through PTV Home, PTV News, PTV Sports, PTV Global, PTV National, PTV Bolan and PTV World.

Energy

The critical need for sufficient, reliable and affordable energy supply has taken by the present government on top priority. Right from the beginning, the present government had given high priority to energy sector, thus making significant efforts on all fields ranging from immediate step to long-term plan.

As an immediate step, the government retired the circular debt substantially brought down power subsidies and significantly contained the accumulation of new payable arrears in the power sector by (i) improving DISCOs' performance, (ii) rationalizing tariffs, and (iii) reducing delays in tariff determination. The subsidy for power sector which was Rs 464 billion (2.3 percent of GDP) in FY 2012 has been consistently reduced to Rs 217 billion (0.7 percent of GDP) in FY 2016. During July-March FY 2017, the subsidy for power sector remained at Rs 85 billion compared to Rs 99 billion in the corresponding period last fiscal year. Further, Circular Debt Capping Plan is effectively managing the power sector financial flows, stocks and subsidy budget.

In short run, two critical issues were addressed on fast track. One issue was inefficient recovery system while the other was transmission and distribution losses. It is worth mentioning that Ministry of Water and Power has shown significant improvement in both issues. There was 94.40 percent recoveries during July-March FY 2017, being highest in past ten years while transmission and distribution losses declined to 16.3 percent during the said period.

In the medium term, National Power Policy 2013 had also focused on low cost energy. Altering the fuel mix towards less expensive fuels will lead to low cost energy. Investments required for the low cost fuel mix will necessitate rationalization of the electricity tariff. In this regard, both Private Power and Infrastructure Board (PPIB) and Alternative Energy Development Board (AEDB) are playing vital role on behalf of the Government of Pakistan in materializing government commitment of adding sustainable and affordable power generation to the national grid. Thus energy imports of liquefied natural gas (LNG) and coal along with utilization of domestic resources like construction of Thar coal mines, hydro power stations, nuclear power plants, as well as several solar and wind farms will significantly reduce the country’s reliance on oil in the medium term and improve the energy mix.

In long run, the government plan over a period of next 10 years is China-Pakistan Economic Corridor (CPEC). The CPEC envisages projects in energy and infrastructure, with a total financial outlay of around US$ 46 billion. Financial outlay of Energy sector’s projects are estimated to be US$ 34.74 billion. Energy sector’s projects include power generation and transmission projects to be implemented in IPP mode. Till March 2017, twelve (12) projects have been signed in Energy Sectors with eight (8) projects in PPIB and four (4) projects in AEDB.

During July-March FY 2017, although installed capacity increased to 25.1 million MW from 22.9 million MW during corresponding period last year, however, there was decline in generation as it remained 85,206 GW/h during July-March FY 2017 compared to 101,970 GW/h during July-March FY 2016. The main reason of the decline is slow down in the share of hydro in electricity generation compared to 34 percent during the corresponding period last year mainly occurred due to weather condition and less flow of water in rivers.

Oil (Petroleum Product): Pakistan mainly depends upon oil and gas resources to fulfill energy requirements. The domestic production of crude oil remained 24.2 million barrels during July-March FY 2017 compared to 24.0
million barrels during the corresponding period last year. Indigenous resources of oil are not enough to quench energy thirst of a growing economy. As a result Pakistan has to import large quantity of oil and oil based products from Middle East countries especially from Saudi Arabia. The quantity of crude oil imported remained 5.9 million tones with value of US $ 1.84 billion during July-March FY 2017 compared to 4.2 million tones with value US $ 183 billion during the same period last year. Thus, the low international prices of oil helped in saving foreign exchange due to lower import bill.

Transport and power are the two major users of oil. During July-March FY 2017, share of oil consumption in transport increased to 57 from 55 percent during the same period last year, while share of oil consumption in power remained 33 percent during July-March FY 2017 compared to 34 percent during the same period last year due to some of inefficient thermal plants remained closed on account of overhauling during the period under discussion.

