

Contents

Chapters

1.	An Overview, Prospects and Executive Summary	
1.1	Overview	1
1.2	Future Outlook	3
1.2	Executive Summary	5
2.	Economic Growth, Savings and Investment	
2.1	Summary	13
2.2	Performance of Agriculture Sector	15
2.2.1	Production and Area	17
2.2.2	Water Availability	21
2.2.3	Fertilizer Off-take	21
2.2.4	Credit Disbursement	22
2.2.5	Live Stock	26
2.2.6	Fisheries	27
2.3	Industry	30
2.3.1	Index of Industrial Production (IIP)	30
2.3.2	Public sector enterprises	41
2.3.3	Infrastructure Industries	41
2.3.4	Analysis of Industrial by End-Use	42
2.3.5	Capacity Utilization in Large Scale Manufacturing Industries	43
2.4	Services	47
2.4.1	Finance and Insurance	47
2.4.2	Wholesale and Retail Trade	49
2.4.3	Transport, Storage and Communication	49
2.5	Savings	54
2.6	Investment	55
2.7	Foreign Direct Investment	60
3.	Prices	
3.1	Global Inflation Scenario	63
3.2	Domestic Scenario	63
3.3	Consumer Price Index	65
3.3.1	CPI Food Group	66
3.3.2	CPI Non Food Group	67
3.4	Core Inflation	68
3.5	Incidence of Inflation	68
3.6	Wholesale Price Index (WPI)	68
3.7	Sensitive Price Indicator	71
4.	Public Finance and Fiscal Policy	
4.1	Overview	73
4.2	Fiscal Performance Indicators	75
4.2.1	Balance Indicators	75
4.2.2	Revenue Indicators	75
4.2.3	Expenditure Indicators	76
4.3	Fiscal Developments at the Federal Level	77
4.3.1	CBR Tax Performance	77
4.3.2	Surcharges	81
4.3.3	Non-Tax Revenue	81
4.3.4	Federal Expenditures	82
4.3.5	Financing of Federal Budget	83
4.4	Provincial Budgetary Operations FY05	83
Special Section 4.1	Analysis of Tax Reform in Pakistan	87
Special Section 4.2:	Taxability of Services under the Sales Tax Act, 1990	84

5.	Money and Banking	
5.1	Monetary Survey	104
5.1.1	Net Foreign Assets	104
5.1.2	Net Domestic Assets-NDA	105
5.1.3	Government Borrowing	105
5.1.4	Private Sector Credit	108
5.1.5	Deposit Mobilization	113
5.1.6	Monetary Indicators	115
5.2	Money Market	117
5.2.1	Primary Market	118
5.2.2	Secondary Market	118
5.3	Capital Markets	119
5.3.1	Introduction	119
5.3.2	Developments in COT Market	120
5.3.3	New Listings	120
5.3.4	Corporate Debt Market	121
6.	Domestic and External Debt	
6.1	Overview	123
6.2	Domestic Debt	124
6.2.1	Composition of Domestic Debt	125
6.2.2	Tenor of Domestic Debt	127
6.2.3	Debt Servicing	127
6.2.4	Classification of Domestic Debt by Owner	127
6.3	External Debt	128
6.3.1	Composition of External Debt and Liabilities	131
6.3.2	External Debt and Liabilities Servicing	135
Special Section 6.1:	Private Un-Guaranteed External Debt of Pakistan	138
Special Section 6.2:	External Debt and Liabilities – A Long Term Perspective	143
7.	Balance of Payments	
7.1	International Economic Situation	149
7.2	Balance of Payments: An overview	150
7.2.1	Current Account Balance	153
7.2.2	Financial Account	162
7.3	Foreign Exchange Reserves	169
7.3.1	Reserves Adequacy	170
7.3.2	Reserve Management	171
7.4	Trade Account	175
7.4.1	Exports	180
7.4.2	Imports	189
Special Section 7.1:	International Investment Position (IIP) Framework and Methodology	196
Special Section 7.2:	Capital Account Convertibility	199
Special Section 7.3:	Regional Trade Integration: the Case of SAFTA	201
Special Section 7.4:	Intra Industry Trade - Measuring Globalization of Industries	205
Special Section 7.5:	Pakistan's Export Potential: A Gravity Model Analysis	209
8.	Social Sector Developments	
8.1	Overview	213
8.2	Population	214
8.3	Labor Force and Employment	215
8.3.1	Labor Force	215
8.3.2	Employment	218
8.4	Health Status	221
8.5	Literacy and Education	223
8.5.1	Backdrop of Pakistan's Education System	224
8.5.2	Policy Environment and Progress since 2000	224
8.6	Environment	227
8.7	Poverty	229

