2 Real Sector

2.1 Overview

Performance of real sector in Q1-FY15 does not appear encouraging. While most *kharif* crops posted lower-than-target production, the growth in large-scale manufacturing also declined (**Section 2.3**). Services, on the other hand, showed mixed results, with upbeat financial and telecom sectors but a weak transport sector. Wholesale and retail trade activity may remain strong due to an increase in import volumes, but its overall performance would hinge on whether the commodity producing sector picks up in the remaining part of the year.

2.2 Agriculture

Preliminary estimates for the *kharif* crops are not encouraging. Cotton and sugarcane crops are expected to remain short-of-target, whereas sugarcane may not achieve last year's level. Production of rice and cotton is likely to post 1.5 percent and 5.7 percent growth over last year, respectively.

Table 2.1: Production Estimates of Kharif Crops

thousand tons

	FY14		FY15	
	Target	Actual	Target	Estimates
Rice	6,200	6,798	6,808	6,901
Sugarcane	65,000	67,460	65,472	64,740
Cotton (000 bales)	14,100	12,769	15,100	13,498

Source: Planning Commission; Ministry of National Food Security & Research; and Cotton Crop Assessment Committee

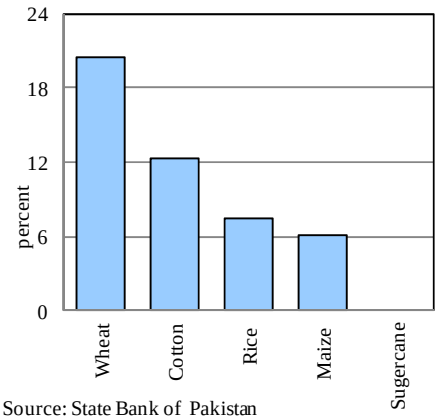
In terms of agri inputs, while water availability was better than last year, the use of fertilizer (both urea and DAP) posted a decline during Apr-Sep 2014. The use of bank credit witnessed significant improvement over last year.

Major crops

There appears to be a link between commodity prices and the area under cultivation during FY15. While the area under cotton and rice increased (benefiting from increase in crop prices in the previous season), sugarcane suffered from stagnant prices last year (**Figure 2.1**).[1] It must be noted here that the area under sugarcane cultivation posted a decline for the first time in last 6 years; in the previous five years, sugarcane was the only crop that showed resilience against floods, and adverse weather conditions. As a result, the crop size continued to increase, and by FY14, it touched the historic-high of 67.5 million MT.

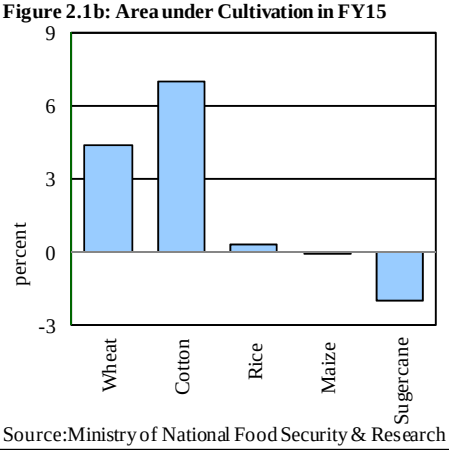
[1] Last year, the area under cotton had suffered because of water shortages at sowing time.

Figure 2.1a: Change in Price in FY14



Source: State Bank of Pakistan

Figure 2.1b: Area under Cultivation in FY15

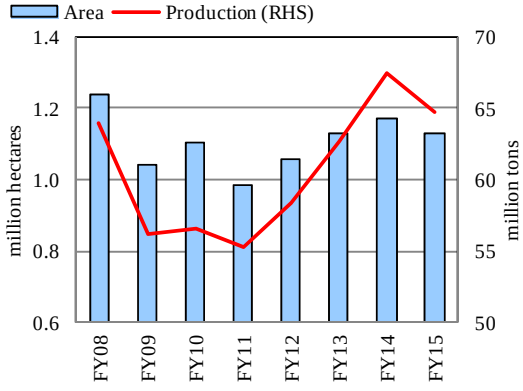


Source:Ministry of National Food Security & Research

Unfortunately, this increased production had a negative impact on farmers' income: sugarcane prices remained stagnant, as sugar mills were struggling with large inventories. Therefore, while input costs increased, sugarcane prices did not change.[2] In effect, FY15 is a repeat of FY09, when area under sugarcane declined due to price-related disputes between cane growers and sugar mills, amid a bumper crop in the previous season.

Having said this, we believe the damage in the sugarcane sector was more controlled in FY15 compared to FY09, due to better administrative handling of the issue. More specifically, sugar mills were able to offload a large volume of their stocks via exports in FY13 and FY14, which was allowed by the government. Hence, although area under cultivation declined in FY15 compared to FY14, it was more contained compared with

Figure 2.2:Area and Production of Sugarcane



Source: Ministry of National Food Security & Research

[2] In FY14, fertilizer prices were up by 5 percent, whereas, prices of pesticides and insecticides were higher by 28 and 12 percent YoY, respectively.

FY09 (**Figure 2.2**). Regional data shows that Punjab suffered more than other provinces, as the area was also reduced due to floods.[3] As far as Sindh is concerned, more area was brought under sugarcane, as farmers were still optimistic about their earnings, keeping in view the installation of new sugar mills in the vicinity.

News from the market is not encouraging: while the government has increased the sugarcane support price by Rs 10, to Rs180 per maund, it has not been able to satisfy either growers or millers.[4] Farmers claim that they cannot breakeven at any price below Rs 200 per maund, whereas sugar mills complain of high inventories and regulatory hurdles in passing on the higher procurement cost to end customers, and depress export market/prices. On 3rd December, Sindh government notified support price at Rs 155 per maund, however, upon protests from local farmers, it re-notified prices at Rs 182 per maund on 7th December.[5] Due to the stand-off between cane growers and sugar millers, the crushing has been delayed across the country.[6]

In case of cotton, the Cotton Crop Assessment Committee (CCAC) had initially estimated production at 13.5 million bales (170 kg each), which was 5.7 percent higher than the previous year. It is expected that due to low prices in the domestic market, farmers may not wait for the third and fourth picking. Nonetheless, it is expected that the final crop size for cotton would still remain larger than last year. In addition to area, the crop may gain from improved yields over the last year thanks to better water availability and certified seeds at the sowing time.[7]

As far as rice is concerned, there was an increase of 2.1 percent in the cultivated area over last year, and the production is estimated to have increased by 1.5 percent.[8] Most of the increase in rice production came from Punjab, which showed a 2.0 percent growth over last year. According to PBS, there has been some shift of sugarcane and maize crop area into the rice crop, especially in Faisalabad, Jhang, Chiniot, Kasur, Okara, Sahiwal and Bahawalnagar districts.

[3] According to SUPARCO's estimates, heavy rains and floods also damaged sugarcane crop area of around 12.8 thousand hectares. Major sugar producing district impacted were Multan, Muzaffargarh, and Chiniot.

[4] The government announced Sugarcane support price of Rs 180 per 40 kg for *Kharif* 2014.

[5] This increase came along with assurances to millers for necessary support in import restrictions and export quotas.

[6] Sugarcane crushing usually begins in the first week of November. However, this year the crushing was delayed especially in the areas of Hyderabad, Badin, Nawabshah, and Tharparkar. Some delays were also reported in Punjab, in the districts of Faisalabad, Sargodha, Sahiwal and Lahore.

[7] Source: Minutes of the first meeting of Cotton Crop Advisory Committee for *kharif* 2014.

