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Review of the Economy 2016-17

About the Author

Ashraf Hayat is a former civil servant and Executive Director IPR

About IPR

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Executive Summary

The economy missed all targets set by government for fiscal 2016-17, except inflation. Many economic indicators worsened during the year. Fiscal consolidation gains of recent years also took a major downturn and the economy was in severe imbalance.

Though the economy shows signs of revival in FY 18, as seen in higher tax revenue, exports, private credit, and energy supply, its weak fundamentals suggest that these gains could be short lived. Macro-economic indicators and the external account are major cause of concern.

- **Growth**: Economic growth rate was 5.28%, but below GoP's target growth rate of 5.7%. Experts have questioned National Accounts methods. The more important question is about the drivers of growth, whether productivity and value addition are behind manufacturing and agriculture growth.
- **Twin deficits**: High fiscal and current account deficits are a huge risk for the economy. Fiscal deficit was 5.8% of GDP against a target of 3.8%, while current account deficit was 4% against a target of 1.5% of GDP. This shows serious flaw in GoP forecasts and budgeting.
- Overall budget deficit was Rs. 1,864 Billion against an estimate of Rs. 1,276 Billion. Actuals show, GoP's estimate of Rs. 339 Billion provincial surplus was, in fact, a deficit of Rs. 163 Billion. GoP has no say in spending decisions of provinces.
- **FBR Revenues:** After an unprecedented 20% increase in FBR revenue in 2015-16, GoP budgeted another 16% growth in revenue with no accompanying reforms. In fact, after announcing the budget, government offered businesses several fiscal relief and tax incentive measures. FBR revenue grew by 8% over 2015-16 receipts. The contribution of Direct Tax to total revenue increased. In a surprising development, sales tax collection fell from last year when it should have grown with GDP and CPI. In first quarter FY 18, FBR revenues have revived to grow by 21%.

4- Shami Road,
Lahore Cantt, Pakistan
UAN:111-123-586

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- There is unpaid fiscal liability of an estimated Rs. 700 to 800 Billion circular debt. This amount must be paid at some point. Yet, we have no information about government's plans to liquidate the amount.
- IPR expects more rigour and robustness in GoP's budget and Annual Plan estimates placed before parliament.
- **Trade:** Exports declined by 1.6% after two years of double digit decline. They have revived since March 2017, but must grow by 17.7% in FY 18 to reach June 2014 level. Its revival partly results from major fiscal incentives. There is no improvement in competitiveness. Imports reached an unprecedented USD 53 Billion in 2016-17 and are growing. Workers' remittances fell by 3%, but have picked up since July 2017.
- **Balance of Payments:** The economy's external vulnerability has grown to an alarming level. Fiscal 2016-17 Current Account Deficit was USD 12.1 Billion, 4 % of GDP. Past IPR reports have cautioned about its unsustainability.
  - In June 2017, reserves were less than four months imports. They have further declined since.
  - Forex draw down was USD 2 Billion in one year.
  - External debt grew by over USD 9 Billion. Government external debt grew by USD 4.7 Billion.
  - Urgent foreign exchange earnings are needed to finance growing imports and meet debt servicing (principal and interest)
- Pakistan's ambitious investment plans entail large BoP outflows. GoP's plans to meet external imbalances are not known nor is there a strategy to improve competitiveness.
- **Domestic and External Debt:** In June 2017, Pakistan's total domestic and external debt and liabilities was Rs. 25,062 Billion, 76% of GDP. Of this, total external debt and liabilities was Rs. 8,703.5 Billion or USD 82.9 Billion, 27.3% of GDP.
  - GoP's public debt/GDP target for June 2017 was 61.4%. Actual was 67.2% of GDP.
  - As a % of disbursements, project aid has declined. Ratio of project aid was 47% in 2000-01. It fell to 41% in 2009-10, and was 31.9% in June 2016.
  - In 2013, stock of Bonds, Sukuks, and commercial loans were USD 1.6 Billion or 3.6% of total government external debt. This grew to USD 9.6 Billion or 17% of total government external debt.
  - Total debt and liabilities grew by Rs. 2.5 Trillion in FY 17 over FY 16

- In 2016-17, public debt grew by:
    - Rs. 7 Trillion since June 2013 and by Rs. 16.6 Trillion since June 2007
    - As % of GDP, Public Debt was 55.3% in June 2007, 63.9% in June 2013, and 67.1% in June 2017.
- In 2016-17, external debt financed 29% of the deficit. In 2014-15, it financed 12% of the deficit. In 2012-13, it was zero.
- Stock of external debt and liabilities was USD 82.9 Billion in June 2017:
    - It has grown by USD 22 Billion since June 2013, and by USD 42.5 Billion since June 2007
    - As % of GDP, external debt was 26.3% of GDP in June 2013. It was 27.3% in June 2017.
- In FY 17, payment of principal and interest was USD 8,157 Million:
    - It grew by USD 2,839 Million, 53% from 2015-16
    - Repayment of principal and interest was 39.7% of exports in June 2017. It was 24% of Exports in 2012-13.

- In a report in May 2017, Moody's said that 'Pakistan's fiscal strength is at negative (very low)' and that 'its susceptibility to event risk is high'.
- **Strong Macro-economy:** Given the extent of imbalances, it is clear that the economy needs fundamental reforms. Despite claims, GoP has not made a single fundamental change in policy for long-term macroeconomic stability or for sustained economic growth. To grow, the economy needs strong macro fundamentals and enhanced competitiveness.
- Macroeconomic stability has some essentials, which together with other factors support a sustainable high growth rate. These essentials include reduction in fiscal deficit, rationalization of public debt, especially external debt, and Balance of Payment sustainability. Pakistan's economic fundamentals cannot improve without addressing the political economy of public finance.
- **Savings and Investments:** The economy needs higher savings and investment. In 2016-17, national savings declined to 13% of GDP. Domestic saving was an abysmal 7.5% of GDP. Investment was 15.8%. With an ICOR of 4, this cannot yield sustained dynamic growth. In recent years, investment in manufacturing as a share of total private investment has declined. The sector had a share of 22.7% in total private investment in 2006-07. This fell to 14.7% in 2015-16 and 14.1% in 2016-17.
- **Public Investment:** While it is encouraging to see consistent increase in total federal PSDP budget in the last three years, IPR has concerns with some of government's priorities. In recent years, budget for higher education and national health services have been reduced and then plateaued. The water sector, which is critical, has suffered specially. These three sectors are important determinants of future growth, which is critical to defuse the time bomb posed by the youth bulge.

- **Private Credit:** A stable monetary policy has helped private credit. Growth rate of private credit flows was 67.5%. It totaled Rs. 747.9 Billion, including portfolio investment. Stock of loans to businesses grew by 18.7%. Manufacturing had a 55% share in this increase and grew by 20%. Within its present structure, manufacturing has revived. Credit to textile sector, manufacturing's mainstay, grew by 13.5%, mostly under the LTTF scheme.
- **Machinery Imports:** Total machinery imported FY 17 amounted to USD 11.8 Billion, a growth of 37.3% from last year. Power generation, electrical machinery, and telecom equipment saw high growth.
- **International Competitiveness:** Enhanced competitiveness comes from government support through infrastructure, better worker and managerial skills, and improved governance. Industry too must move up the value chain, invest in R&D and workers' skills. There is too much dependence on incentives from government. Sustainable growth in exports is not possible without change in product mix and improved competitiveness. Stagnant exports, flat remittances, low FDI, and increase in import of capital equipment and LNG, means massive import of finance to meet Pakistan's BoP needs.
- **Unemployment:** Job growth is well below needs. Conservative estimates show that an additional two million young people enter the job market each year.
- **Energy Supply:** Pakistan's dependence on energy imports is very high. Domestic production of oil and gas have declined. Pakistan sits atop one of the world's richest shale oil and gas resources, estimated at many trillion Cft/bbl of Technically Recoverable Resources. Though it is expensive to recover, creating reliable domestic supply has benefits for the economy.
- **Reliability of PBS data and accounts:** Experts have expressed doubts about accuracy and authenticity of national accounts. This does not serve the government well. Reliability of data is essential for robust planning and evaluation as well as credibility. PBS must revisit national accounts methods.

Review of the Economy 2016-17

This report reviews performance of the Pakistan economy during fiscal 2016-17 and examines prospects for the country to grow out of its low growth high debt model. It assesses achievements against targets set by the government. The report's objective is to support decision making in the country.

