

Chapter 1 | MACROECONOMIC FRAMEWORK– GROWTH, INVESTMENT AND SAVINGS

Economy sustained the upward growth trajectory during 2016-17. Macroeconomic indicators were stable and depicted an encouraging economic outlook. Real sector was vibrant as agriculture sector rebounded and industry showed upward growth. Large scale manufacturing (LSM) revived and private sector credit, fixed investment in particular, picked up pace. Policy rate stayed at a multi-decade low level whereas average inflation was contained at 4.1 per cent (July-April 2016-17). Pakistan’s stock market index crossed the barrier of 52,000 points for the first time in May 2017. Pakistan stock market was categorised as the best stock market in Asia in 2016. Pakistan issued US\$1billion *Sukuk* at relatively low rates of 5.5 per cent in October 2016. Pakistan capital market was upgraded to ‘emerging market’ status in terms of MSCI Index. Standard & Poors upgraded Pakistan’s long-term credit rating from B minus to B with stable outlook (2016). World Bank upgraded Pakistan’s ranking on ‘Doing Business Index’ from 148 to 144. These improvements based on good performance of the economy are a result of prudent macroeconomic policies.

Review of Annual Plan 2016-17

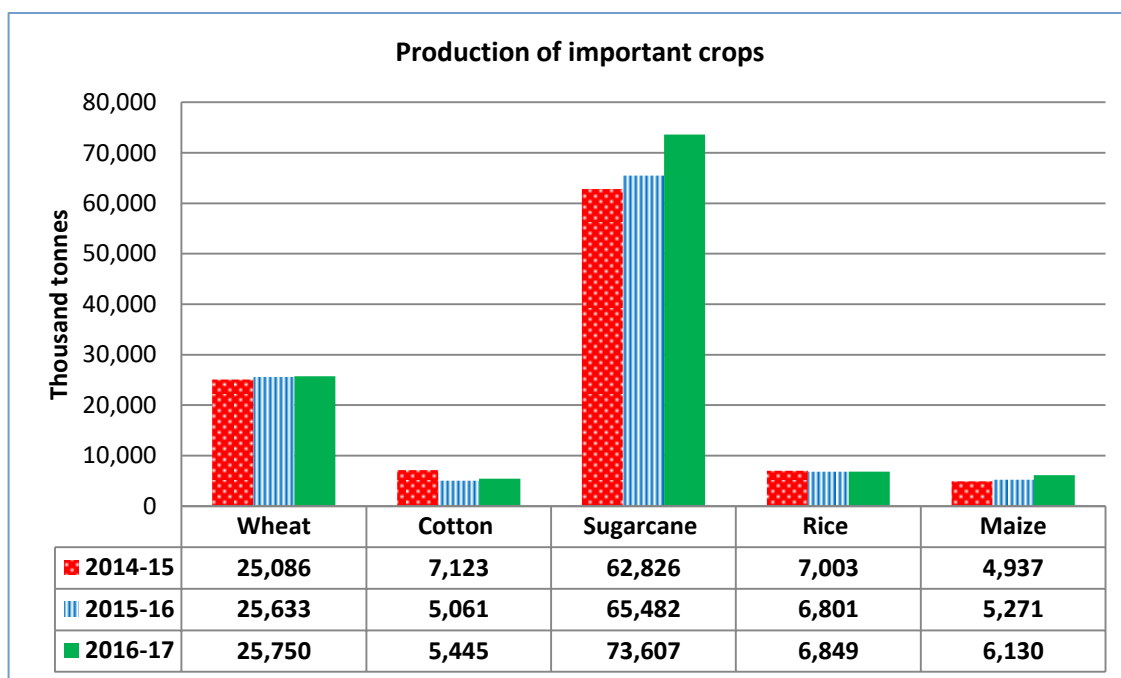
The Annual Plan for 2016-17 envisaged real GDP growth of 5.7 per cent based upon sectoral growth projections for agriculture, industry and services sectors at 3.5 per cent, 7.7 per cent and 5.7 per cent, respectively. The assumptions underpinning the growth target included recovery in agriculture sector, consistent growth in industry, revival of LSM, steady energy supply, investment friendly environment and implementation of China-Pakistan Economic Corridor (CPEC) projects. As expected, macroeconomic indicators were stable on the back of improved agriculture performance, revival of private sector activities, acceleration in LSM, and expansion in industrial sector during 2016-17. Resultantly, GDP growth was registered at 5.3 per cent, which is highest in past nine years.

