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**SESSIONAL ASSIGNMENT**

# ECONOMY OF PAKISTAN

The economy of Pakistan is considered to be the 23rd largest economy in the world in terms of purchasing power parity and 42nd largest in terms of nominal GDP. With a population of over 220 million, it is the world’s 5th largest country.

Pakistan is currently following a mixed economy model. In it, most of the GDP constitutes of state-owned enterprises. The economy is quite diversified in terms of sectors. Pakistan is considered to be a developing country and has shown a steady annual growth rate since its independence in 1947.

However, Pakistan’s present economic situation is quite unstable since the present government of PTI inherited a failing economy of PMLN. To make clearer, Pakistan had to face high fiscal deficit and current account deficit, high debt, and depleting foreign reserves.

To deal with this, the government of PTI took several measures to combat the unstable economic situation of the country. Non essential imports were reduced, remittances were encouraged. The import duties and tax rates were restructured.

These measures helped the economy by lowering the trade deficit with higher inflows of worker remittances leading to reduction in current account deficit. Although these measures were essential to implement, they had short term impacts in the start which came forward in terms of large fiscal deficit, higher inflammation and lower GDP growth.

The Economic Survey of Pakistan for the fiscal year 2018-2019 is discussed below. Various sectors and how they performed have been discussed in this survey.

**Growth and Investment:**

The growth momentum of Pakistani economy, at 5.5% in FY2018 (with an average growth rate of 4.7% for period FY 2014-2018), became weak due to rising macroeconomic imbalances i.e. high and increasing fiscal and current account deficits. High consumption values and government spending led to massive imports.

Some of the necessary adjustments of fiscal accounts and exchange rate were delayed in FY2018 because of it being the election year. However, this resulted in depletion of foreign reserves and increase in monetary borrowing. The government would need to take immediate measures to tackle these growing imbalances in the economy.

On August 18, 2018, when the government of PTI came in power, they took several difficult decisions to combat the economic imbalances and stabilize the weak economy of the country. They reduced the overvaluation of exchange rate and aligned it according to the market value rate. They also increased policy interest rate and energy prices which were subdued the previous year.

The government also achieved considerable success in mobilizing additional financing from friendly countries in the form of short- to medium-term loans, deferred payment on imported oil and temporary deposits in the central banks.

**Agriculture:**

Agriculture is one of the key driving sectors of the economy. A major portion of Pakistan’s population lives in rural areas and directly or indirectly relies on agriculture for their livelihood. Moreover, it also plays a major role in the development of other sectors as well as it is a source of providing raw materials to them.

The growth of agriculture sector in 2018-19 remained low. It recorded a growth of 0.85% as compared to the targeted growth of 3.8%. This corrosion of growth in the agriculture sector is mainly due to reduction the area of cultivation, low water availability, and drop in fertilizer off take.

This sector is further divided into other sub sectors which include crops, livestock, fishing and forestry.

Crops saw a decline in their performance for the year 2018-19. It negatively grew by 4.43% against the target growth of 3.6%. Sugarcane production suffered a -19.4% to 67.174 million tons of loss. Cotton production also saw a decline of -17.5% to 9.861 million bales and whereas rice had a loss of -3.3% to 7.202 million tons.

Maize and Rice saw a positive growth of 6.9% to 6.309 million tones and 0.5% to 25.195 million tons respectively. Other crops which constitute a share of 11.21% and a share of 2.08% in GDP grew by 1.95 mainly due to the increase in production of pulses and seeds. On the other hand, cotton ginning suffered a great loss of negative growth by -12.74% due to decrease in cotton production.

The consumption of livestock has dramatically increased owing to the changing dietary patterns, globalization and increase in income levels. The demand for livestock has grown and has provided a way for better growth and greater production.

It is a major source of income for people in the rural areas and is providing livelihood to millions of people. Livestock includes sheep, goats, buffaloes, cattle’s, camels, horses, asses and mules.

