2 Real Sector

2.1 Overview

The Pakistan Bureau of Statistics (PBS) has recently released the national income accounts for FY13. These estimates have been compiled on a new base of 2005-06 (previously the base year was 1999-2000). PBS has improved its compilation methods, and has captured economic activities that are increasingly prominent – this data set is also at par with international standards (**Box 2.1**).[1]

According to provisional estimates, GDP growth during FY13 fell to 3.6 percent from 4.4 percent in FY12.[2] As evident in **Table 2.1**, higher industrial growth, driven by more activity in large scale manufacturing, was insufficient to make up for the slowdown in services.

Table 2.1: Overall GDP (at Constant Basic Prices of 2005-06)

Growth in percent; contribution in percentage points

	Growth		Contribution to Growth	
	FY12	**FY13^P**	**FY12**	**FY13^P**
Agriculture	3.5	3.3	0.7	0.7
Industry	2.7	3.5	0.6	0.7
Services	5.3	3.7	3.0	2.1
GDP	**4.4**	**3.6**	**4.4**	**3.6**

P: Provisional

Source: Pakistan Bureau of Statistics

Table 2.2: Value Addition by Agriculture

Share and growth in percent; contribution in percentage points

	FY13	Growth		Contribution to Growth	
	Share	**FY12**	**FY13^P**	**FY12**	**FY13^P**
Crop	40.5	2.9	3.2	1.2	1.3
Major crops	25.2	7.4	2.3	1.8	0.6
Other crops	12.3	-7.7	6.7	-1.0	0.8
Cotton ginning	2.9	13.8	-2.9	0.4	-0.1
Livestock	55.4	3.9	3.7	2.2	2.0
Forestry	2.0	1.7	0.1	0.0	0.0
Fishing	2.0	3.8	0.7	0.1	0.0
Overall	**100.0**	**3.5**	**3.3**	**3.5**	**3.3**

P: Provisional

Source: Pakistan Bureau of Statistics

[1] The PBS has now implemented 2008 version of international System of National Accounts (SNA). Previous estimates of national accounts were based on 1993 version of SNA.

[2] In view of changes introduced for the computation of National Income Accounts, the actual GDP growth for FY13 is not directly comparable to the annual target of 4.3 percent for the current fiscal year. According to PBS, GDP growth for FY13 on *previous base* (which is also consistent with the target) is 3.2 percent. It may also be noted that the PBS has revised the GDP growth for FY12 from earlier provisional estimate of 3.7 percent to 4.2 percent.

2.2 Agriculture[3]

In overall terms, agricultural growth has remained largely unchanged during FY13. In particular, the livestock sub-sector (which has a 55.4 percent share in agriculture value addition), continued as the largest contributor to agriculture growth (**Table 2.2**). However, a significant change was witnessed within the crop sector, where considerable gains in wheat, sugarcane and other crops were almost neutralized by the losses in rice and cotton.

Crop sector

The *rabi* crop has done well as fertilizer prices remained relatively stable compared to last year; the government raised the support price for wheat; adequate irrigation water was available at the time of sowing (unlike the *kharif* season); the frequent rains and moderate temperatures throughout the season helped improve crop productivity; and finally, agri-credit disbursement were higher compared to last year (**Table 2.3**). The *kharif* crops of rice and cotton, on the other hand, were adversely affected due to heavy rains and localized flooding. Therefore, the overall growth in major crops during FY13 has remained significantly lower than last year.

Table 2.3: Agriculture Credit

	Disbursement	Growth
	billion Rupees	percent
FY08	211.6	25.4
FY09	233.0	10.1
FY10	248.1	6.5
FY11	263.0	6.0
FY12	293.8	11.7
Jul-Mar FY12	197.4	17.0
Jul-Mar FY13	231.0	17.0

Source: State Bank of Pakistan

Table 2.4: Rice Crop

	FY11	FY12	FY13
Area in 000 hectare			
Punjab	1767	1,714	1,711
Sindh	361	636	511
KPK	46	50	51
Balochistan	191	171	38
Pakistan	**2,365**	**2,571**	**2,311**
Production in 000 tons			
Punjab	3,384	3,277	3,4778
Sindh	1,230	2,260	1,844
KPK	78	95	99
Balochistan	131	529	120
Pakistan	**4,823**	**6,160**	**5,541**

Source: Pakistan Bureau of Statistics

Rice harvesting was completed in October 2012, and available information suggests an output of 5.5 million tons, which is much lower than the target of 6.9 million tons. Despite production gains in Punjab, the overall crop suffered mainly due to

[3] This section focuses on the major crops which account for 26 percent of the value addition by the agriculture sector. We did not cover the livestock subsector, the largest contributor to agriculture with 52 percent share, due to non-availability of sufficient information.

localized flooding in upper Sindh and adjoining areas of Balochistan during September 2012 (**Table 2.4**).

