Overview of the Economy

Pakistan has made great strides in improving its economic outcomes and reducing its macroeconomic vulnerability in the recent years. As a result economic growth has continued to gain traction, albeit at varying speeds across the sectors, founded on the government's commitment to higher growth and low inflation. GDP continued to grow above 5 percent in each of the last 2 years reaching 5.79 percent highest in 13 years in the outgoing fiscal year FY2018 and 4 percent in each of the three preceding years. This achievement is remarkable as it has been accomplished in the face of global head winds.

This year's strong economic growth has been underpinned by supportive macroeconomic supply and demand policies, renewed confidence in the private sector and fiscal discipline. Major international institutions anticipate that global economic growth will increase from previously subdued levels, which is a welcome development for a broadly favourable future outlook in Pakistan as well.

The most important achievements of the outgoing fiscal year include the fastest pace in real GDP growth on the back of strong growth in agriculture, impressive growth in manufacturing as well as in services. All macroeconomic indicators exhibited remarkable progress; such as contained inflation, healthy credit flows to private sector, recovery in exports, slowdown in imports, lowest policy rate, increase in FDI and remittances, strengthening of the banking sector, uninterrupted energy supplies to the industrial sector, higher LSM growth, enhanced incorporation of companies, encouraging response from the capital market, increase in per capita income, impressive revenue collections, higher PSDP spending, progress on CPEC projects, and an added impetus coming from the global economic recovery.

The World Bank in its report has stated that Pakistan's economic growth increased from 5.4 percent in 2017 to 5.8 percent in 2018 supported by major infrastructure projects and low interest rates. Major impetus came from improved performance of services and agriculture sector. Industrial sector also saw some recovery. As a major development, Pakistan has ranked No. 1 in South Asia in private infrastructure investment, thus becoming one of the world's top five private participation in infrastructure (PPI) investment destinations.

The growth across different sectors of the economy has attracted major international companies towards Pakistan, where they see immense potential, a huge consumer market, strategic location and macroeconomic stable environment achieved during the last five years.

The IMF has also stated that Pakistan's economy is showing strong signs of rising growth and price stability. The near term outlook for economic growth is broadly favourable supported by improved power supply, investment relating to the China-Pakistan Economic Corridor (CPEC), strong consumption growth and ongoing recovery in agriculture.

Apart from these positive developments, risks/challenges remain on domestic and external fronts, particularly the unfavorable BOP position due to a widening Current Account Deficit (CAD) along with less than expected foreign inflows and a decline in exports in the last two to three years. Slow global growth in international trade flows was an external factor that contributed to the low export growth. However, this declining trend has started to fade out due, on the one hand, to government's supportive initiatives for export growth along with efforts to limit the import of luxury goods and a recovery of the global economy on the other.

The current fiscal year has seen continued exports growth in all 9 months. Exports increased by 12.0 percent while imports have slowed down to 16.6 percent as compared to 48 percent at the start of current financial year. The government has been able to get GSP Plus preferential tariffs scheme renewed from the European Union for the next two years which will help boost exports, going forward.

The present government's vision is focused on the diversification of exports to include new products/services and partners, increased involvement in global value chains, increasing foreign direct investment greater revenue collection, transparency in trade transactions and expanded participation of small and medium-sized enterprises in international trade. SBP has prepared a comprehensive 'Policy for Promotion of SME Financing' which was launched by Prime Minister of Pakistan on December 22, 2017. The policy will enhance the share of SME financing in total private sector credit from 8.8 percent as of December 2017 to 17 percent by 2020.

Similarly, cognizant of the global developments in digital trade, the Ministry of Commerce is finalizing a Policy Framework for development of –Commerce/digital trade in the country. The Framework is being developed to deal with Regulatory regime, Payment Infrastructure, Logistics and Taxation issues related to E-Commerce. E- Commerce is not only a growing global industry, it is also one of the important pillars on which an increasing share of future business, financial and trading transactions will depend and there is a dire need to develop it in Pakistan. Digital platforms have changed the economics of doing business across borders by reducing costs of international transactions enabling Micro, Small and Medium Enterprises (MSMEs) to connect with customers and suppliers around the world.

Amid all these developments there could be downside risks, such as turmoil in the global economy that could worsen the outlook for exports, more than anticipated rise in oil prices , or an uncertain geo-political environment. Moreover, as the world economy lurches into crisis or slides downward due to an emerging trade war between two big economic giants, the growth of many economies could face serious challenges.

World Economic Environment

World output has grown by a healthy 3.8 percent in 2017 and growth is expected to further accelerate to 3.9 percent in 2018 according to the IMF's April 2018 World Economic Outlook-update. This expected acceleration is mainly the result of notable rebound in global trade, continued strong growth in the Emerging Market and Developing Economies (from 4.8 percent in 2017 to 4.9 percent in 2018) and an investment recovery in advanced economies will stabilize growth at 2.5 percent in 2018.

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 2.3 percent in 2017 to 2.9 percent in 2018, driven by the expected macroeconomic impact and investment response to the corporate tax cuts. On the other hand, some deceleration is expected to happen in the United Kingdom (from 1.8 to 1.6 percent in 2018 and 1.5 percent in 2019) with business investment expected to remain weak in light of heightened uncertainty about post-Brexit arrangements. Recovery in the Euro Area is projected to pick up slightly from 2.3 percent in 2017 to 2.4 percent in 2018 due to stronger-than-expected domestic demand across the currency area, supportive monetary policy, and improved external demand prospects.

Growth in emerging and developing economies is expected to increase from 4.8 percent in 2017 to 4.9 percent in 2018 and 5.1 percent in 2019. Among the emerging market and developing economies, the highest growing region is Emerging and Developing Asia where growth is expected to stabilize at 6.5 percent. In this region, China's growth rate would marginally decline from 6.9 percent to 6.6 percent in 2018, but India's growth would rise from 6.7 to 7.4 percent and the ASEAN-5 would stabilize at 5.3 percent. Growth rates are expected to slightly increase from 2.1 percent in 2017 to 2.2 percent in 2018 in the Common Wealth of Independent States, especially due to a slight improvement in Russia (from 1.5 to 1.7 percent), whereas the other member states would see their growth rates deteriorate on average from 3.6 to 3.5 percent. Economic growth would decelerate significantly in Emerging and Developing Europe from 5.8 percent in 2017 to 4.3 percent in 2018. On the other hand, growth accelerates in Latin America and the Caribbean (from 1.3 to 2.0 percent), especially under the impulse of Brazil where growth is expected to accelerate from 1.0 percent in 2017 to 2.3 percent in 2018. Similar developments are expected in the area comprising the Middle East, North Arica, Afghanistan and Pakistan, where growth is expected to increase from 2.6 to 3.4 percent.