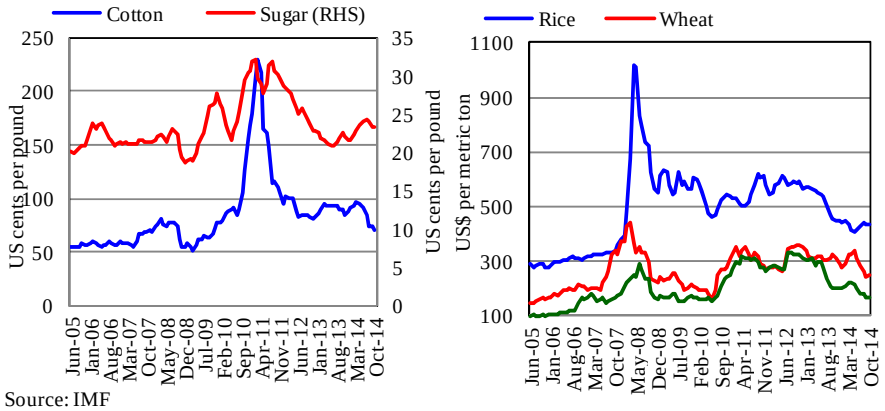
[8] Source: Pakistan Bureau of Statistics

Furthermore, basmati yields have also showed some improvement over last year. In Sindh rice production has posted an increase of 1.1 percent over last year. It is important to recall that most non-basmati rice varieties are grown in Sindh, and their exports have experienced a consistent increase in the previous few years.[9]

Global prices: Impact and Policy Response

Agri prices have been falling in the international market since Q3-FY14 (**Figure 2.3**). This trend was driven primarily by negative sentiments regarding the global economic recovery; depressed energy prices; improved supplies; and lower-than-expected consumption.[10] The decline in prices of cotton, rice and soybean, was more pronounced than other commodities. In case of cotton, bumper crops were recorded in the US, India and China, which together constitute 64 percent of global production.

Figure 2.3: International Prices



Source: IMF

In addition, a shift in cotton import policy was also responsible for depressed prices. More specifically, China has been importing cotton quite aggressively in recent years – around 15 million bales annually – not only to meet requirements of its textile industry, but also to build strategic reserves. Recently however, the government of China has significantly reduced cotton imports (in view of available stocks in the country), and has encouraged local manufacturers to

[9] Share of non-basmati has gradually reached up to 82 percent of Pakistan's total rice exports. Major destinations have been Kenya, Bangladesh, UAE, Afghanistan, and Somalia.

[10] One example was lower than projected growth of biofuels because of relatively higher costs.

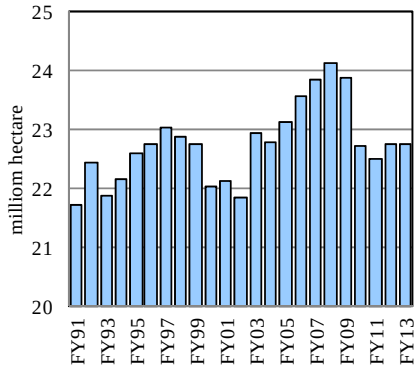
purchase cotton from the government's reserves, instead of importing.[11] Analysts think this policy has created a surplus of around 11 million bales in the international market, which has put downward pressure on prices.[12]

As for rice, prices continued to slide throughout FY14 because of rising stocks. Prices have recovered in Jul-Sep 2014 to some extent, but still are quite low compared to the same period last year. 2014 harvests have not been promising so far (especially in India, Indonesia, Philippines and Sri Lanka); and the future trend would depend on how the respective governments in these countries will offload in the global market. The World Bank has estimated that commodity prices would remain weak through most of 2015.[13]

How the fall in agriculture prices could shape agriculture trends?

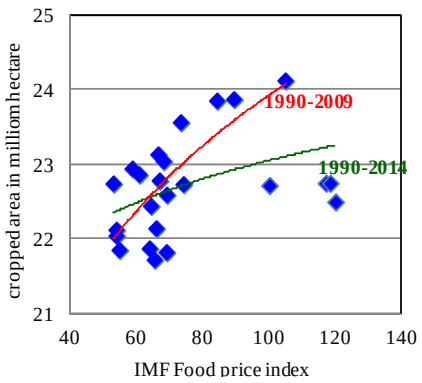
0There appears to be a strong correlation between what farmers get for their produce in one season, and their decision regarding area under cultivation in the next season (**Figure 2.4**). For instance, during FY04-FY09, prospects of food prices remained optimistic in the international markets, which improved agriculture incomes, and encouraged farmers to bring more area under cultivation.

Figure 2.4a: Cropped Area in Pakistan



Source: Pakistan Bureau of Statistics

Figure 2.4b: Foood Price Index Vs Cropped Area



Source: Economic Survey 2013-14; and Haver Analytics

[11] China has started restricting its local buyers to purchase from international sources with a policy restriction that 75 percent of the purchase must be made from domestic reserves while, rest of 25 percent can be imported.

[12] As soon as cotton prices in the international market started to fall, domestic spinners adopted wait & see policy, and postponed their purchases. Since farmers could not hold their produce for long, they were forced to sell at low price. As a result, cotton prices in the country hovered around Rs 2,200 - Rs 2,300/40 kg during Q1-FY15, compared to Rs 2,700 - Rs 2,800 in Q1-FY14.

[13] Commodity Markets Outlook, October 2014 by World Bank.

However, this trend seems to have changed since 2010: the country has experienced a steep fall in total cultivated area, despite rising food prices. This deviation/anomaly can be traced to recent climate changes, which created extreme weather conditions like floods and droughts that have increased crop vulnerability.

More specifically, when the 2010 floods hit the agriculture heartland in Punjab and Sindh, losses were reported in the crop and livestock sectors. Small farmers were displaced and incurred huge financial losses; their savings (crops, livestock, gold) were effectively wiped out with the single event.[14] As evident from **Figure 2.4a**, the area under cultivation has not yet recovered to pre-flood levels, showing that farmers have become increasingly cautious in their farm-related investments decisions.[15] And now with the decline in crop prices, we expect a strong response from subsistence farmers.

What should be the policy response?

Typically, governments respond to depressed commodity prices by intervening in the market. To some extent, such interventions are effective in rationalizing the demand-supply gaps and minimizing farmers' losses. However, these entail fiscal costs in the form of subsidies.

To mitigate farmers' losses, the government has directed TCP to revive its cotton purchase centers in Sindh and Punjab for procurement.[16] Accordingly, TCP has started buying one million bales of cotton from farmers, and is expected to achieve this target by end-December 2014. The procurement price has been set at Rs 3,000/40 kg (higher than last year's market price), to ensure reasonable returns to farmers.

Furthermore, the government has announced a support price of wheat at Rs 1,300/40 kg. The government has also increased the procurement price of sugarcane during the year, but as mentioned before, this increase was not sufficient to stabilize sugarcane prices in the country due to the ongoing stand-off between cane growers and millers. To mitigate this, the government has recently allowed the export of sugar to the tune of 0.65 million tons during FY15, and has also imposed a 20 percent regulatory duty on sugar imports, to avoid a sharp fall in domestic prices.

[14] Even when flood water receded, their poor financial condition did not allow them to reinvest in their land, in the form of spending on key inputs such as fertilizer, quality seeds and energy usage.
[15] Land quality also suffered due to floods, as farmers have to put in more efforts, and allocate additional money to make it cultivable. Furthermore, it is reported that in some parts, flood water has not receded yet and has caused excess moisture in the soil, making it uncultivable for most crops.
[16] Earlier TCP procured one million cotton bales in 2012 to stabilize market prices.

While market interventions would stabilize farmers' incomes to some extent, it has been observed that government procurement is not far-reaching, and only big farmers are able to sell their produce to procurement agencies. Small farmers face the brunt of low prices, as they are forced to sell their crops to *arhtis* at low rates. Furthermore, public-sector procurement agencies do not have proper storage facilities for agriculture produce, which often results in wastages. In the long-run, there is a need to make more transparent and inclusive mechanism of public procurement, benefiting all segments and regions of the country.

But government procurement is not the only solution; there are other *market-based* mechanisms to protect farmers' returns. For instance, the warehouse receipt system (WRS) is an institutional mechanism to mitigate some sources of price instability in the market.[17] With WRS in place, farmers can take their surplus to a designated warehouse, and get a receipt indicating the value of the stock, which can either be deposited in a bank as collateral, or sold to a broker for cash. Brazil, South Africa, the USA, and Bulgaria are a few countries that use warehouse receipts as collateral. In 2014, SBP issued a detailed framework for warehouse receipt financing, developed a working group with representatives from International Finance Corporation, ACE Controls and Expertise Global[18], and selected commercial banks for the implementation of this framework.

