2 Real Sector

2.1 Real GDP Growth

FY11 proved to be another difficult year for Pakistan's economy. Against the target of 4.5 percent, the country could post a growth of 2.4 percent – this was even weaker than the 3.9 percent achieved in FY10.

A slowdown in growth was anticipated since the country had suffered severe losses due to the devastation caused by the unprecedented floods in August 2010. In addition to major *kharif* crops, the allied industries, trading services, and export sectors were adversely affected. Furthermore, logistics, power infrastructure, and many industrial units were also damaged.

Growth was also hampered as the government had to re-allocate development funds to disaster management and rehabilitation. A reduction in several key expenditure heads was therefore required and many public construction projects were shelved. Although this strategy helped the government cope with an unexpected shock, it has had adverse consequences for investment and productive capacity in the country.

Another key factor constraining growth was the energy shortfall. Specifically, while gas supply constraints are directly reducing production in a number of industries, the curtailment of gas and rising furnace oil prices, have compelled power producers to run below capacity. The resulting power shortage has added to the energy deficit in the country.

Finally, the policy response to growing macroeconomic imbalances – particularly the fiscal deficit and persistent inflation – has also had a bearing on the real sector performance.

On the positive side, the only growth stimulus came from the external front. The recovery in developed economies helped boost Pakistan's exports (textile and leather) and led to a record inflow of remittances. Anecdotal evidence suggests that higher remittances strengthened private consumption, and also supported real estate investment and residential construction.

More worryingly, investment declined in FY11 for a third consecutive year. The most pressing concern is low investment in energy; more specifically, petroleum exploration and coal mining, infrastructure for LPG and natural gas import, and

the construction of dams. Without a supportive energy infrastructure, future growth opportunities in the short-to-medium term are likely to face bottlenecks.

2.2 Agriculture Sector

The agriculture sector posted a strong recovery after the devastating impact of the floods in early FY11. This recovery was mainly led by the livestock sub-sector,[1] followed by minor crops and some major crops (sugarcane and wheat).

Notwithstanding the significant losses caused by the floods, growth in the livestock sub-sector was sufficient to provide much needed impetus to agriculture growth. In the case of minor crops, some recovery was expected after the flood as farmers focused more on minor crops (vegetable, pulses etc.) instead of established major crops.

Table 2.1:Performance of Major Crops

	FY09	FY10^{P}	FY11^{T}	FY11^{E}	YoY growth FY11
Area under cultivation ('000 hectares)					
Cotton	2,850	3,106	3,200	2,693	-13.3
Sugarcane	1,029	943	1,070	998	5.8
Rice	2,963	2,883	2,708	2,335	-19.0
Wheat	9,046	9,105	9,045	8895	-2.3
Production ('000 tons; cotton in '000 bales of 170.09 kg each)					
Cotton	12,060	12,914	14,010	11,700	-9.4
Sugarcane	50,045	49,373	53,665	53,738	8.8
Rice	6,954	6,883	6,048	4,713	-31.5
Wheat	24,032	23,917	25,000	24213.5	1.2
Yield (Kg/hectare)					
Cotton	720	707	745	739	4.5
Sugarcane	48,635	52,357	51,000	53856	2.9
Rice	2,347	2,387	2,228	2018	-15.5
Wheat	2,657	2,627	2,764	2722	3.6

P: Provisional, T: Target, E: Estimates
Source: Ministry of Food & Agriculture estimates released on May 09,2011

The floods and the favorable weather conditions helped enhance sugarcane production both in Punjab and Sindh. Not surprisingly, therefore, production estimates were revised upward to 53.7 million tons, from the earlier estimates of 49.4 million released in November 2010.

The record wheat crop of 24.2 million tons produced in FY11 was slightly lower than the target of 25 million tons. A surge in wheat output is attributed to: (a) improved water availability; (b) supportive weather conditions; (c) increased area under cultivation along with better yields in *barani* areas in Punjab and Sindh; and (d) provision of free-of-cost seeds in flood affected areas.

[1] The livestock sub-sector includes the value of livestock and its products (milk, meat, hides and skins, eggs, wool & hair). The output estimates of livestock and their products are based on inter-census growth rates of livestock censuses. The last census was conducted in 2006.

