Our comments are given below:

OVERSTATEMENT OF GDP GROWTH

- Following the third review of the IMF, the agreed growth rate projection of the GDP was 3.3% for 2013-14. However, the Pakistan Economic Survey has raised the growth rate to 4.1%.

- It is stated that the GDP growth rate has crossed 4% after a gap of six years. This is not factually correct. A growth rate of 4.4% was achieved in 2011-12. This has now been reduced to 3.8% two years later. If this growth rate was to be changed it should have been done in 2012-13. Therefore, the PBS has manipulated the data to show the highest GDP growth rate in the last six years in 2013-14.

- There are reasons to believe that the growth rate has been significantly overstated in 2013-14, especially in the case of the following sectors: large-scale manufacturing, construction, wholesale and retail trade, finance and insurance.

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1 The team consisted of Dr. Hafiz A. Pasha, Mr. Humayun Akhtar Khan, Dr. Manzoor Ahmad, Mr. Mohammad Sabir, Ms. Aaiza Khan, and Ms. Mehwish Ehsan.
• The growth rate of large-scale manufacturing of 5.3% is for the eight months period, July-Feb. In March, the growth rate is a negative 2.7%. Consequently, the nine –month growth rate for July-March has fallen to 4.3%. The normal practice is to base the provisional figures in the GDP on the basis of the nine monthly growth rate.

• As such, the growth rate of large-scale manufacturing has been overstated by 1%. This also has consequential effect on the growth rate of the wholesale and retail trade sector. This reduces the GDP growth rate by 0.2 percentage points.

• Similarly, the growth rate of the construction sector of 11.3% appears too high, given that the consumption of the key input, cement, has increased by 4.2%. This reduces the GDP growth rate by another 0.2 percentage points.

• 88% of the value added banking and insurance sector is generated by commercial banks. Banks have shown a decline in profitability in real terms of over 15%. Therefore, the growth rate of this sector is unlikely to be 5.2% in 2013-14. It is probably negative. This reduces the GDP growth rate by another 0.2 percentage points at the minimum.

• Overall, we estimate that the growth rate of GDP in 2013-14 is close to 3.5%, and not 4.1%. This means that the GDP growth rate in 2013-14 is the lowest in the last four years.

• The Minister has assured that the Pakistan Bureau of Statistics [ PBS ] is available to explain GDP estimates. We welcome an opportunity to interact with PBS.

**MISSED TARGETS**

• Many of the targets for 2013-14 have been missed.

• As highlighted recently by the Planning Minister the three key targets are tax revenues, investment and exports. He refers to these as the TIE targets. The shortfall in these targets in 2013-14 is as follows:
In addition, other important targets that will be missed include the GDP growth rate, rate of inflation, PSDP spending, foreign direct investment (FDI) and net foreign assistance.

**INFLATION:**

- The real question that needs to be answered is why inflation has not come down after the revaluation of the rupee. It was predicted that rupee appreciation will clearly have a salutary effect in reducing inflation. Inflation was expected to go down by up to 1.5 percentage points, falling to 7.5%.

- Prices of Furnace oil came down by 5.5% in March 2014 and further 1.3% in April 2014, as a result of the appreciation of the rupee by 7%. The impact of this was seen in the power tariffs (above lifeline consumption) as the fuel adjustment charge (FAC) for both the months, March and April, has gone down by Rs.1.0146/kWH and Rs.1.4824/kWH respectively.

- Rupee appreciation showed its impact on the prices for imported food items in the month of April 2014. However the trend of rising food prices was again observed in the weekly prices of essential imported consumer goods. In April, the price of tomatoes on an average fell by 14% every week, however in the last week of May they went up by 19.96%. Price of the goods like textile products, and chilies were sticky downwards in the month of April. They decreased on an average of 0.5%. On contrary, in May an upward trend is noticed of around 4% in their prices. The effect of revaluation seems to have vanished in a month.

- With the Gas Infrastructure Development Cess (GIDC) announced on 31st December 2013, the prices of fertilizer went up from Rs 1722 per 50kg Bag to Rs.1900 per 50kg. However, later the prices were agreed upon Rs 1786 per 50Kg Bag by rationalization of the GIDC and limiting it to only a few fertilizer plants. Subsidies in fertilizer sector should have gone down, rather than increased, given that imports have fallen by 18% this year.

**PUBLIC FINANCES:**

**Budget Deficit**

- According to the PES, during the first nine months of the current fiscal year the federal budget deficit is 4.7% of the GDP. During the same period in 2012-13 it was 4.6% of the GDP. Therefore, there has been no reduction in the Federal fiscal deficit.
• Provincial cash balances are the main contributor to the decline in the consolidated deficit. The July-March figure for 2014-15 shows provincial surplus of more than Rs216 billion compared to only Rs139 billion during the same period of 2012-13

• The fiscal deficit is 2012-13 showed tremendous growth during the last quarter due to retirement of circular debt. This year’s deficit could also go beyond 6% of the GDP if provision is made for the retirement of the Rs 300 billion circular debt before 30th June 2014.

• An alarming feature of this stabilization effort orchestrated by the IMF is a cut of almost 40% in PSDP expenditures by the Federal and Provincial Governments. This is one of the biggest cuts in history.

• Public debt will remain above 60% of the GDP and the revenue deficit will be large at over 2.5% of the GDP. The Government continues to violate the Fiscal Responsibility and Debt Limitation (FRDL) Act.

PRIVATE INVESTMENT:

• The claim that there has been improvement in the business climate is not reflected in the level of private investment, which has fallen by 1.6% in July to March 2013-14. In particular, private investment in the manufacturing sector has fallen sharply by 27%.

THE STOCK MARKET:

• One of the bright spots in the economy is the buoyancy of the stock market which has risen by 29.3% between 1st of July 2013 and 31st of March 2014. But the inflow of foreign portfolio (equity) investment is only $110 million during this period. In 2006-07, when the market was also buoyant, the inflow of foreign portfolio investment was as much as $ 3281 million.

INDUSTRY

• Growth rate of large scale manufacturing industries have come down from 5.3% in July-Feb 2013-14 to 4.3% in July-March, 2013-14. This is the second month running, February and March 2014, that the large-scale manufacturing sector has shown negative growth.

PRODUCTION OF OTHER CROPS

• The production of other (minor) crops has fallen by 3.5% in 2013-14. In the Press Conference the decline in production of oil seeds and pulses was mentioned. But these crops account for only 10% of the value added. The rest 90% is due to production of fodder, fruits and vegetables. The explosion in prices of vegetables in 2013-14 is primarily due to the fall in production. This has not been highlighted. Steps have to be taken to raise the output of vegetables, as these are essential items in the peoples’ diet.
POWER SECTOR:

• The retirement of circular debt by Rs.480 billion in June-July 2013 does not seem to have had a big impact on thermal electricity generation, which has increased by only 4% from July to March, 2014. The major reason for this is that the supply of natural gas to the power sector has fallen by 8%, because of diversion of 18.5% more natural gas to the fertilizer sector.

• Despite signing of many projects and work on on-going projects total investment in the power sector is actually down by 9.1%.

EDUCATION

• The growth in the two social sectors in Pakistan, Health and Education, has been slow according to the PES. The performance of this sector has been low due to low rates of enrollments, high dropout rates, poor teacher training programs, and poor educational standards. In the past fiscal year 2013-14, the overall education sector has shown minor improvement. The key indicators like enrollments, number of institutes and teachers have gone up for all categories except for primary education. This shows that little effort has been made to improve primary education in Pakistan which is by far the most crucial level in the education sector.