While heavy rains damaged the rice crop in Sindh, sugarcane growing areas remained largely unaffected. As a result, sugarcane production witnessed a sharp recovery in Sindh following the floods of FY12.[4] In addition, anticipating heavy rains and floods this year as well, farmers preferred to plant sugarcane, which is more resilient to rains and floods. In effect, overall sugarcane production reached 62.5 million tons, which is higher than the target of 59 million tons (**Table 2.5**).

Table 2.5: Sugarcane Crop

	FY11	FY12	FY13
Area in 000 hectare			
Punjab	672	761	768
Sindh	226	190	254
KPK	88	106	102
Balochistan	1	1	1
Pakistan	**988**	**1,058**	**1,124**
Production in 000 tons			
Punjab	37,481	42,893	42,982
Sindh	13,766	10,788	14,909
KPK	4,030	4,684	4,550
Balochistan	31	31	32
Pakistan	**55,309**	**58,397**	**62,472**

Source: Pakistan Bureau of Statistics

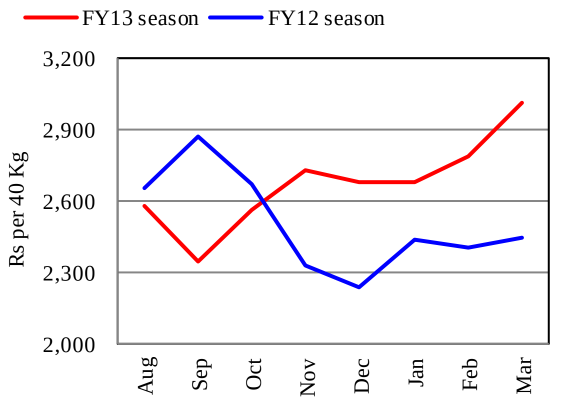
Meanwhile, the crop assessment committee has estimated 13.3 million bales of cotton for FY13, which is lower than the target of 14.5 million. However, the information provided by the Pakistan Cotton Ginners Association (PCGA), paints a more pessimistic picture. According to PCGA, the ginners have received 12.9 million bales of cotton by the end of April 2013 (i.e., close of cotton season). Generally, the cotton bales reported by PCGA are of lower weight, i.e., between 160-165 kg, compared to the standard weight of 170 kg. If we standardize the PCGA data, the likely harvest will be much lower.

While the area under cotton cultivation fell this year,[5] the crop also suffered due to two other shocks: (1) localized flooding in Southern Punjab (particularly, in DG Khan, Rajanpur, Muffargarh, Rahim Yar Khan, Bahawalpur and Bahawalnagar);[6] and (2) the impact of the Cotton Leaf Curl Virus (CLCV). The impact of the virus, which was more severe compared to last year, was concentrated in central

[4] It may be recalled that after the FY12 floods, key sugarcane growing districts of Sindh (e.g., Badin, Mirpurkhas, and Tando Allahyar) remained inundated for an extended period. These three districts, together, contribute more than 40 percent of the sugarcane production in Sindh.
[5] Area under cotton cultivation fell because of delays in the harvesting of FY12 wheat crop, water shortage at the sowing time, and lower cotton prices compared to the previous season.
[6] These six districts produced 4.9 million cotton bales in FY12 (36 percent of the total production).

Punjab (Khanewal, Multan, and Burewala).[7] Cotton varieties that are sown later in the season are more vulnerable in the early stage of growth, as they are exposed to humidity.[8] At the same time, the higher prices of pesticides constrained farmers' ability to take precautionary measures.[9] However, the impact of the damages to the cotton crop on farmers' income was partially offset by a rise in seed-cotton (*phutti*) prices in the domestic market (**Figure 2.1).**

Figure 2.1: Domestic Price of Seedcotton (Phutti)



Source: Pakistan Central Cotton Committee

Wheat, which is the main crop of the *rabi* season, reached its final stage by end-March 2013. Harvesting, which has already ended in Southern Sindh, will continue till late May in the central and upper parts of the country.