Commodity exchanges and futures markets also hedge farmers against price volatility. These markets basically ensure farmers get a reasonably stable price for their crop, against a certain quantity at a given period in time. Even subsistence farmers can grow more, if they know in advance what their returns would be. India, China and Brazil have managed to reduce the impact of price volatility by introducing commodity exchanges.[19]

Finally, crop insurance also protects farmers against unfavorable price movements. For instance, crop revenue coverage products are available in the US, which insures total *revenue* from the crop, thereby eliminating risk from both yield and price variability. However, such financial products require well-functioning commodity markets/exchanges and reliable set of information about the quantity and price of the produce.

[17] More specifically, small farmers are forced to sell their crop even when prices are depressed in the market, mainly because they need cash to pay for laborers, and make other post-harvest expenses. Therefore, they cannot afford to store their produce and wait for prices to recover.
[18] ACE global provides technical assistance in setting up warehouses and commodity standards.
[19] http://unctad.org/en/docs/ditccom20089_en.pdf

Agriculture Credit

Agriculture credit surged by 38.5 percent YoY during Q1-FY15; with this increase, commercial banks achieved 20 percent of their annual target of Rs 500 billion. This trend is heartening, as typically banks gear up their agri lending in last couple of quarters to achieve their annual target. Agri credit by all banks has posted a promising growth during the year, the improvement in domestic private banks and Islamic banks is more pronounced.

Table 2.2: Purpose-wise Disbursement of Agri Credit
billion rupees

	Q1-FY14	Q1-FY15
1. Production loans (A+B+C+D+E+F)	**66.5**	**86.1**
A- Crops	24.7	30.1
B- Horticulture	1.6	2.0
i- Vegetables	0.6	0.8
ii- Fruits	1.0	1.2
C-Livestock & dairy	12.2	19.4
D- Poultry	19.7	16.8
E- Corporate farming	0.2	0.5
F- Others	8.1	17.3
2. Development loans (A+B+C+D+E)	**4.3**	**12.0**
A- Crops	**1.9**	**3.6**
i-Tractors	0.9	1.7
ii-Farm machinery	0.1	0.1
iii-Tube wells	0.1	0.1
iv-Others	0.8	1.7
B-Livestock & dairy	2.2	5.8
C- Poultry	0.2	0.5
D-Corporate farming	0	2.0
E- Others	0.01	0.1
Grand total (1+2)	**70.8**	**98.1**

Source: State Bank of Pakistan

As expected, production loans in the crop sector constituted the bulk disbursements during the quarter, accounting for more than three-fourth of the total disbursements. However, development loans also posted strong growth during Q1-FY15, though their quantum remained insignificant (**Table 2.2**). Livestock has been the major recipient of development loans during the quarter, which reflects banks' growing interest in this high-potential sector. In addition, almost half of bank credit went to subsistence farmers[20], while economic[21] and above-economic[22] segments received around 25 percent share each.

Agri Credit: Analyzing Demand and Supply Side Constraints

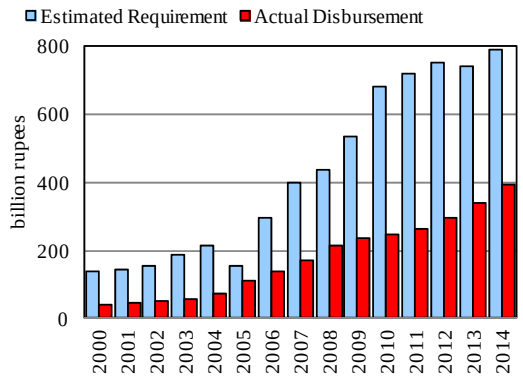
The sustainable growth of Pakistan's agriculture sector requires its transformation from traditional to modern farming practices, which entails greater use of certified seeds; efficient utilization of water; balanced use of fertilizer; and farm

[20] Subsistence farmers have land holding of upto 12.5 acres in Punjab and KPK; while upto 16 acres in Sindh and upto 32 acres in Balochistan.
[21] Economic farmers have land size of above 12.5 acres upto 50 acres in Punjab and KPK; while in Sindh above 16 upto 64 acres and in Balochistan above 2 upto 64 acres
[22] Above Economic farmers have land holding of above 50 acres in Punjab and KPK; and above 64 acres in Balochistan and Sindh.

mechanization. Adequate supply of agri credit from the formal sector, is key for this transition, as lack of funds leave farmers with no choice, but to farm on traditional lines which are largely responsible for lower crop yields over the years.

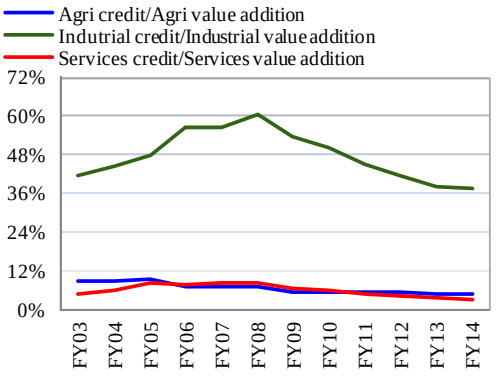
According to SBP estimates, almost half of farm credit needs remain unmet, and farmers are forced to rely on costlier options like *arhtis* and other informal sources that results in possible exploitation of farmers (**Figure 2.5**).[23] Similarly, the ratio of credit to agriculture sector to its value addition over the years has remained visibly low, especially compared to the industrial sector (**Figure 2.6**). The shift for balanced credit allocation amongst various sectors, particularly for agriculture, require better skill set and understanding of the business on the part of the banks, especially the large commercial banks.

Figure: 2.5 Agri Credit Demand & Supply



Source: Agricultural Credit &Microinance Department , SBP

Figure: 2.6 Credit to Value Added



Source: State Bank of Pakistan

We believe that constraints to agri credit can be found mostly on the supply side. For instance, farmers – especially small and subsistence, are reluctant to deal with banks because of perception issues that are reinforced by unfriendly and cumbersome procedures. These constraints can be sorted out, if banks are willing to invest in their

[23] The credit requirement is estimated by provincial planning departments on the basis of per unit cost of production; total area under cultivation; and its cash requirements. Moreover, production and development cost of subsectors of livestock, poultry and fishery are also accounted for, to arrive at the overall credit demand in the country. The state of financial exclusion is even grimmer; according to Agricultural Census 2010, there are 8.3 million farm households in the country, out of which, only 2.3 million are served by formal sources.

infrastructure; hire and train specialized human resource for agri finance; and further simplify their lending procedures.

More specifically, the following points needs to be addressed: (i) availability of other low-risk avenues to place funds, like investing in T-bills/PIBs; (ii) poor land documentation and ineffective foreclosure laws, which aggravates the problem of adequate collateral; (iii) limited (traditional) product offerings that cater only to large (urbanized) farmers and do not cover area like fishery, livestock, and horticulture; (iv) perceived high credit risk[24]; and (v) limited outreach. In addition to these factors, agri finance entails inconvenient field visits, which urban bankers may see as unwarranted, especially when they can make easy money by lending to large corporate, and most importantly, the government.

The situation demands systematic efforts for credit risk management. These efforts include pre-emptive measures of risk management, as well as post-emergency measures of providing relief to the affected borrowers. SBP is mindful of supplementing banks efforts through market-led policy interventions for risk mitigation, and sustainable development of the sector. Therefore, it has been issuing business guidelines for agri-finance from time-to-time (**Box 2.1**).

Box 2.1: Schemes Announced by SBP/GoP to Facilitate Agri Finance

Credit Guarantee Schemes

Credit Guarantee Scheme for Small and Rural Enterprises was introduced in 2010 to encourage finance to low income farmers. The scheme allows partial guarantee of up to 40 percent of a principal amount to banks, in case of defaults. It covers loan of up to Rs 2 million for a period of up to 5 years.