Contents

Tables

1.1	Selected Macroeconomic Indicators	2
1.2	Major Economic Indicators	4
2.1	Real GDP Growth	14
2.2	Aggregate Demand	15
2.3	Agriculture Sector Performance	16
2.4	Sectoral Share of Agriculture Value Added	17
2.5	Area and Production of Important Major Crops	17
2.6	Production and Target Setting of Important Crops	20
2.7	Area and Production of Other Minor Crops	20
2.8	Inflows status of Rim Stations 1000cs	21
2.9	Numbers of Borrowers and Amount Disbursed	24
2.10	Institutional Non-Farm Credit Disbursement	25
2.11	Growth of Industrial Value Added	30
2.12	Construction -- Performance Indicators	32
2.13	Growth in Production of Selected Minerals	33
2.14	Gas Distribution by Major Companies	33
2.15	Large-scale Manufacturing Growth Rates	34
2.16	Distribution of sub-Sector Growth Rates	34
2.17	Growth in the Production of Selected LSM Industries	35
2.18	Growth Performance of Selected Industrial Groups	35
2.19	Textile Industry: Investment, and Expansion	36
2.20	Textile Production	36
2.21	Production of Electronics Consumer Durable Goods	37
2.22	Production & Sales of Selected Automobiles	37
2.23	Production of Petroleum Products	40
2.24	Performance of Public Sector Industries	41
2.25	Growth of Industrial Production by End Use	42
2.26	Capacity Utilization in Selected Industries	44
2.27	Sectoral Growth and Investment in Services Sector	47
2.28	Indicators of Services Sector	48
2.29	Key Performance Indicators of Financial Sector	48
2.30	Snapshot of Insurance Business	49
2.31	Transport Storage & Communication in FY05	49
2.32	Performance of Pakistan Railways	49
2.33	Performance of Pakistan Railways	51
2.34	PIA Financial Performance – 2004	52
2.35	Communication Sub sectors	52
2.36	National Savings	54
2.37	Indicators of Investment	55
2.38	Investment	56
2.39	Investment & Growth in Different Countries	56
2.40	Investment in Construction	57
2.41	Foreign Direct Investment	60
2.42	Share of major contributors in FDI inflow to Pakistan	61
3.1	Inflation Trends	64
3.2	Distribution of Price Changes of CPI Basket Jun-05 over Jun-04	66
3.3	Impact of PoL Inflation on Headline Inflation	67
3.4	Income-group-wise Inflation	68
3.5	WPI Items Classified by Range of Price Changes (YoY) (June-05)	70
4.1	Summary of Public Finance	74
4.2	Actual Tax Collections (net) by CBR	77
4.3	Decomposition of Revenue to GDP Ratios	79
4.4	Decomposition of Tax/GDP Ratio	79
4.5	Central Excise Duty Collection	81
4.6	Federal Government Expenditure	82
4.7	Financing of the Federal Government Expenditure	83
4.8	Provincial Budgets at a Glance	84
4.9	NWFP Outstanding Debt	86
5.1	Causative Factors of Money Supply	104

