ECONOMY OF PAKISTAN
STEERING THROUGH CHOPPY WATERS

INFONALYSIS

JUNE 2015

Research & Development Cell

Karachi Chamber of Commerce & Industry

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Economic revival – a rethink of policies required

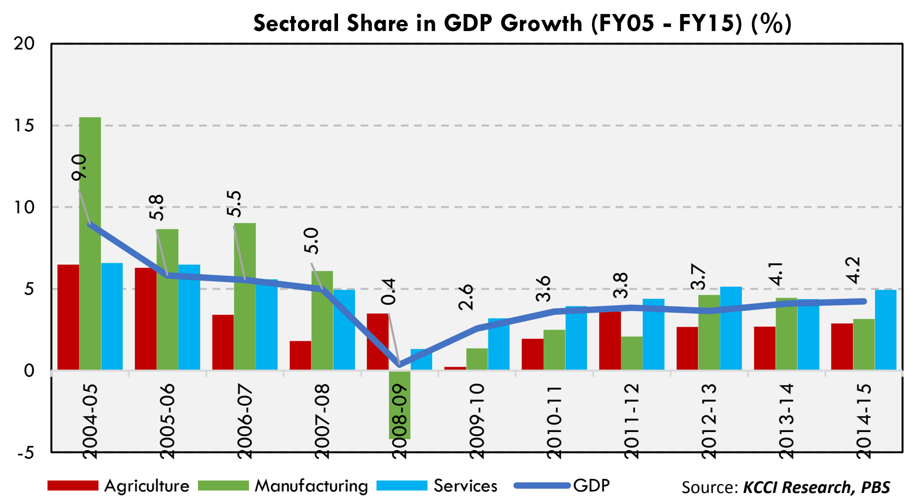
Pakistan has experienced some respite in the economic situation. However, there is still much room for improvement to bring Pakistan out of the choppy waters. This paper discusses the overall economic situation of Pakistan in recent years.

Growth targets reveal mixed trends

Every year government tend to set ambitious targets for the economic indicators. For Fiscal Year 2015, the goal was set to achieve GDP growth of 5.1% ahead of the GDP growth of 4.1% achieved in the last Fiscal Year 2014 and 3.7% in Fiscal Year 2013.

However, as per provisional figures, the government only managed to achieve 4.24% GDP growth in Fiscal Year 2015. During this period, services sector growth (4.95%) outpaced the lackluster growth of the manufacturing sector (3.17%) and agriculture sector growth (2.88%).

For ongoing Fiscal Year 2015, various international organizations like IMF, World Bank and Asian Development Bank had made projections of 4.4%, 4.4% and 4.1% respectively for Pakistan's GDP growth.

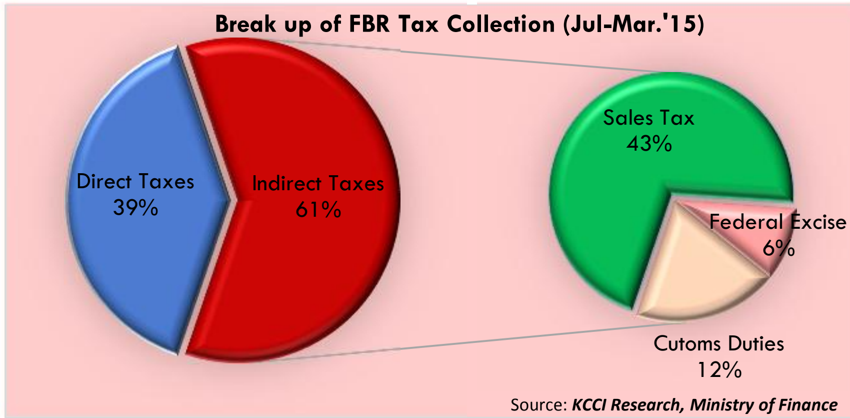


For the upcoming budget of Fiscal Year 2015-16, govt. is likely to set optimistic GDP target of 5.5% thus once again setting an arduous goals in line with its past trend.

Struggle to jack up Fiscal Sector continues

On revenue side, FBR has to collect PKR 394Bn in the month of Jun.'15 in order to reach its thrice revised tax collection target of PKR 2.61Tn set for the outgoing FY15. As of Jul.'14-May'15, total tax collection of FBR has moved up to PKR 2.21Tn compared with PKR 1.95Tn collected during the same period last year showing 13% incline.