Microfinance Credit Guarantee Facility has helped in mobilization of funds from commercial banks, as well as capital markets to Microfinance Providers. These funds are being used for onward lending to microfinance borrowers. The scheme offered 40 percent partial coverage (or 25 percent of the first loss) of principal amount in case of default.

Crop Loan Insurance Scheme

Crop loan insurance scheme launched with the government support have helped a great deal in reducing vulnerabilities of farming community against different shocks. For the year 2014-15, the government has extended budgetary allocation of Rs 2.5 billion for crop loan insurance of 5 major crops. The government will pay insurance premium of 2 percent per season, on behalf of farmers having land size of up to 25 acres.

[24] The non performing loans (NPLs) of agri credit stood at 13.8 percent as compared to industry average of 12.8 percent during 2014 which are relatively higher but a gradual decline in Agri. NPLs is underway.

Livestock loan insurance scheme
Similarly, Livestock loan insurance scheme has been announced in 2013 for death coverage of farm animals at a premium price of up to 4 percent. In order to cover risk of small and marginalized farmers availing bank loan the government has allocated budgetary support of Rs 300 million. The scheme will cover premium subsidy by the government for the purchase of up to 10 farm animals. Some of banks have also included theft and partial disability coverage in the scheme.

Contract farmer/value chain financing
As small farmers lack acceptable collateral by banks therefore, guidelines on value chain finance have been initiated. Value Chain Finance works on a mutually benefitting tripartite agreement with different value chain actors i.e. farmers, input suppliers, processors, traders and the financing bank. A farmer or group of farmers interested to avail loan will enter into arrangement to supply certain quantity of his produce to a firm against which he will be able to avail credit.

In addition to above, product guidelines are likely to facilitate banks in designing products to diversify their agricultural portfolio that will help in reducing credit risk in activities such as fisheries, poultry, horticulture and water management financing. Similarly, Islamic banks have immense untapped potential to serve financial needs of rural and agricultural markets.

Going forward, the real challenge lies in access to finance by small and marginalized farmers, who are primarily unbanked. In order to mainstream them, banks need to package credit services (along with technical support), to help them manage their businesses efficiently. Success stories like the Bank Rakyat Indonesia, Land Bank of the Philippines, Bank for Agriculture and Agricultural Cooperatives, Thailand and Grameen Bank of Bangladesh, suggest that banks can work in close co-ordination with farming communities, and help them in storage and marketing by providing collateral-free lending.

Furthermore, banks can support farmers expand their productive capacity by investing in farm equipments. To achieve this, there is a need to introduce a mechanism that develops a link between farmers; financial institutions; extension services; and provincial agricultural departments, for an efficient flow of information, and service delivery to the farming community. In this context, the SBP's pioneering project on trader-agent intermediated lending (TRAIL), shows that developing such a link can help improve banks' lending to small and medium-sized growers (**Box 2.2**).

Box 2.2: Agent intermediated lending: A Matiari Case
Collateral is a major hurdle for gaining access to bank credit for small- and medium-sized growers. Therefore, adopting innovative means to exempt collateral can be a game changer. With this idea in mind, the State Bank of Pakistan carried out a pilot project by replacing collateral-based lending to finance small and medium sized farmers, with trader-agent-intermediated-lending (TRAIL). In this method, a third-party guarantor (Matiari Sugar Mills Limited in the pilot), helped facilitate agriculture bank-lending to small and medium size farmers against the supply of sugarcane. The project has been well received by all stakeholders, with hundred percent recovery rates and relatively lower market interest charges.

The State Bank of Pakistan brought all stakeholders on the same table; implemented the product design; monitored borrowing growers; and solved conflicting issues. A leading commercial bank was selected to provide loans to small and medium sugarcane growers, under the corporate guarantee of Matiari Sugar Mills (MSM). The sugar mill, at a nominal fee, screened for worthy growers from a pool interested in getting credit, MSM monitored the selected growers, the bank extended loans to selected growers, who sold their harvest at the market rate to the MSM. The bank charged a relatively low market interest rate, since the loan was backed by MSM's corporate guarantee. The loan contract was enforced by the farmer selling his/her produce to the sugar mill, which after settling the bank-loan credited the remaining amount into farmer's account.

In the first year (2013), a small amount of PKR 3.6 million was disbursed to 44 sugarcane growers. As mentioned before, loan recovery was 100 percent. In the second year (2014), PKR 21.7 million were disbursed. By the end of the first and a half month of MSM's crushing season 2014-15, 59 percent had already been recovered. We expect a full recovery by the end of MSM's crushing season in March 2015.

We appreciate the efforts and progressive thinking of our partners - the bank and MSM - which allowed the experiment to complete. The results of the project are available in Baluch K. A., and Choudhary, M. A., (2014), Agent Intermediated Lending: The Matiari Case Study, State Bank of Pakistan, Research Department, Occasional Research Papers.

2.3 Large-scale manufacturing (LSM)

LSM growth dipped to 2.0 percent in Q1-FY15, compared to 6.7 percent increase posted in the same period last year. This was led by a broad-based slowdown in a number of industries – production of 9 out of 15 sub-sectors tapered during Q1-FY15 (**Table 2.3**).

While a part of the decline can be traced to a base effect in fertilizer from last year, LSM growth was constrained by a broad range of issues that include: (i) continued weakening of export demand for cotton yarn; (ii) gas shortages in a number of industries (e.g., Punjab based textile industry, paper, glass, leather, some fertilizer plants, etc.); and (iii) sector-specific factors, including the closure of a large chip-board plant because of increasing wood prices and power shortages; and substitution of domestic production of edible oil with imports.

These factors not only overshadowed the impressive increase posted in automobiles and steel in the first three months of FY15, but also masked the impact of softening international commodity prices.

Base effect and reduced gas supply hampered fertilizer production

Fertilizer production fell by 4.1 percent in Q1-FY15, compared to a hefty 44.6 percent increase posted in Q1-FY14. This decline was caused by the government's decision to curtail gas supplies to a few fertilizer manufacturers.

Excluding these firms, fertilizer production during the quarter was slightly higher than the last year's level. This was because the additional gas supplied to Engro from Mari gas field, that had boosted last year's production, remains in place. Furthermore, the capacity utilization of these companies attached to Mari gas, also remained almost at last year's level (**Table 2.4**).

Table 2.3: Growth Trends in Large Scale Manufacturing – Q1

	Weight	Growth			Percentage Contribution		
	70.3	**FY13**	**FY14**	**FY15**	**FY13**	**FY14**	**FY15**
Increase in growth							
1. Steel	5.4	16.1	9.4	13.9	86.3	4.7	24.1
2. Automobile	4.6	-1.2	-4.8	13.3	-13.3	-4.1	33.7
3. Pharmaceutical	3.6	5.2	2.3	3.2	81.5	3.0	13.5
4. Rubber products	0.3	33.6	-0.4	6.5	23.2	0.0	1.5
5. Engineering industries	0.4	-12.9	-23.8	1.3	-11.7	-1.5	0.2
6. Chemicals	1.7	1.6	4.2	7.3	7.3	1.6	9.0
Fall in growth							
7. Textile	21.0	-0.5	2.4	1.0	-30.0	11.4	15.6
Cotton yarn	13.0	-0.6	3.0	1.2	-22.9	9.1	12.1
Cotton cloth	7.2	-0.3	0.9	0.1	-6.7	1.5	0.5
8. Food*	12.4	6.5	8.7	1.6	172.2	19.6	12.3
Cooking oil	2.2	6.4	8.7	7.5	44.3	5.2	-15.3
Tea	0.4	18.2	7.1	21.8	20.2	0.7	7.7
9. POL	5.5	3.4	12.7	4.9	39.9	12.3	17.0
10. Electronics	2.0	-11.2	15.9	8.5	-37.7	3.8	7.5
11. Paper & board	2.3	14.5	19.7	1.0	98.6	12.3	2.5
12. Non-metallic minerals	5.4	3.9	1.0	0.9	77.4	1.7	4.6
Cement	5.3	4.0	0.8	1.0	79.9	1.3	5.1
Fall in Production							
13. Fertilizer	4.4	-27.0	44.6	-4.1	-334.6	32.4	-13.5
14. Leather products	0.9	-10.0	13.0	0.1	-37.1	3.5	0.1
15. Wood	0.6	-13.1	-6.1	-81.2	-22.0	-0.7	-28.2
Overall LSM	**70.3**	**0.5**	**6.7**	**2.0**	**100.0**	**100.0**	**100.0**

*Estimate for sugar production has not been presented in this table, as cane crushing begins in the second quarter of the fiscal year.
Source: Pakistan Bureau of Statistics

Meanwhile, urea consumption posted a 3.5 percent YoY increase during Q1-FY15, compared to the same period last year. However, the country did not import urea this year because of improved supplies from higher inventories.