Agriculture

Agriculture sector contributes 19.5 per cent towards GDP growth and provides employment to 43.5¹ per cent of the employed labour force. Pakistan has enormous potential to enhance economic contribution of agriculture sector through improved productivity and value addition. However, Pakistan lags behind its regional comparators in terms of yield in many important crops. Vision 2025 reiterates the importance of bridging the yield gap and envisages reduction of 40 per cent of yield gap by the year 2025.

¹Labour Force Survey 2014-15

During 2016-17, agriculture sector was targeted to grow by 3.5 per cent on the basis of expected growth of important crops (2.5 per cent), other crops (3.2 per cent), cotton ginned (2.5 per cent), livestock (4 per cent), fishing (3 per cent) and forestry (3 per cent). Agriculture sector met its target of 3.5 per cent growth. Important crops grew by 4.1 per cent while other crops registered growth of 0.2 per cent. Livestock, fishing and forestry achieved growth of 3.4 per cent, 1.2 per cent and 14.5 per cent, respectively.



Source: Pakistan Bureau of Statistics

Growth of *rabi* crops was satisfactory with wheat crop showing substantial growth in the irrigated areas. Sowing operations in rain fed areas were affected and some of the area remained fallow due to dry field. However, the damage was mitigated to some extent by later showers in January 2017 which reduced the stress at later stage of the crop. Moreover, there was also an increase in fertiliser off-take (Nitrogen by 15.7 per cent and Phosphate by 5.9 per cent). Therefore, despite the projected fall in wheat production in *barani* areas, the production of wheat was 0.5 per cent higher than 2015-16.

Cotton production showed improvement in 2016-17 due to lesser pests' attack and strict enforcement of pest controls at field level which curtailed the requirement of agro-chemical applications in spite of 14.2 per cent reduction in the area under cultivation. The cost of production thus remained manageable for the farmers. Moreover, the increase of 32 per cent in average cotton prices in international market led to a surge in cotton price in domestic market. Cotton production increased by 7.6 per cent as compared to the last year i.e. 10.7 million bales as against 9.9 million bales.

Sugarcane crop showed remarkable growth of 12.4 per cent in 2016-17 with a highest ever production of 73.6 million tonnes. Continuous increase in the area under cultivation and its production has been a result of government's subsidy on export of sugar which didn't impact the profitability of the farmers compared to its competing crops especially cotton.

Rice crop showed marginal growth of 0.21 per cent compared to 3 per cent last year. The area under cultivation decreased due to lower prices of rice in 2015-16. Maize registered strong growth of 16.3 as compared of 7 per cent last year due to increase in area of maize. However, livestock also sustained the growth momentum in the agriculture sector. Thus, due to the overall improved performance of important crops and forestry, agriculture sector registered growth of 3.5 per cent which is the highest in past 7 years, compared to 0.3 per cent in 2015-16.

Industry

Industrial sector plays a significant role in the economic development of a country. It contributes 21 per cent to GDP and employs 23.4 per cent of total employed labour force. The industrial sector registered a growth of 5 per cent during 2016-17, compared with growth rate of 5.8 per cent in 2015-16. Construction and manufacturing sectors were the main contributors in this growth. Improved energy supply for industry, better security situation, availability of cheap finances, lower expenses on fuel consumption, and private credit off take contributed to the industrial growth.

Manufacturing sector grew by 5.3 per cent compared to the target of 6.1 per cent during 2016-17 and 3.7 per cent in 2015-16. The over-all output of LSM increased considerably by 4.9 per cent against the target of 5.9 per cent. Although LSM did not achieve the target for the period under review, it showed marked improvement compared to 2.9 per cent growth of 2015-16. The LSM dominates the overall industrial sector, accounting for 80 per cent of the sectoral share and 10.7 per cent of GDP. The revival in LSM growth came from expansionary monetary policy, improved energy supplies, increased domestic demand for consumer durables, private sector credit pickup and buoyant growth in construction activities.