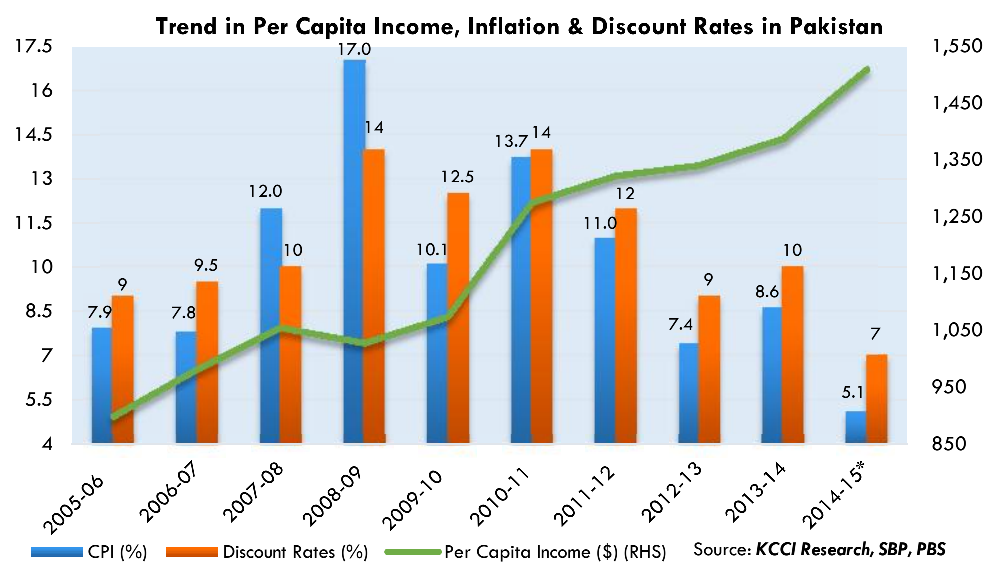
The present course of tax collection indicates that the tax machinery would be able to achieve its thrice revised target of PKR 2.6Tn this year whereas during FY14, it could not even achieve the twice revised target of PKR 2.2Tn.



Similarly, on the fiscal front, shrinking budget deficit coupled with structural reforms made in the past years has helped in towing the fiscal sector of Pakistan towards prosperity. For FY15, government had set the target to keep budget deficit at 4.9% of GDP however, it has reached to 3.6% of GDP by the end of 3QFY15 as against 3.2% of GDP in the same period last year owing to the interest payments made on loans during this period and is expected to be around 5% of GDP by the end of FY15. In the past years, the same was curtailed to 5.5% of GDP in Fiscal Year 2014 from previous 8.8% in Fiscal Year 2013. For upcoming Fiscal Year 2015-16, it is expected that the govt. would keep the budget deficit target at 4.3%.

Major respite in inflation stabilized economy

Inflation, which always remain a problem for the common man to tackle, has nosedived to an average of 4.8% in 10MFY15 compared with 8.69% in the same period last year. In this regard, discount rates have been reduced to 7% at the end of FY15 as against 10% in FY14.



The 7% discount rate is at a 42-year historic low and should provide ample room to spur economic growth in the country. Furthermore, it would benefit the manufacturing sector of Pakistan, provided that the scheduled banks make credit available to the private sector instead of allocating a major chunk to the government sector, thus reducing the crowding out effect on the private sector which has long been prevalent.

External outlook remained positive

The country's balance of payment position has shown improved picture during Fiscal Year 2015 owing to a hefty decline in global oil prices, which is expected to curtail the oil import bill by approximately $ 3.8Bn at the end of this year. The other contributing factors in improving the external outlook of the country have been Sukuk bonds' issuance in November 2014 and receipt of IMF's EFF tranches which were instrumental in raising $ 1Bn and $ 1.5Bn respectively.

The decline in current account deficit by 53% to $ 1.36Bn in Jul-Apr.'15 from $ 2.93Bn in same period last year has further paved the way for the improvement. Pakistan's overall balance of payment position has also shown improvement, as it recorded a negative balance of $ 2.12Bn till April'15 as compared to negative $ 3.8Bn in FY14.

