Growth and Investment

Introduction

Pakistan's economy has maintained higher and broad based economic growth in outgoing fiscal year 2014-15 despite a number of internal and external challenges. Government remained focused on the agenda aimed at reviving of the economy, resolving the energy crisis, improving security situation, and providing ample opportunities to all and sundry to boost up their socio-economic condition. Government has pursued growth oriented economic policies and introduced comprehensive structural reforms to achieve these objectives. Due to continuous efforts, the situation started improving as key economic indicators showing positive signals for economic agents. During first year, the government succeeded in averting fear of default in foreign exchange reserves and in second year achieved macroeconomic stability. The major economic achievement includes: picking up in economic growth, inflation contained at 4.8 percent during July-April 2015, which is lowest level of inflation since 2003. Government of Pakistan has also succeeded to pass on more benefits of decline in international oil prices to general public as compared to other regional countries, which has provided a relief to the common man, remarkable improvement in workers' remittances, build foreign exchange reserve buffer well around four months of imports, successful launching of Euro Bond and Sukuk Bond after 9 years, improvement in tax collection, containment of fiscal deficit, stock market created new history, and launching of Pak-China Economic Corridor which will create new history in economic development of the country.

During fiscal year 2014-15 economic environment in the country remained confronted with number of challenges such as war against extremism, energy shortages, settlement of IDPs and strengthening of state institutions. Moreover, political conditions started deteriorating in August 2014, due to street sit-ins/ dharnas followed by lengthy demonstrations nationwide until December. Concurrently, floods hit various areas of the country in September which impacted agriculture and infrastructure sectors and also damaged some major agricultural crops like sugar, rice and cotton along with other losses.

The economic recovery nurtured started undermining due to long march/dharnas. The economy has suffered both implicit and explicit losses due to sit-ins protest by the political parties from August. It is difficult to exactly estimate these losses in numerical term. However it has impacted on various dimensions. Finance Division has sanctioned supplementary grants amounting to Rs.760.5 million to Ministry of Interior/ICT police in connection for the security of long march/dharnas during current fiscal year 2014-15. The exchange rate which was 98.82 on Aug 5, 2014 depreciated to 103.19 on Aug 25, 2014 showing a depreciation of 4.4 percent which adversely affected import bill as well as capital loss on foreign liabilities due to rupee depreciation. The external public debt was US $ 51.4 billion (Rs. 5,077 billion at exchange rate 98.81) at the end of FY 14 and due to currency depreciation it increased to Rs. 5,302 billion showing a loss of almost Rs. 225 billion. Completion of 4th Review under IMF program delayed, and high profile visit also postponed as well as erosion in investors' confidence. However, Pakistan and IMF successfully completed the negotiations on the Fourth Review as well as the Fifth Review in September, 2014. Pakistan received fourth and fifth tranche of worth US$ 1.1 billion, in December 2014. The position would have been much better, if it received earlier. High profile visit of Chinese President was postponed. However, PM visited China and signed agreements and memorandums of understanding (MoUs) mainly on projects relating to China-Pakistan Economic Corridor and electricity generation to further boost bilateral ties. Investors confidence was also shattered as they adopted the policy of wait and see. However, it has been revived on account of various positive developments adopted by the government to revive the investor's confidence such as calling International Investor's Conference where investors reposed their confidence in government policies and programs for the revival of business confidence.

The government has seriously focused on bringing improvement in the real sector growth through improvement in agriculture, industrial and services sectors. In this connection, a number of public sector development programs have been initiated in production and infrastructure sectors. Economic Co-ordination Committee of Cabinet has approved support price of wheat as Rs. 1300/- per 40 kg for the 2014-15 crop. The decision has been taken to facilitate the farmers' community in the country. During first ten months of current fiscal year (Jul-April 2015) the banks have disbursed agriculture credit amounted to Rs. 368.7 billion which is 73.74 percent of the overall annual target of Rs. 500 billion and 27.84 percent higher than disbursement of Rs. 288.387 billion made during the corresponding period last year. Efforts were also made to provide better supply of inputs including quality seeds, fertilizer, and pesticides etc in timely manners to increase agriculture produce and encourage small poor farmers. The government remained focused on improving vocational and technical education networks to provide more skilled labor to industrial sector also encouraged small and medium industries through the targeted loans. State Bank of Pakistan has also reduced discount rate gradually and reached at 7.0 percent which is the lowest in last 42 years, which is also a major incentive for business community to increase economic activities. ECC approved growth oriented Textile Policy 2014-19, which will facilitate additional investment of $5 billion in machinery and technology. It will also facilitate the creation of 3 million new jobs and promote skills and trainings for professionals. After achieving the GSP plus status, Government is working on fast track for the formulation of the Ex-Im Bank, all legal and procedural requirements have been completed and soon it will be established. The bank will be the ideal vehicle for scrutinizing investment proposals and would furnish a range of funding and non-funding instruments (e.g. guarantees) to those whose proposals are found to be feasible. State Bank of Pakistan has also reduced markup rate on Export Refinance from 9.4 percent to 6.0 percent and Long Term Financing Facility rates from 11.4 percent to 7.5 percent, which has reduced financial cost of exporters and will improve exports in coming months. The government has established Land Port Authority (LPA) to oversee cross-border movement of goods and people. This project is a part of an Integrated Transit Trade Management System (ITTMS) at border customs station to facilitate trade with neighboring countries. The LPA would act as a common platform for all regulatory agencies, including customs, immigration, terminal operator, security, quarantine, banks, shipping agencies freight forwarders etc. The successful implementation of the project will make Pakistan third country in South Asia after Bangladesh and India, having dedicated land ports for handling goods and passenger traffics at borders. It is a major step to transfer Pakistan into a regional trade hub. The National Action Plan against militancy has also provided an impetus to an evolving national consensus-building process for resolving major persisting economic problems with no easy solutions. Government remained focused on providing better security conditions and business friendly environment to attract foreign investment in the country and improve investment-GDP ratio on fast track in upcoming years. China and Pakistan has signed agreements of worth $ 45 billion. The focus of spending is on building a China-Pakistan Economic Corridor (CPEC) - a network of roads, railways and pipelines between the long-time allies. Both signed agreements worth $28 billion to immediately kick-start early harvest projects, while projects worth $17 billion, which are in pipeline, will follow as soon as required studies, processes and formalities are completed. The ground breaking and signing of financial agreements has demonstrated that there is a strong will on both sides to implement CPEC portfolio of $45 billion agreed under CPEC framework as early as possible to help Pakistan meet its energy needs.

The government also made efforts to manage the existing PSEs in a more efficient manner and has started implementing a holistic PSEs Reform Strategy. Main focus of PSEs Reform strategy is on improvement in corporate governance, restructuring of PSEs and strategic partnership through privatization. The government has embarked on strategic partnership/ disinvestment of 31 PSEs representing the most viable transactions. The strategy involves disinvestment of a mix of PSEs in the oil & gas, banking & finance, power, industrial, transport and real estate sectors. One of the main elements of the strategy is strategic partnerships entailing transfer of management to investors through partial sale of shares, depending on sectoral dynamics, PSEs economic size and status and market appetite.

The government has developed an Action Plan for Improving Pakistan's business environment, which was finalized in October 2014 after in-depth consultations with concerned federal and provincial stakeholders. The Plan is based on bringing improvement in Pakistan's Doing Business (DB) rankings, since a fundamental premise of World Bank's DB rankings is that economic activity requires good rules which establish and clarify property rights; reduce the cost of resolving disputes; increase the predictability of economic interactions; and provide contractual partners with certainty and protection against abuse.

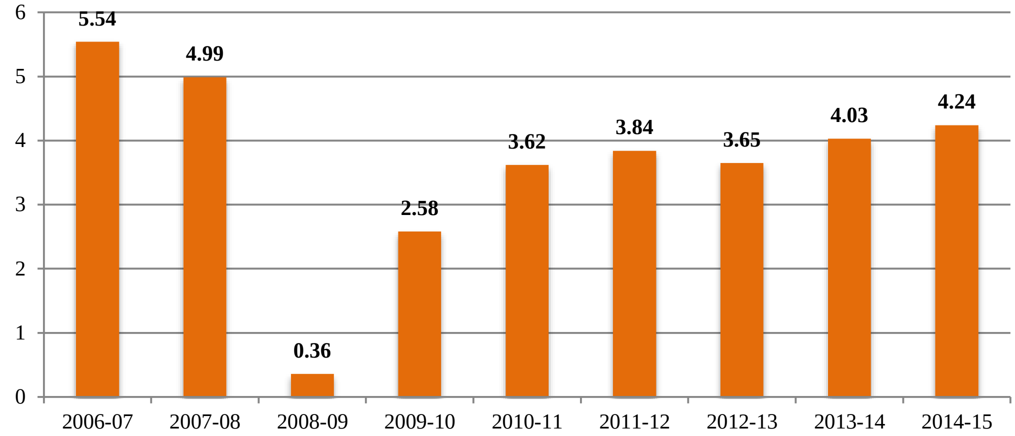
The Plan focused on short and medium term reforms to be implemented for reducing time and procedures as well as costs associated with fulfilling regulatory requirements for business firms under these areas. The objective is to design regulations which are efficient, accessible to all and simple in their implementation. The DB ranking of countries are closely monitored by global institutional investors and is an important determinant of investment inflows into emerging economies. In line with this imperative, the focus on DB rankings will serve as an important signaling device to the international business community about the government's resolve of improving the country's investment climate. Finance Minister has constituted a committee to develop a comprehensive plan for components of DB indicators and other investment climates which will further facilitate to create investment friendly environment.

Under the starting a business indicator, a virtual one stop shop (VOSS) for new business registration has been developed and made operational. The VOSS portal has integrated registration procedures for limited liability companies (LLCs) pertaining to the Securities and Exchange Commission of Pakistan (SECP), the Federal Board of Revenue and the Employees Old Age Benefits Institution (EOBI), through an online portal. It is expected that this will reduce the average time for registering a business by three days as well as result in the elimination of two procedures, which will improve Pakistan's DB rankings under this indicator. A Physical One Stop Shop (POSS) has been established at Lahore, while work is underway in establishing a similar POSS at Karachi.

