Overview of the Economy

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Pakistan succeeded in attaining 4.14 percent growth in the outgoing fiscal year which is the highest level achievement since 2008-09. The economy has taken a turnaround on account of following serious economic agenda and striving sincerely to implement it. Early positive results, particularly stabilizing foreign exchange reserves, appreciation of exchange rate, stability in prices despite heavy adjustments, remarkable industrial growth on account of improved energy supply, exceptional increases in remittances, historical heights of Karachi Stock Exchange, shift in market based (T-Bills and PIB), public debt toward medium to long term, successful launching of Euro Bond and auction of 3G/4G licenses reinforced this view. The international financial institutions are also acknowledging and appreciating the positive improvements in national economy.

A comprehensive agenda of reforms is highly focused on inclusive growth and to reinvigorate the economy, spur growth, maintain price stability, provide jobs to the youth and rebuild the key infrastructure of the economy through removal of bottlenecks like, energy shortages, privatization of bleeding PSEs, circular debt along with creating conducive investment climate to boost exports and tax revenues, and bridge fiscal and current account deficits. Government has shown commitment to develop vibrant and competitive market in order to accelerate and sustain economic growth through productivity, competitiveness, innovation and entrepreneurship.

Global Developments: The outgoing year witnessed global recovery, and the global outlook indicates some optimism in economic activities. The world economy after witnessing a moderate growth of 2.1 percent in 2013 experiencing 3.0 percent growth in 2014 and outlook is even stable with 3.3 percent growth. This is driven by stronger growth in advanced economies, especially in the United States and also recovery in some emerging economies. The economy of the United States registered moderate growth in the first quarter of 2013, after stagnation in 2012. In the outlook, GDP projected to grow by 2.6 percent in 2014. After experiencing 1.3 percent in 2013, Japan's GDP is projected to grow by 1.6 percent in 2014. Growth is projected to accelerate for most advanced economies of the world. China is recognized the second largest economy in the world; many commodity-based economies have risen in recent years with China's growth.

China and Pakistan entered into a comprehensive plan to create a new "economic corridor" between the two nations. The list of projects to be completed in Pakistan is under consideration and joint working groups have been formed. The corridor will serve as a driver for connectivity between South Asia and East Asia. These new trade linkages are expected to increase and Pakistan will benefit from key export markets, and undoubtedly the Pakistan economy has a bright future.

Europe's economic recovery, which began in the second quarter of 2013, is expected to continue spreading across countries and gaining strength while at the same time becoming more balanced across growth drivers. The Middle East has benefited from some of the world's strongest growth rates since the financial crisis hit in 2008. A further boost has been provided by significant investment in economic diversification. Qatar's economy performed strongly with double-digit growth in most years adding up to a 66.7 percent expansion between 2008 and 2013, and the Saudi Arabia's economy grew by 29.6 percent. A boost to living standards is also expected in Gulf Cooperation Council (GCC) economies, as investment in downstream industries and diversification begins to bear fruit.

In South Asia, performance of Pakistan is improving quantitatively and qualitatively as the growth is broad based and touched almost all sectors of the economy and the growth recorded for 2013-14 is the highest level of achievement since 2008-09, which will increase further in coming years as business climate is improving on fast track, which is reported and appreciated by the various national and international organizations.

With regard to world commodity prices, agriculture prices are projected to decrease by 2.5 percent in 2014 under assumptions that the existing crop condition will continue for the rest of the year. In agriculture commodity markets, the key risk is weather. According to global crop outlook assessment released by USDA, production and stock are expected to increase by 12 and 20.5 percent, respectively. Wheat will improve, price risk for rice is on the downside, edible oil and oil seed market have limited upside risk as well. The oil prices are also expected to average $103/bbl in 2014 and may fall in 2015. Natural gas prices is the US are expected to remain elevated during 2014 and strengthen even more in longer term while coal prices are expected to weaken in 2014 but will gain in 2015.

Pakistan economy has achieved some milestone during short period of 10 months which includes successful return to the international bond market after a long period. The positive response from international investor to Pakistan's first Sovereign Bond issuance has shown that the international market appreciated the economic direction of the country. This transaction is Pakistan's largest international sovereign bond which attracted significant investment. The transaction was closed successfully on April 08, 2014. Against the initial expectations of raising US $500 million, the investor response was overwhelmingly strong and the order-books were oversubscribed consisting of over 400 orders from high quality investors. After a careful consideration of the investors' order book, financing were raised to $2.0 billion including $1.0 billion each in 5 and 10 years tenor with coupon at the rate 7.25% and 8.25%, respectively. The transaction represents the largest ever international bond offering by Pakistan. The 5 years bonds are distributed across all major geographic regions: 59% in the US, 19% in UK, 10% Europe, 10% in Asia and 2% others. The success of the transaction highlights investor's confidence in the recent changes in country's leading economic indicators, external finances and structural reforms undertaken by the present government.

The other achievement is the successful auction of 3G/4G spectrum which has opened the new avenues of socio economic development in the country. The auction for 3G/4G spectrum licenses were carried out in a transparent manner and the new technology is expected to generate 900,000 new job opportunities in the next four years along with other direct and indirect benefits to the economy. Further achievement is the successful reviews by IMF. After every review the IMF scaled up the projections of economic growth and adjusted downward its inflation forecast for the country. Likewise World Bank, Asian Development Bank, Islamic Development Bank all have opened their windows to support the development agenda of the present government.

During the year some of the main reform programme focused on improvement in corporate governance, restructuring of PSEs and Strategic Partnership through Privatization. The government has formed a high level Commission for ensuring transparency in appointment of heads of key public sector organizations and bodies. In order to institutionalize corporate governance initiatives for PSEs, the Public Sector Companies (Corporate Governance) Rules 2013 have been approved by the government. The Rules help clarify roles of different stakeholders involved in the management of PSEs. A gradual shift towards majority of independent directors in the Board of Directors has been stipulated in the rules. Role and functions of the Board have been clarified and offices of Chairman and CEO have been separated.

The government is envisaging strategic partnership/ disinvestment of 31 PSEs representing the most viable transactions. The indicative mode of related divestments has been finalized. The Strategy is modeled around disinvesting a mix of PSEs in the oil & gas, banking & finance, power, industrial, transport and real estate sectors. A key element of the Strategy is Strategic Partnership, which entails transfer of management to investors through partial sale of shares. The government's strategy will also focus on disinvesting the government's shareholding in various entities especially in Oil & Gas, Power and Financial sectors through Capital Market Transactions, both on international and domestic markets. Direct sale of assets and units to investors is also envisaged. This will help in broadening and deepening domestic capital markets. It will facilitate foreign direct and portfolio investments as well as mobilize savings of individuals, households and institutional investors of Pakistan by providing them an opportunity to take ownership in the successful businesses, through public offering of shares.

Since the elections held in May 2013, Government of Pakistan (GoP) has undertaken bold measures and interventions in the power sector. Firstly, payables of power sector entities against the Independent Power Producers (IPPs) and public sector power entities amounting to Rs. 480 billion (till 30th June, 2013) have been fully cleared. The clearance of stock of circular debt has added 1,700 MW of electricity to the national grid and eased load shedding considerably in the country. Secondly, the GoP has moved in the direction of providing targeted subsidy to power consumers (domestic up to 200 units) by moving towards better cost recovery leading to a financially stable power sector. In the first phase, tariffs of industrial, commercial and bulk consumers have been rationalized to recover full cost of service, while tariffs of other consumers have been rationalized in the second phase. This has significantly reduced the subsidy requirement of the power sector and eased burden on the national exchequer.

Government has developed National Power Policy (2013) which provides a roadmap for providing affordable energy in the country through efficient generation, transmission and distribution system. The policy envisages provision of affordable electricity in the country by replacing generation from expensive imported fuels by cheaper indigenous resources led by hydel, coal and renewable energy sources, respectively.

The agenda for improving Pakistan's business environment in order to attract higher foreign investment as well as to promote domestic entrepreneurship, has involved review of existing laws, rules and regulations that are obsolete, overlapping, and unduly add to the cost of doing business. Recent business related reforms initiated in key areas include

- Facilitating new business start-ups,
- Designing frameworks to improve contract enforcement,
- Rationalizing tariffs,
- Regulatory reforms to improve the regulatory quality and
- Increasing access to finance and facilitating business solvency.

The Economic Advisory Council has also been reactivated and recommendations made by the sub-group formed by EAC to bring development in these specific areas such as; industry, trade, resource utilization and expenditure management, energy, agriculture/food security and social sector. The specific recommendations focused on developing a framework for providing export insurance coverage, Up-gradation of Pakistan Standards and Quality Control Authority (PSQCA) and affiliated labs, Impact assessment of all free trade agreements (FTAs) and preferential trade agreements (PTAs), framework for providing export insurance coverage, finalization of National Engineering Exports Development Strategy, real estate transactions at realistic value, broaden the tax net in the retail sector development of agriculture promotion projects in Balochistan for dates, livestock and other cash crops and health insurance to be introduced.

The government is committed to bring reforms in real sector growth as well as to increase investment and saving to help in addressing the rising unemployment issue. The public investment has recorded a growth at the rate of 17.12 percent as compared to negative growth (-0.35) percent last year, which is a major shift in expenditure priorities of the government. It is also evident that total investment witnessed a growth of 8.46 percent as compared to 8.41 percent last year, which is an indicator that investor's confidence is improving in the country and government's measures are working in right directions. During July-9th May 2013-14, credit to private sector (flows) has improved and increased to Rs. 296.4 billion against the expansion of Rs.92.5 billion in the comparable period last year, showing a significant growth. The increase in flows will supplement and strengthen the investment in the private sector and its impact will be realized shortly.

The GDP growth accelerated to 4.14 percent in 2013-14, against the growth of 3.7 percent recorded in the same period last year, which is also highest as compared to last six years. The growth momentum is broad based, as it is recorded that all the three major sectors namely agriculture, industry and services have provided support to improve economic growth. The agriculture sector grew at the rate of 2.12 percent against the growth of 2.88 percent in the last year. The industrial sector expanded by 5.84 percent against the growth of 1.37 percent in last year, while large scale manufacturing posted a growth of 5.31 percent against the growth of 4.08 percent last year. The services sector grew at 4.29 percent as compared to 4.85 percent in last year.

Agriculture Sector: Agriculture is the main source of livelihood for the rural population as well as ensures food availability to rural and urban inhabitants. It is a key sector of the economy as it provides raw materials to main industrial units of the country and also plays a major contribution in export earning of the country. The agriculture sector accounts for 21.0 percent of GDP and absorb 43.7 percent of labour force, the sector has strong backward and forward linkages. The agriculture sector has four sub sectors including: crops, livestock, fisheries and forestry. The performance of this sector in the outgoing fiscal year remained moderate. Agriculture sector recorded a growth of 2.1 percent against the growth of 2.9 percent last year. Important crops such as, wheat, rice, sugar posted a remarkable growth of 3.74 percent as compared to 1.19 percent last year and has compensated the subdued growth in other crops.

During 2013-14, the availability of water for Kharif 2013 remained13.5 percent more than Kharif 2012 and 2.4 percent less than the normal supplies of 67.1 MAF. The water availability during Rabi season 2013-14 was estimated at 32.5 MAF, which was 1.9 percent higher than last year's Rabi crop but 10.7 percent less than the normal availability of 36.4 MAF

Agricultural credit is a vital input for leveraging the financial growth and ultimately leads to economic growth on sustainable basis. In line with the government priorities for development of agrarian economy, State Bank of Pakistan (SBP) has been striving for engaging the food security challenges in wake of various initiatives to support the government's objectives and goals. During 2013-14 (July-March), the banks have disbursed Rs. 255.7 billion which is 67.3 percent of the annual target of Rs. 380 billion as compared to last year target of Rs. 315.0 billion. The disbursement is 10.7 percent higher than Rs. 231.0 billion disbursed during the corresponding period last year.

Rabi 2013-14 started with an opening balance of 175 thousand tons of urea. Domestic production during Rabi 2013-14 was 2439 thousand tons. Urea off take during current Rabi 2013-14 was about 3099 thousand tons, against 3476 thousand tons of total availability, leaving a closing balance of 376 thousand tons for next season. DAP availability in current season of Rabi was 1125 thousand tons, which included 307 thousand tons of inventory, 526 thousand tons of imported supplies and domestic production of 292 thousand tons. Off take of DAP during current Rabi season was about 1075 thousand tons, leaving a balance of 56 thousand tons for next season.

Kharif 2013 started with inventory of 220 thousand tons of urea. Total availability of urea (including 325 thousand tons of imported supplies, 2496 thousand tons of domestic production) was about 3041 thousand tons against the off take of 2851 thousand tons, leaving inventory of 175 thousand tons for Rabi 2013-14. Total availability of DAP during Kharif 2013 was 921 thousand tons comprising 197 thousand tons of inventory, 326 thousand tons of imported supplies and 398 thousand tons of local production. DAP off take was 616 thousand tons leaving closing balance of 307 thousand tons for coming Rabi 2013-14.

Important Crops: Important crops account for 25.24 percent of agricultural value addition. This sub-sector has recorded a growth of 3.74 percent compared to a growth of 1.19 percent last year. The important crops includes all major crops like wheat, maize, rice, sugarcane and cotton which registered growth at 4.44 percent, 7.27 percent,22.79 percent, 4.27 percent and 2.00 percent, respectively. **Other Crops:** Other crops have share of 11.65 percent to value addition in overall agriculture sector. This sub-sector of agriculture has witnessed a growth at 3.53 percent against the growth of 6.05 percent last year. This decline in growth of minor crops was mainly due to 36.8 percent lower production of gram, 7.8 percent less production of Potatoes, 5.1 percent decline in production of masoor and 5.4 percent decrease in other pulses.

Cotton Ginning: Pakistan is one of the leading producers and consumer of cotton in the world market. Ginning is the procedure for separating lint from the seed to cotton. Cotton Ginning has 2.81 percent contribution in agriculture sector. Cotton Ginning has witnessed a growth of (-) 1.33 percent against the growth of (-) 2.90 percent in the previous year due to reduction of the production of cotton as compared to last year.

Livestock: Livestock is the most significant component of agriculture sector, which contributes 55.91 percent of agriculture value addition. It is a sub-sector of agriculture which is relatively less volatile as compared to other subsectors. Its share in agriculture is more than combined shares of all other subsectors of agriculture and contributes 11.8 percent in GDP. Livestock consists of cattle, buffalos, sheep, goat, camel, horses, asses, mules and poultry and their products. Livestock has registered a growth of 2.88 percent against the growth of 3.99 percent last year.

Forestry: Growth of the forestry sub-sector is witnessed at 1.52 percent as compared to the growth of 0.99 percent last year.

Fisheries: Fisheries sub-sector has 2.03 percent contribution in agriculture and registered a growth of 0.98 percent compared to the growth of 0.65 percent last year. The sub-components of fisheries such as marine fishing and in-land fishing contributed to an overall increase in value addition in the fisheries sub-sector. The growth is expected to rise further in coming year due to lifting the ban by EU in fish export from Pakistan.

Industrial Sector: The industrial sector contributes 20.8 percent in the GDP of the country; it is also a major source of tax revenues for the government and also contributes significantly in the provision of job opportunities to the labour force. It is relatively less volatile sector as compared to other sectors of the economy. When the present government came into power last year, a comprehensive policy measures were planned and implemented on fast track to revive the economy. As a result industrial sector started revival and has recorded remarkable growth at 5.8 percent as compared to 1.4 percent in last year, which is the highest level achieved since 2008-09. Industrial sector in Pakistan has four sub-sectors including mining & quarrying, manufacturing, electricity generation & distribution and gas distribution and construction.

Manufacturing Sector: Manufacturing is the key component playing a dominant role in the socio-economic progress of the economy. Manufacturing is the most important sub-sector of the industrial sector containing 64.92 percent share in the overall industrial sector. The growth of the manufacturing sector registered at 5.55 percent compared to the growth of 4.53 percent last year. Manufacturing which contribute 64.92 percent in overall industrial sector, having three sub-components; namely the Large-Scale Manufacturing (LSM) with the share of 52.45 percent, Small Scale Manufacturing with the share of 7.97 percent and Slaughtering with the share of 4.49 percent. Small scale manufacturing witnessed a growth at 8.35 percent against the growth of 8.28 percent last year and slaughtering growth is recorded at 3.51 percent as compared to 3.60 percent last year. LSM has registered a significant improvement. It has witnessed a growth of 5.31percent as compared to the growth of 4.08 percent last year. The realization of growth in industrial sector is due to improvement in energy and gas supply, which has supplemented the growth of industrial sector higher as compared to previous six years.

It is evident from the sector specific data that most sub-sectors performed well during the period July-March 2013-14, over corresponding period of last year. Major contribution was made by Fertilizer 21.64 percent, Leather Products 12.96 percent , Food Beverages & Tobacco 7.78 percent, Rubber Products 9.48, Chemicals 6.71 percent, Paper & Board 8.03 percent, Coke & Petroleum Products 7.48 percent, Electronics 2.91 percent, Iron and Steel Products 3.38 percent, Textile 1.44 percent and Non Metallic Mineral Products 0.15 percent. There are only few sectors which recorded negative growth including Engineering Products 21.40 percent, Woods Products 8.91 percent, Pharmaceuticals 0.49 percent and Automobiles 0.01 percent.

The Mining and Quarrying sub-sectors estimated the growth at 4.4 percent in 2013-14 as against 3.8 percent last year. Sulphur Chromites, Bauxite, Dolomite, Coal, Lime Stone, Crude Oil and Rock Salt posted a positive growth of 74.7 percent, 70.8 percent, 53.3 percent, 40.7 percent, 16.0 percent, 14.3percent, 11.6 percent and 10.7 percent, respectively.

Construction Sector: The share of construction in industrial sector is 11.48 percent and is one of the potential components of industries. The construction sector has registered a growth of 11.31 percent against the growth of (-) 1.68 percent of last year. This is also highest growth level achieved since 2008-09. The increase in growth is due to rapid execution of work on various projects, increased investment in small scale construction and rapid implementation of performance based development schemes and other projects of federal and provincial governments.

Mining and Quarrying: Mining and quarrying sub-sector contains 14.45 percent share of the industrial sector and contribute 3.0 percent in GDP of the country. This sub-sector witnessed a growth of 4.43 percent as compared to 3.84 percent growth of last year.

Electricity Generation & Distribution and Gas Distribution: This is the most essential component of industrial sector which also directly and indirectly contributes in uplift of all sectors of the economy. Its contribution in industrial sector is 9.15 percent and the share in the GDP is 1.9 percent. This sub-sector has registered growth at 3.72 percent as compared to negative growth of 16.33 percent during last year.

Services Sector: Services sector has emerged as the most significant driver of economic growth in the economy and is contributing a lead role in augmenting and sustaining economic growth in Pakistan. The share of the services sector has increased from 56.6 percent of GDP in 2008-09 to 58.1 percent in 2013-14. Services sector contains six sub-sectors including: Transport, Storage and Communication; Wholesale and Retail Trade; Finance and Insurance; Housing Services (Ownership of Dwellings); General Government Services (Public Administration and Defense); and Other Private Services (Social Services). The Services sector has witnessed a growth of 4.3 percent as compared to 4.9 percent last year. The moderate growth performance in services sector is broad based, all components contributed in positive growth as Finance and Insurance grew by 5.2 percent, General Government Services at 2.2 percent, Housing Services at 4.0 percent, Other Private Services at 5.8 percent, Transport, Storage and Communication at 3.0 percent and Wholesale & Retail Trade at 5.2 percent. This sector of the economy has a great potential to grow at much higher rate and government is making best efforts to tap this potential and in this regard various initiatives have been launched to create an enabling environment.

During last 8 years the sectoral share of the agriculture sector has declined from 23.0 percent to 21.0 percent. The sectoral share of the manufacturing sector also decreased from 13.8 percent to 13.5 percent and the share of other industries has remained more or less stagnant around 7.1 to 7.3 percent of the GDP over the last 8 years. The share of the services sector has increased from 56.0 percent to 58.1 percent in the same period.

On the expenditure side three main drivers of economic growth are consumption, investment and export. In most of the economies consumption is the largest and relatively smooth component of aggregate demand, the other two components investment and exports are volatile as compared to consumption. Pakistani society like other developing countries is a consumption oriented society, having a high marginal propensity to consume. The private consumption expenditure in nominal terms reached to 80.49 percent of GDP, whereas public consumption expenditures are 12.00 percent of GDP. Total consumption expenditures have reached to 92.49 percent of GDP in outgoing fiscal year compared to 92.14 percent of last fiscal year. The same trend was observed in data analysis in the real terms. Total consumption has increased 0.35 percent of GDP, private consumption decreased by 0.69 percentage points as it declined from 81.18 percent of GDP to 80.49 percent of GDP. While public consumption increased by 1.04 percentage points as it increased from 10.96 percent of GDP to 12.00 percent of GDP.

Per Capita Income: Per capita income is defined as Gross National Product at market prices in dollar term divided by the country's population. Per Capita Income in dollar terms recorded a growth of 3.5 percent in 2013-14 as compared to 1.44 percent last year. The per capita income in dollar terms has reached to $ 1,386 in 2013-14. The main factors, which are responsible for increase in per capita income, include acceleration in real GDP growth, relatively lower growth in population and the appreciation of Pak Rupee.

Investment and Savings: During the last few years investment could not pick up due to internal and external factors and is considered as a key concern for economic growth. Total investment is recorded at 13.99 percent of GDP as compared to 14.57 percent of GDP last years, while fixed investment is registered at 12.39 percent of GDP against the 12.97 percent of GDP last year. Private investment is witnessed at 8.94 percent of GDP as compared to 9.64 percent of GDP in last year. There is encouraging evidence that the total investment witnessed a growth of 8.45 percent as compared to 8.41 percent last year which is an indicator that investment activities are taking place on fast track as compared to last year and confidence of investors is improving due to better government policies. Public investment has recorded an impressive growth rate at 17.12 percent as compared to negative growth (-0.35) percent last year, which is a major shift in government expenditure priorities. Public sector investment is vital for catalyzing economic development. It generates spillover effects for private sector investment as private sector development is facilitated through public sector development spending particularly on infrastructure. Public investment as a percent of GDP increased to 3.45 percent against the 3.33 percent last year. Moreover, the credit to private sector flows during the period July-May 2014 remained significantly higher than last year, which provides a reason to believe that private sector will be supplemented and strengthen. The resolve of the government is to address the issue of lower investment and create an enabling environment to revive the confidence of the investors and other stakeholders. The positive development of the trends will be realized in investment growth. Saving is key determinant of economic growth, as higher saving brings out more investment, employment generation, stable prices and finally higher growth in the economy. Over the last three decades, saving rates have fallen sharply in many countries contributing to the emergence of large current account imbalances in these countries. National savings are 12.9 percent of GDP in 2013-14 compared to 13.5 percent in 2012-13. Domestic savings witnessed at 7.5 percent of GDP in 2013-14 as compared to 8.3 percent of GDP in 2012-13. Net foreign resource inflows are financing the saving investment gap. There are two ways of improving the savings investment gap. One is through rising savings and the other is through declining investment. Present government is gearing up both savings and investment to augment the employment generating ability of the economy as well as raise resource availability for productive use in the economy.

Foreign Direct Investment: Most countries have liberalized their foreign direct investment (FDI) regimes during more than last two decades and pursued investment-friendly economic policies to attract investment. Pakistan is also following a liberalize investment policy. The FDI over the past five years remained slow due to number of internal and external factors. The present government's resolve is to restore investor confidence and create an enabling environment for foreign investment. Significant signs of recovery can be seen in the capital market growth which has reached to new height and emitting positive signals. The Investment Policy has been designed to provide a comprehensive framework for creating a conducive business environment for the attraction of FDI. Pakistan's policy trends have been consistent, with liberalization, de-regulation, privatization, and facilitation being its foremost cornerstones. Board of Investment (BOI) under the Prime Minister's office has approved investment policy to provide more investment friendly environment to investors.

Total foreign investment has reached to $2979 million during July-April2014 as compared to $1277 million showing 133.3 percent higher as compared to last year. Out of total foreign investment, the FDI has reached to $750.9 million. The major inflow of FDI is from US, Hong Kong, UK, Switzerland and UAE. Oil & Gas Exploration, financial business, power, communications and Chemicals remained major recipient of foreign investment.

Workers' Remittances: Remittances remained a key source of external resource flows for developing countries, for official development assistance and more stable than private investment flows. According to Migration and Remittances report 2014 of the World Bank, Pakistan is ranked on 7th number, in terms of the largest recipient of officially recorded remittances in the world. After India, Pakistan is the second largest recipient of remittances in the South Asian region. Pakistan is also one of the countries among 20 countries of the world where remittances cover more than 20 percent of imports and also remittances are equivalents to more than 30 percent of exports. Remittances in Pakistan grew rapidly in the second half of 2013, and continue to provide essential support to the balance of payments.

Remittances flows are usually the second largest source after FDI. However, in July-April, 2013-14, foreign direct investment stood at US$ 750.9 million while workers' remittance was US$12,895 million. Hence, in the recent years the remittances have become more important in terms of external funding for Pakistan. The Pakistan Remittances Initiative, which was launched in 2009, remained a central part of the government's efforts to encourage inflows from Pakistani Diaspora. SBP resolve is to further bring additional remittances through its PRI scheme through continuous improvement in payment system, infrastructure, market research, tapping Pakistani Diaspora as well as strengthening PRI core team. The government is also aiming to explore new markets to export its manpower as well as incentives for the remittances to further enhance its growth. The available data further suggests monthly average inflow of the remittances for the period of July-April 2013-14 stood at $ 1,289.46 million compared to $ 1,156.98 million during the corresponding period last year. Remittances from Saudi Arabia recorded a substantial growth of 12.90 percent, U.K. 11.62, USA 11.39 percent and UAE 9.12 percent during the period under review.

Fiscal Development: Pakistan's fiscal sector is confronted with challenges in the past on account of structural weaknesses in tax system. Consequently, the economy has witnessed low tax to GDP ratio. On the other hand expenditure overrun surpassed the revenue increase due to high interest payments, untargeted subsidies and less than expected revenues. However, during the current fiscal year, situation has started to improve on account of reform agenda initiated by the present government soon after coming into power in June 2013. Main aspiration is to resolve long standing structural issues, particularly in energy sector. Consequently, fiscal deficit reduced to 3.2 percent during first nine months of current fiscal year against 4.7 percent of deficit in the comparable period of last year. This has also resulted in a significant decline in government borrowing for budgetary support.

During first ten months of current fiscal year, FBR's collection amounted to Rs.1,744.8 billion as provisional tax against Rs.1,505.5 billion in the comparable period of fiscal year 2012-13, posting a growth of around 15.9 percent. During July-April, 2013-14 FBR tax revenues as percent of GDP rose by 6.9 percent as compared to 6.7 percent of GDP during the same period of 2012-13. Present government has devised a comprehensive strategy with the aim to enhance resource mobilization efforts in the country and increase tax to GDP ratio from the lowest level of 8.7 percent to 15 percent in the next few years. It comprises three-pronged measures, such as broadening of tax base, removing anomalies in the taxation system and improving tax compliance while non tax revenues on the other hand, posted significant growth of 15.8 percent on account of $ 674 million under Coalition Support Fund. Total expenditures contained at 3.7 percent during July- March, 2013-14 against 20.4 percent growth in the same period of fiscal year 2012-13 and reached to Rs.3,289.0 billion against Rs.3,171.1billion in the same period of 2012-13. One of the significant development was decline in untargeted subsidies as during July-March, 2013-14 it remained lower than last year and stood at Rs.201.8 billion from Rs.270.0 billion in the comparable period of 2012-13. Of which electricity subsidies stood at Rs.192.0 billion against 265.5 billion in the same period of fiscal year 2012-13, hence reduced by 27.7 percent.

On the other hand provincial resource mobilization performed remarkably well during the first nine months of fiscal year 2013-14 with the growth rate of 24.3 percent. Consequently, provincial surplus posted a healthy growth and reached to Rs.257.9 billion during the same period. After the announcement of 7^{th} NFC award, provinces received a significant amount of the federal government tax as their share from the divisible pool along with additional grants.

On the basis of above development, IMF has described this improvement as “strong” and agreed that government’s reform program is on right track and economy is moving into right direction.

Money and Credit: Present government inherited difficult macroeconomic challenges due to volatile economic conditions on account of energy crisis, persistently high fiscal deficit, and security related issues and inflationary pressures in confluence with ongoing structural issues which brought plethora of challenges for monetary management in Pakistan. Situation further aggravated due to continuous decline in foreign and domestic investment and insufficient external inflows. At the same time, high government borrowing for budgetary purpose significantly affected the balance sheet of scheduled banks. Despite all these issues, banking sector of Pakistan showed strong resilience and emerged as a highly profitable financial backbone of the country.

During the current FY positive developments have been witnessed on monetary side, as government not only contained its borrowing from SBP for budgetary support but was also able to achieve the target set under IMF condition by end March, 2014.

During the first half of current fiscal year, SBP reversed its policy stance from accommodative to tight policy as the rate was increased by cumulative 100 bps, staggered in two stages of 50 bps each. This policy stance was largely a reflection of expected inflationary pressures in the medium term on account of high growth in monetary aggregates and upward adjustment in administered prices of electricity and gas. However, during the second half of current fiscal year, SBP maintained the policy rate at 10.0 percent keeping in view the positive development of almost all major economic indicators

Recent data shows that during July – 9^{th} May, 2013-14, growth in money supply (M_2) remained 7.32 percent which is less than 10.32 percent recorded in the same period last year. Contained growth in money supply was possible on account of decline in net government borrowing in particular for budgetary purpose as compared to the previous level.

Contained growth in government borrowing has contributed to decline in growth of Net Domestic Assets of the banking sector. Growth in NDA stood at 4.79 percent (Rs.411.3 billion) during July-9^{th} May, 2013-14 as compared to net expansion of 13.65 percent (Rs.970.2 billion) in the same period last year. On the other hand, Net Foreign Assets (NFA) has improved on account of availability of external financing from International financial institutions (IFIs) and immediate efforts of SBP to increase liquid reserves. It has increased to Rs.236.9 billion during July-9^{th} May, 2013-14 as compared to the net contraction of Rs.181.4 billion in the comparable period last year.

During the period under review, government sector borrowing for budgetary support squeezed only to Rs.264.7 billion against Rs.1, 075.8 billion in the same period of FY 13. Within the banking system, government retired Rs.10.5 billion to SBP against the borrowing of Rs.416.8 billion in the same period last year.

Capital Market: Capital Market is one of the significant aspects of every financial market. Broadly speaking the capital market is a market for financial assets which have a long or indefinite maturity. The financial institutions play the role of lenders in the capital market. Business units and corporate are the borrowers in the capital market. Capital market involves various instruments which can be used for financial transactions. Capital market provides long term debt and equity finance for the government and the corporate sector. Capital market can be classified into primary and secondary markets. The primary market is a market for new shares, where as in the secondary market the existing securities are traded. Capital market institutions provide rupee loans, foreign exchange loans, consultancy services and underwriting.

Pakistan stocks market consists of Karachi Stock Exchange (KSE), Lahore and Islamabad Stock exchanges. The Karachi Stock Exchange (KSE) is Pakistan's largest and most liquid stock exchange, was incorporated in 1949 as a Company Limited by Guarantee. As a result of demutualization KSE stood corporatized and demutualised as a public company limited by shares under the name of 'Karachi Stock Exchange Limited', with effect from August 27, 2012.

Pakistan’s Stock Market has achieved enormous growth during the current fiscal year as demonstrated by sharp and impressive rise in KSE-100 index as compared to Global Stock Markets including China, India, Tokyo, Hong Kong, UK and USA. The healthy growth of earnings and improvement in business sentiments after the 11th May, 2013 general elections were the main triggers for the market appreciation that attracted foreign and domestic investors.

The KSE 100 index which was at the level of 21,005.69 at the end of last financial year crossed first the barrier of 25,000 level mark at the end of December, 2013 and was trading around 28,913 level by the end of April, 2014. The Index reached the maximum points level of 29,458.15 during the first 10 months on 16th April, 2014. the KSE 100 index in cumulative terms increased by 38 percent during Jul-April 2013-14. However, when compared with 11th May, 2013, the KSE index improved by more than 44.4 percent by the 21st May, 2014 as it reached to 28760 and total market capitalization reported as 21st May $70.4 billion with growth of 37.2 percent.

KSE-100 index remained World's 5th Best Performing Index in 2013, which was up 49.4% (37% in US$ terms) in 2013, beating all but four stock indices in the world. It handily beat Morgan Stanley's MSCI emerging market index which remained essentially flat. By comparison, India's main stock index rose just 8.99% in the same period. Further, Pakistan Stock market performed outstandingly during current fiscal year as compared to regional and international stock markets. In global scenario, the US S&P 500 has registered an increase of 17.3 percent while the UK FTSE 100 was up by 9.1 percent during Jul-April, FY14. The Index of Tokyo NIKKEI 225 increased by 4.68 percent The Hong Kong market went upward by 6.4 percent but China Shanghai Composite could not perform well and increased only by 2.4 percent. Beside this, Bombay Sensex Index increased by 15.6 percent.

It has been observed over the years that Pakistan’s economy mostly relied on the banking system to meet the financing needs of the economy whereas capital markets relatively developed slowly. During the past few years, the significance of debt markets and in particular of bond markets has been realized as a complimentary source of finance. The major drivers of financial assets in Pakistan are deposits and government bonds, whereas corporate bonds remain a very small portion.

During July-April, FY14 a total of 11 debt securities issued through private placement which includes two Privately Placed Term Finance Certificates of Rs. 9.827 billion, 6 Sukuk issues of Rs.19.000 billion, Listed Term Finance Certificates of Rs 2.770 billion and Commercial Paper of Rs. 0.150 billion.

There are about 3.6 million investors in National Saving Schemes (NSS). Presently, Defence Saving Certificates, Regular Income Certificates, Special Savings Certificates/Accounts, Bahbood Saving Certificates, Savings Account, Pensioners’ Benefit Account and Prize Bonds are in operation.

Inflation: Overview of inflationary trends during ten months of the current FY (July-April) 2013-14, indicates that inflation moved at slow pace on account of improved supply position of essential items and declining trend in major global commodities prices. Due to this slow trend the inflation rate was recorded at 8.7 percent on average basis during July-April, 2013-14, over an increase of 7.7 percent of corresponding period. The one percentage point increasing trend in inflation can be attributed to many factors but domestic food prices were the major stimulant to drive the head line inflation. The increase in food items prices was on account of demand/supply fundamentals happened owing to cyclical conditions and also increase in the prices of imported food items due to increase in global market. Some variations in price movement of other measures of inflation were also observed. The Sensitive Price Indicator (SPI) measuring the movements in prices of 53 essential items increased to 9.8 percent. Meanwhile Wholesale Price Index (WPI) based inflation was 8.3 percent during the period which is slightly higher over 8.0 percent in comparable period of last year. Core inflation plays an important role in fluctuation of inflation rate. The government borrowing is one of the key factors, influencing the trend in inflation because of their positive relationship. However, this relationship holds with period lag. The present government low level of borrowing i.e. by 15.7 percent during July-April, 2013-14, against 29 percent increase in borrowing in the comparable period last year has resulted in the decline of core inflation to 8.3 percent during the period under review as against 9.9 percent during July-April last year, which shows that at policy level government took effective measures to contain inflation.

The measures adopted by the government to control inflation includes tightening of money supply, close watch on regular basis on prices of essential items in the ECC meetings and it took necessary measures to control prices and ensure smooth supply of essential items to contain core inflation. The National Price Monitoring Committee (NPMC) headed by Federal Finance Minister also monitored prices of essential commodities in consultation with provincial governments and concerned federal ministries/ divisions and organizations and reviewed the supply position of essential items and recommended measures to enhance availability of essential commodities in the market to keep the inflation rate in single digit.

Trade and Payments: The world economy experienced subdued growth at 2.1 percent in 2013. While most developed economies continued to tackle with the challenges and taking appropriate fiscal and monetary policy actions in the aftermath of the financial crisis. World Gross Product has been forecasted to grow at a pace of 3.0 and 3.3 per cent in 2014 and 2015, respectively.

Unlike imports, which are closely related to domestic business activity, exports are more dependent on developments outside the domestic economy. A statistically significant link exists between world exports and world GDP and it is therefore worthwhile to see the impact on Pakistan's exports due to changes in the world GDP. For most of the period, the elasticity remained greater than one.

The European Union (EU) was not only Pakistan's largest export destination in FY13, but Pakistan's exports to the EU were valued at around US$5.7 billion) but it is also engaged in multiple levels of social and economic development activities in the country. It is expected that with the grant of GSP plus status, Pakistan exports to EU countries will gain momentum in coming months. The 10 year GSP plus status for Pakistan by the European Union is a blessing for the country. It will revive industrial sector of Pakistan and create thousands of new jobs for the people. Prior to GSP Plus our exports were facing stiff competition from countries like China, India, Brazil, and Bangladesh. After GSP Plus status to Pakistan these will now be duty free and thus, more than 90 percent of our exports to EU will be eligible for duty free access. It is estimated that due to GSP Plus there will be an increase of more than US$ 1.0 billion worth of exports to EU during FY 14.

During July-April, 2013-14, overall exports recorded a growth of 4.24 percent against a growth of 4.23 percent in the same period last year. In absolute terms, exports have increased from $ 20,143 million to $ 20,997 million. Whereas Pakistan imports were up only by 1.2 percent in the first ten months of the current fiscal year, rising from $ 36,664.94 million during FY 13 (Jul-Apr) to $ 37,104.50 million during first ten months of current financial year. According to the PBS data trade deficit reduced from $ 16,522 million during July-April, FY 13 to $ 16,107 million during July-April, 2013-14. USA, China, UAE and Afghanistan have emerged as our major trading partners in terms of both exports and imports.

Pakistan's balance of payments shows an increase in capital flows that has substantially offset a gradual widening of the current account deficit during current financial year. External account turned into surplus during July-April, 2013-14, compared to the same period last year. Overall external account balance posted a surplus of US$ 1,938 million during July-April, 2013-14, compared to a deficit of US$ 2,090 million in the corresponding period of last year.

Worker's remittances registered commendable growth during July-April, 2013-14, growing by 11.5 percent against 6.4 percent growth recorded in the corresponding period of last year. The consistent growth in remittances reflects a shift from informal to formal avenues to remit funds from overseas Pakistanis. The Government and SBP have focused on promotion of formal channel for international remittances through banks and different money transfer services under the Pakistan Remittances Initiatives (PRI).

Foreign investment during July-April, 2013-14, increased by 133.3 percent compared to same period last year, due to Foreign Public Investment in debt securities comprising special US dollar bonds Euro bonds, FEBC, DBC, T-bills and PIBs.

Public Debt: Prudent public debt management can help countries reduce their borrowing cost, contain financial risk and develop their domestic debt market. It can also facilitate countries in maintaining their financial stability and help to develop their domestic financial systems. The inadequate debt management and an unlimited and permanent growth of debt to GDP ratio may result in negative tendencies and negative impact on key macroeconomic indicators, like crowding out of investment, financial system instability, inflationary pressures, exchange rate fluctuation etc. Prudent utilization of debt leads to higher economic growth and it also helps the government to accomplish its social and developmental goals.

The stock of public debt stood at Rs.15, 534 billion at the end March, 2014 representing an increase of Rs.1, 168 billion or 8 percent higher over last fiscal year. The primary source of increase in public debt during July-March, 2013-14 was in domestic debt that positioned at Rs.10,823 billion, representing an increase of Rs.1,306 billion, whereas, external debt posed at Rs.4,711 billion representing a decrease of Rs.138 billion as compared to end June 2013. The decline in external debt during first nine months of current fiscal year is mainly attributed to net repayments and appreciation of Pak Rupee against US Dollar. Public debt servicing reached at Rs.1,155 billion against the annual budget estimates of Rs.1,561 billion, thereby, consuming nearly 47 percent of total revenues.

The composition of domestic debt portfolio has itself undergone a transformation from a high dominance of unfunded debt to an increasing dependence on short term floating debt which is a source of vulnerability as it entailed high rollover and refinancing risk. Besides, the cost and stock of external public debt witnessed increase due to depreciation of Pak Rupee. The present government took following measures to effectively manage its public debt during first nine months of current fiscal year:

- Developed its first Medium Term Debt Management Strategy (2014-18) to take informed financing decisions based on the evaluation of cost-risk tradeoffs.
- Trading of government debt instruments was launched to broaden the investor base and have a liquid government securities market.
- Pakistan successfully tapped international capital markets after a gap of 7 years and raised US$ 2 billion against the initial expectations of US$ 500 million. This transaction represented the largest ever international bond offering by Pakistan.
- With increased external inflows, the government was able to reduce the pressure on domestic resources while strengthening the foreign exchange reserves vis-a'-vis improving exchange rate parity which also contributed towards reduction in public external debt.

External Debt and Liabilities (EDL) stock was recorded at US$ 61.8 billion as at end March, 2014 out of which public external debt amounted to US$ 47.8 billion. EDL stock is increased by US$ 906 million during July-March, 2013-14. Out of this total increased, US$ 275 million was contributed by translational loss on account of cross-currency movement against US Dollar. The IMF approved three years Extended Fund Facility program for Pakistan on September 04, 2013 for SDR 4.4 (US$ 6.64) billion against which US$ 1,657 million was disbursed in the first nine months of current fiscal year. Total disbursements excluding IMF were US$ 2,301 million during first nine months of current fiscal year compared with US$ 1,782 during the same period last year. The servicing on EDL was recorded at US$ 5,388 million during first nine months of current fiscal year. An amount of US$ 4,747 million was paid against principal, out of which, US$ 2,519 million was against IMF loans.

Education: The present government focuses strongly on primary education and endeavour to resume the compendium on education from 2.0 percent of its GDP to 4.0 percent by 2018 on education sector.

To achieve the MDGs targets on education to improve literacy rate the federal government has allocated in the budget 2013-14 a substantial amount of Rs. 59.28 billion and Rs. 5.72 billion in PSDP 2013-14 for expansion and development of Basic and College education. In addition, the provincial governments have also allocated Rs. 59.440 billion to accelerate the pace of education at all levels to achieve the MDGs targets.

Currently, the literacy rate of the population (10 years and above) is 60 percent while the Millennium Development Goals (MDGs) target is 80 percent literacy rate till 2015. Literacy remained much higher in urban areas than in rural areas and higher among male than female. Province wise data suggests that Punjab leads with 62 percent followed by Sindh with 60 percent, Khyber Pakhtunkhwa with 52 percent and Balochistan have the lowest literacy rate of 44 percent.

The overall education situation based on key indicators such as likely enrolments, number of institutes and teachers, has shown a slight improvement. At national Level, the total number of enrolments during 2012-13 was estimated at 41.1 million as compared to 40.3 million during the same period last year. Under President's Fanni Maharat Program & Prime Minister's Hunarmand Program, individuals across the country are provided opportunities to gain skills development & training enabling the labor force to enhance their productivity and employability through training institutes/centres. During July-March 2013-14, a total of 6,677 youths received vocational & technical training under the President' Fanni Maharat Programme and Prime Minister's Hunermand Pakistan Programme and 2,687 are under training.

Higher Education Commission (HEC) is also contributing its role in running different scholarship programmes to enhance academic qualification of professionals at various levels on merit basis in line with the national requirements. During the period 2008-13, a total of 7731 scholarships were awarded under different programmes of HEC. The federal government, on the initiative of the Prime Minister of Pakistan has launched a scheme to support the students from less developed areas. Under this innovative and special scheme, along with tuition fee, the federal government have paid other academic, incidental, or mandatory fees charged by educational institutions as one-off or on a per semester basis of Masters, MS/ M. Phil and Ph.D. students of selected areas. Under the programme, Rs.1200 million will be paid as fee for 35,000 students. In the development portfolio of HEC, there are 129 on-going development projects in the Federal PSDP 2013-14 and Government of Pakistan has included 33 new development projects at an overall estimated cost of Rs. 26.3 billion with an allocation of Rs. 2.6 billion for 2013-14. During 2013-14, Government of Pakistan has allocated Rs.18.49 billion to HEC for the development of higher education sector and so far, Rs. 14.36 billion has been released up till May 2014.

Health and Nutrition: Significant progress toward achieving better health outcome has been made as is evident from its vast health infrastructure and medical facilities across the country.

The existing national public health network in Pakistan has extended to 167,759 Doctors, 13,716 Dentists and 86,183 Nurses. Rapid population growth is resulting in the inadequacy of health care facilities despite reasonable expansion in number of hospitals, doctors, nurses and other health care facilities. The inadequacy of healthcare facilities is reflected as there are estimates of 1,099 persons against one Doctor and one Dentist versus 13,441 persons, while the current ratio of population and availability of hospital beds works out at 1,647 persons per bed. The government's commitment toward attaining better health outcomes is reflected by the progressive nature of health spending which has increased by 29 percent from Rs.79.46 billion in 2012-13 to current Rs.102.33 billion

The current fiscal year saw tremendous increase in health care facilities which includes an increase of 5,000 Doctors, 500 Dentist, 3,150 Nurses, 4,500 Paramedics and provision of 3,600 Hospital Beds. This together with construction of 7 new Rural Health Centres (RHCs) and 32 Basic Health Units (BHUs) and immunization of 6 million children is an encouraging effort by the government to provide better health facilities to the general public. To effectively address the health problems, a number of health programs are carried out. These include TB, Malaria, AIDs, Cancer Treatment and Food and Nutrition Programs. Adequate food translates itself into improved nutrition which improves the productivity of the labor force. Pakistan per capita food intake is estimated at 2,450 calories per day for 2013-14 which is at the level of last year, while Protein intake is 72 gram.

Population, Labour force and Employment: Population growth rate has decreased from 1.97 percent in 2013 to 1.95 percent in 2014 due to timely and effective measures adopted by the government. Although a population of 188.2 million projected for the year 2014 is well above the carrying capacity of its resources and creating population resource imbalance. Youth population, according to population projections of planning commission, is approximately 56 percent of the total population in the year 2014. To emancipate the country from problems associated with population-resource imbalance, increasing number of unemployed and least productive youth population, the present government is working on both population control and capacity building of youth population under the concept of inclusive growth. Family planning program of the government encompasses Family Welfare Center, Reproductive Health Services Centers, Regional Training Institutes and Mobile Services Units. These family programs will help in reducing population growth rate, fertility rate, infant mortality rate and maternal mortality rate in the country.

The government has started a number of schemes under the umbrella of Prime Minister Youth Initiative for creating livelihood opportunities for unemployed youth and to make them an engine of growth for Pakistan economy. Social safety nets of Pakistan have also been devised with special focus on reaping the potential of bulging youth population and capturing the population dividend. These programs include Interest Free Loan Scheme, Business Loan Scheme, Youth Training Scheme, Youth Skill Development, Provision of Laptop Scheme, Fee Re-imbursement Scheme for the students from the less develop areas.

According to the Labour Force Survey 2012-13, Pakistan has 59.74 million labour force, around 2.5 million people added in labour force as compared to 2010-11.Out of this labour force only 56.01 million people got employment and resultantly 3.73 million people are unemployed. Most of the labour force in Pakistan works in the rural areas where agriculture is the dominant activity. The total labour force working in the agricultural sector decreased from 45 percent in 2010-11 to 43.7 percent in 2012-13. In manufacturing sector the labour force participation rate has increased from 13.7 percent in 2010-11 to 14.1 percent in 2012-13 and the share of community/social and personal sector has increased from 10.8 percent to 13.3 percent in 2012-13. Overall unemployment rate has increased from 6.0 percent in 2010-11 to 6.2 percent in 2012-13 with rural unemployment increasing from 4.7 percent in 2010-11 to 5.5 percent in 2012-13 and urban unemployment is stable at 8.8 percent in 2012-13. This rise in unemployment is on account of rise in population, low growth and less job opportunities created in the past for power shortages resulting in lower production.

Policy makers in Pakistan are identifying overseas employment opportunities for the unemployed youth, providing them appropriate trainings and bridging the gap between employer and employee in the global labor market. Ministry of Overseas Pakistanis and Human Resource Development has been entrusted with the task of aligning labor supply with the changing global market requirements which is making serious efforts for achieving this objective. Since 1971 up to March 2014 around 7.4 million overseas Pakistanis working /living around the globe. The main concentration of Overseas Pakistanis is in Middle East 49.2 percent, Europe 28.3 percent and America 16.2 percent. Manpower export has dropped significantly from 0.638 million in 2012 to 0.622 million in 2013. In 2013 UAE has hired almost 0.1 million more people as compared to the last year. However, the situation is different in Saudi Arabia, where the number of emigrants decreased from 0.3 million in 2012 to 0.2 million in 2013. The reason for this decrease is that Kingdom of Saudi Arabia has launched Nitaqat programme.

Transport and Communication: Pakistan is on the crossroad of most effective, economical and viable transit routes viable throughout the seasons to the land locked Central Asian Countries and other neighboring countries providing trade corridor. World Bank estimates that poor performance of the transport sector is costing Pakistan about five percent of its GDP. Furthermore thirty percent of agriculture output is currently wasted due to its inefficient farm to market channels, lack of cold storage facilities and an obsolete underpowered trucking fleet. Pakistan’s total road network is around 263,775 Kms which carries over 96 percent of inland freight and 92 percent of passenger traffic. During current financial year 2013-14, NHA has executed 83 development projects costing Rs. 615.2 billion. Government of Pakistan has allocated Rs. 63.04 billion in the Federal PSDP for construction of roads, river bridges, tunnels, flyovers and interchanges. Government of Punjab and Federal Government have jointly launched twin cities Rawalpindi-Islamabad Metro-Bus service project on 23rd March, 2014, with a total cost of Rs. 44.21 billion. Metro bus project will be completed in next 10 months.

Government is taking new initiatives to improve the performance of Pakistan Railways by repairing/purchasing of locomotives, enhanced HSD oil reserves up to 12 days to streamline the train operation. During 2013-14, Pakistan Railways executed 33 development projects costing 241.7 billion. Government of Pakistan has allocated 30.964 billion for the continuation of its on-going projects.

Since 2002, the performance of Pakistan International Airlines (PIA) has been on downward trend. Present government has taken various initiatives/steps to improve the performance/cost reduction of PIA by contracts re-negotiation, route rationalization, re-deploying aircrafts on more profitable domestic and international routes.

Pakistan National Shipping Corporation (PNSC) provides transportation a service for crude oil requirements of the country comprises of nine vessels of various types/size with a total deadweight capacity of 642,207 tons. During July-March, 2013-14, PNSC companies earned revenue of Rs.11.37 billion as against Rs. 8.21 billion over the corresponding period of last year showing a growth of 38.5 percent. Karachi Port Trust operation comprised upon 11.5 Kilometers long approached channel, a depth of 12 meters and a turning basin of 600 meters provides safe navigation of vessels up to 75,000 metric tons deadweight. During July-March 2013-14, Port Qasim Authority handled 0.632 million TEUs (Twenty Equal Units) of container traffic which is 17.5 percent higher over the corresponding period of last year. At Gwadar Port, 563.2 tons Urea import was handled during July-March 2013-14. During July-March 2013-14, the total cargo handled at Gwadar Port is stood at 5764.4 thousand tons against 5064.8 thousand tons over the corresponding period of last year showing a growth of 13.8 percent.

Telecommunication sector of Pakistan has proved itself versatile and dynamic with the adoption of next generation advanced technology. The introduction of 3G/4G spectrum would help in expediting socio-economic progress of the country. Auction of 3G/4G spectrum is the major achievement of the government in Telecom Sector and has earned revenue of $1112.8 million by auction of 3G/4G spectrum. Telecom revenues during Jul-Mar 2013-14, were amounting to Rs.345.5 billion, which made this sector very attractive for further investment. Tele density has been improved and facilities have reached to 77 percent of the population and cover 92 percent of the total land area of the country, which is at par in comparison with the regional countries. During July-March 2013-14, Telecom sector earned revenue of Rs.345.5 billion and over US$ 0.53 billion have been invested in telecom infrastructure development and new technologies. Cellular Mobile subscribers reached to 136.5 million at the end of March, 2014. During the period July-March 2013-14, an amount of Rs. 161.37 billion has been collected through National Savings Schemes and Pakistan Post has earned commission amounting to Rs.806.8 million.

A gigantic collaboration extended by the Chinese Government in construction of infrastructure projects like; China-Pak Economic Corridor and High Priority Early Harvest Projects will pave multi dimensional socio-economic and geo-political benefits to both the countries. The advancement in Telecommunication sector would create 900,000 new jobs into the country, increase data penetration up to 10 percent in next three years and will increase GDP growth by 1.5 to 1.8 percent.

Energy: Pakistan's primary energy supply heavily depends upon the imported crude oil & petroleum products because of low production capacity of crude oil and natural gas. Energy is being one of the main inputs in industrial and commercial activities as well as important household commodity. Much of our modern lifestyle depend on availability of energy i.e. electricity, fuel and gas. No wonder, energy shortage results in loss of economic activities with a drag on investment, and impacts negatively society's social cohesion.

Energy crisis in Pakistan had been brewing since 2007 and deepened in 2012, which not only affected the economic growth and employment but also consumed major portion of foreign exchange reserves. Absence of effective planning, an economically and financially viable strategy, and a set of right incentive package to attract investment in the oil exploration sector combined with a weak and incapacitated regulator resulted in supply-demand gap. The situation has been further compounded due to high transmission and distribution losses on the thermal electricity side as well as declining revenue collection. In order to keep this inefficient system running, government has been facing huge losses due to increased quantum of subsidies and accumulation of circular debt.

Realizing the gravity of situation and importance of energy for economic activities, the present government has taken this issue on top of its economic reform agenda by pursuing a comprehensive plan to address above mentioned problems. In this context, government retired the circular debt (Rs 480 billion) immediately after taking oath which added 1700 MW of electricity into the system. In order to sustain, government developed National Power Policy (2013) which was announced to provide an affordable energy in the country through efficient generation, transmission and distribution system.

Poverty and Social Safety Nets: Poverty is measured traditionally in terms of ability to meet a minimum number of calories intake or to have a minimum level of income to satisfy basic needs of an adult per day because poor spend sixty percent of their income on food related expenditures. Official poverty line in Pakistan is calorie based and is defined as per capita food and non-food expenditure per month to support food consumption yielding 2350 calories per adult equivalent per day.

According to Pakistan's Millennium Development Goal Report 2013, the incidence of absolute poverty decreased from 22.3 percent in 2005-06 to 12.4 percent of population living below official poverty line in 2010-11*. Government of Pakistan is committed to improve the livelihood and earning capabilities of the poor to eradicate extreme poverty, the government has started a spectrum of social safety net programs for creating opportunities for the poor to escape poverty and to increase their resilience to crises. The commitment of the government for eradicating poverty is translated into pro-poor expenditure of Rs.588,105 million during the period July-December, 2013-14 for improving the quality of life.

Banazir Income Support Programme is one of the most popular and well thought interventions of the government. Present government has continued the program with total disbursements Rs.48.18 billion up to March 2014, in terms of cash grants and the number of beneficiaries increased to 5.25 million. The programme has four closely associated and complementary components including Waseela-e-Rozgar (Technical and Vocational Training), Waseela-e-Haq (Microfinance), Waseela-e-Sehat (Life and Health Insurance) and Waseela-e-Taleem (Primary Education).

International donor agencies have acknowledged the targeting mechanism and wide coverage of BISP by providing generous assistance to execution of schemes under these programs. Various donor agencies including USAID, ADB, IDA and UK have committed an amount of US $1436.63 million (approx. Rs. 143663 millions) for BISP, since its inception. Out of these allocations, total disbursements of loans and grants for BISP up to 30.04.2014 stood at US $ 589.15 million (approx. Rs. 58915 million). IMF Mission during a review meeting held in Dubai in April-May, 2014, has also appreciated BISP and showed their support for continuation and further improvement in the programme.

Pakistan Poverty Alleviation Fund (PPAF) is also contributing a large amount of funds and different interventions are being made for reducing poverty and hunger, enhancing gender equality and women empowerment, improving maternal health and child mortality and increasing community participation. PPAF's role in microcredit, water and infrastructure, drought mitigation, education, health, and emergency response interventions has been widely appraised. Total disbursement through PPAF during the period July to December 2013-14 is Rs. 8414 million.

Environment: Pakistan is facing rapid population growth coupled with unplanned industrial expansion which has placed enormous pressure on country's natural resource base and have significantly increased the level of air, water and land pollution. The environment protection cannot be achieved without underpinning economic activity with sustainable development. Government of Pakistan has Climate Change Division and entrusted it with the mandate to protect environment of the country. While climate change is a global phenomenon, its impacts is felt more severely by the developing world due to their greater vulnerabilities and lesser capacity to manage the effects of climate change, and similarly, within society, by marginal and vulnerable groups including women and children. Pakistan's emissions of greenhouse gases (GHGs) are much lower than those of the rest of the world. Environmental degradation along with poor home hygiene, lack of basic sanitation and unsafe drinking water has a huge impact on the health of the population, particularly children under five.

Government of Pakistan has devised Climate Change Policy to ensure that climate change is mainstreamed in the economically and socially vulnerable sectors of the economy and to steer Pakistan towards climate resilient development. Efforts are underway to attain goals of sustainable social and economic development, ensuring water, food, energy and environment securities, without over-exploiting forests and ecosystems, to meet the needs of present and future generations.

* The figures may be considered interim indication of poverty situation in the country. A technical group on poverty is reviewing official methodology and to find out possible causes of variance in poverty numbers and recommend final official estimates

Chapter 1

Growth and Investment

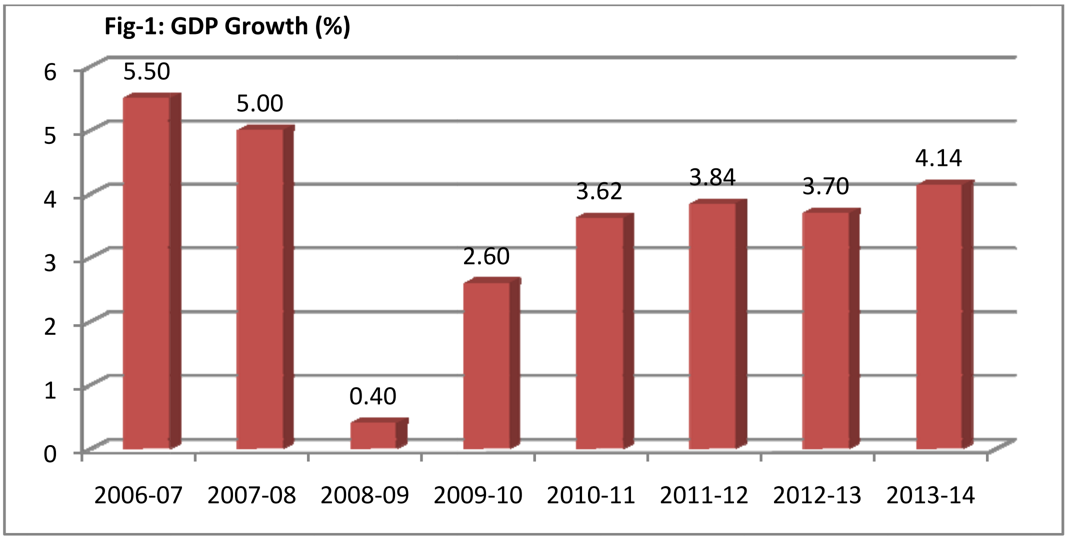
Introduction

After a period of slack growth during last few years, Pakistan's economy witnessed higher and broad based economic growth in outgoing fiscal year 2013-14 accompanied by significant recovery in industrial sector and moderate growth in services and agriculture sectors. Broad based economic recovery, strengthening of macroeconomic stability and elimination of external account vulnerability are major achievements of the outgoing fiscal year. The success includes: picking up in economic growth, inflation contained at single digit, improvement in tax collection, reduction in fiscal deficit, better growth in exports and imports, achievement of GSP plus status, remarkable improvement in workers' remittances, successful launching of Euro Bond, auction of long pending 3G and 4G licenses; significant improvement in country's foreign exchange reserves, Rupee strengthened, rise in foreign direct investment and stock market created new history.

The present government has introduced a comprehensive agenda of reforms which is highly focused on inclusive growth to reinvigorate the economy, spur growth, maintain price stability, provide more and decent jobs to the youth and rebuild the key infrastructure of the economy through removal of bottlenecks like, energy shortages, bleedings PSEs and circular debt along with creating conducive investment climate to boost exports and tax revenues, and bridge fiscal and current account deficits. The government has shown commitment to develop vibrant and competitive markets in order to accelerate and sustain economic growth through productivity, competitiveness, innovation and entrepreneurship.

Government has focused on number of initiatives to enhance productivity of all sectors of the economy. For agriculture efforts are being made to provide better supply of quality seeds including hybrid and high yielding varieties. Ensure timely availability of agriculture inputs including fertilizer, pesticides etc. Credit to agriculture sector reached at Rs.380 billion compared to Rs.336 billion last year with the growth of 13.1 percent. Eliminated subsidies which largely benefited interest groups rather than poor farmers in order to align incentives and relief to deserving population. Revamped vocational and technical education networks to provide more skilled labour to industry. Encouraged small and medium industries through the targeted loans; technical & extension facilities and better access to foreign markets by achieving the GSP plus status. Government also focused on providing better security conditions and business friendly environment in order to attract the foreign investment in the country with an aim to increase the investment-GDP ratio on fast track in coming years. Furthermore to facilitate the foreign investors, government planning to ease the procedural formalities, reducing cost of doing business, overcoming the energy shortages and ensure steady supply of energy to improve competitiveness. Recognizing the need to protect the poor and the vulnerable, government has focused on several safety net programs such as Benazir Income Support Program (BISP), Pakistan Poverty Alleviation Fund (PPAF), Pakistan Bait-ul-Mal (PBM), Zakat and Workers Welfare Fund (WWF). The Prime Minister also launched youth assistance package which comprises schemes: Interest Free Loan Scheme, Business Loan Scheme, Youth Training Scheme, Youth Skill Development Scheme, Fee Reimbursement Scheme for Students from less developed areas and provision of Laptops Scheme. Certainly these schemes are the efforts to increase the productivity of various sectors and also to involve youth more actively in the process of economic growth of the country at all level.

The GDP growth accelerated to 4.14 percent in 2013-14 against the growth of 3.70 percent recorded in the same period last year. The growth momentum is broad based and all the three major sectors namely agriculture, industry and services have provided support to improve economic growth. The agriculture sector grew at an estimated rate of 2.12 percent against the growth of 2.88 percent in the last year. The industrial sector expanded by 5.84 percent against the growth of 1.37 percent in last year, while large scale manufacturing posted growth of 5.31 percent against the growth of 4.08 percent in last year. The services sector grew at 4.29 percent as compared to 4.85 percent in last year. Overall the commodity producing sector is expanded at 3.94 percent as compared to 2.14 percent last year, which represents a significant turnaround from the anemic growth rate of the previous years. Fig-1 shows an overview of GDP growth over the previous years.



The GDP growth 4.14 percent achieved in the outgoing fiscal year 2013-14 as compared to 3.70 percent last year is higher from 2008-09 onwards. Achieving the higher GDP growth during 2013-14 is an indicator that government policies have started gaining the fruits and economic activities are picking up, which will boost further in coming years and potential level of the economy to grow at much higher rate will be achieved soon. Steps initiated by the government like comprehensive power policy, security policy, initiatives of privatization, youth training and employment program are improving business climate and creating more conducive environment for economic agents in the country.

In the contemporary world, the private sector has been recognized as the key player in economic development because it drives the economic growth through its contribution to investment, employment and business creation. The developed and developing countries have placed the private sector development at the top of their economic agenda because of its growing role in the provision of key services but at the same time, the importance of public sector cannot be over ruled because of its spillover effects through public sector development spending particularly on infrastructure. Over the years, Pakistan's private sector which remained the major contributor in economic growth, severely hampered due to various internal and external factors most significantly energy crisis and war against extremism. Recognizing the private sector as the engine of economic growth, present government is striving to tap private sector initiatives and investment in order to achieve the potential growth and alleviating poverty. In this context, the government is taking all possible efforts to create a conducive business environment by removing major bottlenecks like energy shortages, bleeding PSEs along with creating conducive investment climate to boost exports and tax revenues. Furthermore, government is highly committed to facilitate the sector through creating new businesses and opening new jobs. In its reform agenda, the present government has assigned a leading role to the private sector in the country's economic development through maximum utilization of country's physical and human resources, full exploitation of the technological potential in industry and agriculture and sound macroeconomic policies. Recently announced youth loan scheme is a landmark initiative in promoting small scale businesses and providing employment opportunities which in turn will boost the private sector. The government has also taken various other initiatives in order to facilitate the private sector. Most important of all is to create better security conditions and business enabling environment along with the revival of business confidence which will not only be helpful in attracting the foreign investment but will also supplement the growth process with forward and backward linkages. For a stable law and order situation the government has recently finalized the National Security Policy to help in reducing the prevailing militancy. For the permanent solution of energy crisis, National Energy Policy has also been approved, which will address energy problems, improve demand and supply management and also the governance of the sector. Government's commitment to resolve the energy related issues is evident from the successful clearance of circular debt of Rs.480 billion in just 47 days after coming into power as a result almost 1752 MW electricity has added in the system. In order to reduce the size of public expenditure as well as increasing the share of economy in private sector, the government is moving forward with the privatization of 31 public sector enterprises (PSEs). It will improve resource allocation; limit poor performance of PSEs and also increase the foreign direct investment. Government's initiatives are on the right way and there is a need to appreciate them as it will go a long way in boosting the country's economic growth.

Global Developments

The outgoing year witnessed the global recovery and the global outlook offers some optimism. The world economy started picking up in the second half of last year, driven by growth in advanced economies, especially in the US, and also recovery in some emerging economies. Growth is projected to accelerate for most advanced economies as well as in the EU. In US the headwinds from fiscal policy have been waning, private consumption is gaining speed, benefitting from robust job creation and rising house prices, while the Federal Reserve has initiated a gradual shift towards less accommodative monetary policy. In Japan, growth is expected to remain relatively stable in 2014. Among emerging economies, the picture is not smooth, as there are signs of weakness in Brazil, some stabilization at more sustainable growth rates in China. China is the second largest economy in the world; many commodity-based economies have risen in recent years with China's growth. Moreover, China's opportunities and challenges are similar to other emerging countries.

Economic activity outside the EU is expected to accelerate to about 4 percent this year and 4.5 percent in 2015. Forecast of global trade is encouraging, with world import growth doubling from 2.5 percent in 2013 to about 5 percent in 2014 and rising to 6 percent in 2015, reflecting both strengthening of the global recovery and the impetus from trade-intensive sectors. Over the forecast horizon, oil prices are forecasted to continue declining, supported by an adequate supply. The Euro Zone finally came out of a long and deep recession during the second half of 2013. This was a major relief for the global economy and it propelled stronger growth for most economies. The emerging markets mostly affected were India, Turkey, Indonesia, Brazil and South Africa. These economies experienced an immediate capital outflow, which resulted in negative shocks to their currency, stock and bond markets.

The positive news is echoed in the slightly more optimistic Global Economic Prospects report issued by the World Bank that states: "Global GDP is projected to grow better as compared to last year with much of the initial acceleration reflecting a pick-up in high-income economies." Inflation remains benign worldwide. It has decelerated in the United States and Euro-Zone, dropping to 2 percent in the former, and 1 percent in the latter. In the developing world, inflation rates are above 10 percent in about a dozen countries scattered throughout different regions. According to the UN report, there are major concerns for developing and emerging economies. First, there has been a measurable decline in private capital inflows to "emerging markets, a sub-group of developing countries". Second, volatility in these markets has increased with equity market sell-offs and local currency depreciation.

US Economy is expected to see solid but modest growth in 2014 with continuing improvement in labor market. Consumer sector is showing more strength and business investment in on upswing. The Federal Deficit gap is expected to narrow. Nevertheless, the economy faces the risks including: slower than expected growth among U.S. trading partners, winding down of Fed's bond buying program and disruption to global energy supplies

Europe's economic recovery, which began in the second quarter of 2013, is expected to continue spreading across countries and gaining strength while at the same time becoming more balanced across growth drivers. The recovery remains fragile, growth in the euro area, which was -0.5 percent in 2013 as a whole, is expected to be 1.2 percent in 2014 and 1.5 percent in 2015. The recovery in Europe is expected to be broad-based across EU Member States as activity has also started to strengthen in the vulnerable countries of the Euro-Area periphery. In 2014, only Cyprus and Slovenia are still expected to register negative annual GDP growth rates and by 2015 all EU economies are expected to be growing again.

Ireland has successfully completed its financial assistance programme in December 2013. Driven by strong exports, growth is significantly firming in Spain and Portugal, while a moderate rebound is expected in Greece. Among the bigger economies, a steady domestic demand-driven expansion is expected over the forecast horizon in Germany, while in France economic growth is recovering slowly, supported by a timid pick up in private consumption. Mild economic recoveries in the

Netherlands and Italy are set to be driven by net exports and investment. Strong growth is foreseen in the United Kingdom and in Poland on the back of increasingly robust domestic demand.

The Middle East has benefited from some of the world's strongest growth rates since the financial crisis of 2008. A further boost has been provided by significant investment in economic diversification. Particularly, Qatar's economy performed strongly with double-digit growth in most years adding up to a 66.7 percent expansion between 2008 and 2013, while Saudi Arabia's economy grew by 29.6 percent in the same period. A boost to living standards is also expected in GCC economies, as investment in downstream industries and diversification begins to bear fruit. The most remarkable improvements will be seen in Qatar, where low costs of producing natural gas and the country's hosting of the football world Cup may play the role to boost economic activities.

To maintain the growing pace and to accelerate it, developing countries need to continue the reform process. In case of any slackness in productivity enhancement, structural reforms, investment in human capital, improvement in governance and technology up gradation growth momentum may derail. In South Asia economic performance of Pakistan is improving quantitatively and qualitatively as the growth is broad based and touched almost all sectors of the economy. The growth recorded for 2013-14 is 4.14 percent, which is the highest level of achievement since 2008-09 and will further increase in coming years as business climate is improving.

China and Pakistan have entered into a comprehensive plan to establish economic corridor between the two countries. The list of projects to be completed in Pakistan is under consideration and joint working group have been formed. The corridor will serve as a driver for connectivity between South Asia and East Asia. The trade in the world is expected to increase and Pakistan will benefit from key export markets, and undoubtedly the Pakistan economy has a bright future.

The International Monetary Fund (IMF) has reflected in the forecasts that entire world economy growth is forecasted to reach 3.6 percent in 2014 and 3.9 percent in 2015. IMF has forecasted the Euro Area growth at 1.2 percent in 2014 and 1.5 percent in 2015. The forecast for improved growth in the Euro area reflects improvement in economic activities of the Euro area. Germany's growth is strengthening and is forecasted to be 1.7 percent in 2014. In contrast to this growth US is forecasted to be 2.8 percent in 2014 and 3.0 percent in 2015. Under such circumstances China has maintained its position as its growth rate is forecasted at 7.5 percent for the current year and 7.3 percent for the year 2015. Maintaining the growth momentum of China is encouraging for the world, which is providing support for commodities markets and growth in other countries.

IMF has forecasted the growth for Japan at 1.4 percent for the year 2014 and for the year 2015 it is projected at 1.0 percent. Growth in the developing Asian economies is projected at 6.7 percent in 2014 and 6.8 percent for the year 2015. The growth projected for the African and South Asian countries are better for the year 2014 and as well as for 2015. The country wise detail of forecasting of the GDP growth is presented below in the Table 1.1. The improving performance of Europe is good for the world and especially better impact on the economy of Pakistan. As the European Union has granted GSP plus status to Pakistan, which will certainly boost the exports and the industrial sector of the economy of Pakistan. The broad based recovery in Europe will also provide more avenues for Pakistan to attain respectable levels of growth, improve the external accounts and fiscal position as we have a significant volume of trade with Euro zone.

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

Region/Country	2009	2010	2011	2012	2013	2014	2015 (P)
World GDP	**-0.4**	**5.2**	**3.9**	**3.2**	**3.0**	**3.6**	**3.9**
Euro Area	-4.4	2.0	1.6	-0.7	-0.5	1.2	1.5
United States	-2.8	2.5	1.8	2.8	1.9	2.8	3.0
Japan	-5.5	4.7	-0.5	1.4	1.5	1.4	1.0
Germany	-5.1	3.9	3.4	0.9	0.6	1.7	1.6
Canada	-2.7	3.4	2.5	1.7	2.0	2.3	2.4
Developing Countries	7.7	9.7	7.9	6.7	6.5	6.7	6.8
China	9.2	10.4	9.3	7.7	7.7	7.5	7.3
Hong Kong SAR	-2.5	6.8	4.8	1.5	2.9	3.7	3.8
Korea	0.3	6.3	3.7	2.0	2.8	3.7	3.8
Singapore	-0.6	15.1	6.0	1.9	4.1	3.6	3.6

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

Region/Country	2009	2010	2011	2012	2013	2014	2015 (P)
Vietnam	5.4	6.4	6.2	5.2	5.4	5.6	5.7
	ASEAN						
Indonesia	4.6	6.2	6.5	6.3	5.8	5.4	5.8
Malaysia	-1.5	7.4	5.1	5.6	4.7	5.2	5.0
Thailand	-2.3	7.8	0.1	6.5	2.9	2.5	3.8
Philippines	1.1	7.6	3.6	6.8	7.2	6.5	6.5
	South Asia						
India	8.5	10.3	6.6	4.7	4.4	5.4	6.4
Bangladesh	5.9	6.4	6.5	6.1	5.8	6.0	6.5
Sri Lanka	3.5	8.0	8.2	6.3	7.3	7.0	6.5
Pakistan*	**0.4**	**2.6**	**3.7**	**3.8**	**3.7**	**4.14**	**5.1**
	Middle East						
Saudi Arabia	1.8	7.4	8.6	5.8	3.8	4.1	4.2
Kuwait	-7.1	-2.4	6.3	6.2	0.8	2.6	3.0
Iran	3.9	5.9	2.7	-5.6	-1.7	1.5	2.3
Egypt	4.7	5.1	1.8	2.2	2.1	2.3	4.1
	Africa						
Algeria	1.6	3.6	2.8	3.3	2.7	4.3	4.1
Morocco	4.8	3.6	5.0	2.7	4.5	3.9	4.9
Tunisia	3.1	2.9	-1.9	3.6	2.7	3.0	4.5
Nigeria	7.0	8.0	7.4	6.6	6.3	7.1	7.0
Kenya	2.7	5.8	4.4	4.6	5.6	6.3	6.3
South Africa	-1.5	3.1	3.6	2.5	1.9	2.3	2.7

Source: World Economic Outlook (IMF), April 2014.
* : Finance Division, Government of Pakistan
P : Projected.

In this global village the economy of Pakistan is closely associated to rest of the world due to its strategic position and high external sector exposure. As the global economy is picking up and the economies of major trading partners of Pakistan are improving, which will potentially have positive impact on the economy of Pakistan to improve further and uplift socio-economic condition of the country.

Box-1: Infrastructure Development and Economic Growth

Pakistan has a great potential to grow fast and Infrastructure development can plays a significant role in its growth journey. Construction of essential public infrastructure is an important ingredient for recovery, sustained economic growth and poverty reduction. Infrastructure involves fundamental structures that are required for functioning of a community & society; it contains structures like roads, rail links, electrical grids and transmission, telecommunications, energy, and so on. Historically, investment in infrastructure has provided a fillip to strong economic development. US and Western Europe are examples of solid infrastructure helping to lead the world economy, by encouraging innovation, allowing sustained development and inclusive growth. Our counterparts in Asia including China, Japan and South Korea, have an edge over us in terms of infrastructure and public amenities. For Pakistan to achieve developed level and to ensure sustainability, it is important to focus on infrastructure development.

The present government after coming into power focused on economic challenges and started preparing next Five year plan and the Vision 2025 with well coordinated efforts focusing on seven priority areas so that comprehensive development of infrastructure may be made on sustainable patterns and to turn around the national economy by putting it on fast track growth by harnessing the available resources.

Pakistan is making efforts to solve chronic energy crisis that crippled industry and other sectors. To combat the crisis, Pakistan has sought Chinese help for power generation projects. Chinese companies are working on major projects in energy, roads and technology which are expected to be completed in coming years. Initiatives which are planned and being implemented in energy sector include a number of projects like Power park infrastructure at Gadani, Jetty for coal supply to 10x660 MW coal based power stations at power park Gaddani, 2x660 MW coal power stations by Genco Holding Company at PPP Gadani, Transmission lines for evacuation from power park Gadani and Thar Block-2 (phase-I), 2x660 MW coal power projects by Government of Punjab at Sahiwal, Sindh- Engro Coal Mining (SECMC) open pit

Mining and Diamer Basha Dam.

The other priority area includes transport and communication. The concept involves improving road and rail networks to link China through Pakistan to the Arabian Sea and its benefits would also extend to other neighboring countries. Investing in such infrastructure is a chance to boost trade and economic activities in all related sectors of the economy, which will uplift socio-economic condition in the country. The major initiatives/plans for the development of road infrastructure includes Gawadar- Khunjerab Road link which is 2395 km long having section Railkot- Islamabad (486km), Islamabad- Darya Khan section (260km), Darya Khan-Dera Allah Yar section (480km), Dera Allah Yar- Nag (385km) and Nag- Gawadar (442km). Karachi-Lahore Motorway with length of 1100km having Karachi-Sukhur Section (395 km), Sukhur- Multan section (375km), Abdul Hakeem- Lahore section (229 km). Muzaffarabad- Mangla-Mirpur Expressway section (195km) and Peshawar- Torkham Expressway (E-1) section (50km). Along with other modes of communication the importance of railways cannot be ignored for industrial development and to remove regional disparity. Recognizing the importance of this means of transport, the effective measures to up-grade, rehabilitate and extend the railways networks are being under taken. A number of important projects are being initiated including; Up-gradation of existing railway track from Karachi to Peshawar (ML-1), Up-gradation/ Rehabilitation of Main Line (ML-2), Development of Dryport and Cargo handling facilities at Havelian, New rail link from Gawadar to Karachi (Length=700km), new rail link from Gwadar to Jacobabad via Besima and Khuzdar (Length=1050km), New Rail Link from Havelian to Khunjerab (Length=682km), Rehabilitation/ Improvement of Quetta- Taftan section (638km), Up-gradation of Peshawar to LandiKotal existing railway link (52km) and New High Speed railLink (250km/Hr) from Peshawar to Karachi along existing alignment of ML-1.

These initiatives will create conducive environment for investment and economic activities in the economy and as a result socio-economic condition of the people will improve over the medium to long term. It will also bring significant growth in tourism, transport and also help to harmonize the region. Pakistan has world's three largest and highest mountain ranges; world's largest salt mine and lots of other places to attract foreign tourists. Developing infrastructure will also create jobs for local people and also provide opportunities for entrepreneurs to establish business like hotels and restaurants etc; it will help to raise standard of living of local residents and reduce poverty from the region. The economy is showing significant signs of recovery, reforming and upgrading of infrastructure will certainly sustain growth.

Sectoral Analysis of Growth

Pakistan has a strong characteristic of diverse economy, which makes it essential to study the performance of various sectors and subsectors of Gross Domestic Product (GDP) to distinguish what is happening in different sub sectors and on the overall economic growth. The growth performance of all specified components of GDP over the last eight years is described below in Table-1.2. The presented data identified the relative importance of various sectors and sub-sectors of the economy and their inter- relationship.

Table 1.2: Growth Rate (%)

Sectors/Sub-Sectors	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14 (P)
A. Agriculture	**3.4**	**1.8**	**3.5**	**0.2**	**2.0**	**3.6**	**2.9**	**2.1**
Crops	4.4	-1.0	5.2	-4.2	1.0	3.2	2.3	1.2
Important Crops	6.5	-4.1	8.4	-3.7	1.5	7.9	1.2	3.7
Other Crops	2.1	6.0	0.5	-7.2	2.3	-7.5	6.1	-3.5
Cotton Ginning	-0.8	-7.0	1.3	7.3	-8.5	13.8	-2.9	-1.3
-Livestock	2.8	3.6	2.2	3.8	3.4	4.0	3.5	2.9
-Forestry	2.7	8.9	2.6	-0.1	4.8	1.8	1.0	1.5
-Fishing	0.4	8.5	2.6	1.4	-15.2	3.8	0.7	1.0
B. Industrial Sector	**7.7**	**8.5**	**-5.2**	**3.4**	**4.7**	**2.5**	**1.4**	**5.8**
2. Mining & Quarrying	7.3	3.2	-2.5	2.8	-4.4	5.2	3.8	4.4
3. Manufacturing	9.0	6.1	-4.2	1.4	2.5	2.1	4.5	5.5
-Large Scale	9.6	6.1	-6	0.4	1.7	1.1	4.1	5.3
-Small Scale	8.3	8.3	8.6	8.5	8.5	8.4	8.3	8.4
-Slaughtering	3.2	3.3	3.8	3.2	3.7	3.5	3.6	3.5
Electricity Generation & Distribution & Gas Distt	-12.8	37.2	-12.1	16.7	63.9	1.4	-16.3	3.7
4. Construction	12.9	15.4	-9.9	8.3	-8.6	3.1	-1.7	11.3
Commodity Producing Sector (A+B)	**5.5**	**5.1**	**-0.9**	**1.8**	**3.3**	**3.1**	**2.1**	**3.9**
Services Sector	**5.6**	**4.9**	**1.3**	**3.2**	**3.9**	**4.4**	**4.9**	**4.3**

Table 1.2: Growth Rate (%)

Sectors/Sub-Sectors	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14 (P)
7. Wholesale & Retail Trade	5.8	5.7	-3.0	1.8	2.1	1.7	3.4	5.2
6.Transport,Storage and Communication	6.9	5.5	5.0	3.0	2.4	4.6	2.9	3.0
8. Finance & Insurance	9.1	6.3	-9.6	-3.3	-4.2	1.6	9.0	5.2
Housing Services (Ownership of Dwellings	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
General Government Services	2.7	0.2	5.6	8.0	14.1	11.1	11.3	2.2
Other Private Services	4.6	5.4	6.5	5.8	6.6	6.4	5.2	5.8
GDP (fc)	**5.5**	**5.0**	**0.4**	**2.6**	**3.6**	**3.8**	**3.7**	**4.1**

Sources: Pakistan Bureau of Statistics
P: Provisional

Commodity Producing Sector

Commodity producing sector is base of the economy which consists of two major sectors including agriculture and industry. It is the most vital sector of the economy which has relatively stronger forward and backward linkages for economic wellbeing of the society and also key driver of improvement in all macroeconomic indicators. It accounted for 41.8 percent of GDP during the outgoing fiscal year which is decreasing over time due to evolutionary stages of growth. It has witnessed a decreasing trend from 44.0 percent of GDP in 2005-06, indicating the share of the non-commodity producing sector has enhanced. The commodity producing sector has performed much better in outgoing fiscal year as compared to last year; its growth rate during the outgoing year is recorded at 3.9 percent against the growth of 2.1 percent last year. The significant contribution in commodity producing sector is from industrial sector, which recorded impressive growth of 5.8 percent as compared to 1.4 percent last year. The performance of overall agriculture sector remained moderate due to lower growth of other crops while important crops including Wheat, Rice, Sugarcane witnessed better production except Cotton. Government has launched a number of initiatives to tap the potential growth of the commodity producing sector, which will bear fruits after some lag and enhance performance of commodity producing sector in coming years.

Agriculture Sector

Agriculture is the main source of livelihood for the rural population and ensures food availability to rural and urban inhabitants. Its a key sector of the economy as it provides raw materials to main industrial units of the country and also plays a major contribution in export earning of the country. The agriculture sector accounts for 21.04 percent of GDP and 43.7 percent of employment, the sector has strong backward and forward linkages. The agriculture sector has four sub sectors including: crops, livestock, fisheries and forestry. Growth of agriculture sector also contributes significantly in the improvement of rural community and to contain price hike in essential food items. Although scientific and technological innovations are playing their role in the improvement of agriculture sector but there is no doubt its performance is mostly weather dependent. Due to such characteristics of agriculture its performance remained volatile despite the supporting role of government as compared to other sectors of the economy. The performance of the agriculture sector in outgoing fiscal year remained moderate due to unfavorable weather conditions which results in lower production of cotton and other crops.

Agriculture sector recorded a growth of 2.1 percent against the growth of 2.9 percent last year. The decline in growth was due to drop in the estimated cotton production and other minor crops but somehow compensated by the better output of Rice, Sugarcane, Wheat and Maize crops. Livestock recorded a moderate growth.

Important Crops: Important crops account for 25.24 percent of agricultural value addition and its share in GDP is 5.4 percent. This sub-sector has recorded a better growth of 3.74 percent compared to a growth of 1.19 percent last year. The important crops includes all major crops like wheat, maize, rice, sugarcane and cotton which registered growth at 4.44 percent, 7.27 percent, 22.79 percent, 4.27 percent and -2.00 percent respectively. Main cause for the negative growth of cotton is 2.54 percent less area under cultivation for the crop on account of farmers preference to other cash crop for better price as well as unfavorable weather conditions of the cotton growing areas.

Other Crops: Other crops have a share of 11.65 percent to value addition in overall agriculture sector and contribute 2.5 percent in the GDP. This sub-sector of agriculture has witnessed a growth at -3.53 percent against the growth of 6.05 percent last year. This decline in growth of minor crops is mainly due to 36.8 percent lower production in gram, 7.8 percent less production of Potatoes, 5.1 percent decline in production of masoor and 5.4 percent decrease in other pulses. Moreover it is also recorded that production of rape& mustard, chilies, mango, water melon and guava declined by 11.5 percent, 1.4 percent, 1.3 percent, 2.7 percent and 0.9 percent, respectively. The extreme weather condition and heavy rains in these crops areas were the main factors responsible for the negative growth of this subsector as compared to last year.

Cotton Ginning: Pakistan is one of the leading producers and consumers of cotton in the world market. Ginning is the primary mechanical process involved in the processing of cotton. Ginning is the procedure for separating lint from the seed to cotton. Cotton Ginning has 2.81 percent contribution in agriculture sector and 0.6 percent share in GDP of the country. Cotton Ginning has witnessed a growth of -1.33 percent against the growth of -2.90 percent in the previous year due to reduction of the production of cotton as compared to last year. Cotton Ginning was included in agriculture sector after rebasing of National Accounts 2005-06; prior to this, it was a component of manufacturing sector.

Livestock: Livestock is the most significant component of agriculture sector, which contributes 55.91 percent of agriculture value addition. It is a sub-sector of agriculture which is relatively less volatile as compared to other subsectors. It is a good source of job creation and do not depend on heavy mechanical, energy and other developed infrastructure and contributing in socio-economic wellbeing of the rural population at large. Its share in agriculture is more than combined shares of all other subsectors of agriculture and contributes 11.8 percent in GDP. Livestock consist of cattle, buffalos, sheep, goat, camel, horses, asses, mules and poultry and their products. Scientific and technological advancements along with evolutionary stages of growth, the demand for livestock has grown at a phenomenal pace. The increasing trend in prices of livestock has provided incentive for greater production activities in this sub-sector. The significance of livestock may be acknowledged by the fact that the majority of people living in rural areas directly or indirectly depend on the livestock and dairy sector and is contributing in the wellbeing of small farmers and the landless rural poor.

Livestock has registered a growth of 2.88 percent against the growth of 3.99 percent last year. The production of milk, poultry products and other livestock items augmented at the rate of 2.96 percent, 7.38 percent and 1.12 percent, respectively.

Forestry: Growth of the forestry sub-sector is witnessed at 1.52 percent as compared to the growth of 0.99 percent last year. Forests are a key component of our environment and degradation of forests can create severe socio-economic challenges for the future generations. The contribution of this sub-sector in agriculture is 2.04 percent with main components of forestry, timber and fire wood.

Fisheries: Fisheries sub-sector has 2.03 percent contribution in agriculture registered a growth of 0.98 percent compared to the growth of 0.65 percent last year. The sub-components of fisheries such as marine fishing and in-land fishing contributed to an overall rise in value addition in this sub-sector.

Industrial Sector

Industry is the second main component of the commodity producing sector of the economy. The industrial sector contributes 20.8 percent in the GDP of the country; it is also a major source of tax revenues and also contributes significantly in the provision of job opportunities to the labour force. Industrial development is a pre-requisite for uplift of the economy and to improve socio-economic condition of the people due to its multi-dimensional forward and backward linkages, which spillovers benefits to agriculture and services sector of the economy. Industrial sector on one hand creates demand for agriculture produce by using it as raw materials and on the other hand provides latest machineries and tools to modernize crop cultivation process and provides room to reinvest surplus and absorb abundant labour from the economy. Industrial sector also creates demand of various types of services and also provides appliances and other equipments to further modernize the services sector of the economy. Industrial sector is relatively less volatile as compared to other sectors of the economy. When the present government came into power last year, comprehensive policy measures were planned and implemented on fast track to revive the economy. As a result industrial sector started revival and recorded remarkable growth at 5.8 percent as compared to 1.4 percent in last year. The performance of industrial sector is remarkable since 2008-09 onwards. Industrial sector in Pakistan has four sub-sectors including mining & quarrying, manufacturing, electricity generation & distribution and gas distribution and construction. Each sub-sector of the industrial sector has its own importance in GDP of the country, performance of these subsectors are described here.

Manufacturing Sector: Manufacturing is another key sector of the economy playing a dominant role in socio-economic progress of the country. The manufacturing is the most important sub-sector of the industrial sector containing 64.92 percent share in the overall industrial sector. During the last few years, this sub-sector has been suffered by domestic and external factors. Power crises, unstable law and order situation, campaign against extremism remained main obstacles in the growth of this sub-sector. It has been badly affected by acute energy shortages which prevented industries from operating at their optimal capacity level. The proactive policy measures and their implementations on fast track facilitated the revival process and manufacturing sector started picking up with broad base. The growth of the manufacturing sector is registered at 5.55 percent compared to the growth of 4.53 percent last year.

Manufacturing which contribute 13.5 percent in the GDP with 64.92 percent share in overall industrial sector has three sub-components; namely Large-Scale Manufacturing (LSM) with the share of 52.45 percent, Small Scale Manufacturing with the share of 7.97 percent and Slaughtering with the share of 4.49 percent. Small scale manufacturing witnessed growth at 8.35 percent against the growth of 8.28 percent last year and slaughtering growth is recorded at 3.51 percent as compared to 3.60 percent last year. Large Scale Manufacturing (LSM) has registered a significant improvement. It has revealed a growth of 5.31percent as compared to the growth of 4.08 percent last year. The major LSM industries which witnessed impressive growth include: Jute goods 9.13 percent, Sugar 19.19 percent, Beverages 32.28 percent, Juices, syrups & squashes 16.34 percent, Glass plates & sheets 9.04 percent, Nitrogen fertilizer 28.19 percent, switch gears 126.38 percent, air conditioners 88.58 percent, Footwear 17.82 percent, Diesel engines 18.18 percent, cycle tyres 19.09 percent, upper leather 9.26 percent, trucks 26.49 and buses 17.14 percent etc. On the whole 63 major industries group recorded positive growth. The industries which reported negative growth include: LPG 21.13 percent, Coke 74.41 percent, tractors 37.82 percent, Woolen & worsted cloth 12.86 percent, knitting wool 25.58 percent, sole leather 11.01 percent, plywood 12.85 percent, metal drums 21.16 percent, sewing machines 44.83 percent, electric meters 22.24 percent and bicycles 9.82 percent etc.

Construction Sector: The share of construction in industrial sector is 11.48 percent and is one of the potential components of industries. Its contribution in GDP has increased to 2.4 percent as compared to 2.2 percent last year. The construction sector has registered a growth of 11.31 percent against the growth of -1.68 percent of last year. This is also highest growth level achieved since 2008-09. The increase in growth is due to rapid execution of work on various projects, increased investment in small scale construction and rapid implementation of development schemes and other projects of federal and provincial governments.

Mining and Quarrying: Pakistan has economically exploitable reserves of coal, rock salt, limestone and onyx marble, china clay, dolomite, fire clay, gypsum, silica sand and granite, as well as precious and semi- precious stones. Mining and quarrying sub-sector contains 14.45 percent share of the industrial sector and contribute 3.0 percent in GDP of the country. This sub-sector witnessed a growth of 4.43 percent as compared to 3.84 percent growth of last year. The output of Sulphur, Chromite, Bauxite, Dolomite, Coal, Lime Stone, Crude Oil and Rock Salt posted a positive growth of 74.7percent, 70.8 percent, 53.3 percent, 40.7 percent, 16.0 percent, 14.3percent, 11.6 percent and 10.7 percent, respectively. However some witnessed negative growth during the period under review such as the growth of Barytes declined by 41 percent followed by Magnesite 39.6 percent, Cooper 28.4 percent, Soap Stone 9.2 percent and Phosphate 9.1 percent, respectively.

Electricity generation & distribution and Gas Distribution: This is the most essential component of industrial sector and also directly and indirectly contributes in uplift of all sectors of the economy. Its contribution in industrial sector is 9.15 percent and the share in the GDP is 1.9 percent. This sub-sector has registered a growth at 3.72 percent as compared to negative growth (-16.33) percent last year. The output of electricity WAPDA component recorded a positive growth 10.46 percent as compared to -17.99 percent last year, whereas KESC has negative growth 11.90 percent as compared to positive growth of 24.48 percent growth last year.

Services Sector:

Services sector has emerged as the most significant driver of economic growth and contributing an essential role in augmenting and sustaining economic growth in Pakistan. Services sector has been growing at a faster rate as compared to the commodity producing sector of the economy from

2008-09 onward. The economy has experienced a major transformation in its economic structure like other economies of the world. The share of the services sector has increased from 56.6 percent of GDP in 2008-09 to 58.1 percent in 2013-14. In developed countries the contribution of services sector in GDP is around 75 percent. Its share is 73 percent in Singapore, 57 percent in Sri Lanka, 56 percent in India and 54 percent in Bangladesh.

Services sector contains six sub-sectors including: Transport, Storage and Communication; Wholesale and Retail Trade; Finance and Insurance; Housing Services (Ownership of Dwellings); General Government Services (Public Administration and Defense); and Other Private Services (Social Services). The Services sector has witnessed a growth rate of 4.3 percent as compared to 4.9 percent last year. The achieved growth performance in services sector is broad based, all components contributed in positive growth as Finance and Insurance at 5.2 percent, General Government Services at 2.2 percent, Housing Services at 4.0 percent, Other Private Services at 5.8 percent, Transport, Storage and Communication at 3.0 percent and Wholesale and Retail Trade at 5.2 percent. This sector of the economy has a great potential to grow at much higher rate and government is making best efforts to tap this potential and in this regard various initiatives have been launched to create an enabling environment.

Finance and Insurance: Finance and insurance has 3.1 percent share in GDP and contributes 5.38 percent in the services sector. This sub-sector comprises the State Bank of Pakistan; all scheduled banks (domestic and foreign), Development Financial Institutions (DFIs), all insurance (life and general) companies, Modaraba/Leasing companies, Money Changers and stock exchange brokers. The financial sub-sector consists of all resident corporations principally engaged in financial intermediations or in auxiliary financial activities related to financial intermediation. Finance and insurance registered a growth of 5.17 percent as compared to 8.98 percent last year. The main reasons of lower growth include negative growth (-43.61) percent of non-scheduled banks and negative growth (-19.71) percent in financial leasing. One possible reason of lower growth of this sub sector is that banks adopted risk averse stance, as a result profitability of banks declined and lower growth in money supply as compare to last year, which resulted decline in balance sheet growth of the banks. But outlook suggest that borrowing requirement of government will decline in coming months and lending to private sector is increasing, which suggest growth of this sub-sector will increase in next period.

Transport, Storage and Communication: Transport, Storage and Communication (TS&C) component of services sector is playing key role in boosting the economic activities of the country. The value added in this sub sector is based primarily on the profits and losses of Pakistan Railways, Pakistan International Airlines and other airlines, Pakistan posts and courier services, Pak telecom and motors vehicles of different kinds on the road. This subsector has a share of 13.0 percent in the GDP and contributes 22.35 percent in the services sector, but it directly and indirectly contributes in the growth of all sectors of the economy. The TS&C sub-sector recorded a growth of 2.98 percent as compared to 2.88 percent last year. Railways has registered a growth of 10.25 percent against the negative growth of (-47.54) percent last year. This impressive performance of Railways is an indicator that government policies are working to turn around the economy. Air transport recorded the growth of 6.07 percent and pipeline transport registered growth at 8.49 percent, road transport grew at 3.69 percent and storage witnessed growth at 5.17 percent against the growth of 3.24 percent in the last year.

Wholesale and Retail Trade Sector: Wholesale and retail trade having 18.6 percent contribution in GDP is the largest subsector of the services, with the share of 31.94 percent in the services. The wholesale and retail trade is based on the margins taken by traders on the transaction of commodities traded. This sub-sector recorded a growth of 5.18 percent as compared to 3.38 percent in the last year. Improving energy situation and achieving of GSP plus status are contributing in the uplift of this sub-sector, which will grow at faster rate as the situation is improving and more enabling environment is being provided.

General Government Services: General government contributes 7.0 percent in GDP and its share in services sector estimated at 12.10 percent. The General Government Services (Public Administration and Defense) witnessed a growth of 2.19 percent as compared to 11.32 percent last year. One reason of lower growth in real term for this sub sector is 10 percent increased in salary and almost 8.5 percent increase in inflation, accompanied with 30 percent cut on non development expenditures.

Housing Services: Housing Services (Ownership of Dwellings) has maintained the same rate of growth at 4.0 percent during the outgoing fiscal year as the same of last year. This sub-sector contributes 6.8 percent in GDP and having 11.63 percent share in the services sector.

Other Private Services (Social Services): This subsector has share of 9.7 percent in the GDP and 16.67 percent contribution in the services sector. Other private services grew by 5.85 percent as compared to the growth of 5.24 percent last year. The growth in the other private services is mainly the outcome of the fast track work by the government, and other stakeholders including private sector and various non-government organizations on construction and rehabilitation of rains affected areas.

Box-2: New Initiatives of Quarterly Growth

Pakistan Bureau of Statistics released quarterly growth rate for the first time during the current fiscal year and is making it a regular feature to release quarterly economic figures as this would help the government, academia, researchers and other stakeholders to know the direction of economy and trend of economic indicators for better future planning & economic management.

The first quarter data revealed quarterly results of national accounts, estimated economic growth during July-September, FY14 registered at 4.8 percent against 2.8 percent recorded in the same quarter of last year on the back of 2.3 percent growth in agriculture, 5.8 percent in industries and 5.2 percent in services against 2.7, 1.8, and 3.3 percent growth respectively during the same period last year. While during first half of current fiscal year, real GDP grew by 4.1 percent against 3.4 percent recorded in the same period of FY13 on the basis of contribution from agriculture, industry and services by 2.0 percent, 5.4 percent and 4.4 percent respectively. The agriculture growth for the same period of last year was recorded at 1.4 percent industry 2.5 percent & service 4.5 percent.

The data was collected & reviewed by using the production method which is the normal procedure to collect data. The same methodology had been used to prepare the quarterly data that was used for the collection of the National Accounts using 2005-06 as the base year, which is a comprehensive, coherent and integrated national accounting system. The 2008 system of national accounts was an improvement over its previous three versions. The 2008 SNA is applicable in all countries whether develop, or developing. The concepts of the 2008 SNA have been harmonized with data Balance of payments, Government Financial Statistics, Money & Banking Statistics of the IMF. Pakistan has shared its methodology for preparation of quarterly economic figures with international financial institutional like IMF. They have expressed complete satisfaction over the methodology.

Contribution to Real GDP Growth

(Production Approach)

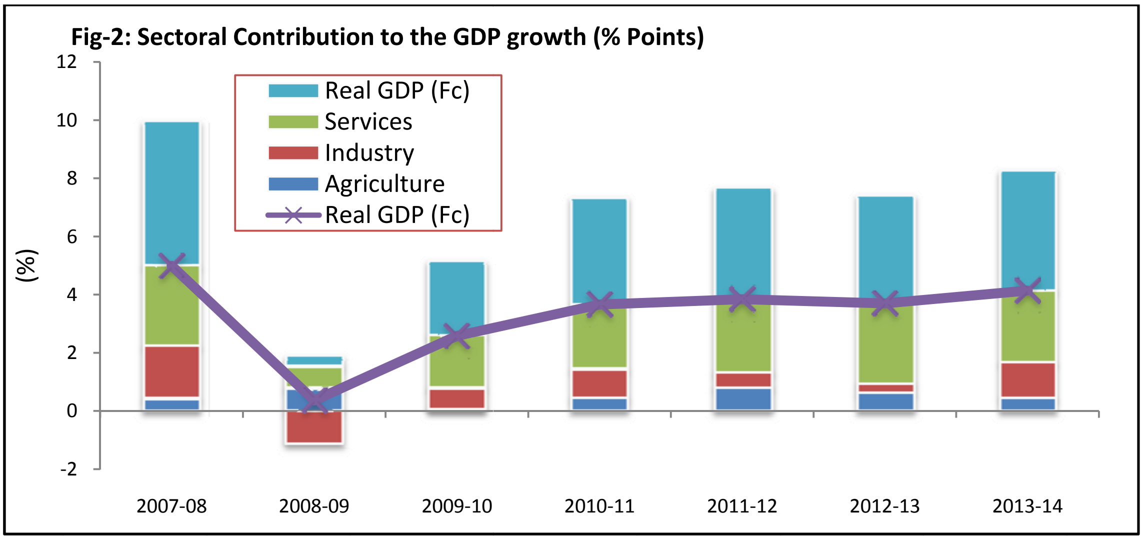
The previous trend as evident from 2009-10 onwards indicates that the contribution to economic growth is dominated by the services sector and the contribution of commodity producing sector also remained supporting to overall growth. The commodity producing sector contributed 39.86 percent to overall economic growth, out of which agriculture shared 10.87 percent and the industry 28.99 percent. The services sector shared the major chunk of 60.14 percent to the overall economic growth.

The overall growth of 4.14 percent is shared between the Commodity producing and Services sectors of the economy. Within the commodity producing sector, agriculture component contributed 0.45 percentage points to overall GDP growth as compared to 0.62 percentage points last year, while industry contributed 1.20 percentage points as compared to 0.29 percentage points previous year, which is an indicator that industrial revival is on fast track due to government policies. Services sector contributed most significantly 2.49 percentage points. The sectoral point contribution to the GDP growth is presented below in Table-1.3.

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

Sector	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Agriculture	**0.41**	**0.76**	**0.05**	**0.43**	**0.79**	**0.62**	**0.45**
Industry	**1.81**	**-1.15**	**0.71**	**0.95**	**0.54**	**0.29**	**1.20**
- Manufacturing	0.87	-0.60	0.19	0.34	0.28	0.60	0.74
Services	**2.77**	**0.75**	**1.81**	**2.24**	**2.51**	**2.79**	**2.49**
Real GDP (Fc)	**4.99**	**0.36**	**2.58**	**3.62**	**3.84**	**3.7**	**4.14**

Source: Pakistan Bureau of Statistics



Contribution to Real GDP Growth

(Aggregate Demand Side Analysis)

In aggregate demand consumption, investment and exports are three main drivers of economic growth. Most of the economies have consumption as the largest and relatively smooth component of aggregate demand, the other two components investment and exports are volatile as compared to consumption. In all economies of the world output is the sum of consumption (both private and public), investment (public and private) and net exports of goods and services. Pakistan's economic growth mostly recognized as consumption-led growth historically. Pakistani society like other developing countries is a consumption oriented society, having a high marginal propensity to consume. As a result private consumption is the major sub-component of aggregate demand; aggregate demand is the sum of consumption, investment and net exports (exports minus imports) of the goods and services.

Demand side analysis provides more comprehensive analysis and insight of growth drivers including consumption, investment and exports. The private consumption expenditure in nominal terms reached to 80.49 percent of GDP, whereas public consumption expenditures are 12.00 percent of GDP. Total consumption expenditures have reached to 92.49 percent of GDP in outgoing fiscal year as compared to 92.14 percent of last fiscal year. The same trend is observed in data analysis in the real terms. Total consumption has increased 0.35 percent of GDP, private consumption decreased by 0.69 percentage point as it declined from 81.18 percent of GDP to 80.49 percent of GDP. While public consumption increased by 1.04 percent of GDP as it increased from 10.96 percent of GDP to 12.00 percent of GDP.

Economic growth in outgoing fiscal year largely contributed by the private consumption on account of sustained growth in remittances, increase in rural income due to higher production of crops, better growth in small scale manufacturing and other services. Consumption contributed 6.00 percentage points to overall economic growth, while the investment contributed 0.15 percentage point, and net exports contributed -0.74 percentage points. A positive aspect is that point contribution of investment is increasing in the overall growth. A number of improving factors like recovery in global business, improving energy supply and improving law and order situation along with other proactive government measures are contributing in this regard. The contribution of net exports has been negative; one of the reasons is higher imports growth. On the positive note, it is observed that 14 percent of imports consists of machineries which will certainly increase productive capacity of the economy and boost economic growth in coming period. As per previous years domestic demand continued to be the most significant driving force for economic growth, with private consumption being the major contributor for sustaining aggregate demand. The point contribution to GDP growth is presented below in the Table-1.4.

Table-1.4: Composition of GDP Growth

Point Contribution

Flows	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Private Consumption	3.30	2.69	-0.56	1.32	3.37	3.92	1.98	4.62
Public Consumption	-0.11	-0.09	1.21	-0.06	0.00	0.74	1.06	1.39

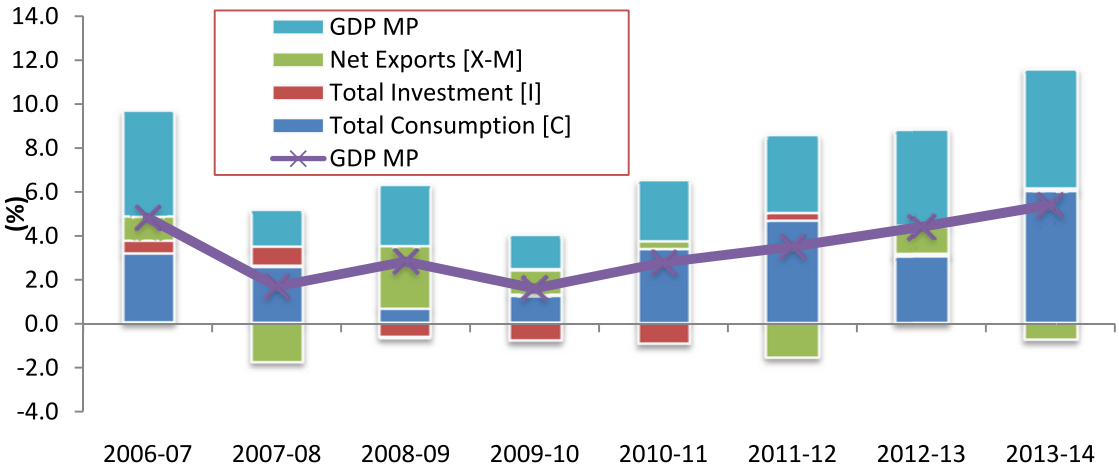
Table-1.4: Composition of GDP Growth

Point Contribution

Flows	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Total Consumption [C]	**3.18**	**2.60**	**0.66**	**1.26**	**3.37**	**4.66**	**3.04**	**6.00**
Gross Fixed Investment	0.48	0.85	-0.70	-0.85	-0.98	0.33	0.02	0.06
Change in Stocks	0.08	0.03	0.05	0.03	0.04	0.06	0.07	0.09
Total Investment [I]	**0.56**	**0.88**	**-0.66**	**-0.82**	**-0.94**	**0.38**	**0.09**	**0.15**
Exports (Goods & Serv.) [X]	0.21	-0.62	-0.43	1.90	0.33	-2.05	1.53	-0.17
Imports (Goods & Serv.) [M]	-0.88	1.16	-3.26	0.73	-0.02	-0.52	0.25	0.57
Net Exports [X-M]	**1.09**	**-1.78**	**2.83**	**1.17**	**0.35**	**-1.54**	**1.28**	**-0.74**
Aggregate Demand (C+I+X)	**3.96**	**2.86**	**-0.43**	**2.34**	**2.77**	**2.99**	**4.66**	**5.98**
Domestic Demand (C+I)	**3.74**	**3.48**	**0.00**	**0.44**	**2.44**	**5.04**	**3.13**	**6.16**
GDP MP	**4.83**	**1.70**	**2.83**	**1.61**	**2.79**	**3.51**	**4.41**	**5.41**

Source: Pakistan Bureau of Statistics

Fig-3: Sectoral Contribution to the GDP growth (% Points)



Box-3: Vision 2025 and Economic Growth

The draft vision prepared by Planning Commission aims to transform the country into a higher middle income country by 2025. The vision will be realized through strategies and programs defined in associated five year and annual plans. In the vision 2025 the focus is being made in following priority areas:

Development of Human and Social Capital: The vision recognizes the fact that citizens must contribute to the development of the country and lays foundation for the needed economic growth through investment in education, health, youth and development of the citizens. This will not only help in creating an able society but help in the economic growth of the country and taking the country to the category of developed nation. The government has set major investment and efforts for the Youth, Gender equality, Inclusion of vulnerable segments, interfaith harmony, Arts, culture and sports. These efforts are being taken to boost the economy, especially to reap the demographic dividend through better and able society.

Sustained Indigenous and Inclusive growth: The Vision 2025 envisages a stable macroeconomic environment with high saving and investment to maintain sustained economic growth. The Vision has planned a number of initiatives to promote an inclusive higher growth. Some of the initiatives are as follows:

- Documenting the parallel /informal economy: The informal sector provided employment to 73.5% of non-agricultural workforce in 2010-11 and trending upward. The inclusion of this informal economy will help in recording the economic activities and to better channelize them. The initiatives and regulations will be realigned for the informal to enable them to be coherent with the economic policies of the country.
- Tax, investment and exports nexus: TIE as percent of GDP has declined substantially in previous years and thus caused lower growth. In order to channelize investment in priority sub-sectors identified as potential drivers of growth. Public sector investment will be prioritized and attract private investment to boost business activities, which will enhance investment, exports and tax revenues.
- Urban development: Vision 2025 aims at transforming our urban areas into creative, eco-friendly sustainable cities through improved city governance, effective urban planning, efficient local mobility infrastructure (Metros and better roads) and better security situation.

- Social protection framework: The government has number of plans to help the citizens at all level to gain employment, skill/experience and provide income support.
- Rural enterprise development: The aim is to utilize multiple channels including the provincial agriculture extension services, electronic media and expert advisory services through help-lines to educate and incentivize farmers to make efficient use of inputs, adopt best available farming techniques, optimize crop selection and maximize their yield.

Governance, Institutional reforms and Modernization of Public Sector: Institutional reform and democratic governance will enable an efficient and transparent government which operates under the rule of law and provides security of life and property to its people. While developing a skilled, motivated and results focused civil service, an effective regulatory framework and an infrastructure that leverages supporting technology and global best practices is one of the goal. The Vision aims to take following actions,

- Civil Services Reform
- Accountability for performance at all three tiers of the government
- Restructuring and/or privatization of selected SOEs aimed at making the public sector more effective
- Strengthening e-government infrastructure.
- Police and judicial reforms
- Bureau of Infrastructure Development establishment to coordinate and oversee the program for private sector participation in infrastructure development and develop financing schemes, acting as single window facilitation for project financing and mobilizing commercial equity and debt
- Establishment of a Pakistan Business and Economic Council, chaired by the Prime Minister, to build confidence of private sector, with equal membership of public and private sector for guiding the direction of economy, growth and monitoring performance

All of these proposals will provide a friendly environment to the investors and they can thereby invest with confidence. Hence, it is expected that the Foreign Direct Investment will increase and with these initiatives, trickledown effect can be envisaged, such as job creation, increase in productive activities, and increase in per capita income along with improvement in socio-economic condition of the people at large.

Energy, water and food security: Vision 2025 focusing on the energy, water and food crisis in the country. The supply side of the economy is mainly suffering by the energy shortfall, which has been hampering the growth in the recent years. The proposed actions are as follows,

- Close the effective supply-demand imbalance (approx. 4,000 MW) by 2018.
- Address institutional fragmentation of the sector
- Optimize energy generation mix between oil, gas, hydro, coal, nuclear, solar, wind and bio-mass–with reference to its indigenousness, economics, scalability, risk factors and environmental impact.
- Maximize distribution efficiency and cut wasteful losses through investment in infrastructure and effective enforcement of controls; and ensure access to commercial energy for all sections of the population.
- Focus on demand management and conservation to ensure prioritization in allocation, elimination of wasteful use, incentives to use more energy efficient equipment and appliances, achieve better balance between peak and off-peak hours, etc.

With the availability of electricity along with cheap electricity will reduce the cost of production, making Pakistan more competitive in the world. Beside energy, government has various plans regarding water conservation, food security and climate change, which will make the economic growth sustainable.

Private led growth: Vision 2025 opens doors for the private led growth. Privatization and Infrastructure development are the major initiative in this regard. By private led growth, the people will not only have to rely on jobs but they will be able to start their own business. The job opportunities will increase and help the country in achieving the economic growth. The government enterprises will not be the only drivers of economic activity but the private sector will take the lead.

Developing a competitive Knowledge Economy through Value addition: Vision 2025 envisages fundamental improvements in competitiveness across the industrial/manufacturing, services and agricultural sectors. The strategy to achieve competitiveness mainly focus on enterprises across all sectors will be made viable and sustainable without requiring long-term protection and/or subsidies and these enterprises will be developed to compete successfully in the regional and global markets. The National Productivity Council (NPC) will be revived under the chairmanship of the Prime Minister with relevant experienced professional members. Regular capacity and competitiveness audits will be conducted by the NPC and published in annual competitiveness reports. The knowledge and capacity for the NPC will be acquired in collaboration with domestic and international leaders in competitiveness.

Modernizing Transportation Infrastructure & Greater Regional Connectivity: Efficient and integrated transportation system will be established that will facilitate the development of a competitive economy. Targets are to ensure reduction in transportation costs, safety in mobility, effective connectivity between rural areas and markets/urban centers, inter- provincial high-speed connectivity, integrated road/rail networks between economic hubs (including air, sea and dry ports) and also high capacity transportation corridors connecting major regional trading partners.

The vision accommodates both the supply and demand side of the economy. All of these initiatives will give a kick start to the slowing economy by creating an environment conducive for growth. Hence, it is imperative that when these action plans will be implemented, the output will increase and GDP growth will be accelerated. The Vision 2025 aims to have an inclusive growth with income equality and these initiatives will help all the citizens.

Composition of Gross Domestic Product

Economy of Pakistan, like other developing economies has been experiencing structural transformation. The structure of the GDP has undergone considerable changes during last few decades. Scientific and technological developments contributed in picking up all sectors of the economy but the manufacturing and services sectors got relatively more benefits as compared to agriculture sector. Agriculture sector has some structural, social and cultural obstacles due to which it could not grow consistent and sustainable manner. Furthermore, this sector always face higher risk and vulnerable to natural calamities which normally induce investors to switch towards the non-agriculture sectors, which may have more certain and higher profit, it is an unavoidable outcome of the process of growth and development.

It is evident that the commodity producing sector contributed almost 62 percent of the GDP in 1969-70 which has come down to 41.8 percent in outgoing fiscal year. Further analysis of the CPS indicates that the share of the agriculture has been declining over time. In 1969-70, agriculture accounted for 38.9 percent of GDP, which has decreased gradually to 21.0 percent in outgoing fiscal year. The turn down in the share of CPS means that over time services sector grew more rapidly and its share increased in the GDP. Within the services sector, almost all sub-sectors have raised their contributions. The share of all sectors and associated sub-sectors of GDP is presented in Table-1.5 overtime.

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

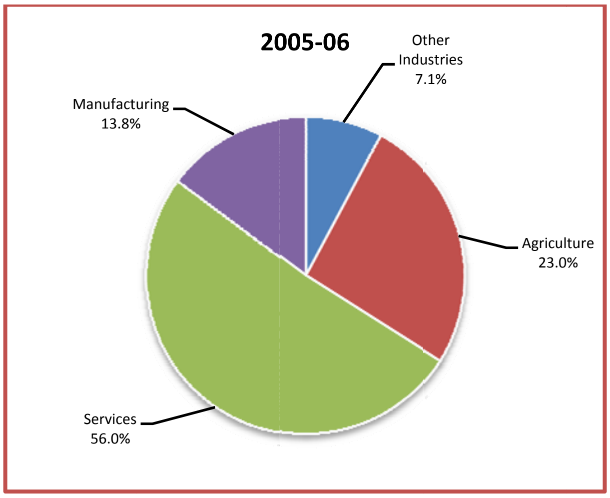
Sectors/Sub-Sectors	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Commodity Producing Sector (A+B)	**44.0**	**43.9**	**44.0**	**43.4**	**43.1**	**42.9**	**42.6**	**42.0**	**41.8**
Agriculture	**23.0**	**22.5**	**21.9**	**22.5**	**22.0**	**21.7**	**21.6**	**21.5**	**21.0**
1. Crops	9.9	9.8	9.3	9.7	9.1	8.8	8.8	8.7	8.4
Important Crops	5.8	5.9	5.4	5.8	5.4	5.3	5.5	5.4	5.4
Other Crops	3.3	3.2	3.2	3.3	2.9	2.9	2.6	2.6	2.5
Cotton Ginning	0.8	0.7	0.7	0.7	0.7	0.6	0.7	0.6	0.6
2. –Livestock	12.1	11.7	11.6	11.8	11.9	11.9	11.9	11.9	11.8
3. –Forestry	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.4	0.4
4. –Fishing	0.6	0.5	0.6	0.6	0.6	0.5	0.5	0.4	0.4
B. Industrial Sector	**20.6**	**21.4**	**22.1**	**20.9**	**21.0**	**21.2**	**21.0**	**20.5**	**20.8**
1. Mining & Quarrying	3.3	3.4	3.3	3.2	3.2	3.0	3.0	3.0	3.0
2. Manufacturing	13.8	14.3	14.4	13.8	13.6	13.4	13.2	13.3	13.5
-Large Scale	11.7	12.2	12.3	11.5	11.3	11.0	10.8	10.8	10.9
-Small Scale	1.2	1.2	1.2	1.3	1.4	1.5	1.5	1.6	1.7
-Slaughtering	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
3. Electricity Generation & Distribution & Gas Distt	1.4	1.2	1.5	1.3	1.5	2.4	2.4	1.9	1.9
4. Construction	2.4	2.6	2.8	2.5	2.7	2.4	2.4	2.2	2.4
C. Services Sector	**56.0**	**56.1**	**56.0**	**56.6**	**56.9**	**57.1**	**57.4**	**58.1**	**58.1**
1. Wholesale & Retail Trade	19.7	19.8	19.9	19.3	19.1	18.8	18.4	18.4	18.6
2.Transport,Storage and Communication	12.4	12.6	12.7	13.3	13.3	13.1	13.2	13.1	13.0
3. Finance & Insurance	3.7	3.8	3.8	3.5	3.3	3.0	2.9	3.1	3.1
4.Housing Services (Ownership of Dwellings	6.5	6.4	6.4	6.6	6.7	6.7	6.7	6.8	6.8

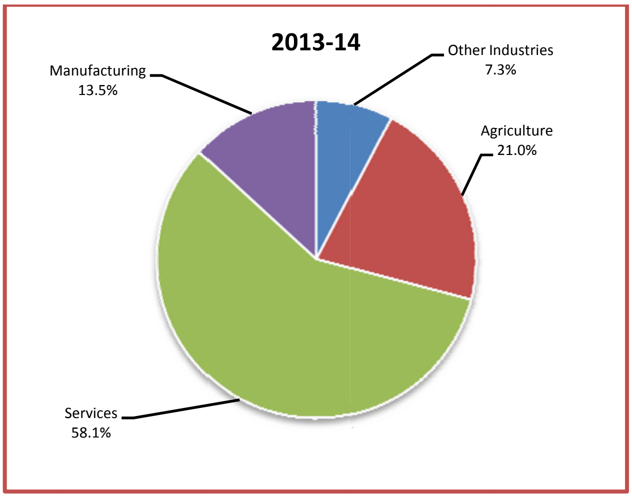
Table 1.5: Sectoral Share in Gross Domestic Product (GDP)

Sectors/Sub-Sectors	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
5. General Government Services	5.5	5.4	5.1	5.4	5.7	6.2	6.7	7.2	7.0
6. Other Private Services	8.1	8.1	8.1	8.6	8.9	9.1	9.4	9.5	9.7
GDP (fc)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

The following Fig-4 shows the structural shift in the economy. During the last 8 years the sectoral share of the agriculture sector has declined from 23.0 percent to 21.0 percent. The sectoral share of the manufacturing sector also decreased from 13.8 percent to 13.5 percent and the share of other industries has remained more or less stagnant around 7.1 to 7.3 percent of the GDP over the last 8 years. The share of the services sector has increased from 56.0 percent to 58.1 percent in the same period. It may be concluded that on the whole structural transformation has remained moderate during the period under discussion.

Fig-4: Contribution to GDP





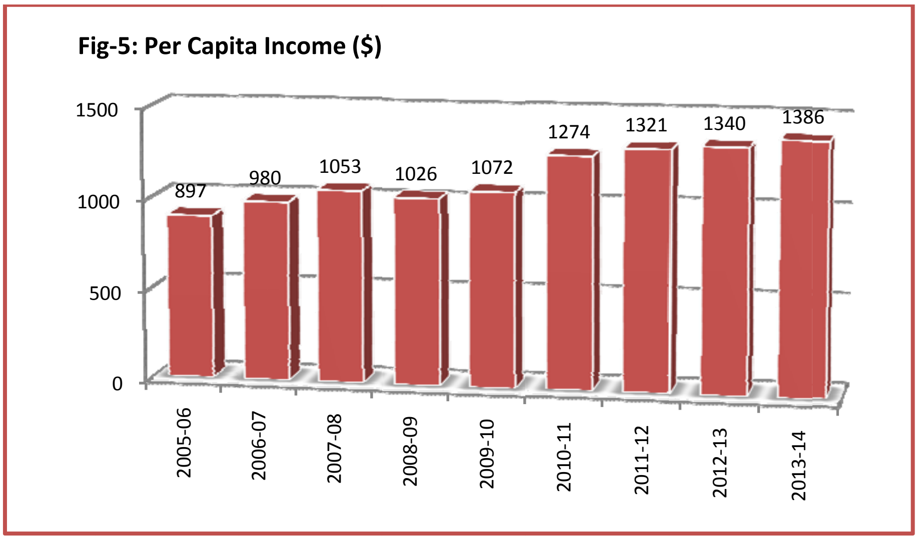
Per Capita Income:

Economic literature considers per capita income one of the key indicators to measure and compare economic well-being. Although a number of analytical tools and sophisticated indicators for measurement of well being were introduced over time, but none of them could undermine the importance of per capita income in providing simple reflection of the average standards of living of the people in a country. Per capita income is defined as Gross National Product at market price in dollar term divided by the country's population. Per Capita Income in dollar terms recorded a growth of 3.5 percent in 2013-14 as compared to 1.44 percent last year.

The per capita income in dollar terms has increased from $ 897 in 2005-06 to $ 1,386 in 2013-14. The main factors, which contributed in this increase, may be acceleration in real GDP growth, relatively lower growth in population and the appreciation of Pak Rupee. Fig-5 shows the improvement in per capita income during the last eight years.

Investment and Savings

Pakistan is blessed with varying terrains ranging from snow covered peaks, fiery deserts, fertile mountain valleys and irrigated plains along with enjoyment of all the four seasons. These factors make Pakistan friendly to all types of the businesses. Pakistan welcomes foreign investors with comprehensive and most friendly Investment Policy and regulatory framework. Present government is well aware with needs of the Foreign Investors and very much supportive in this regard.



Pakistan is providing great potential opportunities to investors; the macroeconomic environment is conducive for growth, profit making opportunities and capital appreciation are the encouraging factors. There are many sectors in which profitable ventures can be pursued. Hence, Pakistan has the fundamentals of the investment attraction and investors are trying to hold these opportunities.

Investment had been suffered by internal and external factors during last few years and is considered as a key concern for economic growth. Total investment is recorded at 13.99 percent of GDP as compared to 14.57 percent of GDP last years, while fixed investment is registered at 12.39 percent of GDP against the 12.97 percent of GDP last year. Private investment is witnessed at 8.94 percent of GDP as compared to 9.64 percent of GDP in last year. Total Investment which was recorded at Rs.3,276 billion in 2012-13 increased to Rs.3,554 billion for 2013-14. It is an evident that total investment witnessed a growth of 8.5 percent as compared to 8.4 percent last year which is an indicator that investment activities are taking place on fast track as compared to last year and confidence of investors is improving due to government policies. Public investment has recorded an impressive growth rate at 17.12 percent as compared to negative growth (-0.35) percent last year which is a major shift in government expenditure strategy. Certainly it will encourage private sector to invest more to reap benefits in the economy. Public sector investment is vital for catalyzing economic development. It generates spillover effects for private sector investment because private sector development is facilitated through public sector development spending particularly on infrastructure. Public Sector Investment which was recorded at Rs.748 billion in 2012-13 is reported at Rs.877 billion in 2013-14. This huge increase reflected that Public investment as a percent of GDP increased to 3.45 percent against 3.33 percent last year. Furthermore, the credit to private sector during the period July-March 2014 increased by 10 percent as compared to 4 percent last year. It will further supplement private sector investment in the country. Present government has launched a number of initiatives to create enabling environment in the country including steps to improve energy situation, law and order, auction of 3G and 4G licenses, and other investment incentives for the investors. The resolve of the government is to address the issue of low investment and create an enabling environment to revive the confidence of the investors and other stakeholders.

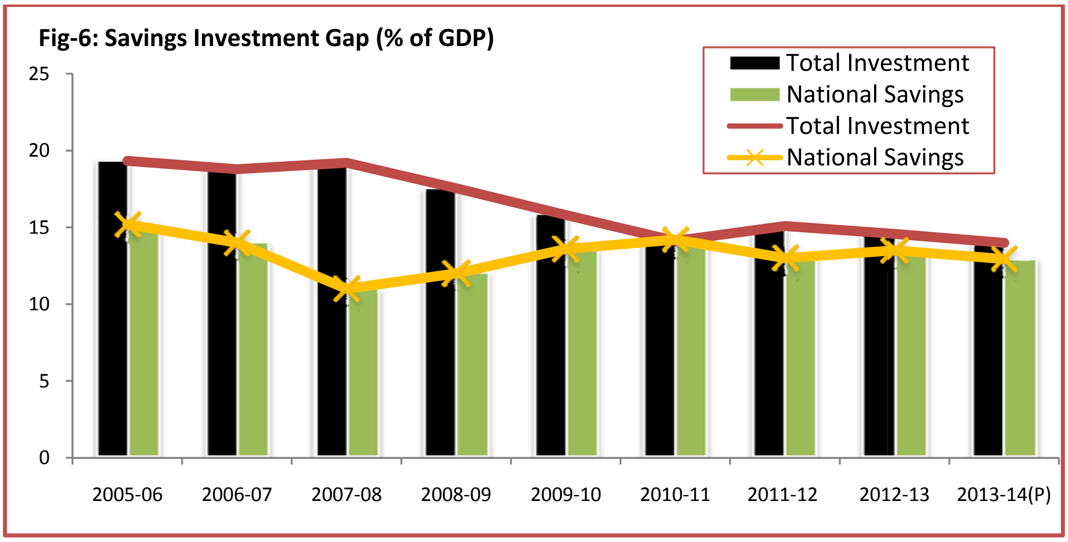
Saving is a key determinant of maintaining a higher level of investment and economic growth. Higher saving brings out more investment, employment generation, stable prices and finally higher growth in the economy. Household savings are the largest component of national savings in most of countries. Domestic savings contribute a dominant role in the economic growth and stability of the country. Economic growth requires investment and it can be financed through domestic savings or from abroad through foreign capital inflows. Higher investment financed by domestic savings is necessary to guarantee the sustained rates of economic growth which is also required for the alleviation of poverty in developing countries. Over last three decades, saving rate has fallen sharply in many countries contributing to the emergence of large current account imbalances in these countries.

National savings are very much important to maintain higher level of investment which is a major determinant for economic uplift. Contribution of national savings to domestic investment is indirectly the mirror image of foreign savings required to meet the investment demand. The foreign savings are needed to finance saving investment gap, reflects the current account deficit in the balance of payments. National savings are recorded at 12.94 percent of GDP in outgoing fiscal year against 13.50 percent in last year. Domestic savings are witnessed at 7.54 percent of GDP in 2013-14 as compared to 8.33 percent of GDP in the last year. Net foreign resource inflows are financing the saving investment gap. There are two possible ways for improving the savings investment gap. One is through increasing savings and the other is through decrease investment. Present government is making best efforts to gear up both savings and investment to raise resource availability for productive use to create more employment opportunities in the country. Table 1.6 shows saving and investment as percentage of GDP and Fig-6 indicates saving investment gap. It is important to mention that during July-March 2013-14 credits to private sector flows has improved and increased to Rs. 335.8 billion against the expansion of Rs. 139.8 billion in the comparable period last year. This will support further private investment in coming months. Private investment recorded in last year was Rs.2,168 billion and it expanded to Rs.2,271 billion for the fiscal year 2013-14. This increase in private investment is an indicator that investors are showing confidence on government policies and outlook is much optimistic, which will further improve macro-economic environment.

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

Description	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14 (P)
Total Investment	**19.33**	**18.79**	**19.21**	**17.55**	**15.80**	**14.11**	**15.08**	**14.57**	**13.99**
Changes in Stock	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Gross Fixed Investment	**17.73**	**17.19**	**17.61**	**15.9**	**14.20**	**12.51**	**13.48**	**12.97**	**12.39**
-Public Investment	4.2	4.6	4.8	4.3	3.7	3.2	3.75	3.33	3.45
-Private Investment	13.5	12.6	12.8	11.7	10.5	9.3	9.73	9.64	8.94
Foreign Savings	-4.11	-4.83	-8.16	-5.51	-2.22	0.10	2.07	1.07	1.05
National Savings	**15.2**	**14.0**	**11.0**	**12.0**	**13.6**	**14.2**	**13.00**	**13.50**	**12.94**
Domestic Savings	13.4	12.3	9.1	9.4	9.8	9.7	7.84	8.33	7.54

Source: EA Wing Calculations
P: Provisional



Foreign Direct Investment

Most countries have liberalized their foreign direct investment (FDI) regimes during more than last two decades and pursued investment-friendly economic policies to attract investment. FDI impacted host countries through a number of positive ways including triggered technology spillovers, assisted human capital formation, contributed to international trade integration, helped in creating a more competitive business environment and promoted enterprises development. In this way FDI contributed to achieve higher economic growth and also helped in alleviating poverty.

Pakistan could not attract FDI as per potential due to number of internal and external factors during last few years. Now the situation is improving, new government has launched comprehensive plan to create investment friendly environment and to attract foreign investors in the country. As is evident, the capital market has reached to 28913 points as compared to 21006 points, reflecting the growth of 38 percent emitting positive signals for restoring the investor's confidence. In the report of "ease of doing business" Pakistan has ranked at 107 out of 185 countries ahead of both India and Bangladesh in the region. The Investment Policy has been designed to provide a comprehensive framework for creating a conducive business environment for the attraction of FDI. Pakistan's policy trends have been consistent, with liberalization, de-regulation, privatization, and facilitation being its foremost cornerstones. The Board of Investment (BOI) under the Prime Minister's office has approved new investment policy to provide more investment friendly environment to investors.