Table 2.6: Wheat Crop

	FY11	FY12	FY13
Area in 000 hectare			
Punjab	6,691	6,483	6,537
Sindh	1,144	1,049	1,058
KPK	725	729	734
Balochistan	341	388	363
Pakistan	**8,901**	**8,650**	**8,693**
Production in 000 tons			
Punjab	19,041	17,739	18,627
Sindh	4,288	3,762	3,731
KPK	1,156	1,130	1,105
Balochistan	729	843	768
Pakistan	**25,214**	**23,473**	**24,231**

Source: Pakistan Bureau of Statistics

The wheat crop benefited from better availability of irrigation water; timely rains; favorable temperatures; increased off-take of fertilizer; and higher support prices for wheat (from Rs 1,050 per 40 kg to Rs 1,200). Hence, initial estimates of the wheat crop are at

[7] These three districts produced over 1.5 million cotton bales in FY12.
[8] CLCV generally shows up in the months of August and September (which are relatively humid). Hence, to protect against the pest attack, farmers prefer to sow cotton early in February so that the plant grows strong enough to withstand the virus attack. Unfortunately, the cotton sowing for the current crop got delayed, first due to extended winter season last year, and then on account of water shortage before monsoon. This delay in planting made the crop susceptible to pest attack.
[9] The wholesale price index for pesticides posted a rise of 18 percent during Jul-Sep 2012 (this period coincides with CLCV virus attack).

24.2 million tons, which is higher than the 23.5 million tons last year, but this is still lower than the target of 25.5 million tons set for FY13 (**Table 2.6**).

Prospects of a good harvest, together with gradual declines in global prices,[10] are already pulling down wheat prices in the domestic market.[11] To protect farmers against a sharp fall in domestic prices, the government has set a procurement target of 7.9 million tons for the current season, which is significantly higher than the 6 million tons *procured* during FY12.

Finally, growers' income remained under pressure during Jul-Mar FY13, despite productivity gains in sugarcane production.[12] This loss in income can be traced to the cotton and rice crops. However, the impact of the increased production of wheat crop will mostly be realized after April 2013. On the input side, the price of pesticides increased sharply for the second year in a row, whereas the price of fertilizer remained relatively stable during Jul-Mar FY13 (**Table 2.7**).

Table 2.7 Agricultural Input Prices

YoY % Change in Wholesale Price Index (Jul-Mar)

	FY12	FY13
Tractor	23.3	-9.5
Fertilizer	58.7	2.3
Pesticides	26.6	18.9
Insecticides	2.4	-5.7
Diesel	0.7	0.3

Source: Pakistan Bureau of Statistics

Box 2.1: The Rebasing of National Income Accounts

The Pakistan Bureau of Statistics (PBS) has re-based the National Accounts from the fiscal year 1999-2000 to 2005-06. The rebasing has been accompanied by significant changes in the compilation methodology for national income accounts from System of National Accounts (SNA) 1993 to SNA 2008.[13] The major changes introduced in the compilation method are detailed below:

- GDP statistics are now reported at *basic* prices. Earlier, national accounts were being estimated on the basis of factor costs. The key difference between the factor cost and the basic price method

[10] The prices of CBOT wheat have fallen from around US$ 350 per ton in mid-July 2012 to US$ 250-260 in early April 2013.

[11] The weekly wheat prices compiled by Pakistan Bureau of Statistics posted a decline of around Rs 50 per 40 kg during the first fortnight of April 2013. Furthermore, there are reports that farmers are selling their produce at much lower prices (Rs 1,100 – 1,150 per 40 kg) compared to government support price of Rs 1,200. The price that farmers eventually get would be even lower once we adjust for the cost of transportation and *bardana* (i.e., jute bag).

[12] In November 2012, government increased the wheat support price to Rs 1,200 from Rs 1,050 per 40 kg. For sugarcane, the Punjab government raised the indicative prices to Rs 170 per 40 kg from Rs 150 in the previous season. The Sindh government also increased indicative prices from Rs 154 to 172 per 40 kg.

[13] System of National Accounts (SNA) is the international statistical standard for the national accounts, adopted by the United Nations Statistical Commission. SNA 2008 is the latest version.

is that the former excludes *all* indirect taxes on production and includes all subsidies, while only taxes and subsidies on *intermediate* commodities are treated in this manner in the latter method. Hence, basic price is what the producer actually gets.[14]

Table 2.1.1: Change in Economic Structure in 2005-06

	Share in GDP (%)	
	Old base (1999-00)	**New base (2005-06)**
Agriculture	22.5	23.0
Industry	25.9	20.9
Services	51.7	56.0

Source: Pakistan Bureau of Statistics

- With the change in international classification, cotton ginning is now a part of agriculture; in the previous system, it was included in large scale manufacturing. Similarly, meat and meat products have been excluded from manufacturing, and are now covered in slaughtering.