Owing to these facts, livestock, which has a total share of 60.5% in Agriculture and 11.22% in GDP, recorded a growth of 4% against the target growth of 3.8%.

The fishing and forestry sector grew by 0.79% and 6.47% respectively. The huge growth in forestry is mainly due to the increased timber production in Khyber Pakhtunkhwa.

Gram production showed an increase of almost 35.65 due to favorable weather conditions. The production of Bajra increased by 3.2 percent as well. Barley, Rapeseed, Mustard and Tobacco remained unchanged and the production of Jowar declined by 2.6%.

Growth was also seen in the production of Onions and Chillies with 2.0% to 2.12 thousand tons and 0.4% to 148.7 thousand tons respectively. On the other hand, the production of pulse Mash, Moong and Potato decreased with respect to the last year. They saw a decline of 5.5%, 3.4% and 0.3% respectively. Masoor pulse’s production remained the same as that of last year.

**Manufacturing and Mining:**

The manufacturing sector, mostly the large-scale manufacturing (LSM) also suffered from the economic crisis. It showed a decline of 2.93% during the period July-March for fiscal year 2019 as compared to its growth of 6.33% during the same period last year.

LSM growth was decreased by a total of 10.63% in March of 2019 as compared to a growth of 4.70% in March 2018. This negative trend shows that the growth rate of LSM will remain below the target value i.e. 8.1% growth set for it for the FY 2018-19.

A lot of factors were responsible for the sharp decline in the growth of LSM. Due to the PKR depreciation, prices of goods rose up. Due to this, consumers were spending much lower, and therefore, demand for goods decreased. People stopped making automobile purchases, the demand for housing decreased due to higher rates of building materials and cost of financing. Pharmaceutical companies were also affected by this weakening of the currency and revised prices.

According to the data, it shows that electronics grew the most by 23.70% followed by wood products 15.21%, rubber 3.47%, engineering products 9.54%, leather 0.97% and fertilizers 4.50%.

On the other hand, mining sector saw a decline in its growth by 1.96% during the fiscal year July-Feb 2019 as compared to the growth of 7.7% during the same period last year. Minerals which showed positive growth include; Chromite 228.69%, Magnesite 159.63%, Rock salt 12.65%, Barytes 22.15%, Ocher 19.12%, and Crude oil 0.47%.

The minerals which negatively grew include; Coal 25.42%, natural gas 1.98%, Sulphur 40.72%, Calcite 91.49%, Soap stone 13.12%, Marble 4.66%, and Bauxite 30.82%.

**Fiscal Development:**

The fiscal sector of Pakistan has also been affected over the years due to the challenges it has to face owing to lower tax revenues and unproductive and unnecessary expenditures.

The last five years show that, total revenue reached 14.9% as part of GDP, whereas in the year FY18, it remained stood at 15.1%. The total expenditures as percent of GDP on average reached to 20.5%, while during the preceding year FY2018, it was the highest at 21.6%. The fiscal deficit on average stood at 5.5%, while during the last year it was recorded at 6.5%.

The first nine months of FY2019, the fiscal indicators showed that the total revenue showed no growth at all. On the other hand, growth in expenditures was recorded at 8.7%. As a result of that, the fiscal deficit was 5% in GDP as compared to 4.3% during the same period last year.

The total revenue reportedly increased to Rs 3,583.7 billion (accounted for 9.3% of GDP) from Rs 3,582.4 (3.8% of GDP). This is almost zero growth as compared to the 13.9% growth in the same period of last year.

In FY2019, FBR receipts grew at Rs 2,976.0 billion against Rs 2,922.0 billion during the same period of last year FY2018. It showed a growth of 1.8%. Tax collection remained the same at 67.7%. On the other hand total expenditures increased to Rs 5,506.2 billion during the first nine months of CFY compared with Rs 5,063.3 billion during the same period last year.