We should, however, acknowledge that despite strong performance in sugarcane and wheat, rural incomes may not rise proportionately due to lower market prices of wheat and rising input costs (e.g. diesel and fertilizer).[2]

Looking forward, agriculture growth may improve in FY12 because of expected recovery in rice and cotton,[3] and improved water availability. Rising urea prices and timely availability are, however, major concerns.

2.3 Large-Scale Manufacturing

The overall LSM posted a growth of only 1.6 percent during Jul-Mar 2011, substantially lower than 4.4 percent in the corresponding period of FY10. However, quarterly data reveals some signs of recovery as LSM growth improved to 2.4 percent on a YoY basis in Q3-FY11, after rising by 1.2 percent during H1-FY11 (see **Table 2.2**).

Table 2.2: Growth in Selected Industries

	Weight	FY10		FY11	
		H1	Q3	H1	Q3
Overall LSM	**75.1**	**1.7**	**9.7**	**1.2**	**2.4**
Export-led	27.9	1.8	3.6	2.9	4.3
Import-based	14.2	-4.0	-6.9	-0.6	0.8
Agri-based	8.5	0.4	0.2	-4.3	24.6
Construction-based	5.3	8.5	6.8	-9.2	-17.9
Consumer durables	4.26	11.6	87.4	7.7	3.6
Investment-led	1.4	-8.1	43.1	5.1	6.5
Other intermediate	11.3	-5.1	1.9	-3.5	-20.1

This gradual recovery can be traced to a number of factors. First, despite facing losses in August 2010 due to the floods, industries based on agri raw material thrived during the quarter due to better crops. Second, favorable movements in global commodity prices helped improve margins of domestic producers. Lastly, export demand remained strong.

The agri-based industries (sugar, ginning, and milling industries) together had a 3.2 percentage point contribution to Q3-FY11 LSM growth. Within agri-based industries, improved sugarcane yields and a good wheat harvest, led to growth in sugar manufacturing and wheat milling. Moreover, the government's decision to allow wheat export also benefited grain millers. On the other hand, while cotton ginning contributed negatively to overall growth, the decline was not passed on to

[2] Specifically, the current market price of wheat is in the range of Rs 800-840 per 40 kg, whereas urea prices are up by roughly Rs 400 per 50 kg during Nov 2010 – Apr 2011 period, and diesel prices reached Rs 94.1 per liter in June 2011 from Rs 75.7 per liter in June last year.

[3] In the case of cotton, higher cotton prices during FY10 encouraged farmers to increase acreage for the next crop. Furthermore, increased focus on more productive (and disease resistant) Bt cotton is likely to have positive impact on crop yields.

upstream yarn and cloth industries, since raw cotton imports were sufficient to meet domestic requirements.

Many industries, particularly POL, cotton yarn, cloth, cement, and fertilizers, registered an improvement in profit margins during the quarter, mainly due to rising global prices. However, while corporate profitability improved across the board, this was not reflected in production growth. In cotton cloth and fertilizer, for instance, effective capacities were truncated due to gas shortages. In contrast, cement production was cut down apparently due to low demand from construction sector and limited export opportunities.

Going forward, energy shortages will continue to be a binding constraint for manufacturing growth, particularly for textile, glass making and fertilizer units. While emphasizing alternative sources of energy, there is a need to rationalize tariffs for different users of natural gas and improve the gas pricing to incentivize further exploration and extraction.

Annexure 1: Textiles[4]

Healthy cotton arrivals and consolidation in export demand brought about a modest recovery in the textile sector during Q3-FY11. Production of cotton yarn posted a visible increase as spinners took advantage of widening margins. A parallel increase in fabric production was, however, precluded by severe energy shortages in the power-loom sector. Wastages, productivity losses and delays were widespread in weaving and processing, which not only led to production declines but also disrupted the supply chain in the value-added segment. However, since fabric inventories had been well-managed, the value-added sector managed to increase export quantities in response to higher demand.

A detailed assessment of the sector suggests that three trends will shape the short-term performance going forward.

I. Loss of credibility: the most serious manifestation of the energy crisis

The worst-ever energy crisis in the country has forced a large number of textile units to halt production. Industry officials have reported huge employment and productivity losses, along with the loss of credibility in the global market.

In addition to production declines in the power loom sector, gas curtailment led to output losses at the processing stage. Furthermore, energy shortages had an indirect impact on power looms in the form of repeated processing and wastages. The weaving sector also suffered from losses in labor productivity due to frequent power outages. Consequently, it has become difficult for the industry to repay financial liabilities as they become due.