- The new base has expanded its coverage to include new economic activities such as flower production, animal husbandry and hunting, newspaper and periodicals etc.

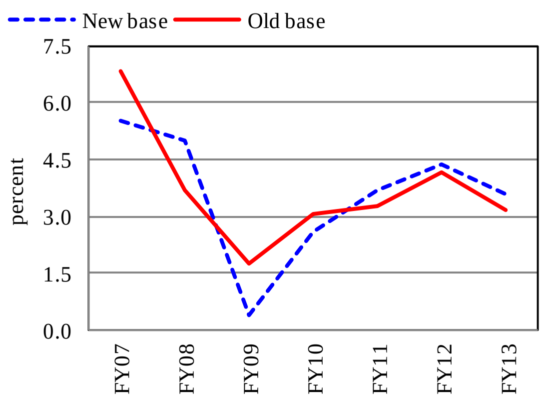
- National accounts are now using more recent census, surveys, and studies for the computation of value addition for different sectors.

- The growth rate of small scale manufacturing has increased from 7.5 percent in the earlier base to 8.2 percent. This revision was made following results of the new survey of Small and Household Manufacturing Industries.

- The coverage of the transport, storage and communication sector has been expanded by including Railway-franchised booking, franchised post offices, Pakistan Railway Advisory and Consultancy Services (PRACS), shipping agents, goods forwarding and custom clearance agents, travel agents, and tour operators.

- The finance and insurance subsector has been totally revamped on the basis of SNA 2008 after consultation with Security and Exchange Commission of Pakistan (SECP) and State Bank of Pakistan (SBP). Since this sector's output is neither visible nor directly measureable, SNA 2008 uses an indirect measurement method called 'Financial Intermediation Services Indirectly Measured (FISIM)'. Conceptually, FISIM is the sum of the service charge paid by the borrower and the service charge paid by the lender.

Figure 2.1.1: GDP Growth



Source: Pakistan Bureau of Statistics

[14] This excludes any tax on the final produce, but includes subsidies.

Figure 2.1.1 compares GDP growth rates based on the old and new series and the similarity in their trends. The composition of real GDP has also changed. Specifically, the share of services has increased substantially, whereas the share of industry has declined (**Table 2.1.1**).

2.3 Industry

A stronger performance by *large scale manufacturing*, *mining & quarrying* and *construction* (with a combined share of 77 percent in industry index) helped the industrial sector to post a growth of 3.5 percent in FY13, compared to 2.7 percent last year (**Table 2.8**). More strikingly, this improved performance was despite continued energy constraints.

Table 2.8: Value-addition by Industry

Share and growth in percent; contribution in percentage points

	Share in	Growth		Contribution to Growth	
	FY13	FY12	FY13^P	FY12	FY13^P
Mining & quarrying	14.7	4.6	7.6	0.6	1.1
Manufacturing	63.0	2.1	3.5	1.4	2.2
Large scale	50.9	1.2	2.8	0.6	1.5
Small scale	7.6	8.4	8.2	0.6	0.6
Slaughtering	4.5	3.6	3.5	0.2	0.2
Electricity gen & dist and gas dist	10.9	2.7	-3.2	0.3	-0.4
Construction	11.4	3.2	5.2	0.4	0.6
Overall	**100.0**	**2.7**	**3.5**	**2.7**	**3.5**

P: Provisional

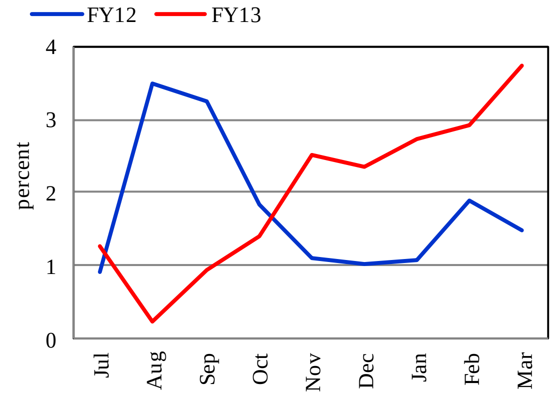
Source: Pakistan Bureau of Statistics

Large Scale Manufacturing (LSM)[15]

LSM growth gained further momentum during Q3-FY13, on the back of higher production of sugar, POL, cement, fertilizer, and cotton yarn. This is in contrast to the same period last year, when LSM growth was largely explained by sugar production (**Table 2.9**).