The higher overall world growth prospects stimulate world trade, especially under the impulse of a pick-up in investment expenditure particularly in advanced economies. The average growth of world export and import volumes has accelerated from 2.3 percent in 2016 to 4.9 percent in 2017 and is expected to continue to grow further at 5.1 percent in 2018. Pakistan's exports profit from this favorable developments in its export markets.

After the decline in commodity prices (in USD) in 2016, it rebounded in 2017. The average oil price in 2017 was $52.8 per barrel in 2017, up by 23.3 percent, supported by higher demand, the OPEC agreement to limit oil production and geopolitical tensions in the Middle East. Oil prices increased to more than $65 a barrel in January 2018, the highest level since 2015, it is expected to rise somewhat further in 2018 by around 18 percent. Also, prices of non-fuel commodities have increased in 2017 (on average by 6.8 percent) but are expected to decelerate to 5.6 percent in 2018.

Higher commodity prices coupled with the cyclical upswing since mid-2016 are helpful to lift inflation rates in advanced economies in the direction of their inflation targets. Average consumer price inflation in advanced economies accelerated from 0.8 percent in 2016 to 1.7 percent in 2017 and is expected to increase further to 2.0 percent in 2018. In Emerging markets and Developing Economies, inflation is expected to remain within the range of 4 to 4.6 percent that was observed during the two previous years.

The current positive mood in business and consumer confidence may well feed itself in the short run, stimulating consumption and investment expenditures. 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.

A major threat to the future growth outlook may come from the adoption of tariff and non-tariff protectionist policies in some countries, followed by mutual escalating retaliations in trading partner countries, eventually culminating in a full-fledged trade war. Tensions related to renegotiations of long standing trade agreements such as NAFTA and of the economic arrangements between the European Union and the United Kingdom and the imposition of tariffs and regulatory requirements on imports in several countries, may disrupt the global supply chains and provoke relocation of geographical trade flows. The adjustment costs and increased uncertainty related to these relocations may weigh on the investment sentiment, especially in the manufacturing sectors. Reduced international trade expansion and investment expenditures may weigh on overall growth prospects. This would also be felt in Pakistan, where export activity is very much correlated to imports in OECD countries and China. Hopefully the current tariff threats may end in negotiated solutions and further adjustments in both bilateral and multilateral trade agreements that take into account the changing trade composition and the new products and services that are currently being produced and traded.

Also, higher than expected inflationary pressures, especially in the United States, where the labor market is already tight, may require a faster than expected monetary policy tightening. This may prompt abrupt adverse financial market reactions in the bond and equity markets, weighing in on the economic optimism and confidence.

Similar risks may arise if geopolitical concerns in East Asia and in the Middle East would intensify.

Executive Summary

Growth and Investment

Pakistan has seen a visible economic turnaround over the last five years, due to successful implementation of a comprehensive program of economic revival aimed at higher economic growth and macro-economic stability.

The growth momentum remained above 5 percent for the last two years in a row and reached 5.79 percent in FY2018 which is 13 years high on account of a strong performance in agriculture, industry and services sectors which grew by 3.81 percent, 5.80 percent and 6.43 percent, respectively.

The highest growth in agriculture sector in last 13 years was achieved on the back of initiatives taken to improve the sector such as expansion in credit to agriculture sector along with agriculture Kissan Package, provision of better quality seeds including hybrid and high yield varieties and timely availability of agriculture inputs including fertilizer, pesticides etc.

Large Scale Manufacturing (LSM) also recorded a growth of 6.13 percent highest in ten years. Industrial sector growth improved by 5.80 percent, highest in ten years. Manufacturing grew by 6.24 percent highest in 11 years. The performance of services sector witnessed a stable growth of 6.43 percent in last two years.

Consumption is the largest component of aggregate demand followed by investment and net exports. During FY 2018, households' average propensity to consume remained fairly constant at around 85.5 percent at constant prices and around 82.0 percent in current prices. Contained inflation helped increase in consumption by private and General Government. During July-March FY 2018, current account deficit remained US $ 12.0 billion and is expected that it will cross US $ 15.0 billion at the end of current fiscal year. The national savings and domestic savings as percentage of GDP remained almost at same level of last year. National income remained less than expenditures during FY 2018 when compared with FY 2017 which resulted increase in Saving-Investment gap. The increase in Saving-Investment gap in turn resulted in higher current-account deficit.

Gross Fixed Capital Formation (GFCF), considered as fixed investment stood at Rs 5,099.1 billion in FY 2018 compared to Rs 4,632.8 billion last year posting a growth of 10.1 percent. The private sector GFCF posted a growth 5.2 percent as it increased to Rs 3,371.2 billion compared to 3,205.5 billion last year while the public sector GFCF increased to Rs 373.3 billion compared to 339.5 billion last year showing a growth of 9.9 percent. The expenditure on GFCF incurred by federal, provincial and district governments has increased by 23.9 percent, 22.1 percent and 45.7 percent, respectively. During FY 2018, per capita income increased by 0.5 percent over last year to $1641.

Agriculture

Agriculture sector recorded a remarkable growth of 3.81 percent and exceeded its targeted growth of 3.5 percent and also last year’s growth 2.07 percent. This stemmed from higher yields, attractive output prices and supportive government’s policies, better availability of certified seeds, pesticides, agriculture credit and intensive fertilizers offtake. The crops sector performed well and witnessed a growth of 3.83 percent against the last year’s growth of 0.91 percent. The growth in sub sectors, important crops, other crops and cotton ginning registered a growth of 3.57 percent, 3.33 percent and 8.72 percent respectively, against the last year growth of 2.18 percent, -2.66 percent and 5.58 percent. Major Kharif crops such as sugarcane and rice surpassed their production targets as well last year, it recorded a growth of 7.45 percent and 8.65 percent, respectively while cotton crop also exceeded last year's production by 11.85 percent. Wheat and maize crop remained subdued, as it witnessed a decline of 4.43 percent and 7.04 percent, respectively. Other crops grew by 3.33 percent on the back of increase in the production of fodder, vegetables and fruits.

