Overview of the Economy

The macroeconomic stability is a fundamental pre-requisite for sustained economic growth. Pakistan's economy has experienced frequent boom and bust cycles. Typically, each cycle comprised of 3-4 years of relatively higher growth followed by a macroeconomic crisis which necessitated the stabilization programs. The inability to achieve sustained and rapid economic growth is due to structural issues which require effective monetary and fiscal measures to achieve macroeconomic stability.

The outgoing five-year plan has seen an average growth of 4.7 percent against the target of 5.4 percent. This growth can be characterized as a consumption led growth. The unplanned borrowing from different sources increased both private and public consumption resulting in higher debt repayment liabilities, which created severe macroeconomic imbalances. The investment did not pick up as higher demand was met primarily through imports leading to enormous rise in external imbalances. Due to low growth in revenues and the unplanned and unproductive expenditures, the fiscal deficit widened. The persistence of large fiscal and current account deficits and associated build up of public and external debt became the major source of macroeconomic imbalance.

The new elected government faces formidable macroeconomic challenges. The foremost challenge to the economy is the rising aggregate demand without corresponding resources to support it, leading to rising fiscal and external account deficits. To address the issue of severe macroeconomic instability and to put the economy on the path of sustained growth and stability, the government has introduced a comprehensive set of economic and structural reform measures.

As a short-term measure to get a breathing space, the government secured $ 9.2 billion from friendly countries to build up buffers and to ensure timely repayment of previous loans. The government has also taken some overdue tough decisions i.e. increase in energy tariffs to stop further accumulation of circular debt, reduction in imports through regulatory duties and withdrawal of some of the tax relaxations given in the last budget in order to arrest the deterioration in primary balance. These painful decisions were tough for the new elected government, but at the same time were necessary for economic stabilization. Recently, staff level agreement has been negotiated with the IMF to avail Extended Fund Facility for achieving macroeconomic stability. The staff level agreement will now be placed before the IMF Board for its approval.

The impact of macroeconomic adjustment policies, such as monetary tightening, exchange rate adjustment, expenditure control and enhancement of regulatory duties on non-essential imports, started to become visible this year. These steps have served to bring some degree of stability and have also helped in reducing economic uncertainty. However, the situation calls for sustained efforts.

The outgoing fiscal year 2018-19 witnessed a muted growth of 3.29 percent against the ambitious target of 6.2 percent. The target was based upon sectoral growth projections for agriculture, industry, and services at 3.8 percent, 7.6 percent and 6.5 percent respectively. The actual sectoral growth turned out to be 0.85 percent for agriculture, 1.4 percent for industry and 4.7 percent for services.

Some of the major crops witnessed negative growth as production of cotton, rice and sugarcane declined by 17.5 percent, 3.3 percent and 19.4 percent respectively. The crops showing positive growth include wheat and maize which grew at the rate of 0.5 percent and 6.9 percent respectively. Other crops have shown growth of 1.95 percent mainly due to increase in production of pulses and oil seeds. Cotton ginning declined by 12.74 percent due to a decline in production of cotton crop. Livestock sector has shown a growth of 4.0 percent. The growth recorded for the forestry is 6.47 percent which was mainly due to increase in production of timber in Khyber Pakhtunkhwa ranging from 26.7 to 36.1 thousand cubic meters.

The growth in industrial sector has been estimated at 1.40 percent. The mining and quarrying sector has witnessed a negative growth of 1.96 percent mainly due to reduction in production of natural gas (-1.98 percent) and coal (-25.4 percent). The large-scale manufacturing sector as per QIM data (from July 2017 to February 2018) shows a decline of 2.06 percent. Major decline has been observed in Textile (-0.27 percent), Food, Beverage & Tobacco (-1.55 percent), Coke & Petroleum Products (-5.50 percent), Pharmaceuticals (-8.67 percent), Chemicals (-3.92 percent), Non-Metallic Mineral Products (-3.87 percent), Automobiles (-6.11 percent) and Iron & Steel products (-10.26). On the other hand, the substantial growth in LSM has been observed in Electronics (34.63 percent) Engineering Products (8.63 percent) and Wood Products (17.84 percent). Electricity and gas sub sector has grown by 40.54 percent, whereas the construction activity has declined by 7.57 percent.

The services sector has shown an overall growth of 4.71 percent. Wholesale and Retail Trade grew by 3.11 percent, while the Transport, Storage and Communication sector registered a growth of 3.34 percent mainly due to positive contribution by railways (38.93 percent), air transport (3.38 percent) and road transport (3.85 percent). Finance and insurance sector showed an overall growth of 5.14 percent. While the central banking has declined by 12.5 percent, a positive growth has been observed in scheduled banks (5.3 percent), non-scheduled banks (24.6 percent) and insurance activities (12.8 percent). The Housing Services has grown at 4.0 percent. The growth recorded in General Government Services is 7.99 percent which is mainly on account of increase in salaries of employees of federal, provincial and district governments. Other private services, comprising of various distinct activities such as computer related activities, education, health & social work, NGOs etc recorded a growth of 7.05 percent.

The total investments as a percentage of GDP was recorded at 15.4 percent against the target of 17.2 percent. The fixed investment as percentage of GDP remained 13.8 percent against the target of 15.6 percent, while public and private investments remained at 4.0 and 9.8 percent against the target of 4.8 and 10.8 percent respectively. The National Savings remained at 10.7 percent of GDP against the target of 13.1 percent. The consumption growth was recorded at 11.9 percent compared to 10.2 percent growth recorded last year. As percentage of GDP, it increased to 94.8 percent compared to last year's figure of 94.2 percent.

On the demand side, the exports declined by 1.9 percent despite exchange rate depreciation, while imports declined by 4.9 percent. This helped in reducing the trade deficit by 7.3 percent during July-April FY 2019 while it had shown an expansion of 24.3 percent during the corresponding period of last year. The workers' remittances played a major role in containing current account deficit to 4.03 percent of GDP. The CAD showed a contraction of 27 percent during July-April of the current year while it had expanded by 70 percent during the corresponding period of last year. The State Bank is following a contractionary policy to anchor the aggregate demand and address rising inflation on the back of high fiscal and current account deficits.

The next year, agriculture sector is likely to rebound under Prime Minister's Agriculture Emergency Program. The water availability is expected to be better as compared to current year. There is substantial increase in Agriculture Credit disbursement which is recorded at Rs. 805 billion during July-April FY2019 compared to Rs.666.2 billion during the corresponding period of last year, posting a growth of 20.8 percent. The import of agriculture machinery has recorded a growth of 10.95 during July-April FY2019 which is a good indicator. The base effect will also support growth in agriculture.

The Large-Scale Manufacturing sector which posted a negative growth this year is likely to rebound on the back of expected growth in agriculture sector along with government initiatives in the construction sector, SMEs sector and tourism and automobile sector. Both, agriculture and LSM sector growth is likely to have a good impact on services sector on account of goods transport services linked to agriculture and wholesale trade.

The fiscal tightening and the rising inflation on account of increasing utility prices, rationalization of taxes, measures to reduce the primary balance, and any further exchange rate adjustments, alongwith higher oil prices, protectionists tendencies in some of the economies and tightening monetary conditions in the developed countries leading to lower capital inflows will remain downside risk.

Global Economic Environment

After witnessing a strong growth in 2017 at 4.0 percent, the global economic activity slowed during the second half of 2018 to 3.6 percent while it is expected to reduce further to 3.3 percent in 2019. The slowdown in economic activity is attributed to multiple factors, including rising trade tensions and tariff hikes between the United States and China, which is the biggest risk to financial stability in Eurozone. In contrast, some developing economies could be benefitting from this trade diversion as prices of these targeted goods may rise in US and China. This tariff battle between USA and China is estimated to have affected almost 2.5 percent of global trade. Germany’s unemployment rate has shown an increase for the first time since 2013 amid signs of slowing growth in Europe’s biggest economy. Uncertainty created by Brexit has led to decline in business confidence and has further contributed towards slowing of growth in Euro zone.