On a cumulative basis, LSM grew by 3.7 percent during Jul-Mar FY13, which is higher than 1.5 percent in Jul-Mar FY12 (**Figure 2.2**). More importantly, the recovery is broad-based and can be traced to: (a) improved producer margins on account of lower financing costs and falling raw material prices; (b) a better sugarcane crop; (c) capacity enhancements in iron & steel, and paper & paper board; (d) the continued

Figure 2.2: Cumulative Growth in LSM



Source: Pakistan Bureau of Statistics

[15] This discussion is based on data available for Jul-Mar FY13 period.

strength in construction activities; (e) higher external demand for cotton yarn; and (f) better gas availability for the fertilizer industry. Encouragingly, this higher growth was realized despite frequent interruption in economic activities due to the challenging law & order situation, and power shortages.

Table 2.9: Performance of Selected Industries

percent YoY growth

		Jul-Mar		Jul-Dec		Jan-Mar		Contribution to Growth Jan-Mar	
	Wt	**FY12**	**FY13**	**FY12**	**FY13**	**FY12**	**FY13**	**FY12**	**FY13**
Overall LSM		1.5	3.7	1.0	2.4	2.3	6.0		
Consumer durable	4.9	4.9	-12.9	7.3	-14.1	0.4	-9.0	0.0	-0.6
Cars & jeeps	2.8	8.8	-23.0	8.7	-24.5	8.8	-20.6	0.3	-0.7
Electronics	2	-7.4	-6.7	-8.1	-11.7	-6.1	2.5	-0.10	0.04
Construction-led									
Cement	5.3	3.0	6.0	3.1	4.5	3.0	8.9	0.3	0.8
Steel coils & sheets	2.3	-34.2	45.5	-46	75.7	-7.0	4.8	-0.1	0.1
Paints	0.3	-23.4	-2.2	-27.1	-7.2	-13.4	9.4	-0.04	0.02
Export-led									
Cotton cloth	7.2	0.7	0.2	0.9	-0.1	0.1	0.9	0.1	0.5
Cotton yarn	13.0	1.1	1.3	1.4	0.3	0.6	3.2	0.1	0.6
Pharmaceutical	3.6	10.3	11.5	15.4	6.5	1.3	21.6	0.1	1.5
Leather	0.9	2.3	-5.1	8	-6.6	-7.5	-2.2	-0.1	0.0
Agriculture-led									
Fertilizer	4.4	-0.4	-5.0	-3.7	-10	8.1	6.6	0.3	0.3
Tractors	0.5	-48.1	34.5	-59	102.5	-29.3	-33.5	-0.2	-0.2
Food	12.4	7.4	6.7	7.2	4.1	7.6	9.2	2.2	2.7
Sugar	3.5	15.2	3.0	35.8	-25.3	10.5	11.0	1.8	2.1
Edible oil	2.2	1.7	11.2	-3.4	15.2	13.2	3.5	0.4	0.1
POL	5.5	-5.7	13.3	-1.8	10.4	-12.8	19.3	-0.7	0.9
Petroleum products	5.4	-4.5	13.5	-0.3	10.8	-12.4	19.1	-0.7	0.9
Paper & board	2.3	18.2	23.3	9.4	32.6	37.4	7.2	0.9	0.2

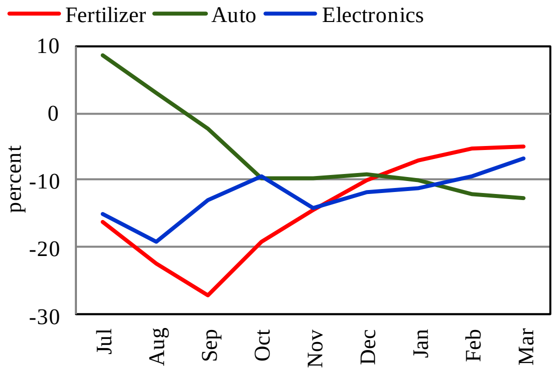
Source: Pakistan Bureau of Statistics

Following some improvement in gas supplies, fertilizer production has increased since October 2012.[16] However, the drag from the drop in production in the first quarter is still pulling down LSM growth for FY13 (**Figure 2.3**). The other two

[16] According to industry data, urea production during Oct 2012-Mar 2013 increased by 5.3 percent compared to a decline of 14.2 percent in the corresponding period of previous year.

sectors that have been holding back LSM growth are automobiles and consumer electronics. Adjusting for fertilizer, auto and electronics (which have a combined weight of 11.0 percent in LSM index), LSM growth is 5.6 percent during Jul-Mar FY13, compared to 2.0 percent in the corresponding period last year.