**Money and Credit:**

During the period of 1-July-26 April FY2019, the monetary supply (m2) increased by Rs 625.3 billion (growth of 3.9%) as compared to growth of Rs 601.8 billion (4.1% growth) the same period last year.

Within broad money, NFA of the banking sector further contracted to Rs 882.4 billion during July-26 April, FY2019 against contraction of Rs 475.4 billion during the comparable period last year. Therefore, both SBA and scheduled bank’s NFA remained negative during the period under review. During the period 01 July-26 April, FY2019 NDA of the banking sector registered an expansion of Rs 1,507.7 billion (growth of 9.3 percent) compared with Rs 1,077.2 billion (7.7 percent) during the same period last year.

During 01 July-26 April, FY2019 government borrowed Rs 1,073.0 billion for budgetary support compared to Rs 850.0 billion in the same period last year, of which, government has borrowed Rs 3,204.7 billion from SBP as compared to Rs 1,316.1 billion last year. On the other hand, government retired Rs 2,131.7 billion to scheduled banks against retirement of Rs 466.1 billion during the same period last year. Net government sector borrowing thus remained at Rs 908.0 billion during the period under review compared with Rs 813.6 billion during the corresponding period last year.

During the period of July-April FY19, the cash flows of private sector has been recorded at Rs 580.9 billion as compared to the growth of Rs 498.5 billion during the same period last year. This showed a growth of almost 15.1% as compared to the growth of 14.7% last year during the same period.

**Capital Market:**

Capital Market has a very important role in mobilizing domestic resources and directing them towards productive uses. However, owing to the current situation in Pakistan, its performance remained highly inconsistent.

PSX index increased from 33,229 points from January 1, 2016 to 38,649 on March 31, 2019, giving a rise of 16%. In the start of FY19, market had a good start reaching 43,557 points in total, but then it had a downfall, reaching the period’s lowest index to 36,663 points in October 16, 2018.

A Finance Bill was introduced in January 2019 which gave the market a rest from the unfavorable conditions it was facing. As a result, the index rose for some period. However, its condition still remained volatile during the period and closed at 38,649 points on March 31, 2019.

The SECP has taken additional measures in this fiscal year to address potential threat of money laundering and terrorist financing within its regulated entities and maintained integrity of the financial markets.

**Inflation:**

The CPI saw a rise in the current fiscal year with values reaching 5.8% in July 2018 and after remaining constant at 5% for nearly two months, it rose to 6.8% in October 2018. This spike was mainly observed due to the hike in gas prices.

During July-April FY2019, the inflation as measured by CPI was estimated to be around 7% against 3.77% during the same period last year. It was due to some underlying demand in the economy as well as continued pass through of exchange rate depreciation and higher fuel prices. The other inflationary indicators like Sensitive Price Indicator (SPI) remained at 4.0% during Jul-April FY 2019 against the 0.8% during the corresponding period last year. Wholesale Price Index (WPI) was recorded at 11.7% in July-April FY 2019 compared to 2.8% in corresponding period of FY 2018.

This impact of inflation will be likely have a bigger effect on non food prices rather than the food prices which are believed to stay stable due to effective monitoring of prices and smooth supply of essential commodities by the provincial and federal government.

**Trade and Payments:**

The export target set for the year FY19 was US$ 28 billion, whereas they originally reached a target of only US$ 20.09 billion during July-April FY19, registering a decline of 1.9 percent in growth.

The import target was set at US$ 56.5 billion, and they reached a total of US$ 44.03 billion in July-April FY2019 as compared to US$ 46.30 billion during the same period last year. They imports showed a decline of almost 4.9%. This reduction was due to decrease in the import of furnace oil, machinery, electric equipment, palm oil, colza seeds and textiles.

The trade account remained positive during the Fiscal year 2019. Goods trade balance was shrunk down to US$ 23.93 billion as compared to US$ 25.81 billion in the same period last year. However, the service sector posed a positive curve during FY2019.

