2 Real Sector

2.1 Overview

GDP growth gathered some pace in FY16 and reached 4.7 percent, from 4.0 percent in the previous year. Although the substantial damages to cotton crop pulled down growth in the agriculture sector, the strong recovery in industry and services was sufficient to push the overall GDP growth to an eight-year high level (**Table 2.1**).

Table 2.1: GDP Growth Rate
percent

	Share FY16	Growth			Contri. to growth
		FY15^R	FY16^P	FY16^T	
Agriculture	**19.8**	**2.5**	**-0.2**	**3.9**	**0.0**
Of which					
Crops	7.4	1.0	-6.3	3.2	-0.5
Livestock	11.6	4.0	3.6	4.1	0.4
Industry	**21.0**	**4.8**	**6.8**	**6.4**	**1.4**
Of which					
LSM	10.9	3.3	4.6	6.0	0.5
Electricity gen. & dist. and gas dist.	1.9	12.0	12.2	6.0	0.2
Construction	2.6	6.2	13.1	8.5	0.3
Services	**59.2**	**4.3**	**5.7**	**5.7**	**3.3**
Of which					
Wholesale & retail trade	18.3	4.3	5.7	5.5	0.8
Finance & insurance	3.3	6.5	7.8	6.5	0.2
General govt.	7.6	4.8	11.1	6.0	0.8
GDP	**100.0**	**4.0**	**4.7**	**5.5**	**4.7**
Memorandum item					
Investment-GDP ratio		15.5	15.2	17.7	

R: Revised; P: Provisional; T: Target
Source: Pakistan Bureau of Statistics

Several factors helped in shoring up this economic recovery: (i) a favorable macro environment (subdued CPI inflation, comfortable external position, and prudent fiscal management); (ii) supportive policies (multi decade low interest rates, stable exchange rate, and increased spending under Public Sector Development Program); (iii) improved security situation; (iv) some ease in energy supplies; and (v) continued low prices of key raw materials in global markets.

The recovery in industry was particularly encouraging, as it was achieved despite sluggish external demand. The sector benefited from booming construction activities (both in private and public sector); improved gas availability to fertilizer plants; and continued strong demand for automobiles (spurred by Apna Rozgar Scheme by Punjab government and cheaper auto financing). More importantly, the confidence of businesses also firmed up, as evident from announcement of capacity expansion by some of the major companies in cement, automobile, and dairy products.

This sharp growth in industry also had spillover impact on the services sector: *wholesale and retail trade* (a heavyweight in services) rose sharply from 4.3 percent last year to 5.7 percent in FY16.[1] In addition, *general government services* continued its growth momentum on the back of increase in salaries and pension of government employees, whereas *finance and insurance* posted a recovery on account of strong profitability of the banking sector.

Figure 2.2: Value Addition by Agriculture
growth & share in percent; contribution in percentage points

	FY16	Growth			Contri. to growth in agriculture	
	Share	FY15	FY16	FY16^T	FY15	FY16
Crop	37.2	1.0	-6.3		0.4	-2.5
Imp. crops	23.5	-0.5	-7.2	3.2	-0.1	-1.8
Other crops	11.4	3.1	-0.3	4.5	0.3	0.0
Cotton ginning	2.3	7.2	-21.3	5.0	0.2	-0.6
Livestock	58.6	4.0	3.6	4.1	2.2	2.0
Forestry	2.1	-10.4	8.8	3.0	-0.2	0.2
Fishing	2.2	5.8	3.2	4.0	0.1	0.1
Overall	**100.0**	**2.5**	**-0.2**	**3.9**		

T: Target; Source: Pakistan Bureau of Statistics

2.2 Agriculture

Agriculture sector recorded a decline of 0.2 percent for the first time since FY08 (**Table 2.2**).[2] This dismal performance can be traced to the crop sector, which *fell* by 6.3 percent this year. To put this in perspective, the decline in value addition by the crop sector was even higher than that realized as a result of super floods in FY10.[3] Moreover, growth in livestock (having 58.6 percent share in agriculture value addition) also slowed down by 0.4 percentage points during the year, compounding the challenge for agriculture.