Pakistan's Economic Performance (FY08 - FY15)

Snapshot of Macroeconomic Indicators

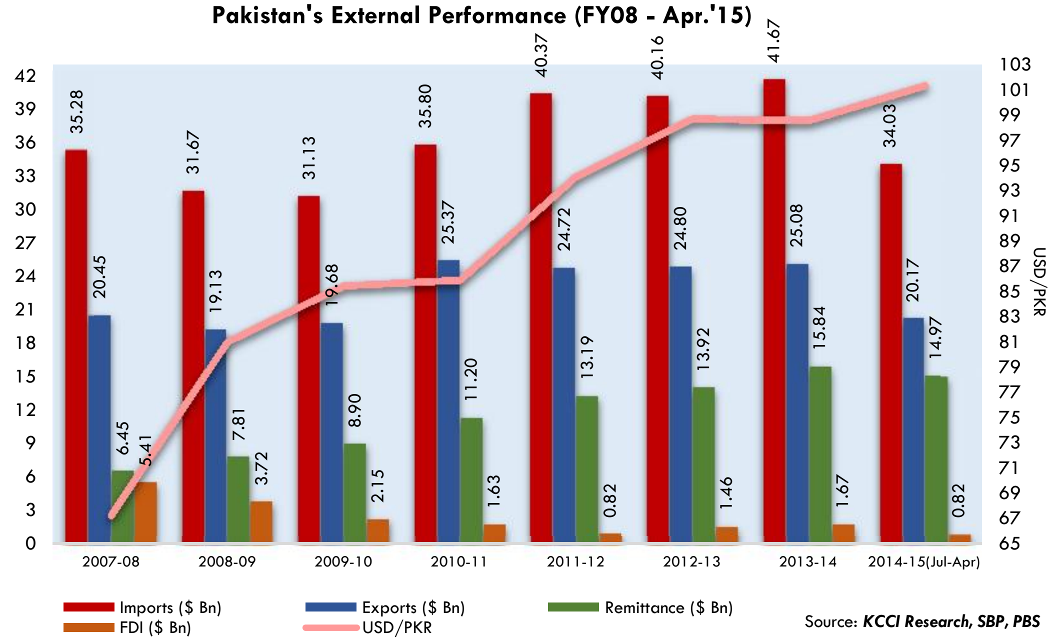
Key Indicators	Unit	FY08	FY09	FY10	FY11	FY12	FY13	FY14	CAGR (FY08 - FY14)	FY15*
GDP (At Current Prices)	PKR Bn	10,637.8	13,199.7	14,867.0	18,276.4	20,046.5	22,379.0	25,068.1	16%	27,383.7
GDP (At Factor Cost)	PKR Bn	8,549.2	8,580.0	8,801.4	9,120.3	9,470.3	9,816.2	10,211.5	3%	10,644.3
GDP Growth	%	5.0	0.4	2.6	3.6	3.8	3.7	4.1	NM	4.2
LSM Growth (2005-06=100)	%	6.0	(6.1)	0.3	1.5	1.2	4.3	4.0	NM	2.5
Discount Rate (at year end)	%	12.0	14.0	12.5	14.0	12.0	9.0	10.0	NM	7.0
Avg. Inflation - CPI	%	NA	17.0	10.1	13.7	11.0	7.4	8.6	NM	4.8
Unemployment Rate	%	5.2	5.2	5.5	6.0	6.0	6.2	6.3	NM	6.4
Population	Mn	164.7	168.2	171.7	175.3	178.9	182.5	186.2	3%	189.9
Literacy Rate	%	56.0	57.0	57.7	58.0	58.0	60.0	NA	NM	NA
Per Capita Income	PKR	65,873.0	80,545.0	89,869.0	108,931.0	117,837.0	129,569.0	143,808.0	14%	142,312.0
Exchange Rate (Open Market)	PKR/$	62.6	78.5	83.8	85.5	89.2	96.7	102.9	9%	101.2
Forex Reserves	$ Bn	11.4	12.4	16.8	18.2	15.3	11.0	14.4	4%	18.5
Remittances	$ Bn	6.5	7.8	8.9	11.2	13.2	13.9	15.8	16%	15.0
Exports	$ Bn	20.4	19.1	19.7	25.4	24.7	24.8	25.2	4%	20.18
Imports	$ Bn	35.4	31.7	31.2	35.9	40.4	39.9	41.7	3%	34.02
Trade Balance	$ Bn	(15.0)	(12.6)	(11.5)	(10.5)	(15.7)	(15.1)	(16.5)	2%	13.84
Current Account	$ Bn	(13.9)	(9.3)	(3.9)	0.2	(4.7)	(2.5)	(3.1)	-22%	(1.36)
Foreign Direct Investment	$ Bn	5.4	3.7	2.2	1.6	0.8	1.5	1.7	-18%	0.90
Portfolio Investment	$ Bn	0.0	(0.5)	0.6	0.4	(0.1)	0.1	2.7	99%	2.21
KSE-100 Index (at year end)	Points	12,289.0	7,162.2	9,721.9	12,496.0	13,801.4	22,000.0	30,314.1	16%	32,763.48
Domestic Debt	PKR Bn	3,266.0	3,852.5	4,721.7	6,091.9	7,724.1	9,621.5	11,028.3	22%	11,631.5
Total Debt	PKR Bn	6,044.0	7,628.6	8,981.8	10,776.9	12,740.1	14,470.5	16,321.0	18%	5,379.0
Total Revenue Collection	PKR Bn	1,499.4	1,850.9	2,078.2	2,252.9	2,566.5	2,982.4	3,637.3	0.16	2,682.6
FBR Tax Collection	PKR Bn	1,007.2	1,157.0	1,328.6	1,558.0	1,883.0	1,946.3	2,254.2	14%	1,775.1
Tax Collection (Direct)	PKR Bn	387.5	440.3	528.6	602.5	738.8	673.4	877.3	15%	701.52
Tax Collection (Indirect)	PKR Bn	619.7	716.7	800.0	955.6	1,144.2	1,129.5	1,377.0	14%	1,073.62
Private Sector Credit	PKR Bn	2,661.8	2,651.6	2,749.3	2,844.2	2,922.0	2,976.3	3,313.8	4%	3,542.00
Budgetary Expenditures	PKR Bn	2,276.5	2,531.3	3,007.2	3,447.3	3,936.2	4,816.3	5,026.0	14%	3,731.59
Budget Deficit	PKR Bn	777.2	680.4	929.1	1,194.4	1,369.7	1,833.9	1,388.7	10%	1,048.94