To avoid building up financial charges and default on obligations, a number of power looms were shut down. According to the Power Loom Association, around 20 percent of locally made power looms were scrapped during FY11. Moreover, imported machinery is now being re-exported to Bangladesh, Sri Lanka and India.

More worryingly, exporters have been forced to cancel orders due to frequent unscheduled energy outages. Since global buyers put significant weight to timely delivery of orders while evaluating different export offers, the disruption in energy supplies is weakening exporters' ability to retain market shares. Some exporters are now even reluctant to book orders in anticipation of operational hitches.

[4] Authored by Asma Khalid, Specialist on the Textile Sector.

II. Pakistan's exports to face tough conditions in Europe

The demand outlook for Pakistan's textile products is not optimistic in Europe unless WTO provides a go ahead to EU trade concessions for Pakistan.

Initially, Turkey increased import tariffs on various textile categories to safeguard local producers. Turkey – the largest exporter of garments in EU – imports fabric in large quantities from various Asian countries including Pakistan, Bangladesh and India.[5] These countries will face demand compression from July 2011 onwards when the increase in duties becomes effective.[6]

For other European countries, especially within the European Union, exporting conditions can improve if WTO approves the GSP+ status to Pakistan as approved by EU to support recovery in the economy from the devastating impact of floods. Pakistan was due to secure concessionary access to EU January 2011 onwards, but this was delayed due to heavy objections raised by regional competitors at WTO.

III. Lawn Revolution: what good this would do

A paradigm shift appears to be emerging in textile designing and branding. Large textile firms are entering fabric processing in collaboration with fashion designers – textile firms are providing fabric whereas designers are providing brand recognition.

Though this phenomenon began some four years back, the fervor it touched this year is unprecedented. One of the key reasons is their aggressive marketing strategy; they selected leading celebrities from the fashion industry as their brand ambassadors. Hence, well reputed textile firms, with strong brand recognition, strategized so as not to go out of competition. While some firms chose to rely only on revamping marketing campaigns; others decided to run parallel product lines – one with the firm's name, and a second with the designer label.

Some critics are of the opinion that large-scale branding and marketing of casual wear has only propped up unbridled consumerism in the country. They feel Pakistan is already struggling with lavish spending habits and mass media campaigns are only nurturing these habits. They also believe that collaboration between textile firms and designers is small-scale, and limited only to the big cities, which will not impact sector's long-run growth.

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[5] Pakistan exported around US $ 343 million worth of textile products to Turkey in FY10 – of which, 70 percent was the export of cotton fabrics.

[6] With the imposition of safeguard measures, import duty on cotton fabrics will increase from 6.4 percent to 24.5 percent.

In our view, such critics have missed the key point.

Over the years, analysts characterized the local textile sector as one with stagnant products and markets. Textile manufacturers were not investing in product innovation, or marketing to diversify business portfolios. Today, however they are taking strides in both directions.

In our view, the collaboration between textile manufacturers and the fashion industry, is the first step towards a paradigm shift in apparel exports. Specifically, we expect this collaboration will not remain limited to lawn production and marketing, but could penetrate other categories like garments and knitwear. It is a well known fact that one of the reasons why the majority of Pakistan's apparel manufacturers could not compete in the global markets is their designs were not sensitive to changing global trends. Furthermore, Pakistan's presence in the world market is largely focused on men's clothing, women clothing is more fashion-oriented and demands continuous market research. Now with professional and contemporary designers on-board, there is an opportunity for local apparel manufacturers to penetrate this profitable market segment.

Second, domestic textile firms are realizing the value of branding and thus the need to invest in it. Progressively, they are reading the mood of local consumers to gauge how much more they are willing to pay for specific brand, and are formulating business strategies accordingly.

Thirdly, textile firms are taking leaps in marketing. Besides deploying traditional advertisement campaigns in the mainstream media, they are using the web and promotional magazines to enhance the appeal of their products.

Finally, and as an outcome of branding and marketing, the potential for exports of processed fabric is much enhanced. Due to cultural similarities, Pakistan's processed fabric has a large market in India and Bangladesh. It is a stylized fact that, Pakistani fabric is well-liked, especially in India, where local retailers order fabrics in bulk from Pakistan. A couple of Pakistani textile firms have even opened their retail outlets in India. Some firms have also started selling online for the same reasons. Meanwhile, Pakistan also has a huge market in the UAE and some western countries, thanks to Indian, Pakistani and Bangladeshi diaspora in these countries.