Table 2.3: Important Crops
production in million tons; for cotton in million bales; growth in percent

	Production			Growth	
	FY15	FY16	FY16^T	FY15	FY16
Cotton	14.0	10.1	15.5	9.3	-27.8
Rice	7.0	6.8	6.9	3.0	-2.7
Sugarcane	62.8	65.5	68.0	-6.9	4.2
Wheat	25.1	25.5	26.0	-3.4	1.6
Maize	4.9	4.9	3.7	-0.1	-0.3

T: Target; Source: Pakistan Bureau of Statistics

<u>Crop sector</u>

Unlike FY15, when stellar performance by cotton and rice more than compensated for the losses emanating from other important crops, this time around these two crops recorded a decline. The damages to cotton crop, in particular, were large enough to overshadow a better showing by sugarcane and wheat crops compared to last year (**Table 2.3**).

[1] Manufacturing activities contribute more than half of the value addition in *wholesale & retail trade*. In comparison, share of the agriculture trade is around 20 percent.
[2] Average annual growth of the agriculture sector in the last 5 years (FY11-FY15) was 2.7 percent.
[3] The crop sector recorded a decline of 4.2 percent in FY10.

In terms of input, water availability was particularly low during kharif. On the demand side, urea off-take declined considerably during the year, despite its ample availability in the market (**Table 2.4**). The pressure on income may have discouraged growers from using farm inputs to an extent (including fertilizer, pesticides and tractors). In the case of tractors, delays in the subsidy scheme announced by provincial governments of Sindh and Punjab further held up the demand. [4]

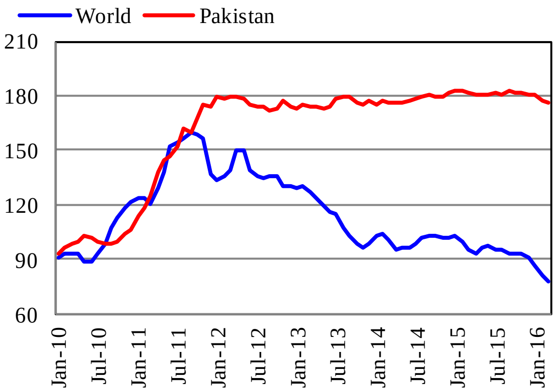
Table 2.4: Availability of Inputs (Jul-Mar)

			growth in percent	
	FY15	**FY16**	**FY15**	**FY16**
Water availability[1] (MAF)				
	75.4	69.4	3.9	-7.9
Fertilizer off-take[2] (000 Tons)				
Urea	4,583	3,504	0.3	-23.5
DAP	1,492	1,562	6.1	4.7
Agri-credit disb.[3] (billion rupees)				
Total	326	385.5	27.5	18.3
Production	288.5	353.8	22.9	22.6
Development	37.5	31.7	78.9	-15.4

Source: 1: SUPARCO; 2:NFDC; 3: State Bank of Pakistan

Another issue was the disconnect between local and international prices of key inputs like fertilizers (**Figure 2.1**); this left a profound impression on the rural economy. Specifically, while international prices of fertilizers plummeted by more than one-half since July 2011, prices in the domestic markets had increased by 15 percent over the same period.[5] Similarly on the pesticides front, domestic prices rose by 98 percent during the same period.

Figure 2.1: Fertilizer Price Index (CY2010=100)



Source: Pakistan Bureau of Statistics; World Bank

All these factors culminated in rising cost of production, and this was one of the reasons for a persistent upward trend in prices of agriculture produce compared to the fall in the same agriculture commodities worldwide (**Figure 2.2**).[6]

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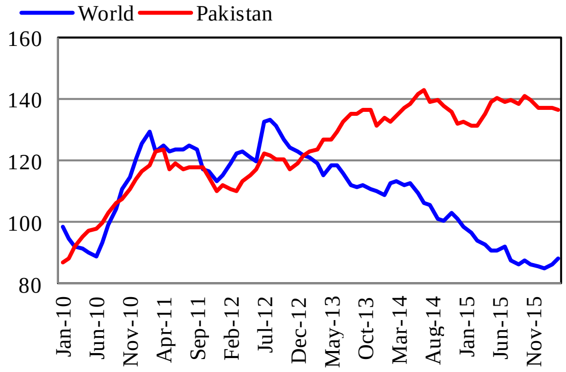
[4] The sales of tractors recorded a sharp decline of 33.2 percent (on YoY basis) during Jul-Mar FY16.
[5] By March 2016, fertilizer prices in the international market fell by 6.1 percent (on YoY basis), whereas domestic prices recorded a rise of 3.8 percent during the same period.
[6] Domestic Agriculture Price Index is a WPI subgroup titled "Agriculture Forestry and Fishery", which contains 23 commodities. International Commodity Price Index is sourced from "Food Commodity Price Index" of World Bank, which contains cereals, oils and meat products.

