PAKISTAN ECONOMIC SURVEY 2010-11

	CHAPTER NAME	CHAPTER AUTHOR
››	Overview of the Economy	S.Ejaz Wasti Economic Adviser
››	Growth and Investment	Zafar-ul-Hassan Joint Economic Adviser
››	Agriculture	Omer Farooq Research Officer
››	Manufacturing	Attaullah Shah Research Officer
››	Fiscal Development	Nazia Gul Research Officer
››	Money and Credit	Nazia Gul Research Officer
››	Capital Market	Norina Bibi Research Officer
››	Inflation	Ahmed Khan Assistant Economic Adviser
››	Trade and Payments	Mushtaq Ali Hub Assistant Economic Adviser
››	External and Domestic Debt	Nazia Gul Research Officer
››	Education	Omer Farooq Research Officer
››	Health & Nutrition	Ahmed Khan Assistant Economic Adviser
››	Population, Labor Force and Employment	Norina Bibi Research Officer
››	Poverty	Absar Hassan Siddique Deputy Economic Adviser
››	Transport and Communications	Attaullah Shah Research Officer
››	Energy	Muhammad Usman Raja Research Officer
››	Environment	S.Natiq Hussain Naqvi Deputy Economic Adviser

Overview of the Economy

I. Introduction

The economy of Pakistan has been undergoing a stabilization phase since the last three years. The restoration of macroeconomic stability is important and necessary to provide the platform for generating growth, jobs, and improving the quality of life of the people.

This period has been marked by the continuing --and intensified --security challenges the country has confronted since 2001. In addition, the country faced multiple adverse shocks of commodity and oil prices and the fallout of the global financial crisis. The year under review saw the unprecedented calamity of the great floods. These floods wiped out about 2 percentage points from the growth as well as inflicted a massive damage of $10 billion on country's economic structure. Some 20 million people were displaced as more than 50,000 Sq. Km area was submerged in water. During the year oil prices also shot up from $70/barrel to $125/barrel creating a new threat to the macro framework.

Viewed in this background the growth rate of 2.4 percent registered during the year 2010-11 seems reasonable. Although much below its potential, the performance signifies the enormous resilience in the economy as it was tested several times by one crisis after another beginning with the earthquake of 2005. With some reprieve and continuing effort, there is reason to believe that the country will revert to its potential growth trajectory.

The destruction of major crops, particularly rice and cotton, led to a negative growth of 4% in this sector. The manufacturing sector growth was adversely affected --and was negligible --due to reduced output in the textiles and petroleum products (affected by submersion of refineries under flood waters and the circular debt problem). Inevitably, the overall quantum of economic activities, captured by services sector was also affected, with a growth of 4.1 percent, originally targeted at 5.4%.

The challenges posed by exogenous shocks affected the pace of the reforms process as the government was forced to make difficult trade-offs and cater to unexpected demands for flood rehabilitation and the impacts of increasing oil prices. The government, while pursuing a regime of deregulation of pricing of key products was nevertheless forced to intervene in the energy and commodity markets to keep prices from getting completely out of the reach of the public. This burden of subsidies, though significantly reduced from previous years, exerted continuing pressure on the fiscal system and the adjustment path was affected. In the second half of the year, due to a combination of austerity, resource mobilization measures and bold decisions on pricing the macro-framework was stabilized and the anticipated damage to the overall fiscal position was avoided. However, more work will be required to rebuild the reforms programs, and to remain engaged with the development partners.

The most significant development during the year was the historic performance of the external sector, which is heading to register a surplus in the current account. First, exports registered a growth of 28 percent in the first 10 months of the year compared to same period last year. Crossing the $20 billion mark for the first time, exports are set to exceed $24 billion. Second, the remittances have also recorded a strong performance by crossing the double digit mark and are set to reach the historic level of more than $11.2 billion. Third --and this is partly attributable to moderated demand for imports --the current account shows a surplus of nearly $748 million. Finally, the combined effect of these positive developments was reflected in the growth of external reserves which also touched a historic high of $17.1 billion at the end of April, 2011.

Pakistan has enjoyed sustained period of exchange rate stability since December 2008. The Real Effective Exchange Rate (REER) depicted unprecedented appreciation of 10 percent in 2009-10 and marginally appreciated in the first ten months of the current fiscal year. The SBP is not intervening in the foreign exchange markets and exchange rate is market determined.

The situation regarding inflation remained a key concern for the economy. For most of last fiscal year, inflation was coming down, but the shocks of floods and oil price have reversed the declining trends. It should be noted that with rising commodity and oil prices, inflation has affected all countries both regionally and globally. However, in the second half of the year, the rising inflationary trend has been stemmed and inflation is now hovering around 14 percent. With fiscal consolidation and abetment of some pressures from international prices, the inflation outlook looks better than in the earlier part of the year.

Inflationary pressures inevitably brought pressure on the interest rate, and with much of the credit flowing in the government sector, private credit, despite some growth over the previous year remained weak. With development resources preempted by unanticipated expenditures on flood relief and power and petroleum subsidies, fiscal discipline required the government to reduce its public investment to a low level in many years. Accordingly, the overall investment in the year was also below its level in the recent past.

The overall monetary survey indicated modest growth in monetary aggregates. The reserves money grew by 17.1 percent in the period July-May 21, 2010-11as against 13.6 percent growth in the comparable period of last year on the back of strong growth of 73.1 percent in the NFA of the SBP. The NDA component grew steadily at 11.6 percent in the period. Broad money expansion by11.7 percent in the period July-May 21, 2010-11 is mainly drive by phenomenal growth 57.3 percent in the Net Foreign Assets (NFA) which is reflective of the positive developments in the external sector. The NDA of the banking system has expanded by 9.4 percent in the period. The tight monetary policy stance adopted by SBP is reflected in the rise in the policy rate which registered an increase of 150 bases points since July 2010 in the increments of 50 bases points.

The year was the first in the implementation of the NFC Award. The award represented a radical break from the past as it transferred a larger share of divisible poor revenues to the provinces. An estimated additional amount of Rs.325 billion will be transferred to the provinces compared to the last year. Since many of the primary public services are provided by the provinces, greater availability of resources will facilitate both the improvement in quality as well as scale of such services. The passage of 18^{th} Constitutional Amendment has led to the devolution of additional subjects to the provinces, especially those in the social sectors. It is hoped that undivided responsibility of provinces in social sectors and availability of enhanced resources will lead to much improvement the quality of social sector indicators that have been lagging behind for some time.

Despite many challenges, the overall performance of the economy has been moderately satisfactory. The recent measures announced for fiscal correction should contribute to a faster recovery and resumption of growth. It was felt by some observers, that the budget deficit --the key indicator of economic stability--will reach unprecedented levels due to the difficult circumstances. However, due to sound economic management and fiscal discipline, the deficit has been contained and is estimated at 5.3% of GDP. To settle the circular debt and get more production out of the existing energy plants, the government has decided to pay additional Rs. 120 billion subsidies from for previous years. This will add an additional 0.6 percent to the deficit, bringing it to 5.9%. However, the outlook for the next year looks bright on this account as the year has fully accounted for the subsidies falling due during the year and substantial correction in such burdens is likely to be made in the years ahead.

A brief review of the economic situation during first three quarters and prospects for next quarter is given below:

II. Real GDP Sectoral Growth: The Real GDP growth is estimated to remain at around 2.4 percent compared to the target of 4.5 percent. The set back was due to the agriculture sector which was badly affected by floods. However, the strong performance of services sector which grew at 4.1 percent has kept the overall growth in a reasonable range. The sector-wise estimates are discussed in subsequent paragraphs:

Agriculture sector recorded modest growth of 1.2 percent in 2010-11 against the target of 3.8 percent but provided much needed support to boost exports, revival of manufacturing sector and responsible for upbeat in the consumption. Given the enormous price inducement, the agriculture sector is likely to spearhead economic growth in the next fiscal year as well. The lower growth owing to recent floods necessitated downward adjustments in the estimates of some of major crops like rice, and cotton. The rice crop production unexpectedly went down to 4.8 million tons which will be lowest ever production since 1994-95. The wheat production stood at 24.2 million tons as against last year's actual production of 23.8 million tons. The important thing is better yield as area under cultivation fell by around 3 percent. Sugarcane is estimated at 55 million tons which will be highest in the last three years. Minor crops are estimated at 4.1 percent mainly because of enormous price incentive available and its shock resistant nature. The estimate for growth in the livestock sector is 3.7 percent as against 4.2 percent last year. Lower growth is because of the adverse impact of devastating flood destroying some of the livestock. However, recent surge in prices of livestock products and incentives provided for livestock may help in improving the value addition in the sector in the medium-term. With changing patterns of consumption, the consumption of livestock products has increased significantly. There are indications that price incentive might work for more livestock growth.

The *fertilizer off-take* declined by 11.3 percent, thereby representing less usage by the farmers. One reason might be higher prices as urea prices soared by 25.8 percent and DAP is expensive by 46.5 percent in the first nine months of the current fiscal year. Domestic production is up by 2.7 percent but import of fertilizer is down by 50.4 percent.

Disbursement of credit for agriculture sector has increased marginally by 1.4 percent in July-March 2010-11. This fall in disbursements is largely due to substantial decline of 23.7 percent seen in one specialized bank (ZTBL) which more than offset the 9.5 percent rise in disbursements made by commercial banks. The sluggish credit performance is partially contributed by risk-averse behavior of commercial banks and weaker activity in the aftermath of floods.

Large-scale manufacturing remained victim of power outages and lower domestic demand. Slowdown in large-scale manufacturing from earlier projected 4.9 percent to 1.7 percent (July-March 2010-11) reflects the impact of the severity of energy shortages and electricity tariff -hike leading to cost escalation. The positive terms of trade shock has helped improve competitiveness for textile sector in particular and other conventional exports based small and medium manufacturing sectors. We expect it to pick-up in months to come and improve growth performance further mainly because of capacity enhancement in some industries like fertilizer, and steel, and likely improvement in the sugar production to 4.1 million tons this year. The impact of these positive developments will feed into the growth during the period January-June 2011. Notably, the base effect will work adversely up to March 2011, and thereafter it may support growth momentum.

III. Inflation: As noted earlier Inflation has reared its head in the first half of the year and posed a challenge for economic management. Two price indices like CPI and SPI witnessed a clear downtrend in recent months; however, WPI remained on upward trajectory. The inflation rate as measured by the changes in Consumer Price Index (CPI) after reaching peak at 25.3 percent in August 2008, showing easing since November 2008 with slight variations. However, following massive supply disruptions in the aftermath of devastating floods, food inflation became sole driver of overall CPI. WPI inflation is primarily driven by inordinate spike in cotton prices because of its huge weight in the index. CPI inflation has moderated since January, 2011. The CPI inflation has escalated by 0.23 on month-on-month (M-o-M) basis and 13.2 percent on year-on-year (Y-o-Y) basis in May 2011. The cumulative increase in July-May 2010-11 is 14.0 percent as against 11.6 percent in the comparative period of last year. The recent slow-down in inflation has been due to better availability of food items, increased sugar production and a very good looking wheat crop that is exerting downward pressure on wheat and other products. The recent decline in cotton prices, continuing decline in sensitive price index and fiscal consolidation, particularly leading to a major reduction in SBP borrowings, give hope that in the months to come prices will continue to moderate though challenges will remain so long as international prices remain volatile.

The fact that inflation has so far been food and energy driven is reflected in persistent decline in core inflation throughout the period until March. Since March there is a small surge, but given the construction of the index, in the months ahead core inflation may show some upsurge. However, with abetment of increase in energy prices and a likely upside of floods which experts say will be reflected in better agriculture productivity due to improvement in the quality of soil, as is already showing in the Kharif crops, it is not apprehended that the resurgence in core inflation will neutralize the slow- down in food prices.

The *Wholesale Price Index (WPI)* during first eleven months of 2010-11 has increased by 23.2 percent, as against 12.2 percent in the comparable period of last year. It has declined from as high as 35.7 percent in August 2008 to almost zero percent (0.3%) in August 2009, reflecting impact of massive decline in commodity prices in the international market. The recent spike is mainly driven by surge in the textile and energy prices. WPI has moved up from 17.6 percent in June 2010 to 25.4 percent in March 2011, however, in April and May 2011, the WPI has shown moderation. The recent decline in cotton prices will dampen the WPI further in months to come.

The *Sensitive Price Indicator (SPI)* has recorded an increase of 17.9 percent during the period (Jul-May 2010-11) as against 12.9 percent in the same period of last year. The upward trend is again reflecting the impact of massive supply disruptions in the aftermath of floods. The SPI is on downward trajectory from its peak of 21.5 percent in December 2010 to 15.4 percent in May 2011. Going forward, the prices of edibles like meat, milk, and ghee/ cooking oil will be crucial in determining the fate of the SPI. In recent times, the weakly trend is consistently declining, which will have a positive effect on CPI provided there is no more shock that would adversely affect the WPI.

IV. MONETARY DEVELOPMENTS*:* The SBP has kept its tight monetary policy stance for some time. The SBP has raised the policy rate by 150 basis points (bps), staggered in three stages of 50 bps each, since July 2010. SBP raised the policy rate by 50 bps to 13 percent on 2nd August 2010. Soon after this the economy experienced an exogenous shock in the form of massive Floods which engulfed almost one-fifth of the country. The inflation became a challenge in the aftermath of the floods which compelled the SBP to raise the policy rate further by cumulative 100 bps points to 14 percent up to 30th November 2010. Since then the need for further adjustment in policy rate was not felt simply because the inflation had started moderating and fiscal discipline was restored, with government borrowing from SBP significantly brought down.

The efficacy of monetary policy to shave-off aggregate demand from the economy was affected due to unanticipated fiscal pressures emanating from revenue-expenditure mismatch.

During July 01, 2010-May 21, 2011, *money supply(M_2)* expanded by 11.7 percent against last year's expansion of 8.9 percent in the comparable period of last year. The reserve money expanded at much faster pace of 17.1 percent against the expansion of 13.6 percent in the comparable period of last year.

Net domestic assets (NDA) have increased by Rs.492.6 billion as compared to increase of Rs.487.6 billion in last year, thereby showing an increase of 9.4 percent in this period whereas, last year the growth in the comparable period was 10.5 percent. *Net foreign assets (NFA)* have recorded an expansion of Rs.184.6 billion against the contraction of Rs.31.8 billion in the comparable of last year. The NFA of the SBP accounted for big chunk of the improvement as it expanded by Rs.135.2 billion as against contraction of just Rs.5.9 billion in the comparable period of last year.

Government borrowing for budgetary support has recorded an increase of Rs.614.2 billion as compared to Rs.397.6 billion in the comparable period of the last year. The SBP financing has shown a net increase of Rs.146.8 billion and financing from scheduled banks witnessed a net increase of Rs.467.4 billion during July 01, 2010-May 21, 2011.

Credit to private sector witnessed a net increase of Rs.112.9 billion during July 01, 2010-May 21, 2011 as compared to Rs.115.5 billion in the comparable period of last year. SBP kept its monetary tightening stance during the fiscal year, further increasing the policy rate by 150 bps in three rounds. These policy measures were in response to carryover of macroeconomic stresses for some time and increase in real aggregate demand.

Weighted average lending rate increased from 13.3 percent in April 2010 to 14.4 percent in April 2011. ***Weighted average deposit rate*** on the other hand has fractionally decreased from 7.37 percent in April 2010 to 7.35 percent in April 2011 which implies increase in the spread amidst intensive deposit mobilization efforts on the part of the banks. The weighted average yields on 6 months T-bill has increased by almost 141 bases points to 13.46 percent in April 2011 as against 12.05 percent in April 2010.

V. FISCAL DEVELOPMENTS: Fiscal performance – both revenues and expenditures – have been affected by the floods and the policy adjustments in the face of global rise in prices of energy. The original estimates had to be revised in the light of these unprecedented happenings. Preliminary data suggests that the fiscal deficit is likely to remain between 4-4.5 percent of GDP in the first nine months of the current fiscal year. Part of the increase in the fiscal deficit is explainable on account of higher security related expenditures and the floods, however significant contribution to this increase came from higher subsidies, delay in adoption of tax measures, non-realization of auction of 3-G license and several petroleum related incomes which were affected due to non-resolution of circular debt problem in full. The emerging fiscal situation has reinforced the urgent need to broaden the tax base, rationalize expenditure and to better insulate the economy from shocks.

Although, initially a relatively higher reliance had to be placed on bank borrowings, particularly from SBP, over time this imbalance has been corrected and the share of non-bank borrowings has been significantly increased. Beginning with the Jan-March quarter, the constraint of zero SBP borrowing on a quarterly basis has been fully adhered to. At the End of March, SBP borrowings were recorded at minus Rs.16 billion compared to the level outstanding at end June, 2010. A number of steps were adopted to improve debt management which essentially focused on reducing reliance on bank borrowings. Government now aims to restrict banks' investment in government securities only to the extent required for meeting statutory requirements. For this purpose extensive marketing efforts are taken to encourage sell-down by banks of government securities to non-bank institutions and individuals while the system of national savings schemes is strengthened for mobilization of non-bank resources from the individuals.

The delayed taxation measures led to the revision of FBR target from Rs.1667 billion to Rs.1588 billion. However, with slowed economic activities, including a decline in the real growth rate, the growth in revenues in the first nine months was below expectation. Accordingly, a need for mid-course adjustment was felt. Accordingly, as part of fiscal consolidation a major effort was launched in March whereby three tax measures with a revenue potential of Rs.53 in a quarter were adopted. These included the imposition of a one-time flood-surcharge on income tax, an additional excise duty of 1% on some selected luxury items and removal of exemptions on many goods subject to sales tax. With these measures part of the revenue lost in the first three quarters due to delay in tax measures will be recouped and the impact of reduced revenues on fiscal deficit. The revised FBR target of Rs.1588 billion, though formidable, remains on track.

VI- External Sector: One bright feature of the first ten months (July-April) is the strength of the external sector. Phenomenal increase in remittances and robust growth in exports owing to sharp increase in the prices of cotton overshadowed the strong growth in imports, thereby generating the current account surplus of US$ 748 million or 0.3 percent of GDP. Overall external account has also shown improvement even when capital and current account receipts have continued to fall in this period.

Exports started recovery since January 2010 and grew marginally by 2.7 percent in 2009-10 — rising from $ 19.1 billion of last year to $ 19.6 billion. However, exports rose by 14.5 percent in the second half (January-June 2010) and by 27.5 percent in the first nine months of the current fiscal year (July-March 2010-11) which is really reflecting enormous pick-up in exports.

Textile sector accounted for 62 percent of buoyancy in export growth and that too is coming from the value added sector. Food group accounted for almost 17 percent increase in exports on the back of vegetables, wheat and tobacco. After living in the oblivion, leather products took advantage of escalation of commodity prices and non-traditional exports contributed 11.5 percent of exports growth. The upbeat in the export market is mostly price effect and the contribution of quantum impact is minimal. Pakistan has to strengthen its supply side to sustain current momentum in the exports because we have lost sizeable amount owing to supply constraints in terms of foregone exports.

Imports registered a negative growth of 2.3 percent in 2009-10. The imports stood at $32.3 billion as against $28.1 billion last year. Notwithstanding this negative growth, the import growth in January-June 2010 (second half of FY 10) is recorded at 18.5 percent and for the first ten months of CFY (July-April 2010-11) imports recorded a hefty growth of 14.7 percent. This implies substantial pick-up in the pace of imports during the last five quarters. This incorporates impact of higher oil and commodity prices for some time.

The food group accounted for 35.4 percent of import growth and, sugar and edible oil are responsible for one-fourth of imports growth. Escalation in POL prices in the international market has not impacted POL import bill significantly, mainly because of compensation coming from lower quantum terms imports of POL products. Upbeat in textile exports also reflected in imports composition as raw cotton and textile machinery is responsible for almost one-fourth of imports growth. The positive aspect of imports growth is some pick-up in raw material imports during last three months or so.

Trade Balance The merchandise trade deficit has improved and declined from $12.3 billion to $12.1 billion in July-April 2010-11. Substantial increase of 27.8 percent in exports outstripped otherwise buoyant growth of 14.7 percent in imports, which caused the trade deficit to improve by 2.2 percent. The improvement in the trade deficit is substantial in the January-April 2011 when trade deficit averaged $636 million per month as against $957 million in the period Jul-December 2010. In the month of April 2011, the trade deficit narrowed to just $236 million which implies substantial improvement in the trade deficit is yet to come. This reflects the impact of positive terms of trade shock as Pakistan's exports prices grew at much faster rate than import prices. Unit value of exports has increased by 37.1 percent as against increase of 23.4 percent in unit value of imports, thereby causing improvement in terms of trade indices by 59.3 percent. The improvement in unit value of exports is more pronounced in manufacturing category where it increased by 37.1 percent because of huge price boost to textile export prices.

Workers' remittances reached record $ 9.1 billion mark in the first ten months (July-April) of 2010-11as against $ 7.3 billion in the comparable period of last year, depicting an increase of 23.8 percent.

The remittances from Saudi Arabia recorded massive growth of 36.7 percent, followed by EU (38.3 percent), UK (34.9 percent) and UAE (25.7 percent). The remittances for the first time in the history crossed the one billion dollar mark in March and April 2011. This has raised the hope that workers' remittances will cross the $ 11 billion this year.

Current Account Balance Pakistan's current account balance shrank by 121.6 percent in the first ten months of 2010-11. The current account balance turned to surplus $748 million from deficit of $3456 million in the comparable period of last year. The improvement is broad based and improvements witnessed across the board in trade balance of goods and services, and income account while buoyancy in current transfers helped current account to turn into surplus. Current account absorbed extraordinary commodity and oil price shocks without impacting exchange rate or reserve accretion. This is mainly because of higher inflow of worker's remittances and sharp reduction in trade of goods and services deficit. The services credit also improved by 24.6 percent in comparison to just 6.6 percent increase on debit side.

Foreign Exchange Reserves amounted to $ 17.1 billion by the end of April 2011. Of this amount, reserves held by State Bank of Pakistan stood at $ 13.7 billion and by banks stood at $ 3.4 billion. The reserve coverage for import of goods and services has improved to 4.6 months. The improvement in reserves can also be attributed to account valuation impact and benefited from lower current account financing requirement.

Exchange rate remained more or less stable as rupee depreciated by just 2.2 percent in July-April 2010-11, however, Real Effective Exchange Rate (REER) appreciated by 0.8 percent in the period. Pakistan economy has witnessed unprecedented sustained exchange rate stability since January 2009. This is evident from the fact that REER had appreciated by 10.2 percent in 2009-10. Exchange rate stability could provide impetus to economic growth in normal circumstances.

Foreign direct investment (private) stood at $ 1,232 million during July-April 2010-11 as against $1,725 million in last year, thereby showing a decline of 29 percent. This is mainly due to volatile security condition in the country. Power, oil and gas and financial businesses remained the main attraction for foreign investors.

External Debt and Liabilities (EDL) stood at $ 59.5 billion by end-March 2011 up from end-June level of $55.9 billion. The major chunk originates from translation impact of weaker dollar against major currencies such as euro and yen. IMF outstanding stock stood at $8.9 billion as against $8.1 billion at end-June 2010. Similarly, Paris Club debt went up to $15.1 billion as against $14 billion, only on account of translation effect rather than fresh net disbursements. The net impact of cross-currency valuation cost net addition of $2.7 billion to the external debt stock while total addition to EDL was just $ 4 billion. This implies almost three fourth of addition to debt stock was coming from translational impact. Notwithstanding this adverse impact, EDL grew by just 6.4 percent which is the lowest ever increase in EDL stock in the last five years. Resultantly, the EDL stock in relative terms has decreased by 3.4 percentage points from 31.6 percent of GDP by end-June 2010 to 28.2 percent by end-March 2011. The debt burden as measured by EDL as percentage of foreign exchange earnings decreased from 146.6 percent by end-June 2010 to 127.2 percent by end-March 2011.

Conclusion

The present government started off its term with a inherited backlog of problems – deficits, electricity shortages, security expenditures, resettlement of IDPs, low growth and entrenched inflation. The year under review brought new and totally unexpected challenges such as the increase in the price of oil and the devastating floods that created huge losses to crop and livestock sector, physical infrastructure and the GDP. Despite all these challenges the performance of economy has been positive as elaborated in the early part of the chapter. The government has shown continuing resolve to take difficult decisions and pursue the path of reforms.

The economic stabilization program of the government includes measures like: (i) broadening of tax base through reformed GST and other tax measures; (ii) elimination of subsidies especially the power sector subsidies and (iii) amendment in SBP Act to place limit on government borrowing from SBP; and (iv) direct cash grants to poorest of the poor through Benazir Income Support Program (BISP) and Watan Card Scheme for flood affected people.

In addition to above; the reform agenda in the economic and financial sector also include:

- Restructuring of Public Sector Enterprises
- Power Sector Reforms
- Debt management strategy
- Fiscal austerity to reduce fiscal deficit
- Tight monetary policy to check inflation
- Building foreign exchange reserves to stabilize the exchange rate
- Promoting exports
- Incentivizing home remittance
- Strengthening social safety nets to mitigate impact of stabilization measures through Benazir Income Support Program (BISP)
- Promoting growth, and raising domestic revenues
- Rationalizing subsidy regime to reduce pressure on the budget
- Tax administration and policy reform to mobilize domestic resources.

The above reforms agenda is comprehensive as it takes into account the major challenges that remain on horizon. In the years ahead government is determined to sustain macroeconomic stability, spur growth through the new growth framework that relies more on building peoples, markets and institutions of governance and other softer sides of intervention as opposed to single-minded focused on brick and mortar infrastructure. Inclusive growth will only be possible when people are empowered and their productivities are enhanced to a level where they can compete confidently at the global level.

EXECUTIVE SUMMARY

Growth and Investment

The Real GDP is estimated to grow at 2.4 percent on the back of strong performance of services sector which is lower than target for the year at 4.5 percent as envisaged in the Annual Plan 2010-11. This deviation from the target is attributed to slower growth in the manufacturing and agriculture sector. The growth in the ***agriculture*** is estimated at 1.2 percent on the back of 3.7 percent growth in the ***livestock sector***. The slower growth is mainly because of recent flood driven downward adjustments in estimates of some of ***major crops*** like rice, and cotton. ***Minor crops*** are estimated at 4.1 percent mainly because of enormous price incentive available and its shock resistant nature. ***Large-scale manufacturing*** remained victim of power outages and lower domestic demand as it grew by 0.98 percent (July-February 2010-11 incorporated in the national accounts but the growth is now 1.7 percent in July-March 2010-11) as against 4.9 percent of last year. Deceleration in growth inhabits the impact of severity of energy shortages and electricity tariff hike leading to cost escalation. The positive terms of trade shock has helped improved competitiveness for textile sector in particular and other conventional exports based small and medium manufacturing sector. The underlying improvement is not reflected in large-scale manufacturing because they are mainly concentrated in the informal sector.

Services sector grew by 4.1 percent as against 2.9 percent last year. The main contributors to this growth are public admn and defence (13.2 percent), and social services sector (7.1 percent). The former because of 50 percent pay rise for government servants and higher defence spending, the later because of logistics support and flood generated social activities.

The contribution to economic growth is spearheaded by the services sector with 90 percent stake while only 10.0 percent contribution came from the Commodity Producing Sector (CPS). One of the important components of CPS, manufacturing alone contributed 23 percent to real GDP growth; however, this is more than neutralized by 25.4 percent negative contribution of relatively smaller sector, electricity and gas distribution. Thanks to 10.7 percent positive contribution from the agriculture, the overall negative contribution of the industrial sector could not prevent commodity producing sector to contribute positive 10.7 percent to the GDP growth. From demand side, it was totally consumption driven growth with negative contributions from net exports and investment.

Pakistan's ***per capita real income*** has risen by 0.7 percent in 2010-11 as against 2.9 percent last year. ***Per capita income in dollar term*** rose from $ 1073 last year to $ 1254 in 2010-11, thereby showing tremendous increase of 16.9 percent. This is mainly because of stable exchange rate as well as higher growth in nominal GNP. ***Real private consumption*** rose by 7.0 percent as against 4.0 percent attained last year. However, gross fixed capital formation lost its strong growth momentum and ***real fixed investment growth*** contracted by 0.4 percent as against the contraction of 6.1 percent in last fiscal year.

The ***total investment*** has declined from 22.5 percent of GDP in 2006-07 to 13.4 percent of GDP in 2010-11. The ***national savings*** rate has decreased to 13.8 percent of GDP in 2010-11 as against 15.4 percent of GDP last year. ***Domestic savings*** has also declined substantially from 16.3 percent of GDP in 2005-06 to 9.5 percent of GDP in 2010-11.

Agriculture

Agriculture still provides employment to 45 percent population and provides essential input for agro-based industry. Agriculture income has created demand for industrial products. Agriculture provided main impetus to economic growth by creating additional demand of goods and services as a result of higher prices of agricultural produce. As a result of inordinate spike in prices of major crops, an additional amount of Rs. 342 billion was transferred to the rural areas in 2010-11 alone. Contrary to this only Rs.329 billion were transferred to the rural areas on account of higher prices of major crops during the eight years (2001-2008). The highest ever wheat crop provided strength to the attainment of the objective of food security this year. Agriculture sector recorded modest growth of 1.2 percent in 2010-11 but provided much needed support to boost exports, revival of manufacturing sector and responsible for upbeat in the consumption. Given the enormous price inducement, the agriculture sector is likely to spearhead economic growth in the next fiscal year as well.

The agriculture has lost significant growth momentum as its growth slowed down to 2.7 percent in the decade of 2000s as against 4.4 percent in 1990s and 5.4 percent in the 1980s. The structural problems and lack of mechanization remained main impediment to growth. Major crops remained the victim of natural calamities during the last few years and three out of last four years witnessed negative growth in the major crop sector.

The unprecedented floods in July 2010 destroyed two major crops, i.e. rice and cotton. As reported by SUPARCO, an area of 2.364 million hectares under *Kharif* Crops 2010 was damaged. During the outgoing year 2010-11, the overall performance of agriculture sector exhibited a weaker growth mainly due to negative growth of major crops and forestry. Against the growth target of 3.8 percent, and previous year's performance of 0.6 percent, agriculture is estimated to grow by 1.2 percent. *Major crops*, accounting for 31.1 percent of agricultural value added, registered a negative growth of 4.0 percent for second year in a row mainly because of decrease in production of rice and cotton by 29.9 and 11.3 percent, respectively. *Minor crops* accounting for 10.9 percent of overall agriculture value addition, grew by 4.8 percent as against negative growth of last two years.

The *Livestock* sector having 55.1 percent stake in the agriculture sector was also impacted by the massive floods and witnessed marked slowdown recorded growth at 3.7 percent in 2010-11 as against 4.3 percent last year. The sector is immune from weather related problems and thus offers prospects for consistent growth. *Fishery* sector grew by 1.9 percent as against last year's growth of 1.4 percent. *Forestry* has experienced negative growth of 0.4 percent this year as compared to last year's positive growth of 2.2 percent.

Pakistan's agricultural performance is dependent upon availability of irrigation water. As against the normal surface water availability at canal heads of 103.5 Million Acre Feet (MAF), the overall (both for *Kharif* as well as *Rabi*) water availability has been less in the range of 2.5 percent (2005-06) to 20.6 percent (2004-05). Relatively speaking, *Kharif* season 2010 faced more shortage of water than any other *Kharif* season since 2003-04. During the current fiscal year (2010-11), the availability of water as a basic input for *Kharif* 2010 (for the crops such as rice, sugarcane and cotton) has been 20 percent less than the normal supplies and 21 percent less than last year's *Kharif* season. The water availability during Rabi season (for major crop such as wheat), is, however, estimated at 34.6 MAF, which is 5.0 percent less than the normal availability, and 38 percent more than last year's Rabi crop.

The domestic production of fertilizers during the first nine months (July-March) of the current fiscal year was up by 2.7 percent over the same period last year. The import of fertilizer decreased by 50 percent; hence, the total availability of fertilizer also decreased by 15 percent over the same period last year. Total off-take of fertilizer has also reduced by 11.3 percent.

Keeping in view the increasing demand of credit due to recent unprecedented floods and torrential rains in the country, the Agricultural Credit Advisor Committee (ACAC) has allocated agriculture credit disbursement target of Rs.270 billion for 2010-11 as compared to Rs.260 billion fixed for last year. Out of the total target, Rs. 181.3 billion were allocated to commercial banks, Rs. 81.8 billion to ZTBL and Rs. 6.9 billion to Punjab Provincial Cooperative Bank Limited(PPCBL). During the period (July-March ,2010-11), all the banks have disbursed Rs. 168.7 billion or 62.5 % of the target compared with disbursement of Rs. 166.3 billion during corresponding period last year.

Manufacturing

The performance of the Large Scale Manufacturing (LSM) sector during July-March remains victim of operational constraint on account of energy/gas shortages and devastating effects of flood 2010. It is evident from the fact that the momentum in growth was upset in the initial months of current fiscal year. The construction, petroleum refining, cotton textile and agro-based industries were strongly affected. Textile sector suffered heavily from the loss of cotton crop and other industries heavily dependent on gas i.e. fertilizer industry adversely affected by shortage in gas supply. However, LSM posted positive growth in December 2010 onwards. The major sectors contributed to positive trends in LSM are improvement in sugar production, automobile and strong external demand supported the growth in chemicals and leather. Moreover, significant rise in worker remittances as well as public and private transfers to the flood affected population and huge transfers to rural areas producing cotton and sugarcane has strongly impacted on the consumer demand for durable goods.

Quantum Index of Large Scale Manufacturing (QIM) managed to register positive growth of 1.71 percent during the period July-March 2010-11. Main contributors to this modest growth include leather products (30 percent), automobile (14.6 percent), food, beverages & tobacco (9.3 percent), paper & board (2.9 percent), chemical (1.4 percent), fertilizer (0.8 percent), pharmaceutical (0.5 percent) and textile (0.2 percent). However, some groups dragged index down with negative growth include; engineering product (15.4 percent), steel product (13.1 percent), electronic (12.9 percent), non-metallic minerals (9.6 percent) and petroleum products (4.2 percent).

Textile industry contributes about 60 percent to the total export earnings of the country, accounts for 46 percent of the total manufacturing and provides employment to 38 percent of the manufacturing labour force. Textile sector performance has shown slight improvement owing to spike in global prices and its production slightly increased.

The mining and quarrying sector is estimated to grow by 0.4 percent in 2010-11 as against 2.2 percent growth registered during last year. Natural gas, crude oil and dolomite posted positive growth of 1.9 percent, 1.1 percent and 5.9 percent, respectively during the current financial year. However, most of minerals witnessed negative growth rate during the period under review, the growth of coal declined by 4.0 percent, followed by chromite 39.3 percent, Magnesite 60.9 percent and barites 32.6 percent, respectively.

Fiscal Development

Intensification of war on terror put additional burden on public finances at a time when weaker domestic economic activity is taking its toll on revenue mobilization efforts. Fiscal balance deteriorated in 2009-10, and some adjustment is expected in fiscal deficit.

A low and declining tax-to-GDP ratio and increasing public debt stock has imposed a constraint on the size of fiscal stimulus to support revival of growth momentum needed for the economy. It was therefore, a number of economic and financial reforms were undertaken, that includes

- Rationalization of Expenditure
- Optimization of Available Resources
- Process Re-engineering and
- Efficiency of Operation
- Restructuring of Public Sector Enterprises
- Power Sector reforms

The government has also announced various temporary tax policy measures through Presidential Ordinance to generate additional revenues of Rs 53 billion during the last quarter of 2010-11. These are as follows:-

- Withdrawal of sales tax exemption on agriculture inputs like tractors, pesticides, and fertilizer both at domestic and import stages. Now these are subjected to 17 percent GST
- A onetime surcharge of 15 percent has been imposed on withholding and advance taxes payable during financial year 2011; and
- Special excise duty rate has been increased from 1 percent to 2.5 percent on non-essential items for the remaining period of tax year 2010-11.

Total expenditures witnessed an overall decline since 2007-08. The decline in total expenditure (1.7 percentage point of GDP) is shared by current expenditure (1.2 percentage points) and development expenditure (0.9 percentage points) during the past 3 years. However in 2010-11, the total expenditure is expected to reach at Rs. 3257 billion or 18.0 percent of GDP. On the other hand, total revenues are expected to rise by Rs 2,574 billion or 14.6 percent of GDP.

Fiscal deficit as a percentage of GDP has declined from 7.6 percent in 2007-08 to 5.3 percent in 2008-09 on account of a drastic cut in development expenditures. Nonetheless, the fiscal consolidation witnessed in 2008-09 evaporated with an increase in fiscal deficit by 6.3 percent in 2009-10, which was 1.5 percent more than the budget estimate for 2009-10 due to large additional subsidies for the electricity sector and higher security related expenditure. Meanwhile, the catastrophic floods, which hit Pakistan in the summer of 2010, reduced growth and posed a further challenge to public finances by depressing budget revenues and necessitating additional spending to meet the humanitarian and reconstruction needs, thereby necessitating upward adjustment in the fiscal deficit target from 4 percent of GDP at the time of budget announcement to 5.3 percent of GDP.

According to the consolidated revenue & expenditure of the government, total revenues grew by 6.2 percent during July-March 2010-11 and reached to Rs1,489 billion as compared to Rs1,402 billion in the same period last year. The increase is mostly coming from higher tax revenues partially contributed by direct taxes on the back of advance income tax payments and growth in taxes on goods and services and international trade due to increase in rupee imports. On the other hand, growth in non-tax revenues decreased by 5.7 percent mainly because of a decline in transfer of SBP profits.

Within overall revenues, FBR taxes witnessed a growth of 12.6 percent during July-April 2010-11, and reached at Rs 1,156 billion against Rs 1,026.5 billion in the same period last year. However, other tax revenues neutralized this growth. Negative growth in non-tax revenues neutralized further total revenue growth to just 6.2 percent. Total expenditure increased at much faster rate of 11.5 percent during July-March 2010-11 and thus widened the revenue-expenditure gap. Un-sustainability of the fiscal balance emanates from the persistent growth in expenditure caused by flood relief activities, security related expenditure and delay in the implementation of tax reforms. External resources for financing of budget deficit amounted to Rs 61 billion, and insufficiency of the external financing shifted more reliance on domestic resources to finance the fiscal deficit during July-March 2010-11. Fiscal deficit as a percentage of GDP stood at 4.3 percent during the first nine months of 2010-11 against the revised target of 5.3 percent for the whole fiscal year.

Money and Credit

Inflationary pressures were quite severe in the beginning of fiscal year 2010-11 and become worse by the devastating floods. Moreover, the dried up external financing flows due to difficulties in IMF program and insufficient funds from non-bank sources raised the pressures on SBP borrowing to finance the fiscal deficit through most of first half of fiscal year 2010-11. To target the inflation and to contain the aggregate demand induced risks to macroeconomic stability, SBP raised the policy rate by 150 basis points (bps), staggered in three stages of 50 bps each, since July 2010. SBP raised the policy rate by 50 bps to 13 percent on 2nd August 2010. Soon after which country experienced an exogenous shock in the form of Floods. Consequently, the rate was further increased by cumulative 100 bps points to 14 percent up to 30th November 2010. While keeping in view the risks to inflation and economic growth, SBP has decided to keep the policy rate unchanged at 14 percent on 29th January 2011.

The YoY growth in broad money (M2) increased sharply to 9.6 percent during July-April, 2011 against 8.1 percent in the corresponding period last year. Net Domestic Assets (NDA) during July-April 2011 reached at Rs 402.5 billion against Rs 446.1 billion during the same period last year. The expansion in NDA mainly attributed by a rise in demand for private sector credit and government borrowings.On the other hand the NFA of the banking system during the period under review had increased by Rs 153.2 billion after registering a significant decline of Rs 31.3 billion during the same period of last year. The increase is due to record inflow of worker remittances worth $9 billion which are expected to cross historical $11 billion mark by the end of current fiscal year.

The government borrowing from the banking system for budgetary support and commodity operations stood at Rs342.2 billion during July-April, 2011 on account of weak fiscal position.

Government has borrowed Rs 196.3 billion from the State Bank of Pakistan (SBP) , while Rs 275.9 billion has been borrowed from the scheduled banks during July- April, 2011. Less than expected non-bank and external financing for budgetray support have compelled the government to borrow from the SBP and scheduled banks since October 2010. Nevertheless, the govervment was heavily dependant on SBP borrowing till November 2010, that has witnessed some respite in the later half of December 2010 when the government retired a large part of its debt to SBP.

The credit to private sector during July-April, 2011 was Rs 156.7 billion compared to Rs 144.2 billion in the corresponding period last year. A strong growth has been witnessed since January 2010 that was mainly due to an increase in seasonal demand for working capital. More than half of private sector credit went to the textile sector showing higher input prices, especially that of cotton. Sector wise breakup of private sector credit also shows that sugar and textile industries were the major drivers to this increase, which respectively availed credit of Rs 105.6 billion and Rs 62 billion during Jul-March 2011.

Liquidity conditions in the money market remained fairly comfortable during July-March 2010-11 underpinned by the reduced government borrowings from the SBP and growth in bank deposits. SBP drained this excess liquidity not only through auctions, but also mopped up a significant amount through open market operations (OMOs). The SBP mopped up Rs 540.2 billion during July-March 2010-11 against the injections of Rs 1032.3 billion whereas in the comparable period of last year absorption of Rs 242.1 billion against the injection of Rs 3352.5 billion has taken place.

The SBP accepted Rs 2527.5 billion from the primary market of T-bills during July-March 2010-11 as compared to Rs 999 billion in the same period last year. Market offered a total amount of Rs 4018.5 billion during the first nine months of 2010-11.

Capital Markets

During the period from July-March 2010-11 the capital markets demonstrated wavering rising trend and posted modest gains. Pakistan's stock markets have remained buoyant during the first two quarters of the 2010-11 in terms of market index and market capitalization, which was remained steady till January 2011. In the current fiscal year, the Karachi Stock Exchange (KSE) retained its prominent position in Pakistan's capital markets, offering efficient, fair and transparent way of trading securities. This can be compared with any market in the region and enjoying full confidence of the investors. During the period July-March 2010-11, the benchmark KSE-100 index showed a steady growth subsiding the economic uncertainties like implementation of Reformed General Sale Tax (R-GST) and concerns over losses incurred by the massive floods across the country. The most concerning factor to highlight since the start of the fiscal year has been gradual deterioration of the market activity/volume. The KSE-100 index recorded a bullish trend during first half of the current fiscal year (CFY) as the market was trading around 12,000 at the end of December 2010. The KSE-100 index however, remained steady during the third quarter of 2010-11 and after touching at 12,682 on January 17, 2011 traded at 11810 points at the end of March. The main reason of better performance in mid May 2011 in the stock market and gearing up the momentum in the KSE-100 is considerable foreign investment. Investment in capital market during the period July-March 2010-11 by the foreign investors depicted a net inflow of US$ 301.5 million, but noteworthy contribution was made during the first two quarter of 2010-11. The leading stock markets of the world observed high growth during the fiscal year 2010-11 ranging from 8.1 percent in Japan to the highest market return up to 66.8 percent as peace dividend in Sri Lanka.

Pakistan Investment Bonds (PIBs together with the National Saving Scheme 9NSS) instruments primarily hold a larger portion of local fixed-income market. They provide the government with long-term maturity debt. State Bank Pakistan (SBP) held seven auctions in 2010-11 and government amassed Rs. 83.4 billion in 2010-11. To cope with the liquidity requirements of *Shariah* compliant banking institutions, the target for the auction of fourth GoP *Ijara Sukuk* is set at Rs 40 billion during Fiscal Year 2010-11 while it was 20.4 billion in revised budget in FY 2010. Three auctions were held in July-March 2010-11. Total amount offered for the said bids was Rs.179.3 billion against target of Rs.125 billion while Rs.136.5 billion were accepted. As of March 31, 2011 there were 3.8 million investors with different National Saving Schemes (NSS). During the fiscal year July-March 2010-11, net deposits with National Saving Schemes increased to Rs 1,822.4 billion.

Significant progress has been made on capital market reforms, including formulation of a comprehensive policy for dealing with companies in default of securities market laws to protect the investor, enhance transparency and improve member listing. In order to cater to the financing needs of the market and to bring in liquidity, the securities (Leveraged Markets and Pledging) Rules were finalized in coordination with the relevant stakeholders and promulgated on February 18, 2011. Rules provided the broader regulatory cover to the products of Margin Financing, Margin Trading and Securities Lending and Borrowing. Subsequently, the regulatory framework of the stock exchanges, the National Clearing Company of Pakistan limited (NCCPL) and the Central Depository Company of Pakistan Limited (CDC) was also amended to provide for the operational aspects of the said mechanisms.

Inflation

Inflation as measured by the changes in Consumer Price Index (CPI) has escalated by 1.62 on month-on-month (M-o-M) basis and 13.0 percent on year-on-year (Y-o-Y) basis in April 2011. The cumulative increase in July-April 2010-11 is 14.1 percent as against 11.5 percent in the comparative period of last year. During the last 10 months food has remained the major driver of the inflation on the back of major supply disruptions owing to devastating floods as well as spike in imported food stuff prices. ***Food inflation*** recorded at 18.4 percent while ***non-food*** component increased by 10.4 percent in this period.

The ***Wholesale Price Index (WPI)*** during first ten months of 2010-11 has increased by 23.3 percent, as against 11.3 percent in the comparable period of last year. The recent spike is mainly driven by upsurge in textile and energy prices. WPI has moved up from 17.6 percent in June 2010 to 25.9 percent in April 2011. The ***Sensitive Price Indicator (SPI)*** has recorded an increase of 18.5 percent during this period (Jul-April 2010-11) as against 11.3 percent in the same period of last year. The upward trend is again reflecting the impact of massive supply disruptions in the aftermath of floods. The SPI is on downward trajectory from its peak of 21.5 percent in December 2010 to 16.1 percent in April 2011.

The underlying factors for this spike are; rising international oil prices, spike in textile products prices and shortages of key consumer items in the market. However, inflation is largely driven by food prices enforcing the overall inflation to move up. The supply shocks adversely impacted food inflation and was more visible in prices of heavy weights like pulses, rice, meat, milk sugar and vegetables.

Trade and Payments

Pakistan economy witnessed current account surplus of $ 748 million during July-April 2010-11. This was possible by phenomenal increase in remittances, robust growth in exports primarily because of positive terms of trade shock that overshadowed the strong growth in imports, and stable exchange rate. Overall external account has also exhibited improvement even when capital and financial account receipts have continued to decrease during this period. Merchandise exports rose to $20.2 billion in July-April 2010-11 as against $ 15.8 billion in the comparable period of last year, thereby showing inordinate growth of 27.8 percent. The growth in exports remained broad based as almost all the groups (textile and non-textile) witnessed a high positive growth. However, the lion’s share of this year’s exports came from textile sector and food group contributing 61.8 percent and 18.1 percent, respectively to overall exports growth during the period under review.

Merchandise imports during increased to $ 32.3 billion in July-April 2010-11 as against $ 28.1 billion in the comparable period of last year, thereby showing an increase of 14.7 percent. The overall import bill is higher by $ 4.1 billion, reflecting the impact of higher global crude oil and commodity prices. The higher import bill is contributed by food group ($ 1,528 million), petroleum group ($ 678.3 million), consumer durables ($ 247 million), raw material group ($ 1,039 million), telecom ($ 245 million) and on other items group ($ 951 million). The price and quantity effects worked in the same direction; however price effect remained stronger than quantity effect.

During July-April 2010-11, the current account deficit turned to surplus of $748 million from deficit of $3,456 million in the comparable period of last year. This year’s improvement in current account is broad based as improvement witnessed across the board in all sub-components including balance of goods, services and income account while buoyancy in current transfers helped current account to turn it into surplus in the form of higher export growth, strong and sustained inflows of workers’ remittances, logistic support related receipts and grants received for flood relief. In the backdrop of improvement in all sub groups, the current account absorbed commodity and oil price shock of high intensity without impacting exchange rate or foreign exchange reserves. Within the current account, deficit in trade account contracted by 10.8 percent during July-April 2010-11 over the last year which remained at $8,285 million

Decline in services account deficit by 28.2 percent during July-April 2010-11 was the result of 24.7 percent growth in services exports that outpaced 6.6 percent growth in services imports. Robust growth in services exports came from logistic support receipts ($743 million), transportation ($1,188 million), travel ($289 million) and other business services ($573 million). Net inflows in the financial account declined to $412 million in July-April 2010-11as against $3,533 million during the same period last year. The massive decline in inflows is unevenly contributed by debt creating and non-debt creating inflows. The massive fall in disbursement of loans is witnessed. The inflow of disbursements of long term loans stood at $1964 million in July-April 2010-11 as compared to $3020 million in the comparable period of last year. Amortization payments witnessed some upsurge and resultantly net inflow of loans stood at $333 million as against $1472 million in the comparable period of last year.

On the other hand non-debt creating inflows registered negative growth of 7.1 percent by declining to $1491 million from $1605 million. Portfolio investment provided a cushion against worsening of financial account and recorded inflow of $298 million as against outflow of $48 million. FDI component registered much of the decline in non-debt creating inflows as Foreign direct investment (FDI) declined by 28.7 percent during July-April 2010-11 as a result of fall in equity capital and reinvested earnings. The decline in FDI in Pakistan mainly led by the domestic factors such as deteriorated law & order situation, energy crises, circular debt issues and weak economic activity.

Remittances for the first time in the history of Pakistan crossed the one billion dollar mark in a single month during March 2011 and remained over the one billion for second consecutive month in April 2011 which has boosted optimism about workers' remittances to cross the $11 billion this year. Pakistan Remittance Initiative (PRI) has removed many irritants and incentivizes routing of remittances through former channel. Workers' remittances totaled $9.1 billion in July-April 2010-11 as against $7.3 billion in the comparable period last year depicting an increase of 23.8 percent. This implies that worker remittances have increased by $ 1.8 billion in July-April 2010-11 which contributed by that amount in improvement of the current account balance. The recent upsurge in remittances can be attributed to the government's efforts for transformation of remittances from informal to formal channels. In addition to that increased support to flood affected relatives also contributed this improvement in remittances.

The rising trend in Pakistan's foreign exchange reserves continued unabated since 2008-09 and reached to $17.1 billion by end-April 2011. Out of $17.1 billion, reserves held by SBP stood at $13.7 billion and by banks stood at $3.4 billion.

The continued build up in foreign exchange reserves, a surplus in the current account balance and a sufficient inflow of remittances through official banking channels have strengthened Pak rupee vis-à-vis the US dollar both in the inter-bank and open market. During July-April 2010-11, the Pakistan's rupee against US dollar depreciated by 2.2 percent against the 6.6 percent depreciation in same period last year. This comparative stability in rupee mainly owes to improvement in country's overall external account surplus position during the period.

External and Domestic Debt

Public Debt increased by Rs 1162 billion in the first nine months of 2010-11, reaching a total outstanding amount of Rs. 1,002,0 billion; an increase of 13.1 percent in nominal terms. The primary source of increase in public debt during July-March, 2011 has been a sharp rise in local currency component that accounted for 69.7 percent of the total increase in total public debt. This was primarily due to the slower disbursement from multilateral and bilateral donors and higher than budgeted fiscal deficit. The external debt component grew by Rs 275 billion or 6.4 percent partially due to increased foreign public debt inflows and partly because of cross-currency translation effect. Public debt as percent of GDP has decreased to 55.5 percent by end-March 2011 after hovering around to 60 percent of GDP for two years.

External debt and liabilities (EDL) During the first nine months of the current fiscal year 2010-11, Pakistan's total external debt increased from $55.9 billion at end-June 2010 to $ 59.5 billion by end-March 2011 — an increase of US $ 3.6 billion or 6.4 percent which is lowest growth in EDL in the last five years. The EDL experienced an expansion of 14.1 percent and 13.4 percent in fiscal year 2008 and 2009, respectively mainly because of huge inflow of IMF SBA amount. A falling current account deficit, low foreign currency debt creating flows and depreciation of USD against other foreign currencies were the main factors associated with muted growth witnessed in EDL. In relative terms, EDL as percentage of GDP decreased from 31.6 percent at end-June 2010 to 28.2 percent by end-March 2011— a decrease of 3.4 percentage points.

Domestic Debt is positioned at Rs 5462.2 billion at end-March 2011 which implies net addition of Rs.803.9 billion in the nine months of the current fiscal year. In relation to GDP the domestic debt stood at 30.2 percent of GDP which is lower than end-June 2010 level at 31.4 percent. The domestic debt grew by 17.3 percent which is lower than last years' growth of 20.7 percent. The focus on deficit financing through internal sources owing to non-availability of external receipts has been the major cause.

The composition of major components shaping the domestic debt portfolio has undergone a complete transformation from a high dominance of unfunded debt to an increasing dependence on floating component of domestic debt. Since 2004, the unfunded category comprising about 45 percent of the aggregate debt stock has declined to 29.3 percent of the total during July-March, 2011. The share of permanent debt has also decreased over the same period and it stood at 18.5 percent by end-March 2011. Contrary to this, the share of floating debt (short term domestic debt) increased from 27 percent in the period 2004 to 52.2 percent at end-March 2011.

Since 2006-07, domestic debt witnessed a sharp rise with consequent build-up in the interest payments. Interest payments as percent of GDP has peaked to 4.4 percent of GDP in 2008-09 but since then declined persistently to 2.5 percent of GDP in 2010-11. This also incorporates impact of higher nominal GDP growth. Higher fiscal deficit and enormous slippages in the revenue and expenditure targets remained key problems. Supplementing to the intensity of the situation was a policy overhang and the monetization of the deficit through central bank borrowings.

Education

Educated human capital has been found to have strong and consistent positive effects on economic growth and productivity of a country. It reflects substantial impact on the degree of social cohesion in a country. An extremely high portion of the education budget is spent on recurrent heads, mainly comprising of salaries in contrast to the meager amount spent on quality improvements, such as teacher's training, curriculum development, supervision, monitoring etc; therefore, additional funds must be allocated for the purpose.

According to the latest Pakistan Labour Force Survey 2009-10, the overall literacy rate (age 10 years and above) is 57.7 percent (69.5 percent for male and 45.2 percent for female) compared to 57.4 percent (69.3 percent for male and 44.7 percent for female) for 2008-09. The comparative shares of literate depict marginal improvement in the profile of educational attainment. Nevertheless, all categories remain at the same level except a sort of increase in below matric (37.5 percent). Generally, males are more educated compared to females.

Under President's *Fanni Maharat Programme* individuals, across the country are provided opportunities to gain skills from vocational training institutes/ centres. Prime Minister's *Hunar Mand Pakistan Programme* is also a similar kind of step to launch different skill development programme, in four priority sectors including: Construction, Agriculture, IT and Telecommunication and skills for women. Higher Education Commission is an autonomous body to provide inter-universities cooperation and coordination. The institute has produced many Ph.Ds during last few years.

Health and Nutrition

A good quality of life and access to good health is recognized as a basic human need and a fundamental human right. Several programs are underway with major thrust to improve health care and training. By the year 2010, there are 144,901 physicians, 10508 dentists, 73,244 nurses, and 27.153 midwives. Besides, there are 972 hospitals in the country with total of 104,137 hospital beds, 4,842 dispensaries and 5,344 basic health units (BHUs) mostly in rural areas. Special attention has been given to the training of nurses, and several training centers are in operation.

Major initiative taken to overcome nutrient problem/ issue in public and private sector include expanded Benazir Income Support Program, Pakistan Baitul Mal Food Security Program, Vitamin A supplementation to children under five year of age and micro-nutrient deficiency control program etc. An allocation of Rs.16.9 billion during the year 2010-11 has been made in the PSDP for 82 projects.

Population, Labour Force and Employment

The population of Pakistan is estimated at 177.10 million by end-June 2011 and growing at the rate of 2.05 percent per annum. Being the 6th largest populous country Pakistan shares the 2.55 percent of the total population of the world and if the existing trend remains unchanged it will reach 210.1 million in 2020 (NIPS) and will become the 3rd most populous country in 2050. The density of population per person is 222. According to the NIPS and P&D Division Punjab has 96.55 million population of the Pakistan. Sindh has 42.18, KPK 23.77 and Balochistan is with 9.07 million people. Capital Territory of Islamabad constitutes 1.33 million while Federally Administered Tribal Area has 4.20 million of population.

Population trends are best explained by CBR (Crude birth rate), and CDR (Crude Death Rate). These show the growth and decline of a population per thousand births while IMR (Infant Mortality Rate) is the number of newborns who dies before celebrating their first birth day. If we see the pattern from the last decade we find that in nineties CBR, CDR and IMR were 36.4, 9.4 persons and 94 infants respectively and in 2011 these are 27.50, 7.30 persons and 7.50 infants respectively. If we analyze the trends of these indicators we stumble on a gradual improvement because of revolutionary progress in medical science.

Presently, Pakistan is going to become young as 60 percent of its population will be in the range of 15-65 years of age and it will continue to increase resulting in low dependency ratio and increasing working age population /labour force. This gradual shift to a youthful age structure in Pakistan is due to the declines in birth and death rates that occur at the beginning of the demographic transition.

According to the Labour Force Survey 2009-10, with a population of 173.51 million, Pakistan has a labour force of 54.92 million people which is 1.20 million more than the previous year. The proportion of both, male and female, is increased by 0.53 and 0.67 million, respectively. Unemployment rate is fractionally higher than the previous i.e. 5.6 in 2009-10 and 5.5 in 2008-09.

Crude Participation Rate (33.0 percent) suggests fractional improvement as compared to that of LFS 2008-09 (32.8 percent). In case of Refined Participation Rate, though with wider rural-urban and male-female disparity it also shows a little gain as compared to previous survey i.e. 45.9 percent from 45.7 percent. Agriculture dominates the distribution of the employed persons among all the major sectors leading at 45.0 percent in 2009-10, wholesale and retail exhibited 16.3 percent and manufacturing has the share of 13.2 percent.

Poverty

The floods of 2010 have caused a significant loss to poverty reduction efforts. The areas affected by floods were consistently lagging behind in terms of socio-economic and educational indicators as compared to the areas unaffected by floods. The loss to infrastructure and livelihood sources will push them behind further.

ADB's recently issued study on "Global Food Price Inflation and Developing Asia", maintains that a 10 percent rise in domestic food prices in Pakistan for one year could push an additional 3.47 million people below the $1.25-a-day poverty line or worsen poverty situation by 2.2 percentage points. Global food prices rose by more than 30 percent year-on-year between March 2010 and March 2011 with serious consequences for the poor as they are very sensitive to these items. Food inflation in Pakistan has averaged 18 percent for the last four years which implies significant deterioration of purchasing power of the poor. The precise impact of this build-up in prices could not be determined until availability of results of the Household Income Expenditure Survey (HIES) component of PSLM Survey 2010-11 the work on which has already started.

Change in poverty headcount is strongly correlated with change in per capita GDP growth. An analysis of 3 year moving average of changes in per capita income and commensurate impact on reduction in poverty headcounts suggests that large reductions in poverty headcount are associated with substantial growth in per capita GDP during 2002-2006.

Pakistan's commitment to reduce poverty in the medium term was first reflected in. The overall vision of Poverty Reduction Strategy Paper PRSP-II is to steer Pakistan`s economic growth back to the range of 5-7 percent a year by stimulating growth in the production sector; creating adequate employment opportunities; improving income distribution; and harnessing the country`s economic competitiveness through economic liberalization, deregulation and transparent privatization. The strategy recognizes that to steer Pakistan back on path of broad-based growth, create jobs, and reduce poverty, a prolonged period of macroeconomic stability, financial discipline and sound policies is required.

The Government prioritized the 17 pro-poor sectors through the Medium Term Expenditure Framework (MTEF) from 2008-09 to 2010-11 in the PRSP-II. The MTEF provides a link between policy priorities and budget realities. Fiscal Responsibility and Debt Limitation Act, 2005 stipulates that expenditures on social and poverty related spending would not be less than 4.5 percent of GDP in any given year. An amount of Rs.482.6 has been spent on these areas during July-December 2010 which is 15.8 percent higher than in the comparable period of last year.

The social safety nets are major initiatives to reinforce the government's efforts to reduce the adverse effects of poverty on the poor. The social safety nets program include **Benazir Income Support Programme (BISP)** envisages cash grants of Rs 1,000 every month to the females of each qualifying household having a monthly income of less than Rs 6,000 through banks/post offices with the aim to ameliorate the conditions of the poorest of the poor by directly accessing them and supplementing their sources of income. Additionally to enhance self-employment, some registered beneficiaries of BISP under the current targeting mechanism are selected through a monthly draw under *Waseela-e- Haq* and each of them are provided with an interest-free loan worth Rs. 0.3 million, repayable in installments over a period of 15 years. The government is also working on various microfinance initiatives in collaboration with the SBP and multilateral institutions to generate employment and combat poverty.

14. Transport and Communication

The devastating flood of 2010 caused a severe blow to the road infrastructure. Many sections of the roads in Punjab, Sindh, Balochistan and Khyber Pakhtoonkhwa (KPK) were wiped out by unprecedented flood. According to report "Pakistan Flood, 2011: "Preliminary Damage and Need Assessment", about 10 percent of the road-network (approximately 25,000 Km) sustained the highest damage within the transport and communication sector causing a loss of about 1.2 billion US dollars. The reconstruction requirement of the road-sector has been estimated at 2.07 billion US dollars.

During the Calendar year 2010, PIA earned the revenue of around Rs. 107 billion as compared to last year Rs. 94.6 billion showing an increase of 13 percent. Despite the aforementioned performance overall financial position of the organization is grim and management is in process of taking remedial steps to address the same.

The Karachi Port Trust (KPT) handled cargo over 20.8 million tons during July-December 2010-11. The consolidated revenues of Pakistan National Shipping Corporation (PNSC) group for the quarter ended March 31, 2011 were Rs 2,552 million (including Rs. 1,043million from PNSC), making a total of Rs. 6,772 million (including Rs.1,805 million from PNSC) for the nine months under review as against Rs. 5,583 million for the nine moths ended march 31, 2010. The Gwadar Port started its commercial operations in March 2008 by handling the 1st biggest ship ever berthed at any port of Pakistan namely 76000 DWT Panamax Bulker POS Glory which discharged a total of 63000 M.Tons of wheat. Since then a total of approx. 120 ships have been handled up to 31st January 2011 at Gwadar Port carrying total cargo of 2,286,781 M.Tons. In Port Qasim, a total of 13.1 million tones of cargo were handled during Jul-Dec. 2010.

In terms of statistics, industry has shown positive growth of 3.5 percent during the current fiscal year. Total Teledensity reached 65.2 percent (Dec – 10), Cellular mobile sector took lead in the increase of teledensity, offsetting the dwindling figure of fixed/wired line teledensity. Emergence of effective competition between telecom operators continued in telecom sector benefiting the consumer in terms of lowering tariffs and unraveling costly investment possibilities. Cellular mobile companies are now moving towards lowest possible tariffs and offering wide range of data services as well. Cellular industry has a 94.6 percent share in total telecom teledensity followed by FLL 2.9 percent and WLL 2.5 percent, therefore, performance of cellular industry is of utmost importance to the overall sector growth.

Energy

Economic growth and energy demand are correlated with economic growth. The government is making efforts to cover up the demand supply gap. Import of LNG, rental power stations, increase in oil and gas exploration in the country, development of Thar Coal field, increasing the share of electricity by expanding nuclear facilities, hauling of existing power generation plants to enhance their generation capacity and exploiting the alternate energy sources are all steps taken by the government to meet the energy needs.

The energy sector of Pakistan comprises of Oil, Gas, Electricity and Coal. The overall energy supply stood at 48.01 MTOE during July-March 2010-11, showing an increase of 1.93 percent. The supply of electricity and coal increased by 8.32 and 11.32 percent respectively thus, contributing positively in overall increase in energy supply. The gas sector supply slightly increased by 0.1 percent. Whereas, supply of crude oil decreased by 3.2 million barrels and thus posting a negative growth of 8.2 percent.

Production of crude oil has increased to 65,996.50 barrels per day during July-March 2010-11, as against 65,245.69 barrels per day in the corresponding period last year. The overall production has increased to 18.08 million barrels during July-March 2010-11 from 17.88 million barrels during the corresponding period last year showing an increase of 1.15 percent. The transport sector consumed 47.82 percent of petroleum products, followed by power sector (42.84 percent), industry (6.66 percent), other government (1.93 percent), household (0.49 percent) and agriculture (0.26 percent).

The average production of natural gas per day stood at 4050.84 million cubic feet during July-March 2010-11, as compared to 4,048.76 million cubic feet over the same period last year. The overall production of gas has increased to 1,109,930.16 million cubic feet during July-March 2010-11 as compared to 1,109,360.24 million cubic feet in the same period last year, showing an increase of 0.05 percent. The power sector consumed 23.81 percent of gas followed by industrial (20.15 percent), household (16.75 percent), fertilizer (15.04 percent), commercial (2.45 percent) and cement sector (0.05 percent) during the period under review. By March 2011, about 2.5 million vehicles have been converted to CNG making Pakistan the largest CNG consuming country. Presently, there are 3329 CNG stations operating throughout the country.

The total installed capacity of PEPCO system is 20,681 MW as of March 2010, compared to 20,190 MW in first nine months of the last fiscal year. Out of 20,681 MW, the hydro production is 6555 MW and the thermal production is 14,126 MW. The hydropower capacity accounts for 31.7 percent and thermal 68.3 percent. During July to March 2010-11, the total installed capacity of WAPDA stood at 11,439 MW. Out of 14,126 MW of thermal power, 4829 MW is owned by ex-WAPDA GENCOs, 323 MW by rentals, 665 MW by PAEC and rest by IPPs. During the first nine month of current fiscal year, WAPDA generated 66,928 GWh of electricity as against 64,935 GWh in the same period last year showing an increase of 3.07 percent. The household sector consumed 42.92 percent of the total electricity generated followed by Industrial (25.10 percent), agriculture (12.28 percent), KESC (7.53 percent) and commercial (6.53 percent). By March 2011, 160,110 villages have been electrified.

During July-March 2010-11, 5.85 million tons of coal has been supplied to different sectors of the economy compared to 5.304 million tons during the same period last fiscal year thus posted an increase of 10.29 percent. Brick kilns and cement industry consumed 56.6 percent and 42.7 percent respectively of the supplied coal. The government is also developing Thar Coalfield in order to increase the share of coal in energy mix and to reduce dependency on expensive imported fuel.

Environment

The environmental concerns of Pakistan are associated primarily with the adverse impact of un-sustainable social and economic development. High population growth rate, lack of public awareness of environmental related education, mismanagement of natural resources, widely unplanned urban and industrial expansions are the core hard issues. These are further compounded with the rapid urbanization.

Average population density of 222 persons per sq km in Pakistan, higher than many other developing countries, whose 37 percent people live in urban areas and 63 percent in rural has a high rate of migration to urban centers which has made the cities dysfunctional, overcrowded and very congested. Rapid urbanization is putting the available insufficient infrastructure under enormous pressure and causing environmental debacles of great magnitude. Serious risks of irreversible damages are present due to air and water pollution, mismanagement of solid waste and destruction of fragile ecosystems.

Pakistan is the highly urbanized country in South Asia with 37 percent concentration causing environmental problems such as pollution, waste management, congestion and the destruction of fragile ecosystems. Urban air pollution remains one of the most significant environmental problems, facing the cities. Motorcycles and rickshaws, due to their two stroke (2 strokes) engines, are the most inefficient in burning fuel and contribute most to emissions. 2-stroke vehicles are responsible for emission of very fine inhalable particles that settled in lungs and cause respiratory diseases. The 2-stroke vehicles industry is performing fast in Pakistan and has increased by 142.6 percent in 2010-11 when compared with the year 2000-01. Rickshaws have grown by more than 24 percent while motorcycles and scooters have more than doubled since 2000-01.

CNG is promoted as an alternate motor fuel for Pakistan's market to reduce pressure on petroleum imports and to curb air pollution. Presently, 3329 CNG stations are operating in the country and 2.50 million vehicles are using CNG as fuel. Use of CNG as fuel in transport sector has observed a quantum leap, replacing traditional fuels. National Environment Quality Standard (NEQS) for Motor Vehicle Exhaust & Noise (Amended), 2010 have been approved to control the vehicular emissions. It has been decided that: (i) all petrol driven vehicles imported or manufactured locally will comply with Euro-II emission standards with effect from July 2009. Existing models if not complying with Euro-II emission standards will have to switch over to Euro-II models by no later than three years, If not immediately: (ii) all diesel driven vehicles imported or manufactured locally will comply with Euro-II emission standards with effect from July, 2012.

The National Standards for Drinking Water Quality (NSDWQ) were approved to improve the water quality and to provide the public with the safe drinking water. Pakistan is committed to achieve the MDG target of halving by 2015 the proportion of people without sustainable access to safe and improved sanitation. Strategic direction, capacity development, and monitoring and evaluation, as well as investments, are primarily the responsibility of the provincial governments through the provincial line departments.

Climate change is one of the most complex challenges of the new century; Pakistan like other developing countries remained extremely vulnerable to the impacts of climate change. The most serious concerns are the threat to water and food security of the country and the vulnerability of its costal areas. Other climate change related concerns include increased risks and extreme events (floods, droughts and cyclones) and adverse impact of forests, biodiversity human health etc. Implementation of the climate change programme under Tenth Five Years Plan will be carried out through coordinated efforts of the relevant ministries to secure ample resources and their effective utilization The following areas will be targeted through mitigation and adaptation measures as well as studies to enhance our understanding for Pakistan specific needs.

1 Growth and Investment

I. INTRODUCTION

The economy has considerably lost significant growth momentum during last three years as the economic growth averaged just 2.6 percent as against 5.3 percent in the preceding eight years. There are many reasons for deceleration of growth momentum like massive terms of trade shock of 2008, global financial crisis, intensification of war on terror, security hazards and high profile killings.

During the year 2010-11, the economy's capacity to withstand internal and external pressures of extreme nature was tested by devastating floods that engulfed one-fifth of the country, jeopardize fiscal consolidation efforts of the government already recovering from rehabilitation of half a million internally displaced persons (IDPs) from Sawat. The problem was further compounded by paucity of resources as a result of lukewarm response from development partners. The economy was also confronted with inherited structural problems like acute energy shortages and fiscal profligacy. The government is striving hard to win political support for sustainability and ownership of critical reforms in the areas of taxation and power sector.

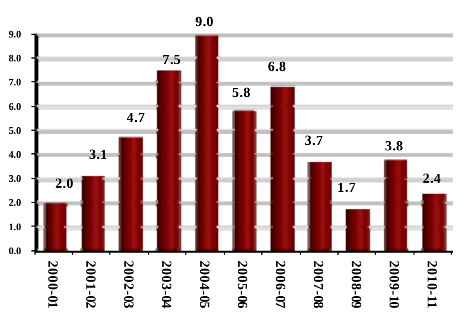
The domestic environment is still affected by the intensification of war on terror and volatile security situation while external environment is affected by uncertainties surrounding external inflows and oil prices. Notwithstanding substantial improvement in the current account balance, the external sector vulnerabilities needs a review especially in the backdrop of spike in international crude oil prices which bounced back from as low as $33 per barrel in January 2009 to beyond $120 in May 2011. Pakistan economy still faces pressures from higher inflation driven mainly by spike in food prices, acute power shortages, modest growth in tax revenues amidst rising security related expenditure thereby, putting pressure on fiscal deficit; lower than anticipated inflows and growing absolute financing requirements. Abatement of inflationary pressure remained oblivious and prices depicted stubbornness. Pakistan's economy weathered an unprecedented set of challenges during 2010-11, however, the resolve to take challenges head on is even greater.

The economy suffered a significant supply shock in the aftermath of devastating floods of July 2010 in addition to massive disruptions in provision of energy. A spill-over effect of the European debt crisis was felt on debt and fiscal sustainability of Pakistan. Finally, the year witnessed the intensification of domestic security challenge which has exacted an extremely high cost on the economy, both in terms of direct costs of the fight against extremism, as well as in terms of a knock-on effect on investment inflows and market confidence. A significant collateral impact has been borne by Pakistan in terms of the squeezing of fiscal space for critical development and social sector expenditures that hampered growth prospects in future.

Real GDP growth in the outgoing year is now estimated at 2.4 percent compared to 3.8 percent in the previous fiscal year. This compares with 4.4 percent projected growth for the global GDP, 6.5 percent growth in developing countries and 8.7 percent in South Asia. The commodity producing sector recorded a rise of only 0.5 percent – the lowest since 1992-93. The figure of 2.4 percent incorporates July-February 2010-11 figure of LSM growth at 0.98 percent, however, inclusion of March 2011 number (leading to July-March growth to 1.7 percent), the figure of GDP growth may go up if reviewed by the National Accounts Committee. The services sector on the back of public administration & defence, and social services, contributed lion's share of this modest growth rate. Gross fixed investment declined substantially, from 22.5 percent of GDP in 2006-07 to 13.4 percent provisionally in 2010-11. This is the lowest ever investment rate in four decades. More importantly the private sector witnessed a significant fall and recorded lowest ratio since 1998-99. This implies a significant deterioration in the job creating ability of the economy.

While the economic environment in Pakistan remained inhospitable for growth and investment during 2010-11, a comprehensive growth strategy is being evolved, to increase productivity, efficiency, and competitiveness of the economy, and to ensure high growth rates that are both sustainable as well as more equitable. In addition, and equally fundamentally, a pivotal element of the stabilization program included putting in place direct income support measures to protect the poor and vulnerable sections of the population through BISP. The government is now expanding the social safety net to a broader platform of social development, the scale of which is unprecedented in Pakistan's history.

Fig-1.1: GDP Growth (%)



Despite negative effects on the economy of a host of challenges during 2010-11, especially with regard to growth, when viewed in the global context, Pakistan's economic performance has not been out of sync with its peers, as highlighted in the following section.

Global developments

The world economy is moving from a post-crisis bounce-back phase of the recovery to slower but still solid growth this year and next, with developing countries contributing almost half of global growth. Global economy is witnessing a kind of transformation from single pole (US) economy to multi-polar economy. The growth powerhouse is gradually shifting more towards emerging economies rather than developed economies as was the practice before. The World Economic Outlook estimates that global GDP, after expanding by 5.0 percent in 2010, will slow to 4.4 percent in 2011, before it reaches 4.5 percent in 2012. The recovery is not able to mitigate concerns regarding high unemployment in advanced economies, while new macroeconomic challenges are building-up in many emerging economies.

The handoff from public to private demand is progressing and trying to dispel the impression that diminishing fiscal policy support might fuel recession. However, weak sovereign balance sheets and high funding requirements of banks and sovereigns are posing downside risks to recovery in advanced economies. Downside risks to upbeat in developing economies is emanating from higher commodity prices, notably for crude oil, geopolitical uncertainty especially in the Middle East as well as overheating and booming asset markets. Strengthening the recovery in developed economies will require keeping monetary policy accommodative, inflation expectations well anchored, and implementing fiscal consolidation plans supported by stronger fiscal rules and institutions.

US has to make a sizable dent in the projected medium-term twin deficits either through broader measures such as social security and tax reforms or trim discretionary spending. In Japan, the immediate fiscal priority is to support reconstruction and after tackling reconstruction, fiscal strategy should focus on bringing down the public debt ratio over the medium term. In the euro area, despite significant progress, markets remain apprehensive about the prospects of countries under market pressure.

In the euro area significant progress is made by providing low-cost, and flexible funding to support strong fiscal adjustment, bank restructuring, and reforms to promote competitiveness and growth. However, to bridge trust deficit, credible and ambitious stress tests for euro area banks should be introduced in addition to prevalent restructuring and recapitalization programs.

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

Region/Country	2007-08	2008-09	2009-10	2010-11	2011-12
World GDP		**-0.5**	**5.0**	**4.4**	4.5
Euro Area	0.4	-4.1	1.7	1.6	1.8
United States	0.0	-2.6	2.8	2.8	2.9
Japan	-1.2	-6.3	3.9	1.4	2.1
Germany	0.7	-4.7	3.5	2.5	2.1
Canada	0.5	-2.5	3.1	2.8	2.6
Developing Countries		2.7	7.3	6.5	6.5
China	9.6	9.2	10.3	9.6	9.5
Hong Kong SAR	2.3	-2.7	6.8	5.4	4.2
Korea	2.3	0.2	6.1	4.5	4.2
Singapore	6.6	0.6	2.8	3.3	3.0
Vietnam	6.3	5.3	6.8	6.3	6.8
			ASEAN		
Indonesia	6.0	4.6	6.1	6.2	6.5
Malaysia	4.7	-1.7	7.2	5.5	5.2
Thailand	2.5	-2.3	7.8	4.0	4.5
Philippines	3.7	1.1	7.3	5.0	5.0
			South Asia		
India	6.2	6.8	10.4	8.2	7.8
Bangladesh	6.0	5.8	6.0	6.3	6.6
Sri Lanka	6.0	3.8	9.1	6.9	6.5
Pakistan	***3.7***	***1.7***	***3.8***	***2.4***	4.2
			Middle East		
Saudi Arabia	4.2	0.6	3.7	7.5	3.0
Kuwait	5.0	-5.2	2.0	5.3	5.1
Iran	1.0	0.1	1.0	0.0	3.0
Egypt	7.2	4.7	5.1	1.0	4.0
			Africa		
Algeria	2.4	2.4	3.3	3.6	3.2
Morocco	5.6	4.9	3.2	3.9	4.6
Tunisia	4.5	3.1	3.7	1.3	5.6
Nigeria	6.0	7.0	8.4	6.9	6.6
Kenya	1.6	2.6	5.0	5.7	6.5
South Africa	3.6	-1.7	2.8	3.5	3.8

Source: World Economic Outlook (IMF), April 2011.

Developing countries are expected to grow by 7.3 percent in 2010 and then stabilize at 6.5 percent in 2011 and 2012. They will continue to outstrip growth in high-income countries, which is projected at 3.0 percent in 2010, 2.4 in 2011 and 2.6 percent in 2012 [See Table-1.1]. In most developing countries, GDP has regained levels that would have prevailed had there been no boom-bust cycle. The recovery in several economies in emerging Europe and Central Asia and in some high-income countries is tentative if corrective domestic policies, high household debt and unemployment, and weak housing and banking sectors are not taken care of.

In much of Latin America and Asia and in low-income countries in sub-Saharan Africa, economic growth returned to pre-crisis peaks, and many economies have already moved into expansionary mode. Resurgence of growth momentum is being boosted by accommodative macroeconomic policies, rising exports and commodity prices, and in some cases rising capital inflows. Growth prospects in sub-Saharan Africa are buoyant on the back of sustained strength in domestic demand and rising global demand for commodities. Economic prospects in the Middle East are contingent upon political stability. Emerging economies of Eastern Europe and Commonwealth of Independent States (CIS) were heavily affected by the crisis, but now growth is rebounding.

South Asia's real GDP growth accelerated to an estimated 8.7 percent in 2010-11 from 7.0 percent in 2009-10, buoyed by very strong growth in India, which represents 80 percent of regional GDP. Excluding India, regional GDP growth (on a fiscal year basis) firmed to a modest 5.1 percent from 4.3 percent the year before. On a calendar year basis, GDP for the region as a whole is estimated to have expanded 8.4 percent in 2010 after 5.3 percent in 2009 and to 4.8 percent in 2010 from 3.8 percent in 2009 if India is excluded.

These strong growth rates mainly reflect robust domestic demand, supported by macroeconomic policy stimulus measures, and a revival in investor and consumer sentiment along with improved external demand and stronger private capital inflows. In Pakistan, however, a standstill on policy implementation, severe disruption tied to massive flooding and continued security problems have constrained economic activity. Macroeconomic policy in South Asia is accommodative, given the strength of regional economic activity and relative to other regions (where growth has generally not gained as strong of a footing). While policy interest-rates have been raised (beginning in mid-March 2010 in India, and, in November 2010, in Bangladesh and Pakistan), monetary policy normalization is incomplete and real interest rates remain negative.

Box-1: Impact of Higher Food and Crude Oil Prices on GDP Growth

The year-on-year increase in global food prices is 34.2 percent and for Brent crude oil 39.9 percent in February 2011. This hike in international prices have begun to be reflected in domestic prices in developing Asian economies— the nearly 30% increase in global food prices in January has translated to an average of about 10 percent food inflation in a number of regional economies and ultimately reflecting in hikes in general inflation rates. It is also expected that these will have impacts on the performance of the broader economy. ADB uses the Oxford Economics global model to assess such impacts by generating projections of key economic variables for a sample of 10 developing Asian economies [China; Hong Kong China, India; Indonesia; South Korea; Malaysia; Philippines; Singapore; Taipei, China; and Thailand].

The Study assumes that monetary authorities in the region will adopt a gradual tightening stance in the next 2 years as recovery takes firm hold. Using this model, the Study traces the impacts on developing Asia of the continued rise in commodity prices. Two scenarios were adopted to simulate the effects of global price hike on gross domestic product (GDP) growth of the 10 regional economies. Worldwide food prices have risen by an average of 31.2 percent in the first 2 months of 2011 compared to year-ago levels. For Scenario 1, therefore, the study look at the effects of a 30 percent average increase in the global prices of food in 2011 from the 2010 level. Assuming that the food price shock is temporary, in 2012, we revert to the rate of change currently assumed in the model (5 percent decline).

In the second scenario, the international price of Brent crude oil is assumed to rise as well in 2011 on top of the assumed hike in global food prices. Increases in global crude oil prices have implications for movements in input costs such as fertilizer prices, irrigation with diesel pumps, and general transport costs. For Scenario 2, the increases in both global food and Brent crude oil prices are assumed to reach 30 percent this year on average. The assumed rates of change in the model for food and Brent crude oil prices witness a 5 percent decline for food and 3.1 percent decline for Brent crude oil in 2012.

Now the results of these two scenarios can be compared with a baseline that maintains the global prices of food and Brent crude oil in 2011 and 2012 to the average levels recorded in 2010. The simulation results from Scenario 1 suggest that increases in global food prices would lead to higher inflation and slower economic expansion in developing Asia. Net food importers are expected to be hardest hit by the international commodity price inflation. Singapore is highly vulnerable to inflationary pressures because it completely reliant on the global food market. Inflation is also expected to rise in countries with a large share of food in the consumer price index.

As consumer prices increase forces Central Banks to raise policy rates to exercise control over domestic inflation.

Higher interest rates will pull down investment rates, and higher inflation will crimp private consumption. The combined effect of these two forces will bring down GDP growth for some food-importing countries by up to 0.6 percentage points this year.

Note that for a number of economies, the impacts on GDP growth are stronger in 2012 compared to 2011, as the model takes time to adjust to the exogenous shock in food prices. In India, Indonesia, and Malaysia, in particular, the adverse effects of the increase in global food prices in 2011 tend to take a larger toll on GDP growth in 2012 rather than in 2011.

Under Scenario 2, international food and crude oil prices both rising by 30 percent in 2011 and moderately falling in 2012, the impacts on inflation are much larger, particularly because consumer prices for fuel tend to move with global oil prices. The impacts on GDP growth are also more pronounced, with an estimated decline of up to 1.5 percentage points in 2011. The impact would be much higher in net importers of both food and crude oil. Larger hikes in global commodity prices are expected to result in even bigger impacts on GDP growth in developing Asian economies. For illustrative purposes, we trace the impacts of a 50 percent rise in global food prices in 2011 and find that GDP growth in food-importing countries in the region could fall by up to 1.2 percentage points in 2011. When both international prices of food and Brent crude oil increase by 50% this year, GDP growth could decline by up to 2.8 percentage points. These results assume that central banks adjust policy rates in response to the rise in inflation rates.

[Source: Global Food Price Inflation in Developing Asia: March 2011, Asian Development Bank]

The growth strategy being followed in the past, had invariably produced boom-bust cycles, while international experience suggests, the economies that have sustained high growth over substantial periods (say, two or more decades) have seen a lasting reduction in poverty. East Asian countries such as Korea, Malaysia, China, Taiwan, Singapore, and Hong Kong offer clear examples of sustained growth. Macroeconomic stability is the key to sustain high economic growth for longer periods. The persistence of high economic growth and not a short sequence of bust and boom that characterized the Pakistan economy over the years is the best hope for poverty alleviation and better income distribution. The government is embarking on a fundamental change of the development paradigm and the new growth strategy seeks to foster sustainable and more equitable growth by means of structural improvements in the productive sectors of Pakistan’s economy.

After analyzing the overall growth, investment and consumption, it is imperative to look into the growth performance of the various components of Gross National Product for the year 2010-11 in the historical context. The performance of the various components of national income over the last two and a half decades is summarized in Table 1.2.

II. Commodity Producing Sector (CPS)

The Commodity Producing Sector (CPS) has performed below par during the last two decades, mainly owing to persistent slowdown in the growth of agriculture sector. It is comprised of production sectors like agriculture and industry. Its share in the GDP has declined from 49.3 percent in 1999-2000 to 46.7 percent, which implies deterioration in the job creating ability of the economy. The erosion of share of agriculture by 5 percentage points is mainly responsible for this decline. Much alarming thing than share of GDP is loss of growth momentum in the agriculture sector as its growth decelerated from 5.4 percent in 1980s to 4.4 percent in the 1990s and then to just 2.7 percent in the last decade of 2000s. Barring small and medium manufacturing, and livestock subsectors, the growth performance of its main components remained lackluster at best. In the industrial sector the massive negative contribution from electricity and gas distribution sector to the GDP growth is neutralized by positive contributions from manufacturing sector but still its overall contribution remained fractionally negative. Adding contributions from agriculture sector, the overall contribution to the GDP growth stood at 10 percent. This is the performance of the CPS that has not been seen in more than a decade [See Table 1.2].

Table 1.2: Growth Performance of Components of Gross National Product
(% Growth at Constant Factor Cost)

	1980's	1990's	2000's	2004-05	2007-08	2008-09	2009-10	2010-11
Commodity Producing Sector	**6.5**	**4.6**	**4.5**	**9.5**	**1.3**	**1.8**	**4.7**	**0.5**
1. Agriculture	5.4	4.4	2.7	6.5	1.0	4.0	0.6	1.2
- Major Crops	3.4	3.5	1.7	17.7	-6.4	7.8	-2.4	-4.0
- Minor Crops	4.1	4.6	0.2	1.5	10.9	-1.2	-7.8	4.8
- Livestock	5.3	6.4	4.5	2.3	4.2	3.1	4.3	3.7
- Fishing	7.3	3.6	4.0	0.6	9.2	2.3	1.4	1.9
- Forestry	6.4	-5.2	-4.0	-32.4	-13.0	-3.0	2.2	-0.4
2. Mining & Quarrying	9.5	2.7	5.7	10.0	4.4	-0.5	2.2	0.4
3. Manufacturing	8.2	4.8	7.4	15.5	4.8	-3.6	5.5	3.0
- Large Scale	8.2	3.6	7.8	19.9	4.0	-8.1	4.9	1.0
- Small Scale *	8.4	7.8	4.6	7.5	7.5	7.5	7.5	7.5
4. Construction	4.7	2.6	6.0	18.6	-5.5	-11.2	28.4	0.8
5. Electricity & Gas Distribution	10.1	7.4	5.0	-5.7	-23.6	59.0	17.7	-21.1
Services Sector	**6.6**	**4.6**	**5.1**	**8.5**	**6.0**	**1.7**	**2.9**	**4.1**
6. Transport, Storage and Comm.	6.2	5.1	3.7	3.4	3.8	3.6	2.8	1.3
7. Wholesale & Retail Trade	7.2	3.7	4.6	12.0	5.3	-1.4	4.6	3.9
8. Finance & Insurance	6.0	5.8	9.1	30.8	11.1	-7.6	-11.3	-6.3
9. Ownership of Dwellings	7.9	5.3	3.5	3.5	3.5	3.5	3.5	1.8
10.Public Administration & Defence	5.4	2.8	4.5	0.6	1.2	3.6	2.5	13.2
11.Services	6.5	6.5	7.6	6.6	9.8	8.9	7.8	7.1
12.GDP (Constant Factor Cost)	**6.1**	**4.6**	**4.8**	**9.0**	**3.7**	**1.7**	**3.8**	**2.4**
13.GNP (Constant Factor Cost)	5.5	4.0	5.3	**8.7**	**3.7**	**2.2**	**4.8**	**2.9**

** Slaughtering is included in small scale* *Source: FBS*

II.i. Agriculture

The share of agriculture in GDP gradually shrank to 20.9 percent in 2010-11 from 25.9 percent of GDP in 1999-2000. Notwithstanding, declining share overwhelming majority of the population depends directly or indirectly on income streams generated by the agriculture sector. The agriculture sector remained the dominant sector with its job absorption ability and it still absorbs 44 percent of the country's labour force. It gives a kick-start to aggregate demand for industrial goods and services as well.

Erosion of growth momentum in the sector raises some serious policy question regarding viability of the sector. From water management to disbursement of agriculture credit, mechanization, availability of quality inputs including seeds, fertilizer and pesticides, a holistic policy package aimed at addressing structural issues is required to reap full potential of the sector. Diversification towards less weather sensitive areas like livestock can be done very easily. Revamping agriculture is critical for enhancing job creating ability of the economy.

The agriculture sector consists of crops, livestock, fishing and forestry sub-sectors. The crop sub-sector is further divided into major crops (primarily wheat, cotton, rice, sugarcane, maize and gram) and minor crops (such as pulses, potatoes, onions, chilies and garlic). Historically, the crops sub-sector has had the largest share of the agriculture sector, but with changing patterns of income and expenditure, the crop sector accounts for 37 percent of agriculture. The crop sector has the potential to influence the overall performance of the agriculture sector and in the current year it recorded negative real growth of 4 percent but still higher output prices are manifested in higher production and import of durables. Recent trends point towards a reduction in the share of the crops sub-sector. The share of crops in agriculture has declined from 65.1 percent in 1990-91 to 37.5 percent in 2010-11. Global integration, rising incomes and living standards as well as changing dietary patterns across regions have caused a paradigm structural shift in consumption of livestock and dairy product. The share of livestock in agriculture has increased from 29.8 percent to 55.8 percent in the same period.

Agriculture sector has recorded a modest growth of 2.1 percent as compared to 0.6 percent achieved last year and a target of 3.8 percent for the year. The sluggish performance is mainly attributed to a sharp downturn in the value addition in the major crops sub-sector owing to devastating floods impacting rice and cotton output but helped recovery in wheat output. The sugarcane benefited from excess availability of irrigation water. ***Minor crops*** registered a growth rate of 4.8 percent compared to the target of 3.0 percent and massive negative growth of 7.8 percent last year. Smaller sub-sector fishing posted a modest growth of 1.9 percent while forestry continued its historical negative growth by declining by 0.4 percent. A detailed analysis of the performance of each of the sub-sectors of agriculture is given below:

Major Crops accounting for 31.1 percent of agricultural value added registered negative growth of 4.0 percent compared to a negative growth of 2.4 percent last year and a target of 3.7 percent. Almost all major crops breached the target except sugarcane where production exceeded the target. The wheat which accounts for 13.1 percent of the agriculture and 39 percent of major crops has witnessed a record crop at 24.2 million tons — higher by 3.9 percent over last year's crop size. The rice crop recorded lowest ever production since 2002 owing to massive destruction of crop in the devastating floods. Another victim of floods is the important crop of cotton, with 6.9 percent stake in agriculture and 21.4 percent in value addition of major crops, witnessed 9.0 percent decline in its production at 11.6 million bales. Other major crops jawar, tobacco, barley, oil seeds and maize depicted mixed trends but their stake is small.

Minor crops, accounting for 10.9 percent of value added in overall agriculture, grew by 4.8 percent which is improvement on the 7.8 percent negative growth of last year. Production of pulses has declined by 18.1 percent which has added to the supply side shock to the food inflation. Vegetables contributed much of the growth in the minor crops by growing at 9.5 percent. The production of all fruits grew by 1.8 percent, out of which production of citrus fruits grew marginally by 0.9 percent whereas production of other fruits including dry fruits grew by 2.1 percent.

Livestock: With rising incomes, globalization and changing dietary patterns, the consumption of livestock products has increased significantly. The price of livestock items has remained a major contributor to inflationary pressures in Pakistan's economy for some time. The demand for livestock has grown at a phenomenal pace. The upsurge in prices has provided incentives for greater production and thus prospects for growth. The sector witnessed major setback in the aftermath of the floods as a result of massive displacement and loss of the livestock. The share of livestock in the value addition of agriculture sector inched up to 55.1 percent in 2010-11 as against 50.8 percent in 2006-07. The sector is providing the livelihoods to about 36 million people in the rural areas who depend directly or indirectly on the livestock and dairy sector. It accounts for 11.5 percent of GDP. Over the years, it has emerged as a major alternative source of income in the rural areas, particularly for the landless poor. Livestock includes: cattle, buffalos, sheep, goats, camels, horses, asses and mules. The livestock sector grew by 3.7 percent in 2010-11 compared to 4.2 percent last year. Poultry & products grew by 7.0 percent while milk production grew by 3.3 percent only. Given the price incentive available in the market, the livestock sector offer great prospects for economic growth.

Fisheries accounting for only 0.4 percent of GDP, recorded growth of 1.9 percent as against 1.4 percent growth of last year. Components of fisheries such as marine fishing and inland fishing, contributed to an overall increase in value addition in the *fisheries* sub-sector. Marine fisheries registered a growth of 0.7 percent compared to 1.2 percent last year. Inland fish segment also registered a growth of 1.9 percent compared to 1.4 percent of last year. ***Forestry*** accounts for 0.2 percent of GDP and value addition contracted by 0.4 percent compared to an expansion of 2.2 percent last year.

II.ii. Manufacturing

The manufacturing sector has been hard hit by international and domestic factors. Besides, law and order and acute power outages, resulting in loss of working hours, this sector has also fallen victim to rising cost of production. Continuous power breakdowns are preventing industries from operating at far less than their optimal level. All these factors have caused a slowdown in output.

The ***manufacturing sector*** is witnessing gradual build-up in its share in the GDP during the last three years from 18.2 percent to 18.7 percent however, it is the lower than its peak level of 19.2 percent in 2007-08. Output in the manufacturing sector has witnessed expansion of 3 percent in 2010-11 as compared to expansion of 5.5 percent last year on the back of strong performance from small and medium manufacturing sector while large-scale manufacturing remained affected by structural problems and energy crisis. ***Small and medium manufacturing sector*** maintained its healthy growth of last year at 7.5 percent.

Large scale manufacturing which accounts for 12.1 percent stake in GDP faced the significant loss in growth momentum for last few years, and depicted a marginal growth of 0.98 percent during July-February 2010-11 compared to 4.9 percent in the same period last year. Slower growth is because of the fact that LSM remained victim of power outages and lower domestic demand. Deceleration in growth inhabits the impact of severity of energy shortages and electricity tariff hike leading to cost escalation. The positive terms of trade shock has helped improved competitiveness for textile sector in particular and other conventional exports based small and medium manufacturing sector. The underlying improvement is not reflected in large-scale manufacturing because they are mainly concentrated in the informal sector.

LSM is expected it to pick-up on the back of capacity enhancement in some industries like fertilizer, and steel, and likely improvement in the sugar production to 4.1 million tons this year. The impact of these positive developments will fed into the growth during the period February-June 2011.

Main contributors to this modest growth include; automobile (18.2 percent), leather products (14.9 percent), paper & board (4.5 percent), pharmaceuticals (3.9 percent), chemicals (3 percent), engineering items (2.5 percent), electronics (2.2 percent) and textile (1.0 percent). However, some groups dragged index down with negative growth include; non-metallic minerals (10.7 percent), metallic industries (8.7 percent), fertilizers (6.8 percent), petroleum products (4.8 percent), tyres & tubes (4.8 percent) and food, beverages & tobacco (2.3 percent).

II.iii. Mining and Quarrying

Extraction of minerals and ores through efficient mining and quarrying provides convenient and economical access to raw materials and provides a competitive edge to developing countries. The mining and quarrying sector witnessed the second lowest growth in more than a decade and grew by 0.4 percent in 2010-11 as compared to 2.2 percent growth last year and a target of 2.1 percent. The contribution of this sector towards GDP has shrunk considerably at around 2.4 percent from peak 2.7 percent in 2004-05. Within the sector, the output of crude oil and natural gas has increased by modest 0.7 percent and 1.1 percent, respectively, whereas, the extraction of coal registered substantial decline of 10.6 percent. Because much of the country's mining reserves exist in remote areas, infrastructure improvements are necessary to attract higher investment in this sector and as investment in mining is coming from abroad, improvement in the security situation is crucial in boosting this sector.

II.iv. Services Sector

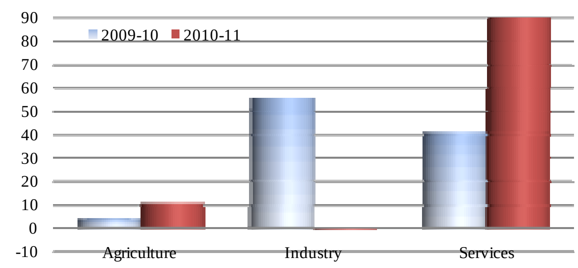
The services sector has emerged as the main driver of economic growth in recent years and it outpaced the growth in commodity producing sectors during last one decade. Pakistan has also seen a major transformation in the economic structure and the share of the services sector has risen to 53.3 percent in 2010-11 which is highest share in last two decades. The services sector grew by 4.1 percent against the target of 4.7 percent and actual outcome of 2.9 percent.

The services sector has made a contribution of 90 percent to the GDP growth. The services sector has been an important contributor to Pakistan's economic growth over the past many years. In the decade of 2000s it has grown at an average of 5.5 percent annually which is lower than its average growth of 6.6 percent in the 1980s but higher than its growth in the 1990s. The continuing buoyant trend, even while growth in the industrial sectors has been slowing, implies that the services sector in Pakistan has been relatively insulated from the challenges faced by the rest of the economy and has been better able to cope with them.

The sector consists of the following sub-sectors: Transport, storage and communication; wholesale & retail trade; finance and insurance; ownership of dwellings; public administration and defence; and social services. The current year's performance is dominated by public administration and defence and social services where value addition grew by 13.2 percent and 7.1 percent, respectively. The former because of 50 percent pay rise for government servants and higher defence spending, the later because of logistics support and flood generated social activities. ***Finance and insurance sector*** displayed a contraction in value addition for the last three years as its value addition decreased on average by 8.4 percent. However, on the eve of the global financial meltdown the contagion is well observed in Pakistan's banking and financial sector. The performance of this sector shows that Pakistan's financial sector is integrated in the world economy and feeling the heat of the financial crisis plaguing international financial markets. Finance and insurance sector recorded negative growth of 6.3 percent in 2010-11 as against contraction of 11.3 percent last year. The ***Transport, Storage and Communication*** sub-sector depicted a sharp deceleration in growth during the last three years as it grew on average 2.5 percent in as compared to 3.8 percent witnessed in the last eight years preceding these three years. Value added in this ***sector*** is based primarily on the profits and losses of Pakistan Railways, Pakistan International Airlines and other airlines, Pakistan Posts & Courier Services, Pak Telecom and motor vehicles of different kinds on the road. Mechanized road transport has depicted a growth of 2.8 percent, followed by storage (3.8 percent). The value addition of Pakistan Railways has declined substantially. Other sectors that showed a decline are; communication (12.1 percent) and pipeline transport (15.9 percent). Value added in the ***wholesale and retail trade sector*** is based on the margins taken by traders on the transaction of commodities traded in the wholesale and retail market. In 2010-11, this sector grew at 3.9 percent as compared to 4.6 percent last year and the target for the year of 5.1 percent.

Public administration and defense posted a stellar growth of 13.2 percent as compared to 2.5 percent in last year. The estimates of this sector are based on budgeted figures of federal, provincial, district and local governments. The performance of this sector far outstripped the target of 5.0 percent mainly due to a positive change in the wage component of public sector employees, and an increase in defense and security related expenditures. Growth in the ***Ownership of Dwellings*** has remained constant at 3.5 percent for the past 5 years but it was badly impacted by other factors. ***Social Services Sector*** grew by 7.1 percent which is slightly higher than the target of 5.0 percent but lower than last year's actual growth of 7.8 percent.