1. Macroeconomic Targets

For fiscal 2016-17, the government had set the following targets:

- As per GoP's Annual Plan approved by the National Economic Council, the fiscal 2016-17 target for growth of Gross Domestic Product was 5.7%. Growth rate for 2014-15 was 4.51%.
- GoP targeted a fiscal deficit of 3.8% of GDP.
- The fiscal deficit target was based on limiting federal current expenditure on civil government to an increase of 1.3%. Including defence expenditure, the target increase was 3.6% and including defence and repayment of foreign debt 6.7%. Development expenditure was to grow by 9.2%.
- For 2016-17, the target for total revenue was Rs. 4,915 Billion, a 13.5% increase. Federal tax target for fiscal 2015-16 was Rs. 3,956 Billion. Of this, FBR revenue was estimated at Rs. 3,621 Billion, an increase of 16% over previous year's actuals. Provinces were estimated to be Rs. 339 Billion in surplus.
- Government set a target of 6% for inflation in fiscal 2016-17, based on its professed prudent fiscal and monetary policies. In June 2016, the Finance Minister forecast moderate government borrowing and reduction in public debt from 62.9% of GDP in June 2015 to 60% of GDP by June 2018[1]. For June 2017, the target ratio of public debt to GDP was 61.4%[2].
- The government based its planned growth revival on improved macro-economic indicators and a surge in investment. CPEC projects, public and private, and low markup rates were to boost investment. The Annual Plan targeted total investment as a ratio of GDP at 17.7%. The target for national savings was 16.2% of GDP[3].
- Forex Reserves are targeted to reach 30 Billion US Dollars by 30 June 2019. For financial 2016-17, the target for the current account deficit was USD 4,530 Million or 1.5 % of GDP[4]. The Annual Plan estimated increase in exports and imports of 10.8% and 14.8% respectively over revised estimates for preceding year. It estimated FDI to grow to USD. 4,550 Million from the revised 2015-16 estimate of USD 1,202 Million. The target for home remittances was USD 20,203 Million up from USD 19,241 Million 2015-16 revised estimate.

[1] Budget speech to the Parliament, 3 June 2016, Page 5
[2] GoP Budget in Brief 2016-17, Table 34
[3] Planning Commission Annual Plan 2016-17, Annexure II to Chapter 1, Page 10
[4] GoP, Planning Commission, Annual Plan 2016-17 Page 105

BOX 1

Major Economic Indicators
Fiscal 2016-17

Indicator	Government 2016-17 Target*	Actual 2016-17**
GDP • Industry • Agriculture • Service	5.7% • 7.7 • 3.5 • 5.7	5.28% • 5.27 • 3.46 • 5.98
Share in GDP % • Manufacturing • Industry • Agriculture • Services		13.5 20.9 19.5 59.6
Fiscal Deficit/GDP %	3.8	5.8
Inflation %	6.0	4.2
• Forex Reserves on 30.6.2017, Gross • Net with SBP Million USD • Net with SBP 22 Sep 2017		21,401.6 16,143.5 14,132.7
• Savings/GDP % • Domestic Savings/GDP %	16.2 9.6	13.1 7.5
Investment/GDP %	17.7	15.8
Central Government Debt Rs. B • % of GDP • +/- 2015-16, YoY % Public Debt as % GDP External Debt and Liabilities USDM • % of GDP • +/- 2015-16, YoY %	61.4%	20,808 65.2[5] 11.4 67.2%[6] 82,981 27.3[7] 12.2
Current Account Deficit Million USD, % GDP	-4,530 1.5%	-12,098 4.0%[8]
• Exports of Goods • % of GDP	24,750	20,448 6.7%[9]
• Import of Goods • % of GDP	45,210	53, 026 17.4%
• Trade balance • % of GDP	-20,460	-32,578 10.7%
• Remittances M USD • % of Exports	20,203	19,304 94%
• FDI M USD	4,550	2,411

***Source:** Annual Plan and Budget in Brief

**PBS, National accounts, MoF, Fiscal Operations, MoF Economic Survey of Pakistan, SBP: External Account data

[5] Total debt amount from SBP, Central Government Debt June 2017, http://www.sbp.org.pk/ecodata/cengovdebt.pdf , GDP, from MoF Fiscal Operation, June 2017, Table 1

[6] MoF, Budget in Brief, Table 34, Page 47, Actuals based on SBP, Pakistan's debt and liabilities profile

[7] SBP, Pakistan's External Debt and Liabilities – Outstanding, 30 June 2017, http://www.sbp.org.pk/ecodata/pakdebt.pdf

[8] SBP, Summary of Balance of Payments as per BPM6- August 2017

[9] Based on export and GDP in $ figures in SBP documents. The Economic Survey (Statistical Appendix, Table 8.2) estimates Export/GDP at 5%.

2. Economic performance

Except for inflation, the economy missed all targets for fiscal 2016-17 (Box 1). Growth rate was 5.28% against the target of 5.7%, but contribution of the productive sector, agriculture, and industry, was 3.19% and their share in the GDP fell[10]. Exports declined again.

On the other hand, fiscal deficit was high and the current account deficit is more than twice the estimated amount. Savings fell from the year before. National savings was 14.3% of GDP in 2015-16, it declined to 13.1% in 2016-17. Domestic savings fell from 8.2% to 7,5% of GDP. Investment was 15.8% of GDP in 2016-17 against a target of 17.7%. Indicators for health and education showed no improvement, with literacy rate actually slipping. Public debt has reached 67.1% of GDP. GoP could not meet its last year's promise to observe provisions of the fiscal responsibility law. External debt is 27.3% of GDP. These numbers are hardly the base to build a growth edifice. Government debt increased and external debt increased significantly.

Each year an estimated two million people enter the job market. Job growth is well below the number needed.

GDP growth rate: GoP based the target growth rate of 5.7% on agriculture growth of 3.5%, industry growth of 7.7%, and services 5.7%. Within industry, large scale manufacturing was targeted to grow by 6.1%[11]. Actual corresponding numbers are: GDP 5.28%, agriculture 3.46%, industry 5.02%, and services 3.54%. LSM grew by 5.6%.[12] The economy missed all growth targets. It almost achieved the target for growth in agriculture, but from a very low base in 2015-16 when production of major crops fell radically. The contribution to the GDP growth rate from the commodity producing sectors is 3.19%, of which 1.8% is from industry and 1.26% from agriculture. The rest 2.18% is from services. Growth needs a stable macro-economic framework. As we will see below, government has not even begun to think about it.[13]

Industry: Industry contributes about 20.9% to GDP. Within this, manufacturing contributes 13.45%, LSM 10.7%, and construction, and power and gas supply have a combined share of 4.5% of GDP[14].

LSM growth of 5.6% fell short of its target of 6.1%. However, this is an improvement from the previous two years. LSM seems to be in revival, though within its low value-added structure. LSM's component industries have not changed for many years. Manufacturing growth is led by food and beverages, pharmaceuticals, automobiles, and iron and steel products. Textile, with the most weight in the Index saw modest growth of 0.8%. Textiles' sluggish production

[10] Pakistan Bureau of Statistics, National Accounts
[11] Targets from GoP, Planning Commission, Annual Plan 2016-17, Page 9
[12] Pakistan Bureau of Statistics, National Accounts 2016-17, Table 1, for LSM PBS QIM June 2017 data (there is a difference between National Accounts estimate for LSM growth, 4.93% and the QIM, 5.6%
[13] IPR, Review of the economy, Pakistan Economic Survey 2016-17, Page 2
[14] PBS, National Accounts, Table 7

finds reflection in exports. Production of chemicals, leather products, and wood products declined[15].

It is possible to revive industry with favourable economic policies[16]. Recent years have seen positive forces at play. These include low world prices for key commodities and a favourable monetary policy at home. A number of major economies are in growth, including the US and German economies. Gas supply has improved because of import, though its cost is high. Though growth of Chinese economy has plateaued, public and private investment from China have given boost to construction (which grew by over 9% in 2016-17 following robust growth in the previous two years). That in turn has raised demand for cement, steel, glass, and other industries[17]. A large caustic soda plant set up two years ago has increased chemical production. Private sector production has replaced Pakistan Steel Mill's shut down. Production of billets, and sheets, strips, and coils increased by 29% and 14% respectively[18].

The shortfall between target and actual growth in LSM is covered by growth in mining, construction, and electricity and energy supply. Electric power production declined by 16.5% for the period July-March 2016-17 compared to July-March 2015-16[19]. LNG import grew by 107% (July-March 2016-17). LNG import grew by 134% in value in 2016-17. Despite increase in gas supply fertilizer production grew by just 1.5%[20].

In a disturbing trend, domestic production of oil and gas declined. Whether this is because of very rapid increase in LNG import or for want of new discoveries needs further study. However, our reliance on imported energy to replace indigenous sources poses high risk for the economy. Pakistan sits atop one of the richest shale oil and gas resources in the world, estimated at many trillion cft/bbl of Technically Recoverable Resources[21]. Though its exploration and production is expensive creating reliable domestic supply has vastly more benefit for the economy than imports.