Figure 2.2: Agriculture Commodity Price Index (CY2010=100)



Source: Pakistan Bureau of Statistics; World Bank

On the revenue side, growers took another beating. In case of surplus production, the exports could not be materialized despite a hefty subsidy (wheat and sugar are the case in point). In case of shortfall in production, cheaper imports kept domestic prices in check (for example, import of cotton kept domestic cotton price low). In fact, higher production cost and low prices of the produce have been eroding crop sector profitability for the past few years (thereby putting pressure on farmers' income). In this backdrop, the performance of the crop sector was understandable.

Cotton takes a special mention as it took everyone by surprise. Cotton production was down 27.8 percent and missed the target by a wide margin. Excessive rains and pest infestations (especially pink-bollworm and whitefly) had a detrimental impact on the crop especially in Punjab. Low prices of raw cotton in the domestic markets during FY16 meant growers were unwilling to pour more money into expensive pesticides if return on their investment was not there.[7] This worsened the already critical condition and resulted in lowest production and yield figures since FY04.

Massive losses to the cotton crop have had far reaching implications on the current account on two counts: hefty raw cotton import bill and reduction in textile exports. According to the Pakistan Central Cotton Committee (PCCC), there was a shortfall of 4.5 million bales, given that domestic mill consumption averaged around 14.6 million bales in the last two years. This gap is expected to be covered by 0.4 million bales of carryover stocks[8] and 4.1 million bales of imports. The country has thus far spent US$ 0.6 billion on raw cotton imports of 2 million bales (Jul-Mar FY16). On the other hand textile exports are down by 8 percent during Jul-Mar FY16 compared to same period last year.

[7] Source: Pakistan-Satellite based Crop Monitoring System, Various Issues during FY16, SUPARCO; Cotton Review, Various Issues during FY16, Pakistan Central Cotton Committee.
[8] Source: Pakistan Central Cotton Committee.

More importantly, the continuing pressure on profits (that may divert growers to better yielding crops for the next year),[9] and the fact that risks from whitefly infestation have not yet subsided, may hamper a sharp recovery in the cotton crop next year. [10] Hence, cotton production target of 14.1 million bales (with anticipated yield of 800 kilograms per hectare) for FY17 seems challenging.

Table 2.5: Growth in Industry

Share and growth in percent; contribution in percentage points

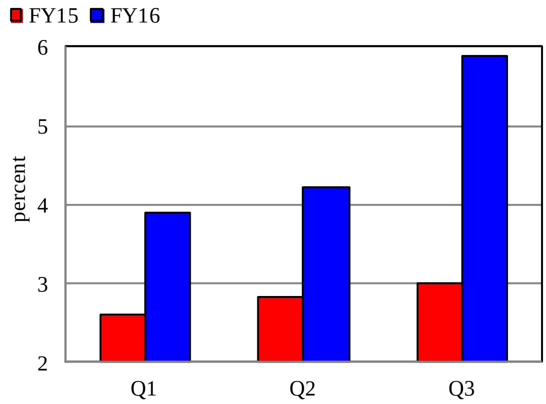
	Share in GDP	Growth			Contri. to industry growth	
		FY15	FY16	FY16^T	FY15	FY16
Mining & quarrying	3.0	4.0	6.8	6.0	0.6	1.0
Manufacturing	13.6	3.9	5.0	6.1	2.6	3.3
Large-scale	10.9	3.3	4.6	6.0	1.8	2.4
Small-scale	1.8	8.2	8.2	8.3	0.7	0.7
Slaughtering	0.9	3.4	3.6	3.7	0.2	0.2
Electricity gene & distt and gas distt	1.9	12.0	12.2	6.0	0.9	1.0
Construction	2.6	6.2	13.1	8.5	0.7	1.5
Industry	**21.0**	**4.8**	**6.8**	**6.4**	**4.8**	**6.8**