Fig-1.2:Contribution to the Real GDP Growth



III. Contribution to Real GDP Growth (Production Approach)

The contribution to economic growth is spearheaded by the services sector with 90 percent stake while only 10.0 percent contribution came from the Commodity Producing Sector (CPS). One of the important components of CPS, manufacturing alone contributed 23 percent to real GDP growth; however, this is more than neutralized by 25.4 percent negative contribution of relatively smaller sector, electricity and gas distribution. Thanks to 10.7 percent positive contribution from the agriculture, the overall negative contribution of the industrial sector could not prevent commodity producing sector to contribute positive 10.7 percent to the GDP growth.

The overall below par performance of the Commodity Producing Sector was overshadowed by exceptional growth in the Services sector. The modest growth of just 2.4 percent is shared between CPS (0.24) and services sector (2.15). Within the CPS, agriculture contributed 0.26 percentage points or 10.7 percent to overall GDP growth (a significant increase from its contribution of only 3.4 percent last year) while industry dragged 0.02 percentage points or 0.7 percent to neutralize to some fraction of positive contribution of the agriculture sector [See table 1.3 and fig. 2 for details]. In the services sector major contributions to GDP growth came from public admn and defence (0.79 percentage points or 33.1 percent), wholesale & retail trade (0.65 percentage points or 27.1 percent) and social services (0.84 percentage points or 38.6 percent). Going forward diversification in favour of more positive contribution from commodity producing sector is required for a more inclusive growth.

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

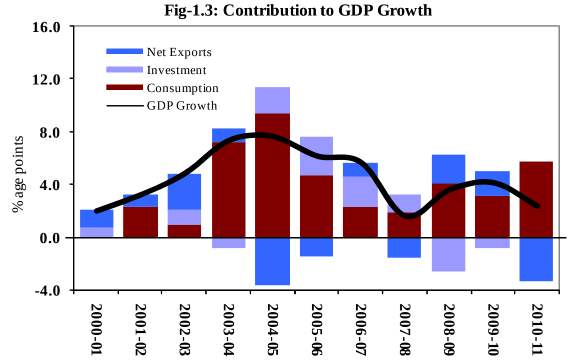
Sector	2006-07	2007-08	2008-09	2009-10	2010-11
Agriculture	0.92	0.23	0.86	0.13	0.26
Industry	2.28	0.38	-0.03	2.09	-0.02
- Manufacturing	1.55	0.92	-0.69	1.01	0.55
Services	3.61	3.08	0.89	1.54	2.15
Real GDP (Fc)	6.81	3.68	1.72	3.76	2.39

Source: Federal Bureau of Statistics.

IV. Contribution to Economic Growth (Aggregate Demand Side Analysis)

Consumption, investment, net exports are figuratively described as the 'three horses of Troika' that drives economic growth. In all economies the expansion of output is the sum of consumption (both private and government) plus investment (public and private) plus net exports of goods and services (exports minus imports). Pakistan's economic growth like many other developing countries is historically characterized as consumption-led growth. The consumption remained the major driver of growth as it accounts for 85 percent share in overall GDP and with real growth of 7 percent in private consumption and 7.5 percent in government consumption in 2010-11, the growth kept its heavy dependence on consumption amidst massive demand compression measures and stabilization efforts since 2008. The GDP market price grew by 2.4 percent contrary to 4.1 percent growth in the GDP factor cost. The contribution of the consumption sharply decelerated from over 100 percent in the last two years to just 76.5 percent in 2010-11. Within consumption, the private consumption remained very strong and contributed twice as much to the GDP and ample support from government consumption; however, net exports dragged the contribution down by a huge margin. The share of investment in real GDP (mp) growth remained negative for the third consecutive year, implying structural weaknesses in the economy.

Fig-1.3: Contribution to GDP Growth



The terms of trade in real terms has improved for the last three years significantly as the exports prices outpaced the import prices, thereby leading to Real Effective Exchange Rate (REER) appreciation. However, buoyancy in exports is not supported by increases in quantum terms and it is purely price effect which is leading exports in the current fiscal year. As we exclude price impact in calculating real exports, the contribution of net exports is neutralizing 59 percent of the contribution from other sectors. The contribution of net exports has traditionally been negative for most part of our history and but it had contributed positively by accounting for big chunk of real GDP (mp) growth in 2009-10. The balance between investment and consumption which had improved during second half of 2000s, adversely disturbed in the last three years (2008-09 to 2010-11) [See Table 1.4 and Fig. 1.3].

Table-1.4: Composition of GDP Growth

	Point Contribution						
Flows	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**
Private Consumption	9.2	0.8	3.4	-1.9	8.3	3.0	5.1
Public Consumption	0.1	3.9	-1.1	3.8	-4.2	0.2	0.6
Total Consumption [C]	9.4	4.7	2.3	1.9	4.1	3.2	5.8
Gross Fixed Investment	1.8	2.9	2.2	1.3	-2.7	-0.9	-0.05
Change in Stocks	0.1	0.1	0.1	0.0	0.1	0.1	0.04
Total Investment [I]	2.0	2.9	2.3	1.3	-2.7	-0.9	-0.02
Exports (Goods & Serv.) [X]	1.7	1.8	0.4	-1.0	-0.6	2.5	-2.5
Imports (Goods & Serv.) [M]	5.4	3.2	-0.7	0.6	-2.7	0.6	0.9
Net Exports [X-M]	***-3.7***	***-1.5***	***1.1***	***-1.6***	***2.2***	***1.8***	***-3.4***
Aggregate Demand (C+I+X)	13.0	9.4	5.0	2.2	0.9	4.8	3.3
Domestic Demand (C+I)	11.3	7.6	4.6	3.2	1.4	2.3	5.7
GDP MP	***7.7***	***6.2***	***5.7***	***1.6***	***3.6***	***4.1***	***2.4***

Source: Federal Bureau of Statistics.

Private consumption reached to its largest share of GDP in the last decade at 76.8 percent and accounted for 217 percent of real GDP growth and total consumption with 85.8 percent stake in size of GDP accounted for 244 percent of GDP (mp) growth. Most alarming part of the composition of aggregate demand is coming from fixed investment. Its contribution to economic growth has become fractionally negative and it is third year in a row when investment is negatively contributing towards economic growth. The improvement in the current account balance was unable to translate into positive contribution of net exports. The obvious reason being imports are driven by quantum impact whereas; exports are driven by price factor. Elimination of price effect in real GDP growth reinforced a huge negative contribution of the net export sector emanating mainly from exports.

The investment rate was rising since 2004-05, and reached its peak of 22.5 percent of GDP in 2006-07, however, amidst extraordinary headwinds, the investment to GDP ratio declined since then persistently to 13.4 percent of GDP in 2010-11. Domestic demand remained strength of Pakistan's growth experience and this year too, domestic demand on the back of higher agriculture prices driven buoyant private consumption remained the hallmark of the modest growth this year. National savings have shown their inadequacy for financing even the lower level of investment in the country. The national savings rate has nose-dived to 13.0 percent of GDP in 2010-11 compared to 13.1 percent of GDP last year.

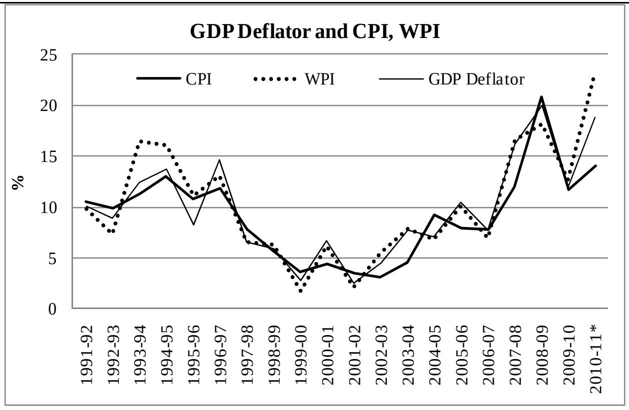
Box-2: GDP Deflator and its relation with Other Price Indices

It is norm around the world to analyze price situation through various indices. The coverage, composition and weights of basket of each index are always different. Abnormal increase in decrease of one or few items may affect different indices differently. In Pakistan's case, four prices indices are commonly referred to for different purposes. CPI, WPI and SPI are three most common indices available every month. The incidence of inflation in these three indices is totally different. The GDP deflator is one index which is available only once in a year. If we look into the data of last 21 years, one thing is interesting; GDP deflator always fell well between CPI and WPI. The price movement in four major crops has always determined the differential between two indices. The support price adjustment of wheat in 2007-08 from Rs.625 per 40 Kg to Rs.950 per 40 Kg have caused the major difference in the two indices and CPI index surged by 12 percent while WPI indices surged by 16 percent.

Comparative Movement of Price Indices

	CPI	GDP Deflator	WPI	Unit Value of Exports	Unit Value of Imports
	Yearly Average (%)				
2001-02	3.5	2.5	2.1	-0.1	0.04
2002-03	3.1	4.4	5.6	-6.3	3.7
2003-04	4.6	7.7	7.9	10.1	14.8
2004-05	9.3	7.0	6.7	3.3	10.4
2005-06	7.9	10.5	10.1	3.6	17.3
2006-07	7.8	7.7	6.9	3.6	7.6
2007-08	12.0	16.2	16.4	13.0	27.7
2008-09	20.8	20.0	18.2	28.5	25.1
2009-10	11.7	11.9	12.6	6.1	6.2
2010-11*	14.1	18.8	23.9	23.4	16.8

* July-April Source: FBS



In the current fiscal year the GDP deflator indices has risen by 18.75 percent while CPI inflation in the same period escalated by 14.2 percent. There are three main drivers of this huge differential; namely, crop sector with 37 percent surge in deflator, followed by 27 percent rise in manufacturing deflator and 23 percent increase in wholesale price deflator. The crop sector increases have their implications in the CPI and WPI index as well. In the CPI index sugarcane prices are up by 33 percent in CPI index, and cotton cloth (where cotton is an input) price is up by 21.7 percent. Unit value index of textile exports is up by 37 percent. Cotton and sugarcane prices are up by 68 percent and 76 percent in the WPI index. The phenomenal increase in the edibles is explained by 18.7 percent increase in food price CPI inflation. The overall export value index is up by 23.5 percent and import value index is up by 16.8 percent.

The current fiscal year has witnessed phenomenal increase in the prices of crop sector (both major and minor) in the agriculture, sugar, textile, POL, fertilizer prices in the large-scale manufacturing, and trade margins in these sector to jack-up deflator of wholesale and retail prices. These three components have collectively contributed more than three-fourth of GDP deflator. These items have their impact in price escalation in other indices like CPI, WPI and even SPI but given their weights in these indices, their magnitude and intensity is different.

V. Composition of the GDP

The process of transformation has accelerated in Pakistan in recent years. The structure of the GDP has undergone substantial change during the last four decades [see Table 1.5 for details]. There has been a marked shift away from the commodity producing sector (CPS) which accounted for almost 62 percent of the GDP in 1969-70, its share has declined to 46.7 percent in 2010-11 —a decline of 15.3 percentage points. The decline in the share of CPS is fully accounted for by the equal rise in the share of services sector. A further breakdown of the CPS shows that the share of the agriculture sector has been falling over time. In 1969-70, agriculture accounted for 38.9 percent of GDP, but steadily decreased in the share over the years and has seen it fall to 20.9 percent in 2010-11. The share of agriculture in GDP has declined by 5.0 percentage points in the last 11 years alone while the share of the manufacturing sector has increased by 4 percentage points in the same period. It implies that the space created by the agriculture sector is occupied by the manufacturing sector.

The structural problems of the agriculture sectors like stagnant yields, lack of corporate farming, absence of quality seeds and other inputs, the contribution of agriculture to overall GDP is bound to shrink further in the coming years as rapid growth in industry and services sector outpaces the growth in agriculture.

During the last two decades, the major impetus to economic growth has come from the services sector which has emerged as the main driver of the economic growth. Thus, its share in the GDP has increased substantially. Within the services sector, almost all the components have raised their contribution over the last three and a half decades. The share of manufacturing in GDP has remained stagnant at around 14.7 percent for 30 years until

1999-2000. Its contribution to GDP has increased only during the last 10 years - rising from 14.7 percent in 1999-2000 to 18.7 percent in 2010-11.

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

(At Constant Factor Cost) (In %)

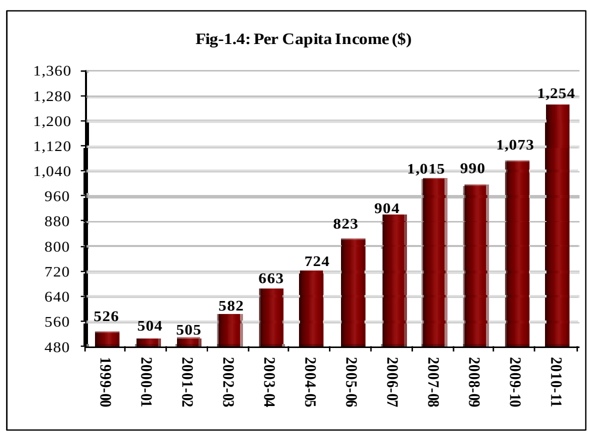
	1969-70	1999-00	2004-05	2008-09	2009-10	2010-11
Commodity Producing Sector	**61.6**	49.3	48.7	47.1	47.6	46.7
1. Agriculture	38.9	25.9	22.4	21.8	21.2	20.9
- Major Crops	23.4	9.6	8.4	7.3	6.9	6.5
- Minor Crops	4.2	3.5	2.7	2.5	2.2	2.3
- Livestock	10.6	11.7	10.6	11.3	11.4	11.5
- Fishing	0.5	0.4	0.3	0.4	0.4	0.4
- Forestry	0.1	0.7	0.4	0.3	0.3	0.2
Industrial Sector	**22.7**	**23.3**	**26.3**	**25.3**	**26.4**	**25.8**
2. Mining & Quarrying	0.5	2.3	2.7	2.5	2.5	2.4
3. Manufacturing	16.0	14.7	18.3	18.2	18.6	18.7
- Large Scale	12.5	9.5	12.9	12.1	12.3	12.1
- Small Scale	3.5	5.2	4.1	4.7	4.9	5.1
4. Construction	4.2	2.5	2.1	2.1	2.6	2.5
5. Electricity & Gas Distribution	2.0	3.9	3.2	2.5	2.8	2.2
Services Sector	**38.4**	**50.7**	**51.3**	**52.9**	**52.4**	**53.3**
6. Transport, Storage & Communication	6.3	11.3	10.4	10.2	10.1	10.0
7. Wholesale and Retail Trade	13.8	17.5	18.7	16.8	17.0	17.2
8. Finance and Insurance	1.8	3.7	4.0	5.7	4.9	4.5
9. Ownership of Dwellings	3.4	3.1	2.9	2.8	2.7	2.7
10. Public Admn. & Defence	6.4	6.2	5.9	6.1	6.0	6.6
11. Other Services	6.7	9.0	9.5	11.3	11.8	12.3
12.GDP (Constant Factor Cost)	100.0	100.0	100.0	100.0	100.0	100.0

P Provisional ***Source: Economic Adviser's Wing, Finance Division***

VI. Per Capita Income

Per capita income imbeds a wide range of fluctuations behind the number, but still regarded as one of the foremost indicators of the depth of growth and general well-being of an economy. The historical importance and simplicity of per capita income as a measure of the average level of prosperity in an economy is well established. Per capita income grew by a meager 0.7 percent in 2010-11 as compared to 2.9 percent growth last year. This reflects the impact of slower economic growth. The per capita income in nominal terms grew by 19.9 percent.

The per capita income in dollar terms has increased from $ 576 in 2002-03 to $ 1254 in 2010-11, thereby registering fastest every growth of 16.9 percent [See Fig-1.4]. The main factors responsible for the sharp rise in per capita income include higher growth in nominal GDP, stable exchange rate and a four-fold increase in the inflows of workers' remittances. Fig. 1.4 shows the improvement in per capita income during the last eleven years. The per capita income is reflecting the impact of recent economic slowdown.



VII. Investment and Savings

Investment is a key means for reviving economic growth to its historical levels. The total investment has declined from 22.5 percent of GDP in 2006-07 to 13.4 percent of GDP in 2010-11. Fixed investment has decreased to 18.1 percent of GDP from 20.4 percent last year. Gross fixed capital formation in real terms has contracted for third year in a row by 0.4 percent compared to a contraction of 57 percent last year. Even in nominal terms gross fixed capital formation increased by only 4.4 percent against decrease of 3.4 percent last year. Private sector investment on average contracted by 6 percent per annum in real terms and recorded third contraction in a row. It contracted by 3.1 percent in nominal terms during 2010-11 as against contraction of 6.1 percent last year.

Public sector investment is crucial for catalyzing economic development and it has created spillover effects for private sector investment through massive increase in development spending particularly on infrastructure in the past [See Table-1.6]. However, squeeze on development expenditures made it to decelerate at a brisk pace. It decelerated from 5.6 percent of GDP in 2006-07 to just 3.3 percent in 2010-11.

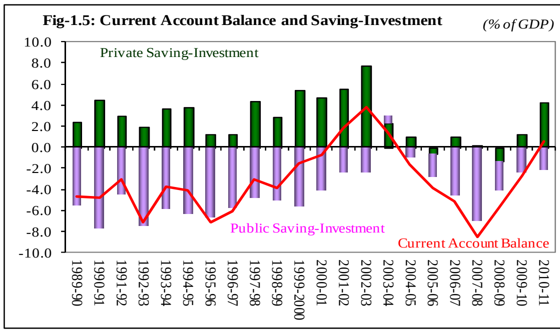
Table 1.6: Structure of Savings and Investment (As Percent of GDP)

Description	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11P
Total Investment	***16.9***	***16.6***	***19.1***	***22.1***	***22.5***	***22.1***	***18.2***	***15.4***	***13.4***
Changes in Stock	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Gross Fixed Investment	***15.3***	***15.0***	***17.5***	***20.5***	***20.9***	***20.5***	***16.6***	***13.8***	***11.8***
- Public Investment	4.0	4.0	4.3	4.8	5.6	5.4	4.3	3.6	3.3
- Private Investment	11.3	10.9	13.1	15.7	15.4	15.0	12.3	10.2	8.5
Foreign Savings	-3.8	-1.3	1.6	3.9	5.1	8.5	5.7	2.2	-0.4
National Savings	***20.8***	***17.9***	***17.5***	***18.2***	***17.4***	***13.6***	***12.5***	***13.2***	***13.8***
Domestic Savings	17.6	15.7	15.4	16.3	15.6	11.5	9.8	9.3	9.5

P: Provisional *Source: EA Wing Calculations*

The contribution of national savings to the domestic investment is indirectly the mirror image of foreign savings required to meet investment demand. The requirement for foreign savings needed to finance the saving-investment gap simply reflects the current account deficit in the balance of payments. The marked improvement in the current account deficit is a reflection of narrowing savings-investment gap. If we disaggregate private and public savings-investment gaps, both gaps have improved to contribute in current account improvement [See Fig-1.5]. There are two ways of improving saving-investment gap; one is through increasing savings or through decreasing investment. Both in the public and private sectors saving-investment gaps, it is the fall in investment that has contributed to narrowing gap rather than increase in savings. Pakistan needs to gear up both savings and investment to enhance employment generating ability of the economy as well as more resource availability for investment.

Fig-1.5: Current Account Balance and Saving-Investment *(% of GDP)*



National Savings at 13.8 percent of GDP in 2010-11 is reflecting one of the lowest savings in peer economies. Domestic savings has also declined substantially from 18.1 percent of GDP in 2001-01 to 9.5 percent of GDP in 2010-11. This is the lowest ever domestic savings level in almost two decades. The government remained major dis-saver while private sector savings are not adequate.

[Two special sections on cost of war on terror and Impact on Flood are given at the end].

2 Agriculture

Agriculture has remained the mainstay of the Pakistan economy as it provides employment to 45 percent population and provides input for agro-based industry. Agriculture income has created demand for industrial products. Agriculture provided main impetus to economic growth by creating additional demand of goods and services as a result of higher prices of agricultural produce. As a result of inordinate spike in prices of major crops, an additional amount of Rs. 342 billion was transferred to the rural areas in 2010-11 alone. Contrary to this only Rs.329 billion were transferred to the rural areas on account of higher prices of major crops during the eight years (2001-2008). The highest ever wheat crop provided strength to the attainment of the objective of food security this year. Agriculture sector recorded modest growth of 1.2 percent in 2010-11 but provided much needed support to boost exports, revival of manufacturing sector and responsible for upbeat in the consumption. Given the enormous price inducement, the agriculture sector is likely to spearhead economic growth in the next fiscal year as well.

Table 2.1: Agriculture Growth **(in %age)**

Year	Agriculture	Major Crops	Minor Crops	Livestock	Fishery	Forestry
2004-05	6.5	17.7	1.5	2.3	0.6	-32.4
2005-06	6.3	-3.9	0.4	15.8	20.8	-1.1
2006-07	4.1	7.7	- 1.0	2.8	15.4	-5.1
2007-08	1.0	-6.4	10.9	4.2	9.2	-13.0
2008-09	4.0	7.8	-1.2	3.1	2.3	-3.0
2009-10	0.6	-2.4	-7.8	4.3	1.4	2.2
2010-11(P)	1.2	-4.0	4.8	3.7	1.9	-0.4

P : Provisional *Source: Federal Bureau of Statistics*

Recent performance

The agriculture has lost significant growth momentum as its growth slowed down to 2.7 percent in the decade of 2000s as against 4.4 percent in 1990s and 5.4 percent in the 1980s. The structural problems and lack of mechanisation remained main impediment to growth. Major crops remained the victim of natural calamities during the last few years and three out of last four years witnessed negative growth in the major crop sector. The trend in agriculture growth since 2004-05 is given in Table 2.1.

The unprecedented floods in July 2010 destroyed two major crops, i.e. rice and cotton. As reported by SUPARCO, an area of 2.364 million hectares under Kharif Crops 2010 was damaged (See Box Item Table 1). During the outgoing year 2010-11, the overall performance of agriculture sector exhibited a weaker growth mainly due to negative growth of major crops and forestry. Against the growth target of 3.8 percent, and previous year's performance of 0.6 percent, agriculture is estimated to grow by 1.2 percent. *Major crops*, accounting for 31.1 percent of agricultural value added, registered a negative growth of 4.0 percent for second year in a row mainly because of decrease in production of rice and cotton by 29.9 and 11.3 percent, respectively. *Minor crops* accounting for 10.9 percent of overall agriculture value addition, grew by 4.8 percent as against negative growth of last two years.

The *Livestock* sector having 55.1 percent stake in the agriculture sector was also impacted by the massive floods and witnessed marked slowdown recorded growth at 3.7 percent in 2010-11 as against 4.3 percent last year. The sector is immune from weather related problems and thus offers prospects for consistent growth. *Fishery* sector grew by 1.9 percent as against last year's growth of 1.4 percent. *Forestry* has experienced negative growth of 0.4 percent this year as compared to last year's positive growth of 2.2 percent.

Pakistan's agricultural performance is dependent upon availability of irrigation water. As shown in Table 2.2, against the normal surface water availability at canal heads of 103.5 Million Acre Feet (MAF), the overall (both for *Kharif* as well as *Rabi*) water availability has been less in the range of 2.5 percent (2005-06) to 20.6 percent (2004-05). Relatively speaking, *Kharif* season 2010 faced more shortage of water than any other Kharif season since 2003-04.

During the current fiscal year (2010-11), the availability of water as a basic input for Kharif 2010 (for the crops such as rice, sugarcane and cotton) has been 20 percent less than the normal supplies and 21 percent less than last year's *Kharif* season. The water availability during Rabi season (for major crop such as wheat), is, however, estimated at 34.6 MAF, which is 5.0 percent less than the normal availability, and 38 percent more than last year's Rabi crop See Table 2.2.

Table 2.2: Actual Surface Water Availability **(Million Acre Feet)**

Period	Kharif	Rabi	Total	%age incr/decr. Over the Avg.
Average system usage	67.1	36.4	103.5	-
2003-04	65.9	31.5	97.4	- 5.9
2004-05	59.1	23.1	82.2	- 20.6
2005-06	70.8	30.1	100.9	- 2.5
2006-07	63.1	31.2	94.3	- 8.9
2007-08	70.8	27.9	98.7	- 4.6
2008-09	66.9	24.9	91.8	-11.3
2009-10	67.3	25.0	92.3	-10.8
2010-11	53.4	34.6	88.0	-15.0

Source: Indus River System Authority

I. Crop Situation

Pakistan has two principle crops seasons, namely the *"Kharif"*, the sowing season of which begins in April-June and harvested during October-December; while *"Rabi"*, begins in October-December and harvested in April-May. Rice, sugarcane, cotton, maize, mung, mash, bajra and jowar are "Kharif" crops while wheat, gram, lentil (masoor), tobacco, rapeseed, barley and mustard are "Rabi" crops. Major crops, such as, wheat, rice, cotton and sugarcane account for 90 percent of the value added in the major crops. The value added in major crops accounts for 31 percent of the value added in the agriculture. Thus, four major crops (wheat, rice, cotton, and sugarcane) on average, contribute 28 percent to the value added in overall agriculture and 5.9 percent to GDP. The minor crops account for 10.9 percent of the value added in overall agriculture. Livestock contributes 55.1 percent to agricultural value added – much more than the combined contribution of major and minor crops (41.9%). The production performance of major crops is documented in Table 2.3.

Table 2.3: Production of Major Crops **(000 Tons)**

Year	Cotton (000 bales)	Sugarcane	Rice	Maize	Wheat
2004-05	14,265	47,244	5,025	2,797	21,612
	(42.0)	(-11.6)	(3.6)	(47.4)	(10.8)
2005-06	13,019	44,666	5,547	3,110	21,277
	(-8.7)	(-5.5)	(10.4)	(11.2)	(-1.6)
2006-07	12,856	54,742	5,438	3,088	23,295
	(-1.2)	(22.6)	(-2.0)	(-0.7)	(9.5)
2007-08	11,655	63,920	5,563	3,605	20,959

Year	Cotton (000 bales)	Sugarcane	Rice	Maize	Wheat
	(-9.3)	(16.8)	(2.3)	(16.7)	(-10.0)
2008-09	11,819	50,045	6,952	3,593	24,033
	(1.4)	(-21.7)	(25.0)	(-0.3)	(14.7)
2009-10	12,913	49,373	6,883	3,262	23,311
	(9.2)	(-1.3)	(-1.0)	(-9.2)	(-3.0)
2010-11(P)	11,460	55,309	4,823	3,341	24,214
	(-11.3)	(12.0)	(-29.9)	(2.4)	(3.9)

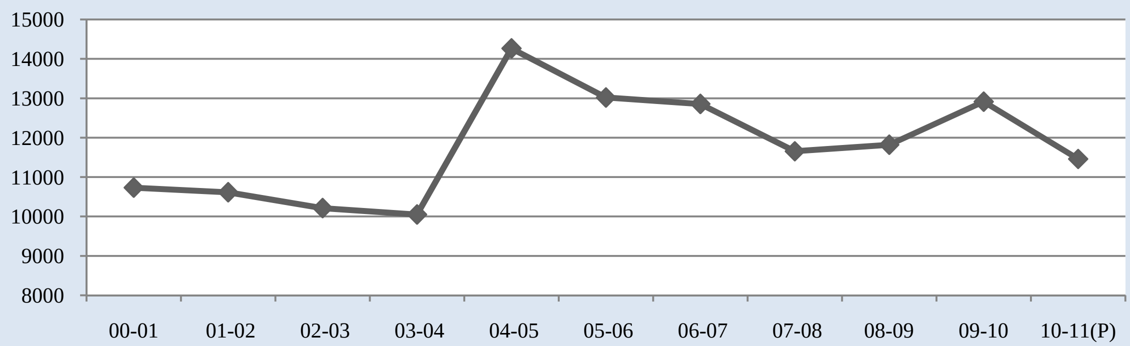
P:Provisional (July-March) *Source: Ministry of Food and Agriculture*
Figures in parentheses are growth/decline rates

a) Major Crops:

i) Cotton:

Cotton is the main cash crop which contributes significantly to the national economy. It accounts for 6.9 percent of value added in agriculture and 1.4 percent of GDP. In addition to providing raw material to the local textile industry, the lint cotton is an export item. During 2010-11, the crop was cultivated on an area of 2689 thousand hectares, 13.4 percent less than last year (3106 thousand hectares). The production is estimated at 11.5 million bales, lower by 11.3 percent over the last year's production of 12.9 million bales and 17.9 percent less than the target of 14 million bales. The decrease in cultivated area and production is attributed to loss in area under cultivation due to floods, widespread attack of Cotton Leaf Curl Virus (CLCV) and sucking pest/insect in core and non-core area, excessive rain, shortage of water due to canal closure during flood caused fruit shedding in certain areas. The area, production and yield of cotton for the last five years are given in Table 2.4 and Fig. 2.1.

Fig 2.1: Cotton Production (000 bales)



Source: MINFA, FBS

Table 2.4: Area, Production and Yield of Cotton

Year	Area		Production		Yield	
	(000 Hectare)	% Change	(000 Bales)	% Change	(Kgs/Hec)	% Change
2006-07	3075	-0.9	12856	-1.2	711	-0.4
2007-08	3054	- 0.7	11655	- 9.3	649	-8.7
2008-09	2820	-7.7	11819	1.4	713	9.9
2009-10	3106	10.1	12913	9.2	707	-0.8
2010-11(P)	2689	-13.4	11460	-11.3	725	2.5

P: Provisional (July-March) *Source: Ministry of Food and Agriculture, Federal Bureau of Statistics.*

World Cotton Outlook

The world cotton production is projected at 24.8 million tons, during 2010-11 as against 22.01 million tons recorded in 2009-10, estimating an increase of 12.6 percent, this is mainly due to expansion in planting by the cotton producing countries. Production is expected to continue to increase by 11% to a record of 27.6 million tons in 2011-12.The production and consumption of major cotton growing countries are given in Table 2.5

Table 2.5 Major Cotton Growing Countries (Production &Consumption) **(Million Tons)**

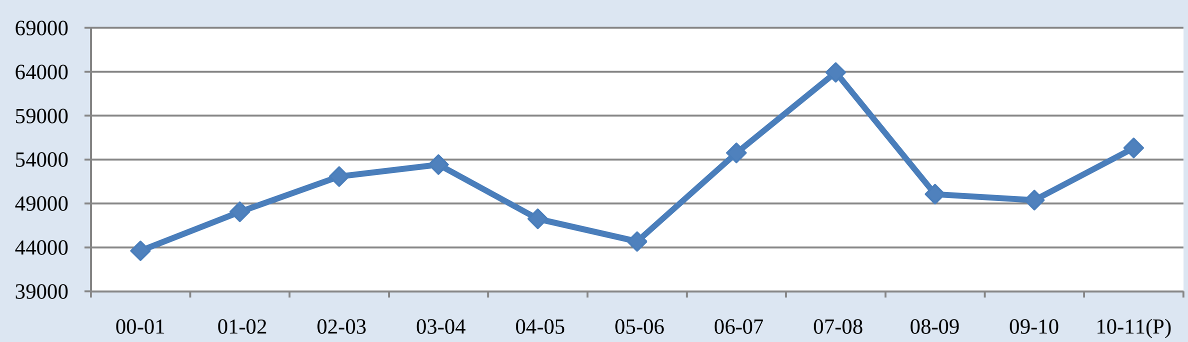
	2008-09	2009-10	2010-11
Production			
China	8.02	6.92	6.40
India	4.93	5.05	5.30
USA	2.79	2.65	3.94
Pakistan	1.93	2.07	1.91
Brazil	1.21	1.19	2.03
Uzbekistan	1.0	0.85	1.00
Others	3.56	3.27	4.21
World Total	23.44	22.00	24.79
Consumption			
China	9.26	10.10	10.00
India	3.87	4.29	4.61
Pakistan	2.52	2.31	2.22
East Asia/Australia	1.67	1.83	1.78
Europe & Turkey	1.41	1.55	1.48
Brazil	0.99	1.00	1.04
USA	0.78	0.75	0.81
Others	3.17	3.18	3.11
World Total	23.67	25.03	25.05

Source: Pakistan Central Cotton Committee,MINFA

ii) Sugarcane:

Sugarcane crop is a major raw material source for the production of white sugar and gur and is also a cash crop. Its share in value added in agriculture and GDP is 3.6 and 0.8 percent, respectively. Sugarcane was cultivated on an area of 988 thousand hectares, 4.8 percent higher than last year’s level of 943 thousand hectares. Sugarcane production for the year 2010-11 is estimated at 55.3 million tons as against actual production of 49.3 million tons last year. This indicates a rise of 12.0 percent over the production of last year. Main factors contributing for more production are lucrative market prices of last year’s produce and timely availability of inputs encouraging the farmers to grow more sugarcane crop. The area, production and yield of sugarcane for the last five years are given in Table 2.6 (see also Fig. 2.2)

Fig 2.2: Sugarcane Production (000 Tons)



Source: MINFA, FBS

Table 2.6: Area, Production and Yield of Sugarcane

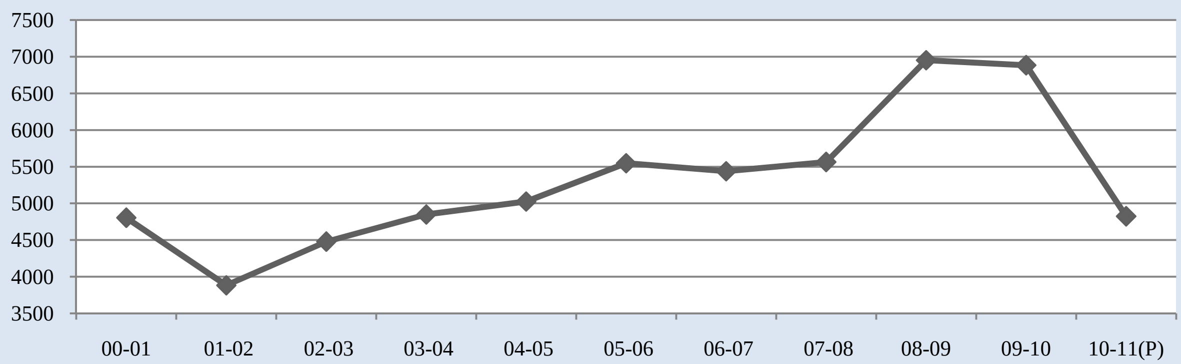
Year	Area		Production		Yield	
	(000 Hectare)	% Change	(000 Tons)	% Change	(Kgs/Hec.)	% Change
2006-07	1029	13.5	54742	22.6	53199	8.0
2007-08	1241	20.6	63920	16.8	51507	-3.2
2008-09	1029	-17.1	50045	-21.7	48635	-5.6
2009-10	943	-8.4	49373	-1.3	52357	7.7
2010-11(P)	988	4.8	55309	12.0	55981	6.9

P: Provisional (July-March) *Source: Ministry of Food and Agriculture, Federal Bureau of Statistics*

iii) Rice:

Rice is the second largest staple food crop in Pakistan and is a major source of export earnings in recent years. It accounts for 4.4 percent of value added in agriculture and 0.9 percent in GDP. Pakistan grow high quality rice to meet both domestic demand and exports. Area sown for rice is estimated at 2365 thousand hectares, 17.9 percent less than last year (2883 thousand hectares). The production of the crop is estimated at 4823 thousand tons, 29.9 percent less than last year. This is mainly attributed to devastating floods of July, 2010 coupled with breaches of protective bunds of river Indus which badly affected the main paddy growing districts and low market returns during last year. While decrease in production is due to decrease in area, attack of pests and disease and logging of early sown crops. The area, production and yield of rice for the last five years are given in Table 2.7 and Fig 2.3.

Fig 2.3: Rice Production (000 Tons)



Source: MINFA, FBS

Table 2.7: Area, Production and Yield of Rice

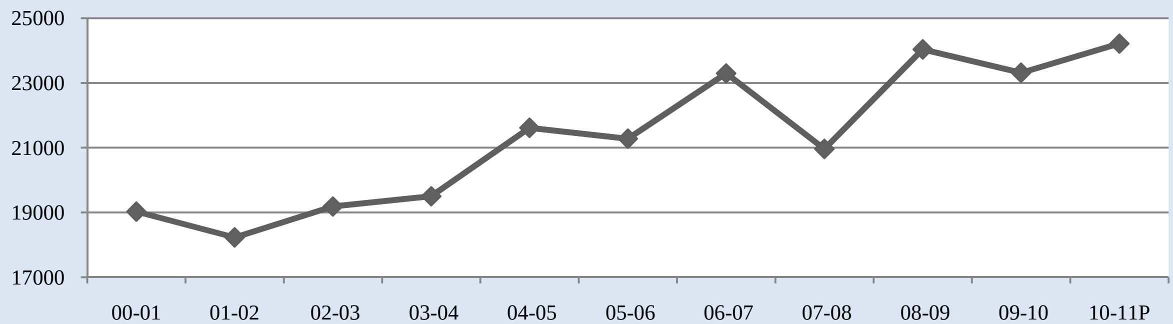
Year	Area		Production		Yield	
	(000 Hectare)	% Change	(000 Tons)	% Change	(Kgs/Hec.)	% Change
2006-07	2581	-1.5	5438	-2.0	2107	-0.4
2007-08	2515	-2.6	5563	2.3	2212	5.0
2008-09	2963	17.8	6952	25.0	2346	6.1
2009-10	2883	-2.7	6883	-1.0	2387	1.7
2010-11(P)	2365	-17.9	4823	-29.9	2039	-14.6

P: Provisional (July-March) *Source: Ministry of Food and Agriculture, Federal Bureau of Statistics*

iv) Wheat:

Wheat is the main staple food for most of the population and largest grain source of the country. It occupies the central position in formulating agricultural policies. It contributes 13.1 percent to the value added in agriculture and 2.7 percent to GDP. Area and production target of wheat for the year 2010-11 had been set at 9045 thousand hectares and 25 million tons, respectively. Wheat was cultivated on an area of 8805 thousand hectares, showing a decrease of 3.6 percent over last year's area of 9132 thousand hectares. However, a bumper wheat crop of 24.2 million tons has been estimated with 3.9 percent increase over the last year's crop of 23.3 million tons. The prospects for wheat harvest improved with healthy fertilizer off-take and reasonable rainfall during pre-harvesting period. The area, production and yield of wheat for the last five years are given in Fig 2.4 and Table 2.8.

Fig 2.4: Wheat Production (000 Tons)



Source:MINFA, FBS

Table 2.8: Area, Production and Yield of Wheat

Year	Area		Production		Yield	
	(000 hectares)	% Change	(000 tons)	% Change	(Kgs /Hec.)	% Changes
2006-07	8578	1.5	23295	9.5	2716	7.8
2007-08	8550	-0.3	20959	-10.0	2451	-9.8
2008-09	9046	5.8	24033	14.7	2657	8.4
2009-10	9132	1.0	23311	-3.0	2553	-3.9
2010-11(P)	8805	-3.6	24214	3.9	2750	7.7

P:Provisional(July-March) *Source: Ministry of Food and Agriculture, Federal Bureau of Statistics*

v) Other Major Crops

During 2010-11, the production of only bajra, tobacco, rapeseed & mustard, maize and barley increased by 18.1 percent, 16 percent, 11.3 percent, 2.4 percent and 2.8 percent, respectively. Gram, the largest Rabi pulses crop in Pakistan, stood at 5.2 million tons against 5.6 million tons of last year, showing a reduction of 6.9 percent during 2010-11 mainly because of unfavourable climate. The production of *jawar* witnessed a decrease of 9.7 percent in 2010-11. The area and production of major crops are given in Table 2.9.

b) Minor Crops

i) Oilseeds

The major oilseed crops include sunflower, canola, rapeseed & mustard and cottonseed. The total availability of edible oil in 2009-10 was 2.9 million tons. Local production of edible oil was 662 thousand tons which accounted for 23 percent of total availability in the country, while the remaining 77 percent availability was ensured through imports. During the year 2010-11 (July-March), a quantity of 1.7 million tons edible oil/oilseeds worth US$ 1.65 billion has been imported. The local production in 2010-11 is provisionally estimated at 696 thousand tons. Total availability from all sources is thus reduced to 2.35 million tons so far. The area and production of oilseed crops during 2009-10 and 2010-11 is given in Table 2.10.

Table 2.9: Area and Production of Other Major Kharif and Rabi Crops

Crops	2009-10		2010-11(P)		% Change In production over Last year
	Area (000 hectares)	Production (000 tons)	Area (000 hectares)	Production (000 tons)	
KHARIF					
Maize	935	3262	939	3341	2.4
Bajra	476	293	548	346	18.1
Jawar	248	154	221	139	-9.7
RABI					
Gram	1067	562	1068	523	-6.9
Barley	84	71	83	73	2.8
Rapeseed & Mustard	178	151	194	168	11.3
Tobacco	56	119	64	138	16.0

P: Provisional (July-March) *Source: Ministry of Food and Agriculture, Federal Bureau of Statistics*

Table 2.10: Area and Production of Major Oilseed Crops

Crops	2009-10			2010-11 (P)		
	Area	Production		Area	Production	
	(000 Acres)	Seed (000 Tons)	Oil (000 Tons)	(000 Acres)	Seed (000 Tons)	Oil (000 Tons)
Cottonseed	7,591	3,240	389	6,450	2,934	352
Rapeseed/ Mustard	486	160	51	439	157	50
Sunflower	872	513	195	1,108	643	244
Canola	142	70	27	233	131	50
Total	**9,091**	**3,983**	**662**	**8,230**	**3,865**	**696**

P: Provisional (July-Mar) *Source: Pakistan Oilseed Development Board*

ii) Other Minor Crops:

The production of potato, onion and mash has increased by 18.6 percent, 11.2 percent and 1.0 percent, respectively. Timely rain supplemented to some extent for increasing production of onion, potato and mash. However, the production of *mung*, chillies and *masoor* (lentil) decreased by 35.0 percent, 8.6 percent and 2.7 percent, respectively. The area sown for *mung, mash* and chillies and potato decreased by 25.2 percent, 1.2 percent,11.7 percent and 7.8 percent, respectively whereas, there is an increase of area sown for onion by 15.2 percent. The area and production of minor crops are given in Table 2.11.

II. Farm Inputs

i) Fertilizer:

Fertilizer is the most important input for enhancing productivity. As per National Fertilizer Development Centre (NFDC), “Contribution of balanced fertilization towards increased yield ranges 30 to 60 percent in different crop production regions of the country. One kg of fertilizer nutrient produces about 8 kg of cereals (wheat, maize and rice), 2.5 kg of cotton and 114 kg of stripped sugarcane. All of our soils are deficient in nitrogen (N), 80-90 percent are deficient in phosphorus (P) and 30 percent in potassium (K). Wide spread deficiency of micronutrients are also appearing in different areas. Soil fertility is continuously depleting due to mining of the essential plant nutrients from the soils under intensive cultivation".

Table 2.11 : Area and Production of Minor Crops

Crops	2009-10		2010-11(P)		%Change In Production
	Area (000 hectares)	Production (000 tons)	Area (000 hectares)	Production (000 tons)	
Masoor	24.0	10.9	24.0	10.6	-2.7
Mung	183.3	118.7	137	77.1	-35.0
Mash	24.1	10.7	23.8	11.2	1.0
Potato	138.5	3141.5	127.7	3726.5	18.6
Onion	124.7	1701	143.7	1892	11.2
Chillies	57.4	188.9	50.7	172.7	-8.6

P: Provisional (July-March) *Source: Ministry of Food and Agriculture. Federal Bureau of Statistics*

The domestic production of fertilizers during the first nine months (July-March) of the current fiscal year was up by 2.7 percent over the same period last year. The import of fertilizer decreased by 50 percent; hence, the total availability of fertilizer also decreased by 15 percent over the same period last year. Total off-take of fertilizer has also reduced by 11.3 percent. Nitrogen offtake decreased by 11.1 percent while that of phosphate by 13.8 percent. However, potash off-take surged by 59.7 percent. Detail is given in Table 2.12.

Major reason for reduced fertilizer offtake is occurrence of devastating flood in the country during monsoon season of 2010 which affected one third of the cropped area. As a result major crops especially cotton was seriously affected. Another reason for reduced off-take of fertilizer is high price of phosphatic fertilizers especially DAP which went up by 46 percent during the first nine months of current fiscal years as compared to previous year.

Table 2.12: Production and Off-take of Fertilizer **('000' N/Tons)**

Year	Domestic Production	% Change	Import	% Change	Total	% Change	Off-take	% Change
2006-07	2747	-3.0	796	-37.2	3543	-13.6	3672	-3.5
2007-08	2822	2.7	876	10.1	3698	4.4	3581	-2.5
2008-09	2907	3.0	568	-35.1	3475	-6.0	3711	3.6
2009-10	3082	6.0	1444	154.2	4526	30.3	4360	17.5
2009-10 (Jul-Mar)	2255	-	1136	-	3391	-	3445	-
2010-11 (Jul-Mar) P	2315	2.7	563	-50.4	2878	-15.1	3054	-11.3

P : Provisional *Source: National Fertilizer Development Centre*

ii) Improved Seed:

For achieving sustained growth in agricultural sector, seed is a critical basic factor.The use of quality and improved seed is imperative for increasing the production and yield of the crop. During (July-Mar), 2010-11 about 406.462 thousand tons of improved seeds of various Kharif/Rabi/Spring/Winter season crops was procured and made available. The procurement and distribution of seeds of various Kharif crops (cotton, paddy, maize, mungbean etc) is under progress (Table 2.13).

The Federal Seed Certification and Registration Department (FSC&RD) is engaged in providing seed certification coverage to public and private sector seed companies of Pakistan along with seed quality control services through its 28 seed testing laboratories and monitoring of seed quality in the market as well. The activities/achievements of the department during 2010-11 are briefly given as under:

- During the year 2010-11, sixty six (66) new seed companies were registered raising the total number of registered seed companies to 729 in the country including four public sector seed companies and five multinationals.
- Twenty crop varieties were approved (wheat-3, Paddy-1, Maize-4, Oilseed-1, Pulses-2, Fooder-5, Sugarcane-1 and Vegetables-3).
- Pre and Post Control Trials of all pre-basic, basic seed lots and 20% of certified seed lots were carried out in the field to determine the quality of seeds distributed by various seed agencies.
- Imported seeds of various crops/hybrids at the tune of 22.6 thousand MT with a total value of Rs. 4608.8 million was tested under Seed (Truth-in-Labeling) Rules, 1991 during the year, at the port of entries i.e. Lahore and Karachi.

Table 2.13: Seed Availability **(000 Tons)**

Crop	Local	Imported	Total
Wheat	347,878.2	0	347,878.2
Cotton	7,207.6	0	7,207.6
Paddy	25,613.5	3,913.7	29,527.1
Maize	1,512.4	4,614.2	6,126.7
Pulses	1,058.8	0	1,058.8
Oilseeds	95.0	604.8	699.8
Fodders	9.2	4,024.2	4,033.4
Vegetables	348.3	5,166.9	5,515.2
Potato	132.2	4,283.2	4,415.4
Total	383,855.2	22,606.9	406,462.1

Source: Federal Seeds Certification & Registration Department

iii) Mechanization:

Accelerated farm mechanization is one of the important ingredient to accelerate growth rate in the agriculture sector. In consideration of role of precision in farm operations, Federal Water Management Cell (FWMC) is encouraging the use of farm machinery for which credit facilities are being provided by the commercial banks. At present, available farm power is inadequate. The number of tractors in operation is around 464,000 resulting in per hectare horse power (hp) availability of 0.90 against the required power of 1.4 hp per hectare. As per FAO recommendations for hp/ha, 649,000 operational tractors are required. The additional tractors required to achieve this ratio is 185,000. To achieve 1.4 hp per hectare farm power availability, the government has launched Benazir Tractor Scheme to deliver 20,000 tractors to the farmers all over the country at subsidized rate of Rs. 200,000/- per beneficiary/ tractor.

During first year of the scheme, 10,000 tractors have been delivered among the farmers. To promote use of efficient and quality machinery & equipment etc, the government has also allowed import of agricultural machinery, not being manufactured locally at zero tariffs. Other interventions such as use of laser land levelers, ridge and broad bed farming are being encouraged in the country through provision of farm machinery to the farmers/services providers at subsidized rates. The prices of locally manufactured tractors are given in Table 2.14:

iv) Irrigation

Pakistan is faced with increasing water scarcity and depending on assumptions of various future demand scenarios, annual water requirements at canal head could be in 135-170 MAF range in the coming years. Existing irrigation mechanism has reportedly working on 40-45 percent efficiency. The historic average surface water availability is only 104 MAF per annum, and is persistently reducing due to siltation in reservoirs. The National Water Strategy envisages raising irrigation efficiency to 50 percent from the current level of 40 percent. In order to improve the existing system, various steps such as On-Farm Water Management Programme (OFWM) projects have been started in all provinces, in Gilgit-Baltistan, Azad Jamu & Kashmir and Islamabad Capital Territory areas. The projects undertaken are:- National Programme for Improvement of Watercourses in Pakistan, Chaghai Water Management and Agriculture Development Project (IDB Assisted), National Project to stimulate the Adaptation of Permanent Raised Beds in Maize-Wheat and Cotton-Wheat Farming System in Pakistan.

Table 2.14 Prices of Locally Manufactured Tractors 2011

Tractors Model (Horse Power)	Price/Unit (Rs)
NH/FIAT- 480S (55 HP)	579,735
NH/FIAT-GHAZI (65 HP)	655,200
NH/FIAT 640 (75 HP)	840,060
NH/FIAT 640S (85 HP)	930,150
NH 55-56 (55 HP)	661,050
NH 60-56 (60 HP)	725,400
MF240 (50 HP)	630,630
MF 260 (60 HP)	700,830
MF 350 (50 HP)	665,730
MF 375S (75 HP)	958,230
MF 385 (85 HP)	1,058,850
MF 385 (4WD) (85 HP)	1,550,250
Universal- 530 (55 HP)	607,230
Universal- 530 (55 HP) Plus	654,030
Universal-533 (55 HP) Plus	654,030
Universal 640 (65 HP)	829,530
Universal 683 (83 HP)	923,130
JD-5055 B (55 HP)	643,500
JD-720 (72 HP)	789,750

Source: Tractor Manufacturers Association

Efficient irrigation system is a pre-requisite for higher agricultural production as it helps in increasing the crop intensity. Despite the existence of a good irrigation canal network in Pakistan, it suffers from wastage of a large amount of water in the irrigation process. Position of rainfall during monsoon and winter season is given in Table 2.15.

Table 2.15: Rainfall* Recorded During 2010-11 **(In Millimeter)**

	Monsoon Rainfall (Jul-Sep) 2010	Winter Rainfall (Jan-Mar) 2011
Normal	137.5mm	70.5mm
Actual	249.8mm	77.2mm
Shortage (-)/excess (+)	+112.3mm	+6.7mm
% Shortage (-)/excess (+)	+81.6%	+10.2%

**:Area weighted* *Source: Pakistan Meteorological Department*

During the monsoon season (July-September, 2010) the normal rainfall is 137.5 mm while the actual rainfall received stood at 249.8 mm, indicating an increase of 81.6 percent. Likewise, during the winter (January-March, 2011), the actual rainfall received was 77.2 mm while the normal rainfall during this period has been 70.5 mm, indicating an increase of 10.2 percent over the normal rainfall.

The canal head withdrawals in *Kharif* 2010 (April-September) decreased by 21 percent and stood at 53.4 Million Acre Feet (MAF) as compared to 67.3 MAF during the same period last year. During the Rabi season 2010-11

(October-March), the canal head withdrawals shows a significant change, as it remained at 34.6 MAF compared to 25.0 MAF during the same period last year. Province-wise details are given in Table 2.16.

Table 2.16: Canal Head Withdrawals (Below Rim Station) **Million Acre Feet (MAF)**

Provinces	Kharif (Apr -Sep) 2009	Kharif (Apr -Sep) 2010	% Change in Kharif 2010 over 2009	Rabi (Oct-Mar) 2009-10	Rabi (Oct –Mar) 2000-11	% Change in Rabi 2010-11 Over 2009-10
Punjab	34.57	29.00	-16	13.36	18.73	40
Sindh	29.58	22.61	-24	10.25	14.51	42
Baluchistan	2.11	1.21	-43	0.79	0.88	10
KPK	1.04	0.60	-43	0.62	0.48	-23
Total	**67.30**	**53.41**	**-21**	**25.02**	**34.59**	**38**

Source: Indus River System Authority.

Water is key input for agriculture, industry & urban development, as well achieving MDG's goals and targets and reducing poverty; therefore, the water sector gained major focus throughout the last decade in the development programs, since water availability is persistently decreasing, the challenge is to formulate an effective and comprehensive efficient system of water resource management. The focus areas of investments in water sector are:

a. Augmentation of surface water resources by construction of small/medium dams.

b. Conservation measures (lining of irrigation channels, modernization/ rehabilitation of irrigation system, lining of watercourses and efficiency enhancement by rehabilitation & better operation of existing system.

c. Protection of infrastructure from onslaught of floods and water logging & salinity.

These water sector's programs are estimated to utilize Rs. 19 billion (Rs. 17 billion are to be contributed by Ministry of Water & Power and Rs. 2 billion under water management program).

Table 2.17: Major Water Sector Projects under Implementation

Projects	Location	Total App.cost (Rs. In million)	Live Storage (MAF)	Area Under Irrigation (Acres)	Latest Status
Gomal Zam Dam	Khyber Pakhtunkhwa	12,829	1.14	163,086	70 % Physically completed
Greater Thal Canal *	Punjab	30,467	-	355,000	Phase-I, completed
Rainee Canal *	Sindh	18,862	-	113,690	91 % Physically comp. Phase-I
Kachhi Canal *	Balochistan	31,204	-	102,000	60 % physically comp. Phase-I
Raising of Mangla Dam	AJ&K	62,553	2.90	713,000 All over Pakistan	93 % physically completed
Satpara Dam Multi- purpose	Skardu	4,397	0.05	15,536	93% physically completed
Right Bank Outfall Drain (RBOD)					
RBOD-I	Sindh	14,707			87% Physically Completed
RBOD-II	Sindh	29,014			62% Physically Completed
RBOD-III	Balochistan	6,535			72% Physically Completed

Source: Planning & Development Division, Planning Commission

* Date of completion for all three canals is for Phase-I, whereas cost is reflected for total project

Water Sector Programmes During (2010-11)

- Completion of phase-I of Greater Thal Canal, substantial completion (80 to 95 percent) of *Kachhi* Canal in Balochistan & *Rainee* Canal in Sindh for irrigation of 2.9 million acres.
- Completion of Mangla Dam Raising Project for additional storage of 2.9 MAF and additional power generation of 120 MW.
- Completion of Satpara Dam in Gilgat Biltistan for irrigation of 15,536 acres of agriculture land and 15.8 MW power generations.
- Substantial completion of Gomal Zam Dam Project in Tribal/ Khyber Pakhtunkhwa area.
- Lining of irrigation channels in Punjab, Sindh and Khyber Pakhtunkhwa.
- Work on improvement of existing irrigating system in Punjab, Sindh, K.P.K & Balochistan at a cost of Rs.3.5 billion.
- Construction of new Small/medium dams throughout Pakistan (Winder, Darwat, Ghabir & Naulong dams) at a cost of Rs.3.1 billion.
- Construction of new small/delay action dams and improvement of existing irrigation system in Balochistan at a cost of Rs. 2.9 billion.
- A sum of Rs. 2.8 billion is being utilized for the completion of remaining improvement of watercourses all over Pakistan under "National Program for watercourses Improvement" and Water Conservation through High Efficiency Irrigation System (drip & sprinkler) in Pakistan to upgrade irrigation in 291,000 acres.
- In drainage sector fast track implementation of RBOD-I, II & III Projects to protect and reclaim 4.9 million acres of irrigated land continued.

v) Agricultural Credit:

Availability of credit to meet financial requirements of the farming sector is one of the key factors that play a pivotal role in the development of agriculture sector of a country. This fact has remained a central force in devising of agri. Finance policies by the Government and SBP in Pakistan. Every effort is being made to provide the direly needed credit to the farming community through a well established infrastructure of banks. Currently 20 banks with around 3,700 agriculture designated branches are facilitating farmers by extending agriculture credit throughout the country. These include five scheduled banks, (ABL, HBL, MCB, NBP, UBL), two specialized banks (ZTBL and PPCBL), and 13 private domestic banks. These banks provide credit to the farming community for all types of farming activities viz. Growing Crops, Livestock, Poultry, Fisheries, Orchards, Forestry, Nurseries, Apiculture, Sericulture, etc.

Keeping in view the increasing demand of credit due to recent unprecedented floods and torrential rains in the country, the Agricultural Credit Advisor Committee (ACAC) has allocated agriculture credit disbursement target of Rs.270 billion for 2010-11 as compared to Rs.260 billion fixed for last year. Out of the total target, Rs. 181.3 billion were allocated to commercial banks, Rs. 81.8 billion to ZTBL and Rs. 6.9 billion to Punjab Provincial Cooperative Bank Limited(PPCBL).

During the period (July-March ,2010-11), all the banks have disbursed Rs. 168.7 billion or 62.5 % of the target compared with disbursement of Rs. 166.3 billion during corresponding period last year See Table 2.18.

During July-March, 2010-11, the specialized Bank for agriculture credit Zarai Taraqiati Bank Limited (ZTBL) disbursed Rs. 37.4 billion as compared to Rs.49 billion during the same period of last year. This decline in disbursement is mainly due to the recent devastating floods in the country which badly affected the cultivable land. The Bank served 295,941 borrowers as compared to 362,050 borrowers during corresponding period of last year.

Table 2.18: Supply of Agricultural Credit by Institutions **(Rs. in Billion)**

Year	ZTBL	Commercial Banks	PPCBL	Domestic Private Banks	Total	
					Rs. Million	%Change
2005-06	47.6	68.0	5.9	16.0	137.5	26.4
2006-07	56. 5	80.4	8.0	24.0	168.8	22.8
2007-08	66.9	94.7	5.9	43.9	211.6	25.3
2008-09	75.1	110.7	5.6	41.6	233.1	10.1
2009-10	79.0	119.6	5.7	43.8	248.1	6.5
2009-10 P	49.0	85.2	3.5	28.6	166.3	-
2010-11 P	37.4	93.3	4.4	33.6	168.7	1.4

P : (July – Mar) *Source: State Bank of Pakistan.*

III. Forestry

Pakistan is a forest deficient country, mainly due to arid and semi-arid climate in large parts of the country. According to the Forestry Sector Master Plan (FSMP) 1992, natural forests accounted for 4.2 million ha (4.8 percent) irrigated plantations occupied 103,000 ha (0.12 percent) and rangelands covered 28.5 million ha (32.4 percent) out of the total land area of 88 million ha (879,800 km^2). The area of natural forests and state-owned plantations declined at a rate of 27,000 ha/year but there was a 67 percent increase in the area of tree over farmlands See Table-2.19.

Table 2.19: Forest Area Controlled by Provincial/Regional Forest Departments By Legal Category **(000 Hectares)**

Legal Category	Khyber Pakhtunkhwa	Punjab	Sindh	Balochistan	Gilgit-Baltistan	AJK
State	-	-	-	684.07	-	566.74
Reserved	93.95	311.23	323.40	-	-	-
Protected	470.80	2736.43	802.39	403.45	0.06	-
Un-classed	105.20	102.78	13.52	-	-	-
Resumed Lands	36.53	8.69	2.39	-	-	-
Guzara	278.47	-	-	-	-	-
Communal	49.75	-	-	-	0.22	-
Section 38	7.76	19.21	-	-	-	-
Chos Act	-	1.24	-	-	-	-
Miscellaneous	839.58	21.09	-	-	0.38	-
Total	**1843.48**	**3200.67**	**1141.70**	**1087.52**	**0.67**	**566.74**

Source: Ministry of Environment

During the year 2010-11 forests have contributed 91 thousand cubic meters of timber and 261 thousand cubic meters of firewood as compared to 93 thousand cubic meters timber and 263 thousand cubic meters firewood in 2009-10.

IV. Livestock and Poultry

A. Livestock

Livestock sector has emerged as a priority sector only recently on policy formulation. Historically, Livestock has been subsistence sector dominated by small holders to meet their needs of milk, food and cash income on daily basis. In the rural areas, livestock is considered as a more secure source of income for the small farmer's and landless poor's. It has become important source of employment generation in rural areas. The sector is mitigating income variability in the rural areas as crop sector is more dependent on uncertain vagaries of mother-nature. The poverty incidence in Pakistan is determined by income variability and thus livestock is the best hope for poverty alleviation as it can uplift the socioeconomic conditions of our rural masses. The livestock accounts for approximately 55.1 percent of the agriculture value added and 11.5 percent to GDP during 2010-11. The livestock population for the last three years is given in Table 2.20.

Table 2.20 Livestock Population (Million Nos.)

Species	2008-09[1]	2009-10[1]	2010-11[1]
Cattle	33.0	34.3	35.6
Buffalo	29.9	30.8	31.7
Sheep	27.4	27.8	28.1
Goat	58.3	59.9	61.5
Camels	1.0	1.0	1.0
Horses	0.4	0.4	0.4
Asses	4.5	4.6	4.7
Mules	0.2	0.2	0.2

Source: Ministry of Livestock and Dairy development

1: Estimated Figure based on inter census growth rate of Livestock Census 1996 & 2006

The major products of livestock are milk and meat, the production of which for last three years are given in Table 2.21.

Table 2.21 Milk and Meat Production

Species	Units	2008-09[1]	2009-10[1]	2010-11[1]
Milk (Gross Production)	000 Tons	43,562	44,978	46,440
Cow	"	14,982	15,546	16,133
Buffalo	"	27,028	27,848	28,694
Sheep[2]	"	36	36	36
Goat	"	719	739	759
Camel[2]	"	798	808	818
Milk (Human Consumption)[3]	000 Tons	35,160	36,299	37,475
Cow	"	11,985	12,437	12,906
Buffalo	"	21,622	22,279	22,955
Sheep	"	36	36	36
Goat	"	719	739	759
Camel	"	798	808	818
Meat[4]	000 Tons	2,843	2,965	3,095
Beef	"	1,601	1,655	1,711
Mutton	"	590	603	616
Poultry meat	"	652	707	767

Source: Ministry of Livestock and Dairy development

1: The figures for milk and meat production for the years 2008-09, 2009-10 and 2010-11 are calculated by applying milk production parameters to the projected population of 2008-09, 2009-10 and 2010-11 based on the inter census growth rate of livestock census 1996 & 2006

2 : The figures for the Milk production for the year 2008-09, 2009-10 and 2010-11 are calculated after adding the production of milk from camel and sheep to the figures reported in the livestock census 2006.

3 : Milk for human consumption is derived by subtracting 20% (15% wastage in transportation and 5% in calving) of the gross milk production of cows and Buffalo.

4 : The figures for meat production are of red meat and do not include the edible offal's.

The production of other livestock products for the last three years is given Table 2.22:

Table 2.22 Estimated Livestock Products Production

Species	Units	2008-09[1]	2009-10[1]	2010-11[1]
Eggs	Million No's	11,258	11,839	12,457
Hides	000 No's	12,612	13,040	13,481
Cattle	"	6,260	6,496	6,741
Buffalo	"	6,255	6,445	6,640
Camels	"	97	99	100
Skins	000 No's	46,351	47,402	48,478
Sheep Skin	"	10,373	10,495	10,620

Species	Units	2008-09[1]	2009-10[1]	2010-11[1]
Goat Skin	"	22,452	23,061	23,685
Fancy Skin	"	13,526	13,846	14,173
Lamb skin	"	3,081	3,117	3,154
Kid skin	"	10,445	10,728	11,019
Wool	000 Tons	41.5	42.0	42.5
Hair	"	22.0	22.6	23.2
Edible Offal’s	"	325	334	344
Blood	"	55.4	56.8	58.3
Guts	000 No's	46,824	47,886	48,974
Casings	"	13,426	13,879	14,347
Horns & Hooves	000 Tons	46.7	48.1	49.5
Bones	"	692.4	713.4	735.1
Fats	"	221.6	228.1	234.8
Dung	"	977.8	1,008	1,039
Urine	"	301.9	311	320
Head & Trotters	"	202.5	208.2	214.0
Ducks, Drakes & Ducklings	Million No’s	0.6	0.6	0.6

Source: Ministry of Livestock and Dairy development

1 ; The figures for livestock product for the years 2008-09, 2009-10 and 2010-11 were calculated by applying production parameters to the projected population of 2008-09, 2009-10 and 2010-11.

The population growth, increase in per capita income, remittances and export proceeds is fueling the demand for livestock products. In order to speedup the pace of development in livestock sector, the overall thrust of government’s livestock policy is to foster "private sector-led development with public sector providing enabling environment through policy interventions and capacity building for improved livestock husbandry practices". The emphasis will be on improving per unit animal productivity and moving from subsistence to market oriented and then commercial livestock farming in the country to meet the domestic demand and surplus for export. The objective is to exploit the potentials of our livestock sector and use it as engine for economic growth and food security for the country leading to rural population empowerment and rural socioeconomic development /uplift. Livestock sector's prospective role towards rural economic development may well be recognized from the fact that 35-40 million rural populations are dependent on livestock.

The production of commercial and rural poultry and products for last three years is given in Table 2.23:

Table 2.23 Domestic/Rural & Commercial Poultry

Type	Units	2008-09[1]	2009-10[1]	2010-11[1]
Domestic Poultry	Million No’s	76.22	77.35	78.51
Cocks	"	9.32	9.58	9.84
Hens	"	36.11	36.76	37.42
Chicken	"	30.79	31.02	31.25
Eggs[2]	"	3611	3676	3742
Meat	000 Tons	100.41	102.40	104.43
Duck, Drake & Duckling	Million No's	0.61	0.59	0.56
Eggs[2]	"	27.42	26.28	25.18
Meat	000 Tons	0.83	0.80	0.77
Commercial Poultry				
Layers	Million No's	28.42	30.41	32.54
Broilers	"	448.55	493.40	542.74
Breeding Stock	"	7.99	8.39	8.81
Day Old Chicks	"	468.51	515.36	566.89
Eggs[2]	Million No’s	7620	8137	8690
Meat	000 Tons	550.00	603.47	662.18

Type	Units	2008-09[1]	2009-10[1]	2010-11[1]
Total Poultry				
Day Old Chicks	Million No's	499	546	598
Poultry Birds	"	562	610	663
Eggs	"	11,258	11,839	12,857
Poultry Meat	000 Tons	651	707	767

Source: Ministry of Livestock and Dairy development

1 ; The figures for the year 2008-09, 2009-10 and 2010-11 are statistically calculated using the figures of 2005-06.
2 : The figures for Eggs (Farming) and Eggs (Desi) are calculated using the poultry parameters for egg production.

POULTRY

Poultry sector generates employment (direct/indirect) and income for about 1.5 million people. Its contribution in agriculture value addition is 4.8 percent and livestock value addition is 9.8 percent. Poultry meat contributes 24.8 percent of the total meat production in the country. The current investment in poultry industry is about Rs. 200 billion. Poultry sector has shown a robust growth of 8-10 percent annually which reflects its inherent potential.

Poultry Development Policy revolves around improving regulatory framework; disease control and genetic improvement in rural poultry; hi-tech poultry production under environmentally – controlled housing; processing and value addition; improving bio-security; need based research and development and framers training & education. It envisages poultry sectors growth of 15-20 percent per annum.

Livestock Development Projects

The government is presently executing seven (07) projects in livestock sector at an estimated cost of Rs. 8.8 billion. These projects have focused on promoting milk and meat production/ marketing; strengthening of extension services, delivery mechanism system to livestock farmers; prevention and control of livestock and poultry diseases; up-gradation of animal quarantine services and provision of veterinary services at farmer's door step. During 2009-10, technical and financial assistance was provided to private farmers, total 13,171 fattening operations for 163,977 beef and 217,701 mutton totaling 381,678 animals were completed under the Meat Development Project. Under the Milk Collection and Dairy Development Program, 207 MPGs have been formed, 150 milk cooling tanks have been installed and 566 progressive dairy farmers have been registered for production of quality breeding cattle and buffaloes. The project entitled "Improving Reproduction Efficiency of Cattle & Buffaloes in small holder's production system" has completed construction of Semen Production Centre at Renala and Embryo Transfer Technology Centre at Okara Military Dairy Farms. Both institutions have become functional where 502,996 superior quality semen doses, 2,031 embryos were collected and 178,318 AI were carried out during 2009-10.

During 2009-10, the European Union funded "Strengthening of Livestock Services Project" (SLSP) has expanded the Disease Reporting & Epidemiology Network from 36 to 64 districts of Pakistan. The SLSP has provided sero-surveillance material and IT equipment to disease reporting offices and selected veterinary hospitals in these districts. Epidemiology Units have been established at the Federal, Provincial and District level. The project has been under preparation to establish National Disease Reporting & Epidemiology system in the country.

The National Program for the Prevention and Control of Avian Influenza (Bird Flu) has been executed by the Ministry since July 2007. During 2009-10, functional status of 40 Regional Surveillance Units (RSU) and 66 Rapid Response Teams (RRT) was maintained throughout the country. The RSUs and RRTs were equipped with diagnostic equipment and mobility for sero-surveilliance of Avian Influenza. The project collected and analyzed 2,50,521 swab, tissue and blood samples. During the period from July 2009 to June 2010, none of these samples was found positive for H5NI (Bird Flu) virus and Pakistan remained free from Avian Influenza during 2009-10.

The project on "Upgradation and Establishment of Animal Quarantine Stations (AQS) in Pakistan" entered into third year of its execution. Under the 18^{th} Constitutional amendment, livestock subject stands transferred to provinces. Similarly four projects namely Livestock Production & Development for Meat Production; Milk Collection Processing and Dairy Production & Development Program; Strengthening of Livestock Services Project (SLSP) and Improving Reproductive Efficiency of Cattle and Buffaloes in smallholder's production system stand devolved and its assets have been transferred to provinces. Now provinces have key role in development of livestock sector and federal Government role will be of facilitating nature in key areas of interest.

New Initiatives

In the current scenario of devolution under 18^{th} Amendment, the responsibility of livestock development has been shifted to provinces and federal Government will play facilitating role and may support projects of national interest. The future plan for livestock sector is to meet MTDF targets for meat (5.0%) and milk (8.0%) production through shifting from subsistence livestock farming to market-oriented and commercial farming with a focus on entire market chain. The future road map has the milestones in the shape of entering into global Halal Food Trade Market. The government has initiated new projects worth of Rs. 5.5 billion during 2009-10.

The government has initiated regulatory measures and livestock infrastructure development programs and allocations in the PSDP are enhanced manifold for the sector. Other measures include; allowing import of high yielding animals, semen and embryos for crossbreeding; expansion / improvement and modernization of laboratory facilities to diagnose and treat livestock diseases; expanding animal health service, duty free import of veterinary dairy and livestock machinery / equipment, allowing import of feed inputs, vaccines at zero rate etc. The Animal Quarantine Department (AQD) issued 18,729 Health Certificates for the import of live animals, mutton, beef, eggs and other livestock products having a value of more than US$ 201.7 million.

The export of meat (beef, mutton & camel meat) & live animals have increased from $ 74.4 million in 2008-09 to $ 137.5 million 2009-10 showing an increase of 85 percent. During July-March 2010-11, exports of meat (mutton, beef, camel meat) is increased by 44.4 % in quantitative and 53.4 % in value terms and stood at $108.7 million

Flood Damage Assessment Report Regarding Livestock:

The preliminary rapid damage assessment received from the provinces showed that over 1.31 million hectares of cultivated area have been destroyed in the four provinces, AJK and Gilgit-Baltistan. An estimated 187,000 large ruminants, 253,380 small ruminants (Total 440,380 animals) and 9.94 million poultry have been lost in the floods. The total livestock (large & small animals) and poultry losses accounted 0.3 percent and 1.6 percent, respectively of the total population. The steps taken included establishment of emergency relief camps, treatment, vaccination of animals and supply of fodder / vanda in the flood affected areas. In these camps 7.2 million animals were treated and 7.9 million animals were vaccinated against various livestock diseases.

V. Fisheries

Fisheries sector is a source of livelihood for the coastal inhabitants. A part from marine fisheries, inland fisheries (based in rivers, lakes, ponds, dams etc.) is also very important activity through out the country. Notwithstanding its low share in GDP, it adds substantially to the export earnings. During the year 2010-11 (July-March), a total of 86,680 MT of fish and fishery products were exported to earn $ 197.3 million. Pakistan's major buyers are China, Thailand, Malaysia, Middle East, Sri Lanka, Japan, etc.

Various initiatives are being taken by federal and provincial fisheries departments including; *inter alia* strengthening of extension services, introduction of new fishing methodologies, development of value added products, enhancement of per capita consumption of fish, up-gradation of socio-economic conditions of the fishermen's community.

Marine Fishing vessel Census -2010 was started July 2010 in Sindh and Balochistan with the collaboration with WWF, FAO. About 80 percent of fishing boats in Balochistan has been covered and now census work in Sindh is under way, which was delayed due to flood in Sindh coastal areas.

A hatchery complex was established through a development project entitled "Establishment of hatchery complex for production of seeds of fish and shrimps." The renovation work has been completed and handed over to Pak PWD in March, 2011. During the period (July-March 2010-11) total marine and inland fish production was estimated 936,882 MT out of which 672,602 MT was marine production and the remaining catch came from inland waters. The production for the period (July-March 2010-11) is estimated to be 925,755 MT in which 667,782 MT was for marine and the remaining was produced by inland fishery sector.

Box Item

Flood & Food Security

In the first week of August, 2010 MINFA established a Flood Cell to assess crop damages due to flood 2010. SUPARCO was also approached for similar information. According to the flood damage data provided by SUPARCO, out of 9.688 million hectares land planted in Kharif season, 2.364 million hectares was reported as damaged. Details are reported in Table 1.

Table-1: Crop-Wise Damage Report

Crops	Area Sown (Mil Hectare)	Area Damaged (Mil Hectare)	Initial Estimates of Production (Mil tons)	Production @ losses during flood (Mil tons)	Remainder @ Production (Mil tons)	Losses @ (Rs. Billion)
Sugarcane	1.047	0.195	54.834	10.418	44.416	26.045
Paddy	2.642	0.876	5.949	2.395	3.564	61.073
Cotton*	3.199	0.598	14.010	2.599	11.411	79.270
Other crops	2.800	0.695	0.000	0.000	0.000	115.245
Grand Total	9.688	2.364	74.793	15.412	59.38	281.633

**: Million bales* *Source: SUPARCO*

@: Post flood initial estimates

- It was recommended by the Council of Common Interests (CCI) on 6th September 2010, that free of cost of wheat seed and fertilizer be provided to the farming community of flood affected areas with land holdings below 25 acres.
- Economic Coordination Committee (ECC) of the Cabinet in its meeting held on 15-10-2010 decided that:

  i. "Land owners upto 25 acres or equivalent holding shall be eligible for the Assistance Package.

  ii. The financial package will be up to Rs. 2400/- per acre, to be paid on 50:50 ratio by the Federal and Provincial Governments.

  iii. All farmers would be entitled to obtain a concessionary loan, to be provided by State Bank of Pakistan through commercial banks at 8% interest.

- An amount of Rs. 4.1 billion was given as Supplementary Grant for the flood affectees as an assistance for Rabi Crop as 50 percent share of Federal Government. (see Table-2:)

Steps Taken for the Enhancement of Productivity of Major Crops for Ensuring Food Security:

The government has been striving hard to make agriculture competitive and profitable through higher crop production on sustainable basis. The major initiatives taken to boost the production of major crops are summarized as under:-

The attractive support price resulted in record production of about 24 million tons of wheat during 2008-09, 23.3 million tons during 2009-10, and 24.2 million tons in 2010-11.

The government has started to introduce hi-tech seeds (hybrid and BT cotton seeds) in the country in collaboration with the multinational seed companies. Transfer of this technology in the country was also ensured through signing an MOU with Monsanto. During the year 2010-11, BT cotton varieties (10 varieties) and one cotton hybrid were released.

Table-2: Rabi Flood Assistance Package

Province	Area damaged (000 hectare)	Amount released (Rs. Million)
Punjab	486	1440.0
Sindh	567	1680.0
KPK	81	240.0
Balochistan	215	638.4
AJK	26	76.8
Gilgit Baltistan	9	26.2
Total	1383	4101.4

Source :MINFA

About 729,000 MT certified/tested seed of wheat, 22,253 MT certified seed of paddy and 12,400 MT of certified cotton seed was made available for planting during the season (2010-11).

Adequate availability of quality insecticides, weedicides and other agricultural chemical were ensured for timely and efficient plant protection practices for higher production. Duty free import of pesticides and waiver of 15 percent sales tax was also allowed to facilitate the farmers.

The government has launched a mega project “Crop Maximization Project-II” with initial coverage to 1,012 villages in 26 districts of all provinces and will be extended to more villages in the years to come. The main purpose of this programme is to enhance crop productivity and to improve farmer’s empowerment through village organizations.

To improve water conveyance 9,633 watercourses have been constructed/ improved since the last two years.

For judicious use of irrigation water, a programme for providing sprinkler and Drip Irrigation system on an area of 235,000 acres has been launched. The cost of this programme is Rs. 3.1 billion and it will be completed by June, 2014.

To achieve the adoption of balanced/recommended fertilizer use among the growers, Government during the last two years provided financial support to the tune of Rs.58.3 billion on Urea, DAP and potassic fertilizers.

State Bank of Pakistan has introduced Agriculture Credit Guarantee Scheme (ACGS) for facilitation of the farmer’s agriculture lending at the rate of 8 percent.

Rabi Flood Assistance Plan of Rs. 4.1 billion was approved by the ECC to facilitate the farmers of the flood affected areas for the provision of free seed and fertilizer for Rabi Crops (2010-11). As a result, 97 percent of the targeted area was brought under wheat.

Pakistan Oilseed Development Board (PODB) identified 800 thousand hectares suitable areas for olive cultivation through Italian assistance. Olive orchards established on 1,130 acres (430 acres in Public Sector and 700 acres in Privates Sector), 228,000 olive saplings were distributed among growers.

In collaboration with various donors i.e. FAO, European Union brought cultivation of canola on an area of 30 thousand acres and USAID through RSPN has done cultivation of sunflower on one lakh acres by providing free seed and fertilizer during 2010-11 in flood affected areas.

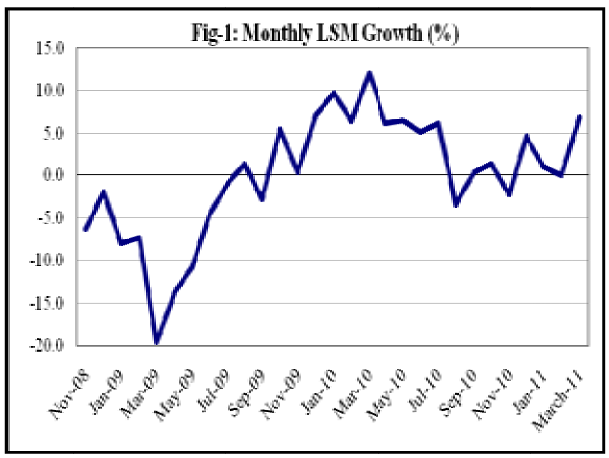
3 Manufacturing and Mining

Introduction

The manufacturing sector has been a major contributor towards promoting economic growth, employment generation, competiveness and trade development in the globe. Large Scale Manufacturing (LSM) remained victim of power outages and lower domestic demand for last few years. Slowdown in large-scale manufacturing inhabits the impact of severity of energy shortages and electricity tariff hike leading to cost escalation. The positive terms of trade shock has helped improved competitiveness for textile sector in particular and other conventional exports based small and medium manufacturing sector. The international experience suggests that lack of growth momentum in this sector can be attributed to the number of obstacles such as low quality of products, lack of research and development, inadequate investment, minimal exposure to the international market, inadequate infrastructure and unskilled labour. This is true for Pakistan's manufacturing sector's history as well. Recent deceleration in the sector is further compounded by the deteriorating law and order situation, energy crisis, natural calamities, growing input prices and higher inflation. Considering the past performance and potential of this vital sector, there is ample space in the manufacturing sector to contribute positively towards economic growth.

The performance of the manufacturing Sector during July-March 2010-11 has been a boom bust phenomenon. Some months has shown positive growth rate while the rest has depicted the negative growth rates [see Figure-1]. Beside range of factors, three regular features persistently affected the performance of the manufacturing sector are; energy crisis, and ever rising input cost and lack of demand.

The growth in large scale manufacturing peaked at 12 percent in March 2010 on the back of rising demand of automobile sector and improvement in the textile and other engineering products. But since then, the growth rate started deceleration due to reduction in cement and steel production. The abysmal performance was witnessed in the month of November 2010 with LSM growth dropping to 4.6 percent. The end of year 2010 saw an improved performance from the large scale sector on the back of addition to capacity in fertilizer, steel and increased demand for durables. Despite prevailing energy crisis and weak textile performance, LSM posted positive growth in December 2010 onwards.



Group Wise Performance

The group-wise performance of the large scale manufacturing showed mixed results. The performance of large scale manufacturing (LSM) is not satisfactory for the current fiscal year when compared with the performance of the previous year owing to lower demand and restraints on supply side. From the Table-3.1, it is evident that the major positive contribution towards modest growth performance came from durables like growth in automobiles came from additional resources transferred to rural sector, external demand driven growth in textile group and leather products, and some impetus from pharmaceuticals and chemicals groups. The negative growth in the petroleum group is driven by circular debt, and lower domestic and external demand for cement drove negative growth in non metallic minerals products, and domestic lower consumption demand compelled negative growth in steel and electronics industries.

Quantum Index of Large-scale manufacturing (QIM) managed to register positive growth of 1.71 percent during the period July-March 2010-11 over comparable period of last year. Main contributors to this modest growth include; leather products (30 percent), automobile (14.6 percent), Food, Beverages & Tobacco (9.3 percent), Paper & Board (2.9 percent), Chemical (1.4 percent) Fertilizers (0.8 percent), Pharmaceuticals (0.5 percent) and Textile (0.2 percent). However, some groups dragged index down with negative growth include; engineering product (15.4 percent), Steel product (13.1 percent), Electronics (12.9 percent), non-metallic minerals (9.6 percent) and petroleum products (4.2 percent).

Table 3.1: Group wise growth and Point Contribution rate of LSM for the month of Jul-March 2010-11 vs July- March 2009-10

S.No.	Groups	Weights	% Change July-March		% Point Contribution July-March	
			2009-10	2010-11	2009-10	2010-11
1	Textile & Apparel	26.408	-0.3	0.2	-0.08	0.05
2	Food, Beverage & Tobacco	14.352	-3.3	9.3	-0.47	1.33
3	Petroleum Group	5.232	-5.9	-4.2	-0.31	-0.22
4	Pharmaceutical	5.03	7.5	0.5	0.38	0.03
5	Non-Metallic Minerals Products	4.192	11.9	-9.6	0.50	-0.40
6	Automobile	3.955	31.6	14.6	1.25	0.58
7	Steel Products	3.504	-27.1	-13.1	-0.95	-0.46
8	Fertilizers	3.383	10.9	0.8	0.37	0.03
9	Chemicals	2.884	0.8	1.4	0.02	0.04
10	Electronic	2.485	18.8	-12.9	0.47	-0.32
11	Leather Products	2.272	23.6	30	0.54	0.68
12	Paper & Paper Board	0.6	-1.4	2.9	-0.01	0.02
13	Engineering Products	0.446	6.0	-15.4	0.03	-0.07
14	Tyres & Tubes	0.303	29.7	0.05	0.09	0.00
	All Groups	75.075	4.36	1.71	3.27	1.28

Source : Federal Bureau of Statistics

Initial spurt in large scale manufacturing was supported by enormous raise in pays and allowances of public sector employees, and huge transfer of resources to rural areas owing to higher prices of agriculture output. Moreover, significant rise in worker remittances and well as public and private transfers to the flood affected population has strongly impacted on the consumer demand for durable goods. Textile sector performance has shown slight improvement owing to spike in global prices.

The performance of the LSM is affected by the factors like weakening of demand in the international and domestic market, inflation, high input costs, high government sector borrowing crowding out availability of credit to the private sector and acute energy shortages.

Some important item-wise contribution in Large Scale Manufacturing (LSM) growth includes Power looms (70.8 percent), TV sets (28.6 percent), sugar (26.5 percent), LCVs (23.3 percent), cars & jeeps (16.1 percent), cooking oil (9.7 percent) and wheat milling (6.9 percent). However, some of the items depict negative growth such as deep freezers (49.3 percent), diesel engines (33.9 percent), buses (24.7 percent), pig iron (15.9 percent), beverages (12.5 percent), cotton ginned (10.5 percent) and cement (9.7 percent).

Item wise review of production of selected items of large scale manufacturing during July-March 2010-11 is given in Table- 3.2.

Table-3.2: Production of Selected Industrial Items of Large Scale Manufacturing

S.No.	Item	Weight	Unit	(July-March)		% Change (Jul-Mar) 2010-11	% Point Contribution (Jul-Mar) 2010-11
				2009-10	2010-11		
1	Deep Freezers	0.3992	(000 tonnes)	130.6	66.2	-49.2	-0.2
2	Jeeps and Cars	2.534	(Nos.)	87.4	101.5	16.1	0.4
3	Refrigerators	0.5890	(000 tonnes)	706.9	733.4	3.8	0.02
4	Upper leather	1.1173	(000 sq.m.)	17.2	18.8	8.9	0.1
5	Cement	4.1412	(000 tonnes)	23.1	20.8	-9.7	-0.4
6	Liquids/syrups	1.5250	(Million Liters)	57.5	62.6	8.8	0.1
7	Phos. Fertilizers	1.8852	(000 N tonnes	367.2	385.3	4.9	0.09
8	Tablets	2.5750	(Nillion Nos)	15500.8	15791.6	1.9	0.05
9	Cooking oil	1.3192	(000 tonnes)	208.9	229.1	9.7	0.1
10	Cotton (ginned)	3.3682	(000 tonnes)	1647.4	1474.1	-10.5	-0.4
11	Nit. Fertilizers	1.4978	(000 N tones)	1869.2	1668.0	-10.8	-0.2
12	Cotton Cloth	7.5493	(Million sq.m.)	761.9	764.4	0.3	0.03
13	Vegatable Ghee	4.2423	(000 tonnes)	785.8	809.0	2.9	0.12
14	Cotton Yarn	13.0659	(Million Kg)	2159.1	2200.4	1.9	0.3
15	Sugar	4.1495	(000 tonnes)	3077.9	3892.1	26.5	1.1
16	Petroleum Products	5.2320	(Million Liters)	8784.1	8415.9	-4.2	-0.3
17	Cigarettes	3.0551	(Billion Nos)	49.5	47.5	-4.1	-0.1
18	Coke	1.4408	(000 tonnes)	261.4	218.8	-16.3	-0.2
19	Pig iron	1.6134	(000 tonnes)	388.7	326.7	-15.9	-0.3

Source: Federal Bureau of Statistics

Industrial Investment:

The provisional estimates of industrial investment or gross capital formation in the manufacturing sector registered a decline of 11 percent in the current fiscal year 2010-11. This decline is due to massive decline in private investment in the manufacturing sector, which decreased by 11.1 percent. On the other hand public sector capital formation also decreased by 3.5 percent. The public and private sector investment in large scale manufacturing decline by 3.5 and 27.2 percent respectively. The entire investment in small-scale has come from private sector and has registered a positive growth of 14.6 percent. The details of industrial investment are given in Table 3.3.

Table 3.3 : Distribution of Industrial Investment

Description	2007-08	2008-09	2009-10	2010-11	% Change
Manufacturing	364.1	375.5	355.1	316.0	-11.0
Public	1.3	4.3	3.8	3.7	-3.5
Private	362.8	371.2	351.2	312.3	-11.1
Large-Scale Manufacturing	271.8	254.9	220.1	161.2	-26.7
Public	1.3	4.3	3.8	3.7	-3.5
Private	270.6	250.7	216.2	157.5	-27.2
Small Scale Manufacturing	92.2	120.5	135.0	154.7	14.6
Private	92.2	120.5	135.0	154.7	14.6

Source: Federal Bureau of Statistics

3.2 Textile Industry

Textile industry contributes about 60% to the total export earnings of the country, accounts for 46% of the total manufacturing and provides employment to 38% of the manufacturing labour force. The availability of basic raw material for textile industry, cotton, has played a principal role in the growth of the industry. Pakistan is 4th largest producer and 3rd largest consumer of cotton. The textile and clothing industry will continue to be the driving force of Pakistan's economic growth; as there is no substitute industry or service sector that has the potential to benefit the economy with foreign currency earnings and new jobs creation. Pakistan's textile industry had proved its strength in the global market during the last four decades. It has proved its strength in post-quota era by sustaining its position and growth

Global Overview

The textile and clothing trade has increased from US$ 355 billion in 2000 to $613 billion in 2008, but it shrank to $527 billion in 2009 due to global financial meltdown. Moreover, the clothing trade is growing at a faster rate than other textiles as world clothing export grew from $197 billion in 2000 to $316 billion in 2009. On the other hand world textile export expanded from $157 billion in 2000 to $211 billion in 2009. The global financial crisis since late 2007 adversely impacted the trade in textiles. The weaker demand in the developed economies limited the expansion of global trade, however, following series of economic stimulus packages, world trade started to pick-up again since March 2009 but world merchandise trade dropped by 23 per cent in 2009 (in nominal terms) which is the highest ever decline in more than 50 years. The recovery in world trade is currently fueling optimism for trade prospects for Pakistan. Pakistan exported textiles worth $ 6.5 billion and clothing worth $3 billion in 2009 as compared to textiles worth $ 7.4 billion and clothing worth $ 3.9 billion in 2008.

Table-3.4: Export of Textile and Clothing **(US $ Billions)**

	2000	2004	2005	2006	2007	2008	2009
World Textile	157.3	195.5	202.7	220.4	240.4	250.2	211.0
World Clothing	197.7	260.6	276.8	309.1	345.8	361.9	316.0
Total	**355.0**	**456.1**	**479.5**	**529.5**	**586.2**	**613.1**	**527.1**
Pakistan Textile	4.5	6.1	7.1	7.5	7.4	7.2	6.5
Pakistan Clothing	2.1	3.0	3.6	3.9	3.8	3.9	3.0
Total	**6.7**	**9.1**	**10.7**	**11.4**	**11.2**	**11.1**	**9.5**
% age of World Trade	1.88%	2.01%	2.23%	2.15%	1.91%	1.81%	1.80%

Source: WTO

Domestic Overview:

The power and gas outages and ever-rising cost of doing business have deteriorated capacity utilization in domestic textile and clothing industry. The global shortage in availability of cotton was caused by the shortfall due to floods driven crop failures in China and Pakistan, which are the biggest producers and consumers of cotton in the world. However, demand for imported cotton soared after floods damaged crops in big producers China, Pakistan and Australia. Besides the foreign demand for Pakistan's cotton yarn has risen exceptionally. Chinese, in particular, have procured huge quantities of yarn from Pakistan, even though they are the fiercest competitor of Pakistan in the world market. Therefore, the increased demand of yarn export created problem of yarn availability in the local market. To stay in the market, industry is making distress efforts. Closure, low capacity utilization and losses are the norms of the day. Resultantly the production and export performance of Textile sector had shown a mixed trend.

Performance of Textile Industry

The prices of the raw cotton globally have increased and touched $2/Lb, the raw cotton prices as per KCA spot rate have varied from Rs. 7,116 /40 Kg minimum to Rs. 12,475 /40Kg maximum. Currently the prices range is of the Rs.10,500 to Rs.11,500, or around US$1.5/Lb. Based on the high cost of the cotton all the textile products have fetched higher unit prices and resultantly the export earnings of the textile products have increased from US$7,663.8 in 2009-10 to $9,956.5 million in 2010-11 implying an increase of 29.9 percent. Textile industry is a pre-dominantly export oriented industry and about 75-80 percent of total produce of cotton and synthetic textiles are exported in the form of yarn, fabric, readymade garments, bed wear and made ups. Export performance of the industry is reported in Table-3.5.

The Pakistan Textile Industry has an inbuilt potential for performing better both in production as well as in exports by virtue of its inherent competitiveness in the international market for its conventional products. However, to sustain its position and to move in high value added products as well as for the increased market share, a large investment in machinery and BMR of existing and embracing new technology is critically important. Investment in awareness of virgin markets, training of labour force, improvement in labour productivity, marketing, product and brand development are the immediate areas to expand the export base.

Table-3.5: Export of Pakistan Textiles **(US$ Millions)**

	2007-08	2008-09	2010-11 (Jul-March)	2009-10 (Jul-March)	% Change
Cotton & Cotton Textiles	10071	9308	9,417	7,268	29.75
Synthetic textiles	490	319	443	291	52.30
Wool & Woolen Textiles	216	145	96	104	-7.70
Total Textiles	10777	9772	9956	7664	29.92
Total Exports	19224	17782	17799	14072	26.5
Textile as %age	**56%**	**55%**	**55.94%**	**54.46%**	

Source: Ministry of Textile

Textile industry invested substantially in BMR for improving production quality and for value addition. Import of textile machinery during 1999 – 2011(July-March) is given below:-

Table-3.6: Import of Textile Machinery **(US$ Million)**

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 (Jul-Mar)
406.9	531.9	598.0	928.6	771.0	503.0	438.3	212.0	195.4	356.5

Source: Ministry of Textile

3.2.1 Ancillary Textile Industry:-

Ancillary Textile Industry includes cotton spinning, cotton cloth, cotton yarn, cotton fabric, fabric processing, home textiles, towels, hosiery and knitwear and readymade garments. These components are being produced both in the large-scale organized sector as well as in unorganized cottage /small & medium units. The performance of these various ancillary textile industries is evaluated below.

i. Cotton Spinning Sector

The spinning sector is the most important segment in the hierarchy of textile production. At present, it is comprised of 521 textile units (50 composite units and 471 spinning units) with 10.1 million spindles and 114 thousand rotors in operation with capacity utilization of 89 percent and 60 percent respectively, during July–March, 2010-11. The cotton spinning sector has performed slightly better than other sub-sectors. Besides market response – easing of raw materials through local supply and imports – diversification to blends and incentives granted under the support packages.

ii. Cloth Sector

The pattern of cloth production is different than spinning sector. There are three different sub-sectors in weaving viz, integrated, independent weaving units, and power loom units. There is substantial investment in the shuttle-less looms both in integrated and independent weaving sector. The power loom sector have modernized and registered a phenomenal growth over the last two decades. This sector is producing comparatively low value added grey cloth of mostly inferior quality. Problems of the power loom sector revolve mainly around the poor technology, scarcity of quality yarn and lack of institutional financing for its development from unorganized sector to an organized one. The weaving capacity is largely distributed in the following three sub-sectors.

Table-3.7: Weaving Capacity

Sub-Sectors		Installed	Effective/ Worked
a)	Integrated Textile Mills	7,170	4,770
b)	Independent Weaving Units (Shuttle less looms)	28,500	28,100
c)	Power Looms Sector	400,670	332,870
	TOTAL	**395,999**	**331,749**

Source: Ministry of Textile

The problems of the power loom sector revolve around access to credit facilities, technology up-gradation and non-availability of skilled labour. The performance of cloth sector remained better than last year. The production of cotton cloth has recorded modest growth both in the mill and non-mill sector [Table-3.8]. The sector serves as downstream sectors like bed wear, made-ups & garments.

iii) **Textile Made-Up Sector**

This is the most dynamic segment of textile industry and major products include; towels, tents & canvas, cotton bags, bed-wear, hosiery & knitwear and readymade garments including fashion apparels. Export performance of made-up sector is given in Table-3.9.

a) Hosiery Industry

There are about 12,000 knitting machines spread all over the country and working on the capacity utilization of around 70 percent. Besides locally manufactured machinery, liberal import of machinery under different modes is also being made and the capacity based on exports is being developed. This sector has tremendous export potential in highly competitive world. Pakistan has exported 74 thousand dozens worth $ 1.29 billion as against 81.2 thousand dozens worth $1.31 billion, thereby showing decrease of 1.9 percent in value terms and 8 percent in quantity terms.

Table-3.8 : Production and Export Performance of the Cloth Sector

Production (M.Sq.Mtrs.)	July-Mar 2009-10	July-Mar 2010-11	% Change
Mill Sector	762.4	764.5	0.3
Non Mill Sector	5,886.4	5,971.6	1.5
Total	**6,648.8**	**6,736.1**	**1.3**
Cloth Exports			
Quantity (M.Sq Mtr.)	1,327.3	1,444.0	8.8
Value (M.US$)	1,313.1	1,746.3	33.0

Source: Ministry of Textile

b) Readymade Garment Industry

The garment industry provides highest value addition in the textile sector and it comprised of small, medium and large-scale units. Most of the units having 50 machines or below which implies strong concentration of the industry in informal sector. Given the upsurge in prices and additional demand for higher end products, additional capacity generation is forthcoming in the organized sector. The industry enjoys the facilities of duty free import of machinery and income tax exemption. During July-March 2010-11, readymade garments worth $1.3 billion were exported as compared to $0.9 billion in the comparable period of last year. Even in quantity terms the exports of readymade garments increased by 25.1 percent and helped by higher unit value prices, the exports grew by 37.8 percent in value terms.

c) Towel Industry

There are around 7500 towel looms in the country in both organized and unorganized sector, and industry is mostly catering for exports. The existing towels manufacturing factories are required to be geared up to produce higher value towels. During July-March 2010-11, exports in this sector stood at $580 million as against $495 million in the comparable period of last year, thereby showing an increase of 17.2 percent. Even quantity exported increased by 4.7 percent.

Table-3.9: Sector wise Export Performance of Made-ups

	2010-11 (July–March)	2009-10 (July-March)	% Change
Hosiery Knitwer			
Quantity (M.Doz)	100.5	78.3	28.22
Value (M.US$)	1726.1	1300.6	32.71
Readyment Garments			
Quantity (M.Doz)	25.5	20.3	25.12
Value (M.US$)	1276.7	926.8	37.75
Towels			
Quantity (M.Doz)	149.2	142.5	4.70
Value (M.US$)	580.4	495.0	17.25
Tents/Canvas			
Quantity (M.Doz)	9.2	16.2	-43.24
Value (M.US$)	29.3	47.9	-38.91
Bed Wears			
Quantity (M.Doz)	243.0	240.7	0.97
Value (M.US$)	1557.0	1273.2	22.28
Other Made up			
Value (M.US$)	508.8	391.1	30.09

Source: Ministry of Textile

d) Canvas

This is the highest raw cotton consuming sector. The production capacity is more than 100 million sq. meters. Around 60 percent production is destined to off-shore markets while 40 is available for domestic consumption, mostly by armed forces, and food department. Pakistan is the cheapest source of supply of tents and canvas. During July-March 2010-11, exports in this sector stood at $29.3 million as against $47.9 million in the comparable period of last year, thereby showing a decrease of 38.9 percent. Even quantity exported decreased by 43.2 percent.

iv) Synthetic Fiber

This sector has made progress in line with demand of the textile industry. Presently, there are five polyester fibre units with production capacity of 640,000 tons per annum. Viscose fibre is supported by import of Man Made fibre.

v) Filament Yarn Manufacturing Industry

The Synthetic filament yarn manufacturing industry has grown with leaps and bounds over the years. Following two kinds of filament yarn are manufactured locally:-

Table 3.10: Capacity of Synthetic Filament Yarn

Type of Yarn	No of Units	Production Capacity
1. Accetate Rayon Yarn	1	3000 (M.Tons)
2. Polyester Filament Yarn	21	105376 (M.Tons)
Total	**22**	**98000 (M.Tons)**

Source: Ministry of Textile

The polyester filament yarn manufacturing is currently facing challenge from cheaper imports from China. The local production filament fabrics is facing problem of competitiveness. The production of polyester filament yarn is around 60,000 tons. Reduction in duty on filament yarn to support synthetic weaving units is aggravating domestic production of filament yarn. Hosiery sector has started consuming synthetic yarn for export of knitted garments which are both value added as well as diversified products.

vi) Art Silk and Synthetic Weaving Industry

Art silk and synthetic weaving industry has developed on cottage based power looms units comprising of 08-10 looms spread all over the country. There are approximately 90,000 looms in operation. Of this 30,000 looms are working on blended yarn and 60,000 looms on filament yarn. Besides, there are some mobile looms which become operational on market demand. Major concentration is in Karachi, Faisalabad, Gujranwala, Jalalpur Jattan as well as in the un-settled area (Bara–Sawat– Khyber Agency and Wazirstan).