5.2	Sectoral Distribution of Bank Credit-Adjusted	109
5.3	Sector wise Break up of Loans (domestic operations)	110
5.4	Trade Related Loans (flows)	112
5.5	Overview of Capital Market	120
6.1	Profile of Domestic and External Debt	124
6.2	Shares of Major NSS Instruments	126
6.3	Net Flows in NSS during FY05 (Estimates vs. Actual)	126
6.4	Rates of Return on Major NSS Instruments	126
6.5	Interest Payments on Domestic Debt	127
6.6	Sources of Increase in External Debt- FY05	128
6.7	Classification of the New External Borrowings in FY05	128
6.8	Pakistan's External Debt & Liabilities	129
6.9	Selected External debt/Liabilities Indicators	130
6.10	IDA Loans Contracted During 2000-05	133
6.11	Pakistan's External Debt and Liabilities Servicing	137
7.1	Balance of Payments: Key Indicators	153
7.2	Major Indicators of Current Account Sustainability	155
7.3	Current Account Balance	156
7.4	Details of Interest Payments and Receipts	159
7.5	Workers' Remittances	161
7.6	Other Private Transfers (credit)	161
7.7	Financial Account	164
7.8	Total No. of Companies by Investment & Disinvestment	164
7.9	Total Number of Companies by Sector (Top ten Sectors)	165
7.10	Adjusted Official Long-term Loans	167
7.11	Reserves Adequacy Ratios	170
7.12	Overall Reserves as per BOP- BPM-5	172
7.13	Export Diversification By Markets and Commodities	180
7.14	Major Exports	181
7.15	Rice Exports (Jul-May)	182
7.16	Rice Export Markets	183
7.17	Raw Cotton Production and Exports	183
7.18	Impact of Unit Value Change	183
7.19	Market Analysis of Major Textile Items	185
7.20	USA Textiles Imports (Jan-Jul)	185
7.21	Category wise Textile Imports of the US (Jan-Jul)	186
7.22	Pakistan's Textiles Exports to USA (Jan-Jul)	187
7.23	Other Exports	188
7.24	Other Textile Exports	188
7.25	Imports Supporting Indicators	189
7.26	Economic Classification of Imports	189
7.27	Major Imports	190
7.28	Contribution in Growth by Major Import Groups	191
7.29	Analysis of Machinery Imports	192
7.30	Oil Price Impact on Petroleum Group Imports (FY05)	193
7.31	Growth Rate of other Chemicals	194
8.1	UNDP Human Development Index	213
8.2	Pakistan's Population Ranking in the World	214
8.3	Population Policy Targets and Progress up to FY04	214
8.4	Unemployment Rates	219
8.5	Unemployment Rates at Provincial Level	219
8.6	Distribution of Employed by Major Industry Divisions	220
8.7	Employment Status of Labor Force	220
8.8	Health Indicators	221
8.9	Health Leading Indicators	222
8.10	Education Indicators of Pakistan in FY05	224
8.11	Progress in Health Indicators	226
8.12	Environment Indicators and Targets	229
8.13	Trends of Poverty (April 19 – May 6)	230
Tables Special Section 2.1		
4.1.1	Number of Tax Payers and Return Filers in Pakistan	88
4.1.2	Category-wise Sales tax Registered Persons in Pakistan	89

4.1.3	Components of Income Tax Collection	89
4.1.4	Gross Compliance Ratio and Productivity of Sales Tax	90
4.1.5	Revenue, Expenditure and Cost of Collection in Pakistan	90
4.2.1	Sectoral Contribution to GDP –FY05	94
4.2.2	Collection of Sales Tax /CED from Services	95
4.2.3	Collection of Service tax in India	96
6.1.1	Foreign Private Un-Guaranteed Debt	139
6.1.2	Causative Factor for Private Un-guaranteed External Debt	139
6.1.3	Prepayment of Private Un-guaranteed Debt	139
6.1.4	Currency wise composition	140
6.1.5	Maturity Profile	140
6.1.6	Sector-wise Classification of Private Debt	140
6.1.7	Source of Private Un-guaranteed Debt	140
6.1.8	Break up of Private Un-guaranteed External Debt On the Basis of Interest Rate	141
6.1.9	Weighted Average Interest Rates on New Borrowings	141
6.2.1	Comparison of Targets for Debt Reduction Strategy Against Performance	143
6.2.2	Changes in Pakistan's External Debt & Liabilities	144
6.2.3	Vulnerability Coefficients of Pakistan's Debt	146
6.2.4	Composition of Pakistan's External Debt & Liabilities	147
7.1.1	Relationship between the International Investment Position and the Balance of Payments	197
7.1.2	International Investment Position	198
7.2.1	Capital Account Transactions	199
7.2.2	Economic Performance Pre - and Post Convertibility	200
7.3.1	Planned Phase Tariff Cuts on Intra-SAFTA Trade	201
7.3.2	Trade Performance of SAARC Region	202
7.4.1	Trends in Intra-Industry Trade of Various Industries (1985-2004)	206
7.4.2	Industry-wise Trade Pattern Driving Change in the IIT Levels (FY85-04)	207
7.4.3	Extent of Product Differentiation in Textiles	208
7.5.1	Pakistan's Export Potential with India (2003)	210