In response to the growing global risks to the economy, the US Federal Reserve has adopted a more accommodative monetary policy stance. Similarly, other central banks around the world like the European Central Bank, the Bank of Japan and the Bank of England have also moved to adopt a more accommodative stance while China has ramped up its fiscal and monetary stimulus to cope with the negative effect of trade tariffs. Resultantly, the tightening of financial conditions has reversed across countries. Likewise, emerging markets have witnessed resumption in portfolio flows, a decline in sovereign borrowing costs, and a strengthening of their currencies relative to the dollar.

As the growth is likely to improve during the second half of 2019, it is projected to return to 3.6 percent in 2020. The projected improvement in global economic growth during the second half of 2019 is expected on account of gradual recovery and stabilization in Argentina and Turkey alongwith some other stressed emerging economies, current build-up of policy stimulus in China and improvement in global financial sentiments

The growth beyond 2020 is predicted to stabilize, mainly supported by growth in China and India. However, the growth in advanced economies will continue to slow down on account of factors such as the fading of the impact of US fiscal stimulus, ageing trends and low productivity growth. On the other hand, the growth in emerging markets and developing economies is expected to stabilize at around 5 percent, though with substantial variation between countries.

According to World Economic Outlook (WEO) April (2019), the baseline outlook for emerging Asia remains favourable, with China’s growth projected to slow gradually toward sustainable levels and convergence in frontier economies toward higher income levels. For other regions, the outlook is complicated by a combination of structural bottlenecks, slower advanced economy growth and, in some cases, high debt and tighter financial conditions. These factors, alongside subdued commodity prices and civil conflict in some cases, contributed to subdued medium-term prospects for Latin America; the Middle East, North Africa, and Pakistan region; and parts of sub-Saharan Africa.

EXECUTIVE SUMMARY

Growth and Investment

The provisional GDP growth rate for FY2019 is estimated at 3.29 percent on the basis of 0.85, 1.40 and 4.71 percent growth in agricultural, industrial and services sectors respectively.

Agriculture: The provisional agriculture sector growth is estimated at 0.85 percent. The crops sector has witnessed negative growth of 4.4 percent during FY2019 mainly due to negative growth (-6.6 percent) of important crops. Production of cotton, rice and sugarcane declined by 17.5, 3.3, and 19.4 percent, respectively, while the wheat output posted a marginal growth of 0.5 percent and production of maize grew by 6.9 percent. Other crops have shown growth of 1.95 percent mainly because of increase in production of pulses and oil seeds. Decrease in production of cotton crop also caused decline in cotton ginning by 12.7 percent. Livestock sector has shown a growth of 4.0 percent while the growth of forestry remained at 6.47 percent due to increase in production of timber in Khyber Pakhtunkhwa in the range of 26.7 to 36.1 thousand cubic meters.

Industry: During FY2019, the provisional growth in industrial sector has been estimated at only 1.40 percent mainly due to decline by 2.06 percent in large scale manufacturing sector and by 1.96 percent in mining and quarrying sector.

Services: Provisional estimates have shown that the services sector posted a growth of 4.71 percent. Wholesale and Retail Trade sector grew at a rate of 3.11 percent. As value added in this sector depends upon output of agriculture and manufacturing sectors and volume of imports, it is safe to say that bulk of growth in wholesale and retail sector could be attributed to increase in volume of imports and the growth in livestock. Transport, Storage and Communication sector has registered a growth of 3.34 percent due to positive contribution of railways (38.93 percent), air transport (3.38 percent) and road transport (3.85 percent). Finance and insurance sector showed an overall growth of 5.14 percent, despite a decline (of 12.5 percent) in value add of the central bank. The scheduled banks, non-scheduled banks and insurance sub-sector posted positive growth (5.3 percent, 24.6 percent and 12.8 percent respectively). The Housing Services grew by 4.0 percent and the General Government Services by 7.99 percent. It is mainly driven by the increase in salaries of federal, provincial and district governments. Other private services, which is composed of various distinct activities such as computer related activities, event management, education, health & social work, NGOs etc. has contributed positive growth of 7.05 percent.

Investment: The provisional estimates of Gross Fixed Capital Formation (GFCF) for the year FY2019 stands at Rs.5340.0 billion with a growth of 1.9 percent as compared to FY2019.

In private sector, the GFCF is estimated at Rs.3796.1 billion during FY2019 against Rs.3564.0 billion in FY2018 with an increase of 6.5 percent, while in Public Sector GFCF posted a growth of 9.8 percent as it is estimated at Rs.345.3 billion during FY2019 against Rs.314.6 billion during FY2018.

The provisional overall GFCF for general government services for FY2019 has been estimated at Rs.1198.5 billion, a decline of 12 percent over the revised estimates of Rs.1362.3 billion during FY2018. GFCF related expenditure for the federal government has been estimated at Rs.419.8 billion with growth of 15.6 percent over previous year's estimates of Rs.362.3 billion. However, GFCF related expenditure by provincial governments has declined by 29.2 percent from Rs.909.1 billion to Rs.643.8 billion. However, expenditure on GFCF incurred by district governments has increased by 48.4 percent from Rs.90.9 billion to Rs.135.0 billion. During FY 2019, per capita income stood at $1,497.3.

Saving-Investment Gap: The State bank of Pakistan has made a sizeable adjustment in the interest and exchange rates to contain the aggregate demand and ease the pressure on the balance of payments. These efforts helped in reducing Saving-Investment gap, which has been contracted by 27 percent during July-April FY 2019 compared to 70 percent expansion during same period last year. It happened mainly because, trade deficit declined by 7 percent primarily due to containment in imports while last year it had recorded 23 percent growth. Imports declined by 5 percent while workers' remittances posted a growth of 9 percent during the period under discussion

The present government has undertaken significant measures to curb aggregate demand that has compounded the size of external current account deficit to an unprecedented level. During FY2019, the economy experienced partial adjustments due to inertia as is evident from a high consumption to GDP ratio and a large fiscal deficit. However, after entering IMF's Extended Fund Facility (EFF), market confidence will improve. Moreover, the chances of getting additional financial support from other development and bilateral partners will also increase. These developments will help in increasing the macroeconomic stability and will set the path for high and inclusive growth.

Agriculture

The performance of Agriculture during 2018-19 remained subdued. It grew by only 0.85 percent against the target of 3.8 percent. The under-performance of agriculture sector hinged upon reduction in the area of cultivation, lower water availability and drop in fertilizer off take. The crops sector has witnessed negative growth of 4.43 percent against the target 3.6 percent on the back of decline in growth of important crops by (-6.55) percent. Sugarcane production declined by (-19.4) percent to 67.174 million tons, Cotton (-17.5 percent) to 9.861 million bales and Rice (-3.3 percent) to 7.202 million tonnes while production of Maize crop increased by 6.9 percent to 6.309 million tonnes and production of wheat crop marginally increased by 0.5 percent to 25.195 million tonnes. Other crops having share of 11.21 percent in agriculture value addition and 2.08 percent in GDP, showed growth of 1.95 mainly due to increase in production of pulses and oilseeds. Cotton ginning declined by 12.74 percent due to decrease in production of cotton crop.

Livestock having share of 60.54 percent in agriculture and 11.22 percent in GDP, recorded the growth at 4.0 percent against the target of 3.8 percent.

The Fishing and Forestry sector having share of 2.10 percent each in agriculture value addition grew by 0.79 and 6.47 percent, respectively. The strong growth in forestry is due to increase in timber production in Khyber Pakhtunkhwa in the range of 26.7 to 36.1 thousand cubic meters.