In the modern world, the private sector has been acknowledged as the key participant in the process of economic growth, it drives the economic growth through its contribution to investment, employment and business creation. Over the years, Pakistan's private sector which remained the major contributor in economic growth, severely hindered due to various internal and external factors most notably energy crisis, war against extremism and slackness in institutional arrangements. Recognizing private sector as the engine of economic growth, government is making all possible efforts to encourage private sector and create a conducive business climate to boost exports and tax revenues. The initiatives are in right direction and will go a long way in boosting the country's socio-economic development.

Pakistan's economy has maintained the recovery path, GDP growth accelerated to 4.24 percent in 2014-15 against the growth of 4.03 percent recorded in the last year. The targeted growth rate 5.1 percent could not be achieved due to energy shortages, uncertainty created by protest of political parties which delayed planned activities, floods and heavy rains damaged agriculture especially major crops like sugarcane, wheat and maize etc. The lower production of crops also passed on negative affect to industrial sector as well as domestic commerce. However, the growth achieved in outgoing fiscal year is higher as compared to previous years since 2008-09 and growth momentum recorded is broad based and all the three major sectors namely agriculture, industry and services have contributed in the improvement of economic growth. The agriculture sector grew by 2.88 percent against the growth of 2.69 percent in the last year. The industrial sector accelerated by 3.62 percent against the expansion of 4.45 percent in last year, while large scale manufacturing posted nominal growth of 2.38 percent against 3.99 percent last year. The services sector recorded a growth of 4.95 percent as compared to 4.37 percent last year. The commodity producing sector on the whole grew by 3.24 percent as compared to 3.55 percent last year. Fig-1 provides an overview of GDP growth over the previous years.

Fig-1: GDP Growth (%)



The GDP growth recorded at 4.24 percent in the outgoing fiscal year 2014-15 as compared to 4.03 percent last year. Continuously achieving higher GDP growth during 2013-14 and 2014-15 is an indicator that government policies are working in better direction and providing incentives and necessary support in the picking up of economic activities in the country. These policy initiatives will boost business climate further in coming years and higher potential growth will be achieved soon. The government has initiated a number of steps like comprehensive power policy, security policy, privatization, ease of doing business, reforms in taxation system, youth training and employment program etc which are improving business environment and creating more friendly climate for business community and other economic agents to take maximum benefits from potential of the economy.

Global Developments

The global economic growth during the outgoing year has witnessed some continuing signs of improvement. Global GDP is forecasted to accelerate as compared to last year with a pick-up in high-income economies along with some improvement in developing countries. The global economy is expected to grow at a pace of 3.5 percent in 2015 and to further accelerate at 3.8 percent in 2016. The world economy started picking up by growth in advanced economies, including the US, the Euro area and also in some emerging economies. Growth in Japan has been boosted by a set of expansionary policy packages and it is expected to remain relatively stable in 2016. Growth prospects among emerging economies are mixed. China has been stabilized and growth is expected to be maintained at a pace of about 7 percent. China is the second largest economy in the world; many economies have taken direct and indirect benefits of its development and have risen in recent years with China’s growth. China and Pakistan have made agreements to establish China Pakistan Economic Corridor between the two countries. The corridor will serve as a driver for connectivity between South Asia and East Asia. The trade in the world is expected to increase and Pakistan will take benefits through multiple dimensions.

US Economy is projected to see modest recovery in 2015 and also expected to sustain in 2016 with continuing improvement in labor market, consumer sector and business investment in projected year. Europe's economic recovery is forecasted to continue spreading and gaining strength gradually over 2015 and 2016. The euro area grew at 0.9 percent in 2014 and is projected to grow at 1.5 percent in 2015 and 1.6 percent in 2016. The recovery in Europe is projected to remain broad-based across EU member states as economic activities have started to build up in the vulnerable countries of the Euro-Area. Germany is expected to continue its recovery process mainly due to expansion in domestic demand and is forecasted to grow at 1.6 percent in 2015 and slightly improved at 1.7 percent in 2016. Economic recoveries in Netherlands and Italy are also expected to be driven by net exports, investment and better growth is also forecasted in the United Kingdom.

Middle East in previous years had benefited from the world's growth rates since the financial crisis of 2008. A further boost has been provided to some countries by significant investment in economic diversification. Particularly, Qatar's economy performed better with double-digit growth in most of the years, this improvement will continue as the country's hosting of the football world Cup may play the role to boost economic activities. Kuwait's economic recovery will continue, it grew at 1.3 percent in 2014 and forecasted to grow at 1.7 percent in 2015 and accelerate further at 1.8 percent in 2016. Saudi Arabia is expected to perform at stabilized growth rate and continue investment in economic diversification and infrastructure, Egyptian economy is also picking up as it grew at 2.2 percent in 2014 and expected to grow above 4 percent in coming year.

Hong Kong, Korea and Singapore are also picking up economic growth and expected to perform better in coming years. Developing countries need to continue the reform process to maintain the growing pace and to accelerate further. Growth momentum may derail if they slow down their reforms, investment in human capital, improvement in governance and technology up gradation. South Asian economies are also accelerating in coming years, economic performance of Pakistan is improving as it has maintained the growth momentum and achievements are broad based touching all sectors of the economy. The growth recorded for 2014-15 is 4.24 percent and will further accelerate in coming years as business climate is improving on fast track with better growth oriented policies of the government.

IMF has forecasted the better growth prospects for the African and South Asian countries for the year 2015 which will further accelerate in coming year. The country wise detail of projected GDP growth is presented in the Table 1.1. The improving performance of Europe is good for the world and it will also have better impact on the economy of Pakistan due to GSP plus status to Pakistan, which will certainly further enhance exports and the industrial performance of Pakistan as the country has a significant volume of trade with Euro area.

Table-1.1: Comparative Real GDP Growth Rates (%)

Region/Country	2009	2010	2011	2012	2013	2014	2015	2016(P)
World GDP	**0.0**	**5.4**	**4.2**	**3.4**	**3.4**	**3.4**	**3.5**	**3.8**
Euro Area	-4.5	2.0	1.6	-0.8	-0.5	0.9	1.5	1.6
United States	-2.8	2.5	1.6	2.3	2.2	2.4	3.1	3.1
Japan	-4.0	2.9	0.4	2.6	1.6	-0.1	1.0	1.2
Germany	-5.6	3.9	3.7	0.6	0.2	1.6	1.6	1.7
Canada	-2.7	3.4	3.0	1.9	2.0	2.5	2.2	2.0
Developing Countries	7.7	9.6	7.7	6.8	7.0	6.8	6.6	6.4
China	9.2	10.4	9.3	7.8	7.8	7.4	6.8	6.3
Hong Kong SAR	-2.5	6.8	4.8	1.7	2.9	2.3	2.8	3.1
Korea	0.7	6.5	3.7	2.3	3.0	3.3	3.3	3.5
Singapore	-0.6	15.2	6.2	3.4	4.4	2.9	3.0	3.0
Vietnam	5.4	6.4	6.2	5.2	5.4	6.0	6.0	5.8
				ASEAN				
Indonesia	4.7	6.4	6.2	6.0	5.6	5.0	5.2	5.5
Malaysia	-1.5	7.4	5.2	5.6	4.7	6.0	4.8	4.9
Thailand	-2.3	7.8	0.1	6.5	2.9	0.7	3.7	4.0
Philippines	1.1	7.6	3.7	6.8	7.2	6.1	6.7	6.3

Table-1.1: Comparative Real GDP Growth Rates (%)

Region/Country	2009	2010	2011	2012	2013	2014	2015	2016(P)
				South Asia				
India	8.5	10.3	6.6	5.1	6.9	7.2	7.5	7.5
Bangladesh	5.3	6.0	6.5	6.3	6.1	6.1	6.3	6.8
Sri Lanka	3.5	8.0	8.2	6.3	7.3	7.4	6.5	6.5
Pakistan*	**0.4**	**2.6**	**3.7**	**3.8**	**3.7**	**4.0**	**4.2**	**5.5**
				Middle East				
Saudi Arabia	1.8	4.8	10.0	5.4	2.7	3.6	3.0	2.7
Kuwait	-7.1	-2.4	9.6	6.6	1.5	1.3	1.7	1.8
Iran	2.3	6.6	3.7	-6.6	-1.9	3.0	0.6	1.3
Egypt	4.7	5.1	1.8	2.2	2.1	2.2	4.0	4.3
				Africa				
Algeria	1.6	3.6	2.8	3.3	2.8	4.1	2.6	3.9
Morocco	4.8	3.6	5.0	2.7	4.4	2.9	4.4	5.0
Tunisia	3.1	2.6	-1.9	3.7	2.3	2.3	3.0	3.8
Nigeria	9.0	10.0	4.9	4.3	5.4	6.3	4.8	5.0
Kenya	3.3	8.4	6.1	4.5	5.7	5.3	6.9	7.2
South Africa	-1.5	3.0	3.2	2.2	2.2	1.5	2.0	2.1

Source: World Economic Outlook (IMF), April 2015.
* : Finance Division, Government of Pakistan
P : Projected.

Pakistan is closely linked with rest of the world due to its strategic position and high external sector exposure. It is evident that global economy is picking up with projection to accelerate further in coming year; moreover, major trading partners of Pakistan are growing with better outlook, which will certainly have positive impact on the economy of Pakistan and provides an opportunity to uplift socio-economic condition of common man in the country.

Sectoral Analysis of Growth

Economy of Pakistan is characterized by diverse economy and broadly divided into three main sectors including agriculture, industry and services. Agriculture sector is further divided into four sub sectors including: crops (important crops, other crops and cotton ginning& misc.), livestock, forestry and fishing. Industry is also divided into mining and quarrying, manufacturing (large scale, small scale & slaughtering), electricity generation & distribution, gas distribution and construction. Services sector is divided into wholesale and retail trade, transport, storage & communication, finance and insurance, housing services, general government services and other private services. It is very important to study the performance of various sectors and subsectors of GDP to differentiate what is happening in various sub sectors and on the overall economic growth. The sectoral analysis provides useful understanding about performance of the economy as a whole as well as various segment of the economy and also identifies how various sectors are interrelated with each other and contribute in growth of the economy. The sectoral growth performance of GDP is presented below in Table-1.2.