Slack demand and intermittent gas undermines cotton yarn

Cotton yarn production witnessed both demand and supply issues. Export demand for cotton yarn has remained low since last year, especially after a change in China's import policy. On the supply side, gas shortages for Punjab-based textile mills continued to be another drag for yarn manufacturing. The situation has still not changed. In fact, given the acute nature of gas shortages, the government has implemented a gas load shedding plan ahead of schedule in November 2014, and discontinued supplies to Punjab-based textile units. However, this decision has been reversed temporarily, on the plea of textile industry.[25]

Table 2.4: Urea Production (000 tons)

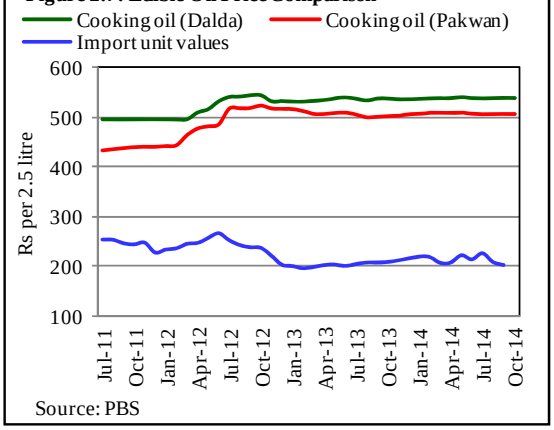
		Production		Capacity Utilization (%)	
Company	**Gas field**	**FY14**	**FY15**	**FY14**	**FY15**
EFERT	MGCL	**445.3**	**485.5**	**78.3**	**85.4**
FFC		**601.7**	**593.4**	**117.5**	**115.9**
Pak-Saudi	MGCL	208.1	174.0	116.0	96.9
G. Machi	MGCL	393.6	419.4	118.4	126.1
FFBL	SSGC	66.9	55.4	48.6	40.2
Fatima		**100.2**	**109.5**	**67.7**	**74.0**
FATIMA	MGCL	100.2	109.5	80.2	87.6
Pak-Arab	SNGPL	0.0	0.0	0.2	0.0
DHCL	SNGPL	24.4	8.3	21.9	7.4
AGRITECH	SNGPL	91.8	34.9	84.8	32.3
Total		**1,330.5**	**1,287.0**	**83.9**	**81.1**
Opening Inventory (Q1)		162.0	486.5		

Source: Various reports of NFDC

Paper & board also hit by gas shortages

Gas shortages in Punjab hampered growth in the production of paper & allied industries in Q1-FY15. Two of the largest paper plants, having a market share of around 60 percent, are located in this region. In the absence of gas, the paper industry had to rely on furnace oil, which increased the cost of production. Hence, one of the largest manufacturers had to reduce its production in Q1-FY15.

Figure 2.7: Edible Oil Price Comparison



Source: PBS

Import of edible oil substituting domestic production

The production of cooking oil posted a 3.2 percent decline in Q1-FY15, compared to a 8.7 percent increase in the same

[25] http://www.finance.gov.pk/press_releases.html

period last year. Pakistan's edible oil production largely depends on palm oil imports, which are further processed and packaged into various varieties. However, there has been a change in this trend lately. With joint collaboration between Pakistani and Malaysian firms, Malaysian cooking oil has been introduced to Pakistan in FY14.[26] The Malaysian Palm Oil Board is actively engaged in this collaboration. Under these arrangements, packaged refined, bleached and deodorized (RBD) palm oil is imported, which is directly marketed to commercial and household consumers. This shift is also supported by lower prices of imported palm oil compared to the prices offered by domestic brands (**Figure 2.7**).

Demand for automobiles

The growth in automobiles production touched a four-year peak of 14.0 percent in Q1-FY15 (**Table 2.5**), compared to a 4.8 percent decline in the same period last year. Encouragingly, the production of cars, trucks and tractors witnessed a significant increase in Q1-FY15.

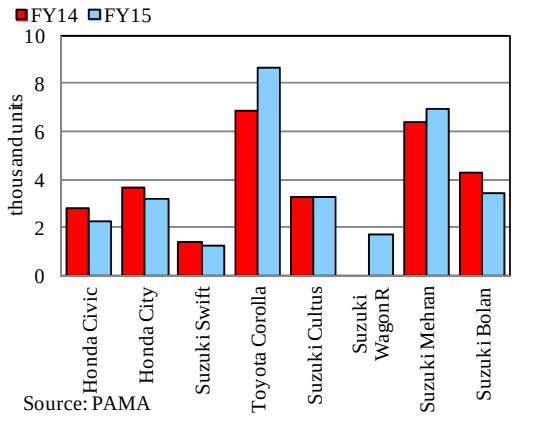
Table 2.5: Growth in Automobiles Production –Q1

percent

	FY11	FY12	FY13	FY14	FY15
Jeeps / Cars	23.0	4.2	-11.9	-5.3	11.5
Trucks	8.0	-33.9	-16.3	2.0	125.7
Tractors	-5.1	-69.1	156.4	-43.8	85.2
L.C.V.s	24.5	10.8	-11.3	3.3	3.2
Motor Cycles	14.6	18.0	-4.5	5.8	2.5
Overall	14.1	-3.4	-1.2	-4.8	14.0

Source: PBS

Figure 2.8: Production of Cars



Source: PAMA

The increase in car demand was already anticipated with the launch of a new model by Indus Motors in July 2014.[27,28] Category-wise analysis shows that with the exception of Toyota Corolla, Suzuki Mehran and Suzuki Wagon R, production of almost all

[26] Century cooking and MinYak cooking oil are the two recent examples of joint ventures (of Malaysian and Pakistani firms) opening in Karachi in FY14.

[27] The production of Indus Motors posted 14.5 percent decline in FY14, because of the phasing out of its old model.

[28] Given the demand prospects, there is increasing interest reported in the sector by the international player – Chinese and European large car manufacturers.

categories declined in Q1-FY15 (**Figure 2.8**).[29]

Production of tractors also increased significantly after a cut in general sales tax (GST) from 16 percent in FY14, to 10 percent in the Federal Budget for FY15. The agricultural community has been demanding this reduction since last year, after the GST rate was increased to 16 percent in FY14 from 10 percent in FY13.

Production of trucks increased substantially during Q1-FY15, compared to the same period last year (**Table 2.6**). All manufacturers increased production levels indicating an across the board increase in demand. Specifically, one of the leading manufacturers, GHNL has established its assembling plant in Pakistan, under the name of Ghandara DF Pvt Ltd in H2-FY14. Initially, GHNL was importing CBUs and selling them in the local market, but after getting a positive response from the local market, this company decided to set-up its plant in Pakistan.[30] The higher domestic production of trucks subsequently led to a decline in import.[31]

Table 2.6: Production of Trucks during Q1

No. of units

	FY13	FY14	FY15
Trucks	**443**	**452**	**1,020**
Hino	226	196	342
Nissan (GHNL)	46	66	194
Master	64	94	218
Isuzu	107	96	266

Source: PAMA

Going forward, production of LCVs is also likely to improve after the launch of *Apna Rozgar Scheme* by the government of Punjab in November 2014. Under this scheme, the Punjab government intends to provide 50,000 vehicles (Suzuki Bolan and Suzuki Ravi) to prospective candidates, at below market rates.[32]

Construction led growth in steel and cement

Strong demand from a number of mega construction projects, (e,g.: the Rawalpindi-Islamabad Metro; the Multan-Faisalabad Motorway and the

[29] The decline in the production of Honda Civic and Honda Citi can be attributed to substitution by the new model of Indus Motors.