The gram production increased by 35.6 percent on account of higher yield due to favourable weather condition prevalent at the time of sowing. The production of Bajra increased by 3.2 percent. The production of Barley, Rapeseed & Mustard and Tobacco remained constant while the production of Jowar witnessed a decline of 2.6 percent.

The production of Onion and Chillies witnessed increase of 2.0 percent to 2.12 thousand tonnes and 0.4 percent to 148.7 thousand tonnes respectively, as compared to production of last year. However, the production of pulse Mash (Lentil), Moong and Potato decreased by 5.5 percent, 3.4 percent and 0.3 percent, respectively compared to last year's production. While the production of Masoor pulse remained the same as last year's production.

The total availability of water for the Kharif crops 2018 recorded 59.6 Million Acre Feet (MAF), which means it remained short by 11.2 percent against the average system usage of 67.1 MAF and by 14.9 percent as compared to Kharif 2017. During Rabi season 2018-19, the total water availability was recorded at 24.8 MAF showing an increase of 2.5 percent over Rabi 2017-18 and a decline of 31.9 percent from the normal availability of 36.4 MAF.

The domestic production of fertilizers during 2018-19 (July-March) increased by 2.6 per cent over the same period of previous year. This increase is due to functioning of two urea manufacturing plants (Agritech& Fatima Fertilizer) as supply of LNG was available on subsidized rates. The imported fertilizer increased by 4.8 percent. Therefore, total availability of fertilizer increased by 3.2 percent during current fiscal year. Total off take of fertilizer nutrients decreased by 7.3 percent. Nitrogen off take decreased by 2.89 percent and phosphate by 18.2 percent. Potash off take recorded an increase of 4.55 percent during 2018-19 (July-March). Reduction in fertilizers off take was due to its high prices.

In line with government's priority for agriculture sector development, Agricultural Credit Advisory Committee (ACAC) has set the indicative agricultural credit disbursement targets at Rs 1,250 billion for FY 2018-19 to 50 agriculture lending institutions including 19 commercial banks, 2 specialized banks, 5 Islamic banks, 11 microfinance banks and 13 microfinance institutions/rural support programs (MFIs/RSPs).

During FY 2018-19 (July- March), the agriculture lending institutions have disbursed Rs. 805 billion which is 64.4 percent of the overall annual target of Rs. 1,250 billion and 20.8 percent higher than the disbursement of Rs. 666.2 billion made during corresponding period of last year. The outstanding portfolio of agriculture loans has increased by 15.5 percent to Rs. 70.7 billion by end March, 2019. Further, the agriculture outreach in terms of total borrowers has increased to 4.0 million, showing a rise of 8.2 percent over 3.72 million borrowers as of end June, 2018.

Manufacturing & Mining:

The Large-Scale Manufacturing (LSM) declined by 2.93 percent during July-March FY 2019 in contrast to growth of 6.33 percent during the same period last year. The target for this year was 8.1 percent. The present trend suggests that full year LSM growth will remain below the target by a wide margin. Year on Year (YoY), LSM growth witnessed sharp decline of 10.63 percent in March 2019 as compared to increase of 4.70 percent in March 2018.

There are a number of factors which have contributed to the negative growth in LSM. These include lower PSDP expenditures compared to last year, muted private sector construction activities and lower consumer spending on durable goods amongst others. This was more noticeable in construction-allied industries. Demand for housing moderated as the price of building materials and cost of financing increased. Moreover, additional tax measures further restricted the real estate market. Certain sector-specific issues also contributed to the decline in LSM. Automobile prices witnessed multiple upward revisions due to PKR depreciation which made the potential buyers refrain from making booking and purchases. Certain restrictions on non-filers with respect to purchase of cars further dampened the automobile demand. Pharmaceuticals also suffered due to a considerable lag in regulatory adjustments in prices. This pricing issue was in addition to weakening of the local currency, which added to the distress of an import dependent sector.

The industry specific data shows that electronics recorded highest growth of 23.70 percent, wood products 15.21 percent, rubber products 3.47 percent, engineering products 9.54 percent, leather products 0.97 percent and fertilizers 4.50 percent. The industries which recorded negative growth during the period are; Iron & Steel 11.00 percent, Pharmaceuticals 8.40 percent, Automobile 7.58 percent, Coke & Petroleum products 6.00 percent, Food Beverages & Tobacco 4.69 percent, Chemicals 3.94 percent, Paper & Board 3.86 percent, Non-metallic mineral product 4.96 percent and Textile 0.30 percent.

The Mining and Quarrying sector declined by 1.96 percent during Jul-Feb FY 2019 in contrast to the growth of 7.7 percent during the same period last year. Chromite, Magnesite, Rock salt, Barytes, Ocher and Crude oil posted a positive growth of 228.69 percent, 159.63 percent, 12.65 percent, 22.15 percent, 19.12 percent and 0.47 percent respectively. However, some minerals witnessed negative growth during the period under review such as Coal 25.42 percent, Natural gas 1.98 percent, Sulphur 40.72 percent, Calcite 91.49 percent, Soap stone 13.12 percent, Marble 4.66 percent and Bauxite 30.82 percent

Fiscal Development

In Pakistan, fiscal sector has faced multifaceted challenges over the years due to excessive and unproductive expenditures on one hand and lower tax revenues on the other. Generally, higher current expenditures and lower tax revenues left limited fiscal space for public investment and social safety net. Furthermore, high interest payments, untargeted subsidies, loss making PSEs, energy subsidies and security related issues all weighed on expanding fiscal deficit.

During the last five years, total revenue as percent of GDP on average reached to 14.9 percent, whereas it stood at 15.1 percent in FY2018. The total expenditures as percent of GDP on average reached to 20.5 percent, while during the preceding year FY2018, it was the highest at 21.6 percent. Resultantly, fiscal deficit on average stood at 5.5 percent, while during the last year it was recorded at 6.5 percent.

During first nine months (July- March) CFY2019, consolidated fiscal indicators suggest that total revenue registered zero growth, while growth in total expenditures was 8.7 percent. Therefore, fiscal deficit as percent of GDP was 5.0 percent as compared 4.3 percent during the corresponding period of last year.

Total revenue increased to Rs 3,583.7 billion (9.3 percent of GDP) from Rs 3,582.4 billion (10.3 percent of GDP) during the comparable period of last year, showing almost zero growth in comparison of growth of 13.9 percent during the same period last year. Decelerated performance of total revenues primarily was due to marginal growth of 1.8 percent in tax revenues and negative growth of 16.7 percent in non-tax revenues.

During the period Jul-Apr, FY2019 FBR tax receipts remained at Rs 2,976.0 billion against Rs 2,922.5 billion during the same period of FY2018, registering a growth of 1.8 percent. Actual tax collection during first ten months of CFY remained at 67.7 percent of revised target of Rs 4,398 billion.

Total expenditures increased to Rs 5,506.2 billion (14.3 percent of GDP) during first nine months of CFY compared with Rs 5,063.3 billion (14.6 percent of GDP) during the comparable period of last year, registering a growth of 8.7 percent during Jul-Mar, FY2019 against the growth of 15.5 percent in the same period last year.

Within total expenditures, current expenditures posted a growth of 17.7 percent to Rs 4,798.4 billion (12.4 percent of GDP) during Jul-Mar, FY2019 compared to Rs 4,075.4 billion (11.8 percent of GDP) in the same period last year. Federal and provincial governments' current expenditures grew by 19.9 and 13.7 percent, respectively during the period under review.