Annexure 2: Automobiles[7]

Automobile production during Jul-Mar 2011 was 14.6 percent higher compared with the same period last year.[8] Strong rural incomes continued to fuel demand, supported by rising commodity prices; the bulk of sales were transacted on cash basis as bank financing remained marginal.

Robust demand - for both cars and motorcycles- provided a boost to the sector. In the case of cars, the recent launch of a new model for a popular sedan and the government's decision to allow the import of CNG kits provided a boost to the two largest car manufacturers. [9]

Despite favorable demand conditions, the performance of the sector in Q4-FY11 faces headwinds from the ensuing disruption to the global supply chain of auto parts.[10] Anecdotal evidence suggests that a large manufacturer (Toyota) had temporarily suspended new bookings for its products. Even as bookings resume, Japanese Original Equipment Manufacturers (OEMs) operating in Pakistan, who are reliant on imports of key parts will be forced to produce below capacity in the remaining months of the fiscal year.

Another concern for the sector has been the government's recent decision to relax rules on the import of used vehicles.[11] Not surprisingly, market participants remain divided over these measures. Local manufacturers claim such policy changes create uncertainty and undermine their operations as they are already operating below capacity, while importers argue the measures have not gone far enough to ensure that there is greater competition in the local market.[12]

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[7] Authored by Bilal Khan, Specialist on the Auto Sector.

[8] Sales growth for the same period last year was 31.6 percent; however, this reflects a recovery from low base of the crisis in FY09.

[9] Due to some safety concerns, the government was not clearing shipments of CNG kits. This had created some backlog of orders. Therefore, as soon as the government granted its approval, car sales picked up for the month of March 2011.

[10] While auto manufacturers in Japan were not directly affected, auto part makers have been severely hit by the tsunami and related devastation in Japan. This has resulted in disruption to the supply of parts to factories globally and cutbacks in production.

[11] Initially the relaxation was provided for cars, and later for buses and trucks.

[12] Importers argue that the government has not yet allowed the commercial import of used cars; the policy amendments have centered on gift, baggage and residence transfer schemes.

The industry is also in the process of finalizing a subsequent policy to the Auto Industry Development Plan (AIDP) that is due to expire in 2012.[13] Discussions include revisions to tariff structures on imports of localized vs. non-localized auto parts, as the government appears keen to offer incentives to encourage new entrants in the local auto market.

[13] The Auto Industry Development Program (AIDP) was a plan formulated by the government in consultation with industry stakeholders as part of the move towards Tariff Based Systems (TBS) upon elimination of deletion programs in 2006.

Annexure 3: Cement[14]

I. Cement financials improved despite lower sales volume.
In Q3-FY11, financials of 14 (out of 19) companies – having 83 percent of the country's total installed capacity – showed profit-after-tax of Rs 674 million, compared to a loss-after-tax of Rs 1.4 billion in Q3-FY10.[15] The higher profits largely reflect price effect, as quantum of sales was down by 5.9 percent YoY in Q3-FY11. [16]

Cement prices were raised by Rs 35-40 per 50 kg bag when global coal prices began increasing Q2-FY11 onwards.[17] For most cement manufacturers, this was a windfall gain as the pass-through of global prices is different across companies. This is because, firstly, local coal is used in varying proportions by firms and costs vary likewise; firms using greater quantities of local coal are protected from fluctuations in global commodity prices and the exchange rate, and from the additional burden of import financing. Moreover, costs are buffered while inventories last, creating variation even among companies using entirely imported coal. Lastly, there are wide variations in plant efficiency and depreciation costs.

II. Local market was more profitable in FY11.
Higher profitability was also partly attributed to lower exports, which entail distribution costs and fetch lower prices compared to the local market. In the domestic market, most firms sell at ex-factory prices to dealers, although some units based in the north of the country bear domestic freight charges in order to capture southern markets and to export via Karachi. However, rising diesel prices and consequent increase in the transportation cost of the cement is now discouraging even this movement.

III. Exports expected to increase going forward as India lifts non-price barriers.
Cement exports remained sluggish this year as: (1) non-price barriers in exporting to India; (2) higher import duty imposed by Afghanistan, and (3) increased production capacities in the Middle East and India.