Natural Gas: Pakistan has an extensive gas network of over 12,202 Km Transmission 119,736 KM Distribution and 32,823 Services gas pipelines to cater the requirement of more than 8.4 Million consumers across the country by providing about 4 Billion Cubic Feet per day natural gas. Government of Pakistan is pursuing its policies for enhancing indigenous gas production as well as imported gas to meet the increasing demand of energy in the country. At present about 600 MMCFD Re-gasified Liquefied Natural Gas (RLNG) is being imported. The average natural gas consumption was about 3,654 Million Cubic Feet per day (MMCFD) including 410 MMCFD volume of RLNG during July 2016 to February 2017. During July 2016 to February 2017, the two Gas utility companies (SNGPL & SSGCL) have laid 814 Km Gas Transmission network, 4,153 Km Distribution and 1,162 Km Services lines and connected 104 villages/towns to gas network. During this period, the gas utility companies have invested Rs 17,925 Million on Transmission Projects, Rs 11,183 Million on Distribution Projects and Rs 14,925 Million on other projects bringing total investment to about Rs 44,033 Million. During this period, 360,824 additional gas connections including 360,465 Domestic, 339 Commercial and 20 Industrial were provided across the country. It is expected that Gas will be supplied to approximately 414,723 new consumers during the fiscal year 2017-18. Gas utility companies have planned to invest Rs 12,702 Million on Transmission Projects, Rs 43,045 Million on Distribution Projects and Rs 8,462 Million on other projects bringing the total investment of Rs 64,209 Million during the fiscal year 2017-18.

Coal: Constitutionally, minerals other than mineral oil, natural gas & nuclear minerals are provincial subject. Provincial Governments have granted more than 1,100 coal mining concessions to public and private sector companies to carry out exploration and mining operations in the licensed/leased area. Two federally controlled organizations; Pakistan Mineral Development Corporation (PMDC) and Lakhra Coal Development Company [joint venture of PMDC, WAPDA & Government of Sindh] are engaged in extraction of coal in Sindh and Balochistan Provinces, producing about 558,000 tons and 235,000 tons of coal per annum (for 2015-16), respectively. These two companies also supply coal to Lakhra Power Plant of WAPDA.

Social safety Nets
The government has prioritized 17 pro-poor sectors through the Medium Term Expenditure Framework (MTEF) in the PRSP-II, which provided a link between the policy priorities and the related budget allocations. Expenditure on pro-poor sectors in 2012-13 stood at 8.5 percent of GDP. In 2013-14, these were 7.7 percent of GDP and in 2014-15, 8.3 percent of GDP. During 2015-16, total expenditures of these sectors were increased and reached to Rs 2,694.6.7 billion, which was 9.3 percent of GDP. During July-December of the current fiscal year 2016-17, Rs 1,017.5 billion expenditures have been made in these sectors.

The number of BISP beneficiaries has increased from 1.7 million in FY 2009 to approximately 5.42 million at the end of March 2017. BISP’s
annual disbursement increased from 16.0 billion in FY2009 to Rs 115 billion in FY2017. The quarterly cash grant has been gradually enhanced by present government from Rs 3000/- to Rs 4834/- in FY 2016-17.

Pakistan Poverty Alleviation Fund (PPAF) is also contributing a large amount of funds throughout Pakistan to its core projects like microcredit, water and infrastructure, drought mitigation, education, health and emergency response interventions have been widely recognized. The core operating units of the PPAF delivered range of development interventions at the grassroots/community level through a network of 134 Partner Organizations across the country. During July 2016 to March 2017, Pakistan Poverty Alleviation Fund (PPAF) has disbursed an amount of approximately Rs 9.207 billion to its Partner Organizations (POs) under PPAF core interventions administered through various operational units.

**Climate Change**

Pakistan’s vulnerability from climate change is due to geographic, demographic and diverse climatic conditions. Particularly, the environment changes threats to water, energy and food security. Its impacts are being felt through increasing intensity and frequency of extreme climatic disastrous events, as well as small, but incremental changes gradually affecting many sectors of government activity. Pakistan’s response to the challenges of global warming and climate change has been closely aligned with its strategies for environmental protection, Sustainable Development Goals (SDGs) and objectives of the Convention on Climate Change.

Pakistan is one of the low forest cover countries with only 5 percent of land area under forest and tree cover whereas international requirement is 25 percent. To increase the forest coverage the government under the direction of the Prime Minister of Pakistan has launched, the Green Pakistan Program with the objective to facilitate transition towards environmentally resilient Pakistan. The objectives of the program will be achieved by implementing different initiatives and projects. The first project in this program is Green Pakistan Program-Revival of Forestry Resources in Pakistan and estimated cost of this project is Rs 3.652 billion and will be implemented over a period of five years (2017-2021). The second project is Green Pakistan Program - Revival of Wildlife Resources, its estimated cost is Rs 1.065 billion and will be implemented in five years (2017-2021).