Government of Pakistan
Finance Division
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PAKISTAN: A LAND OF OPPORTUNITIES

Pakistan is strategically located in the crossroads of Asia with China as its neighbor in the north, India in the east, and Iran and Afghanistan in the west. Thus its strategic location allows Pakistan to become an important trade, energy and transport corridor. Most importantly, Pakistan is a gateway to energy rich States of Central Asia, the Gulf States and far Eastern countries. This unique feature of Pakistan's strategic location alone makes it a place of endless possibilities.

Pakistan ranks 23rd largest economy in the world in terms of purchasing power parity, while it is the 40th largest economy in terms of nominal GDP. According to World Bank estimates Pakistan stands on the 8th place among the top 10 recipients of remittances.

Major sectors of Pakistan's economy are Agriculture, Industrial and Services sector which contribute 19 percent, 20 percent and 61 percent, respectively in GDP. According to Food and Agriculture Organization (FAO), World Atlas 2018, Pakistan is ranked 4th in cotton production, 5th in sugarcane while 8th and 10th in wheat and rice production, respectively.

In term of natural resources, Pakistan is one of the resource rich countries in the world having abundant reserves of coal, gas, gemstones, copper, salt, minerals and gold. Other resources include oil, iron and aluminum which are vital for any growing economy.

Pakistan is the 5th most populated country in the world with an estimated population of over 207million with labor force of 65.5 million and 10.8 million people working abroad. Pakistan has greatest demographic opportunities for development as growing youth population has entered its adulthood. The increasing proportion of Pakistan's youth bulge with diversified capabilities would be supportive in achieving sustainable economic growth. Government of Pakistan is making its best efforts to provide them adequate training, skill development and employment opportunities to tap the potential of the youth.

Pakistan's consumer market is fastest growing as shown by teledensity which has now reached more than 161 million which is 77 percent of population.

With regard to Pakistan's economy, it has shown tremendous resilience in response to various shocks emanated from both at external and internal fronts owing to international financial and economic meltdown, misaligned economic policies, war against terrorism, energy shortfalls, natural calamities and bad governance. All these challenges have taken a major toll over the years on Pakistan's economic growth as it remained below its potential.

The present government came into power in 2018; they inherited the economy which was characterized by mounting debt and liabilities, high current account and fiscal deficit, depleting foreign exchange reserves, subdued growth in exports, high circular debt and miserable condition of State Owned Enterprises.

To break the cycle of recurring instability and to put the economy on the path of sustained growth and stability, government took some tough immediate steps such as monetary tightening, exchange rate adjustment, expenditure control, enhancement of regulatory duties on non-essential imports and adjustment in energy prices which were kept subdued.

Going forward, present government made decision of entering in IMF's Extended Fund Facility (US$6 billion), in order to support the balance of payments and strengthen the market confidence. Furthermore, additional financial support from other development and bilateral partners will support the stability and move toward high and inclusive growth.

The present government is highly committed to introduce far-reaching reforms in every sector of the economy. The aspiration is to transform Pakistan into a land of opportunities. In this regard, a comprehensive over view of the initiatives announced/taken by the government in different sectors of the economy during its first year are presented as under:

Real Sector

- The provisional GDP growth rate for FY2019 remained 3.29 percent mainly due to 0.85 percent growth in agricultural that was affected due to negative growth (-6.6 percent) in important crops. The agriculture sector is the lifeline of Pakistan's economy and adds around 19 percent to the economy, employs 38.5 percent of labor force and remains a major source of raw materials for several value-added sectors.
- High performing agriculture sector is the center piece of present government's growth and poverty alleviation strategy. It has a very prominent role to achieve goals of poverty alleviation and socio-economic uplift through inclusive growth of both farming and non-farming segments of rural economy.
- To improve agriculture sector and to make it in line with the economy's requirement to achieve overall GDP growth 'National Agriculture Emergency Programme' has been announced which intends to spend Rs.280 billion in the next five years. The programme would be executed with the coordination of all provinces aimed at boosting crops yield, fisheries and livestock development as well as water conservation to ensure the smooth supply and availability in food supply chain.
- To boost jobs in industrial sector, the government is providing incentives to industrial sector through export development package, subsidies for electricity & gas and Long-Term Trade Financing.
- The Large-Scale Manufacturing sector which posted a negative growth in outgoing year likely to rebound on the back of expected growth in agriculture sector along with government initiatives in the construction sector, SMEs sector, tourism and automobile sector.
- Both, agriculture and LSM sector growth is likely to have a good impact on services sector on account of goods transport services linked to agriculture and wholesale trade. The rebound in the agro based industries as well as government incentives for export oriented industries will improve labor productivity which will help in reviving LSM.