Figures

2.1	Real GDP Growth in Selected Countries	13
2.2	Real GDP Growth	13
2.3	Sectoral Shares in GDP	14
2.4	Consumption and Inflation	15
2.5	Agriculture Growth and its Contribution in GDP Growth	15
2.6	Growth in Agriculture	16
2.7	Major Crops Performance during FY05	17
2.8	Yield Per Hectare	18
2.9	Cotton Crop: Area and Production	18
2.10	Wheat Crops: Areas Production and Procurement Prices	19
2.11	Price Trends in Pulses	20
2.12	Water Availability	21
2.13	Kharif FY06 Canal Withdrawals (MAF)	21
2.14	Rainfall in Pakistan	22
2.15	Fertilizer Off-take	22
2.16	Monthly DAP Off-take and Price Changes	22
2.17	Domestic Fertilizers Prices	23
2.18	International Prices of Fertilizers	23
2.19	Agriculture Credit Disbursement	23
2.20	Institutional Agri Credit	24
2.21	Disbursement of Agriculture Credit and Institutional Shares	24
2.22	Institutional Shares in Farm Sector	25
2.23	Tractor Financing	25
2.24	Non Farm Sector Financing	25
2.25	Recovery Rate of Agri Credit	26
2.26	Net Agriculture Credit Expansion	26
2.27	Live Sectors Performance	27
2.28	Growth in Industrial Sector	30
2.29	Regional Performance of Industrial Sector	30
2.30	Growth in Industrial Production (IIP)	31

2.31	Growth in Construction	32
2.32	Growth in Electricity & Gas Distribution	33
2.33	Growth in L.S.M	34
2.34	Growth in Textile Sub-sector	34
2.35	Outstanding Position of Consumer Loan	36
2.36	Cement Consumption ('000 tons)	38
2.37	Growth in Infrastructure Sector	41
2.38	Primary Energy Supply	42
2.39	Growth in Infrastructure Industries	42
2.40	Average Capacity Utilization in LSM	43
2.41	Pakistan Steel Capacity Utilization	43
2.43	Services Sector and GDP Growth	47
2.44	Value Addition in Services Sector : Shares	47
2.45	Banking Sector Performance	48
2.46	Growth vis-à-vis Wholesale & Retail Trade	49
2.47	Value Addition in Transport, Storage and Communication (FY05)	50
2.48	Road Network	50
2.49	Gross Earnings of Pakistan Railways	51
2.50	Financial Performance of Pakistan Railways	51
2.51	PIA's Traffic Performance	52
2.52	Cargo Handling at KPT & Port Qasim	52
2.53	Profitability in Telecom Sector	53
2.54	FDI & Private Sector Credit to Communication Sector	53
2.55	Growth in National Savings	53
2.56	National Savings	54
2.57	Public Savings	54
2.58	Growth in Investment	55
2.59	Investment as percent of GDP	55
2.60	Investment in Agriculture	56
2.61	Private Investment in Manufacturing	57
2.62	Investment (percent of GDP)	57
2.63	Public Investment in Transport & Comm.	58
2.64	Investment in Wholesale & Retail Trade	58
2.65	Saving-Investment Gap	58
2.66	Pakistan and FDI to Developing World	60
2.67	Growth in FDI	61
2.68	FDI in Pakistan	61
3.1	Crude Oil Prices – Real	63
3.2	Inflationary Trends (YoY)	63
3.3	Annualized Inflation	64
3.4	Core Inflation (YoY) & SBP's Policy	64
3.5	Group Contribution to Headline Inflation	65
3.6	CPI Inflation	65
3.7	CPI Food Inflation	66
3.8	Core Inflation Trends (YoY)	68
3.9	WPI Inflation	68
3.10	WPI Inflation (YoY)	69
3.11	Cotton Prices and WPI Inflation	69
3.12	Building Material & HRI Inflation (YoY)	71
3.13	Weekly SPI Inflation	71
4.1	Fiscal Balance Indicators	75
4.2	Growth in Taxes	76
4.3	Revenue Indicators	76
4.4	Key Components of Expenditures	77
4.5	Major Components of Expenditure	77
4.6	CBR Revenue Composition Over Time	80
4.7	Distribution of GST Payers & Rev Coll.	80
4.8	Federal Share in Total Provincial Tax	83
5.1	Major Policy Indicators	99
5.2	Policy Transmission	100
5.3	Private Sector Credit	102
5.4	Money, GDP Growth and Inflation	102
5.5	Half Year Analysis of NFA-Flows	105