Livestock recorded a growth of 3.76 percent compared to 2.99 percent period last year. The Fishing sector grew by 1.63 percent compared to 1.23 percent last year. Forestry sector posted a positive growth of 7.17 percent on account of higher timber production reported by Khyber Pakhtunkhwa.

Pakistan's agricultural productivity is dependent on the availability of water. During 2017-18, the availability of water for Kharif 2017 stood at 70.0 Million Acre Feet (MAF) showing a decrease of 2.0 percent over Kharif 2016 and increase of 4.3 percent over the normal supplies of 67.1 MAF. During Rabi season 2017-18, the water availability stood at 24.2 MAF showing a decrease of 18.5 percent over Rabi 2016-17 and 33.5 percent less than the normal availability of 36.4 MAF.

During 2017-18, gram production witnessed an increase of 3 percent on account of increase in area sown and due to favourable weather condition prevailed at the time of sowing. The production of Bajra, Jowar and Rapeseed & Mustard increased by 9.8 percent, 4.1 percent and 0.1 percent, respectively. The production of Barley declined by 0.3 percent

The production of Onion, Mash, and chillies posted a growth of 8.1 percent 4.2 percent and 3.8 percent respectively, compared to the production of last year. However, the production of Masoor (Lentil) and Potatoes are reported at the same level of last year. While the production of Moong is 8.7 percent lower than last year's production. The gap is filled through import of pulses from Australia, Afghanistan, Argentina, Canada, Kenya, Russian Federation, Ukraine, U.S.A and Vietnam. During 2017-18 (July-February), pulses valued US $ 300.6 million were imported.

The domestic production of fertilizers during 2017-18 (July-March) decreased slightly by 5.4 percent over the corresponding period last year due to diversion of domestic piped natural gas from small scale urea producers . While the imported fertilizer increased by 21.1 percent. Total off take of fertilizer nutrients declined by 3.6 percent.

In the backdrop of the government's budgetary initiatives for promotion of agriculture sector, agriculture credit increased to Rs 1,001 billion which is 43 percent higher than last year.

Agriculture credit disbursement continued to remain high by 39.4 percent to Rs 570 billion during FY 2018 (July-February). The banks have disbursed Rs 570 billion which is 57 percent of the overall annual target of Rs 1,001 billion and 39.4 percent higher than disbursement of Rs 409 billion made during the corresponding period last year. Similarly, outstanding portfolio of agriculture loans has been increased to Rs 79.5 billion to Rs 452.6 billion or 21.3 percent.

Manufacturing & Mining

During July-February FY 2018, the Large Scale Manufacturing (LSM) registered a growth of 6.24 percent as compared to 4.40 percent in the same period last year. On Year on Year (YoY), LSM recorded a growth of 5.52 percent in February 2018 compared to 9.47 percent in February 2017.

The industry specific data shows that Electronics recorded highest growth of 38.79 percent , Iron & Steel products 30.85 percent , Automobile 19.58 percent on the back of significant growth in Tractors 44.68 percent, Trucks 24.41 percent, Jeeps and Cars 23.29 percent, LCVs 19.73 percent and motor cycles 14.15 percent, Non metallic mineral product improved by 11.87 percent, whereas, cement continued to exhibit strong growth of 11.95 percent , Paper & Board 8.06 percent , Coke & Petroleum products 10.26 percent , Rubber Products 6.83 percent , Engineering Products 5.21 percent , Pharmaceuticals 9.44 percent , Textile 0.47 percent, Food Beverages & Tobacco 2.33 percent. The delayed crushing of sugarcane recorded a negative growth of 7.69 percent. The sector which recorded negative growth during the period are Wood Products 27.32 percent, Fertilizers 7.36 percent, Chemicals 0.63 percent and Leather Products 7.91 percent.

Leather manufacturing continued its declining trend on account of lagging behind in terms of product diversification and value addition along with facing pressure from regional competitors who are focusing on high value added products. The downturn witnessed in fertilizer sectors is on account of diversion of domestic piped natural gas from small scale urea producers. In chemical sectors multiple factors constrained their operations such as influx of cheap imported products, dependence on imported raw materials and high cost of doing business. There has been a steep fall in the production of buses as the cumulatively growth came down to 39.35 percent during the July-February FY 2018. It is essentially due to public preferring to have a transport of their own; first, starting with a two-wheeler and then moving to a car, as their locally made affordable versions are available. Further, in some cities, the availability of modern public transport facilities is an additional factor to dampen the demand for Buses, besides allowing imports.

The Mining and Quarrying sector grew by 3.04 percent in FY 2018 as against -0.38 percent last year. Quartz, Soap stone, Marble, Bauxite, Barytes, Lime stone, Magnesite, Gypsum, Coal and Crude oil posted a positive growth of 97.28 percent, 43.53 percent, 43.25 percent, 37.20 percent, 15.06 percent, 13.40 percent, 8.55 percent, 6.85 percent, 5.70 percent and 0.41 percent, respectively. However, Chromite declined by 20.15 percent, Ocher 16.61 percent, Calcite 6.92 percent, Sulphur 4.01 percent, Natural gas 1.16 percent and Rock salt 1.21 percent.

Fiscal Development

During the past five years, fiscal sector has witnessed a notable improvement on account of wide ranging reforms in resource mobilization and expenditure management. The substantive measures taken to control unproductive expenditures as well as increasing revenues helped in generating additional fiscal space for expenditure on development and on social safety net. Particularly, Federal Public Sector Development Program (PSDP) increased from Rs 348.3 billion (including Rs 24.7 billion development grants to provinces) during FY2013 to Rs 733.3 billion (including Rs 7.8 billion development grants to provinces) in FY2017, posting a cumulative increase of 110.5 percent. While the allocation under BISP (development expenditure outside PSDP) has also witnessed a substantial increase of 73 percent to Rs121 billion during FY2018 from Rs70 billion in FY2013.

Fiscal sector continued to perform well during the first half of current fiscal year as strong growth in revenues relative to expenditures helped in containing the fiscal deficit to 2.3 percent of GDP during first half of FY2018 as compared to 2.5 percent of the corresponding period last year.