T: Target; Source: Pakistan Bureau of Statistics

2.3 Industry

The growth in the industrial sector recovered sharply from 4.8 percent last year to 6.8 percent in FY16 (**Table 2.5**). In fact, this was the first time in past 12 years that the industry surpassed the growth target set in the Annual Plan. This performance was encouraging given the continued uncertainty in the global economy and subdued external demand. While the recovery was broad-based, as all sub-sectors recorded higher growth over previous year, the major contribution came from *large-scale manufacturing*, *construction* and *electricity generation & distribution and gas distribution*.

Figure 2.3: LSM Growth (YoY on Quarterly Basis)



Source: Pakistan Bureau of Statistics

[9] The global outlook for cotton prices still remains sluggish due to large inventories.

[10] Across the border on the Indian side, Punjab and Haryana have been suffering production losses for the past two years despite having better quality seeds. International Cotton Advisory Committee has reported that whitefly infestation (which has been widely blamed for the situation) is likely to persist in north western India in FY17. Given the same climatic conditions and the proximity of the areas, this is a worrying sign for Pakistan.

Large scale manufacturing (LSM)

LSM continued its growth momentum in Q3-FY16 as well **(Figure 2.3)**, resulting in a cumulative growth of 4.7 percent during Jul-Mar FY16, compared to 2.8 percent during the same period last year. Besides consumer durables and construction related industries, other manufacturers in fertilizer, steel (in private sector), rubber, pharmaceuticals and paints also contributed to the growth impetus (**Table 2.6**). A number of factors helped LSM achieve this performance, e.g., continued low prices of key raw material, improved and affordable energy supply, and multi-decade low policy rate that led to higher credit flows to the private sector.[11]

Table 2.6: YoY Growth in LSM (Jul-Mar)
percent

	Wt. in LSM	YoY growth		Contri to growth	
		FY15	FY16	FY15	FY16
LSM	70.3	2.8	4.7		
Textile	21.0	1.0	0.6	10.1	3.8
Cotton yarn	13.0	1.2	1.5	7.9	6.2
Cotton cloth	7.2	0.1	0.4	0.2	0.8
Food	12.4	-0.8	3.7	-6.9	17.2
Sugar	3.5	-6.1	2.9	-20.3	5.2
Vegetable ghee	1.1	-0.9	6.1	-0.4	1.7
Cooking oil	2.2	0.1	8.4	0.1	6.3
Soft drinks	0.9	14.6	4.1	11.5	2.2
POL	5.5	5.5	2.4	11.9	3.2
Steel	5.4	35.6	-7.5	36.5	-6.1
Private	4.1	24.5	6.0	22.3	6.6
PSM	1.0	87.5	-100	14.3	-12.6
Non-metallic minerals	5.4	2.7	10.2	9.7	21.8
Cement	5.3	2.9	10.4	10.1	22.0
Automobile	4.6	17.1	23.4	28.7	26.9
Jeeps and cars	2.8	23.1	29.7	18.7	17.2
Fertilizer	4.4	1.0	15.9	1.9	18.5
Pharmaceutical	3.6	6.8	7.2	18.7	12.2
Paper	2.3	-5.7	-2.9	-7.9	-2.2
Chemicals	1.7	6.9	10.3	5.3	5.0
Caustic soda	0.4	1.5	26.8	0.2	2.2
Leather products	0.9	9.1	12.2	5.7	4.8
LSM excl. PSM	**69.4**	**2.5**	**5.4**		

Source: Pakistan Bureau of Statistics

Sectoral performance

Automobiles

With an exceptional growth of 23.4 percent during Jul-Mar FY16 (on top of 17.1 percent YoY during Jul-Mar FY15), the automobile industry contributed more than one-fourth of the overall LSM growth. Continued strong sale of car models introduced last year; availability of cheaper auto financing; extra demand under Apna Rozgar scheme; better law and order situation; and increase in trading activities supported the automobile industry.[12] In particular,

[11] The import of Liquefied Natural Gas (LNG) enabled the government to increase gas supply to Compressed Natural Gas (CNG) stations, fertilizer plants, textile industry and general industry (Source: Ministry of Petroleum). In addition, the fall in furnace oil prices brought down costs of own power generation for industries.