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15 PBS, QIM June 2017

16 IPR, Strengthening Stabilization and Economic Growth, Humayun Akhtar Khan, see discussion and recommendations

17 PBS, QIM shows high double-digit growth in all.

18 PBS, QIM June 2017

19 PES 2016-17, Tables 14.2 and 14.3, pages 170 and 171, Statistical Appendix

20 PBS QIM June 2017

21 US Energy Information Administration, USEIA, Technically Recoverable Shale Oil and Shale Gas Resources: An Assessment of 137 Shale Formations in 41 Countries Outside the United States June 2013

Table 1: Change in Quantum Index of Manufacturing July-June 2016-17 over 2015-16			
Manufacturing Items	**Weight**	**% Change**	**YoY Growth Impact**
		Jul-June	**Cumulative**
		2016-17	
Textile	20.915	**0.81**	**0.23**
Food, Beverages & Tobacco	12.370	**11.49**	**2.32**
Coke & Petroleum Products	5.514	**2.79**	**0.17**
Pharmaceuticals	3.620	**9.19**	**0.76**
Chemicals	1.717	**-2.11**	**-0.05**
Non Metallic Mineral Products	5.364	**4.44**	**0.49**
Automobiles	4.613	**11.22**	**0.73**
Fertilizer	4.441	**1.66**	**0.10**
Leather Products	0.859	**-17.02**	**-0.34**
Rubber Products	0.262	**-0.14**	**0.00**
Iron & Steel Products	5.392	**20.48**	**0.70**
Electronics	1.963	**17.02**	**0.28**
Paper & Board	2.314	**7.18**	**0.24**
Engineering Products	0.400	**4.00**	**0.01**
Wood Products	0.588	**-93.74**	**-0.04**
Overall LSM		**--**	**5.60**

Source: Adapted from PBS QIM for **June 2017**

Table 2: Quantity Energy Supply and Imports										
FY	**Gas Mcf**		**Oil 000 Barrels**		**Petroleum Products 000 Tons**		**Coal 000 Tons**		**Electric Power Gwh**	
	Import Mmbtu*	**Domestic**	**Import**	**Domestic**	**Import**	**Domestic**	**Import**	**Dom**	**Generation**	**Capacity**
2011-12	**--**	**1,558,959**	**47,104**	**24,573**	**11,507**	**8,395**	**4,057**	**3,613**	**95,364**	**22,797**
2012-13	**--**	**1,505,841**	**57,037**	**27,841**	**10,489**	**9,914**	**3,710**	**3,179**	**96,496**	**22,812**
2013-14	**--**	**1,493,508**	**59,920**	**31,585**	**11,523**	**10,926**	**3,119**	**3,438**	**104,089**	**23,531**
2014-15	**--**	**1,465,760**	**64,208**	**34,490**	**13,347**	**11,733**	**5,004**	**3,712**	**106,607**	**23,759**
2015-16	**100,720,923 97,127,216 Mcf**	**1,481,551**	**64,535**	**31,652**	**13,550**	**11,676**	**3,978**	**3,956**	**108,408**	**23,718**
2015-16 Jan Mar	**62,373,272 60,147,803 Mcf**	**1,115,203**	**49,720**	**24,022**	**9,465**	**8,426**	**3,733**	**2,535**	**101,970**	**22,853**
2016-17 Jan Mar	**129,092,714 124,486,706 Mcf**	**1,110,069**	**47,979**	**24,194**	**11,569**	**8,357**	**3,555**	**2,940**	**85,206**	**25,091**
% Domestic 2016-17	**0.9**		**33.5**		**42**		**45**			
Source: Conversion from BTU to MCF based on Energy Information Administration of US **government** https://www.eia.gov/tools/faqs/faq.php?id=45&t=8										

Table 3: Value of Energy imports by Pakistan M USD						
Item	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Petroleum Products	**9,935**	**8,489**	**9,019**	**7,752**	**5,098**	**6,380**
Pet Crude	**4,433**	**5,577**	**5,755**	**4,393**	**2,570**	**2,764**
LNG	**--**	**--**	**--**	**--**	**579**	**1,271**
LPG	**--**	**--**	**--**	**--**	**107**	**191**
Total	**14,368**	**14,066**	**14,774**	**12,145**	**8,360**	**10,607**
Unit value index	**1,652**	**1,721**	**1,758**	**1,550**	**1,054**	**875**

Agriculture: Agriculture grew by 3.46% in 2016-17. Agriculture contributed 19.53% to GDP[22]. In 2015-16, crops took a hit and fell by -6.25%. They have recovered in 2016-17 with a growth 3.02% (important crops by 4.12%[23]). Growth of 14.5% in forestry has helped boost growth of agriculture to 3.46% for the year. Also, fish and livestock production filled the gap and mitigated the effect of slow growth in crops. Although, some parts of Pakistan have ambitious conservation and tree plantation programmes, area under forest has grown just marginally[24]. Though recent data on forestry production is not available, it was in decline between 2000-2001 and 2012-2013[25]. World Bank data shows decline in area under forest as % of total land area from 3.3% in 1990 to 1.9% in 2015[26]. While PBS' National Accounts show real growth in 'fishing,' Finance Ministry's Pakistan Economic Survey shows long-term decline in fish production from 2009-10. The fall by 34% in 2016-17 was especially severe[27]. These factors raise questions about the reliability of National Accounts.

Within its present structure, agriculture, like manufacturing, seems to have reached its potential. Area under important crops and productivity have increased, but by slight margins. Population census 2017 shows that share of rural population in Pakistan is 65%. Growth in agriculture is necessary to improve living standards of bulk of our people. There are structural and policy matters at play without which growth is not possible. Agriculture suffers from a

[22] PBS; National Accounts, Sectoral Shares in GDP (at constant basic prices), Table 7
[23] PBS includes Wheat, Maize, Rice, Sugarcane, and Cotton as important crops
[24] Ministry of Finance, Pakistan Economic Survey, Statistical Appendix Table 2.2
[25] Ministry of Finance, Pakistan Economic Survey, Statistical Appendix Table 2.1 B
[26] World Bank Data, Forest area (% of land area), https://data.worldbank.org/indicator/AG.LND.FRST.ZS
[27] Ministry of Finance, PES 2016-17, Table 2.1 B, page 26, Statistical Appendix

host of problems. These include inadequate coverage by certified seeds, unbalanced use of fertilizer, low and unbalanced mechanization, access to credit, low investment in agricultural research and lack of connection between research and policy, depletion of resource through salinity, waterlogging, silting up of reservoirs, and inefficient use of water[28]. They have been known for many years, but there seems marginal improvement.

As per SBP, "Irrigation data showed a 10.0 percent drop in water availability in Rabi 2016-17[29]." What improvement occurred this year was because of fertilizer subsidy by government. "Urea and DAP sales surged by 18.8 and 11.1 percent in Rabi 2016-17 compared to the corresponding period last year"[30].

Services: Services have a 59.6% share in GDP. The sector grew by 5.98% further building on previous years' momentum. All parts of the service sector grew. According to the National Accounts, wholesale and retail sector grew by 6.8%. According to SBP, "Increase in imports, and growth in both the commodity producing sectors (agriculture and industry) were the major stimulants"[31]. Transport and storage grew by 3.9%. This low rate was because of "constrained growth of Pakistan Railways, PIA, and lower growth in value addition by the road transport", the latter caused by "decline in sales and production of commercial vehicles"[32]. The growth of Finance was 10.8%, and government services was 6.9%[33]. Telecom and broadband have grown overall and especially because of 35% increase in 3G/4G mobile services[34].

International Trade and FDI

Exports fell by 1.6% in fiscal 2016-17. This is after it declined by 12% during fiscal year 2015-16 and by 17% in 2014-15[35]. However, there are signs of recovery including in exports' mainstay of textile products. Government attributes the revival to the Rs. 180 Billion fiscal incentives announced in January 2017. No rigorous analysis is available to verify the linkage. Some other developments may have helped. These include less load shedding for industry and improved law and order in Karachi.

While government, understandably, takes credit for the revival, it must pay heed to crucial factors for sustained manufacturing revival and for greater export competitiveness. These include skills training, upgrading managerial ability, and intensifying knowledge input. Exports of many export items fell. This report will dwell more on it later. Responsibility also rests with industry. They have not moved up the value chain nor have they invested in R & D and workers' training to the extent needed. A strategy based on competing on price (partly

[28] Planning Commission, Agricultural Growth and Productivity Enhancement Presentation at Roundtable Discussion on Agriculture and Water by Dr. Muhammad Jameel Khan Advisor (Agri. Planning) Planning Commission (08-03-2011)
[29] State Bank of Pakistan, State of the Pakistan Economy, third quarter 2016-17, Chapter 2, Page 11
[30] State Bank of Pakistan, State of the Pakistan Economy, third quarter 2016-17, Chapter 2, Page 11, Urea and DAP sales surged by 18.8 and 11.1 percent in Rabi 2016-17 compared to the corresponding period last year
[31] State Bank of Pakistan, State of the Pakistan Economy, third quarter 2016-17, Chapter 2, Page 22
[32] Ibid
[33] PBS, National Accounts, Table 6
[34] State Bank of Pakistan, State of the Pakistan Economy, third quarter 2016-17, Chapter 2, Page 23
[35] Pakistan Bureau of Statistics, Monthly Summary on Foreign Trade Statistics, June 2017, June 2016, June 2015

from incentives), cannot pay off as there are always new entrants with lower prices. Most exporters have not upgraded and have lost market share. Research shows that there is lack of organizational and professional ability at the firm level[36].