Table-3.11: Capacity and Production of Synthetic Fabric

Period	Looms Installed	In Operation	Production (Mln. Sq. Mtr.)
2008-09	88,000	85,000	131,1550
2009-10	88,000	85,000	131,1550
2010-11	88,000	90,000	147,8571

Source: Ministry of Textile

vii. Woolen Industry

The main products manufactured by the woolen industry are woolen yarn, acrylic yarn, fabrics, shawls, blanket, and carpets. The exports of carpets and rugs decreased by 7.7 percent in value terms while increased by 9.7 percent in quantum terms, reflecting impact of fall in unit value.

viii. Jute Industry

The main products manufactured by the Jute industries are jute sacks and hessian cloth, which are used for packing and handling of Wheat, Rice and Food Grains. The installed and working capacity of jute industry is given in table-3.12.

Table-3.12: Installed & Working Capacity

	(Jul–Mar) 2010-11	(Jul–Mar) 2009-10	% Change
Total No. of Units	10	10	
Spindles Installed	36076	36164	-0.243
Spindles Worked	27697	23215	19.31
Looms Installed	1851	1877	-1.39
Looms Worked	1129	951	18.72

Source: Ministry of Textile

The production of the Jute goods for the period of July – Mar. 2009-2010 and 2010-2011 is 98,753 and 66,686 metric ton respectively showing a decrease of 32.4 percent.

3.3 Other Industries

Pakistan during the last couple of years has made huge strides in other industries. Some of these are documented below:

3.3.1 Engineering Sector

Pakistan’s Engineering Industry has a large potential to grow and contribute towards GDP and exports. However, the huge potential of export growth in engineering goods remains unutilized due to multiple reasons. There has been no specific focus on the development and promotion of Engineering Industry of Pakistan in the way as other traditional sectors have been promoted. In this regard, Engineering Development Board (EDB) has taken an initiative and developed National Engineering Export Development Strategy (NEEDS). The objectives of the NEEDS are:

- Identify and frame the challenges and issues confronting the engineering industry
- Identify sustainable solutions for competitiveness and exports.

Engineering Development Board (EDB) is working on different projects for promoting them at large scale of economy. About the budgetary proposal, EDB has constituted 15 sectoral committees comprising conveners and members from the private sector and coordinators from EDB to firm up tariff and tax recommendations. The committees include automotive, steel, refectories and ceramics, home appliance, surgical, electrical machinery, fans, pumps and motors, heavy engineering, consumer electronics, casting, farm plastic and mineral based product. The EDB is giving final touches to the new entrant auto policy which will consider investor-friendly measures to attract leading auto assemblers/manufacturers into potential market of Pakistan.

3.3.2 Automotive Industry

The growth in automobile industry across the world depends heavily on economic growth and availability of financing from financial institution at favourable terms. The sector recorded positive growth in cars, LCVs/Jeeps and two/three wheelers during July-March-2010-11 as compared to same period of the preceding year whereas the Buses, trucks and tractors witnessed a decline in their production as compared to the previous year. (Table 3.13)

The persistent fall in local production of Trucks and Buses is mainly due to their falling demand as the imports have taken over. The industry has shown recovery in two/three wheelers with 13 % growth over previous year. There is some recovery in passenger cars and Light Commercial Vehicles (LCVs) and in comparison to the previous year production of passengers cars grew by 16.4%. Similarly, there is growth in LCVs by 20 % in comparison with the corresponding period last year. The production in the farm tractors is only fractionally down-by only 2.2 % compared with the corresponding period of the previous year.

Table:3.13: Production of Automotive Industries

Category	Installed Capacity	No. of Units Produced					
		2007-08	2008-09	2008-09 (Jul-Mar)	2009-10 (Jul-Mar)	2010-11 (Jul-Mar)	% age Change
Cars	275,000	164,710	84,308	63,273	86,613	100,870	16.4%
LCVs/Jeeps	40,000	22,944	17,092	14,366	12,294	14,821	20.5%
Buses	5,000	1,146	662	408	474	357	-24.7%
Trucks	28,500	4,993	3,135	2,169	2,521	2,031	-19.4%
Tractors	65,000	53,256	59,968	41,661	52,878	51,664	-2.2%
Two/Three Wheelers	1,800,000	660,593	509,054	348,119	534,994	602,268	12.6%

Source: Pakistan Automotive Manufacturers Association

The automotive sector has explored the export market, such as 7563 motorcycles and 64 auto rickshaws were exported in the last financial year. However, 9022 motorcycles and 72 auto rickshaws have been exported up to (July- March) 2010-11. The Car/LCV sector has also exported 359 vehicles & parts worth US $ 1.58 million in the last financial year and 397 vehicles and parts worth US $ 1.66 million in the current year up to (July-March) 2010-11.

3.3.3 Fertilizer Industries:

Fertilizer sector is the second largest consumer of gas after power sector. Due to lack of provision of gas fertilizer industry has witnessed the urea production short fall about 150 thousand tonnes in Kharif and 200 thousand tonnes in Rabi 2010-11 and compelled additional urea imports of 400 thousand tonnes during the Kharif, 2010 and 238 thousand tonnes in Rabi, 2010-11. But still the domestic fertilizer industry witnessed positive trend in production during the year under review. The production in nutrient terms increased from 3082 thousand tonnes during 2009-10 to 3143 thousand tonnes during 2010-11 showing an increase of 2.0 percent. Nitrogen production was 2708 thousand tonnes during 2010-11 and recorded an increase of 1.4 percent (86.2 percent share in total production), phosphate 424 thousand tonnes (13.5 percent share in total nutrient production), which increased by 5.2 percent. Potash blends production was 11 thousand tonnes and was high by 10.0 percent over previous year (0.3 percent share in total nutrient production).

Engro Chemical has installed a new urea plant with annual capacity of 1300 thousand tones, which will become operative in March, 2011 but is again closed on account of gas shortage and as soon as the gas supplies become smooth, it will start production. This will reduce the quantum of total fertilizer imports of the country, especially of nitrogenous (urea) one. Pakistan needs an addition of 100 -150 thousand tones per annum in the production capacity of Urea and DAP to meet its fertilizer requirements for crop sector up to 2025 and for this purpose an integrated large scale fertilizer complex (Urea, DAP, NPK) following a modular approach within an industrial park concept should be the main thrust of national fertilizer strategy. To attract the investment in fertilizer sector, the government has extended the implementation of latest fertilizer policy of 2001 till 30th June, 2012.

3.3.4 Pakistan Steel

Pakistan Steel specialize in the production of flat steel products including, billets, slabs, hot rolled coils, cold rolled coils, galvanised sheets/coils/formed sections and corrugated sheets. Pakistan steel has started an indigenization programme to replace costly imported iron ore by locally available material and it is expected that 250,000 metric tons (MTN) iron ore (local) will be arranged for its utilization at Pakistan Steel this year which will be enhanced to 500,000 MTN within next three years. Pakistan Steel intends to enhance the production capacity upto 10,000 metric tone per month from each location after development of proper mine design.

Keeping in view the demand of steel in country and to enhance the existing capacity of the mills, government intends to increase the production capacity of Pakistan Steel from the present 1.1 million tons to 1.5 million ton in Phase-I and up to 3.0 million ton in Phase-II. Expression of Interest (EOIs) have been received from 10 international firms experienced in setting up of steel plants, which would be evaluated by a consultant to ensure transparency in the process.

3.3.5 Cement Industries

Presently the country exports cement to Afghanistan, India, Africa, and Middle East. Export of cement is exempted from the Sales Tax and Federal Excise Duty (FED). However, the domestic consumption is charged the Sales Tax at 17 percent and Federal Duty (FED) Rs. 700 per ton. Cement export and local demand since 2006-07 till 2010-11 (July-Dec) are given in Table-3.14.

Table-3.14: Cement Export of Pakistan

Year	Local market (Cement)	Export (Cement + Clinker)	Total	Capacity Utilization (%)
2006-07	21.0	3.2	24.2	75
2007-08	22.6	7.7	30.3	80
2008-09	19.4	10.7	30.1	76
2009-10	20.6	10.6	31.2	71
2010-11(Jul-Dec)	12.0	5.2	17.2	67

Source: Ministry of Industry & Production

The import of cement and coal used as fuel for the cement plants is allowed at zero percent customs duty and17 % sales tax. As per investment policy of the government, the import of plant machinery & equipment for manufacturing sector is allowed at 5 percent customs duty. However national average retail price of cement in the domestic market has shown gradual increasing trend since June 2010.

3.5: Privatisation Program

The privatisation process is aimed at selling government property in an open and transparent manner with a view to obtaining the best possible price. It varies somewhat depending on the nature of the asset being privatised, on the proportion of shares being offered for privatisation, and on whether a transfer of management is involved. The Board of the Privatisation Commission (PC) decides what kind of process will be followed. Approval of Council of Common Interests is also obtained.

Government policy of strengthening the private sector's role in the endowment of goods and services and with the approval of Cabinet, the Privatisation Commission (PC) is entrusted with the task of privatisation of federal government assets – such as its shares in banks, industrial units, public utilities, oil, gas and transport companies, and infrastructure service providers - in an open and transparent manner. In addition to the sale of shares or assets, it may offer concessions or the right to operate publicly owned assets.

The Benazir Employees Stock Option Scheme (BESOS), approved by the Cabinet for implementation, envisages free of cost transfer of 12 percent GOP shares in SOEs to the employees/workers establishment of Trusts with a seat in the Board of Directors of each SOE. The Trusts will receive dividend, out of which 50 percent will be used to pay buy-back claims of shares and 50 percent will distributed to the employees of SOEs. The government has so far registered Trusts in 59 SOEs and distributed unit certificates in 37 SOEs benefiting 95,100 employees/workers. An amount of Rs. 2.15 billion has been disbursed as dividend to 16,458 employees/workers of OGDCL, PPL, Mari Gas, PNSC, LCDL, NICL and NPCC whereas, Rs 1.1 billion have been paid on account of buyback claims against surrendered unit certificates of 211 employees of OGDCL, PPL and PNSC. It is expected that PC would be able to fully implement the Scheme in all 80 entities during the period of 2011-12.

3.6: Small & Medium Enterprise

SMEs are the backbone of economic growth of any developing economy. Due to their sheer numbers, size and nature of operations, this segment of the economy promotes endogenous sources of growth and strengthens the infrastructure for accelerated economic expansion and development. The potential of SMEs to promote domestic-led growth in new and existing industries and to strengthen the resilience of the economy in a competitive and challenging environment are inarguable. In Pakistan, the significant role of SMEs is clearly indicated by research and statistics.

According to more recent estimates, SMEs contribute 40 percent to GDP. The significance of their role in economic development is endorsed by the fact that, in 2009-10, a period during which real GDP of Pakistan grew by 3.8 percent, the small scale sector provided much support to overall growth pattern and grew by 7.5 percent. Hence, it is clear that in times of economic downturn, SMEs outperform large enterprises providing much support to overall economic growth.

During FY 2010-11, SMEDA worked on a series of demonstration projects/CFCs in major SME clusters, funded through Public Sector Development Programme to provide infrastructural support to SMEs. In the past year, a total of twenty eight (28) projects/Common Facility Centres in major SME clusters amounting to Rs.2.8 billion have been approved for implementation by SMEDA. These projects have been established keeping in view the specific needs of the SME clusters and are being implemented by SMEDA in collaboration with both the public and private sector stakeholders.

3.7: Mining and Quarrying

Pakistan has a widely varied geological frame work, ranging from pre-Cambrian to the present that includes a number of zones hosting several metallic minerals, industrial minerals, precious and semi precious stones. The mining and quarrying sector is estimated to grow by 0.4 percent in 2010-11 as against 2.2 percent last year. Natural gas, crude oil and dolomite posted positive growth rate of 1.9 percent, 1.1 percent and 5.9 percent, respectively during the current financial year.

However, most of minerals witnessed negative growth rate during the period under review, the growth of coal declined by 4.0 percent, followed by chromite 39.3 percent, magnesite 60.9 percent and barites 32.6 percent, respectively (see Table. 3.15).

3.8: Mineral Production Balochistan

Nature has bestowed the province of Balochistan with vast natural resources of economic significance. Some of these are explored and mined while some are still unexplored. Presently, 33 minerals are being mined by public/private sectors and produce minerals utilized in the country or exported to foreign countries. After implementation of National Mineral Policy, many National/Multi National companies have come forward and are being engaged in exploration of mineral wealth.

Prospects of Reko Diq copper and Gold Project can play vital role in the socio economic development of the Province. Pak Army is funding 4200 children for being generate from Chamalang Coal Field getting education in different cadet schools in the country.

Table 3.15: Extraction of Principal Minerals

Minerals	Unit of Quantity	2008-09	2009-10	July-March		%Change
				2009-10	2010-11*	
Coal	Million tonnes	3.7	3.5	2.5	2.4	-4.0
Natural Gas	Mn.Cu.M	41.4	42	31.4	32.0	1.9
Crude Oil	Mn.Barrels	24.0	23.7	17.9	18.1	1.1
Chromite	000 Tonnes	89.7	257.1	181.9	110.4	-39.3
Dolomite	000 Tonnes	249.9	130.4	84.6	89.6	5.9
Gypsum	000 Tonnes	800.0	853.5	644.6	540.0	-16.2
Lime Stone	Million tones	33.1	37.1	27.2	23.9	-12.1
Magnesite	000 Tonnes	2.6	5.1	4.1	1.6	-60.9
Rock Salt	000 Tonnes	1917.0	1943.5	1347.1	1388.9	3.1
Sulphur	000 Tonnes	25.7	26.6	19.5	20.1	3.0
Barytes	000 Tonnes	63.0	57.1	49.3	33.2	-32.6

** : Provisional* *Source: Federal Bureau of Statistics*

Future Plans

1. To develop the Reko Diq Cooper Gold Prospects.

2. To develop & utilize the Indigenous Iron ore resources of Nokkundi and Dilband area.

3. To enhance revenue to the government exchequer and create job opportunities to the local people.

4. To explore the hidden resources through private/multinational investment.

5. To explore the Marble, Fluorite and other Minerals in the vicinity of Kassa Hill Marble Projects, District Loralai.

Table 3.16: Revenue recipients

S.No.	Year	Revenue Receipts(Million Rs)
1	2006-07	449.33
2	2007-08	577.11
3	2008-09	458.77
4	2009-10	624.39
5	2010-11 (up to December 2010)	1127.68

Source: Mines & Mineral development department Govt. of Balochistan

The mineral sector is undergoing substantial change and is a victim of security environment. The mining activity is done by foreign companies and foreigners are shying away from down country fields. This has impacted growth prospects of the economy. The mining sector offers huge potential once, the security environment is stabilized. Going forward we need to tap full potential of this sector.

4 Fiscal Development

Introduction:

Fiscal policy is an instrument of economic development that can have major impacts on income distribution and poverty through taxes, public borrowings and public expenditures.

Nearly four years after the start of global financial crisis, the global economy is now recovering. In advanced countries, the crisis was accompanied by a rapid and deep deterioration of public finances. The sluggish pace of fiscal consolidation has caused fiscal sustainability risks in major industrialized countries. The need for fiscal consolidation and sustainability is one of the key macroeconomic issues currently facing many developed and developing economies around the world. The sustained adjustment in the fiscal balance covering both revenue and expenditure measures, is urgently required. Previous challenges of fiscal & financial repair, reforms and rebalancing of global demand remained outstanding.

Pakistan's economy mainly remained immune to global financial crisis because of its lesser exposure to international finance. Loss of growth momentum in the wake of high commodity prices, coupled with the peculiar law and security situation, and power outages has aggravated threats to macroeconomic stability. Intensification of war on terror put additional burden on public finances at a time when weaker domestic economic activity is taking its toll on revenue mobilization efforts. Fiscal balance deteriorated in 2009-10, and some adjustment is expected in fiscal deficit but it is far off than target.

Key reforms for revenue mobilization have to be delayed owing to peculiar internal and external pressures. It widened fiscal imbalance from 5.3 percent of GDP in 2008-09 to 6.3 percent in 2009-10 against the target of 4.9 percent. The additional burden on expenditure was not supported by commensurate increase in revenues, but weaker economic activity constricted revenue generation process. Resultantly, fiscal deficit deteriorated to 4.3 percent of GDP in the period July-March 2011 as compared to 4.2 percent in the comparable period of last year. The target for 2010-11 has to be adjusted upward from 4.0 percent of GDP to 5.3 percent of GDP. Even meeting this target requires massive adjustment in development expenditure and some additional revenue measures in April 2011.

Major Developments

A low and declining tax-to-GDP ratio and increasing public debt stock has imposed a constraint on fiscal stimulus to support revival of growth momentum needed for the economy. The Reformed General Sales Tax (RGST) is in the Parliament. Other major reforms like harmonization of tax administration have taken place and strengthening of Risk Based Audit is under process. The government has also announced various temporary tax policy measures through Presidential Ordinance to generate additional revenues of Rs 53 billion during the last quarter of 2010-11. The administrative measures and vigilance will be helpful in generating another Rs 24 billion. These steps will also be helpful in achieving the revised collection target of Rs 1588 billion.

Major development was the announcement of 7th NFC award in budget 2010-11 and for the first time the distribution of funds has been made on multiple criteria of population, poverty and backwardness, revenue collection/generation and Inverse population density. In addition to the above, number of economic and financial reforms were undertaken, which are briefly discussed below:

Austerity Plan

Main objective of the plan is to provide a road map to attain austere and cost effective fiscal governance through:

- Rationalization of Expenditure
- Optimization of Available Resources
- Process Re-engineering and
- Efficiency of Operation

The salient feature of the Austerity plan is the rationalization of government size through a reduction in the number of Federal Ministries and devolution of subjects to the provinces

Restructuring of Public Sector Enterprises

Restructuring of PSEs has been initiated in order to improve overall corporate governance of PSEs and service delivery, and to move to a structural surplus and increased public sector savings. An overall framework for restructuring of following eight PSEs has been devised:-

- Pakistan International Airlines (PIA), Pakistan Steel Mills,
- Pakistan Electric Power Company (PEPCO),
- Pakistan Railway (PR), National Highway Authority (NHA),
- Pakistan Agricultural Storage and Services Corporation (PASSCO),
- Trading Corporation of Pakistan (TCP) and
- Utility Stores Corporation (USC)

Progress has been made including restructuring Board of Directors of eight Power Sector Distribution Companies (DISCOs), National Transmission and Dispatch Company (NTDC), Pakistan Steel Mills (PSM) and Pakistan Railway in line with the guidelines developed by the Cabinet Committee on Restructuring (CCOR).

Power Sector reforms

The power sector reform plan developed by the government requires the following:

- Improved governance structure
- Supportive legal framework
- Financial sustainability
- Supply side management
- Demand side management
- Promote private sector participation in the sector

The implementation of the power sector reform plan is in progress. Dissolution of PEPCO has been initiated to ensure autonomy to power sector companies and human resource transfer plan of PEPCO employees is on track. Technical, financial and managerial audits of DISCOs and GENCOs have been completed to identify weak areas and ensure financial transparency.

Key issue of circular debt and receivables of power sector both current and previous are being addressed. The total power sector subsidy in 2010-11 is expected to be in the range of Rs181.4 billion to Rs 227.9 billion. In order to address this, monthly fuel adjustments are being passed on to consumers. There have been regular increases in power tariff in the form of surcharge to narrow down the cost and revenue differentials of the power sector companies. The estimated power sector subsidy is expected to decrease substantially in the coming years. In this regard, work on NEPRA amendment to empower NEPRA to notify tariffs as determined from July 2011 is underway. Efficiency gains are likely to reduce cost differentials and tariff differential subsidy.

Fiscal Policy Development

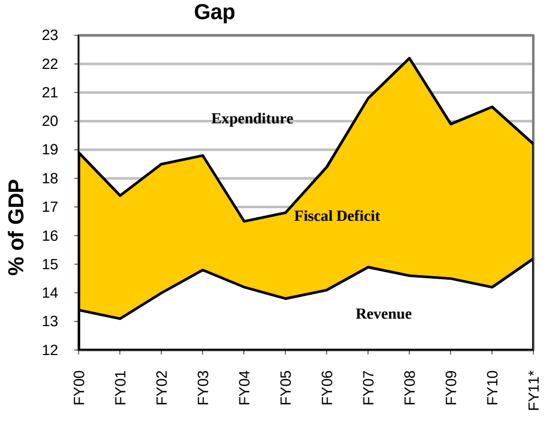
Pakistan is confronted with the issue of stagnant tax to GDP ratio for more than a decade now, as overall tax-to-GDP ratio fluctuated in a narrow band of 9-11percent owing mainly to structural deficiencies in the tax and administration system both at federal and provincial government level. Pakistan is characterized having lowest tax-to-GDP ratio not only in peer countries but even in the region as well. The composition of the current expenditure is narrowly based and offers little room to take burden of critical fiscal adjustment. The debt and security related spending is taking almost three-fourth of the current expenditure and thus room for adjustment is very low. The lack of availability of external financing has further aggravated the fiscal predicament as the burden unfairly falls upon domestic financing. Consequently, there is a limited fiscal space, which is crucial for a sustainable economic growth.

Table 4.1: Fiscal Indicators as Percent of GDP

Financial Year	Real GDP Growth	Overall Fiscal Deficit	Expenditure			Revenue		
			Total	Current	Development	Total Rev.	Tax	Non-Tax
2000	3.9	5.4	18.9	16.4	2.5	13.4	10.6	2.8
2001	1.8	4.3†	17.4	15.3	2.1	13.1	10.5	2.6
2002	3.1	4.3†	18.5	15.7	2.8	14.0	10.7	3.3
2003	4.7	3.7	18.8	16.2	2.6	14.8	11.4	3.4
2004	7.5	2.3	16.5	13.7	2.8	14.2	11.0	3.2
2005	9.0	3.3†	16.8	13.3	3.5	13.8	10.1	3.7
2006	5.8	4.3*†	18.4	13.6	4.8	14.1	10.5	3.6
2007	6.8	4.3*†	20.8	15.8	5.0	14.9	10.2	4.7
2008	3.7	7.6	22.2	18.1	4.4	14.6	10.6	4.4
2009	1.7	5.3	19.9	16.0	3.8	14.5	9.5	5.1
2010	3.8	6.3	20.5	16.9	3.5	14.2	10.2	3.9
2011(B)	2.4	4.0	18.0	14.6	3.4	14.3	10.5	3.8

† *Statistical discrepancy (both positive and negative) has been adjusted in arriving at overall fiscal deficit numbers.*
* *Include earthquake related expenditure worth 0.8 and 0.5 percent of GDP for 2005-06 and 2006-07, respectively.*

Fig-4.1: Trends in Revenue-Expenditure Gap



The fiscal position, viewed in terms of key fiscal parameters like revenue, expenditures and fiscal deficit indicate a notable change since 1990's. Total expenditure and total revenue witnessed near stagnation and both items moved up and down in very narrow band. The shocks are absorbed by development expenditure. Pakistan's expenditure remained lowest among developing countries at the same level of development. Tax-to-GDP ratio in the table-4.1 hides many distortions, implying massive under-taxation.

During the decade of the 2000s, Pakistan has undergone many tax and administration reforms but no major improvement in revenues is observed in the past 10 years because on the revenue side, tax to GDP and hence revenue to GDP either remained stagnant or showed a secular decline.

Relatively, a similar pattern holds for expenditure to GDP, with total expenditures showing an overall decline since 2007-08. The decline in total expenditure (1.7 percentage point of GDP) is shared by current expenditure (1.2 percentage points) and development expenditure (0.9 percentage points) during the past 3 years. However in 2010-11, the total expenditure is expected to reach at Rs. 3257 billion or 18.0 percent of GDP. On the other hand, total revenues are expected to rise by Rs 2,574 billion or 14.6 percent of GDP.

Fiscal deficit as a percentage of GDP has declined from 7.6 percent in 2007-08 to 5.3 percent in 2008-09 on account of a drastic cut in development expenditures. Nonetheless, the fiscal consolidation witnessed in 2008-09 evaporated with an increase in fiscal deficit by 6.3 percent in

2009-10, which was 1.5 percent more than the budget estimate for 2009-10 due to large additional subsidies for the electricity sector. Meanwhile, the catastrophic floods, which hit Pakistan in the summer of 2010, reduced growth and posed a further challenge to public finances by depressing budget revenues and necessitating additional spending to meet the humanitarian and reconstruction needs, thereby necessitating upward adjustment in the fiscal deficit target from 4 percent of GDP at the time of budget announcement to 5.3 percent of GDP.

Box-2: **South Asian Fiscal Consolidation Dilemma**

South Asia has the largest fiscal deficit among developing countries with the region-wide deficit estimated at 8.2 percent in 2010. The high fiscal deficits in the region reflects a number of longstanding structural factors, with significant pressures emanating from both the revenue and expenditure sides. In particular, tax mobilization in the region is low. South Asia's general government tax revenues averaged 14.3 percent as a share of GDP in 2009—compared with Europe and Central Asia (21.4%), Sub- Saharan Africa (16.5%) and Latin America and Caribbean (16.4%)—and represented less than 12 percent of GDP in ***Pakistan (10.2 percent)***, Nepal (11.8 percent) and Afghanistan (7.2 percent). India's tax base is broader at 16.5 percent. Reforming taxation system for additional revenue mobilization is critically important for sparing more resources for social sector development.

On the expenditure side, ***the region carries a particularly heavy burden in the form of high interest payments***. Relative to total expenditures, interest payments averaged 18.2 percent in 2009, by far the highest share among developing regions and at least twice as high, with the exception of Latin America and the Caribbean (11%). This reflects elevated interest payments as a share of total outlays in Bangladesh (17.3 percent) India (17.7 percent), Pakistan (25.5 percent), and Sri Lanka (25.8 percent). Recent efforts at ***budget consolidation have been missed in Pakistan, because of revenue shortfalls, overrun on power sector subsidies and elevated security expenditures, as well as flood-related expenditures.***

Structure of Tax Revenue

Pakistan has historically a punctured tax base with some sectors are under-taxed and some are not taxed at all. Agriculture and services sector accounts for three-fourth of national income but its contribution hovered around 10 percent of GDP. Petroleum sector accounts for around 27 percent of tax revenue. This unfair distribution has proved to be distortionary and incentivizing massive tax evasion. This explains very low tax-to-GDP ratio and failure of many tax reforms going on for the last two decades because only indicator of tax administration's efficiency is tax-to-GDP ratio. Large size of informal economy is peculiar characteristic of developing countries but Pakistan's case is more serious as tax-to-GDP ratio is the lowest not only in the developing world but also in the region as it hovers at a 9.2 percent as compared to around 15 percent in Sri Lanka and 16 percent in India.

Fig-4.2: FBR Tax Rev as % of GDP

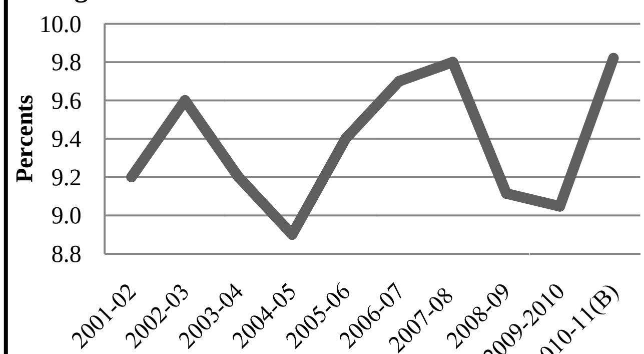


Table 4.2: Structure of Federal Tax Revenue *(Rs. Billion)*

Year	Total (FBR)	Tax Rev as % of GDP	Direct Taxes	Indirect Taxes			
				Customs	Sales	Excise	Total
2000-01	392.3	9.4	124.6	65	153.6	49.1	267.7
			[31.8]*	{24.3}^	{57.4}	{18.3}	[68.2]

2001-02	403.9	9.2	142.5	47.8	166.6	47.2	261.6
			[35.3]	{18.3}	{63.7}	{18}	[64.7]
2002-03	460.6	9.6	148.5	59	205.7	47.5	312.2
			[32.2]	{18.9}	{65.9}	{15.2}	[67.8]
2003-04	518.8	9.2	165.3	89.9	219.1	44.6	353.6
			[31.9]	{25.4}	{62}	{12.6}	[68.1]
2004-05	588.4	8.9	176.9	117	235.5	58.7	411.4
			[30.1]	{28.5}	{57.2}	{14.3}	[68.9]
2005-06	713.4	9.4	224.6	138	294.6	55	487.9
			[31.5]	{28.3}	{60.4}	{11.3}	[68.5]
2006-07	847.2	9.7	333.7	132.3	309.4	71.8	513.5
			[39.4]	{25.8}	{60.3}	{13.9}	[60.6]
2007-08	1007.2	9.8	387.5	150.6	376.9	92.2	619.7
			[39.6]	{24.7}	{60.3}	{14.6}	[60.4]
2008-09	1161.1	9.1	444.0	148.0	452.0	117.4	717.4
			[38.2]	{20.6}	{63.0}	{16.4}	[61.8
2009-10	1327	8.9	529.0	162.0	516.0	121	799.0
			[39.9]	{20.3}	{64.6}	{15.1}	[60.2]
2010-11B	1667	9.2	657.7	180.8	674.9	153.6	1009.3
			[39.4]	{17.9}	{66.9}	{15.2}	[60.5]

as % of total taxes ,
^ as % of indirect taxes
B Budget estimates

Source: Federal Board of Revenue

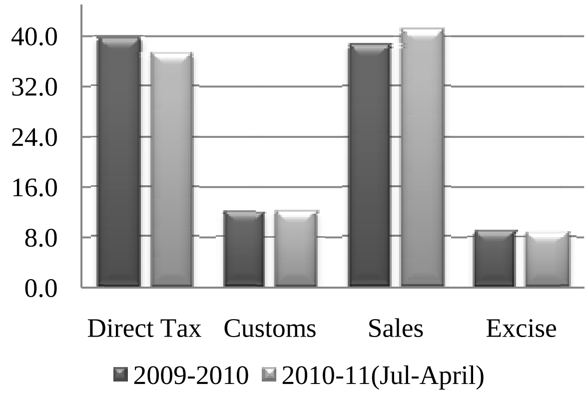
The internal structure of taxation has undergone substantial changes as the share of income tax has risen significantly from around 31 percent in 1999-2000 to 39 percent in 2010-11 and indirect taxes are paving the way for direct taxes. The main culprit is the falling share of customs and excise duties mainly because of tax and tariff reforms. Trade related taxes or customs duty has lowered its share in indirect taxes from 24 percent at the start of the decade and 20 percent at the end of the decade. Similarly excise duty is being replaced by sales taxes and thus its share in the indirect taxes has declined. Sales tax has becoming very important consumption tax and it accounts for two-third of indirect taxes. Going forward, this level of taxation has to be increased through major overhaul of the taxation system and administration. The reforms needed to increase the tax to GDP ratio 13-15 percent during the next five years, a number of additional Tax Policy and Administrative Reforms initiatives have been announced, which are as follows:-

Reforms

Reformed GST

It is evident by international experience that adoption of a VAT is associated with a long run increase in the overall tax-to-GDP ratio of about 3-5 percent. For Pakistan, R-GST/VAT is envisaged to be a key structural reform in documenting the economy, broadening of the tax base and improving the overall efficiency of the tax system. The proposed Federal Reformed GST (RGST) Bill was tabled in the National Assembly and provincial R-GST bills were also tabled in the provincial assemblies. It has been recommended by the Senate and National Assemblies Standing Committees. Extensive negotiations are underway to develop a consensus with the political parties, the provinces as well as the major stakeholders to ensure smooth implementation of R-GST.

Fig-4.3: %age of Total tax



Through a combination of Presidential Ordinance and withdrawal of SRO base exemptions, amendments have been made in the Sales Tax Act 1990, Income Tax Ordinance 2001 and Federal Excise Act 2005. The following tax measures have been taken through these amendments:-

1. Withdrawal of sales tax exemption on agriculture inputs like tractors, pesticides, and fertilizer both at domestic and import stages. Now these are subjected to 17 percent GST
2. A onetime surcharge of 15 percent has been imposed on withholding and advance taxes payable during financial year 2011; and
3. Special excise duty rate has been increased from 1 percent to 2.5 percent on non-essential items for the remaining period of tax year 2010-11.

The facility of zero-rating on plant, machinery and equipment including parts thereof has also been withdrawn by amending SRO No.549(I)/2008, dated 11-06-2008, through Notification SRO No.230(I)/2011, dated 15-03-2011. These goods are now liable for sales tax at the rate of 17 percent. Moreover, zero-rating on five major export oriented sectors (textiles, carpets, leather, sporting goods and surgical goods) has been restricted to registered manufacturers-cum-exporters and exporters for export purpose only by an amendment in SRO NO 509(I)/2007, dated 09-06-2007, through Notification SRO No.231(I)/2011, dated 15-03-2001. Domestic supplies of these sectors will now be liable to sales tax at different rates of 4 and 6 percent.

FBR has rescinded its Notification SRO NO.564 (I)/2006, dated 05-06-2006 where under sales tax was being charged on sugar at the assessable value of Rs 28.88 per kg. Now sales tax at the rate of 8 percent will be charged on the actual price of sugar. All these measures are likely to generate additional revenue of Rs 53 billion during remaining period of 2010-11

Measures to improve tax administration and collection

Recent measures taken to improve tax administration and strengthen tax collection are listed below:

a. Restructuring of the Organizational Setup of FBR

- The number of members has been reduced from 12 to 8. One Member (Inland Revenue) has replaced two Member domestic operations, (North and South). The new team has been created by placing special emphasis on skills that match FBR's needs.

b. Compliance and Enforcement Measures

- Focused efforts are being undertaken to reduce non-filers and short-filers in income tax and sales tax.

c. Broadening of Tax Base

- National Database and Registration Authority of Pakistan (NADRA) approached to help in identifying potential taxpayers through data-mining on 83 million CNIC holders based on a taxpayer profile which takes into account age, education, employment, residence type, bank accounts, travel pattern, NTNs issued etc. FBR has created a dedicated Directorate General for pursuing these potential taxpayers.

d. Sales Tax Refunds

- An expeditious payment refund system (EPRS) has been setup in FBR and rolled out all over Pakistan since July 2010 where refund claims of manufacturers/exporters are being processed online within 48 hours of filing of the refund claims. Issuance of all refund cheques has been centralized to finalize refund to taxpayers within seven days of their claims being cleared.

e. Tax Audits

1. Audit Policy 2010-11 (Tax Returns 2009)

The audit policy and risk criteria have been developed for the financial year 2010-11 (for returns of 2010). Salient features of the policy are given below:

1. To expand audit coverage of large and medium taxpayers gradually
2. To devise risk based selection criteria rather than random method for audit for major sectors of economy.
3. To increase the professional capacity by creating sectors' specialist in:
   - Textile sector, Hotel services, Transport sector, Private construction
   - IT based forensic audit, Petroleum exploration & refining
   - Banking Sector, Insurance Sector

a. To include with-holding agents and post-refund Sales Tax audit in the next Audit Plan.

f. Customs Modernization Reform

Under customs modernization reform, a major initiative taken up under the restructured TARP, is the development of a Pakistan Customs Valuation Gateway website containing data pertaining to commodities, as available in various international bulletins in an effort to control under-invoicing. Directorate General of Intellectual Property Rights (IPR) has been established to enhance efficacy of customs in IPR related work and provide back-up for enforcement to Customs Collectorates.

Review of Public expenditure

Public expenditure remained under tremendous pressure in the year under review as commensurate increase in revenues was not available. There is a need for strengthening the public finances in order to enable the government for higher spending on development and poverty reduction, and to increase much-needed social outlays over the medium term. As discussed earlier, that fiscal consolidation could not be maintained in 2009-10 largely because of a sluggish growth in revenues, persistence of security related pressure on public expenditures and greater than budgeted subsidies. The expenditure overrun instead of reduction in development expenditures is a major cause of concern but equally important is revenue shortfalls.

Total expenditures (TE) rose to Rs 3,007.2 billion or 20.3 percent of GDP in 2009-10 as compared to Rs 2,531 billion or 19.9 percent of GDP in 2008-09; however it is likely to decline to 18.0 percent in 2010-11 on account of slashing of development expenditures. In the current expenditure the decline is coming from non-interest-non-defence spending. Expenses under the head of running of the civil administration increased by 23.4 percent, mainly due to the impact of higher salaries and allowances for federal government employees in 2010-11. Similarly, during July-March, 2011, flood relief measures claimed an unbudgeted 1.7 percent of consolidated public expenditures. During July-April, 2011, the government has disbursed Rs 30 billion under *watan* card scheme.

Current expenditures (CE) during 2009-10 not only surpassed the 2008-09 level but also the projected amount by a significant amount. The elevated current expenditures was primarily due to higher than projected spending on defense and security related spending along with a significant continuation of subsidies for energy, food items (wheat & sugar) and cash transfers. Consequently, to alleviate the brunt of an increase in current expenditure and to ease the deficit pressure, the government resorted to limit the development spending below target level during 2009-10, thus it remained at 3.5 percent of GDP as compared to 3.8 percent during the same period of 2008-09. In order to meet the fiscal target for 2010-11, the development spending is expected to remain conspicuously low at 3.4 percent of GDP, which was 3.6 percent of GDP at the time of budget announcement.

Table 4.3 : Trends in Components of Expenditure **(As % of GDP)**

Year	Total Expenditure (A)	Current Expenditure (B)	Interest Payments (C)	Defense (D)	Development Expenditure (E)	Non Interest Non-Defence Exp (A-C-D)	Fiscal Deficit	Revenue Deficit/Surplus (TR-Total CE)	Primary deficit (TR-NI Exp)
1999-00	18.5	16.4	6.8	3.9	2.5	7.7	-5.4	-3	1.7
2000-01	17	15.3	5.9	3.1	2.1	8	-4.3	-2.2	2
2001-02	18.5	15.7	6.1	3.3	2.8	9	-4.3	-1.7	1.6
2002-03	18.4	16.2	4.8	3.3	2.6	10	-3.7	-1.4	1.2
2003-04	16.9	13.7	4	3.3	2.8	9.7	-2.3	0.3	1.1
2004-05	17.2	13.3	3.4	3.2	3.5	10.5	-3.3	0.5	0.04
2005-06	18.4	13.6	3.4	3.2	4.8	11.8	-4.3	0.5	-0.8
2006-07	20.6	15.8	4.4	2.9	5	13.3	-4.3	-0.9	-1.3
2007-08	22.2	18.1	5.1	2.7	4.4	14.4	-7.6	-3.4	-2.4
2008-09	19.9	16.0	5.2	2.6	3.8	12.1	-5.3	-1.5	-0.2
2009-10	20.5	16.7	4.3	2.5	3.5	13.4	-6.3	-2.7	-1.9
2010-11B	18.0	14.6	3.9	2.4	3.4	11.7	-4.0	-0.4	0.1

B : Budgeted,

The share of current expenditures in total expenditure has significantly declined from 89.9 percent in 2000-01 to 82.5 percent in 2009-10, and expected to decline further by 1.4 percent, mainly due to a substantial fall in interest payments. On the other hand defense expenditures, accounted for 15.1 percent of current expenditure in 2009-10. While as percentage of GDP it remained at 2.5 percent in 2009-10 and likely to remain slightly below than this level in 2010-11. However, in absolute terms, defense expenditure rose to Rs 375 billion during 2009-10 against Rs 329.9 billion in the same period of 2008-09. Nevertheless the budgeted target is set at Rs 442 billion for the 2010-11 which is around 2.4 percent of GDP.

Fiscal Performance: July-March, 2010-11

Pakistan's economy was jolted by devastating floods at the start of the fiscal year and thus started weakening economic activity, that in turn had a bearing on revenue mobilization. Demand on fiscal accounts increased due to relief and rehabilitation support to flood victims. Resultantly, a significant part of PSDP for 2010-11 has been diverted towards rehabilitation activities. IMF released $450 million as Emergency Natural Disaster Assistance (ENDA).

According to the consolidated revenue & expenditure of the government, total revenues grew by 6.2 percent during July-March 2010-11 and reached to Rs1,489 billion as compared to Rs1,402 billion in the same period last year. The increase is mostly coming from higher tax revenues partially contributed by direct taxes on the back of advance income tax payments and growth in taxes on goods and services and international trade due to increase in rupee imports. On the other hand, growth in non-tax revenues decreased by 5.7 percent mainly because of a decline in transfer of SBP profits.

Within overall revenues, FBR taxes witnessed a growth of 12.6 percent during July-April, 2011 and reached Rs 1156 billion against Rs 1026.5 billion in the same period last year. However, other tax revenues neutralized this growth. Negative growth in non-tax revenues neutralized further total revenue growth to just 6.2 percent. Total expenditure increased at much faster rate of 11.5 percent during July-March 2010-11 and thus widened the revenue-expenditure gap. Un-sustainability of the fiscal balance emanates from the persistent growth in expenditure caused by flood relief activities, security related expenditure and delay in the implementation of tax reforms. External resources for financing of budget deficit amounted to Rs 61 billion, and insufficiency of the external financing shifted more reliance on domestic resources to finance the fiscal deficit during July-March 2010-11. Fiscal deficit as a percentage of GDP stood at 4.3 percent during the first nine months of 2010-11 against the revised target of 5.3 percent for the whole fiscal year.

Table 4.4 Consolidated Revenue & Expenditure of the Government

	Budget Estimate	Projections	Prov. Actual Jul-Mar	Prov. Actual Jul-Mar	Growth Jul-Mar
	2010-11	2010-11	2009-10	2010-11	2010-11
A. Total Revenue	2,574	2,351	1,402.00	1,489.00	6.2
a) Tax Revenue	1,889	1,776	1,029.60	1139	10.6
Federal	1,809	1,710	994.2	1097	10.3
of which FBR Revenues	1,667	1,588	909.6	1020	12.1
Provincial Tax Revenue	80	66	35.4	42	18.6
b) Non-Tax Revenue	686	576	372.4	351	-5.7
B. Total Expenditure	3,257	3,312	2,027.80	2261	11.5
a) Current Expenditure	2,641	2,835	1,720.90	1935	12.4
Federal	1,891	2,025	1,283.60	1423	10.9
- Interest	699	727	473.5	505	6.7
- Defense	442	442	269.8	335	24.2
Provincial	750	810	437.3	512	17.1
b) Development Expenditure & net lending	617	398	303	231	-23.8
PSDP	610	390	286.5	225	-21.5
c) Net Lending	7	8	16.5	6	-63.6
d) Provision for flood relief	-	80	-	39	-
e) Unidentified Expenditure	0	-1	0	56	0
C. Overall Fiscal Deficit	-683	-961	-625.8	-771	23.2
As % of GDP	-4	-5.5	-4.2	-4.3	7.1
Financing of Fiscal Deficit	591	903	625.9	746	19.2
i) External Sources	92	135	92.6	61	-34.1
ii) Domestic	499	768	533.3	685	28.4
- Bank	166	418	210.9	353	67.4
- Non-Bank	333	350	322.5	332	2.9
- Privatization Proceeds	0	0	0	0	0
GDP at Market Prices	18,063	18,063	14,837	18,063	15.1

Slippages on Revenue & Expenditure during Last Three Years

A well designed fiscal policy comprising of well articulated revenue and expenditure reforms is always supportive to promote economic growth. An efficient revenue mobilization can help to condense fiscal imbalances and fund much needed public goods and services, while on expenditures side, change in composition of public spending can re-adjust public resources away from current consumption towards growth promoting investment. During the last three years expenditure overrun surpassed the revenue increases, thereby resulting in breaching fiscal deficit targets persistently. The task of fiscal adjustment became even difficult.

Table-4.5: Slippages in Revenue-Expenditures

Items	2007-08			2008-09			2009-10		
	B.E	Actual	% Change	B.E	Actual	% Change	B.E	Actual	% Change
Total Revenue Receipts (Net)	1,476	1,499	1.6	1,809	1,851	2.3	2,155	2,078	-3.6
Total Expenditure	1,875	2,277	21.4	2,392	2,531	5.8	2,877	3,007	4.5
Overall Fiscal Deficit	-399	-777	-	-582	-680	-	-722	-929	-
as % of GDP	4.0	7.6	-	4.7	5.3	-	4.9	6.3	-

Pakistan has experienced overwhelming fiscal challenges in the recent past in particular during 2007-08 on account of revenue-expenditure gap that lies in the structural weaknesses of Pakistan's tax system. Additionally, government's effort for fiscal consolidation was relentlessly challenged by domestic and external sectors imbalances in confluence with deteriorating security environment, deepening of the global financial crisis, and persistent inflationary pressures etc. It was therefore, 2007-08 witnessed massive slippage in fiscal deficit, which was at 7.6 percent of GDP against the target of 4 percent. However, in 2008-09 under the IMF-SBA, the government took various budgetary measures to attain fiscal consolidation. Consequently, fiscal deficit declined to 5.3 percent but still higher than the target of 4.7 percent due to intensification of war on terror and over draft from the Punjab government.

On the other hand 2008-09 observed a consolidation of the government's fiscal position at the expense of development expenditures. Hence, the revenue deficit improved considerably. While it could not be sustained in 2009-10 due to multiplicity of factors including widening of fiscal deficit on account of current expenditure and lower revenue collection, security spending, IDP related expenditures together with electricity subsidies. Total expenditures increased by 4.5 percent, nevertheless, lower since 2007-08. The government curtailed development spending in order to dilute the impact of higher than budgeted current expenditures. In spite of this, fiscal deficit increased from 5.3 percent of GDP in 2008-09 to 6.3 percent in 2009-10.

FBR Tax Collection

Tax collection by the FBR was targeted at Rs 1667 billion at the time of presentation of the budget for fiscal year 2010-11 under certain assumptions like higher growth trajectory, aggressive taxation and tax administration reforms. However, the devastation caused by floods during July and August 2011 obscure some of the optimism regarding economic activity and reforms. Acute energy shortages have eclipsed prospects of better large-scale manufacturing — the main source of tax revenues. Consequently the target was downward revised to Rs 1,588 billion. Despite unfavorable economic conditions, FBR exhibited reasonable performance during first nine months for current fiscal year. Revenue collection of FBR stood at Rs1,156 billion during July-April 2010-11, thereby reflecting 12.6 percent growth over Rs 1,026.5 billion collected during the corresponding period of last year.

Direct Taxes

The gross and net collection has registered a growth of 6.9 percent and 10.7 percent during the first nine months of 2010-11. Major revenue spinners of direct taxes are withholding tax, voluntary payments, and collection on demand.

Indirect Taxes

During July-April, 2010-11, the gross and net collection has witnessed a growth of 16.9 percent and 13.8 percent, respectively. It has accounted for 62.8 percent of the total FBR tax revenues. Within indirect taxes, sales tax increased by 15.6 percent. The gross and net sales tax collection during the period under review has been Rs 522.9 billion and Rs 482.5 billion, respectively showing growth of 19.8 percent and 15.6 percent, respectively over the corresponding period of last year. Of net collection, almost half of total sales tax is contributed by sales tax on domestic goods and services, while the rest originate from imports. Within net domestic sales tax collection, major contribution has come from POL products, telecom, services, natural gas, sugar and cigarettes. On the other hand, POL products, edible oil, plastic resins, vehicles, iron & steel and machinery have major contribution in the collection of sales tax from imports.

Table 4.6: FBR Tax revenues — **Rs Billion**

Revenue Heads	2009-10	2010-11	July-April		% Change	Achievement
	(Actual)	(B.E)	2009-10	2010-11		(Percentage)
A. DIRECT TAXES						
Gross			430.4	460.3	6.9	
Refund/Rebate			42.1	30.3	-28.0	
Net	**521.2**	**657.7**	**388.3**	**430**	**10.7**	**65.4**
B. INDIRECT TAXES						
Gross			662.3	773.9	16.9	
Refund/Rebate			24	47.9	99.6	
Net	**799.2**	**1009.3**	**638.2**	**726**	**13.8**	**71.9**
B.1 SALES TAX						
Gross			436.3	522.9	19.8	
Refund/Rebate			19	40.3	112.1	
Net	**516.1**	**674.9**	**417.3**	**482.5**	**15.6**	**71.5**
B.2 FEDERAL EXCISE						
Gross			95.2	101.9	7.0	
Refund/Rebate			0.025	0.001	-96.0	
Net	**121.9**	**153.6**	**95.2**	**101.9**	**7.0**	**66.3**
B.3 CUSTOM						
Gross			130.7	149.2	14.2	
Refund/Rebate			5.0	7.6	52.0	
Net	**161.2**	**180.8**	**125.7**	**141.6**	**12.6**	**78.3**
TOTAL TAX COLLECTION						
Gross			1,092.7	1,234	13.0	
Refund/Rebate			66.2	78.3	18.3	
Net	**1320.4**	**1667**	**1,026.5**	**1,156**	**12.6**	**69.3**

Custom duty collection has registered a growth of 14.2 percent and 12.6 percent in gross and net terms, respectively. The gross and net collection has increased from Rs 130.7 billion and 125.7 billion during July-April 2009-10 to Rs 149.2 billion and Rs 141.6 billion during July-April 2010-11. Major revenue spinners of custom duty have been automobiles, edible oil, petroleum products and machinery. A growth of 7.0 percent has been registered in the net collection of federal excise duty (FED) during July-April 2010-11 as the net collection stood at Rs 101.9 billion in this period as against Rs 95.2 billion during corresponding period of last year. The major revenue spinners of FED are cigarettes, cement, beverages, natural gas, POL products and services.

Medium Term Budgetary Framework (MTBF)

Main objective of MTBF program is to align public expenditures with government strategies in more predictable way. The reform program is extending its domain to sensitive systematic issues such as working on Public Finance Act to allow MTF budgeting a legal cover, capacity building within Finance Division, enacting budget preparation manual, output monitoring function, linkages with PIFRA and design of curriculum for civil services trading and induction courses. Following areas need attention under MTBF reforms;

- Adopting programmatic basis of budgeting, building on the existing output based budgeting methodology.
- Supporting the embedding of MTBF in PIFRA-II through Financial Management Application and necessary training to help the line ministries to take the charge of compiling their detailed budgets.
- Transition from Financial Advisers to Chief Finance & Accounting Officers through a viable transition mechanism, this reform will need 1-2 years to be fully functional.
- Need to create linkages with provinces at the time of development of Budget Strategy Paper and find avenues to create a unified approach of output based budgeting across Pakistan. Provinces have started MTBF initiative; however, support will be needed to harmonize with federal initiative.
- Further synchronizing the monitoring function with output monitoring (both financial and non-financial) which has become a regular feature of the Ministerial activities.
- Institutionalizing the MTBF in the Ministry of Finance

Major modification to the MTBF budget preparation implemented with effect from 2009-10 include the following:

- Introduction of budget ceilings for all federal ministries.
- Strengthening the strategic process of budget preparation in each federal ministry.
- First step towards result based budgeting
- Clear identification of the cost of services (outputs) to be delivered.
- Preparation of 'Medium Term Budget estimates for Service Delivery' (GREEN BOOK).

Provincial Budget

The total outlay of four provincial budgets for 2010-11 stood at Rs 1,290 billion, which is 29.4 percent higher than the outlay of Rs 997 billion for the last year. Balochistan buoyed by more expected resource flows from the federation witnessed the highest increase of 37.4 percent in budgetary outlay followed by Sindh (30.8 percent), Punjab (28 percent) and KPK (26.4 percent).

Table 4.7: Overview of Provincial Budgets **(Rs Billion)**

Items	Punjab		Sindh		KPK		Baluchistan		Total	
	2009-10 RE	2010-11 BE	2009-10 RE	2010-11 BE	2009-10 RE	2010-11 BE	2009-10 RE	2010-11 BE	2009-10 RE	2010-11 BE
A. Total Tax Revenue	**359.2**	**533.2**	**214.1**	**308.6**	**82.9**	**163.6**	**41.1**	**100.6**	**697.3**	**1106**
Provincial Taxes	36.8	90.1	26.8	50.1	3.5	15.5	1.4	5.8	68.6	161.5
Share in Federal Taxes	322.4	443.1	187.3	258.5	79.4	148	39.7	94.8	628.8	944.5
B. Non-Tax Revenue	**36.8**	**29**	**13.8**	**308.6**	**4.7**	**3.2**	**1.3**	**2.9**	**56.7**	**53.8**
C. All Others	**26.9**	**7.6**	**17.9**	**12.1**	**40**	**32.7**	**31.5**	**20.4**	**116.2**	**72.8**
Total Revenues (A+B+C)	**422.9**	**569.9**	**245.8**	**339.3**	**127.6**	**199.5**	**74**	**123.9**	**870.2**	**1232.6**

Items	Punjab		Sindh		KPK		Baluchistan		Total	
	2009-10 RE	2010-11 BE	2009-10 RE	2010-11 BE	2009-10 RE	2010-11 BE	2009-10 RE	2010-11 BE	2009-10 RE	2010-11 BE
a) Current Expenditure	**318.2**	**386.8**	**224.8**	**268.3**	**109**	**127**	**52.7**	**83.4**	**704.8**	**865.5**
b) Development Expenditure	**134.7**	**193.5**	**83.5**	**135.1**	**46.3**	**69.3**	**27.2**	**26.3**	**291.8**	**424.2**
i) Rev. Account	80.8	100.1	21.8	21.2	9.8	11.5	0	0	112.3	132.7
ii) Cap. Acount	54	93.4	61.7	113.9	36.5	57.8	27.2	26.3	179.5	291.5
Total Exp (a+b)	**453**	**580.3**	**308.3**	**403.3**	**155.3**	**196.3**	**79.9**	**109.8**	**996.6**	**1289.7**

Source: Provincial Finance Wing, Ministry of Finance

The overall provincial revenue receipts for 2010-11 are estimated at Rs1233 billion, which is up by 42 percent compared to last year. However, total revenue of the provinces registered a growth of 20 percent in 2009-10 as compared to 18 percent in 2008-09. The accelerated growth was mainly due to increase in provincial share in federal revenues under new NFC award and of combined with federal and foreign developmental grants to the provinces.

Table 4.8: 3-Years Overview of Provincial Budget (**Growth)**

	2007-08	2008-09	2009-10	FY09	FY10
A. Total Tax Revenue	**504.1**	**612**	**697.3**	21.4	13.9
Provincial Taxes	50.3	57.3	68.6	13.9	19.7
Share in Federal Taxes	453.8	554.7	628.8	22.2	13.4
B. Non-Tax Revenue	**59.6**	**58**	**56.7**	-2.7	-2.2
C. All Others	**48.2**	**52.9**	**116.2**	9.8	119.7
Total Revenues (A+B+C)	**611.9**	**722.8**	**870.2**	18.1	20.4
a) Current Expenditure	**497.5**	**688.9**	**704.8**	38.5	2.3
b) Development Expenditure	**262**	**314**	**291.8**	19.8	-7.1
i) Rev. Account	99.1	118.1	112.3	19.2	-4.9
ii) Cap. Acount	162.9	195.9	179.5	20.3	-8.4
Total Exp (a+b)	**759.5**	**1002.9**	**996.5**	32.0	-0.6

Despite a significant growth in total revenues, the consolidated fiscal balance deteriorated in 2009-10 since an exceptional growth in total expenditure has outpaced revenue growth. Province-wise breakup reveals that the rise in overall balance was entirely generated by Punjab and Sindh. On the other hand KPK managed to have a surplus balance on account of a large sum in received in the form of federal loans and grants along with the profit from hydro electricity.

Allocation of Revenues between the Federal Government & Provinces

Fiscal decentralization or decision making at lower level is believed to be an effective strategy to promote economic growth and development. It is the empowerment of fiscal responsibilities to the sub-national governments, involving devolution of powers to tax and spend along with arrangements for correcting the imbalances between resources and obligations. The distribution of resources and fiscal equalization transfers are a controversial issue around the world. However in Pakistan, significant efforts have been made in order to restructure the balance between the federal and provinces. The 7th NFC award is the major development under which the share of the provinces increased from 45 percent during 2009-10 to 56 percent in 2010-11 and it would increase to 57.5 percent in the remaining period of the NFC award. While the share of the federal government in the net proceeds of divisible pool stood at 44 percent in 2010-11, while it will remain at 42.5 percent in 2011-12 onwards.

Table 4.9: Transfers to Provinces (NET) **(Rs. Billion)**

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11B
Divisible Pool	204.8	244.6	320.6	391.3	477.4	574.1	865.8
Straight Transfer	40.5	56.8	70.3	65.9	82.4	81.2	167.9
Special Grants/ Subventions	35.3	63.5	29.3	33.3	40.6	82.0	54.4
Project Aid	15.5	17.5	16.8	19.1	26.3	16.0	31.4
Agriculture Sector Loan-II	1.4	2.8	2.6	1.1	0.0	0.0	0.0
Japanese Grant	0.1	0.1	0.1	0.0	0.0	0.0	0.1
Total Transfer to Province	**297.6**	**385.2**	**439.7**	**510.8**	**626.8**	753.3	1,119.5
Interest Payment	24.3	21.6	18.0	19.9	18.5	18.7	16.6
Loan Repayment	28.7	14.7	40.2	25.4	21.0	24.0	25.9
Transfer to Province(Net)	**244.6**	**348.9**	**381.5**	**465.6**	**587.3**	710.6	1,077.0

Source: Budget in Brief,2009-10

In the 7th NFC award, the distribution of the resources has been made on a multiple criteria which consist of population (82%), poverty/backwardness (10.3%), revenue collection/ generation (5.0%) and area or inverse population density (2.7%). Hence, the transfers to provinces has been projected to increase to Rs 1,077 billion, an increase of 51.6 percent in the 2010-11 over the actual transfer of Rs 710.6 billion in 2009-10.

5 Money and Credit

Introduction

Monetary policy as an important stabilizing tool ensures the sustainable economic growth as well as significantly influences the expectations about the future direction of economic activity and inflation through the channels of financial markets and bank-based intermediation. Therefore a stable financial system is a pre-requisite for stronger economic growth, as it enables the financial intermediation process to facilitate the smooth and efficient financial intermediation that allocate savings to profitable investment opportunities, and proper transmission of monetary policy, whose effective conduct and implementation in turn ensures price stability. Thus a strong and efficient financial system plays a vital role in improving the performance of the economy.

Global financial stability has improved during 2010-11 on the back of better macroeconomic performance and continued accommodative macroeconomic policies but improvement remain fragile as the health of financial institutions has not recovered in tandem with the overall economy. The challenge for governments remained un-addressed as to how the financial sector should intersect with the broader economy to avoid future crises. The confidence in the banking systems of many advanced economies has not been restored and continues to be a source of the sovereign risks in advance economies. There is a need to restore market confidence and reduce excessive reliance on central bank funding, considerable further strengthening of bank balance sheets and capital buffers will be necessary. Financial systems must enhance transparency through more rigorous and realistic stress tests and recapitalize, restructure, and even eliminate weaker institutions. Without these financial sector reforms funding difficulties may lead to another systemic liquidity episode.

Pakistan is living in a highly integrated world and a major turmoil of this magnitude certainly had implications for Pakistan economy. The ripple effects of this financial crisis had not hit with same intensity or severity as it had done to the developed world but still there are various channels through which the crisis had impacted financial sector in particular and Pakistan economy in general. Pakistan sensitively reacted to the structural changes in the financial space. The banking and the entire financial system is stronger after years of restructuring, de-regulation and improved supervision by SBP. Banking Companies Ordinance has been amended recently to enhance surveillance and vigilance mechanism of the SBP. Pakistan's financial institutions had not invested in derivatives that had exposure to risky investment bankers.

Pakistan's financial markets witnessed slowdown in the deposit mobilization and profitability in the sector, however, generally financial sector remained immune against contagion of the financial sector. Credit to private sector registered marked slowdown in the aftermath of the financial crisis but it is more to do with domestic peculiar economic conditions. The government sector remained the major client for the financial sector. Non-performing loans (NPLs) surged but still NPL-to-deposit or credit ratio remained competitive versus developing economies.

The drastic curtailment of external demand during the last two years has helped shaving off external demand, however, security and intensification of war on terror kept the government's demand for resources under pressure. On the other hand, lower than expected GDP growth, acute energy shortages and a high cost of doing business contributed to the revenue shortfall. Thereby, fiscal deficit sharply increased from 5.3 percent in fiscal year 2008-09 to 6.3 percent in fiscal year 2009-10. This kept monetary policy under enormous pressure to strike a balance between support to growth and keep inflation under check.

Monetary Policy Stance

Government's heavy reliance on SBP borrowing to finance the fiscal deficit has created a relentless increase in demand pressures. Consequently, inflationary pressures were quite severe in the beginning of fiscal year 2010-11 and become worse by the devastating floods. Moreover, the dried up external financing flows due to difficulties in IMF program and insufficient funds from non-bank sources raised the pressures on SBP borrowing to finance the fiscal deficit through most of first half of fiscal year 2010-11. A proactive policy response from the SBP to shave-off additional demand from the economy was required. To target the inflation and to contain the aggregate demand induced risks to macroeconomic stability, SBP raised the policy rate by 150 basis points (bps), staggered in three stages of 50 bps each, since July 2010. SBP raised the policy rate by 50 bps to 13 percent on 2nd August 2010. Soon after which country experienced an exogenous shock in the form of Floods. Consequently, the rate was further increased by cumulative 100 bps points to 14 percent up to 30th November 2010. While keeping in view the risks to inflation and economic growth, SBP has decided to keep the policy rate unchanged at 14 percent on 29th January 2011. Implementation of this policy stance entailed mopping up of liquidity while remaining aware of macroeconomic conditions affecting day to day availability of liquidity. Consequently the weighted average overnight money market repo rate has also increased by 124 bps on average, up till 27th January 2011, compared to the period when policy rate was kept unchanged.

Despite recent improvement in the external current account, restrained government borrowings from SBP and stable financial markets, the focus of both monetary and fiscal policy remained on addressing the structural fiscal weaknesses, reducing inflation for sustainable economic recovery and supporting revival of growth momentum in 2011-12.

Table-5.1: Policy Rate Changes

Effective Date	Policy Rate (%)
21-Apr-09	14
17-Aug-09	13
25-Nov-09	12.5
30-Jan-10	12.5
27-Mar-10	12.5
2-Aug-10	13
30-Sep-10	13.5
30-Nov-10 till date	14

Recent Monetary and Credit Developments

During first nine months of the current fiscal year (Jul-April 2010-11), broad money (M_2) has witnessed a robust growth underpinned by external sector buoyancy led increase in Net Foreign Assets (NFA) and government budgetary borrowing in NDA. Net expansion in M_2 increased by 9.6 percent during July- April, 2011 as compared to 8.1 percent during the same period last year.

Net Domestic Assets (NDA) during July-April 2011 reached at Rs 402.5 billion against Rs 446.1 billion during the same period last year. The expansion in NDA mainly attributed by a rise in demand for private sector credit and government borrowings.

On the other hand the NFA of the banking system during the period under review had increased by Rs 153.2 billion after registering a significant decline of Rs 31.3 billion during the same period of last year. The increase is due to record inflow of worker remittances worth $9 billion which are expected to cross historical $11 billion mark by the end of current fiscal year. The improvement in the current account deficit has played critical role in NFA improvement amidst sluggish inflows in the financial account. NFA witnessed a contraction in its stock which started in October 2009 continued during Jan-Apr 2010. The decline was mainly due to persistent pressures on external account as a result of lower than expected external inflows. Whereas in the remaining two month of fiscal year 2009-10, the expansion in scheduled banks' NFA came from a contraction in the current account deficit; due to robust inflows of workers' remittances and an improvement in the trade balance. The figure 5.1 presents the contraction and expansion trends of NFA.

During July-April, 2011 Credit to private sector enterprises (PSEs) registered a sharp decline from Rs72.5 billion in 2009-10 to Rs 26.7 billion owing to the retirements by an oil refinery and a state owned oil marketing company . The table 5.2 reflects the profile of monetary indicators.

Fig-5.1:NetForeign Assets

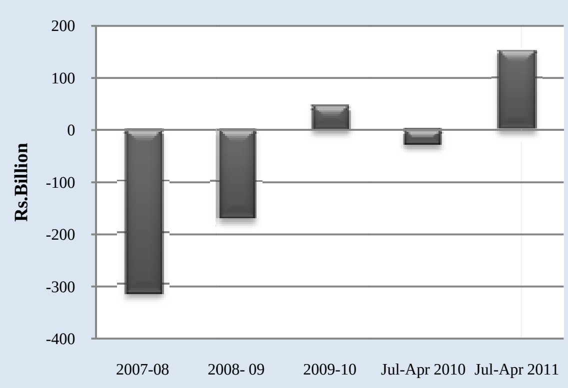
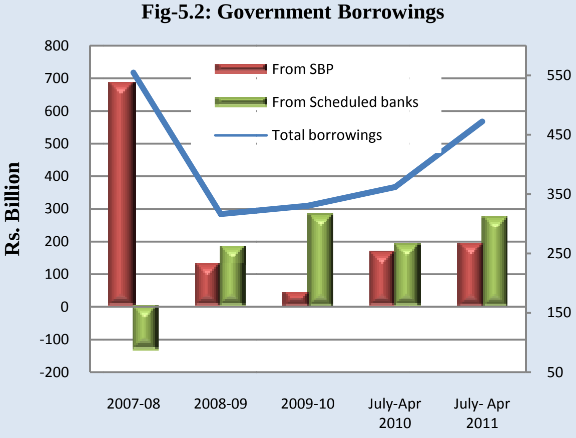


Table-5.2: Profile of Monetary Indicators **(Rs Billion)**

	Jul-April* 2009-10	Jul-April* 2010-11
1.Net government sector Borrowing(a+b+c)	**325.4**	**342.2**
a .Borrowing for budgetary support	361.8	472.2
b.Commodity operations	-35.6	-134.2
c.Others	-0.7	4.2
2.Credit to Non-government Sector (d+e+f+g)	**217.6**	**183.6**
d.Credit to Private Sector	144.2	156.7
e.Credit to Public Sector Enterprises (PSEs)	72.5	26.7
f. PSEs Special Account-Debt repayment with SBP	0.0	-0.2
g.Other Financial Institutions(SBP credit to NBFIs)	0.8	0.4
3.Other Items(net)	**-97.0**	**-23.3**
4.Net Domestic assets (NDA)	**446.1 (9.61%)**	**402.5 (7.69%)**
5.Net Foreign Assets (NFA)	**--31.3**	**153.2**
6.Monetary Assets(M2)	**414.8 (8.1%)**	**555.7 (9.62%)**

**Pertains to 30th April for FY10 & FY11* *Source: State Bank of Pakistan*

Fig-5.2: Government Borrowings



Government Bank Borrowing

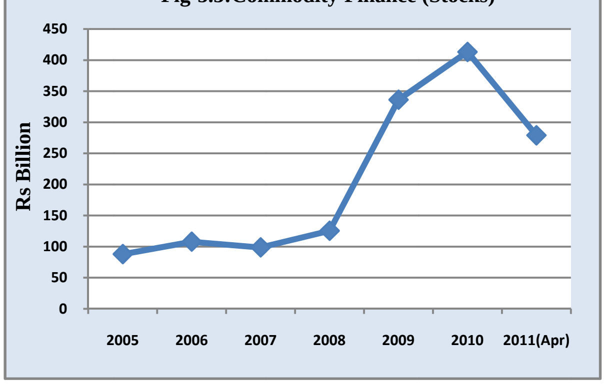
The government borrowing from the banking system for budgetary support and commodity operations stood at Rs342.2 billion during July-April, 2011 on account of weak fiscal position.

Government has borrowed Rs 196.3 billion from the State Bank of Pakistan (SBP) , while Rs 275.9 billion has been borrowed from the scheduled banks during July- April, 2011[See Fig-5.2]. Less than expected non-bank and external financing for budgetray support have compelled the government to borrow from the SBP and scheduled banks since October 2010. Within the banking system, the bulk of budgetary requirements durng July-April 2010-11 were met from scheduled banks. Nevertheless, the govervment was heavily dependant on SBP borrowing till November 2010, that has witnessed some respite in the later half of December 2010 when the government retired a large part of its debt to SBP. While on 5th May, 2011 the outstanding stock of government borrowing from SBP remained at Rs1434 billion, which is Rs144 billion higher than the agreed limit.

Commodity Finance

Commodity finance means advances provided either to the government, public sector corporations or private sector for the procurement of commodities such as cotton, rice, wheat, sugar, fertilizer etc. During July-April 2010-11 the retirement of loans under commodity financing picked up sharply and reached at Rs 134.2 billion on account of retirement of advances for wheat by provincial departments and Pakistan Storage and Supply Corporation (PAASCO) and other provincial procurement agencies as compared to Rs 35.6 billion during the same period last year. This was the result of the conscious decision of the Cabinet to allow wheat exports to capitalize upon higher international prices.

Fig-5.3:Commodity Finance (Stocks)

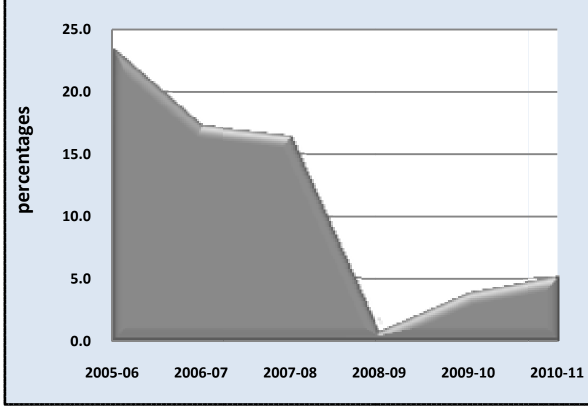


It is expected that government will avail an amount of Rs156 billion for the wheat procurement during the current season. Government procurement target is 6.57 million metric tons for 2011 season and support price is Rs950/40kg. At the same time government is expected to retire commodity credit further from continued wheat exports. Consequently, commodity financing is likely to remain zero in flow terms for the year 2011. However, even if government will depend only on rollover of the commodity financing, the expected outstanding amount close to Rs413 billion under commodity financing needs to be settled sooner than later by the end of June 2011.

Credit to Private Sector

The credit availed by the private sector during July-April, 2011 was Rs 156.7 billion compared to Rs 144.2 billion in the corresponding period last year. On the other hand, the year-on-year growth in private sector credit was 5.2 percent up till April, 2011. It is imperative to increase private sector's investment, as it plays a vital role in economic growth. Failure to which can be more challenging for the economy to generate sufficient revenues.

Fig 5.4 Growth of Private Sector Sector



A strong growth has been witnessed since January 2010 that was mainly due to an increase in seasonal demand for working capital. More than half of private sector credit went to the textile sector showing higher input prices, especially that of cotton. Sector wise breakup of private sector credit also shows that sugar and textile industries were the major drivers to this increase, which respectively availed credit of Rs 105.6 billion and Rs 62 billion during Jul-March 2011. During the same period, private sector credit increased by Rs 222.1 billion, higher by around Rs 74 billion than last year.

Table-5.3: Credit to Private sector **(Rs Billion)**

Sectors	July-March		Growth Rates	
	2009-10	2010-11	2009-10	2010-11
Overall Credit (1 to 5)	141.4	230.1	5.3	7.1
1. Loans[2/] to Private Sector Business	147.7	222.1	6.9	8.4
A. Agriculture	6.5	3.3	4.0	2.0
B. Mining and Quarrying	1.7	0.4	9.5	2.3
C. Manufacturing	95.0	205.3	7.7	16.2
Textiles	32.9	105.5	6.8	22.4
D. Electricity, gas and water supply	46.6	28.1	30.2	13.1
E. Construction	-2.0	-0.9	-2.8	-1.4
F. Commerce and Trade	-4.3	-18.1	-1.8	-7.9
G. Transport, storage and communications	6.4	-0.6	6.6	-0.6
H. Services	2.9	-6.3	6.9	-13.0
I. Other private business n.e.c	-3.8	3.6	-83.2	-80.9
2. Trust Funds and NPOs	0.8	3.4	6.4	25.7
3. Personal	-35.2	-17.6	-9.7	-5.5
4. Others	1.3	8.5	9.2	60.6
5. Investment in Security & Shares of Private Sector	26.9	13.6	23.8	9.4

1/ Credit is equivalent to "Advances plus Bills Purchased & Discounted plus Investments"

2/ Loans is equivalent to "Advances plus Bills Purchased & Discounted"

Table-5.4 Targets and Actual Disbursement of Agriculture Loans

Name Of Banks	Target		Actual Disbursement July-April	
			July-March	
	2009-10	2010-11	2009- 10	2010-11
5 Big Comm. Banks	124	132.4	85.2	93.3
ZTBL	80	81.8	49	37.4
DPBs	50	48.9	28.6	33.7
PPCBL	6	6.9	3.5	4.4
Total	**260**	**270**	**166.3**	**168.7**

Source: SBP

Manufacturing sector availed almost 92 percent (Rs205.3 billion) of total PSC followed by electricity, gas and water sector (13 percent), agriculture and other sectors (3 percent each). However, the impact of credit growth in these sectors was partly offset by credit contraction in commerce and trade sector (-8 percent).

The break-up of agri-credit disbursement shows that during the period under review five major banks disbursed Rs 93.3 billion against the target of Rs 132.4 billion. The low disbursement is mainly due to the devastating effect of floods which badly affected the performance of commercial banks in general and ZTBL in particular. Net decline in consumer financing during July-March 2010-11 stood at Rs 17.4 billion as compared to Rs 40.4 billion decrease in the same period last year, thereby, registered an increase of 7.1 percent against the decline of 9.0 percent in 2009-10. Loans for consumer durables witnessed a net expansion of 13.9 percent during July-March, 2010-11. However, a decline of 16.4 percent in net retirements of auto loans was witnessed that was mainly due to a significant increase in both cars and motorcycles followed by

12.2 percent negative growth in credit card financing, implying net retirement.

Table-5.5: Consumer Financing **(Rs Billion)**

Description	July-March		Growth(%)	
	2009-10	2010-11	2009-10	2010-11
Consumer Financing	-40.4	-17.4	-13.7	-7.1
1) For house building	-5.5	-5.4	-9.0	-10.0
2) For transport i.e. purchase of car	-9.1	-10.6	-11.6	-16.4
3) Credit cards	-6.2	-3.4	-17.4	-12.2
4) Consumers durable	-0.2	0.03	-41.4	13.9
5) Personal loans	-19.7	0.4	-17.0	0.4
6) Other	0.3	1.6	10.2	55.7

Source: SBP

Monetary Assets

The component of monetary assets (M_2) include: Currency in circulation, Demand Deposit, Time Deposits (Excluding IMF A/C, counterpart) and Resident's foreign currency.

Currency in Circulation

During July-April, 2010-11, currency in circulation increased to Rs 196.8 billion as compared to Rs 129.8 billion in the same period last year. Similarly the currency in circulation (CIC) as percent of money supply (M_2) has also increased by 23.5 percent in 2010-11 as against 23.1 percent during the same period in 2009-10.

Issuing of currency notes resulted in increased currency in circulation and broad money supply (M_2) in the economy. Broad money (M_2) grew by 9.6 percent during July-April 2010-11 against an increase of 8.1 percent during the same period last year. The increase in money supply is shared by both currency in circulation and deposit money.

Table-5.6 Monetary Aggregates **(Rs. Billion)**

Items	End June		July-Apr	
	2,009	2,010	2009-10	2010-11
A. Currency in Circulation	1,152.2	1,295.4	1,282.0	1,491.2
Deposit of which:				
B. Other Deposits with SBP	4.7	6.7	6.3	10.4
C. Total Demand &Time Deposits incl.RFCDs	3,980.4	4,475.2	4,263.6	4,831.3
of which RFCDs	280.4	345.4	334.2	368..2
Monetary Assets Stock (M2) A+B+C	5,137.2	5,777.2	5,552.0	6,332.9
Memorandum Items				
Currency/Money Ratio	22.4	22.4	23.1	23.5
Other Deposits/Money ratio	0.1	0.1	0.1	0.2
Total Deposits/Money ratio	77.5	77.5	76.8	76.3
RFCD/Money ratio	5.5	6.0	6.0	5.8
Income Velocity of Money	2.6	2.7	-	-

Source: SBP

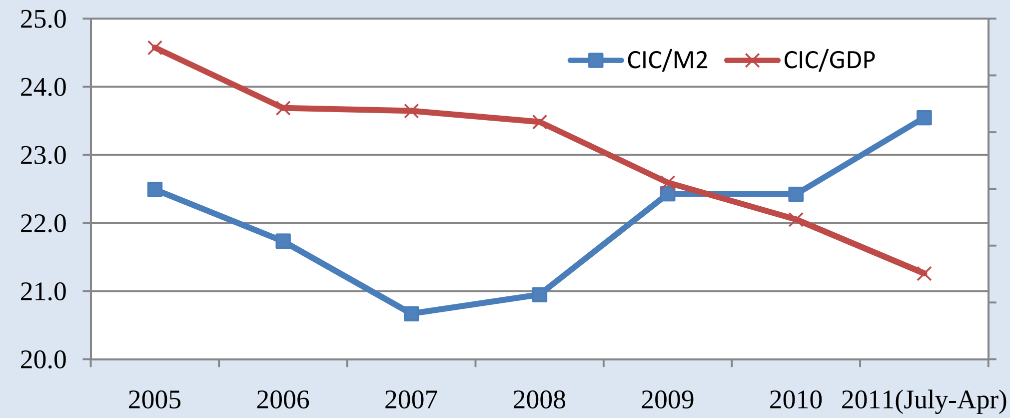
Deposits

During July-April, 2011 demand and time deposits has increased by Rs 356.1 billion as compared to Rs 283.2 billion during the same period of 2009-10. Similarly Resident Foreign Currency Deposits (RFCDs) has increased by Rs 22.8 billion as compared to Rs 53.8 billion during the same period last year.

Monetary Management

Pakistan's economy has been slowed down since 2008, as the macroeconomic situation deteriorated significantly owing to multiple factors including security issues, rise in international food and oil prices, global financial turmoil, and energy crisis. Furthermore, recent unprecedented floods and heavy rains in the country to some extent have deepened the effects of an already fragile macroeconomic environment as the non-performing loans (NPLs) of the banking system increased by Rs 58 billion to reach Rs 517.9 billion by end-December 2010, against an increase of Rs 34.1 billion in the same period last year.

Fig-5.5: Currency in Circulation % M_2 & GDP



Liquidity conditions in the money market remained fairly comfortable during July-March 2010-11 underpinned by the reduced government borrowings from the SBP and growth in bank deposits. SBP drained this excess liquidity not only through auctions, but also mopped up a significant amount through open market operations (OMOs). The SBP mopped up Rs 540.2 billion during July-March 2010-11 against the injections of Rs 1032.3 billion whereas in the comparable period of last year absorption of Rs 242.1 billion against the injection of Rs 3352.5 billion has taken place.

Table -5.8: Summary of OMO's **(Rs. billion)**

	Injections		Absorptions	
	2009-10	**2010-11**	**2009- 10**	**2010-11**
July	50.0	75.1	153.6	20.5
August	250.9	165.1	-	-
September	206.0	196.6	-	54.4
October	546.7	36.9	-	171.5
November	415.2	67.6	8.0	102.5
December	648.8	34.1	6.3	128.6
January	553.2	106.9	59.9	11.5
February	316.5	119.4	-	51.2
March	365.2	230.9	14.3	-
Total	3,352.5	1,032.3	242.1	540.2

Source: SBP

The SBP accepted Rs 2527.5 billion from the primary market of T-bills during July-March 2010-11 as compared to Rs 999 billion in the same period last year. Market offered a total amount of Rs 4018.5 billion during the first nine months of 2010-11.

Table 5.9 Market Treasury bills Auctions **(Rs Billion)**

	JUL-JUN			Jul-March					
	2009-10			**Offered**		**Accepted**		**W.A.Rate***	
	Offered	**Accepted**	**W.A Rate***	**2009-10**	**2010-11**	**2009-10**	**2010-11**	**2009-10**	**2010-11**
3-Months	570.3	237.8	12.0	341.5	2479.5	131.3	1484.2	11.9	12.8
6-Months	865.9	404.5	12.0	532.9	1101.4	232.9	809.2	12.0	13
12-Months	1765.1	931.3	12.0	1188.2	437.6	634.8	234.1	12.0	13.2
Total	3201.3	1573.6	-	2062.6	4018.5	999.0	2527.5	-	-

Average of maximum and minimum rates

Source:SBP

With drying up of the external financing and fall in non-bank sources, government had left no choice but to borrow from the banking system. However, earlier in the year, when prospects of external financing were good, government had rejected all bids in auctions of longer tenure paper due to high rates demanded by banks.

On the other hand, banks were anticipating an increase in interest rates and therefore were more interested in shorter term papers. As it is evident that in the first six months of 2010-11 heavy investment was in 3-months T-bills which constituted almost 58.7 percent of the total accepted amount.

Fig- 5.7: Contribution of T-bills

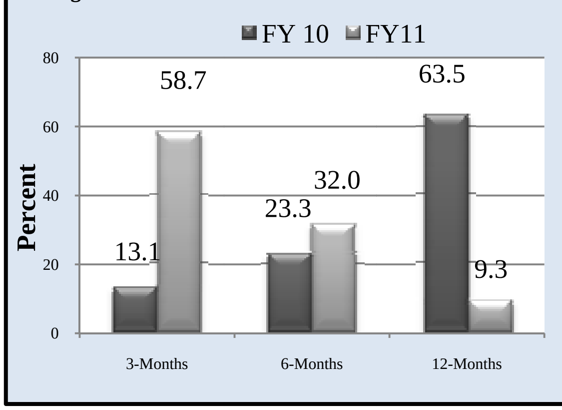
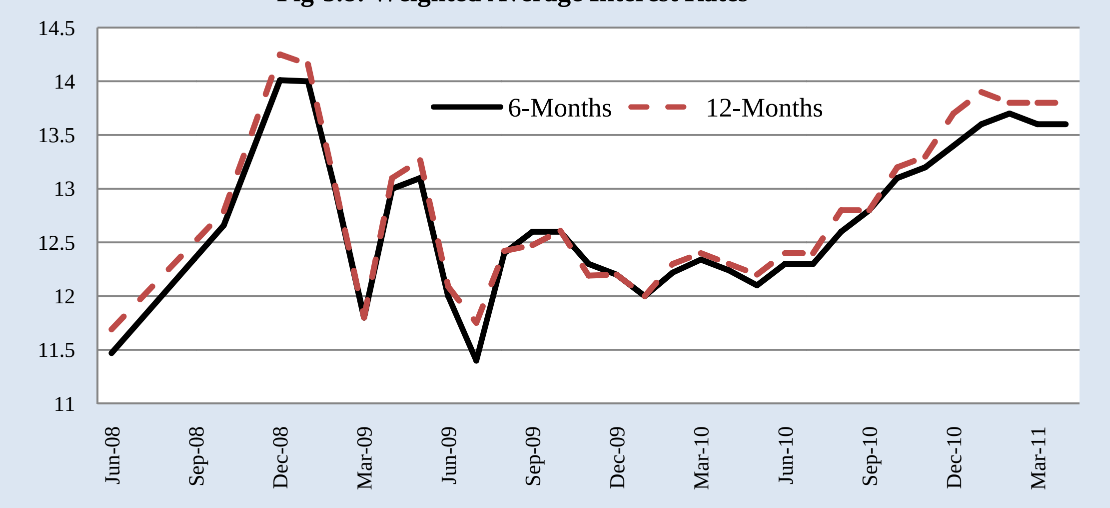


Fig-5.8: Weighted Average Interest Rates



A PIB auction target of Rs 105 billion was set for Jul-February 2010-11 against maturities of Rs 27.4 billion. The government, however, rejected all bids in the first two auctions held in July and August 2010 due to high returns demanded by banks, as mentioned earlier.

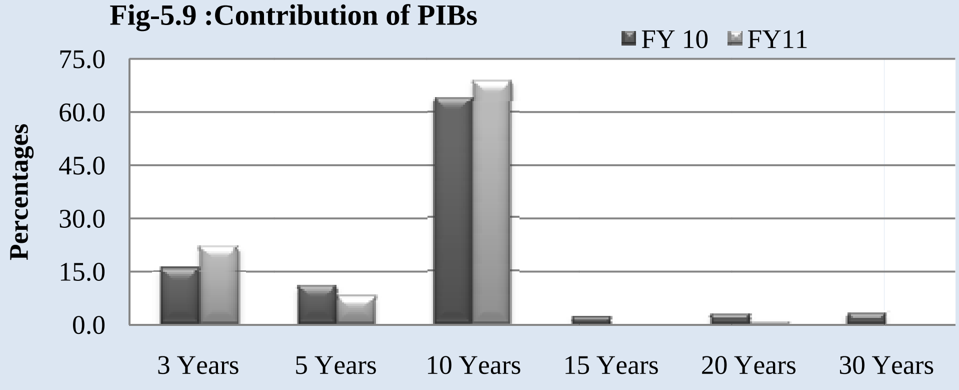
Table-5.10: Pakistan Investment Bonds Auctions (Rs Billion)

PIBs	Offered	Accepted	*W.A Rate	Offered		Accepted		*W.A Rate	
	Jul-Jun			Jul-March					
	2009-10			2009- 10	2010-11	2009- 10	2010- 11	2009- 10	2010- 11
3 Years	21.2	11.6	12.30	16.9	42.2	8.2	18.7	12.3	14.0
5 Years	13.4	7.2	12.40	11.3	18.7	5.7	6.7	12.4	13.3
10 Years	69.8	39.4	12.60	57.8	111.2	32.7	57.5	12.6	14.1
15 Years	3.6	1.0	12.10	3.1	2.0	1.0	BR	12.9	Nil
20 Years	12.1	1.5	13.50	8.6	6.5	1.5	0.5	13.2	14.2
30 Years	14.6	1.8	13.60	11.5	11.1	1.8	BR	13.7	Nil
Total	**134.7**	**62.6**	-	**109.2**	**191.7**	**51.0**	**83.4**	-	-

Source:SBP

Although in subsequent auctions in an effort to retire SBP borrowings the government accepted Rs 53 billion, this was still lower than the target. The SBP mopped up Rs.83.4 billion from the primary market of PIBs during July-March 2010-11 as compared to Rs.51 billion in the same period of fiscal year 2009-10. Market offered a total amount of Rs 191.7 billion in the first nine months of 2010-11 as compared to Rs 109.2 billion in the same period of last year.

Fig-5.9 :Contribution of PIBs



During the period under review heavy investment was in 10-years PIBs which constituted almost 69 percent of total accepted amount.

Weighted average lending rate (including zero mark-up) on outstanding loans stood at 13.6 percent while weighted average deposit rate (including zero mark-up) stood at 7.9 percent in March 2011, thus, resulted in a spread of 7.58 percent during March, 2011. Since September 2010, weighted average lending rates have increased due to tight monetary policy stance

During July-February 2010-11 in two *Sukuk* auctions Rs 89 billion were accepted against a target of Rs 80 billion. The government received offers of Rs 122.5 billion, showing a strong liquidity position of Islamic banks and their investment desire for this asset class.

Table-5.11: Lending & Deposit Rates(W.A)

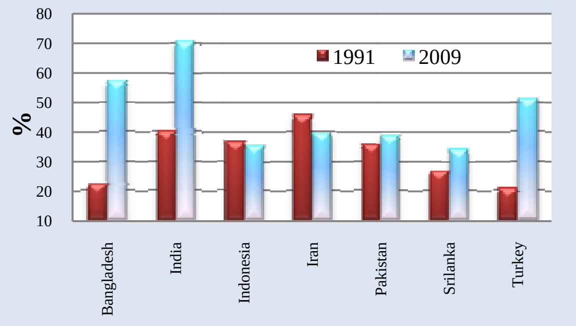
	LR*	DR*	Spread
Jan-10	13.35	6.10	7.25
Feb-10	13.38	6.07	7.31
Mar-10	13.40	6.10	7.3
Apr-10	13.42	6.03	7.39
May-10	13.4	6.05	7.35
Jun-10	13.39	5.79	7.6
Jul-10	13.35	5.84	7.51
Aug-10	13.38	5.82	7.56
Sep-10	13.34	5.77	7.57
Oct-10	13.32	5.83	7.49
Nov-10	13.42	5.88	7.54
Dec-10	13.52	5.91	7.61
Jan-11	13.62	6.02	7.6
Feb-11	13.55	6.04	7.51
Mar-11	13.55	5.97	7.58

**Lending Rate, Deposit Rate*

Box-1: Financial Development in Pakistan

Financial deepening refers to the increased provision of financial services with a wider choice of services geared to all levels of society. Financial deepening generally means an increased ratio of money supply to GDP. It refers to liquidity in the market in relation to size of the economy. High level of monetary expansion in relation to the size of the economy means, the more opportunities exist for continued growth. It reflects macro effects of financial deepening on the larger economy. Broad money (M_2) as percentage of GDP is one of the most commonly used indicator to measuring the financial deepening and level of access to financial services.

Fig-1: Comparision of M2-to-GDP Ratio



Financial deepening measures the volume of financial intervention by financial intermediaries in an economy. Considering M_2 as a proxy for the size of the financial sector, a rising M_2/GDP ratio indicates that in nominal terms the financial assets are growing faster than the non-financial assets. In contrast to the volatility in global financial markets since the beginning of the global financial crisis, the financial markets in Pakistan have continued to strengthen mainly because of the low integration with global financial markets, and in response to the ongoing reform process.

Table-1:.Key Indicators of Pakistan's Financial Development

Years	M2/GDP	DD+TD/M2
1999-00	36.9	74.6
2000-01	36.7	75.4
2001-02	40.0	75.4
2002-03	43.1	76.2
2003-04	44.9	76.8
2004-05	45.1	77.6
2005-06	45.0	72.5
2006-07	46.6	74.1
2007-08	44.7	73.3
2008-09	39.2	72.0
2009-10	39.4	71.5
July-Apr		
2009-10	36.5	70
2010-11	35.0	70

As it is evident from the Table 5.7, M_2/GDP has shown a rising trend since 1999-00 with growing economic activity and rose from 36.9 percent to 47 percent in 2006-07. However, since 2007-08 the ratio started to decline gradually and reached at 39.4 percent in 2009-10. During July-April 2010-11 M_2-to-GDP ratio has further weakened to 37.2 percent. On the other hand another significant ratio DD+TD/M_2 which also represents monetary depth has shown declining trend since 2004-05 by decreasing from 77.6 percent to 71.5 percent in 2009-10. This is the period when monetary policy stance changed from accommodating to tightening. Nevertheless, during July-April 2010-11 the ratio stood at 70 percent.

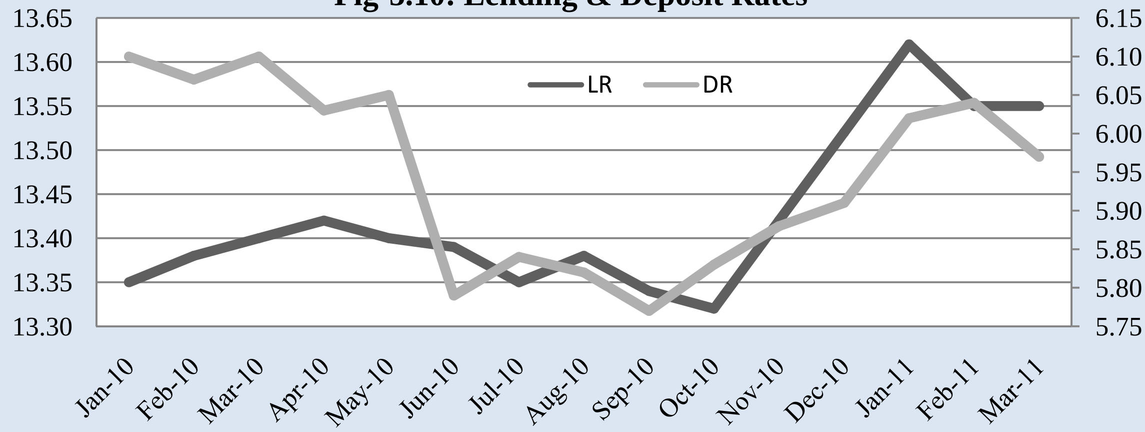
Financial deepening in Pakistan during 2007-2011 remained at lower level in contrast with the rest of the world. Slowdown in the economic activity has taking its toll on this very important indicator. The banking system remained risk averse and always prefers to provide financing for the fiscal deficit. With weakening economic activity the private sector shied away from the financial market and the government remained the only entity to provide support to monetary assets to GDP ratio. This also implies enormous idle capacity in the economy which financial sector is unable to cover. The financial market is captive to only a few instruments and prospering on highest spread in not only in the region but also among peer countries in all regions. The tight monetary policy stance of last six years has proved counter-productive as the private sector credit and capital formation witnessed inordinate shrinkage.

The falling ratio of broad money to GDP has important implications for financial stability and financial intermediation i.e, efficient allocation of resources. Under the proposed new legislation, the government will not recourse to the SBP financing and the government's commitment to lower fiscal deficit means releasing more resources for the private sector. This will impact positively to financial penetration and depth. However, it will not come ultimately as appropriate policies and incentives have to placed to use this for productive purposes.

Pakistan's Financial Sector

Financial sector is a crucial building block for the private sector development as it facilitates transactions and ensures the availability of credit and other financial products to consumers, businesses and other financial institutions. It includes banks, stock exchanges and insurer, credit unions, microfinance institutions and money lenders. It is important to have a sound and well functioning financial sector in order to support economic growth of a country.

Fig-5.10: Lending & Deposit Rates



Commercial Banks

The banking sector has recently witnessed a sharp growth in non-performing loans (NPLs) in particular during Jul-Dec 2011 on the backdrop of unprecedented floods that has intensified the effect of an already fragile economy. Thus it reflects the heightened credit risk. NPLs reached at Rs548 billion during Jul-Dec, 2011.

The asset base of the system grew by 3.8 percent during Jul-Dec, 2011 and reached at Rs 7,138 billion. Bank deposits during July-Sep 2011 witnessed a decline on account of the Ramadan and Eid related enhanced demand for currency in confluence with a slower growth in monetary aggregates. However, the situation reversed in following weeks with the replenishment of deposits forcing SBP to conduct mop- ups to check excess liquidity in the market. Hence, total deposits of all banks stood at Rs5,450 billion during July-December 2010.

Table-5.12a: Highlights of the Banking System **(Rs billion)**

	2005	2006	2007	2008	Sep-09	Dec-09	Jun-10	Sep-10	Dec-10
Total Assets	3,660	4,353	5,172	5,627	6,105	6,516	6,782	6,626	7,138
Investments (net)	800	833	1,276	1,080	1,593	1,737	1,893	1,873	2,142
Advances (net)	1,991	2,428	2,688	3,183	3,119	3,240	3,231	3,167	3,349
Deposits	2,832	3,255	3,854	4,217	4,483	4,786	5,128	5,021	5,450
Non-Performing Loans	177	177	218	359	422	446	460	494	548
Non-Performing Loans (net)	41	39	30	109	128	134	123	143	182
	Base-I					**Base-II**			
Capital Adequacy Ratio (all banks)	11.3	12.7	12.3	12.3	14.3	14.0	13.9	13.8	14.0

Source:SBP

During the first quarter of fiscal year 2010-11, the capital adequacy ratio stood at 13.8 percent against 14.3 percent during the same period last year, because the higher regulatory deductions from Tier-1 capital reduced the eligible capital as well as risk based capital adequacy ratio (CAR), which deteriorated to 13.8 percent. However, the contraction of the asset base mainly advances, led to a decline in size of the risk-weighted asset (RWA) over the quarter.

As on December 2010, total number of branches of banks stood at 9,908 as compared to 9,673 on 30 June 2010. Hence there is an increase of 235 branches in six months of 2010-11 [Table: 5.12b].

Assets of all banks showed a net expansion of Rs 355.4 billion during the first six months of 2010-11 and stood at Rs 7,137.7 billion. Hence, the asset base of the banking sector increased by 5.2 percent during July-December 2010.

Table - 5.12 b: Total Number of Branches of Schedule Banks

	30-Jun-10	31-Dec-10
1.No. of Branches	**9,673**	**9,908**
Public Sector Commercial Banks	1,777	1,791
Local Private Banks	7,292	7,511
Specialized Banks	544	546
Foreign Banks	**60**	**60**

Islamic Banking

A sustainable growth momentum has been maintained by the Islamic banks (IB) in the face of prevailing fragile economic condition. The Islamic banking assets, deposits and financing continued showing strong growth with total assets increasing to Rs 477 billion in 2010 from Rs 366.3 billion during the same period last year. The year-on year (YOY) growth in the assets was 30 percent.

Table- 5.13: Islamic Banks **(Rs Billion)**

	CY04	CY05	CY06	CY07	CY08	CY09	CY10*
Assets of the Islamic banks	44.1	71.5	119.3	205.9	276.0	366.3	477.0
Deposits of the Islamic Banks	30.2	49.9	83.7	147.4	201.6	282.6	390.1
Share in Banks Assets (%)	1.45	1.95	2.79	3.98	4.90	5.60	6.68
Share in Bank Deposits (%)	1.26	1.75	2.62	3.82	4.78	5.90	7.16

*Provisional data Islamic Banking Department, State Bank of Pakistan

Whereas the share in bank assets increased by 6.7 percent from 5.6 percent during the period under review. On the other hand, the total deposits of IB reached to Rs 390.1 billion from Rs 282.6 billion in CY09, thus it contributed to 7.2 percent in bank deposits as compared to 5.9 percent in CY09. The break-up of financing show that apart from *Murabah, Musharaka and Salam*, all other components of Islamic financing declined in CY10.

Table- 5.14: Financing Products by Islamic banks %age

Mode of Financing	CY04	CY05	CY06	CY07	CY08	CY09	CY10*
Murabaha	57.4	44.4	48.4	44.5	36.5	42.3	44.9
Ijara	24.8	29.7	29.7	24	22.1	14.2	12.7
Musharaka	1	0.5	0.8	1.6	2.1	1.8	2.9
Mudaraba	-	-	-	0.3	0.2	0.4	0.2
Diminishing Musharaka	5.9	12.8	14.8	25.6	28.9	30.4	29.5
Salam	0.7	0.6	1.9	1.4	1.8	1.2	1.4
Istisna	0.4	1.4	1.4	1	2.9	6.1	5.8
Others	9.8	12.1	3	1.6	5.4	3.6	2.6

*Provisional data *Source :SBP*

Microfinance

Government of Pakistan played an important role for sustainable development of the microfinance sector as an important part of the overall financial sector development strategy. As a result of strategic and regulatory initiatives, microfinance is now gradually mainstreaming into the formal banking system of Pakistan. The policy and regulatory environment is recognized as well developed. Most importantly, the sector's visibility has increased globally due to the launch of transformational branchless banking initiatives which leverage telecoms and postal networks and mobile phone technology to expand cost-efficient financial services to the unbanked population.

Despite the challenging macroeconomic and law & order situation, microfinance has achieved improvements in outreach, financial and operational performance. Overall, the sector (including MFIs) is currently serving more than 2.1 million active borrowers with a gross loan portfolio of Rs 25.5 billion as of 31st December 2010 .The deposit base increased by 45.5 percent during the year 2010. The microfinance sector saw significant growth in almost last three years as evident from the table below. Importantly, the deposits and loan portfolio saw a phenomenal growth in last three years.