In contrast, development expenditures (excluding net lending) decreased to Rs 655.9 billion during Jul-Mar FY2019 compared to Rs 993.3 billion last year, posting a negative growth of 34.0 percent compared with positive growth of 23.6 percent recorded last year. PSDP share in total development expenditure stood at 88 percent during first nine months of CFY amounting to Rs 578.5 billion compared with Rs 931.4 billion expenditure during the same period last year, witnessing a decline of 37.9 percent compared with growth of 24.7 percent recorded last year. Within PSDP, federal and provincial PSDP's decreased by 14.5 and 52.2 percent respectively during Jul-Mar, FY2019 over the same period of last year.

Total revenues of provincial governments increased by 1.5 percent during Jul-Mar, FY2019, whereas total expenditures declined by 5.2 percent. As a result, overall provincial surplus increased to Rs 291.6 billion as compared to Rs 191.05 billion during the same period last year. For FY2019, provincial surplus target is budgeted at Rs 285.6 billion.

Money and Credit

Twin deficits on fiscal and external front, emerging inflationary pressure and high aggregate demand has posed challenges for the economy towards the end of FY2018. Resultantly, SBP reversed its policy stance since January 2018 from accommodative to contractionary monetary policy to curb excessive aggregate demand and ensure near term stability. Policy rate has gradually increased by cumulative 650 bps. The policy rate stands at 12.25 percent effective from 21st May, 2019.

During the period 01 July-26 April, FY2019 money supply (M2) increased by Rs 625.3 billion (growth of 3.9 percent) compared with Rs 601.8 billion (growth of 4.1 percent) in comparable period last year. Within Broad Money, NFA of the banking sector further contracted to Rs 882.4 billion during 01 July-26 April, FY2019 against contraction of Rs 475.4 billion during the comparable period last year. Therefore, both SBA and scheduled bank's NFA remained negative during the period under review. During the period 01 July-26 April, FY2019 NDA of the banking sector registered an expansion of Rs 1,507.7 billion (growth of 9.3 percent) compared with Rs 1,077.2 billion (7.7 percent) during the same period last year.

On the other hand, reserve money posted an expansion of Rs 488.0 billion (growth of 8.9 percent) during 01 July-26 April, FY2019 against Rs 260.5 billion (growth of 5.4 percent) last year. Credit to Public Sector Enterprises (PSEs) increased to Rs 312.1 billion during the period 01 July-26 April, FY2019 against Rs 153.2 billion during the same period last year.

During 01 July-26 April, FY2019 government borrowed Rs 1,073.0 billion for budgetary support compared to Rs 850.0 billion in the same period last year, of which, government has borrowed Rs 3,204.7 billion from SBP as compared to Rs 1,316.1 billion last year. On the other hand, government retired Rs 2,131.7 billion to scheduled banks against retirement of Rs 466.1 billion during the same period last year. Net government sector borrowing thus remained at Rs 908.0 billion during the period under review compared with Rs 813.6 billion during the corresponding period last year.

During the period 01 July-26 April, FY2019, flows of private sector credit has been recorded at Rs 580.9 billion compared with Rs 498.5 billion during the same period last year, witnessing Year on Year (YoY) growth of 15.1 percent against a growth of 14.7 percent during the same period last year. During July-March, FY2019 working capital credit demand increased to Rs 369.0 billion against Rs 215.3 billion in the same period last year. Credit demand for fixed investment decelerated to Rs 83.1 billion during July-March FY2019 compared to Rs 148.1 billion during the same period last year.

Prudent risk-based regulations have also helped the banking sector to maintain a strong solvency profile. Capital Adequacy Ratio (CAR) improved to 16.2 percent as of end December-2018; well above the minimum required level of 11.90 percent and global benchmark of 10.5 percent.

Capital markets & Corporate Sector

Capital market in Pakistan plays a crucial role in mobilizing domestic resources and channeling them to productive uses; however, its performance remained volatile during the period under discussion. Many factors contributed to its volatility.

The PSX index has increased from 33,229 points as on January 1, 2016, to 38,649 as on March 31, 2019, a rise of 16 percent. At the start of FY2019, the market gained some momentum, reaching

43,557 points on July 30, 2018, after which it started moving down, reaching period's lowest index at 36,663 points on October 16, 2018.

The financial measures introduced through Finance Bill in January 2019 gave some respite to the market and the index saw rising trend for some period. However, it has remained volatile during the period under review and closed at 38,649 points on March 31, 2019, while the market capitalization was Rs.7,868.6 billion.

The average daily value traded (T+2) during the first nine months of FY 2019 was Rs. 7.2 billion and the average daily turnover was 170 million shares. The average daily trade value in futures was Rs. 2.9 billion and the trading volume was 71 million shares during the period. The foreign investors offloaded securities worth US$ 373 million which was absorbed by domestic investors, Banks/DFIs, companies and insurance companies. The strong buying by local investors has shown the confidence of the investors in Pakistan equity market. Going forward it is expected that the market will move in upward trajectory.

In order to provide short-term stimulus to the stock market and arrest its downward trend, the Economic Coordination Committee of the Cabinet Division authorized the government to issue sovereign guarantee amounting to Rs. 20 billion for investment in National Investment Trust (NIT)-State Enterprise Fund. This step would increase liquidity in the PSX and would woo investors to divert more investment in the market.

As of March 31, 2019, 120 corporate debt securities were outstanding with an amount of Rs.888.24 billion. These nine months saw 10,865 new companies getting registered with the SECP, a growth of 30 percent from the corresponding period of last financial year.

Assets under management of the mutual funds stood at Rs. 635.90 billion. Equity Funds dominated the industry with the largest share i.e. 37.75 percent of the mutual fund industry. Money Market held the second largest industry share i.e. 36.93 percent, followed by Income Funds with industry share of 17.50 percent as of March 31, 2019,

The SECP has taken additional measures in this fiscal year to address potential threat of money laundering and terrorist financing within its regulated entities and maintained integrity of the financial markets, including framing of SECP Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) Regulations 2018, amendment in Securities Brokers (Licensing and Operations) Regulations 2016 by introducing pre-condition that ultimate beneficial owners of securities broker should not have been convicted in any predicate offences provided under Anti-Money Laundering Act 2010 or the Anti- Terrorist Act 1997, and organizing fifteen awareness sessions on AML/CFT regulatory framework.

Inflation

The CPI has witnessed a rising trend during the current financial year. It increased to 5.8 percent in July 2018 and after remaining sticky at 5 percent during following two months increased to 6.8 percent in October 2018. The spike witnessed in October 2018 was due to increase in gas prices. The Oil and Gas Regulatory Authority revised the retail prices of natural gas for various consumers after keeping them unchanged for about two years. The substantial increase of 9.4 percent was witnessed in March 2019 while in April 2019 it was recorded at 8.8 percent.

During July-April FY2019 headline inflation measured by CPI averaged at 7.00 percent against 3.77 percent during corresponding period of last year on the back of the prevalence of some underlying demand in the economy as well as continued pass through of exchange rate depreciation and higher fuel prices.

The other inflationary indicators like Sensitive Price Indicator (SPI) remained at 4.0 percent during Jul-April FY 2019 against the 0.8 percent during the corresponding period last year. Wholesale Price Index (WPI) was recorded at 11.7 percent in July-April FY 2019 compared to 2.8 percent in corresponding period of FY 2018.

Core inflation which is Non Food and Non Energy is recorded at 8.1 percent compared to 5.6 percent of corresponding period of FY 2018.

The rising input costs on the back of high utility prices and the lagged impact of exchange rate depreciation is likely to maintain upward pressure on inflation during the remaining period of current fiscal year. The impact will be more visible on non food prices while the food prices are likely to remain stable due to effective monitoring of prices and smooth supply of essential commodities by the federal and provincial governments.

