

An Overview, Prospects and Executive Summary

Pakistan’s economy during FY00 showed some signs of improvement and stability, along with a modest growth rate (see Table I.1). However, a combination of domestic and external shocks coupled with structural shifts kept the economy under stress.

The residual vestiges of May 1998, the political uncertainty and the change of government in October 1999, were major domestic shocks to the economy. On the external front, a breakdown in negotiations with the IMF in May-September 1999, the spike in world oil prices, the lingering dispute with Hubco, and serious reservations in some international quarters on the emergence of a military government, exacerbated the situation. Since October 1999, the new government’s economic agenda, which is based on accountability, improved governance, widening the tax net and closure of official avenues of hiding wealth, created major structural shifts in the economy. Although the Pakistani economy has been inherently resilient and weathered many shocks in the past, its capacity to absorb domestic and external shocks along with fundamental structural changes at the same time has been tested to the limits during FY00.

Although these structural changes may lay the foundations for a more sustainable and equitable growth in the future, the short-term transitional costs are significant. The withdrawal of investors who had built their fortunes on the basis of concessions, privileges, connections, tax evasion and loan defaults, has created a vacuum for the time being. The potential beneficiaries of the new system are yet to emerge and will take time to establish themselves. The government could have filled in this gap, but its own public finances are structurally weak.

The combination of a slowdown in the informal economy and the cumulative cut in productive public spending over the last few years, has not only reduced opportunities for economic expansion and employment generation, but may not be able to sustain the productive use of additions to the labor force. The only exception to this is the agriculture sector, which has resulted in a large infusion of purchasing power in rural areas.

As a result of strong agriculture performance, the real sector witnessed a turnaround and GDP growth rose to 4.8 percent from 3.1 percent a year earlier. Bumper crops of cotton and wheat, coupled with an increase in the production of rice, led to agricultural growth of 7.2 percent, which improved self sufficiency in food and the quantitative increase in exports.

The bumper cotton crop, low domestic cotton prices and falling interest rates created very favorable conditions for the textile sector. Value added in this sector grew by 13.0 percent in FY00 compared to 2.0 percent a year earlier. But this expansion was insufficient to offset the large decline in the sugar sector. Therefore, large scale (LS) manufacturing did not show any growth this year. However, if sugar is excluded, LS manufacturing did perform well with sectoral growth at 6.8 percent compared to 5.8 percent in the preceding year.

Table I.1: Selected Macroeconomic Indicators

Description	FY97	FY98	FY99	FY00		FY01
				Targets	Actual	Targets
Real GDP (FC)	Growth Rates					
Agriculture	1.7	3.5	3.1	5.0	4.8	5.0
Major Crops	0.1	4.5	2.0	4.3	7.2	3.9
Manufacturing	-4.3	8.3	0.0	5.4	13.6	3.2
Large-scale	-0.1	6.9	4.2	5.8	1.1	5.9
Services Sector	-2.1	7.6	3.7	4.3	-0.7	6.2
	3.6	1.6	4.1	5.1	4.5	5.2
Consumer Price Index (FY91=100)	11.8	7.8	5.7	6.0	3.6	4.5
Sensitive Price Indicator (FY91=100)	12.5	7.4	6.4	-	1.8	-
Domestic Credit	15.3	15.0	3.5	8.2	9.4	6.0
Exports (f.o.b.)	-2.6	4.2	-10.7	10.9	8.4	11.1
Imports (f.o.b.)	-6.4	-8.5	-6.7	-0.7	-0.2	3.6
Liquid Foreign Exchange Reserves (US\$ million)	1,219.4	930.0	1,729.7	-	1,352.3	-
	As percent of GDP					
Total Investment	17.9	17.7		14.9	18.0	14.9
National Savings	11.8	14.7		11.1	15.9	13.1
Tax Revenue	13.2	13.2		13.4	13.1	12.8
Total Revenue	15.6	16.0		16.1	16.8	16.9
Budgetary Expenditure	22.0	23.7		22.2	20.2	23.4
Budgetary Deficit	6.4	7.7		6.1	3.3	6.5
Current Account Deficit (Including Official Transfers)	-5.7	-2.7		-3.9	-2.3	-1.6
						-2.0
Domestic Debt	42.7	43.9		47.2	-	49.1
Foreign Debt	47.3	50.1		52.6	-	48.4
Total Debt	90.0	94.0		99.8	-	97.5
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