It is estimated that almost fifty five percent of our population is below the age of 19, which bodes well for long- term sustainable economic growth. Pakistan has a strong middle class, which is presently above 63 million. A large part of the workforce is proficient in English, hardworking and intelligent. Pakistan possesses a large pool of trained and experienced engineers, bankers, lawyers and other professionals with many having substantial international experience. The consumer market in Pakistan is growing at a very fast pace as reflected by tele-density which has now reached to 77 percent of the population. Pakistan has a very fruitful market for foreign investors having its very large consumer base of more than 186 million people. People need food, energy and other amenities to live and thrive. There is a great potential in the power and infrastructure sector and in natural resources. Foreign investors can exploit all such opportunities.

Total foreign investment has reached to $2979 million during July-April 2014 as compared to $1277 million showing 133.3 percent higher as compared to last year. Out of total foreign investment, the FDI has reached to $750.9 million. The major inflow of FDI is from US, Hong Kong, UK, Switzerland and UAE. Oil & gas exploration, financial business, power, communications and Chemicals remained the main recipient sectors.

Workers' Remittances

The world has witnessed a surge in international remittances flow over the last few decades. Remittances remained a key source of external resource flows for developing countries, far exceeding official development assistance and more stable than private investment flows. According to Migration and Remittances report 2014 of the World Bank, Pakistan is ranked on 7th number, in terms of the largest recipient of officially recorded remittances in the world. After India Pakistan is the second largest recipient of remittances in the South Asian region. Pakistan is also one of the countries among 20 countries of the world where remittances cover more than 20 percent of imports and also remittances are equivalents to more than 30 percent of exports. The remittances are providing significant support to the balance of payments and also helping in stimulating the domestic economy and also supporting to maintain the foreign exchange reserve and debt payments. Furthermore, it is also contributing in reducing unemployment and improving standard of living of the recipient households.

The Pakistan Remittances Initiative, which was launched in 2009, remained a central part of the government's efforts to encourage inflows from Pakistani Diaspora. The flow of remittances is free of cost, documented, secure and efficient. The SBP resolve is to bring additional remittances through its PRI scheme through continuous improvement in payment system, infrastructure, market research, tapping Pakistani Diaspora as well as strengthening PRI core team. The government is also aiming to explore new markets to export its manpower as well as incentives for the remittances to further enhance its growth. Increase in remittances is mainly the result of the higher demand of Pakistani workers in rest of the world due to worldwide acknowledgement of the skill, honesty and devotion to the assigned work of Pakistani workers. An overview of country wise remittances is presented in Table 1.7.

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

Country	**05-06**	**06-07**	**07-08**	**08-09**	**09-10**	**10-11**	**11-12**	**12-13**	**13-14 July-April***
USA	1,242.49	1,459.64	1,762.03	1,735.87	1,771.19	2,068.67	2,334.47	2,186.24	2,027.06
U.K.	438.65	430.04	458.87	605.59	876.38	1,199.67	1,521.10	1,946.01	1,798.28
Saudi Arabia	750.44	1,023.56	1,251.32	1,559.56	1,917.66	2,670.07	3,687.00	4,104.73	3,806.36
U.A.E.	716.30	866.49	1,090.30	1,688.59	2,038.52	2,597.74	28,48.86	2,750.17	2,522.89
Other GCC Countries	816.87	757.33	983.39	1,202.65	1,237.86	1,306.18	1,495.00	1,607.88	1,527.00
EU Countries	761.98	149.00	176.64	247.66	252.21	354.76	364.79	357.37	355.31
Total	4,600.12	5,493.65	6,451.24	7,811.43	8,905.90	11,200.97	13,186.62	13,921.66	12,894.61

Source: SBP
* : Provisional

Workers' Remittances reached at $ 12894.61 million in July-April of the 2013-14, against the $ 11569.82 million in the comparable period of last fiscal year, which shows a significant increase of 11.45 percent over the period. The available data further suggest monthly average inflow of the remittances for the period of July-April 2013-14 and stood at $ 1,289.46 million compared to $ 1,156.98 million during the corresponding period last year. Remittances from Saudi Arabia recorded substantial growth of 12.90 percent, U.K. 11.62, USA 11.39 percent and UAE 9.12 percent during the period under review.

Box-4: Branchless Banking

Branchless banking is doing wonders in developing and less developed countries like Pakistan, India, Bangladesh, Kenya and South Africa. Under the system the network agents, mostly operating in retail markets, use mobile phones to pay utility bills and transfer money for individuals from one place to another and even to and from bank accounts. The branchless banking has made headway in Pakistan and outlets of network agents can be found in a number of retail markets, around Pakistan. The activity is regulated by the SBP. The most pro-growth plus pro-poor activity that the branchless banking can do right now in Pakistan is to bring the unbanked entrepreneurs into the banking fold. This would not only increase financial deepening in the economy but is also likely to increase the access of the credit constrained micro and small entrepreneurs to formal finance, which may contribute to the private sector led growth of the economy. With the increase in financial deepening, the loanable funds available with the banks would increase and they would be able to lend. The increased availability of credit in the economy will alleviate the credit constraint and thereby help economic growth.

A study reports that at the aggregate level only 14 percent of the Pakistanis enjoy any kind of interface with the formal financial system, as against 32, 48 and 59 percent respectively in Bangladesh, India and Sri Lanka. More than half the population of Pakistan saves but only 8 percent entrust their saving to formal financial institutions. One third of the population borrows but only 3 percent borrow from the formal financial system. Clearly the financial inclusion is low in Pakistan. A study being undertaken at PIDE finds that 38 percent of the micro and small entrepreneurs in the populous city of Rawalpindi do not have a bank account i.e. they do not even have the most preliminary nature of interface with a bank, let alone borrowing from a bank.

Possible reasons for remaining unbanked include but are not limited to; inconvenience or inability of the entrepreneurs to visit a bank during banking hours and low literacy level of the entrepreneurs.

How branchless banking can be used by the banks to reach to such unbanked entrepreneurs who cannot make it to the bank branches to deposit cash. The small entrepreneurs can use the branchless banking network agents present in their market, may be just a few shops away, to deposit money into their bank accounts. If the banks reach out to the unbanked entrepreneurs more aggressively, they can even manage to send the network agent to entrepreneurs' outlets. Thus the entrepreneur will be saved of the trouble and time to visit the network agent. The banker having observed the daily inflows from an entrepreneur X can also offer him/her a loan on the strength of regular inflows. This would help alleviate the credit constraint faced by small and micro entrepreneurs.

In all likelihood the entrepreneurs will not be willing to bear any charges for the transfer of money to their bank accounts. What's the solution? The increase in scale of business that the banks would experience shall allow them to bear the charges. The banks will also experience decrease in cost, in terms of cut in staff strength and lesser branches, with the cut in need to have face-to-face interaction with the customers. The increase in scale of branchless banking and the decrease in traditional intermediation cost of the banks will allow them bear the charges of transfer imposed by the network agent on the remitter.

To promote financial inclusion, SBP has adopted a bank-led approach for promotion of Branchless Banking (BB) with flexibility for inclusion of large players such as Telecoms to partner with banks and Micro Finance Banks (MFBs) to develop innovative banking solution especially for deprived economic segments. The outcome of these efforts is quite encouraging. The agent network under branchless banking models has already crossed 125,000 agents which are offering basic banking services (such as deposits, bills payments, money transfer, G2P payments, etc) to the largely previously unbanked population. Specially, the Branchless Banking channels have played a significant role in recent years in making payments to the beneficiaries of various social welfare schemes under the sponsorship of the Government of Pakistan.

During Oct-Dec, 2013, number of BB transactions grew to reach 54.1 million in number with total value of Rs.234 billion. On an annual basis, 192 million BB transactions worth Rs.802 billion were recorded in the year 2013, reflecting 59 percent more volume and 63 percent higher value in comparison to the year 2012. Currently 3.47 million BB accounts exist which have access to a host of services including fund transfer, utility bill payments, domestic remittance, mobile top ups, loan repayments and saving account features.

In sum branchless banking has opened up new avenues which if tapped can give a boost to growth by improving the state of financial intermediation.

Conclusion and the Way forward

Present government inherited number of problems affecting the economy include energy shortages, weak law and order situation, and a host of other structural impediments that held back investment and growth. Present government after coming into power initiated a number of steps for removal of bottlenecks like energy shortage, bleedings PSEs, create conducive investment climate, boost exports and tax revenues, and to bridge fiscal and current account deficits. It is worth mentioning that during out going fiscal year the economy has achieved initial gains in restoring macroeconomic stability, as major economic indicators have shown significant improvements.

Pakistan has succeeded in securing the Generalized System of Preferences (GSP) plus status from EU, which is likely to boost the country's exports and initially help to increase export worth an additional $ 1 billion. Government is making efforts to improve supply side arrangements, to meet more demand for the products in EU & elsewhere. There are opportunities for Pakistan to push its exports and diversify its products and markets. Strengthening of trade relations with neighboring countries is another major initiative of the government which will contribute towards higher economic growth by availing greater market access as well as cheaper availability of raw materials for domestic producers. In order to have sustainable economic growth, the government has developed a holistic national power policy, which provides a roadmap to overcome the present energy crisis and fully meet the future needs of power in the country. The goal is to provide affordable energy in the country through efficient generations, transmission and distribution system to improve the supply side.

FDI is a major component of GDP & plays an important role in determining the overall GDP growth rate. The economic growth cannot be maximized without attracting sizeable foreign direct investment every year. The government has lunched various steps to go for structural changes in the economy and introduce massive reforms to enhance inflow of the FDI. Privatization is also important and necessary to run enterprise efficiently. Privatization results in better utilization of resources, which eventually leads to higher growth. Government is also making efforts for market development and launching excellent regulations along with Privatization Process. Under PSEs reform strategy the government is focused on improvement in corporate governance, restructuring of PSEs and strategic partnership through privatization and has formed a high level commission for ensuring transparency in appointment of heads of key public sector organizations and bodies.

A vibrant and expanding middle class of Pakistan is creating demand of goods and services as well as providing savings to fund productive investments and also breeding the professional and skilled labour force. Such human capital plays a vital role to gain a strong momentum in economic growth. Youth entrepreneurship in Pakistan with rising trend has great potential to put the economy on sustainable and broad base growth. Government is making best efforts to facilitate youth and providing them decent opportunities to play their vital role in economic growth.

Government's efforts for the fundamental solutions to our longer term economic problems to be continued for better governance, rule of law, restoring high growth of manufacturing and agriculture, achieving higher productivity through investment in human capital, reducing cost of doing business and accelerating domestic savings. Efforts are underway to bring shadow economy into tax net including eliminating SRO culture and appointing professionals in key Economy Ministries and board of Directors. Present government is committed to liberalization, deregulation and privatization, these initiated reforms will enable Pakistan to further enhance its export competitiveness, augment its foreign exchange reserves, improvement in trade facilitation and logistics.

In view of above progress towards right direction, the multilateral donors and international markets have also responded positively and reposed tremendous confidence in Pakistan's economic future which will go a long way in building up a strong economy and welfare state.

Chapter 2

Agriculture

The foremost objective of Agriculture sector in Pakistan is to ensure adequate production and availability of food for the population and provide livelihoods to people directly involved in the sector along with the value adding chain. The attainment of sustainable growth in agriculture sector fulfils macroeconomic objectives through its forward and backward linkages with the other sectors. Pakistan agriculture needs a major transformation if it has to significantly contribute towards the improvement of livelihoods of the population as well as macroeconomic welfare and prosperity. Pakistan agriculture and food security concerns remain high on the policy agenda at national level. Due to concerted actions, the performance of agriculture has been encouraging with growth of 2.1 percent during 2013-14.

Accelerated agricultural growth directly helps in redistribution of poverty and provides the farmers a required level of nutritious food. It is the well intended/focused efforts by the government to exploit maximum benefit from this sector. Food security requires achieving self-sufficient quantity of nutritious grains/staple food. The prosperity of a large fragment of community revolves around agriculture that requires timely and adequate inputs, ensures better environment for sustainable economic growth. Government is trying to modernize agriculture sector to increase production which in turn can help in achieving sustainable economic growth.

Pakistan’s agriculture sector involves 43.7 percent of labour force that produces their own food needs and ensures availability of food for the rest of nation and value-added activities. The potential role for agriculture in development is to reduce poverty and drive growth for countries whose economies are agriculture-based. Growing population size requires agriculture growth compatible to meet required level of food. The change in consumption pattern with a change in per capita income level requires more proteins containing diet. The transition of agriculture from traditional to modern farming techniques is based on adequate availability of inputs like certified seeds, balanced use of fertilizers, mechanization, agricultural credit and opportunities of investment in agricultural research. The achievement of better productivity requires efficient utilization of water resources while the static cropping pattern requires serious attention as well. The adverse impact of climatic change on productivity needs to be countered through adaptation and mitigating measures based on innovations and diversifications by inculcating farming community to adopt advanced techniques. The way forward is to raise the yield of crops along with livestock and fisheries production, and improve the agro-based industrial value addition. The improved road and communication infrastructure in rural areas has facilitated the farmers to tap more income from production cycle of crops, livestock and perishable items (vegetables and fruits) through improved supply chain.

Traditional and modern supply chains, now a days are providing consumers in urban and rural areas with available, accessible, diverse and nutritious foods regionally and globally. Efficient supply chains, with better year-round availability of a wide variety of fresh, processed, packaged food according to the requirements as much as economically possible. Agricultural research must continue to enhance productivity, while paying greater attention to nutrient-dense foods such as fruits, vegetables, legumes and animal products and to more sustainable production systems. The increased competitiveness and concept of market economy requires improved supply chains. As the economy grows it direly requires timey availability of important inputs under market based activities. A strong food supply chains ensures availability of perishable food items without destroying its nutrient. A well planned food supply chain (cold chains for perishables vegetable and fruits) helps to overcome wastage and may reduce the rent seeking by timely availability of food items though out the country. Improved infrastructure facilitates and adoption of latest logistic (cold chain model for travel/shelf time for perishable items) within and outside the country. Being agrarian economy advanced and improved freight and logistics facilities may be potential source of import/export through cold chains.

The government is determined to achieve the required production targets through collective actions by focusing on improving agricultural planning and policies, scaling up investment to implement these plans and policies with provincial coordination based on well-crafted National Agriculture and Food Security Policy; a framework guiding policies, strategies and actions for agricultural development and transformation. The policy is instrumental in raising the profile of agriculture at the centre of development agenda at national level. These positive indicators of inclusive growth as advocated by ensuring the timely availability of inputs, requiring sustained and concerted actions and efforts in application of quality policies, strategies, programmes and investments driven by effective implementations. It is therefore, desirable to say next era will build on this momentum to deliver in an accelerated manner, positive changes towards prosperity that directly impact on livelihoods of Pakistani citizens through an inclusive agricultural transformation process.

Recent performance

During fiscal year 2013-14, the overall performance of agriculture sector witnessed a growth of 2.1 percent due to positive growth in agriculture related sub sectors. Crops grew at 1.2 percent, Livestock 2.9 percent, Forestry 1.5 percent and Fishing 1.0 percent. The agriculture's crop subsector component which includes important crops grew by 3.7 percent while other crops and cotton ginning showed a negative growth of 3.5 percent and 1.3 percent, respectively. Important crops accounted for 25.6 percent of agricultural value added and has experienced a growth of 3.7 percent in fiscal year 2013-14 against growth of 1.2 percent during the same period of last year. The important crops performed well on the back of positive growth in production of rice, maize, wheat and sugarcane all these crops witnessed increase in the production by 22.8 percent, 7.3 percent, 4.4 percent and 4.3 percent, respectively, while decline in production of cotton by 2.0 percent .The factors underpinning agriculture growth include better water availability, more fertilizer offtake and timely availability of agriculture credit paved the way for achieving the growth, the impact is vivid by the growth of important crops.

Table 2.1: Agriculture growth percentages (Base=2005-06)

Sector	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Agriculture	**1.8**	**3.5**	**0.2**	**2.0**	**3.6**	**2.9**	**2.1**
Crops	-1.0	5.2	-4.2	1.0	3.2	2.3	1.2
i) Important Crops	-4.1	8.4	-3.7	1.5	7.9	1.2	3.7
ii) Other Crops	6.0	0.5	-7.2	2.3	-7.5	6.1	-3.5
iii) Cotton Ginning	-7.0	1.3	7.3	-8.5	13.8	-2.9	-1.3
Livestock	3.6	2.2	3.8	3.4	4.0	3.5	2.9
Forestry	8.9	2.6	-0.1	4.8	1.8	1.0	1.5
Fishing	8.5	2.6	1.4	-15.2	3.8	0.7	1.0

Source: Pakistan Bureau of Statistics
P: Provisional

Other crops that contribute 11.6 percent value addition in agriculture witnessed a decline of 3.5 percent during 2013-14 against positive growth of 6.1 percent during the same period last year that is due to decrease in production of pulses, vegetables and fruits. The cotton ginning witnessed a decline of 1.3 percent in its growth against the negative growth of 2.9 percent during the same period 2012-13. The Livestock sector which contributes 55.9 percent in the agriculture exhibited a growth of 2.9 percent in 2013-14 based on Livestock Census 2006. The Fishing sector showed a growth of 1.0 percent having a share of 2.0 percent in agriculture value addition as against last year's growth of 0.7 percent. Forestry sector posted a growth of 1.5 percent this year as compared to growth of 1.0 percent last year.

Pakistan has two crop seasons, "Kharif" being the first sowing season starting from April-June and harvested during October-December. Rice, sugarcane, cotton, maize, moong, mash, bajra and jowar are "Kharif" crops. "Rabi", the second sowing season, begins as on October-December and is harvested in April-May. Wheat, gram, lentil (masoor), tobacco, rapeseed, barley and mustard are "Rabi" crops. The production of agriculture is dependent upon timely availability of irrigation water. During 2013-14, the availability of water for Kharif 2013 remained 13.5 percent more than Kharif 2012 and 2.4 percent less than the normal supplies of 67.1 MAF. The water availability during Rabi season 2013-14 was estimated at 32.5 MAF, which was 1.9 percent higher than last year's Rabi crop but

10.7 percent less than the normal availability of 36.4 MAF (Table 2.2).

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

Period	Kharif	Rabi	Total	%age increase/decrease. over the Avg.
Average system usage	67.1	36.4	103.5	-
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
2011-12	60.4	29.4	89.8	-13.2
2012-13	57.7	31.9	89.6	-13.4
2013-14	65.5	32.5	98.0	-5.3

Source: Indus River System Authority

I. Crop Situation

Important crops, such as wheat, rice, sugarcane maize and cotton account for 25.6 percent of the value added in overall agriculture and 5.4 percent to GDP. The other crops account for 11.6 percent of the value added in overall agriculture. Livestock contributes 55.9 percent to agricultural value added much more than the combined contribution of important and other crops (37.2 percent). The production performance of important crops is given in Table 2.3.

Table 2.3: Production of Important Crops (in thousands of tonnes)

Year	**Cotton (000 bales)**	**Sugarcane**	**Rice**	**Maize**	**Wheat**
2007-08	11,655	63,920	5,563	3,605	20,959
	-	-	-	-	-
2008-09	11,819	50,045	6,952	3,593	24,033
	(1.4)	(-21.7)	(25.0)	(-0.3)	(14.7)
2009-10	12,914	49,373	6,883	3,261	23,311
	(9.3)	(-1.3)	(-1.0)	(-9.2)	(-3.0)
2010-11	11,460	55,309	4,823	3,707	25,214
	(-11.3)	(12.0)	(-29.9)	(13.7)	(8.2)
2011-12	13,595	58,397	6,160	4,338	23,473
	(18.6)	(5.6)	(27.7)	(17.0)	(-6.9)
2012-13	13,031	63,750	5,536	4,220	24,211
	(-4.1)	(9.2)	(-10.1)	(-2.7)	(3.1)
2013-14 (P)	12,769	66,469	6,798	4,527	25,286
	(-2.0)	(4.3)	(22.8)	(7.3)	(4.4)

Source: Pakistan Bureau of Statistics
P: Provisional (July-March), Figures in parentheses are growth/decline rates

Agriculture sector requires policy formulation, economic coordination and planning in respect of food grain and food security. Ministry of National Food Security & Research includes procurement of food grains, fertilizer, import price stabilization of agriculture produce, international liaison, and economic studies for framing agricultural policies. Being the importance of agriculture Kharif and Rabi crops, their targets/outlook are needed to be reviewed based on federal/provincial coordination. The present government has realized the importance of this important forum and after a gap of three years convened the FCA meeting.

Box-1: Federal Committee on Agriculture (FCA)

The Federal Committee on Agriculture (FCA) was constituted in 1972 under the direction of the then President of Pakistan headed by President's Special Assistant for Agriculture. This committee initially comprised of Deputy Chairman Planning Commission, Secretaries of Ministry of Finance, Industries, Commerce, Economic Affairs and Food and Agriculture. However, overtime changes occurred in agriculture sector and challenges emerged therein necessitated to expand its members and make the Committee more powerful under the Chairmanship of Federal Minister for Food and Agriculture with active participation of federal/provincial ministries, provincial departments, AJK, IRSA, Meteorological Department, State Bank of Pakistan, ZTBL, Commercial Banks and heads of the attached departments of Ministry of Food and Agriculture.

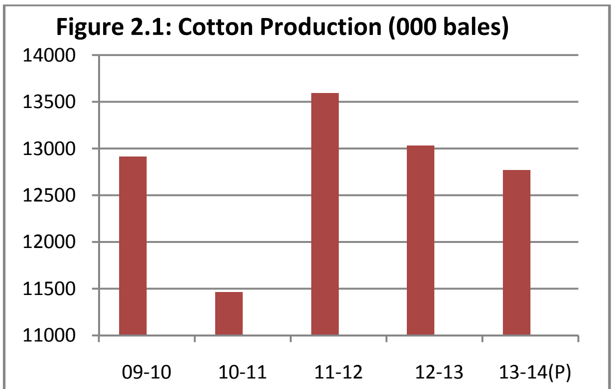
The FCA meets twice a year before start of Kharif and Rabi Crop season. The comprehensive working paper for each meeting is prepared by the Ministry of Food and Agriculture (Defunct) followed by the minutes of meeting. In these meetings performance of the proceeding season's crops were critically evaluated. Based on this evaluation which provides a transparent picture of availability of agriculture inputs and targets achieved, the Committee fixes the targets for the next season's crops. The most important factors considered as the foundation stones for new targets included availability of irrigation water, agricultural credit, chemical fertilizers particularly phosphatic, improved and certified seed, plant protection measures, etc. The last meeting of FCA was held on November 01, 2010 and since then no meetings were held.

Under the 18th Amendment the Ministry was devolved and new setup with the name Ministry of National Food Security and Research, started work on revival of FCA on new lines of action covering all aspects of National Food Security. In a recent meeting held on 28th March, 2014, the FCA which now stands and has fixed crop target for the provinces for the Kharif season.

a) Important Crops

i) Cotton:

The cotton having a share of 1.4 percent in GDP and 6.7 percent in agriculture value addition is an important source of raw material to the textile industry. During July-March 2013-14, textile industry fetched foreign exchange of US$ 10.385 billion. During 2013-14, the crop was cultivated on an area of 2806 thousand hectares, 2.5 percent less than last year's area of 2879 thousand hectares. The production stood at 12.8 million bales during the period 2013-14 against the target of 14.1 million bales, showing decline of 9.2 percent against the target and decline of 2.0 percent over the last year production of 13.0 million bales. The cotton production is decreased due to fall in the area sown which is due to less rates of cotton nationally and internationally prevailed during last two years that discouraged the growers to put more area under crop and shifting the area to maize and rice crops in some districts of Punjab due to their better market returns. The area, production and yield of cotton for the last five years are shown in Table 2.4 and Figure 2.1.



Source: PBS

Table 2.4: Area, Production and Yield of Cotton

Year	Area		Production		Yield	
	(000 Hectare)	% Change	(000 Bales)	% Change	(Kgs/Hec)	% Change
2009-10	3,106	-	12,914	-	707	-
2010-11	2,689	-13.4	11,460	-11.3	725	2.5
2011-12	2,835	5.4	13,595	18.6	815	12.4
2012-13	2,879	1.6	13,031	-4.1	769	-5.6
2013-14(P)	2,806	-2.5	12,769	-2.0	773	0.5

Source: Pakistan Bureau of Statistics
P: Provisional (July-March)

World Cotton Outlook

The production and consumption of major cotton growing countries are given in Table 2.5.

Table 2.5: Production and Consumption of Major Cotton Growing Countries (Million Tonnes)

	2011-12 E	2012-13 P	2013-14 P
Production			
China	7.40	7.30	6.70
India	6.35	6.09	6.37
USA	3.39	3.77	2.80

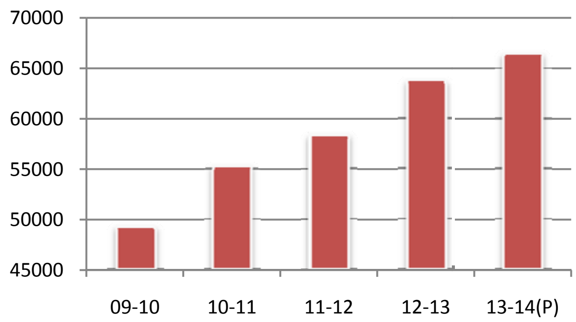
Table 2.5: Production and Consumption of Major Cotton Growing Countries			(Million Tonnes)
	2011-12 E	2012-13 P	2013-14 P
Pakistan	2.31	2.20	2.08
Brazil	1.88	1.31	1.64
Uzbekistan	0.88	1.00	0.92
Others	5.83	5.20	5.19
World Total	28.04	26.88	25.70
Consumption			
China	8.63	8.29	7.88
India	4.34	4.84	5.02
Pakistan	2.22	2.41	2.49
East Asia/Australia	1.64	1.86	2.04
Europe & Turkey	1.49	1.53	1.58
Brazil	0.88	0.89	0.93
USA	0.72	0.75	0.78
Others	2.85	2.76	2.85
World Total	22.79	23.34	23.55

Source: Pakistan Central Cotton Committee, M/o Textile Industry
E: Estimated, P: Projected

ii) Sugarcane:

Sugarcane is an important and high value cash crop of Pakistan. It is significantly important for sugar and sugar related production. The sugar industry plays a pivotal role in the national economy of our country. Sugarcane accounts for 3.4 percent in agriculture value addition and 0.7 percent in GDP. During July-March 2013-14, sugar export earned foreign exchange of US$ 236.8 million. Sugarcane was sown on an area of 1173 thousand hectares during 2013-14 against last year's 1129 thousand hectares showing an increase of 3.9 percent. The production of sugarcane for the year 2013-14 stood at 66.5 million tonnes, against the target of 65 million tonnes for 2013-14 shows 2.3 percent more production against targets and to compare last year's production which was 63.8 million tonnes, showing an increase of 4.3 percent. The increase in production is due to more area sown, favourable weather condition as well as improvement in soil fertility due to impact of floods in 2010 and 2011. The area, production and yield of sugarcane for the last five years are given in Table 2.6 and Figure 2.2.

Fig 2.2: Sugarcane Production (000 Tonnes)



Source: PBS

Table 2.6: Area, Production and Yield of Sugarcane

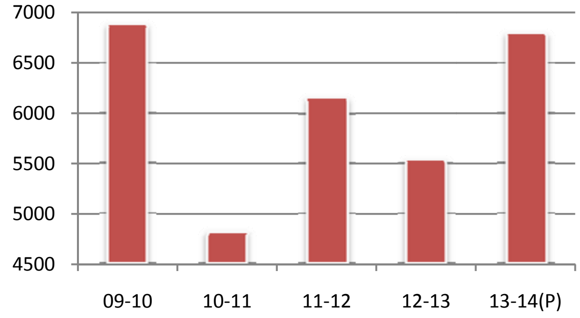
Year	Area		Production		Yield	
	(000 Hectare)	% Change	(000 Tonnes)	% Change	(Kgs/Hec.)	% Change
2009-10	943	-	49,373	-	52,357	-
2010-11	988	4.8	55,309	12.0	55,981	6.9
2011-12	1,058	7.1	58,397	5.6	55,196	-1.4
2012-13	1,129	6.7	63,750	9.2	56,466	2.3
2013-14 (P)	1,173	3.9	66,469	4.3	56,666	0.4

Source: Pakistan Bureau of Statistics
P: Provisional (July-March)

iii) Rice:

Rice is an important food and cash crop; second staple food grain crop of Pakistan after wheat and major source of foreign exchange earnings after cotton. Rice accounts 3.1 percent of the value added in agriculture and 0.7 percent of GDP. During July March 2013-14, rice export earned foreign exchange of US$ 1.667 billion. During 2013-14, rice is cultivated on an area of 2789 thousand hectares, 20.8 percent higher than last year's area of 2309 thousand hectares. The production stood at 6798 thousand tonnes, against the target of 6200 thousand tonnes shows a growth of 9.6 percent against the target if compared to corresponding period of last year production which was 5536 thousand tonnes, a healthy increase of 22.8 percent witnessed. The rice acreage increased due to lucrative market prices received during the last year which induced the growers to bring more area under cultivation. The production increased due to increase in area while improved yield remained not impressive due to flood/excessive rains and attack of leaf roller and blight in some cultivated areas. The area, production and yield of rice for the last five years are shown in Table 2.7 and Figure 2.3.

Fig 2.3: Rice Production (000 Tonnes)



Source: PBS

Table 2.7: Area, Production and Yield of Rice

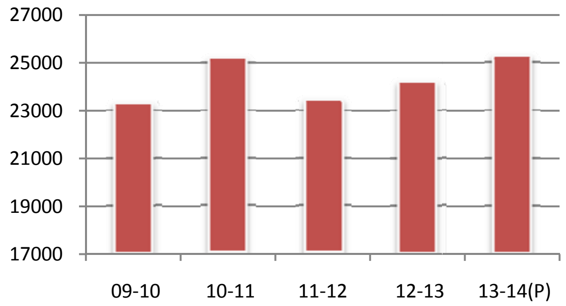
Year	Area		Production		Yield	
	(000 Hectare)	% Change	(000 Tonnes)	% Change	(Kgs/Hec.)	% Change
2009-10	2,883	-	6,883	-	2,387	-
2010-11	2,365	-18.0	4,823	-29.9	2,039	-14.6
2011-12	2,571	8.7	6,160	27.7	2,396	17.5
2012-13	2,309	-10.2	5,536	-10.1	2,398	0.1
2013-14 (P)	2,789	20.8	6,798	22.8	2,437	1.6

Source: Pakistan Bureau of Statistics
P: Provisional (July-March)

iv) Wheat:

Wheat is the leading food grain of Pakistan and being the staple diet of the people and occupies a central position in agricultural policies. Wheat contributes 10.3 percent to the value added in agriculture and 2.2 percent to GDP. Wheat area sown increased to 9039 thousand hectares in 2013-14, from 8660 thousand hectares showing an increase of 4.4 percent over last year's area. The production of wheat stood at 25.3 million tonnes during 2013-14, against the revised target (FCA) of 25.0 million tonnes which is 1.2 percent more than the target, compared to last year's production an encouraging growth of 4.4 percent witnessed over production of 24.2 million tonnes. The overall increase in area sown is attributed to the attractive market rates and area was also available due to early maturity of cotton crop. The production increased due to increase in area cultivated and timely rainfall at regular intervals and favourable weather condition suitable for healthy grain. The position is given in Table 2.8 and Figure 2.4.

Fig 2.4: Wheat Production (000 Tonnes)



Source: PBS

Table 2.8: Area, Production and Yield of Wheat

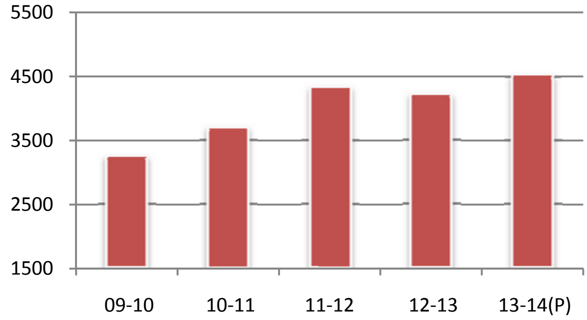
Year	Area		Production		Yield	
	(000 hectares)	% Change	(000 tonnes)	% Change	(Kgs /Hec.)	% Changes
2009-10	9,132	-	23,311	-	2553	-
2010-11	8,901	-2.5	25,214	8.2	2833	11.0
2011-12	8,650	-2.8	23,473	-6.9	2714	-4.2
2012-13	8,660	0.1	24,211	3.1	2796	3.0
2013-14(P)	9,039	4.4	25,286	4.4	2797	0.0

Source: Pakistan Bureau of Statistics
P:Provisional(July-March)

v) Maize:

Maize grain is an enriched food as compared to other food grains. The wet milling of maize produces an array of products, by products and value additions. It contributes 2.1 percent to the value added in agriculture and 0.4 percent to GDP. Maize was cultivated on an area of 1117 thousand hectares in 2013-14 showing an increase of 5.4 percent over last year's area of 1060 thousand hectares. The production of maize stood at 4527 thousand tonnes during 2013-14 showing an increase of 7.3 percent against last year production of 4220 thousand tonnes. The area increased due to shifting of cotton area into maize crop and good economic returns received by the growers from the last year's crop. The increase in production is attributed to increase in area sown and Hybrid varieties have taken more shares in plantation. The position is presented in Table 2.9 and Figure 2.5.

Fig 2.5: Maize Production (000 Tonnes)



Source: PBS

Table 2.9: Area, Production and Yield of Maize

Year	Area		Production		Yield	
	(000 hectares)	% Change	(000 tonnes)	% Change	(Kgs /Hec.)	% Changes
2009-10	935	-	3,261	-	3,487	-
2010-11	974	4.2	3,707	13.7	3,806	9.1
2011-12	1,087	11.6	4,338	17.0	3,991	4.9
2012-13	1,060	-2.5	4,220	-2.7	3,981	-0.3
2013-14(P)	1,117	5.4	4,527	7.3	4,053	1.8

Source: Pakistan Bureau of Statistics
P:Provisional(July-March)

b) Other Crops

During 2013-14, the production of Gram, the largest Rabi pulses crop in Pakistan having an estimated consumption of 200 thousand tonnes witnessed production of 475 thousand tonnes against the production of 751 thousand tonnes of last year, showing a decline of 36.8 percent due to unfavorable weather condition. The production of Rapeseed & Mustard, Jowar, Bajra and Barley exhibited decline in its production by 11.7 percent, 3.3 percent, 3.2 percent and 1.5 percent, respectively, in 2013-14 as compared to the corresponding period last year. While the production of Tobacco remained same when compared to the production of corresponding period last year. The area and production of other crops are given in Table 2.10.

Table 2.10: Area and Production of other Kharif and Rabi Crops

Crops	2012-13		2013-14 (P)		% Change in production over Last year
	Area (000 hectares)	Production (000 tonnes)	Area (000 hectares)	Production (000 tonnes)	
Bajra	461	311	475	301	-3.2
Jowar	198	123	198	119	-3.3
Gram	992	751	975	475	-36.8
Barley	73	67	71	66	-1.5
Rapeseed & Mustard	224	205	198	181	-11.7
Tobacco	50	108	50	108	0.0

Source: Pakistan Bureau of Statistics
P: Provisional (July-March)

i) Oilseeds

The major oilseed crops grown in the country include sunflower, canola, rapeseed/mustard and cotton. During the year 2012-13 total availability of edible oil was 3.069 million tonnes. Local production of edible oil contributed 0.567 million tonnes while import of edible oil/oilseeds was 2.502 million tonnes. The edible oil import bill during 2012-13 was Rs.241.936 billion (US$ 2.50 billion).

During July-March 2013-14, 1.719 million tonnes edible oil of value Rs.148.633 billion (US$ 1.425

billion) was imported. Local production of edible oil during 2013-14 (July-March) is estimated at 0.606 million tonnes. Total availability of edible oil from all sources is provisionally estimated at 2.325 million tonnes during 2013-14 (July-March). The area and production of oilseed crops during 2012-13 and 2013-14 is given in Table 2.11.

Table 2.11: Area and Production of Major Oilseed Crops

Crops	2012-13			2013-14 (P)		
	Area	Production		Area	Production	
	(000 Acres)	Seed (000 Tonnes)	Oil (000 Tonnes)	(000 Acres)	Seed (000 Tonnes)	Oil (000 Tonnes)
Cottonseed	7,114	3,324	400	6,700	3,592	431
Rapeseed/ Mustard	578	216	66	586	218	68
Sunflower	485	244	95	523	265	101
Canola	33	16	6	38	16	6
Total	8,210	3,800	567	7,847	4,091	606

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

The production of moong increased by 3.3 percent during, 2013-14. However, the production of other pulses Mash and Masoor (Lentil) decreased by 6.4 and 5.1 percent respectively. The reason for decrease in production is decrease in area sown comparing to corresponding period last year. The production of onions remained slightly unchanged. While the production of potatoes and chillies witnessed a decline of 7.8 percent and 1.4 percent, respectively. The area and production of other crops are given in Table 2.12.

Table 2.12: Area and Production of Other Crops

Crops	2012-13		2013-14(P)		% Change in Production
	Area (000 hectares)	Production (000 tonnes)	Area (000 hectares)	Production (000 tonnes)	
Masoor	19.0	9.8	17.8	9.3	-5.1
Moong	135.9	89.9	130.9	92.9	3.3
Mash	23.2	10.9	20.9	10.2	-6.4
Potatoes	174.4	3,802.2	161.9	3,507.1	-7.8
Onions	125.9	1,660.8	127.8	1,661.3	0.0
Chillies	63.6	147.2	62.5	145.1	-1.4

Source: Pakistan Bureau of Statistics
P: Provisional (July-March)

II. Farm Inputs

i) Fertilizers

Fertilizers are major agricultural input which yield high and quick returns. As an expensive input its balanced use enhances yield from 30 to 50 percent in different crop production. Nutrient wise one kg of fertilizer produces about 8 kg of cereals (wheat, maize and rice), 2.5 kg of cotton and 114 kg of stripped sugarcane. Almost hundred percent soil in Pakistan is deficient in nitrogen; 80-90 percent is deficient in phosphorus and 30 percent in potassium. Widespread deficiencies 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.

The domestic production of fertilizers during July-March 2013-14, witnessed increase by 18.2 percent over the corresponding period of last year. The imported supplies of fertilizer depicted an increased of 52.2 percent; hence, the total availability of fertilizer increased by 26.0 percent during July-March 2013-14.Total offtake of fertilizer nutrients also showing an increase of 20.6 percent. The offtake of Nitrogen increased by 20.1 percent and that of phosphate increased by 22.8 percent during

July-March 2013-14. While the offtake of potash increased slightly during July-March 2013-14. Major reason for increase in offtake of phosphate fertilizer is declining trend in its prices. High market prices of agriculture produce especially cotton had positive effect on fertilizer offtake.

Kharif 2013 started with inventory of 220 thousand tonnes of urea. Total availability of urea (including 325 thousand tonnes of imported supplies, 2496 thousand tonnes of domestic production) was about 3041 thousand tonnes against the offtake of 2851 thousand tonnes, leaving an inventory of 175 thousand tonnes for Rabi 2013-14. Total availability of DAP during Kharif 2013 was 921 thousand tonnes comprising 197 thousand tonnes of inventory, 326 thousand tonnes of imported supplies and 398 thousand tonnes of local production. DAP offtake was 616 thousand tonnes leaving closing balance of 307 thousand tonnes for coming Rabi 2013-14.

Rabi 2013-14 started with an opening balance of 175 thousand tonnes of urea. Domestic production during Rabi 2013-14 was 2439 thousand tonnes. Urea offtake during current Rabi 2013-14 was about 3099 thousand tonnes, against 3476 thousand tonnes of total availability, leaving a closing balance of 376 thousand tonnes for next season. DAP availability in current season of Rabi was 1125 thousand tonnes, which included 307 thousand tonnes of inventory, 526 thousand tonnes of imported supplies and domestic production of 292 thousand tonnes. Offtake of DAP during current Rabi season was about 1075 thousand tonnes, leaving a balance of 56 thousand tonnes for next season. Detail of fertilizer situation is given in Table-2.13.

Kharif 2014 started with inventory of 376 thousand tonnes of urea. Total availability of urea will be about 3141 thousand tonnes comprising of 125 thousand tonnes of imported supplied and 2640 thousand tonnes of domestic production. Urea offtake is expected to be around 3000 thousand tonnes, leaving inventory of 141 thousand tonnes for Rabi 2014-15. Total availability of DAP will be 431 thousand tonnes against expected offtake of 600 thousand tonnes. Supply/ Demand gap in DAP will be met by imports through private sector during Kharif 2014.

Table 2.13: Fertilizer Situation (000 Tonnes)

Description	Kharif (Apr-Sep) 2013		Rabi (Oct-Mar) 2013-14		Kharif (Apr-Sep)* 2014	
	Urea	DAP	Urea	DAP	Urea	DAP
Opening stock	220	197	175	307	376	56
Imports	325	326	862	526	125	0
Domestic production	2,496	398	2,439	292	3,141	375
Total availability	3,041	921	3,476	1125	3,116	431
Offtake/Demand	2,851	616	3,099	1075	3,000	600
Write on/off	-15	2	-1	6	0	0
Closing stock	175	307	376	56	141	-169

Source: National Fertilizer Development Center
*: Outlook

ii) Improved Seed

Quality seed is the most desirable input for improving yield. Seed is an important component in agricultural productivity system. Timely availability of seed ensures food security and prosperity of farmers. Seed has the important position to bridge the gap existing in average crop yields and potential of available varieties. Seed is a high technology product and is an innovation most readily adapted. Improving access to good quality seed is a critical requirement for sustainable agricultural growth and food security. Effective use of improved/certified seed can result in higher agricultural production and increases the net incomes of farming families which has a positive impact on rural development. Hence, availability of quality seed of improved varieties is essential to achieve the production targets.

During July-March, 2013-14 about 372.0 thousand tonnes of improved seeds of various Kharif/Rabi crops was procured. The procurement of seeds for various Kharif crops (cotton, paddy, maize, moong bean, etc) is under progress. The detail of this procurement is given in Table 2.14.

Table 2.14: Seed Availability* (Metric Tonnes)

Crop	Local	Imported	Total
Wheat	271,250.00	0.00	271,250.00
Cotton	17,175.25	0.00	17,175.25
Paddy	33,284.94	3,840.69	37,125.63
Maize	2,772.89	11,617.83	14,390.72
Pulses	689.81	0.00	689.81
Oilseeds	42.00	1,320.08	1,362.08
Fodders	10.00	20,921.01	20,931.01
Vegetables	65.00	4,743.72	4,808.72
Potatoes	63.50	4,217.15	4,280.65
Total	325,353.39	46,660.48	372,013.87

Source: Federal Seed Certification & Registration Department
* : Provisional (July-March 2013-14)

The Federal Seed Certification and Registration Department (FSC&RD) is engaged in providing seed certification coverage to public and private sector seed companies of the country. It provides seed quality control services through its 28 seed testing laboratories and monitor seed quality in the market as well. The activities/ achievements of the department during July-March, 2013-14 is briefly given below:

- A total of 349.8 thousand acres of different crops offered by the various seed agencies were inspected for certification purposes.
- A working paper for registration of 22 new seeds companies and for de-registration cases of 52 dormant seed companies has been submitted to the Ministry of National Food Security and Research for the forth coming meeting of its Working Group.
- A total quantity of 322.1 thousand MT seeds of various crops were sampled and tested for purity, germination and seed health purposes.
- Pre and post control trials of all pre-basic, basic seeds lots and 20 percent of certified seeds lots were carried out in the fields to determine the quality of seeds distributed by various seed agencies.
- Under the provision of Seed Act Enforcement, 58 cases were filed in different Courts of Law against the seed dealers found selling substandard seeds.
- Imported seeds of various crops/hybrids to the tune of 46.7 thousand MT with a total value of Rs.11.3 billion was tested under Seed (Truth-in-Labeling) Rules, 1991 during the year so far at the port of entries i.e. Lahore and Karachi.
- Almost 461 samples of seeds and propagating material of various crops/vegetables and fruits were tested at the Central Seed Testing Laboratory, Islamabad for detection of fungal and viral diseases using latest diagnosis techniques and protocols.
- For accreditation of Central Seed Testing Laboratory (CSTL) all the processing requirements has been completed and case is submitted for assessment and approval to Pakistan National Accreditation Council (PNAC). After accreditation CSTL of FSC&RD will be able to issue internationally acceptable certificates of seed analysis. It will be the value addition to Agri-product “seed” in terms of seed exports.
- To strengthen the seed certification services in Gilgit Baltistan a project “Strengthening of Seed Certification Services for Food Security in Gilgit Baltistan” has been approved with objective to strengthen the Seed Testing Laboratory (STL), Gilgit and establishment of STL, Skardu, training of officials of stakeholders involved in activities pertaining to seed/fruit plants production inland marketing and export quality and monitoring of seed quality in the market of Gilgit Baltistan. Registration/introduction of new varieties through Distinctiveness Uniformity and Stability (DUS) studies and adaptability tests in collaboration with Department of Agriculture Research, Gilgit Baltistan.

iii) Mechanization

In consideration of the role of machinery in modern farm operation the use of machinery has been encouraged by increasing credit availability through the banks. The government is desirous to modernize its agriculture. The use of modern and latest farm machinery and equipment play an important role in the timely sowing and harvesting of agriculture crops. During July-March 2013-14 a total number of 25,186 tractors were produced in the country. The production and price of locally manufactured tractors are given in Table 2.15

Table 2.15: Price and Production of Locally Manufactured Tractors 2013-14		
Tractors Model - Horse Power (HP)	**Price/Unit (Rs)**	**Production (in Nos.)**
M/s Al-Ghazi Tractors		
NH 480-S (55 HP)	642,000	2,825
NH 480-S with power (55 HP)	652,000	1,227
Ghazi (65 HP)	714,000	4,139
640 (75 HP)	908,000	656
640 with disc break (75 HP)	918,000	38
640-S (85 HP)	990,000	29
640-S with disc break (85 HP)	1,014,000	1
NH 55-56 (55 HP)	688,000	2
NH 60-56 (60 HP)	765,000	2
NH 70-56 (85 HP)	1,295,000	17
M/s Millat Tractors Ltd		
MF-240 (50 HP)	650,000	6,751
MF-350 (50 HP)	692,000	52
MF-260 (60 HP)	722,000	2,567
MF-360 (60 HP)	745,000	2,004
MF-375 (75 HP)	945,000	2,271
MF-385 2WD (85 HP)	1,055,000	2,271
MF-384 4WD (85 HP)	1,600,000	334
Total		**25,186**

Source: Tractor Manufacturer Association, Federal Water Management Cell

iv) Irrigation

Water is essential to meet the food need for the country's growing population. Water is also vital to basic ecological functions that support human, fisheries production and the health of rivers, canals and lakes. The efficient use of water is an important requirement for sustainable agriculture growth and agriculture oriented activities to tap more benefits from this sector. Pakistan has been naturally bestowed with good irrigation canal network complemented with suitable temperatures and rainfalls during sowing and harvesting season. Rainfall recorded during the monsoon, post monsoon and winter season is given in Table 2.16.

Table 2.16: Rainfall* Recorded During 2013-14 (in millimeters)

	Monsoon Rainfall (Jul-Sep) 2013	Post Monsoon Rainfall (Oct-Dec) 2013	Winter Rainfall (Jan-Mar) 2014
Normal**	140.8 mm	26.4 mm	74.3 mm
Actual	151.4 mm	19.3 mm	76.7 mm
Shortage (-)/excess (+)	(+) 10.5 mm	(-)7.1 mm	(+) 2.4 mm
% Shortage (-)/excess (+)	(+) 7.5 %	(-) 26.9 %	(+) 3.2 %

Source: Pakistan Meteorological Department
*: Area weighted. **: Long Period Average (1961-2010)

During the monsoon season (July-September) 2013, the normal average rainfall was 140.8 mm, while the actual rainfall received was 151.4 mm, indicating an increase of 7.5 percent. During the post-monsoon season (October-December) 2013, the normal average rainfall was 26.4 mm, while the actual rainfall received was 19.3 mm, indicating a decrease of 26.9 percent. During winter season (January-March) 2014, normal average rainfall was 74.3 mm and the actual rainfall received was 76.7 mm, indicating an increase of 3.2 percent under the normal rainfall average.

Canal head withdrawals during Kharif (April-September) 2013, increased by 14 percent and stood at 65.5 million acre feet (MAF) as compared to 57.7 MAF during the same period last year. During Rabi (October-March) 2013-14, the canal head withdrawals increased by 2.0 percent and stood at 32.5 MAF, compared to 31.9 MAF during the same period of last year. The province-wise detail is shown in Table 2.17.

Table 2.17: Canal Head Withdrawals (Below Rim Station) Million Acre Feet (MAF)

Provinces	Kharif (Apr-Sep) 2012	Kharif (Apr-Sep) 2013	% Change in Kharif 2013 over 2012	Rabi (Oct-Mar) 2012-13	Rabi (Oct-Mar) 2013-14	% Change in Rabi 2013-14 Over 2012-13
Punjab	29.75	33.83	14	17.14	17.44	2
Sindh	25.42	29.16	15	13.60	13.55	0
Khyber Pakhtunkhwa	0.95	0.94	-1	0.49	0.46	-5
Balochistan	1.62	1.61	-1	0.64	1.08	68
Total	57.74	65.53	14	31.86	32.54	2

Source: Indus River System Authority

During the year 2013-14, major strategy adopted to address the water sector's issues and investments in the sector was **a)** augmentation of surface water resources by construction of water storage small/medium dams, **b)** conservation measures (lining of irrigation channels, modernization/rehabilitation of irrigation system) and efficiency enhancement by rehabilitation & better operation of existing system, **c)** Protection of infrastructure from onslaught of floods and Water Logging & Salinity. To achieve additional water storages and reorganization for effective and responsive, the challenge is to formulate an effective implementation of a comprehensive set of measures for the development and efficient management of water resources. More than Rs. 57.0 billion financial resources were allocated for the above mentioned water sector's strategies/programmes. The major water sector projects under implementation are shown in Table 2.18.

Table 2.18: Major Water Sector Projects under Implementation

Projects	Location	Total App. cost (Rs. in million)	Live Storage (MAF)	Irrigated Area (Acres)	Latest Status
Gomal Zam Dam	Khyber Pakhtunkhwa	22,480	0.892	163,100	Substantially completed
Rainee Canal	Sindh	17,643	-	412,400 (Phases-I)	More than 98% Physically completed
Kachhi Canal	Balochistan	57,562	-	713,000 (Phases-I)	78 % Physically completed (Phase-I)
Satpara Dam Multipurpose	Skardu	4,480	0.05	15,536 (17.3 MW Power Gen.)	Physically completed
Darwat Dam	Sindh	26,236	89,192 (Ac.Ft)	25,000 (0.45 MW Power Gen.)	About 92 % Physically completed
Nai Gaj Dam	Sindh	26,236	160,000 (Ac.Ft)	28,800 (4.2 MW Power Gen.)	27 % Physically completed
Naulong Dam	Balochistan	18,027	200,000 (Ac.Ft)	47,000	Physical work on main dam at initial stage
Right Bank Outfall Drain (RBOD)					
RBOD-I	Sindh	14,707	-	542,500	89% Physically Completed
RBOD-II	Sindh	29,014	-	3,000,000	67% Physically Completed
RBOD-III	Balochistan	6,535	-	694,796	85 % Physically Completed

Source: Ministry of Planning, Development and Reforms

On-Going Main Programmes during (2013-14)

Out of total allocated budget (Rs. 57.8 billion) for water sector, more than Rs. 31.0 billion has been released & utilized upto Jul-April 2013-14 for achieving the following landmarks:

- Substantial completion (phase-I) of Kachhi Canal in Balochistan & Rainee Canal Sindh for irrigating 2.864 million acres.
- Operational of Mangla Dam Raising Project and completion of Satpara Dam in Gilgit Baltistan.

- Completion of Gomal Zam Dam Project in Tribal/ Khyber Pakhtunkhwa area for irrigation of 163,100 acres of agriculture land and 17.4 MW power generations.
- To overcome water scarcity, utilization of Rs. 3.25 billion for lining of irrigation channels in Punjab and Sindh during 2013-14.
- For the modernization of existing irrigation system, an amount of Rs. 2.10 billion is expected to be utilized during the year 2013-14 on improvement of existing irrigating system in Punjab, Sindh & Khyber Pakhtunkhwa.
- Rs. 17.77 billion has been allocated and expected to be utilized on construction of new Small/medium dams in all over Pakistan (Mangla, Satpara, Gomal, Darwat, Nai Gaj, Kurram Tangi & Naulong dams).
- In Balochistan about Rs. 5.80 billion is expected to be utilized on construction of new small/delay action dams, improvement of existing irrigation system and flood schemes.
- In drainage sector a sum of Rs. 4.901 billion has been allocated for fast track implementation of RBOD-I, II & III projects to protect and reclaim 4.90 million acres of irrigated land remained continue.

iv) Agricultural Credit:

Agriculture sector being a growth stimulant has immense potential for sustainability and viability of overall economy of the country. Agricultural credit is a vital input for leveraging the financial growth and ultimately leads to economic growth on sustainable basis. In line with the government priorities for development of agrarian economy, State Bank of Pakistan (SBP) has been striving for engaging the food security challenges in wake of various initiatives to support the government's objectives and goals. SBP has adopted a multipronged strategy for agriculture where by all out efforts are being made for achieving the annual indicative agriculture disbursement targets which inter alia include; sensitizing banks to adopt agriculture financing as a viable business line and following up on indicative targets and performance with top management of banks and their agriculture credit heads.

At present 31 Commercial, Microfinance Banks and Islamic Banks with around 3,950 agriculture designated branches are facilitating farmers by extending agriculture credit throughout the country. The agriculture lending banks comprising of 19 Commercial banks, 2 specialized banks (ZTBL, PPCBL), 7 Microfinance Banks and 3 Islamic Banks which are engaged in providing development loans to farming community for agriculture activities including growing of crops, livestock, poultry, fisheries, orchards, forestry, nurseries, apiculture and sericulture.

The Agricultural Credit Advisory Committee (ACAC) meeting held on February 17, 2014 where SBP has approved an upward revision in the provisional agriculture disbursement target of Rs. 360.0 billion to Rs. 380.0 billion of 2013-14. The revised target is 13.0 percent higher from Rs. 336.0 billion disbursed in 2012-13. Accordingly, Rs. 188.0 billion (49.5 %) have been allocated to five major commercial banks, similarly, Rs. 90.4 billion (23.8 %) to fourteen Domestic Private Banks, Rs. 69.5 billion (18.3 %) to ZTBL, Rs. 10.0 billion (2.6 %) to Punjab Provincial Cooperative Bank (PPCB), Rs. 21.6 billion (5.7 %) to 7 Microfinance Banks and Rs. 0.5 billion (0.1 %) to newly inducted 3 Islamic banks.

Agricultural Credit Disbursements Recent Trends

During July-March 2013-14, the banks have disbursed Rs. 255.7 billion which is 67.3 percent of the annual target of Rs.380.0 billion. The disbursement is 10.7 percent higher than Rs. 231.0 billion disbursement during the corresponding period last year. The outstanding portfolio of agriculture loans has increased by Rs.39.1 billion (16 %) i.e. from Rs.241.9 billion to Rs.281.0 billion at end March, 2014 as compared to same period last year.

The disbursement data reveals that five major commercial banks as a group disbursed agriculture loans of Rs.133.5 billion or 71.0 percent of the annul target which is higher by 8.0 percent from Rs.123.7 billion during the corresponding period last year. Amongst specialized banks, ZTBL achieved 66.0 percent of its target by disbursing Rs. 45.9 billion against its annual target of Rs. 69.5 billion while PPCBL achieved 54.5 percent of its target of Rs. 10.0 billion by disbursing Rs. 5.4 billion during July-March 2013-14.

The fourteen domestic private banks collectively disbursed Rs. 54.2 billion or 60.0 percent against the annual target of Rs. 90.4 billion contributing 21.2 percent in total disbursement. Further, seven Microfinance Banks as a group disbursed agriculture loans of Rs. 16.2 billion or 75.0 percent of their annual target of Rs. 21.6 billion. Under the category of Islamic Banks, the newly inducted three banks collectively achieved 94.6 percent of their annual targets by disbursing Rs. 503.3 million against the target of Rs. 532.0 million during July-March 2013-14. The comparative position of Banks' targets viz a viz their achievement for 2013-14 (July-March) is shown in table 2.19

Table 2.19 : Supply of Agricultural Credit by Institutions (Rs in billion)

Banks	Target 2013-14	2013-14 (July-March)			Target 2012-13	2012-13 (July-March)		
		Flow	% age Achieved	% Share in Total		Flow	% age Achieved	% Share in Total
5 Big Commercial Banks	188.0	133.5	71.0	52.2	153.5	123.67	80.6	53.5
ZTBL	69.5	45.9	66.0	17.9	72.0	37.95	52.7	16.4
PPCBL	10.0	5.4	54.4	2.1	9.0	5.43	60.3	2.4
14 DPBs	90.4	54.2	59.9	21.2	66.7	51.02	76.5	22.1
7 MFBs	21.6	16.2	75.1	6.3	13.8	12.96	93.9	5.6
3 Islamic Banks*	0.5	0.5	94.6	0.2	-	-	-	-
Total	380.0	255.7	67.3	100	315.0	231.0	73.3	100.0

Source: State Bank of Pakistan
*: Newly inducted since July,2013

Box 2: Credit Disbursement to Farm and Non-Farm Sector

The continued increase in non-farm lending may be attributed as an outcome of SBP's successive pilot projects in selected districts across the country to encourage banks to diversify their agriculture credit portfolio. Sector-wise classification reveals that the share of non-farm sector in the overall agriculture credit disbursement has continued to increase by disbursing Rs. 116.7 billion or 45.6 percent from Rs. 99.7 billion or 43.2 percent during corresponding period last year. The share of farm sector in overall disbursement remained slightly lower from 56.8 percent to 54.4 percent; however, in terms of amount Rs. 7.7 billion grew in farm sector from Rs. 131.3 billion to Rs. 139.0 billion during the period under review. The comparison of farm and non-farm sector share is shown in Table 2.20.

Table 2.20 : Credit Disbursement to Farm & Non-Farm Sectors (Rs. in billion)

Sector		2013-14 (July-March)		2012-13 (July-March)	
		Disbursement	% Share in Total	Disbursement	% Share in Total
A	**Farm Credit**	**139.0**	**54.4**	**131.3**	**56.8**
1	Subsistence Holding	80.6	31.5	75.7	32.8
2	Economic Holding	35.5	13.9	35.4	15.3
3	Above Economic Holding	23.0	9.0	20.3	8.8
B	**Non-Farm Credit**	**116.7**	**45.6**	**99.7**	**43.2**
1	Small Farms	39.4	33.7	31.7	31.8
2	Large Farms	77.4	66.3	68.0	68.2
	Total (A+B)	**255.7**	**100.0**	**231.0**	**100.0**

Source: State Bank of Pakistan

III. Livestock and Poultry

a) Livestock

Livestock sector is the mainstay of farming communities and has an exclusive position in the National Agenda of the economic development of the present government. Historically Livestock has been dominated by subsistence small holders to meet their needs of nutrients and proteins, food security and cash income on daily basis. Moreover, livestock is considered a source of livelihood at rural level, helping to reduce disparity in income, and provides security in case of any untoward eventuality of crop failure. It plays an important role in poverty alleviation and can uplift the socioeconomic conditions of our rural masses.

The population growth, urbanization, increase in per capita income and export opportunities are fueling the demand of livestock and livestock products. The rise in production cost has increased the retailer's and consumer's price index for milk, yogurt, meat, eggs etc. The overall livestock development strategy revolves to foster "private sector-led development with public sector providing enabling environment through policy interventions and play capacity building role to improve 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 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 contribution to agriculture value added stood at 55.9 percent while it contributes 11.8 percent to the national GDP during 2013-14 compared to 55.5 percent and 11.9 percent during the corresponding period last year, respectively. Gross value addition of livestock has increased from Rs. 756.3 billion (2012-13) to Rs. 776.5 billion (2013-14), showing an increase of 2.7 percent as compared to last year. The livestock population for the last three years is given in Table 2.21.

Table 2.21: Livestock Population (Million Nos.)

Species	**2011-12[1]**	**2012-13[1]**	**2013-14[1]**
Cattle	36.9	38.3	39.7
Buffalo	32.7	33.7	34.6
Sheep	28.4	28.8	29.1
Goat	63.1	64.9	66.6
Camels	1.0	1.0	1.0
Horses	0.4	0.4	0.4
Asses	4.8	4.9	4.9
Mules	0.2	0.2	0.2

Source: Ministry of National Food Security & Research
1: Estimated Figure based on inter census growth rate of Livestock Census 1996 & 2006

The major products of livestock are milk and meat which for the last three years are given in Table 2.22.

Table:2.22 Milk and Meat Production (000 tonnes)

Species	**2011-12[1]**	**2012-13[1]**	**2013-14[1]**
Milk (Gross Production)	**47,859**	**49,400**	**50,990**
Cow	16,741	17,372	18,027
Buffalo	29,473	30,350	31,252
Sheep[2]	37	37	38
Goat	779	801	822
Camel[2]	829	840	851
Milk (Human Consumption)[3]	**38,617**	**39,855**	**41,133**
Cow	13,393	13,897	14,421
Buffalo	23,579	24,280	25,001
Sheep	37	37	38
Goat	779	801	822
Camel	829	840	851
Meat[4]	**3,232**	**3,379**	**3,531**
Beef	1,769	1,829	1,887
Mutton	629	643	657
Poultry meat	834	907	987

Source: Ministry of National Food Security & Research
1: The figures for milk and meat production for the indicated years are calculated by applying milk production parameters to the projected population of respective years based on the inter census growth rate of Livestock Census 1996 & 2006.
2: The figures for the milk production for the indicated years 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 milk production increased by 3.2 percent and meat 4.5 percent during 2013-14 as compared to corresponding period last year.

The production of other livestock products for the last three years is given in Table 2.23.

Table: 2.23 Estimated Livestock Products Production

Species	Units	2011-12[1]	2012-13[1]	2013-14[1]
Eggs	Million Nos.	13,114	13,813	14,556
Hides	000 Nos.	13,938	14,410	14,868
Cattle	000 Nos.	6,995	7,258	7,532
Buffalo	000 Nos.	6,842	7,050	7,232
Camels	000 Nos.	101	102	104
Skins	000 Nos.	49,582	50,713	51,872
Sheep Skin	000 Nos.	10,745	10,873	11,001
Goat Skin	000 Nos.	24,237	24,986	25,664
Fancy Skin	000 Nos.	14,509	14,854	15,207
Lamb skin	000 Nos.	3,192	3,229	3,268
Kid skin	000 Nos.	11,318	11,624	11,939
Wool	000 Tonnes	43.0	43.6	44.1
Hair	000 Tonnes	23.8	24.4	25.1
Edible Offal’s	000 Tonnes	353	363	373
Blood	000 Tonnes	59.8	61.3	62.8
Guts	000 Nos.	50,089	51,232	52,403
Casings	000 Nos.	14,832	15,333	15,817
Horns & Hooves	000 Tonnes	50.9	52.5	54.0
Bones	000 Tonnes	757.5	780.5	802.9
Fats	000 Tonnes	241.7	248.8	255.8
Dung	000 Tonnes	1,071	1,104	1,136
Urine	000 Tonnes	329	338	348
Head & Trotters	000 Tonnes	220.1	226.3	232.3
Ducks, Drakes & Ducklings	Million Nos.	0.5	0.5	0.5

Source: Ministry of National Food Security & Research
1: The figures for livestock product for the indicated years were calculated by applying production parameters to the projected population of respective years.

b) Poultry

Poultry sector is one of the important and vibrant segments of agriculture in Pakistan. This sector has contributed 1.3 percent in GDP during 2013-14 while it’s contribution in agriculture and livestock value added stood at 6.1% and 10.8 % respectively. Poultry meat contributes 28.0% of the total meat production in the country. The current investment in Poultry Industry is more than Rs. 200.00 billion. Poultry sector has shown a robust growth @ 8-10 percent annually which reflects its inherent potential. The poultry value added at current factor cost has increased from Rs. 121.7 billion (2012-13) to 130.7 billion (2013-14) showing an increase of 7.4% as compared to previous year. The production of commercial and rural poultry and poultry products for the last three years is given in Table 2.24.

Table 2.24: Domestic/Rural & Commercial Poultry

Type	Units	2011-12[1]	2012-13[1]	2013-14[1]
Domestic Poultry	**Million Nos.**	**79.68**	**80.87**	**82.08**
Cocks	Million Nos.	10.10	10.38	10.66
Hens	Million Nos.	38.09	38.78	39.47
Chicken	Million Nos.	31.48	31.72	31.95
Eggs[2]	Million Nos.	3,809	3,878	3,947
Meat	000 Tonnes	106.51	108.62	110.79
Duck, Drake & Duckling	**Million Nos.**	**0.54**	**0.52**	**0.50**
Eggs[2]	Million Nos.	24.13	23.13	22.17
Meat	000 Tonnes	0.73	0.70	0.67
Commercial Poultry	**000 Tonnes**	**44.1**	**47.0**	**50.1**
Layers	Million Nos.	34.82	37.25	39.86
Broilers	Million Nos.	597.02	656.72	722.39
Breeding Stock	Million Nos.	9.25	9.71	10.19
Day Old Chicks	Million Nos.	623.58	685.94	754.54
Eggs[2]	Million No’s	9,281	9,912	10,586

Table 2.24: Domestic/Rural & Commercial Poultry

Type	Units	2011-12[1]	2012-13[1]	2013-14[1]
Meat	000 Tonnes	726.66	797.47	875.24
Total Poultry				
Day Old Chicks	Million Nos.	655	718	786
Poultry Birds	Million Nos.	721	785	855
Eggs	Million Nos.	13,114	13,813	14,556
Poultry Meat	000 Tonnes	834	907	987

Source: Ministry of National Food Security & Research
1 : The figures for the indicated year is statistically calculated using the figures of 2005-06.
2 : The figures for Eggs (Desi) and Eggs (Farming) is calculated using the poultry parameters for egg production.

Poultry Development Policy envisions sustainable supply of wholesome poultry meat; eggs and value added products to the local and international markets at competitive prices and aimed at facilitating and support private sector-led development for sustainable poultry production. The strategy 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% per annum.

Government Policy Measure

Livestock wing with its redefined role under 18th Constitutional Amendment continued monitory regulatory measures that included allowing import of high yielding animals, semen and embryos for the genetic improvement of indigenous dairy animals, allowing import of high quality feed stuff/micro ingredients for improving the nutritional quality of animal and poultry feed and allowing duty free import of veterinary, dairy and livestock machinery / equipment in order to encourage establishment of value added industry in the country.

Implementation Status of Government Policy Measures

- Livestock wing provided facilitation for export of live animals and meat. A total of 8,995 buffaloes/cattle and 4,880 sheep/goats were exported for meat purpose during July 2013 to September 30, 2013. ECC of the Cabinet imposed ban on commercial export of live animals with effect from 1st October, 2013.
- Apart from animal exports, 58,730 metric tonnes of meat and meat preparations were exported during 2013-14 (July-March). The export of meat and meat preparations fetched US$ 177.5 million. This meat was exported from 29 private sector slaughterhouses registered with the Animal Quarantine Department. During same period export facilitation was also provided for livestock by- products like animal casing, bones, horns and hooves, gelatin that fetched US$ 50.0 million.
- Livestock Wing regulated import of superior quality semen and high yielding exotic dairy cattle of Holstein-Friesian & Jersey breeds for genetic improvement of indigenous dairy animals. During 2013-14 (July-March), 389.7 thousand doses of semen and 7,186 exotic dairy cows were imported. The exotic dairy cows added approximately 144 thousand tonnes of milk per day in the commercial milk chain/ system.
- In order to facilitate dairy farmer, duty free import of calf milk replacer & cattle feed premix was allowed. During 2013-14 (July-March), 241 metric tonnes of calf milk replacer & 925 metric tonnes of cattle feed premix was imported. Similarly, to promote and encourage value added livestock processing industry in the country, duty free import of machinery for milk, beef, mutton & poultry processing was allowed.
- During 2013-14, the Animal Quarantine Department (AQD) provided quarantine services and issued 32,833 Health Certificates for the export of live animals, mutton, beef, eggs and other livestock products having value of US$ 389.0 million. The AQD generated non-tax revenue of Rs. 45.23 million in 2012-13 as certificate / laboratory examination fee of animal and animal products exported during the year.
- Livestock Wing also collaborated with international (Office International Des Epizooties OIE, Food Agriculture Organization FAO) and regional organizations (South Asian Association of Regional Cooperation SAARC, Economic Cooperation Organization ECO, Animal Production and Health Commission for Asia and the Pacific APHCA, European Union EU) for HRD and capacity building of national and provincial livestock institutions for diagnosis and

control of animal diseases. Inter Provincial Coordination is being done by the Livestock Wing to implement the National Program to Control Foot & Mouth Disease and Peste Des Petitis Ruminant (PPR) disease in Pakistan. This will help to reduce commercial losses in livestock sector due to said diseases.

Future Plans

The Future Plans include Inter – Provincial coordination for shifting from subsistence livestock farming to market-oriented and commercial farming covering entire value chain from farm to fork , coordination to promote value addition livestock industry, diversification of livestock products, entering into global Halal Food Market, controlling Trans-boundary Animal Diseases of trade and economic importance through provincial participation (PPR, Zoonotic diseases) and exploring new markets for export of beef and mutton and poultry meat.

IV. Fisheries

Fisheries contribute directly to food supplies, a source of livelihood for the coastal inhabitants, export earnings and boosting the economy. Fishery products are one of the most traded foods and feed commodities. A part from marine fisheries, inland fisheries (based in rivers, lakes, ponds, dams etc.) is also an important activity throughout the country. Fisheries share in GDP although very little but it adds substantially to the national income through export earnings. Pakistan's major buyers are China, Thailand, Malaysia, Middle East, Sri Lanka, Japan, etc. During the year 2013-14 (July- March), a total of 103,833 metric tonnes of fish and fish preparations were exported earning US$ 253.1 million compared to 103,796 metric tonnes earning US$ 232.5 million corresponding period last year. During 2013-14 (July- March), total marine and inland fish production was estimated 514,500 metric tonnes out of which 349,500 metric tonnes was marine production and the remaining catch came from inland waters. Whereas the production for the period 2012-13 (July- March), was estimated to be 490,560 metric tonnes in which 335,000 metric tonnes was for marine and the remaining was produced by inland fishery sector. The export of fish & fishery products increased by 0.04 percent in quantity and in value term increased by 8.8 percent during 2013-14 (July- March).

Government of Pakistan is taking a number of steps to improve fisheries sector. A number of initiatives is being taken by federal and provincial fisheries departments which includes *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. The major initiative/achievements are discussed below:

i) Karachi Fish Harbour

Assistance from donor agency may be solicited to support incompletion of package-II of 2nd phase of Government of Sindh ADP scheme namely "**Rehabilitation and Renovation of Karachi Fish Harbour**". Total cost of package-II comes to Rs. 5155.460 million. Whereas, package-I costing Rs. 1,438.021 million has already been approved by PDWP, Government of Sindh on 26th July, 2013.

ii) Renovation of other Landing Sites / Auction Halls

Renovation of Gadani Fish Harbour is expected to be completed shortly and remaining fish landing sites are required to be made in line with international requirements.

iii) Modernized the Fishing Fleets

In order to meet the requirement of EU and other importing countries, Technical assistance in respect of modification of fishing boats was rendered to provincial governments and relevant stake holders, as a result a total number of 1156 fishing boats had been modified, which is a success story for Pakistan.

iv) Accreditation of Quality Control Laboratories under ISO / IEC – 17025 International Standards

Two laboratories (namely Microbiology and Chemical) of MFD achieved international accreditation under ISO / IEC – 17025 international standards. Thus the MFD has fulfilled the requirements of EU and other importing countries and now, the test reports issued by these laboratories are acceptable all over the world.

v) The European Union (EU) has lifted the Ban on Import of Pakistani Fish Products

After the period of about six years, with the efforts of Marine Fisheries Department, Ministry of Ports and Shipping and other stakeholders, the EU has allowed resumption of export of Fish & Fishery products from Pakistan to the EU countries. It is recalled that the fish processing plants were delisted by EU in April, 2007. Two fish processing plants have been enlisted by EU and case of enlistment of five plants is in process with EU. The EU has decided to allow import of Pakistani fish products, which will give a boost to the country's exports. Twelve consignments of cuttle fish, Shrimps and fish sent. Which have also been successfully cleared after 100% laboratory analysis at EU border.

vi) Quality Control Services

Marine Fisheries Department is responsible to regulate quality and promote export of fish and fishery- products and to prevent export of substandard quality of fish and fishery products and for matters connected therewith and ancillary thereto. During (July-March) 2013-14, 12,356 certificates of quality and health for seafood commodities exported from Pakistan were issued. The income generated from issuance of the certificates is Rs. 12.356 million.

vii) Deep Sea Fishing in EEZ of Pakistan

With the declaration of Exclusive Economic Zone (EEZ) in 1976, Pakistan for the purpose of fish exploitation extended its jurisdiction up to 200 nautical miles in the sea from the coastline and added about 250,000 square kilometer of sea area to territory. This gave the country exclusive rights over the living resources of this extended jurisdiction and placed a tremendous responsibility on the country for judicious exploitation of the fishery resources of its EEZ.

To harvest the fishery resources of the EEZ industrial fishing started in 1982. A set of policies have since been tried without achieving the desired objectives. Deep-Sea fishing anywhere in the world is a capital-intensive business and Pakistan is no exception to it. It has not so far helped to motivate private entrepreneurs to establish their own fishing fleet manned by Pakistani crew. It is also observed that terms and conditions were very harsh and did not attracted foreign deep sea operators; therefore, the present government has approved modification in the policy in the year 2009 and now it is made up more rational.

Applications for the grant of fishing licenses were invited through Newspapers received are under process. Hopefully, the deep sea fishing vessels will be in operation shortly.

viii) Marine Fisheries Department is executing a development project named "Stock assessment survey programme in EEZ of Pakistan through chartering of fisheries Research vessel and capacity building of Marine Fisheries Department", is aimed: To conduct stock assessments, including research vessel surveys, in coastal and offshore waters of Pakistan and to strengthen the technical capacity of Marine Fisheries Department in stock assessment and fisheries management.

Conclusion:

Agriculture sector facing certain challenges which required immediate and focused attention both at research and policy level. Sustainable agricultural growth based on paradigm that secure more profitable farming, high productivity of major farming systems, diversification of high value crops and demand based production. Ministry of National Food Security and Research is on forefront to adopt lines yielding higher returns than investment in any other agriculture area. In this regard, the present government is taking various initiatives to accelerate agricultural growth and promote investment in agricultural research.

Chapter 3

Manufacturing and Mining

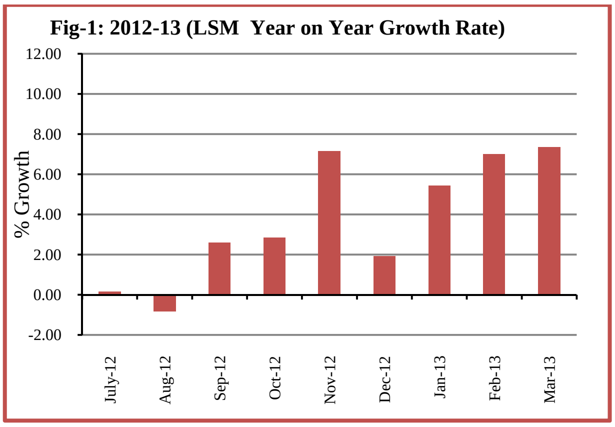
3.1 Introduction

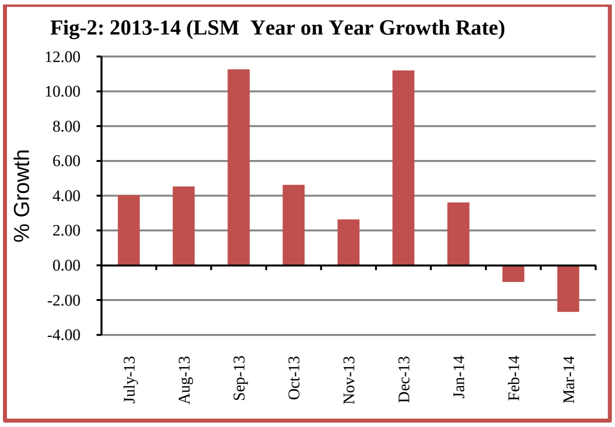
Rapid progression of manufacturing sector is considered a vital step towards achieving the goal of economic development. Development through manufacturing helps in bringing innovation, increasing production level, technology transfer, machinery up gradation, increasing the income level, improving the supply side of the economy, increase in consumption level and more importantly providing employment opportunities. This all paves the way to modern infrastructure and needed development in line with the definition and trend around the world. The transformation from agriculture to manufacturing results in positive development and impacts on the economy. This in turn supports agriculture through needed innovation in machine transformation mechanism which helps in its production level.

The uneven growth in the past was the result of absence of strong base in our manufacturing sector, outdated production technologies, unskilled labour force and quite often lack of awareness about the best international practices. This resulted in low productivity. If to look in the global competitiveness index Pakistan ranked 133 among 148 according to the World Economic Forum Global Competitiveness Report 2013-14. However, the main factor or obstacle responsible for slow growth was the power shortages which limited its performance. The manufacturing sector could not go beyond on average of 33 percent of its capacity. The power outages dampen the pace of growth. This resulted in subdued growth performance last year, particularly.

The present elected government took a serious note of the dismal performance and addressed the main impediment hampering the growth by successfully clearing the circular debt worth of Rs.480 billion in just 47 days after coming into power. As a result 1752 MW electricity added in the system. Resultantly, the progress was realized in the significant growth of Large Scale Manufacturing. The government is committed to resolve the energy crisis and has taken several measures in the power sector as a result electricity generation during 2013-14 has shown significant improvement. Overall there has been a growth of 7 percent in electricity generation during March 2014 and further increased to 11 percent in April 2014 compared to the same period last year.

The industrial sector comprises Mining and Quarrying, Manufacturing, Electricity generation & distribution & Gas distribution and Construction. The manufacturing sector further be classified into three sub groups i.e. Large Scale Manufacturing (LSM), Small Scale Manufacturing and Slaughtering. Manufacturing accounts 13.5 percent of Gross Domestic Product (GDP) and 14.1 percent of total employed labor force. Large Scale Manufacturing (LSM) at 10.9 percent of GDP dominates the overall sector accounting 81 percent of the sectoral share followed by Small Scale Manufacturing which accounts 1.7 percent of total GDP and 12.3 percent share in Manufacturing. The impact of rise in electricity generation has been realized in the LSM growth which registered a growth of 4.3 percent during July-March, FY14 as compared to 3.5 percent last year. The Year on Year growth rate performance of the LSM sector can be well gauge from the graph below.





The sector specific data shows that many sub sectors performed well during the period July-March 2013-14 over corresponding period of last year. The sector which performed well during this period remained: Fertilizer 21.64 percent, Leather Products 12.96 percent, Food Beverages & Tobacco 7.78 percent, Rubber Products 9.48, Chemicals 6.71 percent, Paper & Board 8.03 percent, Coke & Petroleum Products 7.48 percent, Electronics 2.91 percent, Iron and Steel Products 3.38 percent, Textile 1.44 percent and Non Metallic Mineral Products 0.15 percent. The group wise growth and the contribution of each of the LSM for the period July-March 2012-13 versus July-March 2013-14 is presented in Table-3.1.

Table 3.1: Group wise growth and Point Contribution rate of LSM for the Period of July-March 2013-14 Vs July-March 2012-13

S.No.	Groups	Weights	% Change July-March		% Point Contribution July-March	
			2012-13	2013-14	2012-13	2013-14
1	Textile	20.91	0.91	1.44	0.19	0.30
2	Food, Beverages & Tobacco	12.37	7.43	7.78	0.92	0.96
3	Coke & Petroleum Products	5.51	13.32	7.48	0.73	0.41
4	Pharmaceuticals	3.62	6.61	-0.49	0.24	-0.02
5	Chemicals	1.72	-0.66	6.71	-0.01	0.12
6	Automobiles	4.61	-11.95	-0.01	-0.55	0.00
7	Iron & Steel Products	5.39	13.24	3.38	0.71	0.18
8	Fertilizers	4.44	-5.03	21.64	-0.22	0.96
9	Electronics	1.96	2.38	2.91	0.05	0.06
10	Leather Products	0.86	-1.74	12.96	-0.01	0.11
11	Paper & Board	2.31	17.82	8.03	0.41	0.19
12	Engineering Products	0.40	-15.44	-21.40	-0.06	-0.09
13	Rubber Products	0.26	17.61	9.48	0.05	0.02
14	Non-Metallic Mineral Products	5.36	6.07	0.15	0.33	0.01
15	Wood Products	0.59	-18.98	-8.91	-0.11	-0.05

Source: Pakistan Bureau of Statistics (PBS)

The improvement in gas supply, especially to fertilizers and leather industry in the past few months increased the output which can easily be gauged from the growth of Nitrogenous Fertilizers 24.59 percent during the period under review. The growth in leather industry arrived from the Footwear 15.72 percent and Upper Leather 7.78 percent.

The Food, Beverages & Tobacco group also remained the major contributor in the overall growth due to its heavy weight of 12.37 percent in LSM basket. The items showing positive growth in Food, Beverages & Tobacco includes Sugar 10.88 percent, Soft drinks 34.03 percent, Juices, Syrups & Squashes 13.69 percent and Vegetable Ghee 4.05 percent. Restaurant and fast food chains are flourishing in the country and the demand for dairy products, processed food and beverages has increased thus brought a positive impact in Food group.

In Electronics Products, Air Conditioners, Deep Freezers, Electric Motors, Storage Batteries and Refrigerators were the main contributors which managed to grow by 36.12 percent, 83.03 percent, 20.01 percent, 3.27 percent and 2.63 percent respectively. In Petroleum Products growth mainly arrived from the production of Diesel Oil 62.61

percent, High Speed Diesel 13.11 percent, Lubricating Oil 4.48 percent, Furnace Oil 11.62 percent and Motor Sprits 6.61 percent during the period under review.

In textile sector the main contributing item was Jute Goods 6.30 percent however, heavy weight items like Cotton Yarn and Cotton Cloth showing marginal improvement by registering a growth of 1.76 percent and 0.68 percent. The recent improvement in energy as well GSP plus status augur well for future prospects of these two important sub sector which will ultimately transmitted into the performance of textile sector in coming months.

Iron and Steel industries were the major beneficiaries of steady construction activity in the country. Three new plants namely Aisha Steel, International Steel and Tuwairqi Steel have started commercial operations in recent years. The newly established plants are running on captive powers as the sector largely immune to power generation. In addition Economic Coordination Committee (ECC) has recently approved restructuring plan for Pakistan Steel Mill (PSM) amounting to Rs. 18.5 billion. The proper implementation of plan envisages to achieve operational capacity around 77 percent, able to pay all their liabilities and also earn monthly profit of Rs. 38 million onward from January 2015.

The resolution of circular debt not only improved petroleum refining also benefited other industries by improving power supplies. The capacity enhancement, upward trend in credit utilization, steady construction activities, favaourable palm oil prices and use of alternate energy by various industries help to support LSM sector.

The sectors which recorded negative growths are; Engineering Products 21.40 percent, Woods Products 8.91 percent, Pharmaceuticals 0.49 percent and Automobiles 0.01 percent.

In Automobiles, the sub items of automobile sector such as LCVs, Trucks, Buses and Motor Cycle posted a growth of 27.95 percent, 30.94 percent, 11.25 percent and 3.38 percent respectively while Tractors registered a negative growth of 33.57 percent.

An item wise review of selected items in Large Scale Manufacturing during July-March 2013-14 is presented in Table 3.2.

Table-3.2 : Production of selected industrial items of Large Scale Manufacturing

S.No.	Items	Unit	Weight	July-March		% Change (Jul-Mar) 2013-14	% Point Contribution (Jul-Mar) 2013-14
				2012-13	2013-14		
1	Deep Freezers	(Nos.)	0.162	31,427	57,521	83.03	0.13
2	Jeep & Cars	(Nos.)	2.818	85,109	86,187	1.27	0.04
3	Refrigerators	(Nos.)	0.239	827,466	849,222	2.63	0.01
4	Upper Leather	(000 sq.m.)	0.392	17,178	18,514	7.78	0.03
5	Cement	(000 tonnes)	5.299	22,757	22,778	0.09	0.00
6	Liquids/Syrups	(000 Litres)	1.136	72,832	68,874	-5.43	-0.06
7	Phosphatic Fertilizer	(N tonnes)	0.400	407,715	416,272	2.10	0.01
8	Tablets	(Million Nos)	1.914	18,678.165	18,877.064	1.06	0.02
9	Cooking Oil	(Tonnes)	2.227	266,506	266,997	0.18	0.00
10	Nitrogenous Fertilizer	(N tonnes)	4.041	1,552,494	1,934,304	24.59	0.99
11	Cotton Cloth	(000 sq.m.)	7.186	771,270	776,500	0.68	0.05
12	Vegetable Ghee	(000 tonnes)	1.144	844,258	878,455	4.05	0.05
13	Cotton Yarn	(000 tonnes)	12.965	2,253.510	2,293.260	1.76	0.23
14	Sugar	(000 tonnes)	3.545	4,621.873	5,124.540	10.88	0.39
15	Tea Blended	(Tonnes)	0.382	69,837	77,744	11.32	0.04
16	Petroleum products	(Million litres)	5.410	9,130.567	9,996.332	9.48	0.51
17	Cigarettes	(Million Nos.)	2.125	49,247	47,114	-4.33	-0.09
18	Coke	(Tonnes)	0.104	148,112	31,924	-78.45	-0.08
19	Pig iron	(Tonnes)	1.584	146,262	68,161	-53.40	-0.85

Source: Pakistan Bureau of Statistics (PBS)

European Parliament has approved the legislation to grant GSP plus status to Pakistan with a majority vote after hectic diplomatic efforts by the Government of Pakistan. The award of GSP plus status shows confidence of the international markets on the excellent quality of Pakistani products and government sustained diplomatic efforts to enable Pakistani products duty-free access in the EU market. Under this programme Pakistan's more than 600 items mainly non value – add textile value chain will attract zero custom duty into 27-member EU bloc from January 1, 2014. The achievement of getting GSP plus status will boost up the industrial sector. The exports mostly confined to textiles related items and is a major source of foreign exchange earnings therefore it is prime responsibility of our exporter to comply with different international standards such ISO certifications, quality of the product and innovations and also timely provisions of products to buyers. Barring seasonal and cyclical fluctuations, textile products have maintained an average share of about 60 percent in national exports. Pakistan’s textile exports had been declining as manufacturers and exporters were finding hard to compete Sri Lanka and Bangladesh who already had duty free access to European markets. This will also enable us to export more than $ 1 billion annually worth of products to the EU market duty free. The first review of the implementation status will be reviewed after three years. It is strongly believed that new production lines would be developed in textile and there would be strong coordination between the government and the industry which will help in cost competitiveness, non disruptive supply chain management, and maintaining quality standard to give an edge over competitors.

The recent youth programme loan scheme announced by the Prime Minister will also help in establishing small and medium enterprises and industries as well as youth skill development scheme will provide trained skilled manpower to this sector which will go a long way in supplement the industrial sector as well as domestic commerce and an entrepreneurial culture in the country.

3.2 Textile Industry

The textiles sub-sector occupies a-pivotal position in Pakistan’s economy, accounting for 8 percent of GDP with significant potential for growth. It has the most intensive backward and forward linkages within the wider economic chain compared to any other sector, linking agriculture through industry to exports. Cotton contributed 24 percent of the industrial sector’s value-added output, employing 40 per cent of industrial sector’s work force, using 40 percent of bank credit given to the industrial sector and accounting for nearly 55 percent of Pakistan’s exports. In addition, this sector provides a livelihood to more than 10 million farming families.

According to the International Cotton Advisory Committee, Pakistan is the fourth largest producer of cotton and third largest consumer of cotton in the world. In addition, Pakistan is the world’s second largest cotton yarn exporter and third largest cotton cloth manufacturer and exporter. However, Pakistan is fifteenth in terms of international trade, as some of the advantages of Pakistan’s large production rate of raw materials is lost in low value added semi-manufactured exports.

Unlike some other textiles and clothing producing countries, Pakistan is unique as it has a self-reliant production chain. From cotton growing to ginning, weaving, processing and finishing, and from fabrics to home textiles and apparel, all have links in the textiles and clothing value chain which have been developed by Pakistan’s own industry.

Pakistan approved its first ever five-year textile policy in 2009 with a financing plan of Rupees 188 billion for various short-to-long term initiatives aimed at sustainability of textile value chain. The Ministry of Textile is in process of formulating the new five year textile policy which will be ready by June 30 this year and will be implemented in the next five financial years (2014-19) with major thrust on value-added sector. The policy will propose major incentives for the value added textile sector and also attract new investors in order to enhanced exports up to $ 26 billion in next five years.

Global Overview

According to International Statistics report the export of textile and clothing trade has slightly increased from US $ 706 billion in 2011 to US $ 709 billion in 2012 showing an increase 0.425 percent. Besides this the exports of Pakistani textile and clothing trade has decreased from US$ 13.7 billion in 2011 to US$ 12.9 billion in 2012 about decrease of 5.84 percent. However, world exports of textiles and clothing recorded US$ 286 billion and US$ 423 billion in 2012 showing decrease of 2.72 percent in textiles and increase of 2.67 percent in clothing as compared to last year. The share of Pakistani textile and clothing decreased to 1.81 percent in 2012 while it was 1.94 percent in 2011. Half of the top ten exporters achieved export growth (between 0.2 and 7.5 percent) but the other half recorded decline and vary between –2.3 and –8.0 percent. The highest growth in exports (7.5 percent) was achieved by Vietnam. China continued to be the leading exporter of textiles and clothing. Its share in world exports increased to 33 percent for textiles (up from 32 percent in 2011) and to 38 percent for clothing (up from 37 percent). The European Union and the

United States remained the major markets for clothing, accounting for 38 percent and 20 percent respectively of world imports in 2012.

Table 3.3: Export of Textile and Clothing (US $ Billions)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
World Textile	195.5	202.4	220.4	240.4	250.2	209.9	250.7	294.0	286.0
World Clothing	260.6	276.8	309.1	345.8	361.9	315.1	351.5	412.0	423.0
Total:-	456.1	479.2	529.5	586.2	612.0	525.0	602.2	706.0	709.0
Pakistan Textile	6.1	7.0	7.5	7.4	7.2	6.5	7.8	9.1	8.7
Pakistan Clothing	3.0	3.6	3.9	3.9	3.9	3.4	3.9	4.6	4.2
Total	9.1	10.6	11.4	11.3	11.1	9.9	11.7	13.7	12.9
Percentage of World Trade	2.00	2.21	2.15	1.93	1.81	1.89	1.96	1.94	1.81

Source: World Trade Organization (WTO)

Domestic Overview

There is notable improvement in gas supply as evident from 8.0 percent uptick in textile exports during the period July-March 2013-14 as compared to corresponding period last year. The exports basket contains a wide range of items such as cotton fibers, yarn and cloth, yarn other then cotton yarn, tents, canvas, made-ups and variety of garments. The textile industry of Pakistan has prospective for performing better productions and in export by virtue of its inherent competition in the international market for its conventional products. However, to maintain its position and moving in high value added products for the value increased market share, a large investment in machinery equipment and new technology is essential. The training of workers, improvement in labour productivity, research & development, product diversification and branding are the immediate areas to focus. The export performance during the period under review is given in the Table 3.4.

Table 3.4: Export of Pakistan Textiles (US $ Millions)

	2008-09	2009-10	2010-11	2011-12	2012-13	2012-13 (Jul-Mar)	2013-14 (Jul-Mar)	% Change (Jul-Mar) 13-14/12-13
Cotton & Cotton textiles	9,308	9,754	13,147	11,778	12,652	9,352	10,093	7.9
Synthetic textiles	319	446	608	546	406	278	289	4.0
Wool & Woolen textiles	145	137	132	121	122	88	97	10.2
Total textiles	9,772	10,337	13,887	12,445	13,180	9,718	10,479	7.8
Total exports	17,782	19,290	24,810	23,624	24,515	18,017	19,082	5.9
Textile as % of exports	55	54	56	53	54	54	55	--

Source: Ministry of Textile

3.2.1 Ancillary Textile Industry

The 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 the unorganized cottage / small and medium units. The performance of these various ancillary textile industries is discussed below.

(i) Cotton Spinning Sector

The Spinning Sector is the backbone in the ranking of textile production. At present, as per record of Textile Commission Organization, it is comprised of 515 textile units (43 composite units and 472 spinning units) with 12.31 million spindles and 181 thousand rotors installed and 11.29 million spindles and 148 thousands rotors in operation with capacity utilization of 92 percent and 82 percent respectively, during July –March, 2013-14.

(ii) Cloth Sector

There are three different sub-sectors in weaving i.e. integrated, independent weaving units, and power loom units. The power loom sector is modernized and registered a phenomenal growth over the last decades. The growth of power loom sector is due to favorable government policies as well as market forces. Production of cloth in mill sector is reported while non-mills sector is not reported and therefore is estimated. This sector showed growth and served as the main strength for downstream sectors like Bed wear–Made-ups & Garments. The table given below showed production and export of clothing during the period under review.

Table 3.5 Production and Export of Clothing Sector

Cloth Production	July-Mar 2012-2013	July-Mar 2013-2014	%Change
Mill Sector (M. Sq. Mtrs.)	771.13	776.50	0.70
Non Mill(M. Sq. Mtrs	6,059.45	6,064.10	0.10
Total	6,830.58	6,840.60	0.15
Cloth Exports			
Quantity (M.Sq Mtr.)	1,571.98	1,764.78	12.26
Value (M.US$)	1,986.28	2,125.21	6.99

Source: Ministry of Textile

(iii) Textile Made-up Sector

Being value added segment of textile industry, made-up sector comprises different sub groups namely towels, tents & canvas, cotton bags, bed-wear, hosiery & knitwear & readymade garments including fashion apparels. Export performance of made-up sector during the period July-March 2013-14 is presented in Table 3.6.

Table 3.6: Export of Textile Made-Ups

	2012-2013 (July – Mar)	2013-2014 (July-Mar)	% Change
Hosiery Knitwear			
Quantity (M.Doz)	73.386	84.248	14.80
Value (M.US$)	1,513.292	1,667.748	10.21
Readymade Garments			
Quantity (M.Doz)	19.971	21.806	9.19
Value (M.US$)	1,308.002	1,430.430	9.36
Towels			
Quantity (M.Doz)	128.131	124.352	-3.09
Value (M.US$)	576.076	561.412	-2.55
Tents/Canvas			
Quantity (M.Doz)	23.832	20.925	-12.20
Value (M.US$)	82.834	63.088	-23.84
Bed Wears			
Quantity (M.Doz)	195.159	236.434	21.15
Value (M.US$)	1,318.370	1,600.317	21.39
Other Made up			
Value (M.US$)	433.653	511.439	17.94

Source: Ministry of Textile

a) Hosiery Knitwear Industry

There are about 12,000 circular knitting machines, 10,000 flat knitting and 18,000 Socks knitting machines spread all over the country and the capacity utilization is approx 70%. There is greater reliance on the development of this industry as there is substantial value addition in the form of knitwear. This sector has achieved remarkable export performance during July-March 2013-2014 worth US$ 1667.748 million were exported as compared to US$ 1513.292 million in comparable period of last year. Even in quantity terms the export of knitwear industry has increased by 14.8 percent. The export performance of knitwear during the period under review is given below in Table.3.7

Table 3.7: Export of Knitwear

	(July–Mar) 2012-2013	(July–Mar) 2013-2014	% Change
Quantity (M.Doz)	73.386	84.248	14.80
Value (M.US$)	1513.292	1667.748	10.21

Source: Ministry of Textile

b) Readymade Garment Industry

Readymade garment industry has emerged as one of the important small scale industries in Pakistan. Its products have large demand both at home and abroad. The local requirements of readymade garments are almost met by this industry. Garment industry is also a good source of providing employment opportunities to a large number of people at a very low capital investment. It mainly uses locally produced raw materials. Most of the machines used by this industry are imported or locally made and assembled.

Production of garments by units depends on export orders directly or indirectly. These orders have somewhat risen in terms of value, but have been fluctuated widely in terms of quantity. Generally export earnings from garments have increased tremendously. Exports increased from 19.971 million dozens in various types of readymade garments worth US$ 1308.002 million in July-March 2012-2013 to 21.806 million dozens worth US$ 1430.430 million in July-March 2013-2014, thus showing an increase of 9.36 percent in terms of value.

Table 3.8: Export of Readymade Garments

	(July–Mar) 2012-2013	(July–Mar) 2013-2014	% Change
Quantity (M.Doz)	19.971	21.806	9.19
Value (M.US$)	1,308.002	1,430.430	9.36

Source: Ministry of Textile

e) Towel Industry

There are about 10,000 towel looms including shuttle and shuttle less in the country in both Organized and unorganized sector. This industry is dominantly export based and its growth has all the time depended on export outlets. The existing towels manufacturing factories have been upgraded to produce higher value towels. The export performance of towel sector during the period is given below in Table 3.9.

Table 3.9: Export of Towel sector

	(July–Mar) 2012-2013	(July–Mar) 2013-2014	% Change
Quantity (M.Kgs)	128.131	124.352	-3.09
Value (M.US$)	576.076	561.412	-2.55

Source: Ministry of Textile

d) Canvas

The production capacity is more than 100 million Sq. Meters. This value-added sector has also great potential for export. The 60 percent of its production is exported while 40 percent is consumed locally by armed forces food department. Pakistan is the cheapest source of supply of tents and canvas. During July-March 2013-14, export in this sector stood at $ 63.1 million as against $ 82.8 million in the comparable period of last year, thereby showing a decrease of 23.8 percent. Even quantity exported decrease by 12.2 percent.

iv) Art Silk and Synthetic weaving industry

During July-March 2013-14, synthetic textile decrease fabrics worth $ 289 million were exported as compared to $ 277.3 million showing an increase of 4.2 percent in comparable period of last year. But in quantity terms the export of synthetic decreased by 7.3 percent.

v) Woolen Industry

The main products manufactured by the woolen industry are carpets and rugs. The exports of carpet during the period July-March 2012-13 and July-March 2013- 14 is given in the Table 3.10.

Table 3.10: Exports Of Carpets and Rugs (Woollen)

	(July – Mar) 2012-2013	(July – Mar) 2013-2014	% Change
Quantity (M.Sq.Mtr)	2.202	2.506	13.81
Value (M.US$)	87.791	97.282	10.81

Source: Ministry of Textile

vi) 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 the Table 3.11.

Table 3.11: Installed & Working Capacity

	July-Mar 2012-13	July-Mar 2013-14	% Change
Total No. of Units	10	10	0
Spindles Installed	36,172	25,712	-28.92
Spindles Worked	23,858	23,443	-1.74
Looms Installed	1,851	1,175	36.52
Looms Worked	1,005	1,016	1.30

Source: Ministry of Textile

The production of the Jute goods for the period of July–March 2012-2013 and 2013-2014 is 74,023 and 78,683 metric ton respectively showing an increase of 6.30 percent.

3.3 Other Industries

Although Pakistan's export are mostly confined to cotton and textile products in the international market, there are other industries as well which progressed rapidly and also contributed to the manufacturing sector.

3.3-1 Engineering Sector

Engineering Development Board (EDB) in pursuit of its mission to strengthen and promote the engineering industry of Pakistan, has compiled the

"Directory of Engineering Goods Exporters 2013" which is the first of its kind containing profile of almost 150 leading engineering goods exporters from almost all the engineering sub-sectors. The directory is being widely circulated to all foreign diplomatic missions, Pakistan's missions aboard, local/foreign chambers of commerce & industries, associations and all the relevant organizations engaged in promoting and enhancing exports. This directory would not only prove to be a tool for enhancing the scope of trade activities but also bring in opportunities for business development and networking between our local engineering industry and other international organizations.

Engineering Development Board (EDB) plans to assist and collaborate with Punjab Skills Development Fund (PSDF) in providing skills and vocational training opportunities in light engineering sector which is one of the important and significant sector. PSDF is set up under the Companies Ordinance 1984 by the Government of Punjab in collaboration with Department For International Development (DFID) UK. PSDF aims to provide skills and vocational training opportunities to the underprivileged and vulnerable population of four most under-developed districts of Punjab for improving their ability to find work or progress in their current employment or develop an enterprise. In collaboration with EDB, PSDF is conducting skills need assessment exercise to assess the skill needs of light engineering sector. After successful completion of skill for jobs 2012-13, PSDF has launched the skill for jobs 2013-14 and it targets imparting training to 22,000 candidates. Initially, four light engineering sectors i.e. Fans, Cutlery, Pumps & Motors and Surgical equipments are being included in the programme which will be followed by trainings in other light engineering sectors. Under the scheme, training support to candidates covers at fixed stipend @ Rs. 1500/- for day scholars and Rs 3000/- for boarders receiving training outside the PSDF districts. Additionally, if the training is conducted outside the target district, boarding and lodging, including meals for the trainees are to be arranged by the Training Service Provider as per specified standards. In lieu of these services, training providers will be paid according to the following rates: Rs. 7000/- per month per trainee in case of Lahore/Rawalpindi/Islamabad, Rs 9000/- per month per trainee in case of Karachi.

The government is taking effective steps to increase the progress of country's industrial sector on account of interest showing by the international companies.

3.3-2 Automobile Industry

The Automobile Industry is very dynamic driven by consumer choice, comfort, safety and design. This industry includes 2-3 wheelers, motorcars, light commercial vehicles (LCVs), jeeps, tractors, buses and trucks. In this competitive environment, the government is encouraging development of R&D centers, school for advanced learning of auto technology and development of quality control instruments to create an enabling environment for the auto component industry to grow. Although Pakistan has achieved some level of localization, it plans to move to the next level of value addition. The Table 3.12 shows comparative position at glance.

Table 3.12: Production of Automotive Industry (No of units produced)

Category	Installed Capacity	2012-13 (July-Mar)	2013-14 (July-Mar)	% Change
Cars	240,000	84,489	85,357	1
LCVs	43,900	10,438	13,355	28
Jeeps	5,000	620	830	* 34
Buses	5,000	400	445	11
Trucks	28,500	1,380	1,807	31
Tractors	65,000	36,121	24,000	-34
Two/Three Wheelers	2,500,000	618,439	586,580	-5

Source: Pakistan Automotive Manufacturer Association
* a new product Toyota Fortuner was introduced in February 2013

The Two/Three wheeler sector has remained a high point for the auto sector for decades. This sector offers most preferred and economical means of transport and a best alternate in the absence of public transport and thus holds out considerable opportunities of growth.(Box-I)

Box-I : New Entrant Policy for Motorcycle Manufacturing Industry in Pakistan

Government has approved following new entrant policy for motorcycle manufacturing industry with new technology:

1. Ministry of Industries and Production will process the case of new entrants under this policy and make recommendations for the approval of the ECC.
2. "New Technology" will be defined by the Engineering Development Board (EDB) and would be approved by the ECC on the recommendations of the Committee comprising representatives from BOI, Ministry of Commerce and chaired by Secretary Industries and Production.
3. The new entrants shall have the incentive of importing localized CKD kit in any form at custom duty leviable on non-localized CKD kit (10 %) in any form for a period of five years subject to localization plan. The additional custom duty leviable shall not be charged on sub-components and components imported in any kit form. The concessions shall be withdrawn on parts localized by the new entrant each year, in accordance with the approved localization plan.
4. At the start of commercial production by new entrants, localization level shall be kept at a minimum of 25 percent localization per annum.
5. By the end of five years, localization level shall reach a minimum of 85 percent at an average rate of at least 15 percent per annum each for the subsequent four years.
6. The minimum investment for any New Entrant in Motorcycle Manufacturing Industry with new technology will be US$ 100 million as per localization plan.

Productions of passenger cars were 84,489 units and 85,357 units in the July-March 2012-13 and 2013-14, respectively, representing a meager 1 percent growth. The reason for this continued depression and further downturn during July-March 2013-14 was on account of 82,054 units of used cars cleared under the previous 5 year age limit policy and the amnesty scheme whose adverse impact continued post July 2013. Additionally, used cars continued to be imported, still in large numbers, during the year under review undermining the sale volume of locally produced cars. Liberalized import of used cars is the single most important factor that has hampered the growth and it is partially exempted amount of duty on used cars, under SRO 577/2005, that makes them feasible in the market vis-à-vis locally produced cars.

The consumption of automobiles in Pakistan is much lower than the countries of the region and there is latent demand and the potential to grow. However, the recovery in the industry would be a matter of consistency in policy by the government. The auto industry is presently not provided with any auto policy. The previous policy (2007-12) has since expired on 30th June 2012. The new long term policy has been in the process of formulation. There are some signs for the recovery of the economy and one important manifestation to that effect is substantial appreciation of Pak rupee. As this may spur growth, so would grow the auto industry subject to long term policy which only is the key to sustain stable growth.

3.3-3 Fertilizer Industry

The fertilizer industry, being provider of one of the key inputs for crop production has a significant role in the agricultural growth of the country. It has both forward and backward linkages in national economy. In Pakistan, there are nine urea manufacturing plants, one DAP, three NP, three SSP (18 percent), two CAN and one plant of blended NPKs having a total production capacity of 8,965 thousand tonnes per annum. Although, the installed production capacity for all products has attained the level of 8,965 thousand tonnes per annum the actual production for all products remained at 5, 828 and 6,805 (estimated) thousand product tonnes for 2012-13 and 2013-14 which is less by 35.0 and 24.1 percent, respectively, than the installed production capacity.

Fertilizer sector is the second largest consumer of gas after the power sector, however, on account of prevailing energy crisis in the country; the supply of natural gas to fertilizer industry is affected very badly. The problem of gas curtailment has disturbed the smooth supplies of natural gas to national fertilizer industry which has resulted into low production, undue price hike, increase in imports & subsidy, and erosion of investment especially in case of urea. Smooth supplies of natural gas to urea plants are essential to run the plants at 100 percent of their installed capacity for making urea available (as per requirement) at stable/affordable price and avoiding its import. At least minimum required gas supply for feedstock purpose may be ensured to fertilizer manufacturing plants. At present, the installed production capacity (6323 thousand tonnes) of urea fertilizer is more than national demand of 6200 thousand tonnes per annum but the actual production is much below than required level. The annual production of urea for 2013-14 is estimated as 5050 thousand tonnes, which is less by 20.1 percent of installed capacity of urea fertilizer. To bridge the demand/supply gap, the Government is importing urea and providing at subsidized rate.

3.3-4 Cement Industry

Cement Industry is playing a vital role in socio economic development to promote the export and create employment opportunities to skilled and unskilled manpower. During July-April 2013-14, cement industry dispatched 21.3 million tonnes in the local market, posting a growth of 2.7 percent as compared to the local dispatches during the same period last year. The overall situation during the first 10 months of the current fiscal year showed a growth of 1.17 percent as compared to the same period of the last fiscal year, as total dispatches increased to 27.986 million tonnes against 27.664 million tonnes from July 2012 to April 2013.

Cement dispatched touched an all-time high of 3.21 million tonnes during April, raising the industry hoped of a long-awaited turnaround. The sector has achieved capacity utilization of 75.23 percent during the first 10 months of the current fiscal year that is the highest level achieved during the last five years and it is expected that it will increased to 80 percent by the end of June 2014. The exuberance in the sector is based on some encouraging revival in the construction sector and public sector development programmes.

The buoyancy in domestic market is a great relief for the sector, as the capacities were increased basically to cater to the local demands as well as the construction sector is the most potent accelerator of growth and employment and is the integral part of every construction activity that boosts 42 allied industries.

Table 3.13: Cement Production Capacity & Dispatches (Million Tonnes)

Years	Production Capacity	Capacity Utilization (%)	Local Dispatches	Exports	Total Dispatches
2006-2007	30.50	79.23	21.03	3.23	24.26
2007-2008	37.68	80.14	22.58	7.72	30.30
2008-2009	42.28	74.05	20.33	10.98	31.31
2009-2010	45.34	75.46	23.57	10.65	34.22
2010-2011	42.37	74.17	22.00	9.43	31.43
2011-2012	44.64	72.83	23.95	8.57	32.52
2012-2013	44.64	74.89	25.06	8.37	33.43
2013-2014 (Jul-April)	44.64	75.23	21.30	6.69	27.99

Source: All Pakistan Cement Manufacturers Association (APCMA)

Cement production is the most energy intensive within Large Scale Manufacturing (LSM). In Pakistan, all cement manufacturers shifted from natural gas to coal in the early 2000s, which means this sector was largely immune to the worsening energy shortages in the country. However, number of cement manufacturers (e.g. DG Khan Cement, Lucky Cement, Fauji Cement) have started using bio-fuels. In addition, Bestway, Cherat, Fecto, Lucky and DG Khan, have also installed heat recovery plants to generate their own electricity.

3.5: Privatisation Programme

The government is committed to pursue privatisation as an integral policy to address structural imbalances, liberalizing economy and opening it to competition. The goal is to enhance productivity growth and reduce poverty in the country. Pakistan's privatisation program is one of the most successful program in the region as it successfully managed to complete 167 privatisation transactions, generating revenue of over Rs.476.4 billion including Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) of US$ 6 billion.

For the past few years, the privatisation program entered into lean period due to domestic and global challenges including, poor law & order and negative economic outlook which adversely effected investment climate in the country. Also, the global financial crisis of 2008-09 and the Euro zone sovereign debt crisis effected flow of investment into the country.

In June 2013, the new government was sworn in and it is one of its high priority to turn around the loss making Public Sector Enterprises through restructuring with the assistance of strategic sector partnership, who has the capacity to invest and provide capable management.

On 3rd October, 2013 the Cabinet Committee on Privatization (CCoP) earmarked a list of 32 PSEs in Banking & Finance, Oil & Gas Sector, Power, Industries, Transport and Real Estate, for early implementation, out of a list of 69 units of broad-based privatization programme. The Commission has initiated the process for first batch of PSEs, like disinvestment of GoP shareholding in OGDCL, PPL, UBL, ABL & HBL; privatization of HEC, NPCC, FESCO and GENCO III (TPS Muzafargarh) and LESCO and soliciting private sector partnership in core operation of PIA.

Privatisation Commission aims to market the capital market transactions namely OGDCL, UBL and PPL to the international and domestic institutional investors, high net worth clients, and general public within next 4-6 months. The preparatory work for privatisation of HEC, NPCC, FESCO, TPS Muzafargarh and restructuring of PIA would be carried out in parallel on fast track basis.

Success of the privatization program is contingent upon the support of all the stakeholders including various government agencies, departments, organizations and most importantly the people of Pakistan.

3.6: Small and Medium Enterprises

Small and Medium Enterprises Development Authority (SMEDA) is an apex organization for development of the SME sector in Pakistan. SME-led economic growth has been a hallmark of economic prosperity in the developed and emerging economies of the world. It has an encompassing mandate towards fostering growth of SMEs along with a broad service portfolio spread across SME sectors and clusters, skills development services and collaborative projects with international development partners.

Salient activities/achievement of SMEDA during July -April 2013-14 are given below:

a) Prime Minister's Youth Business Loans Scheme

SMEDA has been tasked with an advisory role in implementation of the PM's Youth Business Loan scheme both in terms of developing information tools and resources and also guiding and disseminating information to loan aspirants. Under the scheme, subsidized loans with debt-equity ratio of 90:10, mark-up 8.0 percent and tenure of 08 years, inclusive of 1 year grace period, are being provided to new and existing entrepreneurs between the ages of 21-45 years. Loans from Rs.0.1 million to Rs. 2.0 million will be provided to one hundred thousand (100,000) individuals in the first year, across the entire country. In this regard, SMEDA has as many as Fifty six (56) Business Prefeasibility Studies developed along with information resources and tools including, FAQs on Pre-feasibility studies, Financial Calculators, Guidelines/Template on developing Business Plan and 7 training video documentary. Around 11.03 million pre-feasibility studies and other tools and resources have been downloaded from SMEDA website till 5th April, 2014. The information tools and resources are available in both English and Urdu languages. Exclusive Help Desks have also been established by SMEDA at 28 locations in 19 cities for facilitation of loan applicants. The scheme has seen a tremendous response and a total of 19,630 loan applicants have been facilitated at SMEDA's exclusive Help Desks across the country up to March 31st, 2014.

b) SMEDA Internship Portal

SMEDA Internship Portal launched on November 08, 2013, is a strategic initiative towards an innovative and knowledge based economy, through provision of quality human resources. This 'No Cost' e-platform for Private and Public sector organization and university students provides an opportunity for match making internship opportunities from a diversified HR pool for strengthening the human capital of the country. Private and public sector organizations are provided with a user interface, whereby they can place their human resource requirements. Each student registering on the Portal has, his/her own user interface, whereby they can post their profiles and apply for internship opportunities advertised by employers. Provision of support and guidance for students in building resumes is also part of the initiative. In order to operationalize the Portal, SMEDA has engaged Academia, Industry, SMEs, Chambers of Commerce and Industry, Trade Associations and Public Sector Organizations to generate internship opportunities across the country.

c) SMEDA 5 years SME Development Plan (2013-18)

In order to lift the growth trajectory of SMEs in a globally competitive environment, SMEDA has developed a 5 year SME Development Plan, with a renewed commitment and mission to "Assist in Employment Generation and Value Addition to the National Income through Development of the SME Sector. The Plan envisages exponential growth of key emerging and conventional SME sectors, selected primarily on the basis of their respective growth potential in terms of employment, contribution of GDP and exports. The proposed plan builds on key game changing drivers across SME Value chains, related infrastructure and policy & regulatory environment, besides developing an entrepreneurial ecosystem, focusing on access to finance, youth and women of the society.

SMEDA has prioritized thirteen (13) sectors for development interventions. Firm and industry value chain analyses in the context of the domestic and international business environment has been carried out for each sector, indentifying game changers that can transform the entire dynamic of the sector and accrue benefits across the entire spectrum of the value chain. In addition to the value chain based need-gap analyses conducted for each of the indentified sectors, SMEDA over the last few months carried out an extensive exercise of consultation where more than 850 stakeholders, primarily from the private sector were engaged and proposed interventions validated thereof. Thus, adopting a programmatic approach, interventions for each sector have been identified in the areas like Policy & Regulatory Environment, Business Development Services and Strategic Initiatives Infrastructure and Networking. The identified priority sectors are Logistics, Gems & Jewellery, Horticulture, Construction, Fisheries, Energy, Dairy & Livestock, Engineering, Minerals, Leather, Tourism and Textile.

3.7: Mineral Sector

Pakistan is bestowed with all kinds of resources which also include mineral resources. Pakistan possesses a large number of industrial rocks, metallic and non-metallic minerals. The major hurdles and barriers are capital and technological flaws in order to not capturing the full potential of these resources. Mining of metallic minerals in Pakistan is restricted to chromites and few other minerals while Non metallic minerals are exploited by a large number of small private companies with crude methods which add less value addition. There is dire need to undertake further laboratory studies on these deposits for accelerating the pace of development of minerals resources and mineral industry in the country.

The Mining and Quarrying sector estimated to grow at 4.4 percent in 2013-14 as against 3.8 percent last year. Sulphur, Chromite, Bauxite, Dolomite, Coal, Lime Stone, Crude Oil and Rock Salt posted a positive growth rate of 74.7 percent, 70.8 percent, 53.3 percent, 40.7 percent, 16.0 percent, 14.3 percent, 11.6 percent and 10.7 percent, respectively. However some witnessed negative growth rate during the period under review such as the growth of Barytes declined by 41 percent followed by Magnesite 39.6 percent, Cooper 28.4 percent, Soap Stone 9.2 percent and Phosphate 9.1 percent respectively (Table 3.14).

Table 3.14: Extraction of Principal Minerals

Minerals	Unit of Quantity	2011-12	2012-13	2013-14(P)	% Change 2013-14/2012-13
Coal	M.T	3,178,986	2,809,071	3,257,767	15.97
Natural Gas	MMCFT	1,558,959	1,505,838	1,488,987	-1.12
Crude Oil	JSB(000)	24,573	27,840	31,068	11.59
Chromite	M.T	179,203	136,443	233,094	70.84
Magnesite	M.T	5,444	6,705	4,049	-39.61
Dolomite	M.T	198,392	335,819	472,375	40.66
Gypsum	M.T	1,260,021	1,249,967	1,208,051	-3.35
Lime Stone	M.T	35,016,411	38,932,472	44,517,242	14.34
Rock Salt	M.T	2,135,760	2,159,939	2,390,103	10.66
Sulphur	M.T	25,560	20,610	35,996	74.65
Barytes	M.T	48,510	118,471	69,956	-40.95
Bauxite	M.T	30,223	25,288	38,762	53.28
Calcite	M.T	170	550	461	-16.18
Soap Stone	M.T	55,515	93,214	84,610	-9.23
Marble	M.T	1,750,578	2,360,114	2,465,431	4.46
Cooper	M.T	17,931	12,285	8,794	-28.42
Phosphate	M.T	69,400	104,961	95,373	-9.13

Source: Pakistan Bureau of Statistics (PBS)

Balochistan

Balochistan province has the major share in minerals being produced in Pakistan. Balochistan constitutes about 42 percent of the total national land and has been endowed by nature with substantial mineral wealth. The province's mineral potential is much bigger than the current production statistics. This gap between the potential and actual production is affected by law & order situation, absence of necessary infrastructure and lack of technical capacity for the mining. The Government of Balochistan provides institutional arrangements but still there is dire need for the development of technologies for processing different indigenous ores to extract products of high commercial value which will bring socio-economic uplift, create job opportunities and induce more investment by contributing to export enhancement. Presently more than 51 metallic and non metallic minerals have been discovered in the Balochistan Province out of which 29 are being exploited including minerals such as chromite, copper, iron, lead, zinc, manganese, antimony and gold etc whereas the non metallic include barite, fluorite, calcite, magnesite, granite, coal and dimension stone such as marble both onyx & ordinary, granite, gabbro basalt and dunite etc.

Punjab

The Government of Punjab mines and mineral department is striving hard to follow a road map. Two important minerals, Coal and Iron ore are prioritised to combat the energy and metallic minerals need of the province. Following are the achievements:

1. Coal

Coal resources estimation study in Salt Range and Trans Indus Range is completed in January 2013, through M/S Snowden, an Australian firm. The coal is estimated at JORC standards reporting 597 million tones. Having this confidence of estimates, the power generation investors from World over are taking keen interest in establishing the coal-power generation projects in Punjab. Department is also focusing to optimise the production knowing the promising/proved locations, semi mechanisation of mines, consolidation of mining areas, identification of larger mining zones and bringing efficient players to set up mining in new areas.

2. Iron Ore

i. Chiniot-Rajoa Iron Ore

Potential iron ore resources of high quality i.e. 110 million tones and 500 million tones near Chiniot & Rajoa respectively are known but the geophysical, drilling, quality and resource estimation data was not sufficiently enough/reliable to acceptable international standards for making feasibility for steel making and to attract the investors. Mines department through an international competitive bidding process has awarded the project to M/S MCC ,a Chinese company for Resource estimation of iron ore and associated metallic minerals.

The scope of work involves further geophysical surveys, drilling, sampling, analysis, 3 D modelling, isopachs and resources estimation. The project has commenced w.e.f 02.4.2014 and likely to complete within 18 months as per agreement. However, efforts are in hand to get it completed even before the given time period. On successful completion of the project and achieving the quantitative/qualitative reports, the province will have an opportunity to attract the investors for launching the steel mills and other feasible metallurgical processing facilities in Punjab.

ii. Kalabagh Iron Ore

According to the historical estimates and past studies about 292 million tones of iron ore deposits exist near Kalabagh, district Mianwali. Despite the more researched ore in the World, economic utilisation of this ore was still a question. The Government of Punjab desired to establish an economical and viable process for making steel using kalabagh iron ore. For this purpose, M/S IMC & SGA,a German consortium is engaged through a competitive bidding process against bid of about Rs.100 million. The project is likely to complete by the mid of this year. This can be a break through if an economically viable route is developed for the Kalabagh iron ore, considered to be a low grade iron ore.

3. Geophysical Survey of sub surface pre-Cambrian shield rocks in Punjab for mettalic mineral deposits

Owing to the continuation of metallic minerals in the sub surface pre-cambrian shield rocks in Punjab plains, Mines department has engaged Geological Survey of Pakistan w.e.f 26.5.2013 to undertake geophysical surveys and drilling to identify the anomalous zones in Punjab to determine the metallic minerals potential resources as a future development strategy. Semi detailed magnetic survey of about 13000 sq.km area out of 18000 sq.km area is completed. Detailed magnetic, gravity and integrated geophysical surveys are in hand. The project is likely to complete within next two years.

Sindh

The mines and mineral department Government of Sindh is the regulating & monitoring mining operations & activities in the mineral sector and also promote joint ventures especially with foreign investors for development of coal resources of the province. The details of ongoing schemes are given below.

i) Feasibility Study of Granite deposits in District Tharparkar Sindh

The scheme has been approved having total cost of Rs. 50 million and the main objective of the feasibility study of granite deposits project is to study the geology of granite deposits in district Tharparkar Sindh, areas, workable & mineable reserves, quality and quantity etc. The Consultant M/s Centre for Pure & Applied Geology University of Sindh Jamshoro have submitted the 26 monthly progress reports, inception and interim report which are being examined by a review committee and draft final report is also submitted by the consultant. The revised PC-II of the scheme for assessment of sub surface granite reserves is under preparation. The scheme will be completed by June-2014.

ii) E-government agency specific general application website on Geo data set up of Geo data center phase – II

The scheme has been approved having total cost of Rs. 31.67 million aiming to preserve data in a standardized format, maximize value of the resources by enabling data sharing to prevent duplication, ensure timely supply of data to investors. Development of GIS facility implemented on web integration of Google maps and technical trainings in the field of GIS from SUPARCO has been provided to the technical staff.

Khyber Pakhtunkhwa (KPK)

The Province of Khyber Pakhtunkhwa is blessed with lot of natural resources including precious metals, Gemstones, Iron, Ore etc. The Minerals Development Department Khyber Pakhtunkhwa is a major stakeholder of development of mineral resources in the province. The major achievements of minerals development department during year 2013-14 were:

i. Geo-chemical exploration survey /study completed in Peshawar, Nowshera, Mardan & Hangu Districts for exploring deposits of precious metals whereas geo-chemical survey / study in District Dera Ismail Khan is under process.

ii. Construction of three (3) regional offices of Directorate Generla Mines & Minerals one each in Abbottabad, Mingora and Karak as part of strengthening of field formations.

iii. Construction of 30 km road in mineral bearing areas of Kohistan, Shangla and Abbotabad to facilitate mining operations.

iv. R&D studies for up-gradation/ processing of metallic minerals including low grade iron ore.

v. Working group established for reform initiatives in mineral sector of Khyber Pakhtunkhwa. The group has started the work and preliminary framework has been prepared for next four (4) years.

vi. Work on delineation of exploration blocks for metallic minerals including gold and gemstones has also been initiated to grant the same as exploration licenses through process of competitive bidding to sound parties (local /foreign investors) as part of facilitating large scale investment in mineral sector of Khyber Pakhtunkhwa.

vii. Revenue generated through collection of royalty on minerals Rs. 600 millions up to April 2014.

viii. Receipt amounting Rs. 52.034 millions during first three quarters of this fiscal year collected through imposition excise duty on 61specified minerals by federal government, moreover Finance Department Khyber Pakhtunkhwa has set a target of Rs 80 millions.

ix. Grant in aid amounting to Rs. 59.2 millions for providing transport facility as well as ambulances for mine labours.

x. Scholarships amounting Rs. 350,000 for 200 mine labours children.

Fiscal Development

A sound and prudent fiscal policy is considered to be an important determinant of achieving inclusive growth because it helps in attaining desired economic and social objectives through efficient combination of government expenditures and taxation. This way it ensures fiscal prudence which not only deals with fiscal risks and high public debt but is also indispensable for reducing poverty and improving social outcomes.

There is a wide consensus that a sound fiscal policy not only promotes macroeconomic stability but also directs more public resources to social development. Hence there is a dual impact of fiscal policy on the economy. First it helps to encourage the inclusive growth through public spending and secondly it maintains fiscal sustainability through public revenues.

While recognizing the importance of fiscal discipline for inclusive growth, countries around the world place fiscal restraint at the top of their economic agenda. Recent data reveals that advanced countries (except Japan, where fiscal consolidation plan is expected to start this year) have successfully narrowed down the fiscal deficit through fiscal consolidation plan, however, underlying fiscal vulnerabilities are still high on account of persistently high debt, weak growth prospects due to risks to fiscal forecasts along with medium term policy uncertainty and persistent deflationary concerns. Fiscal deficit in advanced economies is projected to remain at 4.3 percent in 2014 against 6.2 percent recorded in 2012.

Fiscal vulnerabilities are equally high in emerging and low income countries. As deficit remained significantly high as most countries opted to defer fiscal adjustment in 2014. However, few countries like Jordan, Morocco and Pakistan strengthened their primary fiscal positions, mainly by cutting expenditures. On the other hand China and India recorded moderate improvements in the cyclically adjusted deficit, supported by higher revenue and spending cuts, respectively.

Fiscal deficit in emerging economies is expected to remain at 2.5 percent in 2014 against 2.1 percent in 2012 and in low income economies it is expected to rise by 3.9 percent in 2014 from 2.8 percent in 2012.[*]

Considering the case of Pakistan, fiscal predicament remained one of the major concerns due to failure to develop an effective tax system to raise the revenues up to the level which was required to finance government spending. Its repercussions were felt on fiscal side of the economy as efforts to achieve fiscal sustainability were severely hampered due to unplanned expenditures on one hand and continuous shortfall in revenues on the other. Over the past few years, Pakistan’s economy witnessed numerous challenges such as unprecedented floods, low tax to GDP ratio, high fiscal deficit, mounting public debt, high interest payments, untargeted subsidies and resource drain through PSEs, which resulted in expenditure overrun.

Additionally, failure to exploit other avenues and delays in key reforms for revenue mobilization and regulate current expenditure to overcome revenue deficit resulted in constant revenue shortfall over expenditure due to which governments in past were compelled to restrict the development spending. Moreover, less than expected external inflows further intensified the situation.

Fiscal deficit widened from 5.2 percent of GDP in 2008-09 to 8.2 percent of GDP in 2012-13 mainly driven by weak tax collections, energy sector subsidies, and increased provincial government spending. Total expenditures rose from 19.2 percent of GDP in 2008-09 to 21.4 percent of GDP in 2012-13, while on the other hand total revenues declined from 14.0 percent of GDP to 13.3 percent of GDP during the same period. On the other hand, FBR tax collection despite increase in absolute term from Rs. 1,161.1 billion in 2008-09 to Rs.1946.4 billion

[*] Fiscal Monitor (IMF) , April, 2014

remained at 8.7 percent of GDP. However, with the continuous efforts to address the long standing structural issues, fiscal sector witnessed remarkable improvement during first nine months of current fiscal year, as overall fiscal deficit remained at 3.2 percent of GDP during July-March, 2013-14 against 4.7 percent recorded last year. IMF has described this improvement as "strong" and agreed that government's reform program is on right track and economy is moving into right direction.

Fiscal Policy Development

Present government is well aware of this fact that sustained fiscal discipline is the cornerstone of long term economic growth as it creates fiscal buffer not only to cover rising public expenditures but also helps in coping with any untoward situation. The government is therefore determined to build up strong fiscal reserves through its reform agenda with particular focus on controlling the expenditure along with raising the revenues. Main aspiration is to boost the inclusive growth and moving towards sustainable fiscal and external positions. At the same time, it also aims to reduce the potential risks to the economy through permanent resolution of long standing structural impediments.

In the past, absence of prudent expenditure management and failure to increase the revenues owing to delays in key structural reforms particularly in energy sector and for tax broadening posed serious risks to macroeconomic outlook of the country. Moreover, loss making Public Sector Enterprises (PSEs) in confluence with heightened security concerns, untargeted subsidies and higher interest payments further jumbled the public finances.

All the key fiscal indicators surpassed their budgeted targets set for relevant years, which largely a reflection of structural deficiencies particularly in tax system. Hence, budgetary management during the past few years remained difficult on account of containment of development spending and rising borrowing from the banking system.

Table 4.1: Fiscal Indicators as Percent of GDP

Year	Real GDP Growth	Overall Fiscal Deficit	Expenditure			Revenue		
			Total	Current	Development*	Total Rev.	Tax	Non-Tax
2005-06	5.8	4.0	17.1	12.6	4.5	13.1	9.8	3.3
2006-07	5.5	4.1	19.5	14.9	4.6	14.0	9.6	4.4
2007-08	5.0	7.3	21.4	17.4	4.0	14.1	9.9	4.2
2008-09	0.4	5.2	19.2	15.5	3.7	14.0	9.1	4.9
2009-10	2.6	6.2	20.2	16.0	4.4	14.0	9.9	4.1
2010-11	3.7	6.5	18.9	15.9	2.8	12.3	9.3	3.0
2011-12	3.8	6.8	19.6	15.6	3.7	12.8	10.2	2.6
2012-13	3.7	8.2	21.4	16.3	5.1	13.3	9.8	3.5
2013-14 B.E.	4.4	6.3	20.4	15.2	5.1	14.0	10.6	3.4

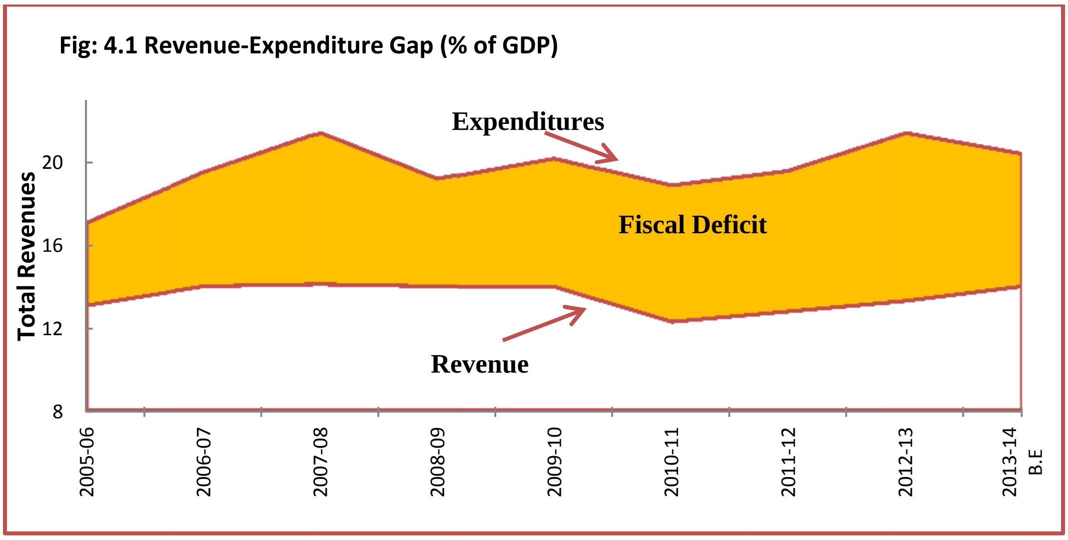
*: including net lending.