Total revenues grew by 19.8 percent to reach Rs 2,384.7 billion (6.9 percent of GDP) during July-December, FY2018 against Rs 1,990.6 billion (6.2 percent of GDP) in the same period of FY2017. The impressive performance both in tax and non tax revenues attributed to this significant rise in total revenues.

During first nine months of current fiscal year, FBR has been able to collect around Rs 2,626.6 billion against Rs 2,268.7 billion during the same period of FY2017, posting a growth of 15.8 percent.

Total expenditure increased by 14.0 percent during July-December, FY2018 and stood at Rs 3,181.0 billion (9.2 percent of GDP) against Rs 2,789.7 billion (8.7 percent of GDP) in the same period of FY2017. Within total expenditure, development spending (excluding net lending) increased sharply and recorded at 23.4 percent to reach Rs 613.8 billion during July-December, FY2018 as compared to Rs 497.4 billion in the comparable period of FY2017. The significant performance of development expenditure was realized on account of increased spending under PSDP which increased to Rs 558.8 billion during first half of FY2018 from Rs 445.7 billion in the comparable period of FY2017, posting a growth of 25.4 percent. On the other hand, current expenditure grew by 13.5 percent during July-

December, FY2018 on account of 12.4 percent increase in federal and 15.8 percent in provincial government current expenditures. In absolute term, current expenditures increased from Rs 2,241.6 billion in first six months of FY2017 to Rs 2,545.2 billion during the same period of current fiscal year.

During the first half of current fiscal year, the provinces generated cumulative surplus of Rs 203.9 billion against the surplus of Rs 90.6 billion in the comparable period of FY2017. Higher surplus was achieved on the back of healthy growth in total revenues that recorded 28.2 percent to Rs 1,363.8 billion during July-December, FY2018 against Rs 1,064.2 billion in the comparable period of FY2017.

Money and Credit

The accommodative monetary policy remained instrumental for conducive macroeconomic environment. The cautious monetary policy stance consolidated the gains from historic-low policy rate at 5.75 percent till January, FY2018. The SBP has changed the monetary policy stance in January 2018 by 25 bps to 6 percent to anchor expected rise in inflation in view of reversal of international oil and commodities prices and to address the domestic demand pressures as well exchange rate movement. In March 2018, the Monetary Policy Committee decided to maintain policy rate at 6.0 percent for the next two months to see the impact of policy.

During 01 July-30 March, FY2018 Broad Money (M_2) observed an expansion of Rs 770.9 billion (growth of 5.29 percent) compared to expansion of Rs 756.1 billion (5.9 percent) in the same period last year. Similarly, reserve money growth contained at 5.6 percent during 01 July-30 March, FY2018 compared to the growth of 7.9 percent during the comparable period of last year. Within Broad Money, Net Foreign Assets (NFA) of the banking sector reduced to Rs 472.8 billion during 01 July-30 March, FY2018 as compared to the contraction of Rs 284.8 billion last year. The Net Domestic Assets (NDA) of the banking sector witnessed an expansion of Rs 1,243.7 billion (8.9 percent) during 01 July-30 March, FY2018 as compared to the expansion of Rs1,040.9 billion (8.8 percent) in the same period last year. During 01 July- 30 March, FY2018 credit to Public Sector Enterprises (PSEs) increased to Rs174.0 billion compared to Rs196.9 billion in the comparable period of FY2017.

During the period 01July- 30 March FY2018, government borrowing for budgetary support stood at Rs 858.3 billion against the borrowing of Rs 704.0 billion in the corresponding period of FY2017. During the period under review, government borrowed Rs 2,236.7 billion from SBP as compared to the borrowing of Rs 801.6 billion in the comparable period last year. Conversely, government retired Rs 1,378.5 billion to Scheduled Banks during 01 July-30 March FY2018 against the retirement of Rs 97.5 billion last year. Whereas, net government borrowing from the banking system reached to Rs 804.2 billion during 01 July-30 March FY2018 compared to Rs 568.7 billion over the previous year.

Credit to private sector has seen expansion of Rs 469.2 billion during 01July-30 March, FY2018 compared to the expansion of Rs 438.6 billion in the comparable period of last year. On (YoY) basis as on 30th March FY2018, CPS registered a growth of 15.9 percent compared to 13.4 percent witnessed in the same period last year. Credit demand for fixed investment contained to Rs147.9 billion against Rs158.0 billion in the comparable period of last year. Credit disbursement for working capital increased to Rs 151.5 billion during the period under review compared to Rs 92.9 billion during the corresponding period of last year.

A number of domestic developments remained instrumental in banking sector to follow a sustained growth path. The momentum continued in CY17 with the assets of the banking sector recorded YoY growth of 15.9 percent to Rs 18.3 trillion. Capital Adequacy Ratio (CAR) at 15.8 percent as of end December 2017 is stronger and higher than the minimum required level of 11.275 percent. Similarly, asset quality has also improved and NPLs to loans ratio came down from 10.1 percent in CY16 to 10 years low 8.4 percent in CY17.

Capital market

Earlier Pakistan's capital markets remained relatively narrow due to non-conducive economic environment but as the security situation improved and investors' confidence regained, the capital market started showing positive performance. During the regime of the present government significant developments in capital market and corporate sector took place. The Securities and Exchange Commission of Pakistan (SECP), being an apex regulator, has continued to push with the reform agenda to address the challenges of a fast growing market during the last five years. Consequently, revival of investor's confidence has been captured by 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 52,876.46 Index on May 24, 2017 in the history.

Since January 11, 2016, the earlier three Stock Exchanges at Karachi, Lahore and Islamabad were merged into Pakistan Stock Exchange (PSX), which is now providing a single platform to investors particularly the foreign investors. The fiscal year 2018 started well with some significant positive economic indicators, notably, the promising GDP growth, improved country's perception, recognition of SMEs as the prime mover of country's economy and the continuity of the inflows of remittances by the Overseas Pakistanis. The period from July - March FY 2018, the capital market operated in a wide range. During the period under review, the market remained volatile. Till August 2018, it reached the peak of 47,084 index on August 03, 2017, after then it started moving down touched the lowest 37,919 Index on December 19, 2017. The behavior might be linked to the depreciation of Pakistani rupee. However, at the start of new calendar year 2018, the market gained momentum and on March 30, 2018, KSE 100 index closed at 45,560.30 whereas market capitalization was Rs 9,370.6 billion. The average daily value traded (T+2) in first nine months of FY 2018 was Rs 8.54 billion and the average daily turnover was 192.25 million shares. The average daily trade value in futures was 3.7 billion and the trading volume was 61.4 million shares.