[12] During Jul-Mar FY16, consumer financing increased by Rs 19.6 billion (on top of Rs 32.0 billion in Jul-Mar FY15). Of this increase, more than 60 percent was meant for the purchase of cars.

passenger cars, trucks & busses and pick-ups registered significant growth in sales (**Table 2.7**). Allied industries, especially rubber, also benefited from a healthy production in the auto industry.[13]

Table 2.7: Automobile Sales (Jul-Mar)

numbers

Units	FY15	FY16	Growth (%)
Passenger cars	105,344	137,206	30.2
Trucks & buses	3,126	4,443	42.1
Jeeps	933	601	-35.6
Pick-ups	18,062	29,091	61.1
Tractors	33,181	22,169	-33.2
2-3 Wheeler	784,641	977,521	24.6
Total Sales	**945,287**	**1,171,031**	**23.9**

Source: PAMA

The key development during the third quarter was the conclusion of Punjab Apna Rozgar Scheme in February 2016. At the same time, the demand for cars and pickups is also normalizing because consumers are awaiting launch of new models by the leading manufacturers.

Going forward, the industry is likely to benefit from incentives offered to new investment under much-awaited Automotive Development Policy for 2016-21, expected increase in sales of passenger cars from the launch of new models, and the likely surge in demand for trucks and buses following the planned expansion in the road network.

Fertilizer

Fertilizer production recovered sharply from a meager 1.0 percent YoY growth during Jul-Mar FY15 to a strong 15.9 percent increase during Jul-Mar FY16. More importantly, this exceptional performance was realized despite a significant slowdown in local demand (**Box 2.1**). The increase in production owes to improved gas availability due to LNG import and new exploration and development by Mari gas.[14] However, in the face of dwindling sales, higher production led to all time high inventories with firms.[15]

Similarly, wholesale and retail trade, an indicator of trading activities in the country, registered a growth of 4.6 percent in FY16, compared to 2.6 percent previous year. This strong recovery in *wholesale and retail trade* (a sector having 18.3 percent share in GDP) bodes well for the demand of commercial vehicles, especially trucks and pickups.

[13] Rubber production registered a healthy growth of 11.6 percent during Jul-Mar FY16, compared to 1.9 percent during the same period last year.

[14] In fact, two of the fertilizer plants which were closed down due to gas shortage became operational due to LNG supply.

[15] Total inventories of urea fertilizer by end March 2016 reached to 1.2 million tones, which is equal to around 3 months average sales.

Food and products

Recovery in sugar and edible oil industries steered growth in the food sector. Within sugar, a better sugarcane crop this year explains 2.9 percent growth in Jul-Mar FY16, compared to a contraction of 6.1 percent during the corresponding period last year. On the basis of past trends, we expect sugar production to comfortably exceed levels achieved last year (**Table 2.8**). In fact, given the delays in sugarcane crushing this year, sugar production in Q4-FY16 would be significantly higher than that realized in the corresponding quarter of FY15.

Box 2.1: Why did the fertilizer sales drop?

Fertilizer sales fell by 13 percent during Jul-Mar FY16 over the corresponding period last year.[1] A number of factors explain this decline: (a) considerable crop losses and low prices of agri-produce, weakened purchasing power of farmers; (b) further slump in demand came from an increase in urea and DAP prices during Q1-FY16; (c) growers were also anticipating a downward revision in urea prices as the government called on fertilizer manufacturers to reverse the increase in urea prices;[2] (d) softening of fertilizer prices in the international market further strengthened expectations of a price cut in the domestic market.

The sales are, however, likely to recover as firms have already reduced prices of fertilizer by Rs 70 per bag, in response to a cut in tariffs for feedstock gas announced by the government in April 2016.

[1] In absolute terms, fertilizer sales fell from 6.1 million tons in July-Mar FY15 to 5.3 million tons in Jul-Mar FY16.

[2] In response to a sharp rise in gas tariffs (ranging from 63-67 percent for feedstock and 23 percent for fuel) in September 2015, manufacturers raised urea prices by more than Rs 150 per bag. The government therefore asked fertilizer manufacturers to reduce their prices.