Note: Estimated growth during fiscal year 2013-14 is 4.14 percent

A cursory look at the Table 4.1 shows that fiscal deficit increased from 5.2 percent of GDP in 2008-09 to 8.2[*] percent of GDP in 2012-13 due to expenditure overrun and less than targeted revenues. During the period under review, total expenditures remained volatile and increased from 19.2 percent of GDP in 2008-09 to 21.4 percent of GDP during fiscal year 2012-13. In total expenditures, current expenditures rose from 15.5 percent of GDP in 2008-09 to 16.3 percent of GDP in 2012-13. On the other hand development expenditures and net lending stood at 5.1 percent of GDP in 2012-13 against 3.7 percent of GDP recorded in 2008-09.

On the revenue side, tax to GDP ratio remained within the narrow band of 9.1 to 10.2 percent of GDP since 2008-09 to 2012-13. Total revenues reduced from 14.0 percent of GDP during the fiscal year 2008-09 to 13.3 percent of GDP in 2012-13 mainly due to decline in non tax revenues from 4.9 percent of GDP in 2008-09 to 3.5 percent of GDP in 2012-13. Sluggish performance in total revenues is mainly attributed to less than targeted tax revenues due to failure to implement the tax reforms and a slowdown in economic activity on account of energy crisis.

[*] This includes the power sector circular debt settlement of Rs.342 billion or 1.5 percent of GDP in June 2013 while remaining Rs.138 billion were paid off during the first month of current fiscal year, 2013-14.



However, during the current fiscal year, various measures have been taken to ensure the fiscal sustainability. In this regard, present government is stringently focused on improving the fiscal accounts through fiscal consolidation efforts which includes phasing out of electricity subsidies, restructuring/privatization of bleeding PSEs (Box-1), and raising the tax and non tax revenues during fiscal year 2013-14.

Box-1: - Public Sector Enterprise (PSE) Reforms

Main focus of PSE Reform Strategy is on improvement in corporate governance, restructuring of PSEs and Strategic Partnership through Privatization. The government has formed a high level Commission for ensuring transparency in appointment of heads of key public sector organizations and bodies.

The Economic Coordination Committee (ECC) of the Cabinet has approved a three-month bailout package of Rs 2.9 billion for Pakistan Steel Mills (PSM) for salaries and the requisite working capital, which has already been released. In addition, the ECC has recently approved payment of Rs.960 million for salaries of PSM employees for the months of December 2013 and January 2014. The BoDs of PSM was reconstituted in October 2013 with the addition of five members from the private sector and the BoDs have recently identified a number of viable options of dealing with PSM's problems. The ECC recently approved a restructuring plan for PSM in April, 2014 amounting to Rs. 18.5 billion which envisages achieving 77 percent capacity utilization of PSM by June, 2015.

A bailout package of Rs. 16 billion was approved by ECC in July 2013 for PIA, out of which Rs. 14.65 billion have been released upto April 2014. This has helped improve flight schedule and undertake smoother Hajj operations due to leasing of 6 additional aircraft. An amount of Rs. 33.5 billion has been allocated as a grant to Pakistan Railways (PR) out of which Rs.27.9 billion has been released up to April 2014. For the development schemes, GoP has allocated Rs. 30.97 billion in Public Sector Development Program (PSDP) for FY14. A comprehensive Railway restructuring plan is under development and will be finalized by September, 2014. The plan includes improvement in business processes and institutional framework, financial stability and service delivery. The Railway board is also being revived. Finance Division is also making efforts to develop a database on GoP Investment Tracing and Performance Monitoring that will help make evidence based decisions for revival of PSEs.

The government is envisaging privatization/ disinvestment of 31 PSEs representing the most viable transactions. The indicative mode of related divestments has been finalized.

In a recent development, Eleven companies in the oil & gas, banking & insurance and power sector have been identified for block sales and primary or secondary public offerings, from the list of 31 Public Sector Enterprises (PSEs) approved by the Cabinet Committee on Privatization (CCOP). Three Financial Advisors have been hired for United Bank Limited (UBL), Pakistan Petroleum Limited (PPL) and Oil and Gas Development Company Limited (OGDCL) in May 2014.Minorty shares in UBL and PPL will be offered to domestic and international investors by end June 2014, subject to investor interest and global market conditions. OGDCL shares will be offered for sale early next fiscal year. Financial advisors for Allied Bank Limited (ABL) and Habib Bank Limited (HBL) will be hired by September 2014 for offering minority shares of these banks within six months afterwards.

Financial advisor for National Power Construction Co (NPCC) will be hired by end June 2014 to finalize sale offer by end December 2014. In addition, financial advisors for sale of shares of Faislabad Electric Supply Company (FESCO) and Northern Power Generation Company Limited (NPGCL) will be appointed next year.

For Pakistan International Airlines (PIA), a financial advisor will be appointed by end-June 2014 to seek potential options for restructuring and strategic private partnership

With various steps to control the expenditures and to increase the revenues, fiscal deficit is expected to reduce to even less than 6.0 percent against the target of 6.3 percent of GDP in fiscal year 2013-14, while it will be brought down further to 4.0 percent of GDP over the medium term. Similarly, total revenues are expected to reach at 14.0 percent of GDP in 2013-14 from the current level of 13.3 percent, of which tax revenues are expected to increase by 10.6 percent and non tax revenues by 3.4 percent of GDP during the current fiscal year. Revenue targets are expected to achieve on account of government's wide-ranging policy for the fiscal year 2013-14 and onwards to enhance resource mobilization efforts in the country. Whereas, total expenditures are set to remain at 20.4 percent of GDP in 2013-14, of which current expenditures are expected to remain at 15.2 percent and development expenditures and net lending at 5.1 percent of GDP.

Structure of Tax Revenues

Governments around the world use number of sources in order to finance their spending, which can be categorized as domestic and external. Domestic resources consist of savings, tax and non tax revenues, whereas foreign sources include foreign direct investment, borrowing, and foreign aid etc. Domestic resource mobilization is more effective for a sustainable growth as well as to finance physical infrastructure along with the provision of social services. Nevertheless, the most efficient and effective way to enhance country's domestic resource mobilization effort is to develop its tax system.

Unfortunately, most of the developing countries could not develop such a system mainly due to agrarian nature of their economy and lack of harmony at national level and Pakistan is no exception to it. Raising tax to GDP ratio significantly is critical in order to ensure fiscal sustainability and rebuilding ample resources which in turn can be used for much needed social and investment expenditures while lowering the fiscal deficit.

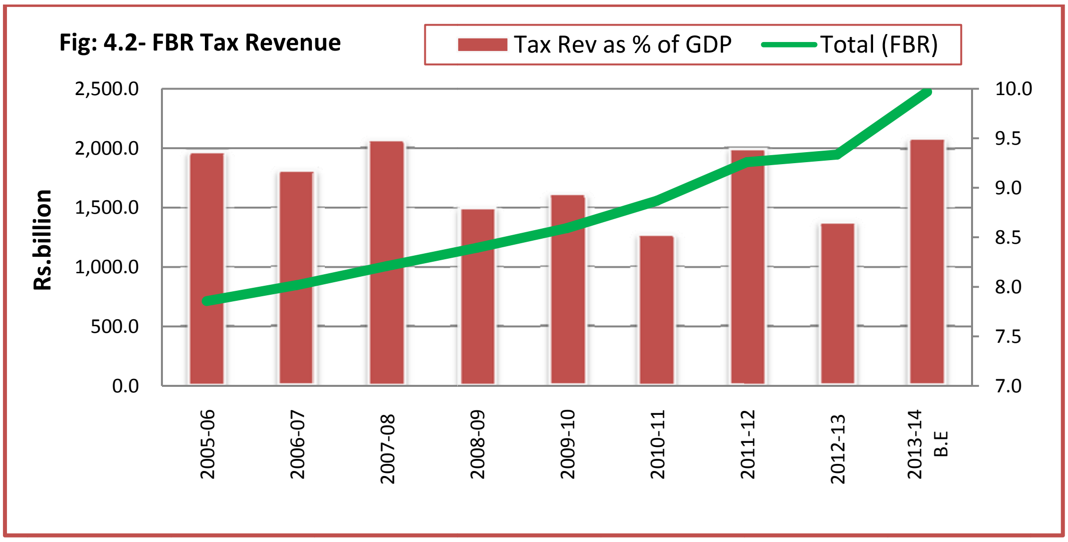


Fig: 4.2- FBR Tax Revenue

Unfortunately, Pakistan's tax system has not been stabilized as evident from the historical data (Table: 4.2). Structural weaknesses like narrow tax base, massive tax evasion and administrative weaknesses significantly undermined the overall tax collection as the country has witnessed a low total tax-to GDP ratio. As shown in Fig: 4.2 , despite the increase in tax revenues, FBR tax to GDP ratio remained narrow and varied between 8.5 to 9.5 percent during the past 8 years.

Table 4.2: Structure of Federal Tax Revenue (Rs. in billion)

Year	Total (FBR)	Tax Rev as % of GDP	Direct Taxes	Indirect Taxes			
				Customs	Sales	Excise	Total
2005-06	713.5	9.4	225.0	138.4	294.8	55.3	488.5
			[31.5]	{28.3}	{60.3}	{11.3}	[68.5]
2006-07	847.2	9.2	333.7	132.3	309.4	71.8	513.5
			[39.4]	{25.8}	{60.3}	{14.0}	[60.6]
2007-08	1,008.1	9.5	387.9	150.7	377.4	92.1	620.2
			[38.5]	{24.3}	{60.9}	{14.9}	[61.5]

Table 4.2: Structure of Federal Tax Revenue							(Rs. in billion)
Year	**Total (FBR)**	**Tax Rev as % of GDP**	**Direct Taxes**	**Indirect Taxes**			
				Customs	**Sales**	**Excise**	**Total**
2008-09	1,161.1	8.8	443.5	148.4	451.7	117.5	717.6
			[38.2]	{20.7}	{62.9}	{16.4}	[61.8]
2009-10	1,327.4	8.9	526.0	160.3	516.3	124.8	801.4
			[39.6]	{20.0}	{64.4}	{15.6}	[60.4]
2010-11	1,558.2	8.5	602.5	184.9	633.4	137.4	955.7
			[38.7]	{19.3}	{66.3}	{14.4}	[61.3]
2011-12	1,882.7	9.4	738.4	216.9	804.9	122.5	1,144.3
			[39.2]	{19.0}	{70.3}	{10.7}	[60.8]
2012-13	1,946.4	8.7	743.4	239.5	842.5	121.0	1,203.0
			[38.2]	{19.9}	{70.0}	{10.1}	[61.8]
2013-14B.E	2,475.0	9.5	975.7	279.0	1,053.5	166.8	1,499.3
			[39.4]	{18.6}	{70.3}	{11.1}	[60.6]

[]as % of total taxes
{} as % of indirect taxes
Source: Federal Board of Revenue

Pakistan's tax structure has witnessed extensive changes over the years as the share of direct tax increased from 31.5 percent in 2005-06 to 38.2 percent in 2012-13 and is expected to increase further to 39.4 percent in 2013-14. On the other hand, share of Sales tax in total tax collection increased from 41.3 percent in 2005-06 to 43.3 percent in 2012-13 and is expected to reduce to 42.6 percent. Custom duty in indirect taxes has reduced from 28.3 percent in 2005-06 to 19.9 percent in 2012-13 and expected to reduce further to 18.6 percent in 2013-14. While share of Federal excise duty in indirect taxes has declined from 11.3 percent in 2005-06 to 10.1 percent in 2012-13 and expected to increase to 11.1 percent in 2013-14. Sales tax as an important consumption tax accounts for 70.3 percent of indirect tax.

In the above scenario, the government is sternly focused on developing revenue mobilization strategy particularly through formulating an effective tax system in order to create fiscal space. Present government is determined to enhance resource mobilization efforts in the country and increase tax to GDP ratio from the lowest level of 8.7 percent to 15 percent in the next few years. For this purpose, a comprehensive strategy is being devised which comprises of three broad categories such as: a).broadening of tax base, b).removing anomalies in the taxation system and c). improving tax compliance (Box: 4.2).

Box-2: Tax Measures

Broadening the Tax Base

For broadening the tax base, several initiatives have been taken and some are in pipeline. Initially, the objective is to incorporate 300,000 new taxpayers. In this regard, more than 80,000 notices have already been issued, and a total of 100,000 notices will be issued by June 30, 2014. Similarly, a detailed plan for outreach program including provisional assessment, collection procedures, penal actions and prosecution proceedings has been chalked out.

Rationalization of Concessionary Regime and withdrawal of exemptions/ SROs

In order to provide level playing field and equitable tax system in the country FBR has devised a plan for rationalization of concessionary regime and withdrawal of exemptions. The plan has been approved by the government and is being implemented.

Administrative Improvement Initiatives

Initiatives for administrative improvement in all the taxes have been finalized and implementation strategy is developed and launched. Certain policy reforms have already been taken and GST coverage has been expanded. Exemptions have been restricted to food items, health, education and agriculture produce.

To resolve issues relating to sales tax FBR has successfully prepared and implemented Computerized Risk Based Evaluation of Sales Tax (CREST). Another major step has been the development of a fully automated sales tax refund processing system for manufacturers/exporters where refund claims are processed within 48 hours. Sales tax refund cheque issuance has been centralized at FBR HQ to guarantee that cheques are issued to taxpayers within seven days of clearance of claims and to reduce refund pendency.

Taxpayers Facilitation

Introduction of an e-filing process accessible to taxpayers for income tax, sales tax and excise at e-FBR portal has been ensured. Automation of systems has helped in minimizing the contact between taxpayer and tax officer and as a consequence the complaints of harassment has been reduced accordingly. Compliance has been made easier through simplicity of procedures and introduction of an e-filing process accessible by taxpayers for income tax, sales tax and excise at e-FBR portal. Automation of systems has helped in minimizing the contact between taxpayer and tax officer and as a consequence the element of harassing has been reduced accordingly.

Strengthening Tax Audit

A risk based audit has been reintroduced to accompany the self-assessment scheme and to overcome weak tax compliance. Substantial progress has been achieved for infrastructure up-gradation and development with the introduction of the Integrated Tax Management System (ITMS) which is available to all the field formations.

Customs Modernization and control

Customs modernization reforms are being introduced, aiming at simplifying, standardizing and automating customs clearance procedures supported with strong post-clearance audit controls. Online connectivity of Customs posts has been developed. Risk management principles have been adopted and a Vehicle and Container Tracking System for monitoring transit trade is being procured. The Afghan Pakistan Transit Trade Agreement (APTTA) 2010 has replaced the 1965 agreement, with better controls and enhanced facilitation.

An integrated, risk-based automated customs clearance system (WEBOC) has been indigenously developed which minimizes interaction between taxpayers and tax collectors, thereby minimizing the malpractices.

Human Resource Management

Human Resource Management has been improved and major structural initiatives are being taken by FBR in its organizational reform program.

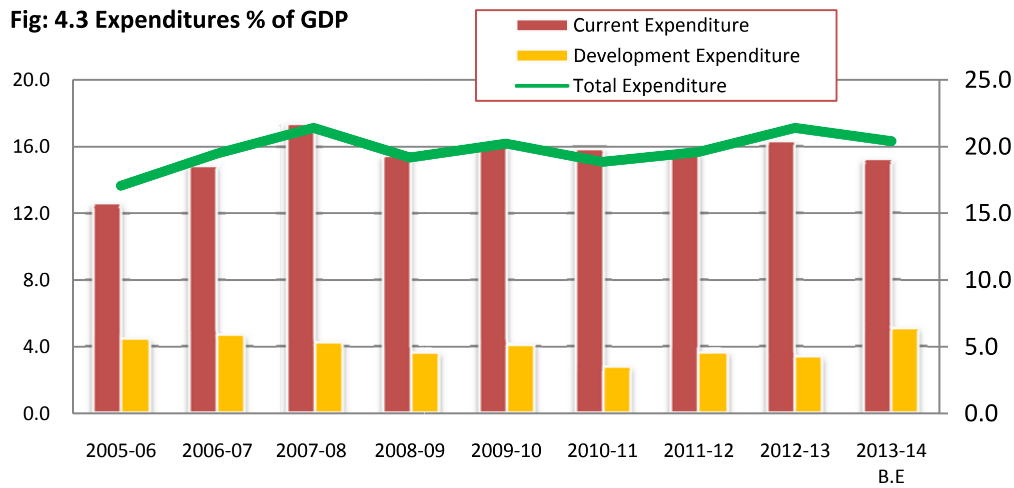
Source: Federal Board of Revenue (FBR)

Review of Public Expenditures

Efficient expenditure management is an important economic tool for poverty reduction strategies and key development goals because it creates adequate fiscal space which is required to reinforce the provision of public services like health, education, and basic infrastructure. However, in this regard, composition of public expenditure plays a decisive role. Generally public expenditures can be categorized as current and development. In order to improve the economic performance of a country, it is critically required to have an efficient mix between the two.

Expenditure management in Pakistan always remained difficult on account of various challenges on external and internal front. High interest payments, untargeted subsidies particularly to loss making PSEs and energy subsidies resulted in sharp increase in total expenditures. At the same time, absence of effective resource mobilization strategy and less than expected external inflows caused serious concerns for fiscal sustainability, as fiscal deficit rose by 6.8 percent on average during the past five years.

Fig: 4.3 Expenditures % of GDP



A brief look at Table 4.3 reveals this fact that total expenditure as percent of GDP is on constant rise, as it rose to 21.4 percent in 2012-13 against 19.6 percent of GDP in 2011-12 and reached to Rs.4,816.3 billion in 2012-13 from Rs.3,936.2 billion in fiscal year 2011-12. As mentioned earlier, higher expenditures are largely the reflection of higher energy subsidies. Moreover, high debt servicing, compensation to pensioners and high public sector development spending further contributed to this rise. However, during current fiscal year 2013-14, it is expected to reduce to 20.4 percent of GDP on account of prudent expenditure management strategy with an aim to contain the fiscal deficit within reasonable limit.

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

Year	Total Expenditure (A)	Current Expenditure (B)	Interest Payments (C)	Defence (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)
2005-06	17.1	12.6	2.9	2.9	4.4	11.2	4.0	0.5	-1.1
2006-07	19.5	14.9	4.0	2.7	4.7	12.8	4.1	-0.8	-1.4
2007-08	21.4	17.4	4.6	2.6	4.2	14.2	7.3	-3.3	-2.7
2008-09	19.2	15.5	4.8	2.5	3.6	11.8	5.2	-1.4	-0.3
2009-10	20.2	16.0	4.3	2.5	4.1	13.4	6.2	-2.1	-1.9
2010-11	18.9	15.9	3.8	2.5	2.8	12.6	6.5	-3.5	-2.7
2011-12	19.6	15.6	4.4	2.5	3.7	12.7	6.8	-2.8	-2.4
2012-13	21.4	16.3	4.4	2.4	3.5	14.6	8.2	-3.0	-3.7
2013-14B	20.4	15.2	4.4	2.4	5.1	13.5	6.3	-1.2	-1.9

Source: Budget Wing, Finance Division and EA Wing's Calculations.

Current expenditures as percent of GDP increased to 16.3 percent in fiscal year 2012-13 from 15.6 percent of GDP in 2011-12 and reached to Rs.3,660.4 billion from Rs.3,122.5 billion in 2011-12. Thus posted a growth of 17.2 percent. By the end of current fiscal year 2013-14, it will further reduce to 15.2 percent of GDP.

Interest payments increased from Rs.889.0 billion in 2011-12 to Rs.991.0 billion during 2012-13, while as percent of GDP it stood at previous level of 4.4 percent recorded in 2011-12. During fiscal year 2013-14, it is projected to increase to Rs.1,153.5 billion or 4.4 percent of GDP. Persistently high fiscal deficit over the past few years have considerably contributed to this rise in debt servicing.

Similarly, defence expenditure despite a decline to 2.4 percent of GDP in 2012-13 from 2.5 percent of GDP in 2011-12, increased in absolute term and reached to Rs.540.6 billion in 2012-13 from Rs.507.2 billion in 2011-12. In 2013-14, it is estimated to reach at Rs.627.2 billion or 2.4 percent of GDP.

During fiscal year 2012-13, development expenditures grew by only 6.2 percent and reached to Rs.777.1 against Rs.731.9 billion in 2011-12. While as percent of GDP it reduced to 3.5 percent in 2012-13 against 3.7 percent in 2011-12. On the other hand, together with net lending it has posted a growth of 53.2 percent during fiscal year 2012-13 on account of power sector debt settlement. During July-June, 2013-14, development expenditures are expected to reach at Rs. 1,326.8 billion, of which Federal PSDP is budgeted at Rs.540 billion and provincial PSDP at Rs.615 billion.

The share of current expenditure in total expenditure has declined from 79.3 percent in 2011-12 to 76.0 percent in 2012-13, while it is projected to decline further to 74.8 percent during the current fiscal year 2013-14. Defence expenditures accounted for 11.2 percent in 2012-13 against 12.9 percent share in 2011-12, and it is budgeted to remain at 11.8 percent during 2013-14. While share of interest payments in total expenditure has also declined from 22.6 percent in 2011-12 to 20.6 percent in 2012-13 and it is projected to increase to 21.8 percent in 2013-14.

Fiscal performance

The government is immensely determined to reduce the fiscal deficit to around 4.0 percent over the medium term through broadening the tax base, reducing tax exemptions, reforming tax administration, removal of bottlenecks like, energy shortages, bleedings PSEs and circular debt.

According to the consolidated revenue and expenditure statement of the government, total revenue grew by 16.6 percent during July-March, 2013-14 and stood at Rs. 2,477.4 billion compared to Rs.2,124.9 billion in the same period of 2012-13. Total collection in tax revenues amounted to Rs.1,786.2 billion against Rs.1,527.8 billion in the same period last year, thus posted a growth of 16.9 percent. Significant growth in tax revenues was mainly on account of considerable rise in federal tax collection by 16.3 percent, of which FBR tax collection grew by 17.9 percent during the period under review. FBR tax collection during July-March, 2013-14 reached to Rs.1,574.8 billion against Rs.1,335.2 billion in the same period last year. During the first nine months of current fiscal year, FBR tax revenue stood at 6.2 percent against 6.0 percent of GDP last year. Improved performance in FBR tax collection is mainly attributed to increase in tax rates.

Table 4.4: Consolidated Revenue & Expenditure of the Government

	2013-14 B.E	July-March		Growth
		2013-14	2012-13	
A. Total Revenue	3,646.7	2,477.4	2,124.9	16.6
a) Tax Revenue	2,768.1	1,786.2	1,527.8	16.9
Federal	2,598.1	1,650.0	1,418.3	16.3
of which FBR Revenues	2,475.0	1,574.8	1,335.2	17.9
Provincial Tax Revenue	170.0	136.2	109.6	24.3
b) Non-Tax Revenue	878.6	691.2	597.0	15.8
B. Total Expenditure	5,297.2	3,289.0	3,171.1	3.7
a) Current Expenditure	3,963.0	2,904.6	2,642.0	9.9
Federal	2,778.0	2,083.2	1,887.1	10.4
- Interest	1,153.5	909.1	772.2	17.7
- Defense	627.2	451.7	405.8	11.3
Provincial	1,185.0	821.4	754.9	8.8
b) Development Expenditure & net lending	1,334.3	555.8	445.8	24.7
PSDP	1,155.0	393.0	407.4	-3.5
Other Development	171.8	77.0	37.3	106.6
c) Net Lending	7.5	85.9	1.1	-
e) Statistical discrepancy	-	-171.3*	83.3	-
C. Overall Fiscal Deficit	1,650.6	811.7	1,046.2	-22.4
As % of GDP	6.3	3.2	4.7	-
Financing of Fiscal Deficit	1,650.6	811.7	1,046.2	-22.4
i) External Sources	168.7	-50.1	-4.1	-
ii) Domestic	1,481.8	861.7	1,050.3	-18.0
- Bank	975.0	436.9	856.7	-49.0
- Non-Bank	506.8	424.8	193.7	119.4
GDP at Market Prices	26,001	25,402	22,489	13.0

Source: Budget Wing, Finance Division

*: The high statistical discrepancy is due to the impact of a transfer receipt from a friendly country amounting to Rs 157 billion which has been kept separately in an account " Pakistan Development Fund ". Without this, impact of statistical discrepancy would come to Rs 14 billion which would imply a deficit of Rs 969 billion i.e. approximately 3.8% of GDP which is significantly less than the last year's deficit of 4.6% of GDP.

During July-March, 2013-14 non tax revenues posted a significant growth of 15.8 percent and amounted to Rs.691.2 billion against Rs.597.0 billion in the same period last year. Of which Rs.205.0 billion were accumulated as SBP profit, followed by Rs.77.8 billion under defence, Rs.67.7 billion from universal support fund (USF), and Rs.62.3 billion from Markup(PSEs & Others). It is pertinent to mention that realization of $674 million during July-March, 2013-14 has also contributed to this significant growth in non tax revenues. While, after receiving third tranche of $375 million under CSF, total inflows to date reached to $1.05 billion. Materialization of CSF funds will not only provide further comfort to fiscal accounts but will also help in improving the external accounts in the remaining months of current fiscal year 2013-14.

On expenditure side, total expenditures amounted to Rs.3,289.0 billion during July-March, 2013-14 against Rs.3,171.1billion in the same period of 2012-13, posted a growth of 3.7 percent. Of which, current expenditures during July-March, 2013-14 reached to Rs.2,904.6 billion as compared to Rs.2,642.0 billion in the same period of 2012-13, registered a growth of 9.9 percent. It is worth to mention that total expenditures registered a decline during the second and third quarter of current fiscal year on account of contained current expenditures.

Interest payment grew by 17.7 percent and reached to Rs.909.1 billion during July-March, 2013-14 from Rs.772.2 billion during the same period of fiscal year 2012-13.

Similarly, untargeted subsidies which remained a key issue and major drain on country's limited fiscal resources mainly those in the power sector, have absorbed a significant amount of resources over the years. However, during July-March, 2013-14 subsidies remained lower than last year as it reached to Rs.201.8 billion from Rs.270.0 billion in the comparable period of 2012-13. Of which electricity subsidies stood at Rs.192.0 billion against 265.5 billion in the same period of fiscal year 2012-13, hence reduced by 27.7 percent. Overall decline in subsidies during the first nine months of current fiscal year was mainly due to rise in power tariffs for commercial, residential and industrial users, in October, 2013.

Box-3: Prudent Expenditure Management

In order to maintain fiscal discipline, the government has focused on prudent expenditure management through various initiatives such as:

- Secret service expenditures of all Ministries /Divisions/ Attached Departments /Autonomous Bodies ceased except Intelligence Agencies.
- Discretionary funds for Prime Minister and Ministers discontinued.
- Allocation of PM's House/ PM Office reduced voluntarily by 40 percent. Moreover, 30 percent cut in current budget of Ministries/Divisions except pay and allowances resulted in saving of billion rupees.
- Working of foreign missions reviewed and being right-sized leading to expected savings of Rs 2 billion annually.
- Cabinet Committee on Restructuring has directed all Ministries / Divisions to review for rationalizing their strengths for the purpose of rightsizing.
- Fee/remuneration for government nominated directors in PSEs capped at Rs 600,000/- per annum. Amount over and above will be deposited into government treasury.
- The government is implementing a plan to phase out electricity subsidies over the life of the program. The federal government has approved at the highest level with support of the provinces, a National Energy Policy entailing periodic increases in the average tariff, aiming at eliminating the tariff differential subsidy for all consumers except the most vulnerable over the next three years.
- Similarly to reduce the size of public expenditure the government is moving forward with the privatization of restructuring of 31 public sector enterprises.

Furthermore, government has also initiated various energy reforms for which a National Power Policy (2013) is developed which will provide a roadmap to overcome the present energy crisis and fully meet the future needs of power in the country. The goal is to provide affordable energy in the country through efficient generation, transmission and distribution system. Present government is highly determined to achieve the expenditure level which will be consistent with macroeconomic stability. It is therefore, government envisages phasing out of electricity subsidies. Additionally, various steps are being taken to eliminate the circular debt for effective implementation of prudent expenditure management strategy (Box-4).

Box-4: Measures to eliminate the circular debt

- Conversion of oil based plants to coal to reduce cost of generation.
- Installation of plants on hydel sources
- Provision of maximum gas for gas based plants
- Improvement in recovery position and reduction in losses
- To control theft of power.
- Maximum provision of energy to Industrial Sector to improve revenue and overall economy of the country.
- Payment of tariff differential subsidy by GoP on time
- Moving towards targeted subsidy regime (protecting residential consumers up to 200 units) and moving closer to recovering the cost of service through tariff rationalization
- Reduction in time taken for determination of tariff for a fiscal year

On the other hand, development expenditures and net lending grew by 24.7 percent and reached to Rs.555.8 billion during July-March, 2013-14 against Rs.445.8 billion in the comparable period last year. However, expenditures under PSDP reduced by 3.5 percent during first nine months of current fiscal year. The decline is largely attributed to slow execution of development expenditures. This stance of government is rather more cautious in executing plans. In this regard, government is giving priority to only those sectors of the economy whose revival is crucial for the sustainable economic growth of the economy like irrigation, water, power, infrastructure and education. However, expenditure under PSDP is likely to gain momentum in the remaining months of current fiscal year.

It is worth to mention that over all fiscal deficit reduced to 3.2 percent against 4.7 percent recorded in the same period last year on account of healthy provincial surplus to the tune of Rs.257.9 billion, strong growth in tax and non tax revenues and contained expenditures.

FBR Tax Collection

During July-April, 2013-14, FBR has collected Rs.1,744.8 billion (provisional) against Rs.1,505.5 billion in the comparable period of fiscal year 2012-13, reflecting a growth of around 15.9 percent. During July-April, 2013-14 FBR tax revenues as percent of GDP rose by 6.9 percent as compared to 6.7 percent of GDP during the same period of 2012-13.

Direct Taxes

The net collection of direct taxes has registered a growth of 18.9 percent during the first 10 months of 2013-14. The net collection has gone up from Rs.553.5 billion to Rs.658.1 billion. Bulk of the tax revenues of direct taxes is realized from income tax. The components of income tax are withholding tax, voluntary payments and collection on demand.

Table 4.6: FBR Tax Revenues (Rs. in billion)

Revenue Heads	2012-13	July-March		% Change
		2012-13	2013-14	
A. Direct Taxes				
Gross		596.6	708.9	18.8
Refund/Rebate		43.0	50.9	
Net	**743.4**	**553.5**	**658.1**	18.9
B. Indirect Taxes				
Gross		989.5	1,125.2	13.7
Refund/Rebate		37.6	38.5	
Net	**1,203.0**	**951.9**	**1,086.7**	14.2
B.1 Sales Tax				
Gross		697.2	825.5	18.4
Refund/Rebate		27.8	30.5	
Net	**842.5**	**669.4**	**795.0**	18.8
B.2 Federal Excise				
Gross		91.4	104.0	13.8
Refund/Rebate		0.2	0.0	
Net	**121.0**	**91.2**	**104.0**	14.0
B.3 Custom				
Gross		200.9	195.6	-2.6
Refund/Rebate		9.6	8.0	
Net	**239.5**	**191.4**	**187.7**	-1.9
Total Tax Collection				
Gross		1,586.1	1,834.1	15.6
Refund/Rebate		80.6	89.4	
Net	**1,946.4**	**1,505.5**	**1,744.8**	15.9

Source: Federal Board of Revenue

Indirect Taxes

Sales Tax

Within indirect taxes, net collection of sales tax increased by 18.8 percent. The sales tax gross and net collection during July-April, 2013-14 has been Rs.825.5 billion and Rs.795 billion respectively showing growths of 18.4 percent and 18.8 percent respectively over the corresponding period of 2012-13. In fact, around 51percent of total sales tax has been contributed by sales tax on import while the rest has been contributed by domestic sector. Within net domestic sales tax collection, the major contribution emanated from POL products, fertilizers, natural gas, cement, electrical energy, beverages, cigarettes, tea, sugar, iron & steel etc. On the other hand, POL products, plastic, edible oil, vehicles, machinery, chemicals, oilseeds etc contributed significantly to the collection of sales tax from imports.

Customs Duty

Custom duty collection has registered a negative growth of 2.6 percent and 1.9 percent in both gross and net terms respectively. The gross and net collection have declined from Rs.200.9 billion and Rs.191.4 billion during July-April, 2012-13 to Rs.195.6 billion and Rs.187.7 billion respectively during 10 months of 2013-14. The major revenue spinners of custom duty have been automobiles, edible oil, petroleum products, machinery, plastic, iron and steel, paper and paperboard etc. The commodities like vehicles, edible oil, POL products and iron & steel have registered negative growth.

Federal Excise Duty

The collection of federal excise duties (FED) during July-April, 2013-14 has recorded 14.0 percent growth. The net collection stood at Rs.104.0 billion during July-April, 2013-14 as against Rs.91.2 billion during the same period last year. The major revenue spinners of FED are cigarettes, cement, beverages, natural gas, international travel etc.

Provincial Budgets

The main components of the provincial budgets 2013-14 in comparison with revised estimates of last year are presented in Table-4.6. According to which the total outlay of the four provincial budgets for 2013-14 stood at Rs.1,973.7 billion, 20.7 percent higher than the outlay of Rs.1,635.6 billion last year.

Table 4.6: Overview of Provincial Budgets (Rs Billion)

Items	Punjab		Sindh		Khyber Pakhtunkhwa		Balochistan		Total	
	2012-13 RE	2013-14 BE	2012-13 RE	2013-14 BE	2012-13 RE	2013-14 BE	2012-13 RE	2013-14 BE	2012-13 RE	2013-14 BE
A. Tax Revenue	**660.2**	**828.4**	**342.9**	**424.3**	**192.3**	**234.3**	**116.9**	**129.4**	**1,312.3**	**1,616.4**
Provincial Taxes	90.5	126.7	73.3	91.4	8.1	10.3	1.2	1.6	**173.1**	**230.0**
GST on Services (transferred by Federal govt)	1.5	0.0	0.0	0.0	4.3	1.9	1.5	4.5	**7.3**	**6.4**
Share in Federal Taxes	568.2	701.7	269.6	332.9	179.9	222.1	114.2	123.3	**1,131.9**	**1,380.0**
B. Non-Tax Revenue	**36.8**	**30.7**	**83.6**	**95.9**	**32.1**	**40.1**	**15.8**	**19.1**	**168.3**	**185.8**
C. All Others	**19.7**	**-2.0**	**47.7**	**28.4**	**26.1**	**24.1**	**34.0**	**32.1**	**127.5**	**82.6**
Total Revenues (A+B+C)	**716.7**	**857.1**	**474.2**	**548.6**	**250.5**	**298.5**	**166.7**	**180.6**	**1,608.1**	**1,884.8**
a) Current Expenditure	**549.8**	**607.6**	**342.1**	**356.0**	**195.0**	**211.0**	**104.8**	**117.3**	**1,191.7**	**1,291.9**
b) Development Expenditure	**166.9**	**290.0**	**143.3**	**229.9**	**88.1**	**118.0**	**45.6**	**43.9**	**443.9**	**681.8**
Total Exp (a+b)	**716.7**	**897.6**	**485.4**	**585.9**	**283.1**	**329.0**	**150.4**	**161.2**	**1,635.6**	**1,973.7**

Source: Provincial Finance Wing, Ministry of Finance

Punjab witnessed the highest growth of 25.2 percent in budgetary outlay, followed by Sindh at 20.7 percent. Khyber Pakhtunkhwa posted a growth of 16.2 percent, while Balochistan witnessed a growth of 7.2 percent. Overall provincial revenue receipt is estimated at Rs. 1,884.8 billion for fiscal year 2013-14, 17.2 percent higher as compared to last year.

Tax revenue, accounting for 85.8 percent of overall revenue receipts, amounted to Rs.1,616.4 billion which is 23.2 percent higher than last year and non-tax revenue is estimated at Rs.185.8 billion which is 10.4 percent higher than last year.

The total budget outlay of Rs. 1,973.7 billion is shared in the ratio of 65.5 percent and 34.5 percent between current and development expenditures, respectively. The allocations for development expenditure are 53.6 percent higher than last year and current expenditure is higher by 8.4 percent.

Allocation of Revenues between the Federal Government and Provinces

Process of fiscal decentralization is an important component of improving the public sector performance as it involves delegating fiscal powers and responsibilities to provincial governments.

Hence it ensures provincial autonomy as provinces can make decisions about expenditure management and increasing revenues, plan projects and manage other public functions.

In Pakistan, at present 7th NFC award is operative which is considered to be a major step towards fiscal decentralization between the federal government and provincial governments.

Table 4.6: Transfers to Provinces (NET) (Rs. Billion)

	2009-10	2010-11	2011-12	2012-13	2013-14 BE
Divisible Pool	574.1	834.7	1,063.1	1,117.5	1,380.0
Straight Transfer	81.2	163.0	145.6	103.5	122.3
Special Grants/ Subventions	82.0	54.1	53.9	61.2	51.4
Project Aid	16.0	21.9	47.8	71.3	77.5
Program Loans	0.0	0.0	4.6	4.2	
Japanese Grant	0.0	0.1	0.1	0.0	0.0
Total Transfer to Province	**753.3**	**1,073.7**	**1,315.0**	**1,441.5**	**1,728.1**
Interest Payment	18.7	18.5	12.9	14.8	13.3
Loan Repayment	24.0	32.4	36.1	32.1	34.8
Transfer to Province(Net)	**710.6**	**1,022.8**	**1,266.0**	**1,394.5**	**1,680.0**

Source: Various issue of Budget in Brief.

This has not only increased the provincial autonomy through enhancing their share in the Divisible Pool (taxes) from 50 percent to 56 percent in fiscal year 2010-11 and to 57.5 percent from fiscal year 2011-12 onwards but has also allowed widen the range of responsibilities from the federation to the provinces.

One of the important developments under 7th NFC award was that for the first time, multiple criteria (Population, Poverty or backwardness, revenue collection or generation and Inverse population density) were adopted to determine inter-provincial shares, whereas in all the previous awards, population was the only criterion.

During 2013-14, net transfer to provinces are projected to increase to Rs. 1,680.0 billion, an increase of 20.5 percent over the revised transfer of Rs. 1,394.5 billion in 2012-13.

Table 4.8: Overview of Provincial Fiscal Operations (Rs. Billion)

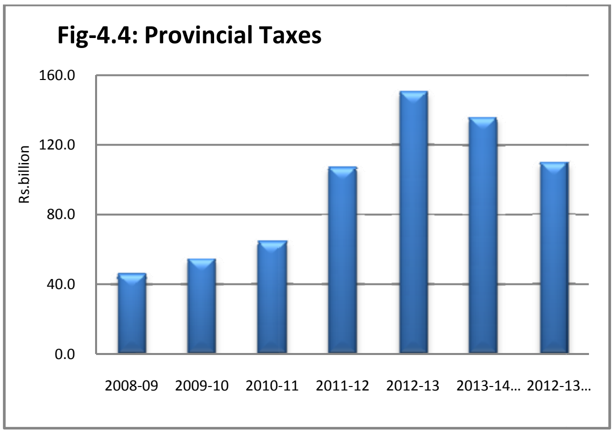
Items	2008-09	2009-10	2010-11	2011-12	2012-13	July-March	
						2013-14	2012-13
A. Tax Revenue	571.7	688.3	1,063.9	1,197.1	1,365.7	1,154.0	1,002.7
Provincial Taxes	46.1	54.8	64.6	107.2	150.7	136.2	109.6
Share in Federal Taxes	525.6	633.5	999.3	1,089.9	1,215.0	1,017.8	893.2
B. Non-Tax Revenue	83.8	67.9	62.3	48.0	71.3	34.7	49.0
C. All Others	95.0	120.0	85.1	88.6	107.4	59.4	73.7
Total Revenues (A+B+C)	750.5	876.2	1,211.3	1,333.7	1,544.4	1,248.0	1,125.3
a) Current Expenditure	564.2	646.2	831.2	980.6	1,110.0	831.4	766.3
b) Development Expenditure	201.8	258.4	245.6	375.4	371.5	199.7	219.9
Total Exp (a+b)	766.0	904.6	1,076.8	1,356.0	1,481.6	1,031.1	986.3

Source: Fiscal Operations (various issues), Budget Wing

Table 4.8 illustrates a healthy picture of provincial fiscal operations over the period of five years; particularly post devolution period shows significant growth in provincial tax revenues. It is pertinent to mention that Sindh was the first to collect the sales tax on services in 2011-12, followed by Punjab in 2012-13 and Khyber Pakhtunkhwa in 2013-14. During 2012-13, over all tax revenues increased by 14.1 percent against 12.5 percent in the same period of 2011-12. The increase in tax revenues during 2012-13 is shared by 40.6 percent rise in provincial taxes and 11.5 percent increase in federal transfers.

Consolidated provincial position indicates a significant growth in tax revenues and provincial share in federal revenues over the past five years. It is also notable that provincial surplus has also increased considerably from 2011-12 onwards.

During the first nine months of current fiscal year, provincial taxes stood at Rs.136.2 billion against Rs.109.6 billion in the comparable period of 2012-13 and federal transfers amounted to Rs.1,017.8 billion during July-March, 2013-14 against Rs.893.2 billion in the same period last year. Hence, following a growth of 24.3 percent in provincial tax revenues and 13.9 percent in federal transfers, provincial surplus posted a healthy growth and reached to Rs.257.9 billion during the same period.



On the other hand, expenditures showed sluggish trend as it grew by 9.3 percent during fiscal year 2012-13 against the growth of 25.9 percent in 2011-12. Whereas, during July-March, 2013-14 total expenditures posted a growth of 4.5 percent and reached to Rs.831.4 billion against Rs.766.3 billion in the same period of fiscal year 2012-13.

Medium Term Budgetary Framework (MTBF)

In order to modernize budgetary management system of the federal government, the Finance Division has started an important reform initiative called Medium-Term Budgetary Framework (MTBF). The reform aims at improving fiscal discipline, creating a mechanism through which government's priorities are linked with budgetary allocations and enhancing focus on achievement of results. While important progress has been made in advancing the reform, the Finance Division is taking additional steps to move to the next stage of the reform.

In the first stage, focus was directed towards embedding new processed and improving comprehensiveness of the budget. Budget preparation process now includes development of a medium term macroeconomic and fiscal framework, a Budget Strategy Paper-which is tabled in the Cabinet and performance based budgets. Thus in addition to the traditional budget that provides budget information by 'inputs'(resources), the budget is now also presented by 'output' (services delivered). Each year the Federal government presents 'Federal Medium Term Budget Estimates for Service Delivery (also known as MTBF Green Book) in the Parliament together with other budget books.

In the second stage focus is being enhanced towards improving operational efficiency and laying the foundation of a government–wise monitoring system. The Finance Division has recently compiled a 'Government Performance Monitoring Report' for the year 2012-13. Through this information it will be possible to understand the reasons for variance-budget vs actual, and performance targets achieved as compared to planned. In addition, deliberations are being made to delegate planning and budgeting processes to Principal Accounting Officers and introduce a system of accountability for results. Furthermore, in order to computerize the MTBF processes, work with PIFRA (Project to Improve Financial Reporting and Auditing-a World Bank funded initiative) is at advanced stage. Around fifty software licensed have been procured that will be used by different ministries/divisions for compiling Output-Based Budgets. Over the next few months the first pilot site is likely to be operationalized. Through this software it would be possible to prepare and monitor Output-Based Budgets on regular basis.

Way Forward

Over the years Pakistan's fiscal accounts remained under immense pressure due to expenditure overrun surpassed the revenues on account of high interest payments, untargeted subsidies and less than expected revenues. Present government soon after assuming the charge in June, 2013, took immediate steps to improve the fiscal situation through its reform agenda with an aim to resolve long standing structural issues, particularly in energy sector. Consequently, fiscal accounts started to improve as fiscal deficit reduced to 3.2 percent during first nine months of current fiscal year against 4.7 percent of deficit in the comparable period of last year. This has also resulted in a significant decline in government borrowing for budgetary support.

On revenue side, comprehensive reform strategy with an objective of increasing the tax revenues to 15 percent of GDP over the medium term resulted in significant growth of 15.9 percent during July-April, 2013-14. It is also notable that, in an effort to remove the distortions and increase the tax revenues, government is sternly focused on removing the SRO culture.

Moreover, expenditures have also been contained on account of prudent expenditure management strategy. On the basis of these developments, overall fiscal deficit for fiscal year 2013-14 is expected to remain even less than 6.0 percent of GDP. Over the medium term, with various steps to control the expenditures and to increase the revenues, fiscal deficit will be brought down further to 4.0 percent of GDP.

It is pertinent to mention that IMF has acknowledged all these fiscal developments and explained this improvement as “strong” and agreed that government’s reform program is on right track and economy is moving into right direction.

Money and Credit

An effective monetary policy plays a significant role in managing and sustaining financial stability because it promotes monetary and financial conditions which in turn support to achieve low and stable prices. Accordingly, stable inflation directs to strong and robust economy which itself not only a key stabilizing force for financial markets but also contributes towards achieving monetary policy objectives.

In the aftermath of financial crisis during 2007-09, monetary policy has progressed into a key policy tool to attain the twin objectives of macroeconomic and financial stability. In response to global financial crisis, central banks around the world adopted extremely accommodative monetary policy as they kept policy rate very low. Notwithstanding, this policy stance successfully navigated the crisis and its immediate repercussions, still there are concerns about prolonged monetary accommodation.

Presently, in advanced countries the financial stability has largely reinforced while on the other hand, global financial conditions are tightening on account of U.S transitions to a less accommodative monetary policy stance. Resultantly, the challenge is to make a successful transition from policy accommodation to investment-driven growth while minimizing spillovers that threaten financial stability.[*]

Pakistan has also pursued an accommodative monetary policy to reinvigorate the economy amid weak private investment and considerable deceleration in inflation. It is well-known that over the years Pakistan's financial sector remained resilient in the face of uncertainties at domestic and external front. Nevertheless, fragile global economic recovery, persistently high fiscal deficit, energy related issues and security concerns brought plethora of challenges and risks to financial stability. The risks further elevated when insufficient external inflows resulted in heavy reliance on banking sector and continuous fall in foreign exchange reserves due to heavy debt payments. Furthermore, rising pressure on banking sector constricted the growth in private sector credit. All these issues collectively exerted pressure on money and foreign exchange markets and posed certain risks to financial markets.

When present government assumed the charge in June, 2013, they took all these issues on board and immediately developed a comprehensive agenda of reforms with an aim to address the structural issues particularly in energy sector, restructuring PSEs and raising tax revenues in order to put the economy on the path of sustainable economic growth.

Consequently, these initiatives instantly helped in easing off the pressures on the economy. During first nine months of current fiscal year, 2013-14 all the major indicators have shown significant improvement particularly, real GDP grew by 4.14 percent during current fiscal year 2013-14 against 3.70 percent recorded in the same period of 2012-13, fiscal deficit reduced to 3.2 percent of GDP during July-March, 2013-14, against 4.7 percent in the same period of 2012-13, and growth in Large Scale Manufacturing (LSM) has been strong. On the other hand rupee also appreciated and exchange rate is now moving towards the stability and market sentiments are giving positive signal for the economy. Above all, foreign exchange reserves which were under significant pressure on account of payments to international agencies have also been increased noticeably.

Going forward, inflationary pressures have tapered since December 2013 after remaining at 10.9 percent in November, 2013. In April, 2014 it stood at 9.2 percent. Similarly, credit to private sector accelerated as it posted a growth of 8.8 percent during July-09 May, 2013-14 against 2.7 percent in the same period of 2012-13. On the other hand, in banking sector improvement in asset quality indicators have been witnessed on account of decline in infection ratio adequate provisioning against non performing loans and improved capital adequacy position of the banking system. NPLs to loans ratio reduced from 15.8 percent in March 2013 to 13.3 percent in March, 2014; while overall

[*] Global Financial Stability Report: April, 2014

Capital Adequacy Ratio recorded at 14.8 percent as of end March 2014, much higher than the minimum required level of 10 percent.

Furthermore, entering into 3-year arrangement under the Extended Fund Facility (EFF) with IMF (Box-1), successful launch of Pakistan Sovereign bonds worth $2.0 billion and auction of 3G/4G license during 2013-14 were the major developments, which will not only be helpful in strengthening the financial and external sector while reducing short term risks but it will also address Pakistan's underlying medium term problems to sustain higher and more inclusive growth. Moreover, expected issuance of international Sukuk bonds worth $500 million in first and second quarter of next fiscal year will further support the improvement in external sector.

Box-1: Extended Fund Facility (EFF)

Pakistan entered into an Extended Fund Facility (EFF) program with IMF on September 4, 2013. It is a 36-month extended arrangement under the Extended Fund Facility (EFF) for SDR 4.393 billion (US$6.64 billion, 425 percent of quota) with an aim to support the country' s economic reform program as well as to address Pakistan's underlying medium term problems to sustain higher and more inclusive growth. To date, Pakistan has received three tranches totaling about $ 1.65 billion.

Three reviews have been completed till now and it is pertinent to mention that EFF program with IMF is on track and Pakistan has achieved almost all performance criteria till March, 2014 under IMF's condition on account of reducing budget deficit, limiting borrowing from SBP and providing cash transfers to beneficiaries of BISP. Furthermore, on the basis of improved economic performance, IMF has raised the growth projection from 3.1 percent to 3.3 percent for fiscal year 2013-14 and lower down end June inflation estimates to 9.5 percent and for end period 8.8 percent. While for fiscal year 2014-15, for end June target is 7.5 percent and 8.1 percent for end period. For fiscal year 2014-15, IMF has scaled up projected growth from 3.7 percent to 4.0 percent.

Monetary Policy Stance

Monetary policy is primarily focused on stimulating and sustaining economic growth through containment of inflationary pressures. Over the past few years, monetary management in Pakistan remained quite difficult due to long standing structural issues particularly in confluence with law and order situation, continuous decline in foreign and domestic investment and insufficient external inflows. At the same time, high government borrowing for budgetary purpose significantly affected the balance sheet of scheduled banks. During fiscal year 2012-13, budgetary borrowings from the banking system stood at Rs1446 billion which was even higher than the total expansion in M2. Consequently, it has posed serious implications for effective monetary management and financial stability. Equally, it has severely hampered government's ability to extend the credit to private sector. It is pertinent to mention that government successfully met the target of borrowing from SBP by end March, 2014*. In net terms, government gradually reduced its borrowing from SBP with an aim to adhere the zero limit borrowing.

During fiscal year 2012-13, SBP adopted accommodative policy stance keeping in view the considerable decline in inflationary pressures and to reinforce the growth in private sector credit. Since June, 2012, overall policy rate was slashed by 300 bps points to 9.0 percent in June, 2013. Consequently, the declining interest rate environment and improvement in electricity contributed in a marginal pickup in loans to some sector of private businesses during 2012-13.

Table:5.1- Policy Rate

w.e.f	Policy rate
Oct-11	12.0
Nov-11	12.0
Feb-12	12.0
Apr-12	12.0
Jun-12	12.0
Aug-12	10.5
Oct-12	10.0
Dec-12	9.5
Feb-13	9.5
Apr-13	9.5
Jun-13	9.0
Sep-13	9.5
Nov-13 till date	10.0

Source: State Bank of Pakistan

During the first half of current fiscal year, SBP reversed its stance from accommodative to tight policy as the rate was increased by cumulative 100 bps, staggered in two stages of 50 bps each. This policy stance was largely a reflection of expected inflationary pressures in the medium term on account of high growth in monetary aggregates and upward adjustment in administered prices of

* Borrowing from SBP(on cash basis) stood at Rs.2,226.8 billion against the target of Rs.2,390 billion under IMF condition.

electricity and gas. Similarly, in September 2013, the SBP linked the minimum rate of return on average balances held in saving deposits with the floor of the interest rate corridor with an aim to ensure that deposit rates respond more strongly to policy rate changes.

During the first nine months of current fiscal year, almost all major economic indicators improved, which in turn ensures the revival of confidence in Pakistan's economy. However, due to likely resurgence in inflationary pressures in the remaining months of current fiscal year, SBP adopted a cautious stance by maintaining the policy rate at 10.0 percent in latest monetary policy announced on 16th May, 2014.

Recent Monetary and Credit Developments

During July – 9th May, 2013-14, growth in money supply (M_2) remained below than the previous level recorded in the same period of 2012-13 as it increased by 7.32 percent (Rs.648.2 billion) against the expansion of 10.32 percent (Rs.788.8 billion) in the comparable period last year on account of contained net government borrowing in particular for budgetary purpose as compared to the previous level.

Table: 5.2- Profile of Monetary Indicators (Rs in billion)

	Jul-09 May 2013-14	Jul-10 May 2012-13
1.Net government sector Borrowing(a+b+c)	199.6	992.9
a .Borrowing for budgetary support	264.7	1,075.8
b.Commodity operations	-65.0	-84.2
c.Others	-0.18	1.3
2.Credit to Non-government Sector(d+e+f+g)	351.6	141.2
d.Credit to Private Sector	296.4	92.5
e.Credit to Public Sector Enterprises (PSEs)	55.1	48.9
f. PSEs Special Account-Debt repayment with SBP	0.0	-0.2
g.Other Financial Institutions(SBP credit to NBFIs)	0.1	-0.1
3.Other Items(net)	-139.9	-163.9
4.Net Domestic assets (NDA)	411.3 (4.79%)	970.2 (13.65%)
5.Net Foreign Assets (NFA)	236.9	-181.4
6.Monetary Assets(M2)	648.2 (7.32%)	788.8 (10.32 %)

Source: Weekly Profile of Broad Money, State Bank of Pakistan

Net Foreign Assets (NFA) which remained under a tremendous pressure during most of the current fiscal year, has recently started to improve on account of availability of external financing from International financial institutions (IFIs) and immediate efforts of SBP to increase liquid reserves. Recent data reveals this fact as it has increased to Rs.236.9 billion during July-9th May, 2013-14 as compared to the net contraction of Rs.181.4 billion in the comparable period last year. Earlier pressure on NFA was largely attributed to decline in foreign exchange reserves on account of debt repayment to IMF since July, 2011. To date, Pakistan has repaid $ 7.0 billion to IMF. As Pakistan has already made significantly large payments to IMF and has also successfully launched Pakistan Sovereign bonds, thus the position will likely to improve further.

Fig: 5.1 - Net Foreign Assets (Flows)

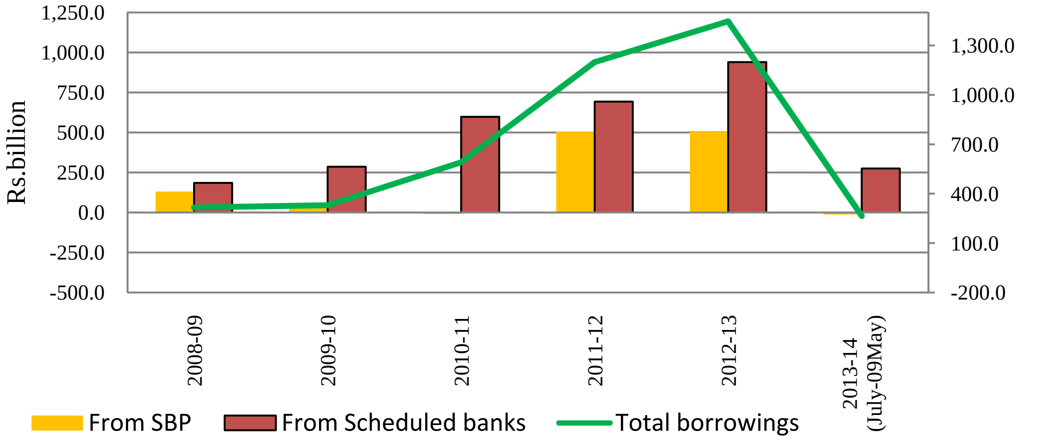
On the other hand, NDA of the banking sector contained at 4.79 percent (Rs.411.3 billion) during July-9th May, 2013-14 as compared to net expansion of 13.65 percent (Rs.970.2 billion) in the same period last year. Containment in NDA can be attributed to decline in government borrowing for budgetary finance.

During July-9th May, 2013-14, credit to public sector enterprises (PSEs) borrowed Rs.55.1 billion against Rs.48.9 billion in the same period of fiscal year 2012-13. Credit extension to PSEs was considerable in energy sector as they borrowed considerably from the banking sector to enhance capacity utilization after the settlement of circular debt in June 2013.

Government Bank Borrowing

During July-9th May, 2013-14, economy witnessed a significant decline in government borrowing from the banking system due to contained borrowing for budgetary support which is largely a reflection of improved fiscal accounts. During the period under review, government sector borrowing for budgetary support amounted to Rs.264.7 billion against Rs.1,075.8 billion in the same period of fiscal year 2012-13. Within the banking system, government retired Rs.10.5 billion to SBP against the borrowing of Rs.416.8 billion in the same period last year. On the other hand government has borrowed Rs.275.2 billion from Scheduled banks during July- 9th May, 2013-14 against the borrowing of Rs.659.0 billion last year. Consequently, net government borrowing from the banking system reduced significantly to Rs.199.6 billion during July-9th May, 2013-14 from Rs.992.9 billion recorded in the same period of fiscal year 2012-13.

Fig: 5.2-Government Borrowings (Flows)



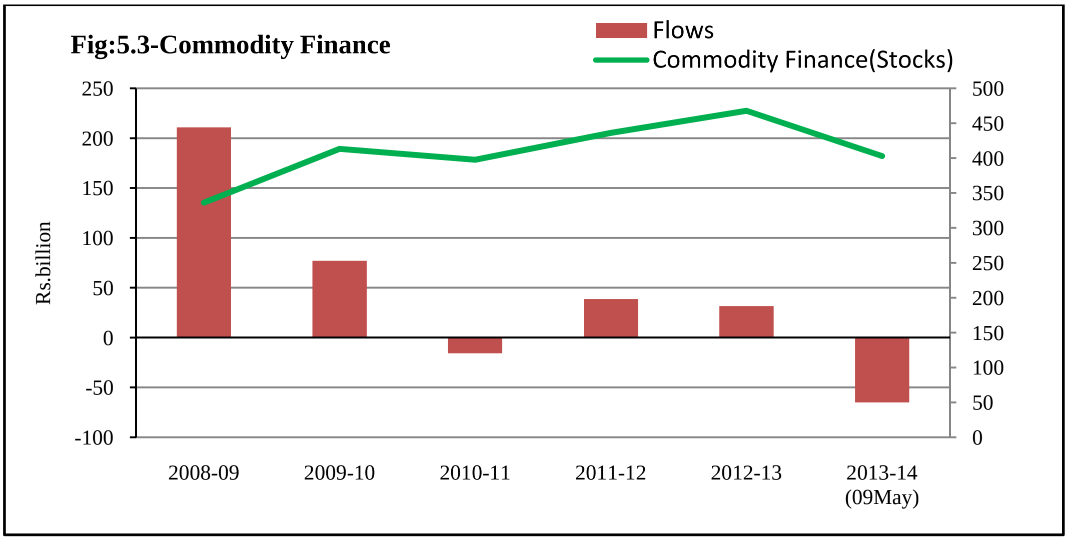
Quarter wise break indicates that government borrowed Rs.271.7 billion for budgetary purpose from the banking system during the second quarter of current fiscal year, in addition to Rs.200.0 billion borrowing in the first quarter of the year*. Whereas, in the third quarter of fiscal year 2013-14, government successfully retired Rs.56.7 billion to the banking system. On the other hand, second quarter of current fiscal year witnessed a reverse trend in borrowing from the SBP, as government borrowing was declined to Rs.83.7 billion in the second quarter of fiscal year 2013-14 from Rs.379.2 billion in first quarter. Whereas, government successfully retired an amount of Rs.397.8 billion to SBP during the third quarter of current fiscal year 2013-14. As mentioned earlier, at the end of third quarter, government was able to contain its borrowing from SBP within the limit agreed with IMF.

* SBP 2nd Quarterly Report

Commodity Finance

To support domestic agriculture prices, particularly of wheat, caused a significant rise in commodity financing over the past few year, which resulted in crowding out of private sector credit. Rise in commodity financing over the years is largely attributed to higher support price for major food crops.

During fiscal year 2012-13, outstanding loans for commodity financing amounted to Rs. 467.7 billion against 436.1 billion in 2011-12, posting a growth of 7.2 percent. Rise in loans during fiscal year 2012-13 was largely attributed to fresh borrowing for the procurement of sugar, fertilizer and wheat. Whereas, during July-9th May, 2013-14 loans for commodity operations registered a net retirement of Rs.65.0 billion against the retirement of Rs.84.2billion in the comparable period of fiscal year 2012-13, hence outstanding loans for commodity financing reduced to Rs.402.8 billion.



While commodity wise breakup shows that during July-March, 2013-14 with net retirement of Rs.133.6 billion, the outstanding loans for commodity finance reached to Rs.334.1billion. Of which, loans for wheat finance registered a net retirement of Rs.146.0 billion against Rs.144.9 billion of retirement in the comparable period of 2012-13. Significant amount of retirement during the period was mainly due to aggressive off loading of wheat stocks by the provincial food departments to stabilize wheat price in second quarter of current fiscal year.

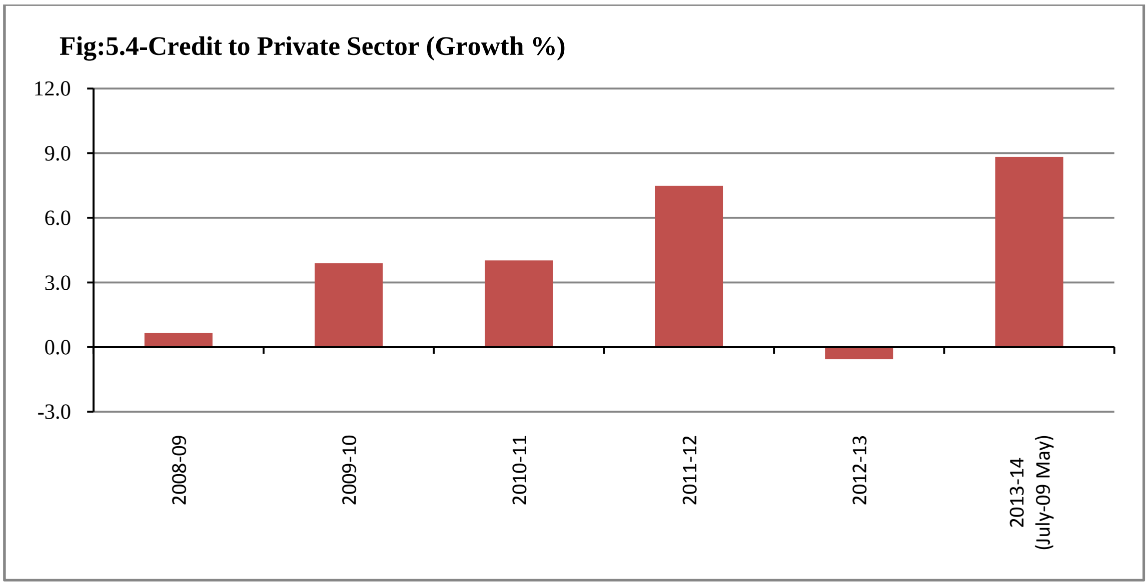
On the other hand, borrowing for fertilizer finance amounted to Rs.9.3 billion during July-March, 2013-14 against Rs.17.9 billion in the same period of 2012-13. Due to rise in domestic production, lower imports helped in reducing the borrowing requirement for fertilizer import. Similarly, borrowing for sugar finance has also witnessed sluggish growth as TCP aggressively offloaded its sugar stock. It reached to Rs.3.0 billion during July-March, 2013-14 against the borrowing of Rs.14.5 billion in the same period of last fiscal year.

Credit to Private Sector

Over the years, Pakistan's private sector has faced multifaceted challenges on various fronts like finance, infrastructure, employee skills and the investment climate. Moreover, less external inflows, low tax to GDP ratio, expenditure overrun due to unplanned expenditure on account of war against extremism and unprecedented floods and consequently rapidly rising public borrowing to finance the budget deficit resulted in crowding out of private sector. The situation further aggravated due to energy crisis, resultantly, the banks were reluctant to extend the credit for private businesses rather they were more comfortable to invest in government papers. All these factors resulted in a muted growth of private sector. However, current fiscal year 2013-14 has witnessed significant improvement in credit to private sector growth as a result of positive developments on structural reforms in order to promote competitive business environment with an aim to boost the private sector rather managing the businesses.

Fig 5.4 reflects a significant decline in credit to private sector during fiscal year 2012-13 despite the accommodative monetary policy, as credit to the private sector posted a net retirement of Rs 19.0 billion in 2012-13, against the expansion of Rs 235.2 billion in 2011-12, thus posting a decline by 0.6 percent. However, recent data indicates that the credit to private sector has improved and increased to Rs.296.4 billion during July- 9th May, 2013-14 against the expansion of Rs.92.5 billion in the comparable period last year, thus posted a growth of 8.8 percent against 2.7 percent in the same period last year. While on year on year basis it grew by 5.3 percent as on 9th May, 2013-14 against 2.7 percent recorded in the same period of fiscal year 2012-13.

This positive development is mainly attributed to improved financial conditions of the corporate sector partly due to decrease in interest rates during 2011-12 and 2012-13, improved supply of electricity after settlement of energy sector circular debt by the government and better business sentiments after May 2013 elections.



Sectoral Analysis

Sector wise growth in credit to private sector shows that during fiscal year 2012-13, Loans to private sector business witnessed a growth of 0.7 percent. Whereas, during July-March, 2013-14 it grew considerably to 10.2 percent against 6.5 percent recorded in the comparable period of 2012-13.

Table: 5.3 - Credit to Private Sector (Rs. in billion)

Sectors	End June Stocks				July-March (Flows)		Growth Rates	
	Jun-12	Jun-13	March-13	March-14	2012-13	2013-14	2012-13	2013-14
Overall Credit (1 to 5)	2,922.0	2,976.3	3,110.7	3,281.3	188.7	305.0	6.5	10.2
1. Loans to Private Sector Business	2,450.1	2,467.2	2,615.2	2,738.9	165.1	271.7	6.7	11.0
A. Agriculture	198.4	222.0	212.8	238.6	14.3	16.6	7.2	7.5
B. Mining and Quarrying	15.9	20.8	21.9	23.0	5.9	2.3	37.1	10.9
C. Manufacturing	1,389.9	1,448.9	1,535.4	1,664.0	145.5	215.1	10.5	14.8
Textiles	491.0	514.9	565.9	583.5	74.9	68.6	15.3	13.3
D. Electricity, gas and water supply	278.1	228.9	277.3	255.6	-0.8	26.8	-0.3	11.7
E. Construction	53.5	53.4	52.4	51.7	-1.2	-1.6	-2.2	-3.1
F. Commerce and Trade	210.0	206.9	211.8	227.2	1.8	20.3	0.8	9.8
G. Transport, storage and communications	111.3	89.8	102.6	85.8	-8.7	-4.0	-7.8	-4.4
I. Other private business n.e.c	30.0	42.1	38.7	43.1	8.8	1.0	29.2	2.3
2. Trust Funds and NPOs	18.0	17.0	17.1	7.3	-0.9	-9.7	-5.0	-56.9
3. Personal	285.0	305.8	298.0	327.5	13.0	21.7	4.6	7.1
4. Others	15.6	14.2	11.6	20.6	-4.0	6.4	-25.7	45.3
5. Investment in Security & Shares of Private Sector	153.2	172.2	168.8	187.0	15.6	14.8	10.2	8.6

Due to significant increase in credit off take in various sectors and subsector during July-March, 2013-14, credit to private business witnessed broad-based improvement. As discussed earlier, that revival of business confidence due to government's efforts to address long standing structural issues along with expansion in production capacities, product diversification, investment in alternate energy sources etc contributed to this significant expansion in loans to private sector.

Similarly, loans to private business by type (trade financing and working capital) have also witnessed an increase during the period under review on account of increased business activity in textiles, power and trade. During third quarter of current fiscal year, textiles, commerce and trade, and energy witnessed a net retirement which was largely offset by net credit uptake by sugar (mostly for working capital), refined petroleum and manufacturing machinery.

In flow terms, credit expansion to private business increased to Rs.271.7 billion during July-March, 2013-14 against Rs.165.1 billion in the same period of 2012-13. Among all major sectors, credit off take in Manufacturing remained high at 14.8 percent, of which textile sector received 13.3 percent of credit. Manufacturing sector availed 79.2 percent of private sector loan (Rs.215.1 billion), followed by textile (25.2 percent or Rs.68.6 billion), electricity, gas and water (9.9 percent or Rs.26.8 billion), and mining and quarrying (0.8 percent or Rs.2.3 billion).

Table 5.4: Consumer Financing (Rs. in billion)

	July-March (Flows)		Growth (%)	
Description	**2012-13**	**2013-14**	**2012-13**	**2013-14**
Consumer Financing	8.5	21.5	4.2	9.8
1) For house building	-2.4	-0.1	-5.7	-0.3
2) For transport i.e. purchase of car	2.3	9.0	5.1	17.8
3) Credit cards	-1.9	-0.5	-8.2	-2.1
4) Consumers durable	-0.1	0.2	-40.3	88.2
5) Personal loans	10.2	13.9	11.5	13.9
6) Other	0.4	-0.9	7.0	-11.1

Significant growth has also been witnessed in consumer loans during July-March, 2013-14 , as it increased to 9.8 percent against 4.2 percent recorded in the same period of fiscal year 2012-13. Consumer financing start gaining momentum since November 2012 and continued its upward trend during July-March, 2013-14. Consumer durables registered a tremendous growth of 88.2 percent in credit expansion followed by 17.8 percent growth in auto and 13.9 percent in personal loans. It is pertinent to mention that increased growth in auto finance is largely attributed to the auto finance facility actively marketed by leading Islamic banks. Additionally, one of the public sector commercial banks advertised its Salary Loan Scheme and Cash and Gold scheme which attributed to significant rise in personal loans.

Table-5.5: Targets and Actual Disbursement of Agriculture Loans

	Target		Flows (July-March)	
Name Of Banks	**2012-13**	**2013-14**	**2012-13**	**2013-14**
5 Big Commercial Banks	153.5	188.0	123.7	133.5
ZTBL	72.0	69.5	38.0	45.9
DPBs	66.7	90.4	51.0	54.2
PPCBL	9.0	10.0	5.4	5.4
MFBs	13.8	21.6	13.0	16.2
Islamic Banks		0.5	0.0	0.5
Total	315.0	380.0	231.0	255.7

In agriculture, against the credit disbursement target of Rs.380 billion for fiscal year 2013-14, overall disbursement increased to Rs.255.7 billion during July-March 2013-14 against Rs.231.0 billion in the same period of fiscal year 2012-13, posting an increase of 10.7 percent. Whereas, during July-March of current fiscal year, credit disbursement accounted 67.3 percent of the annual target. Five major commercial banks disbursed agri loans of Rs.133.5 billion or 71.0 percent of its annual target which is 8.0 percent higher from Rs.123.7 billion during the same period of last fiscal year.

Monetary Assets

Monetary assets (M2) consist of currency in circulation, demand deposits, time deposit and resident's foreign currency. Monetary expansion during July-9th May, 2013-14 recorded at 7.3 percent against 10.3 percent in the same period of fiscal year 2012-13, whereas y-o-y basis it stood at 12.8 percent as on 9th May. Lower growth in M2 is mainly stemmed from decline in currency in circulation (CIC) and deposit money.

Currency in Circulation

Growth in currency in circulation has decelerated as it reduced to 9.0 percent during July-9th May, 2013-14.2 against the growth of 19.7 percent recorded in the same period last year, while y-o-y growth stood at 10.5 percent as on 9th May, 2013-14. Decline in CIC is largely a reflection of contained government borrowing from banking system for budgetary purpose. Similarly, during the same period currency in circulation (CIC) as percent of money supply (M2) has also reduced to 23.3 percent from 23.8 percent recorded a year earlier.

Table 5.6: Monetary Aggregates (Rs Million)

Items	End June		July-09 May	
	2012	2013	2012-13	2013-14
A.Currency in Circulation	1,673,746	1,938,222	2,003,617	2,213,406
Deposit of which:				
B. Other Deposits with SBP	8,899	10,523	10,736	13,982
C.Total Demand &Time Deposits incl.RFCDs	5,959,150	6,909,066	6,416,258	7,278,640
of which RFCDs	440,130	514,988	508,070	562,130
Monetary Assets Stock (M2) A+B+C	7,641,795	8,857,812	8,430,611	9,506,029
Memorandum Items				
Currency/Money Ratio	21.9	21.9	23.8	23.3
Other Deposits/Money ratio	0.1	0.1	0.1	0.1
Total Deposits/Money ratio	78.0	78.0	76.1	76.6
RFCD/Money ratio	5.8	5.8	6.0	5.9
Income Velocity of Money	2.9	2.9	2.7	2.7

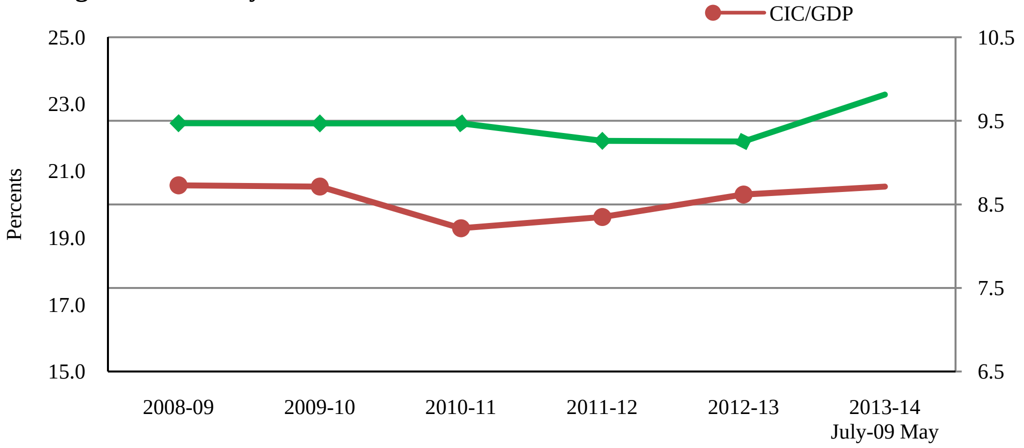
Source: State Bank of Pakistan

Deposits

During July-9th May, 2013-14 demand and time deposits stood at Rs.369.6 billion against Rs.457.1 billion during the same period last year, posting a growth of 5.3 percent against 7.7 percent during the same period of fiscal year 2012-13. This deceleration in deposit growth is largely attributed to lower real interest rates due to higher expected inflation, relatively better returns on other assets such as equity and real estate and increase in withholding tax on cash withdrawals.

Particularly, time deposits witnessed a persistent reduction since the start of fiscal year 2013-14, as it remained negative and declined to Rs.96.0 billion against an increase of Rs.38.0 billion in the same period. Similarly, decline in Resident Foreign Currency Deposits (RFCDs) have also contributed to overall deposit growth as it reduced to Rs.47.1 billion during July-9th May, 2013-14 from Rs.67.9 billion in the same period of fiscal year 2012-13. Impact of rupee appreciation during the current fiscal year has been translated into this decline in RFCD.

Fig: 5.5- Currency in Circulation % of M2 & GDP



Monetary Management

During the initial months of current fiscal year 2013-14, monetary management remained under tremendous pressure on account of volatility in market liquidity conditions, resurgence in inflationary pressures, prevailing uncertainty over foreign financial inflows and pressure on exchange rate. Financial market witnessed the volatility in liquidity conditions on account of government borrowing from the central bank, which in turn made liquidity management more difficult. However, the pattern of borrowing changed to commercial banks significantly since September, 2013, when SBP increased the policy rate by 50 basis points successively in September and November 2013 to deal with balance of payments position, and stabilizing the inflationary outlook.

Table 5.7: Summary of Open Market Operations (Rs. in billion)

	Injections		Absorptions	
	2012-13	2013-14	2012-13	2013-14
July	1,058.6	631.3	-	142.4
August	2,090.1	-	-	725.2
September	2,095.6	-	-	689.8
October	2,505.1	136.25	-	54.0
November	2,633.2	121.5	-	668.0
December	2,404.4	241.1	39.5	-
January	2,480.2	262.95	107.0	-
February	2,231.6	348.1	-	129.1
March	2,322.5	520.05	-	69.0
Total	**19,821.1**	**2,261.3**	**146.5**	**2,477.4**

Source: State Bank of Pakistan

It is pertinent to mention that during the current fiscal year, reduced borrowing for budgetary support from the banking system helped SBP to mop-up liquidity after an extended period of monetary injections. SBP's purchases from the FX market to support falling FX reserves and commercial bank's reluctance to invest in government securities, created excess liquidity in the interbank market[*]. SBP mopped up a significant amount through Open Market Operations (OMOs) in order to drain this excess liquidity. SBP mopped up Rs. 2,477.4 billion during July-March 2013-14 against the injections of Rs 2,261.3 billion whereas in the comparable period of last year absorption of Rs 146.5 billion against the injection of Rs 19,821.1billion has taken place.

Table 5.8 Market Treasury bills Auctions (Rs.in million)

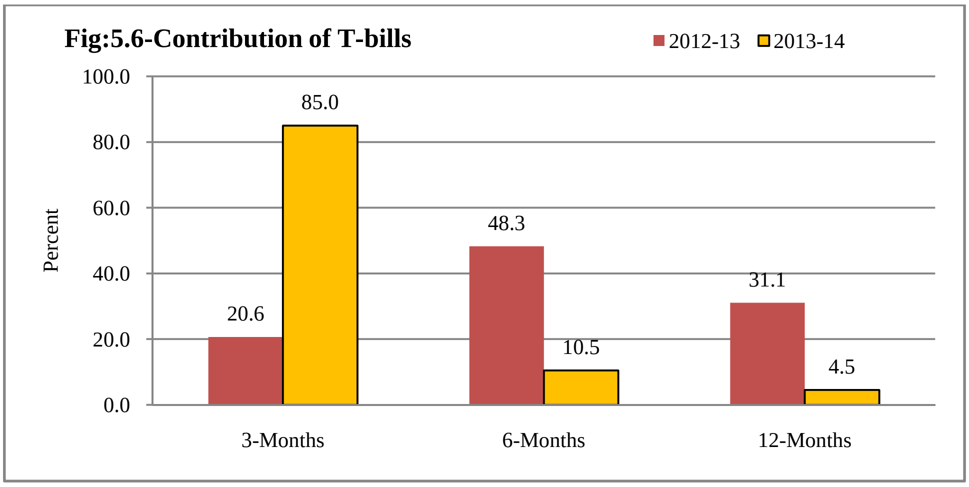
	JUL-JUN			Jul-March					
	2012-13			Offered		Accepted		W.A.Rate*	
	Offered	Accepted	W.A Rate*	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14
3-Months	1,592,616	1,155,404	10.4	1,266,989	5,248,579	878,175	4,730,455	10.5	9.4
6-Months	3,597,169	2,434,463	10.4	3,147,453	650,866	2,053,367	583,060	10.5	9.5
12-Months	2,963,751	2,017,987	10.4	2,095,012	273,557	1,321,928	252,939	10.6	9.5
Total	8,153,536	5,607,854	-	6,509,454	6,173,002	4,253,470	5,566,454	-	-

Source: State Bank of Pakistan
*Average of maximum and minimum rates

During July-March, 2013-14 market offered the total amount of Rs.6,173.0 billion against Rs.6,509.5 billion in the same period of fiscal year 2012-13. Since September, 2013 monetary policy decision, 85.0 percent of total bids under T bills auction were on average for 3-month tenure.

In the T-bills auction held in fourth quarter of fiscal year 2013-14 so far government has raised less than the targeted amount, which shows that bank's appetite for PIBs are increasing as in the PIBs auction held in the same period so far, government has raised higher amount than the target amount.

[*] SBP, Second quarterly report, 2013-14

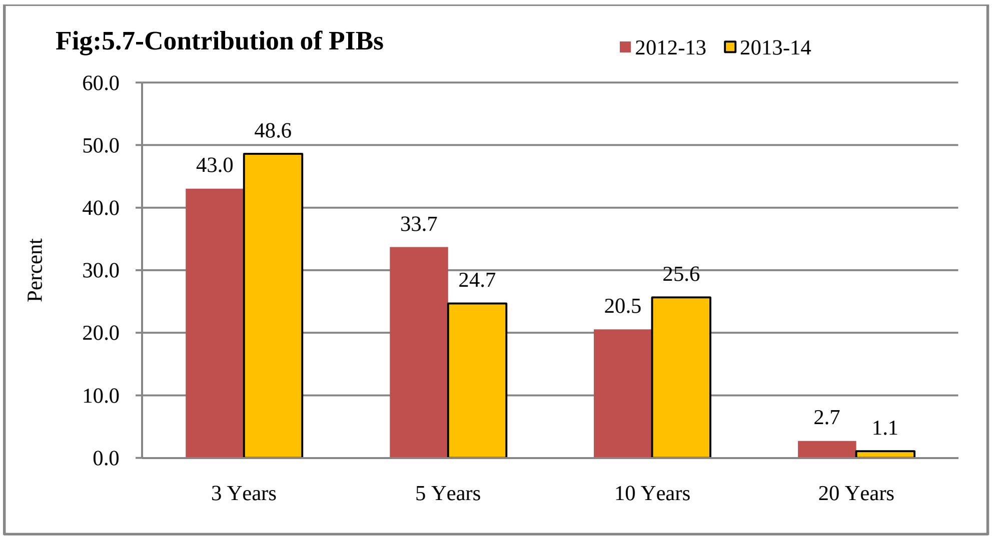


Market offered total amount of Rs. 1,336.3 billion during the first nine months of current fiscal year 2013-14 under PIB auction as compared to Rs. 459.5 billion in the same period of last fiscal year. Heavy investment was seen in 3 years PIBs which constituted 48.6 percent of total accepted amount.

Table 5.9: Pakistan Investment Bonds Auctions (Rs. in million)

PIBs	July-June			July-March				W.A. Rate	
	Offered	Accepted	W.A Rate	Offered		Accepted			
	2012-13			2012-13	2013-14	2012-13	2013-14	2012-13	2013-14
3 Years	319,735	139,300	11.1	206,729	615,509.0	82,224	560,908	11.4	11.2
5 Years	173,909	80,492	11.6	128,227	321,945.0	64,362	285,020	11.9	11.7
10 Years	147,403	53,368	12.1	118,349	385,532.0	39,239	296,012	12.4	12.2
15 Years	-	-	-	-	-	-	-	-	-
20 Years	6,210	5,197	13.4	6,211	13,333.0	5,197	12,323	13.4	13.1
30 Years	-	-	-	-	-	-	-	-	-
Total	647,257	278,357	-	459,516	1,336,319.0	191,023	1,154,263	-	-

Source: State Bank of Pakistan
Note: Accepted amount include non-competitive bids as well as short sell accomodation.



During the first nine months of current fiscal year, following a rise in policy rate by 100 bps, weighted average lending rate (including zero mark-up) on gross lending has also increased from 10.46 percent in March, 2013 to 10.53 percent in March, 2014, thus increased by 7 bps during the period. On the other hand, weighted average deposit rate have declined by 23 bps to 5.80 percent in March, 2014 from 6.03 percent in the same period last year.

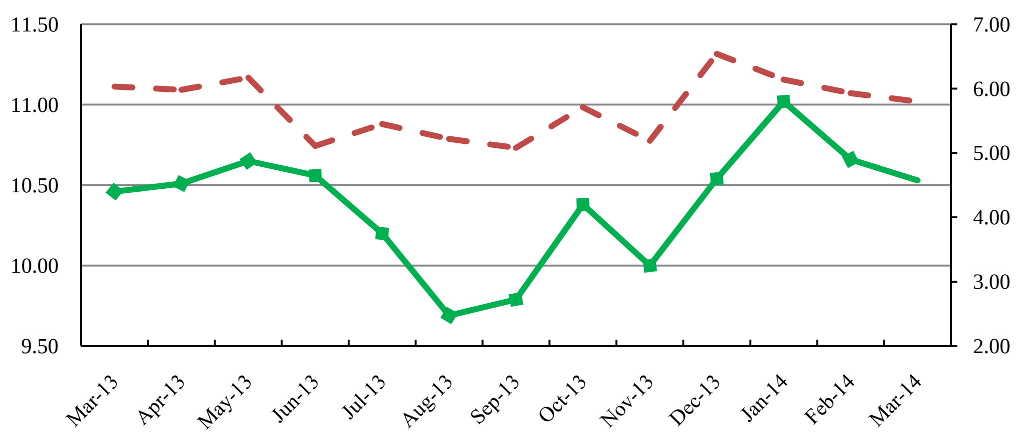
Banking spread which generally refers to the cost of channeling funds through intermediaries and is the difference of lending and deposit rates has increased by 30 bps to 4.73 percent in March 2014 against 4.43 percent witnessed in March 2013.

However, since January, 2014 it registered a decline from 4.88 percent to 4.73 percent in March 2014 after gross advances registered a decline of 49 bps to 10.53 percent whereas fresh deposits have also declined by 34 bps to 5.80 percent.

Table-5.10 Lending & Deposit Rates(W.A.)

	LR	DR	Spread
Mar-13	10.46	6.03	4.43
Apr-13	10.51	5.98	4.53
May-13	10.65	6.17	4.48
Jun-13	10.56	5.11	5.45
Jul-13	10.20	5.45	4.75
Aug-13	9.69	5.22	4.47
Sep-13	9.79	5.08	4.71
Oct-13	10.38	5.71	4.67
Nov-13	10.00	5.19	4.81
Dec-13	10.54	6.54	4.00
Jan-14	11.02	6.14	4.88
Feb-14	10.66	5.93	4.73
Mar-14	10.53	5.80	4.73

Fig:5.8-Lending & Deposit Rates



Pakistan's Financial Sector

The role of financial sector stability in the process of economic development has increased manifold, particularly, stable banking sector is considered to be a paramount for economic growth.

Pakistan's banking sector remained extremely strong and resilient, despite immense pressures stemming from fragile macroeconomic environment over the past few years. Remarkable performance of banking system was mainly due to improved capital adequacy and solvency indicators, contributed by higher level of profits and equity injections.

Overall performance of the banking sector has remained encouraging. In December, 2013, the asset base of the banking sector and its key elements registered a modest growth as it grew by 8.5 percent year on year basis to reach at Rs.10.5 trillion. However, this modest increase was duly supported by 14.0 percent growth in deposits. In 2013, asset base reached to Rs.165 billion, whereas it amounted to Rs.10.8 trillion by end March, 2014 and YTD profit before tax reached at Rs.51 billion.

Table 5.11: Banking System: Key variables of Balance Sheet and Profit & Loss Statement* (Rs. in billion)

	2009	2010	2011	2012	2013	Mar-14
Total Assets	6,516	7,117	8,171	9,711	10,537	10,752
Investments (net)	1,737	2,157	3,055	4,013	4,305	4,662
Advances (net)	3,240	3,358	3,349	3,804	4,047	4,014
Deposits	4,786	5,451	6,244	7,294	8,318	8,151
Equity	660	695	784	882	939	956
Profit Before Tax (ytd)	81	105	170	179	165	51
Profit After Tax (ytd)	54	65	112	178	111	33
Non-Performing Loans	446	556	592	615	585	602

Table 5.11: Banking System: Key variables of Balance Sheet and Profit & Loss Statement* (Rs. in billion)

	2009	2010	2011	2012	2013	Mar-14
Non-Performing Loans (net)	134	185	182	176	126	134
Capital Adequacy Ratio (all banks)	14.0	13.9	15.1	15.6	14.9	14.8

Source: State Bank of Pakistan
*: On the basis of calendar year
Note: Statistics of profits are on year-to-date (ytd) basis.

Moreover, Capital Adequacy position of the banking system has also improved significantly on the basis of improved capital position of the banking sector. SBP regularly monitors banks capital adequacy ratios (CAR) in accordance with Basel requirements. The steady profits and a gradual increase in Minimum Capital Requirements (MCR) prescribed by SBP assisted banks in increasing their common equity capital significantly in the recent years and facilitated Pakistani Banks in converging to new Basel III capital requirements comfortably. The CAR under Basel-III as reported by banks for Dec-13 quarter stood at 14.9 percent (15.1 percent under Basel II). While it stood at 14.8 percent as of end March, 2014. Hence it remained strong and well above the prescribed benchmark of 10 percent. It is also worth mentioning that the CAR of the banking industry has remained well above this benchmark during the last six years.

Similarly, with broad-based improvements in macroeconomic performance and recent revival in credit demand both for working capital and fixed capital needs, the assets quality has also witnessed gradual improvement after observing deterioration over the last five years. NPLs to loans ratio came down from 4.6 percent to 3.1 percent year on year basis. While it came down to 13.3 percent in March, 2014 from 15.8 percent in March 2013. Significant performance in banking sector is achieved on account of prompt regulatory measures and proactive policy initiatives.

Financial Development

It is a well known fact that financial depth has a positive effect on economic development. In this perspective, role of well structured and efficient financial sector is integral as it ensures efficient use of financial resources and facilitates large investments and more productive allocation of capital, which directs to higher income growth.

Table: 5.12 Key Indicator of Financial Development

Years	M2/GDP
2008-09	38.9
2009-10	38.9
2010-11	36.6
2011-12	38.1
2012-13	39.4
July-09 May	
2012-13	37.5
2013-14	37.4

Financial depth or deepening is generally a measure of the size of financial intermediaries. There are several proxies, which can be used to measure the financial depth, but M2-to-GDP ratio is regarded as the most comprehensive and commonly used measure. Increasing M2/GDP ratio mainly refers to more developed and efficient financial sector. Additionally, it also indicates that growth in financial assets is more than non financial assets. In case of Pakistan this ratio is not only low but also remained stagnant for the past few years. Monetary assets which were 38.9 percent of GDP in fiscal year 2008-09 increased to 39.4 percent in 2012-13. While during July-9th May, 2013-14, it reduced slightly to 37.4 percent from 37.5 percent recorded in the same period last year. However, the ratio is expected to rise on account of ongoing reforms in financial sector with an aim to strengthen and widen its scope in the economy. In this context, SBP is working to achieve its multipronged objectives including efficiency, soundness and stability of financial system, financial inclusion, development finance, customer protection and improvement in payment system etc.

Box-2: Financial Reforms

- State Bank has been striving for 'financial inclusion' in the country through sound policy advocacy, market & infrastructure development, and proportionate regulatory frameworks. Promotion of microfinance through Micro Finance Banks (MFBs) is key component of this overall "financial inclusion" strategy.
- Numerous initiatives have also been taken to address market bottlenecks that restrict access to and outreach of financial services in the rural areas. Some of these programs include (a) Issuance of revised Prudential Regulations (PRs) for agriculture financing, (b) Livestock Insurance Scheme for Borrowers, (c) Farmers' Financial Literacy and

Awareness Program (FFAP), (d) Capacity Building of banks, (e) facilitating post harvest financing to farmers, traders and exporters, etc

- Measures have been taken for strengthening the SME sector and promotion of financing to this key segment. The measures already in place including (a) SBP Finance and Refinance Schemes, (b) Export Finance Scheme and Long Term Finance Facility (LTFF), (c) Export Finance Facility for Locally Manufactured Machinery (EFF-LMM), (d) Credit Guarantee Scheme. In order to promote the financing to this important segment and improve the capacity of the related human resources, SBP is conducting Primary Survey of 21 SMEs, and conducting SME Finance Grass Root Cluster Training Programs.
- SBP is also supervising and monitoring the recently launched Prime Ministers Youth Business Loans Program, which is meant for providing loans to unemployed youth, especially educated youth for establishing or extending business enterprises in order to promote self-employment in the country. The program is currently being implemented through National Bank and First Women Bank. Other banks are also gearing up their systems for participation in PM Youth Business Loans Program.
- To promote housing finance in the country, SBP is facilitating in establishment of Mortgage Refinance Company (MRC). The creation of a MRC would help to address the long term funding constraint hindering the growth of the primary mortgage market.
- In May 2014, SBP has issued separate Prudential Regulations (PRs) for Housing Finance to encourage banks to follow housing finance more rigorously and prudently. Further, in April 2014, SBP issued Developer Finance Guidelines, which are expected to work as bridge between builders and banks.
- Keeping in view the importance of financial consumer’s protection, a dedicated Consumer Protection Department (CPD) is functioning at SBP, which ensure that banks have put in place an adequate consumer protection framework, introduce efficient delivery channels and adopt more customer centric practices.
- During the last five years, SBP introduced policy of setting minimum rate on deposits to protect the depositor’ interest. In May 2008, the SBP set the minimum saving rate floor of 5 percent which was raised to 6 percent in April 2012 that was further strengthen in March 2013 by instructing banks to calculate on monthly average balance. In Sep-13, SBP further raised the minimum rate to 6.5 percent while tagging it with 50 bps below the lower bound of interest rate corridor w.e.f. Oct-13. Since the current SBP’s repo rate is 7.5 percent, effectively, the existing minimum saving rate is 7 percent which is the highest ever till date since the introduction of minimum saving rate.
- The SBP has continuously enhanced Minimum Capital Requirements (MCR)-paid up capital (free of losses)- of the financial institutions regulated by it in a phased manner, which facilitated in improving the capital adequacy and solvency of the banking system. It not only attracted the worthy investors to enter the market but also ensured stability by setting a threshold for minimum size of a bank.
- In order to evaluate trading of government securities on the stock exchanges of Pakistan, a committee was formed in August 2013 consisting of all stakeholders i.e. SBP, SECP, KSE and CDC. Objective of the committee was to put up an appropriate regulatory and operational framework to launch the trading of Government securities on the stock exchange by the end of January 2014. It was agreed that trading of Government Securities at the stock exchange will be an additional platform and will not replace the existing OTC market (Bloomberg, Reuters and money market brokers).
- Robust payment mechanisms are a pre-requisite for improving financial inclusion in the country. SBP has taken a number of initiatives to bring about efficiency and reliability in the existing payment system of the country. It has introduced International Bank Account Number (IBAN) in 2012, for identification of standardized bank account across the national as well as international borders. It has also issued various guidelines for enhancing the number of ATMs for making their usage more ubiquitous with safety and security.
- Further, several projects are underway, which are expected to further strengthen the financial infrastructure and improve efficiency of the existing system. Few projects in progress include (a) rules related to various Electronic Payment Gateways and services providers, (b) Regulation on prevention of E-banking fraudulent transactions, (c) standardization and security of financial articles, (d) implementation of cheque truncation system for faster image based cheque clearing, (e) guidelines for pre-paid card, (f) upgrading the existing Real Time Gross Settlement (RTGS) system and its membership extension to MFBs, and (g) ADCs compliant management system.
- Further, SBP is currently managing the Secretariat for SAARC Payment Council (SPC), which is a forum for Central Banks/Monetary Authorities of SAARC countries to collectively develop strategies and roadmaps for the improvement of payment systems in the SAARC region. The Payment Systems Department (PSD) is playing an active role in developing and promoting cooperation among member countries.

Source: State Bank of Pakistan

Islamic Banking

Islamic Banking industry in Pakistan is currently spread across 80 districts of the country constituting nearly 10 percent share in overall banking industry with 19 banking institutions offering Shariah compliant products and services. In terms of branch network, more than 1300 branches of the Islamic banking industry are currently operational in 87 districts across the country. Keeping in view the huge potential of Islamic Banking, several initiatives have been taken in order to provide necessary legal, regulatory and supervisory infrastructure.

During the past few years, Islamic banking posted an exceptional growth in financial sector of Pakistan with both assets and deposits contributing in this growth. Share of Islamic banking assets in overall banking system rose from 4.90 percent in 2008 to 9.60 percent in 2013. while in terms of deposits the share increased from 4.78 percent in 2008 to 10.40 percent in 2013.

During 2013, asset base of Islamic banking industry (IBI) reached to Rs.1,014 billion against Rs.837.0 billion in 2012, thus posted a growth of 21.1 percent (YoY). Similarly, deposits of Islamic banking industry stood at Rs. 868.0 billion in 2013 against Rs. 706.5 billion during 2012, hence registered a growth of 22.9 percent. As of March 2014, the assets base of the Islamic Banking Industry reached to Rs.1,016 billion while deposits reach to Rs.872 billion. Consequently, the market share of Islamic Banking assets and deposits in overall banking industry stood at 9.40 and 10.70 percent by end march 2014.

Table 5.13 Islamic Banks* (Rs. in billion)

	2009	2010	2011	2012	Dec-13	Mar-14
Assets of the Islamic banks	366.3	477.0	641.0	837.0	1,014.0	1,016.0
Deposits of the Islamic Banks	282.6	390.1	521.0	706.5	868.0	872.0
Share in Banks Assets	5.60%	6.70%	7.80%	8.60%	9.60%	9.40%
Share in Bank Deposits	5.90%	7.20%	8.40%	9.70%	10.40%	10.70%

*: On the basis of calendar year

Source: Islamic Banking Department, State Bank of Pakistan

In terms of profitability, there was an increase of Rs.2.61 billion in profit in the quarter end Dec 2013, however remained lower compared to the profit (Rs.9.9 billion) earned by the industry by the end Dec, 2012. Similarly, the Islamic banking industry witnessed an increase in Return On Equity (ROE) during the last quarter of 2013, however, Return On Assets (ROA) remained unchanged compared to the previous quarter. As a positive development, Non-Performing Financing (NPF) of Islamic banking industry decreased during October to December 2013 quarter and reached to Rs.18.9 billion showing quarterly (QoQ) decline of 4.0 percent. Similarly non-performing assets (NPA) of Islamic banking industry also decreased during the October to December 2013 quarter.

Box-3: Key initiatives for the promotion of Islamic Banking Industry

a. Issuance of Shariah Governance Framework

To further strengthen the Shariah compliance environment in Islamic banks, Shariah overnance Framework (SGF) has been issued, which will be effective from 1st October 2014. It explicitly defines the Shariah related roles and responsibilities of all key organs of IBIs including Board of Directors, the executive management, Shariah Boards and internal and external auditors.

b. Issuance of Five year Strategic Plan for Islamic Banking Industry of Pakistan

State Bank of Pakistan has developed a five year Strategic Plan (2014-18) for the Islamic Banking industry in consultation with all key stakeholders which gives a consensus agenda and strategy to take the industry to next level of growth and development. It focuses on improving public perception of Islamic banking as a distinct and viable system capable of catering to the financial services needs of various segments of the society. It envisages intensifying the awareness creation efforts, strengthening consultation mechanism with stakeholders, removing confusion and inconsistencies in legal, regulatory and taxation environment, deepening and broadening of product offerings by Islamic Banks, doubling the outreach of Islamic Banks during the next five years and increasing the market share to 15 percent of the banking system.

c. Completion of Knowledge, Attitude and Perception Study

State Bank of Pakistan completed a survey based study to estimate demand for Islamic Banking in the country. The main objectives of the survey based Project; “Knowledge, Attitude and Practices of Islamic Banking in Pakistan” are (a) quantification of the demand for Islamic Banking and its nature in the country, (b) incidence of Financial Exclusion based on religious beliefs and (c) identification of critical areas requiring financing. The study is based on first hand information collected through survey from both banked (Islamic and conventional) & un-banked sectors of the country. The findings of this study are not only expected to benefit SBP in policy formulation but also be of interest to both incumbent and potential entrants to the market.

d. Awareness Creation

State Bank of Pakistan launched a nationwide media campaign in collaboration with the industry to improve Islamic finance literacy. The first phase focused on creating awareness and improving visibility of Islamic banking in the country, while the second phase is focused on improving the understanding of the masses about Islamic banking.

e. Constitution of Steering Committee for Promotion of Islamic Banking

The Government of Pakistan (GOP) has demonstrated its strong commitment for supporting development of Islamic finance in the country and has constituted a high level Steering Committee for promotion of Islamic banking. The steering committee comprises of renowned Shariah scholars, senior government officials, industry experts and business leaders aiming to develop proposals and recommendations for transforming the financial system in conformity with Shariah principles.

Table 5.13 (a) Financing Products by Islamic banks (%age)*

Mode of Financing	2009	2010	2011	2012	Dec-13
Murabaha	36.5	40.8	43.8	97.5	134.2
Ijara	15.1	8.9	10.4	22.5	25.4
Musharaka	3.4	1.9	2.4	1.9	22
Mudaraba	0.4	0.2	0.1	0.6	0.5
Diminishing Muskaraka	29.7	29.7	32	87.7	101.8
Salam	1.2	1.5	2.4	7.3	13.3
Istisna	6	6.1	4.4	17.7	18.5
Others	7.8	10.9	4.4	10.5	14.5

*: on the basis of calendar year
Source: State bank of Pakistan

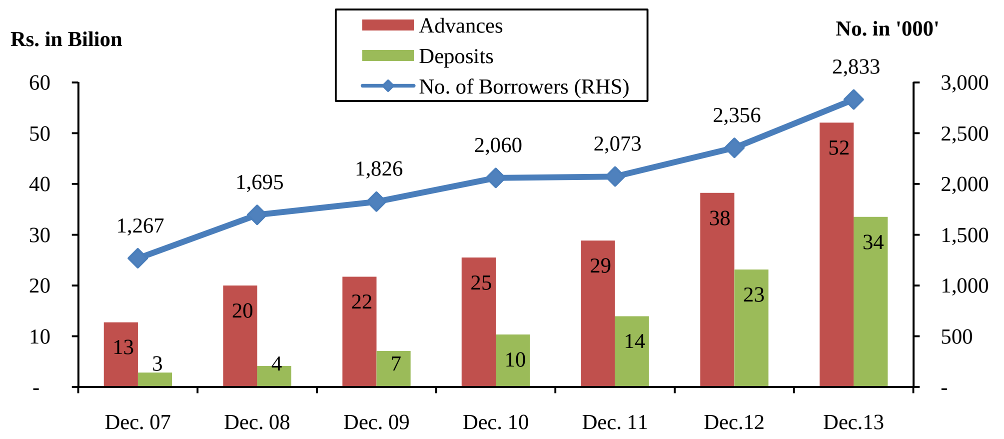
In terms of financing mix, all modes of financing registered increase during the last quarter of 2013. However, Murabaha and Diminishing Musharaka remained the most concentrated modes as these collectively contributed more than 70 percent in overall financing mix followed by Ijarah, Musharaka, Istisna, others and Salam etc..

Microfinance

The Microfinance sector has continued its positive long-term growth as a result of greater private investment, supportive policy environment, vibrant market infrastructure, increased use of innovative technologies, and improved operational performance. Current performance of microfinance is marked by growth in all key areas including outreach, loan portfolio, deposit base, profitability, and equities. In particular, the sector is currently serving more than 2.8 million active borrowers.

The microfinance sector (MFBs and MFIs) witnessed a 36 percent growth in its aggregate loan portfolio which grew by Rs.13.8 billion; reaching to Rs.52.1 billion against a total of 2.8 million borrowers as at end December, 2013 compared to loans worth Rs.38.2 billion to 2.4 million borrowers in the corresponding period last year. At the close of 2nd quarter of fiscal year 2013-14, the total loan portfolio of MFBs grew by 42 percent, reaching to Rs 28.3 billion as compared to Rs 20 billion in the corresponding period last year. The number of borrowers served also registered a growth of 21.3 percent, increasing from 803,096 in December, 2012 to 974,352 in December, 2013. The asset base of MFBs also registered an impressive growth of 31 percent rising to Rs.58 billion in December, 2013 from Rs.44.3 billion in the corresponding period last year. The NPLs of MFBs were restricted to around 1 percent as of end December, 2013, which points to prudent lending practices by MFBs. The deposits' growth also remained impressive with a total of Rs 10.3 billion (44.7 percent) added to the MFBs' deposit base which stood at Rs 33.5 billion as of end December, 2013, compared to Rs 23.1 billion in corresponding period last year. The progress of the industry remained satisfactory despite macroeconomic challenges and law & order situation, facing the country. The sector was able to expand its branch/service centre network to 2,157 as of December, 2013 adding 239 new business locations across the country compared to position of December, 2012.

Fig: 5.9 Growth of Microfinance Industry



In line with the impressive growth in microfinance banking, the coverage of the branchless banking network is also expanding significantly with persistent double-digit growth, as nearly 110,214 agents are now spread out across more than 90 per cent of the country's districts. Branchless banking transactions crossed 52 million mark during July-September 2013, which led total value of transactions to reach Rs 224 billion (around $ 2.1 billion) showing 16 percent growth in numbers and a notable 29 percent growth in value during the quarter. During the period under review, 355,574 new accounts were opened and the cumulative BB accounts grew to 2.97 million. Currently, the average size of transaction is Rs 4,315, up 11 percent from Rs 3,870 during the preceeding quarter. This demonstrates that this innovative technology is now increasingly becoming accesssible for the poor.

SBP Policy Initiatives during the Year 2013-14

Key policy developments during fiscal year 2013-14 so far are;

- After Tameer MFB, Advans Pakistan MFB and Khushhali Bank Ltd. have also been allowed to undertake microenterprise lending on a pilot basis. The development came after SBP allowed higher loan limits to MFBs for undertaking microenterprise lending in March, 2012 with prior approval of SBP.
- The Consultative Group to Assist the Poor (CGAP) and SBP have jointly completed an I-SIP research in Pakistan to study the linkages between financial inclusion (I) and central banks' traditionally core objectives of Financial Stability (S), Financial Integrity (I), and Consumer Protection (P). Sharing the findings of I-SIP research, the CGAP testified in a workshop held at SBP in December, 2013 that SBP's policy framework for BB and financial inclusion is in sync with the best approach for optimally managing linkages between financial inclusion and central banks' traditionally core objectives of financial stability, financial integrity, and consumer protection.
- A four member delegation of Bank of Zambia (BoZ) visited SBP in September, 2013 to learn about innovative approaches of Pakistan for financial identification system. Meetings of the delegation were arranged with relevant stakeholders at SBP and NADRA to share Pakistan's experience in branchless banking, IT infrastructure, consumer protection, computerized national ID card system for identification and verification procedures under KYC requirements, etc.
- APNA Microfinance Bank, a Karachi-based district MFB, has been granted in principle approval to become a provincial MFB, subject to meeting the prescribed capital requirement.
- Three new players i.e. U-paisa by U MFB, Mobile-paisa by Alfalah, and MCB-lite by MCB Bank Ltd. have commenced their branchless banking operations after approval from SBP.

Insurance Sector

The insurance industry in Pakistan is relatively small compared to other developing and regional countries; however, the sector possesses huge potential for expansion and growth. During the calendar year, 2012, the industry's total premium revenue was over Rs.145 billion compared to Rs.124 billion (US$ 1.29 billion) as of 2011; insurance penetration and density have also witnessed an upward trend to 0.93 percent and US$ 7.70 for 2012, compared with 0.82 percent and US$ 7.22 for 2011.

The non-life insurance sector comprises 40 insurers, including three general Takaful operators and one state-owned insurer, the National Insurance Company Limited (NICL), with the exclusive mandate to underwrite public property. During the period under review, the non life insurance market remained dominated by top three players with over 65 percent of the market share, while the remaining 35 percent market was shared among the 37 insurers. The sector witnessed a growth of 6 percent during 2012 with total premium underwritten of over Rs.57 billion. In the life insurance sector, there are nine life insurance companies, including two, "family Takaful operators" and one state-owned corporation having a dominant market share of 64 percent. In 2012, the life insurance sector grew by 26 percent, with total premium of Rs.88 billion. The only reinsurer of the industry-the government-owned Pakistan Reinsurance Company Limited (PRCL) continues to enjoy the mandatory minimum 35 percent share in the area of non-life Treat Reinsurance.

Box: 5.5- Achievements

SECP has taken number of initiatives in order to protect the interest of policyholders and to facilitate orderly development of the insurance industry:

Micro Insurance Rules 2014

The SECP has recently notified the Micro insurance Rules in February, 2014 which put special focus on the consumer protection, adequate disclosure requirements and transparent regulatory reporting by insurers so as to enable growth of the micro sector in a disciplined manner.

Insurance Industry Reform Committee

SECP has constituted an Insurance Industry Reform Committee, comprising of industry experts, professionals and members from SECP, which has prepared a comprehensive report recommending a roadmap for increasing insurance penetration and developing a sound insurance sector in Pakistan.

Third Party Administrators (TPA) for Health Insurance Regulations, 2014

The insurers in Pakistan have been experiencing higher management cost due to lack of modernized technological infrastructure, low business volume and lack of expertise. To address these issues SECP has issued Third Party Administrators (TPA) for Health Insurance regulations, 2014; TPAs specialize in processing medical insurance claims, and carrying out administrative duties which are not core competencies of an insurance company and can be outsourced.

Draft Bancassurance Regulation, 2013

SECP framed the draft Bancassurance regulations by aligning the long term interests of the policy holder, insurer and agent (i.e. bank in this case). The draft regulations propose various regulatory measures such as rationalization of bank's remuneration structure, minimum financial protection, introduction of commission claw-back provisions, minimum surrender values, minimum financial underwriting parameters, mandatory after sale call-back requirements and introduction of a need analysis document.

Revised Legal Framework for the Direct Insurance Brokers

In order to evolve insurance broker's regime in line with the best international practices, SECP has proposed draft amendments in the Insurance Rules, 2002 affecting the licensing of direct insurance brokers. The proposed amendments encompass exclusivity of insurance broking license, paid-up capital requirements, requirement to maintain net asset value, registration and renewal fees, statutory deposit requirements, professional indemnity insurance requirements and fit and proper criteria for the directors and chief executive of the insurance brokers; these are expected to be finalized during 2014.

Life Insurance Product Submission Mechanism

SECP has issued a regulatory directive in November, 2013 through which detailed product submission requirements have been prescribed after taking a holistic view of the entire legal and regulatory framework pertaining to the life Insurance sector.

Development of Crop and Livestock Insurance

SECP strives to develop comprehensive guidelines for the Crop insurance industry to cater to the huge demand in the market. During the year, the pilot projects launched by the Pakistan Poverty Alleviation fund and the State Bank of Pakistan are being executed under SECP's supervisory advice, and are expected to provide effective learning outcomes for developing guidelines for the market to pursue this product actively.

Licensing and Registration of Insurance Companies and Brokers

SECP issued license to the Sahara Insurance Company Limited (SICL), a wholly-owned subsidiary of the Employees Old age Benefits Institution (EOBI), to transact the non life insurance business in the country bringing the total number of active non life insurers in Pakistan to 40; while the total number of active insurance companies (life and non life) including Pakistan Reinsurance Company Limited is 50. During the period under review, the SECP renewed the licenses of nine direct insurance brokers.

Money Laundering (ML) Compliance by the Insurers

While taking appropriate steps to address the gaps related to the threat of money laundering in the insurance industry, SECP has issued a directive for the insurers on the Anti-money Laundering (AML) regime redefining the Customer Due Diligence/Know Your Customer (CDD/KYC) requirements. SECP regularly monitors the compliance of AML/CFT regulatory requirements by the insurers.

Conclusion

Despite difficult monetary management due to longstanding structural issues, positive development in most of the economic indicators, particularly improved fiscal accounts helped the government to limit its borrowing from SBP for budgetary support. Most encouragingly, government successfully managed to achieve borrowing target set under IMF conditions. One of the major development during current fiscal year was improvement in credit to private sector on account of improved supply of electricity and better business sentiments after May 2013 elections. Similarly, with broad-based improvements in macroeconomic performance and recent revival in credit demand both for working capital and fixed capital needs, the assets quality has also witnessed gradual improvement with a decrease in Non Performing Loans.

During the current fiscal year, SBP reversed its stance from accommodative to tight policy and increased the policy rate by cumulative 100 bps during first half of 2013-14 on the basis of expected inflationary pressures in the medium term due to high growth in monetary aggregates and upward adjustment in administered prices of electricity and gas. However, during the second half of current fiscal year, SBP maintained the policy rate at 10.0 percent keeping in view the positive development of almost all major economic indicators.

Chapter 6

Capital Markets

Capital market is one of the most crucial indicators to demonstrate an economy's health as it serves as an imperative constituent of the financial sector. It acts as a medium of transforming surplus capital available with non productive sources to the dynamic channels of the economy. Capital market has an important role in setting off domestic capital and directing it to fruitful investments. A competent capital market can also offer a broad range of stirring opportunities equally for domestic as well as foreign investors.

Stock (equity) and Debt markets are jointly called as Capital markets. The capital markets grant a platform for hoisting the long term investment needs of businesses by means of equity and long term debt. It serves as an attraction for investors with a long term investment perspective.

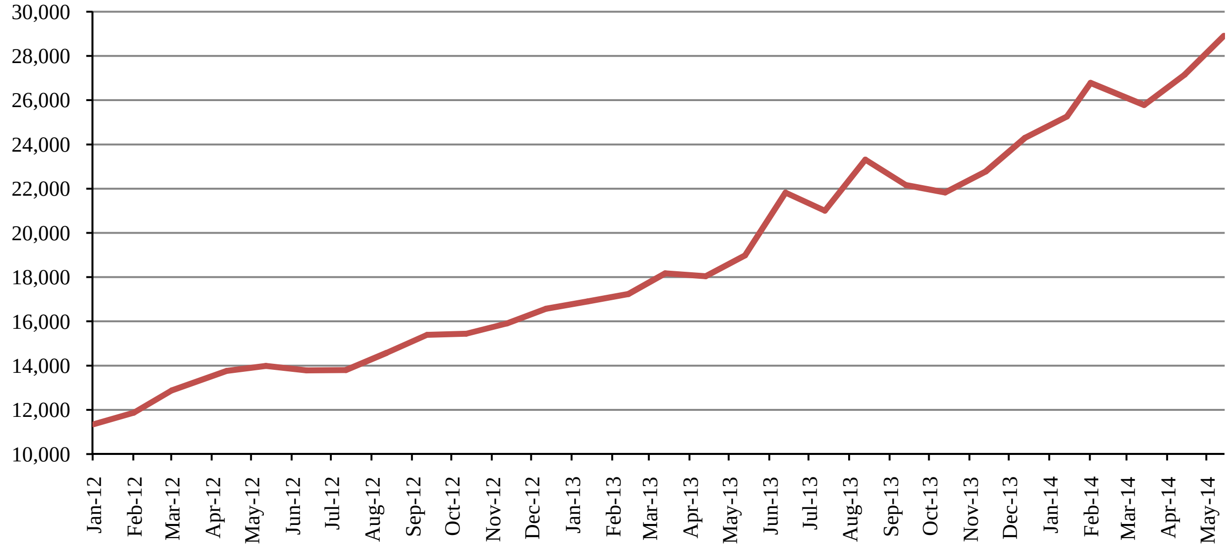
Capital Market offers an imperative alternative platform of long-term investment for enduring and dynamic investments. It also helps in diverting strains on the banking system by harmonizing long-term capital with long-term investments. Capital markets set a platform for investment opportunities to support economic ethnicity decisive in escalating domestic savings as well as investment ratios that are necessary for swift industrialization. It promotes the idea of broader possession of industrious assets by undersized savers and facilitates them to extract benefit from country's economic expansion and wealth distribution. It encourages public-private sector partnerships to promote contribution of private sector in prolific investments. Capital markets have an evident role in transferring dynamic force of economic growth from public to private sector to improve economic efficiency. There is great role of capital markets in reducing resource gap and balances the endeavor in financing vital socio-economic progress, through increasing long-term project based capital. The capital allocation efficiency improves through viable pricing system for enhanced utilization of limited resources for improved economic development.

Pakistan's capital market has two important elements as an equity market, which is composed of three stock exchanges and a transitional financial system extensively influenced by Non-Banking Financial Institutions (NBFIs). Pakistan's capital and stock markets have witnessed impressive growth on account of market-friendly and investment-friendly policies pursued by the government. The KSE-100 index (Pakistan's benchmarked stock market) has increased from 11,348 points in January 2012 to 28,913 points in April 2014 - a rise of over 17,565 points or an increase of 155 percent (Fig.6.1). Similarly aggregate market capitalization has increased from Rs. 2,961 billion ($32.9 billion) in January 2012 to Rs. 7,116 billion ($72.2 billion) in April, 2014, showing a rise of over Rs.4155 billion ($39.3 billion) or an increase of 140 percent in rupee term. The listed capital at KSE has increased from Rs. 1,048.44 billion as on end-December, 2011 to Rs.1,153.18 billion in April, 2014.

Performance of Karachi Stock Exchange during 2013-14

During FY14 (July-April), KSE 100 Index increased by 38 percent and closed at 28913 points on April 30, 2014. The huge rally in the stock market is an indication that the market participants expect the economy in general and the listed companies especially will perform well over the next few years. The market rally since the General Elections held on the 11th of May, 2013 is primarily driven due to the change of government in the country resulted in taking control of the present government of PML(N). Consequently, the post-election market increased by more than 45 percent till April, 2014. Other reasons that pushed the market into an uncharted territory include robust foreign interest, the healthy earnings growth and improvement in business sentiments. Another reason is the investor moratorium applied in January, 2013 by the Securities and Exchange Commission of Pakistan (SECP), in collaboration with the KSE which allows foreign investors to bring investments to Pakistan with no questions asked about the money's origin and sources.

Fig-6.1: Trends in KSE 100 Index



Working of Finance Division

On the economic front, GDP recorded 3.7 percent growth in FY13 and some of the local and international financial institutions including SBP, IMF, World Bank, etc. has projected the GDP to grow around between 3-4 percent and further to pick momentum from FY15 onwards. However, the GDP for FY14 recorded a growth of 4.14 percent, much ahead of the estimated growth by international agencies. The improvement in industrial growth came from the better margins for domestic producers; capacity enhancement in paper, motor tyres and iron and steel; investment in alternate energy; strong construction growth and better financial conditions in POL. Load shedding has been reduced due to significant reduction in the circular debt. Overseas Pakistani workers remitted an amount of $12.89 billion during first ten months of current fiscal year showing a growth of 11.45 percent compared with $11.57 billion received during the same period of last year. The average Inflation recorded during July-April (2013-14) was 8.68% beating the market consensus of above 10%, it is expected that full year CPI to average in single digit. The IMF has also projected end year inflation about 8.8 percent and 8.1 percent for FY15. The government's interest in privatization of public sector entities will also bring improvement in economic growth of the country. Growth of Large scale manufacturing has been strong during this period. The fiscal deficit has been contained while the private sector credit has increased. The fiscal authority has been able to borrow long term loans and rupee has appreciated against the dollar. The foreign exchange reserves of SBP have increased noticeably due to issuance of Eurobond and 3G / 4G licenses resulting in US $ 2 billion and around US $ 1.1 billion inflow respectively. European Union has granted the Generalized Scheme of Preferences (GSP) Plus status to Pakistan in December 2013. This status will increase the access to the EU market through duty free imports of textile and non textile products. The grant of the GSP Plus status is effective from January 1, 2014. This is indeed a positive development. The prospects of duty-free under the GSP Plus access for textile and clothing suggest enormous scope for Pakistan's exports expansion. Due to the above listed developments, positive sentiments have been prevailing in the stock market since 11th May, 2013.

Description		As on 11th May 2013	End April 2014	% growth since 11th May, 2013
KSE 100 Index		19,916	28,913	45.2
Total Market Capitalization (In billion)	Rs.	5,050	7,116	40.9
	US$	51.3	72.2	40.7

Source: Business Recorder Research, Ministry of Finance calculations

A total of, 559 companies were listed at Karachi Stock Exchange with the listed capital of Rs. 1,153 billion (US $ 11.77 billion) with the market capitalization of Rs. 7,116 billion (US$ 72.2 billion) as at end-April, 2014. KSE 100 Index opened at 21,006 points on July 1, 2013 and closed at 25,261 points at the end of calendar year 2013, showing a gain of 20 percent over this period. The bullish trend in KSE is also continuing in 2014 with further gains. The KSE 100 index closed at 28,913 points level as on end April, showing a cumulative gain of 38 percent during first ten months of current fiscal year. The benchmark index touched historical high of 29,458 points on April 16, 2014. The total traded volume in the Ready market for the July – April period was more than 48 billion shares. The average daily volume has been recorded at 237 million shares as against the average daily turnover of 221 million shares in FY13.

Table 6.1 Profile of Karachi Stock Exchange

Description	2009-10	2010-11	2011-12	2012-13	2013-14 (end April 2014)
Total Listed Companies	652	639	591	569	559
New Companies Listed	8	1	3	4	4
Fund Mobilized (Rs. in billion)	111.8	31.0	115.1	29.5	37.5
Total Listed Capital (Rs. in billion)	909.9	943.7	1,069.8	1,116.0	1,153.2
Total Market Capitalization (Rs. in billion)	2,774.5	3,316.5	3,492.5	5,336.4	7,116.0
Total Shares Volume (million)	42,959.1	28,018.1	38,100.0	54,319.0	48,494.3
Average Daily Shares Volume (million)	172.5	111.6	150.0	221.0	236.6

Source: Karachi Stock Exchange, Business Recorder Research

During the period July–April, the process of new listing on equity and debt segment remained slow and only four companies were listed. In the later part of December 2013, subscription of Engro Fertilizer IPO for 75 million shares at the rate Rs. 28.25 per share was very well received by investors and was oversubscribed by 3.4 times.

KSE launched numerous focused campaigns to generate large scale awareness amongst individual savers regarding the role of capital market in the overall context for their long term financial planning. In this regard, more than 20 programs have been conducted in collaboration with other market participants.

To strengthen and deepen the money market in line with the international best practices, KSE requested government to allow trading of government securities through stock exchanges. Government has accepted the proposal and the trading of government securities have been started through stock exchanges. This will attract retail and international fixed income funds to invest in government securities. Presently retail investors have little direct ownership of government bonds and bills. Federal Minister of Finance and Economic Affairs has launched the trading of government debt securities at stock exchange on February 18, 2014.

KSE is actively working on the development of Small and Medium Enterprises (SME) trading counter at stock exchange. The Small and Medium size segment constitute nearly 90 percent of all the enterprises in Pakistan; employ 80 percent of the non-agricultural labor force; and its share in the annual GDP is 40 percent, approximately. The small and medium enterprise is constrained by lack of financial resources and requires a mechanism through which flow of funds can be observed into a small company or new startup in the form of an investment rather than a loan. The Small and Medium Enterprises (SMEs) play a catalytic role in the development process of most economies as they constitute a major part of the industrial activity in these economies.

Table 6.2: Leading Stock Market Indicator on KSE (KSE-100 Index: November (1991=1000)

Months	2012-13			2013-14		
	KSE Index (end Month)	Market Capitalization (Rs. billion)	Turnover of shares (billion)	KSE Index (end Month)	Market Capitalization (Rs. billion)	Turnover of shares (billion)
July	14,577.00	3,797.20	2.0	23,313.00	5,919.28	6.6
August	15,391.58	4,051.13	2.8	22,161.00	5,686.14	3.8
September	15,444.82	4,037.74	2.8	21,833.00	5,346.46	4.7
October	15,910.11	4,090.70	2.6	22,776.00	5,570.99	2.3
November	16,573.86	4,307.76	4.5	24,302.00	6,030.82	2.9

Table 6.2: Leading Stock Market Indicator on KSE (KSE-100 Index: November (1991=1000)

Months	2012-13			2013-14		
	KSE Index (end Month)	Market Capitalization (Rs. billion)	Turnover of shares (billion)	KSE Index (end Month)	Market Capitalization (Rs. billion)	Turnover of shares (billion)
December	16,905.33	4,375.90	3.3	25,261.00	6,213.44	4.8
January	17,242.74	4,468.10	3.5	26,784.00	6,787.07	7.2
Febraury	18,173.67	4,647.30	5.4	25,783.28	6,447.00	4.7
March	18,043.31	4,609.90	5.1	27,159.91	6,759.58	4.8
April	18,982.42	4,822.14	3.9	28,912.98	7,115.76	6.7
May	21,823.05	5,502.20	7.5	-	-	-
June	21,005.69	5,336.36	7.1	-	-	-

Source: Karachi Stock Exchange, Business Recorder Research

Sectoral performance of Karachi Stock Exchange

Oil & Gas

In this sector 12 Companies were listed at Karachi Stock Exchange. It is one of the most dominant sectors in the stock market. In addition to Oil and Gas exploration companies, Oil marketing Companies and Refineries are also listed in this sector. Due to increase in consumption and change in well head prices, Pakistan Oil and Gas sector has shown good profits, Oil & Gas sector continued to be one of the major market players in the current year.Companies like OGDCL, PSO PPL, Mari Petroleum, Pak Refinery, etc led the current year's upsurge in the stock market. In 2013 total profit after tax was Rs. 165,911.25 million which was Rs.162,622.83 million in last year 2012.

Personal Goods(Textile)

In this Sector 175 companies (mostly textile) were listed in Karachi Stock Exchange, having total paid up capital of Rs. 49,951.31 million with market capitalization of Rs. 347,967 million. In 2013 this sector showed profit of Rs. 39,413.20 million as against the loss of Rs. (5,711.85) million in year 2012. The sector comprises of 164 textile related companies. Good Export orders make the sector to book profits. However, this sector could not show very good performance in the third quarter due to sharp appreciation of rupee against dollar. It is expected that due to grant of GSP Plus status to Pakistan by the European Union will further boost the profitability of this sector in coming days and during remaining part of the current year.

Construction & Materials

This sector comprises of 35 companies, with total listed capital of Rs. 76,580.83 million and the market capitalization of Rs. 353,968.36 million. Like last year, the cement sector has seen another great year because of low cost pressures, especially from imported coal, high cement prices and stable demand due to higher consumption and good exports. Calendar year 2013 saw a sharp decline in international coal prices that dropped 15-18 percent since January, 2013 due to low economic growth in China and India – the two major coal importers in the world. Further, other reason for the high growth in profitability of cement manufacturers is the rise in retail prices. The sector showed tremendous growth during current financial year which translated into good financial results compared to last year. The sector recorded the profit after tax at Rs. 38,901.87 million during 2013 compared to Rs. 20,782.84 million profit in year 2012.

Electricity

Sector comprises of 17 companies and the listed capital was Rs. 140,199.96 million with market capitalization of Rs. 193,659.56 million. The profit after tax of the sector was Rs. 28,825.54 million in 2013 as compared to Rs.20,736.22 million in year 2012. The electricity sector recorded above-average performance in 2013 with a return of 36 percent as yield spread against government-backed securities grew. This was further supplemented by circular-debt resolution in 2013.

Chemicals

In this sector 33 companies are listed, having total paid up capital of Rs. 107,063.09 million and the market capitalization was Rs. 593,127.66 million. In this sector Fertilizer manufacturing companies are also listed and quoted. The total profit after tax in this sector during 2013 was Rs. 45,265.26 as compared to Rs. 38,045.93 million in 2012. Chemicals performed moderately in 2013 with returns of 15%. Due to declining margins, chemicals showed lackluster performance.

Automobile and Parts

The sector comprises of 16 companies with the total paid up capital of Rs. 6,872.03 million and the total market capitalization of Rs. 118,602.98 million. The profit after tax of this sector was Rs. 8,665.75 million in 2013 which was Rs. 7,426.94 million in year 2012.

Fixed Line Communication

The sector comprises of 5 companies which includes PTCL with a capital of Rs. 51,000 million. The total market capitalization in this sector remained Rs. 111,543.48 million in 2013. The profit after tax of this sector was Rs. 10,033.74 million in 2013 and outperformed other sectors. This sector showed loss of Rs. (14267.27) million in 2012.

Commercial Banks

The sector comprises of 23 listed banks with the listed capital of Rs. 369,719.28 million and market capitalization of Rs. 1,468,232.17 million. The profit after tax of this sector was Rs. 109,325.46 in 2013 which was Rs. 114,936.0 million in previous year 2012. The sector could not perform well due to less earnings due to limited advance and consumer financing because of high interest rates. Even then, few banking scripts performed outstandingly including HBL and UBL.

Pharma and Bio Tech

The sector comprises of 9 listed pharmaceutical companies with the paid up capital of Rs. 5,368.09 million and Rs. 139,729.75 market capitalization. This total profit after tax of this sector was Rs. 5,120.54 million in year 2013 which was Rs. 5,149.74 million in year 2012.

Food Producers

The sector comprises of 51 companies with the dominance of sugar related companies. The total paid up capital was Rs. 19,767.46 million and market capitalization was Rs. 702,988.40 million. The profit after tax of this sector was Rs. 20,620.92 million in year 2013 as against Rs. 12,544.90 million in 2012. Some scripts in this sector performed well like Nestle, Engro foods, etc.