[30] The truck manufacturing facility is located at Port Qasim Karachi. The plant is capable of producing 2,500 units annually. The company started its production operations from the second half of FY14. http://ghandharanissan.com.pk/24EAD16B-164F-4AE7-8E93-E804D59821DF/FinalDownload/DownloadId-930D403C77E13859A39B4072F087F928/24EAD16B-164F-4AE7-8E93-E804D59821DF/sep2013.pdf

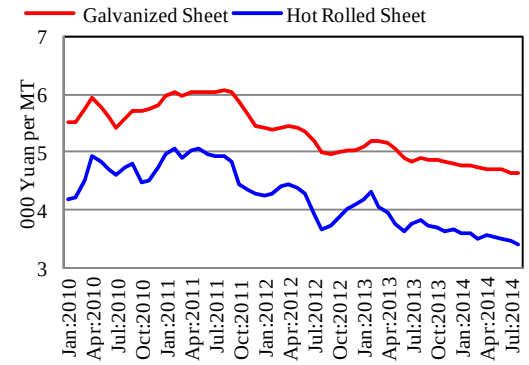
[31] The import of trucks fell from 219 units in Jul-Aug 2013, to only 171 units in Jul-Aug 2014.

[32] Suzuki Bolan is considered a car, and Suzuki Ravi is categorized as LCV.

construction at KPT and Port Qasim[33], and large infrastructure projects in energy sector) – led to a substantial increase in the demand for steel and cement in Q1-FY15. In the case of steel, a sharp increase in auto production provided a further boost to demand.

In addition to strong demand, steel production also benefitted from certain supply side factors: Pakistan Steel Mills resumed operations after receiving another bail-out package from the government;[34,35] and softening global steel prices (particularly in China), helped the local industry by reducing the cost of imported raw material. More specifically, steel prices in China have fallen consistently since mid- 2013 (**Figure 2.9**), because of a slowdown in construction sector.[36] In Pakistan, around one-third of the raw material (non-alloy and alloy steel) is sourced from China, and the continuous decline in the prices resulted in on average 11.1 percent drop in steel import unit values in Q1-FY15.

Figure 2.9: Steel Product Prices in China



Source: Haver Analytics

A part of this gain was, however, offset by an increase in the rate of taxation on different segments of the steel industry in the FY15 Budget.[37] Although, steel producers have passed on the tax increase to consumers,[38] the margins of some manufacturers have been squeezed.

Growth in cement production in Q1-FY15 remained at last year's level, despite high base effect. Most of the demand came from local markets, as cement exports

[33] The construction of Pakistan International Bulk terminal by Port Qasim Authority started in 2010, but was halted later due to an internal dispute. This project has started again in May 2014

[34] The government approved a restructuring plan for PSM amounting to Rs18.5 billion in May 2014.

[35] Pakistan Steel had 6.4 percent share in total steel manufacturing in Q1-FY15, compared to only 5.1 percent in the same period last year.

[36] http://www.ft.com/intl/cms/s/0/cd91ea1e-5381-11e4-8285-00144feab7de.html

[37] For example: (i) the rate of duty on silicon steel, pipe mills and perforated steel has been increased from 0 percent and 5 percent to 10 percent; (ii) the sales tax on steel melters, re-rollers & composite units has been increased from Rs 3 per unit of electricity, to Rs 7 per unit of electricity, etc.

[38] The prices of an indicative category of iron bars posted 6.3 percent increase in Q1-FY15, compared to the same period last year.

declined by 8.1 percent mainly due to sluggish demand from Afghanistan (**Table 2.7**).[39] However, exports to India improved substantially with the relaxation of Non-Tariff Barriers (NTBs). As per our discussion with cement manufacturers, quicker clearance at the Wagah border has facilitated exports to the northern part of India.

Table 2.7: Trend in Cement Dispatches- Q1

In 000 MT

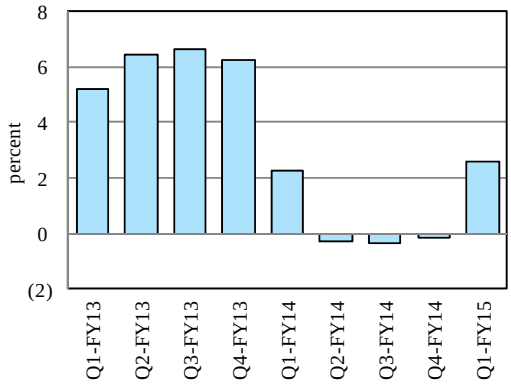
	Local dispatches		Export dispatches		
	North	**South**	**Afghanistan**	**India**	**Other Destinations**
FY08	4,911	804	744	11	681
FY09	4,005	881	751	191	1,213
FY10	4,699	797	921	195	1,705
FY11	3,861	757	1,009	106	1,130
FY12	4,216	945	1,315	163	857
FY13	4,389	1,048	1,224	138	911
FY14	4,569	987	1,171	105	967
FY15	5,063	1,040	835	190	1,035

Source: APCMA

Pharmaceuticals helped by a stable PKR

Production of pharmaceuticals posted a 2.6 percent increase during Q1-FY15, after a consistent decline in the preceding three quarters (see **Figure 2.10**). This was mainly helped by the strengthening and relative stability of the PKR since March 2014. The pharmaceutical industry was hit by the sharp depreciation of Pak Rupee during Jul-Feb 2014, due to its significant import dependence.

Figure 2.10 :Pharmaceutical Production - YoY Change



Source: Pakistan Bureau of Statistics

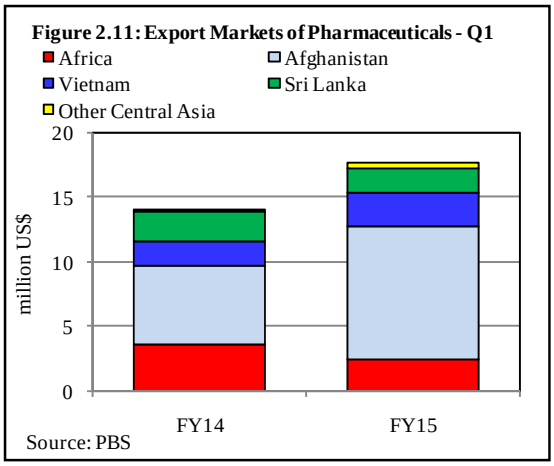
Furthermore, the increase in prices of various drugs announced by the Drug Regulatory Authority of Pakistan (DRAP) in November 2013, was another important factor supporting pharmaceuticals.[40] This said, the announcement of a formal drug policy, which is required to eliminate uncertainty about drug pricing in the country, is still awaited.

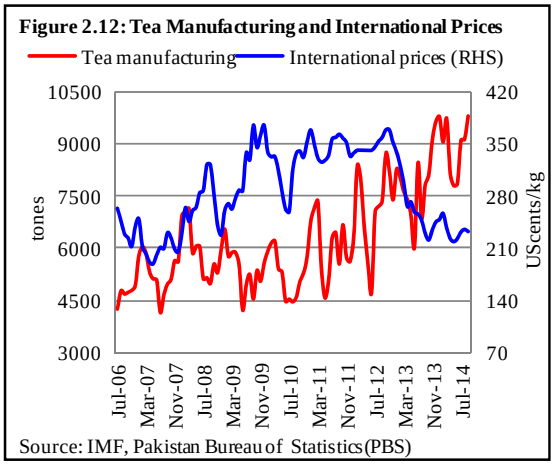
[39] Exports to Afghanistan fell by 28.6 percent during Q1-FY15, as compared to a fall of 4.4 percent in Q1-FY14.