Trade and Payments

The export target for FY2019 was set at US$ 28 billion. Exports registered a decline of 1.9 percent growth during July-April FY2019. Exports during July-April FY2019 reached to US$ 20.09 billion as compared to US$ 20.48 in July-April FY2018. Import target for FY2019 was set to US$ 56.5 billion. Imports stood at US$ 44.03 billion in July-April FY2019 as compared to US$ 46.30 billion in the same period last year showing a decline of 4.9 percent. The reduction in imports is due to decrease in imports of furnace oil, machinery & electric equipment, palm oil, colza seeds and textiles.

Trade account especially services trade presented a positive picture in FY2019. Goods Trade balance contracted by 7.3 percent during Jul-Apr FY2019 to US$ 23.93 billion as compared to US$ 25.81 billion in the corresponding period last year. On the other hand, services sector remained on positive trajectory throughout FY2019. Major shift in current account balance also came from services sector which shrunk by 36.18 percent to US$ 3.217 billion during Jul-Apr FY2019 as compared US$ 5.04 billion in the same period last year.

Pakistan's current account deficit outlook remains positive throughout FY2019. Current account deficit reached to US$ 11.586 billion in Jul-April FY2019 as compared to US$ 15.864 billion in the same period last year and showed a contraction of 26.9 percent. While last year during the same period it widened by 69.6 percent during July-April FY2018. However, month on month it increased to US$ 1241 million in April FY2019 as compared to US$ 871 million in March FY2019. Decreasing exports and low remittances, specifically from EU and UAE, pushed up CAB in the month of April FY2019.

The remittances registered a significant growth of 8.45 percent during July-April FY 2019 as compared to 5.36 percent last year, and reached to US$ 17.875 billion during first ten months of current fiscal year against US$ 16.482 billion during the same period last year. On the back of initiatives taken by the government and the trend observed, it is expected that target of US$ 21.2 billion for FY 2019 is likely to be achieved.

Foreign investment remained low during Jul-Apr FY2019. It dropped by 51.7 percent in July-April FY2019 to US $ 1.376 billion as compared to US $ 2.849 billion in July-April FY2018. FDI from China remained at 31.2 percent of overall inflows as compare to 60.5 percent in the preceding year. However, China continued to dominate direct investment followed by UK and Hongkong. A considerable decline in investment from Malaysia has been observed in this period.

Foreign portfolio investment account witnessed an outflow of US$ 1.27 billion in July-April FY2019 as compared to US$ 2.352 billion inflows in the same period last year. Eurobond and Sukuk bonds in

December 2017 worth of US$ 2.5 billion were the main reason of the hump in FPI last year. However, amid decline in foreign investment, external financing from bilateral sources were quite helpful**.**

Meanwhile, Pakistan has also improved its position on ease of doing business index and jumped to 136th position as compared to 147th position last year out of total 190 economies. This will surely attract foreign investors and will boost FDI.

Although the higher import bills and debt repayments led to depletion of FR reserves. Yet it was stabilized with the help of monetary inflows from friendly countries. Pakistan had received US$ 9.2 billion as a financial support from China, Saudi Arabia and UAE between July 1, 2018 and end-March 2019. Foreign exchange reserves stood at US$ 15.722 billion till end-April FY2019. This was below than the total reserves of US$ 17.519 billion of the same period last year. Out of this SBP reserves were US$ 8.781 billion, where reserves held with commercial banks were US$ 6.941 billion.

The PKR also remained under pressure during the year, as despite the decline in the current account gap, it stayed at a high level. Responding to the resulting payment pressures, the PKR depreciated by 14.1 percent against the US Dollar between July 1, 2018 and April 22, 2019.

Public Debt

Total public debt stood at Rs 28,607 billion at end of March 2019, recording an increase of Rs 3,655 billion during the first nine months of current fiscal year. The bifurcation of this increase is as follows:

The cumulative increase in debt stock cannot be entirely attributed to the borrowing of the government. External loans are contracted in various currencies; however, disbursements are effectively converted into Pak Rupee. Thus, devaluation of Pak Rupee against international currencies can increase the value of external public debt portfolio when converted into Pak Rupee for reporting purposes. This is evident from the fact that increase in external public debt contributed Rs.1,900 billion to the public debt during first nine months of ongoing fiscal year while government borrowing for financing of fiscal deficit from external sources was Rs.524 billion during the said period. This differential was mainly on account of depreciation of Pak Rupee against US Dollar. It is worth noting that depreciation of Pak Rupee increases the rupee value of external public debt, however, any such negative impact is spread over many years depending on the life of any given loan and immediate cash flow impact is not significant.

The domestic debt registered an increase of Rs.1,754 billion while government borrowing for financing of fiscal deficit from domestic sources was Rs.1,398 billion. This differential is mainly attributed to an increase in credit balances of the government with the banking system.

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

Government introduced Pakistan Banao Certificates (PBC) which is a US Dollar denominated retail level instrument, for Pakistanis having bank accounts overseas. PBC is the first sovereign retail instrument being offered by Government of Pakistan that allows overseas Pakistanis to contribute towards their country’s development while providing attractive investment opportunity.

Borrowing from commercial sources have relatively increased during the last few years, however, external public debt still largely comprises multilateral and bilateral sources which cumulatively constituted 78 percent of external public debt portfolio at end March 2019. These multilateral and bilateral loans are contracted at concessional terms.

Government has taken various measures to transform Central Directorate of National Savings from merely a retail debt raising arm of the government to an effective vehicle for financial inclusion. Initiatives are being taken to introduce Sharia Products, Overseas Pakistanis Savings Certificates, Rs.100,000 Premium Prize Bonds, Scrip-less Issuances, Registered Prize Bonds, Debit Cards & Membership of 1-Link System.

In accordance with the Medium Term Debt Management Strategy (2015/16-2018/19), at end June 2018, three of the nine thresholds were breached by a range varying from 0.5 percent to 1.6 percent. The upper range for the risk indicator "Domestic Debt Maturing within a Year" was 65 percent while this indicator at end June 2018 was recorded at 66.3 percent. The banks opted to tilt their portfolio towards short term market treasury bills as expectation of a further rise in policy rate discouraged them to invest in long-term debt instruments, largely to manage market risk. The upper range for "Domestic Debt Re-Fixing in 1 Year" and "Public Debt Re-Fixing in 1 Year" was envisaged at 65 percent and 55 percent respectively, while these indicators stood at 66.6 percent and 55.5 percent respectively at end June 2018. Short term external public debt maturities were 80.6 percent of official liquid reserves at end June 2018 compared with 68.5 percent at end June 2013.

During first nine month of current fiscal year, EDL recorded an increase of US$ 10.6 billion to stand at US$ 105.8 billion at end March 2019 out of which public debt was US$ 74.2 billion. External public debt increased by around US$ 3.9 billion during first nine months of current fiscal year compared with the increase of US$ 6.7 billion witnessed during the same period last year.

Government is committed to achieve the targets outlined in Fiscal Responsibility and Debt Limitation Act, 2005. Over the medium term, Government's objective is to bring and maintain its Public Debt-to-GDP and Debt Service-to-Revenue ratios to sustainable levels through a combination of greater revenue mobilization, rationalization of current expenditure and efficient and productive utilization of debt.

Education

To achieve the Goal 4 of SDGs, the federal government is committed to work with provinces for allocation of more resources for education, decrease the number of out of school children (OOSC), reduce the dropout rates, bring uniformity in education standards and enhance access to vocational and skills training.