Performance of Selected Blue Chips

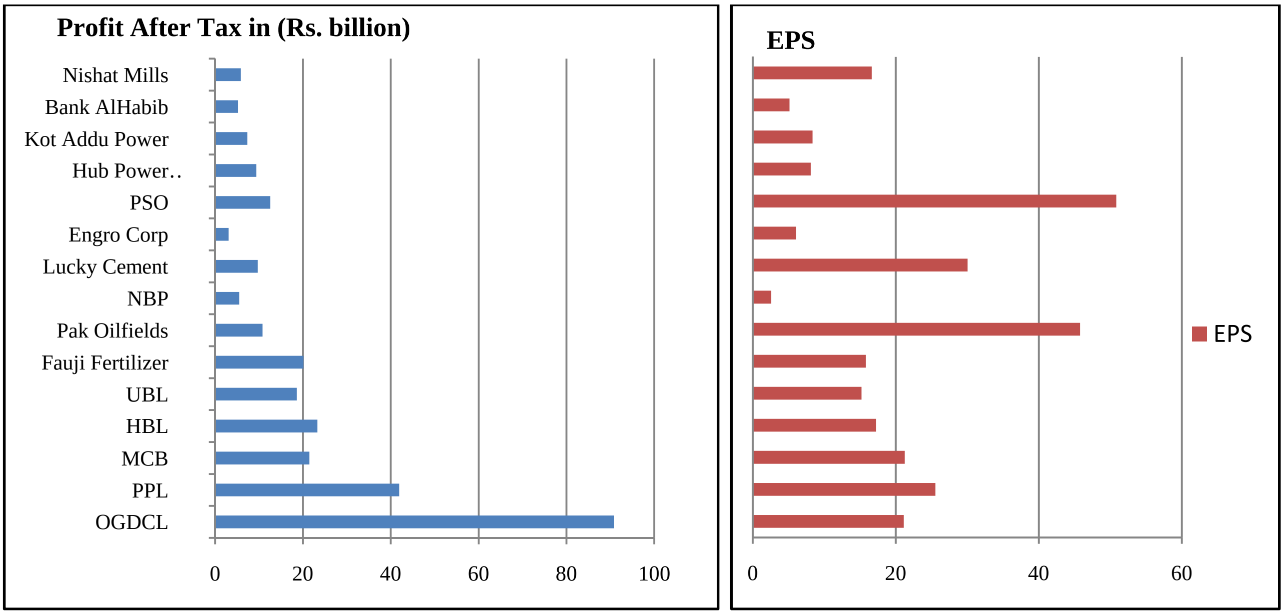
The Index of KSE is primarily influenced by some blue chip companies. During the first ten months of the current fiscal year 2013-14, the combined paid-up capital of fifteen big companies (Table-6.3) was Rs. 176.31 billion, which constituted 15.29 percent of the total listed capital at KSE. These fifteen companies earned a profit after taxation of Rs. 285.77 billion in the fiscal year upto April 2014. Out of total profit after tax, the share of OGDCL and Pakistan Petroleum Limited stood at Rs. 132.73 billion representing 46.44 percent of the fifteen big companies. For the period end-April, 2014, Habib Bank Limited and MCB Bank Limited's after-tax profit were Rs. 23.30 billion and Rs. 21.50 billion, respectively. Earnings per share of the top rated companies ranged from 2.59 in the case of National Bank of Pakistan to 50.84 in respect of Pakistan State Oil Co. This indicates that the business environment in the fiscal year 2013-14 has improved considerably for the blue chip companies. (Table 6.3)

Table 6.3: Price Earning Ratio of Top Fifteen Companies

	Profit After Tax in (Rs. billion)	Paid up Capital (Rs. billion)	EPS	Market Price (Rs)April 30, 2014	PE ratio	Market Capitalization (Rs. billion)
Oil & Gas Development Company	90.78	43.01	21.11	252.24	11.95	10,848.66
Pakistan Petroleum Limited	41.95	16.43	25.53	231.93	9.08	3,810.61
MCB Bank Limited	21.50	10.12	21.24	282.65	13.31	2,859.98
Habib Bank Limited	23.30	13.34	17.27	184.72	11.24	2,463.25
United Bank Limited	18.61	12.24	15.21	183.7	12.08	2,248.82
Fauji Fertilizer Company Limited	20.13	12.72	15.83	113.47	7.17	1,443.61
Pakistan Oilfields Limited	10.83	2.37	45.78	531.37	11.61	1,256.93
National Bank of Pakistan	5.50	21.28	2.59	57.26	22.15	1,218.21
Lucky Cement	9.71	3.23	30.04	355.77	11.84	1,150.47
Engro Corporation Limited	3.11	5.11	6.09	198.63	32.61	1,015.53
Pakistan State Oil Co.	12.56	2.47	50.84	405.69	7.98	1,002.00
Hub Power Company	9.39	11.57	8.11	57.44	7.08	664.67
Kot Addu Power Company	7.35	8.80	8.35	61.86	7.4	544.52
Bank AlHabib Limited	5.20	10.10	5.14	42.59	8.28	430.32
Nishat Mills	5.85	3.52	16.63	115.48	6.94	406.03

Source: Karachi Stock Exchange

Fig-6.2: Profit After Tax and EPS of Top Fifteen Companies



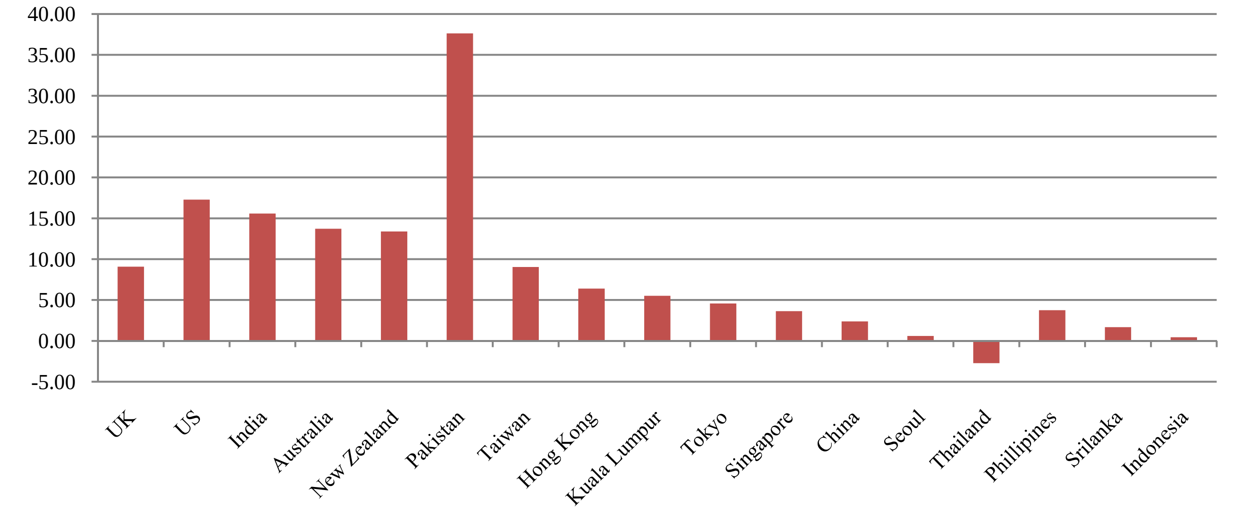
Leading Global stock Market Trends

Pakistan Stock Markets has also out performed during current financial year among leading Global Stock Markets including India, China, Hong Kong, Tokyo, USA and UK. In terms of Index, KSE has shown a growth of more than 37 percent during first ten months of current year and ranked at top of the list among some of the leading international and regional stocks. During this period Bombay Sensex increased by 15.6 percent , US S&P 500 increased by 17.3 percent, Hong Kong Hang Seng by 6.4 percent, UK FTSC 100 by 9.1 percent and China Shanghai Composite by 2.4 percent. Table 6.4 and Fig.6.3 give the detail of some of the leading world stock markets.

Table 6.4: Global Stock indices during July-April 2013-14

			Date		Change July-April 2013-14	
Sr. No	**Country**	**Stock Name**	**1-Jul-13**	**30-Apr-14**	**Points**	**%**
1	Pakistan	KSE-100	21,005.69	28,912.98	7,907.29	37.64
2	USA	S & P 500	1,606.28	1,883.95	277.67	17.29
3	India	Sensex	19,395.81	22,417.80	3,021.99	15.58
4	Australia	AORD	4,775.40	5,430.78	655.38	13.72
5	New Zealand	NZX 50	949.27	1,076.39	127.12	13.39
6	UK	FTSE 100	6,215.47	6,780.03	564.56	9.08
7	Taiwan	T.weighted	8,062.21	8,791.44	729.23	9.05
8	Hong Kong	Hang Seng	20,803.29	22,133.97	1,330.68	6.40
9	Kuala Lumpur	KLSE Composite	1,773.54	1,871.52	97.98	5.52
10	Tokyo	Nikkei 225	13,677.32	14,304.11	626.79	4.58
11	Singapore	Strait times	3,150.44	3,264.71	114.27	3.63
12	China	Shanghai Composite	1,979.21	2,026.36	47.15	2.38
13	Seoul	Composite	1,950.00	1,961.79	11.79	0.60
14	Thailand	Set (Bangkok)	1,451.90	1,412.33	-39.57	-2.73
15	Phillipines	PSE Composite	6,465.28	6,707.91	242.63	3.75
16	Srilanka	All Shares	6,121.01	6,223.67	102.66	1.68
17	Indonesia	Jakarta Composite	4,818.90	4,840.15	21.25	0.44

Source: Karachi Stock Exchange



Lahore Stock Exchange

The leading market indicators witnessed positive trends in Lahore Stock Exchange. The LSE -25 Index, which on 30th June 2013 was at 4,370.7 level increased to 5,131.1 level as on end March 2014 with listed capital increased from Rs 1,042.2 billion to Rs 1,096.1 billion.

Total turnover of the shares on LSE during July-March 2013-14 is 0.5 billion shares as compared to 1.0 billion shares in the corresponding last period, with fund mobilization of Rs 32.5 billion and market capitalization is Rs.6,258.2 billion during July-March 2013-14. A profile of LSE is given in the following table 6.5.

Table 6.5 Profile of Lahore Stock Exchange

Description	2009-10	2010-11	2011-12	2012-13	2013-14 (end March 2014)
Total Listed Companies	510	496	459	440	433
New Companies Listed	25	9	2	2	3
Fund Mobilized (Rs. in billion)	67.5	18.1	13.3	7.7	32.5
Total Listed Capital (Rs. in billion)	842.6	888.2	989.4	1,042.2	1,096.1
Turnover of Shares (billion)	3.4	1.1	0.9	1.0	0.5
LSE 25 Index	3,092.7	3,051.1	3,707.6	4,370.7	5,131.1
Aggregate Market Capitalization (Rs. billion)	2,622.9	3,166.0	3,279.1	4,852.8	6,258.2

Source: Lahore Stock Exchange

Islamabad Stock Exchange

The securities market showed a kind of dynamism during the period under review. It set new records in the wake of general elections and resulting political stability. ISE-10 index which is the principal index of the Exchange was 3,904.6 points on July 01, 2013 increased to 4,440 points as on end March, 2014 recording an increase of 13.7 percent during first 9 months of current fiscal year.

The number of listed companies increased from 210 in June 2013 to 262 as on end March 2014. The total listed capital grew to Rs.890.9 billion from 871.1 billion during this period. The market capitalization also recorded an increase of Rs.994.50 billion which was 24.75 percent high as compared to last year (Table 6.6).

Table 6.6 Profile of Islamabad Stock Exchange

Description	2009-10	2010-11	2011-12	2012-13	2013-14 (end March 2014)
Total Listed Companies	244	236	218	210	262
New Companies Listed	2	-	-	1	19
Fund Mobilized (Rs. In Billion)	76.7	17.8	12.8	8.1	31.7

Table 6.6 Profile of Islamabad Stock Exchange

Description	2009-10	2010-11	2011-12	2012-13	2013-14 (end March 2014)
Total Listed Capital (Rs. In Billion)	715.7	727.0	830.5	871.1	890.9
Turnover of Shares (Billion)	0.2	0.04	0.03	0.03	0.03
ISE 10 Index	2,441.2	2,722.8	2,871.1	3,904.6	4,440.0
Aggregate Market Capitalization (Rs. Billion)	2,261.7	2,621.1	2,824.4	4,017.2	5,011.7

Source: Islamabad Stock Exchange

New listing at Stock Exchanges

During the period July 2013 to March 2014, approval was granted by Securities and Exchange Commission of Pakistan (SECP) to four equity issues under section 57(1) and 62 of the Companies Ordinance, 1984 i.e. offer for sale of 37.984 million shares of Lalpir Power Limited ; 18.75 million ordinary shares of Engro Fertilizers Limited; issuance of 25.166 million shares of Avanceon Limited and issuance of 25 million ordinary shares of Hascol Petroleum Limited to the general public, institutional investors and high-net-worth individuals.

New Listed Companies

S. No.	Name of Company	Subscription Date	Date of Formal Listing	No. of Shares offered to the Gen. public (million)	Offered Capital (including premium, if any)(million)	Subscription Received (Including premium if any) (million)	Times subscribed
1.	Lalpir Power Limited (Offer for Sale)	July3, 2013 – July 4, 2013	20 Aug, 2013	9.496	208.912	225.591	1.08
2.	Engro Fertilizers Limited (Offer for Sale)	Dec16, 2013-Dec17, 2013	17 Jan, 2014	18.75	529.687	1815.75	3.43
3.	Avanceon Limited	January 7, 2014 -January 8 2014	11Feb, 2014	6.291	88.074	110.229	1.25
4.	HascolPetrleum Limited	April 8, 2014 – April 9, 2014	*	6.25	353.125	-	*

* : awaited

During the period Pakistan International Bulk Terminal was listed, with a paid-up-capital of Rs. 545.765 million, on the KSE under Regulation No. 25 of the Listing Regulations of KSE.

Debt Capital Markets

A well-developed corporate bond market is essential for the growth of the economy as it provides an additional avenue to corporate sector for raising funds for meeting their financial requirements.

During the period July 2013 to March 2014 two issues of listed debt instrument were offered to the general public, i.e. offering of Term Finance Certificates (TFC) of PKR 4,000 million (TFC of PKR 3000 million for a tenor of 3 years and TFC-2 of PKR 1000 million for a tenor of 5 years) by Pakistan Refinery Limited and offering Sukuk of PKR 6000 million (Sukuk-1 of PKR 750 million for a tenor of 13 months, Sukuk-2 of PKR 3750 million for a tenor of 3 years and Sukuk-3 of PKR 1500 million for a tenor of 5 years) by K-Electric Limited (formerly Karachi Electric Supply Company Limited). There was no pre-IPO placement in both the issues and the entire amount was offered to the general public including both individual and institutional investors.

Sr. No.	Name of the Company	Type of Instrument	Issue Size (Rs. In million)	Formal Listing Date	Listed at	Subscription Period
1.	Pakistan Refinery Limited	TFC	4,000	14 Jan, 2014	KSE	Aug16, 2013 to Nov15, 2013
2.	K-Electric Limited	Sukuk	6,000	26 March, 2014	KSE	Feb 24, 2014 to May 23, 2014*
Total:			10,000			

*Sukuk issue was oversubscribed just on the second day of subscription (Subscription of Rs. 8 billion received against offer of Rs. 6 billion)

Further, in addition to the above, during the period July 2013 to March 2014 a total of 11 debt securities issued through private placement were reported. The break-up of these privately placed corporate debt issues are as following;

Sr. No.	Name of Security	No. of Issues	Rs. in Billion
i.	Privately Placed Term Finance Certificates	2	9.827
ii.	Sukuk	6	19.000
iii.	Listed Term Finance Certificates	2	2.770
iv.	Commercial Paper	1	0.150
	Total	**11**	**31.747**

As of March 31, 2014 a total of 116 corporate debt securities were outstanding with an amount of Rs.545.43billion as follows:

Sr. No.	Name of Security	No. of Issues	Amount outstanding (In billion rupees)
i.	Listed Term Finance Certificates (L-TFCs)	28	39.59
ii.	Privately placed Term Finance Certificates (PP-TFCs)	41	72.16
iii.	Sukuk	45	432.61
iv.	Commercial Paper	01	0.0002
v.	Participation Term Certificates (PTCs)	01	1.08
	Total	**116**	**545.44**

Government Debt Securities Trading

To accelerate growth in the debt market, efforts were made for trading of Government Debt instruments at the stock exchanges in coordination with the federal government. In this regard a special purpose committee was formed having representation from SBP, SECP, KSE, CDC and NCCPL for the purpose. The committee finalized the model for trading of government securities at stock exchanges and their settlement. On January 27, 2014, the SECP approved the regulatory framework for trading of government debt instruments at the KSE, and the soft launch of trading in government securities at KSE was successfully made on January 31, 2014. The formal launch was made by the Minister Finance on February 18, 2014.

Scrip wise transactions in Government Debt Securities on the trading platform of stock exchange for the period from January 31, 2014 to May 02, 2014 is given hereunder; further during this period transactions amounting Rs. 331,300,000 were carried out.

Scrip	Start Date	Trade Date	Value Traded	Expiry Date
3 months T Bills	23-Jan-14	31-Jan-14	500,000	17-Apr-14
3 months T Bills	23-Jan-14	31-Jan-14	500,000	17-Apr-14
3 months T Bills	28-Nov-13	31-Jan-14	500,000	20-Feb-14
3 months T Bills	23-Jan-14	31-Jan-14	500,000	17-Apr-14
3 months T Bills	23-Jan-14	3-Feb-14	500,000	17-Apr-14
3 months T Bills	23-Jan-14	4-Feb-14	500,000	17-Apr-14
3 months T Bills	23-Jan-14	17-Feb-14	100,000	17-Apr-14
3 months T Bills	23-Jan-14	18-Feb-14	4,000,000	17-Apr-14
3 months T Bills	23-Jan-14	18-Feb-14	200,000,000	17-Apr-14
3 months T Bills	23-Jan-14	18-Feb-14	500,000	17-Apr-14
3 months T Bills	23-Jan-14	18-Feb-14	100,000	17-Apr-14
3 months T Bills	23-Jan-14	18-Feb-14	500,000	17-Apr-14
3 months T Bills	23-Jan-14	18-Feb-14	100,000,000	17-Apr-14
3 months T Bills	6-Feb-14	3-Mar-14	500,000	2-May-14
12 months T Bills	30-May-13	17-Mar-14	600,000	29-May-14
6 months T Bills	6-Mar-14	20-Mar-14	10,000,000	4-Sep-14
6 months T Bills	6-Mar-14	2-Apr-14	10,000,000	4-Sep-14
3 months T Bills	6-Feb-14	10-Apr-14	500,000	2-May-14
3 months T Bills	6-Mar-14	22-Apr-14	500,000	29-May-14
3 months T Bills	6-Mar-14	22-Apr-14	500,000	29-May-14
3 months T Bills	6-Mar-14	23-Apr-14	500,000	29-May-14

Employee Stock Option Scheme

Employees Stock Option Schemes are issued not only to reward employees but also as a retention tool and to build long term loyalty of employees to their workplace. To reward performance, encourage productivity and increase employee involvement companies in Pakistan have increasingly started offering stock options to its employees. The Stock Option Schemes are approved by SECP under the Public Companies (Employees Stock Option Scheme) Rules, 1999.

During the period under review, SECP approved the following two (02) Employees Stock Option Schemes;

i. Bank Alfalah Limited for up to 40 million shares to its employees

ii. Avanceon Limited for up to 5 million shares to its employees.

Capital Market Reforms and Development Activities

Deep, liquid and efficient capital markets are critical for the development of Pakistan's economy. During the period under review; the SECP in line with its mandate to develop a modern, fair and efficient capital market; continued with its agenda to improve risk management, corporate governance, enhance transparency, investor protection and develop new products/systems/markets. The highlights of key reform measures introduced during the period under review are as follows:

- **Code of Conduct for Credit Rating Agencies**

  In order to review the role and responsibilities of CRAs, the Commission constituted a Committee having representation from SECP, State Bank of Pakistan (SBP) and both the domestic CRAs. SECP in light of the recommendations of the Committee has revised the existing Code of Conduct for CRAs. The revised Code dated January 13, 2014 has been formulated in line with International Best Practices and has replaced the earlier Code of Conduct for Credit Rating Agencies (CRAs) dated February 17, 2005.

- **Commercial Papers Regulations, 2013**

  Commercial Papers Regulations, 2013 have been notified on December 04, 2013.Commercial Paper (CP) is an unsecured short term debt instrument issued by highly rated companies in the form of promissory note. In 2002, SECP had issued guidelines for Issue of Commercial Papers. In order to appropriately regulate CP issues and to facilitate the CP issuers, the guidelines have been reviewed and replaced with the regulations.

- **Listing of SMEs on the Stock Exchange**

  Small and Medium Enterprises (SMEs) plays vital role in the development of a country. SMEs are considered to be an important segment of the economy as they have the potential to create the economic as well as social growth. It is therefore essential to minimize the constraints and to provide a conducive environment for the growth and development of SMEs.

  Availability of cheaper source of funds is crucial for the growth as well as survival of SMEs. Financial constraints sometime compel SMEs to close down their businesses which ultimately create negative impact on the economy as well as cerates unemployment. Since there are limited fund raising alternatives available to SMEs, therefore, it becomes necessary to provide them with an updated regulatory framework which facilitates efficient fund raising. Listing of a company on the exchange gives better valuation to the company. The listed SMEs will reveal their wealth in the medium to long term and expected to create the wealth creation for the promoters and the investors.

  The Securities and Exchange Commission of Pakistan (SECP) has approved the Regulations for listing of SMEs for the Islamabad Stock Exchange. The Regulations in addition to certain pre-requisite conditions provide a set of procedures for issue, listing and trading of shares of SMEs. Now SMEs can raise funds from the capital market, through listing, for meeting their financial needs for executing new projects and/or expansion of their existing businesses.

- **Introduction and implementation of e-IPO**

  In order to facilitate the general public during IPOs, SECP has introduced the concept of e–IPO, i.e. electronic submission of subscription form. An e–IPO facility will:

  - Enable the investors to make application for subscription of shares via internet (e-Banking/ATMs)
  - Facilitate simultaneously, companies that intend to raise fund from the capital market through IPO, and the general public applying for subscription of shares

- Bring transparency and efficiency to the IPO process

The e–IPO facility was first used successfully in the offer for sale of shares of Aisha Steel Mills Ltd, where United Bank Limited for the first time provided e–IPO facility to its account holders. Later the same bank has successfully offered e–IPO facility in the IPOs of Lalpir Power Limited, Engro Fertilizers Limited, and Avanceon Limited.

For further development, a committee has been constituted with representatives from the SECP, CDC, Banks, Share Registrar, and the Stock exchange. The Committee in coordination with CDC and Banks is in the process of devising a centralized system for handling e-IPO applications.

- **Separate Portal for IPO/Capital Issue Matter**

In order to facilitate the issuers, consultants, researchers as well as other stakeholders, a separate portal on SECP's website has been created under the name "Capital Issues and Public Offerings". Under this portal all material/information relevant to capital issues and public offerings has been placed which includes: detail of equity issues; detail of debt issues; Listed Term Finance Certificates (TFCs); privately placed TFCs; and Sukuks and Commercial Papers. Moreover, redemption statuses of debt securities as well as laws, rules, regulations and guidelines applicable on issue of securities have also been placed under the said portal. Further, List of Registered Debt Securities Trustees, List of Underwriters to the issue, List of Ballotters and Share Registrars to an issue, and List of advisors/consultant to an issue are also available under the said portal.

Future Roadmap

The SECP envisages introduction of key structural and regulatory reforms: development of equity, derivatives markets, debt, commodities and currencies markets, and measures for improving governance, risk management, efficiency and transparency in capital market operations. Future roadmap includes;

Post-demutualization reforms: The SECP in collaboration with the stock exchanges is in the process of introducing consequential reforms which are essential for taking the exchanges forward in the demutualized setup. The stock exchanges are in the process of bringing in strategic investors to benefit from their extensive expertise and technological knowhow, while at the same time bringing foreign investment, and broadening the investor base. Simultaneously, efforts will be made for listing of the stock exchanges and sale of shares to the general public in terms of the demutualization law. The possibility of integration of the three stock exchanges is also being explored to benefit from operational synergies in line with international best practices.

• **Commodities Market development:** For further diversification of the product portfolio in the commodities market, the futures contracts of Brent Crude Oil and Copper are being reviewed for introduction at PMEX. Also, PMEX has formulated comprehensive criteria for its membership which will be implemented after SECP approval. As for the improvement of regulatory framework, the regulations governing default management at PMEX are also being considered for approval to safeguard the interests of investors, in the event of default by a PMEX Broker

• Development of new Products and Systems: Future SECP agenda includes: listing and trading of stock options, cross listing of foreign and domestic indices at Pakistani and foreign stock exchanges, activation of the market for Exchange Traded Funds (ETFs) and boosting activity in the index futures market. Further, avenues are being explored for introducing the latest risk management techniques, including introduction of the Standardized Portfolio Analysis of Risk (SPAN) margining regime in the derivative market segments

• **Centralized Know Your Client (KYC) Organization:** To facilitate the securities market investors, NCCPL will act as a Centralized KYC Organization whose objective will be to register and maintain investors' KYC records in line with the international best practices pertaining to KYC and Customer Due Diligence (CDD) policies. KYC records will be available for access by all market intermediaries, thus avoiding duplication of effort and bringing uniformity to the KYC process.

• **Establishment of SIPC:** The collapse of brokerage houses results in a large number of investor complaints. The stock exchanges strive to settle these investor complaints through limited recourse on the assets of defaulting brokers for example, by disposing their trading rights and other collaterals deposited with the exchanges. The concept of SIPC exists in many countries such as USA, China, and Malaysia etc. and is usually implemented through specialized legislation to enable the SIPC to create recourse on the assets of a defaulting brokerage house in favor of clients. The SIPC maintains an adequate pool of funds to compensate investors to the maximum extent in the event of default of their broker/ custodian. It is envisaged that a Securities Investor Protection Corporation (SIPC) should be established to cater for such situations.

• **Establishment of a Brokers' Association:** Considering the important role of market intermediaries, the possibility of establishing a brokers' association is being assessed. This will provide an effective platform for the stockbroking community to voice their concerns to the government and regulatory bodies, and ensure professional training and exposure to the intermediaries, while creating awareness about capital market issues.

Mutual Funds

The total size of the mutual funds industry stood at Rs.452.378 billion as of March 31, 2014 as compared to Rs.417.80 billion as of December 31, 2013, showing an increase of Rs 34.5 billion or 8.2 percent over the period. The total number of funds stood at 157 on March 31, 2014 as compared to 153 on December 31, 2013.

Money market funds (*both Conventional and Shariah Compliant*) dominated the Assets under Management (AUM) of the industry with the largest share of the mutual fund industry i.e. 34.68 percent. Equity funds (*both Conventional and Shariah Compliant*) held the second largest market share i.e. 34.38 percent, followed by Income funds (*both Conventional and Shariah Compliant*) with market share of 21 percent. The position as of March 31, 2014, is as under

Total Assets under Management of Industry (Rs. in million)	452,378
Total Number of Funds	157
Total Number of AMCs/IAs	25
Assets Size of AMCs/IAs (Rs. in million)	28,373
Discretionary /Non-discretionary portfolio (Rs. in million)	68,169

Portfolio management industry in Pakistan is steadily growing under discretionary/non-discretionary portfolio managed by Asset Management Companies (AMCs). The portfolio industry have reached to the tune of Rs.68.17 billion as on March 31, 2014 as compared to Rs. 56 billion as on June 30, 2013 registering a growth of Rs. 12.17 billion or 21.7% during the period.

The SECP, in its endeavor to safe guard the interest of unit holders and to facilitate the industry, took following initiatives during the year for the development and growth of industry;

- The SECP has prescribed detailed requirements for outsourcing of functions performed by an Asset Management Company (AMC) on behalf of Collective Investment Schemes (CIS). The SECP has provided flexibility to AMCs in terms of delegating certain functions to a third party service provider, except for some core duties such as investment decision making, risk management and compliance. This flexibility would allow AMCs to opt for outsourcing of its basic functions, resulting in better focus on its core business / operations.
- To counter mis-selling of units of mutual funds, SECP has prescribed detailed norms for selling of units of CIS including prohibiting AMCs to engage, directly or indirectly in the mis-selling of units of CIS, and sale of units by making a false or misleading statement, concealing or omitting material facts relating to the CIS and concealing the associated risk factors
- In order to bring consistency in valuation methodology of Ijarah Sukuks and to bring the practices being followed by the industry in line with the Regulatory framework, the Commission directed the AMCs to use PKISRVE (Sukuk) rates for valuing the GOP Ijarah Sukuks to determine net assets of CIS under their management
- On the product innovation front, the Commission allowed the industry to launch a fund based on Constant Proportion Portfolio Insurance- CPPI methodology with direct exposure in equities and money market instruments.

Non-Banking Financial Services

Non-banking financial services are being provided by leasing companies and investment finance companies (Investment Banks) and housing finance companies. As of March 31st 2014, there were 8 leasing companies, and 7 investment finance companies. Since a few years these entities have been facing a number of problems due to which their growth and development has been rather slow. The SECP in order to ensure the development of these entities has carried out review of the whole business model and prevalent regime of non-banking financial services taking into account global best practices, as well as the interests of all the stakeholders.

Amendments are being made in the Regulatory framework for NBFC's in the light of the NBFC sector report giving way to a relaxed regime. Significant amendments are as follows;

- A regulatory regime has been developed with significantly reduced equity requirements to encourage non-deposit taking lending NBFCs.
- Concept of Islamic Lending NBFC is being introduced. Such an NBFC shall conduct its business in accordance with Islamic Shariah principles.
- With the purpose of facilitating and providing finance to poor persons and microenterprises, Micro Lending NBFC's are being introduced.
- A new set of regulations has been incorporated for Discount Houses.
- Scope of housing finance companies has been broadened to undertake commercial housing finance activities.
- Introduction of various measures such as capital adequacy ratio, capping of deposit taking activities, reduction in exposure limits, rationalizing leveraging capacity, etc. to protect interest of general public.

Financials of Investment Finance Companies (Investment Banks) (Rs. in million)

Particulars	Dec 31, 2013	March 31,2014
Total Assets	11,349	10,671
Total Liabilities	8,342	8,042
Total Equity	2,992	2,607
Total Deposits	3,558	3,148

Financials of Leasing Sector (Rs. in million)

Particulars	Dec 31, 2013	March 31,2014
Total Assets	35,018	35,340
Total Liabilities	29,687	29,902
Total Equity	5,175	5,258
Total Deposits	8,803	8,814

Modarabas

The modarabas sector is an important component of the Pakistani financial infrastructure and is playing a vital role in addressing the needs of SME sector through various Islamic and conventional products. The modaraba industry, despite several impediments, has contributed significantly over the past years. Currently, 42 registered modaraba companies are in existence and total number of operational modarabas are 27. During the period under review, 3 new companies were registered as modaraba companies under the Modaraba Ordinance, 1980. These companies are expected to float modarabas in near future.

As of March 31, 2014, the aggregate paid up fund of the Modaraba was Rs9.61 billion and total assets of the Modaraba sector stood at Rs30.83 billion, against Rs29.77 billion on Feb 28, 2013. Similarly, total equity of the Modaraba sector was Rs14.36 billion which shows an increase of Rs0.48 billion as compared to Rs13.88 billion during the previous year. For the financial year ended June 30, 2013, out of 27 operational Modarabas, 16 modarabas declared cash dividends whereas one Modaraba announced stock dividend.

SECP is committed towards making overall non-banking finance sector including modaraba vibrant and successful. In this context, in line with international best practices, a number of reforms for development of overall non-banking finance sector are being considered. The SECP is planning to introduce structural changes in the regulatory regime. The specific changes for modarabas include empowering the certificate holders of Modarabas, introducing the concept of AGM and enhancing the management fee etc. to ensure more conductive regulatory environment.

Voluntary Pension System

The last two decades have witnessed global pension reforms. In high-income countries, the driving force has been the threat that the current pension systems will become unaffordable as demographic developments presented a major risk. The countries that were in the process of transition from command economy to market economy confronted the challenge of introducing a public pension system in place of social security available to their populace under socialist system. However, the demographic change and affordability have been the driving force in these countries for reforms. It is anticipated that Pakistan shall also face similar challenges in the near future.

Lately, the Government of Pakistan 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 will take some time, the SECP has introduced Voluntary Pension System (VPS), with the approval of the Government of Pakistan. VPS envisages contributions by Pakistani nationals in a pension fund approved by the SECP. The amount accumulated in a pension fund during working life can be used to provide a stream of income to its members after retirement. The government has given tax incentives to individuals under the current tax regime.

Private pension funds under the 2005 Voluntary Pension System (VPS) Rules were introduced in 2007. The size of pension funds remained stagnant during the initial years mainly due to lack of awareness about the product, adverse market conditions, and fiscal inconsistencies. However, since then, pension funds have shown significant growth which can be attributed to favorable market conditions, positive changes in the tax regime, launch of new pension funds and increase in number of participants (investors). So far, 13 pension funds have been launched under the VPS.

The size of pension funds has grown gradually. Following is the current status.

Date	No. of pension funds	Net assets (Rs. in million)
31-DEC-13	13	5,986
31-MAR-14	13	6,669

The government has been endeavoring to bring parity among retirement schemes. As a result a number of improvements have been brought in the tax regime governing VPS and other retirement schemes in consultation with FBR. However, certain aspects are yet to be reformed. Recent changes in the tax laws include:

- The amount received as monthly installment from an income payment plan will be exempted from income tax under the 2001 Second Schedule of ITO
- Withdrawal of balance transferred to a VPS account from a recognized provident fund will also be tax exempt in terms of the 2001 Second Schedule of ITO

To encourage funding of retirement schemes VPS needs to be made interchangeable with other retirement schemes such as gratuity and superannuation funds. This will encourage funded schemes leading to accumulation of assets and efficient deployment of retirement savings.

National Savings Schemes (NSS)

The Central Directorate of National Savings (CDNS) is an attached department of the Finance Division and perform deposit bank functions by selling government securities through its network of savings centers spread all over the country. There are more than 6 million investors through 373 branch network in National Saving Schemes (NSS). Presently, Defence Saving Certificates, Regular Income Certificates, Special Savings Certificates/Accounts, Bahbood Saving Certificates, Savings Account, Pensioners' Benefit Account and Prize Bonds are in operation. Some of the popular schemes are discussed below:

Defence Savings Certificates: The Government of Pakistan introduced Defence Savings Certificate scheme in the year 1966. The scheme has specifically been designed to meet the future requirements of the depositors. This is 10 years' maturity scheme with built in feature of automatic reinvestment after the maturity. These certificates are available in the denominations of Rs.500, Rs.1000, Rs.5,000, Rs.10,000, Rs.50,000, Rs.100,000, Rs.500,000 and Rs.1,000,000. These certificates can be purchased from any National Savings Centre (NSC), Pakistan Post Offices (PPO), Authorized branches of Scheduled Banks and State Bank of Pakistan (SBP). The minimum investment limit is Rs.500/-, however, there is no maximum investment limit in this scheme. These certificates are encashable at par any time after the date of purchase. However, no profit is payable if encashment is made before completion of one year. The average compound rate of return on maturity presently works to 12.26 percent p.a. Exemption of deduction of Withholding tax has been withdrawn w.e.f 01-07-2013 on profit of investment upto Rs.150,000 . The profit earned on these certificates is subject of deduction of 10 percent withholding tax at source. The Zakat is collected at source as per rules.

Special Savings Certificates (Registered): Keeping in view the periodic needs of depositors, this three years' maturity scheme was introduced in February, 1990. These certificates are available in the denomination of Rs.500, Rs.1000, Rs.5,000, Rs.10,000, Rs.50,000, Rs.100,000, Rs.500,000 and Rs.1,000,000. Profit is paid on the completion of each period of six months. The minimum investment limit is Rs.500/-, however, there is no maximum investment limit in the scheme. These certificates are encashable at par any time after the date of purchase. However, no profit is payable if the encashment is made before completion of six months.At prevailing rates, the profit is paid at the rate 11.40 percent p.a. for 1st five profits and at the rate 12.00 percent p.a. for the last profit. However, if the profit is not withdrawn on due date it will automatically stand reinvested and would be calculated for further profit on completion of the next 06 months' period. Similar rules exist for deduction of Tax and Zakat on the profit on these certificates.

Bahbood Saving Certificates: Keeping in view the hardships faced by the widows and senior citizens, this ten years' maturity scheme was launched by the government on 1st July, 2003. Initially the scheme was meant for widows only, however, the government. later decided to extend the facility for senior citizens aged 60 years and above with effect from 1st January, 2004. These certificates are available in the denominations of Rs.5,000/-, Rs.10,000/-, Rs.50,000/-, Rs.100,000/-, Rs.500,000 and 10,00000/-. Profit is paid on monthly basis reckoned from the date of purchase of the certificates. The minimum investment limit in this scheme is Rs.5,000/-, whereas, the maximum limit is Rs.3,000,000/-. Investment in allowed in multiple of Rs.5,000/-.At the prevailing rates monthly profit of Rs.1170/- is paid on investment of each Rs.100,000/-. This way the profit rate works to 14.04 percent p.a. The withholding tax is not collected on the profit earned on these certificates. The investment made in this scheme is also exempted from Zakat.

Regular Income Certificates: Keeping in view the monthly requirements of the general public, this five years' maturity scheme was launched on 2nd February, 1993. These certificates are available in the denomination of Rs.50,000, Rs.100,000, Rs.500,000, Rs.1,000,000, Rs.5,000,000 & Rs.10,000,000/=. Profit is paid on monthly basis reckoned from the date of issue of certificates. The minimum investment limit is Rs.50,000/-, however, there is no maximum investment limit in this scheme. At the prevailing rates monthly profit of Rs.990/- (excluding withholding tax) is paid on investment of each Rs.100,000/-. This way the profit rate works to 11.88 percent p.a. The profit earned on these certificates is subject to deduction of 10 percent withholding tax at source. However, the investment made in this scheme is exempted from collection of Zakat.

Pensioner’s Benefit Account: Keeping in view the hardships faced by the pensioners, this ten years' maturity scheme was launched by the government on 19th January, 2003. The deposits are maintained in the form of accounts and the profit is paid on monthly basis reckoned from the date of opening of the account. The pensioners of Federal Government, Provincial Governments, Government of Azad Jammu & Kashmir, Armed Forces, Semi Government and Autonomous bodies are allowed to invest. The minimum investment limit is Rs.10,000/-, whereas, the maximum limit is Rs.3,000,000/-. If an investor has already opened an account, he is eligible to invest only two subsequent deposits in that account. At the prevailing rates monthly profit of Rs.1170/- is paid on investment of each Rs.100,000/-. This way the profit rate works to 14.04 percent p.a. The withholding tax is not collected on the profit earned on the deposits made in this scheme. The investment made in the scheme is also exempted from Zakat.

The investment made in the above mentioned schemes and other National Savings Schemes is given in Table: 6.7.

Table 6.7: National Saving Schemes (Net Investment) (Rs. in million)

	Name of Scheme	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14 (July-Mar)
1	Defence Savings Certificates	(27,411.3)	(32,493.2)	9,748.1	7,295.5	29,892.0	8,958.3
2	National Deposit Scheme	(2.7)	(0.1)	(1.0)	(0.9)	(0.6)	(0.22)
3	Khaas Deposit Scheme	(1.6)	(3.8)	(2.6)	(0.6)	(1.2)	(0.73)
4	Special Savings Certificates (R)	128,469.0	61,856.6	43,960.6	(52,834.2)	46,401.5	36,631.3
5	Special Savings Certificates (B)	(8.5)	(0.3)	(0.7)	(0.9)	(0.3)	(0.80)
6	Regular Income Certificates	40,094.3	44,538.3	46,946.8	43,971.6	36,047.0	33,814.2
7	Bahbood Saving Certificates	78,538.0	59,267.2	61,731.6	52,254.5	47,622.7	40,984.2
8	Pensioners' Benefit Account	22,215.7	18,166.9	17,940.3	16,359.5	17,538.9	13,609.0
9	Savings Accounts	(10,899.2)	1,021.3	(625.3)	3,978.5	1,098.9	3,317.5
10	Special Savings Accounts	21,627.1	31,375.5	14,240.8	61,098.8	150,836.0	(29,097.9)

Table 6.7: National Saving Schemes (Net Investment) (Rs. in million)

	Name of Scheme	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14 (July-Mar)
11	Mahana Amdani Accounts	50.0	(195.7)	(77.9)	(90.5)	(78.9)	368.9
12	Prize Bonds	14,650.0	38,556.7	41,083.4	56,324.2	56,175.4	41,558.9
13	National Savings Bonds	-	3,625.2	-	-	(3,425.6)	-
14	Short Term Saving Certificates	-	-	-	-	3,969.7	(846.4)
	Grand Total	**267,220.7**	**225,714.5**	**234,944.1**	**188,355.6**	**386,075.9**	**149,296.2**

Figures in Parenthesis represent negative growth
R : Registered, B : Bearer, - : Not available
Source : Central Directorate of National Savings

Chapter 7

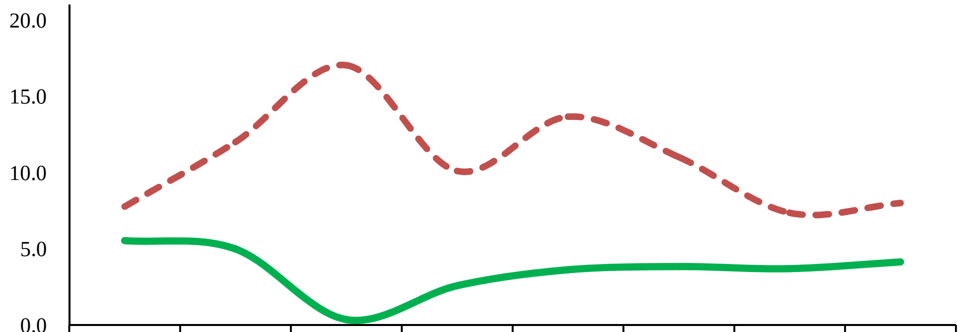
Inflation

Inflation provides important insight on the state of economy and exists in any economy but with a varied rate and intensity. Stable inflation is taken as a integral component of sound macro-economic policies. With higher population growth, rapid urbanization and increase in per capita income in developing economies including Pakistan, inflation with a few exceptions was on rise over the last several years. The rising food prices have pushed up the inflation not only in Pakistan but across the region.

The link between growth and inflation is well documented phenomena in the economic statistics around the world. Inflation at very high level as well as at very low level is harmful for the economy. High inflation effect more the poor than rich, while low inflation can have negative impact on growth. The policy objective of the government are to ensure high and sustained growth and keeping inflation in check. Hence, for a developing country like Pakistan, inflation needs to be stabilized in order to ensure sustain economic growth and macroeconomic stability. The government has been vigilant on inflation and has taken its policy objectives to ensure high growth while keeping inflation in check and making all efforts to reinvigorate the economy, spur growth and maintain price stability through removal of bottlenecks like energy shortages and to enhance the investment.

Since 2005-06, it was observed that whenever the inflation was contained within 8 percent, there was high growth, while whenever the inflation posted value of double digit the growth remained low as shown in figure below:

Fig 7.1:Relation between Inflation and GDP Growth



	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
GDP Growth	5.5	5.0	0.4	2.6	3.6	3.8	3.7	4.1
Inflation	7.8	12.0	17.0	10.1	13.7	11.0	7.4	8.0

In FY 08, the inflation increased to 12 percent from 7.8 percent in FY 07 and this negatively affected the growth as growth decline to 5 percent in FY 08 from 5.5 percent in FY 07. This severity may be seen in FY 09 when inflation increased to 17 percent, growth declined to 0.4 percent. However, the pattern in the relationship between inflation and economic growth was changed during FY 11 as there was increase in both inflation and growth.

However, whenever the inflation is maintained within 8 percent, there was high growth. Thus the government tries to maintain moderate level of inflation for the welfare of society as well as economy. For medium term inflation is forecasted to be contained at 8 percent while growth is projected to rise.

Current Year Inflation

The current fiscal year started with single digit inflation at 8.3 percent in July 2013 and maintained this trend till October 2013 on account of lower international market prices, domestically balanced supply position and appropriate monitoring of prices. Inflation increased in November 2013 to 10.9

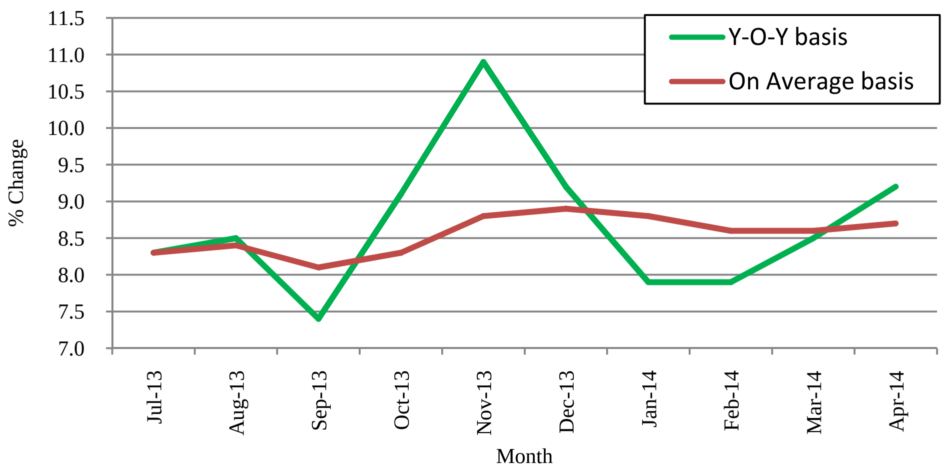
percent on account of electricity prices adjustment combined with short term supply disruption of commodities due to cyclical factors. Inflationary pressures have tapered since December 2013, headline inflation CPI declined to 7.9 percent in January and February 2014. However, it again surged in March and April 2014 at 8.5 percent and 9.2 percent. The factor behind was increase in food inflation which increased to 9.9 percent on account of demand supply gap. Inflation during July-April 2013-14 averaged at 8.7 percent. There are many factors for increase in inflation. However, food prices were the important stimulant to drive the overall inflation. Trends in inflation rate year on year (Y-O-Y) and on average basis is documented in Table 7.1.

Table 7.1: CPI Inflation Rate Year on Year (Y-o-Y) and On Average Basis

CPI	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14
Y-O-Y basis	8.3	8.5	7.4	9.1	10.9	9.2	7.9	7.9	8.5	9.2
On Average basis	8.3	8.4	8.1	8.3	8.8	8.9	8.8	8.6	8.6	8.7

Source: Pakistan Bureau of Statistics

Fig 7.2: CPI Inflation Year-on-Year (Y-O-Y) & On Average basis



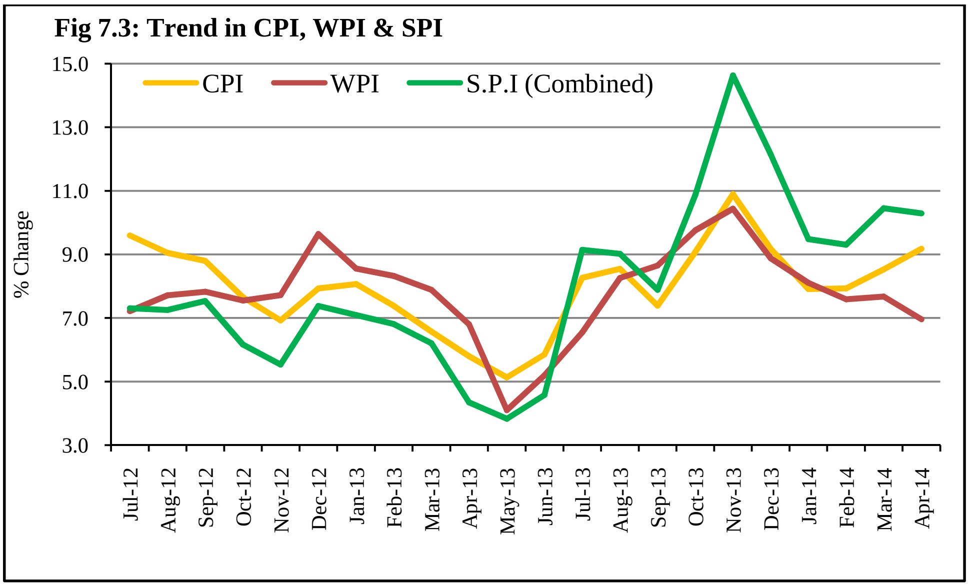
It may be noted that present trend of inflation has the combined impact of the increase in GST and reduction in subsidies on fuel and electricity prices. The outlook suggest that since the impact of adjustment has already been realized and further stability and appreciation of Pak Rupee will mitigate any increasing trend in global commodity and fuel prices, these would help in easing the inflationary pressure and this trend will further help in bringing it closer to the inflation target.

Price Indices used to measure price changes have recorded increase during the course of year July-April 2013-14. The Consumer price index (CPI) recorded at 9.2 percent in April 2014. A similar development has also been reflected in other measures of inflation. The Sensitive Price Indicator (SPI), that gauges weekly inflation of essential items increased to 9.4 percent and the Wholesale Price Index (WPI) inflation increased by 7.0 percent. Their divergent trends of rise as has been seen is naturally bound to occure because the indices differ from each other in term of commodities, unit and relative weight assigned to various commodities. Table 7.2 and figure below highlight the details.

Table 7.2: Inflation Rate (CPI) Year-On-Year basis

Period	CPI	WPI	SPI
Jul-13	8.3	6.5	9.8
Aug-13	8.5	8.3	10.1
Sep-13	7.4	8.7	8.8
Oct-13	9.1	9.8	10.5
Nov-13	10.9	10.4	14.1
Dec-13	9.2	8.9	11.1
Jan-14	7.9	8.1	7.7
Feb-14	7.9	7.6	7.5
Mar-14	8.5	7.7	9.0
Apr-14	9.2	7.0	9.4

Source: Pakistan Bureau of Statistics (PBS)



The price control is the function of provincial governments. However in order to maintain price stability, ensuring smooth supply and taking corrective measure is always the priority agenda of the federal government. In this connection the Economic Coordination Committee of the Cabinet review the commodity stock and supply position as well as prices of essential commodities in its meetings on regular basis and takes corrective measures to ensure stability in prices. Similarly National Price Monitoring Committee is chaired by Federal Finance Minister and review the price and supply situation in consultation with provincial governments and concerned federal ministries/ division and organization. The NPMC has mandated to a) assess the demand and supply of key commodities and b) to take/ propose corrective measures.

In addition SBP control the inflation through its monetary policy. One of the monetary policy was the shift from accommodative to tightening stance. During the first half of current fiscal year, SBP reversed its stance from accommodative to tight policy as the rate was increased by cumulative 100 bps, staggered in two stages of 50 bps each. This policy stance was largely a reflection of expected inflationary pressure in the medium term on account of high growth in monetary aggregates and upward adjustment in administered prices of electricity and gas. The SBP in its latest Monetary Policy Statement issued on 17th May 2014 maintained the policy rate at 10 percent.

Consumer Price index (CPI)

Inflation during July-April 2013-14 averaged 8.7 percent as against 7.7 percent in the same period last year. The food group with 37.47 percent weight in CPI basket showed an increase of 9.3 percent. This was higher than the 7.1 percent observed in the corresponding period of last year. Based on the current trend, the contribution of food inflation to the overall CPI is estimated at 40 percent and non-food inflation at 60 percent as against 34 percent and 66 percent respectively in the comparable period last year. The food items inflation increased at higher pace compared to last year.

Table 7.3: Composition of CPI Inflation (July-Apr)

Commodity	Weights	% Change Inflation		Point Contribution	
		2012-13	2013-14	2012-13	2013-14
General (CPI)	**100.00**	**7.7**	**8.7**	**7.8**	**8.7**
Food Group	**37.47**	**7.1**	**9.3**	**34.0**	**40.0**
a)Food Products, Beverages and Tobacco	34.83	6.6	9.0	29.8	36.1
b) Alcoholic Beverages	1.41	17.5	15.3	3.2	2.5
c) Restaurant & Hotels	1.23	9.9	12.0	1.6	1.7
Non-Food	**62.53**	**8.2**	**8.2**	**66.0**	**60.0**
Clothing & Foot wear	7.57	14.7	13.1	14.4	11.4
Housing, Water, Elec. Gas & other Fuel	29.41	4.1	8.7	15.6	29.0
Furnishing & Household Equip.	4.21	13.3	8.7	7.2	4.2
Health	2.19	14.2	6.6	4.0	1.7
Transport	7.20	10.5	4.7	9.7	3.9

Table 7.3: Composition of CPI Inflation (July-Apr)

Commodity	Weights	% Change Inflation		Point Contribution	
		2012-13	2013-14	2012-13	2013-14
Communication	3.22	2.2	3.3	0.9	1.2
Recreation & culture	2.03	18.3	9.2	4.8	2.1
Education	3.94	9.3	8.7	4.7	4.0
Miscellaneous	2.07	10.6	5.2	2.8	1.2
Non-Food Non Energy	**53.52**	**9.9**	**8.3**	**68.5**	**50.9**

Source: Pakistan Bureau of Statistics

High food prices emanate mainly from the food shortages caused by bad weather (Thar/ Cholistan drought), climatic conditions (routine yearly flood) and changing pattern of competing crops (cotton and sugarcane) together with competitive prices in the regional countries. The high prices of food in international market can also be blamed that involve demand and supply dynamics.

The non-food inflation at 8.2 percent during the period under review remained stable to be compared with 8.2 percent last year. Amongst the other non food groups, clothing & footwear prices increased by 13 percent due to higher manufacturing cost of textile based products. Recreation charges index increased by 9.2 percent. The furnishing, education and utilities group (housing,water,electricity,gas &fuel) each increased by 8.7 percent. Other sub groups in the category of non-food items moved at moderate rate in the range of 3-6 percent.

Table 7.4: Price impact of food items in CPI (July-Apr) 2013-14

	Items	Weight	Impact
1.	Potatoes	0.48	0.26
2.	Tomatoes	0.45	0.17
3.	Onion	0.54	0.17
4.	Wheat	0.35	0.08
5.	Wheat Flour	4.16	0.91
6.	Wheat Product	0.10	0.02
7.	Fresh Vegetable	1.66	0.28
8.	Pulse Masoor	0.27	0.04
9.	Chicken	1.36	0.19
10.	Pulse Moong	0.23	0.03
11.	Tea	0.84	0.11
12.	Bakery & Confectionary	1.16	0.13
13.	Beverages	1.20	0.13
14.	Nimco	0.46	0.05
15.	Rice	1.58	0.16
16.	Dry Fruits	0.25	0.02
17.	Milk Product	0.63	0.05
18.	Milk fresh	6.68	0.46
19.	Jam, Tomato Ketchup & Pickle	0.25	0.02
20.	Meat	2.43	0.13
	Total	**25.0**	**3.5**

Source: Pakistan Bureau of Statistics

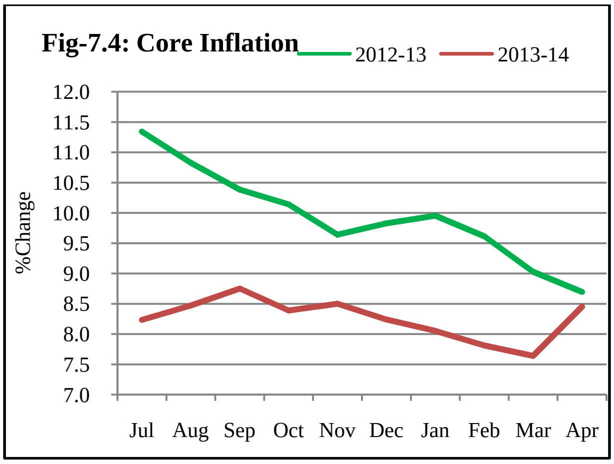
Table 7.5: Price impact of non-food items in CPI (July-Apr) 2013-14

	Items	Weight	Impact
1.	Postal Services	0.07	0.02
2.	Cosmetics	0.39	0.06
3.	Cigarette	1.39	0.21
4.	Woolen Readymade Garments	0.40	0.06
5.	Tailoring	0.88	0.13
6.	Text Books	0.57	0.08
7.	Sewing Needle & Dry Cell	0.15	0.02
8.	Cotton Cloth	1.73	0.24
9.	Foot ware	1.55	0.21
10.	Doctor (Mbbs) Clinic Fee	0.59	0.07
11.	Ready Made Garment	0.97	0.12
12.	Woolen Cloth	0.88	0.10
13.	Electricity	4.40	0.49
14.	Construction Wage Rate	0.33	0.04
15.	Utensils	0.32	0.03
16.	Furniture	0.33	0.03
17.	Construction Input Item	0.56	0.05
18.	Washing Soap & Detergent	0.79	0.07
19.	Household Textile	0.65	0.06
20.	Fire Wood Whole	0.23	0.02
21.	Water Supply	0.50	0.04
22.	News Papers	0.19	0.02
23.	Education	3.94	0.35
24.	Household Servant	1.04	0.09
25.	Stationery	0.40	0.03
26.	Marriage Hall Charges	0.08	0.01
27.	House Rent	21.81	1.76
28.	Mechanical Service	0.46	0.04
29.	Kerosene Oil	0.01	0.00
30.	Plastic Products	0.25	0.02
31.	Personal Care	1.49	0.11
32.	Motor Vehicle Accessories	0.24	0.02
33.	Medical Test	0.32	0.02
34.	Motor Vehicles	0.66	0.03
35.	Household Equipment	0.59	0.03
36.	Motor Fuel	3.03	0.15
37.	Gas	1.58	0.07
38.	Transport Services	2.70	0.10
39.	Drug Medicine	1.27	0.04
40.	Communication & Apparatus	3.15	0.08
	Total	**61.0**	**5.2**

Source: Pakistan Bureau of Statistics

Core Inflation

Core inflation is measured through the indices of 43 non-food non-energy items. Non-food non-Energy (NFNE) inflation is calculated by excluding food group and energy items (Kerosene oil, petrol, diesel, CNG, electricity and natural gas) from the CPI basket. By exclusion this index together with food index from the CPI, the remaining represents core inflation. Government borrowing is one of the key factors influencing the trend of inflation. It is because there is positive relation between government borrowing and core inflation.



However, this relationship holds with lag period. The decline in government sector borrowing (July-April) at 15.7 percent against 29 percent in the comparable period has resulted in decline of core inflation to 8.3 percent during (Jul-Apr) 2013-14 to versus 9.9 percent in the same period last year. The retirement of Rs.287.1 billion by the government to SBP during the period under review has also been caused for reduction in core inflation. Central Banks around the world views stable inflation as a very important goal. Policy makers and economists also have good reasons for stable inflation. State Bank of Pakistan (SBP) has been on the path of steadily increasing the policy rate from previous 9.5 percent to current 10 percent to suppress the aggregate demand and contain inflation.

Table 7.6: Core Inflation

	2012-13	2013-14
Jul	11.3	8.2
Aug	10.8	8.5
Sep	10.4	8.7
Oct	10.1	8.4
Nov	9.6	8.5
Dec	9.8	8.2
Jan	10.0	8.1
Feb	9.6	7.8
Mar	9.0	7.6
Apr	8.7	8.5
Average (Jul-Apr)	9.9	8.3

Inflation by Income Group

The consumer price index is also prepared for five income groups (i) upto Rs 8000 (ii) Rs 8001-12000 (iii) Rs12001-18000 (iv)Rs 18001-35000 and above Rs35000.The index is devised to assess the impact of price changes on the cost of living of different income groups. It is compiled on weekly basis. During July-April 2013-14, the increase in the indices for these various groups shows an inconsistent pattern of movement. In other words, Inflation is unevenly distributed across five income quintiles. Inflation at 9.2 percent for the lowest income quintile is more compared to 8.2 percent in the highest quintile. The 9.2 percent increase noted for lowest income group is also higher than the overall level of inflation and shows that low income group are mostly impacted as food takes a greater share in total expenditure for poor individuals, particularly the poorest quintile. Their comparative picture is given in the following table.

Table 7.7: Inflation by Consumer Income Groups (Base Year 2007-08=100)

	Combined	Upto Rs.8000	Upto Rs. 8001-12000	Upto Rs. 12001-18000	Upto Rs. 18001-35000	Above Rs.35000
2008-09	17.0	18.0	17.8	18.1	17.6	16.8
2009-10	10.1	10.5	10.5	10.6	10.3	9.8
2010-11	13.7	14.3	14.1	13.0	14.7	13.3
2011-12	11.0	10.0	10.6	10.5	10.8	11.5
2012-13	7.4	7.9	8.6	8.4	6.8	6.4
Jul-Apr						
2012-13	7.8	7.9	9.0	8.8	7.2	6.9
2013-14	8.7	9.2	8.7	9.3	9.2	8.2

Source: Pakistan Bureau of Statistics

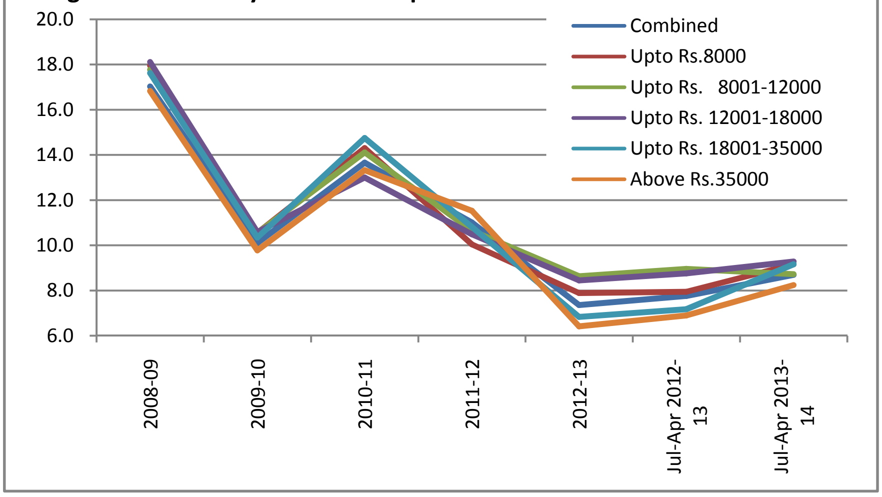


Fig 7.5: Infaltion by Income Group

Wholesale Price Index (WPI)

The Wholesale Price Index (WPI) remained stable during the course of year (Jul-Apr) 2013-14. The index of wholesale price is increased by 8.3 percent. This compares favorably with 8.0 percent in the same period of last year. Movement of various groups constituting WPI shows the highest increase (14 percent) in mineral related items followed by agriculture group. However, the impact of the non-food group both in terms of percent change and its contribution to the overall WPI increase was higher and it appears to be emanating mainly from an increase in the wholesale prices of key consumer items in the country. 59 non-food items scattered in various non-food groups of WPI have recorded substantial increase in their prices and contributed 4.43 percent to the overall WPI increase. Prominent among these were leather, cotton, cotton yarn, cement, chemical, electrical energy and fertilizer etc. Other groups trend was moderate and remained almost at the level of last year. The following Tables 7.8 and 7.9 shows the trend of various wholesale price groups and increase in the items covered under these sub groups.

Table 7.8: Wholesale Price Index

Commodity	Weights	(%) Change July –Apr		Impact	
		2012-13	2013-14		
General (WPI)	100.00	7.92	8.28	7.92	8.28
Agriculture Forestry & Fishery	25.77	6.47	10.74	2.73	4.52
Non-Food	68.89	8.30	8.94	5.72	6.16
Ores & Minerals	12.04	19.45	13.96	2.34	1.68
Food Products, Beverages	31.11	7.04	6.74	2.19	2.10
Other Transportable Goods	22.37	5.92	5.16	1.32	1.15
Metal Products Machinery	8.71	4.71	5.66	0.41	0.49

Source: Pakistan Bureau of Statistics (PBS)

Table 7.9: (%) Change in prices of non-food major items of WPI

Items	Weight	% change July-Apr (2013-14)	Impact
Other leather N.E.C	0.26	137.38	0.35
Leather with out hairs	0.30	44.36	0.13
Salt & pure sodium chloride	0.06	29.59	0.02
Electrical energy	5.49	23.72	1.30
Lathe machines	0.05	23.18	0.01
Pesticides	0.28	14.68	0.04
Bed sheets	0.09	14.44	0.01
Towels	0.12	14.40	0.02
Woven fabrics	0.01	14.26	0.00
Ready made garments	1.06	13.94	0.15
Cultivators	0.06	13.75	0.01
Blankets	0.00	13.75	0.00
Pipe fittings	0.08	13.65	0.01

Table 7.9: (%) Change in prices of non-food major items of WPI			
Items	**Weight**	**% change July-Apr (2013-14)**	**Impact**
Ceramics and sanitary	0.02	13.45	0.00
Tractors	0.00	13.40	0.00
Timber	0.02	13.32	0.00
Insecticides	0.13	12.99	0.02
Refrige, wash& sew mach, iron	1.16	12.82	0.15
Hard board	0.16	12.77	0.02
Chemicals	1.77	10.95	0.19
Bricks blocks and tiles	0.16	10.66	0.02
Lighting equipments	1.44	10.56	0.15
Quilts	0.00	9.83	0.00
Motor sprit	1.53	9.73	0.15
Matches	0.05	9.70	0.00
Cement	1.81	9.44	0.17
Paints & varnishes	0.19	8.92	0.02
Soaps & detergent	0.82	8.72	0.07
Hosiery products	0.88	8.59	0.08
Glass sheets	0.21	8.18	0.02
Other fabrics	1.10	8.14	0.09
Coal not agglomerated	0.75	7.95	0.06
Electrical wires	0.09	7.85	0.01
Kerosene oil	0.22	7.73	0.02
Cotton fabrics	0.63	7.73	0.05
Printing paper	0.43	7.68	0.03
Silk and rayon fabrics	0.74	6.81	0.05
Other glass articles	0.16	6.19	0.01
Mobil oil	0.71	5.43	0.04
Diesel oil	5.27	5.35	0.28
Motor vehicles	0.02	5.19	0.00
Bed foams	0.00	5.15	0.00
Dying materials	0.15	5.03	0.01
Steel products	0.39	4.54	0.02
Plastic products	0.46	4.49	0.02
Air conditioners	0.00	4.43	0.00
Chuff cutter	0.13	4.27	0.01
Natural gas liquefied	5.74	3.89	0.22
Blended yarn	0.17	3.74	0.01
Woolen carpets	0.04	3.63	0.00
Cotton yarn	5.25	3.53	0.19
Steel bars & sheets	1.40	3.52	0.05
Auto tyres	0.27	3.10	0.01
Footwear	0.16	2.58	0.00
Bicycles	3.35	2.52	0.08
Fertilizers	2.87	1.83	0.05
Nylon yarn	0.17	0.72	0.00
Medicines	1.14	0.57	0.01
Motor cycles	0.26	0.19	0.00
Total	**50.28**		**4.43**

Sensitive Price Indicator (SPI)

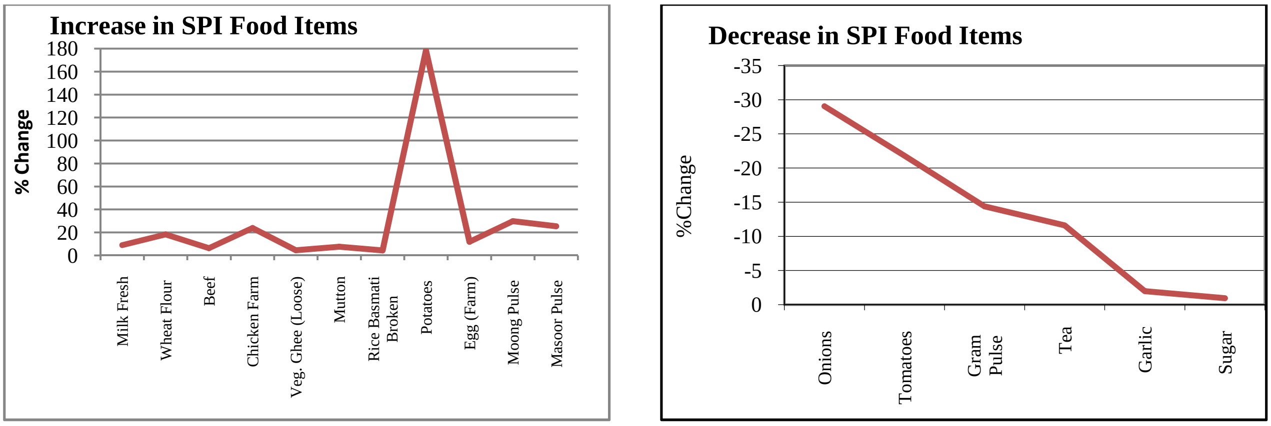
SPI monitors prices of 53 items reported every week from 17 different urban centers. The trend of this index is monitored regularly and immediate measures are adopted to control fluctuation in prices. The annualized increase in SPI during July-April 2013-14 was recorded at 9.8 percent which is more relative to 7.9 percent in the same period of last year which is due to increase in prices of potatoes, chicken, eggs, meat (beef & mutton), wheat/wheat flour, moong and masoor pulse which yields its contribution 7.7 percent to the total increase of 9.8 percent in SPI. The prices of these nine (09) items were affected by a combination of factors like short term supply disruption, higher demand and transportation cost etc. Among these items, prices of potatoes witnessed abnormal increase despite its surplus production this year. It prices continuously increased for the last couple of weeks which resulted in jacking up the SPI throughout April and it further affected the headline inflation. However, the Federal Minister for Finance took an administrative policy action resultantly the prices started to come down as was reflected that SPI for the last five weeks has witnessed declining trend. While comparative prices of essential kitchen items in Sasta Bazar and Open Market is given at Table 7.11.

Table 7.10: (%) Change in prices of major items of SPI

Items	Weight SPI Comb.	(% CHANGE) April 14/April 13	Contribution
Potatoes	1.25	178.46	2.23
Moong Pulse	0.61	29.91	0.18
Masoor Pulse	0.49	25.42	0.12
Chicken Farm	3.56	23.94	0.85
Wheat	0.91	18.99	0.17
Wheat Flour	10.90	18.35	2.00
Egg (Farm)	1.19	11.98	0.14
Milk Fresh	16.84	9.05	1.52
Mutton	2.10	7.67	0.16
Beef	4.27	6.41	0.27
Total	**42.11**		**7.66**
Onions	1.42	-29.05	-0.41
Tomatoes	1.18	-21.81	-0.26
Gram Pulse	0.62	-14.38	-0.09
Tea (Packet)	2.15	-11.60	-0.25
Garlic	0.36	-1.98	-0.01
Sugar	2.73	-0.96	-0.03

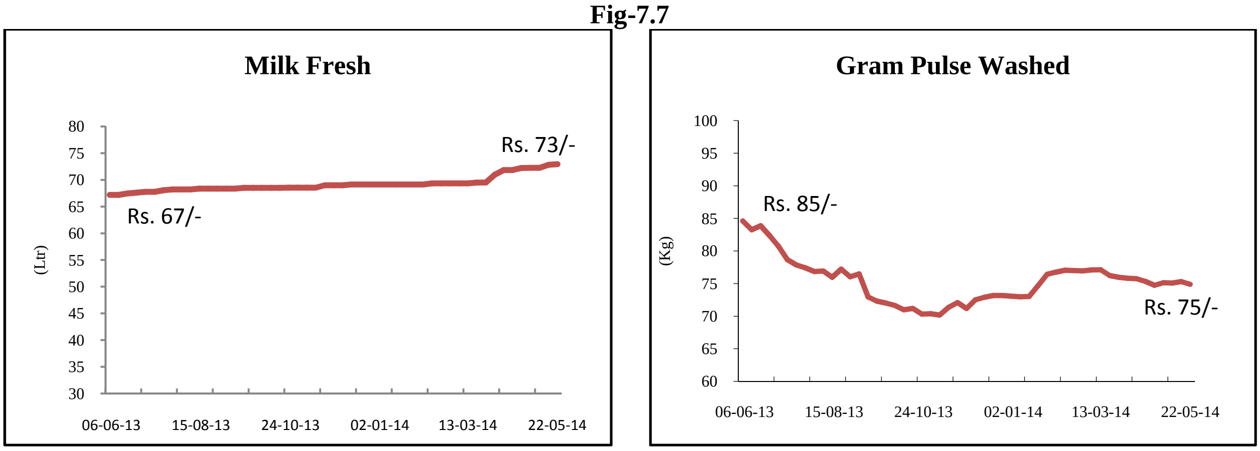
Source: Pakistan Bureau of Statistics (PBS)

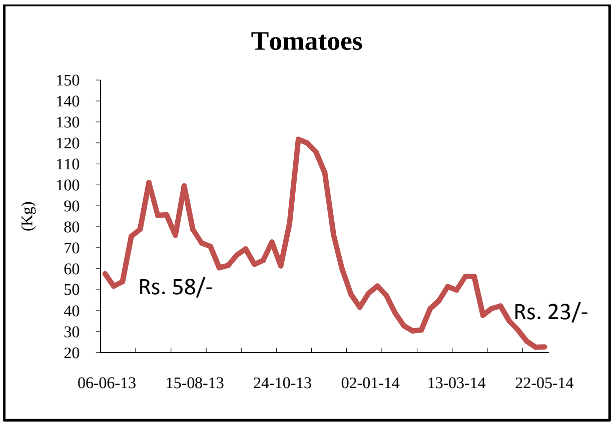
Fig-7.6: Increase and Decrease in SPI Food Items

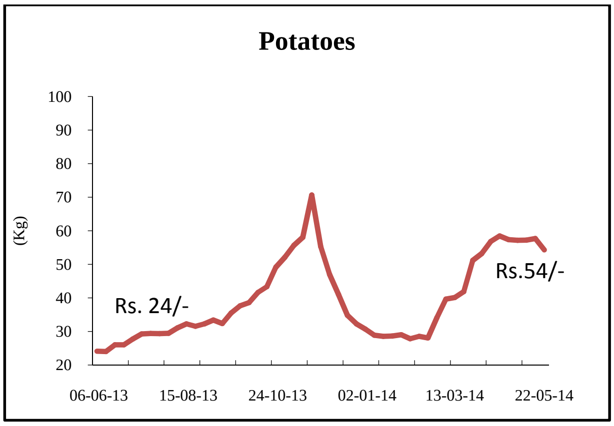


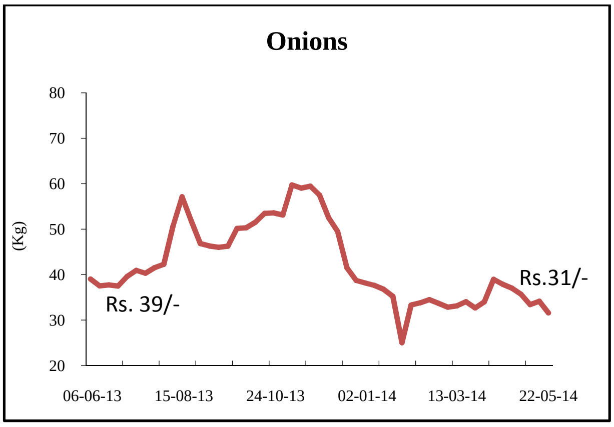
A graphic representation of most essential kitchen items is presented in the Fig-7.7, which indicates the price trend from June 2013 to 22nd May, 2014.

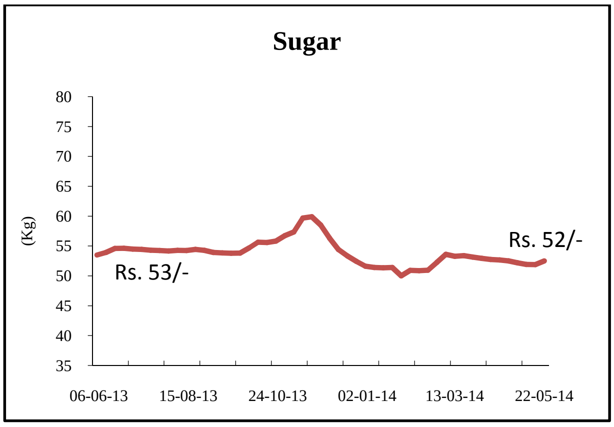
Fig-7.7











A wide variation has been seen in prices of 19 selected items in Sasta Bazars held at Islamabad and other 4 provinces to compare with prices of these items in open market Items with significant decline in their noted in almost all Sasta Bazars include tomatoes, onion, potatoes, garlic, masoor pulse, gram pulse, veg. ghee (loose) and rice irri-6 due to their improved availability in these market.

Table 7.11: Comparison of Prices of Kitchen Items In Sasta Bazar and Open Market

S.No.	Commodity	Unit	Islamabad		Punjab		Sindh		Khyber Pakhtunkhwa		Balochistan	
			Sasta/Itwar/ Sahulat Bazar Price	Open Market Prices	Sasta/Itwar/ Sahulat Bazar Price	Open Market Prices	Sasta/Itwar/ Sahulat Bazar Price	Open Market Prices	Sasta/Itwar/ Sahulat Bazar Price	Open Market Prices	Prices Notified by DC Quetta on	Open Market Prices
			18.05.2014	15.05.2014	18.05.2014	15.05.2014	18.05.2014	15.05.2014	18.05.2014	15.05.2014	10.04.2014	15.05.2014
1.	Wheat Flour av. qlt.	10 KG	390.00	393.75	356.00	368.60	N.A	443.08	NA	385.00	420.00	435.00
2.	Rice Basmati Broken	KG	82.50	86.25	65.21	74.12	76.25	76.54	67.50	78.33	90.00	90.00
3.	Rice Irri-6	KG	60.00	62.50	51.63	55.34	60.00	61.54	47.50	48.50	N.A	45.00
4.	Chicken Farm	KG	155.00	160.25	155.50	156.00	N.A	157.50	161.00	166.00	N.A	180.00
5.	Egg (Farm)	DOZ	75.00	80.88	66.75	74.27	N.A	81.23	80.00	78.33	92.50	100.00
6.	Cooking Oil (Tin)	2.5 Ltr.	520.00	540.00	481.67	540.00	N.A	535.00	540.00	540.00	N.A	540.00
7.	Veg.Ghee (Tin)	2.5 KG	500.00	510.00	449.25	507.14	N.A	520.00	510.00	510.00	N.A	510.00
8.	Veg.Ghee (Loose)	KG	160.00	168.75	153.04	156.88	160.00	161.54	162.50	172.50	165.00	190.00
9.	Bananas	DOZ	125.00	220.63	86.50	97.41	55.00	63.08	75.00	80.00	N.A	60.00
10.	Masoor Pulse Washed	KG	115.00	141.25	113.42	134.83	116.25	116.54	110.00	114.33	110.00	136.00
11.	Moong Pulse Washed	KG	170.00	172.50	144.71	162.72	157.50	163.08	138.75	146.67	160.00	160.00
12.	Mash Pulse Washed	KG	147.50	154.38	124.33	147.77	127.50	138.08	135.00	135.00	170.00	170.00
13.	Gram Pulse Washed	KG	66.25	88.75	59.71	66.88	76.25	76.54	76.25	76.67	100.00	105.00
14.	Potatoes	KG	58.00	72.50	53.64	60.50	50.00	50.00	55.00	61.67	N.A	50.00
15.	Onions	KG	35.20	53.44	27.07	33.55	27.50	28.62	38.75	39.17	N.A	30.00
16.	Tomatoes	KG	22.00	41.56	15.68	22.71	17.50	23.08	25.00	25.83	N.A	20.00
17.	Sugar	KG	53.50	59.13	50.57	51.48	53.00	52.62	53.00	53.17	53.00	51.00
18.	Red Chilies Powdered	KG	245.00	248.75	190.36	212.52	270.00	286.15	172.50	196.67	N.A	290.00
19.	Garlic	KG	95.00	170.00	94.93	114.99	97.50	113.08	100.00	100.00	N.A	160.00

International Prices

The international prices of palm oil have increased by 9 percent since July 2013. The increase in its price is largely responsible for increase in domestic edible oil prices. There has been an increase in the prices of other commodities which are important for domestic consumption in Pakistan. Prices of sugar increased by 5 percent, wheat 7 percent and DAP 2 percent since July 2013. Fertilizer prices which are highly dependent on energy and natural gas prices move in line with global fuel prices and thus added to production cost.

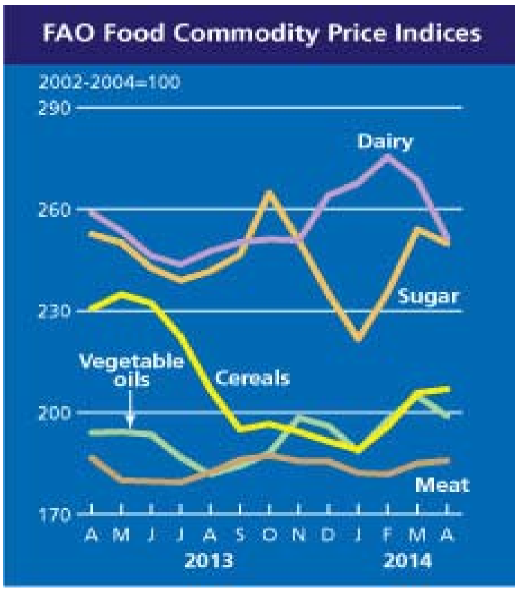
Table 7.12: International Prices of Major Commodities

	Sugar $/Ton	Palm Oil ($/Ton)	Soybean Oil ($/Ton)	Crude Oil ($/Brl)	Wheat ($/Ton)	Tea $/Ton	DAP $/MT
Jul-13	371.0	833.0	995.0	107.7	304.6	2843.0	460.0
Aug-13	375.0	828.0	997.0	111.0	305.3	2812.0	438.1
Sep-13	384.0	820.0	1026.0	111.6	307.5	2750.0	398.1
Oct-13	411.0	859.0	987.0	109.5	325.7	2818.0	377.3
Nov-13	390.0	921.0	992.0	108.1	306.8	2770.0	351.3
Dec-13	360.0	912.0	989.0	110.7	291.6	2890.0	369.9
Jan-14	340.0	865.0	943.0	107.4	276.1	2950.0	438.3
Feb-14	370.0	908.0	985.0	108.8	292.3	2580.0	490.6
Mar-14	390.0	961.0	1002.0	107.4	323.6	2500.0	499.4
Apr-14	390.0	911.0	999.0	107.8	324.9	2670.0	470.6
%change							
Apr-14/ Jul-13	**5.1**	**9.4**	**0.4**	**0.1**	**6.7**	**-6.1**	**2.3**

Source: Commodities Price Pink Sheet

The FAO price index which measures monthly price changes for basket of cereals, meat, dairy, sugar and oils showing an increase of 2.4 percent in March 2014 over the index of February 2014. Unfavorable weather condition in the South Hemisphere and parts of the United States were the most important cause of rise. The crisis in Ukraine also affected prices in March 2014. Ukraine is the world's sixth largest wheat exporter which ship to Egypt and other countries in the Middle East and North Africa. The highest rise was in the sugar sub index witnessed a rise of 8 percent in March over February 2014 due to crops damaged from dry weather in Brazil and forecasted indicating drop of output in India. The vegetable oil index has increased by 3.5 percent in March 2014 over previous month, the second largest increase among the indices after sugar. This was driven by higher palm oil and soybean oil prices due to dry weather in South Asia and South America while 5 percent rise in cereal price index reflects the effect of cold weather on wheat crops in United State. (UN FAO update)

Fig 7.8



FAO food price index decreased by 1.6 percent in April this year due to decline in dairy, sugar and vegetable oil prices. According to Rome based agency (FAO), dairy prices decreased by 6.3 percent as the market of all dairy products has been affected by the reduced purchases by China and Russia. China is the main importers of whole milk powder and second largest importers of skimmed milk powder while Russia is the main importer of butter and milk powder. Similarly, global sugar prices dropped by 1.6 per cent in April 2014 due to large availabilities in the main producing regions, including Thailand, India and Australia. Vegetable oil prices also declined by 2.8 percent in the review period due to lower than anticipated import demand notably from European Union. According to FAO new food outlook, overall world cereal stocks are expected to remain relatively stable for 2014, despite rising global consumption.

Regional Countries Inflation

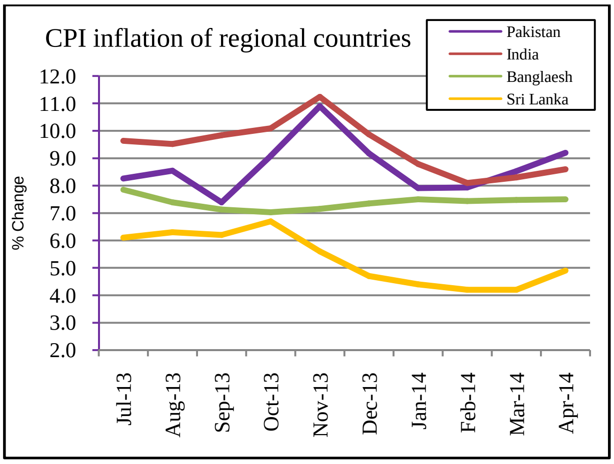
Inflation rate varied among regional countries. Pakistan's current inflation rate at 9.2 percent in April 2014 is higher relative to other regional countries. However, Pakistan food inflation is at 9.9 percent compared with 9.7 percent in India and 9.0 percent in Bangladesh. The variation in inflation was on account of different reasons like macro-economic stability bringing the inflation under control, weather, climatic condition and variation in pattern of consumption. Trends and level of inflation is indicated in Table 7.13.

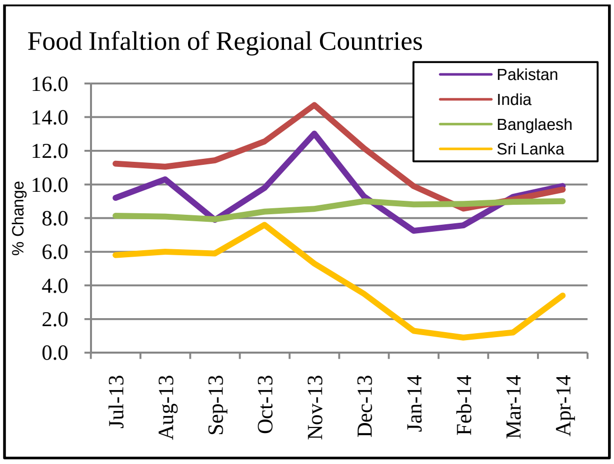
Table 7.13: Regional Inflation

Period	Pakistan			India			Bangladesh			Sri-Lanka		
	CPI	Food	Non-Food	CPI	Food	Non-Food	CPI	Food	Non-Food	CPI	Food	Non-Food
Jul-13	8.3	9.2	7.6	9.6	11.2	8.4	7.9	8.1	7.4	6.1	5.8	6.3
Aug-13	8.5	10.3	7.3	9.5	11.1	7.6	7.4	8.1	6.4	6.3	6.0	6.6
Sep-13	7.4	7.9	7.0	9.8	11.4	7.7	7.1	7.9	5.9	6.2	5.9	6.5
Oct-13	9.1	9.8	8.6	10.1	12.6	7.0	7.0	8.4	5.0	6.7	7.6	5.9
Nov-13	10.9	13.0	9.4	11.2	14.7	7.0	7.2	8.6	5.1	5.6	5.3	5.8
Dec-13	9.2	9.3	9.1	9.9	12.2	7.0	7.4	9.0	4.9	4.7	3.5	5.6
Jan-14	7.9	7.2	8.4	8.8	9.9	6.5	7.5	8.8	5.5	4.4	1.3	7.1
Feb-14	7.9	7.6	8.2	8.1	8.6	6.1	7.4	8.8	5.4	4.2	0.9	7.0
Mar-14	8.5	9.3	8.0	8.3	9.1	6.3	7.5	9.0	5.3	4.2	1.2	6.7
Apr-14	9.2	9.9	8.7	8.6	9.7	6.0	7.5	9.0	5.2	4.9	3.4	6.3

Source: Central Banks of respective countries

Fig-7.9





Step-taken to control inflation

The phenomenon of rising prices of essential items has been a matter of concern to the general public. The government has been using a wide range of price stabilization measures such as liberalizing imports, reforms for increase agricultural product, improvement in market mechanism and intervention in the market through organization like Utility Store Corporation and Trading Corporation of Pakistan.

The government is cognizant of the inflationary pressure and is taking following measures;

a) The ECC reviews inflationary trend and prices of essential commodities in its meeting on regular basis.

b) National Price Monitoring Committee (NPMC) Chaired by Federal Finance Minister also monitor prices of essential commodities in consultation with provincial governments and concerned federal ministries/ divisions and organization.

c) The provincial governments have also activated their District Price Control Committees to check and maintain the price stability and to establish more Sasta Bazars for the consumers where they can get essential food items at reasonable rates.

d) The government is finalizing the Food Security Policy, which will ensure production and availability of food items and minimize dependence on the import of essential food items.

e) The government is also working on revival of Executive Magistracy System, which will help to ensure price stability through better price check.

f) The SBP under their Monetary Policy control inflation through policy rate. Recently the policy rate has been kept at 10 percent.

g) The government every year approves the Ramzan Relief Package, under which essential commodities like Atta, Vegetables Ghee/ Oil, Rice, Dal Channa, Basin, Dates, squashes and Syrups, Tea and Milk are sold at reduced rates at USC. As a result of sales of these essential commodities through expanded network of USC on subsidized prices, the consumers get relief. A package of Rs.2.0 billion has been approved for provision the essential commodities at cheaper rates in Holy month of Ramzan during 2014.

h) Friday/ Sunday Markets have become popular in all big cities. These bazaars are held to provide essential consumer items such as vegetables and fruits at comparatively lower rates than the open market.

Conclusion

Inflation is not determined by single factor; It is an outcome of growth and financial policies. Government policies to contain budget deficit and control expenditure help in containing inflation within reasonable limits. Presently, on the basis of 10 months trends, inflation averaged at 8.7 percent. Food inflation has emerged as the main contributor to recent inflation in the country. However the appreciation of Pak Rupee and its pass through effect, better reserves position, improvement of Net Foreign Assets (NFA), good wheat harvest and above all better monitoring of prices and corrective measure easing smooth supply are some of the positive indicators would ease inflationary pressure. The IMF in third review have also scaled down their projected inflation from 10 percent to 9.5 percent by end June and 8.8 by end period.

Trade and Payments

Introduction

Growth of world merchandise trade remained weak in 2013 due to slow global economic growth. Sluggish demand in many developed countries and wavering growth in developing countries led to the decline in world export volume growth from 3.1 per cent in 2012 to only 2.3 per cent in 2013, well below the trend prior to the financial crisis. The prospects for world trade are expected to improve, driven by a modest increase in demand in Europe, further recovery in the United States and a return to more dynamic trade in East Asia.

The world economy grew by 2.1 percent in 2013. While most developed economies continued to tackle with the challenges and taking appropriate fiscal and monetary policy actions in the aftermath of the financial crisis, a number of emerging economies which had already experienced a notable slowdown in the past two years, encountered new domestic and international headwinds during 2013. Some signs of improvement have emerged more recently. The euro area has finally come out of a protracted recession, with gross domestic product (GDP) for the region as a whole starting to grow again; the economy of the United States of America continues to recover; and a few large emerging economies, including China will see accelerating growth. World Gross Product (WGP) has been forecasted to grow at a pace of 3.0 and 3.3 per cent in 2014 and 2015, respectively.

WTO has projected that trade will grow by a modest 4.7 percent in 2014 and by 5.3 percent in 2015. This projection of 2015 would be in line with the average growth rate of world trade over the last 20 years. These forecasts are consistent with other figures that show the world economy is gradually recovering from the financial crisis. There have been some sharp swings in global commerce since the onset of the crisis. In 2009, trade in goods declined by 12 percent and bounced back by 14 percent the following year. The year 2011 was in line with the long term average, and then came what the WTO calls a two-year slump - annual growth of around 2 percent. The overall impact is that global trade is above its pre-crisis level, but well below where it would have been, had it grown in line with the earlier pre-crisis trend. In fact, that gap is still getting wider and by next year will, on the new forecasts, be 19 percent.

Unlike imports, which are closely related to domestic business activity, exports are more dependent on developments outside the domestic economy. A statistically significant link exists between world exports and world GDP and it is therefore worthwhile to see the impact on Pakistan's exports of changes in world GDP. For most of the period, the elasticity remained greater than one.

On 31 October 2012, major changes to the EU's Generalized Scheme of Preferences (GSP) were enacted into law by the European Parliament through a Regulation. Revisions to the qualification criteria applicable to the special incentives scheme of the GSP have created an opening for Pakistan, among other nations, to apply for qualification as a GSP Plus (GSP+) beneficiary and gain access to the EU market through duty-free imports of GSP-eligible products.

The European Union (EU) is not only Pakistan's largest export destination (in FY13, Pakistan's exports to the EU were valued at around US$5.7 billion), but it is also engaged in multiple levels of social and economic development activities in the country. The GSP+ arrangement, which is conditional to ratification and implementation of 27 international conventions, provides a platform on which Pakistan's export-driven economy can be utilized for the promotion of basic social and governance standards to which the EU is strongly committed. Adoption of these conventions will assist Pakistan in integrating into the cross-border supply chains that will sustain its manufacturing activities and further promote its exports.

Exports

Overall exports recorded a growth of 4.24 percent during first ten months of FY14 (Jul-Apr) against a growth of 4.23 percent in the same period last year. In absolute terms, exports have increased from $ 20,143 million to $ 20,997 million. Although there is moderate growth as compared to last year, the exports likely to gain momentum in coming months due to access to GSP Plus.

Broad categories of exports suggest that textile group and petroleum group & coal performed well during current year whereas other manufactures group could not performed and showed a negative growth. Exports of food group were up by 0.7 percent only; Textile Manufactures' export increased by 6.5 percent, petroleum group exports registered manifold due to export of Petroleum top Naphta amounting to $ 542.7 million during first ten months of current year against no import of this item during comparable period last year. Other Manufactures Group which accounted for almost 21 percent of total exports, registered a decline of 8.8 percent. This sector mainly suffered due to sharp decline of more than 72 percent in the export of jewelry.

Exports of food group accounting for 19 percent in total exports grew only by 0.71percent and its share remained negligible in overall exports growth. Within food group, export of rice alone accounting for 46.9 percent, registered an impressive growth of 16.41 percent. Pakistan clearly benefited from the unprecedented rise in international price of rice. Since Pakistan is a net exporter of rice, it is likely to benefit from the elevated international prices of rice in coming years. This will also encourage farmers in Pakistan to grow more rice and benefit from the current hike in international prices of rice. The other important component of food group which registered impressive growth includes oilseeds, nuts & kernals and fruits; meat and meat preparations; fish and fish preparations. However, export of sugar, tobacco, spices and vegetables witnessed a decline during first ten months of current financial year. (Table: 8.1).

Export of textile manufactures, which account for about 53 percent of total exports registered a growth of 6.5 percent during first ten months of current financial year. All the sub-groups in this category witnessed positive growth with the exception of cotton yarn, towels and art, silk & synthetic textile during current financial year. Export of value added textile like bed wear, knit wear and made-up articles (excluding towels) was up substantially during this period due to the growth in quantum terms. Export of cotton cloth, the largest item in textile group witnessed a growth of 5.5 percent in value terms while its growth in quantity terms remained 10.9 percent showing less favorable prices of Pakistani cloth. Export growth of cotton yarn remained sluggish during current financial year as its exports both in value as well as in quantum witnessed negative growth. It may be explained that its export growth could not be picked up due to less favorable international prices and its increased domestic demand. However, export of raw cotton increased handsomely during current year due to favorable prices. Pakistan towels export growth also remained negative both in terms of value and quantity during current year prices of raw material fluctuations in the local market, energy shortages and stiff competition.

Within Petroleum group, export of petroleum top naphtha remained $ 542.7 million (2.6 percent of total export) during first ten months of current year against no export of this item during comparable period last year. Naphtha is produced as a surplus product from petroleum refineries. So the more crude the refineries in Pakistan refine, the more naphtha comes out as a byproduct. The core reason for the rise in naphtha exports is better capacity utilization owing to improved liquidity at refineries after the partial resolution of the circular debt. Even though the refineries were not as much replenished with government funds as was the power sector, better liquidity of the energy chain helped in increased refinery yields.

Unlike 'textile manufactures group, exports of other manufactures group generally accounting for around 21 percent witnessed a negative growth of 8.9 percent in the current fiscal year (Jul-Apr period) and remained major contributor to the export growth during current year despite performance of chemicals and pharma product (51.3 percent), leather manufacturer (12.1 percent); leather tanned (12.3 percent); surgical goods& medical instruments (11.5 percent) under this category of exports. The performance of carpets & rugs (10.0 percent); engineering goods (17.1 percent) and sports goods (6.6 percent) also remained notable. Export of cement and jewelry which had been shown outstanding performances during the last few years witnessed a negative growth of 11.5 percent and 72 percent, respectively, during first ten months of current financial year. More specifically export of jewelry remained sluggish during current year. Some analysts attributed this decline to the fall in gold prices. Performance of other manufactures group's exports remained slow due to the power and skilled labor shortages and international laws of labour. Negative growth witnessed in this group blocked 186 basis points in the overall growth of exports during current year (Table 8.1).

Export of all other items normally accounting for over 6 percent of total exports decreased by 7.2 percent during Jul-Apr, FY14 as compared to same period last year and accordingly, adversely contributed by 0.45 percent to overall export growth of 4.24 percent.

Table 8.1 : Structure of Exports ($ million)

	Particulars	July-April		% Change	Absolute Change
		2012-13	2013-14 P		
	Total	**20143.2**	**20997.5**	**4.2**	**854.3**
A.	**Food Group**	**3918.0**	**3945.7**	**0.7**	**27.7**
	Rice	1589.6	1850.4	16.4	260.9
	Sugar	393.1	248.3	-36.8	-144.8
	Fish & Fish Preparation	255.8	292.1	14.2	36.3
	Fruits	340.6	399.0	17.1	58.4
	Vegetables	213.6	187.0	-12.4	-26.6
	Wheat	53.4	7.1	-86.8	-46.4
	Spices	55.1	44.6	-19.0	-10.4
	Oil Seeds, Nuts & Kernels	28.0	76.7	174.2	48.7
	Meat & Meat Preparation	177.6	192.5	8.4	14.9
	Other Food items	811.2	648.0	-20.1	-163.2
B.	**Textile Manufactures**	**10739.8**	**11437.6**	**6.5**	**697.8**
	Raw Cotton	138.3	196.1	41.8	57.8
	Cotton Yarn	1860.5	1708.1	-8.2	-152.4
	Cotton Cloth	2224.0	2346.8	5.5	122.8
	Knitwear	1663.6	1842.1	10.7	178.5
	Bedwear	1468.2	1767.3	20.4	299.1
	Towels	645.0	624.5	-3.2	-20.5
	Readymade Garments	1470.8	1580.8	7.5	110.0
	Made-up articles	480.8	552.1	14.8	71.3
	Other Textile Manufactures	788.6	819.8	4.0	31.2
C.	**Petroleum Group**	**6.2**	**601.3**	**9653.7**	**595.1**
	Petroleum Products	5.7	58.6	919.4	52.8
	Petroleum Top Neptha	0.0	542.7	-	542.7
D.	**Other Manufactures**	**4227.6**	**3852.3**	**-8.9**	**-375.3**
	Carpets, Rugs & Mats	96.8	106.5	10.0	9.7
	Sports Goods	268.5	286.1	6.6	17.6
	Leather Tanned	390.1	438.2	12.3	48.1
	Leather Manufactures	463.2	519.4	12.1	56.2
	Surgical G. & Med. Inst.	252.6	281.7	11.5	29.1
	Chemical & Pharma. Pro.	636.3	962.7	51.3	326.5
	Engineering Goods	217.8	255.1	17.1	37.3
	Jewellery	1142.9	319.1	-72.1	-823.8
	Cement	468.7	415.0	-11.5	-53.7
	Guar & Guar Products	119.8	58.4	-51.2	-61.4
	All Other Manufactures	170.9	210.1	22.9	39.2
E.	**All Other items**	**1251.6**	**1160.5**	**-7.3**	**-91.0**

P : Provisional
Source : Pakistan Bureau of Statistics

Trends in Monthly Exports

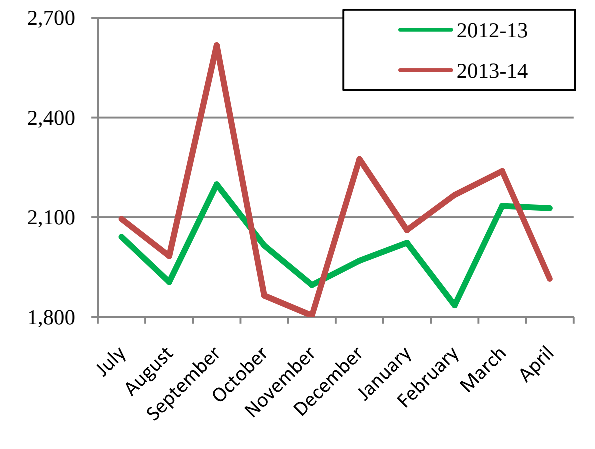
The monthly export for the period July-April, 2013-14 remained consistently above the corresponding months of last year, with the exception of October and November, 2013 and April 2014 period, averaging $2,102 million per month as against an average of $2,014 million same period last year. (Table 8.2 & Fig-8.1).

Table 8.2: Monthly Exports

Month	($ million)	
	2012-13	2013-14 P
July	2,041	2,095
August	1,905	1,983
September	2,199	2,617
October	2,015	1,864
November	1,896	1,804
December	1,969	2,275
January	2,023	2,061
February	1,835	2,167
March	2,134	2,239
April	2,127	1,915
Monthly Average	**2,014**	**2,102**

P : Provisional
Source : Pakistan Bureau of Statistics

Fig-8.1: Monthly Exports ($ million)



Concentration of Exports

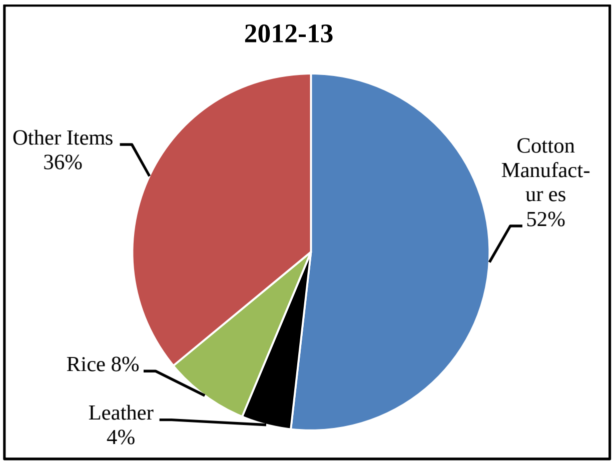
Pakistan's exports are highly concentrated in a few items namely, cotton and cotton manufactures, leather, rice, chemicals & pharma products and sports goods. These five categories of exports accounted for about 70 percent of total exports during FY14 (Jul-March) with cotton manufactures alone contributing 52.9 percent, followed by rice (8.7 percent) and leather (4.9 percent). The degree of concentration further increased in favour of these items during current financial year. Further disaggregation reveals that products exports in a few items are a major cause of instability in export earnings. The annual percentage shares of the major export commodities are given in Table 8.3 as well as Fig. 8.2.

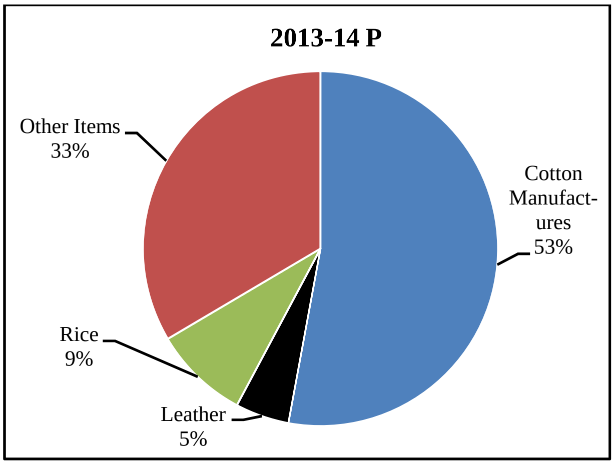
Table 8.3 : Pakistan's Major Exports (Percentage Share)

Commodity	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	July-March	
							2012-13	2013-14 P
Cotton Manufactures	51.9	52.6	50.6	52.9	49.6	51.6	51.8	52.9
Leather**	5.8	5.4	4.5	4.4	4.4	4.7	4.5	4.9
Rice	9.8	11.2	11.3	8.7	8.7	7.8	7.7	8.7
Sub-Total of three Items	**67.5**	**69.2**	**66.4**	**66.0**	**62.7**	**64.1**	**64.0**	**66.5**
Other items	32.5	30.8	33.6	34.0	37.3	35.9	36.0	33.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

P : Provisional
** Leather & Leather Manufactured.
Source: Pakistan Bureau of Statistics

Fig-8-2: Concentration of Exports





Direction of Exports

Although Pakistan trades with a large number of countries its exports nevertheless are highly concentrated in few countries. About one-half of Pakistan's exports' destinations are to six countries namely, USA, China, UAE, Afghanistan, UK and Germany. Among these countries, the maximum export earnings come from USA (15 percent) followed by China (10 percent) making up approximately one-fourth of the total. China's share in total exports has gradually picked up from 4 percent in 2008-09 to 10 percent during current year.

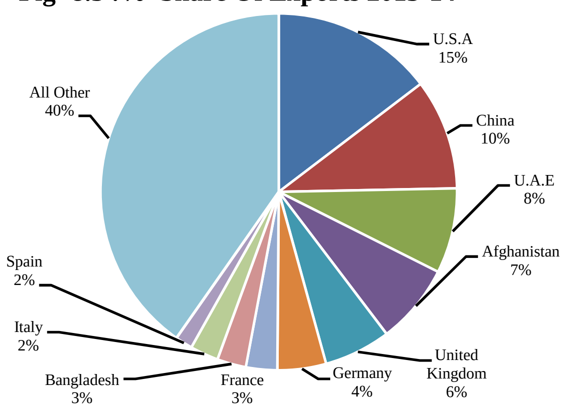
The share of export to Afghanistan in total exports, however, witnessed a decline in recent years from 10 percent in 2011-12 to 8 percent during current year. The share of exports to EU countries like France, Italy, Spain, etc. remained relatively stagnant. However, it is expected that with the grant of GSP plus status, Pakistan exports to EU countries will gain momentum in coming days. Pakistan exports to Bangladesh, UAE and some other Asian countries also could not show much growth despite existence of FTAs and PTAs with some of the countries. This aspect requires consideration and impact evaluation (Table 8.4, Fig.8.3).

Table 8.4 : Major Exports Markets (Rs. billion &Percentage share)

Country	2008-09		2009-10		2010-11		2011-12		2012-13		July-March 2013-14 P*	
	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share
U.S.A	261.4	19	281.7	17	338.3	16	315.3	15	341.3	14	291.9	15
China	54.9	4	96.7	6	139.7	7	195.9	9	252.5	11	199.9	10
U.A.E	114.8	8	144.2	9	154.6	7	205.6	10	205.4	9	153.7	8
Afghanistan	109.3	8	131.7	8	199.6	9	200.6	10	200.0	8	144.5	7
United Kingdom	68.5	5	86.1	5	103.1	5	105.7	5	121.2	5	120.6	6
Germany	57.7	4	66.5	4	108.8	5	94.0	4	93.6	4	87.8	4
France	24.6	2	26.7	2	34.1	2	29.8	1	93.7	4	56.5	3
Bangladesh	30.1	2	40.6	3	86.8	4	56.6	3	68.7	3	52.2	3
Italy	45.3	3	50.8	3	67.6	3	51.6	2	52.2	2	51.2	3
Spain	37.7	3	36.4	2	48.9	2	43.7	2	51.0	2	31.4	2
All Other	554.9	40	655.9	41	839.3	51	811.9	38	887.0	37	802.0	40
Total	**1,383.7**	**100**	**1,617.5**	100	**2,120.8**	100	**2,110.6**	100	**2,366.5**	100	**1,991.6**	100

Source: Pakistan Bureau of Statistics
P* Provisional

Fig- 8.3 :% Share Of Exports 2013-14



Imports

The imports target for current financial year was set at $43.3 billion for FY14. Pakistan imports were up by only 1.2 percent in the first ten months of the current fiscal year, rising from $36,664.94 million during FY13(Jul-Apr) to 37,104.50 million during first ten months of current financial year, showing an increase of $439.56million in absolute term. The major contributors to this additional import bill have been alone the machinery group ($463.6 million or 9.8 percent) followed by Agriculture and Chemicals ($291.5 million or 5.6 percent) and Textile group ($52.2 million or 2.4 percent). Other groups witnessed decline in import during first ten months of current year led by Metal Group (8.4 percent) and food group (5.8 percent). The Petroleum Group, the largest group in the Pakistan import bill has witnessed a decline of 1.3 percent ($157 million) during Jul-Apr, FY14. The detail is given in Table-8.5.

Import of crude oil and petroleum products which generally constitute about 33 percent of total import bill of Pakistan remained within affordable limit. Crude oil import in quantity terms increased by only 1.5 percent whereas its import value increased by 3.1 percent showing marginal rise in the international prices during this period. Import value of petroleum products decreased by 3.9 percent given that its imported quantity increased by about 5.9 percent showing some decline in the prices.

Table 8.5 : Structure of Imports ($ Million)

	Particulars	July-April		% Change	Absolute Change
		2012-13	2013-14 P		
	Total	**36665.0**	**37104.5**	**1.2**	**439.5**
A.	**Food Groups**	**3632.4**	**3423.2**	**-5.8**	**-209.2**
	Milk & Milk food	112.4	132.4	17.8	20.0
	Wheat Unmilled	0.0	107.2	-	107.2
	Dry Fruits	65.7	84.3	28.3	18.6
	Tea	323.0	247.8	-23.3	-75.2
	Spices	57.1	71.1	24.6	14.0
	Edible Oil (Soyabean & Palm)	1759.1	1608.2	-8.6	-150.9
	Sugar	4.1	5.1	24.1	1.0
	Pulses	282.8	239.5	-15.3	-43.2
	Other food items	1028.2	927.6	-9.8	-100.6
B.	**Machinery Group**	**4712.4**	**5176.1**	**9.8**	**463.7**
	Power generating Machines	818.5	850.4	3.9	31.9
	Office Machines	216.6	176.3	-18.6	-40.3
	Textile Machinery	306.7	489.9	59.7	183.2
	Const. & Mining Machines	122.3	209.7	71.5	87.4
	Aircrafts, Ships and Boats	577.9	738.9	27.9	161.0
	Agriculture Machinery	87.1	56.3	-35.4	-30.9
	Other Machinery items	2583.3	2654.6	2.8	71.3
C.	**Petroleum Group**	**12362.5**	**12205.5**	**-1.3**	**-157.0**
	Petroleum Products	7766.5	7466.8	-3.9	-299.7
	Petroleum Crude	4595.9	4738.7	3.1	142.8
D.	**Consumer Durables**	**1873.0**	**1933.6**	**3.2**	**60.6**
	Road Motor Vehicles	1191.8	1017.6	-14.6	174.2
	Electric Mach. & Appliances	681.2	916.0	34.5	234.7
E.	**Raw Materials**	**5079.1**	**5111.2**	**0.6**	**32.1**
	Raw Cotton	752.6	515.9	-31.5	-236.7
	Synthetic Fibre	333.9	349.4	4.6	15.4
	Silk Yarn (Synth & Arti)	449.3	517.0	15.1	67.7
	Fertilizer Manufactured	498.6	584.3	17.2	85.7
	Insecticides	63.5	95.5	50.4	32.0
	Plastic Material	1151.4	1352.8	17.5	201.3
	Iron & steel Scrap	545.1	589.1	8.1	43.9
	Iron & steel	1284.7	1107.2	-13.8	-177.5
F.	**Telecom**	**1284.9**	**1027.4**	**-20.0**	**-257.5**
G.	**All other items**	**7720.7**	**8227.5**	**6.6**	**506.8**

P : Provisional
Source : Pakistan Bureau of Statistics

Imports of machinery posted a modest increase of 9.8 percent in the first ten months (July-Apr) of current financial year reaching to $5,176.1 million. Within machinery group, Textiles machinery Construction & Mining machinery and Aircraft, Ships and Boats showed a substantial increase of 59.7 percent, 71.5 percent and 27.9 percent, respectively. Textile machinery growth of 59.7 percent can be seen as a reflection of the revival in textile related activities in the country. Import of power generating machines remained moderate during current year as its import posted an increase of 3.9 percent. The rise in the import of these different categories of machines is attributed to ongoing work on various power and construction projects in the country. The absolute increase in imports of these four categories of machines amounted to $463.5 million almost equals to the total absolute increase of 463.6 million in the total import of the machinery group. Within the machinery group, the combined decline in the imports of office machines and agriculture machinery to $71.2 million resulted the absolute increase of import of machinery group at $463.7 million. Import of Telecom machinery also witnessed a decline of 20 percent ($257.5 million) during first ten months of current financial year compared to same period last year (Table-8.5). The import of machinery is a positive development suggesting growth in industrial and construction activities.

Imports under food group witnessed a decline of 5.8 percent during Jul-Apr, FY14 of current financial year as compared to the same period last year on account of decline in the import prices of palm oil, tea, pulses and some other food items. Within food group, import of palm oil which constitutes around 45 percent of food import declined by 10.1 percent whereas its imported quantity remained the same when compared with import during the same period last year. Similarly, the import bill of tea witnessed a considerable decline of 23.3 percent, mostly because of fall in international prices as its imported quantity nominally increased by 3.8 percent during Jul-Apr period compared to same period last year. Import of pulses also showed a decline both in quantity and value terms by 0.9 and 15.3 percent, respectively. This shows that import prices of pulses also declined during current year as compared last year. During Jul-Apr, FY14, import of wheat un-milled amounting to $ 107.2 million has been witnessed. Food items which import has witnessed an increase include milk cream & milk food for infants (117.8 percent), dry fruits & nuts (28.3 percent) and soya-bean oil (35.2 percent) mostly due to its import quantity which increased by 69.8 percent.

During July-Apr, FY14, import of textile, agriculture & chemical and metal groups which mostly represent raw materials items witnessed a combined growth of 1.2 percent. Within raw material groups, import of plastic material remained the prominent factor leading to the increase in import bill of agriculture & chemical group by $291.5 million. Import of gold decreased from $ 236.6 million in July-Apr, FY13 to $173 million during July-Apr, FY14 (26.9 percent) due to a ban on its import for some period during current financial year. In quantity terms import of gold decreased by 6.8 percent during FY14 (Jul-Apr) showing a considerable decline in the gold prices.

Trends in Monthly Imports

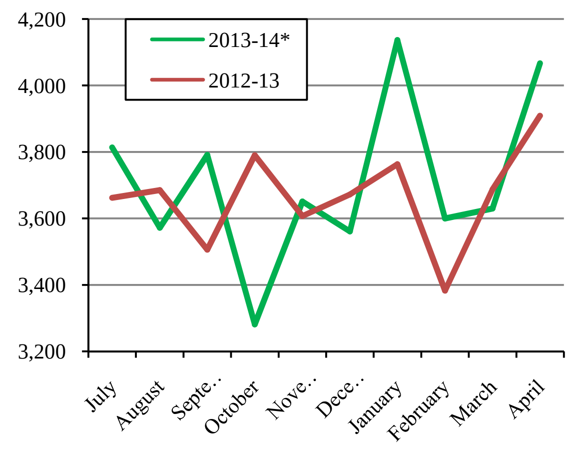
The monthly imports during July-Apr, 2013-14 witnessed some monthly fluctuations especially during January and April, 2014 mostly due to higher imports of construction, mining and textile machinery. Imports averaged $ 3,711 million per month during this period as against $ 3,667 million for the comparable period last year. Thus, on average, imports have risen only by $ 44 million per month during the period. The monthly imports are tabulated in Table 8.6 and Fig.8.4.

Table 8.6: Monthly Imports

Month	($ Million)	
	2012-13	2013-14 P
July	3,662	3,814
August	3,685	3,572
September	3,506	3,791
October	3,790	3,281
November	3,607	3,651
December	3,672	3,561
January	3,763	4,137
February	3,383	3,600
March	3,687	3,630
April	3,909	4,067
Monthly Average	**3,667**	**3,711**

P : Provisional
Source : Pakistan Bureau of Statistics

Fig-8-4: Monthly Imports ($ Million)



Direction of Imports

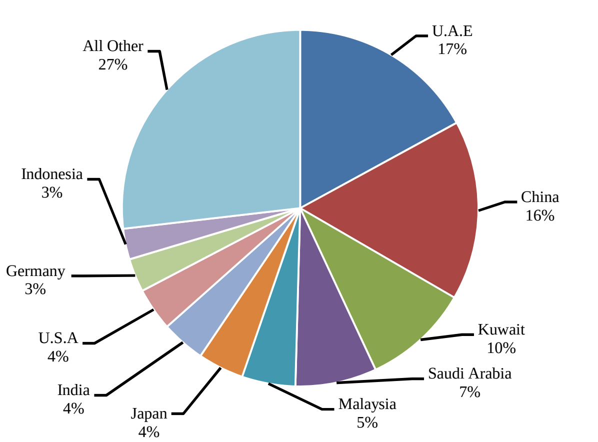
Like exports, Pakistan's imports are also highly concentrated in few countries. Based on current year data, around 50 percent of Pakistan imports originate from just four countries UAE, China, Kuwait and Saudi Arabia. Malaysia, Japan, India and USA are some other import suppliers of Pakistan. It is worth mentioning to add that China has emerged as Pakistan major trading partner both in terms of exports and imports. However, in case of India, the balance is not in favour of Pakistan as Pakistan exports to India are negligible whereas Pakistan imports from India are considerably higher and it is seventh major supplier (Table 8.7 and Fig.8.5).

Table 8.7 : Major Import Markets (Rs. billion & Percentage Share)

Country	2008-09		2009-10		2010-11		2011-12		2012-13		July-March 2013-14 P*	
	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share
U.A.E	247.1	9	422.0	14	469.5	14	685.1	17	837.4	19	588.1	17
China	319.6	12	370.2	13	494.9	14	685.1	17	642.4	15	562.8	16
Kuwait	180.9	7	201.8	7	284.8	8	358.8	9	392.5	9	333.6	10
Saudi Arabia	334.1	12	283.6	10	388.8	11	449.6	11	334.5	8	254.8	7
Malaysia	125.6	5	146.3	5	210.3	6	216.9	5	202.9	5	167.1	5
Japan	98.5	4	128.8	4	142.2	4	171.4	4	197.3	5	143.9	4
India	72.1	3	102.9	4	149.0	4	134.8	3	175.5	4	137.1	4
U.S.A	146.2	5	135.0	5	154.7	4	132.0	3	156.6	4	134.6	4
Germany	102.5	4	98.7	3	80.2	2	100.1	2	131.0	3	104.8	3
Indonesia	42.6	2	53.8	2	68.8	2	104.4	3	125.3	3	96.1	3
All Other	1,054.2	39	967.9	33	1,012.2	29	970.9	24	1,154.4	27	926.0	27
Total	**2,723.6**	100	**2,911.0**	100	**3,455.3**	100	**4,009.1**	100	**4,349.9**	100	**3,448.9**	100

Source: Pakistan Bureau of Statistics
P* Provisional

Fig- 8.5: % Share of Imports 2013-14



Review of Strategic Trade Policy Framework 2012-15

Ministry of Commerce has launched STPF 2012-2015 after the approval of the Cabinet on January 30, 2013. Its successful implementation would build upon the foundations provided by STPF 2009-12 and enable Pakistani firms to produce and export more sophisticated and diversified range of products to more markets and help reduce unemployment and poverty in Pakistan. Main goals of STPF 2012-15 are:

- Make export sector as an engine of growth
- Enhance Pakistan's export competitiveness in short as well as long term
- Increase Pakistan's cumulative exports to $ 95 billion during 2012-15

The Elements of STPF 2012-15 purport to strengthen different aspects of Pakistan's export competitiveness directly or indirectly. These elements have been identified on the basis of an evaluation of STPF 2009-2012, an analysis of emerging global trade scenario and extensive consultation with the export sector (business community) and other government departments.

The measures to achieve STPF 2012-15 goals under the above mentioned salient features are spread over a period of three years and are broadly categorized as follows:

a. Regulatory amendments in the trade regulations

b. Institutional strengthening and governance

c. Measures to enhance export competitiveness

STPF targets supply side weaknesses along with the efforts to gain better market access in traditional export markers. A large number of initiatives to boost the firm level productivity have been introduced. These various initiatives are already functional.

All regulatory amendments in the trade regulations (Import Policy Order and Export Policy Order, 2013 have been issued vide SROs 192(I)/2013 and 193(I)/2013 dated 8th March, 2013 and stands implemented. In institutional strengthening and governance, Domestic Commerce Wing, Trade in Service Wing have been established in the Ministry of Commerce and started functioning in July 2013. Other institutions proposed in the STPF 2012-15 are in progress and will be established within the stipulated period of time. To enhance export competitiveness various export development initiatives are announced in STPF 2012-15. The business processes for these initiatives are under way in Ministry of Commerce in consultation with TDAP, SBP and Finance Division. As STPF is spread over 3 years, therefore all the initiatives will be achieved in the stipulated period of time.

Bilateral and Regional Trade Agreements

I. Trade Promotion with EU member's countries

The 10 year GSP plus status for Pakistan by the European Union is a blessing for the country. It will revive industrial sector of Pakistan and create thousands of new jobs for the people. However, there are many challenges being faced by Pakistan to fully utilize the benefits from this precious status. But with dedication and unflinching resolve on part of government, these problems will be overcome through interventionist strategies. Pakistan has been granted GSP Plus after vigorous efforts for Pakistan's inclusion in EUs GSP plus scheme for preferential market access for Pakistan's exports. This is anticipated to result in an increase in exports by more than $ 1.0 billion and consequently generate new employment opportunities.

Before grant of GSP Plus to Pakistan by EU, Pakistan's main exports to European Union were facing high tariffs:

Table 8.8: Pakistan's main Exports to European Union

Products	Exports to EU in 2012 (US $ Mil)	Tariffs till 31st December, 2013	Projected Increase by 2014 (US$ Mil)
Ethyl Alcohol	42.32	6.1% to 19.2 Euros/Hl	10.58
Carpets	48.62	6.40%	12.15
Plastics	50.13	3% (+5.1% ADD)	12.5
Footwear	71.88	Up to 12%	18
Leather	509.21	Up to 5.5%	127.25
Non Value Added Textiles	885.17	Up to 6.4%	221.25
Home Textiles	1,230	Up to 9.6%	307.5
Textile Garments	1,730.08	Up to 9.6%	408

Source: Ministry of Commerce

These products amounted to 82 percent of our total exports to European Union in 2012. Pakistan's total exports to EU during the calendar year 2012 amounted to US$ 5.6 billion out of which these products were worth US$ 4.57 billion.

Hence through GSP Plus, 82 percent of our exports which were previously facing stiff competition from countries like China, India, Brazil, Bangladesh will now be duty free. Some of the products from Pakistan had duty free access in EU because the normal or General Arrangement tariffs were already zero, these included the following:

Table 8.9: Duty free products from Pakistan to EU

Product Sector	Exports to EU in 2012 (US$ million)
Rice	78
Sports Goods (including football)	130.07
Surgical Instruments	116.01
Meat Products	64
Fruits	70.42

Source: Ministry of Commerce

Hence with the grant of GSP Plus status to Pakistan, more than 90 percent of our exports to EU will be eligible for duty free access.

It is estimated that due to GSP Plus there will be an increase of more than US$ 1.0 billion worth of exports to EU during the year 2014. Pakistan Readymade Garments Manufacturers and Exporters Association (PRGMEA) estimated that on an increase of US$ 4000 in our exports, one job will be created. Hence it is estimated that around 100,000 new jobs will be created in textile garments sector only.

II. Trade Normalization with India

A meeting was held between the Commerce Ministers of the two countries in New Delhi in January 2014, on sidelines of the 5th SAARC Business Leaders Conclave. A broad understanding was reached in this meeting, as reflected in the Joint Statement issued thereafter. The salient features of this understanding were as follows:

- Normalization of trade relations & providing Non-Discriminatory Market Access (NDMA) on reciprocal basis, before the end of February 2014
- Increase in working hours at Wagah with the objective of round the clock operations as soon as possible
- Allow transportation of cargo in containers by road through Wagah/Attari

Consultations with the stakeholders: The Ministry of Commerce has been in consultation with domestic stakeholders through various mechanisms and fora. This has also resulted in an extensive public debate in the media. During the consultations, most of the stakeholders supported granting NDMA and allowing import of all goods through the Wagah-Attari land route. Only some segments of four sectors, namely agriculture, automobiles, pharmaceuticals, and yarn manufacturers, expressed some concerns about the potential negative impact on their sectors/industries.

The concerns of these sectors have been examined and discussed with the relevant stakeholders. Most of the concerns have been addressed by including these industries' products in the sensitive list, which will provide protection through the prevailing rate of customs duty. Mechanism of further protection, if needed, is also being chalked out in close consultation with stakeholders.

III. Progress on PTAs/FTAs

Pak-Indonesia Preferential Trade Agreement (PTA)

Indonesia and Pakistan signed a Preferential Trade Agreement (PTA) on 3rd February, 2012. Pakistan's Offer List to Indonesia (transposed on HS-2012) under the Agreement includes a total of 313 tariff lines for market access at preferential tariff. Pakistan also agreed to offer the same treatment on Palm Oil products from Indonesia as provided to Malaysia under the Pakistan-Malaysia FTA which means that Pakistan will import palm oil from Indonesia @ 15 percent Margin of Preference (MoP) under the PTA. Indonesia extended tariff concessions to Pakistan on textiles and horticulture products including kinnow. The PTA has been implemented and operationalized since 1st September 2013.

Pak- Malaysia FTA

The Comprehensive Free Trade Agreement (FTA) for Closer Economic Partnership between Pakistan and Malaysia was signed on 08-11-2007 at Kuala Lumpur Malaysia. It became operational from 1st January 2008. Bilateral trade has increased by 36 percent since then from $ 1.72 billion to $2.34 billion.

Pak-China FTA

Bilateral trade and commercial links between the two countries were established in January 1963 when the first bilateral long term trade agreement was signed. Pakistan accorded MFN status to China. China-Pakistan Free Trade Agreement (CPFTA) was signed on 24th November, 2006 and implemented from 1st July 2007. The bilateral FTA with China covers trade in goods and investment. Pakistan secured market access on products of immediate export interest like cotton fabrics, blended fabrics, synthetic yarn and fabrics, knit fabrics, home textiles like bed-linen etc, minerals, sports goods, cutlery, surgical goods, kinnow, mangoes, industrial alcohol, etc. FTA on Trade in Services was signed on 21st February 2009 and is operationalized from 10th October 2009.

Pakistan-China volume of trade, which was in the region of US$ 4.1 billion in the year 2006-07 reached all-time high in 2012-13, amounting to US$ 9.2 billion showing an increase of 124 percent. While China's exports to Pakistan increased by 1 percent during this period, Pakistan's exports have increased by 400 percent from around $600 million in 2006-07 to $2.6 billion in 2012-13.

The negotiations for the 2nd Phase of China-Pakistan Free Trade Agreement (CPFTA) are presently underway. The 2nd meeting of 2nd Phase of CPFTA was held on November 14-15, 2013. Ministry of Commerce undertook a thorough analysis of the trade performance under the FTA with the objective of rectifying these omissions while concluding the revised FTA.

Balance of Payments

Pakistan's balance of payments shows a record increase in capital flows that has substantially offset a gradual widening of the current account deficit during current financial year. External account turned into surplus during Jul-April, FY14 compared to the same period last year. Overall external account balance posted a significant surplus of US$ 1,938 million during Jul-Apr, FY14 compared to a deficit of US$ 2,090 million in the corresponding period of last year due to significant improvement in the financial account after realization of floating of Pakistan Sovereign Bond inflows. This relative improvement has offset the deterioration in the current account deficit that reached to US$ 2,162 million during Jul-Apr, FY14 compared to a deficit of US$ 1,574 million in the corresponding period last year. The higher current account deficit was largely caused by the widening of trade and services account deficits. Specifically, higher services account deficit was the result of lower receipts under coalition support fund during Jul-Apr FY14, compared to the same period last year (Table-8.10). However, it is expected that receipt of CSF amount of $375 million in May, 2014 will improve the current account deficit.

On the other hand, capital and financial account improved substantially during the period under review and recorded a higher surplus of US$ 5.0 billion during Jul-Apr, FY14 compared to a deficit of US$ 0.4 billion during the corresponding period of last year.

Table 8.10: Summary Balance of Payments US $ million

Items	July-June		July-April	
	2011-12	2012-13	2012-13 P	2013-14 P
Current Account Balance	-4,658	-2,496	-1,574	-2,162
Trade Balance	-15,765	-15,431	-12,892	-13,259
Goods: Exports	24,696	24,795	20,544	21,038
Goods: Imports	40,461	40,226	33,436	34,297
Service Balance	-3,192	-1,472	-931	-2,171
Services: Credit	5,035	6,733	5,860	4,189
Services: Debit	8,227	8,205	6,791	6,360
Income Account Balance	-3,245	-3,685	-2,958	-3,156
Income: Credit	826	488	395	438
Income: Debit	4,071	4,173	3,353	3,594
Current Transfers Net	17,544	18,092	15,207	16,424
Of which:				
Workers' Remittances	13,186	13,922	11,570	12,895
Capital & Financial Account	1,463	813	-440	4,998
Capital Account	183	264	244	1,755
Financial Account	1,280	549	-684	3,243
Direct Investment in Pakistan	744	1,258	670	654
Portfolio Investment (net)	-144	26	298	2,244
Other Investment	680	-735	-1,652	345
Net Errors and Omissions	-80	-309	-76	-898
Overall Balance	-3,275	-1,992	-2,090	1,938

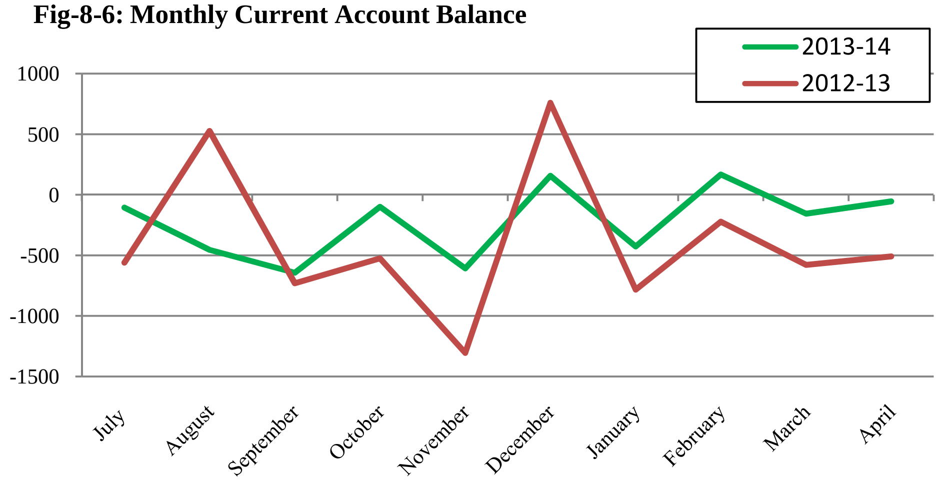
P : Provisional
Source: State Bank of Pakistan

As overall external account displayed surplus, the country's FX reserves improved substantially and the Pak rupee- dollar parity remained stable when compared with end June, 2013.

Current Account

Current account deficit gradually further widened during current financial year (Jul-Apr) to $ 2,162 million (0.9 percent of GDP) from $1,574 million during Jul-Apr, FY13 (0.7 percent of GDP). A striking feature of this year's current account deficit is that it has widened even though the import growth has slowed to 1.2 percent only but the performance of exports has remained slow, resulting in widening of trade deficit. Deficit in services account also widened manifold due to non- transfer of CSF and as such even a robust growth of 11.5 percent in current transfers (net) could not narrow the current account deficit. However, CSF transfer during rest of the financial year will improve current account position (Fig 8-6).

Fig-8-6: Monthly Current Account Balance



Capital and Financial Account

Unlike the current account, the capital and financial account improved and turned into surplus substantially amounting to $4,998 million during July-April, 2013-14 as compared to a deficit of $440 million in the corresponding period last year. Notwithstanding, higher surplus in the capital and financial account, the overall external balance of the country witnessed a surplus of $ 1,938 million during July-April 2013-14. This improvement in Capital and Financial account comes from realization of sovereign bond amount, grants from friendly countries and disbursements from multilateral and bilateral international financial institutions. This improvement in the Capital and Financial account balance enabled the overall external account balance in surplus.

Workers' Remittances

Like previous year's performance, worker's remittances registered commendable growth during Jul-Apr FY14, growing by 11.5 percent against 6.4 percent growth recorded in the corresponding period of last year. The consistent growth in remittances reflects a shift from informal to formal avenues to remit funds from overseas Pakistanis. The Government and SBP has focused on the promotion of formal channel for international remittances through banks and different money transfer services under its Pakistan Remittances Initiatives (PRI).Especially SBP has been playing a vital role to adopt formal channels for remittances. It has an active agenda to continuously analyze the global scenario related to remittances and take necessary steps to remove barriers to the flow of remittances, and improve access to banking facilities to overseas Pakistanis and their families.