Exports must grow by 17.7% in 2017-18 to merely reach the level of USD 24,460 Million of June 2014. It is likely to reach that level in 2017-18.

The present revival is not because of change in product mix or improved overall competitiveness. We cannot have sustainable exports unless we add value to exports and improve overall competitiveness. Most world economies subsidize industries. But they help with basic research, logistics and facilitation support, and access to credit. They also help add knowledge and technology input. We cannot expect tax payers to directly subsidize exports of traditional goods continuously. Any industry that cannot stay internationally competitive despite a few decades of subsidies and does not go up the value chain is not worth supporting.

An area that needs major GoP support is IT related industry. These include IT enabled services, software development and maintenance, and data analyses. True manufacturing revival will take place with these enablers. These enable industry to better understand markets, consumer behaviour, be speedy and efficient, and build reliability. Whether Pakistan should expect industrial revival by relying on traditional industries at the expense of tax payers is moot. IT becomes critical in a country with high illiteracy and low education and skills level. IT platforms are ideal to target that part of the population left out by the state.

Need for Reforms

In its six-month review of the economy 2016-17, IPR had cautioned that GoP will not achieve its 5.7% GDP growth[37]. Key structural factors constrain sustained economic growth in Pakistan. We can address them with accurate data, information, and through well considered policy. Using unconfirmed data to show high growth rates is counterproductive.

The headwind that the economy faces include continued concerns about security, which, though improving, is unlikely to change radically soon. Weak governance, erroneous policies, social tensions, regional instability continue to thwart economic activity[38].

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[36] IGC Conference October 2014, Lahore, What are Pakistan's Long-run growth prospects, http://www.theigc.org/wp-content/uploads/2014/08/Atif-Mian.pdf https://www.youtube.com/watch?v=Xi7nM8xhr-Q, as quoted in IPR Report 'Re-engineering Economic Structure'

[37] IPR, Review of the Economy: July-December 2016-17, April 2017 Page 2

[38] Discussion adapted from above IPR report

In order to grow, the economy needs[39]:

1. Strong macro fundamentals
2. Enhanced factor productivity requiring:
    a. Investment in education, skills, and R&D
    b. Supportive governance
    c. Improved infrastructure[40]

Strong economic fundamentals are important. A strong economy is a precursor for sustained growth and for higher living standards. It also reduces variability in growth rates and allows predictable firm level decision making. It enables the economy to weather external shocks. Our economic structure is fragile, prone to risk, and perennially close to default. It does not allow government to embark on ambitious development programme, at least one that is home grown.

Macroeconomic stability has some essentials, which together with other factors generate sustained high growth. These essentials include reduction in fiscal deficit, rationalization of public debt, especially external debt, and Balance of Payment sustainability. They lead to increase in domestic savings and stimulate private and public investment. Our external account is especially vulnerable. Unemployment in Pakistan too needs immediate redressal as a young population must take part effectively in an economy's economic life.

For 2016-17, Government had forecast a surplus primary balance[41]. However, it was -515.6 Billion Rs. or -1.6% of GDP. Revenue balance was also in deficit by Rs. 261.1 Billion or -0.8% of GDP[42]. Then there are the unpaid circular debt liabilities, which by some estimates are 2.5% of GDP.

Government domestic debt, not including PSEs, grew a significant Rs. 1,223 Billion. Government external debt grew by over 500 Billion (USD 4.45 Billion). This does not include non-government and IMF external debt. Total external debt grew by Rs. 960 Billion or over USD 9 Billion[43]. The economy's external debt servicing in 2016-17 was USD 8,157 Million compared to USD 5,318 Million, an increase of 53%[44]. PSEs debt grew by 45% to Rs. 822.8 Billion[45]. Such high debt levels point to unsustainability of policy and PSE operations. Government has done nothing to reform or privatize them.

[39] For a fuller discussion on sustained long-term growth, see IPR Report Reengineering Economic Structure, http://ipr.org.pk/wp-content/uploads/2017/03/Economic-Growth-Strategy-Final.pdf
[40] For detailed discussion on sustained long-term growth, see IPR Report Re-Engineering Economic Structure: A Growth Strategy for the Long Term
[41] Deficit without expenditure on mark-up, as estimated from contents in MoF's Budget in Brief 2016-17 and actuals from fiscal operations
[42] Revenue minus current expenditure, the estimate is at MoF's Table 34, Page 47, Budget in Brief 2016-17 and actuals from fiscal operations
[43] SBP Pakistan's Debt and Liabilities Profile, FY 2015, 2016, 2017
[44] SBP Summary of Pakistan's Externa Debt Servicing (Principal + Interest)
[45] SBP, Pakistan's Debt and Liabilities Profile

The government seems to be adrift on effective action, policy, and institutional reforms. Recently, it has lost two international arbitration cases, the first of over USD 700 Million to Karkey Karadeniz Elektrik Uretim AS and lately to IPPs for Rs. 11 Billion[46].

In past reports, IPR had cautioned about risks to the external account. Since then all data and many more analyses confirm our concerns. A recent Dawn column is especially informed. It says that "foreign exchange reserves (are) barely sufficient to finance three months' imports, having been run down by $4.6 billion in one year". Continued borrowing means that the "net addition in overall external debt last year was a colossal $9.1bn". It further says that "urgent financing is required to pay the import bill and service debt obligations" because the gap between forex earnings and import needs is USD 1 Billion every month[47].

The unsustainability of government's present policy is clear to everyone. Policy makers though are averse to change course.

Although perilous, the present situation is merely an acute expression of a deep and structural malaise. Among policy makers and some experts there is passive acquiescence that Pakistan must continually have structural economic imbalances. There is not even a long-term plan to do away with fiscal and current account deficits. It does not have to be that way. Several emerging Asian economies had current account surpluses in 2016. They include Thailand $ 46 B, Vietnam $ 9 B, Malaysia $ 6 B, Bangladesh $ 2 B, Afghanistan and Nepal over $ 1 B each, and Philippines 0.6 B[48]. This list, of course, does not count the economic powerhouses of China, Japan, RoK, Taiwan, Singapore, and Hong Kong whose balances run into triple digits.

It is for the leadership to set ambitious targets and achieve them through policy and effective decision making. It is not that policy makers do not know what to do. A preference for focus on the short term over the sustainable limits their action. Political leaders are also shy to touch lobbies. Without bold decision making, an economy will forever be trapped in such imbalances.

Policies that permanently protect elite interests result in inadequate resources to support businesses and individuals. Businesses need governance, logistic support, and trained workers. Individuals need basic services. Both need law and order and security. In most dynamic societies, these are considered fundamental rights. This is not a moral argument, but that makes economic development possible.

Low government revenues and inadequate national savings forces the economy to source external debt. This further adds to the economy's risk and leaves government short of funds to provide basic services.

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[46] The Express Tribune, International litigation: Pakistan slapped with $700m fine in RPP case 20 September 2017 and The Express Tribune, Pakistan loses another power litigation, 24 September 2017

[47] Dawn, Balance of payments emergency, Shahid Kardar and Hafiz A. Pasha, September 26, 2017

[48] US Central Intelligence Agency, The World Factbook, 2016

To meet government's plan to increase investment to 20% of GDP means that the economy must borrow 4.5% to 6% of GDP annually from external sources. Unless FDIs suddenly grow, at current GDP value, this means an additional USD 13.5 Billion to 15 Billion or more debt per year[49], Without extremely concessional debt, this is unsustainable and most unlikely.

Government has no known plan yet for improving factor productivity. Investment in education and skills have not increased. Weak governance increases cost of doing business and causes inconvenience to the people. While public investment in infrastructure has seen some increase, better and transparent project management and selection would bring higher economic returns.

Are the National Accounts Reliable?

Some economists have expressed doubt about growth rates announced in the national accounts[50]. IPR largely maintains the following opinion it shared in the review of MOF's Pakistan Economic Survey[51].

"IPR recommends that GoP review its National Accounts methodology. This is especially apparent in estimates for economic growth. Some GoP assumptions may have tweaked up the growth rate."[52]

There are endemic national accounting issues. Let us first look at industry. For want of a better method, GOP approximates estimates for small scale and for other industry. Their growth rates have not changed in years. Rates of 8.2% and 3.7% respectively have no support in data. Likewise, agriculture seems to have a boost from high growth of forestry products and fishing. Our observations on these are in the first paragraph of this section.