Table 1.2: Growth Rate (%)

Sectors/Sub-Sectors	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15 P
A. Agriculture	**1.8**	**3.5**	**0.2**	**2.0**	**3.6**	**2.7**	**2.7**	**2.9**
Crops	-1.0	5.2	-4.2	1.0	3.2	1.5	3.2	1.0
Important Crops	-4.1	8.4	-3.7	1.5	7.9	0.2	8.0	0.3
Other Crops	6.0	0.5	-7.2	2.3	-7.5	5.6	-5.4	1.1
Cotton Ginning	-7.0	1.3	7.3	-8.5	13.8	-2.9	-1.3	7.4
-Livestock	3.6	2.2	3.8	3.4	4.0	3.5	2.8	4.1
-Forestry	8.9	2.6	-0.1	4.8	1.8	6.6	-6.7	3.2
-Fishing	8.5	2.6	1.4	-15.2	3.8	0.7	1.0	5.8

Table 1.2: Growth Rate (%)

Sectors/Sub-Sectors	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15 P
B. Industrial Sector	**8.5**	**-5.2**	**3.4**	**4.5**	**2.6**	**0.6**	**4.5**	**3.6**
2. Mining & Quarrying	3.2	-2.5	2.8	-4.4	5.2	3.9	1.7	3.8
3. Manufacturing	6.1	-4.2	1.4	2.5	2.1	4.6	4.5	3.2
-Large Scale	6.1	-6.0	0.4	1.7	1.1	4.2	4.0	2.4
-Small Scale	8.3	8.6	8.5	8.5	8.4	8.3	8.3	8.2
-Slaughtering	3.3	3.8	3.2	3.7	3.5	3.6	3.4	3.3
Electricity Generation & Distribution & Gas Distt.	37.2	-12.1	16.7	63.9	1.4	-26.4	5.6	1.9
4. Construction	15.4	-9.9	8.3	-8.6	3.1	1.1	7.3	7.1
Commodity Producing Sector (A+B)	**5.1**	**-0.9**	**1.8**	**3.3**	**3.1**	**1.7**	**3.6**	**3.2**
Services Sector	**4.9**	**1.3**	**3.2**	**3.9**	**4.4**	**5.1**	**4.4**	**5.0**
7. Wholesale & Retail Trade	5.7	-3.0	1.8	2.1	1.7	3.5	4.0	3.4
6.Transport,Storage and Communication	5.5	5.0	3.0	2.4	4.6	4.0	4.6	4.2
8. Finance & Insurance	6.3	-9.6	-3.3	-4.2	1.6	8.3	4.2	6.2
Housing Services (Ownership of Dwellings	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
General Government Services	0.2	5.6	8.0	14.1	11.1	11.3	2.9	9.4
Other Private Services	5.4	6.5	5.8	6.6	6.4	5.3	6.3	5.9
GDP (fc)	**5.0**	**0.4**	**2.6**	**3.6**	**3.8**	**3.7**	**4.0**	**4.2**

Sources: Pakistan Bureau of Statistics
P: Provisional

Commodity Producing Sector

Commodity producing sector comprising agriculture and industry plays an important role in the economy. It has relatively stronger forward and backward linkages for economic wellbeing of the society and also key driver of progress in all macroeconomic indicators. The commodity producing sector accounted for 41.2 percent of GDP during the outgoing fiscal year as compared to 41.6 percent last year. Its contribution was 44.0 percent in GDP in fiscal year 2005-06, which is decreasing over time due to evolutionary stages of growth as the share of non-commodity producing sector has enhanced. The commodity producing sector has performed slight lower in outgoing fiscal year as compared to last year; it grew at 3.24 percent during outgoing year as compared to the growth of 3.55 percent last year. Main reasons are damages to major crops due to flood, energy crises, dharnas & agitation of political parties, and war against extremism also contributed in this regards.

Agriculture Sector

Pakistan is essentially an agriculture country and its economy largely depends on bumper harvest. The government is making efforts on multiple dimensions to improve the agricultural sector and bring it at par with the applications of modern techniques and scientific methods to improve the quality and quantity of the yield. Agriculture is performing a double role in Pakistan's development by feeding population and supporting economic growth by restricting imports of food items. On the other hand, agriculture is the major source of foreign exchange earnings for the country. It's a key sector of the economy as it also provides raw materials to main industrial units of the country and major share of our exports also come from agriculture. It accounts for 20.88 percent of GDP and 43.5 percent of employment; the sector has direct and indirect linkages with other sector of the economy and plays significant role in socio-economic development of the country. Government took various steps to increase agriculture produce like support price for production, significant increase in credit to agriculture sector, better arrangements for the provision of inputs like seed, fertilizers, insecticides and better arrangements for marketing but there is no doubt its performance is mostly weather dependent. Due to such characteristics of agriculture its performance remained volatile despite the supporting role of government. Although the province of Punjab was hard hit by the floods, which damaged infrastructure and crops in the province; in spite of this, performance of the agriculture sector in outgoing fiscal year improved as the sector grew at 2.9 percent as compared to 2.7 percent last year. There is a no doubt unfavorable weather conditions resulted in lower production of wheat, sugarcane and maize as compared to previous year. The agriculture sector has four sub sectors including: crops, livestock, fisheries and forestry.

Crops: The crops is most vibrant sub-sector of agriculture, it consist of 39.6 percent of agriculture and 8.3 percent of GDP. Crops grew at the rate of 1.00 percent in outgoing fiscal year as compared to 3.20 percent of last year. The performance of crops mainly depends on weather along with government steps and efforts of the farmers. This sub-sector is further divided into important crops, other crops and cotton ginning.

Important Crops: Important crops contribute 25.6 percent in agricultural value addition and its contribution in GDP is 5.3 percent. Important crops have 64.5 percent share in overall crops. This sub-sector has recorded a growth of 0.28 percent compared to a growth of 7.96 percent last year. The important crops include all major crops like wheat, maize, rice, sugarcane and cotton. The production of wheat declined by 1.93 percent as compared to increase of 7.3 percent last year. Production of sugarcane decline by 7.13 percent against the increase of 5.82 percent last year. Rice production increased by 3.05 percent as compared to 22.80 percent last year. The production of maize decreased by 5.04 percent as compared to 17.1 percent increase last year. Cotton production increased significantly at 9.50 percent as compared to decline of 2.01 percent last year. Main cause for the negative growth of wheat, maize and sugarcane remained less area under cultivation for the crops on account of farmers' preference to other cash crop for better price as well as unfavorable weather conditions and floods in growing areas of these crops.

Other Crops: Other crops having share of 11.1 percent to value addition in overall agriculture sector and contribute 2.3 percent in the GDP. This sub-sector grew by 1.09 percent against the decline of 5.38 percent last year. The mild growth of other crops is mainly due to extreme weather conditions and heavy rains/floods in crops areas which damaged production of cultivated crops. Among the other crops production of onion increased by 1.31 percent, gram increased by 21.26 percent, moong increased by 6.24 percent, chillies increased by 0.27 percent, water melon decreased by 3.17 percent, mash and masoor declined by 12.7 percent and 5.81 percent respectively. The production of potatoes increased by 6.31 percent, tomatoes, banana, kino, orange, apple, peaches, guava and tobacco maintained the production level of last year.

Cotton Ginning: Ginning is the primary mechanical process involved in the processing of cotton. Ginning is the procedure for separating lint from the seed to cotton. Cotton Ginning was included in agriculture sector after rebasing of National Accounts 2005-06; prior to this, it was a component of manufacturing sector. Cotton Ginning has a 7.4 percent share in crops sub-sector and 2.9 percent contribution in agriculture sector and 0.6 percent in GDP of the country. Cotton Ginning has witnessed a significant growth of 7.38 percent against the growth of -1.33 percent in the previous year. Better performance of cotton ginning is due to major improvement in the production of cotton as compared to last year.

Livestock: Food and Agriculture organization of the United States declared Pakistan's buffaloes as the best in the world and honoured this particular bread with the title of Black Gold of Asia in the year 1997. This title is still valid for Pakistan as we are the third largest milk Producer country in the world. Livestock share in the agriculture value added stood at 56.3 percent while it is contributing 11.8 percents to the GDP. The livestock sector is contributing significantly in poverty reduction strategies; this sector may be developed on fast track as all required inputs for this sector are available in sufficient quantity in the country. Livestock is relatively less volatile as compared to other subsectors of agriculture. It does not depend on heavy mechanical, energy and other developed infrastructure and being labour intensive and household nature contributing in socio-economic wellbeing of the rural population at large.

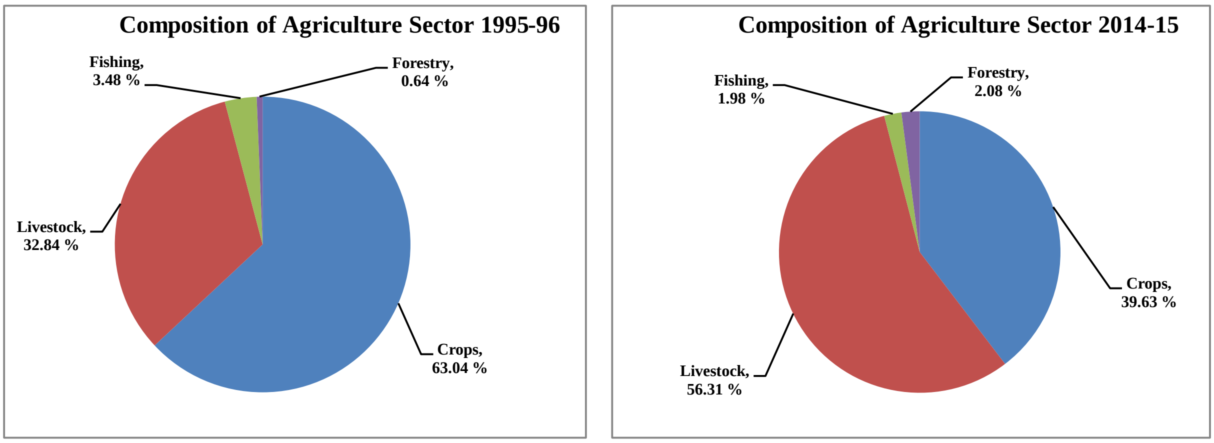
Livestock consist of cattle, buffalos, sheep, goat, camel, horses, asses, mules and poultry and their products. Scientific and technological advancements along with evolutionary stages of growth, the demand for livestock items has grown at an extraordinary pace. However, increasing trend in prices of livestock has provided incentive for greater production activities in this sub-sector. The importance of livestock may be recognized by the fact that the majority of people living in rural areas directly or indirectly depend on the livestock and dairy sector and is contributing in the wellbeing of small farmers and the landless rural poor.