Despite the constant growth in remittances inflows, Pakistan stands lag behind when compared with some its neighboring countries with huge exports of human capital like India, China, Bangladesh, etc. Present government is taking various measures to export human capital and is under negotiations with other governments in this regard.

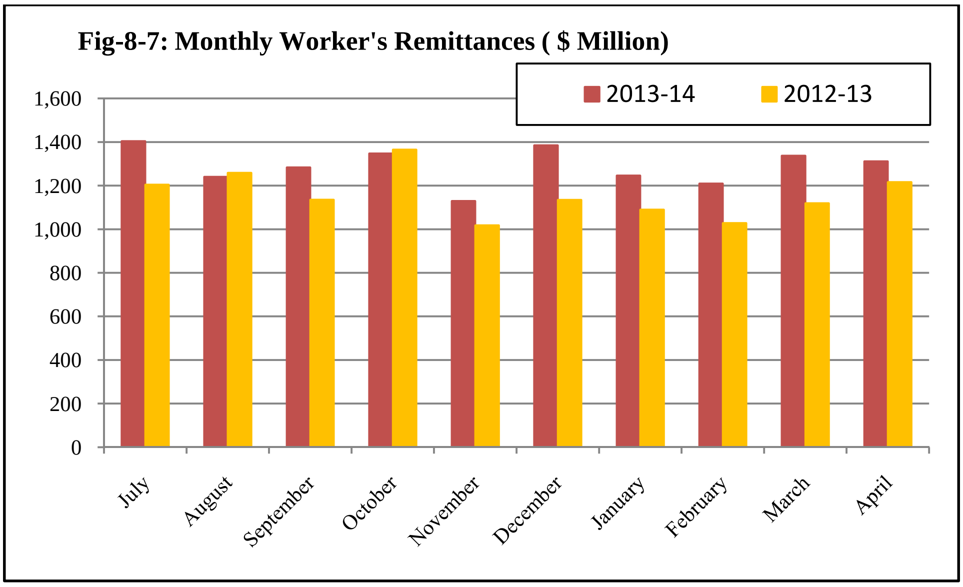
A greater share in remittances growth was that of oil rich gulf-region, Saudi Arabia, United Arab Emirates and other GCC countries (Table 8.11). Most of the increase came from Saudi Arabia and UK. Interestingly, it was earlier feared that due to ongoing drive against illegal immigrants in Saudi Arabia, there could be some repatriation of Pakistanis from the Kingdom, and subsequently, a reduction in remittances. However, due to government measures and negotiations from Saudi government, this did not happen while it is reported that over 50,000 Pakistani immigrants were sent back, around 800,000 documented and regularized, as per the new requirements, during the grace period.

Country-wise data shows that remittances from all major countries increased. The share of Saudi Arabia in overall remittances was the largest (29.5 percent); with UAE (19.6 percent) and USA 15.7 percent) having the second and third largest shares (Table-8.11).

Table 8.11: Country/Region Wise Cash Worker's Remittances

Country/Region	July-April		($ billion)	
	2012-13	2013-14	% Change	Share
Saudi Arabia	3.37	3.81	12.90	29.52
U.A.E.	2.31	2.52	9.12	19.57
USA	1.82	2.03	11.39	15.72
U.K.	1.61	1.80	11.62	13.95
Other GCC Country	1.33	1.53	14.70	11.85
Others Countries	0.55	0.58	7.10	4.53
EU Countries	0.30	0.36	19.36	2.76
Canada	0.15	0.13	-10.73	1.04
Australia	0.13	0.13	0.36	1.01
Total	11.57	12.89	11.45	100

Source : State Bank of Pakistan



Foreign Investment

Foreign investment during Jul-Apr, FY14 increased by 133.3 percent compared to same period last year on account of foreign public investment in debt securities comprising special US dollar bonds Euro bonds, FEBC, DBC, T-bills and PIBs. However, foreign private investment witnessed a decline of 15 percent mainly emanating from foreign direct investment (FDI) which reduced by 12.9 percent. Inflows of FDI were $1604 million during first ten months of current financial year. Portfolio investment in equity securities, however witnessed a rise of 27.8 percent. The sale of Pakistan Sovereign Bond, 2014 is a signal in reviving the foreign investors' confidence. The subdued growth in FDI is likely to revive in coming period. The upbeat Capital Market is also an indication on this account.

Sector-wise data shows Oil & Gas sector received the highest inflows of FDI ($412 million) followed by Financial Business ($199 million), Power (187.5 million), Communication ($178.2 million) and Chemicals ($116 million). Country wise analysis shows that major source of FDI inflows includes Switzerland ($257 million), USA ($241 million), Hong Kong ($200 million), UK ($155 million) and UAE ($149 million) (Table-8.12).

Table 8.12: Foreign Investment ($ million)

	July-April		% Change
	2012-13	2013-14	
A. Foreign Private Investment	1,081.7	919.1	-15.0
Foreign Direct Investment	862.3	750.9	-12.9
Portfolio Investment	219.4	168.2	-23.4
B. Foreign Public Investment	195.3	2,059.9	954.6
Total Foreign Investment (A+B)	1,277.0	2,979.0	133.3

Source: State Bank of Pakistan

Foreign Exchange Reserves

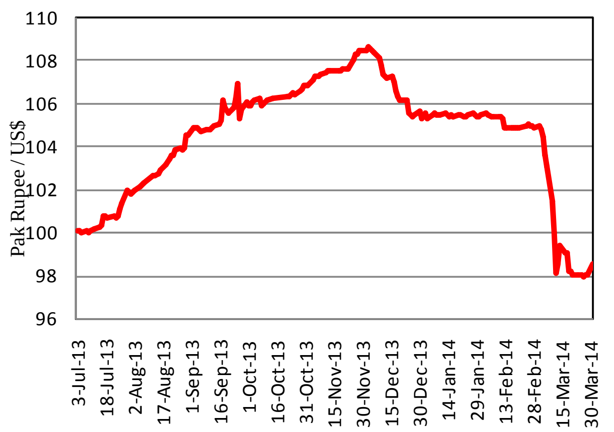
Pakistan's foreign exchange reserves improved by US$ 3.0 billion since July, 2013 and remained around $13.6 billion as on 2ist May, 2014, a change of more than 28 percent. Of the overall increase in reserves, SBP reserves increased by $3.2 billion, while that of the scheduled banks decreased by 0.2 billion. This improvement in reserve position was due to inflows from the IMF under the current program, coalition support fund (CSF), 3G/4G licenses, Issuance of Sovereign Bond, multilateral/ bilateral institutions and inflows from friendly countries. This improvement has been achieved despite the fact that Pakistan has so far repaid $2,708 million during current year to the IMF and other institutions.

Exchange Rate

As pressures on SBP reserves mitigated, Pak Rupee recorded an appreciation of 1.1 percent in Jul-Mar FY14, compared to 3.8 percent depreciation in the same period last year. As a result, the exchange rate by end June FY14 is worked out Rs. 98.77 against Rs. 99.66 per US$ at end-June 2013.

Quarterly data shows that during Jul-Sep FY14, exchange rate came under severe pressure due to US$ 1.8 billion external debt servicing; a sharp increase in the current account deficit; and heavy foreign exchange purchases by SBP from the interbank market ahead of the new IMF program. During Q1-FY14, the Pak Rupee depreciated by 6.0 percent, which was the highest quarterly depreciation in five years. While these pressures continued in the second quarter, some improvement was seen in December 2013 when current account posted a surplus, and the country received second tranche of US$ 554 million from the IMF. As a result, the Pak Rupee witnessed a marginal appreciation of 0.7 percent during Q2-FY14. Later in Q3-FY14, following a sharp increase in SBP reserves and positive market sentiments, the Pak Rupee appreciated by 6.9 percent (Figure 8.10).

Figure 8.10: Daily Movements in Exchange Rate

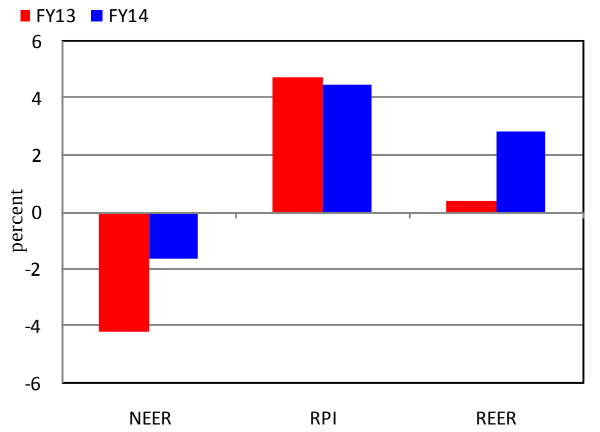


Source: State Bank of Pakistan

Real Effective Exchange Rate

Exchange rate of Pak rupee vis a vis basket of trading partner currencies – typically referred to as Nominal Effective Exchange Rate (NEER) – depreciated by 1.6 percent in Jul-Mar FY14, compared to 4.2 percent in Jul-Mar FY13. However, this nominal depreciation in Pak Rupee was more than offset by 4.5 percent increase in the relative price index (RPI). As a result, in real terms, Pak Rupee posted an appreciation against the basket of trading partner currencies during Jul-Mar FY14. More specifically, Real Effective Exchange Rate increased by 2.8 percent in Jul-Mar FY14, compared to a marginal appreciation of 0.4 percent in the same period last year.

Figure 8.11: Changes in NEER, REER and RPI (Jul-Mar)



Source: State Bank of Pakistan

Conclusion

External sector performance witnessed a mixed trend during current financial year. While Pakistan exports growth remained moderate in line with the global trends, the import bill recorded a nominal growth. Overall external account remained surplus considerably during current year on the back of capital and financial accounts performance and the inflows from multilateral and bilateral financial institutions, friendly countries and issuance of sovereign bonds. This has been achieved despite the fact that Pakistan has repaid a huge amount against its international obligations. The depreciation of currency and depletion of foreign reserves which was observed during first two quarters of current year has been well controlled with a net result of appreciation of currency and satisfactory reserve level when compared with end June, 2013. It is expected that the on-going trend will continue during rest of the year and all the targets of external sector will be achieved.

Public Debt

9.1 Introduction

Effective management of public debt has been a prime challenge faced by developing as well as developed countries both having different implications. Empirical evidence suggests that a country's debt level positively impacts its growth even when it enters the threshold level if it is on a declining debt trajectory. Developing economies are growing faster than the developed ones, making it easier for the former to satisfy the condition and ride on a declining debt trajectory, leading to debt acting as a catalyst in the course of growth. Prudent utilization of debt leads to higher economic growth and it also helps the government to accomplish its social and developmental goals. The absence of such prudence results in high and unsustainable debt levels leaving country in higher debt servicing requirements, and lower developmental spending capabilities having serious repercussions for the economy. Given Pakistan's developing status, the need for effective debt management is of utmost importance as the country requires borrowing to enable its development agenda, accelerate the pace of economic growth without ignoring the intergenerational impact.

In Pakistan, the composition of public debt has witnessed major changes in past few years with increased reliance on domestic debt owing to lower external debt inflows. The composition of domestic debt portfolio has itself undergone a transformation from a high dominance of unfunded debt to an increasing dependence on short term floating debt which is a source of vulnerability as it entails high rollover and refinancing risk. Besides, the cost and stock of external public debt increased due to depreciation of Pak Rupee. The present government soon after assuming the charge, immediately took corrective measures to manage public debt portfolio effectively. Some of the significant actions taken by the government are as follow:

- Government developed its first Medium Term Debt Management Strategy (2014-18) that is closely linked to fiscal framework to guide the borrowing activities. The focus of the strategy is lengthening the maturity profile to reduce the refinancing risk along with sufficient provision of external inflows in the medium term to reduce the pressure on domestic resources keeping in view cost-risk tradeoffs.
- To broaden the investor base and have a liquid government securities market, trading of government debt instruments (Treasury Bills, Pakistan Investment Bonds and Government Ijara Sukuk) commenced on the stock exchanges. This has provided an additional investment channel to retail investors.
- A set of reforms initiated by the government to improve the fiscal health of the economy has brought strong support from multilateral and bilateral creditors. This is expected to strengthen confidence and catalyze additional support from development partners in the coming years which will also help in reducing the pressure on domestic resources.
- With increased external inflows, the government was able to boost its foreign exchange reserves vis-a'-vis improving exchange rate of Pak Rupee against major international currencies. This also contributed in reducing public external debt.
- Pakistan successfully tapped international capital markets after a gap of 7 years which highlights investors' confidence on country's leading economic indicators, external finances and structural reforms undertaken by the present government. The investor response was overwhelming with US$ 2 billion raised against the initial expectations of US$ 500 million. This transaction represented the largest ever international bond offering by Pakistan.

9.2 Public Debt

The portion of total debt which has a direct charge on government revenues as well as the debt obtained from IMF is taken as public debt. Public debt comprises domestic and external debt. Each of these types of debt has its own benefits and drawbacks, with a trade-off between costs of borrowing and exposure to various types of risks that needs to be balanced in order to ensure ample and timely access to cost efficient funding.

Public debt stock reached at Rs.15,534 billion as at end March, 2014 representing an increase of Rs.1,168 billion or 8 percent higher with that of last fiscal year. The primary source of increase in public debt during first nine months of current fiscal year was in domestic debt that positioned at Rs.10,823 billion representing an increase of Rs.1,306 billion, whereas, external debt posed at Rs.4,711 billion representing a decrease of Rs.138 billion as compared to end June 2013. The decline in external debt during first nine months of current fiscal year is mainly attributed to net repayments and appreciation of Pak Rupee against US Dollar.

Table-9.1: Public Debt (1990-2014)

	1990	1995	2000	2005	2008	2009	2010	2011	2012 (P)	2013 (P)	2014* (P)
	(Rs. in billion)										
Domestic Debt	374	790	1,576	2,178	3,266	3,852	4,651	6,016	7,637	9,517	10,823
External Debt	428	873	1,442	1,913	2,778	3,776	4,260	4,685	5,016	4,849	4,711
Total Public Debt	801	1,662	3,018	4,091	6,044	7,629	8,911	10,700	12,653	14,366	15,534
	(In percent of GDP)										
Domestic Debt	42.8	42.3	41.2	33.5	30.7	29.2	31.3	32.9	38.1	42.3	42.6
External Debt	48.9	46.8	37.7	29.4	26.1	28.6	28.7	25.6	25.0	21.6	18.5
Total Public Debt	91.7	89.1	78.9	62.9	56.8	57.8	59.9	58.5	63.1	63.9	61.2
	(In percent of Revenue)										
Domestic Debt	235	245	308	242	218	208	224	267	298	319	-
External Debt	269	270	281	213	185	204	205	208	195	163	-
Total Public Debt	505	515	589	455	403	412	429	475	493	482	-
	(In percent of Total Debt)										
Domestic Debt	46.6	47.5	52.2	53.2	54.0	50.5	52.2	56.2	60.4	66.2	69.7
External Debt	53.4	52.5	47.8	46.8	46.0	49.5	47.8	43.8	39.6	33.8	30.3
Memo:											
Foreign Currency Debt (US$ in billion)	19.5	28.1	27.5	32.1	40.7	46.4	49.8	54.5	53.1	48.7	47.8
GDP (Rs. in billion)	874	1,866	3,826	6,500	10,638	13,200	14,867	18,276	20,047	22,489	25,402

P: Provisional, *: end March 2014
Source: Budget Wing, Economic Affairs Division, State Bank of Pakistan and Debt Policy Coordination Office Staff Calculations

Over the past few years, government relied mainly on the domestic borrowing which resulted in gradual increase of its share to around 70 percent of the total public debt as at end March, 2014 compared to 51 percent in 2008-09. The evolution of funding mix adopted during last few years showed an implicit borrowing strategy that increasingly relied on short-term domestic borrowing owing to insufficient external inflows. This reliance on short term domestic borrowing increased the exposure to refinancing and interest rate risks. Going forward, in order to effectively manage cost and risk of its public debt portfolio, the government has developed its first Medium Term Debt Management Strategy in April, 2014 (Box-1) to ensure that both the level and rate of growth in public debt is fundamentally sustainable and can be serviced under different circumstances while meeting cost and risk objectives. The Medium Term Debt Management Strategy contains a policy advice on an appropriate mix of financing from different sources with the spirit to uphold the integrity of the Fiscal Responsibility & Debt Limitation (FRDL) Act, 2005.

Box-1: Medium Term Debt Management Strategy (2014-18)

It is imperative to have a comprehensive debt management strategy aiming at debt sustainability and enhancing the debt servicing capacity of the country. Owing to its vital importance and indispensable nature, the government has developed its first Medium Term Debt Management Strategy (MTDS).The MTDS has following main objectives:

- Fulfil the financing needs of the government.
- Minimize the cost of debt while maintaining the acceptable level of risks.
- Facilitate the development of domestic debt market.

MTDS provides alternative strategies to meet the financing requirements of the government. Four different borrowing strategies have been assessed with associated costs and risks analysis under the alternative interest and exchange rates scenarios (Fig:9.1 and Fig:9.2). The cost and risk analysis is based on the existing debt cash flows, market and macroeconomic projections and alternative borrowing strategies. The robustness of alternative debt management strategies was evaluated by applying stress/shock scenarios for interest rates and exchange rates.

Strategy 1 (S1: Planned Strategy)

This strategy represents the borrowing from external and domestic sources as planned by the government for 2014 onwards. Gross external borrowing accounts on average 7 percent mainly through Eurobonds, commercial sources and project loans. The remaining 93 percent borrowing need is expected to be met by Market Treasury Bills (MTBs), Pakistan Investment Bonds (PIBs), 3 year Government Ijara Sukuk (GIS), National Savings Schemes (NSS) instruments and Market Related Treasury Bills (MRTBs).

Strategy 2 (S2: Lengthening of Maturity Profile - Fixed Rate Instruments)

This strategy represents the cost and risk scenario of debt portfolio by shifting part of MTBs to 10 year PIBs and increasing the external funding slightly at the same time. The additional external financing will be sought as per official estimate i.e. the higher project loans as compared to S1.

Strategy 3 (S3: Reliance on Short Term Domestic Instruments)

S3 assumes more reliance on domestic market and reduced external funding. Under this strategy, it is assumed that on an average, 97 percent of financing requirements would be derived from domestic sources mainly by issuance of MTBs and MRTBs.

Strategy 4 (S4: Lengthening of Maturity Profile - Floating Rate Instruments)

This strategy is similar to S2 in terms of share of domestic and external financing except a new instrument having 10 year maturity with floating rate is included.

The outcome of the above strategies is depicted through graphs below:

Fig-9.1: Debt to GDP
(as at end of 2017-18)

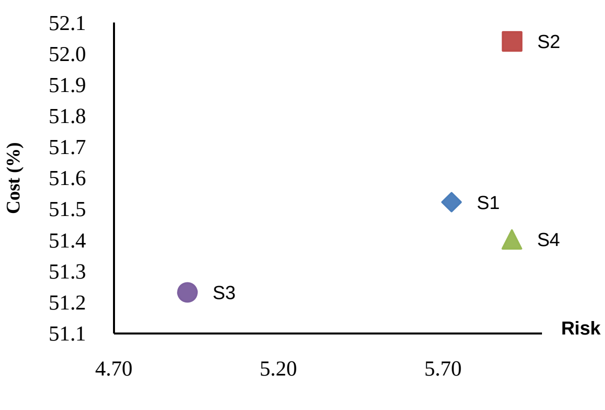
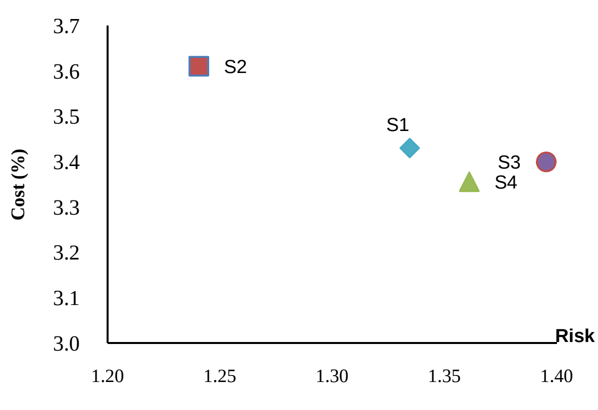


Fig-9.2: Interest to GDP
(as at end of 2017-18)



On the basis of cost and risk analysis of alternative strategies, a strategy, such as Strategy 3 (S3), with an increased reliance on domestic short term sources is least attractive. Strategy 2 (S2) and Strategy 4 (S4) assume lengthening of maturity profile by issuing fixed and floating rate instruments, respectively. Moreover, S2 and S4 have similar risk trend for debt to GDP as both have same share of external funding and thus foreign exchange risk is similar. Both S2 and S4 are targeting the reduction in refinancing risk. However, S2 is expected to result in greater average time to re-fixing i.e. there is less interest rate risk in case of S2 as compared with S4 owing to more financing through issuance of fixed interest rate instruments. The implementation of S2 seems feasible than others considering the current appetite for the fixed rate longer tenor instruments. This is further supported by the fact that the Government of Pakistan was able to raise substantial amount during 2013-14 through PIBs. In the light of above mentioned facts, S2 seems to be a preferential strategy for the government.

One of the objectives of MTDS is to facilitate the development of debt capital market. Accordingly, as a first step, the government has launched secondary market trading of Government Debt Securities at the stock exchanges in Pakistan in January, 2014 (Box-2). The trading in Government Debt Securities at the stock exchanges is considered to be an important breakthrough which can contribute significantly towards development of debt capital market which will play a pivotal role in obtaining long term financing for the government in future.

Box-2: Development of Debt Capital Market

– **Background**

In accordance with the commitment of the government to develop debt capital market, secondary trading of Government Debt Securities (GDS) at the stock exchanges in Pakistan has been launched. The government has also approved the regulatory framework for trading of GDS.

– **Operational Framework**

Initially Treasury Bills, Pakistan Investment Bonds and Government Ijara Sukuk are made available for trading at the stock exchange. The commercial banks designated as Primary Dealers (PDs) by SBP are allowed for direct proprietary trading and can also act as Market Maker in GDS. The stock brokers fulfilling specific eligibility criteria are allowed to trade in GDS on their own account and on behalf of their clients. The trading by brokers and their clients is subject to a pre-check by the stock exchange to ensure that only investors with sufficient cash and custody of GDS can execute trades on the stock exchange.

The settlement of trades executed at KSE is performed through the Real Time Gross Settlement (RTGS) system of SBP. PDs settle their trades directly whereas the brokers and their clients utilize the services of Central Depository Company (CDC) and those commercial banks which enter into a service level agreement with the stock exchange for this purpose.

– **Advantages of GDS Trading**

The trading in GDS at the stock exchanges is considered to be an important breakthrough which can contribute significantly towards development of debt capital market. Trading of GDS on the stock exchanges will provide an efficient and liquid secondary market to the investors where they can sell off GDS and realize their investments before maturity. The capital market will have a more market based yield curve and will provide a reliable benchmark for the pricing of these debt securities. This initiative is expected to increase depth in the debt market, paving the way to utilize stock exchanges as a medium for direct government borrowings from the general public.

Other Initiative for Development of Debt Capital Market

Government has also taken the following steps for the development of debt capital market:

– **Commercial Papers Regulations, 2013**

Commercial Papers Regulations 2013 have been notified on December 04, 2013. Commercial Paper (CP) is an unsecured short term debt instrument issued by highly rated companies in the form of promissory note. In 2002, SECP had issued guidelines for issue of CPs. In order to appropriately regulate CP issues and to facilitate the CP issuers, the guidelines have been reviewed and replaced with the Regulations.

– **Code of Conduct for Credit Rating Agencies (CRAs)**

In order to review the role and responsibilities of CRAs, SECP constituted a Committee having representation from SECP, SBP and both the domestic CRAs. SECP in light of the recommendations of the Committee reviewed the Code of Conduct for CRAs dated February 17, 2005 and replaced it with a new Code. The new Code dated January 13, 2014 has been framed in line with the international best practices. It is expected that compliance with the new Code will further improve the performance and credibility level of CRAs.

– **The Regulations for Issue of Sukuk**

Sukuk is a financial product structured on the basis of Shariah concepts. In order to fairly regulate Sukuk issues and to facilitate the issuers & investors, SECP is working on formulation of Regulations for issuance of Sukuk. The first draft of the Regulations was notified which is being reviewed in light of the public comments. The Sukuk regulations are expected to be finalized by the end of June, 2014. The regulations will help in development and growth of Islamic capital market.

Public debt may be understated without reporting contingent liabilities. Contingent liabilities are conditional obligations that arise from past events that may require an outflow of resources embodying economic benefits based on the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the government. Contingent liabilities are not added to the overall debt of the country, therefore, public disclosure of information about contingent liabilities is an essential component of fiscal transparency.

Contingent liabilities in Pakistan include explicit and implicit guarantees issued to Public Sector Enterprises (PSEs). During July-March, 2013-14, the government issued fresh/rollover guarantees aggregating to Rs.104 billion or 0.4 percent of GDP. The outstanding stock of government guarantees as at end March, 2014 is positioned at Rs.558 billion.

9.2.1 Dynamics of Public Debt Burden

Borrowing is beneficial for economic development of any country as long as it is undertaken to facilitate the well thought out road map devised with due diligence. The economic rationale for debt creation is that borrowers can earn a higher economic return than the cost of invested funds and those economic returns can be translated into financial returns. Debt problems for governments arise if debt servicing capacity does not keep pace with growth of debt. This may also be expressed as debt exceeding sustainable levels.

The debt burden can be described with many parameters and there is no single threshold for debt ratios that can delineate the "bad" from the "good" e.g. debt burden can be expressed in terms of the stock ratio i.e. debt to GDP, external debt to GDP or flow ratios i.e. debt to revenue, external debt to foreign exchange earnings etc. The more important rule about limiting public debt growth must be expressed in relation to revenue growth. If the primary deficit is zero, the ratio of public debt to revenues will not grow as long as the rate of growth of debt does not exceeds the rate of growth of revenues. Similarly, if the growth in Foreign Exchange Earnings (FEE) exceeds the growth in External Debt and Liabilities (EDL), the ratio of EDL-to-FEE will continue to decline.

Table-9.2: Selected Public Debt Indicators (in percentage)

	2008	2009	2010	2011	2012	2013	2014 (Jul-Mar)
Revenue Balance / GDP*	(3.1)	(1.2)	(1.7)	(3.3) [(a)]	(4.5) [(b)]	(2.9) [(c)]	(1.6)
Primary Balance / GDP*	(2.4)	(0.1)	(1.6)	(2.5) [(a)]	(4.2) [(b)]	(3.6) [(c)]	0.4
Fiscal Balance / GDP	(7.3)	(5.2)	(6.2)	(6.5) [(a)]	(8.8) [(b)]	(8.2) [(c)]	(3.2)
Public Debt / GDP	56.8	57.8	59.9	58.5	63.1	63.9	61.2
Public Debt / Revenue	403.1	412.2	428.8	475.0	493.0	481.7	-
Debt Service / Revenue	37.2	46.6	40.4	38.0	39.9	40.5	46.6
Debt Service / GDP	5.2	6.5	5.6	4.7	5.1	5.4	4.5

Source: Debt Policy Coordination Office Staff Calculations, Finance Division

*Adjusted for grants

[(a)]includes arrears of electricity subsidies amounting Rs.120 billion or 0.7 percent of GDP

[(b)]includes "one off" payment of Rs.391 billion on account of debt consolidation or 2 percent of GDP

[(c)] includes payment for the resolution of the circular debt amounting Rs.322 billion or 1.4 percent of GDP

Revenue balance is the total revenues less current expenditure. Zero revenue balance means borrowings are only utilized towards financing the development needs of the country. Revenue deficit was recorded at Rs.649 billion or 2.9 percent of GDP in 2012-13. This revenue shortfall over current expenditure is a reflection of non-availability of fiscal space for undertaking development spending. The revenue deficit as a percent of GDP stood at 1.6 percent during July -March, 2013-14 compared with 2.2 percent of GDP during the same period last year.

Primary balance is the total revenues minus non-interest expenditure or fiscal deficit before interest payments. A negative primary balance essentially implies that the government is borrowing to pay interest on the debt stock. During July-March, 2013-14, the government was able to achieve a primary surplus of Rs.110 billion or 0.4 percent of GDP through improved revenue collection and rationalization of non-interest expenditure which facilitated the debt management efforts. In comparison, the government witnessed a primary deficit of 1.1 percent of GDP during the same period last year.

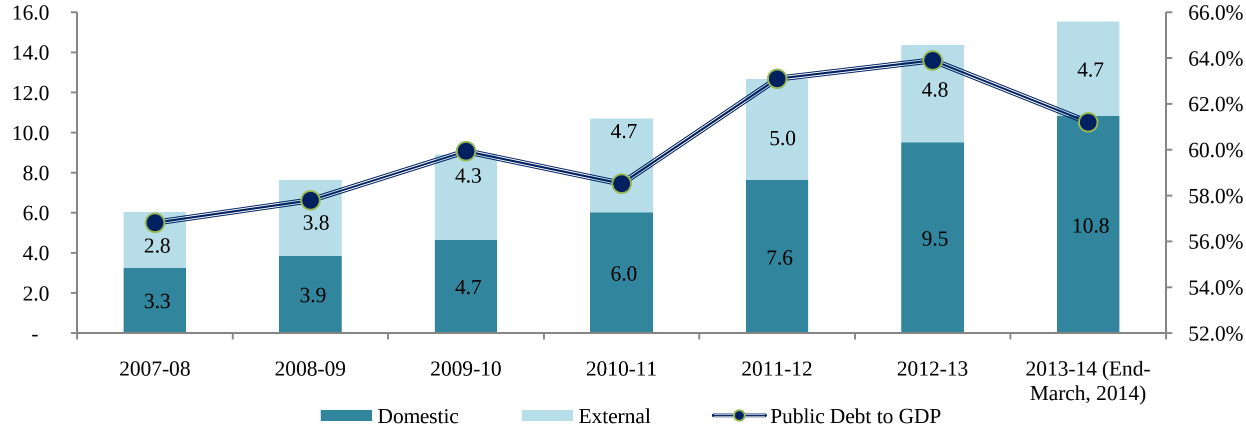
Pakistan's fiscal deficit saw significant variation from its original targets over the last few years. The fiscal deficit during 2012-13 was recorded at 8.2 percent of GDP (including payment of Rs.322 billion on account of settlement of circular debt) against the budgeted estimate of 4.7 percent. The deviation from initial estimates was mainly on account of three factors: (i) higher than budgeted subsidies; (ii) higher than budgeted interest payments owing to increased domestic borrowings;

(iii) lower than target FBR tax revenues. During July-March, 2013-14, fiscal deficit reached at 3.2 percent of GDP compared with 4.7 percent of GDP during the same period last year. This reduction in fiscal deficit came from slowdown in spending and an increase in revenues.

The higher fiscal deficit during last few years has increased the public debt and resultantly the government has to allocate more resources towards public debt servicing i.e. around 47 percent of total revenues have been consumed in debt servicing during first nine months of current fiscal year.

Public debt as a percent of GDP stood at 61.2 percent of GDP by end March 2014 compared with 63.9 percent of GDP at the end of last fiscal year.

Fig-9.3: Evolution of Public Debt
(LHS:in trillion of PKR) (RHS:percent of GDP)



9.2.2 Servicing of Public Debt

Public debt services provides information of the resources that a country has to allocate to service its debts and the burden it may impose through crowding out other uses of financial resources. Comparing debt service to a country's repayment capacity yields the best indicator for analyzing whether a country is likely to face debt-servicing difficulties in a given period.

During July - March, 2013-14, public debt servicing reached at Rs.1,155 billion against the annual budgeted estimate of Rs.1,561 billion. Public debt servicing consumed nearly 47 percent of total revenues during July - March, 2013-14 against a ratio of 44 percent during the same period last year. Ideally, this ratio should be below 30 percent to allow the government to allocate more resources towards social and poverty related expenditures.

Table-9.3: Public Debt Servicing (Rs. in billion)

	2013-14 (July-March)			
	Budgeted	**Actual**	**Percent of Revenue**	**Percent of Current Expenditure**
Servicing of External Debt	89.0	54.1	2.2	1.9
Repayment of External Debt	407.7	246.2	9.9	8.5
Servicing of Domestic Debt	1,064.5	855.0	34.5	29.4
Servicing of Public Debt	**1,561.2**	**1,155.3**	**46.6**	**39.8**

Source: Budget Wing and Debt Policy Coordination Office Staff Calculations, Finance Division

Out of total, domestic debt servicing was Rs.855 billion against Rs.725 billion paid during the same period last year. Further analysis of domestic debt servicing revealed that large portion was paid against Treasury Bills (260 billion), Market Related Treasury Bills (181 billion), Pakistan Investment Bonds (Rs. 147 billion) etc.

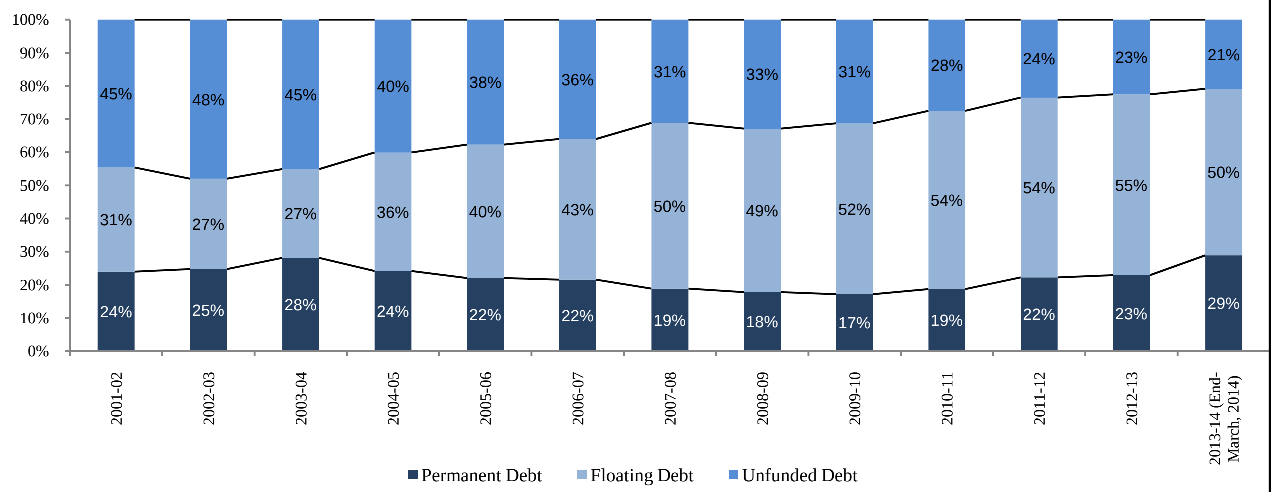
9.3 Domestic Debt

The use of domestic sources to borrow funds has various implications for the economy. Domestic borrowing plays a vital role in stimulating investment and private savings as well as strengthening domestic financial markets, since it provides depth and liquidity to the markets. The downside risks include higher interest rates which might stunt growth, the creation of inflationary pressure in an economy, and the possible crowding-out of the private sector. Therefore, any debt strategy should balance the risks to its debt stock by focusing on a mix of both domestic and external sources while borrowing funds.

Pakistan's domestic debt comprises permanent debt (medium and long-term), floating debt (short-term) and unfunded debt (made up of the various instruments available under the National Savings Schemes). The composition of major components shaping the domestic debt portfolio has undergone a transformation from a high dominance of unfunded debt to an increasing dependence on floating component of the domestic debt. The unfunded category comprising about 45 percent of the aggregate domestic debt stock in 2001-02 has declined to 21 percent by end March, 2014. Contrary to this, the share of floating debt to total domestic debt has reached 50 percent by end-March, 2014 as compared with 31 percent in 2001-02 indicating reliance on shorter duration instruments which exposed the government to refinancing risk. Refinancing risk is probably the most significant risk in Pakistan's debt portfolio. Debt structures that rely heavily on short-term instruments are sources of vulnerability as short maturities entail high rollover and refinancing risk. In such cases, an increase in interest rates has an adverse fiscal impact.

Trends in domestic debt are discussed in the following graph:

Fig-9.4: Composition of Domestic Debt



As at end March 2014, duration of domestic debt stood at approximately 2 years. Out of total domestic debt (excluding Market Related Treasury Bills), Rs.2,773 billion or 26 percent of total domestic debt has maturity of less than a year which is causing lower duration and also raises the rollover or refinancing risk for the government. If outstanding Market Related Treasury Bills for the amount of Rs.2,776 billion are also included, around 51 percent of total domestic debt would have a maturity of less than a year. The estimate of duration may be a little inconsistent owing to the non-availability of actual maturity profile of National Savings Schemes (NSS) and manual operations of Central Directorate of National Savings (CDNS). A behavioral analysis was undertaken to estimate the maturity of NSS instruments.

9.3.1 Outstanding Domestic Debt

Total domestic debt was positioned at Rs.10,823 billion at end March 2014, representing an increase of Rs.1,306 billion in first nine months of current fiscal year. This increase mainly stems from net issuance of Pakistan Investment Bonds amounting Rs.1,043 billion. In relation to GDP, the domestic debt stood at 42.6 percent. The domestic debt grew by 14 percent in first nine months of current fiscal year.

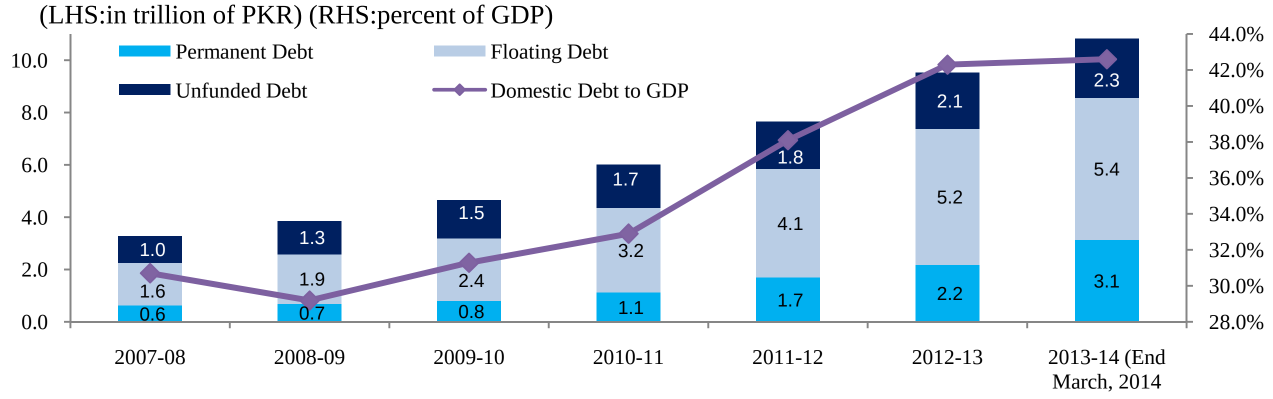
Following section highlights the developments in the various components of domestic debt during first nine months of outgoing fiscal year.

I. Permanent Debt

Permanent debt mainly consists of medium to long term instruments including Pakistan Investment Bonds, Government Ijara Sukuk bond, Prize Bond etc. PIBs are non-callable instruments, with fixed and semi-annual coupon payment. PIBs are issued in tenors of 3, 5, 10 and 20 years maturity. The 3, 5 and 10 years tenors are most liquid. Government Ijara Sukuk are medium term Shariah compliant bonds currently issued in 3 years tenor. The purpose of issuance was to raise money from Islamic banking which has grown substantially in Pakistan in past few years.

The total amount of permanent debt in the total domestic debt stood at Rs.3,128 billion as at end March 2014, representing an increase of Rs.948 billion or 44 percent higher than the stock at the end of last fiscal year. Around 73 percent of the total increase in domestic debt stock was contributed by permanent debt during first nine months of current fiscal year.

Fig-9.5: Evolution of Domestic Debt
(LHS:in trillion of PKR) (RHS:percent of GDP)



Government mopped up net of retirement Rs.1,043 billion through successful auctions of PIBs in first nine months of current fiscal year. Most of the proceeds through PIBs were witnessed in the third quarter of current fiscal year. The detailed analysis depicts that in anticipation of an increase in interest rates, market participation in PIBs auctions remained moderate in first quarter. However, in line with the government commitment to lengthen the maturity profile of domestic debt, the market responded positively from second quarter onwards which led to an unprecedented mobilization through PIBs. Prize bonds stock were increased by Rs.42 billion, whereas, stock of Government Ijara Sukuk witnessed a decrease of Rs.137 billion during first nine months of current fiscal year.

II. Floating Debt

Floating debt consists of short term domestic borrowing instruments such as Treasury Bills and State Bank borrowing through the purchase of Market Related Treasury Bills. Treasury Bills are zero coupon or discounted instruments issued in tenors of 3 months (introduced in 1997), 6 months (introduced in 1990) and 12 months (introduced in 1997). The share of 3 months, 6 months and 12 months maturity in total Treasury Bills portfolio was 48 percent, 14 percent and 38 percent respectively as at end March 2014. In order to raise short term liquidity, the government borrows from the domestic banks through auction in the form of Treasury Bills. The auction of Treasury Bills is arranged by the State Bank of Pakistan (SBP) twice a month.

Floating debt share in overall public debt and domestic debt stood at 35 percent and 50 percent respectively at end March 2014, while, it was at 36 percent and 55 percent respectively at the end of last fiscal year. During July-March, 2013-14, the floating debt grew by Rs.244 billion compared with Rs.633 billion during the same period last year.

III. Unfunded Debt

Unfunded debt made up of the various instruments available under the National Savings Schemes. The total share of unfunded debt in the government's domestic debt stood at Rs.2,260 billion or 21 percent at the end of March, 2014.

Net mobilization through unfunded debt during first nine months of current fiscal year stood at Rs.113 billion compared with Rs.266 billion during the same period last year. In terms of composition, most of the incremental mobilization went into Bahbood Savings Certificates (Rs.41 billion) and Regular Income Certificates (Rs.34 billion).

CDNS plays an important role in mobilizing retail savings in the economy. Government took various measures to rationalize the NSS including linkage of profit rates on major NSS instruments with PIBs yield, levy of withholding tax on profits, service charges/penalty interest on early redemption and introduction of several new schemes to meet the diverse investor base demand. However, the rate setting on NSS should be more dynamic and closely aligned to the domestic market yield curve to avoid interest rate arbitrage. NSS instruments also need to be integrated into mainstream capital markets by making them tradable and by withdrawing the implicit put option, which is a potential source of liquidity problems for the government. A pre-requisite in this regard, however, is restructuring – capacity building and conversion of CDNS into vibrant customer centric distribution channel for government debt instruments – and complete automation of CDNS operations. Given the huge potential of mobilizing domestic savings, a restructured and well-equipped CDNS can be strategically used to promote outreach of financial services to remote areas.

Table-9.4: Outstanding Domestic Debt (Rs. in billion)

	2008	2009	2010	2011	2012(P)	2013(P)	2014(P)*
Permanent Debt	**616.8**	**685.9**	**797.7**	**1,125.6**	**1,696.9**	**2,179.2**	**3,127.5**
Market Loans	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Government Bonds	9.4	7.3	7.2	0.7	0.7	0.7	0.7
Prize Bonds	182.8	197.4	236.0	277.1	333.4	389.6	431.1
Foreign Exchange Bearer Certificates	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Bearer National Fund Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Federal Investment Bonds	1.0	1.0	0.0	0.0	0.0	0.0	0.0
Special National Fund Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Currency Bearer Certificates	0.0	0.0	0.0	0.0	0.0	0.0	0.0
U.S. Dollar Bearer Certificates	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Special U.S. Dollar Bonds	8.3	7.7	2.7	1.0	0.9	4.2	4.4
Government Bonds Issued to SLIC	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Pakistan Investment Bonds (PIBs)	411.6	441.0	505.9	618.5	974.7	1,321.8	2,365.0
Government Ijara Sukuk	-	27.8	42.2	224.6	383.5	459.2	322.6
Floating Debt	**1,637.4**	**1,904.0**	**2,399.1**	**3,235.4**	**4,143.1**	**5,196.2**	**5,440.4**
Treasury Bills	536.4	796.1	1,274.1	1,817.6	2,383.4	2,921.0	2,664.2
Rollover of Treasury Bills discounted SBP	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Market Related Treasury Bills (MRTBs)	1,100.4	1,107.3	1,124.4	1,417.3	1,759.2	2,274.7	2,775.7
Unfunded Debt	**1,020.4**	**1,270.5**	**1,457.5**	**1,655.8**	**1,798.0**	**2,146.5**	**2,259.8**
Defence Savings Certificates	284.6	257.2	224.7	234.5	241.8	271.7	280.6
Khas Deposit Certificates and Accounts	0.6	0.6	0.6	0.6	0.6	0.6	0.6
National Deposit Certificates	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Savings Accounts	27.7	16.8	17.8	17.2	21.2	22.3	25.6
Mahana Amadni Account	2.5	2.4	2.2	2.1	2.0	2.0	2.3
Postal Life Insurance	67.1	67.1	67.1	67.1	67.1	67.1	67.1
Special Savings Certificates and Accounts	227.6	377.7	470.9	529.1	537.4	734.6	742.2
Regular Income Scheme	51.0	91.1	135.6	182.6	226.6	262.6	296.4
Pensioners' Benefit Account	87.7	109.9	128.0	146.0	162.3	179.9	193.5
Bahbood Savings Certificates	229.0	307.5	366.8	428.5	480.8	528.4	569.4
National Savings Bonds	-	-	3.6	3.6	3.6	0.2	0.2
G.P. Fund	42.5	40.1	39.9	44.3	54.5	73.1	78.7
Short Term Savings Certificates	-	-	-	-	-	4.0	3.1
Total Domestic Debt	**3,274.5**	**3,860.4**	**4,654.3**	**6,016.7**	**7,638.1**	**9,521.9**	**10,827.8**
Total Domestic Debt (excluding foreign currency debt included in external debt)	**3,266.0**	**3,852.5**	**4,651.4**	**6,015.5**	**7,637.0**	**9,517.4**	**10,823.2**

Source: State Bank of Pakistan, Budget Wing and Debt Policy Coordination Office Staff Calculations
P: Provisional, *: end March,2014

9.4 External Debt and Liabilities

Pakistan's External Debt and Liabilities (EDL) include all foreign currency debt contracted by the public and private sector, as well as foreign exchange liabilities of the State Bank of Pakistan. There is an inherent capital loss associated with the debt denominated in foreign currency, however, it is mitigated by the strong concessionality element (low cost and long tenors). The impact of any currency shock should not be looked at in isolation, but rather be analyzed in the context of interest rate differential.

As on March 31, 2014, EDL has been dominated by Public and Publically Guaranteed debt having share of 73 percent mainly owing to current account deficit which is financed through loans from multilateral and bilateral donors. Debt obligations of the private sector are fairly limited and have been a minor proportion of EDL (5 percent). Borrowing from IMF contributed 6 percent in EDL stock as compared with 7 percent at the end of last fiscal year owing to net repayments during first nine months of current fiscal year. The composition and structure of EDL as at end March, 2014 is depicted through Fig-9.6.

EDL stock was recorded at US$ 61.8 billion as on March 31, 2014. Out of total EDL, public external debt amounted to US$ 47.8 billion. EDL stock increased by US$ 906 million during first nine months of current fiscal year. Out of this total increase, US$ 275 million was contributed by translational loss on account of cross-currency movement against US Dollar.

IMF has approved three years Extended Fund Facility program for Pakistan on September 04, 2013 for SDR 4.4 (US$ 6.64) billion against which US$ 1,657 million was disbursed in the first nine months of current fiscal year. Total disbursements excluding IMF were US$ 2,301 million during first nine months of current fiscal year compared with US$ 1,782 million during the same period last year.

Fig-9.6: Composition of External Debt and Liabilities - March 31, 2014

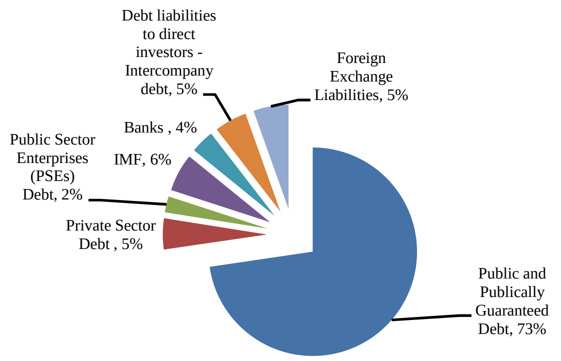


Table-9.5: Pakistan External Debt and Liabilities

	2008	2009	2010	2011	2012 (P)	2013 (P)	2014 (P)*
	(US$ in billion)						
1. Public and Publically Guaranteed Debt	**40.6**	**42.6**	**43.1**	**46.5**	**46.4**	**44.4**	**44.9**
i) Public debt	**40.4**	**42.4**	**42.9**	**46.4**	**46.2**	**43.5**	**44.5**
A. Medium and Long Term(>1 year)	**39.7**	**41.8**	**42.1**	**45.7**	**45.6**	**43.5**	**44.0**
Paris Club	13.9	14.0	14.0	15.5	15.0	13.5	13.5
Multilateral	21.4	23.0	23.7	25.8	25.3	24.2	24.2
Other Bilateral	1.1	1.4	1.8	1.9	2.5	2.9	3.4
Euro Bonds/Saindak Bonds	2.7	2.2	1.6	1.6	1.6	1.6	1.6
Military Debt	0.0	0.2	0.2	0.1	0.1	0.1	0.1
Commercial Loans/Credits	0.1	0.2	-	-	-	-	0.2
Local Currency Bonds	0.0	-	0.0	0.0	-	0.0	-
Saudi Fund for Development	-	-	0.2	0.2	0.2	0.2	0.2
SAFE China Deposits	-	0.5	0.5	0.5	1.0	1.0	1.0
NBP/BOC Deposits	0.4	0.3	0.2	0.1	-	-	-
B. Short Term (<1 year)	**0.7**	**0.7**	**0.9**	**0.6**	**0.5**	**0.0**	**0.5**
Commercial Loans/Credits	-	-	-	-	-	-	0.2
IDB	0.7	0.7	0.8	0.6	0.5	-	0.3
Local Currency Securities (T-Bills)	0.0	-	0.1	0.0	0.0	0.0	0.1
ii) Publicly Guaranteed Debt	**0.2**	**0.2**	**0.2**	**0.1**	**0.2**	**0.9**	**0.4**
A. Medium and Long Term(>1 year)	0.2	0.2	0.2	0.1	0.2	0.9	0.4
Paris Club	-	-	-	-	-	-	-
Multilateral	0.1	0.1	0.1	0.0	0.0	0.3	0.0
Other Bilateral	0.1	0.1	0.0	0.0	0.2	0.6	0.4
Commercial Loans/Credits	0.0	-	0.1	-	-	-	-
Saindak Bonds	-	-	-	-	-	-	-
B. Short Term (<1 year)	-	-	-	-	-	-	-
IDB	-	-	-	-	-	-	-
2. Private Non-Guaranteed Debt (>1 year)	**1.9**	**2.4**	**3.8**	**4.4**	**3.6**	**3.1**	**3.0**
3. Public Sector Enterprises (PSEs Debt)	**1.0**	**0.9**	**1.4**	**1.3**	**1.3**	**1.2**	**1.5**
4. IMF	**1.3**	**5.1**	**8.1**	**8.9**	**7.3**	**4.4**	**3.6**
of which Central Government	-	-	1.1	2.0	1.9	1.7	1.0
Monetary Authorities	1.3	5.1	7.0	6.9	5.4	2.7	2.6

Table-9.5: Pakistan External Debt and Liabilities

	2008	2009	2010	2011	2012 (P)	2013 (P)	2014 (P)*
5. Banks	**-**	**-**	**0.7**	**1.1**	**1.8**	**1.6**	**2.2**
Borrowing	-	-	0.2	0.4	0.9	0.7	1.3
Nonresident Deposits (LCY & FCY)	-	-	0.6	0.7	1.0	0.8	0.9
6. Debt liabilities to direct investors - intercompany debt	**-**	**-**	**1.9**	**1.6**	**2.7**	**3.1**	**3.1**
Total External Debt (1 to 6)	**44.9**	**51.1**	**59.0**	**63.8**	**63.1**	**57.8**	**58.4**
7. Foreign Exchange Liabilities	1.3	1.3	2.6	2.6	2.4	3.1	3.4
Total External Debt & Liabilities (1 to 7)	**46.2**	**52.3**	**61.6**	**66.4**	**65.5**	**60.9**	**61.8**
(of which) Public Debt	**40.7**	**46.4**	**49.8**	**54.5**	**53.1**	**48.7**	**47.8**
Official Liquid Reserves	8.6	9.1	13.0	14.8	10.9	6.0	5.4

Source: State Bank of Pakistan, Economic Affairs Division and Debt Policy Coordination Office Staff Calculations
P: Provisional, *: end March,2014

Following section highlights the developments in the various components of EDL during first nine months of the current fiscal year:

I. Public and Publicly Guaranteed Debt (PPG)

Public and publicly guaranteed debt is dominated by the loans from bilateral and multilateral donors having largest share of 66 percent in EDL as on March 31, 2014. Multilateral debt is the largest component of Pakistan's EDL. The stock of multilateral debt remained almost at the same level as on June 30, 2013. The project-based nature of loans contracted under this category hinges on Pakistan's ability to instill project efficiency. Debt from bilateral sources includes loan contracted with Paris Club countries and other countries outside the Paris Club. It is second largest component of Pakistan's EDL. It witnessed an increase of US$ 0.4 billion during first nine months of current fiscal year.

II. IMF Debt

IMF has approved three years Extended Fund Facility program for Pakistan on September 04, 2013 amounting to SDR 4.4 (US$ 6.64) billion which will be disbursed in three years. It will support country's economic reform program to promote inclusive growth.

As at end March, 2014, debt owed to IMF aggregated up to US$ 3.6 billion out of which US$ 1 billion accrued to the Federal Government. The remaining IMF funds were recorded on SBP books to strengthen the foreign exchange reserves of the country. During first nine months of current fiscal year, US$ 1,657 million was received against Extended Fund Facility program, whereas, US$ 2,519 million was repaid during the same period.

9.4.1 Composition of Foreign Economic Assistance

Total amount of US$ 2,301 million was received in the first nine months of current fiscal year against foreign economic assistance. The composition of this assistance is as follows:

I. Commitments

The commitments of foreign economic assistance were US$ 2,660 million during 2012-13, while during July-March, 2013-14, total commitments amounted to US$ 8,996 million. About 91 percent of total commitments were in the shape of project aid while the remaining comprised non-project aid. Out of total non-project aid, share of BOP/budgetary support was 85 percent.

II. Disbursements

During July-March, 2013-14, disbursements of US$ 2,301 million were for different purposes like Project Aid (US$ 1,321 million), Non-Food Aid (US$ 50 million), Programme-Loans/Budgetary Support (US$ 828 million) and relief (US$ 102 million). Project aid accounted for 57 percent of the total disbursements.

9.4.2 External Debt Servicing

Total EDL servicing was US$ 7,185 million during 2012-13. The EDL servicing recorded a significant increase of 19 percent during 2012-13 which was led by repayments of around US$ 3 billion against IMF loans. A segregation of this amount showed payment of US$ 5,553 million against maturing EDL stock while interest payments were US$ 933 million and US$ 700 million was rolled-over.

Among the principal repayments, US$ 1,155 million of multilateral debt and US$ 2,899 million of IMF accounted for most of the share. This was the first time the country made such large principal repayments in a single year.

Table-9.6: Pakistan's Public External Debt Servicing (US Dollar in million)

Years	Actual Amount Paid	Amount Rolled Over	Total
2008	3,182.6	1,200.0	4,382.6
2009	4,747.2	1,600.0	6,347.2
2010	4,607.0	1,723.0	6,330.0
2011	3,947.7	1,488.0	5,435.7
2012	4,507.3	1,543.0	6,050.3
2013	6,485.1	700.0	7,185.1
2014*	5,388.3	-	5,388.3

Source: State Bank of Pakistan and Debt Policy Coordination Office Staff Calculations
*July-March

During July-March, 2013-14, the servicing on external debt was recorded at US$ 5,388 million. An amount of US$ 4,747 million was paid against principal, out of which, US$ 2,519 million was against IMF loans. Interest payments were recorded at US$ 642 million during first nine months of current fiscal year.

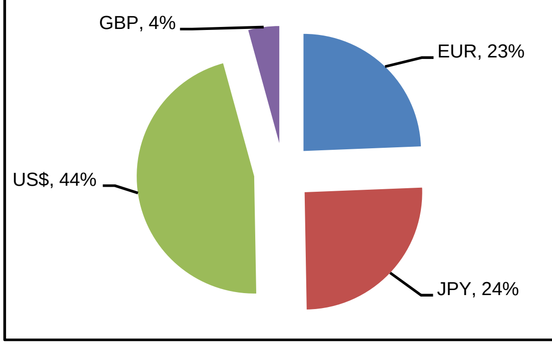
9.4.3 Impact of Exchange Rate Fluctuations

In Pakistan, external loans are contracted in various currencies but disbursements are effectively converted into Pak Rupee. As Pak Rupee is not an internationally traded currency, the other currencies are bought and sold via selling and buying of US Dollar. Hence, the currency exposure of foreign debt originates from two sources: US Dollar/other foreign currencies and Pak Rupee/US Dollar. This two-pronged exchange rate risk has been a major source of increase in the stock of EDL over a period of time in contrast to actual inflows.

As at end March, 2014, around 95 percent of total external debt is contracted in 4 major currencies (adjusted for Special Drawing Rights) as depicted in the graph 9.7.

During first nine months of current fiscal year, depreciation of the US Dollar against other major currencies caused the foreign currency component of public debt to increase by US$ 275 million. Appreciation of Euro and Special Drawing Rights against US Dollar contributed in translational loss of US$ 269 million and US$ 455 million, respectively. However, this loss was reduced by US$ 431 million due to appreciation of US Dollar against Japanese Yen.

Fig-9.7: Currency Wise Composition of External Debt - March 31, 2014

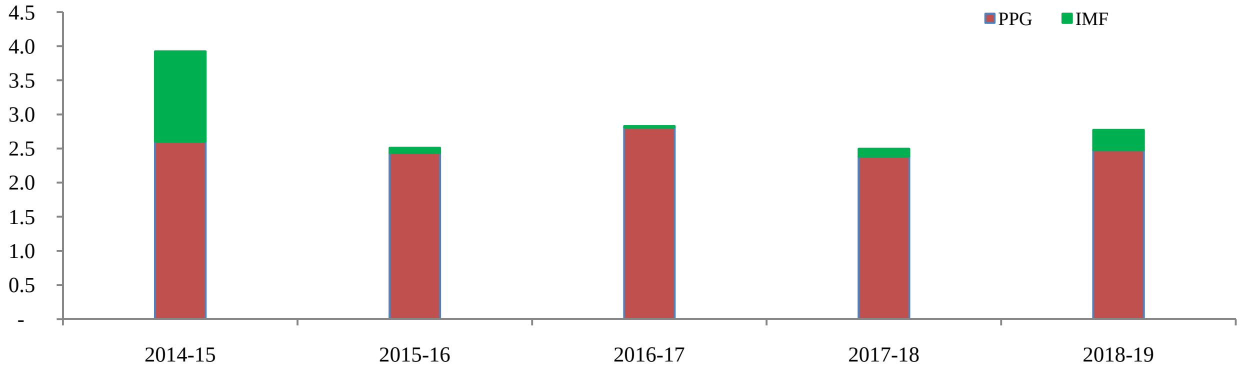


Managing foreign exchange risk is a fundamental component of a prudent debt management strategy. A comprehensive foreign exchange risk management requires establishing and implementing sound and prudent foreign exchange risk management policies and control procedures. If currency movements over a longer period of last 20 years is analyzed, though the cost of foreign currency borrowing adjusted for exchange rates movement has been 1.5 percent lower than the average domestic interest rates, the saving on this account could have been higher had the government adopted a currency hedging framework.

9.4.4 Maturity Profile of External Debt

Average Time to Maturity (ATM) of Public and Publically Guaranteed debt was approximately 10.8 years as of March 31, 2014. The ATM including IMF loans stood at 10.3 years. The ATM reduced with the inclusion of IMF loans as heavy repayments against these loans are due in 2014-15 with comparatively reduced projected outflows thereon.

Fig-9.8: Medium Term Projected Principal Repayments (US$ in billion)



9.4.5 External Debt Sustainability

Managing the levels of external debt and the risks associated with them pose policy makers with a different set of challenges. A key component of external debt sustainability analysis is to estimate the path of a country's external debt stock over time. The increase in interest rates, depreciation of exchange rate and higher current account deficit can increase stock of external debt. In crisis situations, countries can have recourse to debt restructuring or reduction, but such action cannot be a regular means of dealing with external financing problems, as it affects access to new financing. Thus, a good tracking system in the form of debt sustainability analysis based on key macroeconomic indicators can predict and prevent debt problems.

Analysis of the current account deficit provides important clues as to the future direction of the external debt path. Higher current account in the absence of offsetting increases to current transfers and non-debt creating capital flows can add to the stock of external debt. Similarly, any increase in interest rates and exchange rate depreciation will increase the debt servicing cost of the country and will affect the public external debt portfolio. External Debt and Liabilities expressed as a percentage of GDP might be a common means of measuring the indebtedness of an economy, but repayment capacity is more accurately captured through expressing the levels of debt as a percentage of the economy's foreign exchange earnings and foreign exchange reserves. In this case, if the growth in FEE exceeds the growth in EDL, the ratio of EDL-to-FEE will continue to decline.

Table-9.7: External Debt Sustainability

(In percent)	2008	2009	2010	2011	2012	2013	2014*
Non Interest Current Account/GDP	(6.9)	(4.4)	(1.4)	0.8	(1.3)	(0.5)	(0.5)
Growth in Exports	18.2	(6.4)	2.9	28.9	(2.6)	0.4	3.2(1)
Growth in Imports	31.2	(10.3)	(1.7)	14.9	12.8	(0.6)	3.7(1)
Growth in EDL	14.9	13.4	17.6	7.8	(1.3)	(8.7)	(0.9)(1)
Growth in FEE	12.8	(5.1)	7.9	25.1	1.1	4.1	0.2(1)
Growth in Non Interest Foreign Currency Payments	27.2	(12.8)	(4.9)	13.3	11.4	0.4	2.4(1)
EDL/FEE (times)	1.2	1.5	1.6	1.4	1.4	1.2	1.6
EDL/FER (times)	4.0	4.2	3.7	3.6	4.3	5.4	6.0
EDL/GDP	27.1	31.1	34.7	31.0	29.2	26.1	25.2
EDL Servicing/FEE	11.8	18.0	16.6	11.4	12.5	14.3	14.2

Source: Debt Policy Coordination Office Staff Calculations, Finance Division
*: end March, 2014.
(1): Growth compared to equivalent period in 2013
FEE: Foreign Exchange Earnings; EDL: External Debt and Liabilities; FER: Foreign Exchange Reserves

Due to improved trade balance (higher cotton prices) in 2010-11, non interest current account showed a surplus of 0.8 percent of nominal GDP. Afterwards, non interest current account posted a deficit of 1.3 percent and 0.5 percent of GDP in 2011-12 and 2012-13, respectively owing to high value of oil imports. During first nine months of current fiscal year, non interest current account showed a deficit of 0.5 percent of GDP as compared with a deficit of 0.2 percent during the same period last year.

EDL as a percentage of FEE gives a measure of a country's debt repayment capacity. Pakistan's EDL and its servicing in terms of FEE stood at 1.2 times and 14.3 percent during 2012-13 which is within the acceptable threshold of 2 times and 20 percent. During first nine months of current fiscal year, EDL and its servicing in terms of FEE stood at 1.6 times and 14.2 percent, respectively.

A decrease in EDL in relation to foreign exchange reserves reflects the consolidation of foreign exchange reserves and a general improvement of the country's repayment capacity or vice versa. On the onset of IMF-SBA, the ratio declined to 3.7 in 2009-10 as EDL growth slowed and foreign exchange reserves shored up. The ratio improved slightly in 2010-11 mainly because of stagnation in reserves and lower growth in EDL stock. However, it showed downward trend during last two years and recorded at 5.4 times as on June 30, 2013 mainly because of drawdown on reserves owing to repayments of IMF loans and other lower non-debt creating flows. During first nine months of current fiscal year, this ratio was further deteriorated and recorded at 6 times as compared with 5 times during the same period last year.

EDL as a percent of GDP stood at 26.1 percent by end June, 2013 compared with 29.2 percent in 2011-12. This improvement was mainly due to hefty repayment against IMF loans and translational gain on account of US Dollar appreciation against other major currencies. By end March 2014, EDL as a percent of GDP further improved and stood at 25.2 percent mainly again due to hefty repayments against IMF loans and faster growth in nominal GDP in relation to slower growth in external debt.

9.5 Pakistan's Link with International Capital Market

Pakistan has successfully tapped international capital market after a gap of 7 years which highlights investors' confidence in the recent changes in country's leading economic indicators, external finances and structural reforms undertaken by the government. Against the initial expectations of raising US$ 500 million, the investor response was overwhelmingly strong and the order-books were oversubscribed consisting of over 400 orders from high quality investors. After a careful consideration, it was decided to raise financing of US$ 2 billion including US$ 1 billion each in 5 and 10 years tenor with coupon at 7.25 percent and 8.25 percent, respectively. The transaction represents the largest ever international bond offering by Pakistan. The region and investor wise break-up of these bonds are depicted through the following graphs:

Fig-9.9: Distribution of 5 Years Bonds Across Geographical Regions

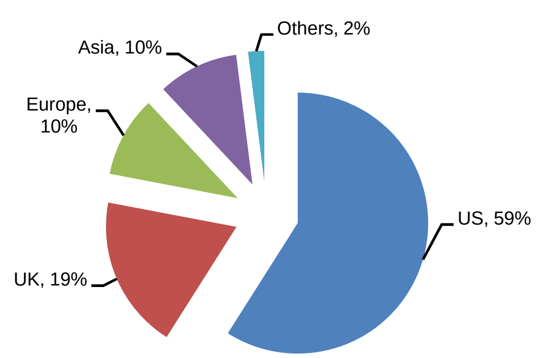


Fig-9.10: Distribution of 10 Years Bonds Geographical Region

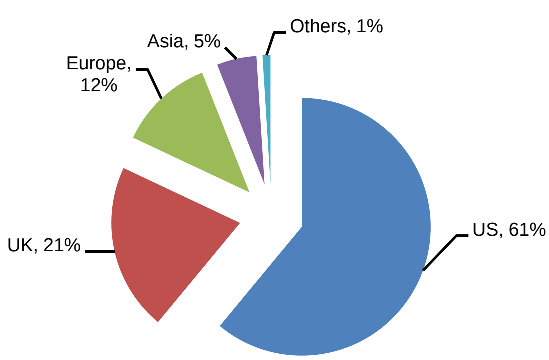


Fig-9.11 - Distribution of 5 Years Bonds Across Investors

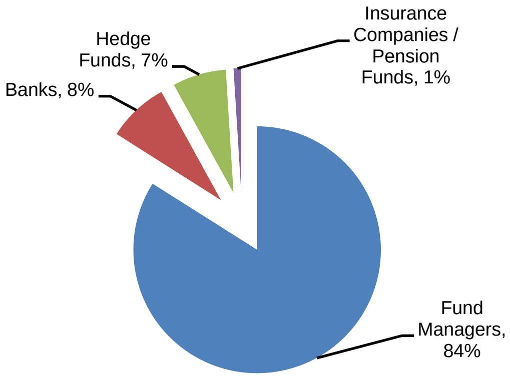
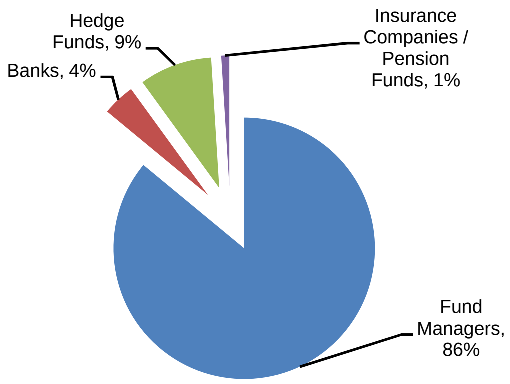


Fig:-9.12 - Distribution of 10 Years Bonds Across Investors



Pakistan's bonds have performed well in secondary market with spreads and yields of the recently issued bonds have tightened since issue.

Table-9.8: Selected Secondary Market Benchmarks

Issuer	Ratings (Moody's/S&P)	Coupon (%)	Maturity	Yield (%)
Pakistan	Caa1/B-	7.125	March 2016	6.266
Pakistan	Caa1/B-	6.875	June 2017	6.598
Pakistan	Caa1/B-	7.250	April 2019	7.248
Pakistan	Caa1/B-	8.250	April 2024	8.399
Pakistan	Caa1/B-	7.875	March 2036	9.392

Source: Bloomberg as on May 06, 2014

Fig - 9.13 Spread Performance of Pakistan Eurobond

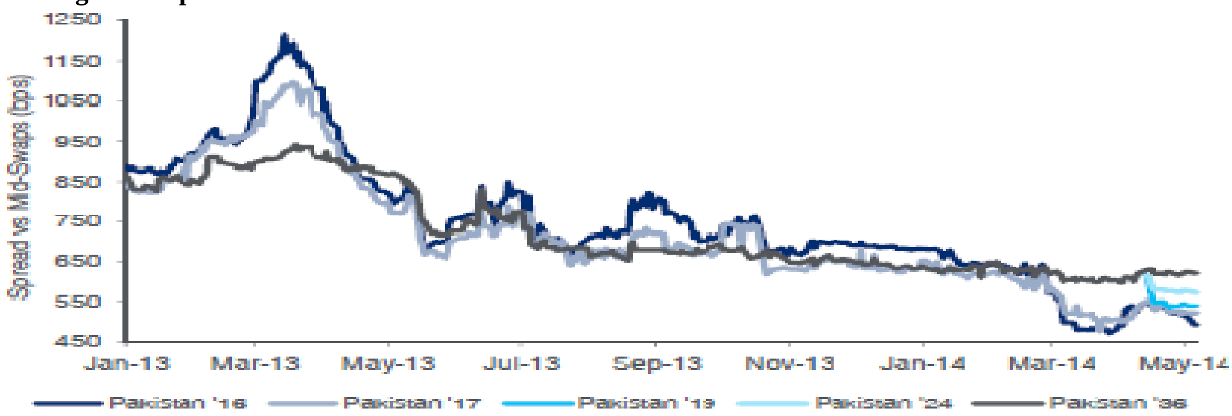
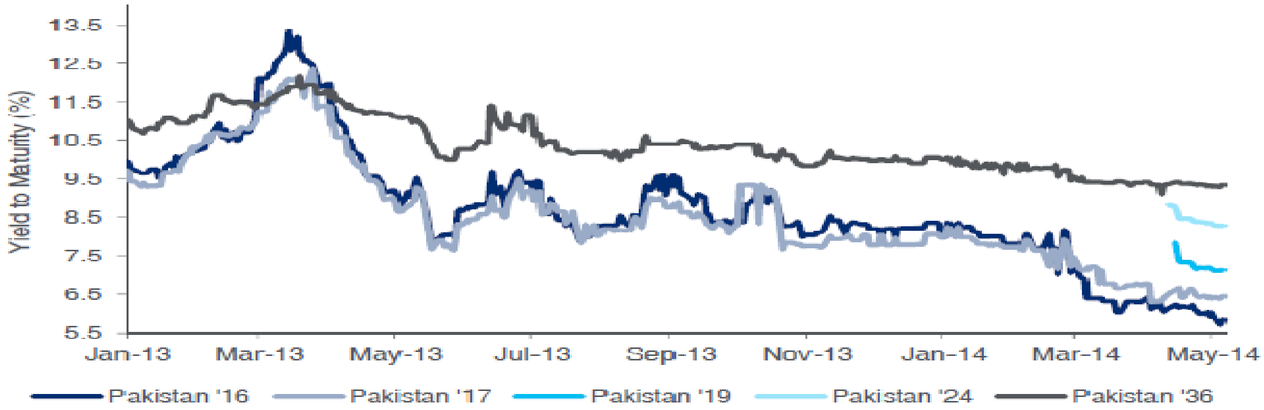


Fig - 9.14 Yield Performance of Pakistan Eurobond



9.6 Conclusion

Present government is committed to accomplish objectives outlined in Fiscal Responsibility and Debt Limitation Act, 2005. Accordingly, it has taken various corrective measures to effectively manage public debt portfolio. Going forward, the prime objectives of public debt management include: (i) fulfilling the financing needs of the government keeping in view cost-risk tradeoffs; (ii) development of domestic debt market (iii) lengthening of maturities of debt instruments; and (iv) stimulation of external inflows. Further, it is important for the government to adopt an integrated approach for economic revival and debt reduction, which will require some difficult trade-offs in the short-term, thus implementing structural reforms that boost potential growth is a key to ensure debt sustainability

Education

Introduction

Education is a form of learning in which the knowledge, skills and habits of group of people are transferred from one generation to the next generation through teaching, training, or research. Education is a social instrument through which man can guide his destiny and shape his future. A knowledge society can be build by making the education process more effective which in turn provide foundations for socio-economic development of the country. Hence, the role of education has become centric to develop knowledge economy since literate and skilled citizen play a pivotal role in the development/prosperity of the country.

To obtain the objective of educated and skilled human resource, large investment in education is very important as education would help the stakeholders in changing their mindset to get maximum literacy rate. Private and public development sectors have to fulfill their corporal social responsibilities in education sector. The linkage of education with the industrial/ commercial sectors would open the avenues of development and employment. They need to establish state of the art educational institutions in the premises of their set-up/organization. Hence, there is need to develop a strong interaction between the industries and academy as academic-industrial linkage is the foundation stone for innovation and technology development which certainly leads the country to economic growth.

According to Article 25-A of the Constitution of Pakistan, the state should provide free and compulsory education to all the children between 5 and 16 years of age in Pakistan. Similarly, Pakistan is also a signatory to various international conventions on education, including the education for All in 1990 and Millennium Development Goals (MDGs) joint declaration on Education and the Dakar Framework for Action (April 2000). These conventions make it mandatory for the state to ensure that the fundamental right of education is provided to all its citizens without any discrimination.

As per National Educational Policy 2009, our education system focused on to provide quality education to our children and youth to enable them to realize their individual potential and contribute to development of society and nation, creating a sense of Pakistani nation, the concepts of tolerance, social justice, democracy, their regional & local culture and history based on the basic ideology articulated in the Constitution of the Islamic Republic of Pakistan.

In view of the 18th Amendment, the country's federating units; including Azad Jammu and Kashmir signed a joint declaration on education to abide by all the international commitments, including the MDGs. The provincial governments also affirmed their commitments in true spirit to implement legislation on children's right to free and compulsory education.

Role of Private Sector in Education

In the rural areas of Pakistan, almost 74 percent students attend public schools while 26 percent students attend private schools including Madrasah etc and in urban areas 41 percent go to public schools while 59 percent students attend private schools including Madrasah etc. The contribution of private sector is very low as compared to other countries of the region. At national level with the collaboration of provincial governments, some corrective measures are needed to encourage private sector which can be beneficial in increasing the number of students' enrollment as well as, can create a competition among public and private educational institutions especially in the rural areas of the country. The parents will have the opportunity to send their children to the best institutions either in public or private sector.

Millennium Development Goals (MDGs) of Education

Primary education plays a crucial role in the whole education system. It lays foundation for secondary, college and tertiary education. An effective and efficient process at primary level would be helpful to attain the goal of another cycle of secondary education. It is now widely accepted that development of human capital (education and skills) is critical to a country achieving growth and prosperity and improving human development outcomes. The Government of Pakistan is fully committed towards the achievement of the MDGs Goal 2 and Goal 3 which focus towards development of education.

Goal 2: To Achieve Universal Primary Education (UPE)

Target: MDG 2 aims to achieve 100 percent primary school enrolment, 100 percent completion of education from grades 1-5 and an 88 percent overall literacy rate. The target is aimed to be achieved by 2015, for which joint efforts are being made at both federal and provincial level to increase the enrollment at primary level. During 2013-14, the federal government budget for education was Rs. 59.28 billion while PSDP of federal government was Rs.5.72 billion for the expansion and development of Basic and College Education. In addition, the provincial governments have also allocated Rs. 59.440 billion to accelerate the pace of education at all levels and to achieve the MDGs targets. The achievements made up to 2012-13 are given in the Table 10.1 and 10.2.

Table 10.1: Progress towards Goal 2 at National Level (Percentage)

Indicator	1990-91 (Bench Mark)	2001-02	2004-05	2007-08	2010-11	2011-12	2012-13	MDG Target 2015
Net Primary Enrolment Ratio (5-9 Years)	46	42	52	55	56	57	57	100
Completion/Survival rate Grade 1 to 5	50	57	67	52	49	50	-	100
Literacy Rate (%) 10 years and above	35	45	53	56	58	58	60	88

Source: Pakistan Social and Living Standards Measurement (PSLM) Survey 2012-13.

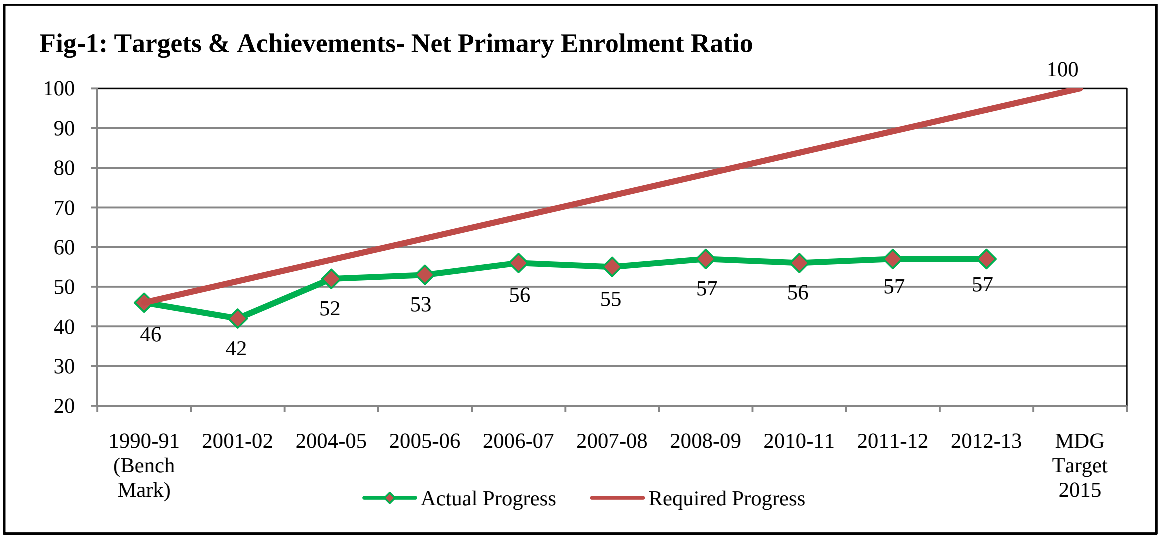


Table 10.2: Progress towards Goal 2 by 2012-13 at Provincial Level (percentage)

Indicators	National	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan
Net Primary Enrolment Rate (5-9 Years)	**Total: 57** Male: 61 Female: 54	**Total: 62** Male: 64 Female: 60	**Total: 52** Male: 56 Female: 48	**Total: 54** Male: 59 Female: 48	**Total: 45** Male: 54 Female: 35
Completion/Survival Rate 1 grade to 5	-	-	-	-	-
Literacy Rate (%) 10 years and above	**Total: 60** Male: 71 Female: 48	**Total: 62** Male: 71 Female: 54	**Total:60** Male: 72 Female: 47	**Total: 52** Male: 70 Female: 35	**Total: 44** Male: 62 Female: 23

Source: Pakistan Social and Living Standards Measurement (PSLM) Survey 2012-13

Goal 3: Promoting Gender Equality and Women Empowerment

Target: MDG 3 promotes gender equality in education and aims to eliminate gender disparity in primary and secondary education by 2005, and at all levels of education by 2015. MDG 3 focuses upon the key challenges faced by women in three major areas; education, employment and political participation. Female education not only results in having access to labour opportunities, good wages but also directly affects their children in attaining higher education and also reduces mortality rates in a way that educated women posses better understanding relating to health related issues. The targets to be achieved by 2015 and achievements made up to 2012-13 are given in the Table 10.3 and 10.4.

Table10.3: Progress towards Goal 3 at National Level (percentage)

Indicators	1990-91 (Bench Mark)	2001-02	2005-06	2008-09	2010-11	2011-12	2012-13	MDG Target 2015
Primary Education (Age 5-9 Years)	0.73	0.82	0.85	0.88	0.88	0.90	0.89	1.00
Secondary Education (Age 14-15 Years)	n/a	0.75	0.78	0.81	0.85	0.81	0.89	0.94
Youth Literacy (Age 15 years and above)	0.51	0.65	0.74	0.78	0.63	0.81	0.82	1.00

Source: Pakistan Social and Living Standards Measurement (PSLM) Survey 2012-13.

Fig-2 : Targets & Achievements- GPI Youth Literacy

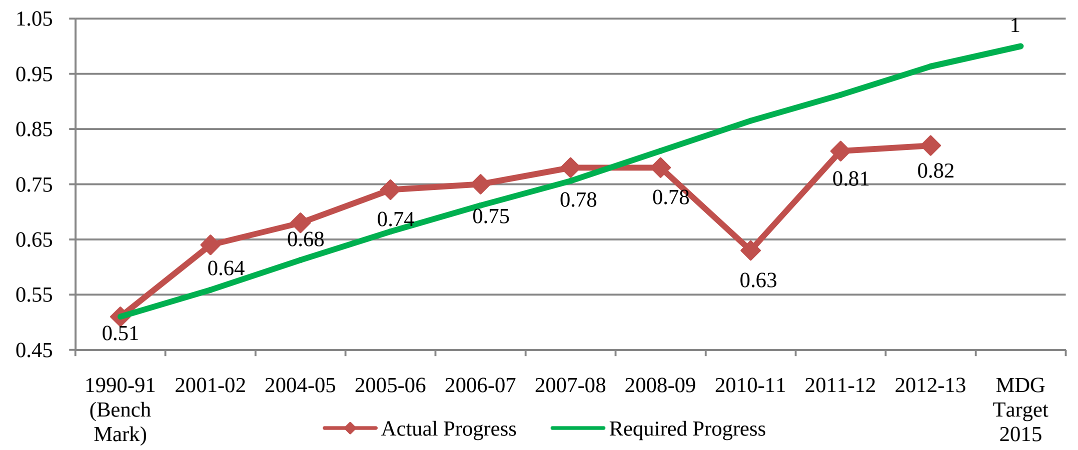


Table 10.4: Progress towards Goal 3 by 2012-13 at Provincial Level (percentage)

Indicators	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan
Primary Education (Age 5-9 Years)	0.93	0.86	0.81	0.65
Secondary Education (Age 14-15 Years)	1.00	0.82	0.68	0.52
Youth Literacy (Age 15 years and above)	0.90	0.78	0.61	0.46

Source: Pakistan Social and Living Standards Measurement (PSLM) Survey 2012-13.

Box-1: Millennium Development Goals Acceleration Framework (MAF) [2013-16]

Ministry of Education, Trainings & Standards in Higher Education, Government of Pakistan has developed a National Plan of Action for MDGs Acceleration Framework (MAF) 2013-16. The National Education Plan focusing on; (i) bringing in maximum number of primary age, out of school children to be enrolled in formal and non-formal schools through provision/expansion of schools, awareness campaigns, etc (ii) increase retention in primary grades through provision of proper teaching-learning environment, textbooks, other incentives, etc., (iii) improve quality of education through teachers' training, community participation, etc. and (iv) specific provision of other incentives (e.g. stipends, food for education, uniforms, etc) to retain children from most disadvantaged/rural/remote areas, especially girls. To achieve the target, total plan costs Rs.784 billion and during this period 1,326,905 new schools will be enrolled in the country.

The National Plan of Action estimates a total 6.7 million primary-aged out-of-school children during 2013-16. Of these 5.06 million children are expected to be enrolled in the country. For this, the gross national cost estimate is Rs. 189 billion i.e. around US $ 2 billion. The Government of Pakistan is committed to gradually increase the allocation to education from the present 2% of GDP to 4% of GDP by 2018.

In this, the provincial allocations to primary education will have to be substantially increased to reach out to the disadvantaged groups such as rural and remote areas, urban poor, girls, ethnic minorities, etc.

Source: National Plan of Action 2013-16, Ministry of Education, Trainings & Standards in Higher Education

National Education Policy

To address the challenges facing at different level of education and to achieve MDGs targets, the National Education Policy (NEP) 2009 also emphasized the need for education reforms addressing financing issues of the sector which the federal as well as provincial governments are trying hard to increase and to meet the requirements. Significant reforms include:

- Strengthening the planning and implementation capacity of the government
- Improving utilization of resources by educational institutions
- Enhancing governance for greater accountability of education service providers to the country
- Capacity building of district and local level institutions
- Strengthening the role of communities through community schools.

After implementation of 18th Constitutional Amendment, education became the responsibility of the provincial/district governments. NEP 2009 reveals that the policy making shall remain a national function with participation from the federal government and the provincial/district governments in a national forum; and the Inter-Provincial Education Ministers' (IPEM) shall oversee the implementation of NEP 2009 and review its progress periodically.

The first IPEM Conference was held on 11th February, 2014 represented by all the provinces/regions. During the conference, establishment of the "National Curriculum Commission" was proposed in order to maintain a uniform standard of education all over the country.

Challenges

The basic and college education in Pakistan is facing various challenges. These challenges comprised as following:

- After 18th Amendment, a framework development is required to integrate initiatives taken by federal as well as provincial governments to achieve the given targets
- A comprehensive Human Resource Development policy is needed to be coherence with other socio-economic policies of the government
- Our education system in deeni madaris should be mainstreamed which enables the graduates of deeni madaris to compete in the job market
- In both public and private sector, a common curricula framework development is required in general as well as professional education
- In less developed areas, a comprehensive development plan of action is mandatory for improving education of the English language
- A comprehensive school language policy should be developed in consultation with provincial and districts governments and other stakeholders
- For future planning, an authentic and incorporated database should be developed for better appraisal of education indicators
- In order to attain the education goals, capacity building of teachers and head of institutions should be mandatory
- In the education sector, a transparent system for development and better utilization of private sector initiatives is needed.

Vision 2025 on Education

According to policy guidelines given in (Draft) Vision 2025 for Pakistan; aims at substantial expansion in access to education as well as making significant improvements in quality of education. Pakistan ranks 113th out of 120 countries in the UNESCO's Education for All Education Development Index. Pakistan's literacy rate 60 percent lags well behind the country's neighbours. According to UNESCO's Education For All (EFA) Global Monitoring report 2013, Pakistan has almost 5.5 million out of school children, the second highest number in the world after Nigeria. There is a high dropout rate at the primary, secondary and tertiary level. Annual expenditure is very low as hardly 2.0 percent of its GDP on education. A high proportion of this allocation is spent on salaries and other administrative expenses, leaving a small amount for betterment of education. The quality of education is a serious challenge; poorly qualified and untrained teachers, irrelevant curriculum, non availability of textbooks, shortage of other learning materials, insufficient space due to which learning levels are low, teacher's absenteeism are the main issues.

According to (Draft) Vision 2025, development of a society in which every child, youth and adult must have access to quality education without discrimination. Provinces will lead the education development with active support from the federal government. The provincial governments showed their commitments to increase their education budget spending. Curriculum reform and modernized teaching methods will improve the quality of education. Quality of teaching in public schools will be improved by providing capacity building training arrangements; accreditation and certification procedure of the institutions should be standardized and institutionalized. The significance of the curriculum will be improved to reduce the dropout rate and special effort will be made to increase the enrolments of girls by providing special incentives, protection and as well as to reduce the dropout rates.

The 11th Five Year Development Plan (2013-18) is under preparation and emphasizes on technical education. Vocational and technical education numbers will be increased to 50 percent of all secondary enrolment by 2025. Technical and Vocational Education institutions should collaborate with businesses in identifying equipment and teaching materials in accordance with skills required by businesses (Re-engineering the curricula). Vocational training facilities, Polytechnic Institutions should be established at federal and provincial level on needs basis. Secondary education enrolment will be increased from 5 percent to 10 percent. Higher Education Commission will assist the development of universities and colleges by providing quality university education through merit scholarships, research, and de-politicization of university campuses and good governance.

Vision 2025 Education Goals

Indicators	Latest National Value	Target 2025
Net Primary Enrolment Ratio (%)	57	100
Completion/Survival rate Grade1 to 5 (%)	50	100
Literacy Rate (%)	60	90

Literacy

Literacy rate is one of the important indicator of education as its improvement is likely to have a long run impact on other important indicators of national welfare. According to the latest Pakistan Social and Living Standards Measurement (PSLM) Survey 2012-13, the literacy rate of the population (10 years and above) is 60 percent as compared to 58 percent in 2011-12. Literacy is higher in urban areas than in rural areas and much higher among male. Province wise data suggests that Punjab leads with 62 percent followed by Sindh with 60 percent, Khyber Pakhtunkhwa with 52 percent and Balochistan with 44 percent. The details are given in Table 10.5.

Table 10.5: Literacy Rate (10 Years and Above)-Pakistan and Provinces (percent)

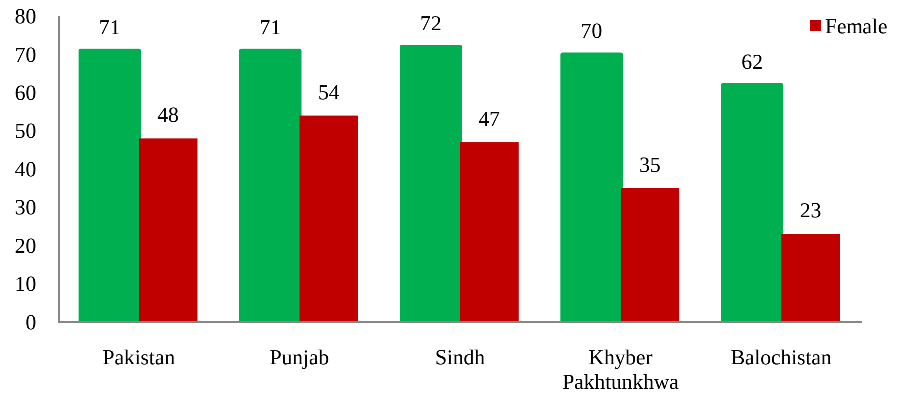
Province/Area	2011-12			2012-13		
	Male	Female	Total	Male	Female	Total
Pakistan	**70**	**47**	**58**	**71**	**48**	**60**
Rural	64	35	49	64	37	51
Urban	82	68	75	82	69	76
Punjab	**70**	**51**	**60**	**71**	**54**	**62**
Rural	65	41	52	66	45	55
Urban	80	70	75	82	72	77
Sindh	**72**	**47**	**60**	**72**	**47**	**60**
Rural	58	23	41	59	22	42
Urban	85	70	78	84	70	77
Khyber Pakhtunkhwa	**72**	**35**	**52**	**72**	**35**	**52**
Rural	70	31	50	69	31	49
Urban	80	51	65	78	52	66
Balochistan	**65**	**23**	**46**	**62**	**23**	**44**

Table 10.5: Literacy Rate (10 Years and Above)-Pakistan and Provinces (percent)

Province/Area	2011-12			2012-13		
	Male	Female	Total	Male	Female	Total
Rural	60	16	40	55	15	37
Urban	79	44	62	81	47	65

Source: Pakistan Social and Living Standards Measurement Survey, 2012-13

Fig-10.3: Literacy Rates



Primary Enrolment Rates

A. Gross Enrolment Rates

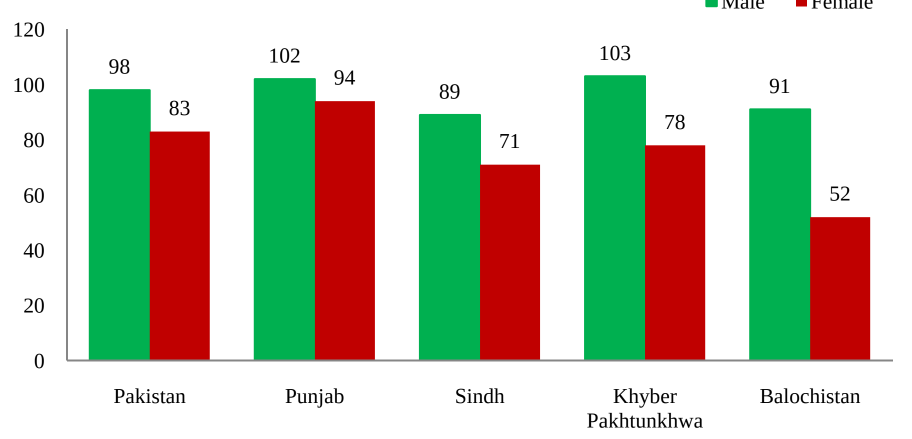
Gross Enrolment Rates (GER) referred to the participation rate of children attending primary schools divided by the number of children aged 5 to 9 years. GER at the primary level excluding Katchi (prep) for the age group 5-9 years at national level during 2012-13 remained at 91percent. Province wise data suggests that Punjab remained stable with Primary level GER at 98 percent; Sindh showed improvement to 81 percent in 2012-13 against 79 percent in 2011-12 and Khyber Pakhtunkhwa also improved to 91 percent in 2012-13 against 89 percent in 2011-12 while Balochistan also witnessed improvement from 73 percent in 2012-13 as compared to 69 percent in 2011-12. The details are given in Table 10.6.

Table 10.6: National and Provincial GER (percent)

Province/Area	2011-12			2012-13		
	Male	Female	Total	Male	Female	Total
Pakistan	**97**	**83**	**91**	**98**	**83**	**91**
Punjab	103	93	98	102	94	98
Sindh	87	71	79	89	71	81
Khyber Pakhtunkhwa	99	78	89	103	78	91
Balochistan	86	49	69	91	52	73

Source: Pakistan Social and Living Standards Measurement Survey, 2012-13

Fig-10.4: Gross Enrollment Rate



B. Net Enrolment Rates

Net Enrolment Rates (NER) at the primary level refers to the number of students enrolled in primary schools of age 5 to 9 years divided by the number of children in the same age group for that level of education. In Pakistan, the official primary NER is the number of children aged 5 to 9 years attending primary level (1-5) divided by the total number of children aged 5 to 9 years.

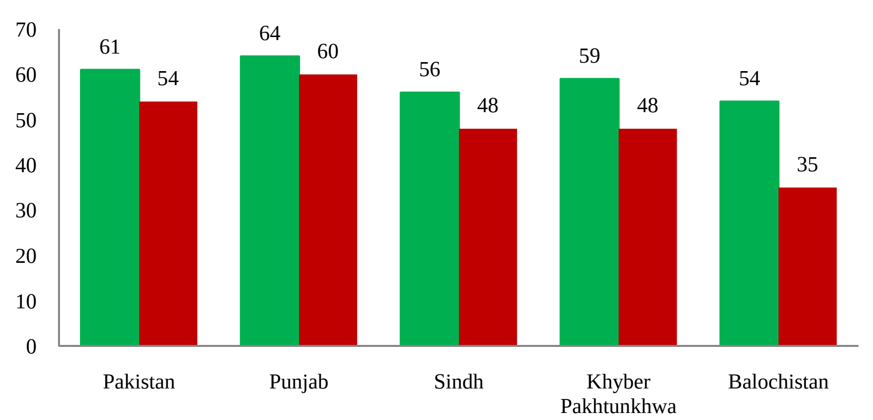
Table 10.7 show the net primary level enrolment rates at the national/provincial (excluding prep/Katchi class) level for the age group 5-9 years. NER at the national level during 2012-13 remained at 57 percent. Province wise comparison reveals that Punjab witnessed 62 percent in 2012-13 as compared to 64 percent in 2011-12. Sindh showed improvement at 52 percent in 2012-13 as compared to 50 percent in 2011-12; Khyber Pakhtunkhwa witnessed a slight improvement at 54 percent in 2012-13 as compared to 53 percent in 2011-12 while Balochistan witnessed a prominent improvement at 45 percent in 2012-13 as compared to 39 percent in 2011-12.

Table 10.7: National and Provincial NER at Primary Level (percent)

Province/Area	2011-12			2012-13		
	Male	Female	Total	Male	Female	Total
Pakistan	**60**	**54**	**57**	**61**	**54**	**57**
Punjab	65	62	64	64	60	62
Sindh	53	47	50	56	48	52
Khyber Pakhtunkhwa	59	48	53	59	48	54
Balochistan	48	28	39	54	35	45

Source: Pakistan Social and Living Standards Measurement Survey, 2012-13.

Fig-10.5: Net Enrollment Rates



Educational Institutions and Enrolment

i). Pre-Primary Education

Pre-Primary education is the basic step for Early Childhood Education (ECE). Prep or Katchi class is meant for children between 3 to 4 years of age. At national level, a decline of 2.4 percent was observed in Pre-Primary enrolment as it dropped to 9.28 million in 2012-13 as compared to 9.51 million in 2011-12. However, it is estimated to increase by 2.0 percent i.e. from 9.28 million to 9.47 million during 2013-14. [Table 10.8].

ii). Primary Education (Classes I-V)

At national level, a total of 158.6 thousands Primary Schools with 427.7 thousands teachers were functional in 2012-13. An increase of 0.5 percent in primary enrolment is witnessed as it increased to 18.8 million in 2012-13 against 18.7 million in 2011-12. However, it is estimated to remain stable to 18.8 million in 2013-14. [Table 10.8].

iii). Middle Education (Classes VI-VIII)

During academic year, a total of 42.1 thousand middle schools with 362.6 thousand teachers were functional in the whole country. At national level, an increase of 3.3 percent in middle enrolment is observed as it increased to 6.2 million in 2012-13 against 6.0 million in 2011-12. However, it is estimated to increase by 3.2 percent i.e. from 6.2 million to 6.4 million during 2013-14. [Table 10.8].

iv). Secondary Education (Classes IX-X)

During academic year, a total of 29.8 thousand secondary schools with 489.6 thousand teachers were functional in the whole country. At national level, an increase of 7.4 percent in secondary enrolment is estimated as it increased to 2.9 million in 2012-13 against 2.7 million in 2011-12. However, it is estimated to increase by 3.4 percent i.e. from 2.9 million to 3.0 million during 2013-14. [Table 10.8].

v). Higher Secondary / Inter Colleges (Classes XI-XII)

At national level, a total of 4.9 thousand higher secondary schools and inter colleges with 130.1 thousand teachers were functional in 2012-13. An increase of 7.7 percent in higher secondary enrolment is observed as it increased to 1.4 million in 2012-13 against 1.3 million in 2011-12. Moreover, it is estimated to increase by 6.4 percent i.e. from 1.4 million to 1.5 million during 2013-14 [Table 10.8].

vii). Technical & Vocational Institutes

During academic year, a total of 3.3 thousand technical and vocational institutes with 16.1 thousand teachers were functional in 2012-13. An increase of 4.3 percent enrolment is observed as it increased to 0.30 million in 2012-13 against 0.29 million in 2011-12. However, it is estimated to increase by 3.6 percent i.e. from 0.30 million to 0.31 million during 2013-14. [Table 10.8].

vii) Degree Colleges Education (Classes XIII-XIV)

At national level, a total of 1.5 thousand degree colleges with 47.9 thousand teachers were functional in 2012-13. An increase of 27.8 percent enrolment is observed as it increased to 0.63 million in 2012-13 against 0.50 million in 2011-12. However, it is estimated to increase by 21.7 percent i.e. from 0.63 million to 0.77 million during 2013-14. [Table 10.8].

viii) Universities Education (Classes XV onwards)

At national level, a total of 139 universities with 77.6 thousand teachers were functional in higher education (universities) during 2012-13. An increase of 20.8 percent in the enrolment of students is observed as it increased to 1.6 million in 2012-13 against 1.3 million in 2011-12. However, it is estimated to increase by 23.5 percent i.e. from 1.6 million to 2.0 million during 2013-14. [Table 10.8].

Overall Assessment

The overall education situation based on key indicators such as likely enrolments, number of institutes and teachers, has shown a slight improvement. The total number of enrolments during 2012-13 was estimated at 41.1 million as compared to 40.3 million during the same period last year. This shows an increase of 2.0 percent. It is estimated to increase to 42.2 million during 2013-14. The number of institutes stood at 240.3 thousands during 2012-13 as compared to 234.5 thousands during last year. This shows an increase of 2.5 percent. However, the number of institutes is estimated to increase to 243.8 thousands during 2013-14. The number of teachers during 2012-13 was estimated at 1.55 million as compared to 1.46 million during last year showing an increase of 6.2 percent. This number of teachers is estimated to increase further to 1.62 million during the year 2013-14. [Table 10.8].

Fig-10.6: Enrolment at each level

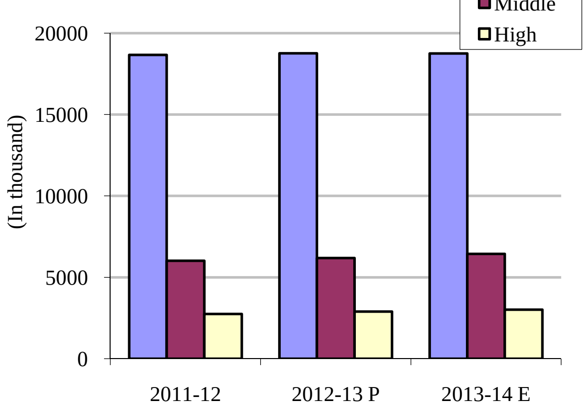
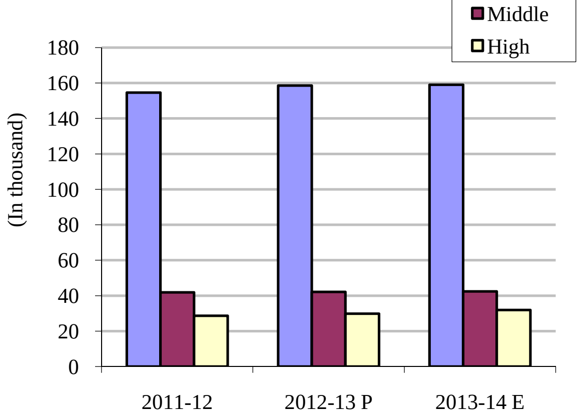


Fig-10.7: Institution at each level



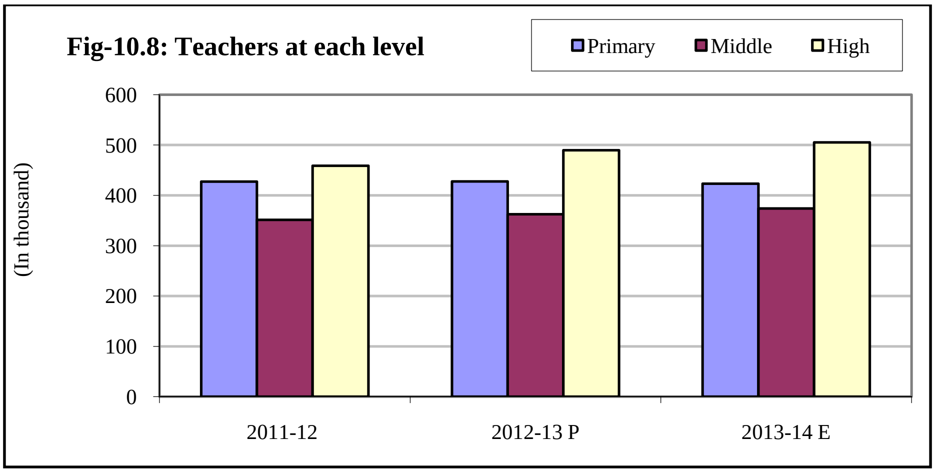


Table 10.8: Number of Mainstream Institutions, Enrolment and Teachers by Level (in thousands)

Year	Enrolment			Institutions			Teachers		
	2011-12	2012-13 (P)	2013-14 (E)	2011-12	2012-13 (P)	2013-14 (E)	2011-12	2012-13 (P)	2013-14 (E)
Pre-Primary	9513.5	9284.3	9468.6	-	-	-	-	-	-
Primary*	18667.4	18760.1	18756.3	154.6	158.6	159.0	427.4	427.7	423.1
Middle	6020.2	6188.0	6444.1	41.9	42.1	42.4	351.4	362.6	373.9
High	2753.0	2898.1	3015.7	28.7	29.8	31.9	458.7	489.6	505.1
Higher Sec./ Inter	1294.1	1400.0	1493.7	4.5	4.9	5.6	97.6	130.1	159.8
Degree Colleges	497.1	634.8	773.1	1.4	1.5	1.5	40.2	47.9	56.8
Technical & Vocational Institutes	289.8	302.2	313.2	3.3	3.3	3.3	15.8	16.1	16.4
Universities	1319.8	1594.6	1969.1	0.139	0.139	0.141	70.0	77.6	86.4
Total	**40354.9**	**41062.1**	**42233.8**	**234.539**	**240.339**	**243.841**	**146.1**	**1551.6**	**1621.5**

Source: Ministry of Professional & Technical Training, AEPAM, Islamabad
E: Estimated, P: Provisional, *: Including Pre-Primary & Mosque Schools

Comparative Analysis of Expenditure on Education

It is widely acknowledged that education is the single most important factor contributing to poverty alleviation. Education plays a vital role and has a cross cutting impact on all aspects of human life. Unfortunately, public expenditure on education as percentage of GDP is lowest in Pakistan (Fig-10.9) as compared to other countries of the South Asian Region. According to CIA World Fact book sheet, the public sector expenditure on education as percentage of GDP in other countries of the region is shown in Table-10.9 below:

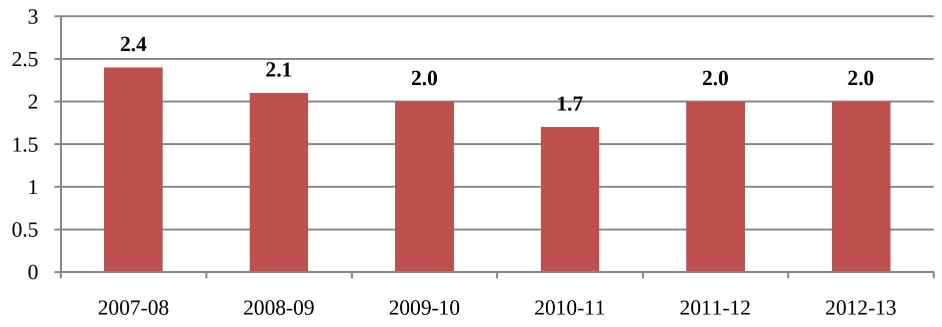
Table-10.9: Comparison of Public Sector Spending on Education

Country	Public Sector Spending (As % of GDP)	Literacy Rates In (%)
Bangladesh	2.4	59.8
Bhutan	4.8	52.0
India	3.1	73.8
Iran	4.7	85.0
Maldives	11.2	99.0
Nepal	4.6	66.0
Pakistan	2.0	60.0
Srilanka	2.6	91.2

Source: CIA World Fact book, Figures for latest available years

A country which is only dependent on fisheries & tourism i.e. Maldives has high literacy rate as it spends more than among SAARC region. A cursory look at the table indicate that Pakistan ranks at the lowest level i.e. 9th position in terms of expenditure on education amongst the South Asian countries of the region with a literacy rate of 60 percent placing the country at 7th position. Within the region, Bhutan has a worsed outcome on both indicators. So far as, the expenditure of education as percentage of GDP is concerned, the Government of Pakistan is fully committed to enhance the allocated resources to education sector by ensuring proper and timely utilization of funds in order to achieve the UNESCO target of 4 percent of GDP by 2018. The provincial governments are also spending sizeable amount of their Annual Development Plans (ADPs) on education to reach the targets.

Fig-10.9: Public Sector Expenditure as % of GNI in Pakistan



Development Programme 2013-14

Federal Public Sector Development Program (PSDP) 2013-14

During the fiscal year 2013-14, federal government has allocated Rs.59.28 billion for education against last year Rs.57.03 billion, an increase of 4.0 percent. PSDP allocation of federal government was Rs.5.72 billion for the expansion and development of Basic and College education. The development programs / projects are as follows:

- National Book Foundation (NBF) Head Office Building, Phase-II Islamabad, Rs.6.684 million
- Establishment of FG Degree College for Women at Bhara Kahu, Islamabad, Rs.11.250 million
- Strengthening of IMCG F-7/4, Islamabad. Rs.11.124 million
- Establishment of FG Degree College for Boys at Nowshera. Rs.6.650 million
- Capacity Building of Teacher Training Institutions & Training of Elementary School Teachers in ICT, "FATA, GB & AJ&K". Rs.104.532 million
- Educational Leadership and Institutional Management (ELIM) Phase-III Rs.15.00 million
- Establishment & Operation of Basic Education Community School in the Country. Rs.2342.792 million
- Financial Management for Good Governance (FMGG) Phase-II. Rs.16.192 million
- Improving Human Development Indicators in Pakistan. (Country wide).Rs. 2367.98 million
- Use of Data for Educational Planning & Management Using Computer Software for Education Managers. Rs.7.904 million
- Capacity Building of Teachers Training Institutions and Training of Elementary Schools Teachers in Balochistan Rs.106.00 million
- Capacity Building of Teachers Training Institutions and Training of Elementary Schools Teachers in Khyber Pakhtunkhwa Rs.103.279 million
- Capacity Building of Teachers Training Institutions and Training of Elementary Schools Teachers in Punjab. Rs.365.543 million
- Capacity Building of Teachers Training Institutions and Training of Elementary Schools Teachers in Sindh Rs. 150.00 million
- Award of 100 Scholarships to Bangladeshi Students in Engineering and Information Technology under Prime Minister's Directive All Pakistan. Rs.5.00 million
- Award of 400 scholarships to students from Indian Occupied Kashmir in the Fields of Medicine, Engineering and I.T. Rs.35.685 million
- Award of Cultural Scholarship to students from Other Countries. Rs. 3.00 million
- Merit, Scholarship for Minority Student (Phase-II) All over Pakistan. Rs.2.569 million

- Provision of Quality Education opportunities for students of Balochistan and FATA and 03 PMUs. Rs.52.640 million
- Construction of 96 Shelter Less Primary School Buildings of Southern Districts of AJ&K. Rs.296.808 million
- Reconstruction of 70 Non-strategy institutions (30 Primary, 20 Middle, and 20 High schools) Earth quake affected Damaged School Buildings, Provision of Furniture and other equipments in 7 districts of AJ&K. Rs. 493.192 million
- Establishment of Project Monitoring & Evaluation Cell. Rs. 2.00 million.

Provincial Annual Development Programs (ADPs) 2013-14

Punjab

During the fiscal year 2013-14, Punjab government has allocated Rs. 23.31 billion against last year Rs.15.00 billion, an increase of 55.0 percent for 22 development projects for education. It includes school education Rs.15.50 billion, higher education Rs. 6.67 billion and special education Rs.1.14 billion.

Box-2: Establishment of Daanish Schools

Education is one of the top priorities of the Government of Punjab. They have made various interventions which include efforts for compulsory primary education, stipend for girls, emphasis on teachers' training for which a separate task force has been constituted which has made admirable headway in ensuring continuous up-gradation of teachers' quality, encouraging talented but poor students through scholarships to continue higher education and also encouraging them with monetary rewards, and creating extra-curricular activities amongst students at all levels.

Another important step taken by the Punjab Government is to alleviate poverty through empowering human resource and providing access to free education to the extremely under privileged sections of the society. The concept of Daanish Schools is the outcome of this vision. The salient features of the program are:-

- To enable the poorest sections of the society to have access to quality education environment and enabling infrastructure.
- Daanish Schools are being established with an objective to provide quality education to children belonging to low income segments of the society especially of the less developed areas of Punjab.
- These residential schools will cater to the most underprivileged segments of community in the less developed areas of the Punjab, providing children with free and high quality education which so far had been the domain of private schools alone.

The Daanish schools are boarding schools and look after all the requirements of the students. Excellence in studies and teachers' quality is prime focus of Punjab Government to secure the maximum return for the investment made. The grooming of these children will have linkages within the society and be able to create awareness in the neighboring communities as a multiplier effect. So far, 14 Daanish schools have been established for each boys and girls at 7 district locations (Rahim Yar Khan, Hasilpur, Chistian, Mianwali, Jand, Fazilpur and Dera Ghazi Khan).

Some of the major sector initiatives / projects in Punjab are as follows:

- Provision of missing facilities in 2500 schools (Rs.7.5 billion)
- Provision of IT labs in Elementary and Secondary schools (Rs.1.0 billion)
- Rehabilitation of school buildings in 13 flood affected districts. (Rs. 500 million)
- Provision of furniture in high schools (Rs. 500 million)
- Establishment of 22 Primary schools in Tribal areas of D.G. Khan (Rs.110 million)
- Up-gradation of newly converted colleges into Ghazi University, D.G. Khan and 4 Universities at Sialkot, Faisalabad, Bahawalpur, and Multan (Rs.163 million)
- Provision of Missing / additional facilities in colleges (Rs.1364 million)
- Construction of building of Govt. Degree College of Special Education, Bahawalpur (Rs.38.181 million)

Sindh

During the fiscal year 2013-14, Sindh government has allocated Rs. 14.99 billion against last year Rs.12.00 billion, an increase of 25.0 percent for 86 on-going and 48 new development projects for education. It includes elementary education Rs.1.336 billion, teacher education Rs.187.000 million, Sindh education foundation Rs.100.000 million, secondary education Rs.8.186 billion, college education Rs. 3.181 billion and miscellaneous Rs.1.998 billion. Some of the major sector initiatives / projects in Sindh are as follows:

- Enhancing girls' enrollment through reopening of 400 closed schools, through Rural Support Programme
- Up-gradation of Primary schools to Middle schools in Sindh. (475 units)
- Introduction of Computer Education in Middle Schools in Sindh (230 units)
- Up-gradation of Boys Primary Schools to Middle Schools in Sindh (200 units)
- Construction of Compound wall in Existing primary Schools (68 units)
- Strengthening of Provincial Institute for Teacher Education (PITE) and Capacity building of Teachers
- Rehabilitation / Re-Construction & Provision of missing facilities in existing Elementary colleges / Colleges of Education in Sindh
- Establishment of Public Schools in Sindh (05 units)
- Up-gradation of Middle Schools to High schools in Sindh (115 units)
- Restoration of historical building of Noor Muhammad High School, Hyderabad
- Establishment of English Medium Schools in Sindh (25 units)
- Establishment of Comprehensive Schools in Sindh (23 units)
- Introduction of Post graduate courses in 12 existing Degree Colleges
- Establishment of Cadet College Gadop Town Karachi
- Establishment of Benazir Bhutto Shaheed Institute of Management Sciences, Dadu
- Establishment of Boys / Girls Degree College in Sindh (23 units)
- Establishment of Shaheed Mohtarma Benazir Bhutto Govt. College of Education at Larkana
- Establishment of 05 IBA Community Colleges
- Establishment and Provision of Missing Facilities in Existing Colleges in Sindh.

Khyber Pakhtunkhwa

During the fiscal year 2013-14, Khyber Pakhtunkhwa Government has allocated Rs. 11.66 billion against last year Rs. 7.12 billion, an increase of 63.0 percent for 55 ongoing and 26 new development projects in Basic and College Education. It includes elementary and secondary education Rs.8.132 billion and college education Rs.3.528 billion. Some of the major sector initiatives / projects in Khyber Pakhtunkhwa are as follows:

- Establishment of 200 Primary Schools (B&G) in Khyber Pakhtunkhwa
- Up-gradation of 120 Primary schools to Middle Schools (B&G) in Khyber Pakhtunkhwa on need basis (Phase-III)
- Establishment of 5 Model Schools in Khyber Pakhtunkhwa
- Strengthening of Planning Cell of Higher Education Department
- Establishment of 15 Government Colleges in Khyber Pakhtunkhwa for Boys and Girls (Phase-IV)
- Construction of PG, Science & IT Blocks in Government Colleges in Khyber Pakhtunkhwa
- Construction of Examination Hall, Administration Block, Additional Class rooms and Bus Garages in Government Colleges in Khyber Pakhtunkhwa
- Provision of Special / Major repair of Govt. College Buildings in Khyber Pakhtunkhwa
- Conversion of 100 Mosque Schools into Regular Primary Schools in Khyber Pakhtunkhwa
- Curriculum development in 5 Languages, composing and Printing of Curriculum and Manuals, Training of Master Trainers and Printing of extra books.

Balochistan

During the fiscal year 2013-14, Balochistan Government has allocated Rs. 10.15 billion against last year Rs. 2.15 billion, for 79 on-going and 16 new development projects in basic and college education which is 23.12 percent of total development budget. It includes primary education Rs.1.449 billion, middle education Rs.3.023 billion, secondary education Rs.1.720 billion, general education Rs.566.986 million and college education

Rs.1.556 billion. Some of the major Sector initiatives / projects in Balochistan are as follows:

- Establishment of 300 New Primary Schools in Balochistan Rs.1.00 billion
- Balochistan Education Support Project. Rs.387.650 million
- Up-gradation of 300 Primary Schools into Middle Schools. Rs.1.50 billion
- Construction of additional class rooms in existing schools. Rs.1.00 billion
- Provision of Missing Infrastructure in existing schools. Rs.500.0 million
- Education Support to Government of Balochistan. Rs.111.00 million
- Up-gradation of 300 Middle Schools into High Schools. Rs.1.00 billion
- Construction of Examination Halls, Labs & Libraries in High Schools of Balochistan. Rs.500.0 million
- Establishment of Cadet College Killa Saif-Ul-Lah at Nasai (Devolved). Rs.81.923 million
- Up-gradation of Girls Inter College, Jinnah Town Quetta to Degree level. Rs.40.00 million
- Provision of Missing infrastructure at all Balochistan Residential Colleges (BRCs) of Balochistan. Rs.150.00 million
- Provision of Missing infrastructure at all Cadet Colleges of Balochistan. Rs.150.00 million
- Provision of Missing infrastructure existing Colleges. Rs.500.00 million
- Scholarship Endowment Funds in Balochistan Education Foundation. Rs.50.00 million
- Establishment of Divisional Education Enclave at all Divisional Head Quarters of Balochistan. Rs.500.00 million.

Technical and Vocational Education

It is the need of time to enhance and upgrade technical and vocational education in the country to cater the labour demand in emerging sectors. In this context, the government is endeavoring to focus on enhancing productivity and skill development industries particularly in the SME sector and economic opportunities within and outside the country.

NAVTTC

The National Vocational and Technical Training Commission (NAVTTC) is an apex body and a national regulatory authority to address the challenges of Technical and Vocational Education and Training (TVET) in the country. It is involved in policy making, strategy formulation and regulation and revamping among various stakeholders existing at national as well as international level. During the fiscal year 2013-14, federal government has allocated Rs. 350 million for NAVTTC against last year Rs. 300 million witnessed an increase of 16.7 percent. Out of which Rs. 200 million (57 percent) has been released up to March, 2014 and Rs.78.88 million has been disbursed to 32 on-going projects throughout the country.

Achievements during July - March, 2014

- NAVTTC has drafted National Vocational and Qualification Framework (NVQF) which permits the vertical and horizontal mobility to the TVET Trainees in the vocational stream. It also recognizes the prior learning and envisions taken into the loop, the informal labor force that has learned skills through traditional-matter discipline (Ustaad-Shagird) method. The NVQF will be beneficial for students, employers and the government. The draft has been disseminated to all provinces; the final version of NVQF will be notified by December, 2014
- The National skill Strategy (NSS) 2009 to 2013 has been reviewed by NAVTTC and it was proposed that the NSS should be extended for another two years
- NAVTTC has constituted 29 “Industry Advisory Groups” (IAGs) in different economic sectors to bridge the gap between industries and TVET. IAGs helps in providing labour market information and competency standards for performing the job efficiently and within possible resource and time
- NAVTTC has notified competency standards in 4 sectors i.e. Hospitality, Garment Manufacturing, Beauty & Personal care and Fashion Designing prepared by ILO. In addition to, NAVTTC has also developed 10 Skill Standards and Curricula prepared by UNIDO. So far, 185 curricula’s have been developed; 24 of them pertaining to technical fields with duration of 3-years program (DAE) and remaining 161 curricula are for different certificate programs
- NAVTTC has established Inter-Provincial TVET Coordination Committee to ensure improvements and better coordination among the provinces and territories in the TVET Sector
- NAVTTC’s training policy envisages mainly important sectors. During July-March, 2014;

6,677 individuals were equipped with technical hand-on skills under President's Fanni Maharat program and Prime Minister's Hunarmand Pakistan Program collectively and 2,687 trainees are under training

- NAVTTC has accredited 28 TVET institutes/107 disciplines whereas 42 TVET institutes are in pipeline for assessment/accreditation with NAVTTC
- NAVTTC has prepared TORs for the members of the TVET Accreditation and Quality Evaluation Committee (TAQ & QEC) that supervises and grants final decisions on accreditation of the TVET programs and other relevant issues of Accreditation. 5th meeting of the TA & QEC was organized on 13th February, 2014 wherein accreditation status to 15 institutions containing 61 disciplines including DAE programs and Vocational Trades were awarded
- NAVTTC has maintained a pool of more than 275 technical experts having relevant qualifications and expertise in various disciplines and trades for on-going accreditation activities
- NAVTTC has organized Seven Accreditation Awareness Sessions in different cities i.e. Islamabad, Rawalpindi, Bahawalpur, Karachi, Quetta and Khyber Pakhtunkhwa. Whereas, the second phase of the same is scheduled in August-September, 2014 covering other provinces i.e. AJK, Gilgit Baltistan
- NAVTTC has successfully organized 04 days "ISO trainings" sessions from 27th to 30th January, 2014 for the capacity building of NAVTTC- Coordinators and Technical Trainers and staff.

Higher Education Commission

Higher Education Commission (HEC) has focused on improving access to quality higher education as a key element of its strategy to bring higher education revolution in the country. Since its inception in 2002, the Higher Education Commission (HEC) has been striving to encourage universities to play a greater role in the economic development of the country. After implementing the second five year plan of higher education sector, i.e. MTDF 2010-2015, HEC is focused on creating the knowledge capital and technology required to enable Pakistan to join the ranks of the industrially advanced countries. With the continuous support of Government of Pakistan, HEC has provided access to quality education to masses, upgraded teaching and research labs, provided merit and need based home-grown and foreign scholarship to the talented youth and free access to scientific literature through digital library.

Result of the reforms and investment has started giving dividends at national and international level. Seven universities of Pakistan have made it to the list of top 250 Asian Universities while three other universities are among the top 200 world universities in Agriculture and Forestry. More than 5,000 Pakistani scholars were facilitated to present their research work in leading international conferences abroad.

Enhancement of Access to Quality Education

Improved access to quality higher education can ensure the country to reap the benefits from globalization and increased productivity in the domestic production processes. Such productivity gains also results in a more equitable distribution of incomes thereby addressing the inherent inequities of the system. Increasing access to higher education also results in enormous social benefits through the development of a tolerant and inclusive society, crime control, civic responsibility and environmental awareness.

HEC's strategy to improve equitable access to higher education is based on the following objectives:

- To significantly increase enrolment in undergraduate and postgraduate degree programmes
- To provide opportunities for higher education to talented students regardless of gender or socioeconomic background
- To support quality distance education
- To introduce new areas of teaching and research in universities in response to market demands and projection of the future needs of the country
- To provide institutions with the necessary infrastructure to absorb an increased student population
- To provide on-campus residential opportunities to students so that deserving students are not deprived access to quality higher education

Public sector universities accommodate a major portion of the students while the contribution from private sector is about one-third in overall enrollment. During 2013-14, the enrollment in the higher education institutions was recorded the highest since the inception of HEC. Table 10.10

below shows the historical growth of enrollment in universities/degree awarding institutions.

Table- 10.10: Students Enrolment and Number of Degree Awarding Institutions (numbers)

Year	Number of Degree Awarding Institutions			Student Enrollment
	Public	Private	Total	
2000-01	37	22	59	276,274
2004-05	57	53	110	471,964
2008-09	70	57	127	803,507
2012-13	87	66	153	1,080,00
2013-14	87	69	156	1,230,000

Source: Higher Education Commission

Human Resources Development

Human Resources Development (HRD) is the process of increasing the knowledge, skills and capacities of all people in a society. South Asian region understand the new environment and growing complex competition and have the ability to provide appropriate responses to the challenges to survive and grow. HRD is the way to develop human resources skills in a society. The increasing requirement of skilled workers need modern paradigm shifts to develop high intellectual demands.

HEC's HRD programmes provide financial assistance to improve qualification in foreign universities of technologically advanced countries, fellowships to pursue higher studies in local universities, on merit and need base scholarships for students from less developed areas of the country. Following are the major projects for award of scholarships. The projects/ programmes of HEC are given in Table-10.11 below.

Table 10.11: Projects/Programmes (numbers)

Project Name	Total Planned	Availed	Completed	On-Board
Overseas Scholarships for MS/M.Phil leading to Ph.D. in Selected Fields (Phase-I)	800	742	496	246
Overseas Scholarships for MS/M.Phil leading to Ph.D. in Selected Fields (Phase-II)	2000	1425	695	730
HRD Initiatives MS leading to Ph.D. Program of Faculty Development for UESTPs/UETs (Phase-I)	1500	658	28	630
1000 Cuban Scholarships for Studies in General Comprehensive Medicine	1000	907	295	612
Provision of Higher Education Opportunities for Students from Balochistan and FATA	2010	2001	135	1866
PhD fellowship for 5000 Scholars (Phase-I)	5000	4736	3686	1052
Indigenous PhD fellowship for 5000 Scholars (Phase-II)	5000	1050	1046	04
Master Leading to PhD Scholarships Program (Indigenous and Overseas) for the Students of Balochistan (An Initiative of the Aghaz-e-Haqooq-e-Balochistan Package)	600	0	0	0
US-Need Based Merit Scholarship for Pakistani University Students enrolled in Agriculture and Business Administration study programs(USAID)	1807	1807	1350	257
PAK-USAID Merit and Needs Based Scholarship Program (Phase-II)	3000	0	0	0

Source: Higher Education Commission (HEC)

Box-3: Prime Minister Fee Reimbursement Program for Students from Less Developed Areas

The federal government, on the initiative of the Prime Minister of Pakistan has launched a scheme to support the students from less developed areas. The scheme is focused on enhancing opportunities for access to higher education especially to talented but financially constrained students belonging to remote and far flung areas of the country who despite possessing academic merit, are unable to finance their education. Under this innovative and special scheme, along with tuition fee, the federal government have paid other academic, incidental, or mandatory fees charged by educational institutions as one-off or on a per semester basis of Masters, MS/ M.Phil and Ph.D. students of selected areas. Under the programme, Rs.1200 millions will be paid as fee for 35,000 students.

Research and Development

The economic development of a country is directly related to the research and development, and to the quality of research being churned out by the universities. Higher Education Commission (HEC) executes programs and projects which ensure sustainable and progressive research culture. HEC has taken several initiatives during 2013-14 to enhance the role of research and development in higher education. The details are given below:

International Linkages

- Under HEC-BC INSPIRE project, 17 strategic partnerships have been established between Pakistan and UK, for duration of three years that are in their final year
- Under Pak-US Joint Academic and Research Project, 10 Pak-US linkages of three years duration were established in Phase-V. With the launch of Phase-V, a total of 65 collaborative research projects have been selected out of which 23 projects have been completed
- Under International Linkages with Foreign Universities, thirty one international research linkages were established with different countries for a duration of three years.

National Research Grants

- During July - March 2013-14, 115 national research projects were funded, under National Research Program for Universities, with a total cost of Rs.520 million for the maximum period of three years
- Under Travel Grants Program, 746 fresh cases have been approved during July – March 2013-14
- Under 'Seminars/Conferences Program, 138 fresh cases have been approved during July - March, 2013-14.

Resource Development

- Thirty two research awards have been distributed in four different categories during July-March, 2013-14 under "HEC's Outstanding Research Awards Series"
- One project was completed in "University Industry Technology Support Program" during July-March, 2013-14
- During July-March 2013-14, 07 Offices of Research, Innovation and Commercialization (OIRC) have been established. In total, 33 ORICs are working in various universities
- Five new Business Incubation Centers (BICs) have been approved while two of them have been established. So far, 13 BICs established has been established
- The impact factor published articles for the year 2013-14 are 7107. Content subscriptions are more than 10,000 in the form of e-journals and e-books. The numbers of institutes that are taking the facilities of National Digital Library Program are 500 in 2013. The H-Index for the research output from all the R&D organization and HEIs are 13 for the year 2013. From the total of 7107 impact factor articles, 1052 articles are produced from the directly funded program of HEC.

Learning Innovation at HEC

Learning Innovation Division (LID) is the hub for the In-Service Continuous Professional Development of HEIs Teaching Faculty and Management. With a two pronged objective it is spearheading initiatives for the In-Service professional quality enhancement of academia and their management through its core LI Department and two development projects National Academy of Higher Education (NAHE) and English Language Teaching Reforms (ELTR). The details of these initiatives are presented in Table 10.12.

Table 10.12: Province-Wise Distribution of Faculty Members/Management Staff Trained (numbers)

S.No	Programmes	Federal	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	AJ&K	Total
1	Professional Training Programs for HEIs Teachers	142	146	174	101	103	2	668
2	Professional Training Programs for HEIs Management	5	11	12	2	1	2	33
	Total	**147**	**157**	**186**	**103**	**104**	**4**	**701**

Source: Higher Education Commission (HEC)

Planning and Development

Policy Measures /Targets (FY 2013-14)

- For FY 2013-14, Government of Pakistan has included 33 new development projects costing Rs. 26.3 billion in the Federal PSDP of HEC along with 129 on-going development projects.

Progress during 2013-14

During July- March, 2013-14, 13 un-approved projects have been granted approval from the competent forum at an overall cost of Rs. 13.25 billion. Out of 13, 11 projects have been approved for universities at a cost of Rs. 6.30 billion including 06 for universities of the Punjab Province, 01 of Sindh Province, 01 each of Khyber Pakhtunkhwa and Federal and 02 for Balochistan. Focus is improvement of infrastructure and provision of latest teaching and research lab equipment.

- Two (02) newly approved mega schemes at a cost of Rs. 6.9 billion will be executed by Higher Education Commission as follows:
  i. After successful implementation of the Phase-I, the phase-II of the PAK-USAID Need Based Scholarship scheme at a cost of Rs. 2.9 billion will provide the scholarships for Higher Education to about 2750 Pakistani students in top ranked Pakistani Universities
  ii. As announced by the Prime Minister of Pakistan, the project at a cost of Rs. 4.00 billion has been approved for distribution of 100,000 laptops during the current financial year to talented students enrolled in Public Sector Universities of Pakistan. Laptops will also be provided to Government Poly technique institutes
- In addition to PSDP Projects, 02 development projects worth Rs. 586.5 million to be funded by the International donor agencies, i.e. JICA and KOICA have been approved during the specified period. Details are as below:
  i. JICA will provide Rs. 212.00 million for Balochistan University of Information Technology, Engineering & Management Sciences (BUITEMS), Quetta for provision of training and Lab equipment
  ii. KOICA will provide Rs. 374.5 million as grant-in-aid for establishment of Pak-Korea Capacity Building Centre for Agriculture & Livestock Technology at Arid Agriculture University, Rawalpindi.