The country wide school enrolments during 2017-18 were recorded at 50.616 million compared to 48.062 million during 2016-17. It improved by 5.31 percent and it is estimated to further increase by 4.8 percent to 53.032 million during 2018-19. The total numbers of the educational institutes were recorded at 260.6 thousand during 2017-18 as compared to 260.1 thousand during 2016-17. This number is estimated to increase by 1.60 percent to 264.7 thousand during 2018-19. The total numbers of teachers during 2017-18 were 1.753 million compared to 1.726 million during 2016-17 showing an increase of 1.6 percent. This number is estimated to increase by 2.85 percent to 1.803 million during the year 2018-19.

According to Labour Force Survey 2017-18, literacy rate was estimated at 62.3 percent in 2017-18 as compared to 60.7 percent estimated in 2014-15. For males it increased from 71.6 percent to 72.5 percent and for females it increased from 49.6 percent to 51.8 percent. Area wise analysis suggests that literacy rate increased in both rural areas (51.9 percent to 53.3 percent) and urban areas (76.0 percent to 76.6 percent). Literacy rate increased in three provinces; Khyber Pakhtunkhwa from 54.1 percent to 55.3 percent, Punjab from 61.9 percent to 64.7 percent and Balochistan from 54.3 percent to 55.5 percent while Sindh it decreased marginally from 63.0 percent to 62.2 percent.

Public Expenditure on education as a percentage of GDP is estimated at 2.4 percent in FY2018 as compared to 2.2 percent in FY2017. The education related expenditure increased by 18.6 percent to Rs 829.2 billion in FY2018 from Rs 699.2 billion in FY2017. The provincial governments are also spending sizeable amount of their Annual Development Plans (ADPs) on education. Punjab increased its expenditure in FY2018 to Rs 340.8 billion from Rs 260.6 billion in FY2017 showing an increase of 30.8 percent. Sindh increased its expenditure from Rs 146.7 billion in FY2017 to Rs 166.0 billion in FY2018 showing an increase of 13.16 percent. Similarly, Khyber Pakhtunkhwa and Balochistan also increased their expenditure on education from Rs 136.1 billion to Rs 142.6 billion and from Rs 47.7 billion to Rs 52.8 billion respectively during the corresponding period.

Under the PSDP 2018-19, the government had initially allocated Rs. 35.829 billion to HEC for implementing 178 development projects (133 ongoing & 45 un-approved projects) of Public Sector universities. However, with rationalization of PSDP by Ministry of Planning, Development & Reform (PD&R), the size of the PSDP allocation was revised to Rs. 30.961 billion for only 136 ongoing development projects of Universities. These projects are; Construction of new academic buildings, Strengthening of ICT Infrastructure, Faculty Development, Procurement of Laboratory Equipment and other approved components.

In addition to PSDP budget, a Technical Supplementary Grant of Rs. 0.503 billion for the project titled "Award of 3000 Scholarships to students from Afghanistan under the Prime Minister's Directive" has also been released to HEC. Under this scheme, the Government of Pakistan offers scholarships to 3000 Afghan students in various field including Medicine, Engineering, Agriculture, Management and Computer Sciences to create Pakistan's goodwill among the people of Afghanistan, to promote Human Resource Development for reconstruction of Afghanistan, to develop people to people contact between two neighbouring countries and to create excellent leadership qualities among Afghan Youth.

Health and Nutrition

Ministry of National Health Services, Regulations and Coordination in collaboration with provincial governments, started a landmark and flagship health care and social protection initiative, the Sehat Sahulat Program (SSP). In the first phase, the program is being implemented in 38 districts of Pakistan covering 3.2 million families. Initially, In Sehat Sahulat Program each enrolled family will be insured upto Rs. 50,000/- per year for secondary care treatment and upto Rs. 250,000/- per year for 7 priority care treatment. Patients who have consumed their limits will be provided with additional limits by Pakistan Bait-ul-Mal. In phase-II of the Sehat Sahulat Program, benefit package of each enrolled family has been raised to Rs. 120,000/- per year for secondary care treatment and up to Rs. 600,000/- per year for 8 priority diseases/illnesses related treatment. Furthermore, SSP is a cashless scheme in which no cash assistance or cash transfers will be provided to the beneficiary except indoor health care services and a traveling allowance. Traveling allowance of Rs. 350/- per discharge, for a total of 3 discharges per year, from residence to hospital and back is provided to the beneficiaries. In Phase-II of SSP, enhanced transportation cost of Rs. 1,000 is being provided to beneficiaries upon discharge. As of 9th February 2019, a total of 3,237,660 families have been enrolled in the Sehat Sahulat Program and more than 117,726 families have been treated for various illnesses from 157 empanelled hospitals across Pakistan.

Sehat Sahulat Program is being implemented through State Life Insurance Corporation of Pakistan, hired through an open and transparent bidding process. Services are delivered to the beneficiaries by empaneling secondary and tertiary level health care facilities, both at public and private sector, in all focused districts and metropolitan cities of the country. The hospital is being empanelled through the insurance company based on hospital empanelment criteria set forth in the program documents.

Ministry of National Health Services Regulations & Coordination has initiated a strategy in January, 2019 to enhance efforts to reduce the prevalence of tobacco use in any form in the country by urging all tobacco manufacturers to print new Pictorial Health Warning (PHW) on cigarette packs and outers.

Cumulative health expenditures by federal and provincial governments during 2018-19 (July-March) increased to Rs 203.74 billion which is 3.29 percent higher than Rs.197.25 spent during the corresponding period of previous year. The current expenditure increased by 19.84 percent from Rs. 149.97 billion to Rs. 179.72 billion while development expenditure decreased by 49.19 percent from Rs.47.28 billion to Rs.24.03 billion.

However, the break-up of expenditures among federal government and provincial governments demonstrates that during July-March FY2019, Federal and Punjab health expenditures decreased by 10.0 and 8.2 percent, respectively, as compared to the corresponding period of the last year. On the other hand, health expenditures of Sindh, Baluchistan and Khyber Pakhtunkhwa increased by 22.2, 18.4 and 10.5 percent respectively, during the same period. As percentage of GDP, health expenditure has improved from 0.91 percent in 2016-17 to 0.97 percent in 2017-18. During FY 2018-19 (July-March) it has increased by 0.53 percent compared to 0.49 percent increase recorded during the corresponding period of last year.

By the year 2018, the number of public sector hospitals has increased to 1,279. The number of Basic Health Units (BHUs) has increased to 5,527, that of Rural Health Centres (RHCs) to 686 and that of dispensaries to 5,671. The total number of registered doctors is 220,829, of registered dentists is 22,595 and that of registered nurses is 108,474.

Population, Labour Force and Employment

The population growth rate at 2.4 percent as depicted by the census 2017 is still very high. This shows that the efforts aimed to arrest high population growth have only brought modest success.

The Honourable Supreme Court of Pakistan, taking Family Planning as a human right issue, took Suo Moto Notice on 4th July 2018 and constituted a Task Force to frame clear, specific and actionable recommendations to address the issue of very high population growth. The Task Force, after a series of meetings, framed a set of recommendations aiming at enhancing contraceptive rate (CPR) to 55 percent, lowering total fertility rate (TFR) to 2.1 and bringing down population growth rate to 1.5 percent.

On similar lines, the provincial governments have also formed their respective task forces which are headed by the Chief Ministers. The purpose is to have highest level commitment from the provinces so that a coordinated strategy is developed to tackle the population issue.

Employment growth is a challenge for any developing, labour abundant economy. In the past the plans were designed to promote growth but less priority was given to employment generation. The present government has taken special initiatives to fulfil its commitment to create 10 million jobs during its term of five years. Private sector will play a key role in creation of jobs supported by the government. Naya Pakistan Housing Program, which is government's initiative to provide affordable housing to low income groups targeting most vulnerable segment of our economy by constructing 10 million houses, has a potential to generate massive employment opportunities during next five years. Similarly, National Financial inclusion Strategy to promote SMEs and digitization of financial services will also create substantial employment opportunities. It is also estimated that investments in tourism will generate over half a million new direct and induced jobs over the next five years. For the youth, the government has launched a new program – the Kamyab Jawan Program. Over the next

5 years, it is estimated that 138 thousand youth will benefit from KamyabJawan program, with banks disbursing a cumulative credit of Rs 200 billion.