[49] Based on GDP value of USD 303,779 Million by SBP
[50] Business Recorder, Analysis: GDP growth rate: 4.4% not 5.3%, Dr. Hafeez A. Pasha, 26 May 2017,, Govt misses most critical growth target amid suspicion, 21 May 2016 and Think tank calculates GDP growth at 3.1%, 7 June 2016
[51] Pakistan Economic Survey Review, 2 June 2016, http://ipr.org.pk/wp-content/uploads/2016/06/Pakistan-Economic-Survey-2015-16.pdf
[52] IPR, Comments on the Pakistan Economic Survey 2016-17

3. Public Finance

Details of fiscal operations released by Finance Ministry show weaknesses in public finance as well as unrealistic budget planning:

- Budget deficit for fiscal 2016-17 is 5.8% of GDP way above the unrealistic target of 3.8%[53]. FBR revenue increased during the year and totaled Rs. 3,361 Billion, 8% above fiscal 2015-16[54].
- In 2015-16, for the first time in recent history, FBR not only achieved, but exceeded the revenue target. FBR tax revenue 2015-16 grew by over 20% the comparable period.
- Budget estimate 2016-17 of Rs, 3,621 Billion for federal taxes was a further increase of 16%. This target was set with an expected growth rate of above 5% and no change in policy. It was followed by a slew of "fiscal relief measures and tax incentives to support investment, exports, and domestic production"[55]. In the event, FBR taxes grew by 8% in 2016-17. Table 4 shows that direct tax collection (13%) grew faster than indirect taxes (5.1%). In a surprising development, sales tax collection fell from last year. With real growth rate of 5.28% and CPI of 4.16%, sales tax should have grown by more than 9%. The exemptions noted by SBP may be responsible partly. Sales tax is an outcome of transactions in the market place. It was Rs. 113 Billion short of budget.
- Total federal tax and non-tax revenue for the year was Rs. 4,549 Billion, 92.5% of the budget of Rs. 4,915 Billion. This was 11.5% above last fiscal's collection of Rs. 4,080 Billion.
- Federal non-tax revenues have fallen short of budget estimates in recent years. Dividend and profits from oil companies have fallen with low oil prices. Also, profits from the State Bank of Pakistan have fallen. However, it revived in 2016-17. Non-Tax Revenue was Rs. 901.57 Billion, which is 28% above the previous year, but 6% short of the budget[56]. That suggests ambitious budgeting.
- With respect to expenditures, total federal current and development expenditure remained within budget. Total expenditure for 2016-17 was Rs. 4,361.8 Billion against budget of Rs. 4,894 Billion. Of this, current expenditure was Rs. 3,494 Billion and development (including others and net lending) Rs. 867 Billion (PSDP expenditure was Rs. 733 Billion against a budget of Rs. 800 Billion).
- Federal current expenditure grew by 10% during fiscal 2016-17 over the previous year. On the other hand, PSDP grew by 21.7% percent during the year.

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53 Ministry of Finance, Pakistan: Summary of Consolidated Federal and Provincial Budgetary Operations, 2016-17

54 Ministry of Finance, Pakistan: Summary of Consolidated Federal and Provincial Budgetary Operations, 2016-17, Table 4

55 SBP State of the Economy, Q3 2016-17.

56 MoF, Federal Government Fiscal Operations 2016-17, Table 4

Table 4: FBR Tax collection Rs. Billion				
	Budget 2016-17	**Revenue 2015-16**	**Revenue 2016-17**	**% Growth**
Direct Taxes	1,558	1,191.6	1,343.2	12.7
Indirect Taxes	2,063	1,920.4	2,017.8	5.1
• Customs	413	406.2	496.0	22.1
• Sales tax	1,437	1,323.7	1,323.3	---
• Fed Excise	213	190.6	198.6	4.2
Total Taxes	3,621	3,112.0	3,361.0	8.0
Source: Budget from Budget in Brief 2016-17, Revenue actuals from respective Fiscal Operations				

Table 5: Expenditure Analysis Rs. Billion				
	Budget 2016-17	**Actual 2015-16**	**Actual 2016-17**	**% Growth**
Current	---	4,694	5,198	10.7
• Federal	3,842	3,178	3,494	9.9
○ Interest Payment	1,360	1,263	1,348	6.7
○ Defence	860	757	888	17.3
○ Others	1,622	1,158	1,258	8.6
• Provincial			1,704	
Development		1,314	1,681	27.9
• PSDP	1,051	1,194	1,585	32.7
○ Federal	800	602	733	21.7
○ Provincial	875	592	852	43.9
• Others federal	156	116	116	--
• Net Lending	94	25	18	--
Discrepancy	--	-212	78	
Total Federal	4,894	3,921	4,362	11.2
Total Expenditure		5,796	6,800	17.3
Source: Budget from Budget in Brief 2016-17, Revenue actuals from respective Fiscal Operations				

- The budget targets federal current expenditure at 78.5% of total federal spending. Actual was 80%.
- Consolidated deficit for fiscal 2016-17 is Rs. 1,863.8 Billion (5.8% of GDP). Apart from some ambitious tax and non-tax budgeting, the annual estimate of 3.8% of GDP was contingent on provincial surplus of Rs. 339 Billion[57]. In effect, rather than a surplus, provinces threw a combined deficit of Rs. 163 Billion[58]. In 2015-16, provinces generated a surplus of Rs. 142 Billion.
- Mark-up payment was within budget. Total payment was Rs. 1,348 Billion against a budget of Rs. 1,360 Billion. An amount of Rs. 1,263 Billion was spent in this head during 2015-16. Mark-up payment on external debt grew by 13.8% from last year.
- Expenditure on defence exceeded budget. Total expenditure was 888 Billion against a budget of Rs. 860 Billion. This is an increase of 17.2% from last year. In addition, there was an expenditure of Rs. 128 Billion on public order and safety.
- MoF's fiscal operations data does not count accumulated circular debt liabilities. By some estimates these are now Rs. 800 Billion, half of it built in the past four years. These have to be liquidated at some point and will affect fiscal deficit. Subsidy for other PSEs did not decrease as government has yet to restructure and privatize them.
- Of the Rs. 1,864 Billion deficit financing, Rs. 541 Billion was from external sources and Rs. 1,322 Billion from domestic. Of this, Rs. 277 Billion came from non-banking sources and Rs. 1,046 Billion from bank i.e. 80% of the total domestic deficit financing.

Tax policy is an issue not only as a public finance matter, but one that is also fundamental to the economy's sustained growth. Government often increases a host of indirect taxes. In other cases, it agrees to exemptions. There seems no strategy at work in these cases, but reaction to immediate issues in the economy or effort of lobbies. Indirect taxes are 60% of total FBR revenue and are 66% of the consolidated federal and provincial tax revenue. Such a high burden of indirect tax on the economy (8% of GDP) needs correction for many reasons. It is a regressive form of tax. Moreover, indirect taxes dampen demand and create anti-export bias.

There are concerns also about direct tax. In an environment of wide scale tax avoidance and evasion, government's reliance on Withholding Tax understandably has increased. For the period July-March 2016-17, withholding tax contributed over 68% to direct taxes (72% by another measure) and 28.5% to total taxes[59]. This tax has been the most reliable source for government in its bid to raise direct taxes.

Despite its advantages, withholding tax poses questions. It often acts as indirect tax and, therefore, is regressive. It carries compliance cost for all businesses, though minimal for the government. Despite heavy reliance on withholding tax, there has been no improvement in the

[57] MOF, Budget in Brief 2016-17 Table 7
[58] MoF, Pakistan: Provincial Government Fiscal Operations, 2016-17, Table 5
[59] SBP State of Pakistan Economy, Q3 2016-17, Page 48

ratio of direct tax to total tax revenue. Each budget pledges increase in direct tax collection, but with minimal success. Since fiscal 2008-09, direct tax as a ratio of FBR taxes has moved between a narrow band of 38 to 39%. In 2016-17, direct tax collection improved. It improved to 40% of total of FBR taxes from 38% the previous year. Withholding tax, which contributes a major portion to direct tax, is collected by private agents and not by FBR. As per SBP, voluntary payment of direct tax is 27% of total with 5% collected on demand.

The issue of tax policy has been discussed extensively in the policy space in Pakistan, including in several IPR reports. Pakistan's economic fundamentals cannot improve without addressing the political economy of tax policy. If not done, our economy will continue to rely on external savings. The economy will not have enough resources to invest in productivity enhancing services.