Table-5.15: Micro-finance Industry Indicators

Indicators		Number of MFBs	Number of Branches	Total No. of Borrowers	Gross loan portfolio (Rs. In '000)	Average Loan Size (Rs)	Total No. of Depositors	Deposits (Rs. In '000)
Dec-07	MFBs	6	232	435,407	4,456,259	10,235	146,258	2,822,845
	MFIs	24	870	831,775	8,293,724	9,971	-	-
	Total	**30**	**1,102**	**1,267,182**	**12,749,983**	**10,062**	146,258	2,822,845
Dec-08	MFBs	7	271	542,641	6,461,462	11,907	254,381	4,115,667
	MFIs	20	1,186	1,190,238	11,952,000	14,940	-	-
	Total	**27**	**1,457**	**1,732,879**	**18,413,462**	**10,626**	254,381	4,115,667
Dec-09	MFBs	8	284	703,044	9,004,000	13,576	459,024	7,099,206
	MFIs	21	1,159	1,123,001	12,719,000	11,326	-	-
	Total	**29**	**1,443**	**1,826,045**	**21,723,000**	**12,131**	**459,024**	**7,099,206**
Dec-10	MFBs	8	284	717,141	10,528,000	20,151	780,294	10,289,000
	MFIs	21	1,252	1,342,395	14,966,000	17,180	-	-
	Total	**29**	**1,536**	**2,059,536**	**25,494,000**	**18,385**	**780,294**	**10,289,000**

Source: Investment Wing, Finance Division

The NPLs of MFBs exhibited negative trend as they crept up to a level of 5.3 percent at the end of March 2011 as against 1.6 percent last year. Nonetheless, the current level of NPLs is well below the estimates derived during the early damage assessment in face of heavy floods that triggered severe losses to life and property of millions during the 1st half of fiscal year 2010-11.

Channel diversification is critical to increase access to financial services in a cost-effective manner. A number of initiatives have been taken to facilitate following innovations in delivery channels:

a. The First Microfinance Bank (FMFB) entered into successful partnership with Pakistan Post (PP) to expand its lending operations in rural and remote regions using PP's network.

b. *Tameer* Microfinance Bank under its branchless banking model '*Easy Paisa*' has been facilitating the bills payment, domestic /home remittances, and m-wallets. At the end of March 2010, the volume of payments through *Easy Paisa* reached 2.25 million transactions transferring funds exceeding Rs. 8 billion.

c. United Bank Limited (UBL), a leading commercial bank is also operating its BB model by the name of 'Omni.' So far, UBL has developed a network of more than 2600 agents to provide payment services which have the potential to serve the financially excluded segment.

Private sector's commitment towards microfinance business appears promising for transformational change to attain large scale outreach through innovative business models. To sustain sector development and build on further, all microfinance institutions must assume primary responsibility for their own health and growth while the Government and donors may help bridging resource gaps by putting in place a mechanism of support/assistance which would support the long-term institutional building instead of covering institutions' operational inefficiencies and leakages.

Insurance Sector

The insurance industry in Pakistan is relatively small compared to developing countries and even the region but huge potential for expansion. In Pakistan, the insurance penetration stands at 0.7 percent of the GDP and insurance density is US$6.5 per capita. Efforts are being made to develop the insurance sector which has long been neglected.

The government encouraged liberalization and 100 percent foreign ownership and control of insurance companies was permitted by the government in 2007, with the condition of bringing in a minimum of US$2 million in foreign exchange from abroad and raising an equivalent amount from the local market. There are two dedicated foreign health insurance companies in the market, along with two foreign life and non-life insurance companies.

Despite its small size, the sector is supported by strong accounting and actuarial infrastructure. The leading listed insurance companies produce transparent financial statements. The reinsurance requirements for the sector are very stringent. A minimum of 80 percent treaty reinsurers must be A rated by internationally reputable rating agencies and only 20 percent can be BBB rated. The market has witnessed introduction of new products like health, crop and livestock insurance. New distribution channels such as Bancassurance, Websales and Telesales have also recently emerged.

Non-Life Sector

Currently there are 35 non-life insurance companies operating in the market including state-owned National Insurance Company Limited, which has a monopoly over government business including semi-autonomous entities. In non-life insurance business, 3 large private companies accounting for approximately 65 percent of the market share and approximately 93 percent stake belong to only 10 insurance companies. According to recent reports, the non-life private sector grew by 3.3 percent and the total premium revenue of the non-life insurance sector was approximately Rs. 43.6 billion. The main reason for this sluggish growth was worsening law and order situation and the resultant political instability. Additionally, the global recession also had an adverse impact on Pakistan's economy.

Life Insurance Sector

There are 7 life insurance companies in the market including state owned State Life Insurance Corporation, which enjoys 68 percent of the market share. According to latest reports, the private life insurance sector grew by 11 percent and the total premium stood at Rs. 41.9 billion.

Takaful Sector

There are 5 *takaful* operators in the market who have commenced their business operations in the recent past and are therefore still going through the initial phase of development. Out of the total, 3 general *takaful* operators are offering non-life insurance business and 3 family *takaful* operators are offering life insurance. In 2009, the total premium of the *takaful* sector was approximately Rs1.4 billion.

Reinsurance

A government-owned reinsurer, Pakistan Reinsurance Company Limited, continues to benefit from a mandatory minimum 35 percent share in the treaties of non-life companies.

Box-2: Way forward for Insurance Sector

- Revised solvency regulations shall be introduced in 2011, with an aim to reinforce the financial position of insurers over time and reduce the risk of volatility in the prices of certain assets (equities and properties) threatening their solvency.
- SECP is determined to create a transparent and enabling environment thereby increasing the insurance density by making insurance costs affordable to low-income people, and alleviation of poverty, by the development of regulatory framework for micro insurance.
- In order to ensure continued availability of comprehensive insurance cover for investment flow in the country and thus, to protect economic and financial sectors soundness, the SECP is working to develop a Terrorism Insurance Pool in Pakistan in line with international best practices and models in other jurisdictions.
- To eliminate the issuance of bogus motor third party compulsory insurance certificates by unauthorized persons/entities and to ensure that all vehicles on the country's roads have proper insurance cover issued by registered insurance/takaful companies, SECP, after detailed deliberations with the Insurance Association of Pakistan, had agreed on a comprehensive proposal..
- The Takaful Rules 2005 are being reviewed to remove the anomalies and addressing the areas which are silent in Takaful Rules, 2005. A new set of Takaful Rules 2011 is being formulated and will be issued shortly, repealing the 2005 Rules.

Source: Securities and Exchange Commission of Pakistan (SECP)

6 Capital Markets

Capital market is an important barometer of the health of an economy and important component of the financial sector. It is a vehicle whereby capital is deployed from sources where it is in excess to the sources where it is in short supply. The capital market facilitates; (i) mobilization and intermediation of private savings and (ii) allocation of medium and long-term financial resources for investment through a variety of debt and equity instruments of both private and public sectors. It plays a crucial role in mobilizing domestic resources and in channelizing them efficiently to the most productive investments. An efficient capital market can also provide a wide range of attractive opportunities for both the domestic and foreign investors.

The market oriented economic and investment policies being pursued for the last two decades or more, created conducive environment for the capital markets in Pakistan. Market friendly measures introduced in the early 1990 such as privatization of various state owned enterprises/units and commercial banks, allowing private sector to set-up commercial and investment banks, and permission to foreign investors to buy and sell shares freely on the stock market with full repatriation facilities and permission to own up to 100 percent equity in a venture, served as catalyst in reviving the confidence in the country's stock market. After two decades, the aggregate market capitalization increased manifold and stood at Rs. 3,148 billion by the end-March 2011 and market patched by 15.2 percent more than last year, which transpire that Pakistan’s equity market is one of the best performing equity markets in the world for almost one decade.

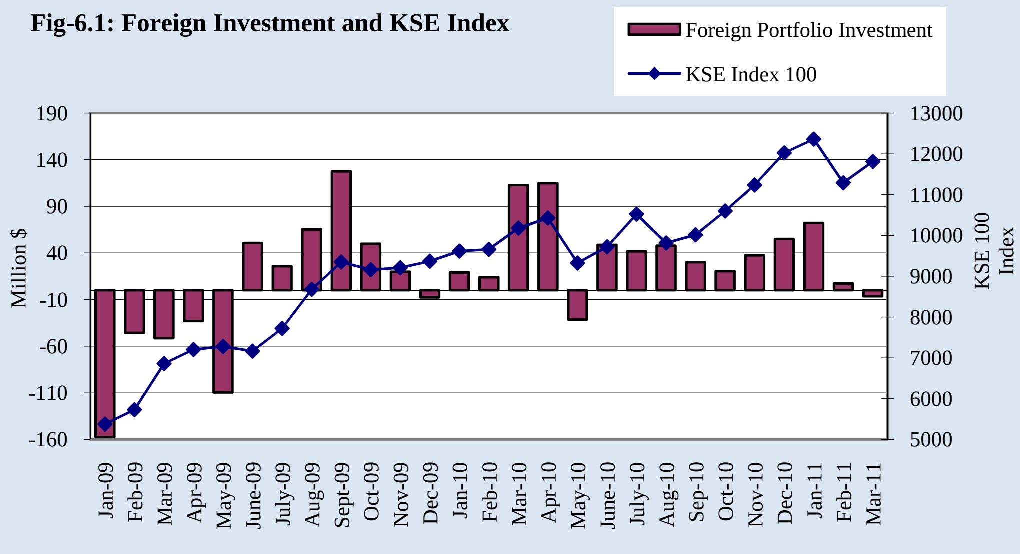
During the period from July-March 2010-11, the capital markets demonstrated wavering rising trend and posted modest gains. Total 638 companies were listed at the Karachi Stock Exchange (KSE) on July-March 2010-11 with total listed capital of Rs. 920.1 billion. Pakistan’s stock markets have remained buoyant during the first two quarters of the 2010-11 in terms of market index and market capitalization, which was remained steady till January 2011.The KSE witnessed a rise of 16 percent as compared to the corresponding period of 2009-10, and main reason of this recovery is the absence of leverage products for the stock market in addition to soaring inflation levels and rising interest rates. However, volumes gathered pace and the average volume increased by 19 percent to touch 114.2 million shares per day during the third quarter of the 2010-11.

Investment in capital market during the period July-March 2010-11 by the foreign investors depicted a net inflow of US$ 301.5 million, but noteworthy contribution was made during the first two quarter of 2010-11.

Equity Capital Market

Amidst challenging economic and social environment because of security and after flood challenges, strong presence of foreign investment improved risk perception about strength and depth of the capital market which lure the investor and business community. Trading at FY12E Price Earning Ratio (PER) of 7.0x, Pakistan equities reflect 26 percent discount to historical mean of 9.5x and over 50 percent discount to regional comparable markets. Conversely put, Pakistan equities currently reflect forward earning yield of 14 percent compared to 6 percent for the region and 5 percent for India and China. Moreover, excluding very few scripts, which are currently trading at premium valuations, the rest of the market is actually as cheap as 5x forward PER and 20 percent in terms of forward earning yield.

Fig-6.1: Foreign Investment and KSE Index



In fact, only few companies have driven the market and shown robust growth over the years with average annual Earning per Share (EPS) growth for the market clocking in at 21 percent for the period 2003-10. Led by Energy and Petroleum, banks and fertilizer sectors, bottom line growth for 2010-11 is expected to even outperform the historical average and clock in at 24 percent. After 14 months of continuous foreign portfolio outflows, foreign investment turned positive for the first time in Jun09 –right after Pakistan's inclusion in Morgan Stanly Capital International (MSCI) Frontier Markets. Since then, Pakistan has witnessed increased net inflow of foreign investment and foreign holding as a percentage of free float weighted market capitalization now stands at an all time high of 33 percent. After marking a bottom of 4,815 in Jan-09, KSE100 has more than doubled and trading around 12,000 points in May, 2011.

During the period from July-March 2011, one company was allowed to offer for sale shares worth Rs.1.1 billion of International Steel Limited to the general public, high net worth individuals and the institutional investors through book building process.

Global Equity Markets

The leading stock markets of the world observed high growth during the fiscal year 2010-11 ranging from 8.1 percent in Japan to the highest market return up to 66.8 percent as peace dividend in Sri Lanka. As Table-1 demonstrates global equity markets, witnessed a huge bullish trend as compared to last three years when most of the markets showed bearish trend with negative market returns both in local and foreign currencies. The Karachi Stock Market showed an excellent performance as its market return remains at 19.3 percent in terms of local currency in the period July-April 2010-11amidst deteriorating domestic macroeconomic conditions and political upheaval. Similarly in term of USD the return is 20.7 percent compared to negative trend in last three years. Main stock indices including US S&P 500, UK FTSE 100 and Japanese Nikkei 224 also recorded improvement. Emerging equities of Sri Lanka witnessed a healthy growth of 66.8 percent in returns followed by South Korea and Australia with 40.6 percent and 39.9 percent, respectively. Table-6.1 provides a quick snapshot of the return in terms of both domestic currency and USD for these markets.

Table 6.1: Performance of Global Stock Markets

S. No.	COUNTRY	STOCK NAME	INDEX (local currency)		CURRENCY (local currency v/s US$)		Y-O-Y 2009-10 Market Return (%)	
			30-Jun-10	19-Apr-11	30-Jun-10	19-Apr-11	Local Currency (in %)	USD Dollars (in %)
1	Pakistan	KSE 100	9,721.9	11,599.3	85.6	84.6	19.3	20.7
2	India	Sensex 30	17,700.9	19,121.8	46.4	44.5	8.0	12.8
3	Indonesia	Jakarta Composite	2,913.7	3,732.7	9,065.0	8,700.9	28.1	33.5
4	Taiwan	Taiwan Weighted	7,329.4	8,638.6	32.3	29.1	17.9	30.8
5	South Korea	Seoul Composite	1,698.3	2,122.7	1,221.9	1,086.4	25.0	40.6
6	Hong Kong	Hang Seng	20,129.0	23,520.6	7.8	7.8	16.8	17.1
7	Malaysia	KLSE Composite	1,314.0	1,521.5	3.2	3.0	15.8	24.1
8	Japan	Nikkei 224	9,382.6	9,441.0	88.5	82.4	0.6	8.1
9	Singapore	strait times	2,835.5	3,125.4	1.4	1.3	10.2	23.6
12	Srilanka	All Shares	4,612.5	7,475.2	113.6	110.4	62.1	66.8
13	China	Shanghai Composite	2,398.4	3,057.3	6.8	6.5	27.5	32.6
14	Philippines	PSE Composite	3,372.7	4,245.2	46.4	43.3	25.9	34.7
15	Australia	All Ordinaries	4,324.8	4,874.3	1.2	0.9	12.7	39.9
16	US	S & P 500	1,030.7	1,312.6	-	-	27.4	12.1
17	UK	FTSE 100	4,916.9	5,896.9	0.7	0.6	19.9	31.5
18	New Zealand	NZSE 50	2,972.1	3,440.0	1.5	1.3	15.7	32.1

Source: Invisor Securities

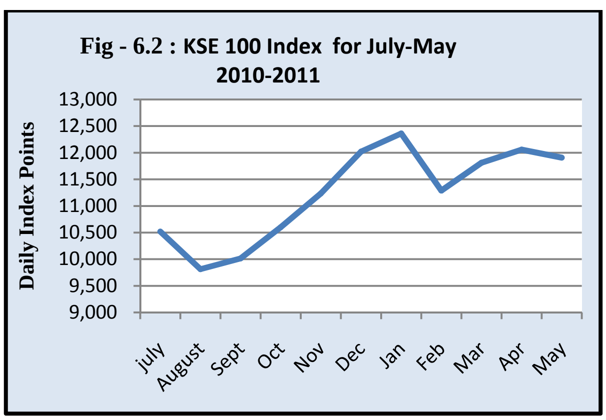
Reading the data

- *In 2009-10 the KSE-100 market return was 36 percent in local currency and 29.2 percent in USD terms.*
- *Since July-01 to 19th April, 2010-11, the KSE-100 market has yielded returns of 19.3 percent.*

Performance of Karachi Stock Exchange

In the current fiscal year, the Karachi Stock Exchange (KSE) retained its prominent position in Pakistan's capital markets, offering efficient, fair and transparent way of trading securities. This can be compared with any market in the region and enjoying full confidence of the investors. Thus in the light of its leading role, the discussion on Pakistan's Capital markets has been largely based on the performance of the Karachi market and its benchmark KSE-100 Index.

During the period July-March 2010-11, the benchmark KSE-100 index showed a steady growth subsiding the economic uncertainties like implementation of Reformed General Sale Tax (R-GST) and concerns over losses incurred by the massive floods across the country. The most concerning factor to highlight since the start of the fiscal year has been gradual deterioration of the market activity/volume. The KSE-100 index recorded a bullish trend during first half of the current fiscal year (CFY) as the market was trading around 12,000 at the end of December 2010. The KSE- 100 index however, remained steady during the third quarter of 2010-11 and after touching at 12,682 on January 17, 2011 and now trading at 11,900 points. The main reason of better performance in mid May 2011 in the stock market and gearing up the momentum in the KSE-100 is considerable foreign investment in the capital market.



The performance of KSE during last five years is narrated in Table 2. KSE is now a part of global equity market with foreign institutional investors holding a significant percentage of the free float. The positive foreign portfolio inflows and a good growth in corporate earnings led to strong market performance. Local investment during the period July10-11 remained subdued. KSE still trades at one of the lowest P/Es in the region which helped a sizeable inflow from foreign institutions. The net foreign inflow of $301.5 million was recorded during July2010- March 2011. During this period, two new debt instruments were listed. The much awaited Margin Trading, Margin Financing and Securities lending and borrowing system was implemented from March 2011.

Fig-6.3 : Market Capitalization in KSE (July-March 2010-11)

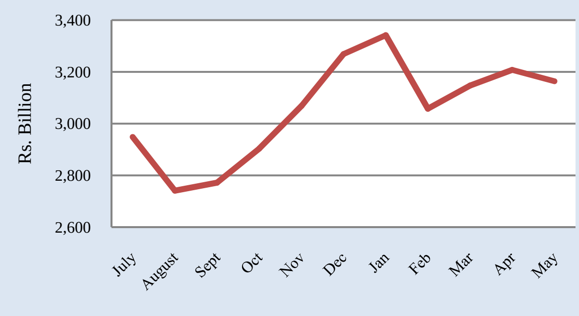


Table 6. 2: Profile of Karachi Stock Exchange

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 (Jul-Mar)
Number of Listed Companies	658	658	652	651	652	638
New Companies Listed	14	16	7	8	8	0
Fund Mobilized (Rs billion)	41.4	49.7	62.9	44.9	135.1	14.8
Listed Capital (Rs billion)	496	631.1	706.4	781.8	909.9	920.1
Turnover of Shares (billion)	79.5	54	63.3	28.2	43.00	21.2
Average Daily Turnover of Shares (million)	348.5	262.5	238.2	115.6	173.2	114.2
Aggregate Market Capitalization (Rs billion)	2,801.2	4,019.4	3,777.7	2,143.2	2732.4	3147.6

Source: KSE

The Month wise Indicators for July-March 2010-11 are given in the Table 6.3

Table: 6. 3 Month Wise Indicators **(Rs in billion)**

Month	Listed Capital	Mkt. Capitalization	KSE 100 Index	Turnover (T+2)	Trade Value T+2 (in Rs. billion)	Turnover (Future)	Trade Value Future(in Rs. billion)
Opening	909.9	2,732.4	9721.91				
August	910.0	2,741.5	9,813.05	1.3	51.3	0.05	5.3
September	911.2	2,772.4	10,013.31	1.4	43.1	0.04	4.4
October	915.3	2,903.6	10,598.40	2.7	69.2	0.06	6.7
November	914.6	3,068.7	11,234.76	2.4	87.3	0.07	7.5
December	919.2	3,268.9	12,022.46	3.3	115.8	0.1	11.6
January	899.1	3,342.0	12,359.36	3.9	166.5	0.2	20.9
February	904.0	3,058.0	11,289.23	2.1	71.6	0.1	14.0
March	920.1	3,147.6	11,809.54	2.4	102.9	0.2	18.6
Total				21.2	768.4	0.9	96.0
Changes since July, 2010		415.2	2,087.63				
Percentage change		15.20%	21.47%				

Source: KSE

Corporate Profitability

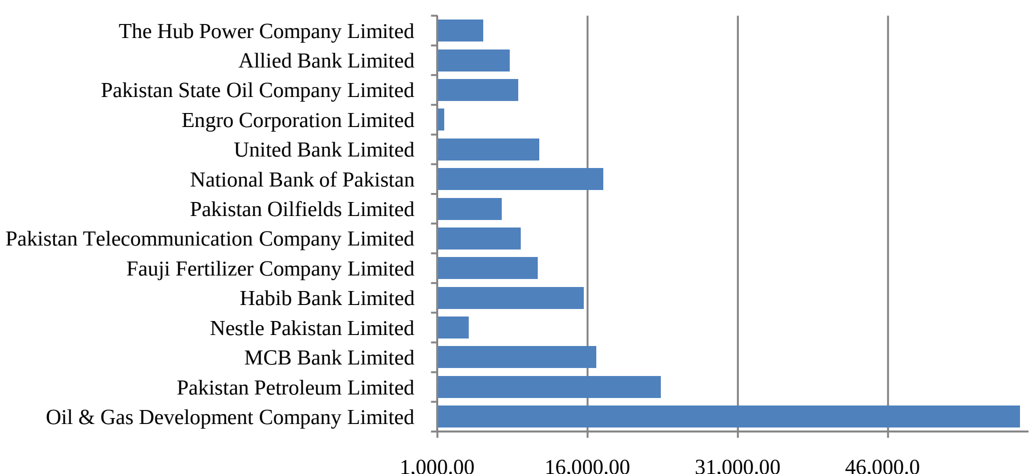
Corporate profitability has increased in 2011 but profitability concentrated in few large companies in the Energy, Telecom and Banking sectors. The corporate results are expected to report the mixed earnings for the current financial year. Oil and gas exploration companies earnings will benefit from revised well head prices due to increase in international oil prices. Oil and Gas marketing companies are also expected to benefit. Fertilizer sector has also shown positive growth, however its regular supply remained one of the issue.

Table 6.4: Price To Earning Ratio of Top Ten Companies

Sr..No	Name of Company	Paid-up Capital (Rs billion)	Profit After Tax (Rs. billion	EPS	31-Mar-2011 Market Price (Rs.)	P/E Ratio	Market Capitalization (Rs. in billion)
1.	Oil & Gas Development Company Limited	43.0	59.2	13.8	135.7	9.9	583.5
2.	Pakistan Petroleum Limited	10	23.3	23.4	211.4	9.0	210.5
3.	MCB Bank Limited	7.6	16.9	22.2	207.5	9.4	157.8
4.	Nestle Pakistan limited	0.5	4.1	90.7	3,438.0	37.9	155.9
5.	Habib Bank Limited	10.0	15.6	15.6	111.7	7.2	111.9
6.	Fauji Fertilizer Company Limited	6.8	11.0	16.3	137.9	8.5	93.6
7.	Pakistan Telecommunication Company Limited	51.0	9.3	1.8	17.0	9.3	86.7
8.	Pakistan Oilfields Limited	2.4	7.4	31.4	325.1	10.3	76.9
9.	National Bank of Pakistan	13.5	17.6	13.1	57.0	4.4	76.7
10.	United Bank Limited	12.2	11.2	9.1	61.5	6.8	75.3
11.	Engro Corporation Limited	3.3	1.7	5.1	205.8	40.2	67.4
12.	Pakistan State Oil Company Limited	1.7	9.0	52.8	277.5	5.3	47.6
13.	Allied Bank Limited	7.8	8.2	10.5	59.4	5.7	46.5
14.	The Hub Power Company Limited	11.6	5.6	4.8	37.6	7.8	43.6

Source: KSE

Fig-6.4: After Tax Profit of Top Ten Companies July-March 2010-11



Source: KSE

Sector Wise Performance:

Extraordinary performance in the stock markets during the outgoing fiscal year was driven by some major sectors of the economy including Oil & Gas producer, Banks, Personal Goods and other chemicals and pharmaceuticals sectors. Performances of some of the major sectors are mentioned below:

Oil & Gas Producer

In this sector 12 companies are listed at the Stock exchange. The sector is performing doing well because of rising demand, higher exploration and global prices. Its index fluctuated between12, 523 to 12,166 between July-March 2010-11 and market capitalization inched up from Rs. 1,042.3 million to Rs. 1,051.7 million. Pakistan based oil and gas sector have shown healthy profits due to upward movement of prices. During the year sector shows the profit after tax of Rs.104.2 billion. The sector also has the largest paid companies like OGDCL, PPL, POL, etc. and the total paid up capital of this sector is Rs.65.2 billion. Oil and Gas sector continued to be one of the major market players.

Chemical Sector

With this sector 36 companies are listed. Net income of this sector after tax in 2010-11 stood at Rs. 32.1 billion and its share index has decreased by 2.8 percent. Its market capitalization improved by Rs.113.6 billion during the July-March 2010-11 and stood at Rs. 392.9 billion. This sector showed good profits due to tight –demand supply situation and rising fertilizers prices.

Automobile and Parts

The share index comprised of 19 listed companies with KSE decreased by 11.2 percent and market capitalization decreased by 10.5 percent during the first nine months of the 2010-11. Sales statistics shows that the demand is gradually tapering off in the large automobile sector. Increase in the price of cars, rising interest rates and risk averse policy of banks amidst growing non-performing loans in the sector have contributed to this marked slowdown. The sector posted the profit of Rs.4.2 billion in the first nine months of the CFY.

Personal goods

The index of the sector comprising of 211 listed companies (mostly related to the textile sector) increased from 9,705 to 10,441 and market capitalization stood at Rs. 132 billion during July-March 2010-11. The increase is mainly driven by the enhanced demand of yarn and cotton products and higher prices of finished products. The sector has shown the after tax profit of Rs. 24.1 billion.

Construction and Material

Cement manufacturers is dominated sector comprised of 37 companies posted after tax loss of Rs. 5.1 billion during the period under review. Accordingly, its share index is down by 10.2 percent and market capitalization at Rs. 63.3 billion is down by 8.1 percent during July-April 2010-11. This is a reflection of cement production and exports performance.

Banks

The sector comprised of 27 banks listed with the KSE. Its share index is down from 8,719 in July 2010 to 8015 in March 2011 whereas its market capitalization increased by 1.8 percent. Decline in the credit cycle, higher interest rates, and cautious lending stance given the experience with loan defaults in some sectors are primary reasons for the slowdown. However, the credit quality is still much better than other regional countries with lower NPL ratio. During the year, the sector shows the after tax profit of Rs.70.6 billion.

Fixed Line Communication

The sector of 5 companies is affected by saturation of mobile communication in the country and the total after tax profit was Rs.7 billion. Market capitalization of the sector decreased from Rs. 83.8 billion to 69 billion during July-March 2010-11. Its share index also decreased to 8392 points from 10191 points at the end of March 2011.

Food Producers.

The sector having 61 sugar dominated companies posted total after tax profit of Rs.11.9 billion. The share index moved up from 12,625 to 19,824 during July-March 2010-11. Its market capitalization increased by 58.2 percent to 282.9 billion.

Pharma & Biotech

The sector of 9 companies showed profit after tax of Rs. 3.2 billion in year 2010. Its share index increased from 8241 to 8327 and market capitalization increased from Rs. 30.6 billion to

Rs31.4 billion in the period under review.

Box-1: Capital Market Reforms

In order to strengthen the Pakistani capital market and to have improved risk management, increased transparency, improved investor protection and for the introduction of new products to provide depth to the market, SECP initiated following measures,

- In order to cater to the financing needs of the market and to bring in liquidity, the securities (Leveraged Markets and Pledging) Rules were finalized in coordination with the relevant stakeholders and promulgated on February 18, 2011. Rules provided the broader regulatory cover to the products of Margin Financing, Margin Trading and Securities Lending and Borrowing. Subsequently, the regulatory framework of the stock exchanges, the National Clearing Company of Pakistan limited (NCCPL) and the Central Depository Company of Pakistan Limited (CDC) was also amended to provide for the operational aspects of the said mechanisms.
- Under the "Automation of Securities Settlement Project" at the CDC. Under this system, book entry securities are automatically transferred from the respective sellers' account to the respective buyers' account instead of being routed through the member's main account.
- The SECP formulated a comprehensive policy for dealing with companies in default of securities market laws to protect the investor, enhance transparency and improve member listing.
- Efforts were made to enhance the product portfolio of the National Commodity Exchange Limited (NCEL), with a view to catering to the hedging and speculative needs of various target groups.
- A committee of stakeholders was constituted to give recommendations for promoting activity at the earlier introduced Bonds Automated Trading System (BATS) for trading of corporate bonds, and for augmenting the said System with enhanced functionalities to bring it at par with the international systems for corporate debt market.

Lahore Stock Exchange

The leading market indicators witnessed mixed trends in Lahore Stock Exchange. The LSE - 25Index, which was 3093 on 30 June 2010, increased to 3343 points as on March 31, 2011with total paid up capital increased from Rs 842.6 billion to Rs 854.4 billion.

Total turnover of the shares on LSE during July-March 2010-11 is 0.9 billion shares as compared to 3.4 billion shares in the corresponding last period, with Fund mobilization of Rs 8.2 billion and market capitalization is Rs.2921.5 billion during July-March 2010-11.Only six new companies were listed in the period under consideration as compared to 25 companies in the fiscal year 2009-10. A profile of LSE is given in the following table with a graphical presentation of index performance.

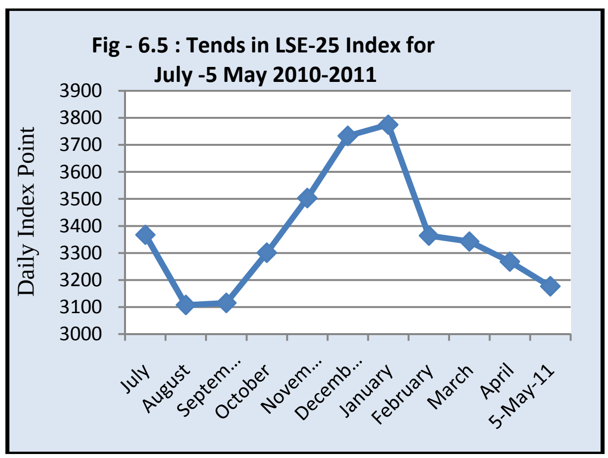


Table 6.5: Profile of Lahore Stock Exchange

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 (jul-mar)
Number of Listed Companies	518	520	514	511	510	497
New Companies Listed	7	10	2	9	25	6

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 (jul-mar)
Fund Mobilized (Rs billion)	24.5	38.8	29.7	32.8	67.5	8.222
Listed Capital (Rs billion)	469.5	594.6	664.5	728.3	842.6	854.370
Turnover of Shares (billion)	15	8.2	6.5	2.7	3.4	0.923
LSE 25 Index	4,379.3	4,849.9	3,868.8	2,132.3	3092.7	3342.56
Aggregate Market Capitalization (Rs billion)	2,693.3	3,859.8	3,514.2	2,018.2	2622.9	2921.5

Source: LSE

Islamabad Stock Exchange

Islamabad Stock Exchange (Guarantee) Limited (ISE), being the youngest stock exchange of three stock exchanges of Pakistan, has been playing an important role in the development of equity market in Pakistan along with other two exchanges to create value for their investors and listed companies through dynamic market operations, fair and transparent business practices and effective management.

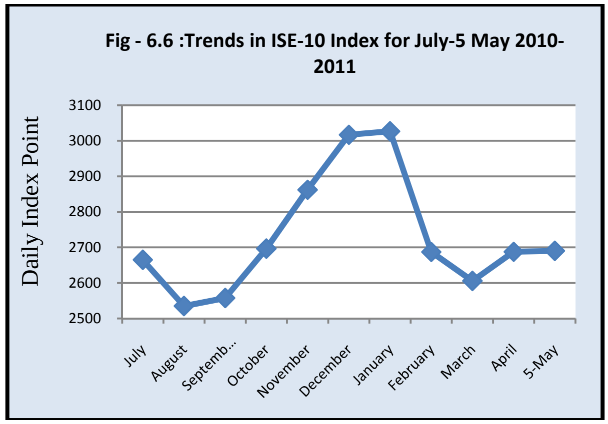


Table 6.6: Profile of Islamabad Stock Exchange

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 (Jul-Mar)
Number of Listed Companies	240	246	248	261	244	236
New Companies Listed	6	12	7	15	2	-
Fund Mobilized (Rs. billion)	5.2	30.7	24.6	24.8	73.0	7.4
Listed Capital (Rs. billion)	374.5	488.6	551	608.6	715.7	710.3
Turnover of Shares (billion)	0.4	0.2	0.6	0.3	0.2	0.034
ISE 10 Index	2,633.9	2,716	2,749.6	1,713	2,441.2	2605.4
Aggregate Market Capitalization (Rs billion)	2,101.6	3,060.6	2,872.4	1,705.1	2,261.7	2531.5

Source: ISE

The first half of the current fiscal year remained sluggish however, in the third quarter it picked up momentum and remained steady. The average daily trading volume during the last nine months remained at 0.18 million shares at ISE. The ISE-10 Index inched up from end-June 2010 level of 2445 points to 2605 points on end-March 2011, thereby showing a net increase of 6.5 percent.

Debt Capital Markets

Debt Capital Market is a market for trading debt securities where business enterprises (companies) and governments can raise long-term funds. This includes private placement as well as organized markets and exchanges. The debt capital market trades in such financial instruments which pays interest. There are bonds and several loans which act as the prime financial instrument of this market. Because of this interest factor, it is also known as fixed income market.

Government Securities

Pakistan Investment Bonds (PIBs) as fixed rate government securities provide a benchmark for debt capital market. The government is committed to provide sufficient supply of long term papers in the market to develop the longer end of the government debt yield curve. The government is educating the investor base especially the institutional investors to manage their balance sheets in a more innovative way by diverting resources from working capital needs towards investment. PIBs together with the NSS instruments primarily hold a larger portion of local fixed-income market. They provide the government with long-term maturity debt. SBP held seven auctions in 2007-08, four in 2008-09, fourteen in 2009-10 and seven in 2010-11. Government amassed Rs. 64.7 billion through PIB auctions in 2009-10 and Rs. 83.4 billion in 2010-11.

Table 6.7: Snapshot Analysis of PIBs

Tenor	2008-09		2009-10		2010-11*	
	(Rs. billion)	Percentage Share	*(Rs. billion)*	Percentage Share	*(Rs. billion)*	Percentage Share
3-Years	10.1	14.1	11.7	18.0	18.7	22.4
5-Years	8.8	12.4	7.2	11.1	6.7	8.0
7-Years	7.3	10.3	2.2	3.4	0	0.0
10-Years	35.0	49.2	39.4	60.9	57.5	69.0
15-Years	1.4	2.0	1.0	1.6	0	0.0
20-Years	1.9	2.7	1.5	2.4	0.5	0.6
30-Years	6.6	9.3	1.8	2.7	0	0.0
Total	**71.2**	**100**	**64.7**	**100**	**83.4**	**100.0**

* July-March *Source: SBP*

The government showed greater craving for borrowing through long term securities, and set the target of Rs 60 billion against a maturity of Rs 6.9 billion during 2010-11. Keeping in view the widening deficit gap of the government, from the demand side, market players offered Rs 134.4 billion and Rs 83.4 billion net of maturities was accepted as long term financing during 2010-11 as against Rs 51 billion net of maturities accepted in 2009-10 in the same corresponding period. Government generated resources from 10-years PIBs, and accepted 69 percent of the amount through this single maturity. This was followed by 3, 5-year PIBs with a share of 22.4 and 8 percent, respectively of the amount accepted in 2010-11. PIBs with 20 -year maturity accounted for a share of 0.6 percent and 10-year PIB has shown a huge increase as compared to previous fiscal year as its percentage share in 2009-10 was 60.9 percent and 3-years PIB has also witnessed an increase from 18 percent in 2009-10 to 22.4 percent in 2010-11. On the other side shares of 5 and 20–years PIBs declined shares to 8 and 0.6 percent, respectively in 2011. The share of 10 year PIB is amount to Rs. 57.5 billion in the 2010-11 as compared to Rs.39.4 billion in previous fiscal year. Amount received by 3-years PIB is Rs.18.7 billion in 2011 as compared Rs. 11.7 billion in 2009-10. The share of 7, 15 and 30-year PIB has declined in the current financial year as shown in Table 6.7.

Table 6.8: PIB Coupon Rates for 1H-FY11

Tenor	Previous coupon Rate (at 30Jun 10)	Current Coupon Rate
3-Years	11.25%	11.25%
5-Years	11.50%	11.50%
7-Years	11.75%	11.75%
10-Years	12.00%	12.00%
15-Years	12.50%	12.50%
20-Years	13.00%	13.00%
30-Years	13.75%	13.75%

Source: SBP

Table-6.9:

PIB Auction Cut-off Rates, July-December 2010-11				PIB Auction Cut-off Rates, 2H-2010-11		
Tenors	**14-Oct-10**	**22-Dec-10**	**Variance Bps**	**17-Feb-11**	**17-Mar-11**	**Variance Bps**
3-years	13.90	14.25	35	14.25	14.08	-17
5-years	14.00	14.30	30	14.29	14.11	-18
7-years	-	-	-	-	-	-
10-years	14.10	14.36	26	14.27	14.12	-15

Source: SBP

Government and the central bank worked together to launch the GoP *Ijara Sukuk* in order to support efforts to diversify the borrowings mix to ensure financial stability. Islamic Banks have been aggressively mobilizing deposits, and play a significant role particularly after the introduction of the minimum deposit rate and easing of reserve ratios. To cope with the liquidity requirements of *Shariah* compliant banking institutions, the target for the auction of fourth GoP *Ijara Sukuk* is set at Rs 40 billion during Fiscal Year 2010-11 while it was 20.4 billion in revised budget in FY 2010. Increasing zeal for investment in these instruments was observed. Three auctions were held in July-March 2010-11 and targets for these were set at Rs.40, 40 and 45 billion, respectively. Total amount offered for the said bids was Rs.179.3 billion against target of Rs.125 billion while Rs.136.5 billion were accepted which reflects strong liquidity position of Islamic banks and their investment appetite for this asset class. The maturity of the *Sukuk* will be of one, two and three years.

Table 6.10: 3-Year Ijara Sukuk Auctions Result For FY10-11 **(Rs. billions)**

Date	Target	Offered Amount	Accepted Amount	Cut-off Margin	Variance of Acceptance against Target
8-Nov-10	40.00	64.7	51.8	0.00	11.8
13-Dec-10	40.00	57.8	37.2	0.00	-2.8
1-Mar-11	45.00	56.8	47.5	0.00	2.5
Total	125	179.3	136.6	0.00	

Source: SBP

Table-16.11 depicts that SBP has increased the interest rates for 3, 5 and 10 years PIBs in 2010-11. For three years PIB interest rate is increased to 14.05 percent in March 2011 up from 12.66 in July 2010. Similarly interest rate for 5 and 10 years are 14.08 percent at the end of third quarter of the ongoing fiscal year as compared to 12.75 and 12.93 in July 2010.

Table-6.11: Interest Rate Structure, FY 2010-11

Tenors	**3-Sep-09 %**	**11-Nov-09 %**	**Variance (H1FY10) bps**	**JUL-10 %**	**Mar-11 %**	**Variance (FY10-11) (Jul-mar) Bps**
3-Years	12.29	12.26	-0.03	12.66	14.05	1.39
5-Years	12.36	12.40	0.04	12.75	14.08	1.33
10-Years	12.5	12.44	-0.06	12.93	14.08	1.15

Source: SBP

National Savings Schemes (NSS)

The Central Directorate of National Savings (CDNS) performs deposit bank functions by selling government securities through a network of 372 savings centers, spread all over the country. As of March 31, 2011 there were 3.8 million investors with different National Saving Schemes (NSS). During the fiscal year July-March 2010-11, net deposits with National Saving Schemes increased to Rs 1,822.4 billion. The unfunded category of domestic debt, comprised of NSS instruments, has recorded an expansion of 10.2 percent in this period. *Bahbood* Savings Certificates attracted Rs 45.3 billion, followed by Special Saving Scheme and Regular Income Certificate. Defense saving certificate attracted net investment of Rs 6.6 billion against the target of retirement of 2.6 billion. The NSS contains a number of instruments with significant concentration on individual investment, NSS scheme are available with the maturity period of 3 years, 5 years, and ten years. It is also worth mentioning that segment of subsidized scheme i.e. Pensioner Benefit Account and *Behbood* Saving

Certificate, contribute Rs. 58.8 billion in the total net investment of Rs. 168.7 billion till March 2011.

Table 6.12: National Savings Schemes (Net Investment) **(Rs. Billion)**

S.#.	Name of Scheme	2007-08	2008-09	2009-10	2010-11 (Jun- Mar)
1	Defence Savings certificates	(4.3)	(27.4)	(32.5)	6.6
2	Special Savings Certificates(R)	13.8	128.5	61.9	34.1
3	Regular Income Certificates	(0.3)	40.1	44.5	35.8
4	Bahbood Savings Certificates	38.8	78.5	59.3	45.3
5	Pensioners 'Benefit Account	18.7	22.2	18.2	13.6
6	Savings Accounts	9.0	(10.9)	1.0	(4.8)
7	Special Savings Account	5.5	21.6	31.4	10.9
8	Prize Bonds	8.3	14.6	38.6	27.2
9	National Saving Bonds	--	--	3.6	--
10	Others	(0.03)	(0.06)	(0.2)	(0.06)
	Grand Total	89.5	267.2	225.7	168.8

Source: Central Directorate of National Savings

Corporate Debt Market

A well functioning corporate bond market provides an additional avenue to corporate sector for raising funds for meeting their financial requirements. During the period July-March 2010-11 one listed debt instrument was offered to the general public i.e. offering of Rs 4 billion Term Finance Certificate (TFC) by Engro Corporation Ltd. The TFC was offered only to retail investors and was fully subscribed. Out of the said Rs.4 billion, 74 percent were subscribed by the individuals, 20% by employees fund and balance by the others.

Table: 6.13 Floatation of TFCs, July-March 2010-11 **(Rs. Billion)**

Name of Company	Listed at	Issue Size
Engro Corporation Limited	KSE	Rs. 4 billion

Source: SECP

During the period a total of 07 debt securities issued through private placement. The break-up of these privately placed corporate debt issues are as follows.

Table-6.14: TFC's Offered During 2010-11

S.No	Name of Security	No	Amount (Rs billion)
i	Privately placed Term Finance Certificates	01	0.5
ii	Sukuks*	03	134.6
iii	Commercial Papers	03	1.8
	Total	07	136.9

Source: SECP

* All the three *Sukuk* were issued by Pakistan Domestic Sukuk Company Limited

As on December 31, 2010 a total of 142 corporate debt securities were issued with an outstanding amount of Rs 379.4 billion as follows,

Table 6.15: Outstanding TFCs

S.No	Name of Security	No	Amount outstanding (Rs. billion)
i.	Listed Term Finance Certificates (L-TFCs)	38	66.2
ii.	Privately placed Term Finance Certificates (PP-TFCs)	48	87.7
iii.	Sukuks	55	224.4
iv.	Commercial Papers	01	1.0
	Total	142	379.4

Source: SECP

Box-2: Measures for development Debt Markets

- Listing of government debt instruments at the stock exchanges would greatly enrich development of the debt market.
- At present, the debt securities though listed at the stock exchanges are not actively traded as the Capital Value Tax (CVT) collection hinders the growth in the secondary market for debt securities which can be lowered.
- Rationalize the cost of issue of corporate bonds, the rate of stamp duty applicable on issue and transfer of Term Finance Certificates and Commercial Papers may be reduced further.
- In order to strengthen the regulatory framework and to develop the rating process in Pakistan, services of an international consultant were hired by the SECP to provide technical assistance with respect to the operations and regulations of Credit Rating Agencies. The consultants gave their recommendations, which are being implemented.

Source: SECP 2011

Mutual Funds :

Mutual funds ascended with an increased thrust as evidenced by a surge in total assets of over 10 percent and reached to Rs 275 billion during July-March 2010-11 as against 4.4 percent growth for 2009-10. As on March 31, 2011, the number of mutual funds in the industry stood at 137 compared to 116 in January 2010 and this uptrend in the mutual funds industry is primarily because of soaring investor confidence in the backdrop of positive stock market movement and improving debt market.

SECP extended the time period for maintaining equity portfolios held by Asset Management Companies (AMCs) till June 30, 2011 in an attempt to provide cushion to the AMCs whose equity positions otherwise would have been adversely affected.

Table 6.16: Snapshot of key financials as of March 31, 2011 **(in million rupees)**

	Leasing Companies	Investment Banks	Modarabas
Total Assets	34,528	25,745	25,797
Total Liabilities	29,603	20,867	13,668
Total Equity	4,821	4,794	12,128
Total Deposits	**4,477**	**6,108**	**2,697**

Source:SECP

Modarabas :

Being a distinctive Islamic business model, the *modaraba* sector has contributed significantly towards the development of non-banking finance sector and achieved a phenomenal growth in terms of profitability. The *modaraba* sector has enrolled its place in the financial intermediaries and has been able to create a market niche for itself in the financial sector.

As compared to other financial sector of Pakistan the *modarabas* have strongly faced the financial turmoil without any shrinkage in its assets size, number and employment. It may be because of the inherent strength of the Islamic financial system. The strength of *modarabas* is visible from its stable assets size of Rs 25.8 billion as of March 31, 2011 as compared to Rs 23.0 billion corresponding period last year. The equity of the *modarabas* showed slight declined and remained at Rs 10.9 billion as of December, 2010 as compared to Rs 11.6 billion last year. The decrease of Rs 615 million has been recorded due to impairment losses on investments in listed securities.

Though there is a declining tendency of the financial sector, 17 out of 26 *modarabas* declared cash dividends to their certificate holders. During the last nine month, the SECP issued various circulars and directives to further improve the regulatory framework for the *modaraba* sector. In addition, revised guidelines to tackle money laundering issues for *modarabas* were also issued.

A committee has been formed to discuss and propose measures to improve performance of *modaraba* sector and to explore the ways and means to address liquidity problems faced by *modarabas* to enhance corporate governance and to develop new resource mobilization and financing products for the *modarabas*.

Table 6.17: Snapshot of Key Financials as of March 31, 2011 **In million rupees)**

	Leasing Companies	Investment Banks	Modarabas
Number of companies	9	7	26
Total Assets	34,528	25,746	25,797
Total Liabilities	29,603	20,867	13,668
Total Equity	4,821	4,794	12,128
Total Deposits	4,477	6,108	2,697

Source: SECP

Investment Banks :

Investment banks are facing multiple problems like low capitalization, high cost of funds and limited avenues for resources mobilization. In order to encourage investment banks through non-fee-based financial services and to take a more active role in capital markets, the SECP in April 2010 amended the regulatory framework. Hence, investment banks were allowed to undertake brokerage business from their own platform instead of forming a separate company with certain restrictions. As on March 31, 2011 there are 7 active licensed investment bank with total assets of Rs 25.7 billion and equity of Rs 4.8 billion.

Leasing

The leasing sector in Pakistan faces multitude problems like liquidity issues, low capitalization, limited sources for resource mobilization, high cost of funds, level of non-performing assets and limited outreach. SECP enhanced the validity of licenses issued to Non-Banking Financial Companies (NBFCs) from one year to three years for providing operational flexibility to them. The timeline for meeting prescribed minimum equity requirement was also extended to June 2011. On March 31, 2011 the total assets of the sector stood at Rs. 34.5 billion as compared to Rs. 35.0 billion as of December 31, 2010, showing marginal decline of 1.5 percent. However, the equity has shown a slight improvement of 0.7 percent as it has increased from Rs.4.8 billion on December 31, 2010 to Rs.4.8 billion on March 31, 2011. Further, deposits of the leasing companies have shown improvement of 1.4 percent as they increased from Rs.3. 9 billion to Rs4.5 billion.

Voluntary Pension System.

The government has been considering reforming the current pension system. Luckily, the dependency ratio at this point of time is extremely favorable for Pakistan to shift from defined benefit system to defined contribution system. While reforms at the national level will take some time, a Voluntary Pension System (VPS) is being introduced. VPS envisages contributions by Pakistani nationals in a pension fund approved by the SECP. The pension fund promises a stream of income to its members after retirement. The government has given tax incentives to individuals under the current tax regime.

The penetration of VPS is low at the moment, being new to Pakistan and non-binding upon employers and individuals. It is hoped that, with the passage of time and complimentary reforms in defined benefit retirement schemes, the system would gain grip and substance. So far, nine pension funds have been launched under the VPS. The size of pension funds has grown as under:-

Table 6.18: Number of Pension Funds with Net Assets

Date	Number of Pension Funds	Net Assets in Million Rupees
30-Jun-07	4	7,420
30-Jun-08	7	766
30-Jun-09	7	870
30-Jun-10	9	1,301
30-Dec-10	9	1,364
31-March-11	-	1,1421

Real Estate Investment Trusts (REITs).

REITs are new investment instrument for Pakistan's capital market. Therefore, the framework would need adjustments before it takes roots in the investing community. In order to alleviate some of the concerns hindering evolution of REITs a number of amendments were made to REITs Regulations in 2010. The reduction in the fund size from Rs.5 billion to Rs.2 billion was done to accommodate the capital constraint for launching of REITs projects in addition to introduction of concept of hybrid REITs.

The rates of stamp duty and registration fee for REITs properties in Punjab and Sindh are reduced. In Punjab, the stamp duty for REITs property purchase has been reduced from 2 percent to 0.5 percent and on sale of property from 2 percent to 1 percent. In Sindh the stamp duty has been reduced from 3 percent to 0.5 percent. In both provinces, registration fee on purchase of property by REITs has been waived and reduced from 1 percent to 0.5 percent on sale by REITs.

Settlement System:

The development of PRISM (Pakistan Real time Interbank Settlement Mechanism) system started as a response to the growing awareness of the need for sound risk management in settlement of larger-value funds transfers in Pakistan. PRISM systems operated by State Bank of Pakistan offers a powerful mechanism for limiting settlement and systemic risks in the interbank settlement process by providing settlement on gross basis and in real time. In addition, PRISM also contributes to the reduction of settlement risk in security transactions by providing a basis for Delivery Versus payment (DVP) mechanisms.

Employees Stock Option Scheme

Employees Stock Options are used not only to reward employees but also as retention tools and to build long term loyalty of employees to their workplace. To reward performance, encourage productivity and increase employee's involvement, companies in Pakistan have increasingly started offering stock options to its employees. The Stock Option Schemes are regulated under the "Public Companies (Employees Stock Option Scheme) Rules, 1999". During 2010-11, 2 Employees Stock Option Scheme of JDW Sugar Mills Limited and NIB Bank Limited were launched.

Pakistan Mercantile Exchange Limited

Pakistan Mercantile Exchange Limited (PMEX) formerly known as the National Commodity Exchange Limited (NCEL) is Pakistan's first demutualized online commodity exchange. It was established in April 2002 and commenced operations in May 2007. PMEX provides a regulated platform for trading of futures contract in commodities and currencies. The product portfolio of PMEX has been designed to cater for the hedging and speculative needs of various stakeholders/investor groups. The futures contracts presently available at the exchange include varying sizes of gold and silver contracts, rice, palm oil, crude oil, sugar, and cotton and interest rate contracts.

The trading volumes at PMEX showed an exponential rise during the period under review. The total traded value of contracts climbed up to Rs380.9 billion in 2010-11 compared to Rs54.7 billion in 2009-10 with the number of contracts traded rising to 1.2 million from 0.3 million traded in the 2009-10 implying 556 percent in traded value and 315 percent in the number of contracts traded during the year.

Derivative Markets

In order to provide investors with basic hedging instruments, financing options and increased investment alternatives, deliverable futures contracts and cash-settled futures contracts are available for trading at the three stock exchanges. Additionally stock index Futures Contract based on the KSE 30 Index and Sectoral Indices for oil and gas sector and banking sector are available at the Karachi Stock Exchange (KSE). Under the cash settled futures, 90, 30 and 7-days cash-settled futures contracts are available.

7 Inflation

Inflation is regarded as regressive taxation against the poor. The most visible impact of inflation in recent times is its effect on real output, relative prices, taxes and interest rates. It also discourages saving and promotes consumption. The effect of inflation severity is more social than economic due to the erosion of the real value of money the real value of money. The recent inflationary environment in the country may be blamed to some extent for lower deposit growth and lower savings.

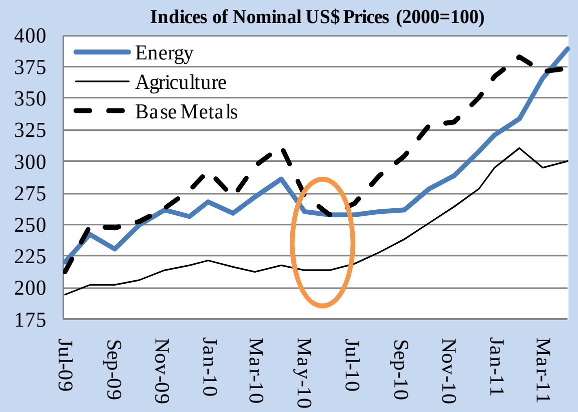
Historically, Pakistan is accustomed to lower inflation and thus has less tolerance towards higher double digit inflation. In this backdrop persistence of high double digit inflation for third year in a row has become intolerable and the government is pursuing combination of several policy measures such as the control of the budget deficit through appropriate fiscal and monetary policies, the improvement of agricultural productivity, the fostering of investment to stimulate output and the constant vigilance on the market situation to ensure the adequate availability of consumer goods to the common man at a reasonable price to bring inflation down to a tolerable and sustainable level.

The year 2010-11 is the most eventful year for the world inflation. The inflation poses serious threat to macroeconomic stability around the world. More worrying thing is that the recent spike in inflation is coming more from food inflation which is detrimental for poverty situation, According to ADB study, a 10 percent rise in food inflation is likely to deteriorate poverty situation by 2.7 percentage points. Therefore, the recent strategy of containing inflation aims at alleviating poverty on the one hand and safeguard the average consumer against the hardships of rising prices on the other.

The beginning of the current year 2010-11 in Pakistan saw number of unfavourable factors impacting the supply and demand situation which created imbalances in the economy. Massive floods swept through one-fifth of the country and caused massive damages to crops, livestock and infrastructure which resulted in sharp acceleration in the commodity price and spike in inflation. The acute shortage of items of mass consumption necessitated substantial imports at rising landed cost. While on the production front, the imported inflation via pass through effect of escalating oil prices consequently raised transport freights, production cost of materials and a substantial hike in all the consumable items or services. Some Structural problems of power outages and weaknesses in the supply chains impacted the real sectors production performance added yet another push factor to the general price hike trend.

The global prices are also adding fuel to the fire as commodity and crude oil prices surged at unprecedented pace since July 2010. Pakistan’s problem compounded as all price indices of global prices surged at a massive rate [See Fig-7.1]. The pass through of international prices impacted prospects for domestic inflation. Inflationary forces in many countries tended to become assertive and caused concern to the government and the people alike. Inflation around the world tracked movement in world oil prices through impacts on energy prices and then lagged impacts on other commodity prices.. The continued improvement in global economic growth is driving demand for oil and grains in emerging market economies. Generally immune countries from global commodity price movement like India and China had reported higher inflation, recently. On the positive note, major price indices have started decelerating in March 2011 after eight consecutive months of brisk increases in all price indices.

Fig-7.1: Major Global Price Indices



Source: World Bank

Pakistan's domestic structural problems and global commodity price movement collectively provided momentum to inflation in recent months. The cumulative inflation rose to 14.1 percent in July-April 2010-11. During most of the period, food remained the major driver of inflation on the back of major supply disruption owing to flood. The government's reform program is critically important as it is trying to restore macroeconomic stability in the country which ultimately led to price stability.

The inflationary pressure necessitated a tight monetary policy to suppress the aggregate demand. SBP has kept its discount rate at 14 percent unchanged for last three policy announcements after raising the policy rate by 150 basis points in three instalments. On the fiscal side, the government is applying strict adjustment to bring down fiscal deficit in line with the availability of adequate financing. The government has formed a high powered Committee chaired by the Finance Secretary and all provincial Chief Secretaries are members to look into identifying interventions within the framework of market mechanism to smoothen supplies of consumer items and allowing markets to function well. Administrative steps have been taken by the government to enhance supply of essential commodities like sugar, edible oil and pulses etc through imports

Price Trends

During the current fiscal year 2010-11 an upward trend persisted in all indices used to measure various kind of inflation. CPI inflation averaged at 14.1 percent, WPI 23.3 percent and SPI inflation increased at 18.2 percent for July-Apr 2010-11 which is higher than the corresponding period of last year. The underlying factors for this spike are; rising international oil prices, spike in textile products prices and shortages of key consumer items in the market. Table-7.1 and Fig 7.2 depict the average rates of inflation for three price indices.

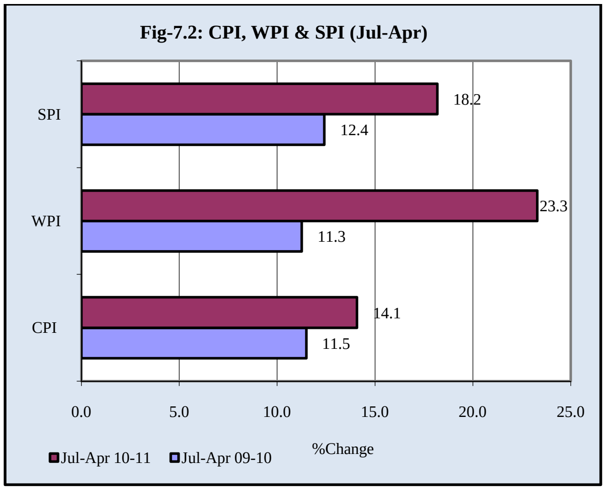
Table-7.1: Trend in Inflation (Various Price indices)
(% Change)

	Items	July-April	
		2009-10	**2010-11**
A	**Consumer Price Index (CPI)** (374 Items & 35 Cities)	11.5	14.1
B	**Wholesale Price Index (WPI)** (425 Items & 18 Cities)	11.3	23.3
C	**Sensitive Price Indicator (SPI)** (53 Items & 17 Cities)	12.4	18.2

Source: FBS

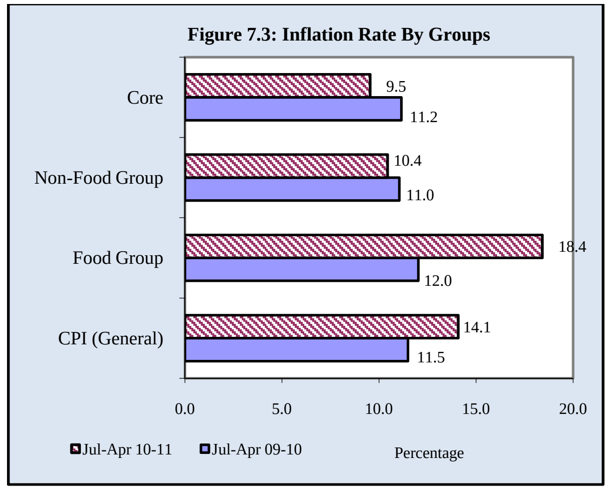
Inflation in 2010-11

Inflation as measured by the changes in Consumer Price Index (CPI) has escalated by 14.1 percent in July-April 2010-11 as against 11.5 percent in the comparative period of last year. During this period food has remained the major driver of the inflation on the back of major supply disruptions owing to devastating floods as well as spike in imported fuel and food stuff prices. Food inflation is persistently rising and recorded at 18.4 percent as against 12.0 percent in the comparable period of last year. Non-food component witnessed an increase of 10.4 percent in this period which shows some adjustment against 11 percent in the comparable period of last year. Non-food inflation either stagnated in this period or registered modest decline but its contribution to rise in overall inflation is 52.6 percent while food inflation accounted for 47.4 percent increase in CPI inflation. The contribution is mainly because of higher weight of non-food (59.7 percent) as food accounts for 40.3 percent stake in the index. The non-food non-energy measure or core inflation estimated at 9.5 percent during the course of year remained subdued over corresponding increase of 11.2 percent on the back of tight monetary policy, weaker economic activity and base impact.



The category-wise analysis of the CPI basket shows that food inflation has worked as stimulant in the index with its 18.4 percent increase. The non-food category is categorized in further sub-groups. The highest increase among these sub-groups at 16.5 percent has been observed in transport group followed by energy group 14.9 percent, medicine group 14.5 percent and textile group 11.7 percent. These three groups have an impact of pass through of higher global fuel and commodity prices.

Another important contributing factor has been the higher prices in the crop sector of agriculture, which injected additional cash of Rs.444 billion in the rural areas in a single year 2010-11 as against increment of just Rs.415 billion in eight years (2000-08) and during last three years cumulative injection of Rs.906 billion. This is translating into creation of additional demand for goods and services in the rural areas. This factor combined with excellent growth in the remittances of 22 percent has caused real growth of 7 percent in private consumption and huge growth in import and production of durables. These factors are responsible for providing support to inflation momentum in the economy. Monetary policy became ineffective in curtailing this outburst of private consumption. The fiscal policy remained profligate inspite of concerted efforts for fiscal adjustment.



There are many other supply side factors as well that has contributed to the food and non-food inflation in Pakistan. The unstable food supply/demand fundamentals are driving up prices. On the demand side, the sharp increase in world oil prices with a consequential impact of translating into domestic prices, shortfall in production of some essential items and a significant increase in world food stuff prices like palm oil and rice during 2010-11 were the major contributors to domestic inflation. Crude oil is up by around 61 percent in the global market and partial pass through has resulted in higher domestic market prices. This is followed by 40 percent rise in sugar prices and 42 percent increase in the palm oil prices during July-April 2010-11. This inordinate spike is being translated into domestic prices. The surge in global food and fuel prices is not the Pakistan specific problem as it is confronting many developing countries including regional players.

Pakistan is regarded as one of the agrarian economies with high dependency on agriculture. However, food imports comprises sizeable portion of imports as it account for 13.5 percent of imports in July-March 2010-11 and contributed 38 percent increase in imports. Pakistan has imported 1.02 million tons of sugar, 1.4 million tons of edible oil (palm oil), 0.5 million tons of pulses and 94.3 thousand tons of tea. This shows sensitivity of domestic food prices to global price movement and domestic food security upon global food supplies. To minimize the impact of imported inflation, efforts have been made to substitute imported food items with local production. Half hearted and reluctant efforts failed because of not properly sequencing incentives to increase production of major food and cash crops. The country has adequate scope of expanding and diversifying import basket as well as concentrate to improve the supply position through better management of stocks in the short-run and increase production in the medium and long term periods.

Table: 7.2 Annual CPI Inflation by Major Groups

Commodity Group	Weight	(July-Apr)		Point Contribution (July-Apr)	
		2009-10	2010-11	2009-10	2010-11
		Percent		Percent	
CPI	100	11.5	14.1	11.5	14.1
Food	40.3	12.0	18.4	4.9	7.4
i) Perishable	5.14	14.5	35.1	0.7	1.8
ii) Non perishable	35.2	11.7	16.0	4.1	5.6
Non-Food	59.7	11.0	10.4	6.6	6.2
Core*	52.4	11.2	9.5	5.7	4.9
Apparel, Textile	6.1	5.8	11.7	0.4	0.7
House Rent	23.4	14.6	7.2	3.4	1.7
Energy	8.7	10.5	14.9	0.9	1.3
Transport	7.3	4.7	16.5	0.2	0.9
Household	3.3	6.4	9.9	0.2	0.3
Recreation	0.8	4.2	11.9	0.0	0.1
Education	3.5	13.3	6.0	0.5	0.2
Cleaning	5.9	10.9	11.5	0.6	0.7
Medicare	2.1	6.0	14.5	0.1	0.3

*Core Inflation (I) is defined as overall inflation adjusted for food and energy

Source: Federal Bureau of Statistics

The surge in non-food inflation is mainly because of surge in global fuel prices as well as second round impact of food and fuel inflation. POL prices as a key input in various economic activities and its impact on domestic prices was inevitable through pass adjustment in retail oil prices, electricity tariff and gas charges, which affected the domestic cost of transportation, production and distribution of goods and services and ultimately acceleration in inflation. The imported inflation through escalation of oil prices has been a major source of cost push inflation.

Table-7.3: Change in price Indices in energy related items

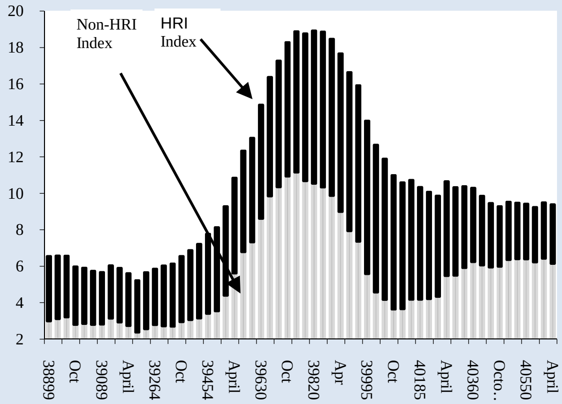
Non-food Items	Weight	%Change	(% Point Contribution
Kerosene	0.14	13.2	0.0
Electricity	4.37	20.9	0.9
Natural gas	2.05	8.5	0.2
Petrol	1.73	8.5	0.1
Diesel	0.21	14.6	0.0
Cng. Filling charges	0.16	9.8	0.0
Total	8.66		1.3

Components of Core Inflation

The core inflation excludes the impact of food and energy and truly reflects the component of inflation that is more sensitive to policy measures. Alarming thing is Y-o-Y increase in ***core inflation*** which started building up after three months consecutive decline. House Rent component (Accounting for 45.9 percent of Core inflation) of core inflation was persistently decelerating for last 23 months since April 2009 but reversed in March 2011 as it witnessed first upward movement. It decelerated from as high as 18.9 percent in April 2009 to 6.5 percent in February 2011. However, it inched up to 6.6

percent in March and 7 percent in April 2011. On the other hand non-HRI component of Core inflation (accounting for 54.1 percent weight in Core index) started inching up from its lowest level of 6.4 percent in October 2009 and entered into double digit in April 2010. It remained in the double digit for the last 12 months and accelerated to 11.7 percent in April 2011. Second round impact of food inflation is visible on this component when it has gone up by 2.6 percent on M-o-M basis in April 2011. This is the highest ever M-o-M build-up in the index since April 2010.

Fig-7.4: HRI & Non-HRI Components of Core Inflation



Main culprits for this escalation were inordinate rise in prices of cleaning, laundry and personal appearances, and prices of apparel and textiles. As one can see from Fig-7.4, the non-HRI component of the core inflation is playing an even more important role in build-up of core inflation. Non-HRI component increased by 11.9 percent in July-April 2010-11 as compared to 7.2 percent increase in HRI component of the core inflation. The situation was altogether different in 2009-10 when HRI component increased by 13.8 percent and non-HRI component increased by8.3 percent. The main contribution in 2009-10 was coming from HRI component while in the current fiscal year the contribution is coming primarily from non-HRI component.

Inflation By Income Groups

Inflation measures for different groups finds that Inflation hurts the poor more as their 50 percent expenditure goes to food. A review of disaggregated inflation with respect to different income groups reveals that variability is higher for vulnerable lower income groups than upper income groups. This is the result of higher expenditure incurred among the lower income groups on necessities with more variable prices i.e food. Cumulative inflation incidence for lowest income groups is 15.3 percent which is highest incidence among all income groups. On the other hand, the incidence of inflation is lowest for highest income group and it is far lower than lowest group inflation at 13.6 percent.

Fig-7.5: Inflation by Income Groups

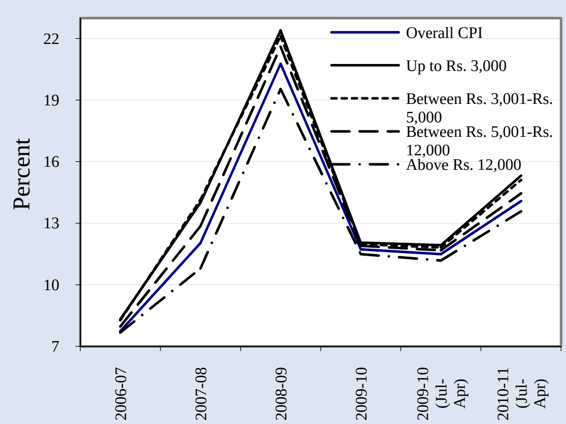


Table –7.4: Inflation Rate by Income Groups

Period	Overall CPI	Up to Rs. 3,000	Between Rs. 3,001-Rs. 5,000	Between Rs. 5,001-Rs. 12,000	Above Rs. 12,000
		(Y-o-Y percentage change, period average)			
2006-07	7.7	8.3	8.3	8.0	7.7
2007-08	12.0	14.0	14.1	12.9	10.8
2008-09	20.8	22.4	22.1	21.6	19.5
2009-10	11.7	12.1	12.0	11.9	11.5
2009-10 (Jul-Apr)	11.5	11.9	11.8	11.7	11.2
2010-11 (Jul-Apr)	14.1	15.3	15.1	14.5	13.6

Source: FBS

Wholesale Price Index

The Wholesale Price Index (WPI) during July-April 2010-11 has increased by 23.3 percent, as against 11.3 percent in the comparable period of last year. The recent spike is mainly driven by upsurge in textile and energy prices. WPI has moved up from 17.6 percent in June 2010 to 25.9 percent in April 2011.

Table 7.5: Components of WPI (% change)

Commodity Groups	Weight	July-April		%age Point contribution July-April	
		2009-10	2010-11	2009-10	2010-11
WPI	100.0	11.3	23.3	11.3	23.3
Food	42.1	11.4	19.7	4.8	8.3
Non-Food	57.9	11.1	26.2	6.4	15.1
Raw Material	8.0	24.6	64.5	2.0	5.2
Fuel & Lubricants	19.3	13.5	15.0	2.6	2.9
Manufacturers	25.9	8.2	27.7	2.1	7.2
Building Materials	4.7	-9.2	13.0	-0.4	0.6

Source: Federal Bureau of Statistics

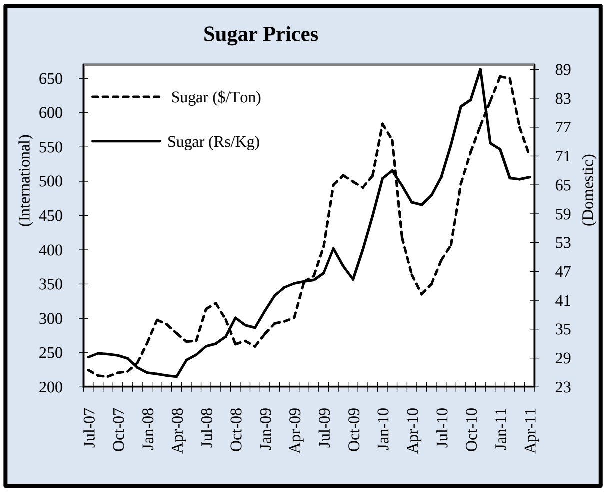
The category-wise inflation shows that the raw material group registered the highest increase of 64.5 percent mainly stemming from the massive rise in cotton and cotton related prices. The damage to cotton crops by floods and rise in external demand for cotton related exports and massive surge in international prices were factors behind higher cotton prices. The impact is also visible in manufactures sub-groups. Among other groups of WPI suggests that in the food category, the supply shocks have adverse impact on food inflation and was more visible in prices of heavy weights like pulses, rice meat, milk, sugar and vegetables, clearly associated with flood related disruptions [See Table-7.6]. Some commodities influenced price situation in the manufacturing category of WPI include fertilizers and soap where rise in cost of its imported inputs and power tariff hike contributed to general price rise. Rise in fuel group is the combined impact of relatively higher energy and fuel prices in relation to rising international prices which is outside the control of policy purview.

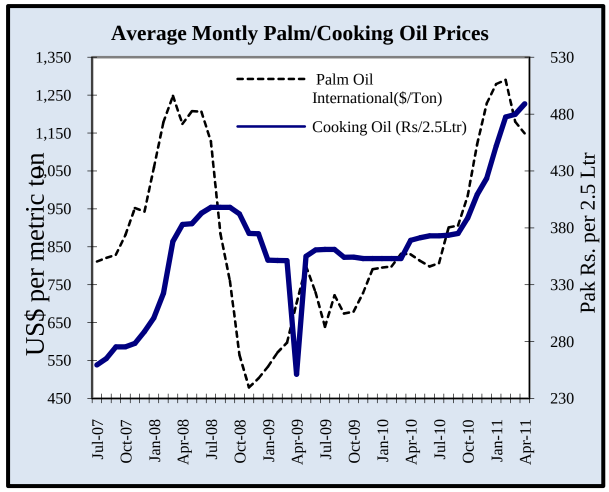
Table –7.6: Individual Items of WPI (% change)

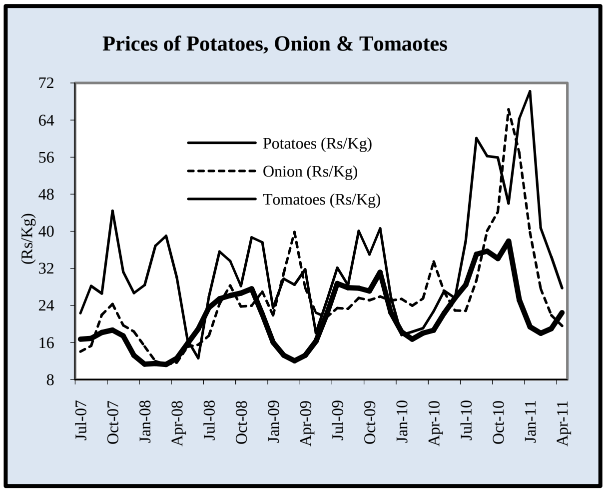
Items	Weight	%Change Jul-Apr 2010-11/ Jul-Apr 200-10	*%Point Contribution*
Rice	0.71	12.82	0.09
Gram	0.21	10.33	0.02
Sugar	3.12	32.36	1.01
Vegetable Ghee	2.50	33.29	0.83
Tea	0.22	11.29	0.03
Meat	3.99	27.90	1.11
Vegetables	0.77	47.41	0.36
Milk	4.05	16.62	0.67
Cotton	1.48	106.36	1.58
Cotton Yarn	1.81	68.75	1.25
Motor Fuel	1.53	8.46	0.13
Other Oils	0.23	13.86	0.03

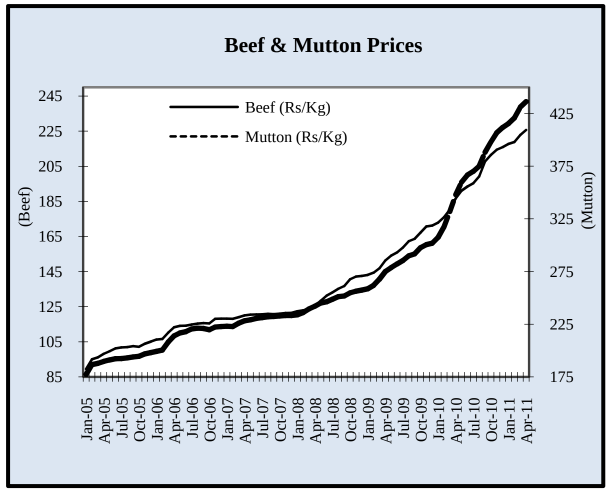
Source: Federal Bureau of Statistics

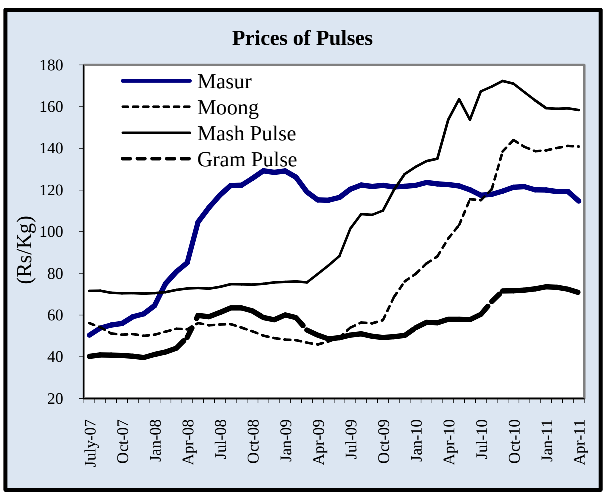
Fig-7.6: Price Movement in Essential Items

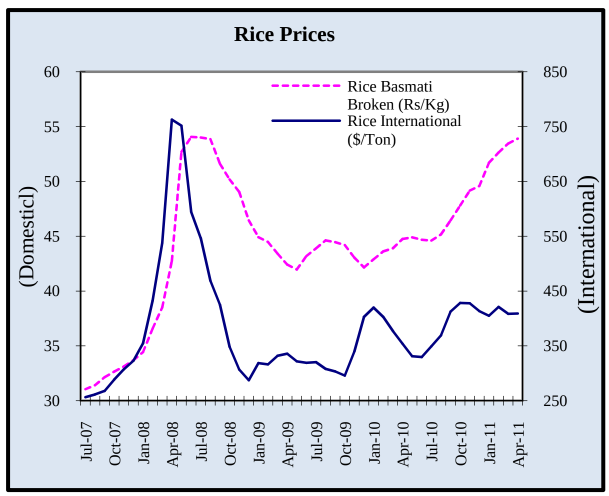












SPI Inflation

Rising food prices contributed to acceleration of inflation across the country. CPI food inflation increased sharply this year and the same impact was witnessed in SPI with period average inflation of 18.2 percent during July-April 2010-11. Following the general rise in prices, all type of inflation covered under different groups of

SPI are on the rise with pronounced hike in food group inflation 13.2 percent. The impact was more visible in prices of pulses, rice, meat, sugar, edible oil and vegetables. A variety of factors can be taken into account to explain rise in food prices component of SPI including shortfall in production of some essential items and a significant increase in world food stuff prices like palm oil and rice during 2010-11. The spike in the SPI index persists on the back of persistence of supply disruptions, utility price adjustments and still high crude oil price. The weighted contribution of non-food prices to the overall SPI is 1.5 percent. Inflation of utility items group is estimated at 3.6 percent and that of transport related items group at 0.62 percent. Inflation in the non-food category of SPI appears to be driven by increase in prices of diesel, petrol, gas, CNG and power tariff rates which translated into higher freight and production costs and thereby acceleration of inflation.

Table-7.7: Contribution of Price-Hike of Utilities and Transport related items in SPI

Non-food Items	Weight In SPI	%change Jul-Apr 2010-11/ Jul-Apr 2009-10	% point contribution
Kerosene	0.22	14.94	0.03
Electricity	10.94	19.77	2.16
Gas	2.12	9,8	0.21
Petrol	5.16	10	0.52
Diesel	0.31	16.14	0.1
LPG.	0.16	29.18	0.09
Total	**18.91**		**3.11**

Source: FBS

Pakistan Vs World Inflation

Commodity prices in 2010-11 have increased more than expected mainly because of combination of strong demand growth and supply disruptions of essential items. Many analysts are drawing parallels with the specter of 1970s-style stagflation. However, they are not hurting the economic recovery as combination of the decreasing share of oil, the disappearance of wage indexation, and the anchoring of inflation expectations diluted major impact on growth and core inflation. The challenge is even stronger in developing economies where the share of food and fuel in consumption basket is larger and the credibility of monetary policy is often weaker.

In developing countries like Pakistan fluctuations in international prices translate rather quickly into domestic prices as their ability to intervene through fiscal means is limited. The inflationary pressures this year emanates from spike in the cost of grain and pickup in oil prices. The oil prices are rising largely as a result of demand rebound in global industrial activities while surge in food prices is largely a consequence of supply shocks caused by bad weather and competing food grain. The FAO food price index (FFPI) averaged 232 point in April 2011, 36 percent above April 2010 while ADB study finds a rise of 10% in domestic prices of regional countries in early of 2011. The surge in global food prices prevailed across most Asian countries including Pakistan with food price inflation (18.4 prices) doubling in 2011.

South Asia posted the highest median inflation rate among developing regions in the second half of 2010. Inflationary pressures were up across most economies in the region in 2010-11. Partly rising inflationary pressures stem from recent firming in international fuel and food prices. However, domestic drivers contributed with much vigor to higher prices, including;

- elevated capacity utilization rates,
- accommodative macro policy stances
- increased inflationary expectations following several years of rising inflation.
- Temporary price shocks, such as the disruption of flooding in Pakistan and;

- some liberalization of fuel-price subsidies in India.

The significant inflation differential between many South Asian countries and their trade partners has contributed to a real appreciation of their currencies in 2010. Notably, much of the appreciation during the year represents a reversal of depreciation in the aftermath of the global financial crisis. And, since January 2007 regional currencies have remained broadly stable, trading within a plus/minus 10 percent band —with the exceptions of Pakistan where currency real effective exchange rate depreciated by 34 percent since January 2007, partly tied to large and persistent structural macroeconomic imbalances. Pakistan’s inflation is slightly different from other regional partners as extra market forces played much important role here along with market.

Outlook for Inflationary Environment

Based on the current trend of inflation reported for the first ten months of this year (July-April) 2010-11 at 14.1 percent, the overall inflation rate implying that inflationary trends persists in the economy. Next fiscal year will see stabilization of supplies of major commodities on the domestic front and commodity prices have already started losing momentum in March 2011. The persistence of prevailing uncertainty in the Middle East is likely to determine oil prices movement in oil importing countries. Pakistan is likely to undergo some tariff adjustment in the utilities in the year to come to release pressure on the budget. However, prices of food items are likely to be stabilized and any downward revision of petroleum prices is contingent upon stability in the Middle East. The government is also working on policy interventions to lower inflation in a meaningful way. These interventions include; pursuing tight monetary policy, augmenting stock through timely imports, and strengthening the network of USC to do away the shortage of key consumable items. Additionally, price monitoring mechanism is being strengthened at grassroots levels. Commodity supplies are expected to respond to higher prices in 2011. This enhanced the prospects of lower inflation in the next fiscal year.

8 Trade and Payments

Introduction

The phenomenal growth in developing country's trade volumes started in the second half of 2010 and early 2011 in Asia have boosted economic growth. Exports from South Asia jumped more than a fifth in the last quarterly increase of 2010 and Pakistan was an active player. Commodity exporters in all regions are benefiting from strong global demand. Volatile oil prices and supply could adversely affect many developing oil importers, especially those with high GDP dependence on petroleum group. Pakistan in the past had crucial sensitivity to higher oil prices and the SBP estimated that a $10 hike in crude oil prices could cause deterioration of 0.5 percent of GDP in the current account, however, inordinate price escalation in crude oil prices was neutralized by many supporting factors, and Pakistan economy witnessed un-anticipated and unusual current account surplus of $ 748 million in the first ten months of the current fiscal year.

This was possible underpinned by phenomenal increase in remittances, robust growth in exports primarily because of positive terms of trade shock that overshadowed the strong growth in imports, and stable exchange rate. Overall external account has also exhibited improvement even when capital and financial account receipts have continued to decrease during this period.

In addition to that, the recent trends in external sector variables suggest that the implementation of macroeconomic stabilization program has supplemented the credibility of the economic policies. The narrowing of the trade deficit and robust remittances has caused a reduction of $ 5.3 billion in current account deficit during 2009-10 and further improvement continued in the first ten months of 2010-11, which allowed building-up of the country's foreign exchange reserves at around $17 billion from as low as $6.4 billion in October 2008.

Exports

Merchandise exports rose to $20.2 billion in July-April 2010-11 as against $ 15.8 billion in the comparable period of last year, thereby showing inordinate growth of 27.8 percent. The growth in exports remained broad based as almost all the groups (textile and non-textile) witnessed a high positive growth. However, the lion's share of this year's exports came from textile sector and food group contributing 61.8 percent and 18.1 percent, respectively to overall exports growth during the period under review.

Group-wise analysis of exports growth [See Table 8.1] suggests that the exports of food group on the back of fish & fish preparation, vegetables, wheat and meat & meat preparation witnessed a growth of 29.1 percent and the absolute increase of $ 794.6 million to overall exports during July-April 2010-11. Further details reveal that the overall increase in food group exports was largely a result of both higher unit value prices and substantial quantum increase, though, the impact of export prices still remained more significant.

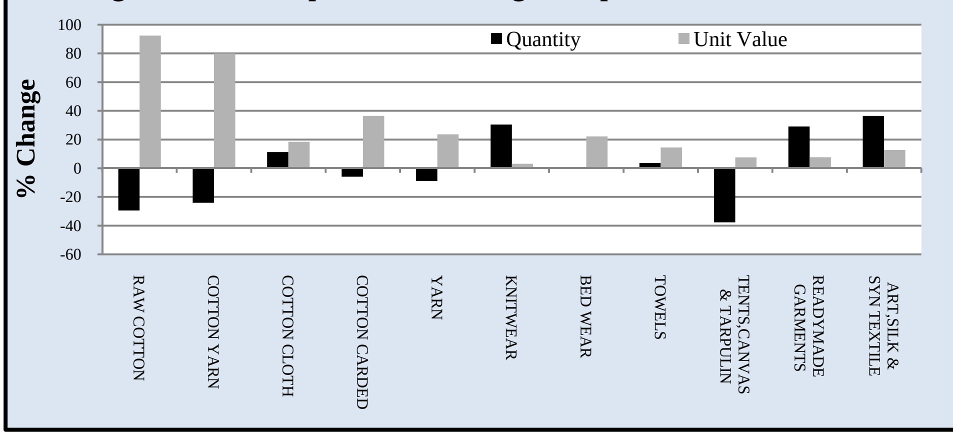
The major development has been the export of wheat to fetch $418.2 million by exploiting higher international prices and stockpile in the country. This has helped banking system to recover chunk of commodity loans to the wheat sector. This has also helped the government to save stock carrying cost on account of huge wheat stocks and now the government is only keeping strategic stocks. Furthermore, the export of fish & fish preparation and meat & meat preparation witnessed a growth of 28.6 percent and 52.9 percent, respectively. The increase in exports of fish mainly attributed to higher quantum export up by 22.9 percent compared to 4.7 percent increase in its unit value.

The meat exports escalated to $123.0 million as a result of increased demand from Saudi Arabia coupled with the higher prices of meat exports during July-April 2010-11.

On the other hand, the rice could not sustain the previous years' export growth and declined by 2.1 percent during July-April 2010-11 over the corresponding period last year mainly due to massive fall in the domestic supplies of rice as devastated floods damaged 0.876 million hectares out of 2.642 million hectares land planted in *Kharif* season. Furthermore, pest attack, disease & logging of early sown crops also contributed to the decrease in rice production. Notwithstanding falling international prices, rice remained expensive by 10.2 percent on average during July-April 2010-11 which offset the lower quantum of rice exports. Resultantly, rice export proceeds managed to reach at $ 1,775 million with 8.8 percent stake in overall export.

Textile sector benefitted from inordinate spike in prices and the textile's share in overall exports increased to 55.3 percent in July-April 2010-11 as against 53.5 in 2009-10. Textile exports have increased by $2,706 million in absolute terms. The current year's performance of textile remained broad based as both the high and low value added contributed to the overall growth in textile group mainly because of increase in unit values of all categories of textile during July-April 2010-11 over corresponding period of last year [See Fig-8.1].

Fig-8.1: Textile Export Items During Jul-Apr 2010-11



The impact of rising international prices is more pronounced in cotton based textile group among all categories of textile sector exports. Moreover, higher external demand especially from EU and US combined with improved availability of raw material inputs also played a significant role in overall increase in textile export receipts. Textile sector also benefited from the currency appreciation and increased labor cost in its competitor countries.

Export of petroleum group increased by 32.6 percent in this period (July-April 2010-11). In absolute terms petroleum group witnessed an increase of $ 267.7 million mainly on the back of higher unit prices of petroleum products (27.5 percent) and petroleum top naphta (13.5 percent). The quantum export of these two items has also increased by 8.9 percent and 8.1 percent, respectively during the period.

Exports of other manufactures grew by 8.6 percent during July-April 2010-11 and its share more or less stagnated at 16.1 percent in total exports. The sector has contributed 5.8 percent to this year overall increase in exports. The major contributors behind the positive growth of other manufacturers' include; chemicals & pharm products, leathers, sports goods and engineering goods. Major contributing factors include, improved unit values (export prices), increased demand of these categories and addition of new export destinations as part of market diversification. Owing to these factors, chemicals, leather, sports and engineering goods collectively added $353.2 million in the overall export increase. This increase in exports receipts was offset to some extent by negative growth of Jewellary (20.2 percent) and Cement (9.9 percent) during July-April 2010-11 primarily because of lower import demand of cement from Middle East, increased competition from Saudi Arabia and fall in exports to India. Resultantly, the quantity exported of cement declined by 8.7 percent and unit value witnessed a negative growth of 1.2 percent during the period.

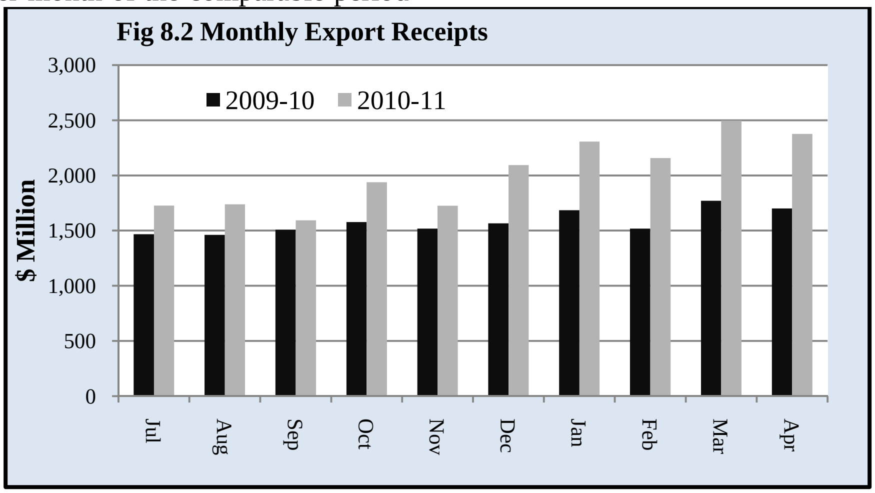
Table 8.1: Structure of Exports *($ Millions)*

Particulars	July-April		% Change	Absolute Increase/ Decrease	% Share
	2010-11*	2009-10			
A. Food Group	**3,528.4**	**2,733.8**	**29.1**	**794.6**	**17.5**
Rice	1,774.8	1,812.3	-2.1	-37.4	8.8
Fish & Fish Preparation	233.9	181.9	28.6	52.1	1.2
Fruits	246.1	214.6	14.7	31.5	1.2
Vegetables	199.0	97.7	103.6	101.3	1.0
Wheat	418.2	0.7	-	417.4	2.1
Spices	41.7	32.6	28.1	9.2	0.2
Oil Seeds, Nuts & Kernels	13.6	17.6	-22.6	-4.0	0.1
Meat & Meat Preparation	123.0	80.4	52.9	42.5	0.6
All other Food Items	477.9	295.9	61.5	182.0	2.4
B. Textile Manufactures	**11,148.6**	**8,442.7**	**32.1**	**2,705.9**	**55.3**
Raw Cotton	263.6	194.1	35.8	69.5	1.3
Cotton Yarn	1,689.7	1,238.0	36.5	451.7	8.4
Cotton Cloth	1,955.8	1,486.0	31.6	469.8	9.7
Knitwear	1,929.5	1,434.8	34.5	494.7	9.6
Bed Wear	1,739.4	1,422.5	22.3	316.9	8.6
Towels	653.5	550.7	18.7	102.8	3.2
Readymade Garments	1,435.6	1,033.5	38.9	402.1	7.1
Made-up Articles	570.1	437.3	30.4	132.8	2.8
Other Textile Materials	911.5	645.9	41.1	265.6	4.5
C. Petroleum Group	**1,089.8**	**822.1**	**32.6**	**267.7**	**5.4**
Petroleum Products	701.2	505.0	38.9	196.2	3.5
Petroleum Top Naptha	388.5	316.9	22.6	71.6	1.9
D. Other Manufactures	**3,245.8**	**2,990.0**	**8.6**	**255.8**	**16.1**
Carpets. Rugs & mats	109.6	117.0	-6.3	-7.4	0.5
Sports Goods	261.1	241.7	8.1	19.5	1.3
Leather Tanned	359.0	258.7	38.8	100.3	1.8
Leather Manufactures	447.3	377.1	18.6	70.2	2.2
Surgical G. & Med.Inst.	207.3	195.1	6.2	12.2	1.0
Chemicals & Pharma. Pro.	711.8	600.0	18.6	111.8	3.5
Engineering Goods	239.9	188.4	27.3	51.5	1.2
Jewellary	315.4	395.3	-20.2	-79.9	1.6
Cement	362.0	401.6	-9.9	-39.6	1.8
All other manufactures	232.5	215.2	8.0	17.2	1.2
E. All Other Items	**1,141.7**	**784.5**	**45.5**	**357.2**	**5.7**
Total	**20,154.2**	**15,773.2**	**27.8**	**4,381.1**	**100.0**

** Provisional* *Source: FBS*

Trend in Monthly Exports

Monthly average exports surged substantially in the period July-April 2010-11 [See Fig-8.2], however, month-wise exports started to escalate since December 2010 by showing a growth of 33.7 percent that is rising from $ 1,566 million of previous year's month to $ 2,094 million in December 2010 mainly because of impetus provided by surge in commodity prices in general and textile related items prices in particular. Exports averaged at $ 2,015 million per month during July-April 2010-11 as against average of $ 1,577 million per month of the comparable period last year.



Concentration of Exports

Notwithstanding, phenomenal increase in exports, it remained concentrated in few items like cotton manufacturers, leather and rice [Table-8.2] as these three categories accounted for 66.3 percent stake in total exports during July-March 2010-11. Out of this 66.3 percent share in total exports, the 80.0 percent consist of cotton manufactures thereby making the concentration more intense. This also reinforces the need for diversification in export goods to make it more guarded against external shocks. Furthermore, the share of cotton manufacturers during July-March 2010-11 increased by 1.2 percentage points over the corresponding period last year. The concentration of exports is changing though at a painfully slower rate as the share of other items in overall exports increased from 26.7 percent in 2005-06 to 33.7 percent in July-March 2010-11 showing that country has the potential for diversification in exports which need to be accelerated.

Table 8.2:Pakistan's Major Exports **(Percentage Share)**

Commodity	05-06	06-07	07-08	08-09	09-10	July-March*	
						09-10	10-11
Cotton Manufacturers	59.4	59.7	51.9	52.6	50.6	51.8	53
Leather**	6.9	5.2	5.8	5.4	4.5	4.4	4.4
Rice	7.0	6.6	9.8	11.2	11.3	11.5	8.9
Sub-Total of Three Items	**73.3**	**71.5**	**67.5**	**69.2**	**66.4**	**67.7**	**66.3**
Other Items	26.7	28.5	32.5	30.8	33.6	32.3	33.7
Total	100	100	100	**100**	100	100	100

**Provisional* *Source: FBS*
*** Leather & Leather Manufactured*

Composition of Exports

The slow process of movement towards sophistication of export is evident from the share of manufactured goods in overall export which hovered around approximately three-fourth of exports for many years [Table 8.3]. However, a continuous decline in the share of manufactured goods to the overall exports is being observed since last few years as the share of manufactured goods decreased from 78 percent in 2005-06 to 70 percent in July-March 2010-11. The major reasons behind this erosion of share include lower external demand due to competitiveness problem and acute disruptions in energy supplies in the country during the period. Whereas, the share of primary commodities exports increased from 11.0 percent in 2005-06 to 18.0 percent during July-March 2010-11. The shift is in contradiction of economic transformation and raises serious question about productive capacity of the economy and de-industrialization.

Table 8.3: Composition of Exports **(% Share)**

Year	Primary Commodities	Semi-Manufactures	Manufactured Goods	Total
2005-06	11	11	78	100
2006-07	11	12	77	100
2007-08	14	11	75	100
2008-09	16	10	74	100
2009-10	18	10	72	100
July-March				
2009-10	18	11	71	100
2010-11*	18	12	70	100

*** Provisional** **Source: FBS**

Direction of Exports

Traditionally, Pakistan's exports have been concentrated in a few export destinations like USA, UK, Germany, Hong Kong, U.A.E and Afghanistan [See Table-8.4]. However, a reversal in trend has been observed since fiscal year 2005-06. The share of exports to these destinations decreased from 53.7 percent in 2005-06 to 45.0 percent in July-March 2010-11. The share of remaining countries increased to 55.0 percent during July-March 2010-11 as compared to 46.3 percent in 2005-06. The major contribution to this geographical diversification in export markets came from increased exports to regional countries mainly China and Bangladesh.

Table 8.4: Major Exports Markets ***(Percentage Share)***

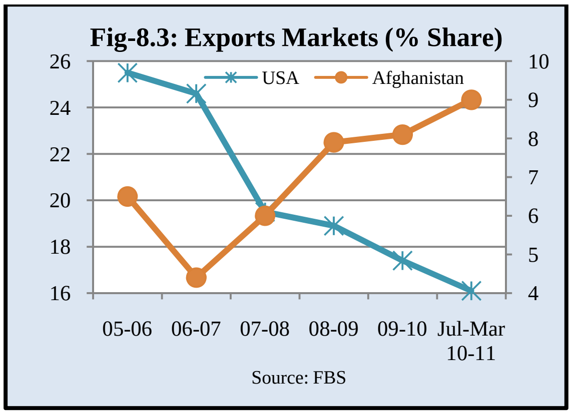
Country	05-06	06-07	07-08	08-09	09-10	July-March 09-10	July-March 10-11*
USA	25.5	24.6	19.5	18.9	17.4	17.3	16.1
UK	5.4	5.6	5.4	4.9	5.3	5.5	5.1
Germany	4.2	4.1	4.3	4.2	4.1	4.2	5.1
Honk Kong	4.1	3.9	2.7	2.1	2.2	2.1	2.3
U.A.E.	8.0	8.2	10.9	8.2	8.9	8.1	7.4
Afghanistan	6.5	4.4	6.0	7.9	8.1	8.3	9.0
Sub-Total	**53.7**	**50.8**	**48.8**	**46.2**	**46.0**	**45.5**	**45.0**
Other Countries	46.3	49.2	51.2	53.8	54.0	54.5	55.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

**Provisional* *Source: FBS*

USA continues to be the most favourite export destination with 16.1 percent share in overall exports when its share in overall exports is exhibiting continuous fall since 2005-06 mainly due to weakening economic activity in the US amidst global financial crisis. On the other hand, Afghanistan is emerging as an important export market for Pakistan as its share is persistently rising during the period under review [Fig- 8.3].

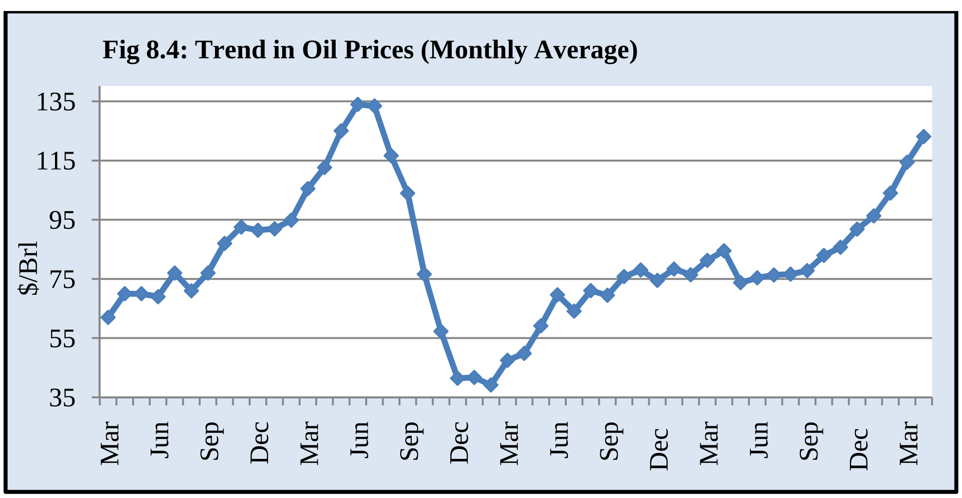
Imports

Merchandise imports increased to $ 32.3 billion in July-April 2010-11 as against $ 28.1 billion in the comparable period of last year, thereby showing an increase of 14.7 percent. The overall import bill is higher by $ 4.1 billion, reflecting the impact of higher global crude oil and commodity prices. With the exception of machinery group, the higher import bill is contributed by food group ($ 1,528 million), petroleum group ($ 678.3 million), consumer durables ($ 247 million), raw material group ($ 1,039 million), telecom ($ 245 million) and on other items group ($ 951 million). The price and quantity effects worked in the same direction; however price effect remained stronger than quantity effect. The imports excluding petroleum group grew by 17.3 percent and excluding petroleum and food grew by 11.2 percent. This implies dominant role of food imports on import growth.