Transport and Communication

NHA network comprises of 47 national highways, motorways, expressways and strategic roads with cumulative length of 12,743 km. NHA's portfolio consists of 38 on-going projects with an allocation of Rs.176,636.80 million in PSDP 2018-19 out of which 66,700.00 million is the Foreign Exchange Component (FEC) and Rs.109,936.80 million is the local component. There are 08 new schemes as well in PSDP 2018-19 with total estimated cost of Rs. 8,561.00 million. On Eastern Alignment, as a short-term project, NHA in corroboration with CPEC is completing 3,005 Km length of roads on 17 different projects while on western alignment, as short to medium term projects, a total of 1,799 Km length of roads construction on 6 different projects is in progress and on central alignment, as medium to long term projects, a total of 626 Km length of roads on 3 segments are under study with indicated plan period of 2025-30. NHA has already constructed four segments of Pakistan Motorway Network i.e., Peshawar -Islamabad Motorway (M-1), Islamabad - Lahore Motorway (M-2), Lahore - Abdul Hakeem Motorway (M-3) and Pindi Bhattian- Gojra Section and Khanewal - Multan Section of Motorway (M-4) on a virgin corridor. NHA is now constructing the remaining section of M-4 from Gojra - Khanewal. Work on Karachi - Hyderabad Motorway (M-9) on BOT basis is also substantially completed. After completing its current projects by December 2019, the total length of motorways will become 2,362.2 Km.

CPEC is the flagship and most actively implemented project of Belt & Road Initiative (BRI) where Pakistan and China have successfully launched 22 projects on the ground, costing more than US$ 28.5 billion**.** Chinese and Pakistani workforce, in a large number, is employed to ensure timely completion of the infrastructure projects and launch new projects like ML-1, Eastbay Expressway and Airport at Gawadar. Pakistan and China are also executing Cross-border Fibre optic project (Khunjerab-Rawalpindi).

Pakistan Railways comprises of 470 locomotives (458 Diesel Engine and 12 Steam Engines) for 7,791-kilometre length of route. During FY 2019(July -February), gross earnings grew by 10.3 percent to Rs 34,0661 million against Rs 30891.1 million during the same period last year. During the period July- February FY 2019, number of passengers carried increased to 39.9 million against 35.9 million during the same period last year, thereby, recording a growth of 11.0 percent. Likewise, passenger traffic Km (million), freight carried tons million, and freight tons Km (million) grew by 11.9 percent, 2.9 percent and 7.8 percent, respectively.

PIA is in the process of implementing its Strategic Business Plan 2019-23 to improve its performance by acquiring new aircrafts for its fleet.

PNSC has achieved substantial growth of 35 percent in its revenue (from Rs.1,272 million to Rs.1,717 million) in managed bulk carrier segment and growth of 28 percent (from Rs.3,001 million to Rs.3,833 million) in liquid cargo segment through its managed vessels. Fleet Direct operating expenses decreased to Rs. 5,500 million (including Rs.1,104 million from PNSC) from Rs.5,747 million (including Rs.1,738 million from PNSC), thereby resulting in gross profit of Rs.1,852 million as against Rs.1,656 million for the same period last year. PNSC profitability has increased by 61 percent with Profit after Tax of Rs.1,402 million during this period against Rs.872 million in the same period last year. Earnings per share for the PNSC increased to Rs.10.62 against Rs.6.60 during the corresponding period of last year. Two LR-1 tankers have been added in PNSC's managed fleet namely "M.T. Bolan" and "M.T. Khairpur".

The Karachi Port Trust’s operational performance during FY 2018-19 (July-March) stood at 35,361,000 tones. The export cargo handled 10,415,000 tons as compared to 9,206,000 tons last year, showing a substantial increase of 13 percent, while volume of import cargo stood at 24,945,000 tons, as against the 31,379,000 tons handled last year, showing a decrease of 22 percent. The restricted import is due to government's measures to discourage non essential imports.

Total through put of Port Qasim Authority increased by 12.6 percent**.** The port's operational performance during FY 2018-19 (July-March) stood at 36.580 million tonnes, showing an increase of 12.6 percent over the corresponding period of last year. The volume of import cargo during July-March 2018-19 stood at 31.293 million tons, as against the 27.342 million tons handled during corresponding period last year, showing an increase of 14.4 percent. The export cargo handled was 5.287 million tons during first nine months of FY 2018-19, as compared to 5.127 million tons handled during corresponding period last year, showing an increase of 3.7 percent. A total of 1,139 ships called on Port, which comprised 371 Container ships and 768 Non-Container ships.

Gawadar Port is the second greatest monument of Pak-China friendship after Karakoram Highway linking Pakistan and China. Gawadar has handled last year around 7.156 Metric Ton Cargo from 53 ships.

The telecommunication market in Pakistan is open and deregulated, offering level playing field to operators. The Universal Services Fund Company (USF Co.) launched projects to provide telecommunication coverage to approximately 12,000 unserved mauzas with a population of around 15 million, across all provinces of Pakistan. In current fiscal year USF has successfully launched a project to provide coverage to the unserved segments, spanning 669 kms, on National Highway 10 and National Highway 25 (partially). There has been a consistent growth in IT&ITeS-BPO remittances over last 5 years, with 151 percent growth in IT&ITeS-BPO remittances at a compound annual growth rate (CAGR) of 20 percent, the highest growth rate amongst all industries, and the highest in the region. Pakistan's IT &ITeS-BPO exports are estimated to have crossed US $ 3.3 billion a year at present. In addition, export remittances earned by MSMEs and freelancers are estimated to be $500 million. Whereas annual domestic revenue exceeds $1 billion. A new state of the art IT Park in Islamabad is being established under financing from Korea Exim Bank through the Economic Development Cooperation Fund (EDCF), spreading over an area of 14.9 acres of land. The construction of IT Park will be undertaken in two phases. Cost estimate for first phase is USD 88.25 million for which loan agreement has been signed. It is expected that design and construction of IT Park will be completed by 2022. The cellular mobile sector has invested US $158.3 million during the first two quarters of FY 2018-19. By the end of March 2019, the total number of mobile subscriptions in Pakistan reached 159 million with the net addition of 8.8 million subscribers during July, 2018 to March 2019. Biometric re-verification of SIMs in 2014-15 had an adverse impact on the cellular subscriber base. The number of broadband subscriber addition during first nine months of 2018-19 stood at 10 million. PTA has generated over Rs. 209 billion during June 2013 to March 2019 through its levies, fee and other charges.

Total number of registered TV sets holders as on 31st March, 2019 are 19,138,693.

Pakistan Post has launched "The Same Day Delivery Services" to facilitate the delivery of packets and documents within the city. The service was launched in November 2018 in 26 cities and will be extended to other cities in future. During the first six months (July to December) of the current fiscal year 2018-19 Pakistan Post Office Department has received the foreign remittances amounting to Rs 4,256.478 million. Total number of Post Offices in Pakistan as on March 2019 are 10496.

Energy

The energy side bottlenecks have hampered the economic growth of the country in the past. In order to address the energy shortage, massive projects were incorporated in between years 2013-18, adding a cumulative capacity of 12,230 MW. However, the transmission and distribution side congestion and inefficiencies has hampered the sustained delivery of energy services. Additionally, the higher energy prices are also a by-product of such aggressive capacity additions during 2013-18.