5.6	Sources of Budgetary Finance	105
5.7	Composition of Budgetary Borrowings	106
5.8	Commodity Operation Credit (stocks)	108
5.9	Credit to Private Sector	108
5.10	Herfindahl Concentration of Credit Index	109
5.11	Consumer Finance (Flow)	110
5.12	Trade Related Loans	111
5.13	EFS Benchmark	112
5.14	Asset Quality of Banks	113
5.15	Cumulative Deposits	113
5.16	Deposit Mobilization	114
5.17	Share of FCDs in Total Deposits	114
5.18	Deposit Concentration in Major Banks	115
5.19	Broad Monetary Indicators	115
5.20	Liquidity Preference Indicators	115
5.21	Average Currency to Deposit Ratio	116
5.22	Average Money Multiplier	116
5.23	Credit to Deposit Ratio	116
5.24	Share of NDA in M2	117
5.25	Share of NDA and Banks' Profitability	117
5.26	T-bills Auction	118
5.27	Open Market Operation	118
5.28	Overnight Rates and Discounting	119
5.29	Trading in Government Securities	119
5.30	KSE-100 Index and Ready Volumes	120
5.31	COT Investment Trends	121
6.1	Growth in Total Debt (percent)	123
6.2	Total Debt as Percent of GDP	123
6.3	Composition of Debt	123
6.4	Composition of Domestic Debt	125
6.5	Net Flows in NSS	125
6.6	Net Flows in PIBs, FIBs and PBs	126
6.7	Term Structure of Domestic Debt	127
6.8	Banking System Debt	127
6.9	Net Transfers	130
6.10	Exchange Rate Movements Impacting Stock of Paris Club Debt	131
6.11	Multilateral Flows	132
6.12	IDB Loans & Saudi Oil Facility	135
6.13	Position with IMF (End June 2005)	135
6.14	Private Loans (FY05)	135
6.15	3-Year Special US\$ Bonds	136
7.1	GDP Growth Rates	149
7.2	External Account Balance	151
7.3	Non-interest Current Account Balance	153
7.4	Current Account Balance	154
7.5	Current Account Balance in Pakistan	154
7.6	Current Account Balance at a Glance	157
7.7	Travel Outflows	158
7.8	Composition of Private Transfers	160
7.9	Resident FCAs and Exchange Rate Changes	160
7.10	Financial Account Balance	162
7.11	Foreign Direct Investment (Equity)	162
7.12	Secondary Market Price of Sukuk	166
7.13	Secondary Market Price of Euro Bond	166
7.14	Stock of Outstanding Export Bills	166
7.15	Outstanding Stock of IDB Debt	167
7.16	Foreign Currency Loans	167
7.17	Foreign Exchange Reserves	169
7.18	Forex Market Intervention	169
7.19	Reserves of Commercial Banks	170
7.20	SBP Reserves and Intervention	173
7.21	Trade Deficit - a Historical Perspective	175
7.22	Trade Deficit and GDP Growth	175