Source: KCCI Research, SBP, PBS, Ministry of Finance *NM = Not Meaningful* *NA = Not Available* ** = Latest available values have been taken for FY15 (Forecasted)*

The foreign exchange reserves have also gradually bulged to $ 17.75Bn at the end of May 2015 from $ 13.46Bn in May 2014 with further plans to increase them to $ 18.69Bn by the end of Fiscal Year 2015. This was made possible with increase in foreign remittance which stand at the level of $ 14.97Bn in Apr.'15 as against $ 12.89Bn in the same period last year showing16% increase.

On the other hand, the investment and trade sectors, being foremost sectors of every economy, have not experienced the desired level of growth as was devised in their respective policy frameworks.

Pakistan's External Performance (FY08 - Apr.'15)



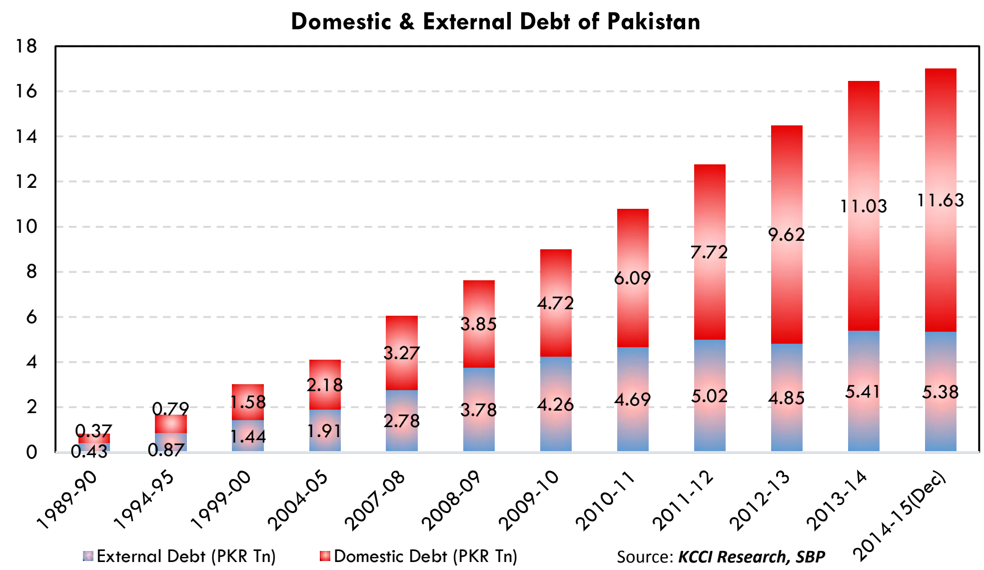
Source: ***KCCI Research, SBP, PBS***

Despite efforts being made by the Board of Investment, Foreign Direct Investment (FDI) has remained abysmal at $ 0.825Bn during 10MFY15 as against investment of $ 0.879Bn in 10MFY14 posting a decline of 6% leaving the investment growth target of 7%-8% unlikely to be achieved.

Similarly, balance of trade has mostly remained under pressure in the span of last five years as increase in imports have outpaced exports, leaving the trade deficit to increase to $ 13.85Bn during 10MFY15 as against $ 13.71Bn in the same period last year, posting hike of 1%. Issues which have been affecting growth in exports sector include backlog of refunds to the exporters, non-payment of export development fund and adverse changes in the value of the PKR.

Bulging debt – a cause of concern

Overall public debt of the government bulged to PKR 17.01Tn at the end of December 2014 as against PKR 15.49Tn in the same period last year showing a 9% increase. Chunk of domestic debt increased to PKR 11.63Tn in comparison with PKR 10.23Tn last year whereas external debt swelled to PKR 5.38Tn from PKR 5.26Tn in same period last year.



Pakistan's overall debt has not increased significantly in the ongoing fiscal year 2015, however it is still well above the average debt level prevailing in developing and emerging economies of the world.

Power Crisis: A daunting task for govt.

Aside from lagging on fiscal and external fronts, Pakistan's prospects of having sustainable economic growth are also heavily dependent on adopting long term economic policies to resolve the prevalent energy crisis.

Power outages are considered to be the crippling factor which need immediate attention of the government authorities. Pakistan has installed capacity of electricity at around 22,000MW whereas its demand in peak season remains at 17,000MW with supply deficit reaching 6,000MW to 7,000MW. Demand has been increased at a growth rate of 8% with supply largely remaining stagnant.