In term of energy-mix, in FY2018, Pakistan's reliance on oil has been reduced to 31.2 percent while reliance on gas has been reduced to 34.6 percent, while the share of hydel energy stood at 7.7 percent. Though the declining share of oil is a welcoming sign, the diminishing share of hydro represents the shortsightedness of policy as well as the inability of successive governments to undertake large capital-intensive projects in a timely manner. The reduction of natural gas share is somewhat attributed to declining natural gas reserves as well as restricted consumption of gas in the transport industry and the induction of LNG since 2015. The share of imported LNG has increased from 0.7 percent in FY2015 to 8.7 percent in FY2018. The share of renewable was at 1.1 percent in FY2018 while the share of nuclear has increased to 2.7 percent in FY2018.

Such historical variability for each energy source in the energy mix of the country has been used to formulate the Integrated Energy Plan which will not only help in estimating the energy demands and respective supply paths for the future but also in formulating the evidence based long term policy options.

The immediate focus of the government is to reduce the losses and increase the effectiveness of the whole value chain. Power Division, Ministry of Energy has given a target to DISCOs to recover PKR 80 billion from old receivables and to ensure that the receivable figures do not increase from the level recorded on 31st October 2018. Further, DISCOs have been given a target to recover another PKR 60 billion by controlling theft and improving governance and efficiency.

As of end March 2019, total installed capacity of electricity reached 34,282 MW which was at 33,433 MW at end of March 2018, thus, posting a growth of 2.5 percent. Although electricity generation varies due to availability of inputs and other constraints, the generation increased from 82,011 GWh to 84,680 GWh, posting a growth of 2.1 percent during the period under discussion.

As far as the share of different sources of electricity generation is concerned, it can be observed that the share of hydro in electricity generation has decreased over the last few decades. Availability of water is one of the main reason for reduced generation from hydel power plants. Currently, thermal has the largest share in electricity generation. Share of RLNG has shown a tremendous growth in energy mix as it served the demand of various power plants (Bhikki, Haveli Bahadur Shah, Balloki, Halmore, Orient, Rousch, KAPCO, Saif and Sapphire) as well as that of fertilizer plants and industrial and transport sector.

The government has also shown its commitment for electricity generation through renewable energy sources. During July 2018 - March 2019, there was an increase of 1 percent in share of renewables in electricity generation, and it is expected that the share will further increase in coming years.

Oil (Petroleum Product): Pakistan mainly depends upon oil and gas resources to fulfil energy requirements. The domestic production of crude oil remained at 24.6 million barrels during July-March FY2019 compared to 21.8 million barrels during the corresponding period last year. Indigenous resources of oil are not enough to meet the requirements of a growing economy. As a result, Pakistan has to import large quantity of oil as well as oil-based products from Middle Eastern countries especially from Saudi Arabia. During July- March FY2019, the quantity of crude oil import remained at 6.6 million tons valuing US $ 3.4 billion compared to 7.8 million tons valuing US $ 2.9 billion during the same period last year.

Natural Gas: At present, the capacity of two Floating Storage and Regasification Unit (FRSU) to Re-gasify Liquefied Natural Gas (RLNG) is 1200 MMCFD and accordingly RLNG is being imported to mitigate gas demand-supply shortfall. The average natural gas consumption was about 3,865 Million Cubic Feet per day (MMCFD) including 785 MMCFD volume of RLNG during July 2018 to February 2019. During July – Feb FY2019, the two Gas utility companies (SNGPL & SSGCL) have laid 69 Km Gas Transmission network, 3,232 Km Distribution and 1,366 Km Services lines and connected 165 villages/towns to gas network. During this period, 428,305 additional gas connections including 425,404 domestic, 2,770 commercial and 131 industrial were provided across the country.

It is the focus of the government to provide sustainable energy for all. Furthermore, improvement in access to energy and off grid solutions will be provided under the new renewable energy policy. For the sustainable provision of such services, market forces and policy options need to be harmonized. As far as market forces are concerned, business models of energy services companies (ESCO) and sustainable energy utility (SEU) should be developed and incentivized. Such market forces should be encouraged since it will provide jobs to the work force.

Social Protection

The government dissects pro-poor expenditure in different sectors through the Medium-Term Expenditure Framework (MTEF) under PRSP-II program. Expenditure on these pro-poor sectors has shown an increasing trend in absolute terms as well as percentage of GDP. Expenditure on these sectors increased from Rs. 1,934.2 billion in FY 2014 which was 7.7 percent of GDP to Rs. 3,167.92 billion in FY 2018 which is 9.2 percent of GDP.

The social safety nets are major initiatives to reinforce the government's efforts to reduce the adverse effects of poverty on the poor. Benazir Income Support Program (BISP), a flagship program of the government has made a remarkable progress by providing cash transfers to over 5.8 million beneficiaries. The quarterly cash grant has gradually been enhanced by the successive governments which currently stands at Rs. 5000/- per quarter per eligible beneficiary. Since inception, BISP has disbursed Rs 691.5 billion as cash transfers. BISP is following the path of automation and 98.5 percent of beneficiaries are being paid through technology-based payment mechanisms. Under Waseela-e-Taleem program, 3.1 million children have been enrolled so far and an amount of Rs. 9.8 billion has been disbursed.

Pakistan Poverty Alleviation Fund (PPAF) also helps in micro-credit, water, health, education, livelihood. Since its inception in April 2000 uptill March 2019, PPAF has disbursed an amount of approximately Rs. 222.037 billion to its Partner Organizations (POs) in 137 districts across the country. The overall disbursements for core operations during July 2018 to March, 2019 amounted to Rs 756 million.

Pakistan Baitul Mal (PBM) is also making a significant contribution towards poverty reduction by providing financial assistance to destitute, widows, orphans, invalid, infirm and other needy persons irrespective of their gender, cast, creed and religion through its establishments at the district level. During July to March FY2019, PBM has disbursed an amount of Rs 2.562 billion through its core projects.

Workers Welfare Fund (WWF) is providing various services in the areas of housing, health and education to the industrial workers and financial assistance is also being extended in the form of death grant, marriage grant and scholarships. During July-March, FY2019 expenditures amounting to Rs 468.273 million have been incurred on 3,992 scholarships while Rs 1,985.38 million has been disbursed as Marriage Grant (@100,000/-) which benefitted 19,854 workers' families. WWF has also disbursed Rs 1,597.55 million as Death Grant (@500,000/-) to 3,195 families all over the country.

Employees Old-Age Benefits Institution (EOBI) provides monetary benefits to the old age workers through various programs such as the Old-Age Pension, Invalidity Pension, Survivors Pension and Old-Age Grants. During July-March 2018-19, Rs. 23.30 billion has been disbursed to 401,940 beneficiaries.

Climate Change

Changing pattern of climate has emerged as one of the biggest environmental challenges, which is affecting almost all the sectors of economy particularly water resources, energy, health, biodiversity, with a major impact on agricultural productivity. In view of Pakistan's high vulnerability to the adverse impact of climate change, the current government is committed to meet this challenge and the Prime Minister has constituted "Prime Minister's Committee on Climate Change" to provide high level strategic guidance and platform for coordinated efforts on the issues of climate change. Federal Forestry Board (FFB) has also been revived to rehabilitate forests and forest cover in the country. Ministry of climate change has adopted a comprehensive approach on the disaster risk reduction and management.

The present government has launched Ten Billion Trees Tsunami Program (TBTTP), to revive forestry and to improve watershed management and soil conservation to combat the negative impacts of climate change.

The government has also introduced climate budget coding and expenditure tracking system. This initiative has become a solid conduit for mainstreaming the climate change finance and will improve transparency in public investments. The monitoring of the expenditure will also give confidence to the international development partners in tracking expenditure under different funding streams to ensure that the finances are spent on the intended objectives.