7.23	Components of the Rise in Trade Deficit	176
7.24	Exports	180
7.25	Monthly Export Growth	180
7.26	Export Growth Category-wise	182
7.27	Rice - Domestic Production and Exports	182
7.28	Textile Manufactures	184
7.29	Quota Phase Out Schedule of the US	186
7.30	Share of Major Categories in Total Imports	189
7.31	Sugarcane Production and Sugar Imports	191
7.32	GDP Growth and Imports of Capital Goods & Raw Material Imports	191
7.33	Petroleum Group Imports	194
8.1	Pakistan's Annual Population Growth Rate	214
8.2	Labor Force Growth	215
8.3	Crude Activity Rate	216
8.4	Labor Force Participation	216
8.5	Unemployment Rate	218
8.6	Growth in Labor Force during FY02-04	219
8.7	Total Health Sector Expenditures	222
8.8	Public Sector Expenditures on Health	222
8.9	Gross Primary Enrolment Rates in 2000*	224
8.10	Gross Primary Enrolment Rates	226
8.11	Real Per-capita GDP	229
8.12	Poverty Bands	230

Figures of Special Section

S1.1	Tax-to-GDP Ratio in Pakistan	87
S1.2	Tax Buoyancy	88
S1.3	Growth in Components of Income Tax	89
6.1.1	Private Un-guaranteed Debt	139
6.1.2	Weighted Average Interest Rate on Private Unguaranteed External Debt	141
6.1.3	Sector-wise Average Interest	141
6.1.4	Distribution of Loans According to Interest Rates	141
6.2.1	Total External Debt and Liabilities	144
6.2.2	Fresh Inflows on Loans Contracted After 1999	144
6.2.3. A	Share of Expensive Loans in Multilateral Stock	145
6.2.3. B:	Composition of Multilateral Debt	145
6.2.4	Magnitude of Change in Debt and Currency Revaluation	146
6.2.5	Debt Servicing to Multilateral Creditors	146
7.3.1	Intra-SAARC Trade as percent of SAARC Trade	201
7.3.2	Intra-Regional Trade as percent of GDP, 2002	202
7.3.3	Average Tariff Rates across Regions	202
7.3.4	Regional Foreign Direct Investment	203
7.5.1	Export Potential with Selected Countries	209

Boxes

2.1	Agriculture Growth and Rural Poverty	28
2.2	Supportive Measures for Construction Sector	39
2.3	Minerals	45
2.4	Gaps, Weaknesses, Infrequencies and Lags in Pakistan's Statistical System	46
2.5	Major Highways Projects	50
2.6	Flow of Funds Account 2004-05, At a Glance	59
3.1	International Oil Prices Pass-through to Domestic inflation in Pakistan	72
4.1	Public Sector Enterprises (PSEs)	78
4.2	Tax Administration Reforms in Pakistan	78
4.3:	Vertical imbalance in Pakistan	84
5.1:	Sacrifice Ratio	100
5.2	Recent Findings on Threshold Inflation in Pakistan	101
5.3	The Role of Expectations in Making Monetary Policy Effective	103
5.4	Credit Plan; Targets and Actual	106
5.5	Infrastructure Financing	111
6.1	Why Bond Finance?	134

7.1	Exchange Rate & Current Account Balance	152
7.2	SBP Liberalization Measures	152
7.3	Current Account Sustainability	155
7.4	Financial Account under BPM5 – Some More Explanations	163
7.5	Lorenz Curve for FDI	165
7.6	Trade Elasticities for Pakistan	177
7.7	Quota Restrictions under Post-MFA Regime	178
7.8	Regional Trade Balance	179
7.9	Why Oil Prices are High?	193
8.1	Female Economic Participation	217
8.2	Unpaid Family Helpers	220
8.3	Punjab Education Sector Reforms	225
8.4	The environmental discourse: From ‘Human Environment’ to ‘MDGs	228
<i>Boxes of Special Section</i>		
4.1.1	Curbing tax evasion in Pakistan	92
6.1.1	Defining Private External Debt?	138
6.1.2	Classification of Private un-guaranteed debt	138
6.1.3	Weighted Average Interest Rates Methodology/ Data and Composition	142
6.2.1	Currency Valuation Impact - International Scenario	145
7.1.1	Problems in the Compilation of IIP	196