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[14] Authored by Tamkinat Rauf, Specialist on the Cement Sector.
[15] Selection was based on availability of data.
[16] In overall terms, the industry's sales declined by 7.1 percent YoY in Q3-FY11, and 8.7 percent YoY in Jul-May 2011.
[17] An increase in special excise duty (SED) from 1 percent to 2.5 percent in mid-March also added to the price. However, in the FY12 Budget, a complete withdrawal of SED and reduction in FED has been proposed.

The export to India may increase following the renewal of export licenses in April 2011. [18] Pakistan reciprocated by opening up railway passage – a relief for north-based producers.[19] However, there is a quantity constraint in railway-based trading because of limited number of freight wagons as well as an implicit understanding that freight wagons must not return empty from India.[20] Interestingly, privately-run trucks do not entail such implicit conditions, but truck-based cement trade is not allowed via the Wagah border at present.

The most positive development for exporters in FY12 will be the installation of scanners at the Wagah border, after which truck-based export will be allowed. This will be a win-win for both trade partners; the rapidly expanding Indian economy has a growing appetite for cement, but its lime and gypsum reserves are drying up fast, which means it will either need to import raw material from Pakistan, or the final commodity itself. Low-priced Pakistani cement is apparently the better alternative. Secondly, trucks will reduce handling of cement, which mars quality. For Pakistan, although exporters will have to bear higher trucking costs, they will be able to export more and even charge higher for better quality.

IV. Plants are growing more cost efficient.

Outdated production facilities are going out of business; around three million MT cement capacity running on the relatively inefficient wet process went offline during the past two years. New capacities are also coming online; a 2.6 million MT/annum cement plant was commissioned in May 2011 while another one million MT/ annum plant is scheduled to be commissioned in the next two years. New plants are more energy efficient, which implies lower production costs. Moreover, existing plants have invested in energy efficient technologies, such as waste heat recovery, which reduces electricity consumption by up to 30 percent, and refused dried fuel (RDF) plants, which reduce dependence on coal. These measures are expected to lower cement production costs in the long run.

[18] Beyond immediate borders, cement's cost competitiveness quickly erodes as freight charges rapidly escalate on the bulky commodity. Over 50 percent of Pakistan's cement exports are directed to Afghanistan while around 7 percent are routed to India.

[19] Inland freight charges double after wheat harvest in April due to increased movement of the grain. Current freight is $20/MT for North to South movement.

[20] The latter raises concerns for import-competing sectors, such as auto parts and vegetable and pulse farming.

Annexure 4: Fertilizer[21]

Fertilizer production for the first three quarters of FY11 has been 5.1 million tons, a slight increase of 3 percent over the same period last year. However, data for the month of March and estimates for the month of April, present a cause for concern. Gas curtailment to the fertilizer sector continued beyond the winter season and has stunted production.[22] With fertilizer demand expected to stabilize, a demand-supply mismatch is likely.

The situation is particularly dire in the case of urea. Although the country now possesses enough capacity to meet domestic urea demand, insufficient gas supplies will force the country to import urea in the foreseeable future.[23]

I. Urea – Gas shortages to stymie production

Urea production for the first three months of 2011, registered a decline of 8 percent as compared to the same period last year, despite the addition of 1.3 million tons of capacity this fiscal year. The curtailment of natural gas supply to the fertilizer sector is primarily responsible for this decline in production.

While production remains below capacity, urea off-take has started recovering after the impact of last year's floods, and is due to rebound in the upcoming *kharif* season. Estimates indicate that urea off-take for the *kharif* season will be 3.0-3.1 million tons. This implies that the country will need to import 200-300 thousand tons of urea if gas curtailment to the fertilizer industry remains at 20 percent on the SNGPL network, and at 12 percent on the Mari Gas network.

An ECC decision in May 2011 allowed fertilizer companies on the SNGPL network to receive around 40 mmcfd of gas (maintaining the level of gas curtailment at 20 percent) at the expense of four private power producers which will run their plants on diesel instead. Fertilizer companies have agreed to bear two-thirds of the diesel-gas cost differential. The agreement, which is in place till the end of this fiscal year, is yet to be implemented.

Concerns about this transient tourniquet are pertinent since the expected import of 200-300 thousand tons of urea will present an import bill of US$ 90-150 million, contingent upon the international urea price, and reduce fiscal space by Rs7-8 billion, if the government agrees to subsidize the imported urea. Currently, local urea sells at a 40 percent discount to fob international prices.