The main contributors of growth were iron & steel products (16.6 per cent), electronics (15.2 per cent), automobiles (11.3 per cent), pharmaceuticals (8.7 per cent), food, beverages & tobacco (9.7 per cent) and non-metallic mineral products (7.1 per cent). The growth impetus particularly came from iron and steel products (weight in LSM: 5.39 per cent) which can be attributed to increased activity in construction and infrastructure projects initiated under CPEC. Food and beverages group (weight in LSM: 12.37 per cent) also posted healthy growth when compared to last year i.e. 9.7 per cent in 2016-17 as against 0.6 per cent in 2015-16. An increase of 24 per cent in sugar production contributed substantially to this increase.

Mining and quarrying sector posted a growth of 1.3 per cent compared to target of 7.4 per cent for 2016-17. Small and household manufacturing met its target of 8.2 per cent. Value addition in electricity & gas generation and distribution grew by 3.4 per cent against the targeted growth of 12.5 per cent. Construction sector showed growth of 9 per cent against the target of 13.2 per cent.

Services sector

The significance of services sector in economic growth is evident from its ever rising contribution to GDP. Historically, the major determinants of services sector growth are external sector, government expenditures and market size. Increase in activities in emerging sub-sectors including hoteling, hospitality and gig services reflect changing life style of people. However, growth in agriculture and industry leads to growth of services sector.

During 2016-17, services sector grew by 6 per cent, surpassing its target of 5.7 per cent, backed by the revival in LSM and agriculture along with increase in imports. Finance & insurance, wholesale & retail trade, transport, auctioning, hoteling & restaurants and CPEC related imports have been the major contributors of growth in services during the year. Wholesale & retail trade registered a growth of 6.8 per cent during 2016-17, surpassing its target of 5.5 per cent.

Finance and insurance sector attained 10.7 per cent growth against its target of 7.2 per cent which was mainly supported by high growth in deposits and loans. Although the profits of banking sector were lower in 2016-17 when compared to last year, yet the recovery of loans from private sector was higher as compared to previous year.

Transport, storage and communication sector achieved the growth of 3.9 per cent against the target of 5.1 per cent for the year 2016-17. Transport, being an important sub-sector, has registered 20 per cent growth in buses and 39.3 per cent in trucks. This increase in demand may be associated with Chief Minister's *Apna Rozgar* Scheme. Performance of communication sector was adversely affected by tepid response to 'Cellular Subsidiary and Voluntary Separation Scheme' of Pakistan Telecommunication Company Limited (PTCL). However, the losses to PTCL were partly neutralised by 27 per cent increase in demand for 3G/4G subscriptions.

General government services grew by 6.9 per cent close to the target of 7 per cent. Most of the government expenditures were on security and defence services. In development expenditures, construction of roads & highways, power generation and social sector expenditures remained high in government priorities. Other private services showed growth of 6.3 per cent as against the target of 6.7 per cent.

Investment and Savings

Economic activity in infrastructure, construction, transport, energy and allied sectors provided favourable environment for growth and encouraged investment in the country. Total investment for 2016-17 was recorded at 15.8 per cent of GDP. Fixed investment to GDP ratio grew marginally from 14.0 per cent in 2015-16 to 14.2 per cent in 2016-17, against the target of 16.1 per cent. Since 2010-11, investment to GDP ratio has increased by 1.09 percentage points. This improvement has been derived from public and private investment. Though private investment marked growth of 9.9 per cent in 2016-17 as against the target of 12.2 per cent but it has potential to grow more due to the expected investment in CPEC related activities.

National Savings remained at 13.1 per cent of GDP as against the target of 16.3 per cent. Consumption grew by 10.3 per cent in 2016-17 from 6.3 per cent in 2015-16 leading to subpar growth of savings, given the inverse relationship between the two. On the other hand, national savings have not been increasing with the same pace which may be associated with the expanding middle class.