Livestock performed better in outgoing fiscal year as it recorded a growth of 4.12 percent as compared to 2.76 percent last year. The production of livestock products, milk, poultry products and other livestock items increased at the rate of 2.95 percent, 3.25 percent, 7.49 percent and 1.28 percent, respectively.

Forestry: Forests are recognized a key component of our safe and healthy environment and degradation of forests may create severe socio-economic challenges for the future generations. The contribution of this sub-sector in agriculture is 2.0 percent with main components of forestry, timber and fire wood. Growth of the forestry is registered at 3.15 percent as compared to -6.74 percent last year.

Fisheries: Fisheries sub-sector has 2.1 percent share in agriculture sector, it has recorded a growth of 5.75 percent against the growth of 0.98 percent last year. The sub-components of fisheries such as marine fishing and in-land fishing contributed to an overall increase in the value addition of this sub-sector. The Fig-2 provides variations in the composition of agriculture sector over the last two decades.

Fig-2: Composition of Agriculture Sector



Industrial Sector

Industrial sector play a significant role in uplifting the economy and to improve socio-economic condition of the people due to its multi-dimensional direct and indirect linkages, which spillovers benefits to non-industrial sectors of the economy. Industrial sector on one hand creates demand for agriculture produce by using it as raw materials and on the other hand provides latest machineries and equipments to modernize crop cultivation process and provides room to reinvest surplus and absorb surplus labor from the economy. Industrial sector also creates demand for various types of services and also provides appliances and other equipments to modernize the services sector. It is also a major source of tax revenues and also contributes significantly in the provision of job opportunities to skilled, semi skilled even unskilled labour. Present government initiated comprehensive policy measures for the revival of industrial sector on fast track. The industrial sector contributes 20.30 percent in GDP of the country and in outgoing year it grew at 3.62 percent as compared to 4.45 percent last year. Industrial sector in Pakistan has four sub-sectors including mining & quarrying, manufacturing, electricity generation & distribution and gas distribution and construction. Each sub-sector of the industrial sector has its own role and significance in the economy, performance of these subsectors are presented below.

Manufacturing Sector: Manufacturing is the most vital component of the industrial sector containing 65.4 percent contribution in the overall industrial sector and in GDP its share is 13.3 percent. Manufacturing sector has been suffered by domestic and external factors like power crises, unstable law and order situation, campaign against extremism during last few years. Due to these factors this sector could not operate at its optimal level of installed capacity. Present government in recent years took proactive policy measures and continued implementation on fast track to facilitate revival of manufacturing sector which has started picking up with broad base since last year. Manufacturing sector recorded growth at 3.17 percent in outgoing fiscal year as compared to 4.46 percent last year.

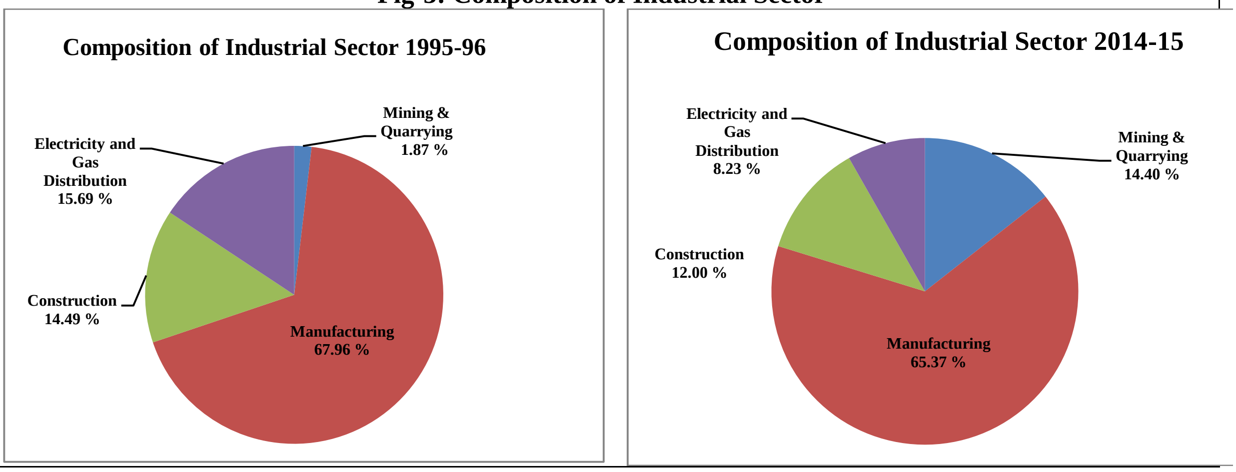
Manufacturing contains three sub-components including large-scale manufacturing (LSM) with the share of 80.0 percent in manufacturing and 52.3 percent in industrial sector, small scale manufacturing with the share of 13.0 percent in manufacturing and 8.5 percent in industrial sector as a whole and Slaughtering having share of 7.0 in manufacturing and 4.6 in industry. Small scale manufacturing recorded growth of 8.24 percent in outgoing year against the growth of 8.29 percent last year and slaughtering registered growth at 3.32 percent as compared to 3.40 percent last year. LSM has recorded a growth of 2.38 percent against the 3.99 percent last year. LSM performance remained low as compared to last year because gas companies could not provide gas to fertilizer plants and sugar crushing also delayed in Sindh and lower sugarcane production in Punjab due to floods and switching of farmers to other crops. However, LSM performance will improve in coming month due to better policy measures of the government, the main components of LSM industries which witnessed impressive growth during July-March 2014-15 include: Iron and Steel Products 35.63 percent (as compared to 3.38 percent last year), Automobiles 17.02 percent (as compared to 0.35 percent last year), Leather Products 9.62 percent (as compared to 12.70 percent last year), Electronics 8.21 percent (as compared to 7.02 percent last year), Pharmaceuticals 6.38 percent (as compared to -0.37 percent last year), Chemicals 5.94 percent (as compared to 6.74 percent last year), Non Metallic mineral products 2.56 percent (as compared to 0.19 percent last year), Coke & Petroleum Products 4.73 percent (as compared to 7.49 percent last year), Fertilizers 0.95 percent (as compared to 21.64 percent last year) and Textile 0.50 percent (as compared to 1.45 percent last year). The sub sectors recorded negative growth during the period July-March 2014-15 over corresponding period of last year includes Wood Product declined by 78.46 percent (-8.91 percent last year), Engineering Products declined by 10.68 percent (-20.15 percent last year), Paper and Board declined by 7.26 percent (9.3 percent last year), Food Beverage and Tobacco declined by 1.03 percent (8.24 percent last year) and Rubber products declined by 0.56 percent (9.41 percent last year).

Construction Sector: The contribution of construction in industrial sector is 12.0 percent and in GDP it contributes 2.4 percent and provides employment opportunities to 7.33 percent of labor force. This sub-sector is considered one of the potential components of industries. The construction sector has recorded a growth of 7.05 percent against the growth of 7.25 percent last year. The seven plus growth in this sub-sector is due to rapid execution of work on various projects, increased investment in small scale construction and rapid implementation of development schemes and other projects of federal and provincial governments although some plans/ works delayed due to dharnas and political issues in the country.

Mining and Quarrying: Pakistan has abundance of economically exploitable reserves of coal, rock salt, limestone and onyx marble, china clay, dolomite, fire clay, gypsum, silica sand and granite, as well as precious and semi-precious stones. This sub-sector contains 14.4 percent share of the industrial sector and contribute 2.9 percent in GDP of the country. Mining and quarrying has recorded a growth of 3.84 percent against the growth of 1.65 percent last year. The output of Chromite, Coal, Lime Stone, Crude Oil, Copper, and Soap Stone posted a positive growth of 3.6 percent, 4.1 percent, 3.7 percent, 14.0 percent, 0.9 percent, and 41.7 percent respectively. However some witnessed negative growth during the period under review such as the growth of Sulphur declined by 42.1 percent, followed by Barytes 0.3 percent, Rock Salt 1.4 percent, Dolomite 46.9 percent, Magnesite 7.4, Bauxite 25.7 percent, N.Gas 2.3 percent and Phosphate 47.8 percent, respectively.

Electricity generation & distribution and Gas Distribution: This sub-sector of industry plays most important role in development of the country and also directly and indirectly contributes in growth of all sectors of the economy. Its share in industrial sector is 8.2 percent and contribution in the GDP is 1.7 percent. This sub-sector has recorded a growth of 1.94 percent in outgoing year as compared to 5.57 percent last year. The output of electricity of the WAPDA component recorded 7.04 percent growth as compared to 3.67 percent last year, whereas KESC registered a negative growth of 19.99 percent as compared to negative growth of 6.92 percent growth last year. Fig-3 provides an overview of evolutionary process within industrial sector over the last two decades.

Fig-3: Composition of Industrial Sector



Services Sector:

The services sector has been growing at a much faster rate than commodity producing sector of the economy for quite some times. It has maintained the same trend in fiscal year 2014-15 and grew at 4.95 percent against the commodity producing sector growth of 3.24 percent. Services sector has emerged as the most significant driver of economic growth and contributing a major role in augmenting and sustaining economic growth in Pakistan. The contribution of the services sector has increased from 56.0 percent of GDP in 2008-09 to 58.8 percent in 2014-15. This sector of the economy has a enormous potential to grow at much higher rate and government is trying to tap this potential by providing an enabling environment. Services sector contains six sub-sectors including: Transport, Storage and Communication; Wholesale and Retail Trade; Finance and Insurance; Housing Services (Ownership of Dwellings); General Government Services (Public Administration and Defense); and Other Private Services (Social Services).