Table 2.8: Comparison of Sugar Production (000 tons)

	FY12	FY13	FY14	FY15	FY16
Jul-Mar	4,486	4,586	5,125	4,812	4,950
Jul-Jun	4,634	5,074	5,582	5,150	--
Share of Jul-Mar production in total (percent)					
	96.8	90.4	91.8	93.4	--

Source: Pakistan Bureau of Statistics

In the case of edible oil industry, a number of factors favored growth. For example, stable currency, low cost of borrowing, and cheaper energy and transportation.[16] Manufacturers also benefited from a cut in import duty (from 6 percent to 3 percent since July 2015) on soybean.[17] Finally, profit margins for the industry also became attractive, as manufacturers did not fully pass on the benefit from lower cost of production to consumers.[18] All these factors helped edible oil segment to grow by

[16] Although palm oil prices in the global market continue to remain sluggish, its imports have declined this year. Probably manufacturers have been using inventories of the past year.

[17] The demand for semi-processed soybean oil is also on the rise as it is used in the poultry feed industry.

[18] According to financial statement of leading firms, margins of edible oil industry increased by 13 percent YoY during H1-FY16 compared to a minor *decline* in the corresponding period of the last year.

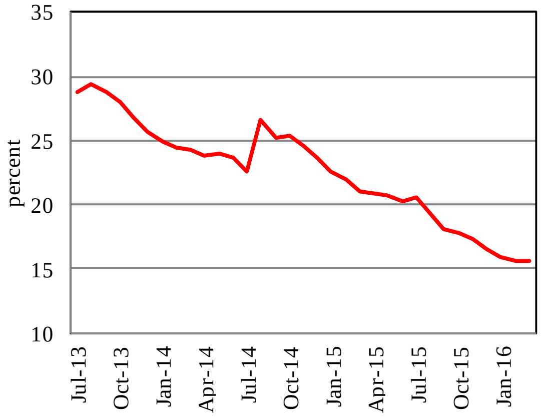
7.2 percent during Jul-Mar FY16, compared to a contraction of 0.8 percent during same period last year.

Textile

A number of factors pulled down the country's textile exports: slowdown in demand from China; stiff competition from other exporting countries; low quality; and lack of product diversification (**Chapter 5**). The industry however benefited from a robust domestic demand for textile products. Further support came from the government, for instance, imposition of antidumping duty on cotton yarn imports from India, reduction in power tariff for industrial consumers, and gas (LNG) supply to textile mills in winters. The industry therefore managed to post a marginal growth of 0.6 percent during Jul-Mar FY16, compared to 1.0 percent during same period last year.[19]

The production of cotton yarn saw a modest recovery to 1.5 percent during Jul-Mar FY16, from 1.2 percent during same period last year. This was probably due to some uptick in export demand for apparel and home textile products in the west.[20]

Figure 2.4: Share of Exports in Total Cement Sales



Source: APCMA

Cement and Chemicals: Enjoying robust ongoing construction activities

Despite a continuous decline in exports for the last two years (**Figure 2.4**), cement production recorded a growth of 10.4 percent during Jul-Mar FY16, compared to 2.9 percent during same period last year. The ongoing construction activities in the private sector and increased public spending on infrastructure projects provided much needed boost to the domestic cement industry.[21] Hence, domestic sales recorded 17.3 percent growth during Jul-Mar FY16, compared to 8.4 percent during same period last year.

[19] Leading textile manufacturers are also expanding their outlets in different parts of the country to capitalize on increasing domestic demand (with improved purchasing power).

[20] The import of raw cotton more than doubled during Jul-Mar FY16 in response to massive losses to domestic cotton crop.

[21] Developmental spending increased from Rs 271 billion during Jul-Mar FY15 to Rs 400 billion during Jul-Mar FY16.

The industry also benefited from other positive developments. For example, continued decline in energy costs; decline in selling and distribution cost (as these costs were 10-20 percent higher for exports compared to domestic sales); and ease in financial charges.[22] In fact, the manufacturing firms performed well despite the loss of tax rebate on exports.[23]

Booming construction activities also supported growth in allied sectors. The chemicals sector was one of the main beneficiaries: during Jul-Mar FY16, the sector recorded a growth of 10.3 percent, compared to 6.9 percent during same period last year. This growth mainly came from caustic soda (26.8 percent),[24] paints and varnishes (21.2 percent) and sulphuric acid (25.8 percent).