Outlook 2017-18

Economic growth prospects remain positive for 2017-18 with revival in agriculture sector, consistent growth in industrial sector, pick up in private sector credit and expected completion of early harvest projects under CPEC. Inflation, though showing an upward trend, is expected to remain close to 6 per cent next year. Investment climate is expected to

improve further by reducing cost and enhancing ease of doing business in Pakistan. Growth of industrial sector can be further augmented by improving governance in the sector and launching a comprehensive reform programme for Public Sector Enterprises. Timely releases of Public Sector Development Programme (PSDP) funds and further improvement in implementation and monitoring of projects will add to overall economic development. Similarly, projects aiming at inclusive development, such as social housing schemes, can potentially drive sustainable growth over coming years. Therefore, policies aiming to improve agriculture growth, improve governance in all sectors, cut losses in Public Sector Enterprises and encourage export-oriented private sector will augment growth in 2017-18.

Growth of GDP for 2017-18 is targeted at 6 per cent with contributions from Agriculture (3.5 per cent), Industry (7.3 per cent) and Services (6.4 per cent). The growth targets are subject to risks of extreme weather fluctuations, interruption in envisaged reforms and non-aligned monetary and fiscal policies.

Agriculture

Agriculture sector is targeted to grow by 3.5 per cent on the basis of expected contributions of important crops (2 per cent), other crops (3.2 per cent), cotton ginning (6.5 per cent), livestock (3.8 per cent), fishery (1.7 per cent) and forestry (10 per cent) (Annexure-I). The production targets for important crops are expected to be attained given that the quality and quantity of agriculture inputs is ensured. This includes consistent availability of water, certified seeds, fertilisers, pesticides and agriculture credit facilities, and better water availability.

The prospects for cotton crop in 2017-18 are encouraging. The international revival in cotton prices has spurred prices in domestic market. Resultantly, area under cotton cultivation is expected to increase due to the expectations of lucrative profit margins. This may reduce area under spring and autumn crops, such as maize.

Industry

Industrial sector is targeted to grow by 7.3 per cent during 2017-18. Manufacturing sector is targeted to grow by 6.4 per cent with LSM growth rate of 6.3 per cent, small scale & household manufacturing 8.2 per cent, construction 12.1 per cent and electricity generation & gas distribution by 12.5 per cent. Mining and quarrying sector is projected to grow by 3.5 per cent. Industry is expected to show vigorous performance in 2017-18, as its various subsectors showed encouraging performance in 2016-17 such as cement, iron & steel, electronics, food & beverages and automobiles.

The export stimulus package of Rs 180 billion for five manufacturing sector (textiles, carpets, sports goods, leather, and surgical instruments) is envisaged to enhance production and export earnings. This package is targeted to increase the profitability in the selected sectors by giving them incentive of tax rebate to increase their export proceedings by 10 per cent. Therefore, it is expected that improved energy availability, better law and order situation and lower interest rate will contribute towards achieving the target of industrial sector growth for 2017-18.

Box-1
Gig Economy

Digital economy is taking the world by storm. Within digital economy, Gig Economy is taking roots. Known as ‘sharing or collaborative economy’, Gig economy is “transactions between peers, with platforms taking the role of brokers between peers, with a view to making resource utilization more efficient” and “the outsourcing of tasks, which would normally be delegated to a single employee, to a large pool of ‘virtual workers’”. Measuring the extent of the digital economy, OECD categorised 15 internet based companies under e-commerce, social networking, peer to peer (P2P). Out of these, five were P2P i.e. Uber, Airbnb, eBay, Facebook, and Ten cent. (Employment and Social Affairs, European Parliament, 2016)

Gig economy provides a unique opportunity to Pakistan to become part of the global digital economy as online retail market is expanding in Pakistan. With the advent of technologies of 3G/4G, Pakistan has the basic requirement for gig economy i.e. high speed internet. ‘Careem’ is an example among the pioneers of Gig economy in Pakistan. Scope for such services seems brighter in Pakistan having more than 220 million mobile users, poor public transport, and low car ownership ratio (18 per 1000 persons). With a conducive regulatory framework, more Gif services can be offered, particularly in tourism & hospitality industry.

Services Sector

The growth target for services sector is kept at 6.4 per cent for 2017-18 based on current year’s performance. Accordingly, the targets of major contributors of services sector are set at 5.1 per cent in transport, storage and communication, 7.2 per cent in wholesale & retail trade, 9.5 per cent in finance & insurance, 3.9 per cent in housing services, 7 per cent in general government services and 6.7 per cent in other private services sector. The growth of all these sub-sectors depends on the performance of commodity producing sectors.