Services sector has recorded a growth of 4.95 percent in outgoing fiscal year as compared to 4.37 percent last year. The growth performance of services sector is broad based, all components of services contributed positively in growth as Wholesale and Retail Trade grew at 3.38 percent, Transport, Storage and Communication at 4.21percent, Finance and Insurance at 6.18 percent, Housing Services at 4.0 percent, General Government Services at 9.44 percent and Other Private Services at 5.94 percent.

Wholesale and Retail Trade Sector: Wholesale and retail trade having 18.3 percent share in GDP and is also the largest subsector of the services, with the contribution of 31.0 percent in the services. The wholesale and retail trade is based on the margins taken by traders on the transaction of commodities traded. It is dependent on agriculture and industrial sectors output and imports. This sub-sector registered a growth of 3.38 percent as compared to 3.98 percent last year. This sub-sector has great potential of growth, its performance will improve in coming years as energy and law and order situation are improving and more enabling environment is being provided.

Transport, Storage and Communication: This sub-sector of services is playing major role in boosting the business environment in the country. The value added in this sub sector is based primarily on the profits and losses of Pakistan Railways, Pakistan International Airlines and other airlines, Pakistan posts and courier services, Pak telecom and motor vehicles of different kinds on the road. This subsector has a contribution of 13.4 percent in the GDP and a share of 22.7 percent in services sector, but directly and indirectly contributes in the growth of all sectors of the economy. The TS&C sub-sector registered a growth of 4.21 percent as compared to 4.56 percent last year. Railways have maintained an impressive growth of 121.53 percent against the growth of 233.31 percent last year. This continuous impressive performance of Railways is the reflection that government is working in right direction to turn around the economy. Air transport also registered significant growth of 27.35 percent as compared to 12.67 percent last year and pipeline transport, water transport and communication declined by 7.92 percent, 4.05 percent and 0.04 percent respectively. Road transport and storage grew at 3.75 percent and 3.24 percent against the growth of 3.67 percent and 3.88 percent last year, respectively.

Finance and Insurance: This sub-sector contributes 5.3 percent in services sector and its share in GDP is 3.1 percent in outgoing fiscal year. This sub-sector comprises the State Bank of Pakistan; all scheduled banks (domestic and foreign), Development Financial Institutions (DFIs), all insurance (life and general) 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 grew at 6.18 percent as compared to 4.18 percent last year. This better performance of finance and insurance sector is contributed by central bank at 1.81 percent, banks (scheduled & non-scheduled) at 6.38 percent and financial leasing by 3.81percent. Insurance, reinsurance and pension funding component recorded the growth of 4.04 percent where as other credit granting declined by 1.03 percent. Outlook suggest that borrowing requirement of government will further decline in coming months and lending to private sector will increase, which suggest growth of this sub-sector will increase.

General Government Services: General government contributes 12.7 percent in services sector and its share in GDP is reported 7.4 percent in outgoing fiscal year. General Government Services (Public Administration and Defense) recorded a growth of 9.44 percent as compared to 2.86 percent last year. It is driven by increase in salaries and lower inflation.

Housing Services: Housing Services (Ownership of Dwellings) contributes 11.5 percent in services sector and its share in GDP is 6.8 percent during the outgoing fiscal year. This sub-sector has recorded the growth of 4.0 percent in fiscal year 2014-15.

Other Private Services (Social Services): Other private services have a share of 16.8 percent in services sector and its contribution in GDP is reported 9.9 percent in outgoing fiscal year. This sub-sector recorded a growth of 5.94 percent as compared to 6.32 percent last year. Growth in the other private services is mainly the outcome of the plans of the government, and other stakeholders including private sector and various non-government organizations and rehabilitation of rains and flood affected areas of the country.

Contribution to Real GDP Growth

(Production Approach)

The outgoing fiscal year also maintained the previous trend of last years that the contribution to economic growth is dominated by the services sector and the commodity producing sector also remained supporting to overall growth. The commodity producing sector contributed 31.84 percent to overall economic growth, out of which agriculture contributed 14.39 percent and the industry 17.45 percent. The services sector performance remained dominant as it shared the major chunk of 68.16 percent to the overall economic growth.

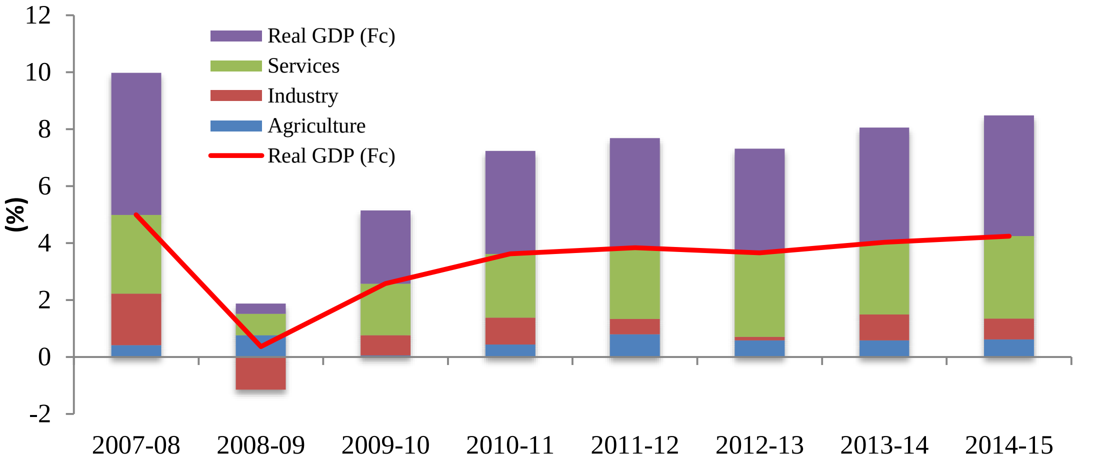
Overall growth of 4.24 percent is shared between the Commodity producing and Services sectors of the economy. Within the commodity producing sector, agriculture sector shared 0.61 percentage points to overall GDP growth as compared to 0.58 percentage points last year, while industry component contributed 0.74 percentage points as compared to 0.91 percentage points previous year, which is an indicator that industrial sector is contributing relatively more as compared to agriculture sector in overall growth. Services sector contributed most dominantly 2.89 percentage points as compared to 2.54 percentage in last year. The sectoral point contribution to the GDP growth is presented in Table-1.3.

Table 1.3: Sectoral Contribution to the GDP growth (% Points)

Sector	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15 P
Agriculture	**0.41**	**0.76**	**0.05**	**0.43**	**0.79**	**0.58**	**0.58**	**0.61**
Industry	**1.81**	**-1.15**	**0.71**	**0.95**	**0.54**	**0.13**	**0.91**	**0.74**
- Manufacturing	0.87	-0.60	0.19	0.34	0.28	0.61	0.60	0.43
Services	**2.77**	**0.75**	**1.81**	**2.24**	**2.51**	**2.95**	**2.54**	**2.89**
Real GDP (Fc)	**4.99**	**0.36**	**2.58**	**3.62**	**3.84**	**3.65**	**4.03**	**4.24**

Source: Pakistan Bureau of Statistics

Fig-4: Sectoral Contribution to the GDP growth (% Points)



Contribution to Real GDP Growth

(Aggregate Demand Side Analysis)

In the analysis of aggregate demand consumption, investment and exports are considered main drivers of economic growth. Consumption is recognized the largest and relatively smooth component of aggregate demand, other two components investment and exports are small and volatile as compared to consumption. In all economies of the world output is the sum of consumption (both private and public), investment (public and private) and net exports of goods and services. Pakistani society like most developing countries is a consumption oriented society, having high marginal propensity to consume; as a result private consumption is the major sub-component of aggregate demand.

Demand side provides more comprehensive and insight analysis of growth drivers including consumption, investment and exports. The private consumption expenditure in nominal terms reached to 79.20 percent of GDP in outgoing fiscal year as compared to 80.66 percent of GDP last year, whereas public consumption expenditures are 11.84 percent of GDP as compared to 10.81 percent last year. Total consumption expenditures have reached to 91.04 percent of GDP in outgoing fiscal year as compared to 91.46 percent last fiscal year. The same trend is observed in data analysis in the real terms. Total consumption has declined 0.42 percent of GDP, private consumption decreased by 1.46 percent of GDP, as it declined from 80.66 percent of GDP to 79.20 percent of GDP. While public consumption increased by 1.03 percent of GDP as it increased from 10.81 percent of GDP to 11.84 percent of GDP.

Economic growth in fiscal year 2014-15 maintained the trend of previous years and largely contributed by the private consumption on account of sustained growth in remittances, increase in rural income due to higher production of crops, better growth in small scale manufacturing and services. Consumption contributed 4.50 percentage points to overall economic growth, while the investment contributed 1.17 percentage points, and net exports contributed -0.13 percentage points. A positive aspect is that point contribution of investment is increasing relatively more in the overall growth. A number of factors like recovery in global business, improving energy supply and improving law and order situation along with other proactive government measures have contributed in this improvement. The contribution of net exports has been negative due to higher imports growth. On the positive note, it is observed that imports of machineries have increased which will increase productive capacity of the economy and boost economic growth in coming years. Domestic demand continued most significant driving force for economic growth just like previous years with major contribution from private consumption for sustaining aggregate demand. The point contribution to GDP growth is presented here in the Table-1.4.