Further analysis indicates that food group imports accounting for 13.4 percent of total imports, showed a massive growth rate of 54.9 percent during July-April 2010-11. Within food group import, the major contribution came from sugar, edible oil and pulses [See Table-8.5]. The domestic shortfall in sugar production necessitates import of 1.1 million tons of sugar resulting in growth of 262.9 percent during July-April 2010-11 and country has to incur expenditure of $681.4 million during the period. The import bill of edible oil increased by 57.4 percent and has added $ 605.6 million to this year's import bill. Palm oil imports surged in quantity, value and per unit value terms as they increased by 16.1 percent, 53.7 percent and 32.3 percent, respectively. The higher import bill of palm oil is culmination of higher international price, higher domestic demand and reduction in import duty on palm oil during the period, thereby in absolute terms palm oil import bill increased by $558.6 million in July-April 2010-11.

Import of petroleum group grew by 8.4 percent during July-April 2010-11 mainly reflecting the impact of spike in international oil prices as per unit values of petroleum crude increased by 23.6 percent. In addition to that, quantity import of crude oil also increased by 10.6 percent during July-April 2010-11. The increase in petroleum import bill is evident from international monthly average prices of oil which surged from $ 76 per barrel in July 2010 to $ 123 per barrel in April 2011 thereby showing an escalation of 61.2 percent during the period [See Fig-8.4]. The impact of this phenomenal increase in international oil prices will be more visible in the coming months in import bill of petroleum group as there is a time lag of around three months. The quantity is also started to increase beyond February 2011.



The import of consumer durables added $ 247 million to overall import bill of July-April 2010-11. The huge injection of money in the rural areas mainly because of inordinate rise in prices of cotton and sugarcane led to higher domestic demand to import road motor vehicle which increased to $ 1,080 million in July-April 2010-11 as compared to $951 million in the comparable period of last year, thereby showing growth of 13.6 percent. Relatively small group electric machinery and appliances also added $ 118 million during July-April 2010-11 against the corresponding period of last year.

Import of raw material group surged by 15.7 percent and accounting for 23.7 percent of total imports during the period of July-April 2010-11. Within raw material imports, raw cotton with 2.6 percent stake in overall imports and 11.1 percent share in raw material group increased in absolute terms by $ 354 million mainly due to shortages in domestic production of raw cotton owing to unprecedented flood. Lower domestic supplies were compensated by increasing the import of raw cotton (8.4 percent) combined with rising import price of cotton as evident from increased unit value (58.3 percent) of raw cotton during the current fiscal year 2010-11. Other items like synthetic fibre, synthetic & artificial silk yarn and plastic material on absolute terms collectively added $616 million to the import bill of July-April 2010-11. The prominent decline witnessed in the imports of fertilizer manufactured due to higher domestic production as quantity of fertilizer import declined by 52 percent during July-April 2010-11 over the corresponding period last year.

Telecom imports grew by 40.8 percent during the first ten months of the current fiscal year 2010-11 and in absolute term the import in telecom sector witnessed an increase of $245 million. Most of the increase in overall telecom imports has been contributed by mobile phone imports which grew by 75.5 percent and added $188 million during July-April 2010-11 from the corresponding period last year. This increase may be the result of increasing demand for mobile phone as higher purchasing power in increasing nominal income in rural areas.

Machinery group import decreased to $3,480 million during first ten months of the current fiscal year 2010-11 as against $4,028 million in the corresponding period last year. Among the different items of machinery group, only textile machinery and office machinery imports witnessed positive growth. Buoyancy in textile sector resulted in massive growth of 78.4 percent in textile machinery imports. Furthermore, the 13.6 percent decline in machinery group imports is a reflection of weaker economic activity in the country.

Table 8.5: Structure of Imports **($ Million)**

Particulars	July-April		% Change	Absolute Increase	Share
	2009-10	2010-11*			
A. Food Group	**2,784.7**	**4,312.5**	**54.9**	**1,527.8**	**13.4**
Milk & milk food	67.8	129.4	91.0	61.6	0.4
Wheat Unmilled	35.4	5.2	-85.4	-30.3	0.0
Dry fruits	67.8	73.5	8.5	5.7	0.2
Tea	227.8	288.3	26.6	60.5	0.9
Spices	61.0	91.1	49.5	30.2	0.3
Edible Oil (Soyabean & Palm Oil)	1,054.7	1,660.3	57.4	605.6	5.1
Sugar	187.7	681.4	262.9	493.6	2.1
Pulses	209.4	342.6	63.6	133.1	1.1
All Other Food Items	873.1	1,040.7	19.2	167.7	3.2
B. Machinery Group	**4,028.0**	**3,479.6**	**-13.6**	**-548.4**	**10.8**
Power Gen. Machines	1,253.5	858.9	-31.5	-394.7	2.7
Office Machines	186.0	194.1	4.3	8.1	0.6
Textile Machinery	223.0	397.8	78.4	174.8	1.2
Const. & Mining Mach.	142.0	98.9	-30.4	-43.2	0.3
Aircraft Ships and Boats	709.0	601.4	-15.2	-107.7	1.9
Agri. Machinery	179.6	77.7	-56.7	-101.9	0.2
Other Machinery	1,334.8	1,250.9	-6.3	-83.8	3.9
C. Petroleum Group	**8,087.6**	**8,765.9**	**8.4**	**678.3**	**27.2**

Particulars	July-April		% Change	Absolute Increase	Share
	2009-10	2010-11*			
Petroleum Products	5,274.4	4,918.3	-6.8	-356.1	15.2
Petroleum Crude	2,813.3	3,847.6	36.8	1,034.4	11.9
D. Consumer Durables	**1,500.5**	**1,747.8**	**16.5**	**247.3**	**5.4**
Elect. Mach. & App.	549.9	667.6	21.4	117.7	2.1
Road Motor Veh.	950.5	1,080.2	13.6	129.7	3.3
E. Raw Materials	**6,605.7**	**7,645.1**	**15.7**	**1,039.4**	**23.7**
Raw Cotton	493.4	846.9	71.7	353.5	2.6
Synthetic fibre	290.4	464.2	59.8	173.7	1.4
Silk yarn (Synth & Arti)	287.5	444.7	54.7	157.1	1.4
Fertilizer Manufactured	731.6	439.6	-39.9	-292.0	1.4
Insecticides	120.4	122.3	1.6	1.9	0.4
Plastic material	978.0	1,263.3	29.2	285.4	3.9
Iron & steel and Scrap	383.4	405.9	5.9	22.5	1.3
Iron & steel	1,017.9	993.0	-2.4	-24.9	3.1
Other Chemical Products	2,303.0	2,665.3	15.7	362.3	8.3
F. Telecom	**599.1**	**843.8**	**40.8**	**244.7**	**2.6**
G. Others	**4,516.9**	**5,468.3**	**21.1**	**951.4**	**16.9**
Total	**28,122.4**	**32,262.9**	**14.7**	**4,140.5**	**100.0**
Excluding Petroleum Group	20,034.8	23,497.0	17.3	3,462.3	72.8
Excluding Petroleum & Food Groups	17,250.1	19,184.5	11.2	1,934.4	59.5

** Provisional* *Source: FBS*

The rise in overall import bill of the country is the result of increase in international oil and commodity prices. The import bill increased by 2,467 million in the first ten months of the current fiscal year only because of surge in import price of major items i.e. petroleum products, petroleum crude, palm oil, raw cotton, Iron & steel and sugar. Moreover, Pakistan's overall import growth during July-April 2010-11 would have been 6.0 percent and not 14.7 percent if only the unit values of items listed in Table 8.6 remained equal to it's last year level.

Table 8.6: Additional Import Bill as a Result of the Change in Import Prices (July-April 2010-11*) **($ Million)**

Commodity	Actual Imports	Imports at Last Year's Prices	Additional Bill
Palm Oil	1,599.5	1,208.7	390.9
Petroleum Products	4,918.3	4,200.1	718.2
Petroleum Crude	3,847.6	3,112.2	735.4
Iron & Steel	993.0	787.7	205.3
Raw Cotton	846.9	534.9	312.0
Sugar	681.4	576.2	105.2
Total	**12,886.7**	**10,419.8**	**2,466.9**

**Estimated*

Trend in Monthly Imports

Month-wise imports averaged at $3,226 million during July-April 2010-11 and remained higher than the average import of $2,812 million in the same period last year. During first ten months of fiscal year 2010-11 the highest growth of 29 percent has been witnessed during the month of December 2010 [See Fig-8.5] reflecting absolute addition of $377 million and $102 by petroleum products and sugar imports, respectively. The major contributors behind the increase in imports in April 2011 remained petroleum crude and palm oil.

Composition of Imports

The import structure in terms of its composition exhibits that majority of Pakistan's imports consists of raw material for consumer goods [Table-8.7]. More recently, the share of import for consumer goods increased to 16 percent in July-March 2010-11 from 13 percent last year. However, the share of capital goods declined from 28 percent in July-March 2009-10 to 25 percent in July-March 2010-11.

Fig 8.5: Monthly Import Bill

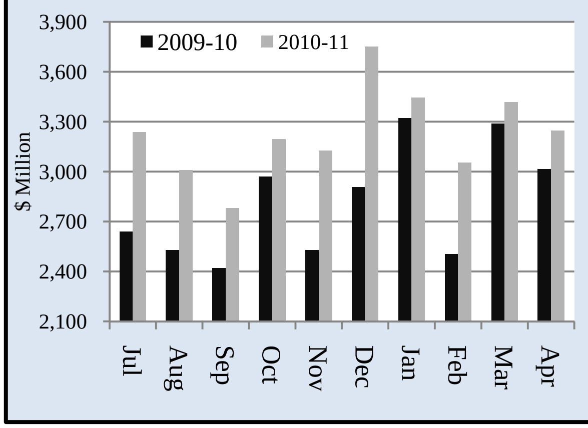


Table 8.7: Composition of Imports **(% Share)**

Year	Capital Goods	Raw Material for Capital Goods	Raw Material for Consumer Goods	Consumer Goods	Total
2004-05	36	8	46	10	100
2005-06	37	7	45	11	100
2006-07	36	7	47	10	100
2007-08	29	8	53	10	100
2008-09	29	9	49	13	100
2009-10	28	7	52	13	100
July-March*					
2009-10	28	7	52	13	100
2010-11	25	7	52	16	100

** Provisional* *Source: FBS*

Direction of Imports

Pakistan's imports are concentrated in few markets and chunk of imports originates from UAE, Saudi Arabia, Kuwait, Malaysia, Japan, Germany, USA and U.K. These markets account for approximately 50 percent share in overall imports of the country [Table-8.8]. Further analysis suggests that within these import origins, the highest share came from UAE, followed by Saudi Arabia and Kuwait during July-March 2010-11.

Table 8.8: Major Sources of Imports **(Percentage Share)**

Country	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	July-March 09-10	July-March 10-11*
U.S.A.	5.3	6.7	6.0	8.5	7.6	5.8	7.5	6.1	5.4	4.6	4.8	4.3
U.K.	3.2	3.4	2.9	2.8	2.6	2.8	2.3	1.9	2.6	1.7	1.7	1.6
Germany	3.5	4.3	4.6	3.9	4.4	4.7	3.9	3.2	3.8	3.4	3.7	2.3
Japan	5.3	5.0	6.6	6.0	7.0	5.6	5.7	4.6	3.6	4.4	4.4	4.1
Malaysia	3.9	4.4	4.6	3.9	2.6	3.0	3.1	3.9	4.6	5.0	5.1	5.7
Kuwait	8.9	7.1	6.6	6.4	4.6	6.2	5.7	7.5	6.6	6.9	6.0	6.8
Saudi Arabia	11.7	11.6	10.7	11.4	12.0	11.2	11.4	13.4	12.3	9.7	10.4	11.7
U.A.E.	14.5	13.1	12.4	11.0	8.3	11.9	9.1	8.5	9.1	14.5	14.7	13.3
Sub-Total	**56.3**	**55.6**	**54.4**	**53.9**	**49.1**	**51.2**	**48.7**	**49.1**	**48.0**	**50.2**	**50.8**	**49.8**
Other Countries	43.7	44.4	45.6	46.1	50.9	48.8	51.3	50.9	52.0	49.8	49.2	50.2
Total	100	100	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

**Provisional* *Source: FBS*

Terms of Trade

The process of improvement in terms of trade that started in 2008-09 and approximately maintained its position in 2009-10, further strengthened in July-March 2010-11. The terms of trade witnessed an improvement of 5.7 percent to 59.1 percent during July-March 2010-11 against 55.9 percent increase witnessed in term of trade indices in the same period of last year [See Table-8.9]. This improvement in terms of trade mainly led by increase in unit value index of exports that outstripped the increase in unit value index of imports as earlier grew by 23.5 and former witnessed a growth of 16.8 percent during July-March 2010-11, thereby strengthening current account position of the country. The main driver for this improvement is unit value indices of manufacturers which increased by 55 percent.

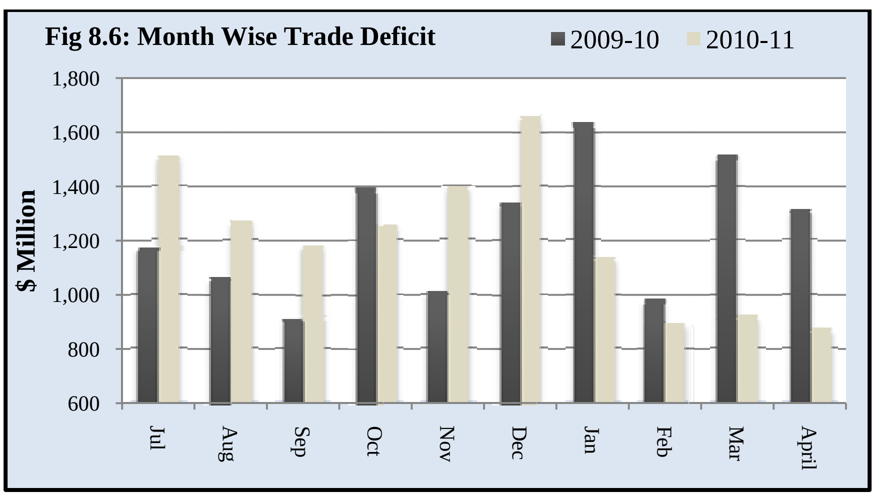
Trade Balance

Merchandise trade deficit improved by $ 240 million to $ 12,109 million during July-April 2010-11 as compared to $12,349 million in the same period last year, thereby showing an improvement of 1.9 percent. The month of November 2010 witnessed most severe worsening in trade deficit when compared to previous year's same period position. This deterioration in trade deficit mainly owed to increase in flood related import expenditure during November and December 2010. However, since January 2011, the trade deficit is improving against the corresponding months of last year [See Fig-8.6] mainly due to buoyancy in monthly exports growth combined with slowdown in import bill during the period under review. More recently, the trade deficit has witnessed an improvement of 33.8 percent in April 2011 against the same month last year.

Table 8.9: Unit Value Indices and Terms of Trade (Base year 1990-91 = 100)

Year	Unit Value Indices		Terms of Trade
	Exports	Imports	
2006-07	310.03	495.33	62.59
2007-08	350.4	632.3	55.42
2008-09	450.4	790.82	56.95
2009-10	478.07	839.6	56.94
July-March*			
2009-10	463.35	828.31	55.94
2010-11	572.01	967.44	59.13

* *Provisional* *Source: FBS*



Balance of Payments

Current Account Balance

Pakistan has long suffered a current account deficit which is regarded is as an important indicator to gauge the pressures on a country's external sector. Large and persistent current account deficit may threaten the viability of the external account. The sustainability of the current account deficit depends, not only on the composition of the deficit, but also the way it is financed.

During July-April 2010-11, the current account deficit turned to surplus of $748 million from deficit of $3,456 million in the comparable period of last year [See Table-8.10]. This year's improvement in current account is broad based as improvement witnessed across the board in all sub-components including balance of goods, services and income account while buoyancy in current transfers helped current account to turn it into surplus in the form of higher export growth, strong and sustained inflows of workers' remittances, logistic support related receipts and grants received for flood relief. In the backdrop of improvement in all sub groups, the current account absorbed commodity and oil price shock of high intensity without impacting exchange rate or foreign exchange reserves.

Unlike the current account, the financial account surplus deteriorated and reached to $412 million during July-April 2010-11 as compared to $3,533 million in the corresponding period last year. Notwithstanding, lower surplus in the capital and financial account, the overall external balance of the country witnessed a surplus of $ 1,210 million during July-April 2010-11. This development in overall external account balance mainly came from improvement in the current account balance and also complemented by surplus in the capital and financial account.

Within the current account, deficit in trade account contracted by 10.8 percent during July-April 2010-11 over the last year which remained at $8,285 million. Encouragingly, the improvement in trade account was mainly driven by fall in imports during last year but this year's improvement was predominantly the result of robust growth of 27 percent in exports during this period. The improvement in the trade account was supplemented by improvements in current transfers, services and income accounts. In particular, current transfers recorded growth of 23.9 percent during July-April 2010-11 and stood at $ 12,846 million. The improvement in the current transfers is mainly owes to remarkable rise in the workers' remittances and other private transfers.

Decline in services account deficit by 28.2 percent during July-April 2010-11 was the result of 24.7 percent growth in services exports that outpaced 6.6 percent growth in services imports. Robust growth in services exports came from logistic support receipts ($743 million), transportation ($1,188 million), travel ($289 million) and other business services ($573 million). Due to increased receipts under logistic support, the share of government services exports increased by 5.3 percentage points during July-April 2010-11 and its share in overall services exports was 45.3 percent. On the other hand, import of services grew by 6.6 percent during July-April 2010-11. The major contribution to this increase in import services came from expenditure on transportation group which in absolute term added $ 331 million to the import bill during July-April 2010-11 as compared with the corresponding period last year. Income account deficit declined by 6.7 percent during July-April 2010-11 over the same period last year mainly due to lower investment and interest outflows.

Table 8.10: Summary Balance of Payments **($ Million)**

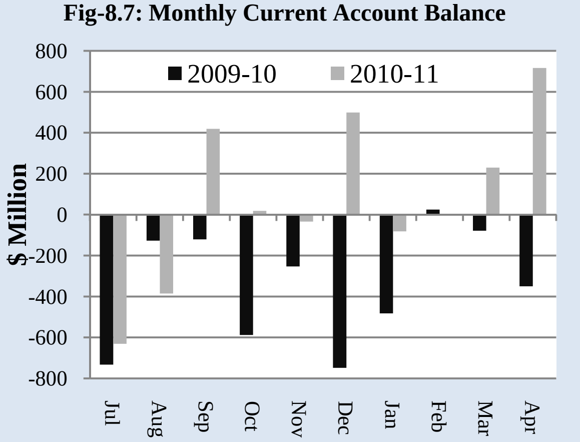
Items	July-June		July-April	
	2008-09	2009-10	2009-10	2010-11*
Current Account Balance	-9,261	-3,946	-3,456	748
Trade balance	-12,627	-11,536	-9,292	-8,285
Goods: Exports	19,121	19,673	16,167	20,526
Goods: Imports	31,747	31,209	25,459	28,811
Services Balance	-3,381	-1,690	-1,937	-1,392
Services: Credit	4,106	5,229	3,740	4,662
Services: Debit	7,487	6,919	5,677	6,054
Income Account Balance	-4,407	-3,282	-2,594	-2,421
Income: Credit	874	561	469	562
Income: Debit	5,281	3,843	3,063	2,983

Items	July-June		July-April	
	2008-09	2009-10	2009-10	2010-11*
Current Transfers Net	11,154	12,562	10,367	12,846
Of which:				
Workers remittances	7,811	8,906	7,307	9,046
Capital & Financial Account	6,087	5,272	3,687	498
Capital Account,	455	175	154	86
Financial Account	5,632	5,097	3,533	412
1. Foreign Investment	2,622	2,010	1,605	1,491
FDI (Net)	3,695	2,075	1,653	1,193
FPI	-1,073	-65	-48	298
2. Foreign Long Term Loans	1,897	2,210	1,472	333
Disbursements	4,753	4,085	3,020	1,964
Amortization	2,856	1,875	1,548	1,631
Net Errors and Omissions	118	-60	499	-36
Overall Balance	-3,056	1,266	730	1,210
Reserves and Related Items	3,056	-1,266	-730	-1,210
Reserve Assets	-635	-4,063	-2,159	-1,010
Use of Fund Credit and Loans	3,691	2,174	1,106	-200
Exceptional Financing	0	623	323	0

**: Provisional* *Source: SBP*

Quarter-wise analysis of current account balance suggests that with the exception of first quarter July-September 2010-11, current account witnessed surplus during second and third quarters. Furthermore, current account surplus ($716 million) during the month of April 2011 remained 95.0 percent of surplus witnessed during July-April 2010-11.

Fig-8.7: Monthly Current Account Balance



Workers' Remittances

Remittances for the first time in the history of Pakistan crossed the one billion dollar mark in a single month during March 2011 and remained over the one billion for second consecutive month in April 2011[Fig-8.8] which has boosted optimism about workers' remittances to cross the $11 billion this year. Pakistan Remittance Initiative (PRI) has removed many irritants and incentivizes routing of remittances through former channel.

Fig-8.8: Monthly Worker's Remittances

Workers' remittances totaled $9.1 billion in July-April 2010-11 as against $7.3 billion in the comparable period last year depicting an increase of 23.8 percent [See Table-8.11]. This implies that worker remittances have increased by $ 1.8 billion in July-April 2010-11 which contributed by that amount in improvement of the current account balance. The recent upsurge in remittances can be attributed to the government's efforts for transformation of remittances from informal to formal channels. In addition to that increased support to flood affected relatives also contributed this improvement in remittances.

Analysis of country-wise data (July-April 2010-11) shows that remittance inflows from EU, Saudi Arabia, UK and UAE recorded strong growth of 38.3 percent, 36.7 percent, 34.9 percent and 25.7 percent, respectively. UAE has captured the position of largest source of remittances by accounting for 23.1 percent stake in overall remittances during July-April 2010-11 [Table-8.12]. Moreover, UAE has also taken over USA as a largest source of remittances flows to Pakistan mainly on back of increased remittances inflows from Dubai and Abu Dhabi. Other major contributors to remittance increase remained Saudi Arabia with 23.1 percent share followed by USA (18.6 percent) and UK (11 percent).

Table 8.11: Workers' Remittances **($ Million)**

Monthly Cash Inflow *	2009-10	2010-11	% Change
July 10	744.9	791.2	6.2
August	780.5	933.1	19.5
September	806.1	922.1	14.4
October	758.3	855.1	12.8
November	742.8	926.9	24.8
December	697.6	863.1	23.7
January	667.9	826.6	23.8
February	589.0	845.3	43.5
March	763.7	1,052.9	37.9
April 11	755.8	1,030.4	36.3
July-April	7,306.6	9,046.6	23.8
Monthly average	730.7	904.7	23.8

** Including FEBCs and FCBCs* *Source: SBP*

Moreover higher inflows of remittances from UAE and UK seem to be the result of bilateral arrangements of commercial banks with foreign entities under Pakistan Remittance Initiatives (PRI). Furthermore, initiatives under PRI such as recently introduced Xpress money, Interbank Fund Transfer (IBFT) Facility and individual efforts by some commercial banks in Dubai have also helped to improve the remittance flows to Pakistan. On the other hand increase in remittances from Saudi Arabia was the result of higher demand of Pakistani workers in the kingdom.

Table 8.12 Country/Region Wise Cash Workers' Remittances **($ Million)**

Country / Region	July-April	July-April*	% Change	% Share
	2009-10	2010-11		
USA	1,461.8	1,677.9	14.8	18.6
UK	734.6	990.9	34.9	11.0
Saudi Arabia	1,525.9	2,085.8	36.7	23.06
UAE	1,663.2	2,091.3	25.7	23.12
Dubai	690.0	961.3	39.3	10.6
Abu Dhabi	925.7	1,074.0	16.0	11.9
Other GCC Countries	1,033.0	1,063.5	3.0	11.8
EU Countries	210.2	290.8	38.3	3.2
Others Countries	481.8	552.2	14.6	6.1
Total	7,306.6	9,046.6	23.8	100.0

** Provisional* *Source: SBP*

Financial Account

Net inflows in the financial account declined to $412 million in July-April 2010-11as against $3,533 million during the same period last year. The massive decline in inflows is unevenly contributed by debt creating and non-debt creating inflows. The massive fall in disbursement of loans is witnessed. The inflow of disbursements of long term loans stood at $1964 million in July-April 2010-11 as compared to $3020 million in the comparable period of last year. Amortization payments witnessed some upsurge and resultantly net inflow of loans stood at $333 million as against $1472 million in the comparable period of last year. On the other hand non-debt creating inflows registered negative growth of 7.1 percent by declining to $1491 million from $1605 million. Portfolio investment provided a cushion against worsening of financial account and recorded inflow of $298 million as against outflow of $48 million. FDI component registered much of the decline in non-debt creating inflows.

Foreign Direct Investment

Foreign direct investment (FDI) declined by 28.7 percent during July-April 2010-11 as a result of fall in equity capital and reinvested earnings. The decline in FDI in Pakistan mainly led by the domestic factors such as deteriorated law & order situation, energy crises, circular debt issues and weak economic activity.

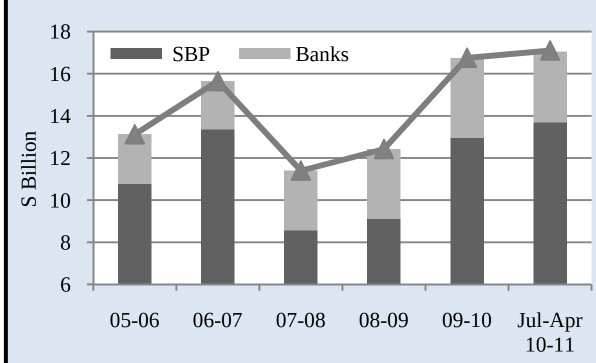
Sector-wise data shows that a large part of fall in overall FDI during July-April 2010-11 was driven by decline in investment inflows in communication, petroleum refining, paper & pulp and chemicals as their share in overall FDI decreased by 13.8 percentage points, 5.2 percentage points, 2.9 percentage points and 2.0 percentage points, respectively. The fall of FDI in communication sector was mainly led by telecommunication where contraction of 75.4 percent was recorded. Apart from impact of negative reinvested earnings on account of companys' losses or lower profits, lower equity investment is due to stiff competition and market saturation in the telecom sector. Lower foreign investment in petroleum refining sectors is largely attributed to deteriorating law & order situation and circular debt issue which constrained business operations. On the other hand, financial business recorded year-on-year increase of 24.3 percent growth and its share in overall FDI increased by 5.7 percentage points.

Foreign Exchange Reserves

The rising trend in Pakistan's foreign exchange reserves continued unabated since 2008-09 [Fig-8.9] and reached to $17.1 billion by end-April 2011. Out of $17.1 billion, reserves held by SBP stood at $13.7 billion and by banks stood at $3.4 billion.

During July-April 2010-11, the improvement in the reserve position was due to inflows of $451 million from the IMF under the Emergency Natural Disaster Assistance (ENDA) and $743 million received under coalition support fund (CSF), thereby increasing the SBP reserves. SBP reserve position was also helped by lower outflows due to shifting of oil payments to inter-bank market. Inflows in the scheduled bank also improved on account of healthy remittances and exports growth.

Fig 8.9: Gross Foreign Exchange Reserves



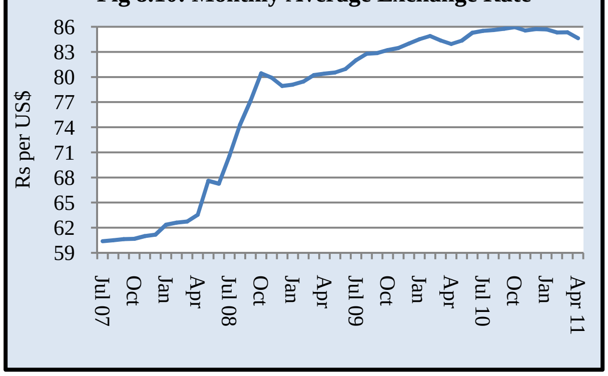
Furthermore, the improvement in reserves can also be attributed to account valuation impact and benefited from lower current account financing requirement.

Exchange Rate

The continued build up in foreign exchange reserves, a surplus in the current account balance and a sufficient inflow of remittances through official banking channels have strengthened Pak rupee vis-à-vis the US dollar both in the inter-bank and open market. Exchange rate averaged Rs. 83.7 in fiscal year 2009-10 and Rs. 85.3 to a dollar in June 2010. During July-April 2010-11, the Pakistan's rupee against US dollar depreciated by 2.2 percent against the 6.6 percent depreciation in same period last year. This comparative stability in rupee mainly owes to improvement in country's overall external account surplus position during the period.

Month wise analysis suggests that the major contribution to 2.2 percent depreciation during July-April 2010-11 came from initial months of the year when rupee came under pressure due to mismatch in inflows and outflows as oil marketing companies had made payments for the import of crude oil.

Fig 8.10: Monthly Average Exchange Rate



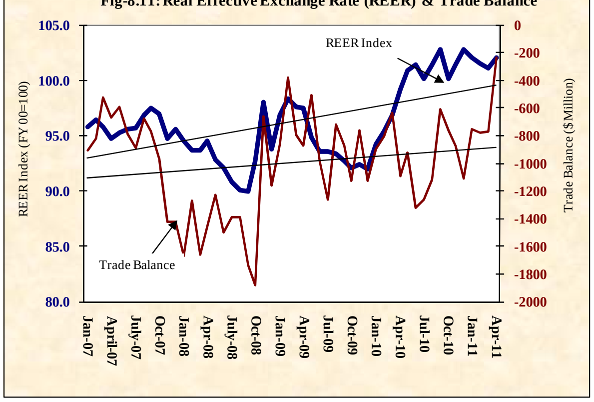
Real Effective Exchange Rate

Real Effective Exchange Rate (REER) is an extension of Nominal Effective Exchange Rate (NEER) index, which along with the exchange rates of the trading partner countries also takes in to account the CPI inflation of the respective countries. REER is mostly indicative of the long term equilibrium exchange rate and the competitiveness of a country and therefore has assumed greater importance within external sector macroeconomic indicators. Conceptually, the REER, defined as a weighted average of nominal exchange rates adjusted for relative price differential between the domestic and foreign countries.

Nominal exchange rate remained relatively stable and rupee depreciated by 4.8 percent vis-a-vis US dollar during 2009-10 as compared to 15.7 percent depreciation recorded in the previous year. Pak Rupee exchange rate with other currencies is determined through cross rates based on the movement of the US Dollar against these currencies in the foreign exchange markets. Pak rupee appreciated 5.2 percent against the pound and 10.1 percent against euro. Japanese yen appreciated against the US dollar in the international market thus, consequently rupee depreciated against the yen by 12 percent during the year. Despite depreciation against the dollar and the yen, Pakistan's currency appreciated by 10.2 percent in real terms during 2009-10 against 0.3 percent depreciation recorded in the previous year.

More importantly the trend in July-April 2010-11 is not very much encouraging because most international currencies have bounced back against US dollar. Resultantly, as rupee depreciated against US dollar by just 0.27 percent, its depreciation against other currencies is massive. Rupee depreciated by 10.9 percent vis-à-vis Euro followed by pound sterling (5.7 percent) and Japanese yen (7.0 percent). Overall NEER depreciated by 6.1 percent, however, the REER appreciated by With SBP no more intervening in the forex market to support oil payments, the exchange rate of the country has become more representative of demand and supply conditions in the forex market. This is likely to be helpful in resolving external account imbalances in the future as exchange rate flexibility provides an adjustment mechanism that can reduce excesses in the external accounts.

Fig-8.11: Real Effective Exchange Rate (REER) & Trade Balance



Historically, there is a strong correlation between REER depreciation and trade balance improvement [See Fig-8.11]. The correlation is not working since Feb-2010 and correlation is reversed. Export growth remained buoyant since January 2010 and terms of trade is supporting Pakistan. The persistent real appreciation of rupee is mainly driven by weaker dollar and the trend will converge to original relationship in months to come. This is evident from Figure 8.11 that in March and April 2011 the REER index and trade balance are converging to their original relationship. Imports on the other hand grew by 19.4 percent in this period which implies persistent appreciation is fueling demand for imports as theory suggests. The export patterns are not truly reflecting trade patterns, however, normalization of commodity prices export will lose momentum.

Another explanation of why rising inflation differential is not reflecting in REER appreciation and this in turn is not translated into trade patterns is redundancy of composition of REER index. REER depend on number of factors such as selection of countries in the trade basket, trade weights allotted to these countries and choice of the base year etc. Even small differences in the selection of these variables can lead to considerable variation in the end results. The REER index base need to be revised to incorporate current trade dynamics.

9 External and Domestic Debt

Introduction

Pakistan's debt dynamics has undergone substantial changes in the last three years. Higher fiscal deficit led to accumulation of huge debt in absolute and relative terms. The debt profile moved towards shorter end of maturity as desperation to finance deficit through domestic sources owing to inadequacy of external financing. Therefore, developments in both external and domestic debt are of key concern to debt management. Excessive increase in debt has caused problems for Pakistan in the past, while imprudent domestic borrowing plagued the economy during 2010-11. Prudent and efficient debt management is required not only to ensure that present debt levels are kept under control, but also manage future repayment obligations. Prudent debt management practices could not undermine the importance of prudent fiscal and monetary policy. Even best debt management may not by itself avert any upheaval in case of poor macroeconomic policy sequencing.

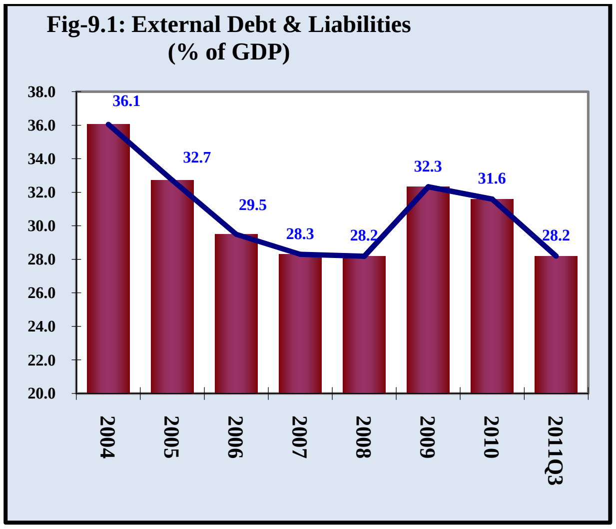
The current fiscal year carried the legacy of high fiscal account deficits mainly driven by overrun in security related spending and revenue shortfalls owing to weaker economic activities. Stable exchange rate has helped in lower incidence of external debt in relation to GDP. On the internal front, borrowing from the State Bank of Pakistan continues to create problem as in the first half of 2010-11 increased substantially but in the Jan-March quarter witnessed retirement of SBP debt stock. The external sector remained comfortably placed as current account has recorded surplus in July-April 2010-11 and thus hemorrhage to foreign exchange reserves not only arrested but reserves crossed $17.0 billion mark.

Inadequacy of external flows put onus of financing fiscal deficit on domestic sources of financing. The domestic debt stock piled up by Rs.803.9 billion in July-March 2010-11.

External Debt and Liabilities

Gross external debt at a given point of time is the amount of disbursed and outstanding liabilities of residents of a country to non-residents. Countries use external debt in order to fill the gap between desired expenditure levels and domestically available resources. Governments also issue foreign currency debt in order to signal their commitment to stable exchange rates and prices. A key incentive for governments to use foreign debt heavily is that it minimizes current interest costs, but doing so leaves the country vulnerable to certain risks.

The government manages its debt in order to raise the required amount of resources subject to the lowest possible medium to long-term cost and consistent with a prudent degree of risk. Poor debt management poses risks for both the public and private sectors in the form of economic instability, insolvency, debt distress, and fiscal crisis. In order to prevent such eventuality, a government needs to identify the various risks to its debt stock, and formulate strategies to counter or minimize these risks. Risks can be classified into two main categories; market risk, and country specific risk. The stock of outstanding debt of any country is vulnerable to market risks regardless of the origin, size, average tenure, and other characteristics of the debt. Market risk is measured in terms of potential increase in debt servicing costs associated with changes in market conditions such as interest rate risk, exchange rate risk, and credit risk. Country specific factors include the economic, social, and political stability of the country, and general investor sentiment about the economy.



In addition to risk management, governments need to constantly monitor, sustain, and even enhance their debt carrying capacity. Furthermore, the borrowed resources must be utilized effectively and productively so that they generate economic activity. Prudent debt management is therefore, essential for preventing debt crisis. Empirical evidence suggests that external debt slows growth only if it crosses the threshold level of 50 percent of GDP or in net present value terms, 20-25 percent of GDP. Pakistan has experienced serious debt problems in the recent past and accordingly witnessed deterioration in the macroeconomic environment, leading to deceleration in investment rate and economic growth and the associated rise in the incidence of poverty.

External Debt & Liabilities (EDL) increased from US $ 37.9 billion at end-June 2000, to $ 55.9 billion by the end of June 2010, and stood at $ 59.5 at end-March, 2011. During the same period, EDL as a percentage of GDP decreased by 23.5 percentage points of GDP, falling from 51.7 percent on end-June 2000 to 28.2 percent by end-March 2011 as shown in Fig-9.1. During the last two years, EDL has increased in absolute terms, but decreased in relation to GDP. This shift in momentum has highlighted the crucial role played by current account deficit and exchange rate stability on a country's debt burden. Pakistan benefited from a relatively stable rupee and significant reduction in financing of current account which facilitated a reduction in the debt burden. Entering into the IMF Stand-by Arrangement (IMF SBA) program has enabled Pakistan to shore up foreign exchange reserves and prevent the economy from any further depreciation, but it has also translated into a significant increase in outstanding external debt. Focusing on the absolute increase in the outstanding stock of EDL can be misleading for two main reasons. Firstly, the outstanding stock of debt must be analyzed in relation to the size of the economy and its repayment capacity (in terms of GDP and other macroeconomic indicators). Secondly, the absolute change in EDL neglects classification between an actual increase in stock and increases caused by fluctuations in international exchange rates.

Table-9.1: Pakistan: External Debt and Liabilities

	End-June							2011Q3
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	
	(In billions of U.S. dollars)							
1. Public and Publically Guaranteed debt	29.9	31.1	32.9	35.3	40.6	42.6	43.1	45.6
A. Medium and long term(>1 year)	29.9	30.8	32.7	35.3	39.5	41.1	42.3	44.6
B. Short Term (<1 year)	0.0	0.3	0.2	0.0	1.1	1.5	0.8	0.9
2. Private Non-guaranteed Debt (>1 yr)	1.7	1.3	1.6	2.3	2.9	3.3	3.4	3.8
3. IMF	1.8	1.6	1.5	1.4	1.3	5.1	8.1	8.9
Total External Debt (1 through 3)	**33.4**	**34.0**	**36.0**	**39.0**	**44.9**	**51.1**	**54.6**	**58.3**
Of Which Public	***31.3***	***32.1***	***33.9***	***36.5***	***40.7***	***45.9***	***50.1***	***53.4***
4. Foreign Exchange Liabilities	2.0	1.8	1.6	1.5	1.3	1.3	1.3	1.2
Total External Debt & Liabilities (1 through 4)	**35.3**	**35.8**	**37.6**	**40.5**	**46.2**	**52.3**	**55.9**	**59.5**
(of which) Public Debt	31.3	32.1	33.9	36.5	40.9	46.3	49.5	53.6

	End-June							2011Q3
	2004	2005	2006	2007	2008	2009	2010	
	(In percent of GDP)							
Total External Debt (1 through 3)	**34.1**	**31.1**	**28.2**	**27.3**	**27.4**	**31.5**	**30.8**	**27.7**
1. Public and Publically Guaranteed debt	30.6	28.4	25.8	24.7	24.8	26.3	24.3	21.6
A. Medium and long term(>1 year)	30.5	28.1	25.7	24.7	24.1	25.4	5494	5494
B. Short Term (<1 year)	0.0	0.2	0.1	0.0	0.7	0.9	6451	6451
3. IMF	1.8	1.5	1.2	1.0	0.8	3.2	4.6	4.2
Total External Debt	**34.1**	**31.1**	**28.2**	**27.3**	**27.4**	**31.5**	**30.8**	**27.7**
4. Foreign Exchange Liabilities	2.0	1.6	1.2	1.0	0.8	0.8	0.7	0.6
Total External Debt & Liabilities (1 through 4)	**36.1**	**32.7**	**29.5**	**28.3**	**28.2**	**32.3**	**31.6**	**28.2**
Memo:								
GDP (in billions of Rs.)	5641	6500	7623	8673	10243	12724	14837	18063
Exchange Rate (Rs./U.S. dollar, Period Avg.)	57.6	59.4	59.9	60.6	62.5	78.5	83.8	85.7
Exchange Rate (Rs./US$, EOP)	57.9	59.7	60.2	60.6	68.3	81.4	85.5	85.3
GDP (in billions of U.S. dollars)	98.0	109.5	127.4	143.0	163.8	162.1	177.0	210.8

Source: State Bank of Pakistan

The big chunk of Pakistan's outstanding external debt is classified as public and publically guaranteed debt and accounts for 76.6 percent of the total outstanding EDL stock [See Table 9.2]. Out of the remaining amount 15.0 percent debt is owed to the IMF. Private non-guaranteed debt contributes 6.4 percent to the stock of EDL and another 2.0 percent contribution came from foreign exchange liabilities.

The following section highlights the developments in the various components of EDL during the first nine months of the outgoing fiscal year.

i. Public and Publicly Guaranteed Debt

Public and publicly guaranteed debt accounts for the largest share of 76.6 percent in EDL. This component is further classified into medium to long-term debt and short-term debt. During the first nine months of 2010-11, public and publicly guaranteed debt has increased by 5.8 percent or $ 2.5 billion, rising from $ 43.1 billion at end-June 2010 to $ 45.6 billion by end-March 2011. Medium and long-term debt increased by $ 2.3 billion during the same period. Short-term debt increased from $ 793 million at end-June 2010 to $ 916 by end-March 2011. This increase of $ 123 million is on account of rollover of existing stock of by the Islamic Development Bank (IDB) debt.

ii. IMF Debt

At the end-March 2011, debt owed to IMF aggregated to $8.9 billion (a growth of 10.7 percent) out of which US$1,979 million accrued to the federal government. The remaining IMF funds were recorded on SBP books to strengthen the foreign exchange reserves of the country. During the current year, IMF gave $452 million as Emergency and Natural Disaster Assistance (ENDA) for budgetary assistance.

iii Private non-guaranteed debt and Foreign Exchange Liabilities

The share of private non-guaranteed debt in Pakistan's total EDLs has historically been very small. Continuing with this trend, private/PSE non-guaranteed debt accounted for 6.4 percent of the outstanding stock of EDL by end-March 2011. The stock of private non-guaranteed debt increased by $ 400 million; from $ 3.4 billion in June 2010 to $3.8 billion by end-March 2011, thereby reflecting borrowing for working capital requirements.

iv. Foreign exchange liabilities

The stock of Pakistan's foreign exchange liabilities (FEL) recorded slight decline in 2010-11. The net decline in foreign exchange liabilities was mainly due to reduction in the deposit of Central Bank of China.

Table 9.2: Structure of EDL (End Mar 11)

Component	% Share
Paris Club	25.4
Multilateral	42.3
Other Bilateral	4.4
Short-Term	1.5
Private Non-Guaranteed	6.4
IMF	15.0
Other	2.9
Forex Liabilities	2.0

Source: SBP

Impact of Exchange Rate Fluctuations

Pakistan's external debt is contracted and thus denominated in multiple currencies but for accounting conventions, it is reported in equivalent US dollar. Thus shifts in cross exchange rates among various currencies, especially against dollar are translated into changes in the dollar value of the outstanding stock of external debt. The change in the outstanding stock of the external debt is normally explained through new disbursements adjusted for amortization plus revaluation impact of non-US dollar debt. During July-March 2010-11, total disbursements amounted to $ 1.409 billion and repayment of principal was amounting to $ 1.781 billion. The net impact of these two factors decreased the stock of public and publicly guaranteed debt (PPG) by $ 372.6 million. The total translational loss on account of cross-currency movement against USD amounted to $2.7 billion was neutralized by this outflow of $372.6 million. The net addition of $ 2.498 billion in the total external debt stock was the result of depreciation of US $ against hard currencies like Japanese yen (JPY), Euro, SDR and others.

Pakistan benefited from the exchange rate fluctuations for many years in the past, particularly when major currencies were depreciating against the dollar. Unfortunately, in the current fiscal year, Pakistan was on the receiving end of the valuation impact. For the period July-March 2010-11, the exchange rate applied was of end-June 2010 and end-March 2011. During reporting period July-March 2010-11, US dollar depreciated against Japanese yen, Euro and SDR by 8.1 percent, 14.3 percent and 8.2 percent, respectively. Thus the exchange rate movements during the period have caused changes in the reported US dollar equivalent amount of $ 2.7 billion while net new disbursement impact was negative $0.37 billion. The outstanding stock in yen, Euro and SDR witnessed a rise of $906 million, $832.8 million and 805 million, respectively because of massive appreciation of these currencies against US dollar [See Table-9.3].

Table-9.3: Translational Exchange Rate Loss **($ Million)**

Currency	Outstanding Balance in BC	Exchange Rate as on 31.12.2008	Equivalent US$	Exchange Rate 30.06.08	Equivalent US$	Difference
1	**2**	**3**	**4=2/3**	**5**	**6=2/5**	**7=4-6**
Euro	4,336	0.704	6,161	0.814	5,329	833
JPY	1,139,233	82.870	13,747	88.715	12,841	906
SDR	7,541	0.631	11,957	0.676	11,152	805
US $	11,430	1	11,430	1	11,430	0
	Others		2,373		2,206	167
	Total		**45,668**		**42,959**	**2,710**

BC: Base Currency *Source: EAD & Staff Calculations*

Composition of Foreign Economic Assistance

The total amount of foreign economic assistance received in the first nine months of 2010-11 stood at $ 1,409 million. The composition of this assistance is as follows:

i. Commitments

The commitments of foreign economic assistance were $6,171 million during 2009-10, while during July-March 2010-11, total commitments amounted to $2,845 million. About 65.4 percent of the total commitments during July-March 2010-11 were from bilateral sources while 34.6 percent was from multilateral sources in the shape of project aid and non-project aid. The share of BOP/budgetary support in total non-project aid was 85 percent. The project aid accounted for 98 percent of commitments.

ii . Disbursements

Disbursement of foreign economic assistance during 2009-10 stood at $3,667 million but decreased to $1,409 million during July-March, 2010–11. During this period, disbursement for the project aid amounted to $ 725.7 million or about 51.5 percent of the total disbursements. An amount of $ 683 million was disbursed for non-project aid, claiming about 48 percent of total disbursements.

iii . Debt Servicing during 2010-11

The annual debt servicing payments stood at $6327 million in 2001-02 with a rollover of $2243 million however, combination of re-profiling of Paris Club bilateral debt on a long-term horizon, the substantial write-off of the US bilateral debt stock, the prepayment of expensive debt and the relative shift in contracting new loans on concessional terms, this amount was drastically reduced to around $ 3 billion by 2007-08. As the debt burden of an economy rises, so do the obligations to make debt service payments. The debt obligations started building up since 2008-09 and reached to $ 5.8 billion in 2009-10. Moreover, relatively high amount of $7.8 billion has been paid during July-March 2010-11 which implies an increase of over one billion dollar in one year. Out of this amount, $ 6.2 billion was paid on account of repayment of principal amounts. A significant proportion of this increase is due to repayment of short-term obligations of scheduled commercial bank amounting to $ 4.3 billion which was not captured before July 2009. The amount rolled over decreased from $ 1.7 billion in 2009-10 to $ 756 million in July-March 2010-11 as IDB's short-term obligations were rolled over continuously in the past but not rolled over this year [See Table 9.4].

Table-9.4 Pakistan's External Debt and Liabilities Servicing *($ Million)*

Years	Actual Amount Paid	Amount Rolled Over	Total
2001-02	6327	2243	8570
2002-03	4349	1908	6257
2003-04	5274	1300	6574
2004-05	2965	1300	4265
2005-06	3115	1300	4415
2006-07	2977	1300	4277
2007-08	3161	1200	4361
2008-09	4747	1600	6347
2009-10	5787	1723	7510
2010-11*	7778	756	8534

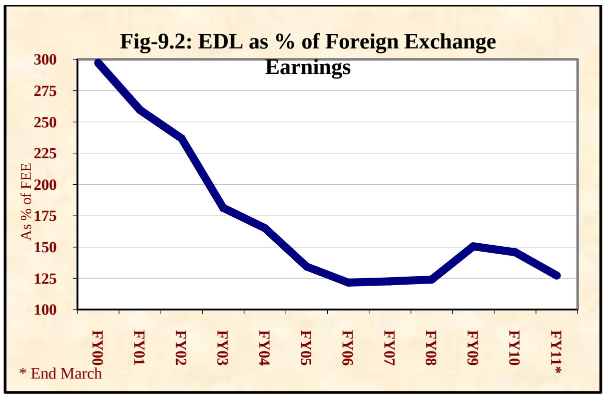
** July-March* *Source: State Bank of Pakistan*

External Debt Sustainability

The idea of debt sustainability links the debt stock of a country to its repayment ability as gauged by various macroeconomic indicators. The difference between the total financing needs on the balance of payments and the projected capital inflows is known as the financing gap. In crude terms, if the financing gap is approaching zero in the long-term, debt is considered to be sustainable. Whereas if a financing gap exists, it can be filled by resorting to additional borrowing, rescheduling and debt reduction, or by accumulating arrears. Such measures lead to an escalating debt burden and eventual un-sustainability of debt.

In order to ensure sustainability, developing countries can place limits on debt obligations, given the level of capital inflows. These limits are set by assigning threshold levels to the debt stock as a ratio of economic indicators that represent the repayment capacity of the economy, such as GDP, foreign exchange reserves and foreign exchange earnings. Calculation of these indicators and subsequent comparison with international thresholds provides insight into a country's debt position. They can be used to monitor the sustainability of debt as well as an early warning system for debt distress and sustainability issues. The indicators can be divided into two groups, nominal indicators which are useful in analyzing the debt position at any given time as well as historical trends, and present value indicators which are useful in measuring current and future debt payments. By using present value indicators, it is possible to analyze future debt obligations in current terms, and project the impact they will have on the country's debt burden and sustainability.

Most of the indicators of Pakistan's debt have been exhibiting a declining trend since 2001-02 onwards, with a trivial u-turn in the most difficult year of recent economic history i.e. 2007-08, especially indicators that analyze debt in relation to foreign exchange reserves. Due to sustainable debt policies and favorable rescheduling of debt, external debt and liabilities (EDL) as a percentage of GDP declined from 51.7 percent in end-June 2000 to 31.6 percent by the end of June 2010, a decline of 20.1 percentage points. By end-March 2011, EDL as a percent of GDP stood at 28.2 percent, thereby showing a decrease of 3.4 percentage points in one year. This improvement is mainly due to faster growth in nominal GDP in relation to slower growth in external debt.



EDL as a percentage of Foreign Exchange Earnings (FEE) gives a measure of a country's debt repayment capacity by comparing levels of external debt to the sum of exports, services receipts, and private unrequited transfers. EDL as a percent of FEE stood at 297.2 percent by the end of 1999-2000, and witnessed a sustained decline till end-June 2006 where it reached 121.6 percent; a reduction of 175.6 percentage points in six years. The pendulum swung to other side and EDL in relation to FEE surged to 150.6 by end-June 2009. However, it started declining since then and decreased to 127.2 percent by end-March 2011. The rise between 2006 and 2009 was mainly due to falling exports and rising debt stock, however, reversal came as a result of buoyancy in the external sector and lower growth in the EDL. The improvement of this ratio suggests that Pakistan's stock of external debt and liabilities is growing at a slower rate than its foreign exchange earnings [See Table 9.5].

Table-9.5: External Debt Sustainability Indicators

Year	EDL/ GDP	EDL/ FEE	EDL/ FER	STD/EDL
	(Percent)		Ratio	(Percent)
FY00	51.7	297.2	17.5	3.2
FY01	52.1	259.5	11.4	3.7
FY02	50.9	236.8	5.7	1.4
FY03	43.1	181.2	3.3	1.2
FY04	36.7	165.0	2.9	0.6
FY05	32.7	134.3	2.9	0.8
FY06	29.4	121.6	2.8	0.4
FY07	28.3	122.6	2.5	0.1
FY08	28.2	124.0	4.0	2.4
FY09	32.3	150.6	4.2	2.8
FY10	31.6	146.6	3.3	1.4
FY11*	28.2	127.2	3.4	1.5

** End March 2011 Source: EA Wing and SBP Bulletins*

EDL: External Debt and Liabilities, FEE: Foreing Exchange Earnings, FER: Foreign Exchange Reserves, STD: Short-term Debt, INT: Interest Payments and CAR: Current Account Receipts

As a multiple of Gross Foreign Exchange Reserves (FER), EDL witnessed a sustained decrease from 17.5 1999-2000 to 2.5 by end-June 2007. The improvement of this ratio was due to a reduction in the stock of external debt coupled with a significant increase in reserves. However, EDL as a multiple of FER has increased from 2.5 by the end of 2006-07 to 4.2 in 2008-09 mainly because of depletion of reserves and accumulation of EDL. On the onset of SBA in 2008, the ratio further declined to 3.3 in 2009-10 as EDL growth slowed and foreign exchange reserves shored up. By end-March 2011, the ratio deteriorated slightly to 3.4 mainly because of stagnation in reserves in relation to modest growth in EDL. Given the current domestic and international financial environment, any sustained increase in debt of the magnitude observed during 2007-08 and 2008-09 needs to be in conjunction with a growth of reserves which guarantees the country's capacity to repay the debt. Failure to match further increases in debt stock with higher reserves will bring Pakistan's level of external debt close to unsustainable levels.

Pakistan's level of Short Term Debt (STD) as a percentage of EDL has historically been lower than most other developing countries. The ratio improved to 3.7 percent in 2000-01 to just 0.1 percent in 2006-07. However, during the BOP crisis like situation in 2007-08 and 2008-09, the ratio once again bounced back to 2.8 percent. The previous fiscal year 2009-10 has seen an improvement in STD as a percentage of EDL to 1.4 percent which inched up to 1.5 percent for the first nine months of 2010-11. This was primarily because of rollover of short-term financing provided earlier by the Islamic Development Bank.

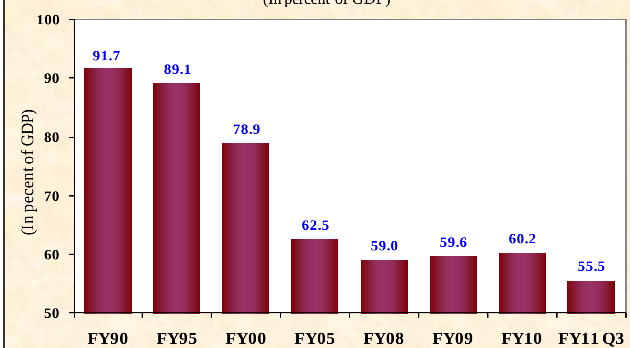
PUBLIC DEBT

Public debt refers to all debt owed directly by the government originating from domestic and external sources. It consists of debt denominated in Rupees as well as foreign currency. Management of public debt poses policymakers with key challenges and trade-offs. Debt is an essential tool in ensuring required levels of investment and expenditure on programs aimed at boosting productivity, economic growth, economic and social development, and the alleviation of poverty. However, accruing an excessive amount of debt has dire consequences for any economy by creating the future obligation to make repayments. Increase in public debt can lead to inflationary pressures on the economy if the source of the increase is domestic borrowing. Additionally, increasing proportions of government resources directed towards debt servicing in the future hinder allocation of funds to other sectors of the economy.

Prudent management of public debt requires that fiscal operations be carefully planned, placing a limit on present and future fiscal deficits in order to reduce borrowing requirements. Similarly, non-debt creating foreign inflows need to be encouraged to keep the foreign currency component of public debt in check. Additionally, exchange rate stability is crucial as depreciation of domestic currency increases the foreign currency component of public debt significantly.

A European debt crisis has reinforced the need to manage public debt prudently as many countries fell into the debt trap. Many advanced countries have witnessed a significant rise in public debt in 2010 that had never been experienced in the absence of a major war. Public debt in advanced economies is projected to rise from an average of about 73 percent of GDP at end 2007 to about 108 percent of GDP at end 2015. Public debt has also increased in some emerging economies (in central and Eastern Europe) during the recession, although these economies have not been hit as hard as advanced economies. However, the emerging economies tend to have a lower debt tolerance, mainly due to narrower and more volatile revenue bases.

Figure-9.3: Publich Debt
(In percent of GDP)



* End March

Pakistan has been spared from the gravity of the current global crisis, and the impact on the financial sector has been limited, waiving any need for a stimulus package or large fiscal outlay. However, the debt dynamics have been witnessing gradual erosion since 2007-08. The improving debt dynamics has been reversed and the total public debt-to-GDP ratio has hovered around 60 percent for the past three years. Country's debt position deteriorated due to a number of domestic issues and the international credit crisis. The public debt to GDP ratio has declined to 55.7 percent by end-March 2011 mainly because of high nominal GDP growth.

Table-9.6: Trends in Public Debt

	FY80	FY90	FY95	FY00	FY05	FY08	FY09	FY10	FY11 Q_3
					(In billions of Rs.)				
Domestic Currency Debt		374	790	1576	2152	3267	3852	4651	5461
Foreign Currency Debt		428	873	1442	1913	2780	3736	4284	4559
Total Public Debt		801	1662	3018	4064	6047	7588	8935	10020
					(In percent of GDP)				
Rupees Debt		42.8	42.3	41.2	33.1	31.9	30.3	31.3	30.2
Foreign Currency Debt		48.9	46.8	37.7	29.4	27.1	29.4	28.9	25.2
Total Public Debt		91.7	89.1	78.9	62.5	59.0	59.6	60.2	55.5
					(In percent of Revenue)				
Rupees Debt		235	245	308	239	218	208	224	228
Foreign Currency Debt		269	270	281	213	185	202	206	191
Total Public Debt		505	515	589	452	403	410	430	419
					(In percent of Total Debt)				
Rupees Debt		46.6	47.5	52.2	52.9	54.0	50.8	52.0	54.5
Foreign Currency Debt		53.4	52.5	47.8	47.1	46.0	49.2	48.0	45.5
<u>Memo:</u>									
Foreign Currency Debt ($ Billion)		19.5	28.1	27.5	32.1	40.7	45.9	50.1	53.4
Exchange Rate (Rs./U.S.$, E.O.P)		21.9	31.1	52.5	59.7	68.3	81.4	85.5	85.3
GDP (in Rs. Billion)		874	1866	3826	6500	10243	12724	14837	18063
Total Revenue (in Rs. Billion)		159	323	513	900	1499	1851	2078	2393

* End-March

Source: SBP and EA Wing Calculations.

i . Total Outstanding Public Debt

Total public debt increased by Rs 1162 billion in the first nine months of 2010-11, reaching a total outstanding amount of Rs. 1,002,0 billion; an increase of 13.1 percent in nominal terms. The primary source of increase in public debt during July-March, 2011 has been a sharp rise in local currency component that accounted for 69.7 percent of the total increase in total public debt. This was primarily due to the slower disbursement from multilateral and bilateral donors and higher than budgeted fiscal deficit. The external debt component grew by Rs 275 billion or 6.4 percent partially due to increased foreign public debt inflows and partly because of cross-currency translation effect. Public debt as percent of GDP has decreased to 55.5 percent by end-March 2011 after hovering around to 60 percent of GDP for two years.

The structure of public debt has also experienced subtle changes since 2001-02. The focus has been shifted more towards domestic borrowings which inched up its share from 48.9 percent in 2001-02 to 54.5 percent at end March, 2010-11. The massive borrowing from the SBP has not only fueled inflationary pressures in the economy but also responsible for fiscal indiscipline resulting in dire consequences for debt management. The government has placed a restraint of net zero quarterly borrowing from the State Bank of Pakistan (SBP).

ii . Dynamics of Public Debt Burden

To look on the real incidence of the debt burden, it is useful to analyze the debt burden in the context of other macroeconomic indicators. Changes in the public debt burden of an economy are influenced by the cost associated with borrowing funds, the rate of inflation, and the real growth rates of public debt and government revenues. Periods of higher cost of borrowing coupled with higher growth rates of public debt in periods where growth of revenues was relatively stagnant have yielded an increase in the public debt burden.

If we look debt burden of Pakistan in historical context, the rise appears to be largely contributed by the high real cost of borrowing and stagnant government revenue. Total public debt consists of debt payable in rupees and debt payable in foreign exchange. The real cost of borrowing for these two components of public debt is measured differently [as shown in Table-9.7]. The real cost of Pakistan's domestic debt has varied substantially over time. The inflation is a crucial component in the determinant of real cost of borrowing while depreciation affects positively to real cost of borrowing on external debt. During the first five years of the decade (2000-05), the real cost of borrowing for domestic debt was 4.2 percent owing to lower inflation but in the second half (2005-10) the real cost of borrowing declined to negative 1.3 percent partly due to rising inflationary pressures in the economy as well as the declining nominal cost of borrowing. The enormous inflationary pressure in the current year has helped the government in reducing real cost of borrowing substantially.

During the first five years of the current decade (2000-05), the real cost of borrowing for foreign exchange denominated loan increased to 0.2 percent mainly because of lower inflation and rupee appreciation. However, it turned to negative 4.3 percent in the second half (2005-10). During 2005-10, the massive depreciation of rupee along-with higher inflation contributed to negative incidence of real cost of borrowing. The low implied cost of external borrowing has contributed to overall declining trend in real cost of borrowing during the last ten years

Table 9.7: Real Cost of Borrowing ***(Percent)***

	External Debt	Domestic Debt	Public Debt
1980s	3.4	1.0	2.3
1990s	2.7	3.2	2.9
1990-I	-3.0	-1.9	-2.4
1990-II	-5.5	5.7	5.6
2000-05	0.2	4.2	2.9
2005-10	-4.3	-1.3	-0.4
2010-11*	-17.3	-6.9	-10.7

Source: EA Wing calculations

** July 2005 – March 2011*

Table-9.8: Dynamics of Public Debt Burden

	Primary Fiscal Balance	Real Cost of Borrowing	Real Growth of Debt	Real Growth of Revenues	Real Growth of Debt Burden
	(Percent of GDP)	(Percent per year)			
1980s	-3.7	2.3	10.6	7.6	3.0
1990s	-0.3	2.9	4.9	2.9	2.0
1990-I	-1.8	-2.4	3.6	3.2	0.4
1990-II	1.1	5.6	6.2	2.5	3.7
2000-05	0.6	2.9	0.3	5.8	-5.5
2005-10	-1.1	-0.5	3.3	4.6	-1.3
2010-11*	-1.1	-10.7	-4.8	-0.6	-10.0

Source: EA Wing calculations

** Jul-Mar 2010-11.*

As a result of the sharp fluctuation in the real cost of borrowing for both domestic and foreign debt, the dynamics of the growth in public debt also changed over the last two decades. The changing dynamics of public debt is well-documented in Table-9.8. The economy generated primary fiscal surplus in the first five years (2000-05) owing to lower interest payments in the period. However, it turned into deficit in the period (2005-10). The primary deficit is likely to follow its pattern of last five years. The real growth of debt registered an increase of 0.3 percent in 2000-05 which accelerated to 3.3 percent in 2005-10. However, owing to very high inflation the real growth in debt witnessed huge negative growth of 4.8 percent. This proves the point that how inflation helps debtors at the expense of lender. The revenues kept healthy average growth rate of 5.8 and 4.6 percent in these two time periods. The combined effect of healthy growth in revenues and modest growth in real debt growth resulted in a sharp decline in the country's debt burden during the last ten years. In order to assess the cost of borrowing, an implied interest rate is calculated as interest payments in 2010-11 divided by the stock at the end of previous financial year. In the 2010-11 the real revenue witnessed negative growth of 0.6 percent against 4.6 percent real decrease in public debt.

An analysis of the dynamics of the public debt burden provides useful lessons for policy-makers to manage the country's public debt. First, every effort should be made to maintain a primary surplus in the budget. Second, the interest rate and inflation environment should remain benign. Third, the pace of revenue growth must continue to rise to increase the debt carrying capacity of the country. Center to all these lessons is the pursuance of prudent monetary, fiscal and exchange rate policies which are complementary in nature for prudent debt management in any country.

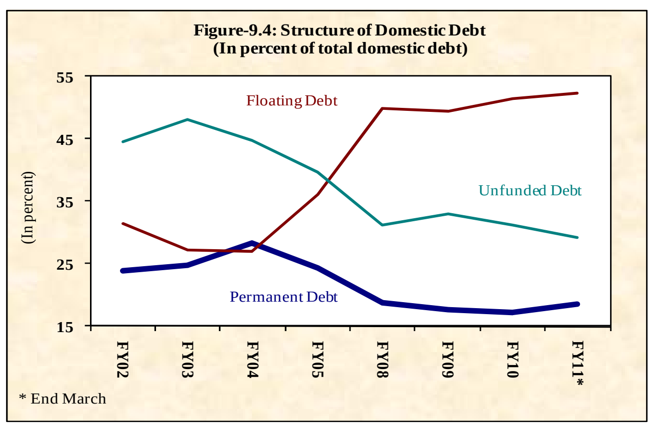
In order to increase the public debt to GDP ratio, the growth in public debt needs to exceed the nominal growth of GDP. This implies that inflation is a key factor in determining the movements of this ratio. If the price level is high, nominal GDP is inflated, and the accumulation of debt is outpaced by the nominal growth rate of GDP. In inflationary times, real interest rates are also lower, leading to a further reduction in the debt burden. During the current fiscal year (2010-11), the nominal growth rate of GDP has been 22 percent, whereas growth in the stock of public debt was 13 percent, leading to a reduction in the public debt-to-GDP ratio by 4.8 percentage points.

Domestic Debt

Domestic debt has always been fundamental part of a government's borrowing strategy. A government faces an inter-temporal trade-off between short-term and long-term costs that should be managed carefully. Excessive reliance on short-term paper may leave a government vulnerable to volatile debt service costs in the event of rising interest rates, and the risk of default in case a government cannot rollover its debts at any cost. On the other hand, over reliance on longer-term fixed rate financing also carries risks, because it tempts governments to deflate the value of such debt in real terms by initiating surprise inflation. The government in the current fiscal year benefited from enormous surge in inflation as debt-to-GDP ratio went down instead of absolute nominal borrowing of just below half a trillion.

Over the medium term, a strategy for developing the market for government securities can relieve constraints and permit the issuance of a less risky debt structure, and this should be reflected in the overall debt management strategy. The diversification of domestic debt may also lessen pressure on external borrowing as well. In this context, gradual increases in the maturity of new fixed rate domestic currency debt issues may raise cost in the short run, but they reduce rollover risk and often constitute important steps in developing domestic debt markets.

In Pakistan, borrowing from domestic and external sources account for almost same stake in overall debt. In fact, government has increasingly focused on the domestic part over the last few years. This tendency is portrayed by a growing contribution of domestic debt mainly because of non-availability of the external financing.



Outstanding Domestic Debt

The total domestic debt is positioned at Rs 5462.2 billion at end-March 2011 which implies net addition of Rs.803.9 billion in the nine months of the current fiscal year. In relation to GDP the domestic debt stood at 30.2 percent of GDP which is lower than end-June 2010 level at 31.4 percent. The domestic debt grew by 17.3 percent which is lower than last years' growth of 20.7 percent. The focus on deficit financing through internal sources owing to non-availability of external receipts has been the major cause.

The composition of major components shaping the domestic debt portfolio has undergone a complete transformation from a high dominance of unfunded debt to an increasing dependence on floating component of domestic debt. Since 2004, the unfunded category comprising about 45 percent of the aggregate debt stock has declined to 29.3 percent of the total during July-March, 2011. The share of permanent debt has also decreased over the same period and it stood at 18.5 percent by end-March 2011. Contrary to this, the share of floating debt (short term domestic debt) increased from 27 percent in the period 2004 to 52.2 percent at end-March 2011. The growing share of short-term debt is worrisome. A detailed explanation of each section follows:

i. Permanent Debt

The stock of permanent debt consists of various medium to long term instruments at the government's disposal outside the National Savings Scheme. These include Pakistan Investment Bonds (PIBs), Prize Bonds, and *Ijara Sukuk* apart from such discontinued schemes as Federal Investment Bonds. At the end of March 2011, permanent debt stood at Rs 1,008.8 billion, exhibiting an increase of Rs. 206.8 billion or 25.8 percent up from the previous fiscal year.

A larger share of this increase was contributed by receipts in PIBs, followed by prize bonds. Within permanent debt, PIBs were the most ample component. In the absence of any large PIB maturity during the year, only Rs 56 billion were fetched from the market. During fiscal year 2009-10, SBP increased the share of non-competitive bids from 10-15 percent in order to encourage non financial institutions and individuals to invest in government securities, thereby broadening the distribution base. Similarly, a new three-year issue of *Ijara sukuk* bond was launched in November 2010, after a gap of thirteen months. During July-March, 2011 a sum of Rs. 136.6 billion was raised through this issue.

Table 9.9. Trends in Domestic Debt

	FY02	FY03	FY04	FY05	FY08	FY09	FY10	FY11*
				(In billions of Rs.)				
Permanent Debt	424.8	468.8	570.0	526.2	617.1	685.7	802.0	1008.8
Floating Debt	557.8	516.3	542.9	778.2	1637.0	1904.6	2399.1	2853.9
Unfunded Debt	792.1	909.5	899.2	854.0	1021.3	1269.8	1457.2	1599.5
Total	**1774.7**	**1894.5**	**2012.2**	**2158.4**	**3275.4**	**3860.1**	**4658.3**	**5462.2**
				(In percent of GDP)				
Permanent Debt	9.7	9.7	10.1	8.1	6.0	5.4	5.4	5.6
Floating Debt	12.7	10.7	9.6	12.0	16.0	15.0	16.2	15.8
Unfunded Debt	18.0	18.9	15.9	13.1	10.0	10.0	9.8	8.9
Total	**40.3**	**39.3**	**35.7**	**33.2**	**32.0**	**30.3**	**31.4**	**30.2**
				(In percent of Total Debt)				
Permanent Debt	23.9	24.7	28.3	24.4	18.8	17.8	17.2	18.5
Floating Debt	31.4	27.3	27.0	36.1	50.0	49.3	51.5	52.2
Unfunded Debt	44.6	48.0	44.7	39.6	31.2	32.9	31.3	29.3
Memo:								
GDP (in billion of RS.)	**4401.7**	**4822.8**	**5641**	**6500**	**10243**	**12724**	**14837**	**18063**

* End-March — *Source: Budget Wing, Ministry of Finance*

The purpose of issuance was to raise money from Islamic banking which has grown substantially in Pakistan in recent years. Moreover, issuance of *Sukuk* has emerged out as an acceptable addition to limited investment avenues for Islamic banks to meet their SLR eligibility.

ii . Floating Debt

Floating debt consists of short term domestic borrowing instruments such as Treasury Bills and central bank borrowing through the purchase of Market Related Treasury Bills (MRTBs). During July-March, 2011, the floating debt grew by 19 percent. Around 56.6 percent of the total increase in government debt stock was contributed by floating debt instruments during July-March, 2011.

Much of the proceeds accrued through Market Treasury Bills (MTBs) as Rs 410.2 billion was added to the stock of June 30, 2010. On the other hand, government borrowed Rs 44.8 billion by issuing Market Related Treasury Bills (MRTBs) to SBP. The growing share of floating debt in total domestic debt in recent years has shown an inordinate reliance on the shorter end of the sovereign yields curve. Debt structures rely heavily on short-term instruments are sources of vulnerability, because short average maturities entail high rollover and refinancing risk. In such cases, an increase in interest rates can have an adverse fiscal impact.

iii . Unfunded Debt

The wide array of instruments that fall under the National Savings Scheme is referred to as unfunded debt. The stock of unfunded debt stood at Rs 1599.5 billion on end-March 2011, having increased by Rs 142.3 billion or 9.8 percent in nine months as compared to 14.7 percent in fiscal year 2010. Net receipts in Regular Income Scheme were up by 26.5 percent in July-march, 2011, as the stock increased from Rs.135.6 billion in June, 2010 to Rs.171.5 billion at end-March 2011. Special Saving Certificates and Accounts witnessed relatively weak investment of Rs 45.1 billion when analyzed against the net receipts of Rs 93.2 billion in 2009-10.

Special NSS instruments (Bahbood Savings Certificates and Pensioner's Benefits Accounts) exhibited a tedious performance as Rs 59 billion were mobilized in July-March 2011 as compared to Rs 77.4 billion in 2009-10. Rates of return on NSS instruments were revised upwards in October 2010 and January 2011 in response to an increase in the benchmark discount rate.

Domestic Debt Burden

During 1999-2000 to 2005-06, fiscal control and soaring growth rates surfaced out to be prime reasons behind shrinkage in interest payments as a percentage of major macroeconomic indicators analogous to a cut in the external debt. Since 2006-07, domestic debt witnessed a sharp rise with consequent build-up in the interest payments. Interest payments as percent of GDP has peaked to 4.4 percent of GDP in 2008-09 but since then declined persistently to 2.5 percent of GDP in 2010-11. This also incorporates impact of higher nominal GDP growth. Higher fiscal deficit and enormous slippages in the revenue and expenditure targets remained key problems. Supplementing to the intensity of the situation was a policy overhang and the monetization of the deficit through central bank borrowings.

Interest payments as a percentage of revenue (tax as well as total revenue) gauge the absorbing capacity of government revenues in terms of interest payments on domestic debt. The growth in revenues outperformed that of interest obligations, resulting in a diminution of interest payment as a percent of tax revenue from 51.8 percent in 1999-2000, to 25.2 percent in 2005-06. Since then a persistent rise in interest-to-tax revenues ratio led to reach at peak of 46.4 percent in 2008-09. Higher nominal growth in tax revenues muted the rise and the ratio declined to 25.2 percent during July-March 2010-11. Interest payments as a percentage of total revenues attenuated from 41 percent in 1999-2000 to 18.8 percent in 2005-06 but bounced back to 30.2 percent in 2008-09 only to decrease to 19.1 percent in 2010-11.

Pakistan's Link with International Capital Market

The crisis gripping financial markets worldwide has meant that capital flows have all but dried up. As uncertainty about risk prevails and investors look to shore up their losses, capital flows to emerging markets have been curtailed. Sovereigns have, in most cases, been deterred from new issuances by market sentiment in the aftermath of European debt crisis. Global bond issuances have slowed down. Spreads on emerging market sovereign bonds have also widened substantially, making access to financing through capital markets, if available at all, very costly. The Emerging Market Bond Index, a benchmark index for measuring the total return performance of international government bonds issued by emerging market countries, has increased, implying an increase in costs for tapping international debt capital markets. As negative sentiments prevail, the situation for Pakistan is compounded by weaker economic performance in 2010-11 and a highly volatile domestic security situation. The spread on Pakistani sovereign bonds as given by the EMBI have gone up by 860 bps and have a rating of B3/B-. Given the severity of the crisis in international markets, and hesitance with respect to investor confidence, Pakistan has not issued any new instruments since 2006. However, following the government's stabilization program and a restoration of economic fundamentals, signs of recovery are visible, just as the global economy has exhibited momentum in the revival process. The government plans to continue to tap the global capital markets, when conditions are more favorable, with the aim of establishing a benchmark for Pakistan and to assure global investors of Pakistan's commitment to the development of its capital market. Given the performance and prospects of oil and gas sector in Pakistan, the government is closing an OGDCL exchangeable bond of USD 500 million before the end of this fiscal. By regaining investor confidence and being active in international debt capital markets, spreads on Pakistani paper can be narrowed, providing the government with greater financing options.

Table-9.10: Domestic Debt & Domestic Interest Payments Burden

Year	Domestic Outstanding Debt	Interest Payments	Domestic Interest Payment (in percent of)				
			Tax Revenue	Total Revenue	Total Expen-diture	Current Expenditure	GDP
	(Rs. billions)		(Percent)				
2001-02	1774.7	189.5	39.6	30.4	22.9	27.1	4.3
2002-03	1894.5	166.9	30.0	23.2	18.6	21.1	3.4
2003-04	2012.2	161.5	26.4	20.3	16.9	20.8	2.9
2004-05	2158.4	176.3	26.7	19.6	15.8	20.4	2.7
2005-06	2336.8	191.4	25.2	18.8	14.4	19.6	2.7
2006-07	2610.3	318.9	32.3	22.1	16.0	20.9	3.7
2007-08	3274.6	430.2	40.9	28.7	18.9	23.2	4.2
2008-09	3860.4	558.7	46.4	30.2	22.1	27.4	4.4
2009-10	4653.8	578.3	38.6	27.9	19.2	23.3	3.9
2010-11*	5462.2	457.0	25.2	19.1	13.8	16.5	2.5

** End March* *Source: Budget Wing (MoF) and EA Wing*

Recent Performance of 2017 and 2036 Eurobonds

In line with developments in global debt capital markets, Pakistan has witnessed an increase in spreads on its 2016, 2017 and 2036 Eurobonds in the first nine months of 2010-11. Though some stability has been regained due to initiatives taken by the government under IMF SBA, it has not been enough to overcome the negative sentiment surrounding markets in general and the socio-political risk associated with Pakistan. In the absence of a credit rating upgrade for Pakistan, as compared to the issue spread of UST + 200 bps, the 2017 bond is trading currently at a spread of UST +860 bps [Table 9.11].

Table-9.11: Selected Secondary Market Benchmarks (as of May 23, 2011)

Issuer	Ratings (Moody's/S&P)	Coupon (%)	Maturity	Spread over UST (bps)	Bid - Yield (%)
Pakistan	**B3/B-**	**7.125**	**Oct 2016**	**824**	**10.043**
Pakistan	**B3/B-**	**6.875**	**Jan 2017**	**860**	**10.406**
Pakistan	**B3/B-**	**7.875**	**Jun 2036**	**681**	**11.086**
Philippines	Ba3/BB	8.000	Jan 2016	104	2.842
Vietnam	B1/BB-	6.875	Jan 2016	383	5.632
Indonesia	Ba1/BB	11.625	Mar 2019	141	4.564
Sri Lanka	NR/B+	7.400	Jan 2015	278	4.583

Source: Bloomberg, JP Morgan May23, 2011

The 2036 bond, as compared to the issue spread of UST + 302bps and a spread of 1361 bps last year, is trading currently at a spread of UST + 681 bps. The 2036 bond was the longest ever tenor achieved by Pakistan. Both the 10 and 30 year offerings were debut offerings for Pakistan which extended the yield curve to 30 years.

10 Education

Introduction

Education is central to the development strategy of an economy. It plays a vital role in human capital formation. Educated human capital has been found to have strong and consistent positive effects on economic growth and productivity of a country. It reflects substantial impact on the degree of social cohesion in a country. Equalization of education levels reduces the regional disparities. Like many other developing countries, the situation of education sector in Pakistan has not been very encouraging due to poverty and dismal economic situation in the country. Hence, it is necessary the proportion of development spending on education must be increased. An extremely high portion of the education budget is spent on recurrent heads, mainly comprising of salaries in contrast to the meager amount spent on quality improvements, such as teacher's training, curriculum development, supervision, monitoring etc; therefore, additional funds must be allocated for the purpose.

In addition world has admitted the fact that importance of education in poverty alleviation cannot be denied. It proves an agency to keep up sustained economic wellbeing by combating un-employment, removing social differences, improving tolerance and setting the best practices for women participation. This government policy intervention proved helpful in realizing the change at grass root level as it has successfully graduated at both fronts: policy and implementation.

Literacy

According to the latest Pakistan Labour Force Survey 2009-10, the overall literacy rate (age 10 years and above) is 57.7 percent (69.5 percent for male and 45.2 percent for female) compared to 57.4 percent (69.3 percent for male and 44.7 percent for female) for 2008-09. The data shows that literacy remains higher in urban areas (73.2 percent) than in rural areas (49.2 percent), and is more prevalent for men (80.2 percent) compared to women (65.5 percent) in rural areas. However, it is evident from the data that rural-urban and male-female disparity seems to be closing a bit. When analysed provincially, literacy rate in Punjab stood at (59.6 %), Sindh (58.2%), Khyber Pakhtunkhwa (50.9%) and Balochistan at (51.5%). The literacy rate of Punjab and Khyber Pakhtunkhwa has improved considerably during 2008-09 and 2009-10 [See Table 10.1].

Table: 10.1 Literacy Rates (10 Years and Above)-Pakistan and Provinces **(Percent)**

Province/Area	2008-09			2009-10		
	Total	Male	Female	Total	Male	Female
Pakistan	57.4	69.3	44.7	57.7	69.5	45.2
Rural	48.6	63.2	33.4	49.2	63.6	34.2
Urban	73.3	80.3	65.6	73.2	80.2	65.5
Punjab	58.7	68.5	48.8	59.6	69.1	49.8
Rural	51.3	63.1	39.5	52.5	64.0	40.7
Urban	73.3	78.9	67.4	73.5	78.9	67.8
Sindh	59.4	71.2	45.6	58.2	70.2	44.3
Rural	41.8	59.0	20.7	41.0	58.2	20.3
Urban	75.7	82.9	67.5	74.9	82.2	66.8
KPK	50.0	69.6	31.1	50.9	70.1	32.3
Rural	47.1	67.9	27.4	48.4	68.3	29.1

Province/Area	2008-09			2009-10		
	Total	Male	Female	Total	Male	Female
Urban	63.4	77.4	49.0	62.7	77.8	47.4
Balochistan	51.5	68.5	30.2	51.5	69.2	29.3
Rural	46.5	64.4	23.8	45.7	64.2	22.5
Urban	66.4	81.0	48.8	69.6	85.0	50.6

Source: Pakistan Labour Force Survey 2009-10

Levels of Education

The comparative shares of literate depict marginal improvement in the profile of educational attainment. Nevertheless, all categories remain at the same level except a sort of increase in below matric (37.5 percent). Generally, males are more educated compared to females. The comparative picture is given in Table 10.2.

Table: 10.2 Level of Education-Distribution of Population 10 + Years of Age by Sex (Percent)

Level of Education	2008-09			2009-10		
	Total	Male	Female	Total	Male	Female
A.Literate	57.4	69.3	44.7	57.7	69.5	45.2
No formal education	0.5	0.5	0.5	0.5	0.6	0.5
Below matric	37.1	44.4	29.2	37.5	44.9	29.5
Matric but less than Intermediate	10.7	13.4	7.8	10.7	13.1	8.0
Intermediate but less than Degree	4.7	5.6	3.8	4.7	5.6	3.8
Degree and above	4.4	5.4	3.4	4.3	5.3	3.4
B. Illiterate	42.6	30.7	55.3	42.3	30.5	54.8
Total (A+B)	100.0	100.0	100.0	100.0	100.0	100.0

Source: Pakistan Labor Force Survey 2009-10

Educational Institutions and Enrolment

i) Pre-Primary Education

Pre-Primary Education is the basic component of Early Childhood Education (ECE), Prep or Kachi classes of children having age of 3-4 years. An increase of 4.0 percent in Pre-Primary enrolment (8.743 million) in 2009-10 over 2008-09 (8.434 million) has been observed during 2009-10, it is estimated to increase by 2.0 percent in 2010-11 [See Table 10.3].

ii) Primary Education (Classes I – V)

A number of 157,360 Primary Schools with 466,451 Teachers are functional. An increase in Primary enrolment (18.756 million) in 2009-10 over 2008-09 (18.468 million) has been observed during 2009-10, it is estimated to increase by 1.4 percent in 2010-11 [Table 10.3].

iii) Middle Education (Classes VI-VIII)

A number of 41,330 Middle Schools with 331,254 Teachers are functional. An increase in middle enrolment (5.501 million) in 2009-10 over 2008-09 (5.414 million) has been observed during 2009-10, it is estimated to increase by 0.4 percent in 2010-11 [Table 10.3].

iv) Secondary Education (Classes IX-X)

A number of 24,792 Secondary Schools with 446,490 Teachers are functional. An increase in secondary enrolment (2.581 million) in 2009-10 over 2008-09 (2.556 million) has been observed during 2009-10. It is estimated to increase by 2.9 percent in 2010-11 [Table 10.3].

v) Higher Secondary / Inter Colleges (Classes XI-XII)

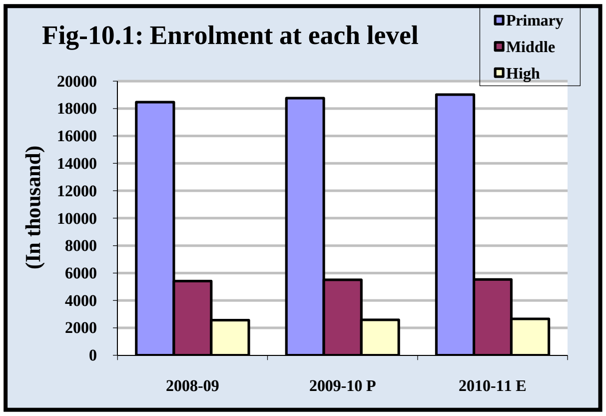
An enrolment of 1.257 million is estimated in 2010-11 against 1.165 million in 2009-10 and 1.07 million in 2008-09 whereas, 3,323 Higher Secondary Schools and Inter Colleges with 77,118 Teachers are functional [Table 10.3].

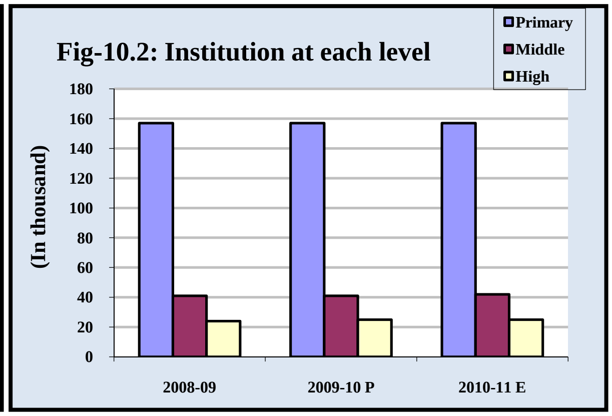
vi) Degree Colleges Education (Classes XIII-XIV*)*

An enrolment of 619,629 students is expected during 2010-11 in Degree Colleges against 542,381 in 2009-10. A total of 1,439 Degree Colleges with 30,753 teachers are functional [Table 10.3].

vii) Universities Education (Classes XV onwards)

An enrolment of 1,105,307 is estimated in 2010-11 in Higher Education over 935,596 in 2009-10. In order to boost-up higher education. Three new universities have been established during the year 2009-10 making the total number to 132 universities with 57,780 Teachers in both Private and Public Sectors [Table 10.3].





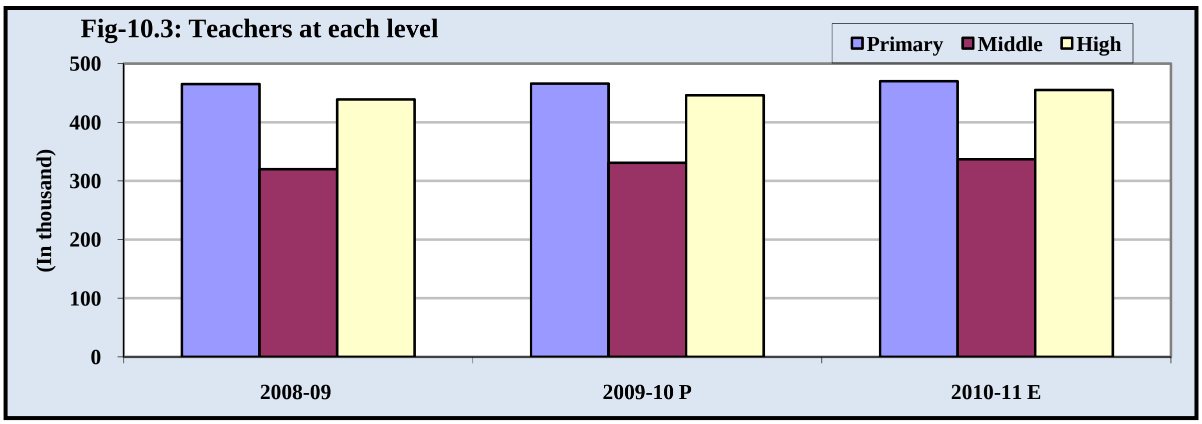


Table 10.3: Number of Mainstream Institutions, Enrolment and Teachers by Level (In Thousands)

Year	Enrolment			Institutions			Teachers		
	2008-09	2009-10 (P)	2010-11 (E)	2008-09	2009-10 (P)	2010-11 (E)	2008-09	2009-10 (P)	2010-11 (E)
Pre-Primary	8,435	8,743	8,925	--	--	--	--	-	
Primary*	18,468	18,756	19,022	156.7	157.4	157.0	465.3	466.5	470.0
Middle	5,414	5,501	5,525	40.9	41.3	41.8	320.5	331.3	337.5
High	2,556	2,582	2,658	24.3	24.8	25.2	439.3	446.5	455.2
Higher Sec./ Inter	1,074	1,165	1,257	3.2	3.3	3.4	76.2	77.1	79.2
Degree Colleges	429	542	620	1.3	1.4	1.6	21.2	30.8	35.7
Universities	804	936	1,105	0.1	0.1	-	52.8	57.8	63.5
Total	37,180	38,226	39,111	226.6	228.4	229.0	1,375.3	1,409.8	1,441.2

P: Provisional, E: Estimated,: including Pre-primary and Mosque Schools*

Source: Pakistan Education Statistics 2009-10,NEMIS,AEPAM, Ministry of Education.

Physical Infrastructure

The quality of existing learning environment is evident from the fact that a large number of schools are missing basic infrastructure facilities i.e. 32.7 percent schools up to elementary level, 32 percent are without boundary wall, 33.6 percent without drinking water facility, 35.4 percent without latrines and around 60 percent schools are without electricity. For higher accessibility of education particularly for girls in low income household and to enhance the enrolment, existing schools should be upgrade with the provision of necessary infrastructure to improve both output and quality of education. Details may be seen in [Table-10.4]

Table 10.4: Missing Facilities in Government Schools 2009-10 **(In Number)**

Province/ Area	Without Building	Without Boundary Wall	Without Drinking Water	Without Latrine	Without Electricity
Punjab	1,061	11,665	7,529	12,125	23,685
Sindh	10,722	24,001	24,559	21,664	41,230
Khyber Pakhtunkhwa	430	8,327	9,280	7,291	13,134
Balochistan	760	1,436	5,520	8,449	9,821
AJK	2,596	5,061	3,906	4,212	4,443
Gilgit-Baltistan	202	1,053	975	934	1,065
FATA	225	1,834	3,095	3,050	2,839
ICT	0	12	9	9	6
Total Pakistan	15,996	53,389	54,873	57,734	96,223
In %	9.8%	32.7%	33.6%	35.4%	59.0%

Source: Pakistan Education Statistics 2009-10, NEMIS, AEPAM, Ministry of Education.

Technical and Vocational Education

National Vocational and Technical Education Commission (NAVTEC) is a regulatory body responsible for promoting linkages among various stakeholders to address challenges faced by Technical and Vocational Educational Training (TVET). These include training and skill enhancing at individual level and initiating a mega campaign at public-private partnerships. NAVTEC specially focuses on disadvantaged group to economically dis-advantaged region.

The most enticing feature of NAVTEC is to enhance the employability of youth and supporting women to participate in labour force more actively. Today rate of women participation is only 29 percent which is far less than other regional countries.

Under President's *Fanni Maharat Programme* individuals, across the country are provided opportunities to gain skills from vocational training institutes/ centres. Prime Minister's *Hunar Mand Pakistan Programme* is also a similar kind of step to launch different skill development programme, in four priority sectors including: Construction, Agriculture, IT and Telecommunication and skills for women.

Realizing the real need and importance, the commission has made itself up for establishing of sector specifies training institutes and centre of excellence. These institutes make available beautiful linkages between industry and technical institutes, and facilitate in information flow and benefit, from new industrial innovation by bridging the gap between academics and new industrial innovations.

In this regards, the contribution of different Industries Advisory Groups (IAGs), established by NAVTEC, to create missing links between industries and training providers cannot be ruled out. These IAGs provide industry intelligence to policy makers and training providers in designing skills, standards and curricula. IAGs has Identified five priories sectors; textile, construction, tourism and hospitality, surgical instruments and agricultural. IAGs also continue its working to remove future's short coming for keeping up the balance, in skill required at work places. First time in the history of Pakistan, National Skill Competition was also conducted so as competing institutes, and participating males and females are encouraged for future stream lining of industry requirements.

Under the different long term programmes, commission emphasizes a shift from curriculum base to competency based training through its National Skills Strategy 2009-13, to create demand driven training system as per requirement of industry. To cover at large, National Level Survey of all TVET institutes has also been planned to gather information about capacity enrolment, courses, physical resources, linkages to industries, student services, financial resources, under public- private partnerships.

Higher Education Commission

In this age of globalisation, higher education plays an important role in making an economy knowledge based. It works as a driving force in the development process of a county and brings intellectual capital and technological changes, making economy more competitive and innovative by reshaping human capital with better skills and expertise. Higher Education Commission is an autonomous body to provide inter-universities cooperation and coordination.

Due to continued financial vulnerabilities, the government has reduced development budget to Rs. 9.2 billion in 2010-11 compared to Rs.11.3 billion in 2009-10. The development and non-development financial allocation for the past 5 years is given in [Table 10.5].

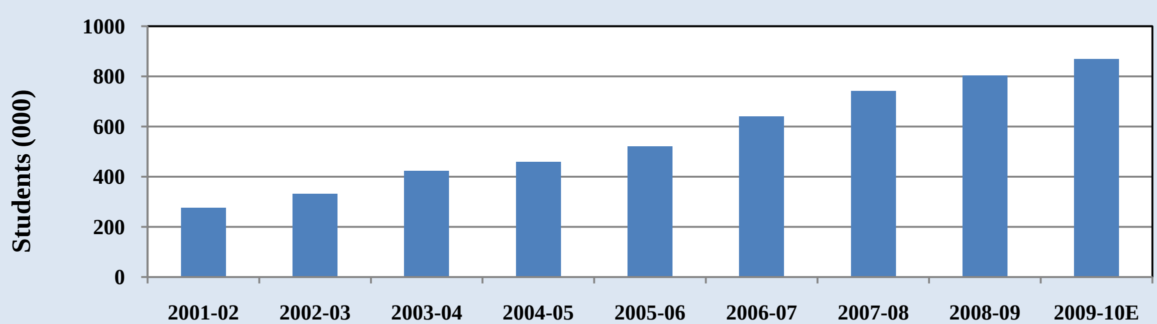
Table 10.5: Development and Non Development Expenditures on Higher Education **(Rs. Billion)**

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Recurring	10.5	14.3	12.5	15.8	21.5	20.3
Development	10.9	14.4	15.4	16.4	11.3	9.2
Total	21.4	28.7	27.9	32.2	32.8	29.5

Source: Higher Education Commission

The education Policy 2009 calls for an increased access to higher education for the youth of age group between 17-23 years from the existing 5 percent to 10 percent by the year 2015. It is a major challenge for Higher Education Commission (HEC) and would require continuous support and generous funding from the federal government in the upcoming years. During 2009-10, there were 868,641 students studying in the universities. The trend for increase in enrolment is given in Figure 10.4.

Fig-10.4 University Enrolment (Campuses + Constituent Colleges only)



E : Estimated

Source: HEC

To provide the access of quality higher education to the masses, Charters to two new universities were awarded in 2010-11.

i) Human Resource Development

High skilled workforce has become a basic need to meet the challenges of contemporary era which is all about competitiveness and efficiency. Higher education sector has been playing essential role in human resource development to support the economy of the country by contributing in workforce of approximately four hundred thousand university graduates, every year, during 2005 to 2009. The data shows 30 percent increase in the total graduates output from the universities and Degree Awarding institutes (DAIs) during above mentioned period**.**

Since 2002, Higher Education Commission has sent about 4,313 scholars in the technically advanced countries for research degrees such as M. Phil and Ph.D. Out of these 1,214 have completed and returned to the country. Similarly, scholars were also encouraged to enrol in the local universities. This has helped to promote the research culture indigenously. HEC sponsored 8,873 scholars in the local universities out of which 2,524 have completed their studies. During 2010, more than 750 PhDs degrees were awarded by Pakistani Universities.

Interim Placement of Fresh PhDs (IPFP) has been launched to gainfully used trained manpower. So far 288 PhD graduates have been placed through Interim Placement of Fresh PhDs Programme, out of which 156 have graduated from abroad and 132 from Pakistani universities.

ii) Use of Information and Communication Technology in Academic and Research

HEC has deployed a national research and education network, i.e. Pakistan Education & Research Network (PERN) across the country which connects almost all the HEIs together while providing them high speed connectivity between the institutions for e-research and interactive video lectures. PERN connectivity to another fifty five (55) new universities/ institution/ Campuses is in process. HEC is also planning to extend its services to affiliated colleges of the universities/ DAIs across the country to form a College Network of Pakistan, while capitalizing on PERN Core infrastructure and resources. HEC has provided eight universities with the standard off-the-shelf Campus Management Solution (CMS) for the automation of student-centric academic processes. HEC is planning to extend these facilities to 30 Public Sector Universities/Institutes of Pakistan in next 3 years.

Major Programmes and Projects of Ministry of Education

During 2010-11, allocation made under Public Sector Development Programme (PSDP) stands at Rs. 5,071 million for 86 development projects against which, Rs. 1,722 million have been released up to January 2011. Under the 18th constitutional amendment, Ministry of education (MoE) has been devolved therefore; no further releases have been made. The on-going projects and programmes are going to be operated by the provincial governmental or relevant ministries in which they are transferred.

i) President Education Sector Reforms Programme

In the financial year 2010-11, an amount of Rs.823.1 million was allocated for the project "Education Sector Reforms Program-Provision of Missing Facilities" to improve physical infrastructure and basic facilities in government primary and elementary schools. The project is being operated across the country except Punjab. The project targeted 5704 schools out of which 3038 school have been completed and remaining 2666 school are in progress. So far, Rs.2680.5 million has been released and amount has been distributed among the provinces (Sindh, KPK & Balochistan) and Areas (FATA, FANA/ GB & AJK) as per approved Cash/Work Plan.

A brief summary of Physical and financial progress of the project from 2006-07 to 2010-11 is given in Table 10.8

Table 10.8 Progress under ESR

Sr. No	Province/ Area	Financial Progress (2006-07 to 2010-11)			Physical Progress (No. of schools)			
		Funds Released	Funds Utilized	% Utilization	Target	Completed	In Progress	% Achieve-ment
1.	Sindh	784.4	784.4	100%	1644	724	920	45%
2.	KPK	868.4	868.4	100%	1876	1074	802	57%
3.	Balochistan	365.8	365.8	100%	842	402	440	48%
4.	FATA	104.8	104.8	100%	390	100	290	26%
5.	GB	121.3	121.3	100%	548	430	118	79%
6.	AJK	326.9	326.9	100%	323	227	96	71%
7.	ICT	108.8	108.8	100%	81	81	81	100%
Total		**2680.5**	**2680.5**	**100%**	**5785**	**3038**	**2666**	**41%**

Source: Ministry of Education

ii) Programme Achievements

Projects Wing has taken various initiatives resulting in following achievements.