Financial Scenario of HEC

During the fiscal year Government of Pakistan has allocated Rs. 39.00 billion for the recurring expenditures while Rs. 18.490 billion were allocated for the development of higher education sector. HEC disbursed recurring grant to different universities on the basis of enrolment of students, performance and financial requirements of the particular institution. The details of recurring and development funds released to HEC during the last 4 years are given in Table 10.13 below:

Table-10.13: Recurring and Development Budget of HEC (Rs.billion)

Fiscal Year	Recurring Grant		Development Grant	
	Allocated	Released	Allocated	Released
2009-10	21.500	21.500	22.500	11.300
2010-11	29.057	29.057	15.760	14.060
2011-12	31.500	28.887	14.000	9.763
2012-13	36.276	36.276	15.800	12.013
2013-14*	39.000	34.119	18.490	11.656

Source: HEC, *: The releases are till April. 2014

Education Survey

Annual Status of Education Report (ASER), 2013 is a citizen led household based learning survey mostly in rural and selected urban areas. It measures learning levels of children 5-16 years the same age group as identified for compulsory education in Article 25 A of the Constitution of Pakistan. ASER is conducted each year across Pakistan and will continue up to 2015. It is led by the Idara-e-Taleem-o-Aagahi (ITA) in collaboration with the National Commission for Human Development (NCHD), Sindh Education Foundation and many other Civil Society Organizations (CSOs). In 2013, the ASER's specifically trained 10,000 member volunteer team has surveyed 87,044 households in 4,382 villages and blocks across 138 rural and 13 urban districts of Pakistan. Detailed information of 263,9904 children aged 3-16 has been collected (59% male and 41% female), amongst which 230,370 children aged 5-16 years were tested for language and arithmetic competencies (out of which 14,158 were from urban districts).

Box-4: ASER 2013 National Summary

A. Rural Trends:

Enrollment (5-16 Years):

- In 2013, 78% of 5-16 year old children in rural Pakistan were enrolled in schools whereas 22% children were out-of-school. Compared to last year, percentage of out of school children in rural Pakistan has fallen (24% in 2012) whereas enrollment level is on the rise (76% in 2012).
- Nationally, there is a decreasing gender gap in out-of-school children but still with more girls than boys not being enrolled or have dropped out of school. In ASER 2012, amongst the 24% out-of- school children, 10% were males and 14% were females whereas as per ASER 2013, 10% boys continue to remain out-of-school as compared to 12% females.
- Pre-school enrollment (3-5 years) was 41% as compared to 37% in 2012, gradually approaching the National Action Plan's (NAP) target of 50% enrollment in pre-school by 2015. Highest enrollment in this age group was 58% in AJK and the lowest in Balochistan with 19%. In urban areas, it was 58%.

Quality of learning (5-16 Years):

- Learning levels in all three competencies i.e. Language (Urdu/Sindhi/Pashto), English and Arithmetic have fallen since last year and still remain poor. Half of the children from Class 5 still cannot read Class 2 Urdu/Sindhi/Pashto story.
- In ASER 2012, 51% of Class 5 students were reported as being able to read a story compared to 50% of Class 5 students who could do so in 2013. For English this year, 43% of class 5 students were reported to read Class 2 level English sentences as compared to 48% of Class 5 students who could do so in 2012. Similarly, 43% of Class 5 students were able to do 3-digit division sums compared to 44% of children in 2012.
- Punjab was found to be the best in terms of assessment results for the three (English, Arithmetic and Language) assessments**.** 61% of children were able to read a story in Urdu while 58% were able to read sentences in English and 50% could solve sums of 2-digit division.
- FATA and Sindh were identified as the least satisfactory regions amongst all when compared for the assessment results for class 5 children. Only 29% of the Class 5 children in Sindh were able to accomplish Class 3 level tasks (2-digit division) in Arithmetic and 25% of Class 2 level tasks for English (reading sentences).

Similar pattern for basic reading levels can be seen for children in class 3:

- Only 16% of the children of class 3 could read a story in Urdu/Pashto/Sindhi which is the highest competency level. The proportion of children achieving this competency level has fallen by 4% when compared to the previous year.
- Similarly, 15% of the children of class 3 could read sentences in English this year whereas 85% could not do so. In 2012, the percentage of children in class 3 who were able to read sentences was 19%.
- Twelve percent of children of class 3 could do 2-digit division as compared to 15% in 2012.

Private tuition trends:

- Private tuition incidence and uptake is more prevalent among private than government school students like that seen in previous years. Around 25% of all private school-going children were found taking paid tuition compared to only 5% of all government school children.

Multi grade in 2 and 8:

- Almost half of all government schools surveyed nationally had Class 2 students sitting with other classes. It was found that 48% of the surveyed government schools and 30% of the surveyed private schools had Class 2 sitting with other classes. Also, 15%of surveyed government schools and 37% of surveyed private schools had Class 8 sitting with other classes.
- It was also found that only 24% of mothers in the sampled households had completed at least primary schooling against 48% of fathers.

School facilities (Rural):

- ASER 2013 surveyed 3,959 government and 1,694 private schools in 138 rural districts of Pakistan.
- Overall teacher attendance in government schools was 87% and 93% in private school.
- Overall student attendance in government schools stood at 85% whereas it was 89% in private schools.

More qualified teachers in private schools as compared to government schools:

- Thirty-four percent teachers of government schools have done graduation as compared to 39% teachers of private schools.

- Forty percent of government school teachers had Bachelors in Education degrees, as compared to 46% teachers of private school.
- But more government teachers hold M.Ed degree compared to private teachers. Seventeen percent teachers of government schools hold M.Ed as compared to 11% teachers of private school.

Overall, Punjab and ICT were found with the highest percentage of primary schools with useable water and toilet facilities. Hundred percent of all surveyed primary schools in ICT while 95% of all surveyed primary schools in Punjab have useable water facility. Balochistan was ranked last with only 29% of surveyed primary school having useable water facility.

B. Urban Trends:

- In 2013, overall 92% children aged 5-16 years were found to be enrolled in 13 urban districts surveyed whereas 8% (4% of girls and 4% of boys) children were found to be out-of-school.
- Private schools absorb a large share of school aged children. Sixty percent of all school going children are enrolled in non-state schools in urban areas.
- Forty one percent of the children enrolled in private schools are girls and 59% are boys.
- This year, the proportion of children in class 5 who were able to read a class 2 level Urdu story text were reported to be 55% as compared to 60% in 2012. For English, 59% of Class 5 students were reported as being able to read Class 2 English sentences compared to 60% of Class 5 students in 2012. Similarly, 51% of Class 5 students were able to do 2-digit division sums in 2013 as compared to 53% in 2012.
- It was also found that private tuition incidence was more prevalent among private than government school students. Around 47% of all private school-going children take paid tuition as compared to 24% of all government school children.
- 251 government and 228 private schools were surveyed in 13 urban districts.
- Percentage of primary schools having useable water and toilet facilities in urban areas is twice more than rural areas. Only 31% of the surveyed government primary schools in urban districts did not have functional toilets as compared to 53% of the surveyed government primary schools in rural districts. Also, 24% of the surveyed government primary schools in urban districts did not have useable water facility as compared to 36% of the surveyed government primary school in rural districts.
- The percentage of private primary schools found with useable water facility was 97% and 100% had functional toilets in 2013.

Source: ASER, 2013 Annual Report.

Education propagates awareness and light, infused into the minds of the pupils, a spiritual urge for coming in contact with the society. In our country, education is recognized as a basic right. Pakistan is, therefore, aware of the fact that achievement of Universal Primary Enrolment will go a long way to improve overall education and literacy level. There is a need for establishing an effective forum for coordination, policy making and implementation at federal as well as provincial level. There is also need to include data relating to AKJ, Gilgit Baltistan and FATA in Pakistan Social and Living Standards Measurement (PSLM) survey reports. The Government of Pakistan is fully committed to enhance education spending from 2.0 percent of GDP to 4.0 percent of GDP as well as improving both the quality and the coverage of education through effective policy interferences and better expenditure management.

Chapter 11

Health and Nutrition

Health and Nutrition

Progress in human development sometimes is taken as an evidence of poverty reduction. The economic perspective of health welfare suggests that investment for the wellbeing of people translate into the overall economic growth. Improvement in health sector investment may be seen through health care providers, health facilities and coverage of health care services.

Given the important role of better health as a key driver of social advancement, Pakistan, like other South Asian countries allocating a sizeable amount of budget for health sector. The health expenditure over the last seven years i.e. since 2007-08 (Rs.60 billion) to 2013-14 (Rs.102 billion) witnessed a growth of 10 percent per annum. Federal Government is committed to achieve better health outcomes by taking care of issues through increased coordination of the provincial governments along with UN agencies and donor institutes. It is very much encouraging that during the fiscal year 2014, the health expenditure increase by 28.78 percent over last year, which is an indicator that present government is making best efforts to provide better health facilities to general public.

The promulgation of the 18^{th} Constitutional Amendment and the 7^{th} National Finance Commission Award (NFC), the federal government has transmitted greater bulk of payment to the provinces. The provinces with newly empowered status have allocated more funds to healthcare making it more responsive to the needs of population.

Pakistan with regard to fulfill its MDGs commitments has made considerable progress on health related indicators over the last 20 years. But the gains have been off set by the rapidly growing population. The child and maternal mortality rates have been declined but at comparatively lower rate than the other countries in the region.

The government has taken various steps through initiating several vertical programmes such as the National Maternal and Child Health Programme, the Cancer Treatment Programme and the Aids Control Programme. The National Programme for Family Planning and Primary Health Care also known as the Lady Health Worker Programme was launched by the Government of Pakistan with objective to reduce poor health conditions by providing essential primary health care services to communities and improving national health indicators. The programme contributed to the overall health sector goals in improving maternal and child health, provision of family planning services and integration of other health promotion programme. Public expenditure on provision of health facilities has been progressive at all levels.

However, some specific gaps continued to persist largely on account of demographic, epidemiological and socio-economic factors, leaving large segments of population with inadequate health care access. Healthcare facilities at some parts of the country are found to be inadequate and also mostly ill equipped and the coverage also vary across the provinces. The shortage of trained health workers and the rising population pressure on public health institutions has allowed the private sector to bridge the demand/supply gaps.

Millennium Development Goals of Health

Goal 4: Reduce Child Mortality

Infant and Child mortality are important indicator of a country's Socio- Economic development and quality of life as well as population health status. Child mortality rates are used for monitoring of a country's progress towards millennium Development Goal 4 which aims to reduce under-five child mortality rate at 52 percent, infant mortality rate at 40 percent, immunization of children at >90 percent, proportion of children under five who suffered from Diarrhea is at <10 percent and Lady health worker's coverage at 100 percent. LHW is considered to be one of the most successful programme in health sector with a total of 100,000 LHWs by providing basic health facilities covering the area of 83 percent of the total population. The target is aimed to be achieved by 2015, for which joint efforts are being made at both federal and provincial level to achieve the MDG 4 target. The achievements made up to 2012-13 are given in Table 11.1 below.

Table-11.1: Progress towards Goal 4 at national level (percent)

Indicator	1990-91 (Bench Mark)	2001-02	2006-07	2010-11	2011-12	2012-13	MDG Target
Under 5 child Mortality Rate	117	-	94	-	-	89	52
Infant mortality rate	102	77	75	-	-	66 (2014)	40
Proportion of fully immunized children 12-23 months	75	53	76	81	80	-	>90
Proportion of under1 year children immunized against measles	80	57	77	82	81	-	>90
Proportion of children under 5 who suffered from Diarrhea in the last 30 days (%)	26	12	11	11	8	-	<10
Lady Health Worker's Coverage	-	38	76	83 (2008-09)	-	-	100

Source: UNDP MDGs Report 2013

Goal 5: Improve Maternal Health

MDG 5 aims to substantially decrease maternal mortality rates by 2015. Maternal Mortality rates is affected by numerous factors, notably access to pre and post-natal care as well as general access to health care service and access to family planning and services. Progress on MDG 5 is measured against five indicators: Maternal Mortality rates, proportion of birth attended by skilled birth attendant, contraceptive prevalence rate, total fertility rates, and proportion of women aged 15-49 years who gave birth in the last three years who had at least one antenatal consultation. The Maternal Mortality rate reflects the quality of health care provision particularly for child bearing women. In Pakistan it witnessed an improvement from 350 in 2001-02 to 260 in 2010-11. Total fertility rate is linked to high population growth rates and take a toll on female health and maternal mortality. Total fertility decreased due to the awareness among people regarding family planning programmes. The achievements made up to 2012-13 are given in Table 11.2 below.

Table-11.2: Progress towards Goal 5 at national level (percent)

Indicator	1990-91 (Bench Mark)	2001-02	2006-07	2010-11	2011-12	2012-13	MDG Target
Maternal mortality rate	533	350	276	260 (2009-10)	-	-	140
Proportion of birth attended by skill birth attendant	18	24	37	47	51	52	>90
Contraceptive Prevalence rate	12	28	30	-	-	35	55
Total fertility rate	5.4	-	4.1	3.6	-	3.2 For (2013-14)	2.1
Proportion of women aged 15-49 years who gave birth in the last three years who had at least one antenatal consultation	15	35	53	58	68	-	100

Source: UNDP MDGs Report 2013

Goal 6: Combat HIV/AIDS, Malaria and other Diseases

MDG 6 pertains to the control and eventual elimination of three debilitating, communicable and life-threatening diseases, HIV/AIDS, tuberculosis and malaria. For Pakistan, HIV prevalence is largely in control, insofar as its spread is limited to specific vulnerable groups of society like sex workers, drug users etc. Pakistan remains particularly vulnerable to viral, in particular water borne infections such as dengue, Hepatitis B & C, tuberculosis, However, TB continues to affect a significant proportion of the population, and its communicability gives it more scope to afflict large numbers of people unless it is completely eliminated. Progress on MDG 6 is measured against five indicators: HIV prevalence among pregnant women aged 15-29 years, and among vulnerable groups; proportion of population in malaria risk areas using effective prevention and treatment measures; incidence of TB; and TB cases detected and cured under Direct Observation treatment (DOTS).

Health Expenditure

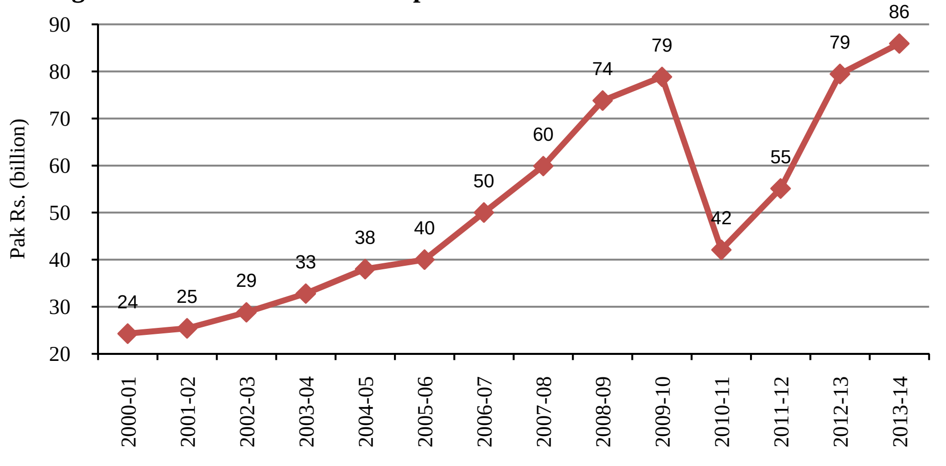
Social development and protection can be gauged by the budgetary allocation for social sector. An amount of Rs.21 billion has been provided in Federal PSDP 2013-14 and its utilization by the end of March 2014 was Rs 14 billion. The expenditure on health sectors is progressive in Pakistan. The current level of expenditure during first 09 months (July-Mar) 2013-14 in term of percentage worked out 0.4 percent of GDP. Despite various challenges public sector health spending which was 0.2 percent of GDP in 2010-11 increased to 0.3 percent in 2012-13 and further to 0.4 percent in 2013-14. However, the United Nations (UN) has recommended increase in expenditure on health to at least 2 percent of GDP by 2018 to improve the health condition. The resolve of the government is to increase the expenditure to 2 percent.

Table 11.3: Health & Nutrition Expenditures (2000-01 to 2013-14) (Rs. billion)

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	0.57
2007-08	60.00	27.22	32.67	20.0	0.57
2008-09	74.00	33.00	41.10	23.0	0.56
2009-10	79.00	38.00	41.00	7.0	0.54
2010-11	42.00	19.00	23.00	(-)47	0.23
2011-12	55.12	26.25	28.87	30.97	0.27
2012-13*	79.46	17.34	62.12	44.16	0.35
2013-14*	102.33	27.84	74.50	28.78	0.40

*Expenditure figure for the respective years are for the period (Jul-Mar)
Source: Finance Division (PF Wing)

Fig-11.1: Total Public Sector Expenditure on Health



Health System

Public and private health sectors run parallel in Pakistan. The public medical and health services comprises primary, secondary and tertiary level health facilities. The two tiers of primary and secondary healthcare outlets are managed at district level while at tertiary level health care includes large hospitals, intensive care units and advanced diagnostic services etc. The private health sector in Pakistan is comprised of maternity homes, dispensaries, diagnostic centers, physicians and practitioners. NGOs also form part of private sector and provide various health care services. The private sector is now the leading source of maternal and child health services and its dominance in the health field demonstrates that market sector stretches from primary to tertiary care level is contributing significantly in provision health services in the country through its high specialized medical professional.

Social Insurance is one of the instrument of health financing and meet health expenditure. Social Insurance can provide finance for health care either for the whole population or a part of it, such as employed workers. Compulsory insurance payments may be imposed on employees as a percentage of their wages and on employers a similar or higher payroll tax. In some cases, the government also contributes to the social security scheme. These benefits may include sickness, child delivery, invalidity, old age support, unemployment and the entire system is called "Social Security". In some cases, workers outside the formal employment sector may be included by paying a premium calculated on measure of income or wealth other than wages, such as value of crops produced, with allowance for seasonality of income earnings.

Pakistan Bait-ul-Mal (PBM) is making a significant contribution towards providing financial assistance to the poor widows, destitute women and orphans for medical treatment, education and general assistance. PBM has envisioned providing wheel chairs to every disabled in the country. A family who has two or more special children is called as "Special family" and has the right to be benefited and Rs. 25,000/- is given to each family annually. An amount of Rs. 605.983 million has been disbursed to benefit 13,434 individuals countrywide during the period July to March, 2014 for the current financial year 2013-14.

Table 11.4: Individual Financial Assistance Medical

Year	2009	2010	2011	2012	2013*
Rupees Million	643	1236	1810	518	606
Beneficiaries	8888	17301	20604	6077	13434

*(Jul-March) 2013-14
Source: Pakistan Bait-ul-Mal

PBM provides grant-in-aid to registered non-governmental organization (NGOs) for their projects aimed at institutional rehabilitation of the poor and deserving persons of the society. Grant is provided to NGOs in the following strategies:

Strategy-I for Financial Assistance to Orphans for Health, Education & Training;

Strategy-II for Cataract operations for deserving; and

Strategy-III for Innovative Pilot Rehabilitation Project.

During the period July-March, 2013-14 an amount of Rs.12.204 million has been spent among 6,102 poor beneficiaries.

Health Facilities

Investment in health over years have seen improvement in health facilities and health care providers. By the year 2013, the number of public sector hospital has increased to1096, more than 5527 basic health units (BHUs), 650 rural health centers(RHCs) and 5310 dispensaries. These facilities together with 167759 doctors, 13716 dentists and 86183 nurses brings the current ratio of one doctor for 1099 persons, 13441 person per dentist and availability of one hospital bed for 1647 person and shows that number under each establishment is increasing. However, due to population growth, the number of per bed, per doctor and per nurse is also increasing.

Table 11.5: Healthcare Facilities

Health Manpower	2011-12	2012-13	2013-14
Registered Doctors	152,368	160,880	167,759
Registered Dentists	11,649	12,692	13,716
Registered Nurses	77,683	82,119	86,183
Population per Doctor	1,162	1,123	1,099
Population per Dentist	15,203	14,238	13,441
Population per Bed	1,647	1,617	1,647

Source: Pakistan Bureau of Statistics

Physical Targets and Achievements during 2013-14

The achievements in the health sector during 2013-14 included establishment of 7 Rural Health Centers (RHCs), 32 Basic Health Units (BHUs) and up gradation of 10 existing RHCs and 37 BHUs. The manpower included the addition of 5000 new doctors, 500 dentists, 3150 Nurses and 4500 paramedics. Under the preventive programme, about 8 million children were targeted to be immunized and 23 million packets of ORS were to be distributed during 2013-14. Till date 4500 HIV positive cases have been reported to the National and Provincial AIDS Control Programmes. Incidence of TB in population has decreased from 580/100000 in 1990 to 348/100000 in 2013. With treatment success rate at 91 percent, Pakistan has achieved MDG target.

Table 11.6: Physical Targets/Achievements 2013-14 (nos.)

Sub Sector	2013-14		
	Targets	Achievements	(%)
B. Hospital Beds	5000	3600	72
C. Health Manpower			
Doctors	5000	5000	100
Dentists	500	500	100
Nurses	4500	3150	70
Paramedics	5500	4500	82
D. Preventive Programme			
Immunization (Million)	8	6	75
Oral Rehydration Salt (ORS) (Million Packet)	23	21	90

Source: Ministry of Planning, Development & Reforms

Health Programmes

The commitment to improve the health of the people along with alleviation of poverty is the overarching objective of the government. The present government after 18th Constitutional Amendment is taking all possible measures to improve the health care system. The federal government has shown its commitment towards achieving better health care facilities by taking care of issues through increased coordination of the federating units with the provinces alongwith UN agencies and all donor funding institutes.

To improve health status of the people and to reduce burden of disease, a series of programmes and projects are on track. Although vertical programmes in health sector have been devolved to the provinces, however, upon request of the provinces and in pursuance to decision of CCI, funding for these vertical programmes during the 7th NFC Award shall be catered by federal government.

Following programmes and projects are being funded through the Federal PSDP and implemented by the provincial governments.

i) Programme for Family Planning and Primary Health Care (LHWs Programme)

The programme has recruited more than 100,000 Lady Health Workers (LHWs). The total population covered under this programme spread over 60 percent in Balochistan, more than 80 percent in Punjab. LHWs services have visible impact on the health status of women and children in particular through improved hygiene, birth spacing, iron supplementation, greater immunization coverage and through antenatal and post-natal coverage of the pregnant women. A new PC-I for provincial as well as area governments is under the process of approval in which salary packages of the staff of this programme have been increased through regularization of their services in compliance of the orders of the Supreme Court of Pakistan. These proactive steps will definitely lead towards greater commitment and better health service delivery at the door steps of the vulnerable. However, issues of governance and monitoring needs attention at the district and sub districts level.

Expanded Programme of Immunization

Expanded Programme of Immunization (EPI) Programme provides immunization to children against the seven preventable diseases under one year of age i.e. childhood tuberculosis, poliomyelitis, diphtheria, pertussis, neonatal tetanus, measles and hepatitis B. New vaccines like penta-valent vaccine have been introduced with the help of UNICEF. During 2012-13, 9 million children between the age of 0-11 months and around 6.5 million pregnant women were immunized against 7 deadly diseases and tetanus toxide vaccine, respectively. Though after devolution this has become largely the responsibility of the provincial governments but Federal EPI cell currently took the responsibility of the procurements, coordination and technical guidance whereas provincial EPI cell are largely responsible for implementation of the programme. World Bank along with other financial partners WHO and JICA have largely contributed towards smooth implementation of the programme. Still the issues of routine immunization in the out reached areas of FATA and Balochistan needs attention. During July- March 2014, under the preventive programme, about 6 million children were immunized against the target of 8 million children and 21 million packets of ORS have been distributed against the target of 23 million packets of ORS. The EPI Programme is striving to strengthen the routine immunization coverage a number of steps have been taken to strengthen the programme:

- Comprehensive multiyear plan has been developed for all provincial and Federal Programme that focuses on strengthening of routine immunization.
- Cold Chain inventory has been compiled in 56 districts. The rest of the districts will be completed in phase 2 of the assessment. This will inform the gaps in cold chain equipment that will be fulfilled.
- Plans are underway to synergize the Polio Eradication Initiative (PEI) with the EPI so that EPI can benefit from the PEI experience for example in micro planning etc. this will improve the routine immunization coverage.
- Vaccine Logistic Management Information System (VLMIS) – web based real time software has been introduced in 54 districts. Expansion throughout the country is planned in 2014. This will prevent stock out of vaccines.
- Public Private Partnership has been strengthened with the support of GAVI and a number of Civil Society Organizations are now working with EPI.
- The measles supplementary immunization activity will be launched in May 2014, in phases throughout the country. This will provide an opportunity to improve the overall coverage.

Prime Minister Polio Monitoring and Coordination Cell

Prime Minister Polio Monitoring and Coordination Cell is working in close coordination with the Ministry for National Health Services, Regulations and Coordination (MoNHSRC). The launch of the National Emergency Action Plan (NEAP) in February, 2012 has guided all polio eradication activities in Pakistan. The plan has been revised for 2014 and is endorsed by the Prime Minister of Pakistan. The objective is to control Polio virus circulation in the country by the end of this year and fully eradicate by the end 2015. An intensified Supplementary Immunization Activities (SIAs) Strategy was planned for 2013 however, it could not be implemented in areas (Khyber Agency, North and South Waziristan and Karachi) with missed, incomplete and prolonged Supplementary Immunization Activities (SIAs) mainly because of security situation.

ii) Malaria Control Programme

Malaria, the 2nd most prevalent and devastating communicable disease in the country, has been the major cause of morbidity in Pakistan. More than 90 percent of disease burden in the country is shared by 56 highly endemic districts, mostly located in Balochistan (17 out of 29 districts), FATA (7 agencies), Sindh (12 districts) and Khyer Pakhtunkhwa (12 districts). Most of the reported cases from these districts are due to falciparum malaria which is the most dangerous form of malaria. Federally Administrated Tribal Areas (FATA) is the second high malaria affected belt of the country which accounts for 12-15 percent of the total case load of the country. Directorate of Malaria Control successfully implementing the Malaria Conrol strategies in 38 highly malaria endemic districts with the support of Global Fund Round-10 grant worth US$ 50.5 million. 2.0 million Long-Lasting Insecticide-Treated Nets (LLINs) have been distributed to protect the target populations. 2.0 million RDTs have been utilized to diagnose the suspected Malaria cases. 51,340 Artemisinin-Combination Therapies (ACTs) have been prescribed to confirmed P.F Malaria cases. National strategy for Malaria Control is based on the following 6 key Roll Back Malaria (RBM) elements:

- Early diagnosis and prompt treatment.
- Multiple prevention
- Improved detection and response to epidemics.
- Developing viable partnerships with national and international partners.
- Focused operational research and
- National commitment

Global malaria prevention and control efforts have been scaled up over the years in the countries where the majority malaria cases occurs. However, malaria transmission still occurs in 99 countries around the world. WHO new initiatives T3, test, treat and track urges the malaria endemic countries to move towards universal access to diagnostic testing and treatment to build control and surveillance system.

iii) TB Control Programme

Pakistan ranks fifth (after India, China, South Africa and Indonesia) amongst 22 high burden countries. The annual number of new cases are 420000 (0.4 million) with a rate 348/100000 population. There are three indicators used to monitor progress of T.B control. (i) mortality (No. of deaths due to TB) (ii) incidence (No of new cases in one year) and (iii) prevalence (total new and old cases in one year). Due to enhanced case detection and improved treatment success rate, the mortality rate has decreased to 348/100000 in 2013 (Global TB Report 2013). Incidence of TB stands at 231/100,000 population and prevalence of about 300 cases per 100,000 population. Pakistan has adopted DOTS (Direct Observed Treatment System) strategy and the TB control programme has achieved 80 percent coverage through DOTS in public sector in the last five years. The programme has provided care to more than half a million TB patients in Pakistan. There are areas where National Tuberculosis Programme (NTP) has to improve suspect management, contact management, quality bacteriology services by engaging all care providers through public private partnership, inter-sectoral collaboration, monitoring and supervision, research for evidence based planning and advocacy communication and social mobilization (ACSM).

National Tuberculosis Programme (NTP) provides national stewardship to fulfill global commitment towards the MDGs. NIP acts as a collaborating body at the central level for development of uniform policies and strategies, facilitating the donor liaison at national and international levels. NTP at this point in time is implementing Global Fund supported grant through a mechanism of Single Stream of Funding (SSF) as Principal Recipient. Some of the key achievements of the programme includes:

- 1200 BMUs/ 4000 treatment centers established in public sector.
- Around 600,000 suspects tested for TB each year free of cost.
- >2.1 million TB cases treated free of cost with quality assured anti TB drugs since 2001 in the country.
- Resources secured for 50 percent requirement of TB drugs (FLD/SLD) till 2015. TB Drug Management System established and warehouses have been refurbished all over the country.
- TB/HIV Co-infection guidelines developed and 16 sentinel site established.
- Infection control guidelines developed
- Development of National Strategic Plan “Vision 2020”.
- Scaling up of MDR-TB intervention enabling 30 hospitals to manage 12,000 patients approximately over the grant period of 5 years.
- Up-gradation of 3 Labs to bio-safety Level 3 to perform TB culture and Drug Susceptibility Testing.
- Negotiated with Global fund and other donors and received 129 Million US$ for three years, Largest TB grant globally.
- Received additional 8 million US$ incentive funding due to good performance of the programme.
- Negotiated with WHO, Global Fund and Global Drug Facility and secured First Line and Second Line TB drugs to meet 100 percent requirement of the country consequently there will be no shortage of TB drugs in Pakistan till 2018.

iv) HIV/ AIDS Control Programme

Increasing number of drug users has posed a threat of total cases of HIV/ AIDS in Pakistan, however, the prevalence of HIV/ AIDS is considered to be as low as 1 percent, hence not considered a high risk country. The focus of the programme is on Behavior Change Communication (BCC), services to high risk population groups, Treatment of sexually Transmitted Infections (STIs), supply of safe blood and capacity building of various stakeholders. Till date 4500 HIV positive cases have been reported to the AIDS Control Programmes at federal and provincial levels. The programme is technically supported by the UN agencies and Global Fund against AIDS, TB and Malaria.

v) Maternal and Child Health Programme

Mother and child health has been one of the priority areas of Public Health in Pakistan. This programme has been launched by the government in order to improve Maternal and Neonatal Health services for all, particularly the poor and the disadvantaged at all levels of health care delivery system. It aims to provide improved access to high quality Mother and Child Health and Family Planning services, train 10,000 community midwives.) comprehensive Emergency Obstetric and Neonatal Care (EMONC) services in 295 hospitals/ health facilities, basic EMONC services in 590 health facilities, and family planning services in all health outlets. Despite these modalities, Pakistan has shown a modest improvement in this segment and the infant mortality rate and child mortality rates are still very high as compared to the other countries in the region. It is envisaged that successful implementation of this project will bring these indicators in a respective range with improved health status of mother and children.

vi) Prime Minister's Programme for Prevention and Control of Hepatitis in Pakistan

All forms of hepatitis is a matter concern within the public health framework. The programme envisages meeting the challenges posed by the high prevalence of viral hepatitis in the country. The programme aims at 50 percent reduction in new cases of hepatitis B and C by 2015 through advocacy and behavior change communication, hepatitis B vaccination of high risk groups, establishment of screening, diagnosis and treatment facilities in 150 teaching and DHQ hospitals, Safe Blood Transfusion and prevention of hepatitis A and E. A long awaited Safe Blood Transfusion project with the technical cooperation team GIZ and Kfw has been revived and is in the implementation process in all four provinces that will bring down the incidence of hepatitis in the country.

vii) Cancer Treatment Programme

Pakistan Atomic Energy Commission's (PAEC) 13 Cancer Hospitals in four provinces are providing diagnosis and treatment facilities to cancer patients The PAEC is striving hard to fight against this disease by using the nuclear and advanced diagnostic/ therapeutic for diagnosis and treatment. Major services provided at these hospitals are diagnostic and therapeutic nuclear medicine, hormonal assays, radiotherapy and cancer prevention & awareness programmes. These services are being provided through 13 cancer hospitals in various cities in 04 provinces. Nine new cancer hospitals are in the process of construction. In all tertiary care hospitals and Atomic Energy Centers the facilities are available for detection of different types of cancer. During 2013 (July to December), besides treating about 393,358 patients, PAEC continued working on the following projects:

- Federal Breast Cancer Screening programme have been launched in 2013 in Islamabad at PIMS for early diagnosis and screening of women.
- 03 hospitals in KPK province are near completion.
- PAEC Cancer Registry Programme (PCRP), started in 2007 is now in final phase and is expected to be completed by August 2014.

Drug Abuse

The illicit use of drugs is a major public health concern. According to World Drug Report 2013", global drug use situation has remained stable during the year 2013. To address the narcotic drugs issue, National Anti Narcotics Policy 2010 is already in place and being implemented in collaboration with Provincial Governments, Law Enforcement Agencies, NGOs and Community Organizations.

To combat this menace at grass roots level. Provincial Narcotics Control Committees (PNCCs) and District Narcotic Control Committee (DNCCs) have been constituted in all the provinces as well as in Gilgit-Baltistan and State of Azad Jammu & Kashmir. It will help in reducing both the drug supply and as well as drug demand in the country.

Narcotics Control Division in Collaboration with United Nations Office on Drugs and Crime (UNODC) has conducted a household based "Drug Abuse Survey 2013". The survey indicates drug prevalence rate at 6 percent and 6.7million people in the age group of 15-64 years. The province wise details of drug addicts with rate of prevalence is as under.

Table 11.7: Drug Addicts

Name of Province	Number of Drug Addicts	Annual Prevalence (%)
Punjab	2.9 million	4.7
Sindh	1.7 million	6.6
Baluchistan	0.3 million	5.0
Khyber Pakhtunkhwa	1.6 million	11.0

Source: Ministry of Interior & Narcotics Control

Narcotics Control is presently implementing 10 development projects with total capital cost of Rs.5.708 billion including local cost of Rs.1.972 billion and foreign grant assistance of Rs. 3.736 billion, in the fields of area development, drug demand reduction and addicts' treatment and rehabilitation. The seizures of Narcotics by Anti Narcotics Force (ANF) during the period July, 2013 to January 2014 are given in the Table 11.8:

Table 11.8: Drug Seizures

Sr. No.	Kind of Narcotics	Units	Qty of Drug Seized
1.	Opium	Kgs	8500.5
2.	Morphine	Kgs	100.0
3.	Heroin	Kgs	1990.0
4.	Hashish	Kgs	22345.0
5.	Cocaine	Kgs	1026.0
6.	HCL	Kgs	1110.0
7.	Amphetamine (Ice)	Kgs	2.1
8.	Methamphetamine (Ice)	Kgs	1.3
9.	Crystal (Ice)	Kgs	2.5
10.	Chemical Powder	Kgs	67.0
11.	Bhang	Kgs	8.5
12.	Acetic Anhydride (AA)	Liters	15000
13.	Liquor	Bottles	3776
14.	Ecstasy Tables	Nos	5704
15.	Nitrazepam Tablets	Nos	90
16.	Midazolam Tablets	Nos	90

Source: Ministry of Interior & Narcotics Control

Dengue

Dengue has become a major public health concern in Pakistan for the last few years .The epidemics occur every year and the range has extended to most cities in Pakistan. The worst of all these dengue epidemics occurred in 2011 when more than 22,000 dengue cases and 350 deaths were reported. The disease is transmitted through a bite of a mosquito. However, it is not transmitted directly from person to person. It effects infant, young and adult with symptoms appearing 3-14 days after the infective bite with severe headache, pain behind the eyes and joint pain. The most effective measures are those that avoid mosquito bite. Dengue fever is disease of tropical and is endemic in more than 120 countries of the world. Globally, it affects upto 500 million people every year and according to WHO estimates, 2.5 billion people around the globe (36percent of world population) are at risk of contracting dengue. Recently, Sri Lanka and Indonesia have been the victim of dengue epidemics.

Food & Nutrition

Food is the fundamental right of the people and government is committed to provide it at all levels. Inspite of adequate production and availability of essential food items of consumption, malnutrition continues to persist in the country.

Several MDGs have not been achieved due to food and nutrition security issues, which directly or indirectly depend on nutrition interventions in various sectors. The factors affecting malnutrition are food security, feeding practices, access to health care, water supply and sanitation, education and nutrition awareness. Therefore, reduction in malnutrition can improve productivity and solution of malnutrition lies in Scaling up Nutrition (SUN) Movement through integrated multi-sectoral approaches, being cross cutting issues.

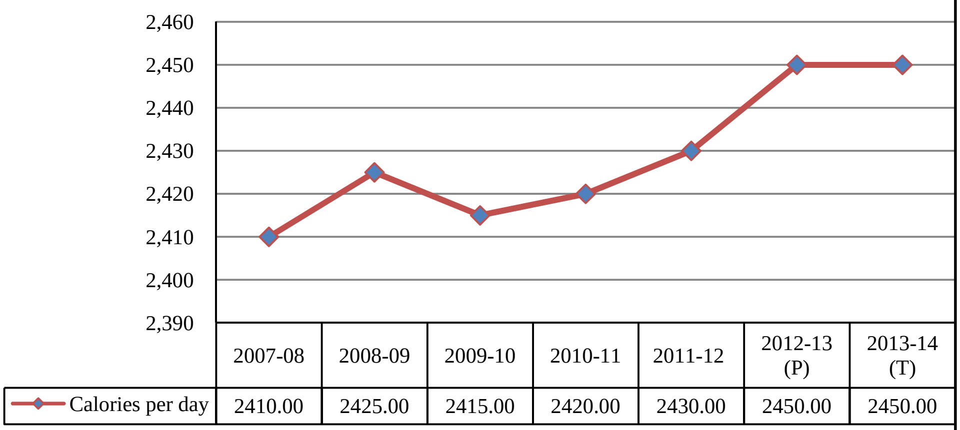
The national food availability estimated through food balance sheets, has been satisfactory for major food items during the fiscal year 2013-14. The average calories estimated based on food availability has been 2450 per capita per day. The overall food availability trend of essential food items for the last five year is given in the following table:

Table 11.9: Food Availability per capita per Annum

Items	Year/ units	2009-10	2010-11	2011-12	2012-13 (P)	2013-14 (T)
Cereals	Kg	158.8	158.7	160.0	160.0	160.5
Pulses	Kg	6.8	6.7	7.0	**6.7**	****6.5**
Sugar	Kg	26.1	26.5	29.5	31.0	31.5
Milk*	Ltr	117.2	112.3	96.5	97.4	100.8
Meat	Kg	20.5	20.9	21.5	21.0	21.0
Eggs	Dozen	5.8	6.0	6.0	6.0	6.0
Edible Oil	Ltr	12.6	12.6	13.0	13.0	13.0
Calories per day		2415	2420	2430	2450	2450
Protein per day (gm)		71.5	72.0	72.5	72.5	72.0

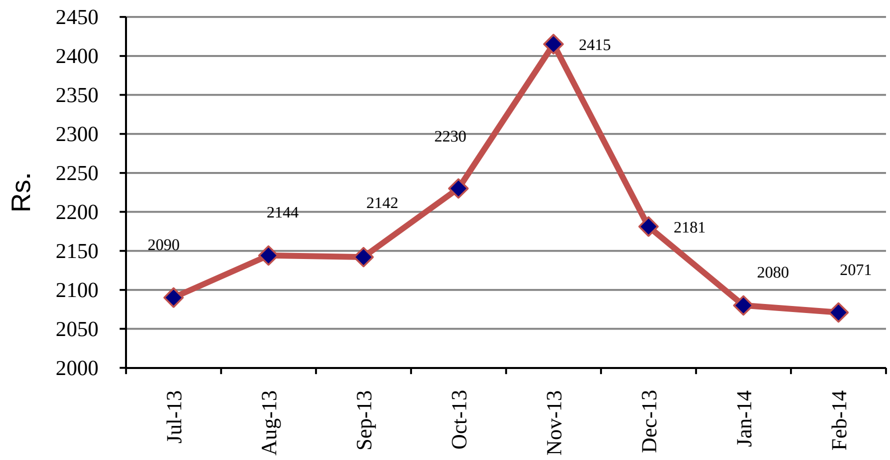
P : Provisional, T : Target
*: Milk availability has been revised according to FAO criteria
**: Heavy rains affected the crop of gram pulse, which is main contributor in the output of pulses.
Source: Ministry of Planning, Development & Reforms

Fig-11.2 Calories per day



The cost of food basket for the fiscal year 2013-14 (July 2013 – February 2014) remained fluctuating. It gradually increased to Rs. 2415 from Rs. 2090 in the month of November and then declined to Rs. 2071 in the month of February, 2014 fig given below:

Fig-11.3: Cost of Food Basket



The Nutrition related activities/ programmes are summarized as:

- Pakistan signed the Scaling up Nutrition (SUN) Movement in December 2013, founded on principle that all people have the right to food and good nutrition, to join hands with partner countries and relevant stakeholders for improving nutritional status and thus alleviating malnutrition globally. Multi-sectoral approach has been adopted to reduce malnutrition, and upon Integrated Nutrition Policy Guidance Notes. Provincial SUN road map has been developed within parameters of Vision 2025. The draft five year plan 2014-19 which is under preparation will also focus on Strategic & Operational Plan for Development of National Nutrition Policy.
- National Food and Nutrition policy in Agriculture sector has been drafted to overcome food security problem..
- Punjab and KPK have prepared Health integrated PC-1s in Health Sector while Sindh and Balochistan developed independent PC-1s on Nutrition. These PC-1s are approved except Balochistan. Gilgit- Baltistan (GB) have also drafted their nutrition PC-1.
- The Universal Salt Iodization (USI) Pakistan Programme is being implemented with the assistance of the Micronutrient Initiative and other development partners including World Food Programme (WFP), UNICEF and Global Alliance for Improved Nutrition (GAIN) throughout the country. It provides technical and operational support to around 1400 salt producers, benefiting more than 158 million population.
- Micronutrient supplementation to address Anemia, Vitamin-A deficiency in children under five, women of child bearing age, growth

monitoring, counseling of breast feeding and weaning practices and awareness through 100,000 Leady Health Workers in Primary Health Care (PHC) continued across the country covering about 60 percent population.

- With the help of private sector, Wheat Flour fortification with iron folic acid is being revitalized and Wheat bio fortification with Zinc is being considered in the coming year to overcome hidden hunger.
- Benazir Income Support Programme (BISP) and Pakistan Bait-ul Mal continued their services successfully as effective social safety net measures by providing cash incentives to the poor segments of the population.
- National Zero Hunger Programme with joint collaboration among public sector and UN agencies is being devised to address hunger and malnutrition. This programme aim's to reach to most food insecure and vulnerable sections of society: malnourished and primary school children, pregnant women, by provision of nutritious and fortified food.
- Management of Severe Acute Malnutrition & Nutrition Surveillance has been initiated. Regional training and development manual for Management of Severe Acute Malnutrition has been developed. About 50 surveillance centers are being established for identification and treatment of acute malnutrition.

Conclusion

The government is committed to increase the health coverage to cover the growing demand of increasing population. A number of efforts are underway to provide health facilities, increase health expenditure to GDP by 2 percent and meet the international target set under MDGs.

Chapter 12

Population, Labour Force and Employment

Population size, growth rate, and its composition play an important role in the social and economic development of a country. Demographic statistics of a country is essential for drafting the plans, frame work of economic policies and judging the growth and development.

Pakistan is among those developing countries where population growth is fairly high. At present it is the sixth most populous country in the world with projected population of 188 million. According to World Population Data Sheet 2013, Pakistan with population of 363 million in 2050 is expected to retain the same position (i.e. sixth position).The population growth rate in Pakistan is 1.95 percent which is higher than average growth rate of South Asian countries. The major cause behind higher growth rate is high fertility rate. Although, over time various governments have been trying to tackle the issues of high population growth rate through introducing different programmes like Family Welfare Centers (FWC), Reproductive Health Services Centers (RHS-A), Regional Training Institutes and Mobile Services Unit. However, these programmes could not achieve the desired results mainly due to low literacy level particularly among women in rural areas, cultural and religious constraints, and lack of skills in promoting family planning. It is worth mentioning that female education has a significant effect on fertility. Women having higher education have a fewer children as compared to women with less education.

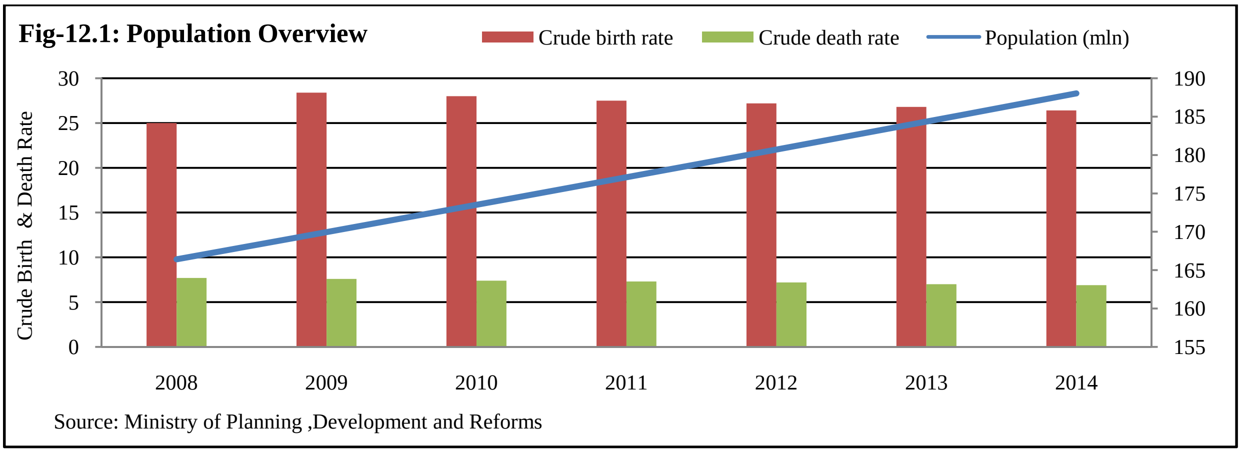
Therefore, each year the number of inhabitants is increasing whereas the resources available in the country are limited due to which demographic imbalance is increasing. But this demographic imbalance can be improved with the help of youth population of the country. Pakistan is one of the world's largest youth bulge country with 48 percent population aged 15-49 and 56 percent (age 15-64) is in productive age group. This young and dynamic population is considered an omen of prosperity. They can contribute for the economy and society with their education and skill. With proper education and training and balanced health facilities, they can prove to be an asset of the country and can be a source of future prosperity and development of the country.

Demography is the study of the growth, change and structure of the human population. The demographic indicators, therefore, are comprised of the collection of information that summarizes the historical evolution of different changes related with population. Major demographic indicators are changes in the size, structure, and population composition and population growth. Changes in the size and structure of population are due to changes in the birth rate, death rate and the net migration.

Table 12.1: Selected Demographic Indicators

	2012	2013	2014
Total Population (Million)	180.71	184.35	188.02
Urban Population (Million)	67.55	69.87	72.50
Rural Population (Million)	113.16	114.48	115.52
Total Fertility Rate (TFR)	3.4	3.3	3.2
Crude Birth Rate (Per thousand)	27.2	26.8	26.4
Crude Death Rate (Per thousand)	7.2	7.0	6.90
Population Growth Rate (Percent)	2.0	1.97	1.95
Life Expectancy (Year)			
- Females	66.1	66.5	66.9
- Males	64.3	64.6	64.9

Source: Ministry of Planning ,Development and Reforms (Population Projections for the Year 2007-2030)



Crude Birth Rate: Crude Birth Rate (CBR) is the annual number of live births per one thousand persons. CBR of more than 30 per thousand is considered high and a rate of less than 18 per thousand is considered low. The global CBR in 2013 was 20 per thousand, while the CBR in Pakistan has been marginally improved from 26.8 percent in 2013 to 26.4 percent in 2014.

Crude Death Rate: Crude Death Rate (CDR) is defined as total death per one thousand persons in a year. CDR of less than ten per thousand is considered as low while above twenty per thousand is considered as high. The global CDR was 8 persons per one thousand in mid 2013. However, improvements in health services and expansion in medical facilities in Pakistan have led to decline in CDR from 7.0 percent in 2013 to 6.9 percent in 2014. These rates are often referred as crude rates because they do not take into account population age structure.

Life Expectancy

Life expectancy is the number of years a person would be expected to live, starting from birth and it measures quantity rather than quality of life. Globally it is observed that high life expectancy is associated with high income per capita, improved nutrition, better hygiene, access to safe drinking water, effective birth control and immunization and other better medical facilities. Life expectancy in women is higher than men. Currently, the global life expectancy for both male and female is 70 years. However, while considering it gender wise, the life expectancy for males is 68 years and for females is 73 years- a difference of five years. In Pakistan, the average life expectancy has improved from 64.6 in 2013 to 64.9 in 2014 for males and for females it has improved from 66.5 in 2013 to 66.9 in 2014.

Population Growth

Population growth rate is another important indicator used to describe the change in population and play a focal point in the economic development of a country**.** Rapid population growth can generate food security problem, environment problem and urban congestion and it is the major factor behind the international migration. In Pakistan population growth rate has shown improvement and it decreased from 2.0 percent in 2012 to 1.97 percent in 2013 and 1.95 percent in 2014.

Table: 12.2 Percentage of Population 2012-13

Age Group	Male	Female	Total
0-4	6.87	6.53	13.37
5-9	7.75	6.92	14.68
10-14	6.75	6.04	12.79
15-19	6.08	5.30	11.39
20-24	4.57	4.66	9.23
25-29	3.28	3.80	7.08
30-34	2.77	3.16	5.93
35-39	2.68	2.85	5.53
40-44	2.36	2.38	4.75
45-49	2.19	2.12	4.31
50-54	1.76	1.55	3.31
55-59	1.38	1.16	2.54
60-64	1.07	0.82	1.89
65 and above	1.84	1.36	3.20
Total	51.35	48.65	100

Source: Pakistan Labour force survey 2012-13

Age Composition of population

Age composition of population refers to distribution of population by age and sex. The data on population by age and sex is vital for demographers, health administrators and other policy makers etc. for planning and execution of various health development programmes. The organization of population by rural/urban, sex and marital status and age unveils the features of population composition and provides disaggregated data for target oriented analysis.

Age composition of population is important for several reasons. The estimates of proportion of children and older persons is important for the provision of national expenditures on schools , childcare, immunization and reproductive health services vis-a vis expenditure on old age social security systems and health care for chronic and degenerative diseases. Table 12.2 presents the age structure of the population of 2012-13.

Fig-12.2: Population Pyramid of Pakistan 2012-13

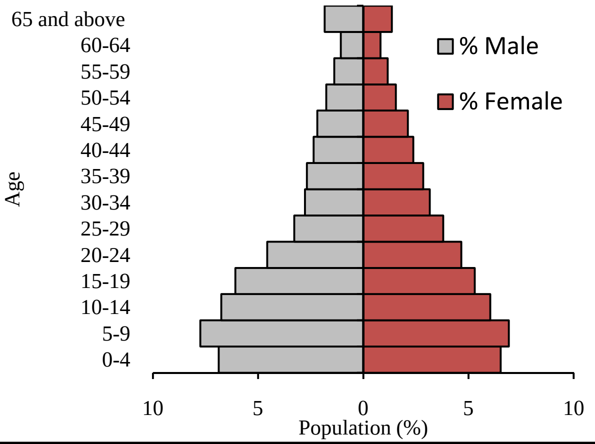


Table 12.2 shows that 41 percent population is in the age group of 0-14 and this group is economically unproductive and need food, clothing, education and medical care. They depend upon working population for their necessities.

Adult population is considered as wealth of a nation in terms of human resource. This Table shows that 56 percent population is in the age group of 15-64.This productive age population is the main source to ensure accelerated economic growth. Policy makers may take advantage of this growing working class in reducing dependency burden in the future. For making the strategies to reduce poverty level and tapping their potential into productive economic activities, policy makers may focus on the provision of livelihood earning skills through short term vocational training aimed at provision of employable skills.

Population by Martial Status

Marital status is defined as the personal status of each individual in relation to the marriage laws or customs of the country. Population distribution by marital status is the percentage distribution of the population in a given age group by the different marital status categories. Following Table 12.3 shows the percentage of married population in different age brackets. The lowest age bracket is 10-19 in this age bracket around 7 percent people are married, which means that average marriage age in Pakistan has increased. The rate of women and men who have never married shows the decreasing trend with the increasing age. According to Pakistan Labour Force survey 2012-13, 94 percent of the population of the age bracket 35-39 is married. The most phenomenal increase in married population may be seen in the age bracket 20-29 where percentage of married population has increased 73 percent. This is the most fertile age of population growth. The changes in marriage patterns have a direct impact on fertility and population growth rate.

Table 12.3: Percentage of Population by Marital Status 2012-13

Age group	Total	Never married	Married	Widow/widower	Divorced
total (10 year and above)	100	44.40	51.52	3.81	0.26
10-14	100	99.86	0.13	0.01	-
15-19	100	93.49	6.49	-	0.02
20-24	100	62.67	37.08	0.11	0.15
25-29	100	25.83	73.49	0.33	0.34
30-34	100	8.62	90.20	0.72	0.47
35-39	100	3.36	94.68	1.45	0.52
40-44	100	1.61	95.35	2.60	0.45
45-49	100	1.10	93.54	4.79	0.57
50-54	100	0.97	89.58	9.01	0.44
55-59	100	0.87	84.9	13.85	0.39
60-64	100	0.97	77.87	20.71	0.45
65 and over	100	0.89	60.74	37.92	0.44

Source: Pakistan Labour Force Survey 2012-13

Regional Demographics

Pakistan belongs to Asian continent which is the home of 60 percent of global population. Rapid demographic changes have been witnessed in this region. China and India account for more than half of Asia's total population. In absolute terms China has shown significant improvement in controlling fertility rate through successful government policies. Its total fertility rate has declined from 5.5 in 1970 to 1.5 children per woman. On the other hand in case of India, though the fertility rate is still higher than China, however it has shown good performance by lowering its fertility rate from 5.5 in 1970 to 2.4 in 2014. In the light of current fertility rate, it is projected that India will pass China in population size in about 15 years, becoming the world's most populous country, with about 1.5 billion people. If compared these indicators with Pakistan, it is observed that Pakistan is lagging behind these two countries with fertility rate of 3.2 in 2014. Asia has experienced remarkable demographic changes, but the process, magnitude and consequence of these changes have varied significantly. When observed by region, South Asia has led the change over the past six decades — the lowest fertility and mortality rates in the world have been recorded in some East Asian populations in recent years. The comparison of the data presented in Table 12.4 shows that Pakistan is lagging behind other neighboring countries in all the indicators discussed except Afghanistan.

As a result the population growth is relatively rapid and this rapid population growth makes it difficult for economies to create enough jobs to lift large numbers of people out of poverty.

Table 12.4: Family Planning Indicators of Regional Countries

Country	Total Fertility Rate	Contraceptive Prevalence Rate %	Population Growth Rate%	MMR(2010)
Afghanistan	5.4	21	2.2	460
Bangladesh	2.3	61	1.6	240
Bhutan	2.6	66	1.1	180
China	1.5	85	0.4	37
India	2.4	54	1.2	200
Maldives	2.3	35	0.1	60
Nepal	2.6	50	1.8	170
Pakistan	3.2	35	1.9	260
Sri Lanka	2.1	68	0.8	35

Source: CIA fact sheet 2014
Population Projections for the 10^{th} Five Year People's Plan 2010-15
World Population Data sheet 2013

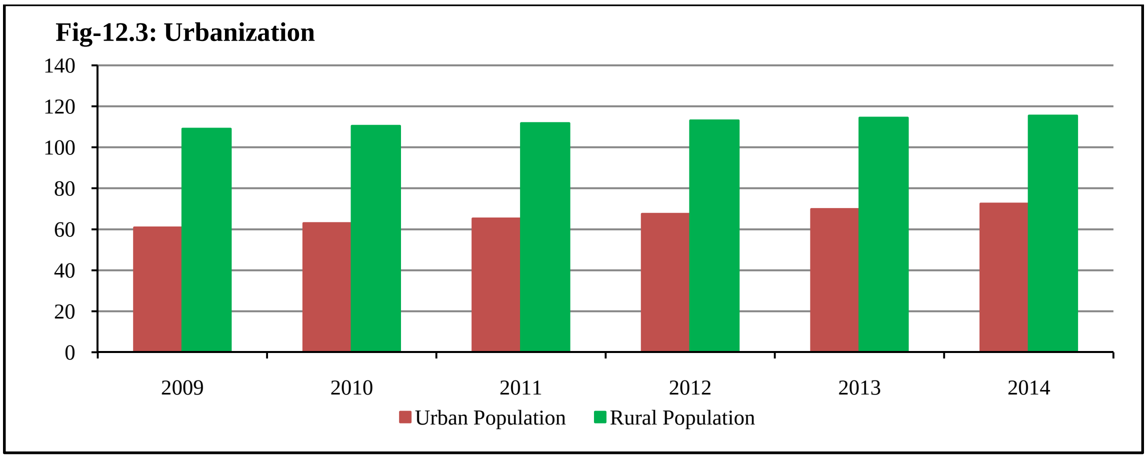
Population dynamics are important to promote the economic development and security in Pakistan. At present, Pakistan is the 6^{th} most populous country in the world. However, population welfare programmes are playing important role to create awareness among people.

Reduction in population growth is one of the top priorities of the government to balance between country's resources and population. In this context, Family Planning Programs contribute significantly as there is negative correlation between the Total Fertility Rate (TFR) and the Contraceptive Prevalence Rate (CPR). The decline in the TFR could be more substantial if there is greater use of contraceptives in the country. Contraceptive prevalence rate has increased from 30 percent in 2013 to 35 percent in 2014. The increase in contraceptive prevalence rate in Pakistan is caused by increase in female literacy, awareness through media and easy access to contraceptive techniques and tools.

Urbanization

Urbanization is one of the serious global problems. As development takes place from agricultural to an industrial sector, large-scale migration of rural residents to towns and cities takes place. During this process, the growth rate of urban areas is typically increasing and the pace of overall population increase. Table 12.4 presents the details of urban and rural population.

In Pakistan cities are growing rapidly as a result of the movement of people from rural areas in search of jobs, opportunities to improve their lives and to make a better future for their children. Moreover, the lack of basic facilities in rural areas like; electricity, sanitation, safe drinking water, health care and schooling are some of the reasons for rapid urbanization. The population in rural areas decreased from 62.1 percent in 2013 to 61.4 percent in 2014 whereas the population in urban areas increased from 69.87 million (37.9 percent) in 2013 to 72.5 million (38.56) percent in 2014. Urbanization is not simply the growth of populations living within legal-administrative boundaries of towns and cities. It also transforms both urban and rural lifestyles. The annual population growth in urban areas is expected to increase further in coming years which may cause socio economic problems in future.



Millennium Development Goals

MDGs were set up in the United Nations conferences in 2000 where represented commitments were made by all the countries to reduce poverty and hunger and disease, greater survival prospects for mothers and their infants, better educated children, equal opportunities for women, and a healthier environment. Accordingly eight Millennium Development Goals with 48 indicators provided a framework of time-bound targets. There are eight MDGs and these are to be achieved by 2015

i) Eradication of extreme poverty and hunger
ii) Achievement of universal primary education
iii) Promotion of gender equality and women's empowerment
iv) Reduce child mortality
v) Improve maternal health
vi) Combat HIV/AIDS, malaria, tuberculosis and polio
vii) Promotion of environmental sustainability
viii) Develop a global partnership for development.

Pakistan has adopted 16 targets and 41 indicators against which progress towards achieving the eight goals of the MDGs is measured. Time series data is available only for 33 indicators due to resource constraints and low expenditure in these sectors. Pakistan is on track to achieve the targets against 11 indicators whereas its progress on 22 indicators is off track. The goals particularly relevant to population welfare are goal 3, 4 and 5 which are discussed below.

Promotion of Gender Equality and Women's Empowerment

Education is the most important factor which paves the way to development process in all areas of life and in turn leads to gender equality and women empowerment. The first indicator under MDG 3 therefore aims to eliminate gender disparity in primary and secondary education by 2005 and in all levels of education by 2015.

Gender parity is at the core of the MDGs. Pakistan has improved slightly in gender parity in primary education, secondary education and youth literacy but still progress on these indicators is off track. Gender parity in education for primary has improved from 0.82 percent in 2001-02 to 0.89 percent in 2012-13, in secondary education the increase is from 0.75 percent in 2001-02 to 0.89 percent in 2012-13. Youth literacy Gender Parity Index (GPI) has increased from 0.65 percent in 2001-02 to 0.82 percent in 2012-13.

The second important indicator of goal 3 is share of Women in Wage Employment in the Non-Agricultural Sector, which is defined as the share of female workers in the non-agricultural sector expressed as a percentage of total employment in the sector. This indicates the degree to which labour markets are open to women in industry and service sectors, which affects not only equal employment opportunity for women but also economic efficiency through flexibility in the labour market and reflect economic factors in social empowerment of women.

The empowerment and sovereignty of women and the improvement of their political, social, economic and health status is vital for the achievement of sustainable development of any country. Women participation in economic development and decision making process is well recognized in Pakistan and the government has shown considerable improvement in empowering women in both economy and decision making. In Pakistan, the share of women in non-agricultural wage employment has been set at 14 percent. This share of women employment has consistently increased from 8.07 percent in 1990-91 to 10.12 in the year 2012-13 but it is still behind in achieving this target.

Historically, in Pakistan women did not have meaningful representation in the country's legislative forums. The situation greatly improved with the passage of time as their representation rose from 0.9 percent and 1.0 percent in 1990-91 and 18 percent (60 seats reserved for women out of 342 seats) and 17 percent in 2011-12 in both the National Assembly and Senate, respectively. Moreover, women Parliamentarians have contributed through large number of resolutions raised and passed, and questions asked in the Parliament.

Reducing Child Mortality and Maternal Mortality

Infancy and childhood periods of human life are often threatened by major potential risks to survival due to a number of reasons. In Pakistan, a number of interlinked elements like poverty, malnutrition, mother's health, medical care etc significantly affects the rates of Under-five mortality, infant mortality and maternal mortality.

Pakistan has set the objective of reducing the under-five child mortality (U5MR) by two thirds. Under-five mortality fell from 117 deaths in 1990/91 to 89 deaths per 1,000 live births in 2012/13; and the infant mortality rate during this period reduced from 102 to 67.5 deaths per 1,000 live births.

While looking at MDG 5 regarding improvement in maternal mortality in Pakistan it can be said that the government is putting serious efforts to achieve this target. By 2015, Pakistan planned to reduce the maternal mortality rate (MMR) by three-quarters and ensure universal access to reproductive health. MMR has been almost halved (down from 490 in 1990 to 260 in 2010 per 100,000 live births), and the use of contraceptive has almost tripled (up to 35.4 percent) in 2012-13.The proportion of births attended by Skilled Birth Attendants (SBAs) directly impact on the maternal mortality rate. The share of deliveries attended by skilled personnel has gone up to 52 percent in 2012-13 from 24 percent in 2001-02.The total fertility rate at 3.2 percent remains considerably higher than the target of 2.1percent.The situation demands immediate attention and consistent efforts to improve this rate further.

Employment

Employment is the key mechanism through which the benefits of the growth can be distributed to the poor segment of the society. Access to decent work is thereby vital in the process towards reduction in poverty and income inequality. Provision of employment opportunities depends upon available resources, technological base, advancement, and institutional strategies. Similarly, human resource, skills, and technical competency determine the outcome of employment which contributes in achieving sustained economic growth.

Pakistan is the 10th largest country in the world according to the size of the labour force. Employment-Unemployment Statistics of the country is an important input for policy and planning purposes. The latest statistics shows that the total labour force has increased from 50.0 million in 2005-06 to 59.7 million in 2012-13. It shows that more than 9 million people joined the labour force during this period. On the other side, the number of employed labour force increased from 46.95 million to 56.0 million during this period. This means that all the increase in labour force could not be adjusted in employment sector and therefore unemployed people increased from 3.10 million to 3.73 million during the same period. The details of labour force and employment status is presented in the following Table.12.5

Table-12.5: Civilian Labour Force, Employed and Unemployed in Pakistan (in million)

Year	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2012-13
Labour Force	50.05	50.33	51.78	53.72	56.33	57.24	59.74
Employed	46.95	47.65	49.09	50.79	53.21	53.84	56.01
Unemployed	3.10	2.68	2.69	2.93	3.12	3.40	3.73

Source: Pakistan Bureau of Statistics (Labour Force Survey 2012-13)

The country has the blessing of demographic dividend. The population between the age of 15-49 are filled with tremendous and towering ambitions. It will be a great wastage of human resources if these youth are not given an opportunity to exercise their talent. The increase in unemployment shows that the potential of youth was not fully utilized in Pakistan in the past. Unemployment is a multi-dimensional and complex issue which starts a vicious cycle of associated problems like involvement of youth in bank and household burglaries, social insecurity, lawlessness, use of drugs, etc. Therefore it is the government's responsibility to provide the youth proper facilities in getting abreast with the knowledge of the modern era. To minimize the problem of unemployment and to utilize the national work force for the betterment of the country, the present government has launched a number of youth promotion and youth investment schemes. Involvement of the youth in these schemes would bring quicker and better results in terms of change in lifestyle and socio-economic development of the country.

Labour Force Participation

The labour force participation rate is a measure of the proportion of a country's working-age population that engages actively in the labour market, either by working or looking for work. It provides an indication of the relative size of the supply of labour available to be engaged in the production of goods and services. The breakdown of the labour force by sex and age group gives a profile of the distribution of the economically active population within a country.

The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population. The labour force is the sum of the number of persons employed and unemployed. The working-age population is the population above a certain age-ideally aged 15 and older-prescribed for the measurement of economic indicators.

Table-12.6: Crude and Refined Participation Rates (%)

Indicators	2009-10	2010-11	2012-13	Indicators	2009-10	2010-11	2012-13
Crude Activity (Participation) Rates (%)				**Refined Activity (Participation) Rates (%)**			
Pakistan				**Pakistan**			
Total	33.0	32.8	32.9	Total	45.9	45.7	45.7
Male	49.5	49.3	49.3	Male	68.8	68.7	68.9
Female	15.5	15.6	15.6	Female	21.5	21.7	21.5
Augmented				**Augmented**			
Total	38.8	38.4	38.2	Total	53.9	53.5	53.1
Female	27.2	27.0	26.3	Female	37.9	37.4	36.4
Rural				**Rural**			
Total	34.5	34.3	34.2	Total	49.4	49.1	49.0
Male	49.0	48.6	48.5	Male	70.2	70.0	70.3
Female	19.3	19.4	19.3	Female	27.6	27.6	27.3
Augmented				**Augmented**			
Total	42.6	42.2	41.7	Total	61.0	60.4	59.7
Female	35.8	35.4	34.4	Female	51.2	50.3	48.7
Urban				**Urban**			
Total	30.0	30.0	30.2	Total	39.5	39.5	39.7
Male	50.6	50.6	50.7	Male	66.4	66.4	66.4
Female	7.8	8.1	8.2	Female	10.3	10.7	10.8
Augmented				**Augmented**			
Total	31.1	31.0	31.2	Total	41.0	40.8	41.0
Female	10.1	10.1	10.3	Female	13.3	13.3	13.6

Source: Pakistan Bureau of Statistics (Labour Force Survey 2012-13)

Age Specific Labour Force Participation Rate

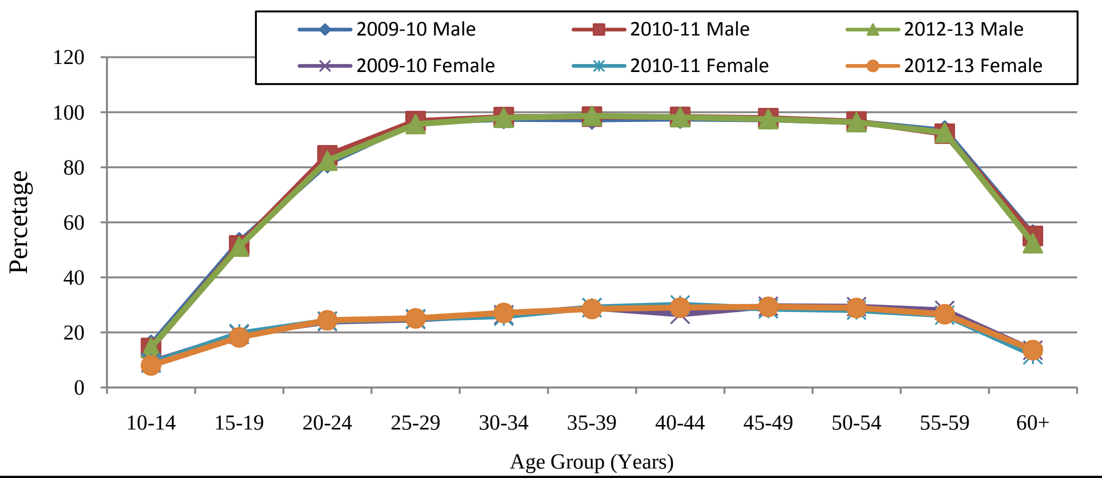
It is instructive to look at labour force participation rates for males and females by age group. Labour force activity among the young (15 to 24 years) reflects the availability of educational opportunities, while labour force activity among older workers (55 to 64 years or 65 years and over) gives an indication of the attitude towards retirement and the existence of social safety nets for the retired persons from the government job. Labour force participation is generally lower in females than males in each age category. Male Labour force participation rate is touching to 100% in some age groups, whereas female Labour force participation rate is still lower than 30% in some groups. Sincere and committed efforts from government in terms of creating more opportunities for female can enhance female participation rate in economic activity. This reality is evident from developed economies, where the profile of female participation is increasingly becoming similar to that of men and the rates are also approaching to male levels.

Table-12.7: Age Specific Labour Force Participation Rate (%)

Age Groups	2009-10			2010-11			2012-13		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
10-14	12.6	15.4	9.2	11.8	14.3	8.8	11.4	14.5	8.0
15-19	37.1	52.7	19.2	36.4	51.6	19.6	35.8	51.2	18.2
20-24	54.7	81.5	23.9	53.8	84.3	24.2	53.1	82.4	24.4
25-29	58.0	96.3	24.7	58.9	96.8	25.0	57.8	95.7	25.1
30-34	59.1	97.6	26.4	59.5	98.2	25.9	60.2	98.0	27.1
35-39	62.2	97.4	29.0	62.5	98.4	29.0	62.5	98.7	28.5
40-44	62.4	97.7	26.6	64.2	98.3	30.0	63.5	98.2	29.0
45-49	65.0	97.4	29.5	64.8	97.8	28.6	64.0	97.5	29.3
50-54	64.7	96.4	29.3	63.5	96.6	28.1	64.7	96.4	28.9
55-59	62.6	93.3	28.0	61.5	92.2	26.3	62.5	92.6	26.6
60+	37.6	55.5	13.5	37.3	55.0	11.9	35.7	52.4	13.6

Source: Pakistan Bureau of Statistics (Labour Force Survey 2012-13)

Fig-12.4: Age Specific Participation Rate



Employment by Sectors

Pakistan has endowed a rich and vast natural resource base, covering various environmental and climatic zones; hence the country has great potential for producing all types of food commodities. Agriculture has an important direct and indirect role in generating economic growth. The importance of this sector is manifold as it feeds people, provides raw material for industry and is the base of our foreign trade. Almost 67.5 percent people are living in the rural areas and are directly involved in this sector. The number of labourers engaged in Agriculture accounts for 43.7 % of the total labour force. The total labour force working in the Agricultural sector has decreased from 45 percent in 2009-10 to 43.7 percent in 2012-13. The main reason of this change is due to technical transformation, labour is being replaced by machines, thus limiting work opportunities in agricultural sector and this coupled with natural calamities in the form of droughts and floods have led reduction in the income levels and thereby has led to decline in its employment.

The manufacturing and construction sectors are also playing an imperative role in the provision of employment. In these sectors the total participation rate has increased while the female participation rate has declined in 2012-13 as compared to 2009-10. The wholesale and retail trade sectors do not provide better employment opportunities and therefore the share of employment has reduced during this period. The community/social and personal services sector comprises various subsectors; overall the share of employment has increased from 11.2 percent in 2009-10 to 13.3 percent in 2012-13.

Table-12.8: Employment Shares by Sectors (%)

Major Sectors.	2009-10			2010-11			2012-13		
	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**
Agriculture/ forestry/ hunting & fishing	45.0	36.6	74.9	45.1	36.2	75.4	43.7	34.5	75.7
Manufacturing	13.2	13.9	11.0	13.7	14.5	10.9	14.1	15.0	10.7
Construction	6.7	8.5	0.3	7.0	8.9	0.2	7.4	9.5	0.2
Wholesale & retail trade	16.3	20.2	2.1	16.2	20.4	1.6	14.4	18.1	1.5
Transport/ storage & communication	5.2	6.6	0.3	5.1	6.6	0.1	5.5	7.0	0.2
Community/social & personal service	11.2	11.2	11.2	10.8	10.8	11.5	13.3	13.9	11.5
*Others	2.4	3.0	0.2	2.1	2.6	0.3	1.6	2.0	0.2

Source: Pakistan Bureau of Statistics(Labou Force Survey 2012-13)
Note: Labour Force Survey was not published in 2011-12

Fig-12.5 (A): Sector-wise Employment Share (2012-13)

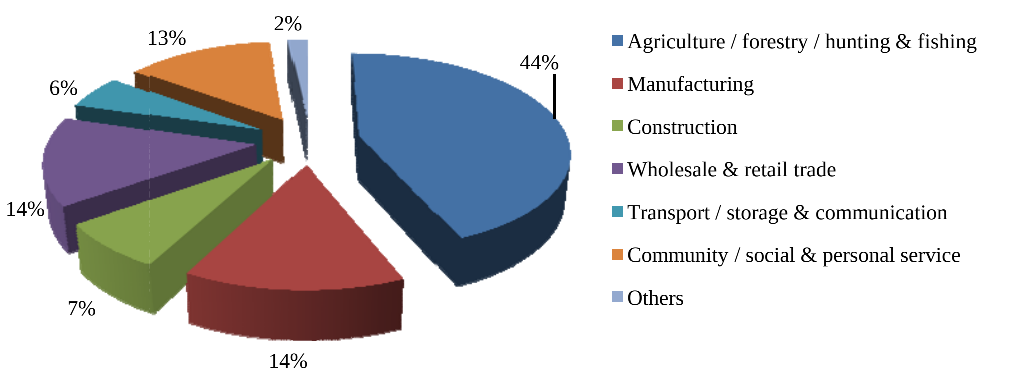
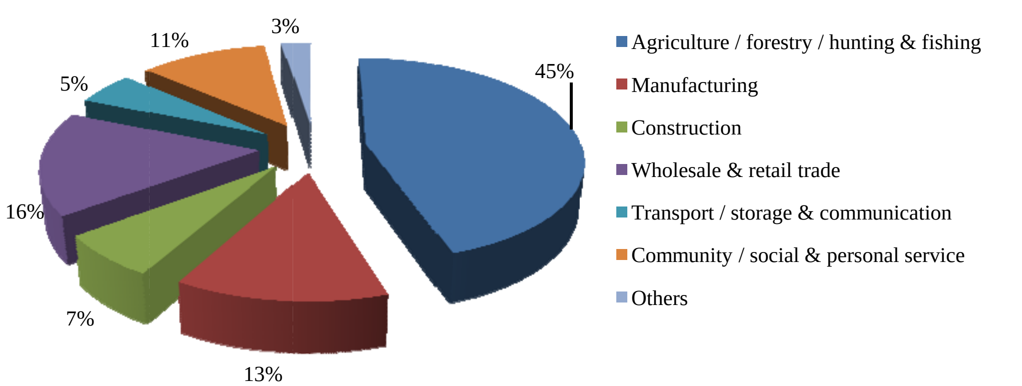


Fig 12.5 (B)-Sector-wise Employment Share (2009-10)



Formal and Informal Sector

The informal sector plays a momentous role in developing countries' economies including Pakistan. The role of the informal sector in solving the unemployment problem of less developed countries has become the focus of a conceptual and empirical debate in recent years. The importance of this sector necessitates that it should be used as a policy instrument for the solution of the most pressing problems such as unemployment, poverty, income inequalities, etc. The importance of the informal sector can be measured by its contribution to national income and employment and its contribution to financial credit as compared to that of the formal sector.

The informal sector generates the higher level of employment, 73.6 percent in 2012-13 as compared to formal sectors, and 26.4 percent in the same period.

Table-12.9: Formal and informal Sector-Distribution of Non-Agriculture Workers (%)

Sector	2009-10			2010-11			2012-13		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100**	**100**	**100**
- Formal	26.7	26.7	26.9	26.2	25.9	28.9	26.4	26.2	28.3
- Informal	73.3	73.3	73.1	73.8	74.1	71.1	73.6	73.8	71.7
Rural	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100**	**100**	**100**
- Formal	23.7	23.8	22.3	23.5	23.8	21.0	22.6	22.6	21.8
- Informal	76.3	76.2	77.7	76.5	76.2	79.0	77.4	77.4	78.22
Urban	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100**	**100**	**100**
- Formal	29.6	29.4	31.6	28.8	27.6	36.9	30.1	29.6	34.9
- Informal	70.4	70.6	68.4	71.2	72.4	63.1	69.9	70.4	65.1

Source: Pakistan Bureau of Statistics.(Labour Force Survey 2012-13)
Note: Labour Force Survey was not published in 2011-12

Table 12.9 gives the details of employment levels in urban and rural formal and informal sectors for both male and female groups. The employment ratio in rural informal sector 77.4 percent is higher as compared to that in the urban areas 69.9 percent. The table further illustrates that the female employment rate in the rural informal sector is showing an increasing trend while in the urban informal sector the employment rate has decreased from 68.4 percent in 2009-10 to 65.1 percent in 2012-13.

The formal sector, in absolute terms does not show any significant changes with respect to employment level during the 2010-13 periods. The total employment in this sector has reduced marginally from 26.7 percent to 26.4 percent. However, in urban areas there was an increase from 29.6 percent to 30.1 percent during this period.

Unemployment

Unemployment is defined as the situation where people do not find jobs despite of their willingness to work within the current job market conditions. Unemployment rate identifies the number of people in percentage which are looking for any job and livelihood as compared to the entire labour force in the country. The issue of unemployment has become a leading global problem after the economic slowdown which affected almost the entire world.

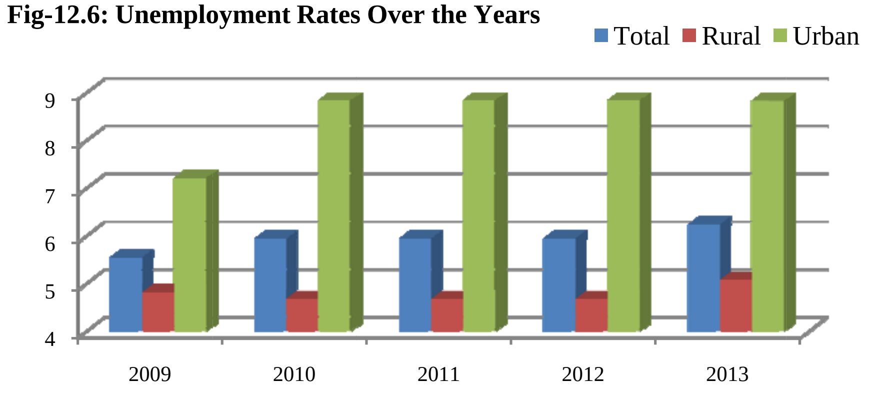
Like other developing countries, problem of unemployment is one of the major problems being faced by the economy of Pakistan.

Table 12.10: Unemployment rate by area

Years	Unemployed labour force (in million)			Unemployment rate (%)		
	Total	Rural	Urban	Total	Rural	Urban
2009-10	3.12	1.89	1.23	5.6	4.8	7.2
2010-11	3.40	1.85	1.55	6.0	4.7	8.8
2012-13	3.73	2.09	1.64	6.2	5.1	8.8

Source: Pakistan Bureau of Statistics (Pakistan Labour Force Survey 2012-13)

Fig-12.6: Unemployment Rates Over the Years



The overall unemployment rate has increased from 5.6 percent in 2009-10 to 6.2 percent in 2012-13. However, it remained same in urban areas while increased in rural areas from 4.8 percent in 2009-10 to 5.1 percent in 2012-13.

It is obvious from Table 12.10 and figure 12.6 that in Pakistan unemployment rate is increasing in both rural and urban areas in absolute as well as in percentage terms. Rising level of unemployment in rural areas is mainly due to limited absorption capacity in Agriculture sector. Agriculture mechanization is major cause of reducing absorption capacity of this sector. Although industries are being setup in some rural areas, however, employment generation opportunities due to these industries are not according to increasing labour force.

The unemployment rate in urban areas is even more than in rural areas. This high rate of unemployment is mainly due to two reasons, first is rural urban migration which is cause of increasing urban population whereas job opportunities are not increasing accordingly. Second is industrial development is not yet reached upto the position to address the issues of unemployment on account of dismal performance in the past.

Table-12.11: No. of Unemployed – Pakistan and Provinces (Million)

Province /Area	Unemployment								
	2009-10			2010-11			2012-13		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
Pakistan	**3.12**	1.91	**1.21**	**3.4**	**2.22**	**1.18**	**3.73**	**2.49**	**1.24**
Rural	1.89	1.12	0.77	1.85	1.14	0.71	2.09	1.32	0.77
Urban	1.23	0.79	0.44	1.55	1.08	0.47	1.64	1.17	0.47
Punjab	**1.94**	1.18	**0.76**	**2.10**	**1.31**	**0.79**	**2.28**	**1.47**	**0.81**
Rural	1.16	0.68	0.48	1.25	0.76	0.49	1.38	0.87	0.51
Urban	0.78	0.50	0.28	0.85	0.55	0.30	0.90	0.60	0.30
Sindh	**0.57**	**0.35**	**0.22**	**0.70**	**0.54**	**0.16**	**0.77**	**0.57**	**0.20**
Rural	0.24	0.12	0.12	0.15	0.10	0.05	0.21	0.12	0.09
Urban	0.33	0.23	0.10	0.55	0.44	0.11	0.56	0.45	0.11
Khyber Pakhtunkhwa	**0.55**	**0.35**	**0.20**	**0.53**	**0.32**	**0.21**	**0.58**	**0.37**	**0.20**
Rural	0.45	0.29	0.16	0.41	0.25	0.16	0.44	0.28	0.16
Urban	0.10	0.06	0.04	0.12	0.07	0.05	0.14	0.09	0.05
Balochistan	**0.06**	**0.03**	**0.03**	**0.07**	**0.05**	**0.02**	**0.10**	**0.08**	**0.02**
Rural	0.04	0.02	0.02	0.04	0.03	0.01	0.06	0.05	0.01
Urban	0.02	0.01	0.01	0.03	0.002	0.01	0.04	0.03	0.01

Source Pakistan Bureau of Statistics Division (Pakistan Labour Force Survey 2012-13)

Province wise comparison of unemployment (Table 12.11) shows that the number of unemployed people increased in Punjab from 2.10 million in 2010 -11 to 2.28 million in 2012-13.The number of unemployed people increased in Punjab is more as compared to other provinces. The apparent reason of high unemployment in Punjab is highest population from among all provinces. In case of Balochistan 0.10 million people are unemployed in 2012-13 an increase of almost 0.3 million people as compared to 2011-12.The main reasons of this increasing unemployment is bad infrastructure, law and order situation and lack of business and industrial activities.

Table; 12.11(ii) Province wise unemployment rate (%)

Unemployment Rate (%)	2010-11			2012-13		
Provinces/Area	Total	Male	Female	Total	Male	Female
Pakistan	6.0	5.1	8.9	6.2	5.4	9.0
Punjab	5.7	4.7	8.3	6.1	5.2	8.3
Sindh	5.2	4.8	7.2	5.0	4.4	8.2
Khyber Pakhtunkhwa	8.0	5.9	16.5	8.5	6.7	16.3
Balochasitan	2.9	2.5	7.9	4.0	3.6	7.0

Source: Pakistan Employment Trend, 2013(PBS).

Table 12.11(ii) shows that unemployment rate in Sindh decreased from 5.2 percent in 2011-12 decreased to 5.0 percent in 2012-13. Whereas the rate in Punjab, Khyber Pakhtunkhwa (KPK) and Balochistan increased to 6.1 percent, 8.5 percent and 4.0 percent respectively as compared to the same period.

According to gender wise breakup, the table revealed female unemployment rate increased to 9.0 percent in 2012-13 as compared to 8.9 percent in 2010-11.While male unemployment ratio surge to 5.4 percent in said periods as compared to 5.1 percent

Province wise breakup shows that female unemployment rate in Sindh increased to 8.2 percent in 2012-13 from 7.2 percent in 2010-11, however, male unemployment rate in Sindh declined to 4.4 percent from 4.8 percent in comparison under review. During 2012-13 in Punjab, female unemployment rate remained stable to 8.3 percent while male unemployment rate increased to 5.2 percent from 4.7 percent in periods under review.

Interestingly, female unemployment rate in Balochistan decreased to 7.0 percent from 7.9 percent while male unemployment rate surged to 3.6 percent from 2.5 percent in said periods. Khyber Pakhtunkhwa's showed similar statistics to Balochistan as female unemployment rate in Khyber Pakhtunkhwa decreased to 16.3 percent from 16.5 while male unemployment rate increased to 6.7 percent in 2012-13 from 5.9 in 2010-11. The overall main causes of unemployment are rising population, law and order situation lack of technical education and shortage of skill training institutes. Youth is also facing many challenges but some of these are common in the overall labour market. However, government is well aware of these issues and focusing on long term investment in human capital through formal and informal education and strategically strengthening the links between education, skill development and the labour market would greatly benefit youth in the long term.

Employment Promotion Policies

The policy focus of government is to create employment opportunities and human resource development. Policy initiatives are being taken to provide demand driven vocational training along with credit for self-employment to lessen the volume of unemployment in the country. Supporting innovative entrepreneurship along with youth entrepreneurship would also be helpful to reduce the burden of unemployment in the economy.

Internship Program is helpful in decreasing pressure on the labour market. Facilitation to private sector for economic growth as well as for employment generation can also be considered a prudent policy to solve the problem of unemployment. Encouraging overseas employment can also be a useful tool to reduce the pressure on domestic labour market.

Facilitating the labour intensive sectors such as construction, small and cottage industry as well as personal and commercial services are helpful to improve employment opportunities in the country. These steps are helpful in order to increase the employment generation through employment expansion and employment activation policies. The main objectives of the employment promotion policies are as follows:

- Absorption of a large percentage of labour force in productive employment along with reduction in the size of the under employed and unemployed workforce.
- Creation of more and better job opportunities for men and women based on internal markets, cities and communities which are main source of fostering productivity, innovation, entrepreneurship and demand driven skills.
- Promotion of sectors which are labour intensive and have comparative trade advantage like agriculture, export industries (agro-based) small-scale manufacturing, SMEs, construction and social services.
- Creation of an efficient and well functioning labour market information system that may reduce skill shortages and job mismatch.
- Adjustment and enforcement of minimum wage level periodically.
- Provision of microfinance at large scale to promote small and micro enterprises and self-employment.
- Skill development based on Public-Private Partnership (PPP) to reap benefits of demographic dividend and enhancement in productivity for economic growth.

Government's Initiatives for Youth

Prime Minister of Pakistan has launched a Youth Development Program in September 2013 with the aim to provide various opportunities to the youth including skilled education, trainings, employment and scholarships so that they could contribute positively in their fields. Under this program, six schemes have been announced which include Interest Free Loans, Business Loans, Youth

Training, Youth Skill Development, Fee Reimbursement Scheme for Students from the Less Developed Areas and PM's Scheme for provision of Laptops Provision.

The details of employment generation schemes are given below:

1. **Interest Free Loan Scheme:** Micro finance facility aimed at helping the industry raising current access level of 2.5 million people to 5.0 million people will get benefit from this scheme. The government has approved Rs.3.5 billion for this scheme. The money would be distributed through Pakistan Poverty Alleviation Fund. Under this scheme each beneficiary will receive upto Rs.50, 000. The vulnerable rural and urban poverty ridden youth are eligible to get loans under this scheme.
2. **Business Loans Scheme:** This scheme will focus on unemployed youth, especially skilled trained looking for establishing new enterprises. These are generally interest free loans and are offered to all skilled youth interested in establishing themselves as entrepreneurs. This scheme is specifically for young entrepreneurs between the age group of 21 - 45 years, and is designed to provide subsidized financing for one hundred thousand (100,000) beneficiaries, through designated financial institutions, initially through National Bank of Pakistan and First Women Bank Ltd. The size of the loan will be upto Rs. 2.0 million. Small Business Loan will be disbursed to SME beneficiaries across Pakistan, Covering; Punjab, Sindh, Khyber Pakhtunkhwa, Balochistan, Gilgit Baltistan, Azad Jammu & Kashmir and Federally Administered Tribal Areas (FATA). It has a 50% quota for women and 5% quota for families of Shaheeds, Widows and Disabled persons.
3. **Youth Training Scheme:** Under this scheme, young individuals with 16 years of education from recognized institutions will be provided on job training/internships at private and public sector offices. It is aimed that professional development would equip them with abilities to get job opportunities in the country or abroad. An amount of Rs.4.0 billion has been allocated to the scheme for the financial year 2013-2014. A monthly stipend of Rs.10, 000 shall be paid to each selected applicant for a period of 12 months. 50,000 interns would be hired under this scheme.
4. **Youth Skill Development Scheme:** The youth skill development scheme is aimed at providing vocational training to unemployed young individuals for acquiring productive skills for gainful employment. The programme is being executed by National Vocational & Technical Training Commission (NAVTTC). The government has allocated Rs.800 million for this programme. The duration of programme is 4 to 6 months .The selected trainees will be given monthly stipend of Rs.2,000 and Rs. 3000 for FATA trainees. Under this programme 25,000 unemployed youth will be provided skill development training in demand driven trades. The training will be provided in 348 public and private sectors Technical and Vocational Training Institutes, across the country.
5. **Provision of Laptop Scheme:** This scheme is an attempt to enhance the scope of research and quality education in the country and increase the access to information technology. All Masters Doctoral students and 50 percent under-graduate students will get the laptop. A total of 100,000 students from across Pakistan will be benefited from this scheme. An amount of Rs. 4.0 billion has been allocated for this scheme.
6. **Fee Reimbursement Scheme for Students for the Less Developed Areas:** With the aim of encouraging pursuit of higher education, the scheme will provide scholarships for post graduate degrees students belonging to remote and under-privileged areas of the country. The average annual tuition fee to be financed under the scheme is Rs. 40,000. A total of 35,000 students will receive scholarships. An amount of Rs. 1.2 billion has been allocated for this scheme.

National Vocational & Technical Training Commission (NAVTTC)

The government has accorded high priority to skill development, acknowledging supply of skilled labour force as a mandatory input in the growth process. Therefore, through an Act of Parliament National Vocational and Technical Training Commission (NAVTTC) was created as an apex body and a National Regulatory Authority to address the challenges of Technical and Vocational Education and Training (TVET) in the country. From July 2013 to March 2014, NAVTTC has trained 6677 under President Fanni Maharat Programme and Prime Ministers' Hunermand Pakistan Programme collectively and 2,687 trainees are under training.

Export of Manpower

International migration is a global phenomenon affecting nearly all the countries. Its role and impact is going to be much more significant in future given the increasing effects of global economic and demographic imbalances, globalization, and climate change. Resultantly, the dynamics of international migration and remittances have attracted the attention of policy makers around the world.

The vision of the government is to promote export of Pakistani manpower abroad, to elevate the living conditions of working class and secure the decent working conditions for them. The area of its activities encompasses the management of labour relations, social security, socio-economic up lift of working class and the export of Pakistani manpower abroad.

Overseas employees are one of the most important features in national economic development and the government has never neglected this aspect. The radical and revolutionary policies of the government are a vital proof of it. The vision of Ministry of Overseas Pakistanis & Human Resource Development is to provide better service to the Overseas Pakistanis, protecting their investments, securing emigration of right worker for the right job, promoting worker welfare by adopting workers friendly policies, social protection and decent working conditions Since 1971 up to March 2014 around 7.4 million overseas Pakistanis working /living around the globe. The main concentration of Overseas Pakistanis is in Middle East 49.2 percent, Europe 28.3 percent and America 16.2 percent.

Table 12.12: Number of Pakistani workers registered

S.NO	Countries	2009	2010	2011	2012	2013
1	UAE	140889	113312	156353	182630	273234
2	Bahrain	7087	5877	10641	10530	9600
3	Malaysia	2435	3287	2092	1309	2031
4	Oman	34089	37878	53525	69407	47794
5	Qatar	4061	3039	5121	7320	8119
6	Saudi Arabia	201816	189888	222247	358560	270502
7	UK	556	430	308	183	158

Source: Bureau of Emigration and Overseas Employment

Manpower export has dropped from 0.638 million in 2012 to 0.622 million in 2013. In 2013 UAE has hired almost 0.1 million more people as compared to the last year. However, the situation is different in Saudi Arabia, where the number of emigrants decreased from 0.3 million in 2012 to 0.2 million in 2013. The reason for this decrease is that Kingdom of Saudi Arabia has launched Nitaqat programme. The basic purpose of this programme is to give priority to the local citizens of Saudia Arabia and then the rest of jobs may be filled by the emigrants from other countries.

The government is considering a proposal to substantially boost foreign remittances and foreign exchange reserves. The Gulf region is to be effectively tapped by exporting the maximum manpower. During financial year 2012-13, foreign exchange remittances from the Pakistani workers abroad amounted to US $13,922 million, whereas during July-April 2013-14 it reached to US $ 12,895 million against US $11,570 million in the comparable period of financial year 2012-13.

However, the government is expecting good opportunities of manpower export during the event of Expo 2020 in Dubai. Moreover, massive new construction plans in Saudi Arabia will also provide opportunities for Pakistani man power. This will decrease not only unemployment rate in the country but also boost up the remittances.

Table 12.13: Workers Registered for Overseas Employment During the period 2009-2013 Province Wise

Year	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Azad Kashmir	N/Area	Tribal Area	Total
2009	2,01,261	30,779	1,14,633	4,480	31,329	507	20,539	4,03,528
2010	1,90,547	31,814	98,222	3,130	22,535	458	16,198	3,62,904
2011	2,28,707	40,171	1,30,119	5,262	33,133	732	18,769	4,56,893
2012	3,41,874	46,607	1,76,349	5,122	38,833	780	29,022	6,38,587
2013	3,33,121	55,608	1,50,418	9,293	40,038	1,190	33,046	6,22,714
Total	12,95,510	2,04,979	6,69,741	27,287	130,918	3,667	117,574	24,49,676

Source: Bureau of Emigration and Overseas Employment

The comparison among province shows that the manpower export is higher from Punjab as compared to other provinces. During 2009-2013 the highest number of workers went abroad for employments were from Punjab 3,33,121 followed by Khyber Pakhtunkhwa (KPK) 1,50,418. However, the situation is not encouraging in Sindh and Balochistan as compared to Punjab during this period.

Conclusion

Pakistan is the sixth most populous country of the world with 1.95 percent population growth rate. Rapid population growth can generate food security problem, environment problem and urban congestion. In Pakistan resources are limited and therefore rising population is putting more pressure on these scarce sources. However, government is well aware of this problem and is making efforts to control the population growth rate through various population welfare programmes like Family Welfare Centre, Mobile Service Units and Training Centres. These Population welfare programmes are contributing significantly in controlling population growth rate, fertility rate, infant mortality rate and maternal mortality rate. Pakistan is undergoing a demographic transition as fertility rates decline and percentage of working age population is increases. This working age population can be a productive asset of the country if properly trained through skill development programmes. In this regard government has initiated many programmes for their skill development and also explores overseas employment opportunities which will not only reduce the unemployment burden in the economy but will also enhance remittances.

Chapter 13

Transport and Communications

Introduction

Pakistan is blessed with a very unique geo-strategic location posing strength and challenges for its endurance. The opportunities and potential can be realized by exploring its critical connectivity of land routes, coastal lines and pass through air routes which are endowed by the favourable climate. The country offers the most effective, economical and viable transit routes throughout the seasons to the land locked Central Asian Countries and other neighbouring countries providing a very convenient trade corridor. World Bank estimates that poor performance of the transport sector is costing Pakistan about five percent of its GDP. Furthermore thirty percent of agriculture output is currently wasted due to its inefficient farm to market channels, lack of cold storage facilities and an obsolete underpowered trucking fleet.

Government of Pakistan is committed to develop and enhance a modernize transport and logistics sector. Vision 2025 also seeks to establish an efficient and integrated transport system that will facilitate the development of our economy. The targets set forth are to ensure reduction in transport cost, safety, effective connectivity between rural areas and urban areas markets interprovincial high speed connectivity, integrated roads network and transportation corridor connectivity with major regional trade partner countries.

13.1 Road Transport

Topography of the region consists upon hilly mountain areas, far flung agriculture lands and the productive resources scattered all over the country. Roads provide easy and efficient means of transportation. About 61.4 percent of our population lives in villages. Roads network in Pakistan is of crucial importance for the movement of people and goods, integrating the country, facilitating economic growth and in reducing poverty. Total roads network in Pakistan is around 263,775 kms out of which about 70 percent are paved. Road density in Pakistan is 0.32 km/km^2 which is low in comparison of neighbouring countries.

This roads network carries over 96 percent of inland freight and 92 percent of passenger traffic and are undoubtedly the backbone of the economy. Table 13.1 shows the details of roads in Pakistan. National Highways consists of 9,324 kms (3.53 percent) and Motorways 2,280 kms (0.87 percent). Strategic roads and Expressways contribute 262 kms and 100 kms respectively that is 0.1 percent. Rest of the roads network contains provincial highways and roads under respective local administration like; Cantonment Boards, Municipal Corporations, Local Development Authorities, etc. About 40.9 percent of total roads lie in province of Punjab, followed by 30.9 percent in Sindh, 16.3 percent in Khyber Pakhtunkhwa and 11.3 percent in Balochistan. Azad Jammu & Kashmir, being mostly hilly area, shows a small proportion of just 0.6 percent, of roads network.

Table 13.1: Estimated Length of Roads in Provinces (kms)

Years	Category	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	GB & AJK	TOTAL
2009-10	Total	105,085	81,618	42,765	29,727	1,565	260,760
	Low Type	32,179	24,993	13,095	9,103	480	79,850
	High Type	72,906	56,625	29,670	20,624	1,085	180,910
2010-11	Total	105,253	80,625	42,550	29,500	1,535	259,463
	Low Type	32,147	24,000	13,000	9,000	450	78,597
	High Type	73,106	56,625	29,550	20,500	1,085	180,866
2011-12	Total	106,455	80,960	42,975	29,625	1,580	261,595
	Low Type	32,590	24,335	13,140	9,125	465	79,655
	High Type	73,865	56,625	29,835	20,500	1,115	181,940
2012-13	Total	107,805	81,385	42,980	29,655	1,590	263,415
	Low Type	33,090	24,685	13,140	9,130	470	80,515

Table 13.1: Estimated Length of Roads in Provinces (kms)

Years	Category	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	GB & AJK	TOTAL
	High Type	74,715	56,700	29,840	20,525	1,120	182,900
2013-14	Total	107,973	81,493	43,035	29,692	1,592	263,755
	Low Type	32,729	24,415	12,996	9,030	465	79,635
	High Type	75,214	57,078	30,039	20,662	1,127	184,120

Source: National Transport Research Centre (NTRC)

National Highway Authority

National Highway Authority (NHA) is rendering a vital contribution in improving the quality of roads network to bring about qualitative improvement in standard of living. Pakistan is geographically bisected into two halves by River Indus. Eastern segment is historically well developed. To bring the Western segment at par with the Eastern half, NHA is improving East West connectivity through construction of numerous bridges across the river Indus in addition to investing more and paying extra attention towards the development of west.

Present NHA network comprises of 39 national highways, motorways, expressway, and strategic roads. Length of this network is 12,131 kms. NHA existing portfolio consists of 83 development projects costing Rs.615.2 million. GoP allocated Rs.63.04 billion in PSDP 2013-14 for development projects of NHA. This amount includes Rs.30.92 billion foreign currency and Rs.32.12 billion in local currency.

Ongoing Projects of NHA

Some significant ongoing projects are:

1. Faisalabad-Multan motorway (M-4)
2. Sehwan-Ratodero ACW (N-55)
3. Sukkur-Jacobabad (N-65)
4. Re-alignment of Karakorum Highway at Attaabad
5. Flood emergency Rehablitation Project
6. Peshawar Northern Bypass (E-2)
7. Khushalgarh Bridge (N-80)
8. Qazi-Amri Bridge across River Indus

Four projects having length of 320 kms are ongoing in Punjab that has achieved about 60 percent progress. Similarly, five projects of 182 kms length are also ongoing in Sindh for which more than 70 percent progress has been achieved. Six projects having length of 79 kms achieved 60 percent progress in Khyber Pakhtunkhwa, Gilgit-Baltistan and Azad Jammu & Kashmir, four projects in Balochistan having length of 474 kms have achieved more than 60 percent progress and will be completed by the year 2016.

Completed Projects of NHA

Some major completed projects include the following:

1.	Qila Saifullah-Zhob (N-50)
2.	Bridge over river Indus at Larkana
3.	Head Muhammadwala bridge over river Chenab
4.	Raikot – Khujerab section (335 kms) KKH
5.	6 Interchanges on Inner Ring Road Multan
6.	4-lane underpass at Wah Gate, Taxila
7.	Multan-Muzaffargarh (N-70)
8.	Larkana-Naudero-Lakhi Road
9.	Sakrand-Benazirabad Dual Carriageway
10.	Hyderabad-Badin. Road to Mir Wah Sanjar Chang Road
11.	Ghazi and Chuch Interchanges on M-1.

During last five years, NHA has constructed/ rehabilitated about 1151 kms roads all over the country. Province-wise break up is as follows:

Province	Kms constructed
Punjab	60
Sindh	205
Khyber Pakhtunkhwa	100
Balochistan	786
Total	**1151**

NHA has completed three major river bridges during last five years, three major bridges on river Indus and one river Ravi and one on river Chenab are ongoing. Five bridges over river Indus and two over river Ravi are also planned to be constructed.

NHA has already constructed three segments of Trans-Pakistan Motorway network viz M-1 (Peshawar-Islamabad), M-2 (Islamabad-Lahore) and M-3 (Pindi Bhattian-Faisalabad) on a virgin corridor bringing remote areas on mainline and boosting economic activities. NHA is now constructing M-4 (Faisalabad-Khanewal-Multan). NHA has planned to embark on various programmes for construction of new roads/bridges and improvement/ rehabilitation of the existing infrastructure, NHA has also launched some of its projects through Public Private Partnership PPP/ BOT basis and is seeking local as well as foreign firms for investment.

In order to ensure smooth and efficient movement of goods and passengers in healthy environment, NHA has planned to develop approximately 2,395 kms long China-Pak Economic Corridor (CPEC) connecting Gwadar to Kashghar (China) and has also planned Karachi-Lahore Motorway (KLM) 6-lane controlled access. Work is likely to commence on 460 kms section of KKH (Raikot to Islamabad) and KLM to serve initially as Economic Corridor to ensure optimal utilization of existing network. Its strategic objectives also include opening hinder-land areas and will bring more population into the stream of benefits, which in turn will ensure the social uplift of people living around this corridor.

Major Planned Development Projects

- Construction of Karachi-Lahore Motorway (1147 kms) (To be constructed on BOT/EPC basis)
- Improvement/Up-gradation of Raikot-Islamabad section of KKH (460 Kms) (through credit financing)
- Construction of Muzaffarabad-Mirpur-Mangla Expressway (196 Kms)
- Construction of Lahore Eastern Bypass (13.5 kms)
- Construction of Lower Topa-Kohala 4-lane Expressway (48 Kms)
- Improvement and widening of Mingora-Fatehpur section of N-45 (45 Kms)
- Construction of highway from Muzaffarabad to Taobult in Neelum Vaelley
- Construction of tunnel in Leepah valley
- Up-gradation of Jhaglot-Skardu Road, S-1 (163 Kms)
- Improvement and widening of N-45 (141 Kms)
- Malakand Tunnel
- Qilla Saifullah-Loralai-Waigum Rud section of N-70 (124 Kms)
- Zhob- Mughalkot section of N-50 (78 Kms)
- Approach Roads to New Islamabad International Airport (31.5 Kms)
- Rehabilitation and Dualization of Khanewal-Lodhran road (103 Kms)
- Dualization of Multan-Muzaffargarh-D.G, Khan section of N-70 (80 Kms) on BOT basis.

Box-1: Rawalpindi–Islamabad Metrobus Project

Islamabad–Rawalpindi Metropolitan area is third largest in Pakistan with a population of over 4.5 million inhabitants. Twin cities Islamabad and Rawalpindi are growing at a rate of more than 4 percent per annum, due to significant migration from all over the country. With present growth trends it is expected that the population would increase upto 7.0 million in next twenty years. Since both cities have grown into each other, significant amount of commuting takes place between the two cities. Currently private transport is the major means of mobility between two cities comprising of Mazda, Toyota Hiace, and Suzuki vans plying on various routes within and between the two cities. At present no organized urban bus transport service is operating in these cities and between cities of Rawalpindi and Islamabad. Level of service offered by the minibuses is far below any acceptable standard. Traffic volumes of over 210,000 vehicles ply on three major corridors connecting two cities carrying around 525,000 passengers. It is estimated that public transport demand of around 153,000 passengers is required to cater daily basis between the two cities. Interestingly this passenger demand is concentrated around a corridor which is of high density and strategically located to provide for a rapid transit system.

Based on studies conducted by Government of the Punjab and Capital Development Authority, a Metro Bus project is required to connect the twin cities and alleviate the traffic congestion on this corridor. In a meeting held in Lahore on 19th January 2014, co-chaired by the Prime Minister of Pakistan and the Chief Minister of Punjab, it was decided that the project shall be funded on 50:50 sharing basis by the Federal government and government of the Punjab. As Punjab government has already completed successfully a similar Metro Bus project in Lahore, Prime Minister of Pakistan decided that provincial government will execute this project through Rawalpindi Development Authority (RDA) as single executing agency for both parts of the project. It will work in close coordination with the Capital Development Authority (CDA) for the Islamabad Part of the project. Punjab Metrobus Authority (PMA) will control the operation & maintenance of the project after its completion.

The project will start from near Flashman Hotel on Mall Road Rawalpindi and follow the existing Murree Road upto Faizabad. It will then turn left into the federal territory and follow I.J.P. road upto 9th Avenue. Thereafter, it will turn right and follow the 9th Avenue in Islamabad then turn right on Jinnah Avenue upto the end of Blue Area. From Blue Area a connection to Secretariat stop will be provided through the open space behind parade ground. It will cross the Constitution Avenue and another couple of main roads through underpasses. However, the remaining length of this section is also designed on a lower level in an open Trench section keeping in view various security constraints.

The entire length 8.6 km of Metro Bus corridor in Rawalpindi area shall be of elevated structure whereas about 14 km in Islamabad shall be at grant but made signal-free by constructing grade separations at various intersections. Ten stations in the Rawalpindi part and fourteen in the Islamabad part are provided along the corridor. Functional elements at the stations include ticketing booths, concourse level passenger transfer, escalators, platform screen doors turnstiles for automatic fare collection and all other amenities for passenger convenience. A central ITS control room is also included in the project to control the whole operation of Metro Bus system.

Initially provision of a 10 lane underpass (2 Lanes for Metro Bus and 8 Lanes for mix traffic) along the 9th Avenue was proposed at Peshawar morr intersection. Later on, in view of the traffic issues at Peshawar morr intersection, ongoing Widening / Rehabilitation of Kashmir Highway and its link with new Islamabad Airport, it was decided to dovetail the Metro Bus corridor in the interchange already designed by CDA which will cost Rs. 6.75 billion. The same will be executed simultaneously with Metro Bus Project.

Project Cost / Expenditure (Rs. in billion)

Project Segments	Length (Km)	Cost	Expenditure Upto 16-5-2014
Rawalpindi Part (03 Packages)	8.6	19.37	3.93
Islamabad Part (05 Packages)	13.9	24.84	1.79
Total	22.5	44.21	5.72

The works of Rawalpindi Part (03 Packages) have been awarded and the contractors are mobilized at the site. The works of Islamabad part of five Packages has also been started. Prime Minister inaugurated the project on 23rd March 2014 and work was started from the same day. Metrobus project will be completed in next 10 months.

Infrastructure Projects in Collaboration with China

Infrastructure is both a cause and a consequence of economic growth, that is investment in infrastructure construction fosters the economic activities consequently on completion by using the infrastructure facilities provides means of economic progress of the country. Integrating development of the country with the global economies is only possible by providing transport and telecommunication services throughout the country. Developed infrastructure can also raise the quality of human capital, which is a key factor in achieving high and sustainable levels of growth. Improvements in the quality and quantity of infrastructure have a positive impact on the poor and thus play a vital role in reducing income inequality. Government gives high priorities in development the infrastructure for uplifting living standards of the masses at par all over the country. In the long term, transport system of Pakistan is likely to experience tremendous improvements with implementation of the National Trade Corridor Programme (NTCP). With this aim to achieve Pakistan government has sought extended collaboration with Chinese government to execute the following programme under China-Pak Economic Corridor (CPEC).

Box-2: China – Pak Economic Corridor (CPEC)
High Priority Early Harvest Projects (HPEHPs)
of Transport and Communications Sector

China-Pakistan Economic Corridor Long Term Planning

Pakistan and China have agreed on promoting and developing China-Pakistan Economic Corridor (CPEC). This decision was made at the Joint Working Group meetings of CPEC held in January and February, 2014 at Islamabad and Beijing respectively. The two sides reached consensus on implementation of CPEC and on construction projects of roads, railways and ports. To start with Kashgar, Xinjiang, Khunjerab, Islamabad, Lahore, Multan, Sukkur, Karachi and Gwadar are selected as the pivot cities.

To accomplish this, experts will conduct investigation in Southern and Northern Pakistan. Draft Master Plan of CPEC will be prepared, by June 2014 and final master plan by September 2014. A comprehensive feasibility study for technological standards for prioritized projects of Pakistan Railways will be funded by both sides for prioritized projects. Early Harvest Projects (EHP) in Railways will also be completed within six months of approval by the Joint Cooperation Committee (JCC).

Principles, Classification, and list of Prioritized Projects/EHP

It is agreed that there are five guiding principles for the determination of prioritized projects/EHP namely:

i. Bilateral connectivity
ii. Socio-economic urgency and impact

iii. Mature projects
iv. Relatively good economic returns and
v. Quicker completion time.

Prioritized projects/EHP determined by the 2nd JCC meeting include:

Transport Sector

1. Karakorum Highway (phase II) up gradation and reconstruction from Raikot to Islamabad via Mansehra.
2. Karachi-Lahore Motorway; Multan-Sukkur section.
3. Up-gradation/Rehabilitation of ML1 and construction of Havelian Dry Port.
4. Gwadar Port project mainly includes East Bay Expressway, Gwadar International Airport, Construction of Breakwater, Dredging of berthing areas and channels, Integrated Development of Gwadar city/region and Development of related infrastructure.
5. Orange Line Metro Train Project (Lahore).

Project Financing Arrangement

China Development Bank, the Export-Import Bank of China and other financial institutions will provide financing support of a certain size for construction of CPEC projects. It will include commercial loans, export credit, concessional loans, and non-reimbursable assistance etc. In light of the status of various projects, different financing modalities should be developed, such as grants, interest free loans, preferential loans, syndicated loans, and commercial loans plus concessional loans.

Pakistan has proposed China to consider establishing a low cost Economic Corridor Investment Fund initially of US$20 billion, US$10 billion for energy and $10 billion for infrastructure to support Chinese companies to invest in public and private sector projects under CPEC. With this understanding following projects have been initiated in the infrastructure sector:

S. No.	Name	Cost of the Project	Start Date	Completion date
Highways and Motorways				
1.	Karakorum Highway (Phase-II) Raikot to Islamabad (487 Kms)	Rs. 379 billion (including Rs. 6.0 billion for Land Acquisition)	Dec. 2014	Dec. 2017
2.	Karachi-Lahore Motorway (Multan-Sukkur Section) (387 Kms)	Rs. 246 billion plus Land Acquisition cost of Rs. 61.0 billion.	Oct. 2014	Dec. 2017
Railways				
3.	Rehabilitation & Up-gradation of Karachi-Lahore-Peshawar (ML-1) Railway Track (1736 kms)	US$ 3,650 million	July 2015	Dec. 2017
4.	Construction of Havelian Dry port including cargo handling facilities.	US$ 40 million	July 2015	Dec. 2017
5.	Orange Line Metro Train Project in Lahore (27.1 kms)	US $ 1.6 billion, actual cost of the project will be determined once the financial bids are opened	Not yet finalized	Not yet finalized
Gwadar Port				
6.	Construction of East-Bay Expressway, Gwadar Port (18.9 kms)	Rs. 11-12 billion	30 Aug. 2014	Sep. 2016
7.	Construction of Breakwaters, Gwadar Port	Rs. 13.0 billion	Oct. 2015	April 2016
8.	Dredging of Berthing Areas & Channels, Gwadar Port	Rs. 2.8 billion	Oct. 2015	Jan. 2016
9.	Infrastructure Development for EPZA & GIEDA, Gwadar	Rs. 3.45 billion	Oct. 2015	June 2017
Optical Fibre Cable (OFC)				
10.	China-Pakistan Optical Fibre Cable (OFC) Project	US$ 44 million including 15 percent local component through PSDP and 85 percent FEC provided through soft loan by Chinese Ministry of Commerce	2014	2017

Source: Ministry of Planning, Development & Reforms

13.2 Pakistan Railway

An effective railway system of the country facilitates commerce and trade, reduces transportation costs, and promotes rural development and natural integration. Network of Pakistan Railway comprises of 7,791 route kilometers, 423 Locomotives, 1,700 passengers coaches and 16,179 freight wagons. An overview of Pakistan Railway and Passenger and freight traffic are presented in the following tables:

Table 13.2: Earning of Pakistan Railway

Fiscal Year	Earning (Rs in million)	% Change
2007-08	19,973	--
2008-09	23,160	16.0
2009-10	21,886	-5.5
2010-11	18,740	-14.4
2011-12	15,444	-17.5
2012-13	18,070	17.0
2013-14 (July-March)	17,736	--

Table 13.3: Passenger and Freight Traffic

S. No.	Subject	2011-12	2012-13
1.	Number of Passenger Carried (million)	41.1	42
2.	Passenger Traffic (million kms)	16,093	17,388
3.	Freight carried Tonnes (million)	1.3	1.0
4.	Freight Tonnes (million kms)	402	419
5.	Gross Earning (Rs. million)	15,444	18,070

Pakistan Railway is enduring the worst crisis mainly due to locomotive shortages. Passenger and freight services substantially declined during last five years. This is evident from above table that gross earning of Pakistan Railway has declined during last five years. Due to over aged infrastructure and rolling stock, increase in fuel prices (high speed diesel), escalation of dollar exchange rate and a subsidized railway fare led to an increase in expenditure for sustained train operations. With capping of over draft by government of Pakistan in 2007, the finances required for increased maintenance cost could not be borne by the Pakistan Railway. Finally, sharp increase in salaries and pension led to diversion of all the revenue earnings to this obligatory payment at the cost of operational and maintenance requirements. Finance Division has committed to bear the expenses of salaries and pension thereon along with its impact of increase in future till that crisis is over. Government of Pakistan has allocated 39.366 billion in PSPD for the financial year 2014-15 for the development projects of Pakistan Railway.

New Initiatives

Ministry of Railways is taking following new initiatives to improve performance of Pakistan Railway and achieve tangible results:

i. Performance benchmarking and development of Key Performance Indicators for Pakistan Railway has been launched. It would help management to target right areas for improving service delivery, business processes and financials.

ii. Revival of Railway Board is being actively pursued as part of overall reform agenda.

iii. Tariff is being regularly rationalized based on the market dynamics mainly to improve occupancy and increase revenue of Pakistan Railway.

iv. Right mix of passenger and freight services is key. Passenger service has been kept, for time being, at 96 trains a day and most of the resources are being allocated to freight sector, which has produced encouraging results.

v. Improve availability of locomotives through special repair of existing locomotives and procurement of new locomotives. (From 8 to 25 locomotive per day only for freight thereby resulting in increase of daily freight train from almost nil to three trains ex-Karachi port)

vi. HSD Oil reserve remained low (sufficient for two days), which has been substantially enhanced to 12 days to streamline the train operation.

vii. To improve pension disbursement, automation system for pension payment has been introduced as a pilot project in Lahore and will be expanded to the entire railway system.

viii. Encouraging public-private partnership. Under Public Private Partnership (PPP), Pakistan Railway has started following trains between Lahore and Karachi from 3rd February 2012 to cater the needs of business community and general public.

S. No.	Train	Route
1.	Business Express Train	Lahore-Khanewal-Lodhran-Karachi
2.	Shalimar Express Train	Lahore-Faislabad -Multan-Karachi
3.	Night coach train	Lahore-Faislabad -Multan-Karachi

Pakistan Railway has also involved private sector in the management and operation of terminal facilities including dry ports. Prem Nagar dry port Lahore is the first successful model of joint venture between Pakistan Railway and two private parties.

ix. Real Estate Development & Marketing Company (REDMCO) has been established and registered with Security and Exchange Commission of Pakistan (SECP) with the aim to exploit the potential of railway land.

x. A comprehensive policy for disposal of surplus scrap has been introduced with the aim to improve financials through an open, fair and transparent process.

xi. Investment planning through a system approach rather than functioning in isolation is being pursued. Under this approach, investment in all the components of railways system including infrastructure development, rolling stock availability, business development and governance is being made. The strategy is expected to bring significant improvement in near future. Rationalization of projects by giving priority to implementable projects having visible impact on the performance of Pakistan Railway.

xii. Economic Corridor development and regional connectivity are important initiatives, which are expected to play vital role in national economic growth. Up gradation of Mainline-1 (ML1) and construction of dry port and cargo handling facility have been included, as Early Harvest Projects (EHP) under China-Pakistan Economic Corridor (CPEC) and preparatory work on these projects has been initiated on fast track basis.

Achievements during fiscal year 2013-14

Track

During 2013-14, 63 kms of track was rehabilitated on the Pakistan Railway network besides doubling of 57 kms track.

Rolling Stock

The project for procurement and assembling of 202 passenger coaches is in advance stage. 56 new passenger coaches have been added and material for 146 coaches has been received. Out of which 111 passenger coaches have been assembled till April 2014.

Locomotives

At present more than 300 locomotives are out of service and waiting for major repairs. Following initiatives are under way for rehabilitation of held up locomotives.

i. Rehabilitation of twenty seven held up locomotives (HGMU-30) of 3000 HP is being arranged through PSDP at a cost of Rs.6284.000 million for which an agreement has been signed with M/S Electromotive Division USA. Two locomotives are expected turned out for service by end May, 2014 and one in June, 2014 and thereafter, two locos per month will be rolled out completing project by June, 2015.

ii. Special Repairs of 150 locomotives, to improve their reliability and performance, is also being carried out through PSDP at a cost of Rs.5005.031 million. Fifteen GMU-30 Locomotives have been rolled out with remanufactured traction motors during May, 2013 to October, 2013. Six locomotives have been turned out in 2012-13 and seven locomotives have been turned out in 2013-14.

iii. Procurement of 58 locomotives has been approved by ECNEC and contract awarded to M/s. Ziyang, China in November, 2012. So far 14 locomotives arrived in Pakistan, 29 locomotives will be arrived upto June, 2014 and remaining locomotives would be shipped in September-October, 2014.

iv. Procurement of 75 locomotives has been approved by ECNEC. The project is in tendering process.

v. Pilot project for manufacturing of five 3000 HP DE Locomotives at Locomotive Factory, Risalpur. The contract agreement for manufacturing of five 3000 HP DE Locomotives at Locomotive Factory, Risalpur has been signed with M/s. CSR Ziyang, China and LC established. Assemblies, components and material shipment are expected to complete within two months Manufacturing will be completed by December, 2014.

13.3 Pakistan International Air Lines

Pakistan International Airlines Corporation (PIAC) faced various challenges during the year 2013 and this has been another difficult year for the PIAC. The challenges faced like; ever increasing competition in the aviation market, fleet constraints alongwith the operational issues of the Corporation coupled with economic challenges facing the country and prevailing law & order situation.

Despite these circumstances, the Airline has been involved in taking various steps to reduce costs and improve productivity. These include:

i. Contracts re-negotiation;

ii. Route rationalization by discontinuing loss making routes like Amsterdam, Frankfurt, Bangkok, Hong Kong, Kandahar and Zahedan;

iii. Re-deploying aircraft on more profitable routes and additional flights on high yield strategic international routes like Toronto, Manchester, Dubai, Kuala Lumpur, Abu Dhabi and Muscat.

iv. Additional flights on primary domestic routes have also been operated after the addition of narrow body aircrafts acquired on lease basis.

Main focus of PIAC has been on cost reduction, improvement, expansion in network and revenue yield. PIA has made successful Hajj operations this year and carried 67,350 Hajjis achieving 95 percent flight regularity and punctuality.

Table 13.4: PIA Performance

Indicators	Units	Year 2013
Passenger Revenue	Rs. billion	78.4
PIA Fleet	No. of planes	34
Route	Kms	411,936
Available Seat	million Kms	17,412
Passenger Load Factor	in percent	70
Revenue Flown	000 Kms	63,144
Revenue Hours Flown	Hours	106,476
Revenue Passengers Carried	000 nos.	4,449
Revenue Passengers	million Kms	12,237
Revenue Tonne	million Kms	1,351
Revenue Load Factor	in percent	55
Operating Revenue	Rs. million	95,771
Operating Expenses	Rs. million	126,164
Available Tonne	million Kms	2,471

The Airline has also developed a strategic five years Plan which will transform the Airline into a strong, dynamic and vibrant institution, aggressively tackling with the new opportunities and absorbing external shocks. Induction new aircrafts in PIA fleet would be the turning point for the airline as it will be the foundation of being able to deliver cost cutting on fuel and improve punctuality and regularity bringing back the confidence of the customers. These fuel efficient Aircrafts will also help PIA to bring a positive change into overall financial health.

13.4 Ports and Shipping

Pakistan National Shipping Corporation

PNSC fleet comprises of nine vessels of various type and size. Six bulk carriers and three Aframax tankers with a total deadweight capacity (cargo carrying capacity) of 642,207 tonnes against a deadweight capacity of 510,282 tonnes of 48 ships on PNSC's inception in 1979. Present is the highest ever carrying capacity.

Consolidated revenues of the PNSC group of companies for the nine months of current financial year ended 31st March 2014 were Rs.11,368 million as against Rs.8,211 million in the corresponding period last year. This is a 38.5 percent increase in the PNSC group gross income. The earnings per share for the nine months period ended 31st March, 2014 were Rs.10.34, as against Rs. 9.09 during the corresponding period last year, an increase of 13.8 percent. Net profit of PNSC after tax was Rs.1,366 million as against Rs.1,200 million last year that is 13.8 percent increase. PNSC's better operational performance contributed in earning through shipping.

Despite a depressed shipping scenario worldwide, PNSC has improved its profitability. Commercial and Financial performance (un-audited) breakup during nine months July-March 2013-14 is given in the following tables 13.5 and 13.6:

Table 13.5: Cargo Lifted			
Years / Cargo Lifted	Liquid Cargo	Dry Cargo	Total (Dry + Liquid)
2011-12	7.7	2.6	10.3
2012-13	10.7	2.7	13.4
Jul-Mar			
2012-13	6.8	1.9	8.7
2013-14	11.3	20.0	31.3

Table 13.6: Financial Performance			
Years	Revenues	Expenditures	Gross Profit
2011-12	8.9	6.8	2.1
2012-13	12.3	8.9	3.3
Jul-Mar			
2012-13	8.2	5.6	2.6
2013-14	11.4	10.4	2.2

PNSC is providing transportation services for crude oil requirements of the Country. Almost 99 percent of total imports of crude oil is undertaken by PNSC. The Corporation is now actively working on a plan to increase its tanker fleet size, particularly to carry processed fuel like fuel oil, high speed diesel oil, jet fuels, naphtha and gasoline. To meet safe and reliable transportation requirements of Pakistan's strategic liquid cargo, PNSC presently is in process for acquisition of one Aframax crude oil tanker to cater for most of the requirement of PSO under obligation of long term Contract of Affreightment. This tanker will be in addition to PNSC's existing tanker fleet of three Aframax tankers.

Karachi Port Trust

The steady and continuous progress made by Karachi Port Trust (KPT) has helped boost the national economy over the years with increasing international trade in the globalized world. Karachi Port Trust consists of two wharves; the East and West Wharf. East wharf has 17 multipurpose berths and West wharf has 13 berths. Each of the wharves has two dedicated container terminal and oil piers to handle liquid cargo. Karachi Port Trust operation comprised upon a 11.5 kilometers long approach channel, a depth of 12 meters and a turning basin of 600 meters, Karachi Port provides safe navigation for vessels up to 75,000 metric tonnes deadweight (DWt.). KPT handled 30.7 million tonnes of cargo during the first nine months of the current fiscal year which is 6.5 percent higher than the corresponding period last year. Data of cargo handled during last five years is given in the following Table 13.16. This shows an increase of 6.5 percent during period July-March 2013-14 against the same period last year.

Table 13.7: Cargo Handled at Karachi Port

(000 tonnes)

Period	Exports	Imports	Total
2007-08	11,676	25,517	37,193
2008-09	13,365	25,367	38,732
2009-10	13,528	27,892	41,420
2010-11	12,843	28,589	41,432
2011-12	11,674	26,201	37,875
2012-13	12,150	26,700	38,850
Jul-Mar			
2012-13	8,893	19,909	28,802
2013-14	8,452	22,225	30,677

Source: Karachi Port Trust

Port Qasim Authority

Port Qasim Authority was established in 1973 as a second deep sea port of Pakistan. Port Qasim caters around 40 percent of sea borne trade of the country. Port Qasim handled 18.971 million tonnes of total cargo during July-March 2013-14 which is 2.2 percent higher than the same period of last year. Volume of import cargo during July-March 2013-14 stood at 13.084 million tonnes. Exports handled 5.887 million tonnes during July-March 2013-14 as compared to 5.111 million tonnes handled during corresponding period of 2012-13, registering an increase of 15.2 percent. Liquid cargo handled 8.138 million tonnes (43 percent), containerized cargo 8.129 million tonnes (43 percent) and remaining 2.704 million tonnes (14 percent), includes miscellaneous types of dry bulk / break bulk cargo. PQA handled 0.632 million TEUs (Twenty Equal Units) of containers traffic in 2013-1, growth in container traffic during the nine months of 2013-14 is 17.5 percent higher by the July-March 2012-13.

Table- 13.8: Cargo Handled at Port Qasim

(in 000 tonnes)

Period	Export	Import	Total
2007-08	4,922	21,502	26,424
2008-09	5,584	19,445	25,030
2009-10	6,380	19,226	25,626
2010-11	6,657	19,511	26,168
2011-12	5,950	18,075	24,025
2012-13	7,047	17,754	24,801
Jul-Mar			
2012-13	5,111	13,458	18,569
2013-14	5,887	13,084	18,971

Source: Port Qasim Authority

Gwadar Port

Gwadar Port was inaugurated on the 20th March, 2007 and started commercial operation from March 2008. Phase I of Gwadar Port project has been completed. Following facilities are available at Gwadar Port:

- Three multipurpose berths, each 200 meter long (total 60.2 meter) dredged 14.5 alongside.
- One 100 meter service berth.
- 4.7 kilometer long approach channel, dredged to 14.4 meter.
- Turning basin 450 meter dia, dredged to 13.8 meter.
- Port related allied structures like control tower maintenance workshops, security building, GPA head office building etc.

Government has decided to import all bulk cargo comprising of Urea, Wheat and Coal through Gwadar Port. During the period July-March 2013-14 Urea 563.2 tonnes was handled. Total cargo handled at the port from start up till March 2014 is 5764.4 thousand tones against the Cargo handled 5064.8 thousand tonnes up till March 2013 which an increase of 13.8 percent. Detail of ships arrived and cargo handled is given in the following Table:

Table 13.9: Total Import of Cargo at Gwadar Port Since 2008 upto March 2014

No. of ships arrived	Type of Cargo	Since 2008 upto March 2014
26	Wheat	963.4
136	Urea	4831.5
Total: 152	Wheat + Urea	5764.4

Source: Gwadar Port Authority

13.5 Communications

Telecom Sector of Pakistan

Telecommunication sector of Pakistan has proved itself versatile and dynamic with adoption of next generation advanced technology. Pakistan Telecommunication Authority (PTA) performs its regulatory duties and responsibilities with professional approach in accordance with the new approaches of Telecom sector in Pakistan. PTA has undertaken a number of significant initiatives for the development of telecom sector and protection of consumers. Some of these initiatives include the Auction of Spectrum for Next Generation Mobile Services (NGMS), deployment of biometric verification system to streamline the SIMs sale procedure, devising the Vision for telecom sector by 2025, blocking of objectionable content on the web, increasing the efforts to curb illegal telephony, settlement of international call rates, enforcing the decisions made by PTA, protecting consumers from unauthorized call rate changes and monitoring the quality of service of telecom operators.

Next Generation Mobile Services (NGMS) License Auction

Government issued a Policy Directive on 7th October 2013 for the auction of Spectrum standardized for 3rd Generation and 4th Generation of mobile cellular technologies termed as 'Spectrum Auction for Next Generation Mobile Services'. An Advisory Committee appointed by the Prime Minister headed by the Finance Minister examined and finalized the Policy Directive and oversee the auction process.

As per the Policy Directive, PTA hired a consultant of international repute M/s Value Partners Management Consulting Limited. Consultant carried out the market study and Spectrum Valuation, and prepared the Information Memorandum (IM) for the said auction. Consultant also prepared the draft license template and the auction methodology, for two stage auction process valid for a term of 15 years.