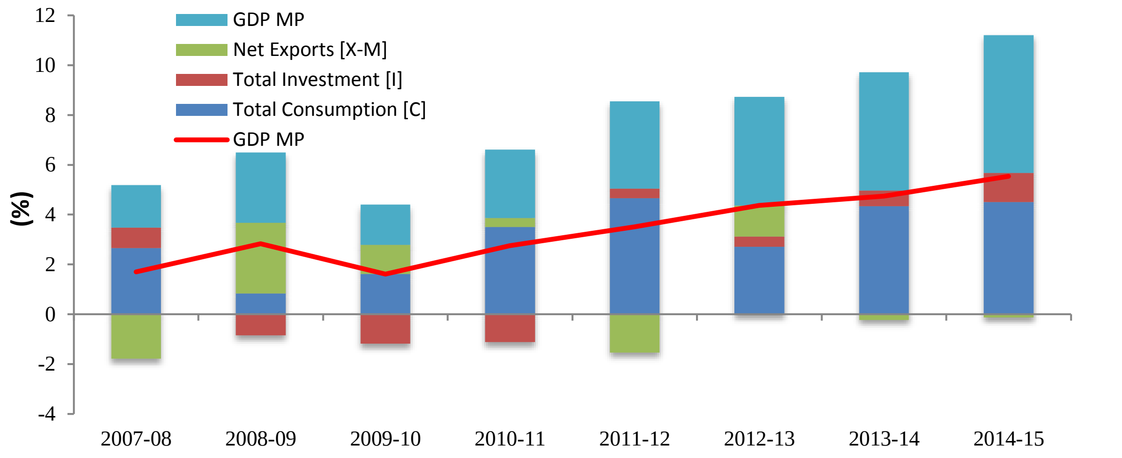
Table-1.4: Composition of GDP Growth

Point Contribution

Flows	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15 P**
Private Consumption	2.75	-0.38	1.68	3.51	3.92	1.66	4.17	2.80
Public Consumption	-0.09	1.21	-0.06	0.00	0.74	1.05	0.16	1.70
Total Consumption [C]	**2.66**	**0.84**	**1.62**	**3.51**	**4.66**	**2.71**	**4.34**	**4.50**
Gross Fixed Investment	0.79	-0.88	-1.21	-1.16	0.33	0.34	0.55	1.08
Change in Stocks	0.03	0.05	0.03	0.04	0.06	0.07	0.08	0.09
Total Investment [I]	**0.82**	**-0.84**	**-1.18**	**-1.11**	**0.38**	**0.41**	**0.63**	**1.17**
Exports (Goods & Serv.) [X]	-0.62	-0.43	1.90	0.33	-2.05	1.53	-0.20	-0.30
Imports (Goods & Serv.) [M]	1.16	-3.26	0.73	-0.02	-0.52	0.28	0.03	-0.17
Net Exports [X-M]	**-1.78**	**2.83**	**1.17**	**0.35**	**-1.54**	**1.24**	**-0.23**	**-0.13**
Aggregate Demand (C+I+X)	**2.86**	**-0.43**	**2.34**	**2.73**	**2.99**	**4.65**	**4.77**	**5.37**
Domestic Demand (C+I)	**3.48**	**0.00**	**0.44**	**2.40**	**5.04**	**3.12**	**4.97**	**5.67**
GDP MP	**1.70**	**2.83**	**1.61**	**2.75**	**3.51**	**4.37**	**4.74**	**5.54**

Source: Pakistan Bureau of Statistics

Fig-5: Sectoral Contribution to the GDP growth (% Points)



Composition of Gross Domestic Product

Pakistan's economy is passing through evolutionary stages of growth like other developing economies, its GDP structure has undergone considerable changes during last few decades. Various government's plans and policy measures along with scientific and technological developments have played their role in picking up all sectors of the economy. Like other countries of the world, manufacturing and services sectors in Pakistan grew at fast track and got relatively more benefits as compared to agriculture because agriculture sector has some structural, social and cultural obstacles along with weather dependence due to which its performance remained volatile and inconsistent. Composition of the economy has changed over time, the agriculture was the largest commodity producing sector with 34.4 percent share in GDP in FY 1975, which has come down to 20.9 percent indicating that the share of the agriculture has been declining over time against the non-agriculture sector. The share of services sector has increased to 58.8 percent in FY 2014-15 as compared to 44.5 percent in FY 1974-75 showing an increase in the services sector in the GDP over time. The share of all sectors and associated sub-sectors of GDP in recent years is presented in Table-1.5.

Table 1.5: Sectoral Share in Gross Domestic Product (GDP)

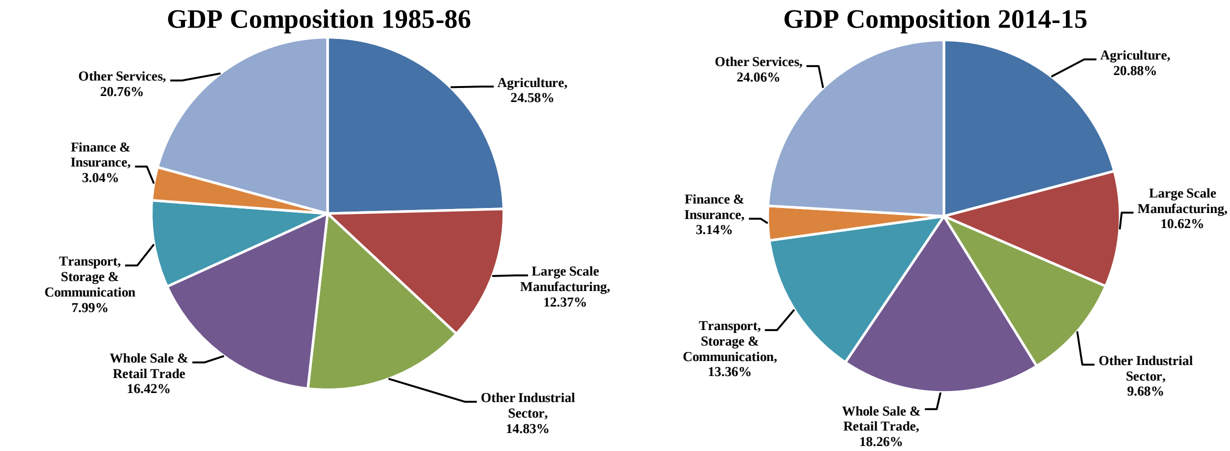
Sectors/Sub-Sectors	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15 P
Commodity Producing Sector (A+B)	**44.0**	**43.4**	**43.1**	**42.9**	**42.6**	**41.8**	**41.6**	**41.2**
Agriculture	**21.9**	**22.5**	**22.0**	**21.7**	**21.6**	**21.4**	**21.2**	**20.9**
1. Crops	9.3	9.7	9.1	8.8	8.8	8.6	8.5	8.3
Important Crops	5.4	5.8	5.4	5.3	5.5	5.4	5.6	5.3
Other Crops	3.2	3.3	2.9	2.9	2.6	2.6	2.4	2.3
Cotton Ginning	0.7	0.7	0.7	0.6	0.7	0.6	0.6	0.6
2. –Livestock	11.6	11.8	11.9	11.9	11.9	11.9	11.8	11.8
3. –Forestry	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4
4. –Fishing	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.4
B. Industrial Sector	**22.1**	**20.9**	**21.0**	**21.2**	**21.0**	**20.3**	**20.4**	**20.3**
1. Mining & Quarrying	3.3	3.2	3.2	3.0	3.0	3.0	2.9	2.9
2. Manufacturing	14.4	13.8	13.6	13.4	13.2	13.4	13.4	13.3
-Large Scale	12.3	11.5	11.3	11.0	10.8	10.8	10.8	10.6
-Small Scale	1.2	1.3	1.4	1.5	1.5	1.6	1.7	1.7
-Slaughtering	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
3. Electricity Generation & Distribution & Gas Distt	1.5	1.3	1.5	2.4	2.4	1.7	1.7	1.7
4. Construction	2.8	2.5	2.7	2.4	2.4	2.3	2.4	2.4
C. Services Sector	**56.0**	**56.6**	**56.9**	**57.1**	**57.4**	**58.2**	**58.4**	**58.8**
1. Wholesale & Retail Trade	19.9	19.3	19.1	18.8	18.4	18.4	18.4	18.3
2.Transport,Storage and Communication	12.7	13.3	13.3	13.1	13.2	13.3	13.4	13.4
3. Finance & Insurance	3.8	3.5	3.3	3.0	2.9	3.1	3.1	3.1
4.Housing Services (Ownership of Dwellings	6.4	6.6	6.7	6.7	6.7	6.8	6.8	6.8
5. General Government Services	5.1	5.4	5.7	6.2	6.7	7.2	7.1	7.4
6. Other Private Services	8.1	8.6	8.9	9.1	9.4	9.5	9.7	9.9
GDP (fc)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100

Source: Pakistan Bureau of Statistics

The following Fig-6 shows the structural shift in the economy. During the last 20 years the sectoral share of the agriculture sector has declined from 24.58 percent to 20.88 percent. The sectoral share of the large scale manufacturing sector also decreased from 12.37

percent to 10.62 percent and the share of other industries has declined from 14.83 percent to 9.68 percent of the GDP over the last 20 years. Whereas the share of the various components of services sector has increased over the last two decades. The below figure indicates that structural transformation has turned the economy with major shares of services components over time as compared to commodity producing sectors, which is logical outcome of the process of economic growth.