Early Childhood Education (ECE)

- Developed/validated draft Early Learning Developing Standards (ELDS) in consultation with provincial stakeholders.
- Developed/disseminated ECE Advocacy Material (Booklet and ECE poster)
- Developed ECE Teaching Kit in the light of ECE National Curriculum 2007
- Developed ECE Advocacy Material (Urdu booklet) highlighting the significance, importance and state of ECE in Pakistan

Primary Education

- Provided funds to provinces for missing facilities under Education Sector Reforms (ESR) programme
- Developed Advocacy Booklet (Urdu) on significance, importance and status of primary Education in the country.

Adult Literacy

- Developed/ disseminated charts on different themes of Adult Literacy
- Developed Adult Literacy Advocacy Material (Urdu Booklet) highlighting the significance, importance and status of Adult literacy
- Developed National and Provincial/Area 5 year Adult Literacy plan in consultation with the provinces and other literacy stakeholders.

iii) Scholarships

Ministry of Education is running a number of scholarship schemes for different target groups. The current progress of various schemes is as under:

- 100 scholarships were awarded to Bangladeshi Students.
- 200 scholarships were awarded to students from Indian Occupied Kashmir in the field of medicine, engineering and information technology. The Prime Minister of Pakistan has increased the number of scholarships from 200 to 400.
- Under Cultural Exchange Programme Scheme, Ministry of Education awards 200 scholarships each year to foreign students. Currently 75 students are studying in Pakistan under Cultural Exchange Programme (CEP).
- 2,000 Scholarships were awarded to the Students from Afghanistan.
- Under Provision of Quality Education, students from Baluchistan and FATA are provided with scholarships to study at cadet

colleges, public schools, polytechnic, commercial collages and private institutions. The scheme provides 330 scholarships each year.

- Under Cultural Exchange Programme, 54 Scholars were sent abroad on scholarship for higher studies (China 23, Turkey 10, Romania 03, Slovak 01 and Egypt 17).
- Under Commonwealth Scholarship Programme, 06 scholars proceeded to the U.K.
- 09 students preceded to Bangladesh for MBBS studies on self-finance basis under SAARC quota.
- 40 scholarships were awarded to the minority students.
- Scholarship was given to 199 students under the scheme "Provision of Quality Education Facility" to FATA students.

Education Survey

Box: Main findings of ASER 2010 (Rural)

- 80 percent of children in the age group 6 to 16 years in rural Pakistan were enrolled in schools in 2010. Of the children in the primary age group 6 to 10 years 84 percent were enrolled.
- Pre-school enrollment in 2010 was 45 percent, which is quite close to the overall EFA/National Plan of Action (NPA) target of 50 percent enrolment in pre-school by 2015.
- There was decreasing trend for enrollment from class 1 to class 10. The class wise enrollment for class 3 was 14 percent, 9 percent for class 6 and 3 percent for class 10.
- Mother's literacy stood at 32 percent. Lowest being 17 percent in Balochistan and highest being 55 percent in Gilgit-Baltistan.
- The overall percentage of rural children in class 5 reading a class 2 text in Urdu/Sindhi was 52 percent while for the English text it was 42 percent. This meant that more than half of all rural children in class 5 in Pakistan were at least three grade levels behind.
- For arithmetic level up to class 3, only 34 percent children in class 5, were able to do division problems. Thus more than 65 percent of the children in class 5 were at least two grades levels behind.
- Out of every 4 children in the private schools, at least 1 child took paid tuition, whereas out of every 10 children in the Government school, at least 1 child took paid tuition
- 43 percent of the Government primary schools did not have safe drinking water and 55 percent did not have proper washroom facilities.
- Overall children's attendance on the day of visit as per headcount in government schools stood at 82 percent and 89 percent for private schools. Sindh, had 65 percent attendance whilst Khyber Pakhtunkwa had 88 percent children's attendance.
- Teachers' attendance on the day of the visit at the national level was 87 percent in Govt. Schools and 90 percent in private schools.

Source: ASER-Pakistan 2010 http://safedafed. Org/aser/document/aser/2011/

11 Health and Nutrition

Good health is identified as a vital component of a good quality of life, and access to good health is recognized as a basic human need and a fundamental human right. A healthy population is more productive and efficient component of the society.

In order to address enduring failures of human development, Millennium Development Goals has been drafted for reducing poverty, gender equality and among other advancing opportunities for health and education. Pakistan being a signatory of MDGs is fully aware of its commitments and particularly focusing of meeting three out of eight groups which relates to health sector such as reducing child mortality, in focusing maternal health and combating HIV/AIDs, TB, Malaria and other diseases.

The National Health Policy of Pakistan 2009 in conformity with its commitment seeks to improve the health indicators of the country by delivering a set of basic health services for all. This will be done by improving health and using reliable health information to guide program effectiveness and design, and strategic use of emerging technologies. The health status of the population can be enhanced by achieving policy objectives of enhancing coverage and access of essential health services, measurable reduction in burden of diseases and protecting the poor and under privileged population subgroups against risk factors. Several programs are under way with major thrust to improve health care and training.

Currently a total of 82 development schemes with PSDP allocation of Rs.16.9 billion for year 2010-11 are executing through ministry of health. Against this allocation, Rs.7.411 billion has already been released by the Planning Commission during July-January, 2011. Out of the released amount, Rs.6.3 billion has been utilized by the programmes/ projects upto January, 2011 which is 85% against the released amount. Despite financial constraints, the government has shown its resolve to continue investments in social sector in order to improve Human Development Index.

Health Indicators

Child and maternal health is perhaps the most significant index of social development in a country and is considered to reflect the level of nutrition, education and access to health services. Table-I below compares Pakistan’s performance with that of other regional countries for the year 2010. Despite the fact that Pakistan has made progress during last couple of years towards achieving these health targets yet the pace has been sluggish. Pakistan still suffers from a high infant and maternal mortality, a double burden of diseases, and inadequate health care facilities with high population growth. Mortality, morbidity and slow progress of indicators in the maternal and child health are major concerns in the progress towards achieving Millennium Development Goals. Pakistan is lagging behind from other developing countries in these indicators. However, life expectancy at birth is a good indicator of health and here Pakistan has done better. The average life expectancy at 67.2 years estimated for 2010 is well comparable with Bangladesh, Nepal and Thailand but the mortality rate for children under age five and infant mortality still remains high due to birth related problems, immunizable diseases, malnutrition and unhealthy dietary habits and low female literacy rate. Pakistan is working towards universal immunization, diseases prevention, health promotion and curative services. There are several programmes underway to improve health care and coverage.

Table 11.1: Indicators

Country	Life Expectancy (2010)	Infant Mortality Rate per 1000 (2010)	Mortality Rate under 5 per 1000 (2010)	Population Avg. Annual (%) Growth (2010)
Pakistan	**67.2**	**63.3**	**89**	**2.1**
Bangladesh	66.9	50.7	54	1.6
China	73.5	16.1	21	0.5
India	64.4	47.6	69	1.3
Indonesia	71.5	27.1	41	1.1
Malaysia	74.3	15.0	6	1.6
Nepal	67.5	44.5	51	1.6
Philippines	72.3	19.3	32	1.9
Sri Lanka	74.4	9.7	15	0.9
Thailand	69.3	16.4	14	0.6

Source: United Nation Human Development Report 2011

Health Expenditure:

The government's health budget has been progressively increasing over the last several years. The share of health expenditure in total expenditures/GDP is the most significant variable affecting health status in a country. Notwithstanding the increase in absolute terms its ratio to GNP/GDP remained more or less static at around 0.5-0.7 percent. The analysis of health financing of last decade 2000-10 indicates that major share of the financial resources in public sector are provided by the government. With reference to the ratio between development and non-development budget, comparison of last several years shows a major dominance of non development budget. The gap appears to have been widening over years partly due to resource constraints. However, the overall trend is comparatively favorable. For 2011, total health care expenditure is estimated at 0.23 percent of GDP. The following figures give development versus non-development budget in the country of health sector.

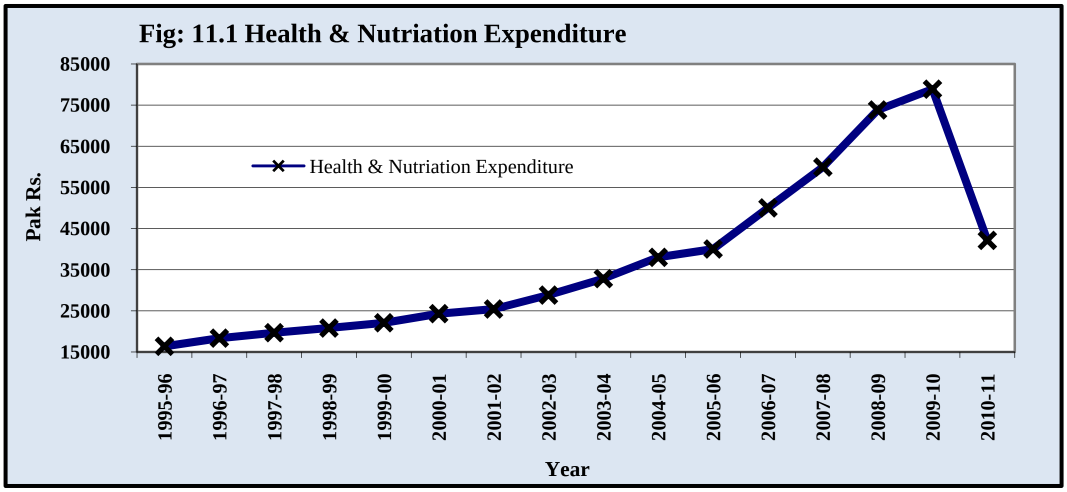
Table 11.2: Health & Nutrition Expenditures (2000-01 to 2009-10) (Rs. Billions)

Fiscal Years	Public Sector Expenditure (Federal and Provincial)			Percentage Change	Health Expenditure as % of GDP
	Total Health Expenditures	Development Expenditure	Current Expenditure		
2000-01	24.28	5.94	18.34	9.9	0.72
2001-02	25.41	6.69	18.72	4.7	0.59
2002-03	28.81	6.61	22.21	13.4	0.58
2003-04	32.81	8.50	24.31	13.8	0.57
2004-05	38.00	11.00	27.00	15.8	0.57
2005-06	40.00	16.00	24.00	5.3	0.51
2006-07	50.00	20.00	30.00	25	0.57
2007-08	60.00	27.22	32.67	20	0.57
2008-09	74.00	33.00	41.10	23	0.56
2009-10	79.00	38.00	41.00	7	0.54
2010-11	42.00	19.00	23.00	(-)47	0.23

Source: Planning Commission

Health Facilities:

In Pakistan investment in the Health sector are viewed as an integral part of the government's poverty alleviation endeavour. There has been a noticeable improvement in some health indicators over the years. The health care personnel-doctors, dentist, nurses and paramedics etc in public sector have also increasing considerably over time in the country. Upto the year 2010, there are 144,901 physicians, 10508 dentists, 73,244 nurses, and 27.153 midwives. Besides, there are 972 hospitals in the country with total of 104,137 hospital beds, 4,842 dispensaries and 5,344 basic health units (BHUs) mostly in rural areas. Special attention has been given to the training of nurses, and several training centers are in operation. The government hospitals used to provide most services free. In certain places medicines are also provided free of charges. According to the available heath data, the population versus health facilities ratio works out 1222 person per doctor and availability of one dentist for 16,854 people and one hospital bed for 1701 people.



The new vision for health outlined in the government's national health policy provides guidelines for provision of better services in 2010. The recent promising initiative is the lady health worker (LHW) community based program which bring some basic health care and family planning services to women's doorstep charges.

Table 11.3: Healthcare Facilities

Health Manpower	2008-09	2009-10	2010-11
Registered doctors	133,925	139,555	144,901
Registered dentists	9,013	9,822	10,508
Registered nurses	65,387	69,313	73,244
Population per Doctor	1212	1183	1,222
Population per Dentist	18,010	16914	16,854
Population per Bed	1575	1592	1,701

Source: Ministry of Health

11.4 Physical Targets and Achievements During 2010-11

Targets for the health sector during 2010-11 included establishment of 15 Rural Health Centers (RHC), 40 Basic Health Units (BHUs) and up-gradation of 45 existing RHCs and 900 BHUs. The manpower target included the addition of 5000 new doctors, 450 dentists, 3500 Nurses, 5500 paramedics and 500 traditional birth attendants. Under the preventive program, about 8.5 million children were targeted to be immunized and 25 million packets of ORS were to be distributed during 2010-11. Till date 4500 HIV positive cases have been reported to the National and Provincial AIDS Control Programs. It includes 3050 full blown AIDS cases. Around 1030 are receiving free treatment through 12 AIDS Treatment Centers. Total number of TB cases reported are 62,321. Whereas the absolute number of cases is 209,714 up to the third quarter of 2010 and the treatment success rate remained 91 percent. The percentage of TB case-detection rate is 81 percent and cure rate is 74 percent.

Physical targets, achievements for 2010-11 are given in the table 11.4:

Table 11.4: Physical Targets and Achievements During 2010-11

Sub-Sector	Targets (Nos) 2010-11	Estimated Achievements (Nos)	Achievements (%)
A. Rural Health Programme			
i. New Basic Health Units (BHUs)	40	35	87
ii. New Rural Health Centres (RHCs)	15	13	86
iii. Upgradation of existing RHCs	45	40	88
iv. Upgradation of existing BHUs	900	850	94
B. Beds in Hospitals/RHCs/BHUs	4500	4300	95
C. Health Manpower Development			
i. Doctors	5000	4500	90
ii. Dentists	450	400	80
iii. Nurses	3500	3200	90
iv. Paramedics	5500	5000	90
v. TBAs	500	450	-
vi. Training of LHWs	100,00	96,000	96
D. Preventive Programme			
i. Immunization (Million Nos)	8.5	8	94
ii. Oral Rehyderation Salt (ORS) (Million Packets)	25	24	96

Source: Planning Commission

11.5 Health Programs

The government is implementing many health programmes focused on developing sustainable health care system to combat diseases and other major health concerns.

a) Expanded Programme on Immunization (EPI)

The government has allocated Rs.2716.3 million (GoP Rs.2315.7) &GAVI Rs. 400.6) for the current year 2010-11 to improve the health status of children and their mothers. This ensures the commitment of the government for provision of vaccines, syringes, cold chain equipment, operational vehicles, printed material and promotion of health education/ motivation campaign through electronic media. The programme has been able to attain major achievements such as:

- Surveillance for acute flaccid paralysis (AFP) has met global standards nationally.
- Three round of Medical Nutrition Therapy (MNT) have been completed in six high risk districts of Punjab. Two rounds have also been conducted in one high risk district of Sindh (Tando Allahyar) during 2010 with the overall coverage of 95 percent & 92 percent, respectively to bring down the Number Needed to Treat (NNT) cases and achieve maternal and neonatal elimination level in the country.
- Mass vaccination campaign in 40 high risk districts has been completed during Sept-Oct 2010 whereas 2nd Phase in 30 districts is underway. Remaining districts will be covered during March-April 2011 as elimination level could be achieved.
- Government has brought Global Alliance for Vaccines and Immunization (GAVI) support for introduction of pneumococcal vaccine for the country under co-financing mechanism. Global Alliance for Vaccines and Immunization (GAVI) will pay US$ 680 million and the country will bear US$ 20 million under GAVI Phase-2 support.
- Pakistan has made tremendous progress towards achieving polio targets and global experts have re-affirmed that country could be the next polio free country in the world. The number of cases has been reduced from thousands to just 140 cases in 2010 and polio

remains in just a few strongholds across the country.

b) AIDS Control Programme

The trend of HIV epidemic has shifted from a low-prevalence state to concentrated state. Based on the surveillance data and epidemiological modelling, the National Aids Control Programme (NACP) has estimated that there are about 90,000-100,000 HIV positive people, approximately 0.1 percent of the general population.

However, as the epidemic is unfolding the situation among high-risk groups especially, injection drug users are becoming worse. The results of the recent survey among these high risk groups indicate an average HIV prevalence of 20 percent among injection drug users. Furthermore, there has also been a recent reporting of HIV outbreak in Jalal-Pur Jattan (Punjab), where a detailed fact finding outbreak investigation by Centre for Disease control (CDC) Atlanta-USA in collaboration with National and Punjab AIDS Control Program is under progress. The preliminary reports prepared so far clearly indicates that the HIV infection in the area is an old phenomenon and it is the awareness and availability of testing services that has revealed the situation. The principle services that have been provided by the programs in most areas include;

- HIV Prevention and Control services including provision of new syringes, counselling and testing services, and treatment and care services for AIDS cases among high-risk groups ;
- HIV Prevention among general public through a nation-wide behaviour change communication campaign;
- Services to prevent HIV transmission through blood and blood products by providing HIV, Hepatitis B and C screening kits in all public sector blood banks;
- Successfully secured 3-years WHO grant for prevision of blood screening kits to Blood Banks in Pakistan.
- Establishment of 13 HIV treatment and 07 prevention of parent to child areas and Provinces, providing free of cost Anti Retroviral Therapy (ART).
- Implementation of health education campaign on both electronic and print media.

c) Malaria Control Programme

In 2010 (Jan-Dec) the total number of confirmed malaria cases in Pakistan reported from all the districts were 220,870 including 143,136 0r 75 percent cases due to P.vivax infection and 73857 due to P. falciparum infection and 3,877 were mixed infection. It is estimated that about 70-80 percent of the population goes to private sector for treatment, therefore, according to an estimate, the actual malaria burden could be four to five times higher. The currently approved PC-I for 2007-2012 are a step towards achieving the WHO global RBM target of 50 percent reduction in the malaria burden by the year 2010 in Pakistan. Falciparum cases will be kept less than 40 percent of all malaria infections. The National Strategy for Rolling Back Malaria (RBM) is based on the following key elements:

- Early Diagnosis and prompt treatment at general health facilities and community based approaches towards home treatment.
- Multiple prevention measures including promotion of insecticide treated bed nets & materials, targeted use of residual insecticide spraying, and introduction of biological and environmental vector management approaches.
- Intensive and comprehensive public education activities with appropriate Information, Education and Communication (IEC) material to enhance public knowledge of malaria, treatments, and prevention.
- Improved detection and response to epidemics and malaria emergency situations.
- Developing viable public and private partnerships in the country to combat malaria.

d) National T.B. Control Programme (NTCP)

Pakistan ranks 8^{th} amongst the countries with the highest burden of TB in the world. TB is responsible for 5.1 percent of the total national disease burden in Pakistan. Efforts have been made to expand partnerships and bring all stakeholders on board in order to control this disease more effectively. The National T.B. Control Programme (NTCP) is responsible for overall TB control activities in the country i.e. policy guideline, technical support, coordination, monitoring and evaluation, and research where as the PTPs are responsible for the actual care delivery process including programme planning, training of care provides, case detection, case management, monitoring and supervision.

The overall objective of NTP is to reduce mortality, morbidity and disease transmission so that TB is no longer a public health problem. The National targets are in line with the Millennium Development Goals (MDGs). To cure 85 percent of detected new cases of sputum smear positive pulmonary TB and to detect 70 percent of estimated cases once 85 percent cure rate is achieved.

NTP has taken many new initiatives including a nation wide formative research for identifying risky behaviours, development of a behavioural change communication strategy, initiation of mass media campaign, awareness seminars at provincial levels and advocacy activities at the district level. Operational research is carried out and steps are taken to enhance the research capacity at national provincial and district levels and design the carryout researches. NTP has completed and published 10 research projects. A number or researches are in progress.

e) National Programme for Prevention and Control of Blindness

The programme is in line with "VISION 2020", the global initiative of the WHO for elimination of preventable causes of blindness by the year 2020. Core objective of the Programme to be achieved include Prevention of blindness in two (02) million people, restoration of vision in two (02) million people and restoration of useful vision in 15,000 children. While the program has targeted to establish seven (07) Centres of Excellence in Ophthalmology and to strengthen and up-grade 20 Tertiary Teaching Hospital (TTH) Eye Departments. Besides, 63 District Eye Units (DHQ Hospitals) are targeted to be strengthened and upgraded.

f) National Programme for Family Planning (FP) & Primary Health Care (PHC)

It is a countrywide Programme for provision of Family Planning (FP) and Primary Health Care (PHC) services with community participation. The programme constitutes deployment of Lady Health workers (LHWs). Each LHW serves a population of 1,000 people that form approximately 150 families. The health services provided by the LHWs are through monthly home visits and static health houses established within their residence The major objective of Programme is to increase utilization of effective promotive, preventive and curative services at the community level particularly women and children in poor and underserved areas. Other main objectives of the programme are to;-

- Develop the necessary health manpower by selection, training and deployment of LHWs throughout the country.
- Provide promotive, preventive, curative and rehabilitative services to which the entire population has effective access.
- Bring about community participation through creation of awareness.
- Expand family planning services availability in urban slums and rural areas of Pakistan.

g) National Maternal, Newborn and Child Health Programme (MNCH Programme)

Maternal, newborn and child health (MNCH) is a priority agenda of the government. Pakistan is a signatory of many international development strategies, including MDGs and the government is committed to achieve a reduction in Infant Mortality Rate (IMR) and Maternal Mortality Ratio (MMR) by 2015. To address this issue, government is committed to increase the proportion of deliveries by skilled birth attendants from 40 percent to 90 percent and also to increase the Contraceptive Prevalence Rate (CPR) from 30 percent to 55 percent.

To strengthen the resource gaps in the existing service delivery for improving health of Mother, newborn and child health and to achieve Millennium Development Goals (MDG's) 4 & 5 goals, the government has already launched the National Maternal, Newborn and Child Health Programme (NMNCH) in 2006. The goal of the program is community based approach to improve the status of mothers, newborns and children particularly those in poor and marginalised households. The Program Objectives include**:**

- Reduction of maternal Mortality from 276 to 175/100,000 live Births.
- Reduction of Neonatal Mortality Rate from 54 to 40/1000 live Births.
- Reduction of Infant Mortality rate from 72 to 55/1000 live Births.
- Reduction of Under 5 Mortality rate from 94 to 65 per 1000 live births.
- Increase in the proportion of deliveries attended by Skilled Birth attendants at home or in health facilities to 90 percent from 39% (current).
- Increase in Contraceptive Prevalence Rate (CPR) from 30 to 55 percent.

Devastating floods of August-September 2010 have affected more than 20 million people, destroying infrastructure of rural and urban areas and agricultural lands of Pakistan. This has adversely impacted the overall economy and achievement of many of the MDG targets, which in the current scenario remains an ambitious target to achieve.

h) Cancer Treatment Programme

The incidence of the cancer is growing world wide as well as in Pakistan and the Pakistan Atomic Energy Commission (PAEC) has so far established 14 cancer hospitals in various cities throughout the country. These hospitals are equipped with advanced and sophisticated diagnostic/ therapeutic facilities and using the nuclear and other advanced techniques for diagnosis and treatment of cancerous and allied diseases and is actively involved in the national cancer prevention, diagnosis and treatment program. The program in diagnosis of different kinds of cancer and allied disease has great success. These Nuclear Medicine & Oncology (NM&O) Hospitals are equipped with most modern equipment, and manned by skilled teams of doctors, engineers, scientists, physicists and paramedical staff. Presently, there are 2000 professionals and supportive staff working at these hospitals. Nuclear Medicine and Oncology Hospitals besides treating about 286,000 patients in the period under report, the following targets have also been achieved :

- Research work continued on various IAEA TC/RCA Projects and other research projects in collaboration with different international/ national organizations.
- Four new NM&O Hospitals are at different stages of construction i.e. Swat 60 percent, D.I. Khan 80 percent, Bannu 60 percent and Nawabshah 80 percent.
- Launching of cancer awareness and control campaign especially for breast cancer awareness for early diagnosis and better prognosis through arranging lectures, seminar, and workshops in remote areas and through printing and electronic media.
- up- gradation of Nuclear Medicine & Oncology (NM &O) hospitals by adding latest medical diagnostic and treatment equipment to provide state of the art diagnostic and treatment facilities for all types of cancers to bring these hospitals at par with international institutes.
- Human resource development through academic training of existing doctors/ technicians and through hiring of experts in all relevant fields.
- Participation of provincial governments in the development of NM &O hospitals in their respective provinces.

i) Drug Abuse

Drug Abuse has emerged as a global issue and this menace is also wide spread in our society and affected Pakistan in many ways. It is entailing heavy social and economic costs on our already over-burdened and financially constrained economy. Trafficking of Afghan drugs into and throughout Pakistan and the smuggling of precursor chemicals to Afghanistan, continue to pose serious challenges to Pakistan's Law Enforcement Agencies (LEAs) and health care system

To address the drug issue from Pakistan's perspective and in view of the changes in global narcotics environment; the National Anti Narcotics Policy-2010 has been prepared which is based on three pronged strategy i.e. Drug Supply Reduction, Drug Demand Reduction and International Cooperation. In drug supply reduction, the focus will be on strengthening the law enforcement agencies (LEAs) at the federal and provincial/ district levels in an effort to combat drug trafficking and reduce the flow of drugs into Pakistan. Capacity of LEAs in high intensity drug trafficking areas like Khyber Pakhtunkhwa province and Balochistan will be increased to assist in disrupting money laundering and seizing drug generated assets. Poppy cultivation will be discouraged to maintain Pakistan's Poppy free status. As far demand reduction strategy, drug demand reduction efforts will be enhanced through education, community mobilization and awareness campaigns, effective and accessible drug treatment and rehabilitation systems. As regards international cooperation, the government is to promote and actively participate in bilateral, regional and international efforts to combat drugs. Demand reduction in destination countries needs to be an important part of international efforts.

A new Drug Control master Plan (2010-14) has been prepared to reduce the health, social and economic costs associated with drug trafficking and substance abuse in Pakistan. The plan includes short, medium and long-term initiatives for implementation of the National Anti-Narcotics Policy-2010.

Currently, there are 19 on-going development projects which are being implemented at total cost of Rs.5321.590 million including local cost Rs.2,712.4 million and foreign aid of Rs.2,609.2 million.

Pakistan is one of the top three countries where confiscation rate, seizure, of narcotics drugs and precursor chemicals is high. Seizures of narcotics drugs by Anti Narcotics Force (ANF) during the course of year are given in the table as below:

Table 11.5: Seizure of Drugs

S.No.	Kind of Narcotics	Quantity of Drugs (Seized in Kgs)
1	Opium	879.6
2	Morphine	3,456.5
3	Heroin	725.4
4	Hashish	20,567.5

Source: Ministry of Narcotics Control

Food and Nutrition

Nutrition is an important poverty determinant, biological requirement for individual growth and maintenance. Food is a fundamental right of the people. In spite of adequate production and sustained availability of foods, malnutrition is persistently prevalent in the country. According to the available data, about 38 percent of children less than five years of age are underweight and 12 percent are severely under weight, reflective of wide spread malnutrition among women during adolescence. In addition, micronutrient deficiencies such as iron, iodine, zinc and vitamin-A are widespread, particularly among pre-school children.

Macro indicators, such as availability of basic food items remained satisfactory during the fiscal year. Domestic food inflationary trends have resulted in price increase having impact on overall family food intake. The availability of essential food items over the period is briefly given in Table 11.6:

Major programs/ initiatives taken to overcome nutritional problems/ issues in public and private sector are briefed as under:

- The new Project "Improvement of Nutrition through Primary Health Care and Nutrition Education/ Public Awareness" has been approved to address general malnutrition, micro nutrient, malnutrition and education communication.
- Expanded Benazir Income Support Program, providing cash assistance to about four

million poor families at a rate or Rs.1000/- per month throughout the country;

- Pakistan Bait-ul Mall –Food Support Program provided Rs.3000/- to targeted about 2 million poorest of the poor families in the country.
- Food Quality Control System- Reference Laboratory has been established at National Institute of Health (NIH), Islamabad;
- Food productivity enhancement as part of the Food Security Program remained continued by M/o Food and Agriculture.
- Nutritional Counselling and micronutrient supplementation are being provided by the primary health care system and lady health workers;
  - Micronutrient supplementation to women of child bearing age;
  - Vitamin A supplementation to children under five years of age and the coverage has been about 95 percent.

Table 11.6: Food Availability per capita

Items	Year/ units	1949-50	1979-80	1989-90	1999-00	2007-08	2008-09	2009-10 (E)	2010-11 (T)
Cereals	Kg	139.3	147.1	160.7	165.0	158.1	160.3	158.8	158.7
Pulses	Kg	13.9	6.3	5.4	7.2	7.2	5.8	6.8	6.7
Sugar	Kg	17.1	28.7	27.0	26.4	30.0	25.6	26.1	26.5
Milk	Ltr	107.0	94.8	107.6	148.8	165.4	167.2	169.1	169.8
Meat	Kg	9.8	13.7	17.3	18.8	20.0	20.0	20.5	20.9
Eggs	Dozen	0.2	1.2	2.1	5.1	5.5	5.6	5.8	6.0
Edible Oil	Ltr	2.3	6.3	10.3	11.1	12.8	12.5	12.6	12.6
Calories per day		2078	2301	2324	2416	2410	2425	2415	2420
Protein per day		62.8	61.5	67.4	67.5	72.0	72.5	71.5	72.0

- The Micro-nutrient deficiency control program in private sector is being implemented for Iodine, Iron, Vitamin-A are:
  - Salt Iodization production and mass awareness has been expanded in more than 102 districts;
  - Wheat flour fortification with Iron has been increased to 175 flour mills along with quality control and mass awareness;
- The policy of Infant Young Child Feeding (IYCF) has been developed, approved and adopted. Health staff training on Baby Friendly Hospital Initiative (BFHI) and breast feeding counselling has been stared as regular capacity building feature;
- National Nutrition Survey 2011 has finalized and underway by Health Division.
- Consultation process initiated to holistically address malnutrition through multisectoral approach.

12 Population, Labour Force and Employment

Introduction:-

The size of a country's population, its growth rate, fertility rate and its distribution in various age groups and evaluation in the context of income distribution is very important for assessing the productive capacity of its economy, and estimating the quantity and quality of goods and services, the nation is producing and likely to produce in future. The accuracy of estimates of population dynamics is equally important for governments, businesses, and economic analysts for planning, decision making and analyzing economic performance.

Pakistan's last population census was conducted in 1998 and working on 2011 census is in process. In the inter-census period, the population for each year is estimated on the basis of demographic and fertility studies. The Sub Group II on Population Projections for the 10th Five Year Plan 2010-15 has revised population estimates since 1999-2000 on the basis of various background studies. According to this estimate, Pakistan's population in mid-2011 is estimated at 177.1 million[1] - 2.1 percent higher than last year. It was only 32.5 million at the time of independence but we added 144.6 million more people during the last 64 years. Pakistan's population has been growing at a decelerating pace but still Pakistan has one of the highest population growth rates in the world. Population growth has decelerated from 3.06 percent in 1981 to 2.07 percent in 2011 [See Table-12.1 and 12.2].

Higher population growth rate means, more people to feed, more families to house, more children to educate, and more people looking for gainful employment. The problem becomes even more serious if it is not supported by healthy economic growth. The reasons for this modest decline by almost 1.01 percentage points in 30 years are; decline in mortality rate owing to the elimination of epidemic diseases, improvement in medical services and the invention of good medicines on the one hand and a modest –decline in fertility rate on the other resulted in negligible decline in population growth.

Table-12.1: Net Addition in Population

	Births	Deaths	Net Addition
In One Year	4.82M	1.29 M	3.53 M
One Month	401,667	107,500	294,167
One Day	13,205	3,534	9,671
One Hour	550	147	403
One Minute	**8**	**2**	**6**

Source: Planning and development Division (Projection made by Sub Group II)

12.2: Population Growth Rates (%)

Period	PGR (%)
1951 – 61	2.45
1961 – 72	3.66
1972 – 81	3.05
1981 – 98	2.69
2010	2.05

Source; National Institute of Population Studies

Demographic Dividend

An analysis of the Asian countries experience depict that the East Asia has seen a dramatic and rapid demographic transition over the last four decades. Prior to moving on a rapid and sustained economic growth path ,the share of the young population (age 0-14) has been on averaging 40 percent while those of working age population (prime age 25-59) averaged 35 percent and old age (65 plus) averaged 3.5 percent. Due to declining fertility and mortality rates, the share of the working age also started rising, approaching 50 percent in East Asia. Empirical evidence suggests that a large part of East Asia's

[1] This figure represent End-June 2011 estimate which is different from population figure used in National Account and Growth Chapter due to different treatment (using End-December figure)

spectacular economic growth derives from demographic transition, i.e. from working age population bulge because those countries have invested in their population and converted them in highly skilled human capital. This transition from a young to prime age population presented a demographic gift because East Asia has had relatively fewer young population compared with earlier periods which resulted in small group of dependents/non productive population. In countries where an increasing share of the population is of working age, economic growth per person tends to be highest and national saving tends to rise.

The same demographic transition that benefited East Asia over the last 45 years will benefit South Asia during the next one and half decades. Pakistan being located in South Asia will benefit from the same demographic transition. In near future Pakistan will pass through a demographic transition which will result in almost 67 percent working force (Age 14-65) in 2030 and this change in demographic structure will be because of a steady decline in population growth since 1981. Demographic transition provides an opportunity for raising economic growth and increasing prosperity, it is not automatic. It will depend whether Pakistan succeeds in mobilizing sufficient capital (investment) and use it efficiently with the rising working age population. This, in turn, will depend largely on government's socio-economic policies. If the workforce is better educated, it will be better placed to contribute to economic growth.

Demographic transition poses enormous challenges for the government to manage the economy efficiently to reap maximum transition benefits. Investment in people, maintaining macroeconomic stability, and achieving higher economic growth on sustained basis should form the basis of economic policy making.

Review of Demographic Indicators 2009-10

The estimated demographic indicators reflect improvement in life-expectancy fall in total fertility rate. Some of the selected demographic indicators for 2009-10 in comparison to 2010-11 are documented in Table-12.3. It emerges that going forward rapid decline in fertility rates will be challenging.

Table-12.3: Selected Demographic Indicators

	2009-10 (1st July)	2010-11 (1st July)
Total Population (million)	173.5	177.10
Urban Population (million)	63.05	65.3
Rural Population (million)	110.46	111.8
Total Fertility Rate (TFR)	3.6	3.5
Crude Birth Rate (per thousand)	28.4	27.50
Crude Death Rate (per thousand)	7.6	7.30
Population Growth Rate (percent)	2.1	2.05
Life Expectancy (years)		
- Females	65.4	67.9
- Males	63.6	64.18

Source: P&D, Division, National Institute of Population Studies (NIPS), CIA Fact Book

Fertility in Pakistan

Total Fertility Rate means average number of children that would be born per woman if all women lived to the end of their childbearing years and bore children according to a given fertility rate at each age. The Total Fertility Rate (TFR) is a more direct measure of the level of fertility than the crude birth rate, since it refers to births per woman. Global fertility rates are in general declining and this trend is most pronounced in industrialized countries, especially Western Europe, where populations are projected to decline dramatically over the next 50 years. Fertility in Pakistan has shown a widely acknowledged resistance to change because of sharp declines in mortality in the post-World War II period when the population of Pakistan was growing at the rate of 2.7 percent per annum around 1960 with TFR 7.95. A continuous decline in TFR in our country for the last few years can be seen from the table, 12.4

Table-12.4: Trend in Fertility Rate (%)

Year	TFR
2006	4.0
2007	3.9
2008	3.8
2009	3.7
2010	3.6
2011	3.5

Source: Sub group II on population projections for the 10th Five Year People Plane 2010-15

Regional Demographics:

If we compare Pakistan's population planning indicators with its immediate neighbours and with some Muslim countries, it is transparent that Pakistan's indicators are poorly comparable with regional or Muslim countries. More efforts needed to improve on these indicators.

Table-12.5: Family Planning Indicators of Regional Countries

Country	Total Fertility Rate	Contraceptive Prevalence Rate %	Population Growth Rate %
Asia	2.4	67	1.1
Bangladesh	2.8	58	1.7
Bhutan	2.2	31	1.4
India	2.8	56	1.5
Maldives	2.6	39	1.9
Nepal	3.2	48	2.0
Sri Lanka	1.9	70	0.5
Pakistan	**3.5**	**30**	**2.05**

Source: i) State of the world population 2008, United Nation Fund for Population Activities(UNFPA) Population Projections by Planning Commission's Working Group on Population Sector, 2010
ii) Sub Group II on Population Projections for the 10th Five Year People's Plan 2010-15

Table-12.6: Family Planning Indicators of Muslim Countries

Country	Total Fertility Rate	Contraceptive Prevalence Rate (%)	Population Growth Rate (%)
Egypt	3.2	59	**1.8**
Morocco	2.4	63	**1.2**
Turkey	2.1	71	**1.3**
Iran	2.0	74	**1.4**
Indonesia	2.2	58	**1.2**
Malaysia	2.6	55	**1.7**
Pakistan	**3.5**	**30**	**2.05**

Source: i) State of the World Population 2008, United Nations Fund for Population (UNFPA) Population Projections by Planning Commission's Working Group on Population Sector, 2010
ii)Sub Group II on Population Projections for the 10th Five Year People's Plan 2010-15

Crude Birth Rate, Crude Death Rate, Infant Mortality Rate

Population trends are best explained by CBR (Crude Birth Rate), and CDR (Crude Death Rate). These show the growth and decline of a population per thousand births while IMR (Infant Mortality Rate) is the number of newborns who dies before celebrating their first birth day. Since mortality rates at other than very young ages are largely unknown in our country. A gradual improvement can be seen in these indicators because of revolutionary progress in medical science. During the 1990s CBR, CDR and IMR were 36.4, 9.4 persons and 94 infants, respectively and in 2011 these are 27.5, 7.3 persons and 7.5 infants, respectively.

Age Composition of Population

According to 1998 Population Census of Pakistan, 43 percent of the population was of children under

15 years, 53 percent was between the ages of 15-64 years, and about 4 percent was 65 years and above. This information shows that a big proportion of the population has been of children implying that they are dependents on the economy of the country. About four percent of the population happens to be of old persons, another group of dependents. About one half of the population is that of women, who, with the exception of few, are usually considered as dependents. In this way the age structure of the population of Pakistan shows that majority (nearly two thirds) of them are dependents. Presently, Pakistan is going to become young as 60 percent percent of its population is lying under 15-65 years of age and it will continue to increase resulting in low dependency ratio and increasing working age population \labor force. This gradual shift to a youthful age structure in Pakistan is due to the declines in birth and death rates that occur at the beginning of the demographic transition.

Table-12.7: Population by Age Groups ; Pakistan **Millions Nos.**

AGE GROUP	1998	2010	2015	2020	2025	2030
00-04	14.80	21.81	22.76	23.28	22.44	20.35
05-09	15.65	20.17	21.33	22.35	22.95	22.18
10-14	12.95	20.19	20.07	21.24	22.28	22.88
15-19	10.37	19.88	20.12	20.01	21.19	22.24
20-24	8.97	17.22	19.80	20.05	19.95	21.14
25-29	7.37	14.81	17.13	19.71	19.98	19.89
30-34	6.22	12.50	14.72	17.04	19.62	19.91
35-39	4.77	10.49	12.40	14.62	16.94	19.53
40-44	4.44	8.64	10.36	12.27	14.49	16.81
45-49	3.53	7.09	8.49	10.20	12.01	14.31
50-54	3.21	5.81	6.88	8.26	9.95	11.84
55-59	2.15	4.68	5.53	6.57	7.93	9.60
60-64	2.04	3.64	4.31	5.13	6.14	7.45
65+	3.50	6.60	7.82	9.39	11.39	13.93
TOTAL	132.35	173.51	191.71	210.13	227.35	242.05

Source: National Institute of Population Studies, Planning & Development Division, June 2010.

Urbanization

Urbanization is a cyclical process through which a nation normally passes as it evolves from an agrarian to an industrial society as urbanization is interpreted as a process involving the absolute and relative growth of towns and cities within a defined area. The rapid growth of cities is a common and persisting demographic phenomenon in most of the developing countries including Pakistan. This growth has led to an increase in the degree of urbanization. In Pakistan, for example, the proportion of total population living in urban areas has increased from only 17.8 percent in 1951 to about 32.5 percent in 1998 and 37 percent in 2010-11.

Although within the Asia-Pacific region, based on both the level of urbanization and urban growth, Pakistan is grouped with countries having moderate level of urbanization, it has the highest share of population living in cities (urban areas) among the South Asian countries. It has also been projected that about half of Pakistan's population will be living in cities by the year 2030. Both the natural increase (population growth) and net migration are the major contributory factors to urban growth. Table 12.8 depicts that the share of urban population will continue to increase and almost fifty percent population would be living in urban areas by the year 2030.

Table-12.8: Urban Population and Urban Annual Growth Rate of Pakistan

Year	Urban Population	Urban Annual Growth Rate
2010	66.318	2.97
2015	77.420	3.10
2020	90.199	3.06
2025	104.735	2.99
2030	121.218	2.92

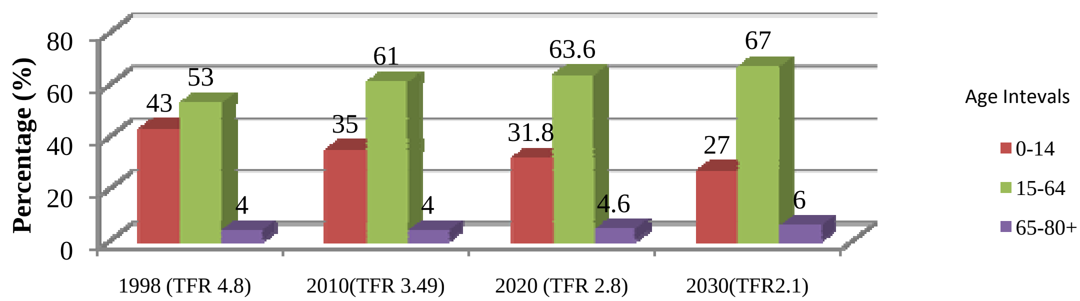
Source: World Urbanization Prospects 2009, Revision Population Database

It is worth noting that the level of urbanization in Pakistan is highest among the South Asian countries. The levels of urbanization in East and Southeast Asian countries, however, are in general higher than the levels in South Asian countries including Pakistan.

Reaping the Demographic Dividend

Fertility declines and the resulting demographic dividend operate through the interaction between the economic lifecycle and population age structure. The dividend results from an increase in the share of the population at ages with a production surplus, which leads to higher per capita income, higher consumptions and potentially higher savings. The fertility decline that has been underway in Pakistan since the late 1980s has already begun to effect age composition and dependency ratios. i.e., the ratio of persons under 15 and above 64, to persons between 15 and 64. These changes in age structure are seen pictorially in the broadening of the age pyramid of Pakistan between 2005 and 2030, being most accentuated in the case of rapid fertility decline Pakistan is a 'late starter' in the process of demographic transition and it will also be one of the last to complete it. It will therefore experience its dividend much later than other neighbours such as India and China.

Fig-12.1: AGE COMPOSITION OF PAKISTAN FRON 1998 to 2030



(Year with Total Fertility Rate)

Source: National Institute of Population Studies, Planning and Development Division

It is quite transparent from the above graph that gradually Pakistan is becoming young as in 1998 proportion of people in the age interval of 15-65 was 53% while it will be 67 % in 2030.One imported point relating to reproductive age group is that in 1998, 22 percent female were in reproductive age (15-49) and there will only be a fractional increase in this age group over the next 20 years as this ratio will remain 26 percent in 2010 and 2020 and 27 percent in 2030.

Review of Financial Performance

The following chart depicts that during the financial year under review, 2009-10 an amount of Rs 5250.9 million (including Rs 225 million as a foreign exchange) was allocated to 29 projects and programmes of the population sector, which was Rs 935.9 million (21.6%) more than previous period allocation of Rs 4315.00 million. However, the programme has been capped at Rs 3600.00 million and both the Federal and Provincial Population Welfare Programmes are likely to utilize an estimated amount of Rs 3,480.5 million (96.6% of the capped PSDP) by the end of June, 2010

Physical Achievements

During 2009-10, the Population Welfare Program established 3327 service delivery outlets, which include (a) 2853 Family Welfare Centers (FWCs) (b) 182 Reproductive Health Service – A (RHS-A) centers; and (c) 292 Mobile Service Units (MSUs), and 5133 Social Mobilizers (male). The target of MSUs set for the said period has been fully achieved.

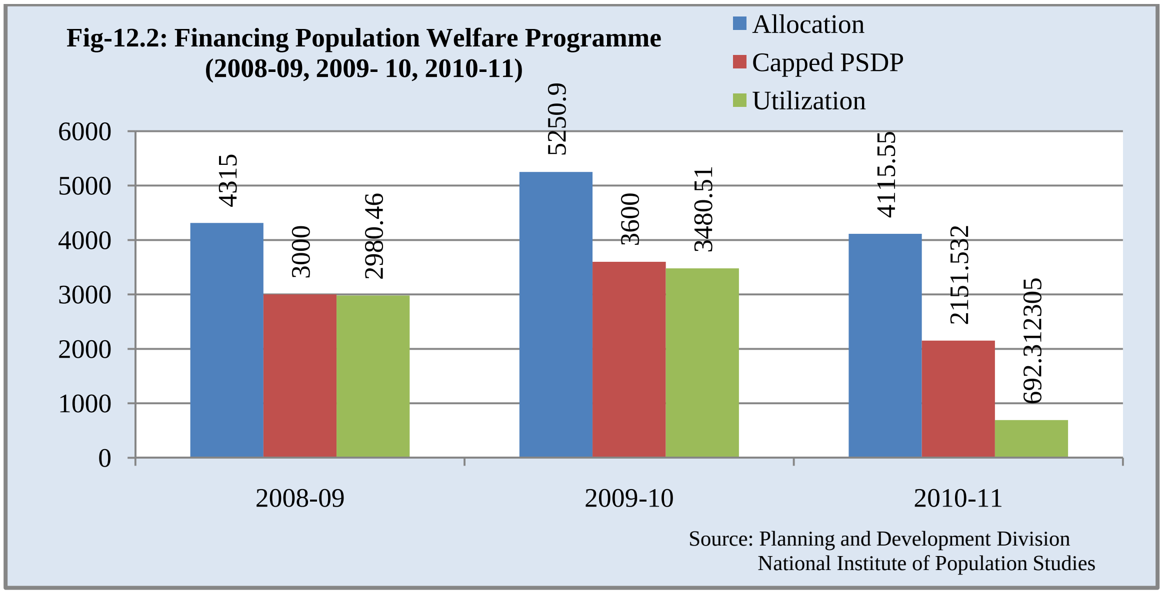


Table-12.9: Physical and Contraceptive Users Targets

(Cumulative Number) Name of Service Outlet / Unit	2009-10 (Target)	2009-10 (Achievement)	2010-11 (Target)
Public Sector			
Family Welfare Centers (FWCs)	3248	2853	3248
Reproductive Health-A Centers	260	182	260
Mobile Service Units (MSUs)	292	292	293
Contraceptive users (million)	8.893	-	8.595
Private Sector			
RHS-B Centers	149	129	149
Registered Medical Practitioners (RMPs)	13190	12140	24347
Hakeems and Homeopaths	13701	13701	13776

Note. On the reorganization of Federal Secretariat in pursuance of constitution (Eighteenth Amendment) Act, 2010 (Act No. X of 2010), Ministry of Population Welfare has been devolved on December6, 2010 and all matters\functions have been transferred to provinces. Therefore information on utilization of funds is up to December 7th 2010

Source: Ministry of Population Welfare

PSDP Allocation, 2010-11

The Population Welfare Program for the fiscal year 2010-11 is in line with sectoral targets and objectives set in proposed 10th Five Year Peoples Plan and Millennium Development Goals (MDGs). An amount of Rs 4115.5 million has been earmarked in the PSDP 2010-11 to the Federal and Provincial Population Welfare Programs. There is an increase of Rs 515.5 million (14 percent) over the capped PSDP of Rs 3,600 million in the financial year (2009-10). However, program was capped at Rs.2151.5 million owing to devolution of the subject to the provinces in December 2010.

Labour Force Employment & Unemployment

Without productive employment, achieving the goals of decent living standards, social and economic integration, personal fulfillment and social development becomes a chimera. Enterprise promotion and human resource development are key elements in achieving these goals. Pakistan is the 9th largest country in the world with respect of the size of its labour force in 2010. According to the Labour Force Survey 2009-10, with a population of 173.51 million and crude participation rate of 33 percent, Pakistan has a labour force of 54.92 million people which is 1.20 million more than the previous year. The proportion of both, male and female, is increased by 0.53 and 0.67 million, respectively as given in the Table-12.10.

Table-12.10: Labour Force (Million Nos.)

Year	2008-09	2009-10
Total	53.72	54.92
Male	41.91	42.44
Female	11.81	12.48

Source: Labour Force Survey 2009-10

According to LFS 2009-10 unemployment rate is fractionally higher than the previous i.e. 5.6 in 2009-10 and 5.5 in 2008-09, the change is visible in case of females while male employment rates remain more or less constant.

Table-12.11: Civilian Labour Force, Employed and Unemployed for Pakistan (Million No.)

YEAR	2003-04	2005-06	2006-07	2007-08	2008-09	2009-10
Labour Force	45.5	50.05	50.33	51.78	53.72	54.92
Employed	42	46.95	47.65	49.09	50.79	51.87
Unemployed	**3.5**	**3.1**	**2.68**	**2.69**	**2.93**	**3.05**

Source: Various Issues of Labour Force Survey

Fig-12.3: Civilian Labour Force, Employed and Unemployed

Labour Force Participation Rates:

In Pakistan labour force participation is estimated on the basis of Crude Activity Rate (CAR) and Refined Activity Rate (RAR). CAR is the currently active population expressed as percentage of the total population in the country and RAR is the percentage of labour force in the population of persons having 10 years of age and above. RAR enables international comparisons by factoring in the effect of age composition. Crude participation rate (33.0 percent) suggests fractional improvement as compared to that of LFS 2008-09 (32.8 percent). However, improvement is more of rural than urban and female than male provenance. In case of refined participation rate it generally follows the pattern of crude participation rates, though, with wider rural-urban and male-female disparity. Refined activity rate also shows a little gain as compared to previous survey i.e. 45.9 percent from 45.7 percent.

Table-12.12: Labour Force Participation Rates

Indicators	2008-09	2009-10	Indicators	2008-09	2009-10
Crude Activity (Participation) Rates (%)			**Refined Activity (Participation) Rates (%)**		
Pakistan			**Pakistan**		
Total	32.8	33.0	Total	45.7	45.9
Male	49.6	49.5	Male	69.3	68.8
Female	14.9	15.5	Female	20.7	21.5
Augmented			**Augmented**		
Total	38.8	38.8	Total	53.9	53.9
Female	27.0	27.2	Female	37.5	37.9
Rural			**Rural**		
Total	34.3	34.5	Total	49.2	49.4
Male	49.2	49.0	Male	71.0	70.2
Female	18.5	19.3	Female	26.4	27.6
Augmented			**Augmented**		
Total	42.7	42.6	Total	61.2	61.0
Female	35.6	35.8	Female	50.7	51.2
Urban			**Urban**		
Total	29.9	30.0	Total	39.3	39.5
Male	50.4	50.6	Male	66.3	66.4
Female	7.6	7.8	Female	10.1	10.3
Augmented			**Augmented**		
Total	31.0	31.1	Total	40.8	41.0
Female	9.9	10.1	Female	13.1	13.3

Source: Labour Force Survey 2009-10

Augmented activity rate is based on probing questions from the persons not included in the conventional measure of labour force, to net in marginal economic activities like subsistence agriculture, own construction of one's dwellings.

Table 12.13: Employment Trend and Changes from 1996-97 and 2009-10 ***(million Nos.)***

Year	Pakistan		Rural		Urban	
	Employed	**Change**	**Employed**	**Change**	**Employed**	**Change**
1999-00	36.32	2.19	25.55	1.68	10.77	-0.01
2001-02	38.88	2.56	26.66	1.11	12.22	1.45
2003-04	42.00	3.12	28.81	2.15	13.19	0.97
2005-06	46.95	4.95	32.49	3.68	14.46	1.27
2006-07	47.65	0.70	33.11	0.62	14.54	0.08
2007-08	49.09	1.44	34.48	1.37	14.61	0.07
2008-09	50.79	1.70	35.54	1.06	15.25	0.64
2009-10	51.87	1.08	36.33	0.79	15.54	0.29

Source: Various issues of Labour Force Survey Federal Bureau of Statistics

Labour Force Participation Rate: Age Specific

Most productive interval of a person's age is generally between twenties and fifties (20-50). The comparative size of gender disparity, though, considerable in all age intervals, seems to be shrinking. Most of age groups post a sort of increase in the participation rates. Similarly, most of the age groups indicate rise in female participation rates while that of males make a mixed picture.

Table-12.14: Age Specific Labour Force Participation Rate (%)

Age Groups	2008-09			2009-10		
	Total	Male	Female	Total	Male	Female
10-14	13.1	16.2	9.5	12.6	15.4	9.2
15-19	37.0	52.7	18.9	37.1	52.7	19.2
20-24	53.8	85.4	22.7	54.7	84.5	23.9
25-29	57.5	96.6	22.8	58.0	96.3	24.7
30-34	58.8	97.9	24.6	59.1	97.6	26.4
35-39	62.2	98.5	27.7	62.2	97.4	29.0
40-44	62.7	98.2	27.6	62.4	97.7	26.6
45-49	62.6	97.3	26.8	65.0	97.4	29.5
50-54	63.1	95.9	24.5	64.7	96.4	29.3
55-59	62.8	93.7	26.4	62.6	93.3	28.0
60+	38.6	56.4	15.2	37.6	55.5	13.5

Source: Labour Force Survey 2009-10

Labour Force: Absolute Figures

The absolute figure of labour force is the multiple of crude participation rate with mid reference year estimate of the population. According to LFS 2009-10, labour force has increased from 53.72 million in 2008-09 to 54.92 million in 2009-10. The volume of labour force increased in Punjab and Sindh while decreased in Khyber Pukhtoon Khawa and Balochistan. Changes are more prominent in case of female in northern provinces as compared to southern ones.

Table-12.15: Area and Sex-Wise Distribution of Labour Force **(Million Nos.)**

Province\Area	Labour Force					
	2008-09			2009-10		
	Total	Male	Female	Total	Male	Female
Pakistan	**53.72**	**41.91**	**11.81**	**54.92**	**42.44**	**12.48**
Rural	37.30	27.51	9.79	38.17	27.77	10.40
Urban	16.42	14.40	2.02	16.75	14.67	2.08
Punjab	**31.82**	**23.89**	**7.93**	**33.04**	**24.18**	**8.86**
Rural	22.58	16.01	6.57	23.48	16.09	7.39
Urban	9.24	7.88	1.36	9.56	8.09	1.47
Sindh	**13.16**	**10.95**	**2.21**	**13.46**	**11.31**	**2.15**
Rural	7.50	5.76	1.74	7.74	6.04	1.70
Urban	5.66	5.19	0.47	5.72	5.27	0.45
KPK	**6.53**	**5.13**	**1.40**	**6.25**	**5.05**	**1.20**
Rural	5.48	4.23	1.25	5.23	4.14	1.09
Urban	1.05	0.90	0.15	1.02	0.91	0.11
Balochistan	**2.21**	**1.94**	**0.27**	**2.17**	**1.90**	**0.27**
Rural	1.74	1.51	0.23	1.72	1.50	0.22
Urban	0.47	0.43	0.04	0.45	0.40	0.05

Source: Labour Force Survey 2009-10

Employment Status:

Pakistan's greatest asset is its quality human resource on which progress and prosperity of the country largely depends. Paucity of resources constricted policies to properly develop human resources and their effective utilization. During the LFS 2009-10 and LFS 2008-09, there is a marginal increase in the comparative profiles of own account workers and employers while decrease in the case of employees and unpaid family workers. Gender disaggregated figures indicate mixed trend.

Table12.16: Employment Status by Sex (%)

	2008-09			2009-10		
	Total	**Male**	**Female**	**Total**	**Male**	**Female**
Employers	1.2	1.5	0.1	1.3	1.6	0.1
Self employed	33.3	38.7	13.1	34.2	40	13.6
Unpaid family Helpers	29.7	20.2	65	29.1	18.7	66.3
Employees	35.8	39.6	21.8	35.4	39.7	20
Total	**100**	**100**	**100**	**100**	**100**	**100**

Source: Labour Force Survey 2009-10

Table 12.17: Employment Status by Region **(Millions)**

	2008-09			2009-10		
	Total	**Urban**	**Rural**	**Total**	**Urban**	**Rural**
Employers	0.60	0.46	0.14	**0.65**	0.49	0.16
Self employed	16.91	4.59	12.32	17.75	4.78	12.97
Unpaid family Helpers	15.10	1.84	13.26	15.10	1.77	13.33
Employees	18.18	8.36	9.82	18.37	8.50	9.87
Total	50.79	15.25	35.54	51.87	15.54	36.33

Source: Labour Force Survey 2009-10

Formal And Informal Sectors

Over the years, there has been a paradigm shift towards informalization in the agriculture sector with a trend of self-cultivation and a decline in share of tenancy. According to Labour Force Survey (LFS) 2009-10, as compared to LFS 2007-08, the share of formal sector employment shrank while that of informal expanded. However, marginal changes like decrease in the proportions of females and increase in the case of in the rural area is observed. Informal sector accounts for more than seven-tenth (73 percent) of the employment in main jobs outside agriculture, more in rural (76 percent) than in urban areas (71 percent) [See Table-12.18].

Table 12.18: Formal and informal Sector-Distribution of non-Agriculture Workers (%)

Sector	2007-08			2008-09			2009-10		
	Total	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**	**Male**	**Female**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
- Formal	27.2	27.2	27.4	26.7	26.6	27.6	26.7	26.7	26.9
- Informal	72.8	72.8	72.6	73.3	73.4	72.4	73.3	73.3	73.1
Rural	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
- Formal	24.9	25.1	23.2	23.8	24.0	22.2	23.7	23.8	22.3
- Informal	75.1	74.9	76.8	76.2	76.0	77.8	76.3	76.2	77.7
Urban	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
- Formal	29.5	29.2	32.5	29.4	29.1	32.8	29.6	29.4	31.6
- Informal	70.5	70.8	67.5	70.6	70.9	67.2	70.4	70.6	68.4

Source: Labour Force Survey 2008-09 Federal Bureau of Statistic.

Employment by major Industries:-

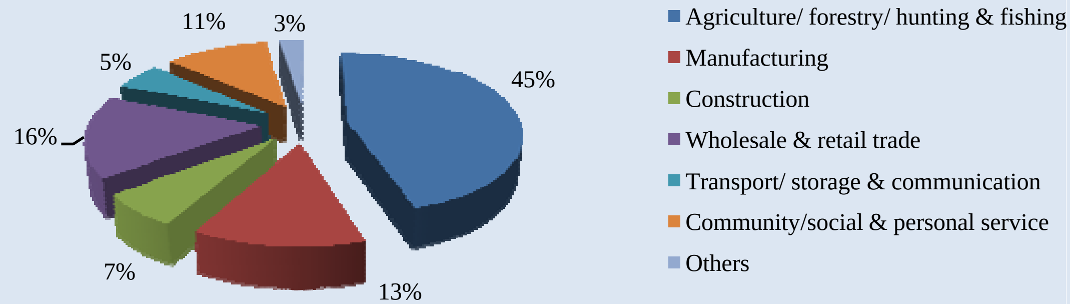
Notwithstanding falling share in employment provision, the agriculture still dominates as largest provider of employment in Pakistan. Its stake in overall employment is 45 percent. The of manufacturing sector in employment provision stood at13.2 percent and outpaced by wholesale and retail trade sector which provides employment to 16.3 percent of labour force [See Table12.19].

Table-12.19: Employment Shares by Industry (%)

Major Industry Divisions	2008-09			2009-10		
	Total	**Male**	**Female**	**Total**	**Male**	**Female**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Agriculture/ forestry/ hunting & fishing	45.1	37.3	74.0	45.0	36.6	74.9
Manufacturing	13.0	13.3	11.9	13.2	13.9	11.0
Construction	6.6	8.3	0.4	6.7	8.5	0.3
Wholesale & retail trade	16.5	20.5	1.6	16.3	20.2	2.1
Transport/ storage & communication	5.2	6.6	0.2	5.2	6.6	0.3
Community/social & personal service	11.2	11.1	11.6	11.2	11.2	11.2
*Others	2.4	2.9	0.3	2.4	3.0	0.2

**Other (includes mining & quarrying electricity, gas & water, financing, insurance, real estate & business services and extraterritorial organizations and bodies*

Fig-12.4: Industry-wise Employment Share



Employment by Major Occupational Groups

Skilled agriculture & fishery workers constitute the largest group (38 percent) of the total employed in 2009-10 followed by elementary occupations (18 percent). Comparative figures of the two LFS (2008-09 and 2009-10) highlights the improvement for males only and presents a mixed picture of marginal changes over time. Legislator/senior officials & managers, technicians and associate professionals and plant\ machine operators &assemblers seem to be losing steam.

Table-12.20: Employed-Distribution By Major Occupational Groups (%)

Major Occupational Group	2008-09			2009-10		
	Total	Male	Female	Total	Male	Female
Total	100.0	100.0	100.0	100.0	100.0	100.0
Legislators/senior/officials & managers	12.4	15.2	1.7	12.0	14.8	1.8
Professionals	1.7	1.9	1.2	1.8	2.0	1.4
Technicians & associate Professionals	5.3	4.9	7.2	5.1	4.8	6.2
Clerks	1.4	1.7	0.1	1.3	1.7	0.1
Service workers/shop & market sale workers	4.9	6.1	0.5	4.9	6.1	0.8
Skilled agricultural & fishery workers	37.6	31.4	60.8	37.9	31.0	62.7
Craft & related trades workers	14.5	15.2	11.6	14.6	15.6	10.9
Plant/machine operators & assemblers	4.1	5.2	0.1	3.9	4.9	0.1
Elementary (unskilled) occupation	18.1	18.4	16.8	18.5	19.1	16.0

Source: Labour Force Survey 2009-10

Unemployment Rates:-

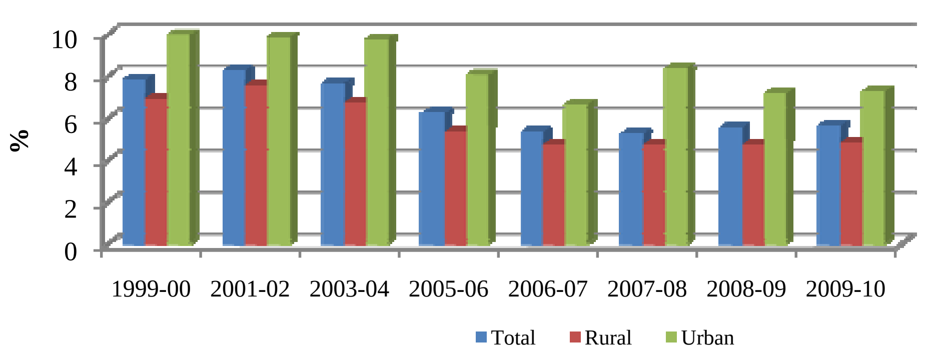
Pakistan's greatest asset is its human resources on which progress and prosperity of the country largely depends. Due to cautious policies of the government to properly develop human resources and their effective utilization, the unemployment rate has decreased from 8.3 percent in 2001-02 to 5.2 percent in 2007-08. However, unemployment increased to 5.5 percent and 5.6 percent in 2009-10 and 2010-11, respectively. As far as rural and urban areas are concerned, there is a fractional change\increase in it i.e. 4.7 percent to 4.8 percent and 7.1 percent to 7.2 percent, respectively. The change is visible in case of females. The quantum of unemployment is high in urban areas as compared to rural areas and the reason behind of this may be that a major portion of labour force is working as unpaid family helper in rural area which is classified as employed. Table-12.21 depicts unemployment rates by area and sex

Table-12.21: Unemployment Rates-By Area and Sex (%)

Area/Sex	2008-09			2009-10		
	Total	Male	Female	Total	Male	Female
Pakistan	5.5	4.5	9.0	5.6	4.4	9.5
Rural	4.7	3.9	7.2	4.8	3.9	7.2
Urban	7.1	5.6	17.6	7.2	5.3	20.8

Source: Labour Force Survey 2009-10

Fig-12.5: Unemployment Rates Over the Years



Pakistan had seen variations in its unemployment rates as it was 8.2 percent and 7.8 percent in 2001-02 and 1999-00, respectively then it 5.6 percent in 2009-10. Unemployment is a major challenge that is not only faced by Pakistan but also the world at present. The fear of persistent unemployment undermines confidence, thereby, affecting consumption and investment decisions and recovery process itself. Also, perceptions of job precariousness exert further downward pressure on wages, aggravating the risk of depressed aggregate demand and poverty.

Table-12.22: Unemployment Rates – By Sex and Age

Age Groups	2008-09			2009-10		
	Total	Male m2009-10	Female	Total	Male	Female
10-14	9.3	9.7	8.7	10.8	9.8	12.9
15-19	9.5	8.9	11.3	8.9	8.3	10.9
20-24	7.3	6.2	11.5	7.9	6.8	12.1
25-29	4.3	3.5	7.1	4.8	3.4	9.3
30-34	2.6	1.9	4.9	2.6	1.5	5.8
35-39	1.7	1.1	3.5	2.3	1.5	4.8
40-44	1.5	1.1	3.1	1.8	1.3	3.8
45-49	2.4	1.5	5.7	2.8	2.3	4.5
50-54	4.6	3.1	11.2	4.4	2.9	10.1
55-59	6.1	4.4	13.6	5.9	3.9	13.4
60 years and above	12.7	8.9	30.8	10.6	7.3	28.6

Source: Labour Force Survey 2009-10

The volume of unemployed persons increased from 2.93 million in 2008-09 to 3.05 million in 2009-10. Area and gender wise, the increase is more of rural and female provenance. Volume of unemployed persons increases in urban Punjab and, Sindh, while decrease in urban KPK and, levels same in Balochistan.

Table-12.23: Unemployed – Pakistan and Provinces

Province /Area	Unemployment					
	2008-09			2009-10		
	Total	Male	Female	Total	Male	Female
Pakistan	**2.93**	**1.87**	**1.06**	**3.05**	**1.86**	**1.19**
Rural	1.76	1.06	0.70	1.84	1.09	0.75
Urban	1.17	0.81	0.36	1.21	0.77	0.44
Punjab	**1.87**	**1.21**	**0.66**	**1.89**	**1.15**	**0.74**
Rural	1.14	0.70	0.44	1.12	0.67	0.45
Urban	0.73	0.51	0.22	0.77	0.48	0.29
Sindh	**0.44**	**0.28**	**0.16**	**0.56**	**0.34**	**0.22**
Rural	0.14	0.06	0.08	0.23	0.12	0.11
Urban	0.30	0.22	0.08	0.33	0.22	0.11
KPK	**0.56**	**0.36**	**0.20**	**0.54**	**0.34**	**0.20**
Rural	0.44	0.29	0.15	0.45	0.28	0.17
Urban	0.12	0.07	0.05	0.09	0.06	0.03
Balochistan	**0.06**	**0.02**	**0.04**	**0.06**	**0.03**	**0.03**
Rural	0.04	0.01	0.03	0.04	0.02	0.02
Urban	0.02	0.01	0.01	0.02	0.01	0.01

Source: Labour Force Survey 2009-10

As for specific unemployment, the changes in the comparative profile of Punjab and Sindh are more in the case of females while KP's of males. Baluchistan's gender-specific numbers undergo offsetting changes to remain at the same level.

13 Poverty

The global food prices have rocketed to record high in real terms since 1984. Devastating earthquake in Japan has posed a new threat to food supplies. Food remained main source of political destabilization in the Middle East as millions are falling below the poverty line every month with rising oil prices. Global food prices rose by more than 30 percent year-on-year between March 2010 and March 2011. The price hike is underpinned by large increases in the prices of cereals, edible oils, and meat. The poor is very sensitive to these items and additionally the recent price hike is triggered largely by production shortfalls due to bad weather, structural and cyclical factors. This implies fall in income of the rural poor and compounding miseries of the poor. The continuing trend of high and volatile food prices is likely to persist in the short-run as grain carryover stocks have been falling owing to mismatch between production and current consumption requirement and above all supply uncertainties are rising due to extreme weather disturbances.

Simulation results of an ADB study on "Global Food Inflation and Developing Asia" suggests that "if a 30 percent increase in global food prices persists throughout 2011, gross domestic product (GDP) growth for some food-importing countries in the region could be choked off by up to 0.6 percentage points and if combined with a 30 percent increase in world oil prices, GDP growth could be reduced by up to 1.5 percentage points. Higher food prices erode the purchasing power of households and undermine the recent gains from poverty reduction. A 10 percent rise in domestic food prices in developing Asia (home to 3.3 billion people) could push an additional 64.4 million into poverty, or lead to a 1.9 percentage point increase in poverty incidence based on the $1.25-a-day poverty line. The frequency with which food price spikes have occurred in recent years suggests that long-term solutions—such as improvements in productivity, increases in agricultural investment, stronger market integration, targeting subsidies to the poor, and global and regional cooperation—need to be implemented to secure food supplies for the world's growing population"[1].

Poverty is already pervasive in most developing countries particularly those in Sub-Sahran Africa and South Asian countries. Recent increases in food prices may add to their miseries and erode the gains of poverty reduction made during the last decade. The past century has seen more advances in global prosperity and more people have come out of poverty than in all of human history. One of the reasons for this achievement is the integration of societies and economies around the world. Integration is the result of reduced cost of transportation, lower trade barriers, faster communication of ideas, rising capital flows, and intensifying pressure for migration.

South Asia is home to largest number of poor who are vulnerable to food price fluctuations. However, poverty is much broader parameter of deprivation. The Human Development Report (HDR) 2010 analysis reveal that over 1980-2010 Pakistan is among 10 countries which made significant improvement in Human Development Index (HDI) ranks. However, given the existence of multiple deprivations, there are serious challenges for policymakers to lift millions out of poverty, because the decline in percentage of people living below poverty line is not associated with the absolute number of people living under the condition of poverty. Poverty and inequality can be reduced by addressing the *failures or*

[1] "Global Food Price Inflation and Developing Asia", ADB, March 2011

deprivations in many dimensions of human life such as hunger, ill health, malnutrition, unemployment, inadequate shelter, lack of education, vulnerability, powerlessness, social exclusion and so on.

Though Pakistan has made significant progress in human development and poverty reduction over the past three decades, it is considered relatively slow over a long horizon. Besides, the social and economic exclusion has resulted in multiple deprivations for more than 50 percent of Pakistan's population. The inadequacy of income to meet basic needs, low quality of life, denial of opportunities and choices basic to human development are different facets of poverty. The main objectives of government policies are to raise the standard of living and improve the socio-economic conditions of the people and thus reduce the incidence of poverty in the country.

The government has subscribed strongly to the inclusive growth with human face. The meaningful and sustainable economic development must involve and share fruits of development with all citizens, especially the poor, unemployed, marginalized communities and generally, the disadvantaged groups. Economic development should be supported by productive labour force and development of necessary skills to meet the challenges in industrial development through a culture of merit and excellence.

The poverty reduction strategy of the government focuses mainly on the five areas which include i) accelerating economic growth and maintaining macroeconomic stability; ii) investing in human capital; iii) augmenting targeted interventions; iv) expanding social safety nets and v) improving governance. The massive social disruption owing to earthquake of 2005, intensification of war on terror since 2007, devastating floods of 2010, and persistent hike in food prices in recent years coupled with slower pace of economic growth has serious ramifications for poverty and income distribution.

Impact of Higher Food Prices on Poverty

High food prices erode the purchasing power of households having low income and high share in expenditure basket and could undermine poverty reduction and human development gains achieved over the last decade or so. The data of last two poverty estimates (2004-05 and 2005-06) suggests strong clustering around the poverty line. Historically, around 75 percent of the population surrounds both sides of the poverty line. This enhances vulnerability as small injections of income or crop failure may change poverty situation drastically. The poor before the price increases may now be on the verge of hunger and malnutrition, and those who were barely above the poverty line may have slipped back into poverty. Given the high incidence of poverty in Pakistan, higher food inflation disproportionately affects the poor. Moreover, because of the large share of food in the average household consumption budget, a sustained rise in food prices tends to put upward pressure on wages and, with a time lag, on general inflation. The food inflation averaged at 18 percent during the last four years in Pakistan. Food prices has witnessed phenomenal rise during the last three and half years [See Table-13.1]. There are many structural factors combined with short-term disruptions and natural calamities are responsible for this inordinate rise. Bringing food inflation down remained the major policy challenge for Pakistan.

Table-13.1: Price Trend of Essential Commodities (Rs) per Kg

Items	Weights	Units	Jan-08	19th May 2011	% change
Wheat	0.62	Kg	18.98	24.24	27.71
Wheat Flour	11.91	Kg	19.41	28.35	46.06
Beef	3.99	Kg	122.33	226.55	85.20
Mutton	2.81	Kg	233.79	440.06	88.23
Chicken (Farm)	2.39	Kg	74.74	125.12	67.41
Milk Fresh	15.73	Ltr	29.63	55.27	86.53
Cooking Oil	1.90	2.5 Ltr	300.84	495.00	64.54
Rice	1.52	Kg	34.43	54.17	57.33
Sugar	4.46	Kg	25.97	65.59	152.56
Mash Pulse	0.49	Kg	70.50	156.71	122.28

Source: Federal Bureau of Statistics

UN ESCAP has estimated that high food prices in 2010 kept an additional 19.4 million people in poverty in Asia and the Pacific; they prevented 15.6 million people in the region from emerging from poverty and have pushed another 3.8 million below the poverty line.

ADB has examined the impact of rising food prices on poverty in a recent study. The average household in the developing world spends roughly half of its total budget on food. This suggests that among households living below the poverty line, food expenditure will be an even greater portion of expenditures. Indeed, poor households allocate more than 60 percent of total household consumption to food. Therefore, an increase in food prices will significantly lower consumer purchasing power, especially among the poor. Table-13.3 presents the estimates of the impact of higher food prices on poverty for a group of 25 developing countries in the region, accounting for more than 3.3 billion people.

Table-13.2: Impact of Domestic Food Price Increase on Poverty for Developing Asia

	Poverty before Price Increase	Poverty after Food Price Increase by		
		10%	20%	30%
Based on $1.25-a-day poverty line				
Percentage of Poor (%)	27.1	29	30.9	32.9
Change in percentage of poor		1.9	3.9	5.8
(percentage points)	903	968	1032	1097
Change in number of poor		64.4	128.8	193.2
(in millions)				
Poverty gap ratio (%)	6.79	8.15	9.51	10.86
Change in poverty gap ratio		1.4	2.7	4.1
(percentage points)				

Note: The estimates of poverty impact have been derived using the price elasticity of poverty, which indicates the percentageincrease in poverty when food prices increase by 1%. This elasticity was estimated for both headcount ratio and poverty gap ratio for each of the 25 countries in Asia and the Pacific using the latest POVCAL database.

Source: ADB staff calculations based on the latest POVCAL database (accessed 18 February 2011).

The World Bank's (2011) estimate that 44 million people in developing countries have been pushed into extreme poverty due to higher prices of corn, wheat, and oil. ADB study estimates of 25 Asian developing countries reflect the impact of higher food prices on those clustered around the poverty threshold of $1.25-a-day poverty line. The impact on the incidence of poverty or headcount ratio was not able to capture the full impact of fall in living standards of those already living below the poverty line. In this respect, the "poverty gap ratio"—the product of headcount ratio and the income gap from the poverty line—is a better tool for capturing the impact. The impact of food prices hike is given in Table-13.3 for some regional countries.

The table presents a disappointing picture for Pakistan as for the last three years or so, the food inflation is the major driver of the CPI inflation. In the aftermath of floods the problem compounded manifold. The work on Household Income Expenditure Survey (HIES) component of PSLM Survey 2010-11 is already on-going phenomenon. The poverty estimates will be of great significance for the public policy consumption as well as improving existing social safety nets program.

Table-13.3: Impact of Food Price Increases on Poverty ($1.25-a-day poverty line)

	Change in Percentage of Poor (in percentage points) with an Increase in Food Prices by			Change in Number of Poor (in millions) with an Increase in Food Prices by		
	10%	20%	30%	10%	20%	30%
Bangladesh	2.5	5.0	7.5	3.83	7.65	11.48
India Rural	2.9	5.8	8.8	22.82	45.64	69.45
India Urban	2.1	4.3	6.4	6.68	13.36	20.04
Pakistan	2.2	4.5	6.7	3.47	6.94	10.41
Bhutan	1.8	3.5	5.3	0.01	0.02	0.03
Philippines	1.6	3.2	4.9	1.37	2.75	4.12
Sri Lanka	1.2	2.4	3.6	0.24	0.47	0.71
Thailand	0.1	0.2	0.2	0.05	0.10	0.15
Viet Nam	1.9	3.7	5.6	1.55	3.10	4.65

Source: ADB staff calculations using the latest POVCAL database (accessed 18 February 2011).

Income Inequality

Gini coefficient and the ratio of the highest to the lowest *consumption* quintiles are used to measure the incidence of *income* inequality. Its value ranges between 0 and 1 and higher value means higher inequality while value close to zero means least inequality. It reveals that during the period both the Gini coefficient and share of the income of highest to bottom quintiles has increased. It suggests that situation of income inequality has worsened. Combining it with the data of headcount, it can be inferred that due to good growth performance during the period of 2000-2006, the number of poor has declined but economic growth has failed to put any distributional impact in Pakistan.

Table13.4: Gini-Coefficient and Consumption Shares by Quintiles

	PIHS 2001-02			HIES 2004-05			PSLM 2005-06			PSLM 2007-08		
	Urban	Rural	Pakistan	Urban	Rural	Pakistan	Urban	Rural	Pakistan	Urban	Rural	Pakistan
Gini Coefficient	0.32	0.23	0.27	0.33	0.25	0.29	0.34	0.24	0.30	0.32	0.25	0.29
Consumption share by Quintile (%)												
Quintile 1	5.3	12.8	10.1	4.8	12.6	9.5	4.5	13.5	9.6	5.0	13.1	9.9
Quintile 2	8.1	16.9	13.7	7.6	17.1	13.2	8.2	16.8	13.1	9.1	16.1	13.3
Quintile 3	12.1	1	16.8	11.6	19.7	16.4	11.1	20.1	16.2	11.7	19.6	16.4
Quintile 4	19.4	22.4	21.3	18.3	23	21.4	17.8	23	20.8	19.6	22.1	21.1
Quintile 5	55.1	28.4	38	57.7	27.6	39.4	58.4	26.6	40.3	54.6	29.1	39.3
Ratio of Highest to Lowest Quintiles	10.4	2.22	3.76	12.0	2.19	4.15	13.0	1.97	4.2	10.9	2.2	4.0

Source: Calculations based on the data of PIHS 2001-02; HIES 2004-05; PSLM 2005-06, 2007-08

In the rural areas, the Gini coefficient has declined from 0.25 in 2004-05 to 0.24 in 2005-06 and again increased to 0.25 in the year 2007-08; whereas in urban areas, inequality increased from 0.32 in 2001-02 to 0.33 during the year 2004-05; and further increased to 0.34 during the year 2005-06. However, it registered a decline from 0.34 in 2005-06 to 0.32 for the year 2007-08. Importantly, urban income inequality increased faster than overall inequality during 2005-06. Table 13.4 shows the trends of consumption expenditure share by quintiles for Pakistan. The ratio of the highest to lowest quintile, which measures the gap between the rich and the poor, deteriorated from 4.15 in 2004-05 to 4.2 in 2005-06 at the national level, indicating a shifting of resources from poor to rich. However, the ratio declined to

4.0 during the year 2007-08. Consistent with the increased share of the poor in rural areas in 2005-06, the rich-poor gap narrowed in 2005-06 as the ratio declined from 2.19 in 2004-05 to 1.97 in 2005-06. However, the ratio increased to 2.2 during the year 2007-08 indicating increase in inequalities.

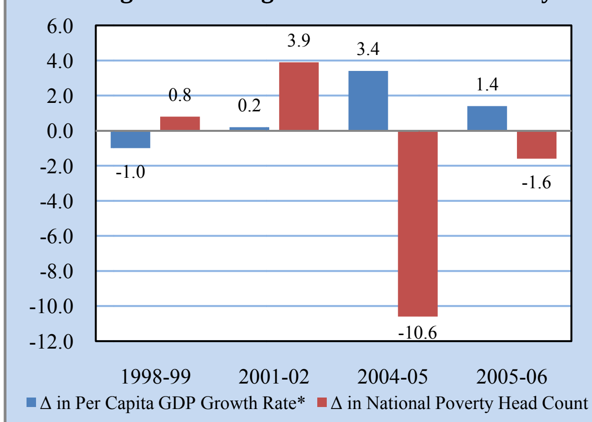
The ratio of highest to lowest quintiles for the urban areas showed an increasing trend during the period 2001-02 to 2005-06 as it increased from 10.4 in 2001-02 to 13.0 during the year 2005-06. However, it declined to 10.9 during the year 2007-08.

Growth Poverty Nexus

Rapid economic growth over a prolonged period is essential for poverty reduction. At the macro level, economic growth implies greater availability of public resources to improve the quantity and quality of education, health and other services. At the micro level, economic growth creates employment opportunities, increases the incomes of the people, and therefore reduces poverty. East Asian countries such as Korea, Malaysia, China, Taiwan, Singapore, and Hong Kong offer clear examples of the effects of economic growth on poverty alleviation. It is evident from the experience of these countries that the persistence of high economic growth and not a short sequence of bust and boom that characterized the Pakistan economy over the years is the best hope for poverty alleviation. Pakistan has experienced reduction in absolute poverty over a four year period (2002-2006) as the poverty headcount decreased from 34.5 percent in 2000-01 to 22.3 percent in 2005-06. The graph in Figure-13.1 plots change in poverty headcount against change in per capita GDP growth (3 year moving average). It is apparent that large reductions in poverty headcount are associated with substantial growth in per capita GDP.

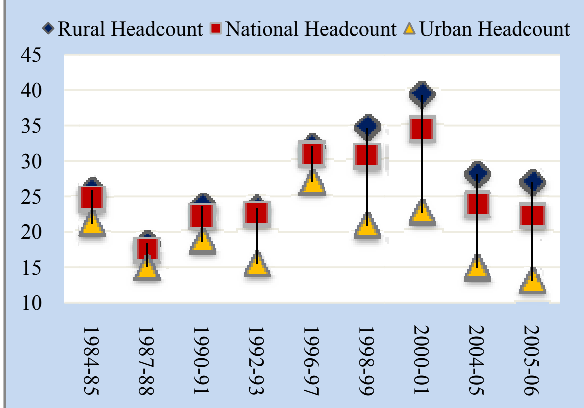
While growth is essential but not sufficient condition for poverty reduction as a weak redistributive effect, owing to increasing inequalities, results in an increase in poverty, which is also true for Pakistan. Poverty in rural areas is relatively higher than urban areas. The rural-urban gap widened since 1992-93 with the rise in poverty incidence, however, the gap tend to narrow with fall in rural poverty since 2000-01 [Fig-13.2].

Fig-13.1: Changes in Growth and Poverty



* *A three year moving average growth rate is used in analysis*
Data Source: Economic Survey, various issues
Courtesy: CPRSD

Fig-13.2: Poverty Headcount Urban Rural (%)



Data Source: Economic Survey, various issues

The slowdown in economic growth since 2004-05 has perceptible impact on poverty situation. Though latest official estimates on poverty are not available, some anecdotal evidence suggests substantial increase in poverty over the last three years. In order to deal with the increase in poverty, the federal and provincial governments have instituted social safety net programs.

However, to take poverty heads on require sustained and inclusive growth.

Impact of Floods on Poverty Situation

The floods of 2010 have long-lasting impact on socio-economic development of the country as nearly 20 million people were impacted by the damages to economic activity. The floods have caused a significant loss to poverty reduction efforts and would result in increase in poverty and vulnerability of affected population. The analysis presented in Table 13.5 & 13.6 reveals that the areas affected by floods were consistently lagging behind in terms of educational indicators as compared to the areas unaffected by floods. The loss to infrastructure and livelihood sources will push them behind further. Until restoration of normalcy in these areas, economic activity will be hampered by after effects of floods. The vulnerability of the population of affected areas against natural shocks of this intensity was very low even before the floods and this has complicated the situation.

Table 13.5: Pre-Flood Education Sector Indicators of Flood Affected Areas

Areas	PSLM 2004-05		PSLM 2008-09	
	Net Enrollment Rate* (NER) Primary Level			
	NER	GPI	NER	GPI
Pakistan Overall	***52.4***	***0.85***	***57.4***	***0.88***
Severely Affected by Floods	41.8	0.73	47.9	0.77
Moderately Affected by Floods	53.1	0.82	58.2	0.83
Not Affected by Floods	58.0	0.92	62.2	0.95
	Literacy for Ages 10 Years and Above			
	Literacy	GPI	Literacy	GPI
Pakistan Overall	***52.8***	***0.62***	***57.3***	***0.65***
Severely Affected by Floods	41.4	0.41	45.6	0.44
Moderately Affected by Floods	49.4	0.50	54.8	0.54
Not Affected by Floods	58.8	0.73	62.9	0.75
	Youth Literacy for Ages 15-24			
	Literacy	GPI	Literacy	GPI
Pakistan Overall	***65.5***	***0.72***	***69.6***	***0.77***
Severely Affected by Floods	51.5	0.48	55.9	0.54
Moderately Affected by Floods	62.4	0.60	67.3	0.66
Not Affected by Floods	72.3	0.85	75.9	0.88

Source: CPRSPD staff calculations from PSLM 2004-05 and 2008-09

Even before floods the immunization, access to drinking water, and access to sanitation in flood affected areas had been relatively poor as compared to areas unaffected by floods in 2010. After the floods of 2010, most of the critical infrastructure has been destroyed putting additional constraint on delivery of social services due to which Pakistan’s progress towards achieving Millennium Development Goals (MDGS) will slowdown further.

Poverty Reduction Strategy

Pakistan’s commitment to reducing poverty in the medium term was first reflected in Poverty Reduction Strategy Paper (PRSP) finalized in December 2003 for a period up to 2007-08 and its second phase PRSP-II is under implementation for a period of three years (2008-09 to 2010-11). The overall vision of PRSP-II is to steer Pakistan`s economic growth back to the range of 5-7 percent a year by stimulating growth in the production sector; creating adequate employment opportunities; improving income distribution; and harnessing the country`s economic competitiveness through economic liberalization, deregulation and transparent privatization. The strategy recognizes that to steer Pakistan back on path of broad-based growth, create jobs, and reduce poverty, a prolonged period of macroeconomic stability, financial discipline and sound policies is required.

Table-13.6: Pre-Flood Selected Social Sector Indicators of Flood Affected Areas

Areas	PSLM 2004-05		PSLM 2008-09	
	Immunization for children 12-23 months			
	Immunization	GPI	Immunization	GPI
Pakistan Overall	***79.0***	***0.98***	***77.9***	***0.99***
Severely Affected by Floods	74.4	0.95	69.6	0.99
Moderately Affected by Floods	77.6	1.00	74.7	1.01
Not Affected by Floods	81.8	0.99	82.9	0.98
	Access to Drinking Water			
Pakistan Overall	***87.9***		***88.3***	
Severely Affected by Floods	83.4		84.6	
Moderately Affected by Floods	85.6		87.8	
Not Affected by Floods	90.6		89.9	
	Access to Sanitation			
Pakistan Overall	***59.2***		***70.9***	
Severely Affected by Floods	46.2		57.5	
Moderately Affected by Floods	53.6		66.0	
Not Affected by Floods	66.4		77.7	

Source: CPRSPD staff calculations from PSLM 2004-05 and 2008-09

Tracking of Pro-Poor Expenditures

The Government prioritized the 17 pro-poor sectors through the Medium Term Expenditure Framework (MTEF) from 2008-09 to 2010-11 in the PRSP-II. The MTEF provides a link between policy priorities and budget realities. Expenditures incurred in these sectors are in line with the Fiscal Responsibility and Debt Limitation Act, 2005 which stipulates that expenditures on social and poverty related spending would not be less than 4.5 percent of GDP in any given year and that budgetary allocations for health and education would double as a percentage of GDP over the next 10 years ending in 2012-13. During 2009-10, total federal and provincial budgetary expenditures in these sectors amounted to Rs 1110.8 billion representing 7.6 percent of the GDP against the projected target of Rs 660 billion. An amount of Rs.482.6 has been spent on these areas during July-December 2010 which is 15.8 percent higher than in the comparable period of last year.

Social Protection

The following 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 Programme (BISP): The Benazir Income Support Program (BISP) envisages cash grants of Rs 1,000 every month to the females of each qualifying household having a monthly income of less than Rs 6,000 through banks/post offices with the aim to ameliorate the conditions of the poorest of the poor by directly accessing them and supplementing their sources of income. In the short to medium term BISP will also serve as a platform for complementary social assistance programs, the main being health insurance for the poor and the vulnerable. An amount of Rs 15.3 billion was disbursed during 2008-09 while Rs 32 billion was disbursed in 2009-10. An allocation of Rs 50 billion has been kept during the current financial year for this purpose.

Waseela-e- Haq: This component of BISP was launched in October 2009. A total number of 750 registered beneficiaries of BISP under the current targeting mechanism are selected through a monthly draw. Each of them are provided with an interest-free loan worth Rs. 0.3 million, repayable in installments over a period of 15 years.

Pakistan Bait-ul-Mal (PBM):

A total of Rs 2,261 million was disbursed in 2009-10 against 3,432 millions in last 2008-09 (registering a decline by 34 percent in disbursements and increase in beneficiaries by 82 percent from 1.16 million to 2.11 million). The main reason behind this sharp decline in overall disbursement was the closure of PBM's Food Support Program (FSP) in 2009-10 as the FSP was merged in Benazir Income Support Program.

Table-13.7: Budgetary Poverty Related Expenditures by Sectors **(Rs. Million)**

Sectors	2006-07	2007-08	2008/09	2009-10	2010-11*
Roads, Highways & Bridges	60,003	84,825	99,613	98,456	21,121
Water Supply and Sanitation	16,619	19,817	22,204	25,459	6,640
Education	162,084	182,646	240,378	259,525	153,582
Health	53,166	61,127	83,714	94,399	40,898
Population Planning	7,002	13,322	5,345	7,048	2,245
Social Security & Welfare	4,513	18,942	29,129	54,571	22,606
Natural Calamities	5,008	7,728	10,083	12,548	-
Agriculture	74,771	83,493	88,912	104,815	35,357
Land Reclamation	2,348	3,130	2,738	1,990	980
Rural Development	22,175	23,334	16,362	20,391	4,838
Subsidies	5,455	54,872	220,567	234,926	74,458
Food Support Programme	3,458	4,370	12,420	0	-
People's Works Programme-I	20	1,420	3,329	8,417	662
People's Works Programme-II	2,499	2,748	28,000	31,754	-
Low Cost Housing	299	597	583	1,828	67
Justice Administration	5,081	7820	9,193	10,996	6,284
Law and Order	2,088	2,429	104,658	143,639	72,922
Total	**3426,680**	**572,620**	**977,228**	**1,110,762**	**482,615**
Total as % age of GDP	**4.89**	**5.57**	**7.46**	**7.57**	

** July-December* *Source: Ministry of Finance*

Peoples' Works Program (PWP) I & II:

This program covers implementation of schemes under PWP-I & II entailing roads, electricity, gas, telephones, education, health, water supply & sanitation and bulldozer hours. PWP-I & II incurred expenditures of Rs. 3.3 billion and Rs 28 billion in 2008-09 and Rs. 8.4 billion and Rs. 31.8 billion during 2009-10, respectively.

Initiatives in Microfinance:

Owing to committed efforts of the government, microcredit demonstrated an upward trend both in terms of active borrowers, which increased by 11 percent and Gross Loan Portfolio (GLP), which recorded a growth rate of 23 percent during 2009-10 as compared to the 2008-09. In terms of savings (both voluntary and compulsory programs), 32 percent growth was recorded compared to the previous fiscal year. As regards microfinance services, micro insurance grew upward significantly. The number of policy holders and sum insured increased by 83 percent each during 2009-10 as compared to 2008-09.

Other Initiatives in Microfinance

The State Bank of Pakistan has launched three microfinance initiatives: the Microfinance Credit Guarantee Facility, the Institutional Strengthening Fund, and Improving Access to Finance Services Fund. The initiatives are part of the Financial Inclusion Program, a joint venture between SBP and the UK Department for International Development. The objective of the three microfinance initiatives is to provide liquidity to the microfinance providers in response to tighter liquidity conditions and spikes in inflation.

Microfinance Credit Guarantee Facility (MCGF): This facility will provide incentives to banks and development financial institutions (DFIs) to provide funds to microfinance institutions which will then be used to provide credit to the MFI's borrowers. Lenders will lend to the MFIs at the State Bank of Pakistan policy discount rate plus 2 percent. The incentives include a guarantee on repayment of 40 percent of the funds provided by banks and DFIs to MFIs. In addition to the guarantee, banks and DFIs may deduct the funds loaned to MFIs from their demand and time liabilities when calculating their statutory liquidity and the cash reserve requirements for regulatory purposes.

Table-13.8: Active Borrowers, Active Savers and Active Policy holders by Peer Group

Details	Micro-credit		Micro-Savings		Micro-Insurance	
	Active Borrowers (Million)	Value (PKR Million)	Active Savers	Value (PKR Million)	Policy Holders	Sum insured (PKR Million)
2008-09	1.78	20.3	2.15	6.9	2.08	29.4
2009-10	1.98	25.1	2.8	9.6	3.81	53.7
Increase/ decrease (Net)	0.19	4.8	0.7	2.7	1.73	24.3
Increase/ decrease (%)	11%	23%	32%	39%	83%	83%

Source: Pakistan Microfinance Network (PMN), Islamabad.

Institutional Strengthening Fund (ISF): The objective of the Institutional Strengthening Fund is to increase the capacity of MFIs by providing grants for them to make advances in their human resources, management, governance, internal controls, business development, cost reduction mechanisms, product innovation, and technology implementation. With good performance and resubmission of their proposal, MFIs may be recipients of grants several years in a row. The fund will primarily focus on institutions that are already regulated, or are in the process of seeking a license, or have solid plans for restructuring in the near future.

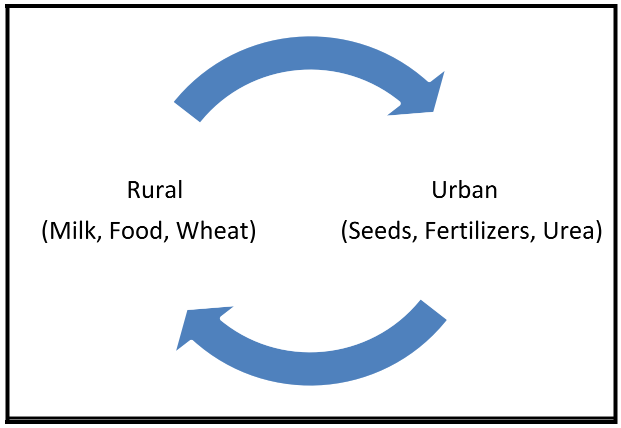
Improving Access to Financial Services (IAFS): This fund also is designed to enhance the capacity of MFIs with the additional goal of promoting financial literacy. The fund was established with a USD 20 million endowment from the Asian Development Bank (ADB) supported Improving Access to Financial Services Program. In addition to promoting an increase in capacity in many of the same ways as the ISF, the IAFS places some added focus on increasing capacity in remittances and Islamic financial services. It will also train government and regulatory authorities on supporting the development of an inclusive financial system enabling financial services providers to launch financial and basic literacy programs for their clients.

As far as the monitoring of Poverty Reduction strategy is concerned, the government has put in place a stringent results-based M&E system through the institution of a project financed jointly by Ministry of Finance and UNDP called Strengthening Poverty Reduction Strategy Monitoring Project. The objective is to strengthening institutional capacities for results-based monitoring and evaluation of PRSP at the federal, provincial and district levels. It may also be noted that the credits/grants received by the government as budget support are always as result of certain pre-negotiated/agreed policy parameters linked to disbursement. These parameters are then stringently measured/monitored both by the donors and the government for successful implementation.

14 Transport and Communication

Transport system comprises several modes including Roads, Rails, Waterways etc and Communication system includes Post Offices, Courier Services, Wireless, Mobiles and Electronic Media. Transport and Communication are vital for connecting markets and the people. It is extremely difficult to put the economy on the high growth trajectory without an efficient transport and communication system. Adaptation of advance telecommunications and information system is essential for masses and businesses to communicate in more efficient way to achieve high level of growth and reduce poverty. Investments in country's infrastructure directly affects economic growth as producers find the best markets for their goods, reducing transportation time and cost and generating employment opportunities (Figure 14.1). A well established transportation and communication systems also have network effects and allow adoption of latest production techniques. The existence of natural resources is the basis of economic development and their efficient utilization is prime objective of the policy makers for sustainable development. An efficient transport system is pivotal to support any kind of economic activity.

Figure 14.1: Transport Integration Process



14.1 Road Transport

An efficient communication system is vital for trade, commerce and national integration. Naturally, Pakistan's economic development depends on improvement/modernization of its transport sector. Roads have become the most important segment of transport sector in Pakistan with ever increasing reliance on road transportation. In 1947, reliance on roads was only 8 percent, however, the roads now carry over 96 percent of inland freight and 92 percent of passenger traffic and are undoubtedly the backbone of Pakistan's transport sector/economy.

14.1-1 Road network:

The devastating flood of 2010 caused a severe blow to the road infrastructure by destroying about 10 percent of the network. Many sections of the roads in Punjab, Sindh, Balochistan and Khyber Pakhtoonkhwa (KPK) were wiped out by unprecedented flood. Hence, there was urgent need for reconstruction. Besides, maintenance and rehabilitation is also required for most of such sections. According to report "Pakistan Flood, 2011: "Preliminary Damage and Need Assessment", published by the World Bank and National Disaster Management Authority Pakistan, preliminary estimates that about 10 percent of the road-network (approximately 25,000 Km) sustained the highest damage with in the transport and communication sector causing a loss of about 1.2 billion US dollars. The reconstruction requirement of the road-sector has been estimated at 2.07 billion US dollars. The disruption to the road and rail network had two fold impact on the mobility of the affected population i.e. returning to the village became difficult and access to markets and basic services decreased manifold.

The total estimated length of the roads in Pakistan would be clear from the Table 14.1 after the colossal damages and hence all available resources would naturally go to the repairing work rather than constructing entirely new road, resulting a bit decline.

Table 14.1: Estimated Length of Roads by Provinces (KM)

Years	Category	Punjab	Sindh	KPK	Baluchistan	GB & AJK	TOTAL
2006-07	**TOTAL**	**104456**	**81129**	**42509**	**29548**	**1547**	**259189**
	Low Type	34807	27034	14165	9846	510	86362
	High Type	69649	54095	28344	19702	1037	172827
2007-08	**TOTAL**	**104115**	**80863**	**42369**	**29451**	**1552**	**258350**
	Low Type	33864	26301	13781	9579	505	84030
	High Type	70251	54562	28588	19872	1047	174320
2008-09	**TOTAL**	**104114**	**80863**	**42369**	**29452**	**1552**	**258350**
	Low Type	32949	25591	13409	9321	491	81761
	High Type	71165	55272	28960	20131	1061	176589
2009-10	**TOTAL**	**105085**	**81618**	**42765**	**29727**	**1565**	**260760**
	Low Type	32179	24993	13095	9103	480	79850
	High Type	72906	56625	29670	20624	1085	180910
2010-11	**TOTAL**	**105253**	**80625**	**42550**	**29500**	**1535**	**259463**
	Low Type	32147	24000	13000	9000	450	78597
	High Type	73106	56625	29550	20500	1085	180866

Source: National Transport Research Centre (NTRC)

14-1-2 National Highway Authority (NHA)

The transport sector in general and road infrastructure in particular has profound and enduring effect on the economic growth of Pakistan. NHA is playing well its responsibility for improving the quality of Pakistan's road network and ultimately improving the quality and standard of life of the masses. Road density is an indicator of prosperity and development level. Current road density in Pakistan is 0.32 km/km^2, which is much less even from regional standard. The government is endeavoring hard to double the road density to 0.64 km/km^2. From only around 50,000 km in 1947, Pakistan's current road network is now more than 260,000 km. This includes NHA network of around 12,000 km, which despite being merely 4 percent of the overall road network takes 80 percent of Pakistan's commercial traffic.