GoP and IMF medium term framework:

GoP's consultation with IMF has continued since the end of EFF last year. There is an indicative agreed medium term macro-economic framework. These are reflected in Article IV reviews during the EFF and consultations since[60]. But it is important to know that at various times these reviews give vastly different estimates for key indicators. This is not to point out flawed estimates, but to suggest the difficulty in making estimates. Yet, IPR has often raised the fear that these estimates were ambitious and optimistic. Rigour is critical at such times if these documents must serve their purpose to inform policy makers and citizens.

The estimate for 2016-17 current account deficit in the 9th review, January 2106, was USD 2.4 Billion, the 10th Review estimated USD 4.8 Billion, the 12th Review USD 4.7 Billion, and the July 2017 Review estimate, issued after the fiscal year ended, was USD 10 Billion. By then our current account deficit had already exceeded USD 12 Billion.

Even during the 9th Review, most government economic plans were common knowledge. CPEC, our commitment to massive new generation capacity, the LNG contract, and other commitments were known widely. The international competitiveness of our exports too was not a closely guarded secret, nor was the economy's space to incur and repay foreign debt. It is hard to say how such rose-tinted estimates serve any meaningful purpose.

Table 6 compares GoP's 2016-17 budget estimates, IMF projections from the 12th Review, and actual fiscal operations for 2016-17.

[60] IMF, 2017 Article IV Consultation—Press Release; Staff Report; Informational Annex; and Statement By The Executive Director For Pakistan, July 2017

Table 6: Summary of Public Finance
Budget 2016-17, IMF Projections, Fiscal Operations

Rs. Billion

	Budget 2016-17	IMF Projections 2016-17	Actual Fiscal Operations July-June 2016-17	% of Budget
A Revenue	**4,915**	5,248	4,937	100
A.1Tax Revenue		**4,265**	**3,969**	
Federal	**3,956**	3,921	3,647	
FBR	**3,621**	3,621	3,361	93
Direct	**1,558**	1,461	1,343	86
Indirect	**2,063**	2,160	2,018	98
Other taxes	**335**	300	286	85
Provincial		344	322	
A.2 Non-Tax Revenue		**983**	**967**	
Federal	**959**	874	902	94
Provincial		110	79 -14	
B. Expenditure		**6,498**	**6,800**	
B.1 Current Expenditure		**5,248**	**5,198**	
Federal	**3,844**	**3,554**	**3,472**	**90**
Interest Payments	1,360	1,362	1,348	99
Defence	860	860	888	103
Grants	442	581	352	80
Others	1,182	2,192	884	75
Provincial		1,694	1,726	
B.2 Development Exp & Net Lending	**1,835**	**1,250**	**1,681**	**92**
PSDP	**1,675**	**1,255**	**1,578**	**94**
Federal	800	620	733	92
Provincial	875	635	852	97
Other Development	156		116	74
Net Lending	--	(5)	18	
Statistical Discrepancy			-78	
E. Budget Deficit % GDP		…….	**5.8**	

Table 6 Continued

F. Financing Net	**1,276**	**1,205**	**1,864**	
External	234	424	541	
Domestic	1,042	782	1,307	
Bank Non-Bank	453 589	547 234	1,030 2,76	
Memorandum Items				
Total Revenue	**16.0**		**15.5**	
Tax revenue	**12.9**		**12.5**	
FBR tax revenue	**10.8**		**10.5**	
Total expenditure	**19.8**		**21.3**	
Current **Federal**	**14.9**		**16.3** **10.9**	
Development **Federal**	**4.7**		**5.3** **2,3**	
Nominal GDP (Rs. In Billions)	**33,509**	**33,130**	**31,862**	
Fiscal Balance	**-3.8**		**-5.8**	
Revenue Balance	**0.9**		**-0.8**	
Total Public Debt	**61.4**		**68.6**	
Real GDP growth	**5.7**		**5.27**	

Source:
1. Budget from Budget in Brief 2016-17
2. IMF Projections from IMF Twelfth Review, Staff Report, Page 40[61]
3. Actuals from MoF: Summary of Consolidated Federal and Provincial Budgetary Operations

4. Public Debt

Public debt, both domestic and external, has increased. The economy's external debt too has grown. In June 2017, it stood at 67.1% of GDP[62]. While, this is not yet major cause for worry, two factors are important. First, that government debt has grown rapidly in the last decade. Total public debt[63] was Rs. 4,802 Billion in FY 2007 or 49% of GDP. It was Rs. 14,318 Billion in FY 2013[64] or 59%[65]. In Rupee terms, it has more than tripled in eight years. The other factor of note is that external debt has increased, especially on commercial terms. External debt from multilateral and Paris Club sources is concessional.

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61 http://www.finance.gov.pk/fiscal/July_June_2016_17.pdf

62 SBP, Pakistan Debt and Liabilities Profile, August 2017
63 MOF defines public debt as "the portion of debt which has a direct charge on government revenues as well as the debt obtained from IMF is defined as public debt." Pakistan Economic Survey 2016-17, Chapter 9, Page 147.
64 MOF, Pakistan Economic Survey, 2016-17, Chapter 9, Page 148, Box 1, MOF's public debt figure is usually marginally higher than SBP's figure for Central Government debt.
65 MOF, PES, Table 1.5 Statistical Appendix

Table 7: Central Government Debt Profile Trend Billion Rs.												
	2000-01			**2006-07**			**2012-13**			**2016-17**		
	Dom	**Ext**	**Total**	**Dom**	**Ext**	**Total**	**Dom**	**Ext**	**Total**	**Dom**	**Ext**	**Total**
Fed Government	1,799	1,885	3,684	2,601	2,201	3,684	9,522	4,797	14,318	14,849	5,919	20,768
GDP	4,210			8,707			22,386			31,862		
% GDP	42.7	44.7	87.5	29.8	25.3	42.3	42.5	21.4	63.9	46.6	20.5	67.1
Note: These numbers do not include IMF debt, PSEs, and government liabilities												

Table 8: Pakistan External Debt Profile Billion USD				
	2000-01	**2006-07**	**2012-13**	**2016-17**
Public Debt + from previous	**29.7**	**36.7** 7.0	**50.0** 13.3	**66.1** 16.1
Long-term Concessional % of total	*25.6* *91*	*32.4* *92*	*41.7* *87*	*45.4* *69*
Bonds and Commercial Loans % total	*2.3* ***7.7***	*2.9* ***7.9***	*1.6* ***3.7***	*10.1* ***15.3***
Short Term	*0.3*	*0*	*0.0*	*0.9*
IMF	*1.5*	*1.4*	*4.4*	*6.1*
PSEs Guarantees			1.2 0.9	2.7
Non-Public	**2.5**	**2.3**	**7.8**	**10.9**
External Debt	32.2	39.0	57.8	76.1
Liabilities	5.0	1.5	3.1	6.8
Total and Liabilities	37.2	40.5	60.9	82.9
Debt + Liabilities % of GDP	52.1	28.3	26.1	27.3
% of FEE	278	122.6	121.0	163.5
Ratio of EDL to Forex Reserves	11.5	3.0	8.5	5.1

Table 9: Pakistan: Trend of Repayment of Principal and Interest of External Debt Million USD				
	2000-01	**2006-07**	**2012-13**	**2016-17**
Payments Principal + Interest	1,668	2,977	5,978	8,157
% Export	18.7	16.7	24.0	39.7
% FEE	11.7	8.9	11.9	16.1
% GDP	2.3	1.3	2.4	2.7
Source: For fiscals 2000-01. 06-07, 12-13 from Pakistan Economic Survey 2016-17, Statistical Appendix Table 9.3 Page 117 For Fiscal 2016-17, SBP Summary of Pakistan External Debt Servicing and SBP Summary of Balance of Payments BPM6—August 2017				

Debt servicing trend (principal and interest), Table 9, shows how Pakistan's external debt profile has worsened in four years. Debt servicing includes repayment of principle and interests. Servicing as a percentage of exports was 24% in June 2013. It was almost 40% in June 2017. As a percent of total foreign exchange earnings, it worsened from 11.9% to 16%. Debt servicing as a percent of GDP was 2.7% in June 2017. With increased debt needed to meet balance of payment obligations and for projects, these numbers will worsen. The sustainability of our balance of payment is suspect. A rapid increase in this ratio depletes foreign reserves, triggers devaluation, and increases the cost of debt. In a report in May 2017, Moody's said that 'Pakistan's fiscal strength is at negative (very low)' and that 'its susceptibility to event risk is high'[66].

During fiscal 2016-17, central government debt increased by Rs. 1,724.4 Billion. Of this amount, external debt increased by Rs. 501.1 Billion. By June 2017, total domestic and external debt of the federal government stood at Rs. 20,767.9 Billion an increase of 9%[67]. This does not include PSEs debt, debt to IMF, and government's domestic or external liabilities. Tables 10 and 11 are a snapshot of government debt and of Pakistan's external debt liabilities.