The foreign investors offloaded securities worth USD 123.9 million during July 2017 – March 2018 which was absorbed by domestic individual investors, companies and insurance companies. This strong buying by local investors has shown the confidence of the investors in Pakistan equity market.

National Savings is the most effective and formidable vehicle to support financial inclusion, particularly women. More than 50 percent of the investors of National Savings are women vs merely less than 4 percent in the banking sector and average 25 percent in South Asia - a testament of true financial inclusion and women empowerment. This is evident from the State Bank data that the technology plays a vital role in women financial inclusion.

Pakistan has the lowest savings rate in the region which has direct relationship with the economic growth rates. Whilst National Savings, as an institution, contributes less than 1 percent of the GDP and around 10 percent in the Domestic Savings to GDP Ratio of 7.5 percent however, there's substantial room for improvement on these ratios over a period of time.

Inflation

During current fiscal year FY 2018, CPI increased to 4.6 percent which was the highest since the start of current fiscal year FY 2018, in January 2018 it was came down to 4.4 percent and in March 2018, it fell eight month low at 3.2 percent on account of subdued food prices which offset the impact of rise of petroleum prices.

The average inflation during first nine months of the current fiscal year, July-March FY 2018 has been contained at 3.78 percent which was lower than the level observed during the same period of last year recorded at 4.01 percent.

The other inflationary indicators like Sensitive Price Indicator (SPI) remained at 0.9 percent compared to 1.4 percent July- March FY 2017. Wholesale Price Index (WPI) recorded at 2.7 percent in July-March FY 2018 compared to 3.8 percent in FY 2017.

Core inflation which is Non Food and Non Energy was recorded at 5.45 percent compared to 5.07 percent in FY 2017. A moderate outlook of food prices amid abundant grain stocks and the recent increase in policy rate will help in containing the average inflation below target of 6.0 percent during FY 2018.

Trade and Payments

During the last few years, Pakistan exports were not picking up and recorded a negative growth.The main reasons for declining of exports was global slowdown but now the global economy is on the track of recovery. Pakistan exports are also on the increasing and the negative effect started bottoming out.

Exports during July-March FY2018 reached to US$ 17.1 billion as compared to US$ 15.1 billion in July- March FY2017 , registered a growth of 13.1 percent. Pakistan imports were up by 15.7 percent in the first nine months of the current fiscal year, rising from $ 38,369 million during FY2017 (July- March) to 44,379 million, showing an increase of $ 6010 million in absolute term. To slow down the imports, an additional regulatory duty was imposed to curtail the inflated imports.

Pakistan's balance of payments remained under stress due to rising imports of capital equipment and fuel during July-March FY2018. Recovery in global oil prices also played a role in pushing up the import bill. The remarkable growth in exports earnings and remittances inflows was not sufficient to overcome the current account deficit gap. The SBP's liquid foreign exchange reserves declined by US $ 4.5 billion during July-March FY2018.

Pakistan's current account deficit contracted by 9.2 percent on month on month basis in March 2018 and reached to US $ 1.16 billion as compared to US $ 1.28 billion in February 2018. However, the current account deficit widened by 50.5 percent and reached to US$ 12.03 billion (3.8 percent of GDP) during July-March FY2018. This was mainly due to 20.7 percent widening in the trade deficit, amounted US$ 22.3 billion. The widening of trade deficit is mainly due to surge in import bill by 16.6 percent and reached to US $ 40.6 billion overshadowed the increased in exports and workers' remittances.

The remittances registered a significant growth of 3.6 percent during July-March FY 2018 against the decline of 2.0 percent last year, and reached to US$ 14.6 billion during first nine month of current year as compared to US$ 14.4 billion during the same period last year. The trend will continue in coming months and expected that the target of US$ 20.6 billion will be achieved.

Foreign investment picked up its pace from last year's levels, with both direct and portfolio investment contributing to the gains. Net FDI inflows rose 4.4 percent to US$ 2.1 billion in July- March FY2018, against US$ 2.0 billion of the same period last year. While China continued to have a major share (accounting 55 percent in overall inflows), significant FDI from other countries like Malaysia and UK also witnessed during this year.

Portfolio investment is dominated by official inflows, as government raised US$ 2.5 billion through Sukuk and Eurobond.

Meanwhile, public flows continued to dominate foreign portfolio investment in Pakistan. A massive inflow of US$ 2.5 billion in second quarter of FY2018 more than offset net foreign outflows of US$ 90 million in the country's equity market.

With the current account deficit widening and not being fully offset by financial inflows, the country's total liquid FX reserves fell by US $ 4.5 billion during July-March FY2018.

The drop was higher in the first five month of FY2018, when official reserves decreased by $3.9 billion. The decline came mainly in SBP's liquid reserves (which at April 18, FY2018 was US$ 11.08 billion), and reserves held by commercial banks US$ 6.1 billion during the period.

Public Debt

Total public debt stood at Rs 22,820 billion at end December 2017 while Total Debt of the government was Rs 20,878 billion. Total public debt recorded an increase of Rs 1,413 billion during first six months of current fiscal year.

The bifurcation of this increase is explained below:

- Domestic debt registered an increase of Rs 582 billion while government borrowing for financing fiscal deficit from domestic sources was Rs 412 billion, indicating an increase in government credit balances with the banking system during the period under review; and
- Increase in external debt contributed Rs 830 billion to the public debt, while, government borrowing for financing fiscal deficit from external sources was Rs 384 billion. Therefore, the increase in external debt signifies both borrowings for financing fiscal deficit as well as revaluation losses due to Pak Rupee depreciation against US Dollar as well as appreciation of other currencies against US Dollar.