Figure 2.3: Key Industries Showing Negative Growth in FY13 (Cumulative Growth)



Source: Pakistan Bureau of Statistics

A number of factors, both domestic as well as external, explain the recovery in LSM growth.

Better sugarcane crop drives higher sugar production

The third quarter generally experiences a seasonal rise in sugar production. This quarter was particularly favorable due to a good sugarcane harvest; substantial support from the government; and the lower than normal crushing in the preceding quarter.[17] So far, total sugar production during Jan-Mar FY13 is 4.6 million tons, which is 3.0 percent higher than the corresponding period of FY12.

Higher external demand boosts textile production

In the textile sector, increased demand for cotton yarn and cloth from the Chinese and Hong Kong markets, translated into higher domestic production.[18] However, subdued growth in the ginning sector reveals that the industry is using imported cotton (and running down existing inventories) for the production of yarn and cloth.[19]

Enhanced capacity in iron & steel, and paper & paper board

The iron & steel, and paper & paper board industries (having a combined weight of 7.7 percent) witnessed capacity expansions that became operational during this year. Within iron & steel, the production of hot-rolled and cold-rolled steel rose to

[17] The sugar industry was facing a liquidity crunch because of large unsold stocks and unfavorable international prices. Government therefore intervened by: (1) purchasing surplus sugar through TCP; (2) permitting sugar exports; and (3) facilitating exporters through the freight subsidy.
[18] For details on increased demand in China and Hong Kong, see trade section in Chapter 5.
[19] According to cotton ginning association, the cotton arrival, cotton stocks and sold stocks remained lower in procurement season of FY13 relative to last year.

1.8 million tons during Jul-Mar FY13 from 1.3 million tons in the corresponding period last year. This is due to two new plants: one came online in October 2012, and is already working at full capacity; the other commenced production in January 2013, and is currently working at 70 percent of capacity.

Low input costs helps cement and edible oil

While persistent domestic demand helped the cement and the edible oil sectors, falling raw material prices also incentivized domestic producers to expand output. For instance, the fall in international coal prices during FY13 benefited cement producers running coal-based plants.[20] This industry expanded by 6.0 percent during Jul-Mar FY13, compared to 3.0 percent in Jul-Mar FY12. Similarly, the increase in growth in oil and ghee production was on account of lower international prices of palm oil.[21]

2.4 Services Sector

The growth in the services sector decelerated from 5.3 percent in the previous year to 3.7 percent in FY13. The slowdown in *transport, storage & communication* and *general government services* overshadowed the improved performance by *wholesale & retail trade* and *finance & insurance* (**Table 2.10**).

Table 2.10: Value Addition by Services

Share and growth in percent; contribution in percentage points

	Share in FY13	Growth		Contribution to Growth	
		FY12	FY13^P	FY12	FY13^P
Wholesale & retail trade	31.5	1.7	2.5	0.5	0.8
Transport, storage & communication	23.7	8.9	3.4	2.1	0.8
Finance & insurance	5.2	1.0	6.6	0.1	0.3
Housing services	11.7	4.0	4.0	0.5	0.5
General govt. services	11.7	11.1	5.6	1.2	0.6
Other private services	16.2	6.3	4.0	1.0	0.6
Overall	**100.0**	**5.3**	**3.7**	**5.3**	**3.7**

P: Provisional

Source: Pakistan Bureau of Statistics

Lower growth by the telecom sector and higher losses in Pakistan Railways, held back growth in *transport, storage & communication*. Unlike previous years, air transport saw an increase in its contribution to services growth. This probably reflects the impact of lower fuel costs as a result of which, PIA has been posting operating surpluses since October 2012.

[20] On average, international price of coal fell by 22.8 percent on YoY basis in Jul-Mar FY13 in contrast to a growth of 8.5 percent in the corresponding period of FY12.

[21] The better production of palm oil during 2012-13 in Indonesia, the largest palm oil producing country, weakened the international prices of the commodity. Specifically, these prices fell from US$ 1,052 per ton in mid-September 2012 to US$ 756 by end-March 2013.