External Sector

- The first critical challenge the government faced was the rapidly depleting foreign reserve and find ways to build it. The main reasons being SBP was continuously making significant foreign exchange interventions. At first, SBP was stopped to make interventions.
- Further, the government also succeeded in mobilizing additional financing from friendly countries in the form of short- to medium-term loans, deferred payment on imported oil and temporary deposits in the central banks. These measures and inflows have strengthened Pakistan's foreign exchange reserves and reduced external vulnerabilities.
- Macro adjustment policies such as monetary tightening and exchange rate adjustments helped in declining of current account deficit significantly by 31.7 percent to US$ 13.587 billion during FY2019 as compared US$ 19.897 billion during same period last year.
- Pakistan's exports during FY2019 stood at US$ 24.217 billion compared with US$ 24.768 billion during FY 2018.The performance of exports in FY2019 has not been promising despite of number of export incentives. This may be due to the slow pace of global trade especially the trade war between US-China that has created uncertainty in trade flows.
- Present government has taken immediate actions to boost exports including subsidized electricity and gas to industrial and export sectors, loans at low interest rates, import duties on raw materials of export-oriented industries reduced, Prime Minister's export package extended to three years and duty free access to 313 items secured from China.
- Pakistan's imports during the period FY2019 stood at US$ 52.436 billion compared with US$ 56.592 billion FY 2018. The impact of stabilization efforts and imposition of regulatory duties on non-essential imports reflects in quantum effect which declined significantly and dominates the positive price effect.
- On the back of initiatives taken by the government and Prime Minister provided confidence to Pakistanis living abroad, workers' remittances surpass the target of US$ 21.2 billion in FY2019 which increased by 9.68 percent to US$ 21.841 billion as compared US$ 19.913 billion during last year.

Fiscal

- The fiscal deficit is recorded at 5.0 percent of GDP during July-March, the government is committed to implement structural reforms to narrow the fundamental revenue-expenditure gap. This will ensure an efficient and fair tax system with the ability to generate ample revenue to finance a large part of public expenditures.
- On revenue side, the fiscal strategy will focus on increasing revenue through broad-based tax policy and administration reforms to raise the tax to GDP ratio.

- On expenditure side, the government is following prudent expenditure consolidation. The government is making strategy for cost recovery in energy and State-Owned Enterprises (SOEs). The government will design new SOEs' Law aimed at modernizing and clearly defining the role of the State as owner, regulator, and shareholder of SOEs. In this context, the recently established holding company to manage SOEs will follow the required governance and transparency principles in line with international best practices.