The economy's total external debt and liabilities were USD 82,981 Million, 27% of GDP, an increase of 12.2% over the previous fiscal year. In 2007, total external debt was USD 40.5 Billion[68]. Government external debt was USD 56,430 Million. Total debt and liabilities increased by over USD 9 Billion last year and public debt by USD 4.7 Billion.

[66] The Express Tribune, Business, Moody's says Pakistan's external debt will increase to $79 billion, Shahbaz Rana, 8 May 2017
[67] SBP, Pakistan's Debt and Liabilities Profile
[68] MoF, Pakistan Economic Survey 2008-09

Debt servicing (principal and markup) grew by 53% in 2016-17 from USD 5.3 Billion in 2015-16 to USD 8.2 Billion in 2016-17. This is 40% of export earnings for the year. Payment of principal amount grew by 65% in 2016-17. This suggests that repayment of short tenure high cost debt incurred since 2013-14 fell due and that new commercial loans are taken to repay past loans. These loans have been taken at markups ranging between 4% and 8.5%. In 2016-17, commercial loans grew by 447%, while the inexpensive Paris Club credit declined. Euro and Sukuk Bonds also grew by over 7%. Credit from Multilaterals, a favourable source of financing, grew by 11%. A large part of the loans is on floating rates referenced to LIBOR plus a spread.

Government's plan to manage the increase in external borrowing is not known. Moreover, average cost of external debt has increased. The increase cannot be sustainable at present level of international competitiveness. Government has increased reliance on net external borrowing to finance the budget deficit. External borrowing financed 12.4% of the deficit in 2014-15. It has more than doubled to 27% in 2015-16 and 29% in 2016-17[69].

What is more significant is the source of finance. For 2015-16, SBP said that this was largely derived from issuance of Eurobonds in the international market[70]. Cost of credit obtained in recent years is high. Two Eurobonds of USD 1 Billion each floated in 2013-14 carry fixed interest rates of 7.25 and 8.25. Their maturity is due in 2019 and 2024 respectively. Sukuk Bond of USD 1 Billion floated in 2014-15 is at 6.75% fixed. Similarly, USD 500 million debt incurred in September 2015 is at 8.25%[71].

In recent years, ratio of project aid has declined as a percent of total disbursements. This ratio shows the extent to which external aid is invested to generate future economic returns. In fiscal 2000-01, project aid was 47% of total. In 2009-10, it was 41%. In 2013-14, ratio of project aid fell to 29.5%, and 31.9% in 2015-16.

All this suggests that if the economy proceeds on planned lines, Pakistan's need for foreign cash flows will increase rapidly. IMF estimated Pakistan's annual gross external financing needs (current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period) to US$ 14,965 Million in FY 2016-17[72]. Considering that the current account deficit alone was over USD 12 Billion and that total debt servicing (principal and interest) was USD 8.2 Billion, IMF may have underestimated foreign exchange needs. Government's strategy to pay off external debt and other obligations from new borrowing may not be sustainable.

[69] MoF, Summary of Consolidated Federal and Provincial Fiscal Operations, Table 1, for respective years.
[70] SBP, State of the Economy, Q3, 2015-16
[71] MOF, PES 2015-16, Table 9.5, Statistical Appendix
[72] IMF, 2017 Article IV Consultation, Table 3. Pakistan: Balance of Payments, 2012/13–2021/22

Table 10: Federal Government Debt

Billion Rs.

	December 2015	June 2016	June 2017	Borrowing July-Dec 2016-17
Total Fed Gov Domestic Debt	**12,879.6**	**13,625.9**	**14,849.9**	**1,223.3**
Long-term	**7,849.6**	**8,624.2**	**8,298.4**	**-325.8**
Market Loans	2.8	2.8	2.8	0
Federal Government Bonds	4.607.6	5,286.6	4,778.4	-508.2
PIBs	4,396.0	4,921.4	4,391.8	-529.6
Prize Bonds	586.8	646.4	747.1	100.7
Unfunded Debt	2,647.6	2,683.7	2,765.3	81.6
NSS	2,494.6	2,526.5	2,630.6	104.1
Foreign Currency Loans	4.7	4.7	4.7	0
Short Term	**5,030.0**	**5,001.7**	**6,550.9**	**1,549.2**
Market Treasury Bills	2,655.8	2,771.4	4,082.0	1,310.6
Fed Gov External Debt	**5.072.9**	**5,417.7**	**5,918.7**	**501.1**
Long term	4,941.2	5,240.9		585.4
Short Term	131.8	176.8		-84.3
Total Federal Government Debt	***17,952.5***	***19,043.6***	***20,767.9***	***1,724.3***
PSEs Domestic Debt		**568.1**	**822.8**	**254.7**
Non-government external debt + Intercompany		**1,318.7**	**1,770.3**	**451.6**
IMF Debt		**633.1**	**640.8**	**7.7**
Total Pakistan Debt		***21,563.4***	***24,001.7***	***2,438.3***
Total Liabilities		**1,013.7**	**1060.4**	**46.7**
Pakistan's Total Debt and Liabilities		***22,577.1***	***25,062.2***	***2,485.1***

SBP: Central Government Debt for Federal Government Debt
SBP: Pakistan's Debt and Liabilities Profile for below Line

	Table 11: Pakistan's External Debt and Liabilities **Million USD**				
	Description	**June 2016**	**June 2017**	**Increase**	**% Change**
A	**Public External Debt** **% of GDP**	61,357	66,103 21.8%	4,746	7.7
A1	**Government External Debt**	51,714	56,430	4,716	9.1
i	**Long-term**	50,026	55,547	5,521	11.0
	Paris Club	12,678	11,973	-705	-5.6
	Multilateral	26,376	27,605	1,229	4.6
	Euro and Sukuk Bonds	4,550	4,880	330	7.2
	Commercial Loans	882	4,826	3,944	447
ii	**Short-term**	1,668	882	-806	-47.2
A2	**From IMF**	6,043	6,109	66	1.1
A3	**Forex Liabilities**	3,600	3,564	-36	-1
B	**Public Sector Enterprises**	2,807	2,706	-101	-3.6
C	**Banks**	2,695	4,507	1,812	67.2
D	**Private Sector**	4,073	6,416	2,343	57.5
E	**Inter-company**	3,013	3,248	235	7.8
	External Debt + Liabilities **% of GDP**	73,945	82,980 27.3%	9,035	12.2

5. Investment

The level of investment in an economy decides present and future growth rates. The Annual Plan 2016-17 gives the government's macroeconomic framework. It sets a target of 17.7% of GDP for total investment with fixed investment at 16.1%. Public investment was targeted at 3.9% and private at 12.2%. The target for national savings was 16.2%[73]. With Pakistan's high capital output ratio, this level of investment cannot boost growth rates. In the event, the economy missed most of these targets.

Compared to the target of 16.1%, fixed investment grew by 14.0% in 2016-17 a marginal increase from 13.6 per cent in 2015-16[74]. This was driven mostly by public investment, which grew to 4.3% of GDP from 3.8% last year. Private investment fell from 10.2% in 2015-16 to 9.9 per cent in 2016-17, well below its 12.2% target. In an indebted economy, it is not surprising to see national savings drop further from last year's dismal 14.3% of GDP to a much lower 13.1%, falling short of the targeted 16.3 per cent.[75]

The object of investment matters as much as its amount. A good predictor of future growth in addition to total investment is the part that goes to projects with high economic return. Elsewhere, this report raises the issues of public project selection and weak procurement and management practices that reduces the impact of public sector projects.

With respect to private investment, its distribution among sectors is a concern. Investment in manufacturing as a share of total private investment has declined. The sector had a share of 22.7% in total private investment in 2006-07. This fell to 14.7% in 2015-16 and 14.1% in 2016-17. Investment in manufacturing must revive to sustain economic growth and to create jobs[76].

Government recognizes this challenge. The above Annual Plan 2016-17 states that "The success of developing countries in achieving their target of growth is reliant on the level of investment in the economy. In this regard, the low rate of savings is an obstacle in achieving high level of growth and development"[77]. We have yet to hear how GoP plans to address this challenge.

Import of Machinery

The trend of machinery imports shows the industries and areas receiving capital investment. Total machinery imported amounted to USD 11.8 Billion, a growth of 37.3% from last year. Table 12 below gives the share of each sector and their growth from the previous year. Three areas have the major share in imports. These include power generation, electrical machinery, and telecom equipment. The latter two do not relate to manufacturing though they facilitate it.

[73] GoP, Planning Commission, Annual Plan 2016-17, Chapter 1, Page 10, Annexure II
[74] Planning Commission, Annual Plan 2016-17, Chapter 1, Page 4
[75] Planning Commission, Annual Plan 2017-18, Pages 4 to 10
[76] Planning Commission, Annual Plan 2016-17, Chapter 1, Page 5, Table A, Distribution of Private Investment, figures for 2016-17 from Pakistan Economic Survey 2016-17, Statistical Appendix, Table 1.7, Page 18
[77] Ibid Page 6

Every sector, except telecom, saw high double-digit growth in import. Import of power generation machinery of over USD 3,000 Million suggests addition of 3,000 MW in generation capacity. Textile machinery import also grew by over 20%.