Moreover, after clearing the circular debt of PKR 460Bn by the present government during FY14, it has again reached to an exorbitant level of PKR 600Bn at the end of 2014 scaring investors, threatening industrial output and jeopardizing growth rate. More recently, the brunt of removing power subsidies in upcoming budget of FY16 would further deteriorate the situation, leaving the consumers in tough circumstances.

Completion of several power projects and projects like TAPI, CASA-1000 and $ 21Bn LNG deal with Qatar holds key importance in this regard. Agreement on LNG deal between Pakistan and Qatar would not only lessen the gap in demand and supply but would also prove to be a cheap source of power generation in comparison to furnace oil and diesel for the power production companies. Similarly, the import of LNG would further facilitate in reducing the energy shortfall and through the development of power projects under the China Pakistan Economic Corridor (CPEC).

Economy still not out of danger

It is expected that decline in government borrowing from central banks and drastic cut in the policy rate will give impetus to the private sector borrowing on easy terms in the coming years. The cut in fiscal deficit is another major development which has reduced the pressure on the national economy.

The agreement of Pakistan and China on economic corridor is a breakthrough in Asian region that has raised hopes of the government to move further toward its goal of economic prosperity. Pertaining to this, government has planned to allocate PKR 250Bn in upcoming budget of FY16 for the fast track implementation of CPEC.

The economic ramification of all these steps have undoubtedly provided edge to the economy. However shortcomings still lie in other variables of the country's economic equation as numerous challenges lie ahead that have still not been brought up for solution. Besides energy crisis, security, law and order issues, low tax to GDP ratio, lack of tax reforms and lackluster investments and exports are the other challenges being faced by the government and calls for urgent need of action. Similarly, the repayment of the gigantic debt accumulated in the past many years would be a cause of concern, if a well thought strategy is not formulated at the earliest.

Further, foreign exchange reserves should be built in a planned manner and growth in exports sector must be given top priority along with cut in import of luxurious items. Furthermore, Pakistan should carefully enter into any new Free Trade Agreement (FTA) and existing FTAs should be reviewed in order to support Pakistan's domestic industry. Moreover, path from growth towards stabilization is the utmost need of the day that should be emphasized on the government's platform in the upcoming budget.

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