Pakistan's public debt dynamics witnessed various positive developments in the ongoing fiscal year, some of these are highlighted below:

- The 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 reduced further while cost of external loans contracted by the government are mostly concessional as well as dominated by long term funding;
- The government successfully raised US$ 2.5 billion in December 2017 through a 5-year Sukuk and 10-year conventional bond with the latter issued at the lowest rate for a Pakistan bond.
- In order to facilitate the investors, Central Directorate of National Savings (CDNS) has launched a non-financial version of mobile application called “Qoumi Bachat Digital” which enable customers to view their profits, investments in the certificates and accounts, receive notifications on transactions, transaction history and also save prize bond numbers to be searched in the Prize Bond draws. CDNS is also in the process of launching a financial version of the mobile application along with the Card Management System and Mobile Wallet for investors.

Encouragingly, cost and most of the risk indicators of public debt portfolio improved over last four years. Average cost of gross public debt reduced by over 100 basis points owing to smooth execution of the Medium Term Debt Management Strategy. Refinancing Risk of domestic debt portfolio reduced from 64.2 percent in 2013 to 55.6 percent in 2017. Exposure to interest rate risk also reduced, as the percentage of debt re-fixing in one year decreased to 47.8 percent in 2017 compared to 52.4 percent in 2013. Similarly, share of external loans maturing within one year was equal to around 27.7 percent of official liquid reserves in 2017 compared with around 68.5 percent in 2013, indicating improvement in foreign exchange stability and repayment capacity.

EDL stock stood at US$ 88.9 billion at end December 2017 out of which external public debt was US$ 66.9 billion. External public debt increased by US$ 4.4 billion during first half of the current fiscal year. In addition to net external inflows, translational losses on account of depreciation of US Dollar against other international currencies contributed towards increase in external public debt during the said period.

Recent Developments in Public Debt

Total public debt provisionally stood at Rs 23,608 billion at end February 2018 while total debt of the government was Rs 21,552 billion. Gross domestic debt recorded an increase of Rs 1,093 billion during first eight months of current fiscal year while external debt increased by Rs 1,107 billion. In addition to financing of fiscal deficit, (i) increase in credit balances of the government with banking system; (ii) depreciation of Pak Rupee against US Dollar; and (iii) depreciation of US Dollar against other international currencies contributed towards the increase in debt.

EDL stock provisionally stood at US$ 91 billion at end February 2018 out of which external public debt was US$ 69.3 billion.

Disbursements against external public debt were cumulatively recorded at around US$ 7,300 million during first eight months of current fiscal year while external public debt servicing was US$ 3,338 million during the said period.

Education

A National Framework has been devised for localization of Sustainable Development Goals (SDGs) at district level to improve public social service delivery for implementation of the global agenda. Goal 4 of SDGs covers the education related framework to improve the education system. The federal government has decided to enhance working relationship with the provinces by providing all possible support to ensure successful implementation of all SDGs including those related to education.

The overall education condition is based on key performance indicators such as enrolment rates, number of institutes and teachers which have experienced minor improvement. The total number of enrolments at national level during 2016-17 stood at 48.062 million as compared to 46.223 million during 2015-16. This shows a growth of 3.97 percent and it is estimated to further rise to 50.426 million in 2017-18. The total number of institutes stood at 260.8 thousands during 2016-17 as compared to 252.8 thousands during last year and the number of institutes is estimated to increase to 267.7 thousands in 2017-18. The total numbers of teachers during 2016-17 were 1.726 million compared to 1.630 million during last year showing an increase of 5.9 percent. This number of teachers is estimated to rise further to 1.808 million in FY 2017-18.

PSLM survey was not conducted in FY 2017-18 due to Population & Housing Census 2017. Therefore, the figures for the year 2015-16 is considered for the current year.

Public Expenditure on Education as a percentage of GDP was estimated 2.2 percent in FY 2017 compared to 2.3 percent of GDP in FY 2016. The education related expenditure increased by 5.4 percent to Rs 699.2 billion in FY2017 from Rs 663.4 billion in FY2016. The provincial governments are also spending sizeable amount of their Annual Development Plans (ADPs) on education.

Prime Minister's Youth Skill Development Programme (PMYSDP) is a nation-wide programme which circumferences the whole country including far flung areas of Balochistan, Rural Sindh, Southern Punjab, Azad Jammu & Kashmir, Gilgit-Baltistan & FATA. Under this programme, all training expenses are being borne by the Government of Pakistan and the trainees are being paid monthly stipend @ Rs 3,000 per trainee (in case of FATA Rs 4,000). The seats under the programme are distributed keeping in view the province-wise population; however, the disadvantaged areas like Balochistan, FATA, Gilgit-Baltistan and Rural Sindh have been given high share. Since the inception of the programme, 100,000 youth has been benefited from the programme, primarily for middle, lower middle class and deprived segments of society. NAVTTC has allocated a special quota of minimum 30 percent for female enrolment for skill development courses. The programme is focused to prepare skilled manpower for National Mega Projects like CPEC and other energy related projects as CPEC is expected to generate approximately 2 million jobs for skilled manpower.

The financial support to Higher Education has resulted revival of the sector led through the activities by Higher Education Commission (HEC). Under the PSDP 2017-18, the government allocated Rs 35.663 billion for 181 development projects (112 ongoing & 69 un-approved projects) for universities. During FY 2018 , twenty one (21) projects with a total cost of Rs 46.713 billion have been approved by the competent forum i.e. CDWP/ECNEC. Thus, a total number of approved projects has been increased to 133 while the remaining 48 un-approved projects are at different stages of approval.

During 2017-18 (July-December), the government has released Rs 11.628 billion (33 percent of the total budget) to ongoing development projects of Universities/HEC whereas, the 3rd quarter amounting to Rs 4.233 billion is being released.

Health and Nutrition

Under 18th Constitutional Amendment, health service delivery has been transferred to the provinces, whereas, Pakistan Vision 2025 prepared in consultation with provinces provides a road map which includes reducing the widespread prevalence of communicable diseases, disease surveillance, addressing inadequacies in primary/secondary health care facilities, correcting rural/urban biases, bridging basic nutritional gaps and improving the pharmaceutical sector to ensure the availability, affordability and quality of drugs.