Following Spectrum were designated for auction for deployment of Next Generation Mobile Services (NGMS) in Pakistan:

i. 2 x 30 MHz paired Spectrum in 2100 MHz band

ii. 2 x 20 MHz paired Spectrum in 1800 MHz band

iii. 2 x 7.38 MHz paired Spectrum in 850 MHz band (only offered to new entrant)

As bidders demand was greater than Spectrum supply, the Simultaneous Multiple Round Ascending (SMRA) auction was held on 23rd April 2014 publicly in the most transparent and open manner. A large number of participants were invited to attend the auction from print and electronic media, Ministries and Departments. Auction lasted eight rounds and upon commencement of each round, its results were published on PTA's website. Final outcome of the auction is as under:

Applicant	Winner in 2100 MHz Band	Amount in million $	Winner in 1800 MHz Band
CMPak	2x10 MHz	$306.9	2x10 MHz ($210.0 million)
PMCL (Mobilink)	2x10 MHz	$300.9	-
PTML (Ufone)	2x5 MHz	$147.5	-
Telenor	2x5 MHz	$147.5	-
Total		$902.8	$210.0 million

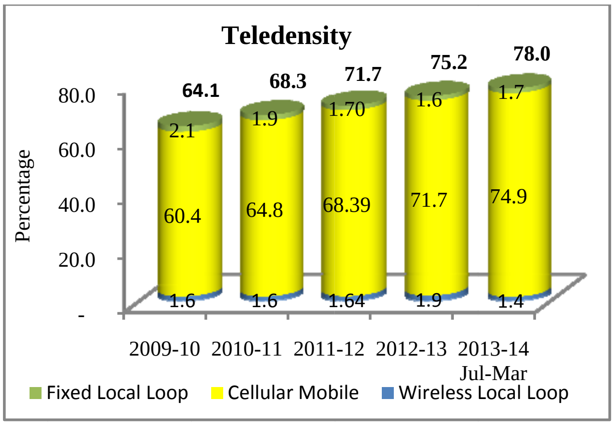
The auction generated an amount of $ 1,112.8 million. In addition to the bid amounts, the operators have to pay Advance Tax rate at 10 percent of the total Auction winning price to PTA for onward remittance to FBR. Hence the total revenue to the GoP from this auction would be amounting to US$1,224.1 million, while two licenses one of 4G and another exclusively kept for new entrants are still in hand and would be auctioned in due course. Two successful bidders Zong and Mobilink have made full payment while Telenor and Ufone paid 50 percent of the winning bid amount and the remaining 50 percent would be paid with a mark-up at the rate Libor + 3 percent in equal annual installments over a period of five years.

This auction has brought the country at par with the rest of the world which will not only be beneficial for the country's Telecom Sector but is also going to spur significant economic growth and will also usher a new wave of prosperity for the nation. It is estimated that 3G/4G auction would create 900,000 new jobs into the country, increase data penetration up to 10 percent in next three years and increase GDP growth by 1.5 to 1.8 percent.

Prime Minister has awarded 3G and 4G spectrum licenses to the successful bidders companies in an auspicious ceremony held on 22-05-2014. On this occasion Prime Minister said that "the introduction of 3G/4G spectrum would help in expediting socio-economic progress of country and telecom operators would provide quality services through these technologies". The incumbent companies have started providing 3G/4G services to their customers creating new business opportunities in the country.

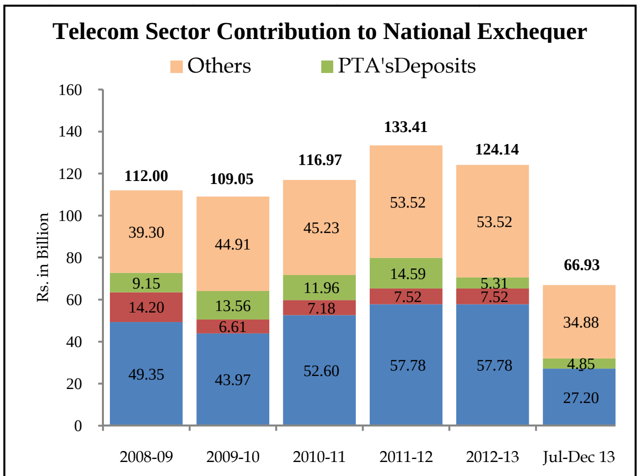
Telecom Economy

Telecom sector indicators showed positive growth: teledensity improved to 78 percent at the end of Mar-2014, telecom revenues reached over Rs. 345.5 billion during the July-March 2013-14 and total investment reached US$ 576 million. PTA encourages use of telecom based solutions and applications for other sectors in the economy, for example, mobile banking, e-education, e-health etc. Productive use of these services can greatly enhance growth of the overall economy.



Telecom Contribution to National Exchequer

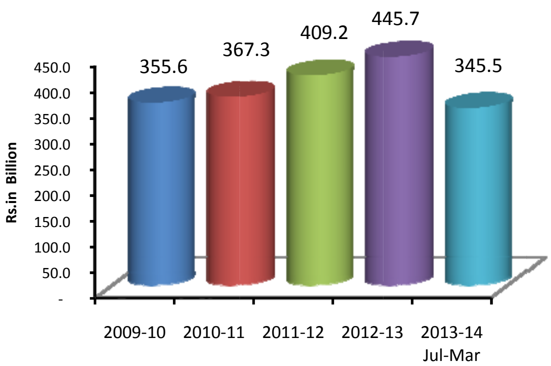
Telecom sector is one of the highest contributor to the National exchequer, putting Rs. 119 billion per year on average for the last five years. During FY-13, telecom sector contributed Rs.124 billion to the national exchequer.



***GST for the province of Punjab is estimated for the fiscal year 2012-13**
Source: ***Federal Board of Revenue and Pakistan Telecommunication Authority.***
Note: PTA's contributions comprise of all its receipts including Initial and Annual License Fee, Annual Radio Frequency Spectrum Fee, Annual Spectrum Administrative Fee, USF and R&D Fund Contributions, APC for USF, Numbering Charges, License Application Fee, etc.
Others include custom duties, WH Tax and other taxes.

Telecom Revenues

Telecom revenues during July-March 2013-14 were amounting to Rs. 345.5 billion. Despite stiff competition in the market and low tariffs, telecom operators have been able to keep their revenue stream stable through new value added services, subscribers addition and innovative packages and offers.



Figures Jul-Mar 2013-14 are estimated
Note: Class Value Added Services Revenues FY-13 are estimated

Average Revenue per User

Owing to tough market competition in cellular industry, Average Revenue per User (ARPU) per month slightly declined to Rs. 211.0 during the fiscal year 2012-13 whereas, the ARPU for corresponding period of the previous year was Rs. 217.0 per month. Further addition of low income users in the mobile subscriber base and aggressive price competition in the market has contributed to lower ARPU during the recent months. Cellular mobile operators can increase ARPUs through additional data revenues by offering non-voice services like mobile broadband, mobile banking and other associated offers. With the launch of 3G services, it is anticipated that the operators would be able to improve their data revenues and thereby ARPUs will rise again in upcoming years.

Telecom Investment

With 188 million population and 136 million cellular mobile subscribers, Pakistan's telecom sector provides enormous opportunities to foreign and local investors. International telecom companies have significant presence in Pakistan. These companies are successfully doing business all over the country. Telecom sector of Pakistan has attracted substantial foreign investment after the deregulation.

During the period July-March 2013-14, over US$0.53 billion have been invested in the telecom infrastructure and new technologies. This increase is solely due to an increase of investment by cellular mobile operators during July-March 2013-14. Investment in telecom sector is expected to increase in near future due to left over spectrum auction and network up-gradation. Detail of the investment in Telecom Sector is given in the following table:

Table 13.10: Telecom Investment — **US$ million**

	2009-10	2010-11	2011-12	2012-13	Jul-Mar 2014
Cellular	908.8	358.6	211.8	421.5	507.0
LDI	183.1	108.7	16.2	1.9	14.2
LL	22.5	18.2	5.0	36.7	5.3
WLL	23.0	7.6	7.3	11.9	-
Total	1,137.4	493.1	240.3	472.0	526.5

Telecom Imports

Total telecom imports have increased during last two quarters mostly on account of sharp increase in the imports of cellular mobile handsets. Imports of cellular mobile sets have reached above US$293 million during the period Jul-Dec 2013. Demand for cellular mobile handsets is on the rise since government has allowed import of cheaper Chinese brand mobile handsets. With huge telecom market of over 136 million subscribers, telecom companies and the manufacturing industry should put efforts for the telecom manufacturing in the country. Several mobile sets manufacturers companies are showing interest to invest in the country on public private partnership basis.

Table 13.11: Telecom Imports — US$ million

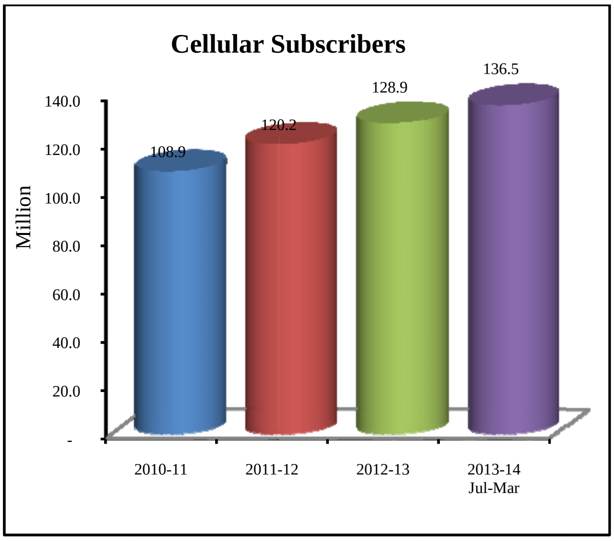
	2010-11	**2011-12**	**2012-13**	**2013-14 Jul-Mar**
Cellular Mobile sets with battery	218.2	465.3	467.1	293.1
Other Telecom Apparatus	548.1	488.7	451.3	369.0
Total Telecom Imports	766.3	954.0	918.4	662.1

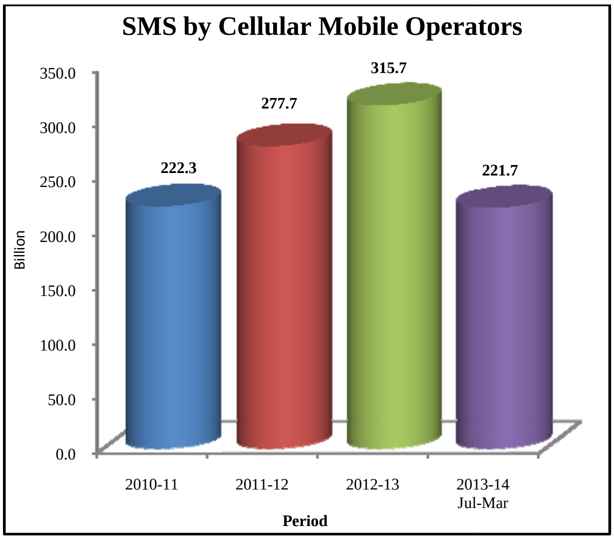
Source: State Bank of Pakistan

Cellular Mobile Services

Cellular Subscription

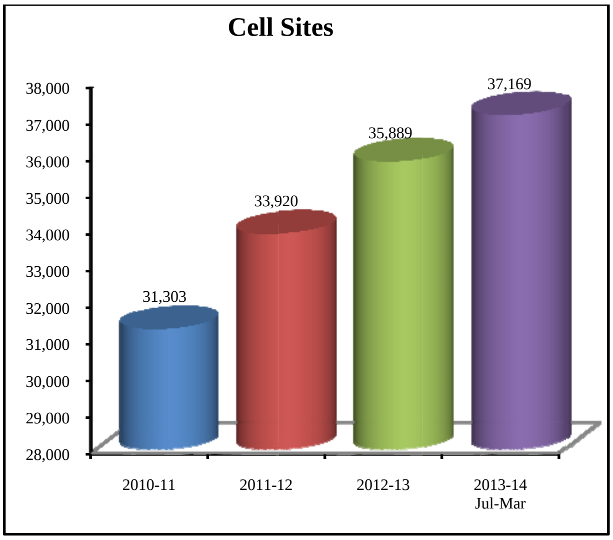
Subscribers of cellular mobile in Pakistan have increased 45 percent during last five years. By end March 2014 these subscribers were 136.5 million at the compared to 118.3 million as of end March 2013 which is 15.4 percent increase.





Network

Network coverage of cellular mobile operator has increased to 92 percent of the total land area of Pakistan. During FY-13, the number of cell sites grew by 5.8 percent, total number of cell sites reached 37,169 at the end of March, 2014 as compared to 35,889 in FY-13.



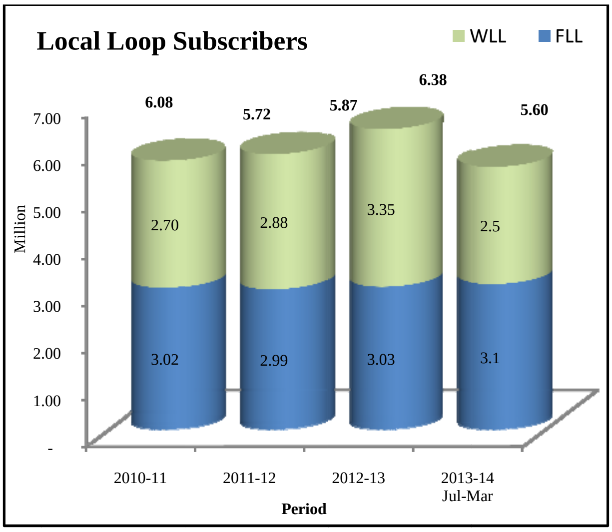
Traffic

Cellular mobile operators adopted aggressive promotional strategies for winning competition from each other by offering attractive packages for Voice, Data and SMS including free calls and unlimited SMS. These marketing tactics resulted in more business for companies mainly voice calls and SMS. Both the voice and SMS traffic has raised during FY-13 owing to bundle packages and SMS offers. During July-March 2013-14, a record 221.7 billion SMSs were exchanged by the mobile consumers.

Basic Telephony

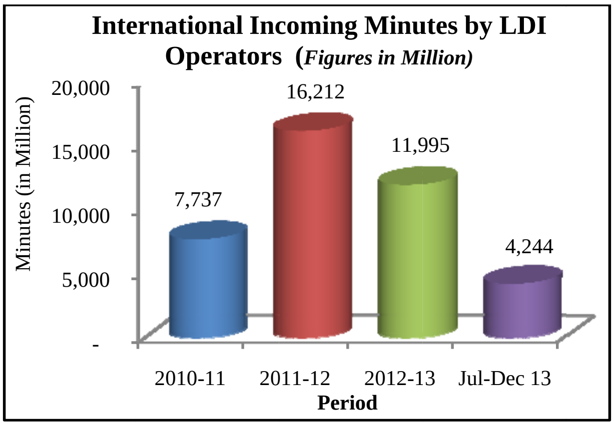
Local Loop Subscribers

Subscriber base of local loop sector has reached 5.7 million at the end of March, 2014 as compared to the 6.38 million as of June, 2013. Overall subscriber base has decreased by 12.2 percent. Sector-wise analysis shows that FLL subscriber base has actually increased by 2.8 percent and stood at 3,107,719 as compared to 3,024,288 as of June 2013. However, this positive performance of FLL segment was nullified by 18.6 percent decline in WLL sector's reached to 2,528,929 total connections as of March 2014.



Long Distance and International Segment

LDI services have been the core area of focus for the Authority in past few years due to constant reforms being implemented in this important segment of telecom sector.



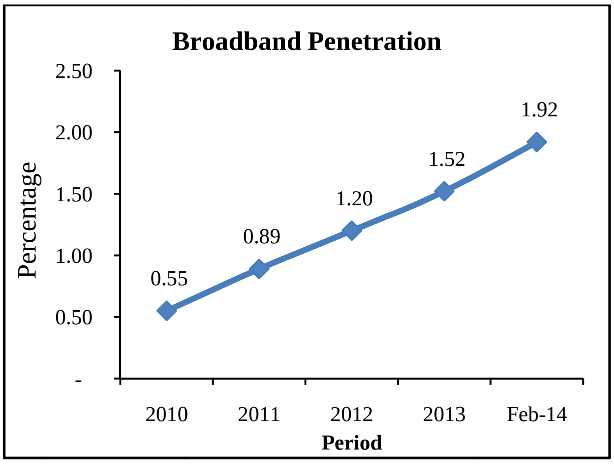
Total international minutes (incoming and outgoing) stood at 4,244 million during Jul-Dec 2013. This is due to decline in both incoming and outgoing international traffic. It is evident that incoming traffic on LDI networks is sliding with every passing quarter as a total of 3,184 million minutes have been received by LDI operators during Jul-Dec, 2013. High tariff for calls to Pakistan due to increase in Approved Settlement Rate (ASR) and more traffic on Over the Top (OTT) services and illegal channels are some of the key factors behind the fall in incoming international traffic.

Total international outgoing minutes have been reported 531 million minutes during October to December, 2013 whereas 717 million minutes were carried by LDI operators to international destinations during the same period last year. One of the possible causes for this trend could be increased usage of OTT services such as Skype, Viber, Tango and other Smart phone applications. Only a broadband connection is required to communicate through these OTT channels, therefore, the rapid influx of locally assembled and foreign made smart phones has given more awareness to the general public to use such channels.

Broadband

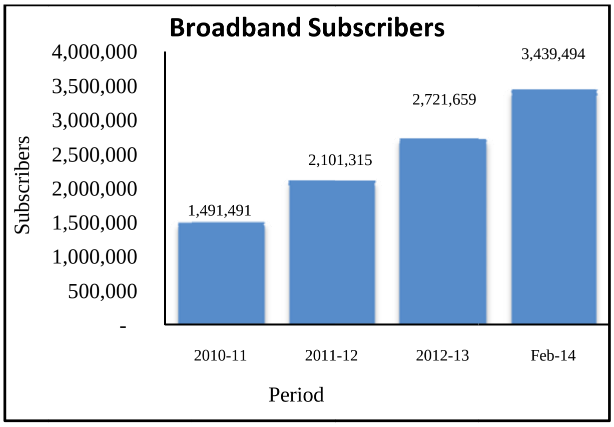
Penetration

Broadband penetration in the country is showing slow growth despite broadband penetration 1.92 percent at the end of February 2014 as compared to 1.52 percent as of June 2013. With the introduction of 3G/4G mobile services, it is expected that mobile broadband penetration in the country would substantially increased in the coming years.



Subscriber Mix

Broadband subscriber base reached 3.4 million at the end of Feb-14 as compared to 2.7 million at the end of FY-13. It is estimated that 717,835 new subscribers have joined the broadband platform during last eight months. Average annual growth rate is still above 100 percent in the broadband sector. One subscription can cater broadband needs of a number of people in a house/business facility; therefore, broadband users are in larger numbers than the subscription. Taking an average family size of four people, the broadband users, based on the number of broadband subscriptions of 3.4 million are around 13 million. This number are reasonably be higher than this as corporate subscriptions of broadband are also used by multiple users.



Issuance of New Licenses

PTA is mandated to issue licenses to the existing and new operators under various categories from time to time. Following new licenses have recently been issued to various operators in different service categories:

- Long distance International (LDI) license to CMPak on 19-12-2013
- Infrastructure license to Trans World Infrastructure Services (Pvt.) Ltd on 04-11- 2013
- Local Loop License in all 14 Telecom regions of Pakistan to CMPak.

Monitoring of sales channels of Cellular Mobile Operators

To assess the ground situation and ensure the compliance by Customer Service Centres (CSCs), franchises and retailers, PTA carried out two surveys in the months of January and July, 2013 focusing on sales channels/retailers of the cellular mobile companies. It was observed that all the CSCs, 16 percent-50 percent of the franchises and 80 percent of the retailers were violating the Standard Operating Procedures for SIM verification and documentation. The common violations among these sale points were related to overlooking to present the original CNIC and SIM sale without proper authorization. PTA took a serious notice of this situation and penalized five CSCs, twelve franchises and seventy three direct sale outlets with fines.

Establishment of Web Blocking Call Centre

PTA blocks blasphemous, pornographic and anti-state websites on a regular basis as reported by Ministry of IT & Telecom or identified by PTA itself. In this regard, a dedicated Web Analysis Cell /Call Center has been established at PTA headquarter for the analysis of blasphemous and pornographic content and blocking of the offending websites through operators. A total of 41,175 websites have been blocked since establishment of web blocking call centre in January 2014.

Biometric Verification System for SIMs Sale

Unprecedented growth in the cellular mobile sector has brought multitude of benefits to the country. However, some elements misuse the cellular platform. In this regard, law enforcement agencies and various Courts of Law have been stressing the need for rationalization of the SIM sales procedure. PTA has undertaken various projects in collaboration with Cellular Mobile Operators (CMOs) to deal with the issue effectively.

Implementation of Biometric Verification System (BVS) at the sale channels of CMOs is a significant landmark, wherein SIMs would be sold and activated only after online verification of purchaser's thumb impression from NADRA. It is expected that the use of BVS at SIM sales channels of CMOs will eliminate leakages in the authentication procedure and bring down the illegal use of SIMs by a considerable margin thereby reducing the use of illegal SIMs. The implementation is being carried out in a phased manner starting from CSCs and Franchisees, which has been completed by 20th December 2013 and subsequently, the deployment is now moving towards covering the retail outlets by 31st July 2014.

Efforts to Curb Grey/ Illegal Voice Termination

Grey telephony causes heavy revenue losses to the National Exchequer by bypassing the legal gateways to avoid applicable Taxes and/or Regulatory Fee. PTA has been making best efforts to curb the grey/illegal traffic termination since long and had already taken a number of significant steps to prevent government losses through this menace. As per Standard Operating Procedure, PTA identifies irregular traffic patterns through analysis of heavy callers' data and monitoring of voice traffic and shares the results with Federal Investigation Agency as per the Act for subsequent raid/legal action under their laws.

PTA established a dedicated 24/7 call centre to receive and process complaints against suspected grey traffic activity, made to the Authority by general public through Toll Free Number (080055055), Telephone (0519207059), Fax (0512878127), E-mail (complaint@pta.gov.pk) and dedicated short code 8866 for sending complaints through SMS. This has been advertised in the leading print and electronic media that if a person receives a call from abroad and local number is displayed on his/her mobile phone, that number may be immediately reported to PTA. A total of 157,000 complaints have been received by the Authority so far since the commencement of PTA's Call Centre in October, 2013.

Approval of Type of Mobile Phones

The infiltration of sub-standard mobile phones, having no or fake IMEI numbers has been a problem for the law enforcing agencies since these handsets can also be used in criminal activities without being traced. Section 29 of the Act mandates PTA to type approve the terminal equipment to be connected directly or indirectly to the public switched network. In pursuance to the Supreme Court Order dated 28th November 2013, PTA has re-started the type approval of mobile phone handsets. In this regard, PTA has prepared SoPs and has published advertisements for type approval of mobile phones in the leading newspaper. Furthermore, an extensive media campaign has also been launched by PTA for awareness of the general public to avoid use of non standard handsets i.e. without genuine IMEI and PTA's type approval. Customers have been warned that the use of non standard mobile handsets may lead to legal implications.

Quality of Service of Cellular Mobile

PTA has been entrusted with the responsibility to ensure the provision of high quality telecom services to the people of Pakistan. To monitor the performance standards of the mobile industry, CMOs in compliance with their license terms and conditions are required to carry out the quality of service analysis of their respective networks on quarterly basis and submit detailed reports to PTA,. In this regard, PTA provides continuous guidance to the cellular mobile operators about the methodology, Key Performance Indicators (KPIs) and geographical areas for Quality of Service QoS inspection. During the period July-March 2013-14, cellular mobile operators conducted QoS surveys in 22 cities designated by PTA. The analysis reports were submitted to PTA reviewed thoroughly and resultantly, the operators were directed to improve quality of service where the results were not as per the laid down benchmarks in the license and relevant regulations.

Mobile Banking

State Bank of Pakistan and PTA aim to provide an enabling environment for mobile banking services in the country. During the period under review, both the regulators continued their joint efforts on the regulatory framework for m-banking services. Current m-banking services are being governed by the SBP's Branchless Banking Regulations 2008, amended in 2011. PTA and SBP are working on mobile banking regulations which will be in line with the above Branchless Banking Regulations, and will facilitate the existing m-banking arrangements.

With an enabling regulatory environment, the cellular mobile companies are actively pursuing their mobile banking initiatives in collaboration with the financial institutions. Easy-paisa and Omni are the major agent based mobile banking services in the country and are in operation since 2010 with country-wide network of 30,000 agents. Recently, Mobilink, Ufone, CMPak and warid have also launched their agent based mobile banking services. Mobilink is providing its m-banking services in affiliation with Waseela Microfinance Bank and CMPak has collaboration with Askari Bank. Ufone has launched its m-banking service in collaboration with U Microfinance Bank and Warid launched its m-banking service with Bank Alfalah. Now, overall m-banking agents network has reached to over 125,000 numbers of Agents.

New players in the m-banking market can expand the existing base of m-banking network if a healthy competition in the market reduces the cost of m-banking transactions and new products and business models are launched while considering the consumer requirements. Internationally, the m-banking model of m-paisa has been widely quoted for its success as it has reached more than 65 percent households in Kenya. However, achieving a similar success in Pakistan with different regulatory frameworks is a challenge. Mobile banking segment of Pakistan has vast potential for growth in the coming years provided that mobile operators and banks keep up with their innovations and the regulators remain proactive to facilitate this process.

13.6 Electronic Media in Pakistan

13.6-a Pakistan Electronic Media Regulatory Authority (PEMRA)

Pakistan Electronic Media Regulatory Authority (PEMRA) is a statutory body established in March 2002 through an Ordinance to facilitate and regulate growth of Electronic Media in the private sector. The law was later revamped as PEMRA Amendment Act-2007. PEMRA is primarily mandated for licensing and regulating the establishment and operation of all broadcast media (satellite TV & FM radio) and distribution services (Cable TV, DTH, IPTV, Mobile TV etc.) in Pakistan. Its mandate further includes:

- To improve the standards of information education and entertainment;
- Enlarge the choice available to the people of Pakistan in media for news, current affairs, religious knowledge, art, culture, science, technology, economic development, social sector concerns, music, sports, drama and other subjects of public and national interest;
- Facilitate the devolution of responsibility and power to the grass roots by improving the access of people to mass media at local and community level;
- Ensure accountability, transparency and good governance by optimizing the free flow of information.

Present Status of Private Electronic Media

During last 12 years the country has witnessed a massive spurt in the number of TV channels and FM Radio stations in the private sector which is, unmatched in the South Asian region and perhaps elsewhere. This boom is owed to the government's unequivocal commitment to a free media and the proactive role played by PEMRA in facilitating the growth of the electronic media. The unprecedented growth of TV channels, Cable TV and launch of FM Radio stations has indeed contributed remarkably in raising the standards of public awareness and literacy. A glance at the following facts and figures on licensing of media amply substantiates the massive growth which has taken place in electronic media in the private sector in the last one decade.

Table 13.12: PEMRA Performance

S. No.	Category	Number of licenses Issued
i.	Satellite TV Channels	91
ii.	Landing Rights Permission to TV Channels	27
iii.	FM Radio licenses	193
iv.	Cable TV Licenses	3,629
v.	Multimedia, Multi Channels Distribution System (MMDS)	06
vi.	Internet Protocol Television (IPTV)	01
vii	Mobile TV License	04
viii.	Mobile Audio Licenses	02

Table 13.13: Licensing in 2012-13

S. No.	Category	No. of licenses
i.	Satellite TV Channels	02
ii.	Landing Rights Permission to TV Channels	01
iii.	FM Radio licenses.	05
iv.	Cable TV Licenses	113

Economic Contribution

There has been a cumulative investment of approximately US$ 3.5 billion in the electronic media industry in Pakistan. Electronic media sector has generated direct employment for more-than 200,000 people of diversified skills and qualifications. With the current growth rate of more than seven percent per annum, it is estimated that the cumulative investment in the electronic media industry will reach nearly US$ 4.0 billion by the end of the current financial year. This expansion in investment would in turn have a multiplier effect on increasing job opportunities for skilled media personnel and journalists, expanding work of media production houses, advertising agencies and proliferation of the performing arts.

13.6-b Pakistan Television Corporation Limited

Pakistan Television Corporation Limited (PTV) is gradually extending its signals to remote and economically backward areas of the country in order to uplift the socio-economic conditions, to eliminate the existing disparity.

PTV is operating 6 multiple terrestrial channels in the country i.e. PTV Home, PTV News, PTV Bolan, PTV National, PTV Global and PTV Sports.

PTV has launched English News Channel. This is only English News Channel in Pakistan telecasting the information about Pakistan domestically as well as internationally. Apart from it, a TV Channel has been established in AJK with one TV Centre, and with four Rebroadcast Centers at Kotli, RawalaKot, Bagh and Bhimber.

Nine Projects, comprising, RBS-Neela-But, RBS Besham, RBS Pooran, RBS-Khaplu, RBS- Shigar, RBS- Gahkuch, RBS-Chilas RBS-Kohat, & NNB-Larkana will be ready to inaugurate by 30-06-2014.

PTV has planned for Digitalization of PTV Terrestrial network. Government of Pakistan is doing efforts for grant-in-aid from Chinese Government after completion of the project. PTVC would be able to extend Terrestrial coverage of 6 more channels in National Bouquet.

Establishment of TV Rebroadcast Stations (RBS) in following areas is in progress throughout the country during the year 2013-14.

Sindh

RBS at Badin.

Punjab

RBS at Shakargarh, KotliSattian, and MianChannu.

Khyber Pakhtunkah

RBS at Buneer, Kund Bangla.

Balochistan

RBS at Karan, and Barkhan

Northern Areas

RBS at Aliabad/Karimabad, Jaglot, Bunji, and Astore

PTV has installed a State of the Art complete digital studio equipment at all the five TV Centers during 2006-07. Apart from it four Digital Satellite News Gathering System (DSNGS) which are complete mobile satellite transmission units are fully in operational.

13.6-c Pakistan Broadcasting Corporation

Radio is the fastest, mobile and cheapest electronic media which is capable of reaching the masses far and near. PBC is catering to all segments of society through its varied and wide ranging programme.

At present, PBC has 64 broadcasting Stations/ Channels, this number is intended increased up to 68 in 2014-15 and up to 76 in 2015-16.

News from the Pakistan Broad Casting Corporation (PBC) is the biggest source of dissemination of news in the country. The main aim of PBC News is to keep the people informed of important happenings at National and International levels with focus on development activities at home, government policies and matters of national importance. PBC News is putting on air 123 News bulletins daily. These include National, Regional, External, and Local News bulletins besides coverage of National Assembly and Senate sessions. PBC in its News bulletins highlights the policies of the elected government especially for the political harmony in the country, awareness on extremism and against sectarianism, extremism as well as projection of Pakistan's foreign policy. PBC News also projecting Prime Minister's Youth Business Loan Scheme, various projects of power generation agreements with China & other countries and other development projects. PBC News has a network of news gathering spread all over the country. In addition to the Central Reporting Desk in Islamabad, PBC News has Correspondents at almost all the Radio Stations. District Correspondents are working in remote and far flung areas of the four provinces, Gilgit-Baltistan and FATA. Radio Pakistan is the only government organization that has bilingual website i.e. English and Urdu. Major news bulletins in text and audio form are available at the website. It is active both on twitter and face-book. Radio Pakistan's twitter account has more than twenty thousand followers. Radio Pakistan being a public sector broadcaster gives impartial balanced and un-biased coverage to all political in its national and regional bulletins.

PBC throughout its versatile programmes educates people on social issues and problems with broadcast of public service programmes covering health, education, environment, population welfare, agriculture, and rights of children, women, minorities, special persons, human rights, media freedom, tolerance and democratic values through discussions, interviews, talk shows, impressions of community leaders. Further, to educate the people more passionate and concerned for our arts, culture, literature, history and common heritage. Entertain the audience through music programmes, features skits and plays in a creative manner. VoA (Voice of America) programmes are being broadcast for 30 minutes daily in the evening transmission from 14 FM-93 Stations. PBC has signed an agreement with China Radio International (CRI) for 2 hours broadcast from 5 FM stations Islamabad, Multan, Kohat, Lahore and Karachi in English and Urdu languages. Two new FM stations have been established at Karachi and Islamabad. The Karachi station has been made operational while the Islamabad station will be operational shortly.

PBC has an ambitious programme to steps ahead in modern digital, satellite and IT Technology. The newly established Earth Station is a key part of this programme. The main emphasis at this stage is to provide a 24-hours first class signal to the maximum number of people within the country and for our foreign listeners. Earth Station will provide satellite capacity for the transmission of entertainment, news, sports and educational programming for content providers and direct-to-home (DTH) platforms. It also provides value-added services that include managed fiber services, digital encoding of video channels, and addressing programmers' need for delivering content to multiple distribution channels throughout multiple regions. PBC intends to enhance its coverage up to 98 percent of the country population in the years 2015-16.

PBC has up-graded its two MW transmitters at Peshawar and D. I. Khan. The 400KW MW transmitter at Peshawar and 100KW MW Transmitter at D. I. Khan have commissioned their transmission, which is reaching not only to a vast population within the country, but also to the neighboring countries. PBC is also working to replace decades old MW transmitters at Islamabad and up-grade FM transmitters in different cities in order the improve quality and enhance quantity of programmes in near future.

Digital Central Audio Library is available in all studios of National Broadcasting House Islamabad with customized search solution. Web streaming of 15 PBC channels on internet and 4 channels on mobile stream, has made PBC accessible throughout the globe.

Development projects are under way:

1. Balancing and Modernization of Equipment phase-V
2. 2X100KW SW Transmitter and HF Aerial System Landhi Karachi
3. Establishment of PBA and IT Block at Lehtrar Road Receiving Centre, Islamabad
4. Up gradation of PBC Larkana and 10 KW to 100 KW MW transmitter Larkana
5. 100 KW MW Transmitter Gwadar
6. Establishment of 47 FM Transmitters all over Pakistan
7. Replacement of 03 transmitter of 100KW MW Transmitter at Multan
8. Replacement of 100KW MW with 400 KW MW Transmitter Peshawar under USAID programme.
9. Replacement of 10KW MW with 100 KW MW Transmitter D. I. Khan under USAID programme and shifting of Broadcasting House.
10. Rehabilitation of MW Radio Broadcasting Network with Financial Assistance of Japan.
11. Digital archival system has been installed at Central Production Unit, PBC headquarter. Islamabad with the financial assistance of US Embassy. Work has been initiated to transfer precious audio material of historic value form magnetic tapes to digital format on computer system.
12. A new 100 KW medium waves, digital enable transmitter is under installation at Hyderabad. Work on the project is in the final stage.
13. A new 100KW medium wave, digital enabled transmitter is being installed at Larkana. The physical progress of the project is about 80 percent.
14. Work has been initiated on the installation of new digital enabled medium wave transmitter of 500 KW power at Faqeerabad (Attock) are revamping of five studios alongwith master control room at National Broadcasting House Islamabad with the financial assistance of JICA. The project is expected to be completed by September, 2014.
15. Latest equipment are being procured for upgrading the studios of Radio Station at Karachi.

13.7 Pakistan Post Office

Counter Automation System

Computerization Counters Facility has been provided in more than one hundred GPOs including renovated Post Offices throughout Pakistan for the better service quality to the customers through a LAN based system. This number will be increased in a phased manner. Computer Cell is actively engaged in expansion of computerization of Postal Services in all the Post Offices throughout Pakistan.

Centralized Software Solution for Financial Services

A computer based line “off the shelf solution” has been provided in 83 Post Offices throughout the country. The following facilities have been provided to the customers in these 83 Post offices;

- Electronic Money Order Service (EMOs).
- Online computerized collection of all utility bills through Centralized Software Solution.
- Payments for Benazir Income Support Programme (BISP) and Child Support Program (CSP).
- Rollout Plan for Military Pension Payment System, Savings Bank and PT Records.

Computerized Pension Payment System

Over 1.3 million pensioners are receiving pension from Pakistan Post through computerization of Military Pension Payment System which is available at all GPOs. The pensioners are receiving the pension in a hassle free environment. Pakistan Post is also disbursing pension to over 40,000 PTCL pensioners. In an effort to streamline payment of pension to PTCL pensioners, Pakistan Post has developed a separate system for PTCL pension disbursement.

This system eliminates the manual filing of pension payment voucher and now the same is auto generated by the system. The system automatically updates the record of PTET, once the payment of pension is disbursed to the PTCL pensioner.

Disbursement software of PTCL pension has been deployed at 78 GPOs.

Achievements of Saving Bank

Pakistan Post has been doing Saving Bank work as an agency function on behalf of the Ministry of Finance under the Government Savings Bank Act 1873 on commission basis. During the period July to March 2013-14 an amount of Rs. 161,365.865 million has been collected through National Savings Schemes and Pakistan Post has earned commission amounting to Rs. 806.8 million during this period.

Western Union Money Remittance Business

During the first nine months July-March 2013-14 of current fiscal year 2013-14, Pakistan Post has received the foreign remittances amounting to US $ 64.9 million dollars equivalent to Pak Rs.7,451.4 million.

Benazir Income Support Programme (BISP)

A Complete web-enabled tracking and monitoring system for disbursement of funds for Benazir Income Support Programme (BISP) has been evolved. The same is implemented at all 83 automated GPOs throughout Pakistan. Over 35 million money orders have been issued up till 30th April 2014. An amount of around Rs. 85 billion has been disbursed.

Complete web-based tracking and monitoring system for disbursement of funds for Benazir Income Support Programme (BISP) has been evolved that include continuous processing, monitoring and reconciliation of the specialized money orders scheme. During the first nine months of the current Financial Year (July-March 2013-14) total 432,918 BISP Money Orders along with required funds for Rs. 1.3 billion were received from BISP authorities, out of which 92.2 percent Money Orders amounting to Rs. 1.2 billion have been paid to beneficiaries within prescribed period of time.

International Postal Services

Pakistan Post has mail links with all countries of the world except Israel. Exchange of mail is carried under rules and regulations of the Universal Postal Union. Direct mail links exists with 165 countries. For remaining mails are exchanged utilizing transit facilities of intermediary countries. Airmail is transported through airlines selected through open tendering process.

Achievements in International Postal Services

Pakistan Post dispatches more volume of mail than it receives for delivery. Thus it always remains net-creditor. Pakistan Post received an amount of Rs.35.5 million during the period July-Feb 2013-14 on account of Terminal Dues for imbalance of international mails received from and dispatched to other countries.

Future Plans

Pakistan post is in process of implementing the Doha Postal Strategy approved by the 24th Congress of the Universal Postal Union having following broad areas:

- Improve the inter-operatability of the international postal networks.
- Provide technical knowledge and expertise related to the postal sector.
- Promote innovative products and services.
- Foster sustainable development of the postal sector.

First Micro Finance Banking (FMFB)

Pakistan Post has collaborated with First Micro Finance Bank (FMFB) in Micro Financing for disbursement of loans and its recovery to general public in four regions i.e. Lahore, Multan, Hyderabad and Sukkur. Pakistan Post has earned following revenue from this scheme during July-March 2013-14.

	(Rs. in million)
Amount Disbursement	538.8
Amount Recovered	560.9
PPO Commission 0.5 percent on disbursement & recovered	5.5
Total Revenue Earned	5.8

Postal Life Insurance (PLI)

Postal Life Insurance has issued the 409,988 total policies upto March 2014 against 395780 policies issued upto March 2013 which is 3.6 percent higher. The sum assured amounting to Rs. 59,444.6 million upto March 2014 against Rs. 54,297.0 upto March 2013 which is 9.5 percent higher.

Total PLI Policies **(No. in million)**

	2012-13	2013-14
No. of Policies	395,780.0	409,988.0
Premium Income	2,528.4	2,178.8
Sum Assured	54,297.0	59,444.6

Philately

Following Commemorative Postage Stamps have been issued for the period from July to December 2013:

S. No.	Celebrities	Date	Rate
1	Pir Meher Ali Shah (Sufi Saint)	30-7-2013	Rs. 8/-
2	First Indigenously made Bait F-22 Frigate PNS-Aslat	03-9-2013	Rs.8/-
3	Malika-e-Tarannum Noor Jahan	21-9-2013	Rs. 8/-
4	Commemorative Postage Stamp on Men of letters series Jon Elia	08-10-2013	Rs. 8/-
5	Commemorative Postage Stamp on Two decades of Extended Cooperation Economic Cooperation Organization (ECO)	28-10-2013	Rs. 8/-
6	Commemorative Postage Stamp on Poets of Pakistan series Parveen Shakir	26-12-2013	Rs. 8/-
7	Commemorative Postage Stamp on 150 years of faithful series Pakistan Bible Society	28-12-2013	Rs. 8/-
8	Issuance of Commemorative Postage Stamp on Men of letter series Habib Jalib	12-3-2014	Rs. 15/-
9	Issuance of Commemorative Postage Stamp on Air Commodore (R) M.M. Alam SJ (with bar)	20-3-2014	Rs. 8/-

Conclusion

Infrastructure Sector that comprised upper Roads, Railway and Ports & Shipping is of high priority for the development. A gigantic collaboration extended by the Chinese government in construction of infrastructure projects like; China-Pak Economic Corridor and High Priority Early Harvest Projects will pave multi dimensional socio-economic and geo-political benefits to both the countries. The advancement in Telecommunication sector will also brought new job creation and a way forward towards the development of knowledge based society.

Government is making strenuous efforts to develop an efficient transport and communications network in facilitating the growing needs of the country. Government is also encouraging the private sector to complement the efforts in accelerating the development of transport and communications network in the country.

Energy

Energy is the lifeline of an economy and is a vital input to sustain industrial, commercial and domestic activities. Energy disruptions and energy shortages not only result in loss of economic growth and employment but adversely affect social cohesion in the society. Energy crisis in Pakistan had been brewing since 2007 and deepened in 2012 which hugely negatively affected the economic growth and employment. Absence of effective planning, an economically and financially viable strategy and incapacitated regulator resulted in supply-demand gap. The situation has been further compounded due to high transmission and distribution losses, development of black-market for power and declining revenue collection. This led to persistent accumulation of circular debt. Consequently, the federal budget had to absorb huge quantum of subsidies to bridge the financial gaps in power sector threatening the fiscal stability on the one hand, and increasing the public debt.

Nevertheless, realizing the gravity of situation and importance of energy for economic activities with particular emphasis on reviving the almost stalled industrial sector, job creation and income generation, the present government has put this issue on top of its economic reform agenda by pursuing a comprehensive plan to address these problems. In this context, government retired the circular debt (Rs 480 billion) immediately after taking oath which added 1752 MW of electricity into the system. In order to resolve the issue on permanent basis, government developed National Power Policy (2013) which was announced to provide an affordable energy in the country through efficient generation, transmission and distribution system. It is expected that the policy will set Pakistan on a trajectory of rapid economic growth and social development. More specifically, in order to reduce the cost of power generation to an affordable amount, a 84 MW New Bong Hydropower Project being the first hydro IPP in Pakistan/AJ & K has been commissioned while 10.5 MW Gas Based Davis Energen Project at Jhang started producing electricity and is contributing to FESCO's Network. Likewise 2 x 660 MW Imported Coal based Power Project at Port Qasim, Karachi has been inaugurated.

In short, the government has realized the challenges faced by Pakistan energy system. Thus efforts are underway to reform existing energy system to actualize the energy sector’s aspirations. It is projected that by the end of the decade Pakistan will be transformed from an energy deficient to a regional exporter of power while the efficiency improvements in transmission and distribution will decrease the high cost of power to the end consumer which will bring prosperity and social development in the country.

Box-1: Salient Features of National Power Policy 2013

The Ministry of Water and Power has developed Power Policy to support the current and future energy needs of the country and to set Pakistan on a trajectory of rapid economic growth and social development. It will also address the key challenges of the power sector in order to provide much needed relief to the citizens of Pakistan. To achieve the long-term vision of the power sector and overcome its challenges, following nine goals have been set:

- **i.** Build a power generation capacity that can meet Pakistan’s energy needs in a sustainable manner.
- **ii.** Create a culture of energy conservation and responsibility
- **iii.** Ensure the generation of inexpensive and affordable electricity for domestic, commercial, and industrial use by using indigenous resources such as coal (Thar coal) and hydel.
- **iv.** Minimize pilferage and adulteration in fuel supply
- **v.** Promote world class efficiency in power generation
- **vi.** Create a cutting edge transmission network
- **vii.** Minimize inefficiencies in the distribution system
- **viii.** Minimize financial losses across the system
- **ix.** Align the ministries involved in the energy sector and improve the governance of all related federal and provincial departments as well as regulators

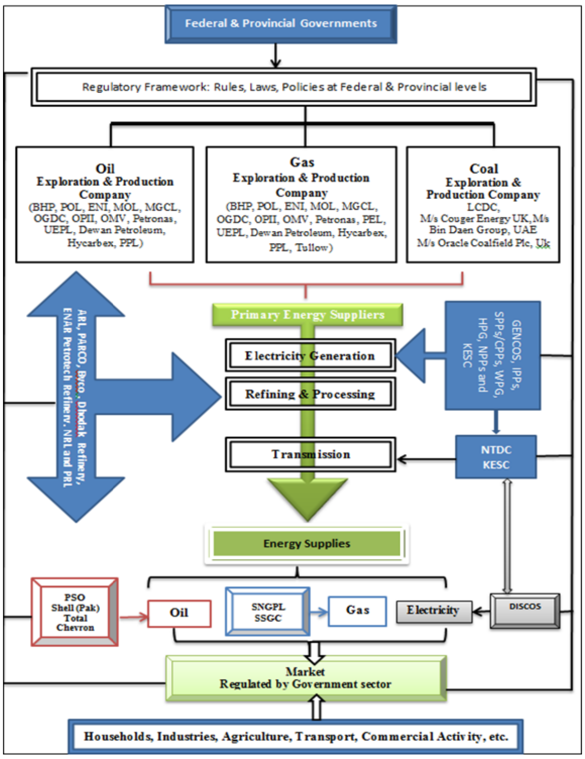
The main targets of this Policy for year 2017 are:

i. To fully eliminate load shedding;
ii. To decrease cost of generation from 12c/unit to 10c/unit;
iii. To decrease transmission losses from 25 percent to 16 percent
iv. To improve collection of bills to 95 percent.

14.1 Pakistan's Energy System

Figure below give us a visual presentation of the overall energy sector in Pakistan. Public sector (Ministry of Water and Power and the Ministry of Petroleum and Natural Resources) is the largest component in the whole system with its intervention from policy to generation and distribution chain. It impacts the energy market through rules, regulations and laws formed by the public sector institutions and organizations. There are two regulators National Electricity and Power Regulation Authority (NEPRA) and Oil and Gas Regulatory Authority (OGRA).

Fig-14.1: Pakistan's Energy System



The first stage is primary energy supplies where the government being prime supplier to the generation companies has solid hold. The government supply primary energy from domestic resources as well as from importing these from rest of the world.

The second stage is conversion process like electricity generation, refining and processing of oil etc. Energy in Pakistan is generated by public and private companies but most of the energy comes from public limited companies. During the conversion process, primary energy is supplied to various plants (heat, power, gas, petrochemical, liquefaction etc.), oil refineries and some of it is used by energy industry itself. Prior to 1985, the energy system of Pakistan mainly consisted of public sector. However, it was becoming difficult for Government of Pakistan to handle and finance the sector alone therefore it was decided to bring the private sector in. As a result in 1985, a 1292 MW Hub Power Project (HUBCO) was initiated as a major power project which was unique in Pakistan and the world as well. However, its installation process was very slow and it took the project 12 years to fully establish in 1997. Till 1994, the distribution of electricity was coordinated and managed by twelve Area Electricity Boards (AEBs). In early 90s there was a shift in global thinking towards market economy which led to a structural change in the power sector of Pakistan. The idea was to bring in more private investment. Following this, the government introduced number of policies in the early 90s. The first visible step in this direction was the unbundling of WAPDA, the process started in 1994 and completed in 1998. The government introduced the Power Policy of 1994. The impetus of this policy was to restructure the entire power sector. This policy resulted in de-regulation of the power sector, promotion of IPPs, restructuring of WAPDA and privatization of selected corporate entities. Till now private sector has also become a major player in power production. Under 18th Amendment, provinces have been given considerable autonomy to invest in the energy sector. However, due to unequal availability of natural resources in the provinces, lack of technical knowledge, inability of the provincial government to provide sovereign guarantees to the private sector for bringing the foreign direct investment and the absence of national coordination plan are reasons which are becoming critical for the provinces to handle such a complicated sector.

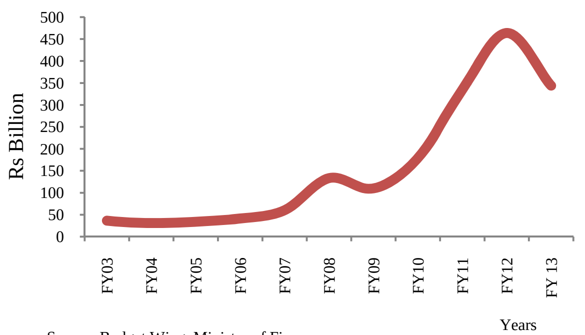
Presently, the generation of electricity by the public sector is done through hydel sources like Terbela and Mangla dams etc. while generation companies (GENCOs) generate electricity through thermal resources. The private sector electricity is generated by IPPs (Independent Power Plants), SPPs (Small Power Plants) / CPPs (Captive Power Plants), WPG (Wind Power Generation), HPG (Hydel Power Generation), Hub Power Company Limited

(HUBCO) and Karachi Electric Supply Company (KESC) while KESC is vertically integrated company. Some portion of electricity is also generated by NPPs (Nuclear Power Plants). Pakistan Electric Power Company (PEPCO) is an umbrella institution which manages the generation activities of all generation companies and thus has strong influence within the system

In the third stage, the generated energy is transmitted to energy services which are mainly done through National Transmission Distribution Company (NTDC) and KESC. The NTDC is further divided into power distribution companies (DISCOs) which include LESCO, QESCO, PESCO, IESCO, GEPCO, FESCO, MEPCO, HESCO, KESCO and SEPCO. However a major portion of energy is lost during transmission and distribution which is almost 25 percent. The present government is taking all possible measures to reduce these losses to minimum level and the target is to reduce these to 16 percent till 2017.

The interaction of suppliers and consumer of energy services occur through energy market. However, it should be noted that the determination of prices of energy products does not happen freely because the government heavily influence the market and bears part of the final price by paying subsidy on the final tariff as majority of consumers will not be able to pay the price if determined by free market forces. From FY03 to FY13 a total amount of Rs 1.7 trillion has been given as subsidy to power sector an amount which is much higher than the cost of Diamer Basha Dam. The trend of subsidies given in these years is shown in Figure 14.2 below:

Figure 14.2: Subsidies to Power Sector



Source: Budget Wing, Ministry of Finance

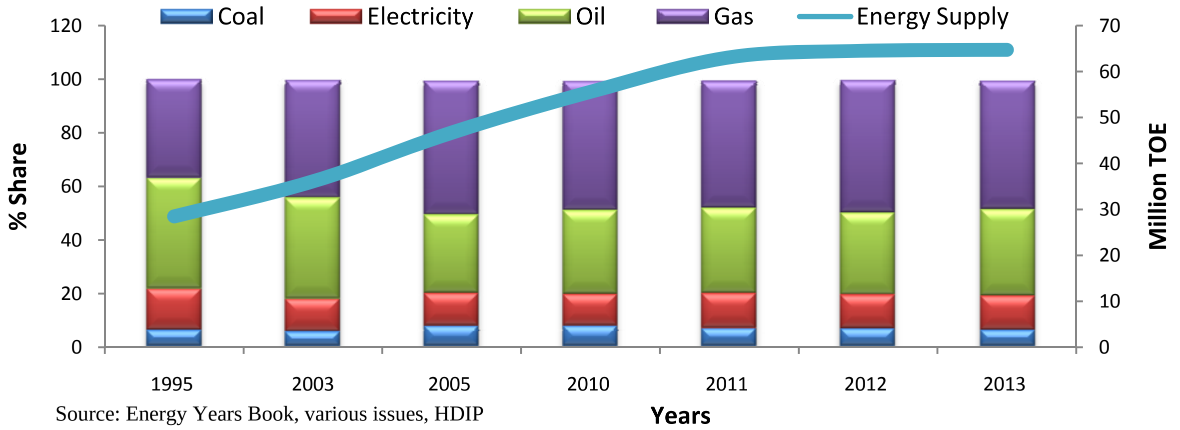
However, withdrawing the subsidy at once may cause huge socio-economic cost therefore the present government is trying to rationalizing the tariff and moving toward cheaper energy mix for energy supplies especially for electricity generation.

14.2: Energy Supply

In 2013, indigenous energy availability was 65,639 thousand tonnes of oil equivalent (TOE) while total primary energy supplies remained 64, 588 thousand tonnes of oil equivalent (TOE) showing that almost 2 percent of energy was lost during the conversion process.

Figure14.3 shows the trends of energy supply of Pakistan by sources.

Figure 14.3: Primary Energy Supply By source



Source: Energy Years Book, various issues, HDIP

In 1995 the total energy supply of Pakistan was 28 million TOEs. The main sources of energy supply at that time were Oil 41.6 percent, gas 36.8 percent, electricity 15.5 percent and coal 5.8 percent. In 2013 the energy supply of the economy increased to 64 million TOEs with an annual average (1995 to 2013) growth rate of 4 percent. There was not only increase in energy supply but also a very clear change in the patterns of energy sources had been seen. The share of oil decreased to 32.5 percent while the share of gas increased to 48.2 percent in 2013 on account of rise in oil prices internationally, which led the supplier to shift toward gas which is a relative cheaper source. However this shift exerted pressure on domestic resources of gas, however, in terms of efficiency, oil is still considered as an efficient source of primary energy supplies.

14.2.1 Oil

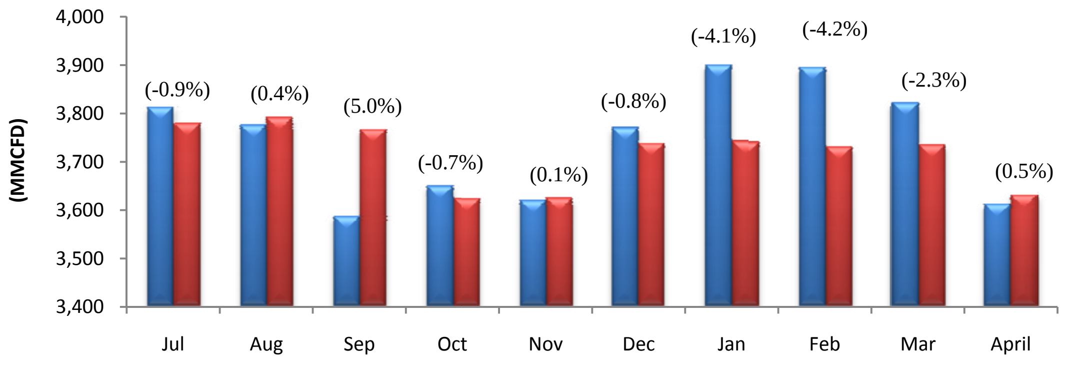
Overtime there was changing pattern in major sources of energy supply, still reliance on oil and gas is highest which has exposed the country to many risks and brought negative repercussions on the economy. Oil is mostly an imported source of energy for Pakistan, the price of which has been increasing continuously especially in last few years. The price of oil was $ 10 per barrel in 1995 which increased to $ 110perbarrels in May 2014 showing an increase of almost hundred times as compared to its price in 1995. This also led to an increase in oil prices domestically, escalating to Rs 107 per liter in May 2014 from Rs 9 per liter in 1995. The cost of generating one unit at IPP thermal plant has increased manifold i.e., Rs.18/- per KWh when produced on furnace oil and Rs.24/- per unit when produced through diesel, while the average sale price of electricity in Pakistan is about Rs. 9/- per KWh. In other words, every unit generated by an IPP involves a subsidy of Rs 9 to Rs 15 per KWh. That is the root cause of the growing problem of circular debt. Furthermore, Pakistan has exhausted more than half of the original domestic recoverable oil reserves. On June 30, 2013, original recoverable reserves were 1,102.6 million barrels with 731.5 million barrels(68 percent) cumulative production of oil and 371.0 million barrel (32 percent) balance recoverable reserves. Further a huge amount is paid on account of import of crude oil. The import of crude oil remained 44.9 million barrel during July-March FY 14 compared to 40.9 million barrels in corresponding period last year posting a growth of 11 percent while local crude extraction posted a growth of 12 percent as it stood at 23.0 million barrels in July-March FY 14 compared to 20.5 million barrels in corresponding period last year. In monetary values, US $ 4.3 billion was spent on import of petroleum crude compared to US $ 4.0 billion in corresponding period last year posting a growth 6.2 percent.

Realizing the risk and challenges involved due to high use of petroleum crude, the Government of Pakistan is trying to explore domestic resources. Thus on January 21, 2014 the government provisionally awarded 50 petroleum exploration blocks to eight companies including both local and foreign companies. The total area of these blocks is about 103,348 Sq. Kms which is around 38 percent of the area already under exploration. Out of 50 blocks, 21 blocks are located in Baluchistan, 15 in Punjab, 8 in Khyber Pakhtunkhwa and 6 in Sindh. After execution of agreements for these blocks, the exploration activities in the country will pick a new momentum and provinces will get immediate financial benefits in terms of social welfares and rentals. During the current fiscal year, 73 numbers of wells have been spudded and 18 discoveries have been made. Although oil is efficient primary energy supply yet due to continuous rise in its prices, gas has substituted oil in many ways being a cheaper source of energy supplies.

14.2.2 Gas

The original domestic recoverable reserves of natural gas were 55.6 trillion cubic feet on June 30, 2013. 30.9 trillion cubic feet (56 percent) was the cumulative production and 24.7 trillion cubic feet (44 percent) was balance recoverable reserves. When compared with domestic recoverable reserves of natural gas on June 30, 2012, these were 56.0 trillion cubic feet which represent that 0.38 trillion cubic feet of natural gas reserve are depleted. A comparison of gas production during July – April for current year and last year is shown in Figure 14.4 below:

Figure 14.4: Gas Production during July-April



Source: Ministry of Petroleum and Natural Resources

The worrisome factor is that our gas reserves are depleting and if gas consumption grows annually even at moderate rates, the present recoverable reserve will largely be exhausted by 2025. As this limit approaches the marginal cost of gas supplies will rise.

To avoid such a situation we have two choices: efficient use of gas and an increase in the gas exploration rate along with diversification of energy mix. Realizing this fact, the government is attracting foreign investment to explore new fields. Although exploring of natural gas is sub-component of mining and quarrying, yet on a positive note it should be noted that both private and public gross fixed capital formation in mining and quarrying at basic prices of 2005-06 had shown positive growth of 25 percent in FY 14 that earlier had declined to 14 percent in FY 13.

Increasing demand of natural gas with its limited supply has made room for Liquefied Petroleum Gas (LPG) which is also a primary source of energy. Currently about 1000 tons/day LPG is being produced domestically contributing less than 1 percent to the total energy supply mix. Because of its characteristics LPG is fast becoming a fuel of choice in the areas, where natural gas distribution network is not available. Pakistan Petroleum Limited (PPL) is the pioneer of the natural gas industry in the country which operates six producing fields in Sui, Kandhkot, Adhi, Mazarani, Chachar and Hala while Oil and Gas Regulatory Authority (OGRA) is empowered to regulate the LPG sector under OGRA Ordinance 2002 and LPG (Production & Distribution) Rules 2001 w.e.f 15th March, 2003. OGRA has simplified the procedure for grant of LPG license and the same is granted on fast track basis once the requirements are met / compiled. During July-Dec, 2013 two licenses for construction of LPG storage and filling plants were issued. In addition, OGRA has also issued 15 licenses for construction of LPG auto refueling station. OGRA is playing a vital role to increase private investment on midstream and downstream petroleum industry, During July- December, 2013 an investment of Rs. 0.264 billion has been made in LPG infrastructure whereas total investment in the sector till end of this fiscal year is estimated about Rs. 17.464 billion.

Natural gas and LPG are considered as cheaper than oil but both are expensive than coal and fortunately Pakistan has huge coal resources estimated to exceed 185 billion tons which generally ranks from lignite to sub-bituminous. However, less focus has been given to this cheaper primary energy supply.

14.2.3 Coal

The share of coal in energy supply is almost stagnant to 6 percent since 1995. The federal and provisional governments have started giving importance to coal exploration and development activities. The federal government has been striving hard for optimum development and utilization of indigenous coal resources and pursuing the policy of promoting coal based power generation. A summary of the efforts made in this regard is presented below:-

i. The federal government sponsored discovery and evaluation of Thar coal deposits, development of infrastructure in this coal-field and studies to determine its mine ability and for gasification incurring more than Rs 2.000 billion.
ii. Lakhra Coal Development Corporation has been set up as a joint venture of Pakistan Mineral Development Corporation, WAPDA and Government of Sindh to fulfill coal requirement of 150 MW Khanote Power Plant.
iii. The Finance Division has sponsored under PSDP a pilot project for Underground Coal Gasification at Thar Coal Block- V.
iv. Federal Government is pursuing the policy of promoting coal based power generation and conversion of oil and gas-based power plants to indigenous/imported coal that would later on, be replaced by Thar coal depending upon its availability.

Government of Sindh has leased out a coal block for an integrated mining project and power generation to increase the share of coal. The details are as under:-

a) Government of Sindh has entered into a joint venture with M/s Engro Powergen (Pvt) Limited for Coal Mining in Block-II and established a Company under Companies Act, 1984 viz. “Sindh Engro Coal Mining Company” for development of Coal Mine and installation 600-1000 MW Power Plant.
b) M/s Cougar Energy UK limited has been allocated Block-III in Thar coalfield for extraction Underground Coal Gasification and establishing 400 MW Power Plant.
c) M/s Bin Daen Group, UEA has been allocated Block-IV in Thar coalfield for developing Coal Mine and installing 1000 MW Power Plant.

d) One Block has been allocated to Planning Commission of Pakistan for Plot Project 50 MW based on Underground Coal Gasification Project in Block-V Thar coalfield. In this connection, the Government of Sindh has notified Governing Body under the chairmanship of Dr. Samar Mubarakmand for the project.

e) M/s Oracle Coalfield Plc, UK has been allocated Block –VI in Thar coalfield for developing Coal Mine and installing Power Plant of 300 MW extendable up to 1000 MW.

f) M/s China National Machinery Import and Export Corporation of China (CMC) conducted feasibility study for 400 MW integrated coal mining and coal-fired power plant at Sonda-Jerrick in district, Thatta.

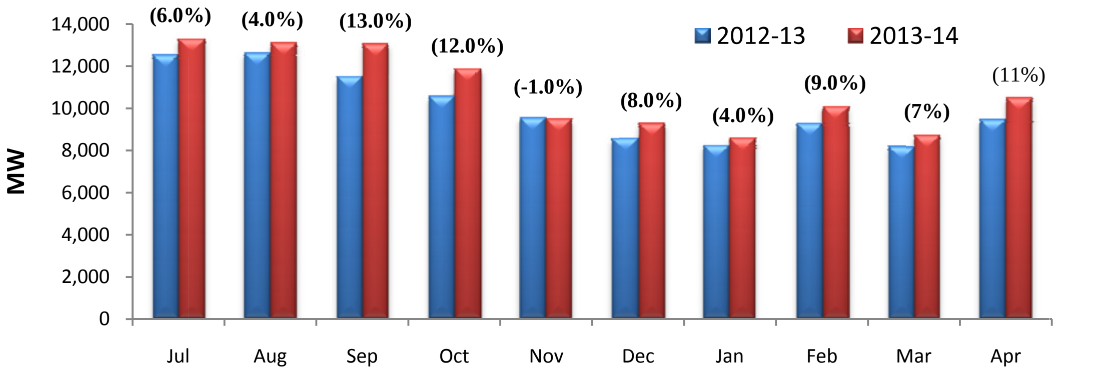
g) Government of Sindh entering into another J.V with M/s Al-Abbas Group Company with allocated area in Badin coalfield for developing Coal Mine and installing Coal-fired Power Plant of 300-600 MW.

It is expected that with ongoing efforts of both federal and provincial governments, the share of coal in primary energy supply will increase and will lead to cheaper energy mix which when use in electricity generation will reduce the cost.

14.2.4 Electricity

Electricity is a secondary energy source which is obtained by converting primary sources like gas, oil, coal, nuclear power and other natural sources. There was decline in share of electricity in energy supply as it declined from 15.5 percent in 1995to 12.9 percent in 2013. The installed capacity in the PEPCO system is 22,812 MW as of June 2013; with hydro 6,773 MW, thermal 15,289 MW and nuclear 750 MW. Thus the hydropower capacity accounts for 29.7 percent, thermal 67.0 percent and nuclear 3.3 percent. Of this 11,493 MW is owned by WAPDA and ex-WAPDA GENCOs, 2,216 MW by KESC, 750 by PAEC, and rest by IPPs. However, one critical issue is that electricity generated is almost fifty percent of installed capacity due to inefficient recovery system, lack of wear and tear of plants and inappropriate fuel mix. A comparison of electricity generation during July – April for current year and last year is shown in Figure 14.5below:

Fig-14.5: Comparative Data of Electricity Generation July-April



Source: Ministry of Water and Power

Private Power and Infrastructure Board (PPIB) is a 'One Window' facilitator to the private investors in the field of power generation on behalf of the Government of Pakistan (GOP). PPIB, since its inception has successfully managed capacity addition of around 8,657 MW through establishment of twenty nine (29) IPPs. PPIB is currently processing nineteen (19) multiple fuel (Oil, Coal, Gas and Hydel) based Independent Power Producer (IPP) projects with a cumulative capacity of around 8,835 MW. Out of these nineteen in process IPP projects, fifteen (15) projects having a cumulative capacity of 6,948 MW are based on hydro, whereas, the remaining four (4) projects having a cumulative capacity of 1,887 MW consist of two (2) gas based projects, one (1) oil based project and one (1) coal based project.

Government of Pakistan aims to achieve power generation mix through development of indigenous energy resources particularly hydel and coal. The government is committed to arrange timely finances for these projects and monitor their development regularly in order to complete them as per schedule. It is expected that 16, 564 MW power generation will be added in the national grid system through various resources by completing the new projects which will reduce / eliminate load shedding during next four years. The detail of the project is given below:

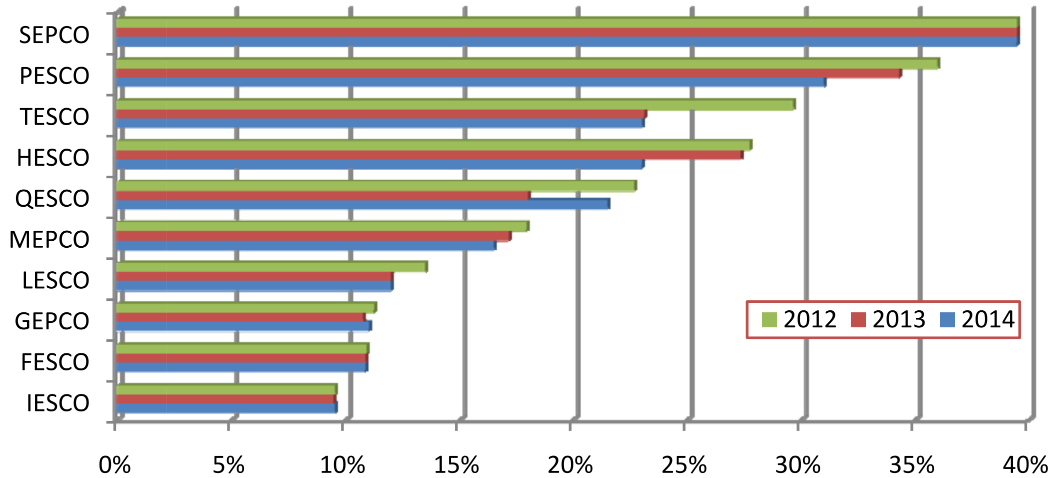
Table 14.1: New Projects

Year	Name of Project	Capacity	Agency	Fuel
2014	Guddu-1	(243 MW)	GENCOs	Gas
	Nandipur Power Project	(425 MW)	GENCOs	Oil
	Guddu-2	(243 MW)	GENCOs	Gas
	Quaid-e-Azam Solar Park (Phase-I)	(100 MW)	PPDB	Solar
	Quaid-e-Azam Solar Park (Phase-II)	(300 MW)	PPDB	Solar
	Guddu Steam (3)	(261 MW)	GENCOs	Gas
2015	Quaid-e-Azam Solar Park (Phase-III)	(600 MW)	PPDB	Solar
2016	Neelum Jhelum Hydel	(969 MW)	WAPDA	Hydel
	Golen Gol	(106 MW)	WAPDA	Hydel
	Patrind HPP	(147 MW)	PPDB	Hydel
2017	Terbela 4th Extension	(1410 MW)	WAPDA	Hydel
	Coal Plant at Sahiwal	(1200 MW)	PPDB	COAL
2018	Coal Plant at Jamshoro	(1320 MW)	GENCOs	COAL
	Thar Coal Plant	(1320 MW)	GENCOs	COAL
	Coal Plant Larkana	(1320 MW)	GENCOs	COAL
	Gaddani Power Park	(6600 MW)	Public + Pvt	COAL
Upto 2018 Total Generation Addition		**16564 MW**		

Source: Pakistan Electric Power Company Ltd

After generation of electricity, the Distribution Companies (DISCOS) are mainly responsible for supplying electricity to consumers and collecting bills. So another critical point after inefficiency in the generation stage is that the main DISCOs do not perform well in terms of transmission and distribution (T & D) losses.

Figure 14.6: Comparison of T & D losses among DISCOs



Source: National Electric Power Regulatory Authority

Another worrisome factor is that NEPRA recommends a tariff structure with incentive to efficient DISCOs and punishment to inefficient ones in order to reduce their respective transmission and distribution losses. However, the unified tariff structure notified by the government disallows this incentive as a result the combined losses of the inefficient DISCOs have to be borne by the federal government. Thus electricity generation become over expensive one due to costly input and other due to transmission and distribution losses. This high cost of generation coupled with rise in price of furnace oil substantially has raised the cost of thermal power generation. The government thus intervenes through subsidies realizing that the power being necessity of life will become unaffordable to majority of people. However, this also results in circular debt and when the present government paid the unsustainable level of circular debt there was 1752 MW increase in capacity utilization.

To diversify the primary energy supply in the generation, Pakistan Atomic Energy Commission (PAEC) produce electricity through nuclear plants. By this time three nuclear power plants are operational. The first nuclear power plant i.e. Karachi Nuclear Power Plant (KANUPP) completed its 30 years design life in 2002.

14.2.5 Nuclear Energy

Pakistan Atomic Energy Commission (PAEC) is responsible for planning, construction and operation of nuclear power plants in the country. PAEC is currently operating three nuclear power plants Karachi Nuclear Power Plant (KANUPP), Chashma Nuclear Power Plant Unit-1 (C-1) and Unit-2 (C-2). The construction of two more units C-3 and C-4 of 340 MW each is in progress. The second and third nuclear power plants i.e., (C-1 and C-2) are performing very well. Performance of all three operating nuclear power plants is given in the following Table 14.3:

Table 14.2: Electricity generation

S.No	Source	Capacity addition (MW)
IPPS – Fuel Operated Plants		
1	KAPCO	282
2	HUBCO (RFO)	363
3	HUBCO Narowal (RFO)	204
IPPS – Gas Operated Plants		
4	Liberty (Gas)	193
5	Saif Power (Gas & HSD)	56
6	Halmore (Gas & HSD)	48
GENCOs		
7	Jamshoro (RFO)	388
8	Guddu (Gas)	136
9	Muzaffargarh (RFO)	82
	Total	**1,752**

Source: Ministry of Water and Power

Table 14.3: Performance of the Operating Nuclear Power Plants in Pakistan

Plants	Gross Capacity (MW)	Grid Connection Data	Electricity sent to Grid (million KWh)	
			July 1, 2014 to March 31, 2014	Lifetime upto March 31, 2014
KANUPP	100	18-Oct-71	291	13,004
C-1	325	13-Jun-00	1,840	26,781
C-2	330	14-Mar-11	1,866	6,096

Source: Pakistan Atomic Energy Commission

The construction of fourth and fifth nuclear plants, Chashma Nuclear Power Plant unit 3 & 4 (C-3 and C-4) at Chashma site, is ahead of the schedule. The Domes on containment buildings of C-3 and C-4 were placed on the 6th March, 2013 and 2nd January, 2014, respectively. Status of under construction nuclear power plant is given in the following Table 14.4:

Table 14.4: Status of under construction nuclear power plant

Plants	Gross Capacity (MW)	First Concrete Pour Date	Target Commercial Operation Date
C-1	340	4-Mar-11	30-Apr-16
C-2	340	18-Dec-11	31-Dec-16

Source: Pakistan Atomic Energy Commission

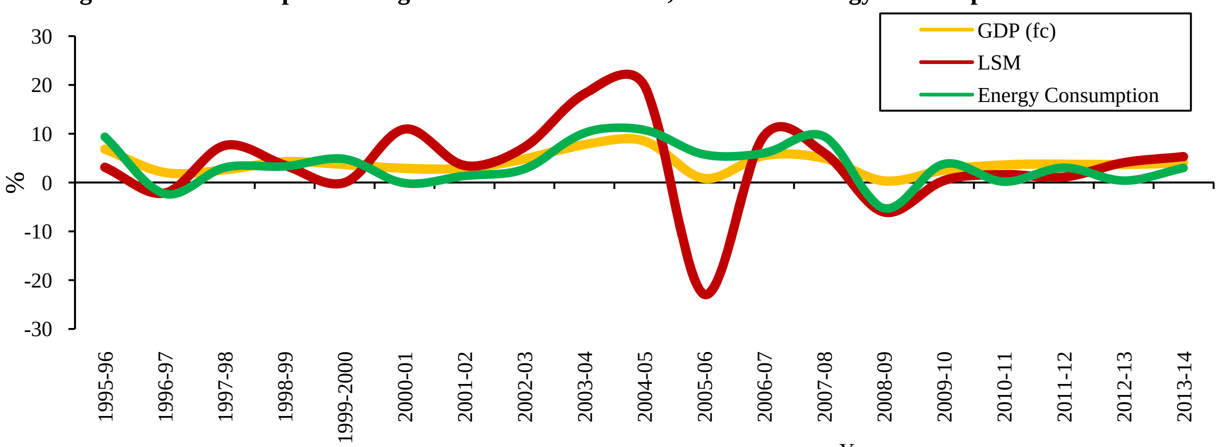
PAEC is implementing nuclear power program 2030 set by Energy Security Plan of the Government of Pakistan. The ground breaking ceremony of Karachi Coastal Power Project (K-2 and K-3) was held on 26th November, 2013. To meet the targets, sites are being identified for more under power plants. Technical and engineering infrastructure is in place to provide technical support to existing under construction and future nuclear power plants

One reason of energy crises is expensive input and if timely efforts are not made for cheaper energy mix, the problem can be more severe in future. The government is committed to achieve less oil dependent power generation mix through development of indigenous energy resources particularly hydel and coal. Recently, the Executive Committee of the National Economic Council (ECNEC) approved four development projects in power sector having a combined generation capacity of 3,511 MW. The approved projects include K-I and K-II Nuclear Projects situated in Karachi (Province of Sindh; generation capacity 2,200 MW), Nandipur (Province Punjab; generation capacity 425 MW; cost Rs 57,380 million) and Neelum-Jhelum hydroelectric project (AJK; generation capacity 969 MW). Government of Pakistan is committed to arrange timely finances for these projects and monitor their development regularly in order to complete them as per schedule. Also one other diversification in using energy mix in the generation of electricity is by producing electricity by Co-Generation for which government is seriously thinking. Co-Generation is a high efficiency energy system that produces both electricity (and mechanical power) and valuable heat from a single fuel source. Pakistan being the fifth largest sugarcane producer in the world has the potential to generate electricity of almost 2,000 MW through Co-Generation. Bagasse (process waste of sugar industry) is a fibrous residue of cane stalk obtained after crushing. When burned in quantity, bagasse produces sufficient heat energy to supply all the needs of a typical sugar mill, with energy to spare. To this end, a secondary use of bagasse is in Co-Generation. Development of Co-Generation plants based on high pressure boilers is gaining momentum worldwide. Thus Co-Generation by sugar mills by utilizing bagasse and coal provides one of the most economically viable options for thermal power generation, earlier it remained unexploited in Pakistan.

14.3.Energy Consumption

Energy consumption is the amount of energy left for final use after subtracting energy lost in transformation and distribution from primary energy supplies. It is considered as the oxygen of an economy and the lifeline of the economic growth particularly in the industrialization stage of an emerging economy. The importance of energy consumption in the economic growth can be realized from the fact that the excessive productivity slowdown around the world in 1970s which was primarily due to oil crises. Prior to 1970s, economic growth and prosperity of a country in the long run depends on the basic factors of production like labor, capital and land. Economists mostly link the relationship between these factors of production and economic output through the production functions. However, for considerable amount of time, economists did not consider energy as a factor of production and ignore its importance in the production process. Arrow's learning by doing and Hick's induced innovation did not include resources or energy explicitly in their models. However lately, the geological economists have given energy a key role in the production process. They placed huge emphasis on the role of energy and its availability in the production and growth processes. These models have shown that scarcity of energy imposes a strong hindrance in the economic growth of a country. Similarly is the case of Pakistan. In past, Pakistani policy maker and planners had given less importance to energy in development plan. During period of higher economic growth, failing to implement proper energy plans for addressing future needs of the country resulted in cyclical pattern in their relationship. The fluctuation in energy consumption affected the large scale manufacturing growth which in turn affected the real GDP growth as shown in figure below:

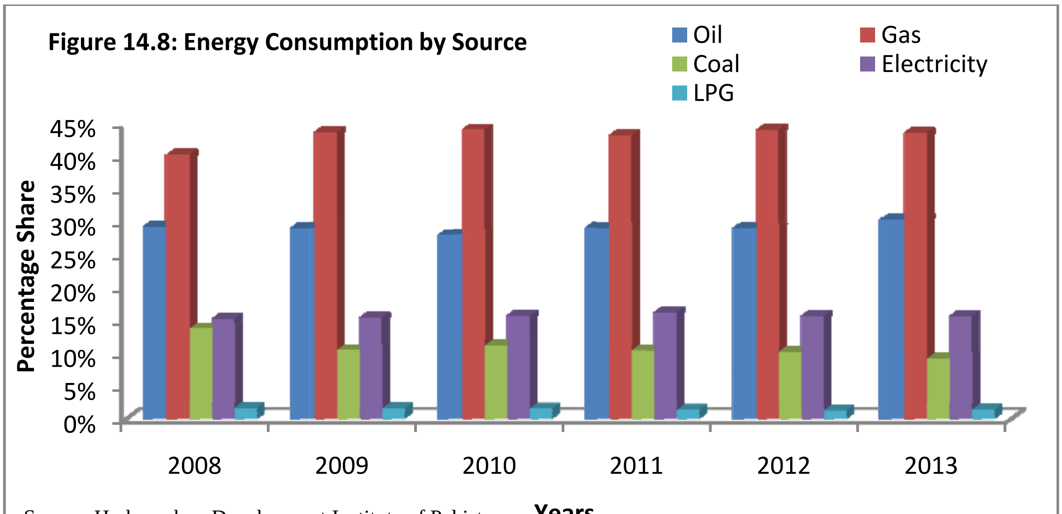
Fig-14.7: Relationship between growth rate of Real GDP, LSM and Energy Consumption



Source: Pakistan Bureau of Statistics, Economic Adviser's Wing, HDIP

During FY 13 energy consumption was 40,185 million TOEs compared to 40,026 million TOEs in FY 12 showing a growth of 0.4 percent. The current fiscal year much improvement has been seen in economic activity due to better available energy for usage on account of relatively less losses in transformation and distribution as compared to last year.

Although by source gas has the major share in energy consumption, however, since 2008 its share is almost stagnant 43 to 44 percent and due to rise in prices of oil there is decline in its share in energy consumption.

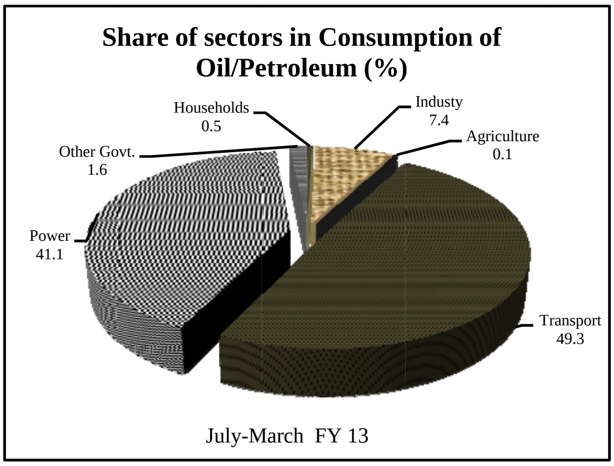


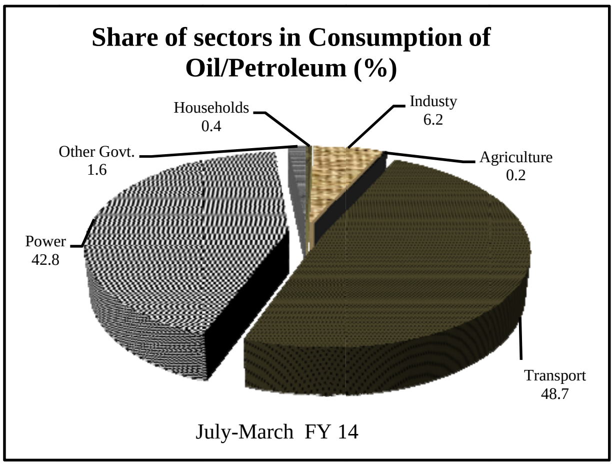
Source: Hydrocarbon Development Institute of Pakistan

14.3.1 Oil (Petroleum Product)

Transport and power sectors remained the highest sector in the usage of oil / petroleum products. However, during last two decade there is significant increase in the usage of oil in power sector as the share increases to 40.0 percent in 2013 while usage of oil in transport sector is almost stagnant, the reason is that majority of commercial transport still use oil and there is negligible shift toward CNG while usage of oil in household decline that show the shift toward CNG from oil. The decline in usage of oil in agriculture and industry could be linked to decline in activity due to power shortage. During July-March FY 14, the composition of usage of oil / petroleum product is little variant from that in corresponding period last year as shown below:

Figure 14.9: Share of sectors in consumption of Oil / Petroleum





Source: Hydrocarbon Development Institute of Pakistan

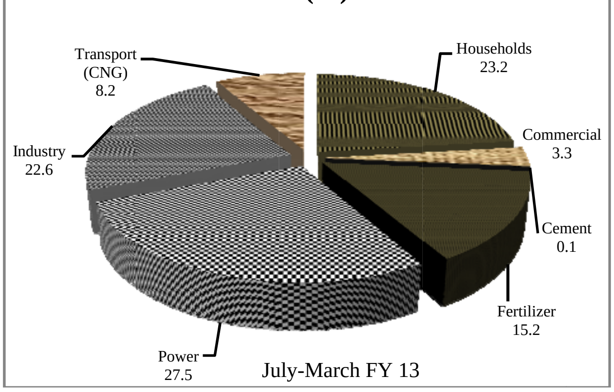
During July – March FY 14, share of power in oil consumption is increased by 1.7 percentage points while share of transport and industry decreased by 0.8 and 0.6 percentage point, respectively, when compared the same during July – March FY 13.

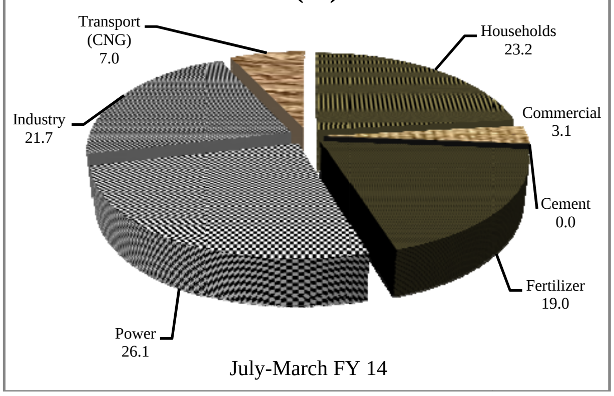
During FY 13 the import bill of petroleum group was US $ 14.9 billion. If to look into quantity terms it was 19.2 million metric tons including 12.3 million metric tons of petroleum products and 6.9 million metric tons of petroleum crude. During July-March FY 14, the import bill of petroleum posted a negative growth of 1.3 percent. The value of import of petroleum products stood at US $ 6.6 billion during July-March FY 14 compared to US $ 7.0 billion during corresponding period last year posting a negative growth of 5.6 percent. However, value of import of petroleum crude increased by 6.2 percent as it was US $ 4.3 billion during July-March FY 14 compared to US $ 4.1 billion during corresponding period last year. There was positive growth in quantities of both petroleum products and petroleum crude (5.0 percent and 4.3 percent respectively). The main reason attributed to the increase in quantity and decrease in value of petroleum product is declining prices of petroleum products globally. Even there was global increase in price of petroleum crude, no change in its consumption pattern had been seen which reflect that petroleum crude is an inelastic product.

14.3.2 Natural Gas

Pakistan is the larger consumer of the gas. The households, power, fertilizer and industry are the major end user of gas. In last two decades the pattern of consumption of gas among its users is changed. There was sharp decline in gas consumption in fertilizer industry which had negatively affected performance of fertilizer sector. In FY 13, the main reason of abnormal reduction in gas supply was due to frail functioning of SNGPL-based fertilizer plants, confronting the worst gas crisis which caused a sharp decline in the overall production. Four fertilizer plants on the SNGPL network, including Pakarab, Dawood Hercules, Engro's new plant and Agritech, remained the main sufferers of the gas shortages. During July-March FY 14, the share of fertilizer industry in gas consumption increased to 19 percent which was 15 percent in corresponding period last fiscal year. This major upturn was due to commitment of the government to provide gas to household, power industry and fertilizer industry on priority basis. However, the usage of gas in power industry is declining as power industry can substitute oil with gas. Till FY 13, there was increase in the use of gas (CNG) as input in transport, however due to load management in gas sector there were prescribed hours / days for supplying CNG that had caused decline in the share of transport in gas consumption as shown below:

Figure 14.10: Share of sectors in consumption of Gas



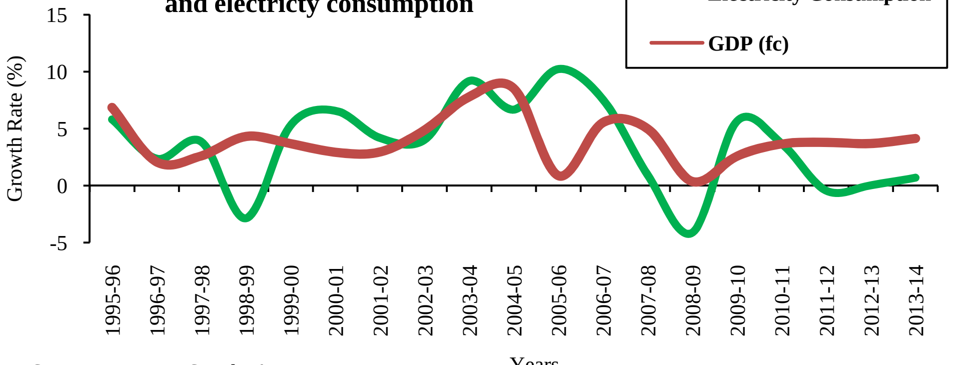


Source: Hydrocarbon Development Institute of Pakistan

14.3.3 Electricity

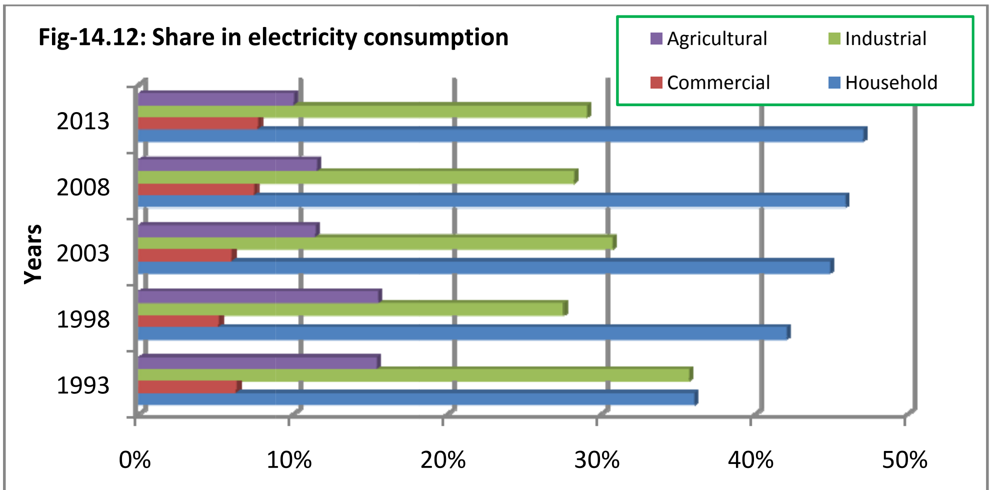
The consumption of electricity has increased rapidly and is the highest among all sources of energy. One prime reason is technological advancement which also brought significant change in lifestyle of people. There is cyclical relationship between economic growth and electricity consumption. It implies that the period of higher growth is followed by higher growth rate of electricity consumption which is obvious in the sense that growth improves the standard of living or production by utilizing advance technological goods. Likewise, lower growth of GDP will negatively affect the growth of consumption of electricity as shown below:

Fig-14.11: Relationship between growth of GDP (fc) and electricty consumption



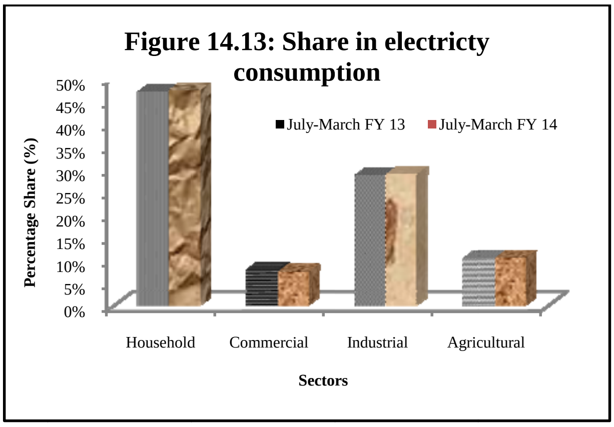
Source: HDIP, PBS and EA Wing

The lower growth in electricity consumption can be occurred due to loss of growth momentum and lower growth in consumption of electricity in one period will lower the growth of GDP in next period. Policy makers need plans to address the growth in consumption of electricity that will occur due to higher growth in GDP which otherwise will slow down the pace of growth in coming years.



Source: Hydrocarbon Development Institute of Pakistan

Prior to unbundling of WAPDA to present, all sectors exhibit a change in their electricity consumption pattern, especially industry and household. The share of industry decreased from 36 percent in 1993 to 29 percent in 2013 because large industrial units are using own captive unit because of load shedding. Increase in usage of electrical home appliance due to technological improvement made the share of residential electricity consumption increased to 47 percent in 2013 from 36 percent in 1993. In case of agriculture sector, electricity consumption decreased from 15 percent in 1993 to 10 percent in 2013, this show the structural transformation away from agriculture sector to industrial and services sector. The share of agriculture in real GDP declined to 21 percent from almost 26 percent in 1990s.However, there is no significant change in the consumption pattern of commerce. However, during July-March FY 14, the composition of share of electricity consumption is almost similar to that in corresponding period last year as shown below:



14.3.4 Coal

Pakistan’s coal generally ranks from lignite to sub-bituminous. Coal consumption is varying since 2000. About 39.1 percent of total coal consumed in the country has been utilized by brick kilns industry and 56.1 percent by cement factories, showing decrease of 3.46 percent and increase of 1.83 percent, respectively. Almost whole cement industry has been switched over from furnace oil to coal hence utilization of ingenious coal is gaining momentum.

Pakistan has huge coal resources estimated to exceed 185 billion tons; including 175 billion tons, identified at Thar coal fields (Sindh Province) alone. The power project at Port Qasim had a special significance due to importance of Karachi in Pakistan's economy and it can play a crucial role in the economic development of Pakistan. Since the production of electricity from the coal fired power plants is cheaper, ten coal-fired power projects, with a capacity of 660 MW each, are being initiated at Gadani in Baluchistan, which would add a total of 6,600 MW in the national grid.

14.4 Alternative Sources of Energy

The Government of Pakistan (GoP) is taking all possible measures to ensure energy security and sustainable development in the country. The government in its bid to diversify its energy mix, has been giving due attention towards fast track development of Alternative / Renewable Energy (ARE) resources in the country. Alternative Energy Development Board (AEDB) has been mandated to act as a central agency for development and promotion of Alternative & Renewable Energy (ARE) technologies in the country and to facilitate the private sector investment in this sector.

Steps Taken By AEDB to Attract Investment in the Sector

AEDB has undertaken a number of supportive measures in order to promote ARE technologies and to attract private sector investments, which include;

- Identification of new corridors for wind and solar energy projects development. Resource assessment of these corridors is underway.
- National Grid Code for wind power projects has been amended. Grid Integration Plan 2010 -2015 for wind power projects has been developed by AEDB to support NTDC.
- Local manufacturing of micro wind turbine has been started. Manufacturing for large wind turbines is also being encouraged. M/s DESCON has setup a wind turbine tower manufacturing facility and has provided towers for the first wind project in Pakistan. M/s Three Gorges Corporation / CWE (China) has also established a tower manufacturing facility which will be upgraded to wind turbine assembling facility in future.
- Issues related to financing of projects have been resolved and now leading financing agencies like International Finance Corporation (IFC), Asian Development Bank (ADB), Overseas Private Investment Corporation (OPIC), Economic Cooperation Organization (ECO), Trade Bank etc. are offering financing to wind power projects in Pakistan.

14.4.1 Wind

- Thirty five wind power IPPs holding LOIs issued by AEDB are at various stages of project development.
- Operational (Achieved Commercial Operations Date)
  - FFC Energy Limited: 49.5 MW wind project, Jhampir, Distt. Thatta, Sindh
  - Zorlu Enerji (Pvt.) Ltd. 56.4 MW wind project, Jhampir, Distt. Thatta, Sindh.
- Under Construction
  - 50 MW Three Gorges First Wind Farm Pakistan (Pvt.) Ltd., Jhampir Sindh
  - 50 MW Foundation Wind Power I Ltd. Khuttikun, Gharo, Sindh
  - 50 MW Foundation Wind Power II (Pvt.) Ltd., Khuttikun, Gharo, Sindh
- Twelve projects with a cumulative capacity of 630 MW are expected to achieve Financial Close by 2014.
- NERPA announced a new upfront tariff of US cents 13.5244 per kWh on 24th April 2013 for 500 MW wind power projects. The wind power companies interested in opting Upfront Tariff will have to achieve Financial Close of their project by September 30, 2014.

14.4.2 Solar

- In Solar Energy, 24 LOIs for cumulative capacity of approximately 792.99 MW On-Grid Solar PV power plants have been issued. Four (4) companies have submitted the feasibility studies of their projects and one feasibility study is approved by AEDB. Other sponsors are at the stage of preparation of feasibility studies
- Solar Village Electrification Program was initiated under PM's directive. 3000 Solar Home Systems have been installed in 49 villages of district Tharparkar, Sindh. Another 51 villages in Sindh and 300 villages in Baluchistan have been approved for electrification using solar energy and will be implemented shortly.
- AEDB in light of SRO 575(1)12006 issued duty exemption certificates for a large number of solar panels / solar modules to private sector companies for installation / generation of almost 64.57MW of energy in the country. These solar panels / solar modules are deployed all over the country.
- AEDB issued tax exemption certificate for import of almost 16715 units of Solar Water Heaters in the country. These heaters are deployed all over the country especially in Baluchistan, Gilgit-Baltistan, Khyber Pakhtunkhwa and Northern Punjab.
- AEDB also issued tax exemption certificate for import of about 1429 units of Solar Water Pumping System in the country. These water pumping systems are installed for community drinking and agriculture purpose all over Pakistan.

14.4.3 Biomass / Waste-to-energy

Framework for power Co-Generation has been approved by ECC for bagasse/biomass based sugar industry projects. 1500-2000 MW of power is expected to be generated in next 2-3 years. LOIs has been issued to following investors / sugar mills under this framework;

- M/s JDW Sugar Mills Unit-II (26 MW), Rahim Yar Khan, Punjab.

- M/s JDW Sugar Mills Unit-III, (26 MW), Ghotki, Sindh.
- M/s Hamza Sugar Mills Ltd., (15 MW)
- M/s RYK Sugar Mills Ltd., (19 MW) Rahim Yar Khan, Punjab.
- M/s Chiniot Power Plant, (15 MW), Chiniot, Punjab.

14.4.4 Small / Mini / Micro Hydro

- Eight hydro projects have been initiated under the Renewable Energy Development Sector Investment Program (REDSIP) with the support of Asian Development Bank (ADB). These projects are being implemented in Khyber Pakhtunkhwa and Punjab with an estimated cost of US $ 290 Million.

- Another 02 small hydro power projects have been initiated under REDSIP. PC-I for these projects have been approved. Loan approval from ADB is awaited.

- The Government of Punjab issued LOIs to private investors for establishment of 10 small hydro projects with a cumulative capacity of 142 MW at different location in Punjab.

- AEDB is building capacities for private sector investment in Khyber Pakhtunkhwa (22 projects of cumulative 92 MW capacity through Pakhtunkhwa Hydel Development Organization (PHYDO) and Punjab (30 projects of cumulative 240 MW capacity through Energy Department / Punjab Power Development Board (PPDB).

- AEDB initiated a program with the assistance of GIZ support to assist the provinces solicit private investments in small hydro sector; under this program Pre-Feasibility Studies for 25 hydro sites in AJK, Sindh, Punjab and Khyber Pakhtunkhwa with the cumulative capacity of 284.14 MW have been completed.

- Public sector Hydro power projects initiated in:
  - Khyber Pakhtunkhwa (worth U$ 150.99 Million, of 17.0MW, 36.6MW and 2.6 MW)
  - Punjab (worth U$ 138.74 Million, of 5.38MW, 4.04MW, 2.82MW, 4.16MW and 7.64MW)
  - Gilgit-Baltistan(worth U$ 71.12 Million, of 26MW and 4MW).

14.4.5 Clean Development Mechanism (CDM)

CDM is one of the instruments that developers of the Alternative and Renewable Energy (ARE) Projects pursue and earn financial returns by getting their projects registered with CDM Executive Board and selling the accrued Certified Emission Reduction (CER) certificates in the international carbon market.

Way Forward

Realizing the criticality of energy for economic growth, it is the main focus of Pakistan Vision 2025. The vision aims at ensuring uninterrupted access to affordable and clean energy for all sections of the population and aimed at resolving structural changes within the energy sector are fundamental to future economic prospects. The main elements of this vision include:

1. Optimize energy supply mix–economic, scalable, indigenous by 2025
2. Reduce “cost per unit”
3. Reduce supply gap by 2018 and exceed demand gap by 2025
4. Create and encourage culture of conservation and efficiency in the usage of energy

Nonetheless, these projects have long digestion period and would come in to system in few years. It is also highlighted that through efficient reallocation of natural gas based on economic sense is essential to get best value for money.

Poverty and Social Safety Nets

Poverty is defined as "a state or condition in which a person or community lacks the financial resources and essentials to enjoy a minimum standard of life and well-being that's considered acceptable in society". Poverty is pronounced deprivation in well-being, and comprises many dimensions. It includes low incomes and the inability to acquire the basic goods and services necessary for survival with dignity.

Measurement of Poverty

Most of the countries of the world define poverty in a uni-dimensional way, using income or consumption level. In developing countries, consumption is more appropriate than income as welfare indicator. First, income is interpreted as a measure of welfare opportunity while consumption as a measure of welfare achievement. Second, it is generally believed that survey respondents are more willing to reveal their consumption pattern than their income. Third, consumption is measured better than income in developing countries because of difficulties in defining and measuring income for self-employed. Finally, income is subject to seasonal variability while consumption tends to be less variable. So, in Pakistan household consumption is used as a welfare indicator.

Poverty lines are the thresholds which separate the poor from non- poor. Ministry of Planning, Development & Reform measures poverty on consumption based approach using data from Household Integrated Economic Survey (HIES). The official poverty line in Pakistan is calorie based, and consumption based absolute poverty is estimated after converting the household consumption level to adult equivalent based on recommended nutritional requirements of 2350 calories per person per day and providing almost equivalent amount for other basic needs. Table 15.1 gives analytical view of different poverty head counts with improvement in different periods.

Table-15.1: Poverty Indices by Region (% of population living below national poverty line)

Year	2000-01	2004-05	2005-06	2007-08	2010-11
Poverty Line	Rs. 723.40	Rs. 878.64	Rs. 944.47	Rs. 1141.53	Rs. 1745.00
Overall	34.4	23.9	22.3	17.2*	12.4*
Urban	22.6	14.9	13.1	10.0	7.1
Rural	39.2	28.1	27.0	20.6	15.1

Source: Planning Commission estimates using PSLM data of respective years
*The figures may be considered interim indication of poverty situation in the country. A technical group on poverty is reviewing official methodology and to find out possible causes of variance in poverty numbers and recommend final official estimates.

HIES/PSLM data, using consistent consumption based poverty estimation methodology, shows that poverty declined from 34.4 percent in 2000-01 to 22.3 percent in 2005-06, and subsequently, overall poverty situation in 2010-11 appears to have improved. Poverty headcount, based on consistent consumption based estimates, comes to around 12.4 percent in 2010-11, with 7.1 percent in urban areas and 15.1 percent in rural areas. The decline can be associated with a number of factors including increased allocations to the social safety net programmes like Benazir Income Support Programme, PPAF, better support prices of agriculture products that helped in reduction of consumption based poverty head count in rural areas, better varieties of crop seed resulting in better agriculture output, improvement in inflow of remittances owing to better manpower export policies are also contributing positively. Targeted interventions including BISP cash disbursements, subsidies, increase in individual and corporate philanthropy, and increase in female labour force participation rate in rural areas are other factors that might have contributed to the decline in consumption based poverty head count.

Box-1

According to the World Bank's Poverty Head Count Analysis 2014, if income per adult in Pakistan is taken as $ 1.25 per day, then 21.04 percent of the population falls below poverty line at 2008 population estimates. But if the poverty line is raised to $ 2 per day in line with international standards for middle income countries, then 60.19 percent of the population fall below poverty line. The position of poverty in Pakistan is better than India and Bangladesh but Sri-lanka, China and Philippine's are in a better position than Pakistan. However, according to Pakistan Millennium Development Goals Report 2013, the poverty head count has been worked out at 12.4 percent of population tentatively for the year 2010-11.

15.2 Poverty Head Count Ratio

Countries	Percentage of population Below US $1.25 a day	Percentage of population Below US $2.00 a day
Pakistan (2008)	21.04	60.19
China (2008)	13.06	29.79
Bangladesh	43.25	76.54
India(2010)	32.67	68.72
Sri Lanka (2007)	7.04	29.13
Nepal (2010)	24.82	57.25
Philippines	18.42	41.53

Source: World Bank, World Development Indicators 2014

Millennium Development Goals (MDGs)

Pakistan has adopted the Millennium Declaration in the year 2000, and is committed to 'spare no effort to set free the most vulnerable segment of population from the abject and dehumanising conditions of extreme poverty'. Pakistan has adopted 16 targets and 41 indicators against which progress towards achieving the eight goals of the MDGs is measured. The Government of Pakistan recognizes that eradication of poverty & hunger to meet Goal-1 is a first step in promoting a just and progressive society.

According to Pakistan MDG's Report 2013, high growth did not lead to even a moderate decline in poverty in sixties, while in the seventies the incidence of consumption based poverty decline in spite of low growth due to pro poor policies. In eighties and early 2000s witnessed high growth leading to reduction in poverty, lending support to the poverty-growth nexus.

Goal 1: Eradicate Extreme Poverty and Hunger

Under MDG-1, Pakistan aims to halve by 2015, the proportion of people living below the national poverty line, achieve full and productive employment and decent work for all, and halve the proportion of people who suffer from hunger. The targets to be achieved by 2015 and achievements made upto 2010-11 are given in Table 15.3.

Table 15.3: Poverty Head Counts & MDG-1 Targets

Goal 1:Eradicate Extreme Poverty & Hunger [03 targets]	1990-91 (Bench Mark)	2001-02	2004-05	2005-06	2007-08	2010-11	2011-12	MDG Target 2015	Status
Proportion of population below the calorie based food plus non-food poverty line	26.1	34.5	23.9	22.3	17.2*	12.4*	n/a	13	On Track
Prevalence of underweight children under 5 years of age	40.0	41.5	38.0	38.0	38.0	n/a	31.5	<20	Off Track
Proportion of population below minimum level of dietary energy consumption	25.0	30.0	n/a	n/a	n/a	n/a	n/a	13	Off Track

Source: Planning Commission estimates using HIES data of respective years

*The figures may be considered interim indication of poverty situation in the country. A technical group on poverty is reviewing official methodology and to find out possible causes of variance in poverty numbers and recommend final official estimates.

The above table indicates that the benchmark for MDGs was set in accordance with the head count (proportion of people below the poverty line) of 26.11 percent in 1990-91. Consistent with the universal target of halving the poverty head count by 2015, Pakistan set the target for absolute poverty reduction at 13 percent. Against this benchmark, a considerable downward improvement has been witnessed due to timely intervention of the government through different poverty related programmes. The country is off-track on two out of three targets. However, there is a downward trend in poverty incidence over the past decade and Pakistan is on track to achieve the MDG-1, target with regard to poverty.

Social Safety Nets Programmes

Government recognizes social protection/safety nets as a means to mitigate and manage risk, vulnerability and to reduce poverty through transfers and social insurance for risk mitigation regardless of prior or future contribution. The targeted groups for social safety nets include casual and informal workers, low capital self employed, low rank formal sector workers, women and children without family or community support, etc. In the post devolution situation, on the request of provincial governments, technical assistance is being provided to them in preparing social protection policies that have transparent, improved and easily manageable targeting system, sustainable, comprehensive and integrated provincial social protection policies. A national framework for social protection will encompass all provincial policies and bring up national features of the national social protection system. It is planned to bring all existing social protection programs under one umbrella with a unified and transparent inclusion criteria, better targeting system and efficient monitoring mechanism.

Tracking of Pro-Poor Expenditures

There exists full commitment at all stairs of government to follow a sustained poverty reduction strategy and to allocate a minimum of 4.5 percent of GDP to social and poverty related expenditures. This determination is clearly reflected in the allocations to the pro-poor sectors shown in Table 15.4. The government prioritized 17 pro-poor sectors through the Medium Term Expenditure Framework (MTEF) in the PRSP-II, which provided a link between the policy priorities and the budget reality. Expenditure on pro-poor sectors in 2009-10 stood at 13.4 percent of GDP. In 2010-11, these were 12.1 percent of GDP and in 2011-12, 10.4 percent of GDP. These expenditures were well above the requirement under Goal-I of the UNDP's Millennium Development Goals. During 2012-13, total expenditures for these sectors were slightly decreased and amounted to Rs 1,911.300 billion, which was 12.0 percent of GDP. During July-December of the year 2013-14, Rs 588.105 billion expenditures have been made against an allocation in these sectors to improve the life standards of the people.

Table 15.4: PRSP Sector-Wise Poverty Related Expenditure (Rs. million)

Sectors	2009-10	2010-11	2011-12	2012-13	2013-14*
Roads, Highways & Bridges	98,456	99,567	111,883	94,750	23,231
Water Supply and Sanitation	25,459	28,506	36,570	34,055	10,376
Education	259,525	322,811	393,523	479,853	222,650
Health	94,399	106,017	134,182	161,202	71,403
Population Planning	7,048	4,861	5,826	7,142	2450
Social Security & Welfare**	54,571	56,315	68,437	70,911	29,732
Natural Calamities & Other Disasters	12,548	49,115	77,096	32,699	6,705
Agriculture	104,815	115,511	134,448	148,554	58,263
Land Reclamation	1,990	3,669	4,347	4,805	2,088
Rural Development	20,391	19,109	32,979	31,926	3,665
Subsidies	234,926	497,441	689,221	556,113	39,804
People's Works Programme-I	8,417	5,049	4,296	3,346	-
People's Works Programme-II	31,754	21,300	33,589	42,486	-
Low Cost Housing	1,828	373	383	603	175
Justice Administration	10,996	14,223	17,082	22,512	10,904
Law and Order	143,639	169,791	194,495	220,343	106,659
Total	**1,110,762**	**1,513,658**	**1,938,357**	**1,911,300**	**588,105**
Total as % age of GDP (2005-06 base)	**13.4**	**12.1**	**10.4**	**12.0**	**-**

Source: Ministry of Finance
*: July-December
**: Social Security & Welfare includes the expenditure of BISP (20,034 million) and PBM (746 million)

Benazir Income Support Programme (BISP): In the year 2007-08, due to sharp rise in oil prices and primary products in the international as well as domestic market resulted in double digit inflation, which almost halved the purchasing power of the people. Hence, there was an urgent need for direct and speedy relief to the underprivileged sections of the society. Therefore, BISP is the Government of Pakistan's response to cushion the negative impact of slow economic growth, the food crisis and inflation on the poor, particularly women, through the provision of cash transfers of Rs. 1,000/month to eligible families. Its long term objectives include meeting the targets set by Millennium Development Goals (MDGs) to eradicate extreme and chronic poverty and empowerment of women. Present Government has not only continued the Programme but has also increased the cash grant amount to Rs. 1200/ month. BISP was initiated in October 2008, with an initial allocation of Rs. 34.0 billion (US $ 425 million approximately) for the financial year 2008-09.

Since its inception in July 2008 to June 2013, BISP has grown rapidly; it is now the largest single poverty alleviation programme in Pakistan. The number of beneficiaries (Fig-1) has increased from 1.7 million families in 2008-9 to nearly 5.25 million in current year 2013-14 and BISP annual disbursements (Fig-2) rose from Rs. 16.0 billion in 2008-9 to Rs. 48.18 billion in the first three quarters of 2013-14.

This period of growth and consolidation of beneficiary related data/information in BISP is characterized by two major transitions. In initial phase of BISP from 2008-09 to 2010-11, the beneficiaries were identified by parliamentarians while in 2010-11, a major transition occurred and poor households have been identified through a Poverty Scorecard Survey based on household demographics, assets, and other measurable characteristics that, in principle, cannot be manipulated by beneficiaries and the survey firms. The Nationwide Poverty Scorecard Survey, the first of its kind in South Asia, enables BISP to identify eligible households through the application of a Proxy Means Test (PMT) that determines welfare status of the household on a scale between 0-100. The targeting mechanism, although not problem free, tries to avoid the conceptual and empirical difficulties associated with measuring income. The survey was started in October 2010 and has been completed across Pakistan except in two FATA Agencies. The survey has the following features:

- 7.7 million families are identifies living below cut-off score of 16.17[1].
- Creation of a large and reliable national registry of the socio-economic status of almost 27 million households across Pakistan
- GPS coordinates of all the household visited are available to map the data of the entire country for informed decision making (for example, as a response to natural disasters and other emergencies)

The second major transition that took place was use of innovation and technology in delivering payments to its beneficiary households. BISP in its initial phase started delivering cash transfers using Pakistan post due to its outreach across Pakistan. But later, in order to improve the efficiency and transparency of payments to its beneficiaries, BISP started using innovative payment mechanisms in the form of Benazir Smart Card and Mobile Phone Banking on test basis in twelve districts across the country. After testing the pilots, BISP has rolled out Benazir Debit Card across Pakistan. Now, around 78 percent of its beneficiaries are receiving payments through technology enabled innovative payment mechanisms. This massive flow of funds using formal banking sector is contributing immensely towards growth of branchless banking in Pakistan and is providing a link to formal banking sector to reach to the untapped market segment through innovative and careful product design.

Fig-1 Yearly Number of Beneficiaries

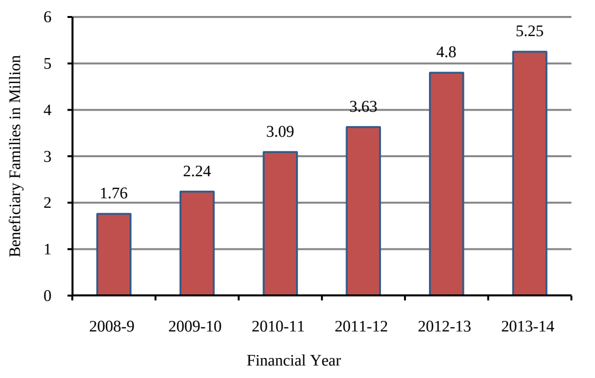
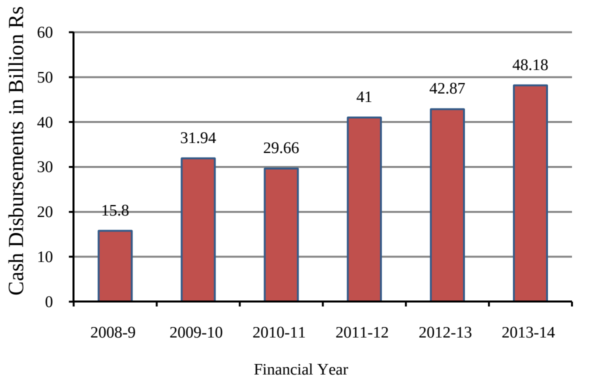


Fig-2: Yearly Cash Grants



[1] Cut-off score of 16.17 is not representing a poverty line. However, this cut-off was decided on the basis of available fiscal space.

There is an increasing role of complementary interventions in determining sustainable impact of cash transfer on access to education and health services, nutrition outcomes, and for improving livelihoods earning skills and opportunities to help them come out of the clutches of poverty. Global experience suggests that where programmes are combined with complementary, well-sequenced interventions, they have greater potential. The programme has four closely associated and complementary components including Waseela-e-Rozgar (Technical & Vocational Training), Waseela-e-Haq (Micro-finance), Waseela-e-Sehet (Life & Health Insurance) and Waseela-e-Taleem (Primary Education).

Government Commitment & International Recognition of BISP

The government has allocated an amount of Rs. 75.0 billion for BISP due to its wide-range coverage and international recognition of its stringent targeting mechanism, innovative design and transparent systems. Until March, 2014 an amount of Rs. 56.250 Billion has been released and due to this commitment of the government the World Bank, US AID, DFID and Asian Development Bank have all appreciated BISP's performance and have provided financial support. The World Bank's role in BISP extends substantially beyond development finance. Since its inception the World Bank generously provided technical advice on different aspects of the programme. Later on, DFID also contributed its financial and technical resources for expansion of BISP. BISP's operational design, separation of function and innovative technology based mechanism has inspired countries like India, Ghana, Mongolia, Cambodia and Nepal to initiate similar programmes to improve lives of their millions of poor.

Box-2: Donor's Support to BISP

BISP has received a tremendous support from the World Bank, USAID, ADB and DFID as summarized below:

1. World Bank: The World Bank through its organization i.e. International Development Association (IDA) has already disbursed a credit of SDR 100.3 million (equivalent to $155 million) and two other programmes are under implementation. This include a US$ 60.0 million to BISP for the "Pakistan Social Safety Net Technical Assistance Project". The implementation period of the TA is August, 2009 to June 30, 2016. Under the TA the WB supported the design of the poverty scorecard, survey of all households in Pakistan and associated activities. After successful implementation the WB has agreed for additional financing of US$ 150 million for the Pakistan Social Safety Net Project to launch a Co-responsibility cash transfer (Waseela-e-Taleem) programme for the primary education of the children of BISP beneficiaries.
2. USAID: A budgetary support of US$ 160.0 million was provided to BISP as grant by the USAID, for payment of cash benefits to the beneficiaries identified under the new poverty scorecard system. This amount was fully consumed by January, 2012. USAID also commissioned a 3rd party assessment of BISP beneficiaries. The report shows that 98.7% beneficiaries of BISP received their monthly cash transfers.
3. Asian Development Bank in June, 2009, provided an amount of US$150 million to the Ministry of Finance under the ADB-funded "Accelerating Economic Transformation Programme" (AETP), specifically for use by BISP to make cash transfers to beneficiaries identified through the new targeting system. BISP has fully disbursed the entire amount to its beneficiaries. ADB has signed a project for another $ 430.0 million for Social Protection Development Project for BISP. This five years financial assistance would be available to BISP, from Dec., 2013 upto June 30, 2019.
4. DFID is one of the major supporters of BISP's initial activities (test phase targeting survey, process evaluation and spot checks etc.) through the Trust Fund managed by the World Bank. DFID is providing a grant of £ 279.0 million (equivalent to $469.0 million) to BISP for the co-responsibility cash transfer (CCT) programme for primary education of the children of BISP beneficiaries. Implementation period is upto June 30, 2020.
5. IMF Support: The IMF in their 3rd Review have re-affirmed their commitment to continue their support to poor & most vulnerable segment of the population and expressed satisfaction in achieving the indicative targets for transfer payment.

The government is committed to reach about 5.25 million poor families by June, 2014. The coverage will be expanded through stepped-up outreach efforts with the target of reaching an additional 0.6 million by end June, 2015. The payment mechanism will be shifted to competitively select e-banking option which will reduce cost and improve beneficiary services.

Source: Economic Affairs Division

Pakistan Poverty Alleviation Fund (PPAF)

Pakistan Poverty Alleviation Fund (PPAF) is established as an apex governmental Non Profit Organization for community-driven development in the country. PPAF enjoys facilitation and support from the government, The World Bank, International Fund for Agricultural Development (IFAD), Development Bank of Germany (KFW) and corporate donors. Outreach of PPAF now extends throughout Pakistan and its microcredit, water and infrastructure, drought mitigation, education, health and emergency response interventions have been widely recognized. Independent studies have demonstrated positive outcomes and impact of PPAF interventions on the lives of benefiting community's relation to their economic output, household incomes, assets, agricultural productivity skills and other quality of life indices. PPAF aims to be the leading catalyst for improving the quality of life, broadening the range of opportunities and socio-economic mainstreaming of the poor and disadvantaged, especially women. The core operating units of the PPAF deliver a range of development interventions at the grass root/community level through a network of 127 partner organizations across the county.

The sole objective of the PPAF is to improve the quality of life of poor and marginalized people throughout the country. Its specific goals are:

- To eradicate extreme poverty and hunger
- To promote gender equality and empower women
- To achieve universal primary education
- To improve maternal health
- To reduce child mortality
- To establish and strengthen Community Organization (COs) and NGO's for achievement of objectives mentioned above.

Since its establishment in April 2000 to December, 2013, PPAF has disbursed an amount of Rs. 138.4 billion to its 127 Partner Organizations in 121 districts of the country. During the same period, 6.6 million individuals had availed the PPAF financing with 58 percent of the loans going to women. Almost 29,000 water and infrastructure projects had been initiated, 1,843 health and education facilities supported; 391,000 credit groups and 123,500 community organizations formed, 660,800 staff and community members were trained, 203,300 individuals received skills/entrepreneurial trainings, 53,000 assets were transferred to ultra poor and vulnerable households, 26,279 individuals including women and youth trained on enterprise development under Waseela-e-Haq National & Waseela-e-Haq Sindh program of BISP and facilitated in establishing their successful ventures, and 19,000 persons with disabilities were rehabilitated.

During the period July-December, 2013-14, Pakistan Poverty Alleviation Fund (PPAF) has managed to disburse an amount of Rs. 8,418 million to its partner organizations under PPAF core interventions administered through various operational units and special initiatives as shown in Table 15.5.

Table 15.5: Disbursement by Operating Units/Special Initiatives

S.No	Components	Amount (Rs.Million)
1.	Waseela-e-Haq (BISP)	298
2.	Institutional Development/Social Mobilization	481
3.	Microfinance Portfolio Management (MPM)	5253
4.	Livelihood, Employment and Enterprise Development (LEED)	1603
5.	Community Physical Infrastructure (CPI)	341
6.	Water, Energy and Climate Change (WECC)	130
7.	Education, Health, and Nutrition (EHN)	312
	Total	8,418

Source: Pakistan Poverty Alleviation Fund, Islamabad.

During the period July-December, 2013-14, under Institutional Development /Social Mobilization 2,062 Community Organization (COs) were formed by organizing 40,621 households. Similarly, under Training/Awareness Raising sessions for female COs members, 504 females were trained for "Rights," 634 females were imparted training for properly understanding the legalities and rights inherent in Nikah Namas (Islamic Marriage Registration Document) and 182 females were trained to understand their rights under the Law of Inheritance. Overall, these projects benefitted approximately 3.274 million poor people including 62 percent women beneficiaries. Detail of major achievements by Operating Units of PPAF is shown in Table-15.6 below:

S.No	Outreach	Numbers
1.	Social Mobilization-Community organizations formed	2,062
2.	Institutional Development-Community and Staff trainees (42% women)	5,169
3.	Livelihood, Employment and Enterprise Development : • Individuals received skills/entrepreneurial training • Productive assets transferred to ultra and Vulnerable poor (58% women)	 42,729 11,103
4.	Microfinance Portfolio Management - Micro Loans (71% women)	584,719
5.	Community Physical Infrastructure – Sub-Projects initiated (50% women beneficiaries)	174
6.	Water, Energy and Climate Change - Sub-Projects initiated (52% women beneficiaries)	526
7.	Education – New enrolment	1,087
8.	Health- Beneficiaries (59% female patients)	2,329,879
9.	Overall Beneficiaries – Direct/Indirect (62% women)	3,273,900

Table 15.6: Major Achievements by Operating Units of PPAF

Source: Pakistan Poverty Alleviation Fund, Islamabad.

a. Waseela-e-Haq (BISP) under PPAF

PPAF has also been implementing Waseela-e-Haq component of BISP targeted at 18,000 ultra-poor women/households across Pakistan. The program was designed to mainstream women in economic activities by giving them opportunities to start earning their livelihoods and come out of poverty cycle. Waseela-e-Haq program offers a soft loan of Rs. 300,000/- to female beneficiaries after graduating from 10 days enterprise development training. The loan is provided to establish their enterprise to improve livelihoods; thus helping in sustainable poverty reduction and women empowerment.

b. Waseela-e-Haq Sindh

Based on the performance of Waseela-e-Haq National Program, BISP offered PPAF another program targeted on 30,000 youth of Sindh by the name of “Waseela-e-Haq Sindh”. This program is also based on the same pattern as of Waseela-e-Haq National except the target audience has poverty score between 16.18 to 30, age between 19 to 35 and they should be at least Matriculate. Government of Pakistan is creating a new set of middle class in the province by giving an interest-free loan to the young people who passed the secondary school examination at least, and are currently unemployed.

Waseela-e-Haq Sindh, is a product of the collaboration of the Government of Sindh and Benazir Income Support Programme (BISP). The goal is to spread programs in the province by providing financial assistance to deserving jobless youths to start a business. A project of Rs. 12.0 billion of Waseela-e-Haq Sindh was launched to give interest free loans to every single deserving youth. The loan is given to applicants after verifications that they have no source of income. Anyone from 19 to 35 years old and minimum matriculation qualification is qualified. Aside from the financial loan grant, the successful applicants would be provided support, advice and training.

c. Waseela-e-Haq (Micro-finance)

Aiming to break the vicious cycle of poverty Waseela-e-Haq provides long-term interest free financial assistance of Rs. 300,000 to the randomly selected beneficiaries to start their own business. So far, 41 draws have been held and an amount of Rs. 2.6 billion has been disbursed to 16,119 beneficiaries, while 9193 beneficiaries have started their own businesses.

d. Waseela-e-Rozgar (Vocational & Technical Training)

This initiative envisages empowering the female beneficiary or her nominee to become economically independent through acquiring demand-driven vocational skill and technical education. Waseela-e-Rozgar provides free of cost vocational training for every beneficiary woman or her nominee, between the age of 18 and 45, from her own family. So far, around 57,000 individuals have been trained under this initiative. BISP plans to merge its Waseela-e-Rozgar and Waseela-e-Haq schemes so that BISP beneficiaries who do not want to take jobs will be given micro credit loans to start their own businesses.

e. Waseela-e-Sehet (Life & Health Insurance)

The Life Insurance scheme was launched to provide insurance coverage of Rs. 100,000 to the life of bread-earners of every beneficiary family. Over 4.1 million beneficiary families now have their bread earners covered for three years under the life insurance scheme. Health Insurance providing full hospitalization, pregnancy care, day-care treatment, and diagnostic tests for all beneficiary families, to a maximum limit of Rupees 25,000/- per family per year has also been launched in Faisalabad on test basis. To facilitate the beneficiaries, Benazir Health Cards (biometric cards) have been issued to the more than 58,000 enrolled families.

f. Waseela-e-Taleem

Financial Limitation hinders millions of children in Pakistan from attending schools. Waseela-e-Taleem aims to encourage BISP beneficiary families, with children in the age group of 5 to 12 years, to send their out of school children to schools for Primary Education and in school children to continue their education, in return for cash transfers of Rs. 200 per child per month for up to three children of each BISP beneficiary family in return for their compliance with the co-responsibilities of school admissions and a minimum of 70 percent quarterly attendance. So far, a total of 33,067 children have been confirmed as admitted in the schools in five districts.

Zakat

Zakah is "that portion of a person's wealth, designate for the poor by ALLAH Almighty". It's a compulsory levy imposed on wealthy and plays an important role in poverty alleviation. Zakat system in Pakistan was introduced through an Ordinance called Zakat and Ushr Ordinance, 1980. Zakat aims to take surplus money or wealth from the comparatively well-to-do members of the society and utilize to assist the needy, indigent, poor, orphans, widows, handicapped and disabled. These poor segments of society are provided Zakat funds either directly through respective local Zakat Committees or indirectly through institutions i.e. educational, vocational, social institutions and hospitals, etc.

Table : 15.7 Disbursement of Zakat, 2013-14

S.No	Provinces /Other Areas	Disbursed Amount (Rs. Million)
1	Punjab	2162.368
2	Sindh	893.824
3	Khyber Pakhtunkhwa	520.989
4	Balochistan	192.638
5	FATA	131.348
6	ICT	99.710
7	Gilgit Baltistan	52.692
Total		**4053.569**

Source: Ministry of Religious Affairs

Under the 18th Constitutional Amendment, the subject of Zakat has been devolved to the provinces/federal areas. Total amount of Rs. 4,053.569 million was placed in bulk on the disposal of provinces and other administrative areas for further distribution among the deserving families/persons during the year 2013-14, as given in Table 15.7 above.

Pakistan Bait-ul-Mal

Pakistan Bait-ul-Mall (PBM) is an autonomous body set up under 1991 Act of the Government of Pakistan. The purpose of establishment of this institution is eradication of poverty through indiscriminate provision of assistance of various kinds to most deprived individuals in the society. PBM provides financial assistance for fighting hunger, getting medical treatment, getting education and setting up self employment activities. PBM also provides financial support to educational, vocational and other charitable institutions. PBM facilitates and supports the construction of residential and other necessary facilities for the needy, endeavors for elimination of child labour, and any other purpose approved by the board. The funds under PBM are provided to deserving person through IT and e-government.

Major Projects/Achievements of PBM

a) Individual Financial Assistance

Deserving persons get education, medical treatment and general assistance through Individual Financial Assistance (IFA) Programme of Pakistan Bait-ul-Mall. PBM has envisioned providing Wheel Chairs to every disabled in the country. A family who has two or more special children is called as "Special Family" and has the right to be benefited and Rs. 25,000/- is given to each family annually. An amount of Rs. 605.983 million has been disbursed to benefit 13,434 individuals countrywide during the period July-March, 2013-14.

b) Establishment of Pakistan Sweet Homes (Orphans)

Islam has a very rich tradition of providing support and care to children without parental support. Pakistan, a signatory to the Convention on rights of child 1989, is well aware of its responsibility to set up orphanages for taking care of the children without parental support. PBM have established 30 Pakistan Sweet Home orphanages at divisional level under a pilot project where 3000 children are enrolled so far. These orphans get free education through reputed educational institutions, boarding & lodging facilities along with free medical treatment. Total spending for the Pakistan Sweet Homes project during the period July-March, 2013-14, is Rs. 168.105 million.

c) Endowment Fund (Institutional Rehabilitation for NGOs)

PBM provides grant-in-aid to registered Non-Governmental Organization (NGOs) for their projects aimed at institutional rehabilitation of the poor and deserving persons of the society. Grant is provided to NGOs in the following strategies; Strategy-I for Financial Assistance to Orphans for Health, Education & Training, Strategy-II for Cataract operations for deserving and Strategy-III for Innovative pilot Rehabilitation Project. During July-March, 2013-14, an amount of Rs. 12.204 million has been spent among 6,102 poor beneficiaries.

Child Support Programme (CSP)

This program was started with the objective of inducing poor people for sending their children to school and discouraging child labour. A family with one child of school going age is provided with a cash support of Rs. 300 per month and a family with two or more children is provided Rs. 600 per month per child for sending their children to school. Currently the programme is running in 14 districts. An amount of Rs. 31.603 million has been disbursed among 16,680 beneficiaries during the period from July-March, 2013-14. UNICEF is technically collaborating with Pakistan Bait-ul Mal in designing the programme. Gallop Pakistan hired by PBM for Base Line Survey and Rapid assessment has reported encouraging results.

a. National Centres for Rehabilitation of Child Labour (NCsRCL)

PBM has launched 159 National Centers for Rehabilitation of Child Labour (NCsRCL) with the objective of progressive elimination of child labour and rehabilitation of the victims across Pakistan. Children, both male and female, between the ages of 5-6 years are induced away from hazardous labour and enrolled in these centers to get primary education in 4 year. PBM has utilitized an amount of Rs.285.309 million for these centers during the period July-March 2013-14.

b. Vocational/ Diversified Vocational Dastkari Schools (VDS/DVDS)

The goal of poverty alleviation can only be achieved through capacity building and skill enhancement of the poor. Poorest of the poor are generally widows, orphans and poor girls. Therefore, PBM have established 144 Vocational Dastakari Schools (VDS) and 15 Diversified Vocational Dastakari Schools (DVDS) throughout the country since 1995 for developing their employable skills through free trainings. Presently, an amount of Rs.136.252 million has been utilized July-March, 2013-14.

Employees Old Age Benefits Institution (EOBI)

Article 38(c) of the Constitution of Pakistan makes it obligatory for the state to provide social security by compulsory social insurance or by any other means to all persons employed in the service of Pakistan or otherwise. For furtherance of this goal, Government of Pakistan has established Employees Old Age Benefits Institution (EOBI). On fulfilling the prescribed conditions regarding qualifying age and payment of contribution etc., the Employee Old Age Benefits Institution (EOBI) provides monetary benefits to old age workers through various programmes such as old age pension on attaining superannuation, Invalidity Pension on sustaining Invalidity affecting insured person’s earning more than one third of the normal, survivors pension in case of death of insured person/pensioner and old age grant not meeting the benchmark for old-age pension.

During July-March, 2013-14, an amount of Rs. 10,984.599 million has been utilized for 330,645 beneficiaries. Furthermore, it is planned that 15,744 more beneficiaries will take benefits from the EOBI up to June 2014; an additional amount of Rs. 4875.401 million is allocated for Old-Age Pension, Survivors Pension, Invalidity Pension and Old-Age Grants.

Workers’ Welfare Fund (WWF)

Workers’ welfare fund, a federally administered fund, is governed by a body with representation by all the tripartite partners i.e. government, employers and workers. Worker Welfare Fund was established under Worker Welfare Fund Ordinance, 1971 and was placed under the administrative control of Ministry of Oversees Pakistanis and Human Resource Development. WWF is providing services to the industrial workers in the areas of housing, education and health, besides which, financial assistance is also being extended in the form of death grant, marriage grant and post-matric educational scholarships.