[40] S.R.O.1002 (1)/2013 dated November 27, 2013. Although, the GoP withdrew this price increase, Sindh High Court restituted the old decision on the plea of the association of pharmaceutical companies.

Drug manufacturing in Pakistan is heavily dependent on imported raw materials due to non-availability of domestic inputs. Only a few companies are manufacturing basic ingredients in the country. Specifically, Pakistan is a net importer of pharmaceuticals, with pharma products constituting 1.7 percent of the entire import bill during Q1-FY15. Pakistan also imports finished medicines mainly because of: (i) slow registration process for the domestic production of medicines; (ii) influx of cheap alternatives through smuggling; and (iii) non-availability of raw materials needed for patent-protected medicines in the international market.

On the other hand, country's pharma exports posted a 15.6 percent increase in Q1-FY15, mainly on the back of an increase in unit prices. Our major export markets include Afghanistan, Vietnam, Sri Lanka and Africa (**Figure 2.11**). However, the share of African countries is being lost to India due to stringent quality requirements by these countries. Specifically, no Pakistani pharmaceutical company has an FDA approved manufacturing plant, which is a prerequisite for pharmaceutical exports to most of the countries.[41]





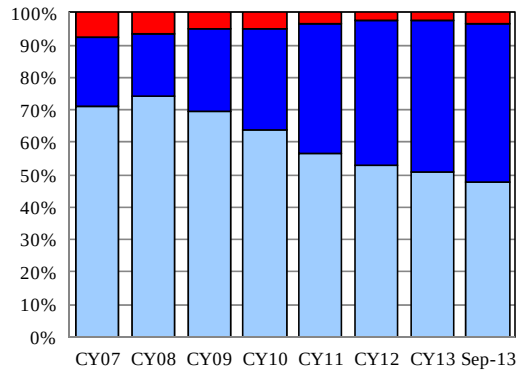
Tea production boosted by falling international prices

Tea manufacturing posted a sharp 21.1 percent increase in Q1-FY15, compared to 7.1 percent growth in the same period last year. Tea production is witnessing growth over the past few

[41] United States Federal Drug Authority (FDA).

years, because of the growing focus of manufacturers on marketing, branding and expanding distribution networks. Tea manufacturing in Pakistan entails blending and packaging of imported tea. Kenya is one of the largest suppliers of black tea, with around 64 percent share in the country's overall black tea imports in Q1-FY15. The fall in global tea prices since last year, gave another boost to this industry, as international prices of this commodity touched a 7-year low in 2014, and have not bottomed out as yet. This encouraged import and production of tea in the domestic market (**Figure 2.12**).[42]

Figure 2.13: Break-up of Mark-up Earned



Source: State Bank of Pakistan

2.3 Services

The performance of overall services sector in Q1-FY15, appears mixed. While *finance and insurance* and *telecommunications* have shown improvement over last year, the weakening in commodity producing sector would drag down *wholesale and retail trade.*

Finance and insurance

The operating performance of the banking sector observed a marked improvement in Q1-FY15. Profit before tax for the first 9 months of 2014 increased to PKR 176 billion, almost 44 percent higher than the corresponding period of last year. Key profitability indicators, like return on assets (ROA) and return on equity (ROE), improved over last year (**Table 2.8**).

Table 2.8: Financial Soundness Indicators

	Sep-13	CY13	Mar-14	Jun-14	Sep-14
Capital adequacy	15.5	14.9	14.8	15.1	15.5
Capital to total assets	9.3	9.0	8.9	8.8	9.0
NPLs to loans (gross)	14.3	13.3	13.4	12.8	13.0
NPLs to loans (net)	3.8	3.4	3.3	2.9	3.2
ROA (before tax)	1.7	1.6	1.9	2.1	2.2
ROE (before tax)	21.0	21.0	24.7	27.2	28.0
Advances to deposit	48.7	49.5	49.2	47.7	48.2

Source: State Bank of Pakistan

[42] Tea imports posted 35.7 percent quantum increase during Q1-FY15, compared to the same period last year.

2.1 This growth in earnings was achieved due to higher interest income, mainly from an increase in return on long-term government bonds. As shown in **Figure 2.13**, mark-up earned on investments now constitute the bulk of banks' total interest income. Banks have been aggressively placing funds in government securities in the past five years – T-bills and more recently in PIBs, to finance the fiscal deficit. In effect, higher profitability in the banking sector can be traced directly to a large fiscal deficit.

Another factor explaining banks' profitability has been the improvement in their asset quality, as lower provisioning charges have improved the bottom line. As shown in **Table 2.9**, banks' NPLs to loan ratio was only 13.0 percent in Q1-FY15, compared to 14.3 percent last year. This improvement was broad-based, as nearly all the economic segments posted a decline in infected loans.

Table 2.9: Segment-wise NPLs to Loan Ratio
percent

	Sep-13	Dec-13	Jun-14	Sep-14
Corporate sector	15.1	13.4	13.6	13.6
SMEs	38.7	32.3	33.9	35.7
Agriculture	17.6	14.0	14.8	16.0
Consumer sector	14.8	13.6	12.4	12.3
Commodity financing	1.0	1.1	0.8	1.0
Staff loans	1.4	1.5	1.5	1.5
Others	10.4	8.9	8.0	7.6
Total	14.3	13.0	12.8	13.0

Source: State Bank of Pakistan

Telecommunications

Q1-FY15 was the first quarter after the auction of 3G/4G to cellular companies. While U-fone, Mobilink and Telenor acquired 3G licenses, Zong was the only firm that was able to get both 3G and 4G licenses. With this, a new era has begun in Pakistan's telecommunication industry, in which cellular firms are able to provide high-speed mobile internet access to customers, along with improved voice quality. Telecom operators have been aggressively marketing new data packages at competitive prices. Customers can now use their mobile phones for video conferencing, advanced car navigation, video streaming, online shopping, and many other services. Every firm is operating with its own strategy: some are providing data services with unlimited speed, while others have it bundled with social media services like Facebook, Twitter, etc.

For cellular firms, revenue generation from value-added services is a major advantage, especially as stiff price competition among firms, does not allow them to increase cellular revenues from basic services. Operating performance of these firms in Q1-FY15, tells this story. For instance, average revenue per user (ARPU) of Telenor continued to decline during the quarter, which caused a reduction in its

total cellular revenues by 0.5 percent YoY.[43] ARPU posted a reduction from Rs 206.5 per month in Q1-FY14, to Rs 177 in Q1-FY15.[44] However, this was more than offset by non-cellular revenues, which grew by 45.3 percent during the quarter. As a result, the firm was able to book an operating profit that was 27.7 percent higher than last year. Similarly, Mobilink's ARPU also declined from Rs 229 per month during Q1-FY14, to Rs 195 per month in Q1-FY15.[45] Like Telenor, Mobilink's data revenue also increased significantly during Q1-FY15 – posting 40 percent growth YoY, on the back of 3G and mobile financial services.

This sector offers immense potential for growth. Most firms have been investing for network modernization. This can be seen in the sharp rise in import of telecom machinery and data processing units in recent years. In Q1-FY15, capital expenditures by Mobilink and Telenor increased by 87 percent and 67 percent YoY, respectively. Development of Pakistan's telecom sector also has positive spill-overs on the banking system. Over the past five years, mobile banking has increased at a rapid pace, as customers increasingly using their mobile phones to pay utility bills; for inter-bank fund transfers; and inter-city remittances. In FY14 alone, Rs 1.6 million mobile banking transactions were made, with a turnover of Rs 67.2 billion. However, market analysts claim that a major constraint to further expansion of this sector is the high level of taxation. Pakistan is among the top-three global markets for telecom, where taxes weigh heavily on mobile phone usages (taxes are levied on purchase of mobile set; subscription; and air-time).[46] The global representative body of mobile operators – GSMA, opines that high mobile taxes reduce the digital inclusion, operator investment, GDP growth, and eventually, tax revenue growth.