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[21] Authored by Syed Ozair Ali, Specialist on the Fertilizer Sector.

[22] The fertilizer industry uses natural gas for feedstock.

[23] The government provides a subsidy on imported urea since local urea sells at a discount to international urea.

If gas curtailment increases beyond current levels, fertilizer companies are likely to raise urea prices. The primary concern, however, should be the timely supply of fertilizer so that farmers recoup their initial investment in the commodity.

II. DAP - Prices to ease in the summer; and boost consumption in *Rabi* season

Di-ammonium phosphate (DAP) consumption remained stagnant for this year's *rabi* season (October-March) at 802 thousand tons, as compared to 800 thousand tons for last year's *rabi* season. Going forward, DAP consumption for the upcoming *kharif* season (April-September) is expected to be better than last year given an expected fall in international prices.

Unlike urea, DAP consumption is price elastic since farmers tend to view urea as a necessity and DAP as relatively less essential. DAP consumption has fluctuated significantly as a consequence of its volatile price.

Local prices for DAP follow international prices and are notoriously volatile. Going forward, DAP prices are expected to stabilize as China may allow DAP exports in the summer and a large DAP plant is expected to come online in Saudi Arabia by the end of this year.

Annexure 5: Construction[24]

After strong growth of 28.4 percent in FY10 (the highest since FY61), construction growth is projected to slow to 0.8 percent in FY11. A major reason for the slowdown was a sharp increase in construction costs. Some costs were expected to go up in FY11 following a raise in official minimum wages in May 2010. Not only is construction labor intensive, but the allied industries of brick, tile, etc, also employ a lot of manual work. In addition, cement prices, which are largely unaffected by the higher wages, rose sharply when global coal prices started increasing in Q2-FY11.

The rise in cost necessitated revision in budgets of all ongoing public and private projects. As fiscal space was already tight (PSDP budget was cut down), a number of planned and ongoing public projects had to be put on hold. In the private sector, this resulted in payment defaults to builders and contractors, which in turn led to a freeze in construction at several sites, as most builders' running costs depend on timely payments.

More financial intermediation could have helped to loosen up the cash flows of both buyers and builders and make construction growth more sustainable. Although real (inflation adjusted) house loan disbursements were marginally higher during FY11, it is not much of a stimulant since the financial outreach is limited. Moreover, commercial banks have no products for financing large-scale builders – the most common type of residential construction business model in Pakistan. Taking note of these issues, SBP is facilitating development of products for *large scale developer finance* as well as the Pakistan Mortgage Refinance Company (PMRC). Both these initiatives are set to be launched in FY12.

Some fiscal initiatives are also expected to benefit the construction industry going forward. For example: (1) FED on cement is proposed to be reduced from Rs 700/MT to Rs 500/MT and special excise duty has been withdrawn in the FY12 Budget – these measures are likely to bring down cement prices by around four percent; (2) construction work on a number of dams is expected to begin in Q4-FY11, including Mirani Dam, Jabban hydropower rehabilitation project, Daimer-Bhasha Dam, along with 12 small dams which are to be jointly financed by the Government of Pakistan and Exim Bank of China; and (3) anecdotal evidence shows that post-flood construction of vocational training centers, schools, hospitals, clinics, water tanks, and roads, as well as progress on Prime Minister's one million houses scheme is also gathering pace across the country.

[24] Authored by Tamkinat Rauf, Specialist on the Construction Sector.

Lastly, even though construction began picking up in Q4-FY11, an across-the-board increase in real estate prices is not expected in the near future. This is because: (1) buying activity is mainly concentrated in smaller houses; (2) people are more risk-averse, so there are fewer speculators in the market; (3) government housing schemes are more popular; and (4) most of the construction activity is taking place in low-priced suburbs.[25] Hence, at least for some time to come, real estate prices are expected to remain steady. [26]

[25] An aggressive land-grab has started in low-priced suburbs. Furthermore, as cities grow over-crowded, the government has started buying undeveloped land on the outskirts of major cities. Once utility lines are laid out, private builders jump in to buy low-priced surrounding land.

[26] Interestingly, low real estate prices coupled with depreciating rupee over the last two years attracted remittance sending workers, especially in the Middle East. However, currency appreciation in Q3-FY11 eroded these effective earnings to some extent.