Devastating flood-2010 caused colossal damages to NHA network throughout Pakistan which includes roads, bridges, culverts, retaining walls, causeways, etc. Despite the huge damage & flood intensity, the traffic was restored on war footing for bringing comfort to affected population. A total of 736 km road segments and 48 bridges were damaged. The restoration cost is assessed as Rs 23.5 billion for NHA controlled roads. Based on flood experience, which passed all historical records, the government is now improving design standards on revised hydraulic parameters to enhance safety features to minimize losses of life and property.

At present, 65 development projects are ongoing which include roads, river bridges, tunnels, flyovers, interchanges etc. Since Mar-2008, NHA has launched/ awarded 36 development projects covering a length of above 1000 km inclusive of a number of bridges, flyovers & interchanges.

14.2 Pakistan Railways

Pakistan Railways provides mode of transportation in the farthest corners of the country and brings them closer for business, sight seeing and education. It caters to large scale movement of people and freight. An effective railways system facilitates trade and reduce transportation cost in comparison to other means of transportation eventually promotes rural development and national integration among the commuters.

Table: 14.2: Passenger Traffic (Million Passenger Km)

Fiscal Year	Passenger Traffic (Million) Passenger Km		Freight Million Ton Km	
	Rail	% Change	Rail	% Change
2000-01	19,590	5.9	4,520	20.4
2001-02	20,783	6.1	4,573	1.2
2002-03	22,306	7.3	4,830	5.4
2003-04	23,045	3.3	5,336	10.7
2004-05	24,238	5.2	5,532	3.6
2005-06	25,621	5.7	5,916	6.9
2006-07	26,446	3.2	5,453	-7.8
2007-08	24,731	-6.5	6,178	13.3
2008-09	25,702	3.95	5,896	-4.10
2009-10	23,523	-8.4	3,925	-13.2
2010-11* (July-Dec)	9,687	-17.6	4,847	17.7

** : estimated* *Source: Ministry of Railways &M/o Communication*

Pakistan Railways is planning to take following series of interlinked initiatives in order to compete effectively amid the fast growing transport sector of the country.

- Contract agreement for procurement and manufacturing of 202 coaches signed. Out of this 150 Coaches will be manufactured in Pakistan Carriage Factory Islamabad.
- 447 out of 500 completely knock down (CKD) wagons received from China will be manufactured in Pakistan Railways workshop in Moghalpura this year under the project for Procurement/Manufacture of 530 High Capacity Wagons.
- Rehabilitation of 400 old coaches is underway while 241 coaches are expected to be rehabilitated during the current financial year.
- Another on-going development project is the doubling of tracks from Khanewal to Raiwind (246 Km) and doubling of track from Khanewal to Chichawatni have been completed & opened for public traffic.

The earnings of Pakistan Railways since 2000-01 are given in Table 14.3.

Table 14.3: Earnings of Pakistan Railways
(Rs. Million)

Fiscal Year	Earning	% Change
2000-01	11,938	20.7
2001-02	13,046	9.3
2002-03	14,812	13.5
2003-04	14,636	-1.2
2004-05	18,027	23.2
2005-06	18,184	0.9
2006-07	19,194	5.5
2007-08	19,973	4.1
2008-09	23,160	16.0
2009-10	22,269	-3.8
2010-11 (July-Mar)	13060	-19.1

Source: Ministry of Railways

14.3 Pakistan International Airline (PIA):

The airline industry provides services to virtually every corner of the globe, and has been an integral part of the creation of a global economy. The airline industry itself is a major economic force, both in terms of its own operations and its impacts on related industries. But as the global economy gradually shifts gears and moves out of recession, the aviation industry has still not been able to fully recover from the crisis that engulfed it in the wake of the oil price hike and financial meltdown.

In fact with the recent events in the Middle East unfolding, oil prices have again started to climb which casts doubts on the ability of the aviation industry to return to portability. However, air travel increased by 7 percent in the year 2010.

During the calendar year 2010, PIA earned the revenue of around Rs. 107 billion as compared to last year of Rs. 94.6 billion. The passenger business with Rs. 95.7 billion of revenue (2009: Rs. 84.5 billion) contributes around 89 percent of total revenue. Available Seat Kilometers (ASKs) increased to 21,219 million from 19,859 million in 2009 demonstrating increased capacity with existing fleet while Passenger Yield has also increased by 0.3 percent. Frequencies to various destinations such as Jeddah and New York have increased whereas new destinations of Barcelona and Chicago have been introduced during the year 2010. The cargo business generated Rs. 6.4 billion (2009: Rs. 4.98 billion) revenue, constituting six percent of the Corporation's total revenue. The cargo capacity has also increased by 8.8 percent.

However, despite positive year-on-year growth in revenue of 13 percent, the overall financial position did not improve materially as compared to last year due to a host of reasons – most important amongst them being the rising oil prices in global markets. In order to achieve further operational and financial efficiency, PIA management is in process of taking steps involving organizational, financial and route restructuring, penetration in new markets and enhancing moral of employees.

14.4 Ports and Shipping

a) Karachi Port Trust (KPT):

The Karachi Port Trust (KPT) has established an annual cargo handling record of over 41.4 million tons during July-March 2010-11, indicating an increase of 6.9 percent over last year. There has also been remarkable increase in all types of cargo handling including bulk, break bulk and containers. Detail of cargo handling during the last fifteen years is given in Table 14.4.

Table14.4: Cargo Handled at Karachi Port **(000 Ton)**

Year	Imports	% Change	Exports	% Change	Total	% Change
2001-02	20,330	1.3	6,362	7.5	26,692	2.7
2002-03	19,636	-3.5	6,273	-1.4	25,909	-2.93
2003-04	21,732	10.8	6,081	-3.1	27,813	7.4
2004-05	22,100	1.7	6,515	7.1	28,615	2.9
2005-06	25,573	15.7	6,698	2.8	32,271	12.8
2006-07	23,329	-8.8	7,517	12.2	30,846	-4.4
2007-08	25,518	9.4	11,675	55.3	37,193	20.6
2008-09	25,368	-0.6	13,364	14.5	38,732	4.1
2009-10	27,892	9.9	13,528	1.23	41,420	6.9
2010-11 (Jul-Dec)	14,711	5.1	5,567	-14.83	20,278	-1.3

Source: KPT

b) Pakistan National Shipping Corporation (PNSC)

The consolidated revenues of Pakistan National Shipping Corporation group for the quarter ended March 31, 2011 were Rs 2,552 million (including Rs. 1,043million from PNSC), making a total of Rs. 6,772 million (including Rs.1,805 million from PNSC) for the nine months under review as against Rs. 5,583 million for the nine months ended march 31, 2010. The earnings per share for the 9 months period ended March 31, 2011 were Rs.5.96 as against Rs. 5.28 last year. The Net profit after tax was Rs. 787 million as against Rs. 697 million last year.

PNSC has acquired four Bulk Carriers (one Panamax, one Handymax, one Supramax and one Handysize) at a total price of US$ 124.25 million, managed through commercial loan, which PNSC contracted with a consortium of commercial banks. The first vessel was delivered to PNSC on 25th October, 2010 at Kashima-Japan and is named as "Chitral" and second vessel "Malakand" was delivered to PNSC on 27th December 2010 at Dalian-China, Third vessel "Hyderabad" was delivered to PNSC on 21st April 2011 at Guangzhou China, while delivery of fourth vessel is scheduled on/about 15 May 2011 which would be named "Sibi".

Table 14.5: Commercial Performance

	(in Metric Tones)
Cargo Lifted	**Jul 10-mar 11 (9 Months)**
Liquid Cargo	6,652,820
Dry Cargo	577,618
Total (Dry + Liquid)	7,230,438

Source: PNSC

The global shipping industry has been going through a lean patch and it is anticipated that the recovery period yet to come however PNSC during the tough time in global shipping remained profitable during the nine month of FY 2010-11 (Table 14.5). The Corporation has developed a Five Years Fleet Development Plan (2010-15), which envisaged induction of 13 vessels. While PNSC is pursuing inductions, this development plan is kept under continuous review and is revised/updated on the basis of trade & freight market trends in global shipping industry.

c) Gwadar Port

The Gwadar Port started its commercial operations in March 2008 by handling the 1st biggest ship ever berthed at any port of Pakistan namely 76000 DWT Panamax Bulker POS Glory which discharged a total of 63000 M.Tons of wheat. Since then a total of approx. 120 ships have been handled upto 31st January 2011 at Gwadar Port carrying total cargo of 2,286,781 M.Tons.

Table 14.6: Cargo Handled at Gwadar Port **(000 Ton)**

Year	Imports	% Change	Exports	% Change	Total	% Change
2007-08	231.639	-	-	-	231.639	-
2008-09	2055.142	787.22	-	-	2055.142	-
2009-10	705.969	-191.11			705.969	-

Source: Gwadar Port Trust

d) Port Qasim Authority :

Port Qasim being the first industrial and commercial Port of Pakistan, caters for around 40 percent shipping requirements of the country. Port Qasim Authority (PQA) handled a volume of 13.019 million tones cargo during 2010-11 (July-Dec), as compared to 13.276 million tones handled during corresponding period last year, showing a decline of 2 percent.

The volume of import cargo during July-December 2010 stood at 10.181 million tones, as against the 9.853 million tones handled during corresponding period last year, showing an increase of 3 percent. The export cargo declined to 2.838 million tones during July-December 2010, as compared to 3.422 million tones, handled during corresponding period last year, showing a decline of 17 percent, mainly due to flood in the country.

A total of 5.225 million tones of containerized cargo were handled during Jul-Dec. 2010 as against the 4.573 million tones handled during corresponding period last year 2009-10, showing an increase of 14 percent.

Table 14.7: Cargo Handled at Port Qasim (000 Tonnes)

Period	Import	% Change	Export	% Change	Total	% Change
2000-01	11841	-11	1747	3	13588	-11
2001-02	10932	-8	2385	36	13317	-2
2002-03	11980	10	3129	31	15109	13
2003-04	11264	-6	2859	-9	14123	-7
2004-05	16006	42	3431	20	19437	37

Period	Import	% Change	Export	% Change	Total	% Change
2005-06	17588	10	3985	16	21573	11
2006-07	19511	11	4839	21	24350	13
2007-08	21502	10	4922	2	26424	9
2008-09	19445	-10	5584	16	25030	-5
2009-10	19226	1	6380	14	25,626	2
2010-11 Jul-Dec	10181	-	2838	-	13,019	-

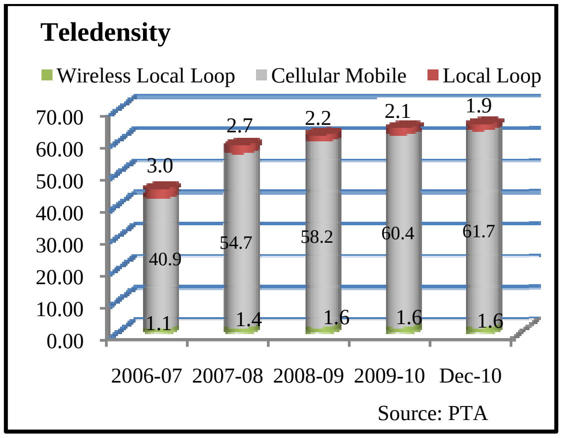
Source : Port Qasim Authority

The current handling capacity of Port Qasim Authority (PQA) with 13 berths is 58 millions Tons per annum. To meet growing requirements for capacity enhancement, PQA has envisaged following development Plans:-

- Implementation Agreement signed on 26-10-2010 with M/s PICT, for development of the terminal on BOT basis. Upon completion of the Terminal the Port capacity would be increased by 75,000 DWT.
- NOCs for undertaking the Quantified Risk Assessment (QRA) study have been issued to the prospective terminal operators. In all 05 LNG terminals have been envisaged, which will not only improve the core competency of this port but would address the growing energy crises in the country as well.
- In the first phase of Deepening & Widening of Port Navigation Channel, turning basin is being deepened so as to fulfill the contractual obligation with the private terminal operators. In the second phase the channel will be widened, commensurate to the development of LNG Terminals, so as to ensure the requisite width for LNG vessels calling at the Psort.
- Port Qasim Authority is vigorously pursuing development of industrial complex and infrastructure in various zones. Presently infrastructure in the Export Processing Zone (EPZ) is being developed at a total cost of Rs.8.89 billion, through M/s FWO & NLC. About 70% of the development works have been completed.

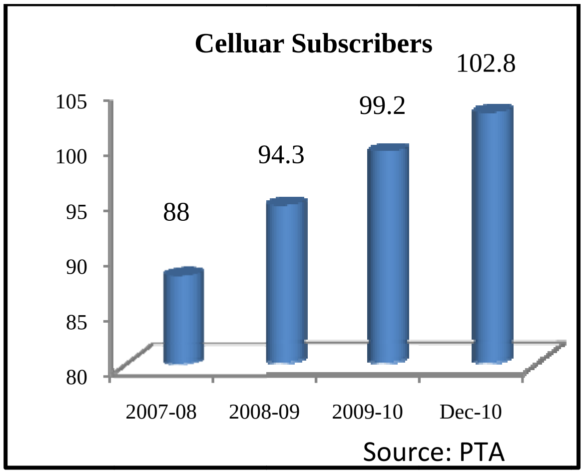
14.5 Telecom Sector

Telecom sector continued to actively contribute to the national exchequer through a steady state of revenue generation, subscriber growth and boost in teledensity despite difficult economic situation in the country. Telecom companies invested heavily in aggressive marketing techniques and infrastructural expansion in far flung areas of Pakistan. USF contribution for undertaking these investments lent a helpful hand in keeping the telecom developments consistent.



In terms of statistics, industry has shown positive growth of 3.5 percent during the 2009-10. Total Teledensity reached 65.2 percent by end-Dec 2010. Cellular mobile sector took lead in the increase of teledensity, offsetting the dwindling figure of fixed/wired line teledensity. Emergence of effective competition between telecom operators continued in telecom sector benefiting the consumer in terms of lowering tariffs and unraveling costly investment possibilities. Cellular mobile companies are now moving towards lowest possible tariffs and offering wide range of data services as well. Cellular industry has a 94.6 percent share in total telecom teledensity followed by FLL 2.9 percent and WLL

2.5 percent, therefore, performance of cellular industry is of utmost importance to the overall sector growth.



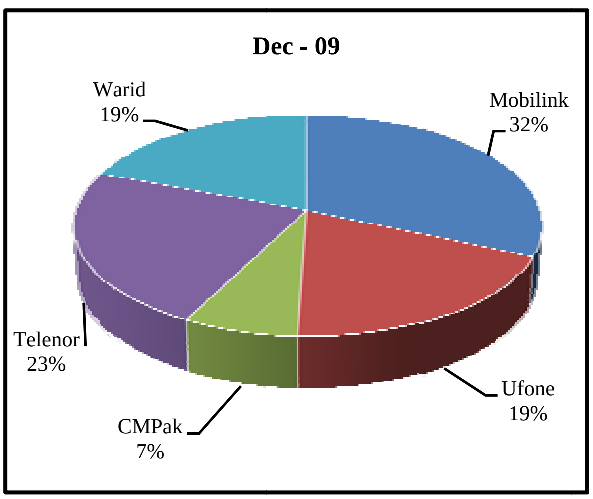
14.5-1 Cellular Mobile Sector

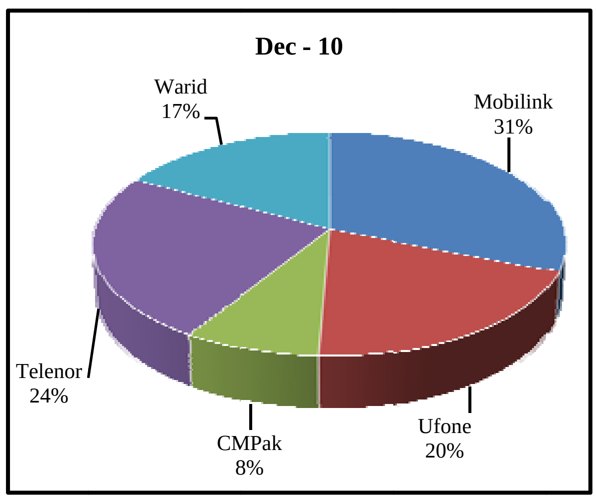
Like many of other emerging markets, Pakistan mobile sector also constitutes mainly of prepaid subscription. Since the economic situation is not very favourable due to increased inflation and higher cost of living, individuals have reduced their spending on communication needs, therefore, suitable options to stay connected still rests with easy loads and scratch cards. With over 97 percent prepaid subscription in the mobile market, the post paid subscription in Pakistan is insignificant (3 percent). Total mobile subscribers at the end of December 2010 crossed the 102 million mark.

14.5-1 a) Cellular Market Share

Cellular market is moving towards maturity, stability and intense competition as operators are dedicating their best efforts to achieve a higher stake in the overall market share. Over the last calendar year, cellular market share has not altered significantly. Mobilink still leads the pack with 31 percent market share while Telenor stands at 24 percent. Ufone increased its market share to 20 percent and Warid has 17 percent stake in the overall subscriber base. Zong has improved its market share and reached at 8 percent at the end of December, 2010.

Cellular Subscribers Market Share

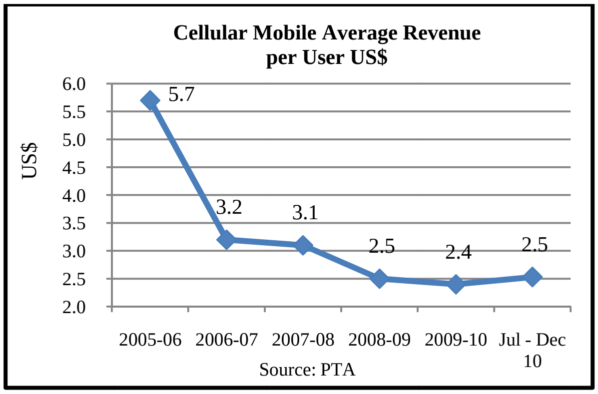




14.5-1 b) Cellular Mobile Average Revenue per User (ARPU)

While tracking down the history of mobile industry continuous ARPU decline is witnessed since 2003-04. Prior to award of two additional cellular licensees the industry was enjoying ARPU of around US$9. With the introduction of competition, revenues were distributed among the operators thus the ARPUs started to decline and in 2005-06 it hovered around US$5. With maturity of the market and declining tariffs the ARPU was over US$3 in 2008.

However, the year 2008-09 and 2009-10 witnessed deteriorating security and economic situation in Pakistan and financial crisis across the globe put pressure on the mobile sector and thus the ARPUs kept dropping below US$ 3. The industry reached a collective ARPU of US $2.48 by the end of 2009-10 and currently, it stands at US $2.53 as of December, 2010.

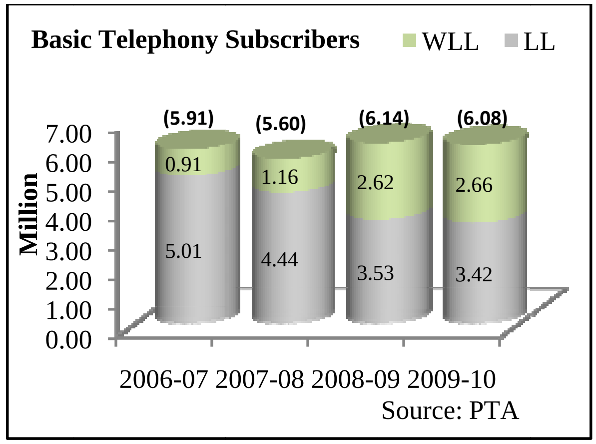


Like many emerging markets, Pakistan also experienced burgeoning growth due to competition and with the passage of time the sector started to settle down and tariffs were further reduced thus companies received marginal returns. In addition, the falling exchange rate also played an important role in pushing the ARPU down. While looking at the company wise scenario, ARPUs of Ufone and Zong have improved by 20 percent and 30 percent, respectively as compared to 2008-09.

Since the local market mainly constitutes the low income group, therefore changing their usage pattern is a challenge for the operators. Operators are already providing voice services at the bare minimum prices thus not much of revenue is expected from it, therefore data based services and applications especially in the local language could be a breakthrough for improving the revenue stream. Similarly operators also need to focus on marketing-operational alignment, optimizing network costs and strong distribution networks. By working on the above ingredients, the ARPU's can be pulled up in the future, especially with launching of services such as 3G.

14.5-2 Basic Services

The main players in the basic telephony services remained to be Pakistan Telecom Company Limited (PTCL), National Telecommunication Company (NTC), Special Communication Organization (SCO), World Call, Telecard and Wateen. There is a total of 6.08 million local loop subscribers of which 3.42 million subscribers are of fixed local loop and 2.66 million subscribers are of wireless local loop services. The total local loop subscribers including fixed and wireless stood at 6.14 million in 2008-09. The segment did not show any improvement during the year rather a drop of 1 percent was witnessed in the growth of local loop subscribers in the reported year. One of the main reasons for drop in the subscriber base was that PTCL lost 109,853 subscribers during the reported year. Moreover World Call also lost 2,360 subscribers during the same period.



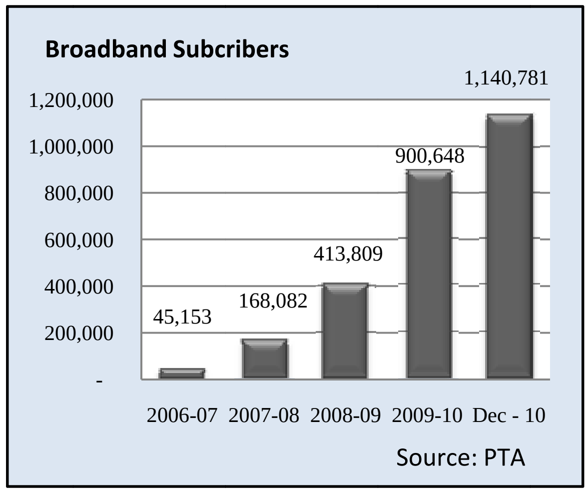
14.5-3 Long Distance International (LDI)

Long Distance International (LDI) services are an integral part of Pakistan's telecom industry responsible for carrying international traffic from Pakistan to abroad and terminating international traffic in Pakistan. LDI industry has invested heavily in infrastructure and is paying reasonable amount to national kitty through taxes.. Since the de-regulation of telecom sector in 2004, LDI industry has been trying to develop a stable business model where customer satisfaction could be achieved while keeping a sizeable profit margin intact. However, due to factors such as instant set up of illegal gateways, lack of industry coordination, high cost of optical links and unrealistically low tariffs, LDI industry struggled to establish its feet in the market. PTA stepped forward to bail out the industry by taking a number of initiatives like directing all LDI companies to follow the approved settlement rates, deployment of Monitoring and Reconciliation of International Telephony Traffic (M&RITT) system, raids against illegal call termination networks and regular review of Access Promotion Charges (APC). Due to high volumes of traffic being carried by the LDI companies, revenue generation has always been a highlight of LDI operations.

At the time of de-regulation in 2004, 14 LDI licenses were awarded of which 09 companies are currently operational in the country. Among the major players are PTCL, Link Direct, Wateen, WorldCall and Telecard. The license condition of minimum number of POPs for commercial roll out has been met by all the operational companies. This year (2010-11), LDI industry has gone one step further and reached all time highest number of international outgoing traffic minutes owing to competitive international tariffs offered by various operators.

14.5-4 Broadband

Information accessibility, dissemination and knowledge sharing has become the hallmark of today's "electronic age". The pace of economic, social and technological developments of 21st century has been synonymous with the revolutionary propagation of ICT services. Broadband internet and mobile cellular services have been instrumental in connecting people, increasing social interactions, produce new income sources, provide platform for freedom of speech and develop portals for entertainment of the human beings. Broadband development in Pakistan has been under the close watch of PTA for a long time through forums, expert groups, PTA - Industry collaborations, studies, reports, surveys etc. The all out support and vision of PTA to promote ICT access in the country has resulted into an open, technologically advanced, widespread and business friendly broadband market depicting remarkable growth rates over the years. Due to freedom of technological choice, new entrants opted for wireless broadband services such as WiMAXand EvDO which started a fierce competition between fixed vs. wireless broadband operators. Resultantly, coverage, quality of service, marketing and tariffs were positively effected and industry statistics got a new boost as more subscribers started to join the broadband clan. The growing trend of wireless uptake by the general public will shun the dependency on fixed line parameters. PTA as a regulator is ensuring that this growth of broadband continues by injecting positive reforms into the industry on regular basis.



Broadband subscriber growth in Pakistan has truly been an amazing phenomenon over the last few years. From a handful of subscribers in 2005 to almost 1.14 million by the end of December 2010, broadband has transformed from a business luxury to a household necessity. Broadband penetration in Pakistan at the end of December 2010 stands at 0.66 percent.

14.8: Telecom Investment *US$ (Million)*

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Cellular	1,158.1	1,420.9	2,584.5	2,337.7	229.75	908.8
LDI	35.1	50.5	602.8	403.9	276.75	183.1
LL	2.3	0.3	40.6	342.1	57.37	22.5
WLL	277.3	259.4	747.0	52.8	82.11	23.0
Total	**1,472.8**	**1,731.1**	**3,974.8**	**3,136.4**	**1,645.98**	**1,137.51**

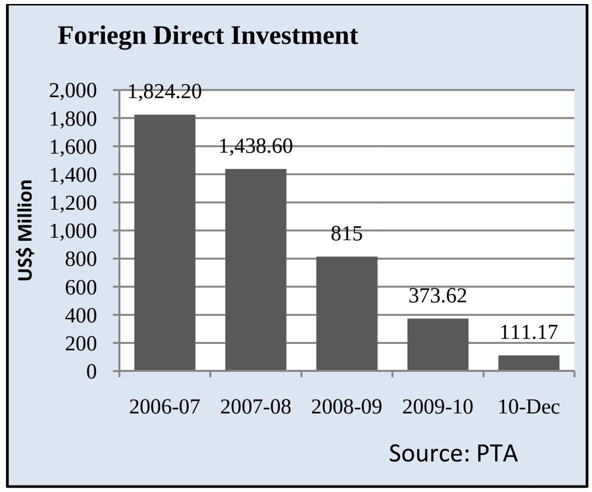
Source:PTA

14.5-6 Telecom Economy

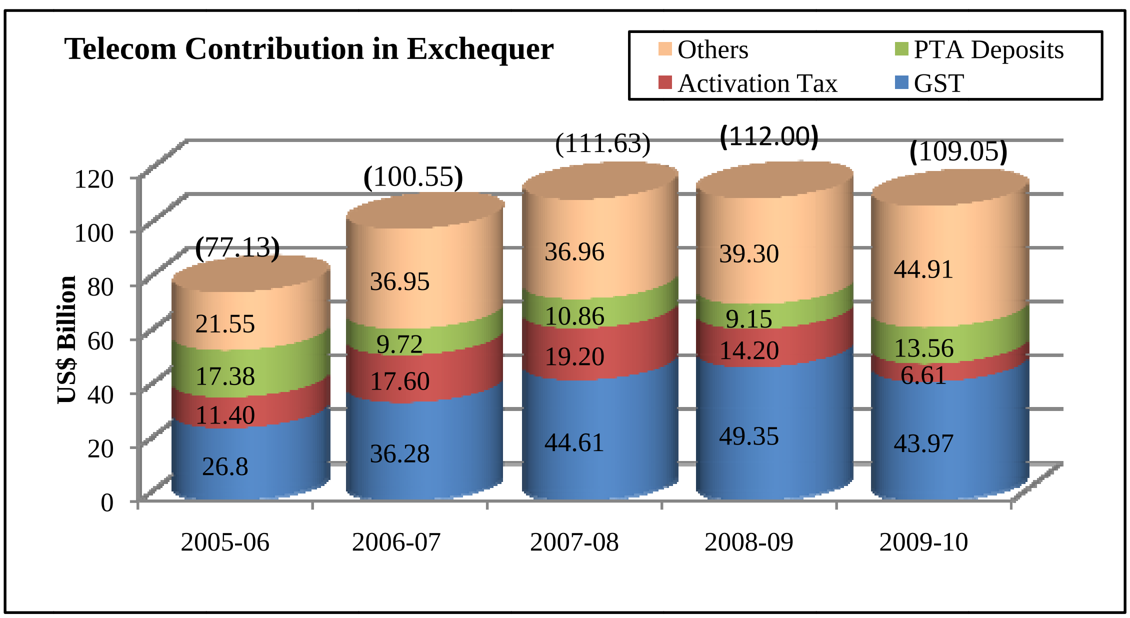
14.5-6 (a) Foreign Direct Investments (FDI)

During the past 5 years, telecom sector invested over US$ 11 billion in total in all segments of the sector and created millions of job opportunities in the country. Since the telecom sector is heading towards maturity, investment is also contracting with time. In 2009-10, telecom sector invested over US$ 1.13 billion in total which is about 508 million less than the previous year. Cellular mobile share in total stake remained about 80 percent with coverage for infrastructural expansion of over US$ 908 million extended to all regions of Pakistan.

Telecom sector attracted over US$ 6.3 billion FDI in the last 5 years, which is an encouraging response by the investors to Pakistan telecom sector policies. UAE, Norway and USA remained the major sources for FDI during last five years. Out of total US$ 6.3 billion FDI in the sector, UAE invested over US$ 2 billion and its share was more than 32 percent while USA and Norway brought FDI worth US$ 890 million and US$ 639 million respectively. Share in telecom FDI of both of these countries comes out 24 percent. China is another source of FDI for telecom sector with contribution of US$ 582 million in last five years. Rest of the FDI, brought by other countries including Singapore, Netherlands, United Kingdom and Hong Kong etc.



Recently the growth of FDI in telecom sector declined slightly due to saturation in the telecom market. But another wave of FDI is expected after the launch of 3G services by Pakistan. In 2009-10 alone, telecom sector attracted over US$ 373 million FDI which is about 17 percent of the total FDI landed in Pakistan during 2009-10. During the last 6 months (Jul-Dec 10) telecom sector received over US$111 million FDI inflow which becomes 13.4 percent of total FDI during this period.

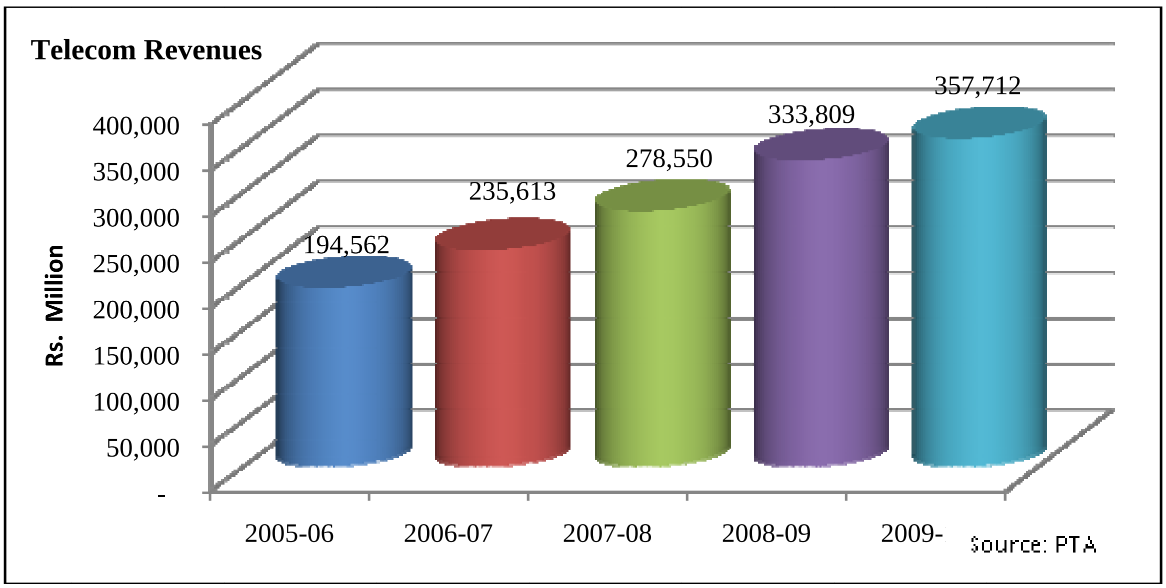


14.5-6(b) Contribution to Exchequer

During 2009-10, telecom sector contributed handsomely to the National Exchequer through taxes, license fees and other duties of Rs. 109.1 billion which is about Rs. 2.5 billion less than the previous year. During last five years, over Rs. 500 billion poured into the national kitty in lieu of taxes and duties. The decline in contribution is mainly because the market has reached its saturation point and additional subscription is lowering every year which is reflected in lower activation tax collection. FED/GST collection from the telecom sector also declined impeding the usage of telecom services due to high tax rates. PTA has collected over Rs.13.56 billion in 2009-10 as initial license fee, USF and R&D contribution. This amount was 48 percent higher than the Rs. 9.15 billion collected in the previous fiscal year.

14.5-6(c) Revenues

Telecom Sector revenues improved steadily in the 2009-10 and 6.5 percent growth rate was witnessed. Total telecom sector revenues reached Rs. 357.7 billion in 2009-10 compared to Rs. 333 billion the previous year. Cellular Mobile sector remained in the fore-front of revenue generation. Its revenue increased by about 11 percent in the current year from Rs. 212,423 million last year to Rs. 236,046 million in the FY 2009-10. Its share in total telecom revenue stands at about 70 percent in 2009-10 compared to 64 percent in the previous year.



14.5-6 (d) Regulatory Intervention by PTA

- Visiting Craft Regulations were developed to regulate the frequency use by the incoming aircrafts and ships in Pakistan Territorial Air-space and waters respectively. The regulations have been drafted to formalize the procedures for radio use on board the visiting aircrafts and ships. Regulations will be published after approval of MoIT&T.
- Grey traffic is one of the major challenges for telecom regulators around the world and PTA has been rigorously putting in efforts to curb this menace through monitoring of international traffic using state-of-the-art tool and raids. PTA carried out raids in the different cities of the country with assistance of Federal Investigation Agency (FIA).
- PTA launched an automated revamped “Online Complaint Management System” to better facilitate the telecom users in terms of complaint lodging, processing and resolution. The new system has been designed to minimize the complaint resolution time and for this purpose, it has been integrated with operators and the telecom Authority.
- PTA in collaboration with NUST School of Electrical Engineering and Computer Science

(SEECS) and Internet Society (ISOC) Pakistan Chapter hosted an exclusive remote participation hub for fifth annual IGF Meeting at SEECS, Islamabad. The event was organized keeping in view the dire need of Internet Governance issues understanding and capacity building among the youth and Internet professionals.

14.6 Electronic Media

a) Pakistan Electronic Media Regulatory Authority (PEMRA)

Pakistan Electronic Media Regulatory Authority (PEMRA) has rendered efforts during the past few years for its development and diversified choices to the people for access to current affairs, education, information and entertainment. Following activities carried out by the PEMRA during the period under reviewed.

- PEMRA has issued (03) new licenses for establishing satellite TV channels.
- During current financial year, (08) licenses for establishing FM radios network i.e. (04) for Commercial FM Radio and (04) for Non-commercial radio stations.
- This year the authority has issued (02) licenses of Mobile Audio (Content Provision Services) and (02) licenses of Mobile TV (Content Provision Service).
- Formulated a draft for Code of conduct for the local satellite TV channels and restricting foreign content in the regular broadcasting with the cooperation of private TV channels, owners.

b) Pakistan Television Corporation Limited (PTV)

PTV is gradually extending its signal to remote and economically backwards area of the country in order to uplift the socio-economic conditions, in these areas to eliminate the existing disparity. PTV is operating multiple terrestrial channels in the country. Apart from it a TV Channel has been established in AJK with one TV Centre, with three Rebroadcast Centers at Kotli, Rawala Kot and Bagh. PTV is planning to launch an independent English News Channel & PTV Sports Channel through terrestrial network has also been planned. PTV Abaseen (Pakhtoon Khawa), PTV Bolan (Baluchistan & PTV Bahawalpur (Punjab) have been planned. Project of Terrestrial Digitalization DVB-T & H of all centers, as per ITU requirement has also been forwarded.

c) Pakistan Broadcasting Corporation (PBC)

Pakistan Broadcasting Corporation having 64 broadcasting units is the largest radio network of the country with a listener-ship bigger than all private channels.

Programme & achievements on-going

- Establishment of largest FM-93 network of Pakistan at 22 stations.
- All station linked with SMS and LIVE phone interaction.
- PBC launched fund raising movement of IDPs and collected Rs. 6.5 million.
- Establishment of Swat and Waziristan radio which is an exemplary collaboration with armed forces of Pakistan and ISPR at national and international forums.
- Launched South Asia Broadcast Service adding three new international languages (Tamil, Sinhali, Nepali).
- PBC News also projected the social welfare schemes including Benazir Income Support Programme and other development projects.
- Broadcast of special news bulletins on flood situation at the middle of the hour from 12-08-2010 to 09-09-2010**.**
- PBC News has a unique distinction of monitoring news and comments of fourteen

radio and ten satellite TV channels including foreign broadcast.

- Web streaming of 14 Channels through Internet.

14.7 Pakistan Post

Pakistan post has taken various measures to streamline the Post office System on modern lines. During the current financial year 2010-11, following ongoing IT related projects have been strengthening and continued providing efficient services to the clients.

a. Benazir Income Support Program (BISP)

Completer web-enabled tracking and monitoring system for disbursement of funds for Benazir Income Support Programme (BISP) continued processing, monitoring and reconciliation of the specialized money orders scheme. The said programme successfully attains its objective to serve the vulnerable and downtrodden segment of the society.

b. International Post Services

Pakistan Post has mail links with all countries of the world except Israel. The mail exchange with these countries take place under Universal Postal Union's (UPU) Rules & regulations.

Pakistan received Rs. 66.2 million in Foreign Exchange on account of Gross Receipt during July to March 2011 and made payment during this period for Rs. 10.4 million, hence the Net receipts of the Pakistan Post department from other Postal administrations during the aforementioned period was Rs. 55.8 million.

c. Call Center

A call center has been established for receiving the complaints. Online complaint lodging facility on the web-portal of Pakistan Post www.pakpost.gov.pk has also been provided.

d. Counter Automation System

Over one hundred GPOs have been provided with counter computerization facility.

e. Express Mail Track & Trace System (EMTTS)

The web based Express Mail Track and Trace System of Pakistan Post provides valuable information relating to the dispatch and delivery of Express Mail articles. The system now covers 14 main stations and 46 District Mail Offices throughout Pakistan.

f. Remittances Services

Pakistan Post is maintaining inbound Money order under bilateral agreements with 28 countries of the world. During the period under review, the following remittances in foreign Exchange were received in the shape of money orders.

g. Computer Pension Payment System

Over 1.3 million Pensioners are served by Pakistan Post. Through computerization of Military Pension payments, at all post have efficiently been disbursing the pensions in a hassle free environment.

15 Energy

The global economic recovery from a downturn raised important question in many parts of the world regarding energy security including diversification, generation and its efficient allocation. The future of economic development hinges upon energy security and reframing of public policy for effective policy interventions will set the standard for shaping out the future of energy demand.

The global demand for different fuel sources is changing the overall energy mix to support cost effective support to economic growth. Notwithstanding falling share, oil is likely to remain the dominant fuel source in primary energy mix till 2035. It will remain sensitive to public policy actions to curb rising demand and emissions standards. The natural gas will play instrumental role in meeting the world energy needs for at least next two and half decades. The demand for energy put pressure on people around the world to explore new vistas for energy and think beyond the available sources of energy. Exploring new renewable energy sources has become more important to lead the world towards a more secure, reliable and sustainable energy path.

Energy is the key determinant of economic development and prosperity of society. It also provides an impetus for keeping sustainability in economic growth. Pakistan, which falls in the middle income group, has been facing an unprecedented energy crisis for past few years as the demand and supply gap widens. Its current energy demand far exceeds its indigenous supplies fostering dependency on the imported oil that put substantial burdens on the economy. Recent unrests in Middle East and North Africa (MENA) and political turmoil put up an upward pressure on the international oil prices with implications for Pakistan's burgeoning oil import bill, and boosting cost structure in power generation sector leading to severe domestic shortage of electricity and gas.

The energy availability has remained main impediment to economic growth. The growth prospects of the economy in 2010-11 were constrained by the availability of energy. In order to ensure energy supply, government is pursing policies of increasing domestic energy supplies by attracting foreign investment, diversifying imports to include natural gas, coal and electricity. It encourages attainment of optimal energy mix through fuel substitution by promoting energy efficiency and renewable energy and interregional co-operation.

The circular debt represents inefficiency in electricity sector and has increased to 1.5 times as compare to last year. Due to high energy prices, shift from expensive imported fuel (oil) to indigenously available alternative fuel (gas) has been seen, creating huge gap between demand and supply and has compelled government to tackle this with load management strategy along with increase in the prices.

Pakistan's Energy Sector

15.1 Energy Consumption

Pakistan's total energy consumption stood at 63.1 million tons of oil equivalent in 2009-10. The energy mix comprised of gas, oil, electricity, coal and Liquid Petroleum Gas (LPG) with different levels of shares. The share of gas consumption stood at 43.9 percent in total energy mix of country followed by oil (27.9 percent), electricity (15.6 percent), coal (11 percent) and LPG (1.5 percent). Furthermore, this energy consumption mix has witnessed significant transformation since

2004-05 [See Fig-15.1]. As a result, the major consumption source of natural gas witnessed an increase of 7.7 percentage points during 2009-10 compared to 2004-05 while share of oil consumption declined by 8.6 percentage points during the period under review. These changes in consumption of gas and oil mainly owed to shift from imported expensive fuel (oil) to relatively cheaper source of gas. Furthermore, the share of coal and LNG consumption increased slightly and that of electricity remains the same as it was in 2004-05.The shift of energy consumption towards indigenous resources saved the considerable amount of foreign reserve during the period.

During the period 2001-02 to 2009-10, the consumption of petroleum products has increased by an average of 1.3 percent per annum. The consumption of gas, electricity and coal has increased at an average of 6 percent, 4.9 percent and 9.1 percent per annum (see Table 15.1). This long term trend suggests that composition of annual energy consumption is shifting from petroleum products to other energy sources. Energy consumption of petroleum and gas has witnessed a negative growth during July-March 2010-11, while electricity consumption increased by 2.8 percent and that of coal increased substantially by 10.29 percent during the period under review.

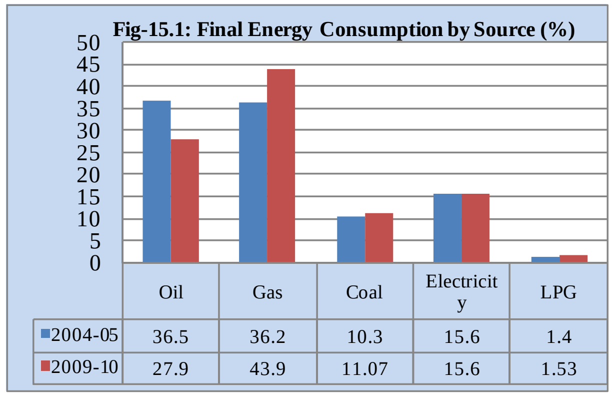


Fig-15.1: Final Energy Consumption by Source (%)

Table 15.1: Annual Energy Consumption

Fiscal Year	Petroleum Products		Gas		Electricity		Coal	
	Tones (000)	Change (%)	(mmcft)	Change (%)	(Gwh)	Change (%)	M.T* (000)	Change (%)
2001-02	16,960	-3.9	824,604	7.4	50,622	4.2	4,408.60	9.0
2002-03	16,452	-3.0	872,264	5.8	52,656	4.0	4,889.90	10.9
2003-04	13,421	-18.4	1,051,418	20.5	57,491	9.2	6,064.50	24.0
2004-05	14,671	9.3	1,161,043	10.4	61,327	6.7	7,893.80	30.2
2005-06	14,627	-0.3	1,223,385	5.4	67,603	10.2	7,714.00	-2.3
2006-07	16,847	15.2	1,221,994	-0.1	72,712	7.6	7,894.10	2.3
2007-08	18,080	7.3	1,275,212	4.4	73,400	0.9	10,110.60	28.1
2008-09	17,911	-0.9	1,269,433	-0.5	70,371	-4.1	8,390	-17.0
2009-10	19,132	6.8	1,277,821	0.66	74,348	5.65	8,139	-2.99
Avg. 9 years		**1.3**		**6.0**		**4.9**		**9.1**
July-March								
2009-10	13,937	-	959,475	-	54,653	-	5,304	-
2010-11 (e)	13,802	-0.97	939,960	-2.03	56,194	2.8	5,850	10.29

e: estimated for coal *Source: Hydrocarbon Development Institute of Pakistan*
**Million Ton*

15.2 Component Wise Performance of Energy

15.2-a Petroleum Product

During the first three quarters of current fiscal year i.e. July-March 2010-11, the overall consumption of petroleum products decreased by 0.97 percent against the same period last year. The consumption of petroleum products declined in household, agriculture and power sectors by 1.5, 18.2 and 5.7 percent, respectively (see Table 15.2). The consumption of petroleum products in industrial and government sectors have increased by 22.5 and 19.7 percent, respectively.

Table 15.2: Consumption of Petroleum Products (000 tones) **(Percentage Change)**

Year	House holds	Change (%)	Industry	Change (%)	Agriculture	Change (%)	Transport	Change (%)	Power	Change (%)	Other Govt.	Change (%)	Total
2001-02	335	-25.7	1,612	-16.2	226	-11.4	8,019	-1.7	6,305	-2.8	464	24.7	16,960
2002-03	283	-15.5	1,604	-0.5	197	-12.8	8,082	0.8	6,020	-4.5	266	-42.7	16,452
2003-04	231	-18.4	1,493	-6.9	184	-6.6	8,464	4.7	2,740	-54.5	309	16.2	13,421
2004-05	193	-16.5	1,542	3.3	142	-22.8	9,025	6.6	3,452	26.0	317	2.6	14,671
2005-06	129	-33.2	1,682	9.1	82	-42.3	8,157	-9.6	4,219	22.2	359	13.2	14,627
2006-07	106	-17.8	1,596	-5.1	97	18.3	7,982	-2.1	6,741	59.8	325	-9.5	16,847
2007-08	121	14.1	1,071	-32.9	109	12.7	9,384	17.6	7,084	5.1	311	-4.5	18,080
2008-09	97	-19.5	9,69	-9.5	70	-36.2	8,837	-5.8	7,750	6.9	367	18.2	17,911
2009-10	90	-7.5	985	1.6	58	-16.9	8,861	0.3	8,814	16.4	323	-12.0	19,131
July-March.													
2009-10	68	-	750	-	44	-	6,580	-	6,271	-	223	-	13,936
2010-11	67	-1.5	919	22.5	36	-18.2	6,599	0.3	5,913	-5.7	267	19.7	13,801

Source: Hydrocarbon Development Institute of Pakistan

15.2-b Natural Gas

Consumption pattern of gas by different users since 2001-02 is presented in Table 15.3. The sectoral consumption of gas indicates that the commercial, cement, fertilizer, power and industrial sectors have experienced decline in consumption of gas during July-March 2010-11 against the same period of last year. Only two sectors, household and transport have posted positive growth in gas consumption. Gas consumption in the transport sector has increased by 14.3 percent, mainly due to a shift from imported fuel oil to relatively cheaper source of gas during July-March 2010-11 followed by the household sector with almost negligible growth rate of 0.75 percent. The cement sector has shown major decline of 64.7 percent mainly because of the fact that the cement sector has almost switched over to coal fire system for its production activities. Gas consumption in industrial, commercial and fertilizer sectors have declined by 9.2, 5.0 and 2.7 percent, respectively during first nine months of the current fiscal year. Whereas, the power sector consumption decreased marginally by 0.2 percent during the period under review.

Table 15.3: Consumption of Gas (Billion cft) **(Percent change)**

Year	House hold	Change (%)	Comm-ercial	Change (%)	Cement	Change (%)	Ferti-lizer	Change (%)	Power	Change (%)	Indus-trial	Change (%)	Transport (CNG) mmcft	Change (%)
2001-02	144	2.1	22	4.8	7	0	178	1.7	315	12.1	151	8.6	7,369	66.6
2002-03	154	6.9	23	4.5	3	-57.1	181	1.7	336	6.7	165	9.3	11,320	53.6
2003-04	155	0.6	24	4.3	8	166.7	185	2.2	470	39.9	193	17.0	15,858	40.1
2004-05	172	11.0	27	12.5	13	62.5	190	2.7	507	7.9	226	17.1	24,443	54.1
2005-06	171	-0.6	29	7.4	15	15.4	198	4.2	492	-3.0	279	23.5	38,885	59.1
2006-07	186	8.8	31	6.9	15	0.0	194	-2.0	434	-11.8	307	10.0	56,446	45.2
2007-08	204	9.7	34	9.4	13	-15.1	200	3.1	430	-1.0	323	5.1	72,018	27.6
2008-09	214.1	4.9	35.5	4.8	7.3	-42.6	201.1	0.5	404.1	-6.0	319.0	-1.1	88,236	22.5
2009-10	219.3	2.4	36.95	4.1	1.94	-73.4	220.1	9.4	366.9	-9.2	333.5	4.5	99,002	12.2
July-March														
2009-10	184.5	-	28.6	-	1.7	-	162.5	-	264.8	-	246.1	-	71,225	-
2010-11(p)	185.9	0.75	27.2	-5.0	0.6	-64.7	166.9	-2.7	264.3	-0.2	223.6	-9.2	81,400	14.3

P: Provisional *Source: Hydrocarbon Development Institute of Pakistan*

15.2-c Electricity

On average, electricity consumption increased at the rate of 5.2 percent per annum during the period 2001-02 to 2009-10. Overall the electricity consumption increased by 2.8 percent during July-March 2010-11 against the comparable period last year. The reason for the modest increase in the consumption of electricity indicates some revival in economic activities as can be seen in Table 15.4 that the increase mainly emanates from industrial sector where an increase of 7.3 percent, has been witnessed. With the exception of agriculture and street lighting sectors, all remaining sectors witnessed a positive growth during July-March 2010-11.

Table 15.4: Consumption of Electricity by Sectors **(Percentage Change)**

Year	Trac-tion	House hold		Commercial		Industrial		Agriculture		Street Light		Other Govt.		Total
		GWH House hold	Chang e (%)	GWH (000)	Chang e (%)	GWH (000)	Chang e (%)	GWH (000)	Chang e (%)	Gwh	Chang e (%)	GWH (000)	Chang e (%)	
2001-02	11	23.2	1.8	3	7.1	15.1	5.6	5.6	14.3	212	-0.5	3.5	0	50,622
2002-03	10	23.7	2.2	3.2	6.7	16.2	7.3	6	7.1	244	15.1	3.4	-2.9	52,656
2003-04	9	25.8	8.9	3.7	15.6	17.4	7.4	6.7	11.7	262	7.4	3.7	8.8	57,491
2004-05	12	27.6	7.0	4.1	10.8	18.6	6.9	7	4.5	305	16.4	3.8	2.7	61,327
2005-06	13	30.7	11.2	4.7	14.6	19.8	6.5	7.9	12.9	353	15.7	4	5.3	67,603
2006-07	12	33.3	8.5	5.4	14.9	21.1	6.6	8.2	3.8	387	9.6	4.4	10.0	72,712
2007-08	8	33.7	1.2	5.6	3.7	20.7	-1.9	8.5	3.7	415	7.2	4.5	2.3	73,400
2008-09	5	32.3	-4.2	5.3	-6.2	19.3	-6.6	8.8	3.5	430	3.6	4.3	-5.0	70,371
2009-10	2	34.2	5.9	5.6	5.7	19.8	2.6	9.7	10.2	458	6.51	4.5	4.7	74,348
July-March														
2009-10	2	24.9	-	4.1	-	14.7	-	7.2	-	364	-	3.3	-	54,653
2010-11	-	25.8	3.8	4.2	1.9	15.8	7.3	6.6	-9.0	321	-11.8	3.5	4.1	56,194

Source: Hydrocarbon Development Institute of Pakistan

The electricity sector remained plagued with inter-corporate circular debt which constricted growth in the power sector as a whole and impacted oil and gas sector to some extent. Various organizations in the energy sector had Rs.258.5 billion stuck up in inter-corporate circular debt till April-2011 compared to Rs 103.9 billion in April 2009 indicating an increase of almost 147 percent. Receivables amounted to Rs.775.2 billion and payables stood at Rs 516.7 billion.

Out of Rs. 258.5 billion, net receivables of PSO stood at Rs51.0 billion, SSGCL Rs.7.1 billion, PEPCO Rs.2.7 billion, OGDCL Rs.115.5 billion, PARCO Rs. 37.5 billion, KESC Rs27.5 billion, GHPL Rs. 9.6 billion and PPL Rs 22.2 billion. On the other hand, SNGPL and KW&SB have net payables of Rs 13.4 billion and Rs 1.2 billion, respectively. The position of different organizations regarding circular debt is shown in Table 15.5.

Table 15.5 Inter Corporate Circular Debt as on 30th April 2011 **(Rs. Billion)**

Organization	Receivables	Payables	Net Position July-April 2010-11	Net Position July-April 2009-10
PSO	149.4	98.4	51.0	30.4
SSGCL	50.6	43.5	7.1	(1.0)
SNGPL	11.4	24.8	(13.4)	(8.5)
PEPCO	304.2	301.5	2.7	(39.7)
OGDCL	115.6	0.1	115.5	79.7
PARCO	37.5	0	37.5	29.9
KESC	67.6	40.1	27.5	(23.6)
GHPL	9.6	0	9.6	10.6
PPL	22.2	0	22.2	25.9
KW&SB	7.0	8.2	(1.2)	0.2
GRAND TOTAL	**775.2**	**516.7**	**258.5**	**103.9**

Source: CF Wing, Finance Division

15.2-d Coal

Pakistan has huge coal resources estimated at over 185 billion tones, including 175 billion tones, identified at Thar coal fields in Sindh province. Pakistan's coal generally ranks from lignite to sub-bituminous. About 56.5 percent of total coal in the country has been consumed by the brick kilns industry whereas 42.7 percent by cement industry during the period July-March 2010-11. The coal consumption shares of brick kilns decreased by 2.4 percent and that of cement industry increased by 3.1 percent. The percentage share of power sector declines by 1.24 percent during July-March 2010-11 compared against the same period last year (see Table 15.6).

Table 15.6: Consumption of Coal ***(Percentage Share)***

Year	Household	Power	Brick Kilns	Cement
2001-02	0	5.7	58.5	35.9
2002-03	0	4.2	53.3	42.5
2003-04	0	3	42.7	54.2
2004-05	-	2.3	49.5	48.2
2005-06	-	1.9	54.7	43.3
2006-07	0	2.1	41.5	56.4
2007-08	0	1.6	37.2	61.2
2008-09	0	1.3	39.0	45.3
2009-10	0	1.54	36.9	61.5
Jul-March				
2009-10(e)	0.0	2.0	58.9	39.6
2010-11(e)	0.0	0.76	56.5	42.7

- not available
e: Estimated

Source: Ministry of Petroleum Natural Resource
Hydrocarbon Development Institute of Pakistan

15.3 Supply of Energy

The primary energy supply has increased by 1.9 percent during July-March 2010-11 as compared to corresponding period last year. The per capita availability of energy remained the same during the period under review (see Table 15.7).

Table 15.7: Primary Energy Supply and Per Capita Availability

Year	Energy Supply		Per Capita	
	Million TOE	Change (%)	Availability (TOE)	Change (%)
2001-02	45.07	1.5	0.32	-1.25
2002-03	47.06	4.41	0.32	2.86
2003-04	50.85	8.06	0.34	5.25
2004-05	55.58	9.26	0.36	6.45
2005-06	58.06	4.18	0.37	2.48
2006-07	60.62	4.33	0.38	2.61
2007-08	62.92	3.78	0.39	2.86
2008-09	62.55	-0.58	0.38	-2.27
2009-10	63.09	0.86	0.36	-5.26
Jul-Mar				
2009-10	47.10	-	0.271	-
2010-11(e)	48.01(e)	1.93	0.271	0.00

e : estimated
TOE- Tons of Oil Equivalent

Source: Hydrocarbon Development Institute of Pakistan.

Analysis of the composition of final energy supplies to the country suggests that supply of coal during 2001-02 to 2009-10 grew by an average rate of 9.3 percent per annum followed by gas, electricity, crude oil and petroleum products with per annum growth rates of 6.3 percent, 3.5 percent, 2.9 percent and 1.1 percent, respectively. Supplies of coal and electricity increased by 11.3 and 8.3 percent, respectively, whereas, the supply of gas showed a slight increase of 0.1 percent during the period under review. The remaining components experienced decline in their supplies during July-March 2010-11 over the corresponding period last year (see Table 15.8)

Table 15.8: Composition of Final Energy Supplies

Year	Crude Oil		Gas		Petroleum Products		Coal		Electricity	
	Million Barrels	Change (%)	(bcf)*	Change (%)	(Mln.T.)	Change (%)	(Mln.T)	Change (%)	(000Gw h)(a)	Change (%)
2001-02	75.1	2.1	923.8	7.7	18.7	1.6	4.4	7.3	72.4	6.3
2002-03	76	1.2	992.6	7.4	18	-3.7	4.9	11.4	75.7	4.6
2003-04	80.3	5.7	1,202.70	21.2	15.4	-14.4	6	22.4	80.9	6.9
2004-05	85.3	6.2	1,344.90	11.8	16.8	9.1	7.9	31.7	85.7	5.9
2005-06	87.5	2.6	1,400.00	4.1	17	1.2	7.7	-2.5	93.8	9.5
2006-07	85.3	-2.5	1413.6	1.0	18.6	9.7	7.9	2.5	98.4	4.9
2007-08	90.5	6.1	1454.2	2.9	19.8	6.1	10.1	28.1	95.9	-2.6
2008-09	86.1	4.9	1460.7	0.44	19.8	0	8.4	-16.8	91.8	-4.3
2009-10	86.1	0	1460.7	0	19.8	0	8.4	0	95.6	0
Avg. 9 Year		**2.9**		**6.3**		**1.1**		**9.3**		**3.5**
Jul-March										
2009-10(e)	38.8	-	1109.3	-	16.3	-	5.3(e)	-	63.7(p)	-
2010-11(e)	35.6	-8.2	1109.9	0.1	15.8	-3.1	5.9(e)	11.32	69.0	8.32

e: Estimated and p:provisional
a: Giga Watt hour
****: Billion cubic feet***

Source: Hydrocarbon Development Institute of Pakistan

15.3-a Crude Oil

The balance recoverable reserves of crude oil in the country have been estimated at 280.647 million barrels. The average crude oil production per day has increased to 65,996.50 barrels during July-March 2010-11 from 65245.69 barrels per day during the same period last year. The overall production has increased to 18.08 million barrels during July-March 2010-11 from 17.88 million barrels during the corresponding period last year showing an increase of 1.15 percent. During the period under review, 34,762 (53 percent) barrels per day were produced in northern region and 31,234 (47 percent) barrels per day in southern region, as against 27,659 (42 percent) barrels and 37,586 (58 percent) barrels produced per day in North and South region respectively compared against the same period last year. During July-March 2010-11, production of crude oil has increased by 25.68 percent from northern region whereas production decreased in southern region by 16.90 percent, as compared to same period last year. The company wise production of crude oil during July-March 2010-11 and corresponding period of the last fiscal year is given in Table 15.9.

Table 15.9: Production of Crude Oil (BPOD|)

Region	2009-10	July-March 2009-10	July-March 2010-11	Change (%)
Northern Region	**28,471.29**	**27,659.17**	**34,762.28**	**25.68**
Dewan	112.52	102.02	211.21	107.02
OGDCL	15,327.11	15,095.17	18,236.27	20.81
OPII	591.55	532.93	658.18	23.50
POL	3,999.66	4,079.64	3,401.00	-16.63
PPL	4,748.64	4,635.96	4,925.16	6.24
MOL	3,691.81	3,213.47	7,330.47	128.12

Region	2009-10	July-March 2009-10	July-March 2010-11	Change (%)
Southern Region	**36,477.06**	**37,586.52**	**31,234.22**	**-16.90**
OGDCL	21,029.06	21,683.20	18,615.34	-14.15
BP (Pakistan)	11,487.48	12,001.83	8,625.29	-28.13
PPL	584.94	411.86	1,233.66	199.53
BHP	2,841.99	2,949.74	2,228.26	24.46
OMV	63.33	70.05	54.28	-22.51
ENI	340.63	340.87	355.34	4.25
MGCL	2.19	2.28	7.30	220.16
Petronas	127.43	126.68	114.15	-9.89
Total:	**64,948.35**	**65,245.69**	**65,996.50**	**1.15**

Source: Ministry of Petroleum & Natural Resources

15.3-b Natural Gas

The importance of natural gas to the country has been increasing rapidly. Government is making efforts towards enhancing gas production in order to meet the increasing demand of energy in the country. The balance recoverable natural gas reserves have been estimated at 26.62 Trillion Cubic Feet. The average production of natural gas per day stood at 4050.84 million cubic feet during July-March 2010-11, as compared to 4,048.76 million cubic feet over the same period last year. The overall production of gas has increased to 1,109,930.16 million cubic feet during July-March 2010-11 as compared to 1,109,360.24 million cubic feet in the same period last year, showing an increase of 0.05 percent. Natural gas is used in general industry to prepare consumer items, to produce cement and to generate electricity. In the form of compressed natural gas (CNG), it is used in transport sector and most importantly to manufacture fertilizer to boost the agriculture sector. Currently twenty eight (28) private and public sector companies are engaged in oil and gas exploration & production activities. Company wise total natural gas production is given in Table 15.10.

Table- 15.10: Production of Natural Gas (mmcfd)

Company	2009-10	July-March (2009-10)	July-March (2010-11)	Change (%)
BHP	506.98	524.11	399.77	-23.72
ENI	441.37	434.11	486.89	12.16
Dewan	17.56	16.12	28.88	79.13
MGCL	495.05	494.32	502.02	1.56
OGDCL	860.77	872.10	853.74	-2.11
OMV	441.33	439.13	446.43	1.66
OPII	9.60	7.54	13.01	72.48
POL	24.37	24.55	21.46	-12.57
PPL	792.90	794.99	765.58	-3.70
Tullow	1.53	1.61	0.50	-68.88
PEL	28.74	28.19	27.57	-2.19
BP	247.28	246.53	189.61	-23.09
Petronas	16.06	16.26	13.52	-16.88
MOL	179.04	149.20	301.85	102.31
Total:	**4,062.60**	**4,048.76**	**4,050.84**	**0.05**

Source: Ministry of Petroleum & Natural Resources

(i). Liquefied Petroleum Gas (LPG):

Liquefied Petroleum Gas (LPG) contributes about 0.6 percent of the country's total primary energy supply mix. The main objective to enhance the use of LPG is to stop deforestation in the areas where the supply of natural gas is technically not viable. As a result of the government's policies, LPG supplies have been increasing over the past few years. The LPG marketing companies have imported around 55826.4 MT of LPG during July-March 2010-11 against 406975 MT of LPG during July-March 2009-10

(ii).Compressed Natural Gas (CNG):

In an effort to reduce dependency on expensive imported fuels as well as to improve the environment the use of CNG in vehicles has been encouraged. Currently Pakistan is the largest CNG using country. Due to existing price differential between CNG and petrol, consumers prefer to convert their petrol vehicles to CNG. Presently, there are 3,329 CNG stations operating throughout the country. By March 2011 about 2.5 million vehicles have been converted to CNG. In addition, the governments' policy of de-dieselization is being actively pursued with the provincial governments, as this policy is being implemented by them to achieve import substitution. For instance, the diesel operated intra-city urban public transport is being phased out in Karachi, Hyderabad, Lahore Faisalabad, Peshawar, Quetta and Islamabad/ Rawalpindi.

(iii).Liquefied Natural Gas (LNG):

The government is encouraging LNG import by the private sector. Accordingly, Pakistan Mashal LNG Project (PMLP) was conceived to cater for the energy need of the country as envisioned in the 25 year National Energy Security Plan. PMLP is to be set-up on integrated basis whereby a private sector project developer will manage the entire supply chain including procurement and shipping of 3.5 million tons per annum LNG, construction and operation of an onshore LNG receiving terminal, and delivery of 500 mmcfd re-gasified LNG to the SSGC's system in Karachi. The process for appointment of Consultant for re-tendering of the Mashal Project would be initiated shortly through open international tendering and the process may take up to 6 months. Project's Schedule and other details would be finalized after appointment of consultant and decisions regarding commercial structure of the project, terminal type, terminal location and SSGC's role will be finalized soon.

c) Drilling Activities

During July-March 2010-11, a total of 30 wells were drilled, including 13 wells in the public sector and 17 in the private sector. Exploratory wells witnessed a negative growth, whereas the development wells posted a positive growth in the public sector during period under consideration. Total investment of $ 810 million has been made during July-March 2010-11 in the upstream petroleum sector. Table below provides the details of drilling activities of the public and private sector companies engaged in the exploration and development of wells.

Table 15.11: Drilling Activities (Achievements) ***(No. of Wells)***

Sector	2009-10	July-March 2009-10	July-March 2010-11	Change (%)
Public Sector	**26**	**16**	**13**	**-18.75**
i) Exploratory	13	8	1	-87.50
ii)Appraisal/Dev	13	8	12	50.00
Private Sector	**42**	**34**	**17**	**-50.00**
iii) Exploratory	13	10	6	-40.00
iv) Appraisal/Dev.	29	24	11	-54.17
Total:	**68**	**50**	**30**	**-40.00**

Source: Ministry of Petroleum & Natural Resources

15.4 Performance of Major Oil and Gas Companies

15.4-a Oil and Gas Development Company Limited (OGDCL):

The company has studded 20 wells showing an increase of 33 percent in the drilling activities as compared to the corresponding period last year. The production activities of OGDCL consist of oil, gas, LPG and sulphur. Average oil production during the period July-March 2010-11 was 36,852 barrels per day as compared to 36,312 barrels per day during corresponding period last year while the average gas production during July-March 2010-11 stood at 854 Mmcf as compared to 868 Mmcf. During July-March 2010-11, the production of LPG came down to 122 metric tons per day compared to 124 metric tons per day. Average sulphur production during the period was 71 metric tons per day whereas it was 68 metric tons per day during the same period last year (see Table- 15.12).

During July-March 2010-11, the company made two successful gas discoveries one in Sindh and the other in Khyber Pakhtunkhwa. The company continued its offshore activities at three different blocks and has also engaged in joint ventures too.

TABLE 15.12: Physical Performance of OGDCL

S. #	Name of Activity		July-March 2009-10	July-March 2010-11	Change (%)
1	**Total**		16	13	-18.75
	i	Exploratory Wells	8	1	-87.50
	ii	Development/Appraisal Wells	8	12	50.00
2	**Production**				
	i	Oil (Barrels/Day)	36,312	36,852	1.5
	ii	Gas (MMcft/Day)	868	854	-1.61
	iii	LPG (MT/Day)	124	122	-1.61
	iv	Sulphur (MT/Day)	68	71	4.41

Source: MP&NR, OGDCL

15.4-b Sui Northern Gas Pipelines Limited (SNGPL):

During the first nine months of the current fiscal year 2010-11, the Company connected 203 industrial, 2,309 commercial and 182,679 domestic consumers. SNGPL carried out development work for extension of the gas network to the tune of Rs. 1,607 million on transmission projects, Rs. 5,162 million on distribution projects and Rs. 391 million on other projects (see Table15.13). The domestic sector is the largest consumer of gas provided by SNGPL with share of 27.9 percent followed by the general industry and power sector with shares of 19.5 and 19.0 percent, respectively. The Domestic consumers accounted for 98.6 percent of new connections provided. Most of the investments made by the SNGPL are in distribution projects. During the next fiscal year 2011-12 the company has projected to invest Rs. 18,457 million in transmission, distribution and other projects.

15.4-c Sui Southern Gas Company Limited: (SSGC)

By the end of March 2011, Sui Southern Gas Company Limited was supplying a total of 268,019 mmcf of gas to Sindh and Balochistan. During the period under review, SSGC provided new connections to 176 industrial, 1,429 commercial and 79,955 domestic consumers bringing the total consumers to 2,368,732. During July-March 2010-11 the company carried out development work for extension of the gas network to the tune of Rs.90 million on transmission projects, Rs.5,863 million on distribution projects and Rs.996 million on other projects. Industrial and domestic sector remained major consumers of the gas provided to all sectors and accounted for around 60 percent share followed by the power sector with a share of 22.8 percent. The domestic consumers accounted for 98 percent of new connections issued. Furthermore, most of the investments made by the SSGC are in distribution projects. The details are given in Table 15.13.

15.5 Power Sector

15.5-a National Electric Power Regulatory Authority (NEPRA)

The National Electric Power Regulatory Authority is exclusively responsible for regulating the provision of electric power services. NEPRA grants licenses for generation, transmission and distribution of electric power, determines tariff, rates, charges and other terms and conditions for the supply of electric power services by generation, transmission and distribution companies, addresses complaints of electricity consumers, prescribes procedures and enforce performance standards, etc.

NEPRA announced a multi-stage tariff mechanism for hydropower project which provides an opportunity of multi-stage tariff for hydro power project, namely, the feasibility stage tariff, the EPC stage tariff and final adjustment in tariff at Commercial Operation Date (COD).

Table 15.13: Physical Performance of SNGPL & SSGC

S. No	Name of Activity	July-March 2010-11 SNGPL	July-March 2010-11 SSGCL
1	Sector-Wise Gas Consumption (mmcf)		
	Power	83,451	61,048
	Fertilizer	31,209	17,529
	Cement	-	579
	CNG/Transport	60,581	20,482
	General Industry	85,754	97,393
	Commercial	19,280	7,838
	Domestic	122,730	63,150
	Total	**440,191**	**268,019**
2	New Connections (Nos.)		
	Domestic	182,679	79,955
	Industrial	203	176
	Commercial	2,309	1,429
	Total	**185,191**	**81,560**
3	Addition in Distribution Network (KMs)		
	Mains	2,615	1,555
	Services	800	291
	Total	**3,415**	**1,846**
4	Investment in Gas Sector (Rs. Million)		
	Transmission Projects	1,607	90
	Distribution Projects	5,162	5,863
	Others	391	996
	Total	**6,620**	**6,949**

Source: SNGPL, SSGC

During 2009-10, to encourage the hydel and coal based power projects in the country, the authority allowed 17 percent Internal Rate of Return (IRR) to hydel and indigenous coal and 16 percent to imported coal power projects as against the 15 percent IRR for oil and gas based thermal power projects. As a result during the period July-March 2010-11, NEPRA processed twenty three applications for the grant of Generation licenses, including thermal and hydel power plants with a cumulative capacity of 932.2 MW as compared to ten applications processed against the same period last year.

Furthermore, during the period July-March 2010-11, NEPRA issued thirty six (36) tariff determinations and 132 tariff adjustments in respect of generation and distribution companies. The keystones of NEPRA regulatory process are transparency in operation through Public Participation, to adopt consultative approach mainly through advertising of application & soliciting comments and holding public hearings in which all stakeholders are invited to participate. During the period July-March 2010-11 a total of fifty five (55) hearings have been conducted in various cities of the country.

In order to seek compliance of the various authority decisions and fulfill the requirements of different Articles of the granted Licenses, NEPRA has set up a Monitoring & Enforcement Division to gauge the performance of the Licensees.

15.5-b Oil & Gas Regulatory Authority (OGRA)

Oil and Gas Regulatory Authority (OGRA) was mandated to regulate the oil and gas sector to promote competition and promote investment in the sector. It was also given mandate to rationalize prices of petroleum products in March 2006. Furthermore, OGRA is determining and announce ex-depot sale prices of regulated products as per approved formula without seeking governments' approval. OGRA is required to compute and notify the ex-depot sale prices of regulated petroleum products in accordance with the prescribed formula which is also published on the website of the OGRA for making it transparent.

Government in pursuance of its deregulation policy has decided to deregulate petroleum prices and IFEM (Equalization of POL prices). The implementation will be done at an appropriate time. As a first step, Oil Marketing Companies (OMCs) and dealers margins for high speed diesel (HSD) have been fixed in absolute terms with effect from December 01, 2010 as Rs.1.35/Liter and Rs.1.50/Liter, respectively.

The local prices have been linked with the developments in the international oil market. Accordingly, local ex-depot prices vary in line with the international prices. Moreover, cost of gas is linked with international prices of crude/fuel oil per Gas Pricing Agreements (GPAs) executed between the gas producer companies and Government of Pakistan.

15.6 Supply Sources of Electricity:

15.6-a. WAPDA

The total installed capacity of PEPCO system is 20,681 MW as of March 2010, compared to 20,190 MW in first nine months of the last fiscal year. Out of 20,681 MW, the hydro production is 6,555 MW and the thermal production is 14,126 MW. The hydropower capacity accounts for 31.7 percent and thermal 68.3 percent. During July to March 2010-11, the total installed capacity of WAPDA stood at 11,439 MW. Out of 14,126 MW of thermal power, 4829 MW is owned by ex-WAPDA GENCOs, 323 MW by rental, 665 MW by PAEC and rest by IPPs. During the first nine month of current fiscal year 66,928 GWh of electricity has been generated as against 64,935 GWh in the same period last year showing an increase of 3.07 percent.

i). Power Development Programme

To meet the current and future energy demands, the government is working on different power generation projects. During 2009-10, an addition of 1298 MW was added to the system and by the end of June 2011 further addition of 1871 MW shall be added to the existing system of PEPCO. Thus the expected capacity by the end of June 2011 will be 21117 MW and by 2029-30 expected cumulative capacity will be 106,656 MW. This has been planned according to current demand and the future requirements.

Table 15.14: Power Development Programme

Year	Expected Capacity to be Installed (MW)	Expected Cumulative Capacity(MW)
2010-15	14,022	33,268
2015-20	23,271	56,539
2020-25	16,077	72,616
2025-30	34,040	106,656

Source: WAPDA

ii). Electricity Generation & Power Transmission

The energy consumption pattern exhibited a similar picture with the same mix of hydro-thermal in total energy consumption. The share of thermal generation remained higher than that of hydro generation which shows that hydro potential has not been fully utilized. The hydro potential which is located in the north is still largely untapped. During the fiscal year July-March 2010-11, the electricity generation from hydro has increased by 14.4 percent and that of thermal decreased by 2.4 percent as compared to the same period last year. Furthermore, the share in total energy generation by hydro generation remained at 36.0 percent while thermal generation stood at 64.0 percent during the period under review (see Table 15.15).

Table 15.15: Electricity Generation by WAPDA **(GWh)**

Year	Hydro	Share (%)	Thermal	Share (%)	Total
2001-02	19,056	31.3	41,804	68.7	60,860
2002-03	22,350	34.9	41,690	65.1	64,040
2003-04	27,477	39.8	41,617	60.2	69,094
2004-05	25,671	34.9	47,849	65	73,520
2005-06	30,855	37.5	51,370	62.5	82,225
2006-07	31,942	36.4	55,895	63.6	87,837
2007-08	28,667	33.23	57,602	66.77	86,269
2008-09	27,763	32.90	56,614	67.10	84,377
2009-10	28,492	31.90	60,746	68.10	89,238
July-March					
2009-10	21,072	32.45	43,862	67.55	64,935
2010-11	24,105	36.02	42,823	63.90	66,928

Total generation includes purchase from IPPs and imports *Source PEPCO,NTDC*

By the end of June 2010, the total length of transmission line was 12,445 ckM compared to 12,405ckM, at the end of June 2009. The length of transmission lines included 500-KV, 220-KV, 132-KV and 66-KV during the period under consideration (end June, 2009). In order to ensure uninterrupted and stable power supply to the consumers as well as integrity of the grid supply system, the augmentation of the transmission network is a continuous process. In addition to the various on-going secondary transmission lines and grid-stations programme, new transmission lines and substations are being envisaged. The transformation capacity of 500kV substations at the end of June 2009 was 13800MVA whereas it was increased to 14850 MVA by the end of June 2010 showing an increase of 1050MVA. The transformation capacity of 220 kV substations at the end of June 2009 was 14069 MVA whereas it was 15014 MVA at the end of June 2010 showing an increase of 945 MVA.

iii). Growth in Consumers.

With the expansion of the electricity network, the number of consumers has also increased by 7,445 thousands since 2001-02. During July-March 2010-11, the growth of consumers stood at 4.3 percent as it reached 20.1 million consumers as compared to 19.3 million in same period last year. The share of domestic consumers remained 85.3 percent followed by the commercial and agricultural sectors having 11.9 and 1.4 percent share, respectively (see Table 15.16).

Table 15.16: Consumers by Economic Groups (Thousands)

Year	Domestic	Commercial	Industrial	Agriculture	Others	Total
2001-02	10,483	1,803	200	184	8	12,678
2002-03	11,044	1,867	206	192	9	13,318
2003-04	11,737	1,935	210	199	10	14,092
2004-05	12,490	1,983	212	201	10	14,896
2005-06	13,390	2,068	222	220	10	15,911
2006-07	14,354	2,152	233	236	11	16,987

Year	Domestic	Commercial	Industrial	Agriculture	Others	Total
2007-08	15,226	2,229	242	245	11	17,955
2008-09	15,481	2,256	250	254	11	18,255
2009-10	16,673	2,362	263	271	12	19,582
July-March						
2009-10	16,416	2,342	260	269	12	19,300
2010-11	17,157	2,404	270	279	12	20,123

Source: NTDC , WAPDA

iv). Village Electrification.

Being an agro-based economy almost 67 percent of the population of the country resides in rural areas. Keeping this fact in view and in order to increase the productivity of a majority of the population, the village electrification program is being highlighted as a central component of the total power sector development programme. The numbers of villages that have been provided with the electricity have reached 160,110. Furthermore, the village electrification facility has increased by 8.9 percent during the period of July-March 2010-11 as compared to same period last year. The detailed trend of village electrification is given in Table 15.17

Table 15.17: Village Electrification **(In Number)**

Year	Addition During the Year	Progressive Total	Growth (%)
2006-07	14,203	117,506	-
2007-08	10,441	127,897	8.84
2008-09	9,868	137,765	7.72
2009-10	15,062	152,827	10.93
July-March			
2009-10	9,273	147,038	-
2010-11	7,283	160,110	8.89

**Including FATA* *Source: Water and Power Development Authority*

v). Electricity Consumption by Economic Group

The sectoral consumption of electricity by economic group identifies the domestic sector as the largest consumer of electricity for the past many years. During the current year (July-March 2010-11), the consumption pattern followed the same historic pattern with a domestic share of 42.9 percent, industrial share of 25.1 percent and agricultural share of 12.3 percent. Table 15.18 shows detailed electricity consumption by different economic groups.

Table 15.18: Electricity Consumption by Economic Groups (% Share)

Year	Domestic	Comm-ercial	Industrial	Agri-culture	Public Lighting	Bulk Supply	Traction	Supply to KESC
2001-02	45.5	5.1	28.0	12.3	0.33	5.89	0.03	2.94
2002-03	44.0	5.3	28.4	12.6	0.35	5.54	0.02	3.8
2003-04	44.0	5.6	28.1	12.9	0.37	5.43	0.02	3.58
2004-05	43.5	5.8	28.1	12.5	0.41	5.17	0.02	4.54
2005-06	43.3	6.0	26.6	12.6	0.45	4.86	0.02	6.15
2006-07	43.0	6.0	26.1	12.0	0.47	4.84	0.02	7.27
2007-08	43.2	6.5	26.0	12.6	0.51	5.01	0.01	6.12
2008-09	42.6	6.4	24.6	13.3	0.53	4.90	0.01	7.68
2009-10	42.8	6.5	23.8	13.9	0.54	4.89	0.00	7.56
July-March								
2009-10	42.2	6.5	23.9	14.0	0.57	4.92	0.01	7.94
2010-11	42.9	6.5	25.1	12.3	0.49	5.11	0.01	7.53

Source: NTDC, WAPDA

vi). Power Losses.

The transmission and distribution losses increased by 0.2 percent during July-March 2010-11 as compared to corresponding period of last year. NTDC and DISCOs have started a range of technical and administrative measures to enhance operational and managerial efficiency to reduce power losses. These measures have showed positive signs resulting in the reduction of power losses and leading to an increase in revenue over the past few years. Along with these, other measures which involve continuous processes like renovation, rehabilitation, capacitor installation and strengthening the distribution system network are being carried out to control the wastage of power. The Transmission and Distribution losses since 2001-02 are given in Table 15.19.

15.6-b Karachi Electric Supply Company Limited (KESC)

During July-March 2010-11, the company's own generation stood at 5,469.8 Million units (kWh), only 0.6 percent less than the previous year generation of 5503.7 million units (KWh) owing to reduced availability of fuel gas. The supply of KESC was supplemented by imports from WAPDA, IPPs' and Rentals which totaled 5,664.7 million units (kWh) during July-March 2010-11 compared to 5,852.1 million units (kWh) in the same period last year. The installed capacity of various generating stations stood at 1,821 MW against 1946 MW during the period under review (see Table 15.20). The reduction was the direct result of KESC's endeavor to replace old inefficient generation capacity with the new state of the art power generating station. Consequently an old power station of 125 MW was decommissioned in July 2010.

The total units available to the company's system posted a decline of 2.1 percent by reaching 10,714.71 million KWh during July-March 2010-11 compared to 10,942.64 Million kWh in the corresponding period of last year. Transmission and Distribution losses have reduced to 31.2 percent in July-March 2010-11 from 34.5 percent.

Power purchase by KESC has decreased by 3.2 percent during the period under review. The set-back in power purchase was due to the unavailability of DHA COGEN 80MW Power Station which was significantly balanced by supply from Al-Abbas power plant. In terms of additional generation capacity, KESC has made significant progress. The rental power agreement with Aggreko concluded in March 2011. The 560 MW combined cycle power plant project at the existing Bin Qasim site is being developed as per schedule. Civil, mechanical and electrical works are progressing at a rapid pace. The first unit of 116 MW is expected to be commissioned in July 2011

Table 15.19: WAPDA Power Losses

Year	T&D Losses (%)*
2001-02	23.6
2002-03	23.9
2003-04	23.5
2004-05	22.3
2005-06	21.9
2006-07	21.5
2007-08	21.3
2008-09	21.1
2009-10	20.9
July-March	
2009-10	19.6
2010-11	19.8

***** *T&D = Transmission and Distribution*

Source: NTDC,WAPDA

15.6-c Nuclear Energy

Pakistan Atomic Energy Commission (PAEC) is responsible for planning, construction and operation of nuclear power plants. Presently, two nuclear power plants; Karachi Nuclear Power Plant (K-1) and Chashma Nuclear Power Plant Unit-1 & 2 (C-1 and C-2) are in operation.

K-1, a Pressurized Heavy Water Reactor (PHWR), commissioned at Karachi in 1972 has completed its design life of 30 years in 2002. After necessary refurbishments and up-gradations undertaken by PAEC, K-1 is now operating on 15-years extended life at a power level of 90 MWe. K-1 generated 196.0 million kWh of electricity during the period July-March 2010-11, raising its lifetime generation to 13.2 billion kWh. C-1, a Pressurized Light Water Reactor (PWR) located in Chashma, with a gross capacity of 325 MW, has completed ten years of its safe commercial operation in September 2010. C-1 generated 2063.5 million KWh of electricity during July- March 2010-11, raising its lifetime generation to 21.7 billion kWh. The construction work on the third nuclear power plant C-2 of 340 MW capacity has been completed. C-2 was connected to the national grid for trial operation on 14th March 2011.

Table 15.20: KESC Operating Results **(Units in Million kWh)**

S. No	Description	July-March (2009-10)	July-March (2010-11)	Change (%)
1	**POWER PURCHASE**			
	KANUPP	413.19	177.3	-57.1
	PASMIC	71.94	59.6	-17.2
	TAPAL	410.28	586.0	42.8
	GULAHMED	384.39	538.2	40.0
	WAPDA	4044.15	3962.0	-2.0
	ANOUD POWER	18.92	57.5	204.1
	DHA COGEN	115.74	0.0	-100
	INTL. INDUS. LTD	95.11	81.2	-14.6
	AGGREKO	253.36	158.2	-37.6
	Engro	45.02	1.52	-96.6
	Al Abbas	-	43.1	-
	Total	**5851.1**	**5664.7**	**-3.2**
2	**Units Available for Distribution (Million kWh)**	**10942.6**	**10714.7**	**-2.1**
3	Unit Sold (Million kWh)	7163.3	7372.0	2.9
4	Trans. & Dist. Losses	3779.3	3342.8	-11.6
5	Installed Capacity (MW)	1946.0	1821.0	-6.4

Source: KESC

The government has mandated PAEC for installation of 8,800 MWe nuclear power capacities by the year 2030. Technical and engineering infrastructure is in place to provide technical support to existing, under construction and future nuclear power plants. Institutes are being upgraded and expanded for enhancement of indigenization in nuclear power technology. The construction work has been started on the fourth nuclear power plant of the country, Chashma Nuclear Power Plant unit-3 (C-3), which is also a 340 MWe PWR type plant.

Besides, facilitating the energy needs, PAEC is playing a vital role in the health sector. The Commission is pioneer in using the nuclear and other advanced techniques for diagnosis and treatment of cancerous and allied diseases and is actively involved in the national cancer awareness, prevention, diagnosis and treatment program.

15.6-d Coal

The supply of coal during July-March 2010-11, increased by 10.3 percent compared to corresponding period of last fiscal year. Operational coal mines increased production from 1.704 million tonnes to 2.350 million tones during July-March 2010-11 against the same period (see Table 15.21). Over the past few years almost the whole cement industry has switched over to coal from furnace oil which has enhanced utilization of indigenous coal along with imported coal. Utilization of indigenous coal in cement manufacturing plants has saved considerable foreign exchange.

To harness the huge coal reserves of Thar by utilizing it as a source of energy for power generation through international investment federal and provincial governments are taking prudential steps. Government of Sindh has leased out a coal block for an integrated mining project and a 400 MW coal based power plant to M/s China National Chemical Engineering Group Corporation in Sonda Jherrick coalfield. M/s Cougar Energy UK has been allocated Block-III in Thar coalfields for extraction of coal and establishment of a 400 MW power plant. M/s Bin Daen Group of UAE has been allocated Block-IV for developing coal mine and installing 1000 MW power plant. One block has been allocated to Planning Commission of Pakistan for Pilot Project of 50 MW plant based on underground coal gasification. M/s Oracle Coalfield Plc. UK has been allocated Block-VI for developing a coal mine and installing power plant of 300 MW extendable up to 1000 MW. The Sindh Government entered into a joint venture with M/s Engro Powergen (Pvt.) Ltd for coal mining and installing 600-1000 MW power plant in Block-II. Sindh Government is entering to another joint venture with M/s Al-Abbas Group Company and allocated area in Badin coalfield for developing Coal Mine and a Coal-fired power plant of 300-600 MW. The federal government has developed the infrastructure of Thar coal field (i.e. roads, water supply, communication network, airstrip & railway track). The establishment of experimental small scale open-pit mining is also under consideration to collect data for large-scale mining, as a guideline for investors.

Table 15.21: Consumption of Coal **(Percentage Share)**

Year	Imports	Production	Total
2001-02	1,081	3,328	4,409
2002-03	1,578	3,312	4,890
2003-04	2,789	3,275	6,064
2004-05	3,307	4,587	7,894
2005-06	2,843	4,871	7,714
2006-07	4,251	3,643	7,894
2007-08	5,987	4,124	10,111
2008-09	4,652	3,738	8,390
2009-10	4,652	3,738	8,390
Jul-March			
2009-10(e)	3,600	1,704	5,304
2010-11(e)	3,500	2,350	5,850

- not available *Source: Ministry of Petroleum Natural Resource*
e: Estimated *Hydrocarbon Development Institute of Pakistan*

15.6-e Private Power and Infrastructure Board (PPIB)

Private sector projects in the power sector are processed by the Private Power and Infrastructure Board. The potential of hydropower in Pakistan is around 50,000 MW, while total coal reserves in Pakistan are estimated to be around 185 Billion tones. PPIB is currently processing forty multiple fuel (Oil, Coal, Gas and Hydel) power projects with a cumulative capacity of 10399 MW. Out of these forty projects, a total of nine new IPPs having a cumulative capacity of over 1,800 MW have been commissioned since March 2009, while other companies are aggressively working to achieve the financial close and commissioning of their respective projects.

Out of the aforesaid nine commissioned projects, the following three new IPPs have been commissioned during the fiscal year 2010-11 and other projects are under construction and will soon be delivering the much needed megawatts to the national grid to minimize the demand supply gap. The annual expected capacities of private power generation up to the year 2013 are given in Table 15.22

Private sector projects in the power sector are processed by the Private Power and Infrastructure Board. The potential of hydropower in Pakistan is around 50,000 MW, while total coal reserves in Pakistan are estimated to be around 185 Billion tones. PPIB is currently processing thirty three multiple fuel (Oil, Coal, Gas and Hydel) power projects with a cumulative capacity of 8,145 MW which are expected to be commissioned from year 2009 to 2013

Table 15.22: Annual Expected Capacity (IPPs)

Year	(MW)
Projects already Commissioned	1806
2011	600
2012-13	459
2013-14	652
2014-15	642
2015-16	2,779
2016-17	3,461
Total	**8145**

Source: PPIB

15.6-f Alternative Sources of Energy

To meet the growing demand of energy and to achieve the target of 9700 MW generation by the year 2030, the AEDB has taken various initiatives. Under the remote village electrification program; AEDB is to electrify 7874 remote off-grid villages in the Sindh and Baluchistan provinces. AEDB under its mandate serves as a One-window facility to process all Alternative and Renewable Energy (ARE) projects both in Public and the Private Sectors. It assists and facilitates development and generation of ARE, encourages transfer to technology, helps develop indigenous manufacturing base for ARE equipment; promotes provision of ARE based energy services etc. Under AEDB Act, enacted on May 2010, AEDB now has the mandate to implement projects in addition to its authorizations under the AEDB Ordinance.

(i) Mega Wind Power Projects

AEDB issued seven (7) letters of Intent (LOI) for wind power projects; one for 50 MW project, two (2) for 10 MW projects each, three (3) for 5 MW projects each and one (1) LOI for 2.4 MW wind power project in Gharo area. AEDB is currently facilitating twenty one (21) projects having capacity of 50 MW each, which are at different stages of development. One IPP has signed a contract with international turbine manufacturer, Nordic for the supply of equipment for their project. One company has installed 6 MW in the first phase of their 56.4 MW project.

Feasibility studies for 50 MW wind power projects each have been completed by seven (7) IPPs taking the total to seventeen (17) completed feasibility studies. NEPRA has determined tariff for two (2) more IPPs. The Energy Purchase Agreement (EPA) and Implementation Agreement (IA) have been negotiated by two IPPs with NTDC and AEDB respectively. One IPP has singed the IA with AEDB. In order to mitigate country risk associated with the project financing AEDB has arranged Asian Development Bank's Political Risk Guarantee facility for the wind power project developers.

(ii) Biodiesel

The government has given a target for replacement of 5 percent of total annual petroleum diesel consumption with Biodiesel by the year 2015 and 10 percent by 2025. AEDB has engaged Pakistan State Oil (PSO) for furthering the National Biodiesel Programme and provided a production plant of biodiesel to PSO for the optimization of processing techniques for Biodiesel. The cultivation has now risen from around two acres in 2005 to more than 650 acres. Pakistan's first ever commercial Biodiesel production facility with the capacity of producing 18,000 tons of Biodiesel per annum has been setup in Karachi by the private sector.

(iii) Bio Gas Projects

New Zealand based firm has completed the pilot phase of the biogas project at Landi Cattle Colony, Karachi where waste from 400,000 cattle in the area would be utilized to generate electricity and high grade organic fertilizer. The full scale plant is estimated to generate up to 50 MW of electricity and 1500 tons of organic fertilizer per day. A Waste to Energy Study is being carried out for Karachi to generate 10 MW power.

(iv) Small Hydro

AEDB is actively working with several national and international agencies for the development ARE potential in the country, and supporting provinces in tapping the potential in their respective jurisdictions. AEDB is actively working to install 103 hydro power plants in Khyber Pakhtunkhwa (KPK) and Gilgit-Baltistan (GB), with the total cost of US$ 19.5 Million. Another project for 250 plants is under preparation for the same areas.

Eight small/mini/micro hydro projects have been initiated under the Renewable Energy Development Sector Investment Programme (REDSIP) with the support of Asian Development Bank (ADB). AEDB is serving as the executing agency at the federal level to consolidate the project proposals from federal, provincial and other public entities for submission to ADB for subsequent loan tranches. These projects are being implemented at the following sites in KPK and

Punjab with an estimated cost of US$ 139.5 Million

Table 15.23: Small Hydro Projects

Year	MW
Ronoli , KPK	11.5
Dral Khwar, KPK	35
Manchal, KPK	3.5
UCC Main Lower (Gujranwala), Punjab	4.8
Deg Fall Sheikhupura, Punjab	8.0
LBDC Okara, Punjab	5.0
UCCM Marala, Punjab	11.5
Shegherthan Skardu	26.0
Chilas	4.0
Total	**110.1**

Source: AEDB

AEDB initiated a program with the GTZ support to assist the provinces solicit private investments in small hydro sector; under this program Feasibility Studies for top 25 hydro sites in AJ&K, Sindh, Punjab and KPK with the cumulative capacity of 284.14 MW has been completed.

(v) Solar

Pakistan is blessed with a huge solar potential of more than 5-6 KWH/m²/day of irradiation in many areas. The potential is feasible for both Solar PV and Solar Thermal application. The area with highest solar potential is the province of Baluchistan followed by Eastern Sindh and Southern Punjab promising technical and financially viable solar energy projects. These projects can be On-Grid or Off-Grid. Some areas in Eastern Sindh and Southern Punjab also have potential for such interventions. As a first phase, AEDB plans to electrify 400 villages, 100 in Sindh and 400 in Baluchistan. 49 villages in Sindh have already been electrified where 3000 Solar Home Systems are installed.

Street lights and billboards consume around 400 MW of power which can be taken off from the grid by converting these loads to solar. The duration of use and the amount of power requirement make these two interventions technically viable financially attractive with very small payback periods. This intervention is ready to do in the country and AEDB has prepared a PC-I and submitted for approval for a demonstration project.

AEDB has also initiated pilot program under World Bank assistance to study the technical, financial and social viability for replacement of conventional water heaters with Solar Water Heaters. This pilot designed to trigger the market forces under different financial mechanisms and incentives.

Solar PV Parks of small to medium capacity (1-10 MWs) in dispersed locations will ensure reliability and efficiency of the national grid. High solar potential increases the affordability factor on one hand and sustainability on the other. AEDB has issued 5 LoIs of cumulative capacity of 113 MW for installation of Solar PV parks in Sindh and Southern Punjab.

Solar Thermal Power Generation using concentrated solar power technology (CSP) is a viable option because of its promising potential. These power plants of medium to large capacities (10-50 MW) can be installed in Southern Punjab and Eastern Sindh and Baluchistan because of the availability of water in these areas. A LoI request for installation of 500 MW of CSP power plants is under review with the panel of experts.

16 Environment

Pakistan recognizes the importance of environmental concerns as a cross cutting theme in its sustainable development strategy. Hence its protection, renewal and enrichment is recognized as an obligation towards the betterment of its citizens. The environmental concerns of Pakistan are associated primarily with the adverse impact of un-sustainable social and economic development. High population growth rate, lack of public awareness of environmental related education, mismanagement of natural resources, widely unplanned urban and industrial expansions are the core hard issues. These are further compounded with the rapid urbanization. A nation with a population of 177 million with an average population density of 222 persons per sq km, higher than many other developing countries, whose 37 percent people live in urban areas and 63% in rural has a high rate of migration to urban centers which has made the cities dysfunctional, overcrowded and very congested. Rapid urbanization is putting the available insufficient infrastructure under enormous pressure and causing environmental debacles of great magnitude. Serious risks of irreversible damages are present due to air and water pollution, mismanagement of solid waste and destruction of fragile ecosystems.

The Mid-term Development Framework 2005-10 (MTDF 2005-10) has been developed in line with the National Environment Action Plan (NEAP) objectives, and focuses its four core areas: Clean air, Clean water, Solid Waste management, and Eco-system management. NEAP has been prepared keeping in view Pakistan's experience with such initiatives in the last decade.

The government is taking necessary measures and takes benefit of accession to the Kyoto Protocol. Moreover, the country is signatory to numerous Multilateral Environmental Agreements, such as agenda 21 Rio Principle and Johannesburg Plan of Implementation, Convention on Biological Diversity, Convention on International Trade in Endangered Species of wild flora and fauna, United Nations Convention to Combat Desertification, United Nations framework Convention on Climate Change. Pakistan has also prepared the National Implementational Plan for Persistent Organic Pollutants to ratify the Stockholm Convention and also committed itself to achieving the Millennium Development Goals (MDGs) as adopted by the UN Members States. In all Public Sectors Development Programmes, it is mandatory to highlight the Initial Environment Examination and Environment Impact Assessment by the sponsoring Ministries/Organizations/ Departments.

Though the Federal Government initiated a number of policy reforms but now under the 18^{th} Amendment, Ministry of Environment is going to be devolved in June, 2011, and Provinces will have more power in policy development and implementation.

The table 15.1 presents the achievements of the targets.

State of the Environment

a. Air

With an estimated 37 percent of its population living in cities, Pakistan is the most urbanized country in South Asia. Its cities continue to grow, offering employment opportunities, but rapid urbanization has been accompanied by environmental problems such as pollution, waste management, congestion and the destruction of fragile ecosystems. Urban air pollution remains one of the most significant environmental problems, facing the cities. A substantial body of research demonstrates that high concentrations of suspended particulates adversely affect human health, prolong a wide range of respiratory diseases and heart ailments.

Table 15.1: The MDG's targets and achievements

Name of Sector/Sub-Sector	Physical Targets of MTDF period			Achievement of Target
	Year 2004-05	2009-10 Targets	MDG Targets 2015	
Forests cover including State and private forests/farmlands (%age of total land area)	4.9%	5.2%	6.0%	5.11%
Area protected for conservation of wildlife (%age of total area)	11.3%	11.6%	12.0%	11.3%
No. of petrol & diesel vehicles using CNG fuel	380,000	800,000	920,000	2,500,000
Access to sanitation (national)%	42	50	90	50
Access to clean water (national)%	65	76	93	65
Number of continuous air pollution monitoring stations.	0	4	--	7
Number of regional offices of Environmental Protection Agencies	0	8	16	6
Functional Environmental Tribunals	2	4	--	4

Source: (Environment Section) Planning & Development Division

The most serious issue of air quality in Pakistan is the presence of excessive suspended particulate matter (SPM) present in the ambient air. The major sources of SPM are vehicles industry, burning of solid waste, brick kilns and natural dust.

The origin of suspended particulates matter (SPM) source may be a natural phenomenon, such as unpaved roads and places uncovered by green grasses or trees. Fine particles size of soil may be raised in the form of dust cloud by driven motor vehicles and by strong wind blow. Other origins may be considered coming from artificial emission of SPM such as emission gasses including the particulate matter from the motor vehicle and industrial activity. Other natural sources of affecting the SPM level are higher, including kind of surface soil, quantity of rainfall, relative moisture content in the atmosphere, and cleaning condition on paved roads and under construction roads.