Investment and Savings

Investment target for the year 2017-18 is kept at 17.2 per cent of GDP in order to achieve sustained and inclusive growth. Fixed Investment is expected to grow to 15.6 per cent of GDP in 2017-18. National savings as percentage of GDP are targeted at 14.6 per cent. The investment target is achievable given improvement in ease of doing business, affordable energy supply, reduced political uncertainty, prospects of higher profit and enhanced capacity utilization rate. The investment under CPEC is expected to improve the overall investment climate. The spill-over effect from public investment under CPEC is expected to catalyse private sector and foster public private partnership. Moreover, the lagged impact of current investments, including CPEC investments by Government, private local and foreign investors coupled with prudent monetary and fiscal policy is expected to bolster the economy.

Annex-I

**Gross Domestic Product
(2005-06 Prices)**

Items	% Change			
	2015-16 Revised	2016-17		2017-18 Target
		Target	Prov.	
1. COMMODITY PROD. SECTORS	3	5.7	4.3	5.4
A) AGRICULTURE	0.3	3.5	3.5	3.5
Important Crops	-5.5	2.5	4.1	2
Other Crops	0.6	3.2	0.2	3.2
Cotton Ginning	-22.1	2.5	5.6	6.5
Livestock	3.4	4	3.4	3.8
Fishery	3.2	3	1.2	1.7
Forestry	14.3	3	14.5	10
B) INDUSTRY	5.8	7.7	5	7.3
Mining & Quarrying	6.8	7.4	1.3	3.5
Manufacturing (I+II+III)	3.6	6.1	5.3	6.4
I) Large-Scale Manufacturing	2.9	5.9	5	6.3
II) Small & Household	8.2	8.2	8.2	8.2
III) Slaughtering	3.6	3.7	3.6	3.7
Construction	14.6	13.2	9	12.1
Electricity Generation & Gas Distribution	8.4	12.5	3.4	12.5
II) SERVICES	5.5	5.7	6	6.4
Transport, Storage & Communications	4.8	5.1	3.9	5.1
Wholesale & Retail Trade	4.2	5.5	6.8	7.2
Finance and Insurance	6.1	7.2	10.7	9.5
Housing Services	3.9	4	3.9	3.9
General Government Services	9.7	7	6.9	7
Other Private Services	6.8	6.7	6.3	6.7
GDP(bp)	4.5	5.7	5.3	6

Source: Pakistan Bureau of Statistics; Planning Commission

Annex-II

**Macroeconomic Framework
(Current Market Prices)**

Items	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18
	Revised	Prov.	Target	2014-15	2015-16	2016-17
	Growth (%)					
GDP (bp)	27,429	29,896	33,593	5.1	9	12.4
Indirect Taxes (Net)	1,673	1,966	2,326	23.7	17.5	18.3
GDP (mp)	29,103	31,862	35,919	6	9.5	12.7
Net Factor Income from Abroad	1,784	1,772	1,985	6.5	-0.7	12
GNP (mp)	30,887	33,634	37,904	6.1	8.9	12.7
External Resources Inflow (net)	354	866	951	29.2	145.6	9.3
Total Resources/ Uses	31,241	34,505	38,854	6.3	10.5	12.6
Total Consumption	26,714	29,478	32,660	6.5	10.3	10.8
Total Investment	4,527	5,027	6,194	5	11	23.2
Fixed Investment	4061	4517	5,620	4.9	11.2	24.4
Public incl. General Govt.	1,103	1,363	1,611	7.3	23.6	18.2
Private	2,958	3,154	4,009	4	6.6	27.1
Changes in Stocks	466	510	575	6	9.5	12.7
National Savings	4,173	4,157	5,243	3.4	-0.3	26.1
% of GDP						
Total Investment	15.6	15.8	17.2			
Fixed Investment	14	14.2	15.6			
Public incl. General Govt.	3.8	4.3	4.5			
Private	10.2	9.9	11.2			
National Savings	14.3	13.1	14.6			
External Resources Inflow (net)	1.2	2.7	2.6			
Memo Items						
Inflation	2.8	4.1	6			
GNP (mp) Per Capita (Rs)	159,572	170,508	188,626			

Source: Pakistan Bureau of Statistics; Planning Commission