Fig-6: GDP Composition

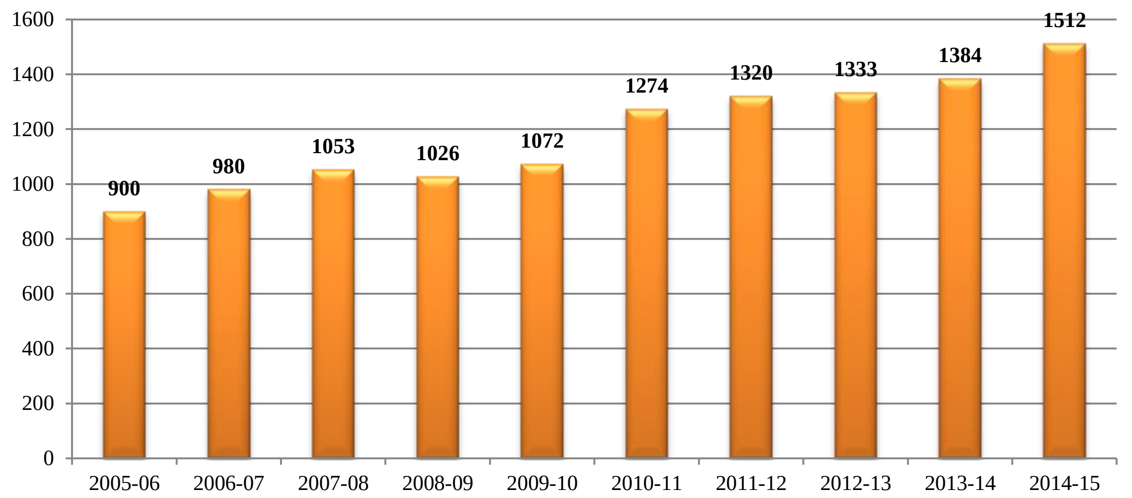


Per Capita Income:

Per capita income is an important economic indicator which is mostly used to measure economic development of the country and also make comparison of well-being among various countries of the world. Per capita income provides simple reflection of the average standards of living of the people in a country. Per capita income is defined as Gross National Product at market prices in dollar term divided by the country's population. Per Capita Income in dollar terms has registered a significant growth of 9.25 percent in 2014-15 as compared to 3.83 percent last year.

The per capita income in dollar terms has increased from $ 1,384 in 2013-14 to $ 1,512 in 2014-15. The main contributing factors, of this rapid increase in per capita income include acceleration in real GDP growth, relatively lower growth in population and the consistent appreciation of Pak Rupee. Fig-7 shows the improvement in per capita income during the last ten years.

Fig-7: Per Capita Income ($)



Investment and Savings

It is evident that Pakistan is highly suitable for all types of business because it is blessed with varying terrains ranging from snow covered peaks, fiery deserts, fertile mountain valleys and irrigated plains along with enjoyment of all the four seasons. Present government is well aware with needs of the Foreign Investors and very much supportive to investors and welcomes foreign investors with comprehensive and most friendly investment policy and regulatory framework. There are many sectors in which profitable ventures can be pursued. Hence, Pakistan has the essentials for investment attraction and investors are trying to hold these opportunities.

Internal and external factors had affected the investment during last few years; now situation has improved and macroeconomic environment has become more friendly for investment due to better policies of the government. Investment indicators in outgoing years have also recorded improvement over the previous years. Total investment has reached to 15.12 percent of GDP as compared to 14.98 percent of GDP last years, while fixed investment is at 13.52 percent of GDP against the 13.38 percent of GDP last year. Private investment is recorded at 9.66 percent of GDP as compared to 10.03 percent of GDP last year. Total Investment which was recorded at Rs. 3,756 billion in 2013-14 increased to Rs. 4,140 billion for 2014-15. It is an evident that total investment recorded a growth of 10.21 percent in outgoing fiscal year, which is an indicator that investment activities are taking place on fast track and confidence of investors is improving due to government policies. Public investment has registered an impressive growth of 25.56 percent as compared to the growth 6.82 percent last year which is an indicator that government expenditure strategy is development oriented. Certainly, it will encourage private sector to invest more to reap benefits in the economy. It generates spillover effects for private sector investment because private sector development is facilitated through public sector development spending particularly on infrastructure. Public Sector Investment which was recorded at Rs. 842 billion in 2013-14 is reported at Rs. 1,057 billion in 2014-15. This huge increase reflected that Public investment as a percent of GDP increased to 3.86 percent against 3.36 percent last year. Present government has launched a number of initiatives to create enabling environment in the country including steps to improve energy situation, law and order, auction of 3G and 4G licenses, and other investment incentives to create an enabling environment for revival of the confidence of investors and other economic agents.

Saving is a major determinant of attaining higher level of investment and economic growth. Higher saving provides more funds to carry on investment activities and consequently bring higher and sustainable growth in the economy. Household savings are considered the largest component of national savings in most countries. Domestic savings contribute a dominant role in increasing investment and economic growth of the country. Economic growth depends on investment which can be financed through domestic savings or from foreign capital inflows. Higher investment financed by domestic savings is necessary to ensure sustained economic growth which also helps to alleviate poverty in developing countries on permanent basis.

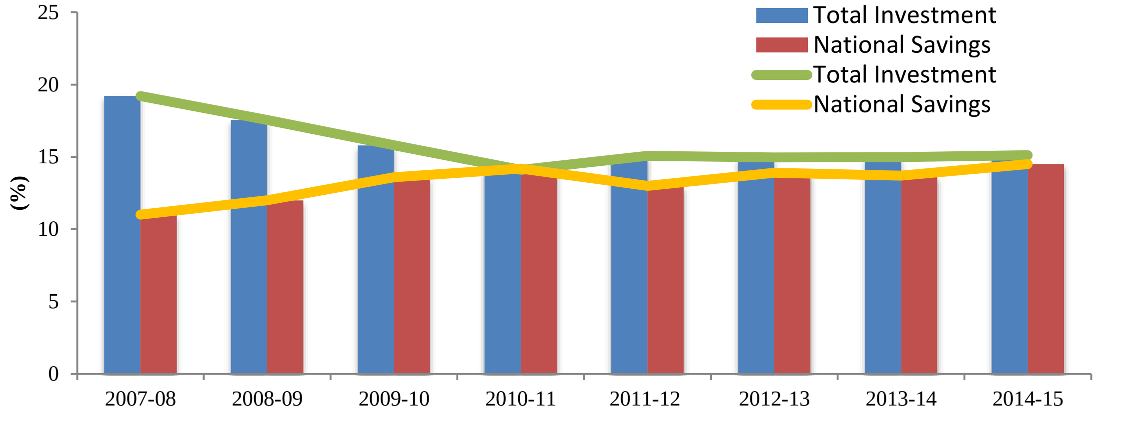
National savings are very much important to maintain higher level of investment which is a key determinant of economic growth. Contribution of national savings to domestic investment is indirectly the mirror image of foreign savings required to meet the investment demand. The foreign savings are needed to finance saving investment gap, reflects the current account deficit in the balance of payments. National savings are witnessed at 14.5 percent of GDP in outgoing fiscal year against 13.7 percent last year. Domestic savings are recorded at 8.4 percent of GDP in 2014-15 as compared to 8.0 percent of GDP in last year. Net foreign resource inflows are financing the saving investment gap. There are two options for improving the savings investment gap. One is through increasing savings and the other is through declining investment. Government is trying to gear up both savings and investment to increase resource availability for attaining required growth to absorb surplus labor force of the country. Table 1.6 shows saving and investment as percentage of GDP and Fig-8 indicates saving investment gap. Private investment recorded in last year was Rs. 2,513 billion and it expanded to Rs. 2,645 billion for the fiscal year 2014-15. This increase in private investment is the reflection that private investors are showing confidence on government policies and situation is improving, which will further encourage economic agents to take maximum benefits from emerging opportunities in the country.

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

Description	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15 P
Total Investment	**19.21**	**17.55**	**15.80**	**14.11**	**15.08**	**14.96**	**14.98**	**15.12**
Changes in Stock	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Gross Fixed Investment	**17.61**	**15.9**	**14.20**	**12.51**	**13.48**	**13.36**	**13.38**	**13.52**
-Public Investment	4.8	4.3	3.7	3.2	3.75	3.52	3.36	3.86
-Private Investment	12.8	11.7	10.5	9.3	9.73	9.84	10.03	9.66
Foreign Savings	8.16	5.51	2.22	-0.10	2.07	1.08	1.28	0.60
National Savings	**11.0**	**12.0**	**13.6**	**14.2**	**13.00**	**13.9**	**13.7**	**14.5**
Domestic Savings	9.1	9.4	9.8	9.7	7.84	8.7	8.0	8.4

Source: EA Wing Calculations
P: Provisional

Fig-8: Sectoral Contribution to the GDP growth (% Points)



Foreign Direct Investment

The global integration of economies have forced developing countries to adopt liberalized policies to attraction foreign direct investment and to meet global competitiveness effectively and efficiently, creation of Special Economic Zones have also gained momentum. Investors tend to invest in countries and projects where they expect the highest returns and the lowest risks relative to alternative investment opportunities. Pakistan has a great potential of highest return to attract foreign investment due to abundant resources, large market and better geographical location relative to other countries.

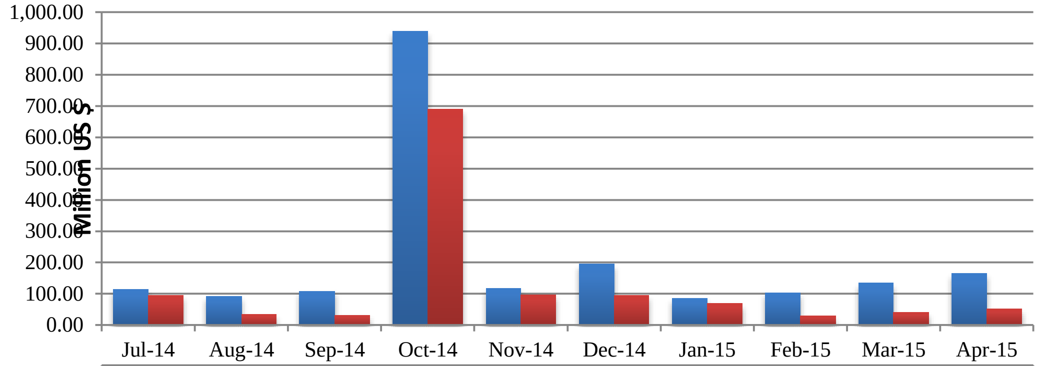
Board of Investment (BOI) under Prime Minister Office is taking policy measures to provide more investment friendly environment to investors. BOI's mandate covers both domestic and foreign private investment. The FDI Strategy sets out roadmap to promote FDI and proposes broadly defined action programs for attracting FDI into Pakistan. To maximize the contributions of FDI to Pakistan's economic development, this FDI Strategy furthermore envisages special programs to promote the linkages between domestically and foreign-owned private enterprises, such as local supplier, sub-contractor or joint venture programs.