WWF finances the projects for the establishment of low cost housing estates or construction of low cost houses for the industrial workers and takes other measures for welfare of workers e.g. free education up to secondary level, scholarships for post secondary study, marriage grants, death grants etc.

Function being performed by Workers' Welfare Fund

- To finance the projects connected with the establishment of housing estates for workers which include the following;
  - a) Construction of houses, flats and development of plots.
  - b) Establishment of health facilities like hospitals, wards, and dispensaries.
  - c) Establishment of education facilities like schools, colleges, technical institutes and industrial homes.
- Provision of free education to worker's children up to higher secondary level in Workers Welfare Model Schools.
- To impart skill education in Workers Welfare Model Schools & Vocational Training Institutes for students of 9th & 10th class.
- To award talent scholarship to worker's children for M. Phil/M.S & Ph.D.
- WWF is providing Death Grant @ Rs.500,000/- to the widows/legal heirs of the deceased workers as compensation.
- To provide Marriage Grant @ Rs.100,000/- for the marriage of each daughter of workers.
- To take different measures for the welfare of workers like provision of sewing machines and wheel chairs.
- To bear all educational expenses and award of monthly stipends to worker's children (from Rs.1600 to Rs.3,500 p.m) studying at post Matric level.
- To bear all educational expenses of worker's children studying in any public/private school in big cities where WWF schools either do not exist or insufficient to meet the educational needs of local workers children.
- To award cash prizes (from Rs. 40,000 to Rs. 90,000) for position holder children of workers in Matric examinations at the level of Board of intermediate & Secondary Education and also at the level of Workers Welfare Model Schools.

During July-December, 2013-14, expenditures amounting to Rs.324.37 million has been made on award of 7,839 scholarships. Another Rs. 280.17 million has been disbursed as Marriage Grant (@100,000/-) from which 3,924 families of the workers have benefited. WWF has also disbursed Rs.341.8 million for Death Grant against 761 cases of mishaps of workers all over the country.

Microfinance Initiatives

Researchers associated with poverty are convinced that any measure of poverty reduction save capacity building of the poor will not cure the ailment of poverty on sustainable basis. Microfinance for the self-employment of the poor is considered to be the best tool for capacity building and social mobilization of the poor. Microfinance institutions provide short term loans to the poor beneficiaries for setting up their own small business so that profits of these business help them move out of the clutches of poverty. Microfinance institution help reduce poverty by reaching remote areas and targeting those people who do not have access to formal banking system. The focus areas of microfinance institution engulf a wide range of services such as credit, saving and insurance.

The microcredit outreach growth through microfinance industry in Pakistan saw a healthy increase in 2013, with the growth rate being highest in the last five years. The microcredit outreach stood at 2.8 million borrowers at end of year 2013 as compared to 2.3 million active borrowers last year showing a healthy growth of 19 percent. The total Gross Loan Portfolio (GLP) also increased from Rs. 32.0 billion in 2012 to Rs. 52.0 billion in 2013 showing an increase of 61 percent. The increase in GLP is due to a combination of increasing outreach and rising loan sizes. Khushhali Bank Limited (KBL) continues to remain the largest Micro-Finance Provider (MFP) with 522 thousand borrowers and a GLP of Rs. 9.66 billion. Women borrowers continue to make up bulk of the borrowers with a total share of 55 percent. Moreover, 57 percent of the borrowers belong to rural areas.

Micro-savings stood at Rs. 34.0 billion at the close of the year 2013 up from Rs. 23.0 billion in 2012. TMFB has the largest deposit base with Rs 10.6 billion followed by FMFB with a deposit base of Rs 7.8 billion. In case of micro-insurance, 12 percent growth was observed with policy holders increasing from Rs. 2.85 million in 2012 to Rs. 3.2 million at the end of the year, 2013. The sum insured rose from Rs. 36.0 billion to Rs. 44.0 billion. Credit life continues to dominate this segment with a share of 61 percent. NRSP remains the largest provider of micro-insurance in the country. With the advent of the micro-insurance regulations by SECP it is hoped that this segment will experience growth and increase in the number of products and services being offered. Details of the industry are provided in Table-15.8.

Buoyed by an enabling environment, new players continue to enter into the microfinance and branchless banking arena. Last year saw start of operations by Advans Microfinance Bank, part of the Advans Group of France, and Waseela Microfinance Bank, a subsidiary of Orascom Telecom, and successful acquisition of Kashf Microfinance Bank (KMFB) by Foundation for International Community Assistance (FINCA) International. A number of new players launched their branchless banking operation in the previous year including HBL Express, Mobi-Cash, U-Paisa and Time-Pay bringing the number of branchless banking systems deployed in the country to six. Industry infrastructure was also strengthened with the launch of a national level dedicated credit information bureau for the microfinance industry.

Table-15.8: Active Borrowers, Active Savers and Active Policy holders by Peer Group

Details	Micro-Credit		Micro-Savings		Micro-Insurance	
	Active Borrowers (million)	(Rs. million)	Active Savers (million)	(Rs. million)	Policy Holders (million)	Sum insured (Rs. million)
2013-14	2.832	52,092	5.977	34,784	3.264	44,182
2012-13	2.355	32,238	4.682	24,974	2.854	36,054
Increase/ Decrease (Net)	0.477	16,138	1.295	8,810	0.41	8,128
Increase/ Decrease (%)	19.75	61.59	27.66	39.28	14.36	22.54

Source: Pakistan Microfinance Network (PMN).

A number of MFPs have linked up with branchless banking systems to collect loan repayments initially with potential to expand into loan disbursements and other financial services. There are further opportunities for MFPs in this space such as facilitating government to person (G2P) payments via branchless banking. In addition, MFPs are ideally positioned to tap small enterprises as they have similar dynamics as with microfinance clientage. Growth and improvements in performance show that the microfinance is now well positioned to become an integral part of the financial industry.

The tight liquidity conditions and spiraling inflation have made it difficult for the microfinance institution to maintain smooth running of their business. Under these tight conditions Government of Pakistan have started its microfinance initiative and is providing liquidity to microfinance institutions like Microfinance Banks (MFBs), Microfinance Institutions(MFIs), Rural Support Programs(RSPs) and others including Commercial Financial Institutions(CFIs) and Non-Government Organizations(NGOs).

Table 15.9 presents the number of Micro-credit beneficiaries with Outstanding Loans Portfolio (OLP) and Disbursements by loan providers.

Table 15.9 Micro Credit Beneficiaries, Outstanding Loans Portfolio and Loan Disbursement

Micro Finance Providers	Active Borrowers (thousands)	Outstanding Loans portfolio (Rs. million)	Number of Loans disbursed (thousands)	Disbursements (Rs. million)
Total (year ended December 31, 2013)	**2,832**	**52,092**	**892**	**23,940**
Micro Finance Banks				
First Microfinance Bank Limited	163,544	4,038	51,438	1,605
Khushhali Bank	522,855	9,667	158,266	3,879
Kashf Microfinance Bank	38,839	2,017	13,913	941
Pak Oman Microfinance Bank	11,405	170	937	44
Tameer Bank	197,811	8,331	63,630	3,033
NRSP Bank	171,178	4,845	127,545	3,825
Apna Microfinance Bank	8,606	341	2,108	199
Total	**1,114,238**	**29,409**	**417,837**	**13,526**

Table 15.9 Micro Credit Beneficiaries, Outstanding Loans Portfolio and Loan Disbursement

Micro Finance Providers	Active Borrowers (thousands)	Outstanding Loans portfolio (Rs. million)	Number of Loans disbursed (thousands)	Disbursements (Rs. million)
Micro Finance Institutions				
AKHUWAT	200,930	2,093	63,682	1,134
ASA – Pakistan	179,588	2,215	51,956	948
ASASAH	8,967	109	562	20
Community Support Concern	19,106	345	5,235	179
Wasil (Centre for Women's Cooperative Development)	6,190	118	1,653	27
DAMEN	35,185	750	7,179	272
Farmers Friend Organization	15,646	198	5,565	172
GBTI	6,431	68	1,842	31
Kashf Foundation	324,139	4,026	62,041	1,707
MOJAZ	5,849	101	2,373	60
Orangi Charitable Trust	44,213	530	4,597	89
SAFWCO Support Foundation	37,322	341	4,663	96
Total for MFIs	**883,566**	**10,894**	**211,348**	**4,735**
Rural Support Programs				
National Rural Support programme	452,093	6,479	140,034	3,151
Punjab Rural Support programme	75,656	1,039	21,099	443
Sindh Rural Support Organization	48,053	709	12,535	234
Sarhad Rural Support Programme	3,822	27	1,850	25
Thardeep Rural Support programme	86,322	920	30,340	499
Total for RSPs	**665,946**	**9,174**	**205,858**	**4,352**
Others				
BRAC-P	56,359	884	16,508	285
Jinnah Welfare Society	24,246	388	7,362	225
Narowal Rural Development programme	6,184	159	1,558	48
Orix Leasing	18,484	248	4,429	104
Organization for Participatory Development	5,540	72	1,710	36
Rural Community Development society	35,552	509	10,068	243
Sungi Development Foundation	10,670	89	2,696	42
Swabi WWS	3,148	30	345	15
Total for Other	160,183	2,379	44,676	998

Source: Pakistan Microfinance Network (PMN).

Some of the challenges that the sector faces include

- **Market Segmentation**

  As discussed above, the sector has become quite diverse in terms of the types of institutions, and, products and services. In addition to the private sector, government has also introduced schemes of interest free loans and youth business finance. In this context of diversity, there is a need for market segmentation that would allow different models to coexist and prosper.

- **Funding for Growth**

  With penetration low at about 10 percent there is a huge potential for growth in the industry. However, there is a need to explore additional funding options to meets the sector's financial needs.

- **Risk Mitigation Fund**

  Pakistan is a country prone to natural disasters, especially earthquakes and floods. It is usually the poor and vulnerable that are worst affected when such calamities strike, and given that it is this segment that microfinance deals with, the sector is exposed to significant risk. In order to provide protection to institutions and their clients, there is a need to establish a sector level disaster risk mitigation fund, so microfinance providers can continue to lend in vulnerable segments and geographies.

Interest Free Loan Scheme

Prime Minister's Interest Free Loan Scheme is being initiated to support micro enterprise activities for the poor youth, with an allocation of Rs. 3.5 billion, which will be disbursed through Pakistan Poverty Alleviation Fund. This scheme is meant to provide interest free loans up to Rs. 50,000 to the vulnerable and poverty ridden urban and rural youth for setting up their own small scale business. The amount returned by the borrowers will be accumulated in permanent fund available to community for further lending. Moreover, borrowers under this scheme are encouraged and educated to convert themselves into "giver" from "taker". This scheme will benefit one million beneficiaries in developing the livelihood skills and opportunities.

Business Loan Scheme

Under this scheme, Skilled and trained youth is provided subsidized financing at 8.0 percent mark up. This scheme is intended to provide business loans with tenure up to 8 years, with first year grace period and debt equity ratio of 90:10 through designated branches of National Bank of Pakistan and First Women Bank Limited. This scheme will help to reduce the poverty and boost productive activities in the unemployed youth and women. To engulf the vision of including women and deprived in the development process fifty percent quota is reserved for women and five percent for families of shaheeds, widows and disabled persons.

Conclusion

After the 18th Constitutional Amendment and passing of 7th National Finance Commission (NFC) Award has resulted in a paradigm shift from the previous sole emphasis on overall macro-economic growth as well as Inter and Intra-Provincial development priorities. The 7th NFC Award offers greater chunk of funds from Federal to Provincial Governments that will provide more fiscal space to provinces to play their role in addressing intra-provincial disparities. Now most of the projects related to social sectors are planned and implemented by the Provinces, while Federal Government can only concentrate to allocate larger chunk of the budget towards the development of infrastructure, energy and quality improvement of social sectors. The government is taking various measures to keep stable the inflation rate on single digit through prudent expenditure management, tight monetary policy, better supply chain management and monitoring of the prices & supply position of all essential items by taking all the provincial governments on board for the relief of common man.

Efforts will be made to improve overall economic governance, devise social protection policy and strengthen pro-poor institutions that would result in better implementation of poverty reduction strategies and improving HRD indicators by allocating a fair amount under different schemes for social safety net programmes with the aim to directly intervene to transfer resources to the marginalized segment of the society.

Chapter 16

Environment

Pakistan is faced with serious challenges of environmental pollution, land degradation, water, and air pollution. Freshwater/Industrial pollution is mostly unchecked and may get worse unless economic activity is underpinned with sustainable development. Efforts are underway to attain goals of sustainable social and economic development, ensuring water, food, energy and environment securities, without over-exploiting forests and ecosystems. The Government of Pakistan believes in the creation of opportunities for the present generation without compromising on the potential of future generations to meet their developmental needs. Environment degradation is fundamentally linked to poverty in Pakistan. Approximately less than one-fourth of the country's population, like in most developing countries, is poor and directly dependent on natural resources for their livelihood-whether agriculture, hunting, forestry, fisheries, etc. Poverty combined with a rapidly increasing population and growing urbanization, is leading to intense pressures on the environment. The environment-poverty nexus cannot be ignored if effective and practical solutions to remedy environmental hazards are to be taken. In Pakistan, as elsewhere, environment degradation is both a cause and consequence of poverty. A fragile and damaged resource base is a major cause of poverty as agriculture yields are lower on degraded land, forests are depleted and access to vital livelihood resources declines. The deterioration of environment continues to affect livelihood and health thus increasing the vulnerability of poor to disaster and environment-related conflicts.

Environmental degradation, air and water pollution, ozone layer depletion, deforestation, desertification, vanishing bio diversity and land degradation have resulted in climate change and ecological imbalance. Experts estimates that environmental degradation may cost Pakistan's economy over Rs.365 billion every year of which inadequate water supply, sanitation and hygiene accounts for Rs.112 billion, agricultural soil degradation Rs.70 billion, indoor pollution Rs.67 billion, urban air pollution Rs.65 billion, lead exposure Rs.45 billion and land degradation and deforestation Rs.6 billion. Some other environmental experts believe that the environmental degradation cost must have increased beyond Rs.450 billion.

The challenges in environmental sector include:

- Water and air pollution causing widespread diseases
- Adaptation to the impact of climate change for energy, water and food securities
- Preparedness for adaptation/mitigation due to climate change and to avail opportunities under Clean Development Mechanism (CDM)
- Preparedness for an effective disaster management so as to avoid damage to the environment
- Watershed degradation and deforestation
- Management of solid, liquid, hazardous waste
- Green economy-improved human well-being and social equity while significantly reducing environmental risks and ecological scarcities-initiatives and its impact on Pakistan. Linking natural resource based livelihoods to production of ecosystem services, the green economy can help reduce poverty and enhance environmental sustainability
- Implementation of planned initiative with efficacy to increase forest cover and biodiversity
- Reducing land degradation
- Effluent treatment at source to avoid discharge of polluted industrial and domestic sewage to fresh water bodies and marine environment
- Increasing energy efficiency with focus on conservations measures
- Rapid urbanization and industrialization leading to serious environmental concerns: natural resources depletion resulting from accelerated economic and social transformation.

Strategy to Achieve The Objectives Of Environment Protection

- Achieving MDGs targets, particularly those relating to environmental sustainability under Goal 7

- Implementation of the Action Plan of National Climate Change Policy and adequate sharing of responsibilities at all levels
- In the wake of 18th Amendment , review and amendments in environmental regulation in consultation with federal and provincial Environmental Protection Agencies, civil society and private sector in order to better implement the policies
- Involvement of private sector and NGOs under public-private partnership for effective and efficient conservation and management of natural resources.

The government is also implementing various other policies and programmes, many of which have come out of the National Environment Action Programme (NEAP). In this regard, the National Environment Policy prepared under NEAP serves as an overarching framework for various interventions in the area of the environment. Some key policies and programs that have stemmed from NEAP are: Air and Water Quality Monitoring, Clean Drinking Water for All, Pakistan Wetlands Programme, National Sanitation Policy, Sustainable Land Management to Combat Desertification in Pakistan, Environmental, Rehabilitation and Poverty Reduction through Participatory Watershed Management in Tarbela Reservoir and Energy Efficiency and Renewable Energy etc. Some of the important programmes at the federal level during 2013-14 included as follows:

- Establishing National Multilateral Environmental (MEAS) Secretariat (Islamabad)
- Establishment of Clean Development Mechanism Cell (Islamabad)
- Establishment of National Bio-safety Centre (NBC) Project (Islamabad)
- Sustainable Land Management Project, Phase-1 (Islamabad)
- Development and Implementation of Water and Sanitation Management Information System in Pakistan (Islamabad)
- Establishment of Centre for Sustainable Organization (Islamabad)
- Establishment of Geometric Centre for Climate change and Sustainable Development 2012-2015 (Islamabad) and
- Indoor Air Quality in Buildings (Islamabad).

Millennium Development Goals: Ensure Environmental Sustainability, MDG 7

Under MDG 7, Pakistan aims to promote sustainable development, halve the proportion of people without sustainable access to improve drinking water and basic sanitation, and bring about a significant improvement in the lives of slum dwellers by 2020.

Table 16.1 Status of Indicators-MDG 7

Indicators	Latest National Value	Target	Status
Forest Cover (%)	5.2	6.0	Off Track
Land Area Protected for Conservation of Wildlife (%)	11.6	12.0	On Track
GDP (in 1980/81Rs.) per ton of oil equivalent (energy efficiency)	26,543	28,000	On Track
Sulfur Content in High Speed Diesel	0.6	0.5-0.25	On Track
Proportion of Population with Access to Improve Water Sources	89	93	On Track
Proportion of Population with Access to Sanitation	72	90	Off Track
Proportion of Katchi Abadies Regularized	n/a	-	-

Source: Pakistan Millennium Development Goals, Report 2013.
Ministry of Planning, Development and Reforms.

Progress on MDG 7 is measured against seven indicators: forest cover, land area protected for conservation of wildlife, energy efficiency [GDP (in 1980/81 Prices.) per ton of oil equivalent], sulfur content in high speed diesel, proportion of population with access to improved water sources and sanitation, and proportion of katchi abadies regularized.

Of the seven MDG 7 indicators, Pakistan is on the track to achieve four: Protecting areas for wildlife conservation (11.6 percent against the target of 12 percent, reducing sulfur content in high speed diesel, improving GDP per unit energy (measure of energy efficiency) and improving access to safe drinking water (89 percent against the target of 93 percent). However, it is lagging on access to sanitation; currently 72 percent of the population has access to this facility against a target of 90 percent. Pakistan has also made progress on increasing forest cover, currently it is 5.2 percent but it still short of the 6 percent target. Overall, with four out of seven indicators are on track, Pakistan is likely to achieve MDG 7 with continued efforts.

Climate Change

Global warming attributed to human activities leading to Greenhouse gas emissions, since the advent of Industrial Revolution of 1750s. As a result, the global climate has been changing at a pace much higher than the natural variability. This human-induced global climate change is having adverse impacts on different socio-economic sectors, particularly in countries situated at lower latitudes and subtropics/tropics. Pakistan is extremely vulnerable to climate change impacts because of its geographical location, high population and low technological and resource base. The projected impacts of climate change include threat to its water security, food security and energy security. It is high time to take stock of country’s situation in relation to climate change to visualize measures for achieving sustained economic growth.

The environment strains faced by Pakistan over the last decades have become a major challenge for its citizens and economy. Climate change poses a great threat to gains made in poverty reduction and development. While climate change is a global phenomenon, its impacts is felt more severely by the developing world due to their greater vulnerabilities and lesser capacity to manage the effects of climate change, and similarly, within society, by marginal and vulnerable groups including women and children. Pakistan’s emissions of greenhouse gases (GHGs) are much lower than rest of the world. Environmental degradation along with poor home hygiene, lack of basic sanitation and unsafe drinking water has a huge impact on health of the population, particularly children under five.

Major Climate Change Related Concerns of Pakistan

Most serious challenges for Pakistan are the threats to its Water Security, Food Security and Energy Security, owing to possible shifts in weather patterns, both on temporal and spatial scales, in particular increased variability of monsoon, as detailed below:

- Increased frequency and severity of extreme events such as floods, droughts and cyclones
- Increase in sediment flow due to increased incidences of high intensity rainfall events resulting in more rapid loss of reservoir capacity due to siltation
- Rapid recession of Hindu Kush Karakoram Himalayan (HKH) glaciers, affecting the magnitude and pattern of water inflows into the Indus River System (IRS)
- Increased incidences of high altitude snow avalanches and GLOFs (glacial lakes outburst floods)generated by surging tributary glaciers blocking main un-glaciated valleys
- Reduced agriculture productivity in arid and semi-arid regions due to increased heat- and water- stress as well as more frequent and intense floods and droughts
- Abundance of insects, pests and pathogens in warmer and more humid environments, particularly after heavy rains and floods
- Reduced productivity and fertility of livestock due to heat-stress
- Degradation of rangelands and further deterioration of already degraded cultivated areas suffering from water erosion, wind erosion, water-logging, salinity etc
- Adverse impact on power generation capacity due to irregular river flows and more frequent and intense floods and droughts
- Increased health risks Heat Strokes, Pneumonia, Malaria, Dengue, other vector-borne diseases
- Increase in deforestation, loss of biodiversity
- Risks to fragile marine, mountain, and coastal ecosystems
- Increased upstream intrusion of sea water in the Indus delta, adversely affecting coastal agriculture, mangroves and breeding grounds of fish
- Threat to coastal cities like Karachi due to sea level rise and increased cyclonic activity due to higher sea surface temperatures
- Non-availability of adequate, reliable crop and river flow data in line with the requirements of simulation model
- Low adaptive capacity to adverse impacts due to lack of technical know-how and low financial resources.

Situation Analysis

Climate Extreme Events

Climate change will increase the variability of monsoon rains and enhance the frequency and severity of extreme events such as floods and droughts. The back to back floods of 2010, 2011 and 2013, worst drought during 1999-2003, two cyclones in one month in Karachi/Gwadar coasts in 2008 and increased incidences of landslides, GLOFS (Glacial Lake Outburst Floods) in the northern areas of Pakistan bear testimony to the ugly face of climate change. It is projected that greater precipitation and melting of glaciers would increase waters in our rivers as much as 20 percent initially, suggesting the benefit of increasing capacity for water storage.

Socio-economic sectors

Climate change is affecting almost all the sectors of our economy 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 increase crop stresses (thermal and moisture stresses), change irrigation water requirements, and increasing the risk of pests and diseases. Water demands of the country are met by Indus River System that is fed by glaciers in Hindukush Karakoram ranges which are believed to be receding under influence of climate change and global warming. The melting of these glaciers will result in increased water flows for a few decades followed by reduced river flows as the glaciers get depleted.

Mitigation/Adaptation measures

Despite being a low Greenhouse Gas (GHG) emitter (<1% of global emissions), Pakistan is bearing the brunt of climate change related disasters at a high cost to its economy. It therefore, requires concerted efforts to adapt to the adverse impacts of climate change and relatively fewer efforts to carry out mitigation measures. A number of measures are needed to be taken to address both Mitigation and Adaptation aspects of climate change through enhancing various ongoing efforts and initiating new activities, as described below:

Pakistan's GHG emissions are bound to increase considerably as the country climbs over the development ladder and strives to provide adequate amount of energy to support its growing socio-economic developmental needs. Still, as a responsible member of international community, Pakistan would like to contribute to the global GHG mitigation efforts without compromising on its basic minimum energy and food needs consistent with its socio-economic developmental requirements, energy security considerations, and financial and technological constraints.

State of Environment

Air

Pakistan is a country of 188 million people with average population density of 236 persons per sq. km, which is higher as compared to many other developing countries. The country has very high migration rate to urban centers which has made the cities very congested and has made the civic infrastructure inadequate. Air quality data recorded in cities confirmed presence of high concentration of suspended particulate matter in air (2-3.5 times higher than the safe limit). Oxides of Nitrogen (NOx) is continuously increasing in major cities mainly due to increased number of CNG operated vehicles. Formation of photo-chemical smog and haze is a common phenomenon in our cities.

Most urban citizens rely either on their private motor vehicles or two wheelers or the informal transport sector for urban transport. This has led to a sharp increase in private vehicle ownership. The surge in the demand for private vehicles originated from the increasing affordability on the one hand and availability of vehicle financing from the banking system on the other. Amongst these, diesel vehicles using crude diesel oil and motorcycles and rickshaws are of most serious concern. Due to overloading, faulty injection nozzles and weak engines, diesel vehicles emit excessive carbon (visible smoke) while motorcycles and rickshaws, due to their two-stroke engines, are the most inefficient in burning fuel and thus contribute most to emissions. The number of motorcycles/scooters is growing fastly in Pakistan and has increased by 133.8 percent in 2012-13 when compared with the year 2001-02. Rickshaws have grown by 24.4 percent in 2012-13 (Table 16.2).

The main causes of air pollution are the abrupt increase in the number of vehicles, inefficient automotive technology , use of unclean fuels, uncontrolled emissions of industrial units, emissions of brick kilns, the burning of garbage and the presence of dust. Vehicular emissions in all the major cities of Pakistan are the primary source of air pollution. The transport sector is the largest user of petroleum products. The use of adulterated fuel and poorly maintained vehicles are some of the reasons for excessive and highly toxic emissions from vehicles. Vehicle emissions represent the greatest source of air pollution in the country reflecting their rapid growth. In terms of numbers, two-wheeled motor vehicles dominate. Vehicular emissions are treated as one of the important sources for total emissions in Pakistan.

Table 16.2 Motor Vehicles on the Roads (000 Nos.)

Year	Total	Motorcycles/Scooters	Rickshaws
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	3146.4	3064.9	81.5
2005-06	3868.8	3791.0	77.8
2006-07	4542.9	4463.9	79.0
2007-08	5126.3	5037.0	89.3
2008-09	5456.4	5368.0	88.4
2009-10	5501.2	5412.1	89.1
2010-11	5558.6	5468.8	89.8
2011-12	6114.5	6015.7	98.8
2012-13	5900.5	5800.0	100.5
Percentage Increase in 2012-13 over 2001-02	130.3	133.8	24.4

Source: National Transport Research Centre.

Brick kilns are another source of pollution in many areas. The use of low-grade coal and old tires in brick kilns generates dense black smoke and other kinds of emissions. The main pollutants from these industries are particulate matter, and sulphur- and nitrogen oxides, which are emitted by burning fuels. The use of coal has increased by 34.3 percent for brick klins in 2012-13 when compared with year 2001-02 (Table 16.3)

Table 16.3: Consumption of coal (000 M/Tons)

Year	Power	Brick Kilns	Household
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	3906.7	-
2005-06	149.3	4221.8	-
2006-07	164.4	3277.5	1.0
2007-08	162.0	3760.7	1.0
2008-09	112.5	3274.8	0.8
2009-10	125.5	3005.2	-
2010-11	96.5	3003.6	-
2011-12	104.6	3108.0	-
2012-13	63.0	3462.2	-
Percentage Inc./dec. in 2012-13 over 2001-02	74.7	34.3	-

-: Not Available
Source: Hydrocarbon Development Institute of Pakistan.

Like other forms of air pollution, the magnitude of industrial air pollution has not been fully assessed but sporadic surveys have been carried out in the country by some governmental institutions and scientists in a few major cities. The industrial sector in Pakistan is likely to expand further in future due to a liberal government policy. Almost all metropolitan cities have industrial estates, where a cluster of industries of different types exist. Cement, fertilizer, sugar units, and power plants are considered to be the most air polluting industries of Pakistan. Many of these are located either in the rural areas or are in the vicinity of secondary towns. Those located in the vicinity of towns cause urban air pollution. A wide range of small- to medium-scale industries (including steel re-rolling, steel recycling, tobacco curing and plastic molding) cause a disproportionate share of pollution through their use of dirty “waste” fuels, such as paper, wood and textile waste .

Future Projections and Trends

With the existing trends and patterns, if timely measures are not taken, the following key environmental indicators are likely to emerge:

- Population growing from 180 million to 234.4 million by 2025 (United Nations, Department of Economic and Social Affairs, Population Division (2011)), making cities more congested and polluted
- Number of vehicles on roads to increase from 11 million to 35 million further deteriorating air qualities in cities
- As the natural gas deposits are getting exhausted and imported oil prices are shooting up, use of low cost fuel like coal, Refuse Derived Fuel, (RDF) Tyre Derived Fuel etc. will be opted. Burning of low grade fuels could worsen the air quality
- Solid waste generation in the country is expected to enhance from 20 million tons/year to 27 million tons/year adding more heaps of garbage and open dumping sites
- Use of pesticides and industrial chemicals will increase manifolds adding more toxicity to water and soil
- Water pollution load will increase proportionally with rise in population, which could add 25% more pollution to the water bodies. This would increase more hospital admission and elevate health budget.

The following areas for intervention are suggested:

Improving Urban Air Quality

- Level of suspended particulate matter PM10 and PM2.5 shall be brought within limits of Ambient Air Quality Standards. Provincial governments will develop and implement Clean Air Program for their major cities
- Haze and smog formation will be curtailed by tapping sources of ammonia, nitrogen oxides and sulphur oxides emission
- Air quality of all major cities shall continuously be monitored and disseminate to general public.

Water

In 1947, the water availability in Pakistan was 5,650 cubic meter per person, which kept on decreasing, first due to Indus Water Treaty,1960.Secondly, gradual decline in trans-boundary flows into Pakistan which has been alarmingly up to the tune of 10.25 MAF, and, thirdly, exceptional growth in population of the country, all making per capita water availability in Pakistan to as low as 964 cubic meters per year which is creating water deficit and hampering well-being and, at the same time, severely affecting future economic development. The situation is aggravating due to excessive reliance on underground water which is meeting more than 60% of agriculture needs. It is not only resulting in salinity but also contamination of aquifers with heavy traces of fluoride and arsenic. Climate change is also expected to have extreme effects on the glaciers which contribute over 70% of our water resources and may reduce the water availability by 30% to 40%. Furthermore, our productivity per unit of water and land is one of the lowest in the world. In USA and Australia per capita storage is 6,150 cubic meters and 5,000 cubic meters, respectively, whereas Pakistan’s storage capacity is only 132 cubic meters per person. Our neighbors, India and China, have reduced the substantial amount of water usage in agriculture sector and have enhanced productivity manifold. Pakistan’s productivity per unit of water is 0.13kg/m3 only, one-thirds of India’s and one-sixths of China’s. Similarly, Pakistan’s productivity per unit of land is one-thirds of Egypt’s, half of Saudi Arabia’s and half of India’s. Increasing productivity in water use is critical for our future development. Pakistan’s Vision 2025 assigns the highest priority to water resources and seeks a nexus of energy, water and food to ensure that we follow an integrated and holistic approach in development planning. The present government is actively working to minimize the gap by focusing on implementation and delivery. Water is a fundamental right of every citizen and it is the responsibility of the state to ensure supply of clean drinking water to citizens. (Pakistan Water Summit, 2014).

Improving Water Quality

- The fresh water sources will be categorized and protected against pollution
- All major cities will install sewage treatment plants. The treated water will be used for agriculture and horticulture purposes
- Cleaner Production Techniques will be adopted by industries to minimize pollution generation. Federal and Provincial Governments will ensure that at least 70% industrial wastewater be treated before discharge into water bodies
- Wastewater Discharge limits shall be imposed on industry to conserve water and reduce pollution load

- Provincial Cleaner Production Centers will be established to promote waste minimization, recycling and waste exchange
- Investment windows and incentive schemes shall be announced to encourage installation of treatment plants
- Environmental Engineering Industry shall be recognized and encouraged to manufacture treatment plants locally. (M/o Climate Change).

Solid waste

Municipal sewage disposal is a serious environmental problem. An estimated 2 million wet tons of human excreta is annually produced in the urban areas of which around 50% goes into fresh water bodies. About 8% of the total wastewater is treated and rest of the quantity is discharged untreated into water bodies. Industries like; textile, tannery, paper and pulp generate high pollution load but lack in treatment facilities. About 59,000 tons of municipal solid waste is daily generated in the country. Proper solid waste management has never been practiced in the country. No proper land fill or other disposal infrastructure is available. The collected waste is dumped on open spaces and low lying areas. The toxic produced by disintegration of waste seeps into the aquifer and pollutes underground water. Hospitals waste (250,000 tons per annum) contains about 20% infectious waste. Majority of hospitals do not have incineration or other treatment facilities.

Most of their cyclable solid waste such as paper, plastic, metal, glass, rubber, and rugs is collected every morning by the scavengers under very unhygienic conditions. A large amount of local government budget is used for the collection and transportation of solid waste. At present, Pakistan is in the process of establishing sanitary landfills for the safe disposal of solid waste. In the absence of sanitary landfills most of the solid waste collected by the local government is finally burned at dumping sites, adding to the problem of air pollution. Disposal of hazardous waste will also pose a major challenge in the future because hazardous wastes generated by manufacturing, hospitals and health-care facilities, and nuclear power and fuel processing plants are projected to more than double within 10 to 15 years. Industries dispose some of the most toxic and persistent pollutants, including heavy metals and synthetic organic chemicals in to land and water bodies. This indiscriminate disposal of toxic waste by industries is causing contamination of fresh water, ground water, and prime arable land. Open burning of toxic industrial waste at low temperatures is causing carcinogenic pollutants with adverse health implications.

Sanitation

Water and Sanitation issue was put on high agenda after declaring 2008 as an International Year of Sanitation in 2008. In 2010, General Assembly adopted a resolution calling for the “ Sustainable Sanitation: The five year drive to 2015”.The goal is to raise awareness on issues related to sanitation especially calling to end open defecation, the most dangerous sanitation practice for public health. It also highlights all aspects of sanitation, including hygiene promotion, provision of basic sanitation services, sewerage, and waste water treatment and re -use.

The Government of Pakistan recognizes the importance of providing access to adequate water and sanitation facilities in order to prevent the spread of diseases and epidemics and save both lives and costs. To address the issue, several policies have been formulated that addresses the key concerns related to water and sanitation, as well as safe drinking water which include National Drinking Water Policy, National Sanitation Policy, Clean Drinking Water Initiative and introduced a “ Strategy for Rehabilitation and Reconstruction of Water Supply and Sanitation Sector” after the 2005 earthquake.

According to Pakistan Millennium Development Goals Report 2013, access to sanitation facilities are available to 72 percent of the total population while the target is to provide safe sanitation facilities to 90 percent of the total population by 2015.

Solid Waste Management & Sanitation

- Integrated solid waste management system shall be promoted
- Solid waste shall either be converted to RDF or used for Waste-to-Energy
- Cloth bags, paper bags and biodegradable plastic bags will only be allowed
- Pakistan should develop a ten years sanitation strategy with a focus on Open Defecation Free (ODF) country. All provincial governments should target at least two districts for developing a comprehensive approach on ODF, and same approach should be replicated in the areas administrated by the federal government including Islamabad

- Bio-safety regulatory system will be extended to provincial level
- Import, transportation, handling and use of toxic chemicals will be regulated and monitored in accordance with the relevant international treaties
- Excessive use of pesticides and fertilizers will be curtailed through promotion of modern biotech crops
- Dumping of hazardous waste or infectious waste on land or into water bodies or mixing with municipal waste will be declared as crime
- Private sector will be encouraged to install hazardous waste or hospital waste disposal facilities.

Promotion of Green Business

- Provincial environment departments with the help of Chambers of Commerce and concerned industrial associations will mobilize business community to "Go Green". This will increase productivity, conserve energy, introduce new products, create new jobs and enhance export
- Green jobs and Green internship programs will be initiated in the government and non-government organization.

Promotion of Green City Charter

- The United Nations Environment Program recognize a city as "Green City" if environmental considerations in energy, waste reduction, urban design, urban nature, transportation, environmental health and water issues are observed
- The Green City concept will be promoted through competition among cities.

Land degradation/deforestation

Land degradation and deforestation is a serious problem globally is the same in case of Pakistan. One of the main factors is population pressure causing land degradation and deforestation. Other major immediate physical causes of ecological degradation include:-

- Excessive falling of trees
- Uncontrolled and excessive livestock grazing and browsing in forest and rangeland thereby damaging the vegetative cover and preventing natural and/or managed regeneration of grasses, shrubs and trees
- Inappropriate cultivation practices in hilly and rain fed farming areas contributing to wind and water erosion
- Inadequate drainage in heavily irrigated area causing water logging and salinity
- Inadequate efforts with regard to watershed protection and management in the catchment areas of reservoirs.

The forests cover about 5.2 percent of the land area of Pakistan but it is still short of the 6 percent MDG target. The low share of the forest area taken in combination with the large population of Pakistan gives only 0.033 hectares of forest per capita compared with the world average of one hectare. Because of the scarcity of wood and its high price, the per capita consumption of wood is estimated at 0.026 cubic meters .Since the supply from domestic resources is less, the gap between supply and demand is met by imports. Rising costs and decreased supply is the most likely future scenario in the wake of increasing population, growing income and demands for forest products. It is estimated that the annual timber requirement of 2 million cubic meters in early 1980s has doubled to about 4 million cubic meters now, while the firewood consumption has also almost doubled from 16.6 million cubic meters to 30 million cubic meters[*].

Linkages Of Forests and Ecosystem with National Economy

Pakistan seeks to attain goals of sustainable social and economic development, ensuring water, food, energy and environmental securities, without over-exploiting forests and ecosystems. Sustenance of agriculture sector and agri-based industries depend upon ample and steady supply of water for irrigation. Other industries which are heavily dependent upon forests and biodiversity, such as pharmaceutical industry, cannot be sustained unless adequate conservation measures are undertaken.

Forests and ecosystems of watershed areas play vital role in regulating quantity and quality of fresh water flowing down from rains, melting of snow and glaciers. Climate change is adversely impacting on forest and ecosystems in multiple ways, both directly and indirectly. Global warming and resulting anomalies in weather systems directly influence on existence, distribution and health of forests, biodiversity and ecosystems. Degraded ecosystems of watershed areas inversely affect quantity and quality of fresh water to downstream reservoirs and irrigations networks, thereby indirectly impacting agriculture and agri-based

[*] National Environment Information Management System (NEIMS 2010).

industries. Diminished river flows result in large-scale disappearance of riverine forests and deltaic mangroves, exposing cities and irrigated tracts to further devastation. Many plant and animal species are under threat of extinction in the wake of accelerating climate change. Economic life and sustainability of infrastructure including human settlements, communication networks, dams and canals also depend on consolidation of forests and ecosystems.

Pakistan emits a total of 309 mt of Carbon dioxide (CO_2) equivalent annually, in which share of Land Use, Land Use Change and Forestry (LULUCF) is only 3% (whereas at global level LULUCF contributes 17-20% in total emissions). By 2020, total national GHG emission is expected to reach 650 mt of Carbon dioxide (CO_2) equivalent, but share of LULUCF will further reduce to 2%.Despite meager contribution of LULUCF in total GHG emissions, there is huge potential for mitigation in forestry and biodiversity sectors through controlling deforestation, forest degradation, conservation, sustainable forest management and enhancement of forest carbon stock. Under the Climate Change Convention and its Kyoto Protocol, forest-dependent communities shall be incentivized and compensated for their service of storing carbon in forests and ecosystems. These intrinsic linkages are sufficient to prove that fixing and achieving most of the targets of economic sector are not justified without integrating them with forests and ecosystems, particularly with the perspective of adaptation to climate change.

Biodiversity Action Plan of Pakistan identifies at least ten ecosystems of particular value for their species richness and /or unique communities of flora and fauna that are threatened with habitat loss and degradation (Table-16.4).

Table-16.4Threats to major ecosystems in Pakistan

Ecosystem	**Characteristics**	**Significance**	**Threats**
Indus Delta and coastal wetlands	Extensive mangroves and mudflats Inadequate protected area coverage	Rich avian and marine fauna Diverse mangroves habitat Marine Turtle Habitat	Reduced Fresh water from diversion upstream Cutting mangroves for fuel wood Drainage of coastal wetlands
Indus River and wetlands	Extensive wetlands	Migratory flyway of global importance Habitat for Indus river dolphin	Water diversion/drainage agricultural intensification Toxic Pollutants
Chagai Desert	A desert of great antiquity	Many endemic and unique species	Proposed Mining hunting parties from the Gulf
Baluchistan Juniper forest	Huge and Ancient Junipers	Largest Remaining Junipers forest in the world Unique flora and fauna	Fuel wood cutting and overgrazing Habitat Fragmentation
Chilghoza Forest(Suleiman Range)	Rock outcrops with shallow Mountain Soils	Important Wildlife habitat for several species at risk	Fuel wood cutting and overgrazing
Baluchistan Sub-tropical forests	Mid-altitude forests with the sparse canopy but rich associated flora	Very few areas now remain important wildlife habitat	Fuel wood cutting and overgrazing
Baluchistan Rivers	Not Concerned with the Indus River system	Unique aquatic fauna and flora with the High levels of endemism	Water diversion/drainage Overfishing
Tropical deciduous forests(Himalayan foothills)	Extended from Margalla Hills National park east to Azad kashmir	Perhaps the most floristically rich ecosystem of Pakistan	Fuel wood cutting and overgrazing
Moist and dry temperate Himalayan forests	Important Forest tracts now becoming increasingly fragmented	Global hotspot for avian diversity important wildlife habitat	Commercial logging fuel wood cutting and overgrazing
Trans-Himalayan Alps and Plateaus	Spectacular mountain scenery	Unique flora and fauna center of endemism	Fuel wood cutting and overgrazing illegal hunting unregulated tourism Habitat Fragmentation

Source: National Sustainable Development Strategy (NSDS), M/o Climate Change

These above stated ecosystems are considered to be of critical concern in conservation. With a widespread conversion of natural ecosystems, agriculture, erosion and rapid degradation of habitats, spread of alien invasive species and the continuing depletion of populations of wild animals and plants, almost all remaining natural or modified ecosystems are now critically threatened.

Strategy to Protect Ecosystems

- Promote the future environment conservation, management and resource use based on a three pronged approach i.e. equitable sharing of benefits of environmental management, increasing community management of natural resources, and integrating environmental issues into socio-economic development planning through the concept of Payments for Ecosystem Services (PES) to achieve sustainable development
- Save the natural resources from depletion and stress, especially water and land , focusing on eco-based interventions especially designed to the varied ecological zones of the country
- Preservation of the diverse wetlands and forests of the country's biodiversity
- Develop protected area systems plan for protecting flora and fauna of global significance as well as ensuring that the National Parks of the country are effectively managed
- Take steps towards creation of a gene pool/ bank as a bio-repository that can preserve gene material for the plants as well as forest biodiversity present in the country.

Tasks of Working Group on Forest & Ecosystems

- Review National Climate Change Policy (2012), National Sustainable Development Strategy (NSDS), National Environment Policy (2005), and National Vision 2030 for Forest Biodiversity Conservation
- Review international obligations of Pakistan on forests, biodiversity and ecosystems under Convention on Biological Diversity and its Aitchi Biodiversity Targets (2020), UN Forum on Forests Non-legally binding instrument on all types of forests (NLBI)
- Evaluate constitutional mandates of federal and provincial governments to undertake actions towards achieving the Vision 2025 of forestry and ecosystems sub-sectors
- Propose specific actions, programs, projects (with possible financial implications) to be part of national drive to attain Vision 2025
- Look into options for integrating policy measures for climate change mitigation and adaptation into plans and programs of water, agriculture, energy and industry sectors, with a focus on forests and ecosystem (or LULUCF) towards attaining Vision 2025 in holistic manner.

Activities of Pakistan Environment Protection Agency (Pak-EPA)

EIA Directorate Pakistan Environmental Protection Agency (Pak-EPA) is an attached department of the Ministry of Climate Change and is mandated to enforce the Pakistan Environmental Protection Act 1997 in the Islamabad Capital Territory besides developing the bio-safety regulation aiming at regulating the development, import/export and use of the Genetically Modified Organism (GMO). The following major activities are being undertaken by Pak-EPA:

I. National Bio-safety Centre (NBC) Project:

Pakistan is a party to Cartagena Protocol on Bio-safety (CPB) since, 31st May, 2009. The obligatory implementation system for regulation of Genetically Modified Organisms (GMOs) and their products is in place since 28th April, 2006. National Bio-safety Centre, the secretariat for National Bio-safety Committee (NBC) & Technical Advisory Committee (TAC), are involved in the regulation of modern Biotechnology products in the country. The regulatory system for GMOs and their products is mandatory under CPB and also necessary for avoiding cancellation of GSP plus status granted for Tax free exports to EU countries from Pakistan.

Achievements and Targets of NBC Project:

Physical Achievements:

- National Biodiversity Centre reviewed and processed cases of Genetically Modified Organisms related research, development, import, export and commercialization. So far 292 cases of Genetically Modified Organisms have been received. Out of which 215 cases has been decided by National Bio-safety Committee
- Forty Institutional Bio-safety Committees (IBCs) have been established at different institutional level. All cases are processed by these IBCs with the assistance of National Biodiversity Centre
- Public notices were released in leading Newspapers of the country for information

regarding Genetically Modified Organisms (GMOs). A brochure on “Bio-safety & Genetically Modified Organisms” has also been prepared, approved by competent authority and published

- Environmental experts participated in program “Mahool Zindgi Hai” and others on different (AM & FM) channels of Radio Pakistan and delivered lecture on Bio-safety, Genetically Modified Organisms, their environmental impacts and other related issues
- National Biodiversity Centre approved Sub-committee of Technical Advisory Committee for Field Trial of Genetically Modified Crops” comprising of subject experts for Genetically Modified cotton and corn crops to monitor and evaluate all types of Genetically Modified crops. The committees had conducted 35 field visits of different sites at different locations for their confined field trials on regular basis
- To evaluate the Capacity Building requirements of the National Biodiversity Centre/Technical Advisory Committee’s officials & members, eight training seminar / workshops were arranged and many more are in pipeline.

II. Environmental Impact Assessment (EIA) Directorate

EIA directorate issued 59 Initial Environmental Examination (IEE) approvals of 27 Environmental Impact Assessment, 73 petrol pumps and 133 CNG, and 05 Environmental Management Plans from 2000 to date.

- Dealt with Public Complaints regarding, Steel Industries of I-9 and I-10 sector monitoring/ laboratory cases
- Cases received from NEPRA and OGRA were scrutinized
- Monitored catchment area of Bari Imam for replugging of sewerage outlet
- Monitored industrial units “Plaster of Paris” to check the environmental issues regarding the pollution created by industrial units at district Sihala, Islamabad
- Monitored Marble Industries in Sector I-9 to inquire the management of the associated pollution caused, like discharge of waste water, sludge disposal
- Physical monitoring of industrial area I-9/10 to check the status of emission.

Objective/Targets to be achieved during the year

- A Sub-committee comprising of experts, has been notified for the standardization of protocols and materials for Genetically Modified crops detection and quantification and accreditation of the laboratories working for Genetically Modified Organism detection
- The Labeling Criteria and formulation of the Standards for the Genetically Modified Food marketed. The work relating to Standardization/ labeling of genetically modified containing food is in process
- The action/process against the violator of the Pakistan Bio-safety Rules has been started
- Monitoring of the confined field trails of companies involved in the cultivation of the Genetically Modified crops is being done on regular basis.

Institutional Response

Pakistan has already acceded to the United Nations Framework Convention on Climate Change (UNFCCC) and its Kyoto Protocol. As a follow up to these international commitments, the country has undertaken substantial climate related work. It announced and implemented the CDM National Operational Strategy as a signal for country’s entry into the global carbon market.

The Prime Ministers Committee on Climate Change also aimed at establishing high-level inter-ministerial linkages and proved to be extremely effective in initiating the country’s entry into the global carbon market. The Climate Change Division has also been designated national focal point for UNFCCC and the Kyoto Protocol. The Division has been coordinating with other concerned agencies and institutions on various technical aspects, Mitigation and adaption are two key aspects of policy response to climate change in the country. In terms of mitigation, Pakistan is presently a small GHG emitter but its emission are bound to increase considerably as the country strives to develop and provide adequate amounts of energy to support its growing developmental needs. The country therefore wishes to contribute to the global GHG mitigation efforts without compromising on its basic minimum energy and food needs consistent with its socio-economic developmental requirements, energy security considerations, and existing financial and technological constraints.

In terms of mitigation, the low carbon development scenarios projected for the country under one study (GOP and UNFCCC, 2011) estimates additional investment costs of mitigation ranging between $8 to $17 billion by 2050, as progressively cleaner coal and a higher percentage of renewable energy technologies are employed. This study also estimated that adaption costs will be too high, ranging from US$ 7 to US$ 14 billion per year. Developing countries like Pakistan do not have the resources to meet such huge adaption costs and need the help of developed countries, who made commitments under the Bali Action Plan to help developing countries adapt to climate change.

Conclusion

The Government of Pakistan is taking significant initiatives in collaboration with International agencies to counter complex issues regarding environmental degradation. This multifarious challenge requires deep and focused research/initiatives in order to address air and water pollution, land degradation and deforestation etc.

Way Forward

- Capacity building/enhancement of climate change related research institutions, government functionaries, media persons, vulnerable communities and other stakeholders should be carried out to apprise them of the issues, their impacts, risk assessment, risk management, adaptation and mitigation measures, etc
- Vulnerability of different ecosystems, geographical areas and communities to climate change should be assessed through reliable analytical tools
- Preparedness for risks and disasters arising from climate change events, particularly from climate extreme events, and development of Early Warning System is imperative to redress the adverse impacts of climate change
- A fund supported by national and international sources should be established under the Climate Change Division to alleviate the adverse impact of climate change, and bolster resilience of the most vulnerable communities.

Contingent Liabilities

Introduction

Contingent Liabilities are conditional obligations that arise from past events that may require an outflow of resources embodying economic benefits based on the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the government. Contingent liabilities can be distinguished from the liabilities as these are conditional in nature and do not represent the present obligations of the government. Accordingly, a contingent liabilities are not recognized as liabilities regardless of the likelihood of the occurrence (or non-occurrence) of the uncertain future event.

Public Debt may be understated without reporting contingent liabilities. Contingent liabilities are not added to the overall debt of the country, however, such off-balance sheet transactions cannot 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. Therefore, it is imperative to examine the contingent liabilities in the same manner as a proposal for a loan, taking into account, inter alia, the credit-worthiness of the borrower, the amount and risks sought to be covered by a sovereign guarantee, the terms of the borrowing, justification and public purpose to be served, probabilities that various commitments will become due and possible costs of such liabilities etc.

Contingent Liabilities of Pakistan include, explicit and implicit guarantees issued to Public Sector Enterprises (PSEs) and unfunded losses of state owned entities. The sovereign guarantee is normally extended to improve financial viability of projects or activities undertaken by government entities with significant social and economic benefits. It allows public sector companies to borrow money at lower costs or on more favorable terms and in some cases, allows to fulfill the requirement where sovereign guarantee is a precondition for concessional loans from bilateral/ multilateral agencies to sub-sovereign borrowers.

Public disclosure of information about guarantees is an essential component of fiscal transparency, but it is more important to reflect the impact of financial risk associated with guarantees in the fiscal account. During first nine months of current fiscal year, the government issued fresh/rollover guarantees aggregating to Rs.104 billion, whereas, outstanding stock of government guarantees as at end March, 2014 amounted to Rs.558 billion. The rupee guarantees accounted for 76 percent of the total guarantees stock.

Table-1.1: Guarantees Outstanding as on March 31, 2014	(Rs. in billion)
Outstanding Guarantees extended to Public Sector Enterprises (PSEs)	558
- Domestic Currency	423
- Foreign Currency	135
Memo	
Foreign Currency (US$ in million)	1,372
Source: Debt Policy Coordination Office calculations, Finance Division	

The volume of sovereign guarantees undertaken during a financial year is limited under Fiscal Responsibility and Debt Limitation Act 2005 which stipulates that the government shall not give guarantees aggregating to an amount exceeding 2 percent of the GDP in any financial year including those for rupee lending, rate of return, output purchase agreements and other claims and commitments provided the renewal of existing guarantees shall be considered as issuing a new guarantee. The limit of 2 percent of the GDP is applicable on guarantees issued both in local and foreign currencies. During July-March, 2013-14, the Government of Pakistan issued fresh/rollover guarantees aggregating to Rs.104 billion or 0.4 percent of GDP as shown in Table 1.2.

Table-1.2: Guarantees Issued Details (Rs. in billion)

	2006	2007	2008	2009	2010	2011	2012	2013	2014 (Jul-Mar)
New guarantees issued	14.0	140.7	138.8	276.3	224.0	62.4	203.2	136.0	103.7
(as percent of GDP)	**0.2**	**1.5**	**1.3**	**2.1**	**1.5**	**0.3**	**1.0**	**0.6**	**0.4**

Source: Debt Policy Coordination Office calculations, Finance Division

Year wise outstanding stock of government guarantees from 2009-10 till March 31, 2014 is presented through Table 1.3.

Table-1.3: Guarantees Stock

	2010	2011	2012	2013	2014 (Jul-Mar)
Outstanding Guarantees (1+2)	603	559	516	626	558
1- Domestic Currency (Rs. in billion)	329	301	262	355	423
2- Foreign Currency (Rs. in billion)	274	258	254	271	135
Foreign Currency (US$ in million)	3,246	2,999	2,689	2,716	1,372

Source: Debt Policy Coordination Office calculations, Finance Division

Guarantees issued against commodity operations are not included in the stipulated limit of 2 percent of GDP as the loans are secured against the underlying commodity and are essentially self-liquidating and thus should not create a long term liability for the government. 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. The guarantees were issued against the commodity financing operations undertaken by TCP, PASSCO, and provincial governments. As on March 31, 2014, the outstanding stock issued against commodity operations was Rs.432 billion against the end-June 2013 position of Rs.571 billion.

Annexure-II

Tax Expenditure

Tax expenditure for fiscal year 2013-14 have been estimated at Rs.477.1 billion. Detailed estimates are highlighted below:

Income Tax

Tax expenditure in respect of direct taxes during 2013-14 have been reflected in Table 1:

Table 1: Tax Expenditure of Direct Taxes during 2013-14 (Rs. billion)

S. No.	Tax Expenditure on various Exemptions and Concessions	Estimated Revenue Loss 2013-14
1.	Pensions and Gratuity	1.000
2.	Income from Funds, Board of Education, Universities and Computer Training Institutions.	11.100
3.	Donations and Contributions to Charitable	2.500
4.	Independent Power Producers	52.030
5.	Income from Certain Trust, Welfare and Charitable institutions non-profitable organizations.	1.910
6.	Profits on Debt/interest from government securities and certain foreign currency accounts/books profit on debt	4.100
7.	Export of Information Technology	0.994
8.	Capital gains	5.000
9.	Other Sectors and enterprise specific exemptions	18.000
	Total:	**96.634**

Sales Tax

Major exemptions in sales tax and their tax expenditures during 2013-14 are presented in Table 2.

Table 2: Tax Expenditure of Sales Tax for 2013-14 (Rs. billion)

SRO	Loss of Sales Tax Due to Exemptions
I. Export Facilitation Schemes	
SRO 450(I)/2011(DTRE & MB)	14.0
SRO 326(I)/2008(EOU)	1.0
SRO492(I)/2009(Temp.same State)	4.0
Sub-Total	**19.0**
II. General and Sector Specific SROs	
SRO 727(I)/2011 (Plant & Machinery)	14.0
SRO 1125(I)/2011 (concessionary rate of sales tax on raw materials, intermediary inputs and finished goods relating to Textiles, Carpets, Leather, Sports & Surgical sectors).	65.0
SRO 549(I)/2008(zero% on specified goods)	94.0
SRO 575(I)/2006 (Machinery, Equipment, Apparatus and Items of Capital Goods)	30.0
SRO 551(I)/2008 (Exemption from ST on import & supply of certain items)	26.0
SRO 69(I)/2006 (levy of ST @ 14% on rapeseed)	1.0
Sub-Total	**230.0**
Grand Total (I+II)	**249.0**

Customs

Following is the break-up of estimates of tax expenditure of main exemptions in Customs Duties for fiscal year 2013-14. Table-3 shows the position.

Table-3: Cost of Customs Duty Exemption For FY 2012-13 And Estimated 2013-14 (Rs. million)

S.No.	SRO No. with Date	Description	Cost of Exemption (estimated) 2013-14
1.	558(I)/2004 01.07.2004	Concession of Customs Duty on goods imported from SAARC and ECO countries	290.3
2.	570(I)/2005 06.0.6.2005	Exemption from Customs Duty on imports from Sri Lanka	732.6
3.	1296(I)/2005 31.12.2005	Exemption from Customs Duty on import into Pakistan from China	12.1
4.	894(I)/2006 31.08.2006	Exemption from Customs Duty on import into Pakistan from Iran under Pak-Iran PTA.	22.3
5.	1274(I)/2006 29.12.2006	Exemption from Customs Duty on imports into Pakistan from under SAFTA Agreement	796.2
6.	659(I)/2007 30.06.2007	Exemption from Customs Duty on imports into Pakistan from China	21,464.1
7.	1151(I)/2007 26.11.2007	Exemption from customs Duty on goods imported from Mauritius.	3.4
8.	1261(I)/2007 31.12.2007	Exemption from Customs Duty on imports into Pakistan from Malaysia	2,909.1
9.	565(I)/2006 05.06.2006	Conditional exemption of Customs Duty on import of raw materials and components etc. for manufacture of certain goods (Survey based)	10,761.4
10.	567(I)/2006 05.06.2006	General and conditional exemption of Customs Duty (non survey)	32,515.7
11.	678(I)/2004 12.6.2004	Exemption of Customs Duty and Sales Tax to Exploration and Production (E&P) companies on import of machinery equipment & vehicles etc.	6,714.4
12.	575(I)/2006 05.06.2006	Exemption from Customs Duty and Sales Tax on import of specified machinery, equipment, apparatus and items	21,780.3
13.	655(I)/2006 22.06.2006	Exemption from Customs Duty for vendors of Automotive Sector	11,471.1
14.	656(I)/2006 22.06.2006	Exemption from Customs Duty for OEMs of Automotive Sector	17,823.4
15.	809(I)/2009 19.09.2009	Exemption of Machinery & Equipment, if imported by Textile Industrial Units	2,646.7
16.	741(I)/2013 28.08.2013	Exemption from Customs Duty on imports into Pakistan from Indonesia under Pak-Indonesia PTA.	1,508.2
		Total:	**131,451.3**

Following is the consolidated summary of tax expenditure for the fiscal year 2013-14 given in Table-4.

Table 4: Tax Expenditure of Federal Taxes for 2013-14 (Rs. billion)

S. No.	Type of Tax	2013-14
1.	Income Tax	96.6
2.	Sales Tax	249.0
3.	Customs Duty	131.5
	Total :	**477.1**

Source: Federal Board of Revenue

Annexure-III

Impact of War in Afghanistan and Ensuing Terrorism on Pakistan's Economy

The conflict and instability in Afghanistan in the aftermath of 9/11 attacks and their regional implications had very negative repercussions for the years following the US invasion of Afghanistan not only saw a huge influx of Afghan refugees across the border into Pakistan but also witnessed a sudden spike in the frequency and scale of terrorist attacks in Pakistan. The cumulative impact of these developments adversely impacted the overall growth rate in all major sectors of the economy. Pakistan continues to pay a heavy price both in the economic and security terms due to this situation and a substantial portion of precious national resources both men and material, have been diverted to address the emerging security challenges for the last several years. The rise of violent extremism and increase in terrorism in Pakistan due to instability in Afghanistan not only caused serious damage to Pakistan's economy but has also been responsible for wide-spread human suffering due to indiscriminate attacks against the civilian population.

This situation disrupted Pakistan's normal economic and trading activities which not only resulted in higher costs of business but also created disruptions in the production cycles, resulting in significant delays in meeting the export orders around the globe. As a result, Pakistani products have gradually lost their market share to their competitors. Consequently, economic growth slowed down, demand for imports reduced with declined tax collection and inflows of foreign investment. Investment outflow and negative trends of out sourcing of capital in Pakistan has further added to the woes of dwindling performance of the export oriented industry.

In order to assess the impact of the incidents of terrorism on the economy of Pakistan during the past several years, Finance Minister constituted a committee under the chairmanship of Adviser to Finance with Economic Adviser as Secretary/Member and also members from Ministries of Interior, Foreign Affairs, Commerce and Inter-Provincial Coordination. Ministries of Interior, Foreign Affairs, Finance, Commerce and other relevant departments have estimated the impact of conflict in Afghanistan and the ensuing terrorism on exports, foreign investment, privatization, industrial output, tax collection etc. and updated the estimates for FY12, FY13 and FY14. Summary of year wise losses is presented in Table -1.

Table-1: Summary of Losses Due to Terrorist Attacks (US$ million)

S.No	Organization	Years			Total
		2011-12	2012-13	2013-14*	
1.	Exports	1237.00	730.00	323.13	2290.13
2.	Compensation to Affectees	24.28	20.96	13.97	59.21
3.	Physical Infrastructure	1266.18	766.99	437.36	2470.53
4.	Foreign Investment	4597.00	210.00	3260.00	8067.00
5.	Privatization	277.00	4719.46	0.00	4996.46
6.	Industrial Output	331.69	308.49	129.61	769.79
7.	Tax Collection	2431.76	2315.79	1732.39	6479.94
8.	Cost of Uncertainty	121.83	50.34	32.61	204.78
9.	Expenditure Over run	111.96	324.58	207.98	644.52
10.	Others	1398.88	522.00	556.65	2477.53
	Total Losses	**11797.58**	**9968.61**	**6693.70**	**28459.89**

*Estimated on the basis of 9 months actual data (July-March)
Source: M/o Finance, M/o Interior, M/o Foreign Affairs, Joint Ministerial Group

During the last 13 years, the direct and indirect cost incurred by Pakistan due to incidents of terrorism amounted to US$ 102.51 billion equivalent to Rs. 8,264.40 billion. Detail is given in Table-2.

Table-2: Cost of War (2001-2014)

Years	$ Billion	Rs. Billion	% Change
2001-02	2.67	163.90	-
2002-03	2.75	160.80	3.0
2003-04	2.93	168.80	6.7
2004-05	3.41	202.40	16.3
2005-06	3.99	238.60	16.9
2006-07	4.67	283.20	17.2
2007-08	6.94	434.10	48.6
2008-09	9.18	720.60	32.3
2009-10	13.56	1136.40	47.7
2010-11	23.77	2037.33	75.3
2011-12	11.98	1052.77	-49.6
2012-13	9.97	964.24	-16.8
2013-14*	6.69	701.26	-32.9
	102.51	**8264.40**	

* Estimated on the basis of 9 months actual data (Jul-Mar)
Source: M/o Finance, M/o Interior M/o Foreign Affairs Joint Ministerial Group

Pakistan needs enormous resources to enhance productive capacity of the economy by repairing damaged infrastructure and to create a favorable investment climate. The security situation will be the key determinant of future flow of the investment. Pakistan's economy needs an early end to the conflict in Afghanistan as well as its negative impact over regions bordering Afghanistan in the form of violent extremism and terrorism for revival of the economy and to keep stability in the system.

ECONOMIC AND

INDICATORS	1960s	1970s	1980s	1990s	2000s	2002-03	2003-04	2004-05
						Base Year 1999-2000		
	Average (Annual)							
FINANCIAL SECTOR:								
GROWTH RATE (at constant fc) %								
GDP	6.8	4.8	6.5	4.6	4.7	4.7	7.5	9.0
Agriculture	5.1	2.4	5.4	4.4	3.2	4.1	2.4	6.5
Manufacturing	9.9	5.5	8.2	4.8	7.1	6.9	14.0	15.5
Commodity Producing Sector	6.8	3.9	6.5	4.6	4.3	4.3	9.2	9.5
Services Sector	6.7	6.3	6.7	4.6	5.1	5.2	5.9	8.5
GROWTH RATES (at current mp) %								
Total Investment	-	21.8	4.2	8.1	15.6	10.7	14.4	32.6
Fixed Investment	14.8	20.5	3.7	7.8	15.7	8.2	14.7	34.3
Public Investment	14.0	25.3	2.6	7.3	12.5	4.0	19.3	23.7
(including general govt.)								
Private Investment	20.9	17.0	5.1	8.8	17.5	9.8	13.1	38.3
(as % of Total Investment)								
National Savings	-	67.5	79.2	75.4	89.9	123.1	107.8	91.6
Foreign Savings	-	32.5	20.8	24.6	10.1	-22.5	-7.8	8.4
(as % of GDP (current mp)								
Total Investment	-	17.1	18.7	18.3	17.9	16.9	16.6	19.1
Fixed Investment	-	15.9	17.0	16.6	16.4	15.3	15.0	17.5
Public Investment	-	10.3	9.2	7.5	4.6	4.0	4.0	4.3
Private Investment	-	5.6	7.8	9.1	11.8	11.3	10.9	13.1
National Savings	-	11.2	14.8	13.8	15.9	20.8	17.9	17.5
Foreign Savings	-	5.8	3.9	4.5	2.0	-3.8	-1.3	1.6
Domestic Savings	-	7.4	7.7	14.0	14.6	17.6	15.7	15.4
Per Capita Income (mp-US $)	-	-	-	-	746.0	582.0	663.2	724.1
GDP DEFLATOR (growth %)	-	-	2.3	8.3	8.4	4.4	7.7	7.0
CONSUMER PRICE INDEX (CPI)								
(growth %)	3.2	12.5	7.2	9.7	7.3	3.1	4.6	9.3
FISCAL POLICY								
As % of GDP (mp)								
Total Revenue	13.1	16.8	17.3	17.1	13.9	14.9	14.3	13.8
Tax Revenue	-	-	13.8	13.4	10.3	11.5	11.0	10.1
Non-Tax Revenue	-	-	3.5	3.7	3.6	3.4	3.3	3.7
Total Expenditure	11.6	21.5	24.9	24.1	18.4	18.5	16.7	17.2
Current Expenditure	-	-	17.6	19.4	15.1	16.3	13.5	13.3
Defence	-	-	6.5	5.6	3.1	3.3	3.3	3.3
Interest Payment	-	-	3.8	6.8	4.9	4.8	4.0	3.4
Others	-	-	7.3	7.0	7.2	8.2	6.2	6.6
Development Expenditure	-	-	7.3	4.7	3.3	2.2	3.1	3.9
Overall Deficit	2.1	5.3	7.1	6.9	4.4	3.7	2.4	3.3
MONEY & CREDIT (growth %)								
Monetary Assets (M2)	16.3	21.0	13.2	16.8	15.0	18.0	19.6	19.3
Domestic Assets	15.0	20.5	15.4	12.2	14.1	0.5	23.7	22.4
STOCK EXCHANGE (growth %)								
KSE 100 Index	-	-	0.1	4.1	27.2	92.2	55.2	41.1
Aggregate Market Capitalizatioı	-	-	2.5	13.4	29.1	83.0	88.0	45.2

- : Not available **mp : Market prices** **fc : Factor cost**

***: In 2005-06 base year and composition of sub sectors of GDP has been changed, therefore growth rate in respective variables onward from 2006-07 are provided on new base.**

Note: Data on National Accounts for 2013-14 represents values for full fiscal year.

SOCIAL INDICATORS

Base Year 2005-06*								
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
								Jul-Mar (P)
5.8	**5.5**	**5.0**	**0.4**	**2.6**	**3.6**	**3.8**	**3.7**	**4.1**
6.3	**3.4**	**1.8**	**3.5**	**0.2**	**2.0**	**3.6**	**2.9**	**2.1**
8.7	**9.0**	**6.1**	**-4.2**	**1.4**	**2.5**	**2.1**	**4.5**	**5.6**
5.1	**5.5**	**5.1**	**-0.9**	**1.8**	**3.2**	**3.1**	**2.1**	**3.9**
6.5	**5.6**	**4.9**	**1.3**	**3.2**	**3.9**	**4.4**	**4.9**	**4.3**
36.1	**9.3**	**17.7**	**13.4**	**1.4**	**9.8**	**17.1**	**8.4**	**8.5**
38.0	**9.0**	**17.9**	**12.4**	**0.3**	**8.4**	**18.1**	**8.0**	**7.9**
30.3	**21.0**	**21.0**	**11.2**	**-2.1**	**6.6**	**27.2**	**-0.4**	**17.1**
40.5	**5.2**	**16.8**	**12.9**	**1.2**	**9.0**	**14.9**	**11.2**	**4.7**
78.8	**74.3**	**57.5**	**68.6**	**85.9**	**100.7**	**86.3**	**92.6**	**92.5**
21.2	**25.7**	**42.5**	**31.4**	**14.1**	**-0.7**	**13.8**	**7.4**	**7.5**
19.3	**18.8**	**19.2**	**17.5**	**15.8**	**14.1**	**15.1**	**14.6**	**14.0**
17.7	**17.2**	**17.6**	**15.9**	**14.2**	**12.5**	**13.5**	**13.0**	**12.4**
4.2	**4.6**	**4.8**	**4.3**	**3.7**	**3.2**	**3.7**	**3.3**	**3.5**
13.5	**12.6**	**12.8**	**11.7**	**10.5**	**9.3**	**9.7**	**9.6**	**8.9**
15.2	**14.0**	**11.0**	**12.0**	**13.6**	**14.2**	**13.0**	**13.5**	**12.9**
4.1	**4.8**	**8.2**	**5.5**	**2.2**	**-0.1**	**2.1**	**1.1**	**1.1**
13.4	**12.3**	**9.1**	**9.4**	**9.8**	**9.7**	**7.8**	**8.3**	**7.5**
897.4	**979.9**	**1053.2**	**1026.1**	**1072.4**	**1274.1**	**1320.5**	**1339.5**	**1386.2**
10.5	**7.2**	**12.9**	**20.7**	**10.7**	**19.5**	**5.7**	**7.6**	**7.0**
7.9	**7.8**	**12.0**	**17.0**	**10.1**	**13.7**	**11.0**	**7.4**	**8.7**
13.1	**14.0**	**14.1**	**14.0**	**14.0**	**12.3**	**12.8**	**13.3**	**9.8**
9.8	**9.6**	**9.9**	**9.1**	**9.9**	**9.3**	**10.2**	**9.8**	**7.0**
3.3	**4.4**	**4.2**	**4.9**	**4.1**	**3.0**	**2.6**	**3.5**	**2.7**
17.1	**19.5**	**21.4**	**19.2**	**20.2**	**18.9**	**19.6**	**21.4**	**12.9**
12.6	**14.9**	**17.4**	**15.5**	**16.0**	**15.9**	**15.6**	**16.3**	**11.4**
2.9	**2.7**	**2.6**	**2.5**	**2.5**	**2.5**	**2.5**	**2.4**	**1.8**
3.2	**4.2**	**4.8**	**5.0**	**4.4**	**3.9**	**4.5**	**4.5**	**3.6**
6.5	**8.0**	**10.0**	**8.0**	**9.1**	**9.5**	**8.5**	**9.4**	**6.0**
4.5	**4.6**	**4.0**	**3.7**	**4.4**	**2.8**	**3.7**	**5.1**	**2.2**
4.0	**4.1**	**7.3**	**5.2**	**6.2**	**6.5**	**6.8**	**8.2**	**3.2**
15.2	**19.3**	**15.3**	**9.6**	**12.5**	**15.9**	**14.1**	**15.9**	**5.9**
15.8	**14.2**	**33.6**	**15.4**	**12.7**	**13.1**	**20.2**	**20.8**	**7.3**
34.1	**37.9**	**-10.8**	**-41.7**	**35.7**	**28.5**	**10.4**	**52.2**	**29.3**
35.8	**45.3**	**-6.0**	**-43.9**	**28.8**	**21.4**	**6.2**	**47.6**	**25.4**

(Contd.)

ECONOMIC AND

INDICATORS		1960s	1970s	1980s	1990s	2000s	2002-03	2003-04	2004-05
		Average (Annual)							
TRADE AND PAYMENTS (growth %)									
Exports (fob)		-	13.5	8.5	5.6	9.9	19.1	13.8	16.2
Imports (fob)		-	16.6	4.5	3.2	13.7	20.1	20.1	37.8
Workers Remittances		-	-	1.9	-5.3	26.8	77.4	-8.6	7.7
As % of GDP (mp)									
Exports (fob)		-	-	9.8	13.0	12.3	13.1	12.7	13.2
Imports (fob)		-	-	18.7	17.4	16.2	13.6	13.9	17.1
Trade Deficit		-	-	8.9	4.4	3.9	0.5	1.2	4.0
Current Account Deficit		-	-	3.9	4.5	3.8	+3.8	+1.3	1.6
COMMODITY SECTOR:									
Agriculture									
Total Cropped Area	mln. hectares	-	-	20.3	22.4	22.9	21.9	22.9	22.8
Production									
Wheat	mln. tonnes	-	-	12.5	17.0	20.8	19.2	19.5	21.6
Rice	mln. tonnes	-	-	3.3	3.9	5.2	4.5	4.8	5.0
Sugarcane	mln. tonnes	-	-	33.1	44.6	50.4	52.1	53.4	47.2
Cotton	mln. bales	-	-	6.3	9.7	11.6	10.2	10.0	14.3
Fertilizer Offtake	mln.N/tonnes	-	-	1.4	2.3	3.3	3.0	3.2	3.7
Credit Disbursed	bln. Rs.	-	-	11.2	23.8	112.9	58.9	73.6	108.7
Manufacturing									
Cotton Yarn	mln. Kg.	5.6	3.4	10.0	1884.4	2236.2	1925.0	1939.0	2290.0
Cotton Cloth	mln. sq. mtr.	3.1	-5.2	-1.1	487.8	763.3	582.0	683.0	925.0
Fertilizer	mln. tonnes	27.5	13.2	10.7	4.9	5.4	5.3	5.6	5.9
Sugar	mln. tonnes	34.3	2.2	14.4	3.6	3.4	3.7	4.0	3.0
Cement	mln. tonnes	10.7	2.5	8.6	11.2	16.4	10.8	12.8	16.4
Soda Ash	000 tonnes	12.0	2.6	6.7	269.0	292.6	280.3	286.3	297.3
Caustic Soda	000 tonnes	24.4	5.0	6.6	147.2	195.0	164.4	187.5	206.7
Cigarettes	bln. nos.	10.7	4.9	-0.4	55.4	60.0	49.4	55.3	61.0
Jute Goods	000 tonnes	-	3.4	9.5	101.1	105.0	95.5	103.9	104.8
INFRASTRUCTURE:									
Energy									
Crude Oil Extraction	mln. barrels	-	2.8	10.9	26.1	23.3	23.5	22.6	24.1
Gas (supply)	mcf	-	165.4	385.2	908.0	1186.8	992.6	1202.7	1344.9
Electricity (installed capacity)	000 MW	-	1.3	3.1	12.9	18.7	17.8	19.2	19.4
Transport & Communications									
Roads	000 km	70.5	74.1	123.8	279.3	255.6	252.2	256.0	258.2
Motor Vehicles on Road	mln. nos.	-	0.4	1.4	4.6	6.4	5.3	5.7	6.0
Post Offices	000 nos.	7.1	9.0	11.8	15.8	12.3	12.3	12.1	12.3
Telephones	mln. nos.	0.1	0.2	0.6	3.3	4.2	4.0	4.5	5.1
Mobile Phones	mln. nos.	-	-	-	-	30.3	2.4	5.0	12.8

- : Not available **P: Provisional**

*** : Includes Fixed Local Loop and Wireless Local Loop**

SOCIAL INDICATORS

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14 Jul-Mar (P)
13.8	4.5	18.0	-6.4	2.9	28.9	-2.6	0.4	3.2
31.4	8.0	31.6	-10.3	-1.7	14.9	12.8	-0.6	3.7
10.4	19.4	17.4	21.1	14.0	25.8	17.7	5.6	11.9
13.0	11.2	12.0	11.4	11.1	11.9	11.0	10.7	7.7
19.4	17.5	20.8	18.9	17.4	16.8	18.0	17.3	12.7
6.5	6.2	8.8	7.5	6.5	4.9	7.0	6.6	5.0
4.4	4.8	8.2	5.5	2.2	+0.1	2.1	1.1	0.9
23.1	23.6	23.9	24.1	23.9	22.7	22.5	22.8	22.8
21.3	23.3	20.9	24.0	23.3	25.2	23.5	24.2	25.3
5.5	5.4	5.6	6.9	6.9	4.8	6.2	5.5	6.8
44.7	54.7	63.9	50.0	49.4	55.3	58.4	63.8	66.5
13.0	12.9	11.7	11.8	12.9	11.5	13.6	13.0	12.8
3.8	3.7	3.6	3.7	4.4	3.9	3.9	3.6	3.3
137.4	168.8	211.6	233.0	248.1	263.0	293.9	336.2	255.7
2556.3	2727.6	2809.4	2913.0	2787.3	2939.5	2954.6	3017.9	2293.3
903.8	1012.9	1016.4	1016.9	1009.4	1020.3	1023.4	1029.1	776.5
6.1	6.5	6.2	6.4	6.7	6.8	6.6	5.8	5.1
2.9	3.5	4.7	3.2	3.1	4.2	4.6	5.1	5.1
18.5	22.8	26.7	28.4	31.3	28.8	29.5	31.1	22.8
318.7	330.6	365.0	365.3	409.6	378.0	370.7	366.2	297.0
219.3	242.2	248.3	245.3	182.3	172.0	179.1	182.9	125.8
64.1	66.0	67.4	75.6	65.3	65.4	62.0	67.4	47.1
104.5	118.1	129.0	137.4	106.2	93.2	94.1	102.8	78.7
23.9	24.6	25.6	24.0	23.7	24.0	24.6	27.8	23.0
1400.0	1413.6	1454.2	1460.7	1482.8	1471.6	1559.0	1505.8	1124.8
19.4	19.4	19.4	19.8	20.9	22.5	22.8	22.8	23.0
259.0	261.8	258.4	260.2	260.8	259.5	261.6	263.4	263.7
7.1	8.1	8.8	9.4	9.8	10.4	10.9	11.6	9.8
12.3	12.3	12.4	12.3	12.0	12.0	12.0	12.8	12.1
5.1	4.8	4.5	3.5	3.4	5.7	5.8	6.3 *	5.6
34.5	63.2	88.0	94.3	99.2	108.9	120.1	128.9	136.5

(..Contd.)

ECONOMIC AND

INDICATORS		1960s	1970s	1980s	1990s	2000s	2002-03	2003-04	2004-05
		Average (Annual)							
HUMAN RESOURCES:									
Population*									
Population	million	**-**	**-**	**96.3**	**124.6**	**150.9**	**146.8**	**149.7**	**152.5**
Crude Birth Rate	per 1000 person	**-**	**-**	**-**	**-**	**27.4**	**27.3**	**27.3**	**28.0**
Crude Death Rate	per 1000 person	**-**	**-**	**-**	**-**	**7.9**	**8.0**	**8.0**	**8.1**
Infant Mortality Rate	per 1000 person	**-**	**-**	**-**	**-**	**79.6**	**83.0**	**83.0**	**82.0**
Labour Force & Employment**									
Labour Force	million	**-**	**-**	**11.6**	**35.1**	**45.5**	**43.0**	**44.1**	**45.9**
Employed Labour Force	million	**-**	**-**	**11.2**	**33.1**	**42.4**	**39.4**	**40.5**	**42.4**
Un-employed Labour Fo	million	**-**	**-**	**0.4**	**2.0**	**3.6**	**6.6**	**3.5**	**3.6**
Un-employment Rate	% per annum	**-**	**-**	**1.4**	**5.7**	**6.8**	**7.8**	**8.3**	**7.7**
SOCIAL DEVELOPMENT:									
Education									
Primary Schools	000 nos.	**-**	**-**	**88.8**	**143.5**	**155.2**	**150.8**	**155.0**	**157.2**
Male	000 nos.	**-**	**-**	**64.6**	**96.4**	**96.6**	**94.7**	**97.3**	**98.5**
Female	000 nos.	**-**	**-**	**24.2**	**47.1**	**58.6**	**56.1**	**57.6**	**58.7**
Middle Schools	000 nos.	**-**	**-**	**6.8**	**15.3**	**31.9**	**28.0**	**28.7**	**30.4**
Male	000 nos.	**-**	**-**	**4.6**	**8.8**	**16.7**	**14.5**	**14.9**	**15.6**
Female	000 nos.	**-**	**-**	**2.2**	**6.5**	**15.2**	**13.5**	**13.9**	**14.8**
High Schools	000 nos.	**-**	**-**	**5.4**	**10.6**	**18.6**	**15.6**	**16.1**	**16.6**
Male	000 nos.	**-**	**-**	**3.9**	**7.4**	**12.2**	**10.8**	**11.0**	**11.3**
Female	000 nos.	**-**	**-**	**1.5**	**3.2**	**6.3**	**4.8**	**5.1**	**5.3**
Secondary/Vocational Institutions	nos.	**-**	**-**	**508.6**	**572.2**	**1623.8**	**585.0**	**624.0**	**747.0**
Male		**-**	**-**	**282.2**	**328.7**	**874.8**	**355.0**	**396.0**	**419.0**
Female		**-**	**-**	**235.2**	**243.5**	**749.0**	**230.0**	**228.0**	**328.0**
Literacy Rate	percent	**-**	**-**	**29.5**	**40.7**	**52.6**	**51.6**	**53.0**	**53.0**
Male		**-**	**-**	**39.0**	**51.6**	**65.7**	**-**	**-**	**65.0**
Female		**-**	**-**	**18.7**	**28.6**	**41.4**	**-**	**-**	**40.0**
Expenditure on Education as % of GNP		**-**	**-**	**0.8**	**2.3**	**2.1**	**1.7**	**2.1**	**2.1**
Health*									
Registered Doctors	000 nos.	**2.0**	**6.3**	**28.1**	**68.9**	**110.5**	**102.6**	**108.1**	**113.2**
Registered Nurses	000 nos.	**-**	**2.9**	**9.9**	**24.1**	**49.0**	**44.5**	**46.3**	**48.4**
Registered Dentists	000 nos.	**0.2**	**0.7**	**1.4**	**2.8**	**6.1**	**5.0**	**5.5**	**6.1**
Hospitals	nos.	**380.0**	**521.0**	**651.0**	**823.0**	**912.6**	**906.0**	**906.0**	**916.0**
Dispensaries	000 nos.	**1.7**	**2.8**	**3.5**	**4.3**	**4.6**	**4.6**	**4.6**	**4.6**
Rural Health Centres	nos.	**-**	**1.0**	**127.0**	**330.0**	**494.0**	**550.0**	**552.0**	**552.0**
TB Centres	nos.	**-**	**90.0**	**122.0**	**245.0**	**283.3**	**285.0**	**289.0**	**289.0**
Beds in Hospitals & Dispensaries	000 nos.	**25.5**	**38.4**	**55.6**	**83.8**	**99.1**	**98.3**	**98.7**	**99.9**
Expenditure on Health as % of GDP		**-**	**0.6**	**0.8**	**0.7**	**0.6**	**0.7**	**0.6**	**0.6**

- : Not available *** : on Calendar Year basis** **P : Provisional**

Note : Total may differ due to rounding off **** : Labour Force Survey last conducted in 2012-13**

SOCIAL INDICATORS

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14 Jul-Mar (P)
155.4	158.2	161.0	163.8	173.5	177.1	180.7	184.4	188.0
26.1	26.1	26.1	24.3	28.0	27.5	27.2	26.8	26.4
8.2	7.1	7.1	7.3	7.4	7.3	7.2	7.0	6.9
77.0	76.7	76.7	68.2	72.0	70.5	69.0	67.5	66.1
46.8	50.5	50.8	52.2	53.7	58.1	59.3	60.3	60.3
43.2	47.3	48.1	49.5	50.8	54.7	55.8	56.6	56.6
3.6	3.1	2.7	2.7	2.9	3.5	3.5	3.8	3.8
7.6	6.2	5.2	5.2	5.5	6.0	6.0	6.2	6.2
157.5	158.7	157.4	156.7	157.5	155.5	154.6	158.6	159.0
97.7	97.8	92.5	93.3	96.9	93.6	93.6	93.4	92.1
59.8	60.9	64.9	63.4	60.6	58.2	57.0	65.2	66.9
39.4	40.1	40.8	40.9	41.3	41.6	42.0	42.1	42.4
20.1	22.6	20.2	20.5	21.8	21.9	21.6	20.7	20.3
19.3	17.5	20.6	20.4	19.5	20.4	21.0	21.4	22.1
22.9	23.6	24.0	24.3	24.8	25.2	28.7	29.8	31.9
14.8	14.6	15.0	15.1	14.2	14.4	14.3	17.5	18.9
8.1	9.0	9.0	9.2	10.6	9.5	11.6	12.3	13.0
3059.0	3090.0	3125.0	3159.0	3192.0	3224.0	3257.0	3290.0	3324.0
1584.0	1599.0	1618.0	1636.0	1010.0	1018.0	1028.0	1037.0	1047.0
1475.0	1491.0	1507.0	1523.0	2182.0	2206.0	2229.0	2253.0	2277.0
54.0	55.0	56.0	57.0	57.7	58.0	58.0	60.0	-
65.0	67.0	69.0	69.0	69.5	69.0	70.0	71.0	-
42.0	42.0	44.0	45.0	45.2	46.0	47.0	48.0	-
2.2	2.4	2.4	2.1	2.0	1.7	2.0	2.0	-
118.0	123.1	128.0	133.9	139.5	144.9	152.4	160.9	167.8
51.2	57.7	62.6	65.4	69.3	73.2	77.7	82.1	86.2
6.7	7.4	8.2	9.0	9.8	10.5	11.6	12.7	13.7
919.0	924.0	945.0	948.0	968.0	972.0	980.0	1092.0	1096.0
4.6	4.7	4.7	4.8	4.8	4.8	5.0	5.2	5.3
556.0	560.0	562.0	561.0	572.0	577.0	579.0	640.0	650.0
289.0	288.0	290.0	293.0	293.0	304.0	345.0	326.0	326.0
101.5	102.1	103.2	103.0	103.7	104.1	107.5	111.7	111.9
0.5	0.6	0.6	0.5	0.5	0.2	0.3	0.3	0.4

HIGHLIGHTS OF PAKISTAN ECONOMIC SURVEY 2013-14

Growth and Investment

- The outgoing year witnessed global recovery as the world economy started picking up in the second half of last year and the global outlook indicates some signs of optimism.
- In South Asia economic performance of Pakistan is improving quantitatively and qualitatively as growth is broad based and touched all sectors of the economy and is the highest achievement since 2008-09.
- China and Pakistan have entered into a comprehensive plan of "economic corridor" between the two nations. It will serve as driver for connectivity between South Asia and East Asia.
- Major success of the outgoing fiscal year includes: picking up economic growth, inflation contained at single digit, improvement in tax collection, reduction in fiscal deficit, achieving of GSP plus status by EU, worker remittances touches new height, successful launching of Euro Bond, auction of long pending 3G and 4G licenses; foreign exchange reserves significantly rise, Rupee strengthened and stock market created new history.
- Government has introduced a comprehensive agenda of reforms which is highly focused on inclusive growth to reinvigorate the economy, spur growth, maintain price stability, provide jobs to the youth and rebuild the key infrastructure of the economy.
- The GDP growth accelerates to 4.14 percent in 2013-14 against the growth of 3.70 percent recorded in the same period last year. The growth momentum is broad based, as all sectors namely agriculture, industry and services have supported economic growth.
- The agriculture sector accounts for 21.0 percent of GDP and 43.7 percent of employment, the sector has strong backward and forward linkages. The agriculture sector has four sub-sectors including: crops, livestock, fisheries and forestry.
- Agriculture sector recorded a growth of 2.1 percent against the growth of 2.9 percent last year. The decline in its growth was due to drop in cotton production and other minor crops due to extreme weather but somehow compensated by the better output of rice, sugarcane, wheat and maize crops.
- Important crops account for 25.24 percent of agricultural value addition. This sub-sector has recorded a growth of 3.74 percent compared to a growth of 1.19 percent last year. The important crops includes all major crops like wheat, maize, rice, sugarcane and cotton which registered growth at 4.44 percent, 7.27 percent,22.79 percent, 4.27 percent and (-) 2.00 percent respectively.
- Other crops have share of 11.65 percent to value addition in overall agriculture sector. This sub-sector has witnessed growth at (-) 3.53 percent against the growth of 6.05 percent last year. This decline in growth of minor crops is mainly due to 36.8 percent lower production in gram, 7.8 percent less production of Potatoes, 5.1 percent decline in production of masoor and 5.4 percent decrease in other pulses.
- Pakistan is one of the leading producers and consumers of cotton in the world market. Ginning is the procedure for separating lint from the seed to cotton. Cotton Ginning has witnessed a growth of (-) 1.33 percent against the growth of (-) 2.90 percent in the previous year due to reduction of the production of cotton as compared to last year.

- Livestock contributes 55.91 percent of agriculture value addition. Livestock consist of cattle, buffalos, sheep, goat, camel, horses, asses, mules and poultry and their products. It has registered a growth of 2.88 percent against 3.99 percent last year.
- Growth of the forestry sub-sector is witnessed at 1.52 percent as compared to the growth of 0.99 percent last year.
- Fisheries sub-sector has 2.03 percent contribution in agriculture registered a growth of 0.98 percent compared to the growth of 0.65 percent last year.
- The industrial sector contributes 20.8 percent in GDP; it is also a major source of tax revenues for the government and also contributes significantly in the provision of job opportunities to the labour force.
- Government planned and implemented comprehensive policy measures on fast track to revive the economy. As a result industrial sector started revival and recorded remarkable growth at 5.8 percent as compared to 1.4 percent in last year.
- The manufacturing is the most important sub-sector of the industrial sector containing 64.92 percent share in the overall industrial sector. Growth of manufacturing is registered at 5.55 percent compared to the growth of 4.53 percent last year.
- Manufacturing has three sub-components; namely the Large-Scale Manufacturing (LSM) with the share of 52.45 percent, Small Scale Manufacturing with the share of 7.97 percent and Slaughtering with the share of 4.49 percent.
- Small scale manufacturing witnessed growth at 8.35 percent against the growth of 8.28 percent last year and slaughtering growth is recorded at 3.51 percent as compared to 3.60 percent last year.
- LSM has registered an improved growth of 5.31 percent as compared to the growth of 4.08 percent last year.
- The share of construction in industrial sector is 11.48 percent and is one of the potential components of industries. The construction sector has registered a growth of 11.31 percent against the growth of (-) 1.68 percent of last year. This is also highest growth level achieved since 2008-09.
- Mining and quarrying sub-sector contains 14.45 percent share of the industrial sector. This sub-sector witnessed a growth of 4.43 percent as compared to 3.84 percent growth of last year.
- Electricity generation & distribution and Gas Distribution is the most essential component of industrial sector. This sub-sector has registered growth at 3.72 percent as compared to negative growth (-16.33) percent in last year.
- The share of the services sector has reached to 58.1 percent in 2013-14. Services sector contains six sub-sectors including: Transport, Storage and Communication; Wholesale and Retail Trade; Finance and Insurance; Housing Services (Ownership of Dwellings); General Government Services (Public Administration and Defense); and Other Private Services (Social Services).
- The Services sector has witnessed a growth rate of 4.3 percent as compared to 4.9 percent last year. The growth performance in services sector is broad based, all components contributed positively in growth, Finance and Insurance at 5.2 percent, General Government Services at 2.2 percent, Housing Services at 4.0 percent, Other Private

Services at 5.8 percent, Transport, Storage and Communication at 3.0 percent and Wholesale and Retail Trade at 5.2 percent.

- Pakistan Bureau of Statistics released quarterly growth rate for the first time during the current fiscal year. Pakistan has shared its methodology for preparation of quarterly economic figures with international financial institutions like IMF. They have expressed complete satisfaction over the mythology.
- Three main drivers of economic growth are consumption, investment and export. Pakistani society like other developing countries is a consumption oriented society, having high marginal propensity to consume.
- The private consumption expenditure in nominal terms reached to 80.49 percent of GDP, whereas public consumption expenditures are 12.00 percent of GDP. Total consumption expenditures have reached to 92.49 percent of GDP in outgoing fiscal year compared to 92.14 percent of last fiscal year.
- Per capita income in dollar terms recorded a growth of 3.5 percent in 2013-14 as compared to 1.44 percent last year. The per capita income in dollar terms has reached to $ 1,386 in 2013-14.
- Total investment is recorded at 13.99 percent of GDP, Fix investment is registered at 12.39 percent of GDP. Private investment witnessed at 8.94 percent of GDP. Investment has been hard hit by internal and external factors during the last few years.
- Total investment witnessed a growth of 8.5 percent as compared to 8.4 percent last year. Public investment recorded an impressive growth rate at 17.12 percent as compared to (-0.35) percent last year.
- Total investment which was recorded at Rs.3,276 billion in 2012-13 increased to Rs.3,554 billion for 2013-14.
- Public investment has recorded and impressive growth at 17.12 percent at compared to negative growth (-0.35) percent last year. Public investment which was recorded at Rs.748 billion in 2012-13 is reported at Rs.877 billion in 2013-14.
- Public investment as a percent of GDP increased to 3.45 percent against the 3.33 percent last year.
- During July-March, 2013-14 credit to private sector flows increased to Rs.335.8 billion against the expansion of Rs.139.8 billion in the comparable period last year.
- Government has launched a number of initiatives to create enabling environment in the country including steps to improve energy situation, law and order, auction of 3G and 4G licenses, and other investment incentives for the investors.
- National savings are 12.9 percent of GDP in 2013-14 compared to 13.5 percent in 2012-13. Domestic savings is witnessed at 7.5 percent of GDP in 2013-14 as compared to 8.3 percent of GDP in 2012-13. Net foreign resource inflows are financing the saving investment gap.
- Present government has launched comprehensive plan to create investment friendly environment and to attract foreign investors in the country. As is evident, the capital market has reached to new height and emitting positive signals for restoring the investor’s confidence.
- Pakistan's policy trends have been consistent, with liberalization, de-regulation, privatization, and facilitation being its foremost cornerstones. Board of Investment (BOI)

under the Prime Minister's office has approved investment policy to provide more investment friendly environment to investors.

- Total foreign investment has reached to $2979 million during July-April 2014 as compared to $1277 million showing 133.3 percent higher as compared to last year. Out of total foreign investment, the FDI has reached to $750.9 million.
- The major inflow of FDI is from US, Hong Kong, UK, Switzerland and UAE. Oil & gas exploration, financial business, power, communications and Chemicals remained major sectors for foreign investors.
- According to Migration and Remittances report 2014 of the World Bank, Pakistan is ranked on 7th number, in terms of the largest recipient of officially recorded remittances in the world. After India Pakistan is the second largest recipient of remittances in South Asian region.
- Pakistan is also one of the countries among 20 countries of the world where remittances cover more than 20 percent of imports and also remittances are equivalents to more than 30 percent of exports.
- The government is also aiming to explore new markets to export its manpower as well as incentives for the remittances to further enhance its growth. The available data suggest inflow of the remittances for the period of July-April 2013-14 stood at $ 1,289.46 million compared to $ 1,156.98 million during the corresponding period last year, which is 11.45 percent higher over the previous period.

Agriculture

- The agriculture growth stood at 2.1 percent during July-March, 2013-14 as compared to 2.9 percent during the last year.
- During 2013-14, Cotton production stood at 12,769 thousand bales as compared to 13,031 thousand bales in 2012-13, and registered a decline of 2.0 percent.
- Wheat production increased to 25,286 thousand tons in 2013-14, as compared to 24,211 thousand tons in 2012-13, showing an increase of 4.4 percent.
- Rice production has increased to 6,798 thousand tons in 2013-14, as compared to 5,536 thousand tons in 2012-13, showing an increase of 22.8 percent.
- Sugarcane production has increased to 66.5 million tons in 2013-14, as compared to 63.8 million tons last year, and registered an increase of 4.3 percent.
- Maize production has increased to 4,527 thousand tons in 2013-14, as compared to 4,220 thousand tons in 2012-13, showing an increase of 7.3 percent.
- Other crops that contributed 11.6 percent value addition in agriculture witnessed a negative growth of 3.5 percent in 2013-14, against positive growth of 6.1 percent during the same period last year.
- Gram production has decreased to 475 thousand tons in 2013-14, as compared to 751 thousand tons in 2012-13, showing a decline of 36.8 percent.
- During July-March, 2013-14, the production of Moong increased by 3.3 percent, while production of other pulses Mash and Masoor (Lentil) decreased by 6.4 and 5.1 percent, respectively. The production of potatoes and chillies witnessed a decline of 7.8 and 1.4 percent, respectively.

- During July-March, 2013-14 about 372.0 thousand tons of improved seeds of various Kharif/Rabi crops were procured.
- During July-March, 2013-14, the banks have disbursed agriculture credits of Rs. 255.7 billion, which is 67.3 percent of the annual target of Rs. 380.0 billion. The disbursement is 10.7 percent higher than Rs. 231.0 billion disbursed during the corresponding period last year. The outstanding portfolio of agriculture loans has increased by Rs. 39.1 billion (16 %) i.e. from Rs. 241.9 billion to Rs. 281.0 billion at end March, 2014 as compared to same period last year.
- During 2013-14, the availability of water for Kharif 2013, remained 13.5 percent more than Kharif 2012 and 2.4 percent less than the normal supplies of 67.1 MAF. The water availability during Rabi season 2013-14, was estimated at 32.5 MAF, which was 1.9 percent higher than last year's Rabi crop but 10.7 percent less than the normal availability of 36.4 MAF.
- Kharif 2013 started with inventory of 220 thousand tonnes of urea, making total availability of urea (including 325 thousand tonnes of imported supplies, 2496 thousand tonnes of domestic production) about 3041 thousand tonnes against the offtake of 2851 thousand tonnes, leaving an inventory of 175 thousand tonnes for Rabi 2013-14.
- Total availability of DAP during Kharif 2013, was 921 thousand tonnes comprising 197 thousand tonnes of inventory, 326 thousand tonnes of imported supplies and 398 thousand tonnes of local production. DAP offtake was 616 thousand tonnes leaving closing balance of 307 thousand tonnes for coming Rabi 2013-14.

Manufacturing and Mining

- During the first nine month period of 2013-14, Large Scale Manufacturing posted a growth of 4.3 percent as compared to growth of 3.5 percent during the same period last year.
- During July-March 2013-14 positive growth of LSM includes sectors: Fertilizers 21.64 percent, leather products 12.96 percent, Rubber Products 9.48 percent, Paper & Board 8.03 percent, Food Beverages & Tobacco 7.78 percent, Coke & Petroleum Products 7.48 percent, Chemicals 6.71 percent, Iron and Steel Products 3.38 percent, Electronics 2.91 percent, Textile 1.44 percent and Non metallic mineral Products 0.15 percent. Few sectors recorded negative growth including Engineering products 21.40, Wood products 8.91 percent, Pharmaceuticals 0.49 percent and Automobiles 0.01 percent.
- New initiatives including, capacity enhancement, upward trend in credit utilization, construction activities and use of alternate energy by various industries also helped in supporting LSM sector.
- In Automobiles, the sub items of automobile such as LCVs, Trucks, Buses and Motor Cycle posted a growth of 27.95 percent, 30.94 percent, 11.25 percent and 3.38 percent respectively while Tractors registered a negative growth of 33.57 percent.
- The Mining and Quarrying sector estimated to grow at 4.4 percent in 2013-14 as against 3.8 percent last year. Sulphur, Chromites, Bauxite, Dolomite, Coal, Lime Stone, Crude Oil and Rock Salt posted a positive growth rate of 74.7 percent, 70.8 percent, 53.3 percent, 40.7 percent, 16.0 percent, 14.3 percent, 11.6 percent and 10.7 percent, respectively. However few witnessed negative growth rate during the period under review such as the growth of Barytes declined by 41 percent followed by Magnesite 39.6 percent, Cooper 28.4 percent, Soap Stone 9.2 percent and Phosphate 9.1 percent respectively.

Fiscal Development

- Present government soon after coming into power in June, 2013, took instant measures to improve the fiscal situation through expenditure management strategy and raising tax and non-tax revenues during fiscal year 2013-14.
- Under prudent expenditure management strategy, various initiatives have been taken including 30 percent cut in current budget of Ministries/Divisions except pay and allowances, phasing out of electricity subsidies and announced restructuring of bleeding PSEs.
- In an effort to enhance resource mobilization efforts in the country and increase tax to GDP ratio from the lowest level of 8.7 percent to 15 percent in the next few years, a comprehensive strategy is being devised which comprises of three broad categories such as: a) broadening of tax base, b) removing anomalies in the taxation system and c) Improving tax compliance.
- As a result of these efforts, initial gains started to emerge as fiscal deficit reduced to 3.2 percent of GDP during July-March, 2013-14, against 4.7 percent in the comparable period of last year.
- Total expenditure of Rs. 5,297.2 billion was estimated for the full year, comprising of Rs. 3,963. 0 billion of current expenditure (74.8 percent of total) and Rs. 1,334.3 billion of development expenditure and net lending (25.2 percent of total).
- During July-March, 2013-14, total expenditures contained at 3.7 percent against 20.4 percent growth in the same period of 2012-13.
- Total revenue increased by 16.6 percent during July-March, 2013-14, and stood at Rs. 2,477.4 billion compared to Rs. 2,124.9 billion in the same period of 2012-13.
- Tax revenues amounted to Rs. 1,786.2 billion against Rs.1, 527.8 billion in the same period last year, thus posted a growth of 16.9 percent. Significant growth in tax revenues was mainly on account of considerable rise in federal tax collection by 16.3 percent
- While, non tax revenues posted a significant growth of 15.8 percent during July-March, 2013-14, which amounted to Rs. 691.2 billion against Rs.597.0 billion in the same period last year.
- Fiscal accounts witnessed some respite on account of reduced subsidies, which remained lower than last year as it reached to Rs. 201.8 billion during July-March, 2013-14 against Rs. 270.0 billion in the comparable period of 2012-13.
- Following a growth of 24.3 percent in provincial tax revenues and 13.9 percent in federal transfers, the provincial surpluses posted a higher growth and reached to Rs. 257.9 billion during July-March, 2013-14.
- During July-April, 2013-14, FBR collected an amounted of Rs. 1,744.8 billion as provisional tax against Rs. 1,505.5 billion in the comparable period of 2012-13, reflecting a growth of around 15.9 percent.
- During the first ten months of current fiscal year, among the four federal taxes, highest growth has been witnessed in direct tax at 18.9 percent followed by sales tax at 18.8 percent and federal excise at 14.0 percent.
- During July-April, 2013-14, direct taxes remained a major source of FBR tax revenue collection, contributing 37.7 percent of total FBR revenues. Net collection was estimated

at Rs. 658.1 billion against Rs. 553.5 billion in the comparable period of fiscal year 2012-13.

- Indirect taxes increased by 14.2 percent in first ten months of current fiscal year and accounted for 62.2 percent of total FBR collection. Net collection was estimated at Rs. 1,086.7 billion against Rs. 951.9 billion in the same period last year.

Money and Credit

- Long standing structural issues posed multiple challenges for monetary management in Pakistan, however, current fiscal year witnessed significant improvement on account of contained government borrowings, increase in foreign exchange reserves and improvement in credit to private sector.
- Moreover, entering into 3-year arrangement under the Extended Fund Facility (EFF) with IMF, successful launch of Pakistan Sovereign Bonds worth $ 2.0 billion and auction of 3G/4G license during 2013-14, are major developments, which will further support the financial and external sector.
- During the first half of current fiscal year, SBP reversed its policy stance from accommodative to tight policy to contained inflation to single digit, as the rate was increased by cumulative 100 bps, staggered in two stages of 50 bps each.
- However, SBP adopted a cautious stance by maintaining the policy rate at 10.0 percent in latest monetary policy announced on 16th May, 2014, keeping in view the risks of inflationary pressures.
- Broad Money (M2) witnessed an expansion of 7.3 percent during July-9th May, 2013-14, against the growth of 10.3 percent in the comparable period last year.
- Net Foreign Assets improved and reached to Rs. 236.9 billion during July-9th May, 2013-14 as compared to a net contraction of Rs. 181.4 billion last year.
- Net Domestic Assets during July-9th May, 2013-14, stood at Rs. 411.3 billion against Rs. 970.2 billion during the same period last year, reflecting an increase of 4.8 percent over the last year.
- The government borrowing from the banking system for budgetary support and commodity operations reduced to Rs.199.6 billion during July-9th May, 2013-14, against Rs. 992.9 billion in the comparable period last year. Significant decline in government borrowing from the banking system due to contained borrowing for budgetary support is largely a reflection of improved fiscal accounts.
- Within the banking system, government retired Rs.10.5 billion to SBP against a borrowing of Rs. 416.8 billion in the same period last year.
- On the other hand government has borrowed only Rs. 275.2 billion from Scheduled banks during July- 9th May, 2013-14, against the borrowing of Rs. 659.0 billion last year.
- During July-9th May, 2013-14, loan for commodity operations witnessed a net retirement of Rs. 65.0 billion against the retirement of Rs. 84.2 billion during the same period last year.
- Credit to private sector flows increased to Rs. 296.4 billion during July-9th May, 2013-14, as compared to the expansion of Rs. 92.5 billion in the comparable period of last year.
- Weighted average lending rate (including zero mark-up) on gross lending has increased from 10.46 percent in March, 2013 to 10.53 percent in March, 2014 while weighted

average deposit rate have declined to 5.80 percent in March, 2014 from 6.03 percent in the same period last year.

Capital Markets

- Pakistan equity market, the KSE was one of the best performing stock markets in 2013. During this period the KSE-100 Index gained 49% and closed at 25,260 levels by end of December, 2013.
- The KSE-100 Index improved by 45.2 percent , a gain of 8,998 points since 11^{th} of May, 2013, General Elections and taking control of the PML(N) government till end-April, 2014.
- However, since 1st July-2013, the KSE 100 index increased by 7,907 points from 21,006 to 28,913 level (37.6 percent gain) till end April, 2014. This reflects the restoration of the confidence of the investors.
- Other reasons for outstanding performance of Karachi Stock Exchange includes better economic growth's estimates, improvement in industrial growth, reduction in load shedding, robust growth in remittances, single digit inflation and decline in the fiscal deficit etc.
- Pakistan Stock Markets has out performed during 2013-14 (July-April) among Global Stock Markets and remained at top of the list in percent gain (37.6 percent) surpassing China, India, Tokyo, Hong Kong, UK and USA markets.
- US S&P has registered an increase of 17.3 percent, while Bombay Sensex was up by 15.6 percent during the period under review. The UK FTSE 100 Index gained 9.1 percent, Hong Kong, Hang Seng market went up by 6.4 percent, Tokyo Nikkei increased by 4.6 percent and China Shanghai Composite was up by just 2. 4 percent during July-April 2013-14.
- The Index of KSE is primarily influenced by some blue chip companies. During the first ten months of the current fiscal year 2013-14, the combined paid-up capital of fifteen big companies was Rs. 91 billion, which constituted 13.17 percent of the total listed capital at KSE.
- During July-April, FY14 a total of 11 debt securities issued through private placement which includes two Privately Placed Term Finance Certificates of Rs. 9.827 billion, 6 Sukuk issues of Rs.19.000 billion, Listed Term Finance Certificates of Rs 2.770 billion and Commercial Paper of Rs. 0.150 billion.
- Small and Medium Enterprises (SMEs) plays vital role in the development of a country. SMEs are considered to be an important segment of the economy as they have the potential to create the economic as well as social growth. It is therefore essential to minimize the constraints and to provide a conducive environment for the growth and development of SMEs.
- The Securities and Exchange Commission of Pakistan (SECP) has approved the Regulations for listing of SMEs for the Islamabad Stock Exchange. The Regulations in addition to certain pre-requisite conditions provide a set of procedures for issue, listing and trading of shares of SMEs. Now SMEs can raise funds from the capital market, through listing, for meeting their financial needs for executing new projects and/or expansion of their existing businesses.

- In order to facilitate the general public during IPOs, SECP has introduced the concept of e–IPO, i.e. electronic submission of subscription form.
- The SECP in collaboration with the stock exchanges is in the process of introducing consequential reforms which are essential for taking the exchanges forward in the demutualized setup. The stock exchanges are in the process of bringing in strategic investors to benefit from their extensive expertise and technological knowhow, while at the same time bringing foreign investment, and broadening the investor base.

Inflation

- The inflation rate measured by the changes in CPI, averaged at 8.7 percent during July-April, 2013-14 against 7.7 percent in the comparable period last year.
- The increase in food inflation during the current year has driven up the overall inflation upward.
- The food inflation on average basis in July-April, 2013-14, is estimated at 9.3 percent and non-food 8.2 percent, as against 7.1 percent and 8.2 percent in the corresponding period last year.
- CPI food items have declining trend in prices of gram pulse, mash pulse, vegetable ghee, cooking oil and mustard oil.
- Core inflation on average basis during July-April, 2013-14, stood at 8.3 percent against 9.9 percent last year.
- WPI during July-April, 2013-14, on annual average basis has recorded an increase of 8.3 percent against 7.9 percent last year.
- The wholesale prices of food and non-food items, whose prices decreased from previous year are spices, pulses, vegetable ghee, other oil seed, furnace oil, synthetic carpets, radio and television related items.
- SPI recorded an increase of 9.8 percent during July-April, 2013-14 against 7.9 percent last year.
- Inflation has been contained during current fiscal year due to better supply position of major and minor crops, and regular monitoring of prices and supply chain by the National Price Monitoring Committee.
- National Price Monitoring Committee chair by Federal Finance Minister, monitor prices of essential commodities in consultation with provincial governments and concerned Federal Ministries/Divisions and organization.
- The government is finalizing the Food Security Policy, which will ensure production and availability of food items and minimize dependence on the import of essential food items.

Trade and Payments

- Exports during the first ten months (July-April) of the current fiscal year reached to US$ 20,997 million rising from US$ 20,143 million in the same period last year thereby witnessing a growth of 4.24 percent.
- Imports during the first ten months (July-April), showed a growth of 1.2 percent compared with the same period of last year and reached to $37,105 million against $36,665 million same period last year.

- Trade account balance recorded a marginally higher deficit during Jul-April, FY14, compared to same period last year. Trade account deficit increased by 2.8 percent in Jul-April, FY14.
- Services account deficit remained higher and stood at $2,171 million during July-April, 2013-14, as compared to $931 million during the same period last year. Higher services account deficit was the result of lower receipts under coalition support fund during Jul-April, 2013-14, compared to the same period last year. However, it is expected that receipt of CSF amount of $375 million in May, 2014, will improve the current account deficit.
- Worker's remittances showed a handsome growth of 11.5 percent and reached to $12,894.6 million during July-April, 2013-14, as against $11,569.8 million in the comparable period of last year.
- Current account deficit gradually widened during current financial year (Jul-Apr) to $ 2,162 million (0.9 percent of GDP) from $1,574 million during Jul-Apr, FY13 (0.7 percent of GDP) due to higher deficit in the services account.
- Capital and financial account improved and turned to surplus by a substantial amount of $4,998 million during July-April, 2013-14, as compared to a deficit of $440 million in the corresponding period last year.
- Foreign investment during Jul-Apr, FY14, increased by 133.3 percent compared to same period last year due to public investment in debt securities comprising special US dollar bonds Euro bonds, FEBC, DBC, T-bills and PIBs.
- Pakistan's foreign exchange reserves improved substantially and remained around $13.6 billion as on 21st May, 2014, an improvement of more than 28 percent.
- Pak Rupee recorded an appreciation of 1.1 percent in Jul-Mar FY14, compared to 3.8 percent depreciation in the same period last year. As a result, the exchange rate by end of June, 2014 is worked out to be Rs.98.77 against Rs.99.66 per US $ at end-June, 2013.

Public Debt

- Public debt stock reached at Rs.15,534 billion at the end of March, 2014, representing an increase of Rs.1,168 billion or 8 percent higher with that of last fiscal year.
- The primary source of increase in public debt during first nine months of current fiscal year was domestic debt that stood at Rs.10,823 billion representing an increase of 14 percent over end June 2013.
- External debt posed at Rs. 4,711 billion by end March, 2014, representing a decrease of Rs.138 billion as compared to end June 2013. This decline in external debt during first nine months of current fiscal year is mainly attributed to net repayments and appreciation of Pak Rupee against US Dollar.
- Government took following measures to effectively manage its public debt during first nine months of current fiscal year:
  - Developed its first Medium Term Debt Management Strategy (2014-18) to take informed financing decisions based on the evaluation of cost-risk tradeoffs.
  - Trading of government debt instruments was launched to broaden the investor base and have a liquid government securities market.

  - Pakistan successfully tapped international capital markets after a gap of 7 years and raised US$ 2 billion against the initial expectations of US$ 500 million. This transaction represented the largest ever international bond offering for Pakistan.
  - With increased external inflows, the government was able to reduce the pressure on domestic resources while strengthening the foreign exchange reserves vis-à-vis improving exchange rate parity which also contributed towards reduction in public external debt.

- Public debt servicing was Rs.1,155 billion during July-March, 2013-14, against the annual target of Rs.1,561 billion, thereby, consumed nearly 47 percent of total revenues.
- External Debt and Liabilities (EDL) stock was recorded at US$ 61.8 billion as at end March, 2014, out of which public external debt amounted to US$ 47.8 billion. IMF has approved three years Extended Fund Facility Program for Pakistan on September 04, 2013, of SDR 4.4 (US$ 6.64) billion against which US$ 1,657 million was disbursed in the first nine months of current fiscal year. Total disbursements excluding IMF were US$ 2,301 million during first nine months of current fiscal year compared to US$ 1,782 million during the same period last year.
- The servicing on EDL was recorded at US$ 5,388 million during first nine months of current fiscal year. An amount of US$ 4,747 million was paid against principal, out of which, US$ 2,519 million was against IMF loans.

Education

- According to the latest Pakistan Social and Living Standards Measurement Survey 2012-13, the literacy rate (10 years and above) is estimated at 60 percent as compared to 58 percent in 2011-12.
- Literacy remained much higher in urban areas than in rural areas and higher among male.
- Province-wise data suggest that Punjab leads with 62 percent, followed by Sindh with 60 percent, Khyber Pakhtunkhwa with 52 percent and Balochistan 44 percent.
- Government of Pakistan is currently spending 2.0 percent of its GDP on education sector and is fully committed to 2.0 percent of GDP to 4.0 percent of GDP by 2018.
- The federal government is spending huge amount of Rs. 59.28 billion during current year 2013-14, in addition to the provincial allocation of Rs. 59.440 billion to accelerate the pace of education at all levels and to achieve the MDGs targets.
- Gross Enrolment Rates (GER) at the primary level excluding Katchi (prep) for the age group 5-9 years at national level during 2012-13, remained 91 percent.
- Amongst the provinces, Punjab remains stable with Primary level GER at 98 percent; Sindh shows improvement to 81 percent in 2012-13 from 79 percent in 2011-12 and Khyber Pakhtunkhwa also improved to 91 percent in 2012-13 from 89 percent in 2011-12 while Balochistan witnessed improvement of 70 percent in 2012-13 from 69 percent in 2011-12.
- Net Enrolment Rates (NER) at the national level during 2012-13 remained at 57 percent.
- At national level, the total number of enrolments during 2012-13, stood at 41.1 million as compared to 40.3 million during the same period last year. This shows an increase of 2.0 percent. It is estimated to increase to 42.2 million during 2013-14.

- At national level, the overall number of institutes stood at 240.3 thousands during 2012-13, as compared to 234.5 thousands during the last year. This shows an increase of 2.5 percent. However, the number of institutes is estimated to increase to 243.8 thousands during 2013-14.
- During July-March 2013-14, a total of 6,677 youth received Vocational & Technical training under the President' Fanni Maharat Programme and Prime Minister's Hunermand Pakistan Programme and 2,687 are still under training.
- HEC is also contributing to play its role in running different scholarship programmes to enhance academic qualification at various levels on merit basis in line with specified criteria. During the period 2008-13, a total number of 7,731 scholarships were awarded under different programmes of HEC.
- The federal government, on the direction of the Prime Minister of Pakistan has launched a scheme to support the students from less developed areas. Under this innovative and special scheme, apart from tuition fee, the federal government have paid other academic, incidental, or mandatory fees charged by educational institutions as one-off or on a per semester basis of Masters, MS/ M. Phil and Ph.D. students of selected/backward areas. Under the programme, Rs.1200 million will be paid as fee for 35,000 students.
- The development portfolio of HEC, includes 129 on-going development projects in the Federal PSDP 2013-14 and Government of Pakistan has included 33 new development projects at an estimated cost of Rs. 26.3 billion, having an allocation of Rs. 2.6 billion for current year 2013-14.

Health & Nutrition

- In the whole country, there are 1,096 hospitals, 5,310 dispensaries, 5,527 basic health units and 687 maternity and child health centre's in Pakistan as compared to 1,092 hospital, 5,176 dispensaries, 5,478 basic health units and 628 maternity and child health centre's in the same period of last year.
- The number of doctors has increased to 167,759, dentists 13,716, nurses 86,183 and hospital beds 111,953 in the country during 2013-14 compared to 160,880 doctors, 12,692 dentists, 82,119 nurses and 111,726 hospital beds last year. The population and health facilities ratio worked out 1,099 persons per doctors, 13,441 persons per dentist and 1,647 persons per hospital bed. It was 1,123 persons per doctor, 14,238 per dentist and availability of one bed for 1617 person in 2012-13.
- During July-April, 2013-14, 32 basic health units and 7 rural health centre's have been constructed, while 10 rural health centre's and 37 basic health units have been upgraded.
- During nine months of 2013-14, 5,000 doctors, 500 dentists, 3,150 nurses and 4,500 paramedics have completed their academic courses and 3,600 new beds have been added in the hospitals compared to 4,400 doctors, 430 dentists, 3,300 nurses, 4,500 paramedics and 4,200 beds over last year.
- Moreover, some 6 million children have been immunized and 21 million packets of ORS have been distributed.
- A number of health program are implemented, which include Malaria, TB, AIDs and Food and Nutrition program.
- For the current year a total outlay for health sector is budgeted at Rs.102.3 billion which included Rs.27.8 billion for development and Rs.74.5 billion for current expenditure which is equivalent to 0.40 percent of GDP during 2013-14 as compared to 0.35 percent in 2012-13.

Population, Labour force and Employment

- Population growth rate has shown improvement and it decreased from 1.97 percent in 2013 to 1.95 percent in 2014.
- Total population is projected at 188.02 million during the year 2014.
- Fertility Rate (TFR) declined to 3.2 children per women in 2014 as compared to 3.3 in 2013.
- Contraceptive Prevalence Rate has improved from 30 percent in 2013 to 35 percent in 2014.
- Life expectancy has also increased from 66.5 (female) and 64.6 (male) in 2013 to 66.9 (female) and 64.9 (male) in 2014.
- Crude Birth Rate has improved from 26.8 per thousand in 2013 to 26.4 per thousand and Crude Death Rate has decreased from 7.0 per thousand in 2013 to 6.9 per thousand in 2014.
- Infant Mortality Rate decreased to 66.1 per thousand in 2014 from 67.0 per thousand in 2013.
- Urban population has increased to 72.5 million in 2014 from 69.8 million in 2013, while rural population has increased to 115.5 million in 2014 from 114.4 million in 2013.
- Total labour force has increased from 57.2 million in 2010-11 to 59.7 million in 2012-13.
- Total number of people employed during 2012-13 was 56.0 million.
- Unemployment rate has increased to 6.2 percent in 2012-13 as compared to 6.0 percent in 2010-11.
- The share of employment in agriculture sector has decreased to 43.7 percent in 2012-13 as compared to 45.1 percent in 2010-11.
- The employment share by manufacturing sector has increased to 14.1 percent in 2012-13 from 13.7 percent in 2010-11.
- The share of wholesale and retail trade has decreased to 14.4 percent in 2012-13 as compared to 16.2 percent in 2010-11.
- The share of community/social and personal service has increased to 13.3 percent in 2012-13 from 10.8 percent in 2010-11.
- Prime Minister launched youth assistance package which comprises schemes: Interest Free Loan Scheme, Business Loan Scheme, Youth Training Scheme, Youth Skill Development Scheme, Fee Reimbursement Scheme for Students from less developed areas and Provision of Laptops Scheme.

Transport and Communications

- Pakistan’s total road network is around 263,775 Kms which carries over 96 percent of inland freight and 92 percent of passenger traffic.
- Length of NHA road network is around 12,131 kms comprises of 39 national highways, motorways, expressway and strategic roads.

- During current financial year 2013-14, NHA executed 83 development projects costing Rs. 615.2 billion. Government of Pakistan has allocated Rs. 63.04 billion in the Federal PSDP for construction of roads, river bridges, tunnels, flyovers and interchanges.
- Government of Punjab and the Federal government have jointly started twin cities Rawalpindi-Islamabad Metro-Bus service project on 23rd March, 2014 with a total cost of Rs. 44.21 billion. Metro bus project will be completed in next 10 months.
- The entire length of 8.6 Km of Metro Bus corridor in Rawalpindi area shall be of elevated structure where as 14 Km in Islamabad shall be at grant.
- The network of Pakistan Railway comprises of 7,791 route kilometers, 423 Locomotives, 1,700 passenger coaches and 16,179 freight wagons.
- Government is taking new initiatives to improve the performance of Pakistan Railways by repairing/purchasing of locomotives, enhanced HSD oil reserves up to 12 days to streamline the train operation.
- During financial year 2013-14, 63 Kms of track has been rehabilitated besides doubling of 57 kms track.
- During 2013-14, Pakistan Railway executed 33 development projects costing 241.7 billion. Government of Pakistan has allocated 30.964 billion for the continuation of its on-going projects.
- Since 2002, the performance of Pakistan International Airlines (PIA) has been on downward trend. Government is taking initiatives/steps to improve the performance of PIA by contracts re-negotiation, route rationalization, re-deploying aircrafts on more profitable domestic and international routes.
- Pakistan National Shipping Corporation (PNSC) provides transportation services for crude oil requirements of the country comprises of nine vessels of various types/size with a total deadweight capacity of 642,207 tonnes.
- During July-March, 2013-14, PNSC companies earned a revenue of Rs.11.37 billion as against Rs. 8.21 billion over the corresponding period of last year showing a growth of 38.5 percent.
- During July-March 2013-14, Port Qasim Authority handled 0.632 million TEUs (Twenty Equal Units) of container traffic which is 17.5 percent higher over the corresponding period of last year.
- At Gawadar Port, 563.2 tons Urea import was handled during July-March 2013-14.
- During July-March 2013-14, the total cargo handled at Gawadar Port stood at 5764.4 thousand tons against 5064.8 thousand tons over the corresponding period of last year showing a growth of 13.8 percent.
- Telecom revenues during Jul-Mar 2013-14, was amounting to Rs.345.5 billion which made this sector very attractive for further investment.
- Teledensity has been improved and facilities have reached to 78 percent of population and cover 92 percent of the total land area of the country which is better in comparison with the regional countries.
- The introduction of 3G/4G spectrum would help in expediting socio-economic progress of the country. Auction of 3G /4G spectrum is the major achievement of the government in Telecom Sector and has earned revenue of $1112.8 million.

- PTA has issued a license to CM Pak for Long distance International (LDI), Local Loop in all 14 Telecom regions of Pakistan and Trans World Infrastructure Services for Infrastructure development.
- During July-March, 2013-14, Telecom sector earned revenue of Rs.345.5 billion against Rs. 323.0 billion during July- March 2012-13
- Investment in Telecom Sector has been amounted to US $ 530 million during July-March 2013-14 against US $ 251 million during July-March 2012-13 invested in telecom infrastructure development and new technologies.
- Cellular Mobile subscribers reached to 136.5 million at the end of March, 2014.
- During the period July-March 2013-14, an amount of Rs. 161.37 billion has been collected through National saving Schemes and Pakistan post has earned commission amounting to Rs.806.8 million.

Pakistan's Energy Sector

- Government retired the circular debt (Rs 480 billion) immediately after taking oath which added 1752 MW of electricity into the system.
- In order to resolve the issue on permanent basis, the government prepared National Power Policy (2013) which was announced to provide an affordable energy in the country through efficient generation, transmission and distribution system. It is expected that the policy will set Pakistan on a trajectory of rapid economic growth and social development.
- The main targets of this Policy for year 2017 are:
  i. To fully eliminate load shedding;
  ii. To decrease cost of generation from 12c/unit to 10c/unit;
  iii. To decrease transmission losses from 25 percent to 16 percent
  iv. To improve collection of bills to 95 percent
- Presently, IPPs are around 50% of the country's present installed generation capacity thus efforts are made to attract leading international/local investors and lenders to the Pakistan Power Sector. In this regard, an investment of around US$ 9.4 billion has been attracted during 2013-14.
- 84 MW New Bong Hydropower Project, the first hydro IPP in Pakistan/AJ&K has been commissioned.
- 10.5 MW Gas Based Davis Energen Project at Jhang started producing electricity and is contributing to FESCO's Network.
- 2 x 660 MW Imported Coal based Power Project at Port Qasim, Karachi has been inaugurated.
- To increase the hydel capacity of electricity generation proposals have been invited for the construction of:
  - 590 MW Mahl Hydro Power Project
  - 132 MW Rajdhani Hydro Power Project, AJ&K,
  - 350 MW Athmuqam Hydro Power Project, AJ&K,
  - 80 MW Neckeherdim-Paur Hydro Power Project, Chitral, KPK,

- 58 MW Turtonas-Uzghor Hydro Power Project, Chitral, KPK,

- During 2013-14 energy consumption was 40,185 million TOEs compared to 40,026 million TOEs in 2012-13 showing a growth of 0.4 percent. The current fiscal year has witnessed so far, much improvement in economic activity due to better available energy for usage on account of relatively less losses in transformation and distribution as compared to last year

- During July-March 2013-14, local crude extraction remained 23 million barrels while almost 44.9 million barrels were imported.

- Transport and power sectors remained the highest sector in the usage of oil / petroleum products. During July – March 2013-14, share of power in oil consumption is increased by 1.7 percentage points while share of transport and industry decreased by 0.8 and 0.6 percentage point respectively when compared to July – March, 2012-13.

- During July-March, 2013-14, the share of fertilizer industry in gas consumption increased to 19 percent, which was 15 percent in corresponding period last year. This major upturn was due to commitment of the government to provide gas to household, power industry and fertilizer industry on priority basis. Till 2013-14, there was increase in the use of gas (CNG) as input in transport, however due to load management in gas sector, there were prescribed hours/days for supplying CNG that had caused decline in the share of transport in gas consumption.

- During July-March, 2013-14, the total domestic production of coal remained 2,125 million tons, while 1,712 million tons of coal was imported.

- Pakistan’s coal generally ranks from lignite to sub-bituminous. Coal consumption is varying since 2000. About 39.1 percent of total coal consumed in the country has been utilized by brick kilns industry and 56.1 percent by cement factories, showing decrease of 3.46 percent and increase of 1.83 percent, respectively. Almost whole cement industry has been switched over from furnace oil to coal based heating, hence utilization of ingenious coal is gaining momentum.

- During July–March 2013-14, the installed capacity of electricity was 23,048 MW with hydro 6,858 MW, thermal 15,440 MW and nuclear 750 MW. Thus the hydropower capacity accounts for 29.7 percent, thermal 67.0 percent and nuclear 3.3 percent. However, electricity generation is almost 50 percent of installed capacity.

- There was an increase of 11 percent in electricity generation during July-April, 2013-14, compared to same period last year.

- 35 wind power IPPs holding LOIs issued by AEDB are at various stages of project development, while 49.5 MW by FFC Energy Limited and 56.4 MW by ZorluEnerji (Pvt.) Ltd in Jhampir, Distt. Thatta, Sindh have achieved Commercial Operations Date.

- In Solar Energy, 24 LOIs for cumulative capacity of approximately 792.99 MW On-Grid Solar PV power plants have been issued. Solar Village Electrification Program was initiated under PM’s directive. 3000 Solar Home Systems have been installed in 49 villages of district Tharparkar, Sindh. Another 51 villages in Sindh and 300 villages in Baluchistan have been approved for electrification using solar energy and will be implemented shortly.

- Framework for power Co-Generation has been approved by ECC for bagasse/biomass based sugar industry projects. 1500-2000 MW of power is expected to be generated in next 2-3 years.

Poverty and Social Safety Nets

- The official poverty line adopted by Planning Commission from Pakistan's Millennium Development Goal Report 2013 in Pakistan is estimated by using consumption based methodology, and the report provisionally shows that poverty has declined from 22.3 percent in 2005-06 to 12.4 percent in 2010-11.
- The decline in poverty can be attributed due to substantial allocations for social safety net programmes like tracking of pro-poor expenditures, BISP, PPAF, better support prices of agriculture/food products etc.
- Poverty reduction is one of the top priorities of present government. The government is fully committed to follow a sustained poverty reduction strategy and allocate a minimum of 4.5 percent of GDP to social and poverty related expenditures. The government prioritized 17 pro-poor sectors through the Medium Term Expenditure Framework (MTEF) in the PRSP-II.
- Expenditure on pro-poor sectors in 2009-10 stood at 13.4 percent of GDP, in 2010-11, 12.1 percent of GDP and in 2011-12, 10.4 percent of GDP. These expenditures were well above the requirement under the MTEF. During 2012-13, total expenditures for these sectors were amounted to Rs 1,911.300 billion, which was 12.0 percent of GDP.
- During July-December, 2013-14, Rs.588.105 billion expenditures have been made on these pro-poor sectors.
- BISP has been kept continued to eradicate extreme poverty through provision of cash transfers of Rs.1200/month to eligible families.
- BISP has allocation of Rs. 75 billion for 2013-14 and launched a number of programmes including (i) Waseela-e-Haq (Micro-finance), (ii) Waseela-e-Rozgar (Vocational & Technical Training), (iii) Waseela-e-Sehet (Life & Health Insurance), (iv) Waseela-e-Taleem to mitigate the impact of stabilization program as well as inflation.
- During July-March, 2013-14, Rs.48.18 billion has been disbursed to 5.25 million beneficiaries' families through Benazir Smart Card and Mobile Phone Banking across the country as compared to the beneficiaries of 4.8 million families same period last year.
- Pakistan Poverty Alleviation Fund (PPAF) also provide assistance in microcredit, water and infrastructure, drought mitigation, education, health and emergency response interventions. During the period of July-December of 2013-14, Pakistan Poverty Alleviation Fund has managed to disburse an amount of Rs 8.42 billion to its various on-going projects.
- Under the 18th constitutional Amendment, the subject of Zakat has been devolved to the Provinces/Federal Areas. Up to March, 2013 a total amount of Rs.4.05 billion has been distributed to the provinces and other administrative areas for onward distribution to the needy and deserving people.
- Pakistan Bait-ul-Mal (PBM) is also making efforts for eradication of poverty by providing assistance to destitute, widows, orphans, invalid, infirm and other needy persons through different initiatives.

Environment

- Government is making efforts for developing of Early Warning System to redress the adverse impacts of climate change.

- Level of suspended particulate matter PM 10 and PM 2.5 shall be brought within limits of Ambient Air Quality Standards.
- Measures are being taken for major cities to install sewerage treatment plants and the treated water will be used for agriculture and horticulture purposes.
- Cleaner Production Techniques will be adopted by industry to minimize pollution generation ensuring that at least 70% industrial waste-water is treated before discharge into water bodies.
- Integrated solid waste management system shall be promoted.
- Cloth bags, paper bags and biodegradable plastic bags will only be allowed.