Several studies of air, water and noise has been carried out by Pakistan Environmental Protection Agency (Pak- EPA). Air Quality data recorded by continuous monitoring station in five capital cities confirmed presence of high concentration of suspended particulate matter. The level of PM (particulate matter size below 2.5 micron), which is mainly due to combustion source, has reached to an alarming point (2 – 4.7 times higher than the safe limit) "National Environmental Quality Standards (NEQS) for PM 2.5 is 25 microns/m3 annual average"

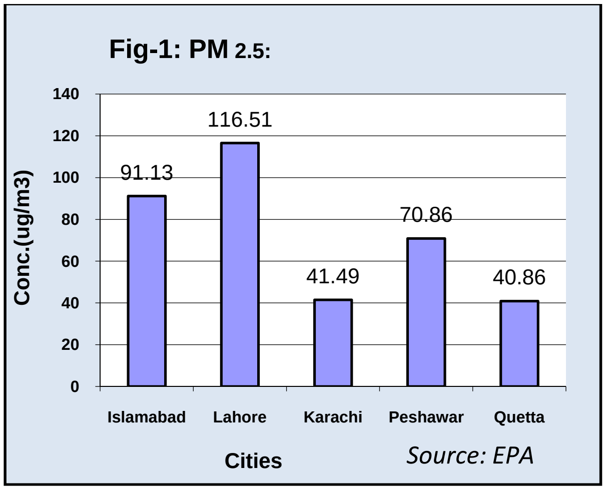
Table and figure below show annual mean value of PM 2.5 in five capital cities.

Table No. 15.2 Annual Mean Values of Suspended Particulate Matter (PM 2.5) from June 2010-May 2011

Sr. No.	City	Level (ug/m3)
1	Islamabad	91.13
2	Lahore	116.51
3	Karachi	41.49
4	Peshawar	70.86
5	Quetta	40.86

Source: Environment Protection Agency (EPA)

The level of other pollutants in the ambient air like Carbon monoxide (CO), Sulphur dioxide (SO2), Ozone (03) and Hydrocarbons (HC) are within safe limit according to National Environmental Quality Standards (NEQS) for ambient air. Sometimes the concentration of above gases goes higher than the safe limit at different places, but this happen for short time and give short time exposure to public. Formation of secondary pollutants like sulphates and photochemical smog is a very common phenomenon.



The main causes of air pollution also include a sharp increase in number of vehicles (inefficient and outdated automotives technology, dirty fuels, absence of public transport), and uncontrolled emission of industrial units, burning of garbage and presence of loose dust because of dry climate. Environmental standards are just not enforced in the auto industry.

Motorcycles and rickshaws, due to their two stroke (2-strokes) engines, are the most inefficient in burning fuel and contribute most to emissions. 2-stroke vehicles are responsible for emission of very fine inhalable particles that settled in lungs and cause respiratory diseases. The 2-stroke vehicles industry is performing fast in Pakistan and has increased by 142.6 percent in 2010-11 when compared with the year 2000-01. Rickshaws have grown by more than 24 percent while motorcycles and scooters have more than doubled since 2000-01. (See Table 15.3)

Table 15.3: Motor Vehicles on the Road (000 Nos)

Year	Total	Motorcycles/Scooter	Rickshaws
2000-01	2291.3	2218.9	72.4
2001-02	2561.9	2481.1	80.8
2002-03	2737.1	2656.2	80.9
2003-04	2963.5	2882.5	81.0
2004-05	3144.5	3063.0	81.5
2005-06	3868.8	3791.0	77.2
2006-07	4542.8	4463.8	79.0
2007-08	5126.3	5037.0	89.3
2008-09	5444.3	5355.9	88.4
2009-10	5501.2	5412.1	97.3
2010-11 (Jul-Mar)	5558.7	5468.9	89.1
% inc./dec. over 2000-01	142.6	120.4	24.0

E: Estimated *Source: National Transport Research Centre*

The use of coal in the power sector has been decreasing. It may be due to the fact that a number of plants have now been converted to natural gas. Likewise, there has been reduction in coal usage for domestic purposes. Bricks klins are another source of pollution of many areas. Use of low-grade coal and old tyres in bricks kilns generate dense black smoke (soot) and other kind of emissions. The use of coal has increased by 19.2 percent for bricks kilns in 2009-10 when compared with year 2000-01 (Table 15.4).

CNG is promoted as an alternate motor fuel for Pakistan's market to reduce pressure on petroleum imports and to curb air pollution.

Table 15.4: Consumption of Coal **(000 M/Tons)**

Year	Power	Bricks Kilns	Household
2000-01	205.8	2837.9	1.0
2001-02	249.4	2577.5	1.1
2002-03	203.6	2607.0	1.1
2003-04	184.9	2589.4	1.0
2004-05	179.9	3906.2	-
2005-06	149.3	4221.8	-
2006-07	164.4	3277.4	1.0
2007-08	162.2	3760.7	1.0
2008-09	112.5	3274.8	0.8
2009-10	125.1	3382.7	-
2010-11 (July-March)	44.6	3305.5	-

E : Estimated, - : Not Available *Source: Hydrocarbon Development Institute of Pakistan*

Presently, 3329 CNG stations are operating in the country and 2.50 million vehicles are using CNG as fuel (see Table 15.5). Use of CNG as fuel in transport sector has observed a quantum leap, replacing traditional fuels. After the successful CNG programme for petrol replacement, the government is now looking to replace the more polluting "diesel fuel" in the road transport sector. The government has planned to offer incentives to investors to introduce CNG buses in the major cities of the country.

Table 15.5: Growth in CNG Sector

As on	CNG Stations (No.)	Converted Vehicles (No.)
December, 1999	62	60,000
December, 2000	150	120,000
December, 2001	218	210,000
December, 2002	360	330,000
December, 2003	475	450,000
December, 2004	633	660,000
December, 2005	835	1,050,000
December, 2006	1,190	1,300,000
16th May, 2007	1,450	1,400,000
February, 2008	2,063	1,700,000
December, 2009	3,051	2,000,000
December,2010(P)	3,329	2,500,000

P. Provisiona

The Motor Vehicle Examiners (MVE) have no facilities to scientifically check fitness or emissions of vehicles. At present, only commercial vehicles are checked by MVE. Even passed vehicle cannot give assurance of compliance of standards. No private vehicle undergoes any mandatory inspection/emission check.

In consultation with provincial governments, the Ministry of Environment has worked out a model for vehicle examination/emission testing to be established in the country to follow a uniform procedure for motor vehicle inspection for public and private vehicles. The first pilot project in this regard has been approved at a cost of Rs 294 million. It is expected that motor vehicle centers will be established with the help of public private partnerships throughout the country.

Table 15.6: Natural Gas Vehicles (NGV) Population: Top Ten Countries

Country	NGV Population	% all NGVs in World
Pakistan	2,500,000	21.6%
Iran	1,954,925	15.4%
Argentina	1,901,116	15.0%
Brazil	1,664,847	13.1%
India	1,080,000	8.5%
Italy	730,000	5.8%
China	450,000	3.6%
Colombia	340,000	2.7%
Thailand	218,459	1.7%
Ukraine	200,000	1.6%

www.iangv.org/tools-resources/statistics. html

Pakistan has become the largest user of Compressed Natural Gas (CNG) in the world, as per the statistics issued by International Association of Natural Gas Vehicles on CNG overtaking Iran, Argentina and Brazil in the number of vehicles using CNG as fuel replacing more polluting fuels. Due to cost savings, the transport sector has switched from petrol and in some cases from diesel to CNG.

In order to further improve air quality a ban on leaded gasoline was imposed in 2000 and sulphur content in the diesel has been reduced from 1% to 0.6%. Ambient air quality is being monitored continuously through air monitoring stations established in major cities of Pakistan. This monitoring is helpful in assessing the air quality in order to take adequate mitigation measures. More than two million vehicles have been converted for use of CNG as fuel. National Environment Quality Standard (NEQS) for Industrial Gaseous Emission, 2000 are in place to control the industrial pollution. Furthermore, NEQS for ambient air have also been approved by the Council. NEQS for Motor Vehicle Exhaust & Noise (Amended), 2010 have been approved to control the vehicular emissions. In consultation with Ministry of Petroleum and Natural Resources, Engineering Development Board, Pakistan Automobile Manufactures Associations and other stakeholders, the Ministry of Environment decided that (i) all petrol driven vehicles imported or manufactured locally will comply with Euro-II emission standards with effect from July 2009. Existing models if not complying with Euro-II emission standards will have to switch over to Euro-II models by no later than three years, if not immediately: (ii) all diesel driven vehicles imported or manufactured locally will comply with Euro-II emission standards with effect from July, 2012. The Ministry of Petroleum and Natural Resources will ensure availability of Euro-II complaint diesel (with sulphur contents 0.05 percent) with effect from January, 2012. [Table 15.7]

Table 15.7: Quality of Fuel Oil

	Pakistan	**Other Countries of Region**
* Gasoline	Unleaded	Unleaded
* Sulphur in Diesel Oil	0.2-0.6%	0,05-0.5%
* Sulphur in Furnace Oil	3%	0.5-1%

Target for Sulphur Content in Diesel Oil: 0.05% by 2012

Realizing the significant impact of poor Ambient Air quality, the Ministry of Environment has developed Pakistan Clean Air Programme (PCAP) to gradually reduce air pollution through various activities. PCAP has been approved by Pakistan Environmental Protection Council on 29th March, 2010. The salient features of the Programme are given below:

- Gradual exclusion of diesel run vehicles from urban centers.
- Establishment of Environmental Squad of Traffic Police in all major cities to control smoke.
- Introduction of low sulphur diesel and furnace oil and promotion of alternate fuels in the country.
- Encourage installation of pollution control devices and other technologies for vehicles and industry.
- Relocation of brick Kilns and adoption of alternate technology for brick manufacturing.
- Establishment of Indoor Air Quality Standards.
- Urban tree plantation, forestation in deserts and sand dune stabilization
- Proper disposal of solid waste.

Under the PCAP, the Pakistan Environmental Protection Agency with grant assistance of the Government of Japan [1] has set up seven

[1] The Bank's support for the NEP is initially focused on providing technical assistance to M/o Environment for the development of **provincial action plans**. The aim is to facilitate a process through which provincial authorities will establish their own priorities within the broad matrix of national environmental goals laid down in the NEP. For implementation of the PCAP, JICA is funding monitoring equipment which

continuous Air Quality Monitoring Stations[2] and three Mobile Air Quality Monitoring Stations to measure PM10 and PM25 (Particular Matter less than 10 and 25 microns). Presently these units are being run on trial basis. Data generated so far has shown that PM10 and PM25 in urban centres have reached alarming levels.

Water

Water pollution has been steadily increasing over the years. The sources of this pollution include uncontrolled discharges of municipal as well as industrial waste in water bodies, runoff from agriculture fields where agrochemical usage has been increasing, and other natural as well as anthropogenic activities which take place in the catchment areas.

The existing water resources in the country are under threat due to untreated discharge of municipal and industrial wastes to rivers and other surface water bodies. The majority of the population of Pakistan is exposed to the hazard of unsafe and polluted drinking water. Untreated sewerage, industrial effluents, and agricultural run-off are usually released in streams or drains; ultimately drain the highly polluted water into the rivers and sea. Polluted water poses potential risk to public health. High incidence of water borne diseases can directly be attributed to polluted waters in our lakes. Other impacts of high contamination in the waters include loss of biodiversity and ecosystems, reduction in fish population and damage to soils and crops in the irrigated areas.

Supply of drinking water and provision of sanitation are the most important contributing factors for improving the health of the people in any country. As per World Health Organization (WHO) report 80 percent of the diseases are due to unhygienic conditions and unsafe drinking water. Safe drinking water and proper sanitation are inseparable and critical to health. More than 0.884 billion people lack access to safe water, and 2.5 billion lack access to basic sanitation. The Millennium Development Goals (MDGs) include a target to halve the fraction of the world's population without access to water and sanitation by 2015. The world is roughly on course to reach the target for water supply, but will fall short by half a billion people in sanitation.

In Pakistan, currently over 65% of population is considered to have access to safe drinking water. Inadequate water supply results in high incidence of water related diseases which in turn increase morbidity and mortality rates and pose major threat to the survival and development of children. The National Standards for Drinking Water Quality (NSDWQ) have been approved on 29th March, 2010 in order to improve the water quality and to provide the public with the safe drinking water. Fortunately, the country is on track on access to Improved Water Resources. This achievement owes partly to higher public sector investment in water supply schemes, and self-provision of water from hand and motor pumps in rural areas. Around 95 percent of the urban and 87 percent of the rural population have now access to various areas of improved drinking water supplies with household connection of 48 percent and 19 percent respectively[3]. Further, less than 1 percent of the population has to travel more than 0.5 km to the source of drinking water[4] as compared to 2 percent at the start of the decade[5]. However, access to water remains difficult in Southern Khyber Pakhtunkhwa, parts of Baluchistan, Tharparker and Cholistan.

Floods

According to World Bank environmental Damage Need Assessment (DNA) report, Pakistan experienced unprecedented floods from exceptionally heavy monsoon rains during late July and early August, 2010 in the upper

will provide necessary data, there is limited capacity to plan and implement specific interventions. The Bank will initially provide technical assistance, with the possibility of subsequent investment support as plans become more concrete.

[2] Two continuous Air Quality Monitoring Stations have been installed in Karachi, two in Lahore, and one each Islamabad, Peshawar and Quetta.

[3] Joint Monitoring Porgrmame of WHO and UNICEF. Progress Report - 2008.

[4] PSLM 2007-08.

[5] PSLM 2001-02.

catchments area of the Indus river basin[6]. The rains generated flows in the Indus river system surpassing all historical records. In the Khyber-Pakhtunkhwa (KP) province, two tributaries of Indus River, Swat and Kabul experienced record high flows in excess of 400,000 cusecs, surpassing the registered historic 1929's high flow of 250,000 cusecs. Downstream in Punjab, Taunsa Barrage registered a flood peak of 960,000 cusecs[7], exceeding the historic peak of 788,646 cusecs recorded in 1958. On August 8–9, in the Sindh Province, Guddu Barrage passed a peak flood of 1,149,000 cusecs that corresponds to the maximum discharge estimated in 500 years. The flood caused environmental damages and losses to the population, heightened environmental health risks and affected forests, wetlands and other natural systems.

As evident by the recent floods, the Indus watershed has become highly vulnerable to extreme weather events, which are expected to increase in frequency and intensity as a result of climate change. This is due to the fact that over the course of past decades, most of the watersheds have been degraded and encroached by expanding human settlements and cultivation fields, decreasing water availability, and flood control protection services. The ineffective regulations induced the encroachments into the flood plain and even into the river bed, in the "ketch" area in the form of buildings, houses and growing crops, Acute environmental degradation of watersheds, including accelerated deforestation and drying up of wetlands, aggravated the damages caused by he floods. The DNA report suggests effective short and long term measures to address the entire issue in undertaking series of interventions which also includes restoration of encroached riverine forest land.

[6] Pakistan's Indus basin system comprises the Indus river itself with several major tributaries on the left bank (Ravi Chenab, Jhelum, Sutlej and Beas) and two major tributaries on the right bank (Kabul & Swat).

[7] This discharge corresponds to 1 in 500 years return period.

Land

Millions of people are affected by the problems of drought, desertification and land degradation throughout the world. The arid and semi arid regions like Pakistan face even worse situation Large chunks of fertile land change into unproductive barren lands each year. This in turn triggers poverty, unemployment, and food crisis. Land degradation in Pakistan encompasses the vital issues including deforestation and desertification, sodicity and salinity, water logging, soil erosion, negative nutrient balances, and depletion of solid fertility. More than sixty percent of the natural grazing areas in Pakistan have production levels lower than one third of their biological potential.

Water logging in the country has considerably reduced due to prolonged drought conditions and excessive mining of ground water. About 11 million hectares of arable land in Pakistan is affected by water logging while over 3 million hectares are affected by salinity and sodicity. Similarly, the soil of the country is deficient of phosphorous as well as 20-40% deficiency of potassium is prevalent due to extensive use of nitrogenous and phosphate fertilizers only

Sanitation

Pakistan is committed to achieve the MDG target of halving by 2015 the proportion of people without sustainable access to safe and improved sanitation. Strategic direction, capacity development, and monitoring and evaluation, as well as investments are primarily the responsibility of the provincial governments through the provincial line departments.

Forests

Due to arid and semi-arid climate in large parts of the country, Pakistan is placed among the countries with low forest cover. Total area of forest area in the country is 4.21 million hectares. The main causes of low forest cover are arid climate; over-exploitation of forest resources for energy needs, land use change for agriculture and urbanization abstraction and extraction of river waters without caring for the needs of forest ecosystems downstream; competing uses and inefficient use of wood; and forest fires are the main causes of this situation. Past trends and the current state of forests and forestry indicates that large-scale deforestation and degradation of natural forests have occurred on private and commercial lands in Gilgit- Baltistan and Khyber Pakhtunkhwa.

According to Millennium Development Goals of Forestry Sector, Pakistan is committed to increase forest cover from existing land to 6 percent by the year 2015. This implies bringing an additional 1.051 million hectares land area under forest. However, provincial forest departments, have very limited financial, technical and manpower resources under regular budget to achieve the MDG targets. In order to perform their functions, forest departments implement short to medium term development projects under provincial and federal PSDP. As a policy, the Government is promoting the concepts of social forestry, integrated participatory watershed management and biodiversity conservation in the shifting paradigm of sustainable forest management.

Measures to Enhance Forest Cover
Mass Afforestation and Tree Planting Campaigns

In order to enhance tree cover in the country, tree planting campaigns are held each year. During the tree planting campaigns all the government departments, private organizations, defense organizations and NGOs are involved in planting activities. The achievements during 2001-2010 are as under:

Table No:15.8: Tree Planted **(in Million)**

S. No.	Year	Spring	Monsoon	Total
1.	2001	83.039	47.111	130.150
2.	2002	67.949	39.705	107.654
3.	2003	55.018	39.000	94.018
4.	2004	63.166	58.000	121.166
5.	2005	65.799	30.654	96.453
6.	2006	57.17	35.340	92.510
7.	2007	61.48	37.32	98.8
8.	2008	73.26	38.123	111.383
9.	2009	55.77	35.96	91.73
10.	2010	57.72	34.54	92.26

Source: Ministry of Environment

Mangroves For the Future (MFF)

Mangroves for the Future (MFF) initiatives focuses on the countries worst affected by the tsunami. However, MFF also include other countries of the region that face similar issues with an overall aim to promote an integrated ocean wide approach to coastal zone management. Pakistan joined MFF as dialogue country in 2008 and prepared National Strategy and Action Plan for the Mangroves for the Future w.e.f. 1-4-2010. Pakistan has become regular member of MFF. As a member Pakistan is entitled to receive reasonable support for institutional strengthening, capacity building and for implementation of small and large projects in coastal areas of Pakistan.

National Tree Planting Day 2010

Prime Minster of Pakistan declared 18th August as National Tree Planting Day (NTPD). Underlying objective of celebration of NTPD is to address deforestation and associated environmental problems being faced by the nation through motivation and involvement of all segments of the society in tree plantation campaign. Large scale tree planting celebrations are held to mark National Tree Plantation Day.

Participation in Reducing Emissions from Deforestation and Forrest Degradation (REDD+)

Under the UN Framework Convention on climate Change, a new mechanism REDD+ has been approved to stop deforestation, forest degradation and to reduce emissions of carbon into atmosphere. Pakistan has vast potential of controlling deforestation under REDD+ by paying due compensation to forest communities with the international financial assistance. Government of Pakistan, Ministry of Environment has constituted a NSC on REDD+ that will guide and steer REDD+ prospects in Pakistan.

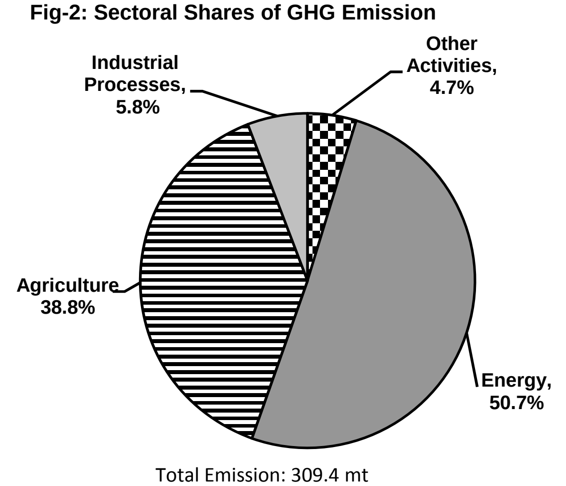
Climate Change

Climate change is one of the most complex challenges of the new century. Pakistan like other developing countries remained extremely vulnerable to the impacts of climate change. The most serious concerns are the threat to water and food security of the country and the vulnerability of its costal areas. Other climate change related concerns include increased risks and extreme events (floods, droughts and cyclones) and adverse impact of forests, biodiversity human health etc. Poverty reduction and sustainable development remain core priorities of Pakistan and in this context, in October 2008, the Planning Commission established a Task Force on Climate Change and assigned with the responsibility to facilitate the formulation of a Climate Change Policy. The Task Force on Climate Change has submitted the report to Planning Commission, which has given the recommendation to address climate change issues on both the fronts; i.e. Mitigation and Adaptation. Under Mitigation, Energy, Agriculture, Livestock and Forestry sectors have been focused while under Adaptation, Water resources, Storage capacity, Water use efficiency, Glaciers, Capacity building and International and Regional Cooperation has been focused.

Situation Analysis

1. Pakistan's total Green House Gase (GHG) emissions in 2008 amounted to 309 million tonnes (mt) of Carbon dioxide (CO_2) equivalent, comprising about 54% CO_2, 36% Methane, 9% Nitrous Oxide and 1% other gases. The biggest contributor is the energy sector with (50.7% share), followed by the agriculture sector (38.8% share), industrial processes (5.8% share) and other activities (4.7% Share) (Fig-2). Pakistan is a small GHG emitter globally. It contributes only about 0.8% of the total global GHG emissions. On per capita basis, Pakistan with 1.9 tonnes per capita GHG emissions stands at a level which corresponds to about one-third of the world average, one-fifth of the average for Western Europe and one tenth of the per capita emissions in the U.S., putting it at 135^{th} place in the world ranking of countries on the basis of their per capita GHG emissions. Though Pakistan's per capita energy consumption and CO_2 emissions are low but in CO_2 emissions, per unit of GDP production are relatively high, and the living standards are on a rise. This, coupled with the high rate of growth in population will increase energy demand manifold. To meet this growing energy demand, Pakistan will have to make use of its thermal and coal potentials thereby increasing the GHG emission levels. Hence, it will become essential to adopt more stringent energy conservation and efficiency improvement measures as well as massive afforestation. The carbon sinks are degrading fast as the country has low forest cover with a high rate of deforestation of about 0.2 – 0.4% per annum. Global warming is having a visible impact on the survival, growth rate, and health of forests.

Fig-2: Sectoral Shares of GHG Emission



During the last century, average annual temperature over Pakistan increased by 0.6 °C, in agreement with the global trend, with the temperature increase over northern Pakistan being higher than over southern Pakistan (0.8 °C versus 0.5 °C). Precipitation over Pakistan also increased on the average by about 25%. Studies based on the ensemble outputs of several Global Circulation Models (GCMs) project that the average temperature over Pakistan will increase in the range 1.3–1.5 °C by 2020s, 2.5-2.8 °C by 2050s, and 3.9-4.4 °C by 2080s, corresponding to an increase in average global surface temperature by 2.8-3.4 °C by the turn of the 21st century. Precipitation is projected to increase slightly in summer and decrease in winter with no significant change in annual precipitation. Furthermore, it is projected that climate change will increase the variability of monsoon rains and enhance the frequency and severity of extreme events such as floods and droughts.

Climate change affects almost all the sectors of our society particularly water resources, energy, health, biodiversity, with a major impact on agricultural productivity. This is due to changes in temperature, adverse effect on land and water resources and enhanced frequency and intensity of natural hazards such as droughts and floods. Dry land areas, such as arid and semi-arid regions are most vulnerable to these changes, such regions are already facing significant water shortages and temperatures are already close to their tolerance limits. The increasing temperatures alter bio-physical relationships by changing growing periods of the crops, altering scheduling of cropping seasons, increasing crop stresses (thermal and moisture stresses), changing irrigation water requirements, altering soil characteristics, and increasing the risk of pests and diseases, thus badly affecting the agricultural productivity. Water demands of the country are met by Indus River System that is fed by glaciers Hindukush-Karakoram ranges which are generally believed to be receding under influence of climate change and global warning. The melting of these glaciers due to global warming will result in increased water flows for a few decades (which need to be harnessed through raising more dams in the catchment areas), followed by reduced river flows as the glaciers get depleted (needing again higher reservoir capacity to reduce flow of water into the sea during flood periods).

The adverse impacts of global warming in Pakistan are also showing up in the form of extreme climate events. The country faced severe drought from 1998-2001 and intense floods in years 2003, 2006, and 2010 which had serious consequences for life and property of the people. It is estimated that greater precipitation and melting of glaciers would increase waters in our rivers by as much as 20 percent initially, suggesting the benefit of increasing capacity for water storage. However, the spatial variation could result in greater risk of drought for areas far from the sea. Climate change will also have an important impact on wildlife and their habitat. Rangelands, forests and their types, and biodiversity will be under even greater threat. This requires major programmes for increasing the forested areas with plantation suited to the looming climate change. It will be essential to build up the capacity for multidisciplinary studies and modeling for reliable climate forecasting and analysis of the corresponding socio-economic impact. This will require sustained regional co-operation as well as monitoring of our entire environment from the North to the South.

Programme/Projects for the Tenth Five Year Plan

Implementation of the climate change programme will be carried out through coordinated efforts of the relevant ministries to secure ample resources and their effective utilization i.e. Economic Affairs Division (EAD), Ministry of Environment and Planning Commission at the federal level. The Ministry of Environment will perform an overarching role of policy formulation, research and development and national/international coordination/facilitation. The Economic Affairs Division will facilitate negotiations with donors, bi/multilateral funding agencies, UN agencies, Banks etc, and the Planning Commission will determine impacts of climate change on the national economy and, accordingly plan and help implement programmes/projects in different sectors, mostly through international support/assistance to mitigate and adapt to these effects/impacts – to minimize economic impact. The active and timely involvement of the private sector must be ensured so that the activities to be undertaken in the implementation phase of the programmes and projects.

The following area will be targeted through mitigation and adaptation measures as well as studies to enhance our understanding for Pakistan specific needs.

i. Data information on Climatology

ii. Reducing climate change induced risks and vulnerabilities from Glacier Lake Outburst Floods (GLOF) in Gilgit Baltistan Area of Pakistan.

iii. Enhancement of capacities to harness opportunities under Clean Development Mechanism and Adaptation Fund.

Studies to enhance our understanding for Pakistan-specific mitigation and adaptation needs and mitigation and adaptation measures would be carried out in the following areas:

i. Climatology

ii. Water Resources

iii. Agriculture and Forestry

iv. Health impacts

v. Impacts on Coastal Areas

vi. Disaster risks resulting from extreme events, in particular floods, droughts, cyclones and Glacier Lake Outburst Floods (GLOF).

vii. Biodiversity conservation for preserving fragile ecosystems, watersheds and livelihoods.

viii. Fragile ecosystems: mountainous areas, rangelands, degraded lands (e.g. those affected by water logging, salinity, soil erosion), etc.

ix. Clean Development Mechanism.

x. Economic Impact Assessment of climate change related vulnerabilities.

Public Sector Development Programme 2010-11

In the PSDP, allocation for the fiscal year was Rs. 2500 million. There are 40 projects under implementation, which fall in the brown, green and capacity building components/subsectors of environment such as: mass awareness, environmental education and environment protection, preparation of land use plan; forestry; biodiversity; watershed management, environmental monitoring; capacity building of environmental institutions; natural disaster early warning and mitigation; improvement of urban environment; Clean Drinking Water for All etc.

Many projects including forestry, watershed management and biodiversity projects in Tarbela Watersheds are underway to reduce sediment load, create employment opportunities, alleviate poverty, conserve the natural resources and rehabilitate the degraded land resources – through nurseries and plantations, construction of check dams, soil conservation, establishment of community organizations, terracing, etc. Various tree planting projects are under implementation.

Annex 1 Contingent Liabilities

Contingent liabilities are possible future liabilities that will only become certain on the occurrence of some future event. Contingent liabilities are not shown in the balance sheet, but must be given adequate disclosure. Contingent liabilities can be both explicit and implicit as discussed in the framework below.

Explicit Contingent Liabilities: These are specific government obligations defined by a contract or a law. The government is legally mandated to settle such an obligation when it becomes due.	• Guarantees for borrowing and obligations of provincial governments and public or private entities. • Umbrella guarantees for various loans (SME loans, agriculture loans) • Guarantees for trade & exchange rate risks • Guarantees for private investments • State insurance schemes
Implicit Contingent Liabilities: These represent a moral obligation or expected burden for the government not in the legal sense, but based on public expectations and political pressures.	• Defaults of provincial governments and public or private entities on non-guaranteed debt and other obligations. • Liability clean-up in entities being privatized • Bank failures • Disaster and relief financing • Failure on other non-guaranteed funds

The Government issues guarantees for public sector borrowers with relatively weak credit worthiness. In some cases, such as in the case of Trading Corporation of Pakistan (TCP), the government has 100% ownership, hence any creditor to the entity has full recourse to the government.

Table 1: Contingent Liabilities

Fiscal Year	Issuance (Rs. Billions)	As % of GDP
FY07	140.7	1.6
FY08	138.8	1.4
FY09	276.3	2.2
FY10	224.0	1.5
FY11*	20.9	0.1

* : July 2010-April 2011

Source: Budget Wing & EF Wing, MoF

The government may also issue guarantees as part of a cost reduction strategy, by taking on risks it is best able to mitigate or absorb. However, there are also costs associated with the provision of government guarantees. Hence, such off-balance sheet transactions can not be overlooked in order to gain a holistic view of a country's fiscal position and unveil the hidden risks associated with the obligations made by the government outside the budget. Similarly, reported debt levels of a sovereign may be understated owing to the non-inclusion of guarantees, explicit or implicit, which may materialize in future. In the case of Pakistan, these include, for instance, explicit and implicit guarantees issued to Public Sector Enterprises (PSEs) and unfunded losses of state owned entities such as Pakistan Steel Mill, PIA, WAPDA, PEPCO, Railways, etc.

The Fiscal Responsibility and Debt Limitation (FRDL) Act 2005 stipulates that the issuance of guarantees, including those for Rupee lending, bonds, rates of return, output purchase agreements and all other claims and commitments that may be prescribed from time to time as well as renewal of existing guarantees, should not exceed 2.0 percent of the estimated gross domestic product in any financial year. Since 2005-06, there has been a steady increase in the issuance of contingent liabilities but the threshold of 2.0 percent has only been breached in 2008-09 by 0.2 percentage points. As of April 2011, guarantees amounting to Rs. 20.9 billion have been granted to PSEs, which accounted for 0.12 percent of the projected GDP for 2010-11.

A further breakdown of institution-wise government guarantees in domestic and foreign currencies indicates that WAPDA/PEPCO has been the biggest beneficiary of this provision.

Table 2: Institution-wise Issuance of Government Guarantees in Domestic Currency(Rs. billion)

S. No.	Organization	FY08	FY09	FY10	FY11*
1	PIA	4.0	25.0	7.7	
4	WAPDA	54.9	228.3	112.3	10.8
5	Pakistan Railways			17.1	1.2
6	SABIC				8.5
7	Pakistan Stone Dev. Company				0.4
8	PSM			10.0	
9	KESC			3.0	
10	KSEW	3.4			
11	PSO	42.0			
12	Shell	11.0			
13	National Industrial Parks Dev. & Mgmt. Co.	2.0			
14	Pak Textile City Limited	0.3		1.0	
15	PAF Shahbaz Air HQ		1.0	6.0	
16	NIT		20.0		
17	TIP			1.1	
	Total	**117.6**	**274.5**	**224.0**	**20.9**
	As percent of GDP	**1.1**	**2.2**	**1.5**	**0.1**
	Memo:				
	GDP (mp)	10,243	12,724	14,837	18,063

** July2010-April 2011* *Source: Budget Wing, MoF*

WAPDA was issued guarantees amounting to Rs. 228.3 billion and a rollover of US$ 125 million in the 2008-09. In the fiscal year 2009-10, Rs. 112.3 billion has been awarded in respect of public guarantees to PEPCO/WAPDA in addition to US$ 248 million of foreign currency guarantees. During 2010-11, only Rs.10.8 billion worth of guarantees issued to PEPCO/WAPDA.

The outstanding contingent liabilities as of April 30, 2011 stood at Rs. 541.4 billion. This includes the stock of explicit debt guarantees in both domestic and foreign currencies that appear in the accounting books of PSEs. The Rupee guarantees accounted for 55 percent of the total stock. Such a high magnitude of public guarantees may lead to distortions in the domestic yield curve, and have fiscal consequences. The issuance of guarantees have witnessed secular decline in the current fiscal year.

Table 3: Guarantees Outstanding as of April 30, 2011

Outstanding Guarantees extended to PSEs (total)	**541.4**
- Domestic Currency (Rs. Billion)	297.6
- Foreign Currency (Rs. Billion)	243.8
Memo Item:	
(Foreign Currency US$ Million)	2,878.7

Source: DPCO

In addition to these explicit contingent liabilities, the records of which are being maintained at the Ministry of Finance, there is a need to quantify various implicit guarantees embedded in many government contracts that represent a potentially significant charge on future budgets. Ideally, the government should restrain from issuing new guarantees in bulk and instead, advise the PSEs to explore alternative sources of funding, i.e., issuing Real Estate Investment Trust (REIT) units, securitization, etc, in an attempt to improve their solvency positions.

Other than the publically guaranteed debt of PSEs, Finance Division has issued, each year, continuing guarantees against the commodity financing operations undertaken by TCP, PASSCO, and provincial governments. Commodity financing is secured against hypothecation of commodities and letter of comfort from the Finance Division. The quantum of these guarantees depends on the supply-demand gap of various commodities, their price stabilization objectives, volume procured, and domestic and international prices. As per previous practice, these guarantees are not included in the limit of 2 percent imposed by the FRDL Act 2005.

As of April 2011, the outstanding stock of Rs. 297.6 billion against the end-June 2010 position of Rs. 328.8 billion indicates a retirement of Rs. 31.2 billion on behalf of commodity financing operations. The government intends to introduce world class warehousing facilities in the near future that will allow the entities involved in the commodity operations to secure financing against the warehouse receipt without explicit guarantee or letter of comfort from the government.

1 Special Section

Cost of War on Terror for Pakistan Economy

Pakistan's economy is under pressure of the War on Terror intensifying for last four years in Afghanistan. Since 2006, the War has spread like a contagion into settled areas of Pakistan that has so far, cost the country more than 35,000 citizens, 3500 security personnel, destruction of infrastructure, internal migration of millions of people from parts of northwestern Pakistan, erosions of investment climate, nose diving of production and growing unemployment and above all brought economic activity to a virtual standstill in many part of the country. Pakistan had never witnessed such devastating social and economic upheaval in its industry, even after dismemberment of the country by direct war.

After 9/11 Pakistan had to assume the role of a frontline state in the War against Terror. The onset of the War disrupted Pakistan's normal trading activities, as the cost of trading increased substantially because of higher insurance cover. Consequently, economic growth slowed demands for imports reduced with consequential decline in tax collection and inflows of foreign investment were naturally adversely affected, accentuated by the travel bans issued by western governments to its entrepreneurs.

While the economic situation was worsening, a new elected government took power in 2008 and the Ministry of Foreign Affairs constituted an inter-ministerial committee to assess the direct and indirect cost of the War on Terror on Pakistan. The Ministries of Finance, Interior, Commerce and some other relevant government departments plus the representatives of two provinces bordering turbulent Afghanistan participated in these deliberations. After few sessions and valuable inputs from all sides, the committee estimated the cost of War on Terror and its impact on Pakistan's economy and society. The conclusion was that the War not only caused serious damage to the economy, but also to the social fabrics of Pakistan. Obviously, continuity of War will continue to bleed the economy and society of Pakistan.

At the start of the War, the cost of it to Pakistan was estimated at $ 2.669 billion in fiscal year 2001-02. This calculation was based on the assumptions that: (i) The War in Afghanistan that begun on October 7, 2001 will end swiftly by December 2001: (ii) normalcy will resume from January 2002; (iii) the Taliban government will be ousted and some low intensity fight will continue but life in Pakistan will remain normal; and (iv) the additional increase in freight cargo and war risk premium will be removed. The above-mentioned assumptions were not materialized and instead the war on terror continued to gain momentum and became more precarious for the entire region in general and Pakistan in particular as it shifted to its settled areas to disrupt all kind of investment and economic activity. Pakistan became more insecure in its efforts to make the world a safer place to live.

Pakistan continued to pay a heavy price in terms of both the economic and security terms. A large portion of its resources, both men and material are being consumed by this war for the last several years. The economy was subjected to enormous **direct and indirect costs** which continued to rise from $ 2.669 billion in 2001-02 to $ 13.6 billion by 2009-10, projected to rise to $ 17.8 billion in the current financial year (2010-11) and moving forward, the direct and indirect costs to the economy is most likely to rise further. The comparison of cost for 2001-02 and 2010-11 is given in Table-1 and the year-wise cost of war on terror is documented in Table-2:

Table 1: Cost of War Estimate in 2001-02 and 2010-11($ Billion)

	2001-02	**2010-11 (Est.)**
Exports	1.40	2.90
Compensation to Affectees	0.00	0.80
Physical infrastructure	0.00	1.72
Foreign Investment	0.15	2.10
Privatization	0.50	1.10
Industrial output	0.11	1.70
Tax Collection	0.25	2.10
Cost of Uncertainty	0.10	2.90
Expenditure Over run	0.11	1.60
Others	0.10	0.90
Total:	**2.72**	**17.82**

Source: Ministry of Finance

Table-2: Cost of War (2001-2011)

Years	**Billion $**	**Billion Rs.**	**% Change**
2001-02	2.669	163.9	-
2002-03	2.749	160.8	3.0
2003-04	2.932	168.8	6.7
2004-05	3.410	202.4	16.3
2005-06	3.986	238.6	16.9
2006-07	4.670	283.2	17.2
2007-08	6.940	434.1	48.6
2008-09	9.180	720.6	32.3
2009-10	13.560	1136.4	47.7
2010-11*	17.830	1528.0	31.5
Total:	**67.926**	**5036.8**	

* *Estimated on the basis of 8 months actual data*
Source: MoF, M/o Foreign Affairs Joint Ministerial Group

During the last 10 years the **direct and indirect cost** of war on terror incurred by Pakistan amounted to **$ 67.93 billion** or **Rs.5037 billion**. The events that transpired after 9/11 in Afghanistan worsened the security environment in the country. As a result, the western countries including the United States continued to impose travel ban for their citizen *(investor*, *importers etc.)* to visit Pakistan. This has affected Pakistan's exports, prevented the inflows of foreign investment, affected the pace of privatization program, slowed the overall economic activity, reduced import demand, reduced tax collection, expenditure over-run on additional security spending, domestic tourism industry suffered badly, hundreds; and thousands of jobs could have been created had economic activity not slowed as well as thousands of jobs were lost because of the destruction of domestic/foreign tourism industry; destruction of physical infrastructure (military and civil) massive surge in security related spending; migration of thousands of people from war affected areas and the associated rise in expenditure to support internally displaced persons.

Pakistan's investment-to-GDP ratio has nosedived from 22.5 percent in 2006-07 to 13.4 percent in 2010-11 with serious consequences for job creating ability of the economy. Going forward, Pakistan needs enormous resources to enhance productive capacity of the economy. The security situation will be the key determinant of the future flow of the investment. Pakistan economy needs an early end to this war.

2 Special Section

Pakistan: Flood Impact Assessment

The 2010 monsoon flood disaster in Pakistan was massive and unprecedented, killing more than 1,700 persons, affecting over 20 percent of the land area, more than 20 million people, and causing loss of billions of dollars through damages to infrastructure, housing, agriculture and livestock, and other family assets. Essential infrastructure including roads, bridges and markets has been severely damaged and many remain impassable. According to one of the United Nation Survey assessed that some 10.1 million people were in need of shelter and humanitarian assistance. The number of people requiring food assistance to support recovery and rehabilitation is estimated at approximately 3.6 million. More than 1.1 million houses were completely destroyed or made un-live-able and more than 2 million hectares of standing crops were damaged or lost. The flood had a severe impact on people's homes, livelihoods and assets. Most people do not know when they would be able to resume their livelihoods.

The floods of 2010 have caused a significant loss to poverty reduction efforts and would result in increase in poverty and vulnerability of affected population. The areas affected by floods were consistently lagging behind in terms of socio-economic and educational indicators as compared to the areas unaffected by the floods. The loss to infrastructure and livelihood sources will push them behind further. The people most severely affected were predominantly small farmers and unskilled labourers. They are among the most vulnerable in Pakistan and almost all live below or just around the national poverty line.

The natural disaster forced the government to divert resources for the rehabilitation of internally displaced Pakistanis (IDPs) and reconstruction of critical infrastructure. The reconstruction cost estimates by province are given below in Table-1, which reveals that Sindh has suffered the highest losses followed by Punjab, Khyber Pakhtunkhawa, Balochistan. The extent of damages in AJK and Gilgit Baltistan is relatively smaller.

Table 1: Flood Damages and Reconstruction Cost (Rs. in Billion)

Province/ Area	Damages	Reconstruction Cost
AJK	7	13
Balochistan	53	27
FATA	6	8
Federal	93	96
Gilgit Bultistan	4	7
Khyber Pakhtunkhwa	100	106
Punjab	219	93
Sindh	373	228
Total	**855**	**578**

Source: National Flood Reconstruction Plan 2010

The sector wise breakdown of flood damages and respective reconstruction cost estimates are given in Table-2. It reveals that the agriculture sector has received a major blow followed by housing, transport and communication infrastructure. The minimum reconstruction costs amount to a total of Rs. 578 Billion.

Housing

Around 392,786 houses damaged and 728,192 destroyed. The damage was most pronounced in the districts of Muzaffargarh and Rajanpur in the Punjab, Nowshera and D.I.Khan in KPK, and Jaffarabad, Jacobabad, Shikarpur and Thatta in Sindh.

Basic Public Services

Flooding causes extensive damage to schools and health centres. According to UNICEF 7,600 would need to be reconstructed and 436 health facilities were damaged or destroyed, greatly limiting the provision of health care services to affected communities.

Table 2: Flood Damages and Reconstruction Cost By Sectors (Rs. in Billion)

Sectors	Damages	Reconstruction Cost
Transports and Communication	113	200
Irrigation	24	37
Energy	26	9
Agriculture	429	22
Education	27	43
Health	4	4
Water and Sanitation	9	6
Environment	1	18
Governance	6	5
Disaster Risk Management	-	2
Housing	135	126
Private Sector	24	9
Livelihoods support	-	58
Financial sector	57	39
Total	855	578

Source: National Flood Reconstruction Plan 2010

Infrastructure

Damage to road infrastructure was extensive. The damage was greatest in the mountainous area where many bridges collapsed rendering some areas completely inaccessible. Over the river Swat for example all connecting bridges over a distance of 140 km (between Chakdara and Kalam) were destroyed. The flood caused significant damage to phone lines, electricity supply interrupted in many large towns in Swat, Lower and Upper Dir as well as Shangla.

Impact on Agriculture, Crops and Livestock

According to the FAO agricultural assessment report the floods caused damages of unprecedented scale to agriculture crops, livestock, fisheries and forestry and destroyed primary infrastructure such as tube wells, water channels household storages, houses, animals sheds, personal seed stocks, fertilizers and agricultural machinery. The floods struck just before the harvesting of key crops, including cotton, rice, maize, vegetables and sugarcane and on the onset of the Rabi (winter) wheat planting season which normally starts in September/October. Overall production loss of sugar cane, paddy and cotton was estimated at 13.3 million MT. It is estimated that over 2 million hectares of standing crops were either lost or damaged, over 1.2 million head of livestock (excluding poultry) died due to the flood. Between 60 and 88 percent of the farming households reported losses of more than 50 percent of their major crops: rice, vegetables, cotton, sugar and fodder. These households were mostly located in Punjab and Sindh.

Household assets

Property was badly affected with 42 percent of houses completely destroyed. 19 percent heavily damaged and 28 percent lightly damaged. Only 9 percent of houses remained escape from damages.

Annex-2 Tax Expenditure

A Note on Tax Expenditure 2010-11

Tax expenditures for fiscal year 2009-10 and 2010-11 have been estimated Rs 166.772 billion and Rs 150.291 billion respectively. Detailed estimates are highlighted below :-

Income Tax :

The cost of exemptions in respect of direct taxes during 2009-10 and 2010-11 has been reflected in Table-1 :-

Table-1: Income Tax Expenditure for 2009-10 and 2010-11 **(Rs in billion)**

S.No	Tax Expenditure Items	Estimated Revenue Loss	
		2009-10	2010-11
1	Pensions & Gratuity	0.075	0.087
2	Income from Funds, Board of Education, Universities and Computer Training Institutions	0.950	0.979
3	Donations and Contributions to Charitable Organizations	0.630	0.649
4	Independent Power Producers	0.852	0.870
5	Income from Certain Trust, Welfare and Charitable Institutions non-profitable Organization	1.350	1.360
6	Profits on Debt/interest from government securities and certain foreign currency accounts/books profit on debt earned by certain non-residents individuals and institutions.	0.050	0.049
7	Export of Information Technology	0.812	0.724
8	Capital gains	21.910	21.840
9	Other sector and enterprise specific exemptions.	19.905	19.950
	TOTAL:	**46.534**	**46.508**

Sales Tax :

Previously, sales tax exemptions were on tractors, fertilizers, pharmaceuticals, pesticides etc. However, the Federal Government rationalized the extent of exemptions and from 15-03-2011 onwards, tractors, pesticides and fertilizers were chargeable to sales tax. The cost of sales tax exemptions has accordingly been worked out and is estimated to be Rs 25.323 billion for the fiscal years 2010-11. Followings are the main exemptions in sales tax and their cost of exemptions during 2009-10 and 2010-11 (Table-2).

Table-2: Tax Expenditure of Sales Tax for 2009-10 and 2010-11 (Rs in billion)

S.No	Sector	Estimated Revenue Loss	
		2009-10	2010-11
1	Fertilizer	8.797	6.854*
2	Tractors	6.246	4.867*
3	Pharmaceutical Products	3.754	4.129
4	Other	8.612	9.473
	TOTAL:	**27.409**	**25.323**

**Cost of exemptions from 01-07-2010 to 14-03-2011*

Customs :

Customs exemptions are mainly given on raw materials and components; plant, machinery and equipment imported by high-tech, priority and value added industries; imports for energy sector projects; and exemptions to exploration and production companies. Some of these exemptions are due to international contractual obligations. Following is the break-up of main exemptions in customs duty for fiscal year 2009-10 and 2010-11 (Table-3).

Table-3: Tax Expenditure of Customs for 2009-10 and 2010-11 (Rs in billion)

SRO No.& DATE	Description	Estimated Revenue Loss	
		2009-10	2010-11
558(I)/2004 01-07-2004	Concession of customs duty on goods imported from **SAARC and ECO** countries.	0.104	0.073
570(I)/2005 06-06-2005	Exemption from customs duty on imports from **Sri Lanka**	0.152	0.148
1296(I)2006 31-12-2005	Exemption from customs duty on imports from **China**	0.073	0.031
894(I)2006 31-08-2006	Exemption from customs duty on imports from Iran under Pak-Iran PTA.	0.005	0.004
1274(I)2006 29-12-2006	Exemption from customs duty on imports under **SAFTA** Agreement.	0.090	0.116
659(I)2007 30-06-2007	Exemption from customs duty on imports from **China**.	6.069	10.867
1151(I)2007 26-11-2007	Exemption from customs duty on goods imports from **Mauritius**	-	-
1261(I)2007 31-12-2007	Exemption from customs duty on imports from **Malaysia**.	2.221	2.895
71(I)/95 19-01-1995	Concession of customs duty on import of raw materials for manufacture of goods by such industries in **special industrial zones**	0.001	-
565(I)2006 05-06-2006	Conditional exemption of customs duty on import of **raw materials and components** etc. for manufacture of different sectors.	4.315	4.653
567(I)2006 05-06-2006	**General and conditional exemption** of customs duty.	22.566	30.277
678(I)2004 12-06-2004	Exemption of customs duty and sales tax to **Oil Exploration and Production (E&P)** companies on import of machinery equipment & vehicles	4.831	2.581
575(I)2006 05-06-2006	Exemption of customs duty and sales tax on import of **machinery, equipment, apparatus and items**.	11.980	13.712
655(I)2006 22-06-2006	Exemption from customs duty for **vendors of Automotive Sector**.	4.933	9.315
656 (I)2006 22-06-2006	Exemption from customs duty for **OEMs of Automotive Sector**.	18.378	19.073

SRO No.& DATE	Description	Estimated Revenue Loss	
		2009-10	2010-11
809(I)2009 19-09-2009	Exemption from customs duty on import of machinery & equipment by Industrial units registered with Ministry of Textile Industry.	0.630	1.196
	TOTAL:	**76.348**	**94.941**

Following is the consolidated summary of tax expenditures for the fiscal year 2009-10 and 2010-11 (Table-4).

Table-4: Tax Expenditure of Federal Taxes for 2009-10 and 2010-11 **(Rs in billion)**

S.No	Type of Tax	2009-10	2010-11
1	Income Tax	46.534	46.508
2	Sales Tax	27.409	25.323
3	Customs Duties	76.348	94.941
	TOTAL:	**150.291**	**166.772**

ECONOMIC AND

INDICATOR	1960's	1970's	1980's	1990's	2000's	1999-00	2000-01
	Average (Annual)						
GROWTH RATE (%) (Constant fc)							
➔ **GDP**	6.8	4.8	6.5	4.6	4.8	3.9	2.0
- Agriculture	5.1	2.4	5.4	4.4	3.2	6.1	-2.2
- Manufacturing	9.9	5.5	8.2	4.8	7.0	1.5	9.3
- Commodity Producing Sector	6.8	3.9	6.5	4.6	4.3	3.0	0.8
- Services Sector	6.7	6.3	6.7	4.6	5.3	4.8	3.1
GROWTH RATES (%)(Current MP)							
➔ **Total Investment**	-	21.8	4.2	8.1	15.0	10.2	8.6
- Fixed Investment	14.8	20.5	3.7	7.8	15.0	10.5	8.5
- Public Investment	14.0	25.3	2.6	7.3	11.7	5.5	11.1
- Private Investment	20.9	17.0	5.1	8.8	16.9	14.3	7.2
As % of Total Investment							
- National Savings	-	67.5	79.2	75.4	91.0	90.8	95.9
- Foreign Savings	-	32.5	20.8	24.6	9.3	9.2	4.1
As % of GDP (Current MP)							
Total Investment	-	17.1	18.7	18.3	18.9	17.4	17.2
- Fixed Investment	-	15.9	17.0	16.6	17.4	16.0	15.8
- Public Investment	-	10.3	9.2	7.5	4.8	5.6	5.7
- Private Investment	-	5.6	7.8	9.1	12.6	10.4	10.2
National Savings	-	11.2	14.8	13.8	16.9	15.8	16.5
Foreign Savings	-	5.8	3.9	4.5	2.1	1.6	0.7
Domestic Savings	-	7.4	7.7	14.0	15.5	17.1	17.8
GDP DEFLATOR (Growth %)	-	-	2.3	8.3	8.7	2.8	8.0
CONSUMER PRICE INDEX (CPI)							
(Growth %)	3.2	12.5	7.2	9.7	7.7	3.6	4.4
FISCAL POLICY *							
As % of GDP (MP)							
➔ **Total Revenue**	13.1	16.8	17.3	17.1	14.2	13.5	13.3
- Tax Revenue	-	-	13.8	13.4	10.6	10.7	10.6
- Non-Tax Revenue	-	-	3.5	3.7	3.7	2.8	2.7
➔ **Total Expenditure**	11.6	21.5	24.9	24.1	18.7	18.8	17.4
- Current Expenditure	-	-	17.6	19.4	15.4	16.5	15.5
Defence	-	-	6.5	5.6	3.2	4.0	3.2
Interest Payment	-	-	3.8	6.8	4.9	6.9	6.0
Others	-	-	7.3	7.0	7.3	5.6	6.3
- Development Expenditure (#)	-	-	7.3	4.7	3.5	2.5	2.1
➔ **Overall Deficit**	2.1	5.3	7.1	6.9	4.5	5.4	4.3
MONEY & CREDIT (Growth %)							
- Monetary Assets (M2)	16.3	21.0	13.2	16.8	15.0	9.4	9.0
- Domestic Assets	15.0	20.5	15.4	12.2	14.1	9.0	3.7
STOCK EXCHANGE (Growth %)							
- KSE - 100 Index	-	-	0.1	4.1	23.4	44.2	-10.2
- Aggregate Market Capitalization	-	-	2.5	13.4	31.2	36.9	-13.4

- : Not available P : Provisional R : Revised F : Final

: From 1998-99 onward also includes net lending to PSEs. * : Budget Estimates for 2009-10

SOCIAL INDICATORS

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10 R	2010-11 P
3.1	4.7	7.5	9.0	5.8	6.8	3.7	1.7	3.8	2.4
0.1	4.1	2.4	6.5	6.3	4.1	1.0	4.0	0.6	1.2
4.5	6.9	14.0	15.5	8.7	8.3	4.8	-3.6	5.5	3.0
1.4	4.3	9.2	9.5	5.1	6.6	1.3	1.8	4.7	0.5
4.8	5.2	5.9	8.5	6.5	7.0	6.0	1.7	2.9	4.1
3.2	10.7	14.4	32.6	36.1	15.7	15.6	2.6	-1.6	6.2
3.2	8.2	14.7	34.3	38.0	15.9	15.4	0.9	-3.4	4.4
-22.2	4.0	19.3	23.7	30.3	30.9	15.2	-0.5	-3.9	13.9
17.3	9.8	13.1	38.3	40.5	11.5	15.3	1.4	-3.2	1.1
110.7	123.1	107.8	91.6	82.4	77.3	61.5	68.5	85.5	103.1
-11.3	-22.5	-7.8	8.4	20.4	22.7	38.5	31.5	14.5	-3.1
16.8	16.9	16.6	19.1	22.1	22.5	22.1	18.2	15.4	13.4
15.5	15.3	15.0	17.5	20.5	20.9	20.5	16.6	13.8	11.8
4.2	4.0	4.0	4.3	4.8	5.6	5.4	4.3	3.6	3.3
11.3	11.3	10.9	13.1	15.7	15.4	15.0	12.3	10.2	8.5
18.6	20.8	17.9	17.5	18.2	17.4	13.6	12.5	13.1	13.8
-1.9	-3.8	-1.3	1.6	4.5	5.1	8.5	5.7	2.0	-0.4
18.1	17.6	15.7	15.4	16.3	15.6	11.5	9.8	9.3	9.5
2.5	4.4	7.7	7.0	10.5	7.7	16.2	20.3	11.9	18.8
3.5	3.1	4.6	9.3	7.9	7.8	12.0	20.8	11.7	14.1
14.2	14.9	14.3	13.8	14.2	14.9	14.6	14.5	14.0	14.3
10.9	11.5	11.0	10.1	10.6	10.2	10.6	9.5	10.1	10.5
3.3	3.4	3.3	3.7	3.6	4.7	4.4	5.1	3.9	3.8
18.3	18.5	16.7	17.2	18.5	19.1	22.2	19.9	20.3	18.0
15.9	16.3	13.5	13.3	13.6	14.9	18.1	16.0	16.7	14.6
3.4	3.3	3.3	3.3	3.2	2.8	2.7	2.6	2.5	2.4
6.2	4.8	4.0	3.4	3.4	4.4	5.1	5.2	4.3	3.9
6.3	8.2	6.2	6.6	7.0	7.7	10.6	8.3	9.7	8.2
2.8	2.2	3.1	3.9	4.8	4.9	4.4	3.8	3.5	3.4
4.3	3.7	2.4	3.3	4.3	4.3	7.6	5.3	6.3	4.0
15.4	18.0	19.6	19.3	15.2	19.3	15.3	9.6	12.5	9.6
2.2	0.5	23.7	22.4	15.8	14.2	33.6	15.4	12.7	8.1
29.5	92.2	55.2	15.1	18.6	28.2	2.6	-41.0	35.7	21.5
20.2	83.1	81.9	48.3	37.4	43.9	17.0	-43.0	27.5	15.2

(Contd.)

ECONOMIC AND

INDICATOR		1960's	1970's	1980's	1990's	2000's	1999-00
		Average (Annual)					
TRADE AND PAYMENTS (Growth %)							
- Exports (fob)		-	13.5	8.5	5.6	9.9	8.8
- Imports (fob)		-	16.6	4.5	3.2	13.7	-0.1
- Trade Deficit		-	20.5	0.9	-0.6	60.2	-32.3
- Workers Remittances		-	-	1.9	-5.3	26.8	-7.2
- Current Account Deficit		-	-	21.2	12.2	-4.6	-52.9
As % of GDP (MP)							
- Exports(fob)		-	-	9.8	13.0	12.4	11.2
- Imports(fob)		-	-	18.7	17.4	16.7	13.1
- Trade Deficit		-	-	8.9	4.4	4.0	1.9
- Current Account Deficit		-	-	3.9	4.5	1.5	1.6
COMMODITY SECTORS							
➔ **Agriculture**							
Total Cropped Area	Mln. Hectares	-	-	20.3	22.4	22.9	22.7
Wheat Production	Mln. Tonnes	-	-	12.5	17.0	20.8	21.1
Rice "	"	-	-	3.3	3.9	5.2	5.2
Sugarcane "	"	-	-	33.1	44.6	50.4	46.3
Cotton "	Mln. Bales	-	-	6.3	9.7	11.6	11.2
Fertilizer Offtake	Mln.N/Tonnes	-	-	1.4	2.3	3.3	2.8
Credit Disbursed	Bln. Rs	-	-	11.2	23.8	112.9	39.7
➔ **Manufacturing**							
Cotton Yarn	Mln. Kg.	5.6	3.4	10.0	1884.4	2236.2	1672.0
Cotton Cloth	Mln.Sq.Mtr.	3.1	-5.2	-1.1	487.8	763.3	435.0
Fertilizer	Mln. Tonnes	27.5	13.2	10.7	4.9	5.4	4.4
Sugar	"	34.3	2.2	14.4	3.6	3.4	2.4
Cement	"	10.7	2.5	8.6	11.2	16.4	9.3
Soda Ash	000 Tonnes	12.0	2.6	6.7	269.0	292.6	248.9
Caustic Soda	000 Tonnes	24.4	5.0	6.6	147.2	195.0	141.3
Cigarettes	Bln.Nos.	10.7	4.9	-0.4	55.4	60.0	47.0
Jute Goods	000 Tonnes	-	3.4	9.5	101.1	105.0	85.5
INFRASTRUCTURE							
➔ **Energy**							
Crude Oil Extraction	Mln. Barrels	-	2.8	10.9	26.1	23.3	20.4
Gas (supply)	Mcf	-	165.4	385.2	908.0	1186.8	818.3
Electricity (Installed Capacity)	000 MW	-	1.3	3.1	12.9	18.7	17.4
➔ **Transport & Communications**							
Roads	000 Km	70.5	74.1	123.8	279.3	255.3	248.3
Motor Vehicles on Roa	Mln.Nos.	-	0.4	1.4	4.6	6.4	4.0
Post Offices	000 Nos.	7.1	9.0	11.8	15.8	12.3	12.8
Telephones	Mln.Nos.	0.1	0.2	0.6	3.3	4.2	3.1
Mobile Phones	Mln.Nos.	-	-	-	-	33.6	-

- : Not available P : Provisional R : Revised F : Final

SOCIAL INDICATORS

2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
									R	P
9.1	2.3	19.1	13.8	16.2	13.8	4.5	18.0	-6.4	2.9	27.0
6.2	-7.5	20.1	20.1	37.8	31.4	8.0	31.6	-10.3	-1.7	13.2
-10.1	-76.8	51.0	172.1	260.3	89.8	15.0	56.1	-15.7	-8.6	-10.8
10.4	119.8	77.4	-8.6	7.7	10.4	19.4	17.4	21.1	14.0	23.8
-55.1	360.8	136.5	-58.5	-233.4	-222.2	-30.3	94.3	-33.2	-57.4	-121.6
12.4	12.6	13.1	12.7	13.2	13.0	11.9	11.6	11.8	11.1	9.7
14.2	13.0	13.6	13.9	17.1	19.4	18.5	24.4	19.6	17.6	13.6
1.8	0.4	0.5	1.2	4.0	6.5	6.6	9.0	7.8	6.5	3.9
0.7	+1.9	+3.8	+1.3	1.6	4.4	5.1	-8.7	5.7	2.2	+0.35
22.0	22.1	21.8	22.9	22.8	23.1	23.6	23.9	23.9	23.7	23.7
19.0	18.2	19.2	19.5	21.6	21.3	23.3	20.9	24.0	23.3	24.2
4.8	3.9	4.5	4.8	5.0	5.5	5.4	5.6	6.9	6.8	4.8
43.6	48.0	52.1	53.4	47.2	44.7	54.7	63.9	50.0	49.4	55.3
10.7	10.6	10.2	10.0	14.3	13.0	12.9	11.7	11.8	12.9	11.5
2.7	2.9	3.0	3.2	3.7	3.8	3.7	3.6	3.7	4.3	3.0
44.8	52.4	58.9	73.6	108.7	137.4	168.8	211.6	233.0	248.1	168.7
1721.0	1809.0	1925.0	1939.0	2290.0	2556.3	2727.6	2809.4	2913.0	2787.3	2200.4
490.0	568.0	582.0	683.0	925.0	903.8	1012.9	1016.4	1016.9	1009.4	764.5
3.8	3.8	5.3	5.6	5.9	6.1	6.5	6.2	6.4	6.7	5.0
2.9	3.2	3.7	4.0	3.0	2.9	3.5	4.7	3.2	3.1	3.8
9.7	8.9	10.8	12.8	16.4	18.5	22.8	26.7	28.4	31.2	20.8
218.0	215.2	280.3	286.3	297.3	318.7	330.6	365.0	365.3	409.6	282.8
145.0	150.3	164.4	187.5	206.7	219.3	242.2	248.3	245.3	182.3	128.7
58.6	55.1	49.4	55.3	61.0	64.1	66.0	67.4	75.6	65.3	47.5
89.4	81.7	95.5	103.9	104.8	104.5	118.1	129.0	137.4	106.2	66.7
21.0	23.2	23.5	22.6	24.1	23.9	24.6	25.6	24.0	24.0	18.1
857.4	923.8	992.6	1202.7	1344.9	1400.0	1413.6	1454.2	1460.7	1460.7	1109.9
17.5	17.7	17.8	19.2	19.4	19.4	19.4	19.4	19.8	19.8	20.7
250.0	251.7	252.2	256.0	258.2	259.0	259.2	258.3	260.2	260.2	259.4
4.5	5.1	5.3	5.7	6.0	7.1	8.1	8.8	9.4	9.8	10.4
12.2	12.3	12.3	12.1	12.3	12.4	12.3	12.3	12.3	12.0	12.0
3.3	3.7	4.0	4.5	5.1	5.1	4.8	4.5	3.5	3.4	3.2
0.7	1.7	2.4	5.0	12.8	34.5	63.2	88.0	94.3	99.2	104.1

(..Contd.)

ECONOMIC AND

INDICATOR		1960's	1970's	1980's	1990's	2000's	1999-00
		Average (Annual)					
HUMAN RESOURCES							
➔ **Population #**							
Population	Million	-	-	96.3	124.6	150.9	137.5
Labour Force	Million	-	-	11.6	35.1	45.5	40.4 E
Employed Labour Force	Million	-	-	11.2	33.1	42.4	37.2
Un-employed Labour Force	Million	-	-	0.4	2.0	3.6	3.2
Un-employment Rate	% per annum	-	-	1.4	5.7	6.8	6.0 E
Crude Birth Rate	Per 1000 Persons	-	-	-	-	27.4	32.7
Crude Death Rate	Per 1000 Persons	-	-	-	-	7.9	9.1
Infant Mortality Rate	Per 1000 Persons	-	-	-	-	79.6	85.0
SOCIAL DEVELOPMENT							
➔ **Education**							
Primary Schools	000 Nos.	-	-	88.8	143.5	155.2	162.1
Male	"	-	-	64.6	96.4	96.6	107.0
Female	"	-	-	24.2	47.1	58.6	55.0
Middle Schools	"	-	-	6.8	15.3	31.9	18.4
Male	"	-	-	4.6	8.8	16.7	10.9
Female	"	-	-	2.2	6.5	15.2	7.6
High Schools	"	-	-	5.4	10.6	18.6	12.6
Male	"	-	-	3.9	7.4	12.2	9.2
Female	"	-	-	1.5	3.2	6.3	3.4
Secondary/Vocational Institutions	Nos.	-	-	508.6	572.2	1623.8	612.0
Male		-	-	282.2	328.7	874.8	379.0
Female		-	-	235.2	243.5	749.0	233.0
Expenditure as % of GNP		-	-	0.8	2.3	2.1	2.1
Literacy Rate	Percent	-	-	29.5	40.7	52.6	47.1
Male		-	-	39.0	51.6	65.7	59.0
Female		-	-	18.7	28.6	41.4	35.4
➔ **Health #**							
Registered Doctors	(000 Nos.)	2.0	6.3	28.1	68.9	110.5	88.1
Registered Nurses	"	-	2.9	9.9	24.1	49.0	36.0
Registered Dentists	"	0.2	0.7	1.4	2.8	13.1	3.9
Hospitals	Numbers	380.0	521.0	651.0	823.0	912.6	879.0
Dispensaries	(000 Nos.)	1.7	2.8	3.5	4.3	4.6	4.6
Rural Health Centres	"	-	0.1	0.3	0.5	0.6	0.5
TB Centres	Numbers	-	90.0	122.0	245.0	283.3	264.0
Beds in Hospitals and Dispensaries	000 Nos.	25.5	38.4	55.6	83.8	99.1	92.2
Expenditure on Health as % of GNP		-	0.6	0.8	0.7	0.6	0.7

- : Not available   E : estimated   # : Calendar Year

P : Provisional   R : Revised   F : Final

SOCIAL INDICATORS

2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10 R	2010-11 P
140.4	143.2	146.8	149.7	152.5	155.4	158.2	161.0	163.8	173.5	177.1
40.3	40.6	43.0	44.1	45.9	46.8	50.5	50.8	52.2	53.7	54.9
37.2	39.5	39.4	40.5	42.4	43.2	47.3	48.1	49.5	50.8	51.9
3.2	3.6	6.6	3.5	3.6	3.6	3.1	2.7	2.7	2.9	3.1
6.0	7.8	7.8	8.3	7.7	7.6	6.2	5.2	5.2	5.5	5.6
-	28.7	27.3	27.3	28.0	26.1	26.1	26.1	24.3 *	28.0	27.5
-	8.2	8.0	8.0	8.1	8.2	7.1	7.1	7.3 *	7.4	7.3
-	85.0	83.0	83.0	82.0	77.0	76.7	76.7	68.2 *	72.0	70.5
147.7	149.1	150.8	155.0	157.2	157.5	158.4	157.4	156.7	157.4 P	157.0 E
93.4	93.8	94.7	97.3	98.5	97.7	97.8	92.5	93.3	89.2 P	86.7 E
54.3	55.3	56.1	57.6	58.7	59.8	60.9	64.9	63.4	68.2 P	71.0 E
25.5	26.8	28.0	28.7	30.4	39.4	40.1	40.8	40.9	41.3 P	41.8 E
13.4	14.0	14.5	14.9	15.6	20.1	22.6	20.2	20.5	21.3 P	20.9 E
12.0	12.8	13.5	13.9	14.8	19.3	17.5	20.6	20.4	20.0 P	20.9 E
14.8	15.1	15.6	16.1	16.6	22.9	23.6	24.0	24.3	24.8 P	25.2 E
10.2	10.4	10.8	11.0	11.3	14.8	14.6	15.0	15.1	14.0 P	13.7 E
4.6	4.6	4.8	5.1	5.3	8.1	9.0	9.0	9.2	10.8 P	11.5 E
630.0	607.0	585.0	624.0	747.0	3059.0	3090.0	3125.0	3159.0	3194.0 P	3230.0 E
394.0	368.0	355.0	396.0	419.0	1584.0	1599.0	1618.0	1636.0	1654.0 P	1673.0 E
236.0	239.0	230.0	228.0	328.0	1475.0	1491.0	1507.0	1523.0	1540.0 P	1557.0 E
1.6	1.9	1.7	2.1	2.1	2.2	2.4	2.4	2.1	2.0	1.8
49.0	50.5	51.6	53.0	53.0	54.0	55.0	56.0	57.0	57.7	-
-		-	-	65.0	65.0	67.0	69.0	69.0	69.5	-
-		-	-	40.0	42.0	42.0	44.0	45.0	45.2	-
93.0	97.2	102.6	108.1	113.2	118.0	123.1	128.0	133.9	139.5	144.9
37.6	40.0	44.5	46.3	48.4	51.2	57.7	62.6	65.4	69.3	73.2
4.2	4.6	5.0	5.5	6.1	6.7	7.4	78.2	9.0	9.8	10.5
876.0	907.0	906.0	906.0	916.0	919.0	924.0	945.0	948.0	968.0	972.0
4.6	4.6	4.6	4.6	4.6	4.6	4.7	4.7	4.8	4.8	4.8
0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
274.0	272.0	285.0	289.0	289.0	289.0	288.0	290.0	293.0	293.0	30.4
93.9	97.9	98.3	98.7	99.9	101.5	102.1	103.2	103.0	103.7	104.1
0.7	0.7	0.7	0.6	0.6	0.5	0.6	0.6	0.5	0.5	0.2

HIGHLIGHTS

Pakistan
Economic Survey
2010-11

Economic Adviser's Wing, Finance Division, Government of Pakistan, Islamabad.

CONTENTS

HIGHLIGHTS

01. GROWTH AND INVESTMENT

- The ***Real GDP*** is estimated to grow at 2.4 percent on the back of strong performance of services sector as against actual growth of 3.8 percent last year and target of 4.5 percent.
- The growth in the ***agriculture*** is estimated at 1.2 percent on the back of 3.7 percent growth in the ***livestock sector***.
- ***Major Crops*** accounting for 31.1 percent of agricultural value added registered negative growth of 4.0 percent compared to a negative growth of 2.4 percent last year and a target of 3.7 percent.
- ***Minor crops*** registered a growth rate of 4.8 percent compared to the target of 3.0 percent and massive negative growth of 7.8 percent last year.
- Output in the ***manufacturing sector*** has witnessed expansion of 3 percent in 2010-11 as compared to expansion of 5.5 percent last year on the back of strong performance from small and medium manufacturing sector
- ***Large-scale manufacturing*** grew by 0.98 percent (July-February 2010-11 incorporated in the national accounts but the growth is now 1.7 percent in July-March 2010-11) as against 4.9 percent of last year.
- The ***services sector*** grew by 4.1 percent against the target of 4.7 percent and actual outcome of 2.9 percent. Within services sector ***Wholesale and retail trade sector*** grew at 3.9 percent as compared to 4.6 percent last year and the target for the year of 5.1 percent. ***Finance and insurance sector*** recorded negative growth of 6.3 percent in 2010-11 as against contraction of 11.3 percent last year. ***Public administration and defense*** posted a stellar growth of 13.2 percent as compared to 2.5 percent in last year. ***Social Services Sector*** grew by 7.1 percent which is slightly higher than the target of 5.0 percent but lower than last year's actual growth of 7.8 percent.
- Pakistan's ***per capita real income*** has risen by 0.7 percent in 2010-11 as against 2.9 percent last year.
- ***Per capita income in dollar term*** rose from $ 1073 last year to $ 1254 in 2010-11, thereby showing tremendous increase of 16.9 percent. This is mainly because of stable exchange rate as well as higher growth in nominal GNP.
- ***Real private consumption*** rose by 7.0 percent as against 4.0 percent attained last year. However, gross fixed capital formation lost its strong growth momentum and ***real fixed investment growth*** contracted by 0.4 percent as against the contraction of 6.1 percent in last fiscal year.
- The ***total investment*** has declined from 22.5 percent of GDP in 2006-07 to 13.4 percent of GDP in 2010-11.
- **Fixed investment** has decreased to 11.8 percent of GDP from 13.4 percent last year.
- The ***national savings*** rate has decreased to 13.8 percent of GDP in 2010-11 as against 15.4 percent of GDP last year.
- ***Domestic savings*** has also declined substantially from 16.3 percent of GDP in 2005-06 to 9.5 percent of GDP in 2010-11.

02. AGRICULTURE

- The agriculture growth this year is estimated at 1.2 percent as compared with 0.6 percent during 2009-10.
- Cotton production has decreased from 12,913 thousand bales in 2009-10 to 11,460 thousand bales in 2010-11, showing a decrease of 11.3 percent.

- Wheat production has increased from 23,311 thousand tons in 2009-10 to 24,214 thousand tons in 2010-11, showing an increase of 3.9 percent.
- Rice production has decreased from 6,883 thousand tons in 2009-10 to 4,823 thousand tons in 2010-11, showing a decrease of 29.9 percent.
- Sugarcane production has increased by 12 percent to 55.3 million tons in 2010-11 from 49.4 million tons last year.
- Gram production has increased from 562 thousand tons in 2009-10 to 523 thousand tons in 2010-11, showing a decrease of 6.9 percent.
- Maize production has increased from 3,262 thousand tons in 2009-10 to 3,341 thousand tons in 2010-11, showing an increase of 2.4 percent.
- In minor crops, the production of potato, onion and mash increased by 18.6 percent, 11.2 percent and 1.0 percent, respectively. However, the production of mung, chillies and mash decreased by 35.5 percent, 8.6 percent and 2.7 percent respectively.
- Agriculture credit disbursement of Rs. 168.7 billion during July-March 2010-11 is higher by 1.4 percent, as compared to Rs. 166.3 billion over the same period last year.
- The domestic production of fertilizers during the first nine months (July-March 2010-11) of the current fiscal year was higher by 2.7 percent as compared with corresponding period last year. On the other hand, the import of fertilizer decreased by 50.4 percent, the off-take of fertilizer also decreased by 11.3 percent during the same period last year.

03. MANUFACTURING & MINING

- During the First nine months of the current Fiscal Year 2010-11, production of Large Scale Manufacturing (LSM) increased by 1.71 percent which was mainly caused by the improvement in sub groups of leather (30 percent), automobile (14.6 percent), Food, Beverages & tobacco (9.3 percent) and paper & board (2.9 percent).
- The items which show an increase in their production during this period were TV sets (28.6 percent), sugar (26.5 percent), LCVs (23.3 percent) and cooking oil (9.7 percent).
- During the current fiscal year (2010-11), cement production decreased to 20.8 million ton as against 23.1 million tons last year showing a decrease of 9.6 %, whereas sugar production increased by 3.8 million ton showing an increase of 26.5 percent.
- Exports earning of the Textile products in 2010-11 (July-March) showing an increase of 29.9 percent.
- During 2010-11 (July-March) in automotive industry cars, LCVs/Jeeps and two/three wheelers registered a positive growth of 16.4 percent, 20.5 percent and 12.6 percent, respectively.
- The mining and quarrying sector is estimated to grow by 0.4 percent in 2010-11 as against 2.2 percent last year. Natural gas, crude oil and dolomite posted positive growth rate of 1.9 percent, 1.1 percent and 5.9 percent, respectively.

04. FISCAL DEVELOPMENT

- Tax collection by the FBR was targeted at Rs 1667 billion for fiscal year 2010-11. However, the target was downward revised to Rs 1,588 billion, as a result of devastation caused by floods during July and August 2011.
- The catastrophic floods reduced growth and posed a further challenge to public finances by depressing budget revenues and additional spending to meet the humanitarian and reconstruction needs, thereby upward adjustment in the fiscal deficit target from 4 percent of GDP at the time of budget announcement to 5.3 percent of GDP have made.

- The government is focused on prudent expenditure management and better resource mobilization to create fiscal space for providing support to growth. Major reforms like harmonization of tax administration have taken place and strengthening of Risk Based Audit is under process.
- Through a combination of Presidential Ordinance and withdrawal of SRO base exemptions, amendments have been made in the Sales Tax Act 1990, Income Tax Ordinance 2001 and Federal Excise Act 2005. The additional revenues of Rs 53 billion are estimated during the last quarter of 2010-11. The following tax measures have been taken through these amendments:-

  i. Withdrawal of sales tax exemption on agriculture inputs like tractors, pesticides, and fertilizer both at domestic and import stages. Now these are subjected to 17 percent GST

  ii. A one time surcharge of 15 percent has been imposed on withholding and advance taxes payable during financial year 2011; and

  iii. Special excise duty rate has been increased from 1 percent to 2.5 percent on non-essential items for the remaining period of tax year 2010-11.

- The administrative measures and vigilance will be helpful in generating another Rs 24 billion. These steps will also be helpful in achieving the revised collection target of Rs 1588 billion.
- Revenue collections of FBR stood at Rs 1,156 billion during July-April 2010-11, thereby reflecting 12.6 percent growth over Rs 1,026.5 billion collected during the corresponding period last year. Among the four federal taxes, the highest growth 15.6 % has been recorded in *sales tax* receipts, followed by *customs* (12.6 %), direct tax (10.7 %) and *federal excise* (7.0%).
- For July-April, 2011, direct taxes have been a major source of FBR tax revenue collection, contributing 37.1 percent of total receipts. Net collection was estimated at Rs. 430 billion.
- Indirect taxes including (Sales Tax, Federal Excise Duty and Custom Duty) grew by 13.8 percent during July-April, 2011 and accounted for 62.8 percent of the total FBR tax revenue. Net collection was estimated at Rs.726.0 billion.
- Total expenditure of Rs. 3,257 billion was estimated for the full year, comprising of Rs. 2,641 billion of current expenditure (81.1% of total), and Rs. 617 billion of development expenditure (18.9% of total).

05. MONEY AND CREDIT

- SBP has raised the discount rate to 14 percent on 30th November 2010, and decided to keep the rate unchanged at 14 percent.
- Net expansion in M_2 increased by 9.62 percent during July-April, 2011 as compared to 8.1 percent during the same period last year
- Net Domestic Assets (NDA) during July-April 2011 reached at Rs 402.5 billion against Rs 446.1 billion during the same period last year. The expansion in NDA mainly attributed by a rise in demand for private sector credit and government borrowings.
- On the other hand the NFA of the banking system during the period under review stood at Rs 153.2 billion after registering a significant decline of Rs 31.3 billion during the same period of last year.
- During July-April, 2011 Credit to private sector enterprises (PSEs) registered a sharp decline from Rs72.5 billion in 2009-10 to Rs 26.7 billion owing to the retirements by an oil refinery and a state owned oil marketing company .
- The government borrowing from the banking system for budgetary support and commodity operations stood at Rs 342.2 billion during July-April, 2011. Government has borrowed Rs 196.3 billion from the State Bank of Pakistan (SBP) , while Rs 275.9 billion has been borrowed from the scheduled banks. In the month of May 2011, the government has further reduced its borrowing stock from the SBP to attain the target of net zero borrowing from the SBP.

- During July-April 2010-11 the retirement of loans under commodity financing picked up sharply and reached at Rs 134.2 billion on account of retirement of advances for wheat by provincial departments and Pakistan Storage and Supply Corporation (PAASCO) and other provincial procurement agencies as compared to Rs 35.6 billion during the same period last year.
- The credit availed by the private sector during July-April, 2011 was Rs 156.7 billion is compared to Rs 144.2 billion in the corresponding period last year.
- A strong growth has been witnessed since January 2010 which was due to an increase in seasonal demand for working capital. More than half of private sector credit went to the textile sector showing higher input prices, especially cotton. Sector wise breakup of private sector credit also shows that sugar and textile industries were the major drivers to this increase, which respectively availed credit of Rs 105.6 billion and Rs 62 billion during Jul-March 2011.
- Liquidity conditions in the money market remained fairly comfortable during July-March 2010-11 underpinned by the reduced government borrowings from the SBP and growth in bank deposits. SBP drained this excess liquidity not only through auctions, but also mopped up a significant amount through open market operations (OMOs).

06. CAPITAL MARKETS

- The KSE-100 index recorded a bullish trend during first half of the current fiscal year (CFY) as the market was trading around 12,000 at the end of December 2010. The KSE- 100 index however, remained steady during the third quarter of 2010-11 and after touching at 12,682 on January 17, 2011 and at the end of March 2011 it traded at 11,810 points.
- The main reason of better performance in 3rd quarter of 2010-11, in the stock market and gearing up the momentum in the KSE-100 is considerable foreign investment in the capital market
- Lahore stock exchange index-25 increased to 3,343 points on March 2011 and its market capitalization is Rs. 2921.5 billion.
- Islamabad stock exchange index-10 inched up from end-June 2010 level of 2,445 points to 2605 points on end-March 2011 with market capitalization of Rs. 2,531.5 billion.
- Net inflow of foreign investment in Pakistan from July –March 2010-11 was US$ 301.5 million which as compared to US$431.9 million in the last corresponding period, it is important to mention that noteworthy contribution was made during the first two quarter of 2010-11.
- Corporate profitability has increased in 2011 but profitability concentrated in few large companies. The sectors of Oil and Gas companies, Fertilizers and Chemical sector and Banks exhibit considerable profits.
- Seven auctions of Pakistan Investment Bonds (PIBs) were carried out in July-March2010-11 and government collected Rs.83.4 billion. Three and ten years maturities contributed a large proportion by resulting in an amount of Rs.76.2 billion.
- Three 3-years *Ijara Sukuk* were issued from July-March2010-11. Rs.136.6 billion was raised against the total target of Rs. 125 billion.
- During the fiscal year July-March 2010-11, net deposits with National Saving Schemes (NSS) increased to Rs 1,822.4 billions. *Behbood* Savings Certificates, Regular Income Certificates and Special Saving Certificates were the precursor products. Profit Rates for some National Saving Sachems were revised.
- The Securities and Exchange Commission of Pakistan (SECP) formulated a comprehensive policy for dealing with companies in default of securities market laws to protect the investor, enhance transparency and improve member listing.

07. INFLATION

- The inflation rate as measured by the changes in Consumer Price Index (CPI) stood at 14.1 percent during (July-April) of the current fiscal year 2010-11, as against 11.5 percent in the comparable period of last year.
- The food inflation is estimated at 18.4 percent and non-food 10.4 percent, against 12.0 percent and 11.0 percent in the corresponding period of last year.
- The core inflation which represents non-food and non-energy prices also decreased from 11.0 percent to 9.6 percent.
- The Wholesale Price Index (WPI) during July-April, 2010-11 have increased by 23.3 percent, as against 11.3 percent of last year.
- The Sensitive Price Indicator (SPI) has recorded an increase of 18.2 percent during July-April, 2010-11, as against 12.4 percent of last year.
- The increase in inflation rate during the current year 2010-11 is attributable to the increase in food price inflation which has been mainly due to increase in prices of sugar, milk, poultry, meat, fresh vegetables and fruits owing to shortfall in production of these items and significant increase in world food stuff prices.

08. TRADE AND PAYMENTS

- **Overall exports** recorded a positive growth of 27.8 percent during the first ten months (July-April) of the current fiscal year against an increase of 8.0 percent in the same period of last year. In absolute terms, exports have increased from $15,773.2 million to $20,154.2 million in the period.
- **Imports** during the first ten months (July-April) of the current fiscal year (2010-11) increased by 14.7 percent compared with the same period of last year, reaching to $32.3 billion. The overall import bill is higher by $4.1 billion, reflecting the impact of higher global crude oil & Commodity Prices.
- The higher import bill during July-April 2010-11 is contributed by food group ($1,528 billion), petroleum group ($678.3 million) consumer durables ($247 billion), raw material group ($ 1039 million), telecom ($245 million) and other item group ($ 951 million).
- ***Trade Balance*** The merchandise trade deficit improved by $240 million and declined from $12.3 billion in July-April 2009-10 to $ 12.1 billion in July-April 2010-11. The substantial increase of 14.7 percent in imports is more than neutralized by 27.8 percent growth in exports which caused the trade deficit to improve.
- **Worker's Remittances** totaled $ 9.1 billion in July-April 2010-11 as against $ 7.3 billion in the comparable period of last year, depicting an increase of 23.8 percent.
- ***Current Account Balance*** improved significantly during the last two years or so. Current account recorded a broad-based surplus of $ 748 million in July-April 2010-11 as against deficit of $3456 million in the comparable period of last year. The improvement came from all components of current account balance like trade balance of goods and services, and current transfers.
- **Services account deficit** shrank by 28.2 percent during July-April 2010-11 to reach $ 1.4 billion as compared to $1.9 billion during the same period last year.
- **Financial account** surplus deteriorated and reached to $ 412 million as compared to $ 3533 million in corresponding period last year.
- ***Exchange rate*** remained more or less stable as rupee depreciated by just 2.2 percent in July-April 2010-11, however, Real Effective Exchange Rate (REER) appreciated by 0.8 percent in the period.
- ***Foreign direct investment (private)*** stood at $1232 million during the first ten months (July-April) of the current fiscal year as against $1725 million in the same period last year thereby showing a decline of 29 percent.

- ***Foreign Exchange Reserves*** amounted to $ 17.1 billion by the end of April, 2011. Of which, reserves held by State Bank of Pakistan stood at $ 13.7 billion and by banks stood at $ 3.4 billion.

09. EXTERNAL AND DOMESTIC DEBT

- During the first nine months of the current fiscal year 2010-11, Pakistan's total external debt increased from $55.9 billion at end-June 2010 to $ 59.5 billion by end-March 2011 — an increase of US $ 3.6 billion or 6.4 percent which is lowest growth in EDL in the last five years.
- In relative terms, EDL as percentage of GDP decreased from 31.6 percent at end-June 2010 to 28.2 percent by end-March 2011— a decrease of 3.4 percentage points.
- The country's debt burden defined as external debt and liabilities as percentage of foreign exchange earnings decreased from 146.6 percent by end-June 2010 to 127.2 percent by end-March 2011.
- Public Debt increased by Rs 1162 billion in the first nine months of 2010-11, reaching a total outstanding amount of Rs. 1,002,0 billion; an increase of 13.1 percent in nominal terms.
- The primary source of increase in public debt during July-March, 2011 has been a sharp rise in local currency component that accounted for 69.7 percent of the total increase in total public debt.
- The external debt component grew by Rs 275 billion or 6.4 percent partially due to increased foreign public debt inflows and partly because of cross-currency translation effect.
- Public debt as percent of GDP has decreased to 55.5 percent by end-March 2011 after hovering around to 60 percent of GDP for three years.
- Domestic Debt stood at Rs 5462.2 billion at end-March 2011 which implies net addition of Rs.803.9 billion in the nine months of the current fiscal year.
- In relation to GDP the domestic debt stood at 30.2 percent of GDP which is lower than end-June 2010 level at 31.4 percent.
- The domestic debt grew by 17.3 percent which is lower than last years' growth of 20.7 percent. The focus on deficit financing through internal sources owing to non-availability of external receipts has been the major cause.
- The composition of major components shaping the domestic debt portfolio has undergone a complete transformation from a high dominance of unfunded debt to an increasing dependence on floating component of domestic debt.
- Since 2006-07, domestic debt witnessed a sharp rise with consequent build-up in the interest payments. Interest payments as percent of GDP has peaked to 4.4 percent of GDP in 2008-09 but since then declined persistently to 2.5 percent of GDP in 2010-11. This also incorporates impact of higher nominal GDP growth.
- Higher fiscal deficit and enormous slippages in the revenue and expenditure targets remained key problems.

10. EDUCATION

- The ***overall literacy rate*** (10 years & above) which was 57.4 percent in 2008-09 has increased to 57.7 percent in 2009-10, indicating 0.5 percent increase over the same period last year.
- Male literacy rate (10 years & above) remained 69.3 percent in 2008-09 and 69.5 percent in 2009-10 while it increased from 44.7 to 45.2 percent for females during the same period. Literacy remained higher in urban areas (73.2 percent) than in rural areas (49.2 percent) during 2009-10.
- Province wise literacy data of PLFS (2009-10) shows Punjab stood at 59.6 percent, Sindh (58.2 percent), Khyber Pakhtunkhwa (50.9 percent) and Balochistan (51.5 percent).

- According to the Ministry of Education, there are currently 228,376 institutions in the country. The overall enrolment is recorded at 38.22 million with teaching staff of 1.41 million as compared to 1.40 million last year showing an increase of 0.7 percent.

11. HEALTH AND NUTRITION

- At present, there are 972 hospitals, 4842 dispensaries, 5344 basic health units and 909 maternity and child health centres in Pakistan.
- With availability of 144,901 doctors, 10,508 dentists, 73,244 nurses and 104,137 hospital beds in the country by 2010-11, the population and health facilities ratio works out at 1222 persons per doctors, 16,854 persons per dentist and 1701 persons per hospital bed which compares well with the other developing countries.
- During 2010-11, 35 basic health units and 13 rural health centres have been constructed. While 40 rural health centres and 850 basic health units have been upgraded.
- Some 4500 doctors, 400 dentists, 3200 nurses and 5000 paramedics have completed their academic courses and 4300 new beds have been added in the hospitals.
- Some 96,000 Lady Health Workers (LHWs) have been trained and deployed mostly in the rural areas. Moreover, some 8 million children have been immunized and 24 million packets of ORS distributed.
- Various health programmes with a special focus on major public health problems have been carried out. These include cancer treatment, AIDS prevention and Malaria Control Programme.
- The total outlay of health is budgeted at Rs.42.0 billion (Rs.18.7 billion development and Rs. 23.3 billion current expenditure) which is equivalent to 0.23 percent of GDP which is 79 billion as compared in 2009-10.

12. POPULATION, LABOUR FORCE AND EMPLOYMENT

- According to the latest estimates population of Pakistan stood at 177.10 in 2011 and is sixth most populous country of the world. If the existing trend remained unchanged, it will reach 191.7 million by the year 2015 and 242.1 million by 2030 (Estimates and projection by Sub-Group II for the 10th five year People's Plan 2010-15).
- Growth Rate is 2.05 percent and total Fertility Rate (TFR) is 3.5 per woman.
- Life expectancy in Pakistan is 64.18 for male and 67.9 for female.
- Pakistan has the total labour force of 54.92 million and is the 9th largest country in the world with respect of the size of its labor force in 2010.
- About 3.05 million labour force is estimated as unemployed in 2009-10, with an unemployment rate of 5.6%.
- Agriculture dominates the distribution of employed persons among all the major sectors leading at 45.0 during 2009-10; wholesale and retail trade has the share of 16.3 percent and manufacturing with 13.2 percent.
- To cope with the evolving demographic challenge the National Population Policy 2010 seeks to attain replacement level fertility i.e. 2.1 births per woman by 2030.

13. POVERTY

- The floods of 2010 have caused a significant loss to poverty reduction efforts. The areas affected by floods were consistently lagging behind in terms of socio-economic and educational indicators as compared to the areas unaffected by floods. The loss to infrastructure and livelihood sources will push them behind further.

- ADB's recently issued study on "Global Food Price Inflation and Developing Asia", maintains that a 10 percent rise in domestic food prices in Pakistan for one year could push an additional 3.47 million people below the $1.25-a-day poverty line or worsen poverty situation by 2.2 percentage points.
- Food inflation in Pakistan has averaged 18 percent for the last four years which implies significant deterioration of purchasing power of the poor. The precise impact of this build-up in prices could not be determined until availability of results of the Household Income Expenditure Survey (HIES) component of PSLM Survey 2010-11 the work on which has already started.
- An analysis of 3 year moving average of changes in per capita income and commensurate impact on reduction in poverty headcounts suggests that large reductions in poverty headcount are associated with substantial growth in per capita GDP during 2002-2006.
- The Government has prioritized the 17 pro-poor sectors for budgetary intervention through the Medium Term Expenditure Framework (MTEF) from 2008-09 to 2010-11 in the PRSP-II. An amount of Rs.482.6 has been spent on these areas during July-December 2010 which is 15.8 percent higher than in the comparable period of last year.
- The social safety nets are major initiatives to reinforce the government's efforts to reduce the adverse effects of poverty on the poor. The social safety nets program include **Benazir Income Support Programme (BISP)** envisages cash grants of Rs 1,000 every month to the females of each qualifying household having a monthly income of less than Rs 6,000 through banks/post offices with the aim to ameliorate the conditions of the poorest of the poor by directly accessing them and supplementing their sources of income.
- To enhance self-employment, some registered beneficiaries of BISP under the current targeting mechanism are selected through a monthly draw under *Waseela-e- Haq* and each of them are provided with an interest-free loan worth Rs. 0.3 million, repayable in installments over a period of 15 years.
- The government is also working on various microfinance initiatives in collaboration with the SBP and multilateral institutions to generate employment and combat poverty.

14. TRANSPORT AND COMMUNICATION

- In 2010-11, Pakistan has a road network covering 259,463 kilometers including 180,866 KM of high type roads and 78,597 KM of low type roads.
- Since March 2008, NHA has launched/awarder 36 development projects covering a length of above 1000 Km inclusive of a number of bridges, flyovers and interchanges.
- During the year 2010-11 (July-March), in railway, there has been fall in growth rate of passenger traffic by 17.6 percent but freight traffic grows at the rate of 17.7 percent.
- During the calendar year 2010, PIA earned the revenue of around Rs. 107 billion as compared to last year of Rs. 94.6 billion.
- Karachi Port Trust handled a total of 20.2 million tones of cargo during 2010-11 (July-Dec).
- Port Qasim Authority handled 13.1 million tones cargo during the current financial year 2010-11 (July-Dec).
- First ever largest ship in Pakistan having 63,000 M ton of wheat was berthed at Gwadar Port in March 2008. Since then upto January 2011, 120 ships have been handled at Gwardar
- Total Cellular subscribers at the end of December 2010 crossed the 102.8 million mark, with over 97 percent prepaid subscription in the mobile market and the post paid subscription in Pakistan is only 3 percent.

15. ENERGY

Crude Oil

- Production of crude oil per day has increased to 65,996.50 barrels during July-March 2010-11 from 65,245.69 barrels per day during the same period last year, showing an increase of 1.15 percent.
- The transport sector consumed 47.82 percent of petroleum products, followed by power sector (42.84 percent), industry (6.66 percent), other government (1.93 percent), household (0.49 percent) and agriculture (0.26 percent) during July-March 2010-11

Natural Gas

- The average production of natural gas per day stood at 4050.84 million cubic feet during July-March 2010-11, as compared to 4,048.76 million cubic feet over the same period last year showing an increase of 0.05 percent.
- The power sector consumed 23.81 percent of gas followed by industrial (20.15 percent), household (16.75 percent), fertilizer (15.04 percent), commercial (2.45 percent) and cement sector (0.05 percent) during July-March 2010-11

Electricity

- The total installed capacity of PEPCO system is 20,681 MW as of March 2011, compared to 20,190MW in first nine months of the last fiscal year.
- Total installed capacity of WAPDA stood at 11,439 MW during July-March 2010-11 of which hydel accounts 57.30 percent or 6,555 MW, thermal accounts for 42.70 percent or 4,884 MW.
- During the first nine month of current fiscal year 66,928 GWh of electricity has been generated by WAPDA as against 64,935 GWh in the same period last year showing an increase of 3.07 percent.
- The number of villages electrified increased to 160,110 by March 2011 from 147,038 recorded in March 2010.

CNG

- Presently there are 3329 CNG stations operating throughout the country. By March 2011 about 2.5 millions have been converted to CNG

Coal

- Supply of coal during July-March 2010-11 has been recorded at 5.85 million tonnes compared to 5.304 million tonnes in the first nine months of last fiscal year.
- Brick kilns and cement industry consumed 56.6 percent and 42.7 percent respectively of the supplied coal.
- The government is developing Thar Coalfield in order to increase the share of coal in energy mix and to reduce dependency on expensive imported fuel.

16. ENVIRONMENT

- Pakistan recognizes the importance of environmental concerns as a cross cutting theme in its sustainable development strategy. Hence its protection, renewal and enrichment is recognized as an obligation towards the betterment of its citizens. The environmental concerns of Pakistan are associated primarily with the adverse impact of un-sustainable social and economic development. High population growth rate, lack of public awareness of environmental related education, mismanagement of natural resources, widely unplanned urban and industrial expansions are the core hard issues. These are further compounded with the rapid urbanization.

- A nation with a population of 177 million with an average population density of 222 persons per sq km, higher than many other developing countries, whose 37% people live in urban areas and 63% in rural has a high rate of migration to urban centers which has made the cities dysfunctional, overcrowded and very congested. Rapid urbanization is putting the available insufficient infrastructure under enormous pressure and causing environmental debacles of great magnitude. Serious risks of irreversible damages are present due to air and water pollution, mismanagement of solid waste and destruction of fragile ecosystems.
- With an estimated 37 percent of its population living in cities, Pakistan is the highly urbanized country in South Asia. Its cities continue to grow, offering employment opportunities, but rapid urbanization has been accompanied by environmental problems such as pollution, waste management, congestion and the destruction of fragile ecosystems. Urban air pollution remains one of the most significant environmental problems, facing the cities.
- Motorcycles and rickshaws, due to their two stroke (2 strokes) engines, are the most inefficient in burning fuel and contribute most to emissions. 2-stroke vehicles are responsible for emission of very fine inhalable particles that settled in lungs and cause respiratory diseases. The 2-stroke vehicles industry is performing fast in Pakistan and has increased by 142.6 percent in 2010-11 when compared with the year 2000-01. Rickshaws have grown by more than 24 percent while motorcycles and scooters have more than doubled since 2000-01.
- CNG is promoted as an alternate motor fuel for Pakistan's market to reduce pressure on petroleum imports and to curb air pollution. Presently, 3329 CNG stations are operating in the country and 2.50 million vehicles are using CNG as fuel. Use of CNG as fuel in transport sector has observed a quantum leap, replacing traditional fuels.
- National Environment Quality Standard (NEQS) for Motor Vehicle Exhaust & Noise (Amended), 2010 have been approved to control the vehicular emissions. It has been decided that: (i) all petrol driven vehicles imported or manufactured locally will comply with Euro-II emission standards with effect from July 2009. Existing models if not complying with Euro-II emission standards will have to switch over to Euro-II models by no later than three years, If not immediately: (ii) all diesel driven vehicles imported or manufactured locally will comply with Euro-II emission standards with effect from July, 2012. The Ministry of Petroleum and Natural Resources will ensure availability of Euro-II diesel (with sulphur contents 0.05 percent) with effect from January, 2012.
- Supply of drinking water and provision of sanitation are the most important contributing factors for improving the health of the people in any country. Inadequate water supply results in high incidence of water related diseases which in turn increase morbidity and mortality rates and pose major threat to the survival and development of children. The National Standards for Drinking Water Quality (NSDWQ) have been approved on 29th March, 2010 in order to improve the water quality and to provide the public with the safe drinking water.
- Pakistan is committed to achieve the MDG target of halving by 2015 the proportion of people without sustainable access to safe and improved sanitation. Strategic direction, capacity development, and monitoring and evaluation, as well as investments, are primarily the responsibility of the provincial governments through the provincial line departments.
- Climate change is one of the most complex challenges of the new century; Pakistan like other developing countries remained extremely vulnerable to the impacts of climate change. The most serious concerns are the threat to water and food security of the country and the vulnerability of its costal areas. Other climate change related concerns include increased risks and extreme events (floods, droughts and cyclones) and adverse impact of forests, biodiversity human health etc.
- Implementation of the climate change programme under Tenth Five Years Plan will be carried out through coordinated efforts of the relevant ministries to secure ample resources and their effective utilization The following areas will be targeted through mitigation and adaptation measures as well as studies to enhance our understanding for Pakistan specific needs.

   i. Data information on Climatology

ii. Reducing climate change induced risks and vulnerabilities from Glacier Lake Outburst Floods (GLOF) in Gilgit Baltistan Area of Pakistan.

iii. Enhancement of capacities to harness opportunities under Clean Development Mechanism and Adaptation Fund.