Number of factors like long march/dharna, energy shortages, and war against extremism remained obstacles in attracting FDI against potential of the country. Now situation is improving as the present government has launched comprehensive plan to create investment friendly environment & to attract foreign investors in the country. Consequently, revival of investor's confidence has been captured in better returns on investment in the Karachi stock market. The market continued its upward trend reaching to all time high. KSE 100 witnessed its highest level in the history and presently it is trading above 32,500. In terms of market capitalization, it improved from 51.3 billion in 11th, May 2013 to $69.32 billion by 26th May, 2015.

The investment policy has been designed to provide a comprehensive framework for creating a conducive business environment for the attraction of FDI. In Pakistan the policy trends have been consistent with liberalization, de-regulation, Privatization and facilitation being its forecast cornerstones.

During July-April FY 15 FDI inflows posted a growth of 10.2 percent and reached to $2,057.3 million against $1,866.3 million in the same period of FY 14. During July-April FY 15 foreign private investment increased to $1,666.2 million against $1,050.3 million in the same period of FY14, thus showing a sign of restoring investor's confidence which has set back due to dharnas in first quarter of FY15. The major FDI inflows are from China, US, UAE, UK & Italy. Communications, oil & gas exploration, financial business, power and chemicals remained the main recipient of sectors of FDI. FDI inflows and outflows are presented during the outgoing fiscal year in below Fig-9.

Fig-9: Foreign Direct Investment



	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
FDI Inflow	113.60	92.00	108.80	938.80	118.10	195.60	85.90	103.50	135.00	166.00
FDI Outflow	95.20	33.90	31.90	690.00	97.50	94.20	69.60	28.60	40.30	51.20

Workers' Remittances

Remittances have been recognized as a key source of external resource inflows for developing countries, and have surged over the last few decades. World Bank's Migration and Remittances report 2015 mentioned that Remittance flows to developing countries are estimated to have reached $436 billion in 2014, an increase of 4.4 percent over a year ago. Flows to developing countries are projected to slow down to 0.9 percent growth in 2015, owing to a weak economic outlook in remittance source countries in Europe and Russia. Flows are expected to accelerate in 2016, and to reach $479 billion by 2017 in line with the more positive global economic outlook. Remittances remain a key source of funds for developing countries, far exceeding official development assistance and even foreign direct investment.

The fall in oil prices does not appear to have reduced remittances from Gulf Cooperation Council (GCC) members, especially to India, Bangladesh, Nepal, Pakistan, and several countries in the Middle East and North Africa. The substantial financial resources and long-term infrastructure development plans of the GCC countries imply that they will continue to demand migrant workers.

Remittances to South Asia rose by 4.5 percent in 2014, driven by sharp increases in remittances to Bangladesh, Pakistan, and Sri Lanka. Remittances to South Asian Region (SAR) are estimated to have risen by 4.5 percent in 2014, compared to 2.5 percent in 2013, reflecting soaring remittances to Pakistan (16.6 percent increase), and to a lesser extent, Sri Lanka (9.6 percent) and Bangladesh (8 percent). Pakistan's healthy remittance growth helped insulate the economy from external vulnerabilities.

Remittances to South Asia grew despite concerns that lower oil prices might dampen remittance flows from the GCC countries. This may reflect the concentration of migrant workers in the construction and services sectors, which are relatively less affected by falling oil prices. Remittance growth in South Asian Region is projected to remain flat at 3.7 percent in 2015, supported by large scale construction activities (including preparations for the 2022 FIFA World Cup in Qatar) and fiscal expansion in GCC countries, and improving economic prospects in the United States.

Government of Pakistan's program Pakistan Remittances Initiative has also played a significant role to encourage inflows from Pakistani Diaspora. Under the program flow of remittances is free of cost, documented, secure and efficient. SBP is making best efforts to bring additional remittances through PRI scheme through continuous improvement in payment system, infrastructure, tapping Pakistani Diaspora as well as strengthening PRI core team. The impacts of government's efforts are realized to explore new markets to export its manpower as well as incentives for the inflow of remittances to promote its growth. Increase in remittances is largely result of the higher demand of Pakistani workers in rest of the world due to worldwide acknowledgement of the skill, honesty and practical wisdom. Country wise overview of remittances is presented in Table 1.7.

Table-1.7: Country Wise Workers' Remittances US$ Million

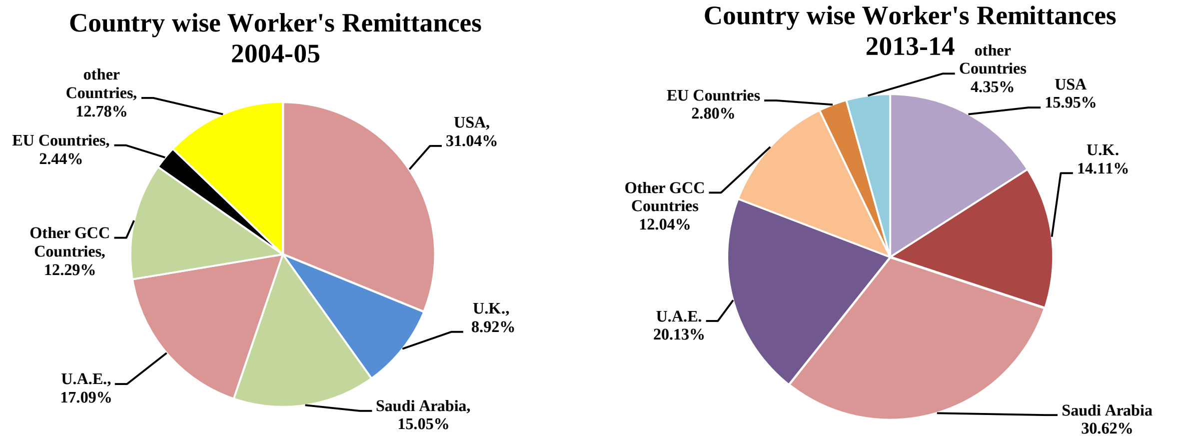
Country	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15 July-April*
USA	1,762.03	1,735.87	1,771.19	2,068.67	2,334.47	2,186.24	2467.65	2,105.49
U.K.	458.87	605.59	876.38	1,199.67	1,521.10	1,946.01	2180.23	1,845.30
Saudi Arabia	1,251.32	1,559.56	1,917.66	2,670.07	3,687.00	4,104.73	4729.43	4,565.42
U.A.E.	1,090.30	1,688.59	2,038.52	2,597.74	28,48.86	2,750.17	3109.52	3,384.30
Other GCC Countries	983.39	1,202.65	1,237.86	1,306.18	1,495.00	1,607.88	1860.03	1,751.22
EU Countries	176.64	247.66	252.21	354.76	364.79	357.37	431.85	298.89
Other Countries	728.68	771.51	812.08	1003.88	935.40	969.26	1059.00	1,019.04
Total	6,451.24	7,811.43	8,905.90	11,200.97	13,186.62	13,921.66	15837.71	14,969.66

Source: SBP

* : Provisional

There is a continuous increase in Workers' Remittances, which is an indicator that they are playing significant contribution in the development of the country. Workers' Remittances reached at $ 14,969.66 million in July-April of the 2014-15, against the $ 12,897.91 million in the same period of last fiscal year, which shows a huge increase of 16.06 percent over the same period last year. The further analysis of available data suggested that on average per month inflow of the remittances for the period of July-April 2014-15 stood at $ 1,496.97 million compared to $ 1,289.79 million during the same period last year, which is very encouraging trend. Remittances from UAE recorded a substantial growth of 34.14 percent, Saudi Arabia 19.94, USA 3.80 percent and UK 2.61 percent during the period under discussion. The below figure provide the variations in the remittances from various countries over a period of one decade.

Fig-10: Structure of Remittances Inflows over time



Conclusion and the Way forward

Present government after coming into power started making best efforts to put the economy on a path of sustained long-term economic growth. In this context, focus remained on public-private partnership in the development process, improved productivity in agriculture sector, removal of energy shortage, enhanced industrial competitiveness, better service delivery system and upgraded human capital formation. The macroeconomic policies including monetary, fiscal and exchange rate policies are designed and co-ordinated to reinforce each other and create incentives for mobilization of saving for economic growth on sustainable basis. It is worth mentioning that economy has achieved macroeconomic stability, key economic indicators have reflected significant improvements.

Government is committed to achieve the potential growth rate to absorb the net annual additions to the labor force. For creating employment opportunities focus is initially made on relatively labor intensive sectors like housing, construction, communications, wholesale & retail, SMEs and information technology. Special attention is being paid to two economic sectors agriculture and commercial activity in urban areas to achieve robust and sustainable pro-poor growth. Government is also making continuous efforts to aware and makes realize all stakeholders to understand the cost of shutdown to trade, industry and labors which they face due to day long strike call by political and nonpolitical parties. Such activities hit the industrial business and exports as supply chain of products to the port and local markets become paralyzed. Due to absence of public transport, workers failed to mark their attendance in the production units while non-availability of fuel force many bike and car owners to stay home. The retail and whole sale markets in the city also remained close. Such situations provide losses of billions Rupees to the production, exports and workers (especially daily wagers were worst hit which comprises 50 percent of the industrial workforce) along with revenues to the government.

Current improved economic and financial situation provide an opportunity for Pakistan to reinforce and build on recent stability gains and work towards achieving higher, sustainable and inclusive economic growth and to protect the most vulnerable from direct and indirect impacts of economic reforms through continued expansion of targeted social assistance.

The game changer agreements have been signed between Pakistan and China of worth $45billion. The focus of spending is on building a China-Pakistan Economic Corridor (CPEC) - a network of roads, railway and pipelines between the long-time allies. The groundbreaking and signing of financial agreements has demonstrated that there is a strong will on both sides to implement CPEC portfolio of $45 billion agreed under CPEC framework as early as possible to help Pakistan meet its energy and other infrastructural needs. This is a great initiative which will open new avenues for prosperity and co-operation in the whole region and certainly it will uplift socio-economic condition of Pakistan on fast track with multiple dimensions.