Cumulative health expenditures of federal and the provinces are estimated at Rs 384.57 billion for FY 2017-18 which is 31.75 percent higher than the actual expenditures of Rs 291.90 billion realized during FY 2016-17. A brief look into previous year's performance reveals that total health expenditures increased both in terms of growth and as percentage of GDP. It grew by 29.54 percent to stand at Rs 291.90 billion during FY 2016-17 against Rs 225.87 billion in FY 2015-16. Encouragingly, health expenditures surpassed the budget allocation of Rs 273.34 billion set for FY 2016-17. While in terms of GDP, health expenditure increased to 0.91 percent during FY 2016-17 from 0.77 recorded in FY 2015-16.

During July-February, 2017-18, health expenditures consumed 43.5 percent of budget allocation to reach Rs 167.16 billion against the expenditure of Rs 121.57 billion in the comparable period of last year. In terms of growth, it increased by 37.51 percent. Viewed from GDP, it increased to 0.49 percent during July-February, FY 2017-18 from 0.38 percent recorded in the same period of FY 2016-17.

By the year 2017, the number of public sector hospitals has increased to 1211, 5508 basic health units (BHUs), 676 rural health centers (RHCs) and 5,697 dispensaries. These facilities together with 20,8007 doctors, 20,463 dentists and 103,777 nurses bring the current ratio of one doctor to 957 persons, 9,730 person per dentist and availability of one hospital bed for 1,580 person that shows that number under each establishment is increasing.

The caloric availability through major food commodities is estimated 2,500 calories/day/person with little improvement over the previous year.

Population, Labour Force and Employment

The 6th National Population and Housing Census was held after 19 years. The last census was held in 1998. The census was conducted in two phases, first 15th March to 15th April, 2017 and the second 25th April to 25th May, 2017. Its provisional results have been released which shows that total population is 207.77 million. The census data will be helpful for government, researchers and planners for critical evidence-based decision making, planning and evolving strategies for population control. The census will provide reliable data on population, its growth and other related variables such as employment, urban – rural population, male-female ratio, etc. The national population census will be helpful in resource allocations.

The provincial distribution of census shows that Punjab is the most populous province. With reference to urbanization, the population is swiftly moving towards urban centers due to better availability of better socio-economic facilities. However, the government is well aware of this issue and is taking specific steps to provide better facilities in rural areas.

The country is blessed with energetic youth and this workforce can be a productive asset of the country if properly trained through skill development programmes. The government has initiated different skill development programmes for the employment of youth. Focus on technical and vocational education will not only improve individual performance but also increase national productivity.

Transport & communication

NHA network comprises of 39 national highways, motorways, expressway, and strategic roads. Current length of this network is 12,131 km. Under Annual Maintenance Plan funded through NHA's own resources, about 665 km road network has been rehabilitated / improved all across the country. NHA's existing development portfolio consists 72 on-going projects with allocation of Rs 305,020.34

million in PSDP 2017-18, out of which Rs 86,150.00 million as FEC and Rs 218,870.337 million as local component. There are also 13 new schemes in PSDP 2017-18 with total estimated cost of Rs 14,700.00 million.

Through CPEC, Pakistan is harnessing its geo strategic location into a geo-economic advantage. It is a massive bilateral programme to improve soft as well as hard infrastructure within Pakistan for better trade with China and transform Pakistan's economy through modernization of transport and energy.

Pakistan and China are also implementing Cross- border Fiber optic project (Khunjerab-Rawalpindi). Completion of the 820km long cable is planned in August 2018.

Railway Revitalization Strategy is being implemented, which envisages improvements in business processes and the institutional framework, financial stability and service delivery. During July-Dec 2017-18, gross earnings of Pakistan Railways along with number of passenger carried, freight carried and freight tonnes earning has improved by 26.7 percent, 4.7 percent, 55.8 percent and 62.1 percent respectively, over the corresponding period of last year.

A new Strategic Business Plan 2018-22 has been developed by PIAC, which provides a five-year roadmap for improving the national carrier's performance. The plan prioritizes segregation of non-core functions from core functions, improvement in customer experience and product, route rationalization, cost reduction/ optimization, HR capability development and IT modernization. The plan is supplemented by a financial restructuring plan, which focuses on curtailing financial and operational losses.

During first half of on- going fiscal year Pakistan National Shipping Corporation earned profit before tax Rs 902 million while, KPT shows a progress of 5.1 percent with the breakup of export and import of 14.9 percent and 1.6 percent respectively, as compared to corresponding period of last year. Port Qasim handled a total volume of 21.367 million tons during the first half of fiscal year 2017-18 (July- December), showing a substantial increase of 24.5 percent over the 17.165 million tons recorded in the same period a year before**.** Gwadar Port the first deep sea port in the country is a complement to Karachi Port and Port Qasim in order to stimulate economic growth of Pakistan in general and Balochistan in particular, by utilizing the available resources of the country.

Revenues from telecom sector reached to Rs 235.5 billion during the first two quarters of FY 2017-18. Telecom operators have invested a significant amount of US$ 322.9 million during the first two quarters of FY 2017-18. During the first two quarters of the current FY2017-18, telecom sector contributed Rs 78.62 billion to the national exchequer in terms of taxes, regulatory fees, initial and annual license fees, activation tax, and other charges.

Pakistan Post earned Rs 10.8609 million during the period from April to December 2017 through commission on disbursement/recovery of First Micro Finance Bank loan. During the first six months(July-2017 to December-2017), a total of Rs 329,976 BISP Money Orders along with required funds of Rs 3.615 billion were received from BISP authorities to Pakistan Post, out of which 86 percent Money Orders amounting Rs 1.368 billion have been paid within prescribed period of time.

Energy

The government remained successful in developing energy related projects through indigenous energy resources such as coal, hydro and renewable sources. The government will continue to diversify energy supply to meet energy needs in a sustainable and affordable manner.

Since FY2014, the share of government in Fixed Investment (GFCF) has increased significantly especially in Electricity Generation and Distribution & Gas Distribution. Thirty five (39) projects with cumulative capacity of 12,230 MW have been added.

Further, due to significant improvement in the energy mix, the country's reliance on oil has been reduced. The government has also played significant role to abridge severe energy-demand imbalance by importing Liquefied Natural Gas (LNG) in the shortest span through a competitive and transparent manner.