As far as PTCL is concerned, its financials during Q1-FY15 show a dismal performance: the company's net revenues posted a 3.9 percent decline over last year. This, coupled with a sharp increase in overall costs, led to a substantial fall in its profitability. This sudden downturn can be explained by a combination of factors including, a sharp increase in marketing and service delivery cost; curtailment of LDI operations; and most importantly, the fire incident at one of PTC's major exchanges in Lahore, which reportedly disrupted its broadband and landline services. The fire damage alone cost Rs 776 million to the corporation.

[43] Financial results of Telenor Pakistan are posted at the website of its parent company. These results can be accessed at: http://www.telenor.com/investors/
[44] ARPU has declined from 12 Norwegian Krone in Q1-FY14, to 11 NOK in Q1-FY15.
[45] Financial results are posted at the website of Mobilink's parent company, VimpleCom. These results can accessed at: http://www.vimpelcom.com/#Investor-relations/Reports--results/Results/
[46] Source: *www.gsma.com/.../GSMA_Digital-Inclusion-Report_Web_Singles_2.pdf*

However, amidst these unfavorable events, the company has managed to contain its administrative and financing costs.

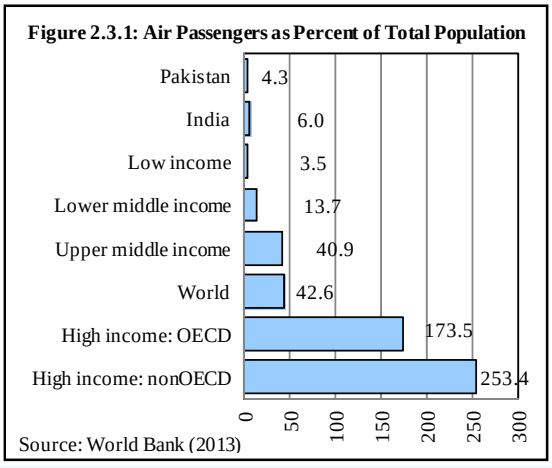
Transport

The increase in trade volumes during Q1-FY15 should have improved cargo handling at ports; however, public entities like PIA and Pakistan Railways are expected to end up with losses in FY15. The government has budgeted Rs 37 billion losses by Pakistan Railways in 2014-15. On the other hand, PIA has already booked losses of Rs 10.7 billion during the first quarter of the year. However, it must be noted that PIA's losses in Q1-FY15, are smaller compared to Q1-FY14 (Rs 13.6 billion). This improvement can be traced to lower fuel cost in the wake of falling international prices of jet fuel. Furthermore, the corporation has recently acquired fuel-efficient aircrafts on lease, which may have also reduced its expenses. PIA needs serious organizational reforms, ranging from reducing ground staff to cutting loss-making routes; or else the corporation will continue to suffer shrinkage in business and loss in market share (**Box 2.3**).

Box 2.3: Aviation Sector

The significance of aviation sector for the process of economic development and growth is well documented. Efficient means of air transport contribute to the economic development via: (i) connecting far-flung areas; (ii) minimizing time and cost for freight and passenger movement, and (iii) increasing market accessibility for producers and consumers. Unfortunately, Pakistan could not reap the benefits of global connectivity *via* air services. Current statistics shows that the level of air transport penetration is very low in Pakistan: the country is standing far behind the regional peers as well as most countries of the same income group (**Figure 2.3.1**).

Figure 2.3.1: Air Passengers as Percent of Total Population



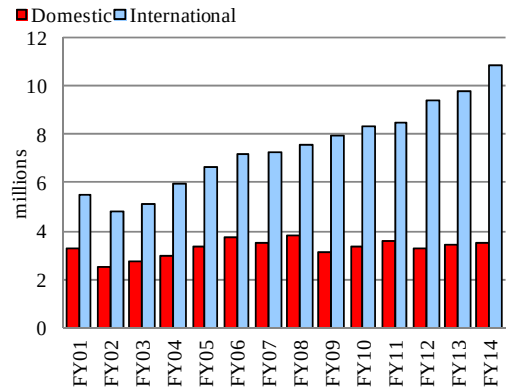
Source: World Bank (2013)

Over the years, the bulk of air transport in Pakistan has been to serve the passengers traveling on international routes (**Figure 2.3.2**); local passenger movement has remained fairly stagnant.[47] Presently, four airlines are operating on domestic routes including the state-owned PIA, and three private airlines, including Airblue, Shaheen Air International (SAI), and Indus Air. Having the

[47] The ratio of local passengers to total population declined from 2.2 percent in FY01 to 1.87 percent in FY14. The reason why local passengers travel less via air is the availability of alternate transportation for traveling within the country, including railway and road network.

largest fleet size, PIA has had the largest share in passengers and cargo over the years; however, more recently, the airline has lost some of its share to the private-owned airlines, especially the Shaheen Air (**Figure 2.3.3**).[48]

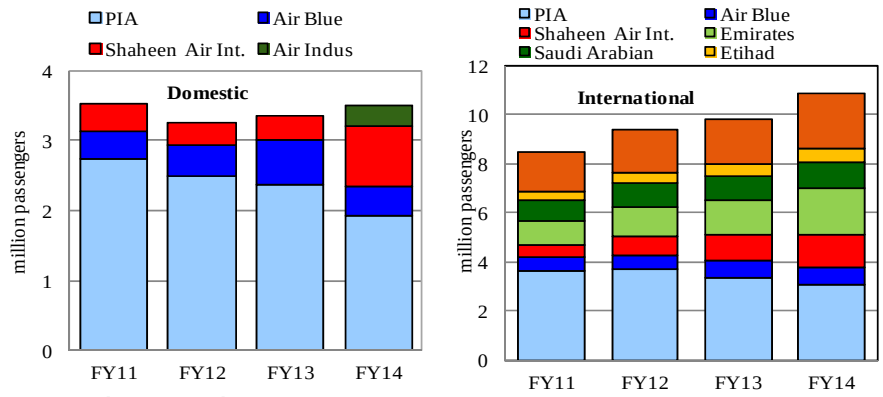
Figure 2.3.2: Passenger Movement via Air



Source: Civil Aviation Authority

Operating inefficiencies, limited flight operations, and impaired revenues are responsible for the declining share of the national carrier. Despite the continuous government support in the form of financial guarantees for credit, and direct funding, the corporation has continued to suffer losses. However, more recently, some cost cutting strategies have been adopted by the PIA (like the acquisition of fuel efficient aircrafts), which have reduced its losses. More specifically, during the first 9 months of 2014, it posted a net loss of Rs 20.9 billion, compared to Rs 32 billion in the corresponding period of CY13.[49]

Figure 2.3.3: Passenger Movement Through Different Airlines



Source: Civil Aviation Authority

As far as international routes are concerned, there has been a significant growth in passengers' movement in recent years. It appears that Pakistanis visit foreign countries more than before, for both business and leisure purposes. For instance, a large number of Pakistanis have been going abroad for work in recent years – mainly to the GCC countries. Unfortunately, however, due to

[48] Share of Shaheen Air rose from 5.2 percent in FY07 to 24.2 percent in FY14.

[49] In the ECC meeting held on February 2013, government decided to provide financial support to the PIA. Not only it approved the extension in government-back guarantees, it also allocated funding of Rs 12 billion for fiscal space, and US$ 46 million for the acquisition of narrow-body aircrafts on dry lease.

growing security concerns (e.g., attacks on international airports), a number of foreign airlines suspended their operations in Pakistan - Singapore Airlines, Cathay Pacific, Air India, Swiss Air, are some examples. Therefore, despite the increase in international traveling, fewer airlines operate in Pakistan than before: in 2007, 23 foreign airlines had flight operations in Pakistan, whereas in 2014, this number has declined to only 16. Among these, 11 are from GCC countries. The airlines, which chose to stay, have to bear high insurance costs due to security concerns.

Apart from passenger segment, air cargo segment failed to show any significant growth; in the presence of cost efficient alternative, for instance shipping and road transports, it seems very difficult for the air cargo to grab any sizable share. Currently most of the international movement of cargo is handled through shipping industry whereas local transport is mainly carried through road transport via trucks.

Source: Civil Aviation Authority, Shaheen Air and PIA websites.