Given the increased focus of the government on large infrastructure projects (dams and road network), we expect cement and allied industries to grow strongly.

Steel

Closure of PSM has completely overshadowed the performance of private steel industry which recorded growth of around 6.0 percent during Jul-Mar FY16 on top of 24.5 percent growth during the same period last year. Nonetheless, private sector steel manufacturers are facing stiff competition from cheap imported products mainly from China – a phenomenon which is impacting many steel manufacturers around the globe.[25,26]

Hence, the imports of both steel scrap and steel products increased by 27.3 percent and 30.1 percent respectively during Jul-Mar FY16. The imports posted extraordinary growth despite the imposition of anti-dumping duties for four months on imports of cold-rolled coils and sheets from China and Ukraine.[27]

[22] Grid and furnace oil based power costs declined by about 20 percent YoY and 45 percent YoY, respectively, while selling and distribution costs declined by about 17 percent, and financial costs fell by 43 percent.
[23] Net profit after tax increased by more than 20 percent from Rs 25 billion to Rs 30 billion (selected companies with 80 percent share).
[24] This mainly reflects the impact of capacity addition.
[25] Britain in particular has felt the squeeze, as its largest producer Tata Steel has announced plans to pull out of the country, threatening 15,000 jobs, while more than 40,000 German steel workers took to the streets to protest against dumping from China. In a recent WTO meeting, Japan and South Korea also came under criticism for exporting steel products cheaper than they sell at home.
[26] G7 will take steps to tackle a global glut in steel that many blame on excess production by Chinese producers of the steel products used in construction and cars (Reuters).
[27] These import duties, which were imposed in January 2016, vary in the range of 8.3 to 19.0 percent.

Electronics: subsectors depicting a very divergent trend
The production of electronic items declined by 10 percent during Jul-Mar FY16, compared to an increase of 8.5 percent during same period last year. Availability of cheaper imports in the market is hitting domestic producers hard. However, different segments are depicting very divergent trends. For example, production of refrigerators fell by 1.6 percent (on YoY basis), but that of air conditioners went up by 28.0 percent. The growth in latter was mainly due to expectations of heat wave during this summer season, and introduction of new technology.[28]

2.4 Services

The services sectors recovered strongly during FY16 by posting a growth of 5.7 percent – this was considerably higher than 4.3 percent realized last year. More importantly, this improvement is broad-based, as all sub-sectors (except *transport, storage and communication*) recorded higher growth rates than the last year (**Table 2.9**).

The performance of *wholesale and retail trade* was particularly encouraging, as the growth recovered sharply from 2.6 percent last year to 4.6 percent in FY16. A low base of the previous year and a buoyant growth in large-scale manufacturing appears to have helped the subsector achieve this remarkable performance.

Table 2.9: Performance of Services

	Share in GDP	**Growth**			**Contri. to growth**	
	FY16	**FY15**	**FY16^T**	**FY16^P**	**FY15**	**FY16**
Wholesale and retail trade	18.3	2.6	5.5	4.6	0.8	1.4
Trans., storage & communication	13.3	4.8	6.1	4.1	1.1	0.9
Finance and insurance	3.3	6.5	6.5	7.8	0.3	0.4
Housing services	6.7	4.0	4.0	4.0	0.5	0.5
General govt. services	7.6	4.8	6.0	11.1	0.6	1.4
Other private services	10.1	6.0	6.4	6.6	1.0	1.1
Services	**59.2**	**4.3**	**5.7**	**5.7**	**4.3**	**5.7**

Source: Pakistan Bureau of Statistics

Finance and insurance registered a higher growth of 7.8 percent in FY16, compared to 6.5 percent in the previous year (**Table 2.10**). Scheduled banks with a share of 82.9 percent in the value addition remained dominant. Despite a sharp decline in the interest rates, their pre-tax profit registered 11.9 percent growth during Jul-Mar FY16.[29] Thus,

[28] Consumers are replacing old air conditioners with DC inverter technology based air conditioners that are more cost efficient in terms of electricity consumption.