Other Initiatives/Achievements

- On security condition, there is no doubt that situation in Pakistan has been improved significantly. According to Overseas Investors Chamber of Commerce and Industry (OICCI), annual security survey conducted in June 2019, foreign investors' confidence in Pakistan's security situation has increased over 65 percent.
- British Airways has resumed flights to Pakistan after more than 10 years after a hotel bombing led to the route being suspended. The airline is now scheduled to fly three times a week to Islamabad from London Heathrow on Boeing 787s. This is an indication of regain of confidence of international community and it will also boost tourism in Pakistan.
- The Pakistani government is carrying out a vibrant foreign investment promotion policy, and has taken a number of economic liberalization measures to make the country more attractive. Pakistan offers a number of tax incentives for the establishment of industrial units in certain specific sectors; energy, ports, highways, electronics and software.
- To attract FDI, government is inclined toward setting up of Special Economic Zones (SEZs). In this regards, Rashakai Economic Zone, Nowshera, Allama Iqbal Industrial City, Faisalabad, Dhabejji, Thatta, ICT Model Industrial Zone, Islamabad and Bostan Industrial Zone, Balochistan are prioritized under CPEC. However, Port Qasim, Moqpondass SEZ, Gilgit-Baltistan, Mirpur SEZ, Azad Jammu & Kashmir and Momand Marbel City are also under consideration. Government will provide business friendly environment in these zones which in turn will boost exports and create employment.
- The Government is also keen to set up export-processing zones (EPZs), to encourage foreign investment. Some of the incentives offered to EPZ investors include exemptions from all federal, provincial and municipal taxes for export-destined production, exemptions from all taxes and duties on equipment, machinery and materials and access to Export Processing Zone Authority "one window" services.
- Pakistan's ease of doing business index has improved up 11 points; this will surely attract foreign investors and will boost FDI. Furthermore, Pakistan carried out three reforms during the past year in the areas of starting a business, registering property and resolving insolvency that was recognized in the World Bank's annual report titled "Ease of Doing Business 2019".The Board of Investment with the help of relevant stakeholders will keep on providing conducive business environment and will make

further efforts in order to improve ease of doing business and Global Competitiveness Index rankings.

- Government is focused on improving the investment climate to attract foreign investment in the country. For the purpose, the government has taken different initiatives at the international level. Pakistan has recently signed offshore Gas Pipeline deal with Russia. Similarly, Saudi Arab has shown interest to invest in a new oil refinery in Pakistan's growing deep-sea port of Gawadar which is likely to increase FDI in Pakistan. Moreover, Prime Minister's visits to USA, Malaysia and UAE would also be helpful in attracting more FDI.
- Year 2019-20 is also expected to be the year for foreign investments in Pakistan. CPEC shall be entering its second phase that will be more focused on trade and industry, moving on from infrastructure projects. This will play a pivotal role in terms of technology and skills transfer to our economy. Multi-national companies from different sectors ranging from automobiles, telecommunications, energy, electronics and others have also expressed their interest to invest in Pakistan. Our sizeable population and a young demographic holds great and yet untapped potential for any investor. In the coming years, we are confident to see these interests transforming into tangible foreign investments.
- Prime Minister's Naya Pakistan Housing Scheme will benefit more than 28 industries and hence will generate sizeable employment.
- KamayabJawan program will provide Rs. 100 billion low cost loans for youth to setup/expand business. Government is also providing a series of subsidies and incentives to agriculture and industrial sector for employment generation.
- Social Protection through poverty alleviation programs have been introduced to protect the poor segments of the society. The targetted poverty reduction interventions have been made through Ehsas program, BISP, SehatSahulat program, low cost housing, expanding coverage of Waseela-e Taleem program, Tree Tsunami Program, Clean & Green Pakistan etc.
- SBP will maintain a positive policy rate in real terms which will not only be consistent with its medium-term inflation objective but also help in increase in domestic saving behavior.
- Raising funds from non-resident Pakistanis for current account deficit financing was the government's out-of-the-box solution of the problem. The government is expecting to get a huge response from the Pakistanis living in the United States, Canada and the United Kingdom.
- In recent visit of PM to US, the investors appreciated the improved security environment in Pakistan. Regarding security condition in the region, government do believe in improving peace through dialogue. Most importantly, US President offered to mediate the conflict between Pakistan and India over the disputed territory of

Kashmir. Likewise Prime Minister of Pakistan has offered his full support to facilitate Afghan peace process.

- Similarly, while realizing the potential of tourism industry, present government pledge to provide the requisite infrastructure facilities to visiting tourists. In this regard, introducing visa at arrival is an appropriate act to promote tourism in Pakistan.

Pakistan has always proved to be the home of most resilient nation awaiting its overdue rise. It has all the requisites of being a major economic player in the region and Asia. Its economic potential is immense. According to a recent World Bank Report, with sound economic policies, Pakistan economy could reach US$ 2 trillion by 2047. Government is well aware of the challenges Pakistan is currently confronting with and hence adopted comprehensive set of economic and structural reforms to lay the foundation of sustainable development and transforms Pakistan into an equitable land of endless opportunities.