It is mentionable that till February 2018, installed capacity of electricity reached 29,573 MW which was 22,812 MW in FY 2012-13, thus, posting a growth of 30 percent. Although electricity generation varies due to availability of inputs and other constraints, however, the generation increased from 96,496 GW/h in 2012-13 to 117,326 GW/h in FY 2016-17 posting a growth of 22 percent, while, during July-February FY 2018, electricity generation remained 69,956 GW/h.

With regards to share of inputs in electricity generation, it has been observed that share of hydro in electricity generation has decreased over the time since FY 2012-13. Low hydrology is the main reason for reduced generation from hydel power plants. During winter FY 2017-18, the indent of Mangla was also declared zero Cubic Feet per Second (CFS), a historic low from the nominal minimum of 5000 CFS for Mangla. Further, considerably decreased rainfall along with minimal snowfall during winters resulted in consequent decrease in the downstream flows of water in major rivers. The impact intensified in summer season.

The government plans to carry out competitive bidding for approximately 1200 MW wind and 600 MW solar power capacity in 2018. During the present government regime, eighteen (18) wind power projects of 937.27 MW cumulative capacity have achieved commercial operation and are supplying electricity to national grid while six (06) solar power projects of 418 MW capacity are operational. For power generation from bagasse cogeneration, six (06) sugar mills having a cumulative capacity of 201.1 MW are operational.

Oil (Petroleum Product): Annual consumption of petroleum products in the country is around 26 million tons during 2016-17. During July-February FY 2018, 60.4 million barrels of crude oil was imported while 21.8 million barrels was locally extracted. Domestically, indigenous crude oil meets only 15 percent of total requirements, while, 85 percent requirements are met through imports in the shape of crude oil and refined petroleum products.

In term of oil consumption, it stood at 16. 5 million tons during July-February FY 2018, marginally less than oil consumption during the same period last year (16.7 million tons). Since FY 2014, there is considerable change in share of components in oil consumption. The share of power in oil consumption is significantly decreasing while share of transport is increasing. One reason is that power plants are moving toward cheaper inputs, whereas, increase share of transport is mainly due to decline in domestic prices of petrol and higher imports of used cars. During July-February FY 2018, share of transport in oil consumption further increased to 64.4 percent compared to 57.2 percent during the same period last year. However, share of power decreased to 26.4 percent from 33.2 percent during the period under discussion.

Natural Gas: Pakistan has an extensive gas network of over 12,829 km Transmission, 132,065 km Distribution and 34,631 Services gas pipelines to cater the requirement of more than 8.9 million consumers across the country. The government is pursuing its policies for enhancing indigenous gas production as well as imported gas to meet the increasing demand of energy in the country. During July-February FY 2018, average natural gas consumption was about 3,837 million Cubic Feet per day (MMCFD) including 632 MMCFD volume of RLNG, compared to 3,205 million Cubic Feet per day (MMCFD) last year.

During July-February FY 2018, two Gas utility companies (SNGPL & SSGCL) have laid 328 Km Gas Transmission network, 8,861 Km Distribution and 1,216 Km Services lines and connected 231 villages/towns to gas network. During the period under discussion, the gas utility companies have invested Rs 1,351 million on Transmission Projects, Rs 10,202 million on Distribution Projects and Rs 11,198 million on other projects thus bringing total investment to Rs 22,751 million. During this period, 428,282 additional gas connections including 426,721 domestic, 1,519 commercial and 42 industrial were provided across the country.

Coal: Indigenous coal resources are fairly large (over 186 billion tons). Domestic production of coal is expected to increase in the coming years due to mining activities in Thar coalfield. Indigenous coal production is mostly consumed by brick kilns and very small quantity utilized by Khanote Power Plant and cement factories.

Imported coal is used by power plants, cement manufacturing units, Pakistan Steel and other industries etc. Import of coal has substantially increased comparative to preceding year FY (2016-17) due to commissioning of new coal based power plants at Sahiwal & Port Qasim.

The government is engaged in developing 5-year National Electricity Plan that would provide a road map for future power generation projects, pricing issues and set high standards for power consumers.

Social Safety Nets

The Government of Pakistan scrutinized pro-poor expenditure in 17 sectors through the Medium Term Expenditure Framework (MTEF) under PRSP-II. The provisional expenditures for July-December FY 2017-18 have been estimated at Rs 1,134.1 billion as compared to Rs 1,017.5 billion of the corresponding period last year.

The number of BISP beneficiaries increased from 3.73 million in FY 2012-13 to 5.6 million as on 31st December 2017. BISP's annual disbursement increased from Rs 16 billion in FY 2008-09 to Rs 121 billion in FY 2017-18. The quarterly cash grant enhanced from Rs 3000/- per family in FY 2012-13 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 a range of development interventions at the grassroots/community level through a network of its Partner Organizations (POs) in 130 districts across the country. During July to December, 2017, PPAF has disbursed Rs 780 million to its Partner Organizations (POs) under PPAF core interventions administered under various PPAF operational units.

In addition to other programme such as Pakistan Bait-ul-Mal (PBM), Pakistan Poverty Alleviation Fund and Zakat playing an important role in poverty alleviation along with Employees Old Age Benefits (EOBI) which provides monetary benefits to the old age worker as well Micro Finance Initiatives is helping poor in building their income generating capacities and providing social services such as health and education, food security and access to basic necessities of life.

Climate Change

Pakistan like other countries have environmental challenges. Pakistan has experienced several adverse climate impacts over the years and adaptation to these impacts is necessary for socio-economic development. Ministry of Climate Change has taken many initiatives in the area of climate change adaptation and mitigation in accordance with National Policy. Climate change mitigation strategies are also being implemented at national level in terms of promotion of environment friendly renewable energy, and use of energy efficient appliances. According to Pakistan's Intended National Determined Contributions (INDC) the country's adaptation need is US $7 to US $14 billion per annum.

To mitigate the impact of climate change, 100 million trees have been planned around the country in five years under the Green Pakistan Programme. The Green Pakistan Programme has three major components i.e. revival of forestry resource of Pakistan, revival of wildlife resources in Pakistan and strengthening of the Zoological Survey of Pakistan.

The Climate Change Financing Framework (CCFF) launched by Ministry of Climate Change identifies different entry points for the mainstreaming of climate change into planning and budgeting processes, including in MTBF. Full implementation of the CCFF would enable the federal government to produce efficient, transparent and timely reports on budgetary allocations for climate change related projects and actual utilization of funds against the allocations.