[29] For Jul-Mar FY16, the pre-tax profit was Rs 239.4 billion compared to Rs 213.9 billion in the corresponding period last year. On average, the weighted average lending rate has declined by 269 bps during Jul-Mar FY16. Advances by commercial banks on the other hand recorded a substantial increase (**Chapter 3** on Inflation and Monetary Policy).

the growth in value addition also improved to 8.3 percent in FY16 from 6.6 percent last year.

The sharp recovery in *general government services* was on account of an increase in salaries of government employees in FY16.

Transport, storage and communication recorded some slowdown during FY16. This mainly reflects a lower growth in value addition by the road transport – a dominant category in this subsector with 71.7 percent share (**Table 2.11**).

Table 2.10: Finance and Insurance

percent

	Share FY16	Growth		Contri to growth	
		FY15	FY16	FY15	FY16
Central banking	2.6	-0.6	6.8	0.0	0.2
Other monetary intermediation	84.9	7.1	8.6	5.9	7.2
Scheduled banks	82.9	6.6	8.3	5.4	6.9
Non- Scheduled banks	2.0	37.9	20.6	0.5	0.4
Other financial services activities (except insurance & pension funds)	1.7	3.6	-4.9	0.1	-0.1
Financial leasing	0.7	3.6	1.4	0.0	0.0
Other credit granting	1.0	3.7	-9.1	0.0	-0.1
Insurance, reinsurance and pension fund	3.6	4.2	8.7	0.2	0.3
Activities auxiliary to financial services and insurance activities	7.2	4.1	2.5	0.3	0.2
Finance and insurance	**100**	**6.5**	**7.8**	**6.5**	**7.8**

Source: Pakistan Bureau of Statistics

Table 2.11: Transport, Storage and Communication

percent

	Share in FY16	Growth		Contri. to growth	
		FY15	FY16	FY15	FY16
Railways	0.2	42.2	-19.2	0.1	0.1
Water transport	3.3	-2.8	-3.4	-0.1	-0.1
Air transport	6.4	20.9	10.05	1.1	0.9
Pipeline transport	0.1	-2.1	-16.8	0.0	0.0
Communication	15.7	2.58	10.9	0.4	0.3
Road transport	71.7	4.6	2.8	3.3	2.8
Storage	2.5	2.4	4.6	0.1	0.1
Total	**100**	**4.9**	**4.1**	**4.9**	**4.1**

Source: Pakistan Bureau of Statistics

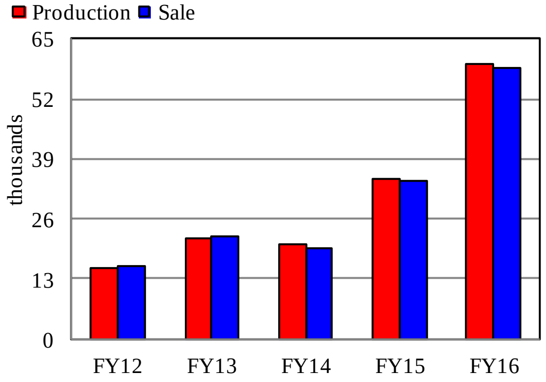
Specifically, the growth in road transport fell from 4.6 percent last year to 2.8 percent in FY16. This slowdown was recorded despite an improvement in cargo handling activities and an increase in sales and production of commercial vehicles during the period under discussion (**Figure 2.5**). Nonetheless, the outlook for road transport is encouraging as planned expansion in road infrastructure would attract more activities for commercial vehicles.

In the telecom sector, total teledensity finally recovered from an aftermath of SIM re-verification drive launched in the country last year.[30, 31] Similarly, the number

[30] Total Teledensity, which had declined to 63 percent at the end of FY15 (compared to 79.6 percent in FY14), has now bounced back to 70.4 percent.

of broadband users surged to 31 million, compared to 17 million users just a year ago. This reflects a massive uptake in the 3G/4G services after the introduction of Next Generation Mobile Services (NGMS) in the country in 2014. Continuous improvement in the voice traffic and broadband is expected to further improve telecom revenues and its contribution to the national exchequer.

Figure 2.5: Production and Sales of Commercial Vehicles (Jul-Mar)



Source: PAMA

[31] According to Pakistan Telecommunication Authority (PTA), more than 26 million SIMs were blocked due to non verification.