The current account deficit presented a positive picture in FY2019 reaching to US$ 11.586 billion in July-April FY19 against US$ 15.864 billion during the same period last year.

Remittances registered a growth of 8.45% during the period July-April FY2019 as compared to 5.36% last year. It reached to US$ 17.875 billion during first ten months of current fiscal year as compared to US$ 16.482 billion during the same period last year.

Foreign Investments remained low during the FY19. It declined by 51.7% in FY19 to US$ 1.376 billion as compared to US$ 2.849 billion in FY18.

In the meantime, Pakistan has also improved its position on ease of doing business index and jumped to 136th position as compared to 147th position last year out of total 190 economies. This will surely attract foreign investors and will boost FDI.

**Public Debt:**

The total public debt stayed at Rs 28,607 billion at the end of period March 2019. This recorded an increase of almost Rs 3,655 billion during the first nine months of current fiscal year.

This total increase in public debt cannot be credited solely to the borrowing of the government. External loans are acquired in various currencies; however, disbursements are effectively converted into Pak Rupee. Therefore, devaluation of Pak Rupee against international currencies can increase the value of external public debt portfolio when converted into Pak Rupee for reporting purposes.

The depreciation of Pak Rupee has an impact on the increase of public debt; however, its impact is usually spread out over the years of the loan’s period. So, any immediate cash flow impact is not very visible.

The domestic debt registered an increase of Rs.1,754 billion while government borrowing for financing of fiscal deficit from domestic sources was Rs.1,398 billion. This differential is mainly attributed to an increase in credit balances of the government with the banking system.

Several developments were made with regards to Pakistan’s public debt sector during the fiscal year FY2019. These are given as under:

* Pakistan Banao Certificates (PBC).
* An increase in borrowing from commercial sources.
* Certain steps were taken to introduce different schemes such as Sharia products, Overseas Pakistanis Savings Certificates, Rs.100,000 Premium Prize Bonds, Scrip-less Issuances, Registered Prize Bonds, Debit Cards & Membership of 1-Link System.

The government is highly motivated to achieve the targets set out in the Fiscal Responsibility and Debt Limitation Act, 2005. Over the medium term, Government’s objective is to bring and maintain its Public Debt-to-GDP and Debt Service-to-Revenue ratios to sustainable levels through a combination of greater revenue mobilization, rationalization of current expenditure and efficient and productive utilization of debt.

**Education:**

During 2017-18, the total school enrolments across the country were recorded at a value of 50.616 million compared to 48.062 million during 2016-17. This shows an improvement of 5.31% and is believed to increase by a further 4.8% during 2018-19.

The total number of educational institutions was 260.6 thousand in 2017-18 in contrast with 260.1 thousand during 2016-17. This percentage is also expected to increase by 1.60% during 18-19.

The total number of teachers was recorded at 1.753 million during 2017-18 compared to 1.726 million during 2016-17. This number is expected to increase by 2.85% during 2018-19.

According to the Labour Force Survey 2017-18, the literacy rate in Pakistan was estimated at 62.3% in 2017-18 as compared to 60.7% during 2014-15. For males, this value increase from 71.6% to 72.5%. As for females, it increased from 49.6% to 51.8%.

Public Expenditure on education as a percentage of GDP is estimated at 2.4% in FY2018 as compared to 2.2% in FY2017. The education related expenditure increased by 18.6% to Rs 829.2 billion in FY2018 from Rs 699.2 billion in FY2017. The provincial governments are also trying to spend a good amount in developing their provincial educational systems according to their Annual Development Plans.

With the rationalization of PSDP by Ministry of Planning, Development & Reform, the amount allocated for PSDP was revised to Rs 30.961 billion which was meant for the development projects of 136 ongoing universities. These projects are; Construction of new academic buildings, Strengthening of ICT Infrastructure, Faculty Development, Procurement of Laboratory Equipment and other approved components.