Table 12: Machinery Imports July-June USD Million				
	2015-16	**2016-17**	**Share in Total Import**	**Growth %**
Power Generation Machinery	1,848.1	3,042.7	25.8	64.6
Office Machinery	328.3	522.9	4.4	59.3
Textile Machinery	461.5	556.8	4.7	20.6
Construction & Mining	321.7	498.7	4.2	55.0
Electrical Machinery	1,793.8	2,321.5	19.7	29.4
Telecom	1,361.2	1,355.9	11.5	-0.39
Agriculture Machinery	85.1	115.7	1.0	35.9
Other Machinery	2,373.2	3,353.9	28.5	41.3
Total	**8,572.8**	**11,768.2**	**100**	**37.3**
Source: Trade Statistics, PBS data[78]				

Public Investment

GoP released most of the budgeted amount for fiscal 2016-17. In Rupees, government released 83% of the budget, while foreign aid and credit disbursed was greater than the budget at 139%. Sectoral releases are in Table 13:

Reflecting government's priority, release for roads and highways was 116% of budget. Both Rupee and foreign aid released amounts were higher than allocation. Roads are a major part of CPEC's public investment and with top-level interest, it is not surprising to see this sector

[78] http://www.pbs.gov.pk/sites/default/files//external_trade/monthly_external_trade/2017/July-2017/import_june_2017.pdf

Table 13: PSDP Releases 2016-17 Rs. Billion				
	Budget Full Year		**Releases 2016-17 Up to 30-06-2017**	**% Released**
	2015-16	**2016-17**		
HEC	20.5	21.5	20.3	94.4
Health	20.7	29.5	33.3	112.8
PAEC	30.4	28.6	22.6	79.0
Railways	41.0	41.0	40.8	99.5
Water Sector	30.1	33.9	24.7	72.8
NHA	159.6	193.7	224.3	115.8
Power	112.3	131.3	155.6	118.5
Others	285.4	320.5	222.5	70.2
Total	**700.0**	**800.0**	**744.1**	**93.0**
Source: Planning Commission, Status of PSDP Releases as on 30-06-2017[79]				

receive high funding. Similarly, for the power sector where government has hastened to build two LNG power plants in the public sector in Balloki and Haveli Bahadur Shah.

Actual booked federal PSDP expenditure of Rs. 733 Billion is 98.5% of the released of Rs. 744 Billion.[80] Economic growth and progress of project depend on actual expenditure. This is a major improvement in fund utilization.

Public investment is important to increase economic productivity and to crowd in private investment. While it is encouraging to see consistent increase in total federal PSDP budget in the last three years, IPR has concerns with some of government's priorities.

In recent years, budget for higher education and national health services have been reduced and then plateaued. The water sector, which is critical, has suffered specially. These three sectors are important determinants of future growth. More importantly, they could defuse the time bomb posed by the youth bulge. Water scarcity could pose, in the coming years, a greater

[79] Planning Commission, PSDP 2016-17 Status of Releases as on 30-06-2017. http://pc.gov.pk/uploads/archives/ReleaseSummary2016-17_30-06-2017.pdf
[80] MOF, Summary of Consolidated Federal and Provincial Budgetary Operations, 2016-17, Table 4

challenge to the country than power shortage has in recent years. It has begun to affect seriously our agriculture. It would possibly increase friction among provinces.

Highways received a disproportionate increase in allocation and releases. The economic return on grand highways projects is yet to be proven in Pakistan. Similarly, while IPR welcomes the increase in allocation for the power sector since 2015, it is concerned that the exclusive focus of the increase is on two LNG power projects. The medium term economic viability of LNG power is still unproven. Many questions stay unanswered about its use for power.

For it to be an engine of growth, public investment needs well considered project selection as well as quality governance. They increase output and jobs, and help efficiency all around. However, overpriced public projects, with further cost and time overruns, and a high share of prestige projects reduce the impact of public investment. Regardless, increase in spending will reflect in short-term economic growth.

Bank Credit

Net assets of the banking system show the credit growth in the economy. In FY 2016-17, net domestic banking assets increased by 18.6% to reach Rs. 13.98 Billion. While government preempted more than half of the additional credit (52.5%), growing by 60% in flows over last fiscal, an encouraging sign was increase in private credit. The growth rate of private credit flows was 67.5%. Credit to private sector totaled Rs. 747.9 Billion, including portfolio investment[81].

A stable monetary policy has helped private credit. Stock of loans to businesses grew by 18.7%. Manufacturing had a 55% share in this increase and grew by 20%. Within its present structure, manufacturing has revived. Credit to textile sector, manufacturing's mainstay, grew by 13.5%.

Private credit is used for both fixed assets and working capital needs. Until March 2017, 42% of private credit went to fixed investment in a broad range of sectors[82]. "Over 90 percent of the increase in fixed investment loans by textiles was under SBP's long-term LTTF", according to SBP's State of the Economy Q3, 2016-17[83].

Government domestic borrowing grew rapidly in 2016-17. In fiscal 2016-17, net government borrowing increased greatly by Rs. 1,135.8 Billion from the previous year. Stock of net government borrowing (domestic) on 30 June 2017 was Rs. 8,955 Billion or over 28% of GDP[84].

[81] SBP Provisional Data on monetary Aggregates as on 15 September 2017
[82] State Bank of Pakistan, State of the Economy Q3, Chap1, Pg.4

[83] State Bank of Pakistan, State of the Economy Q3, Chap1, Pg.4, footnote
[84] State Bank of Pakistan, Provisional Data on Monetary Aggregates as on 15 Sep 2017 http://sbp.org.pk/ecodata/BroadMoney_M2.pdf

6. Inflation

GOP's Annual Plan for 2016-17 targets a 6% inflation rate[85]. Based on low commodity prices, and a strong Rupee, inflation has been under control. While most inflation measures do not pose a risk, they have revived since 2015-16. Year on year CPI was 4.16% compared to 2.86% for fiscal 2015-16. For the same period, Sensitive Price Index rose from 1.31% to 1.57%, and WPI grew rapidly to 4.04% from -1.05%. In June 2017, YoY core inflation, for CPI commodities excluding food and energy, grew by 5.5%, i.e. higher than CPI, SPI, and WPI[86]. This suggests that overall demand in the economy has revived. (As seen in high fiscal deficit and increase in credit to public and private sectors). YoY food inflation was 3.05% in June 2017. Price of all food items increased. Price of rice, pulses, sugar, tea, tomatoes, potatoes, fruits, and eggs grew by double digits[87].

Table 14: Inflation
YoY Changes, July to June 2016- 2017

Percentage

	Averages July-June Changes %			**June over June Changes f%**		
	2016-17	**2015-16**	**2014-15**	**2017**	**2016**	**2015**
CPI	4.16	2.86	4.53	3.93	3.19	3.16
SPI	1.57	1.31	1.74	1.38	0.74	1.12
WPI	4.04	-1.05	-0.30	3.27	0.24	-1.97

Source: Reproduced Table from PBS Monthly Review of Price Indices June 2017

Aggregate demand increased during 2016-17 as evident from the rise in core inflation. This is so perhaps because SBP kept policy rates low. Growth in construction and higher overall investments as well as election campaigning would likely keep demand high.

In its report for July-December 2014, IPR discussed the dampening effect on inflation caused by procedural and methodological reasons. They bear repeating. The methodological issues pertain to jerks in housing rent assessment that dampens the effect on monthly and quarterly CPI calculation. Inflation is underestimated also as PBS does not include fuel surcharge in power tariff. This understates electricity tariff[88].

[85] Planning Commission, Annual Plan 2016-17, Page 9 (Annexure II)
[86] Pakistan Bureau of Statistics, Monthly Review of Price Indices, June 2017, Table 1 and Table 1.1
[87] Pakistan Bureau of Statistics, Annexure A:CPI by Commodity Groups and Commodities (2007-08=100), June 2017
[88] IPR, Six Month Economic Review 2014-15, Dr. Hafiz Pasha, Page 14, http://ipr.org.pk/wp-content/uploads/2015/03/IPR-six-Month-report-Final.pdf

Table 15 Inflation in Major Food Items, Commodities, and Services, December 2017 YoY		
	Weight in CPI	**Inflation %**
General CPI	**100.00**	**3.93**
Food Group	**34.83**	**3.05**
Wheat flour	4.16	-0.33
Rice	1.58	13.95
Meat	2.43	6.22
Chicken	1.36	-5.70
Milk (fresh)	6.68	3.84
Cooking oil	1.75	3.37
Vegetable ghee	2.07	3.77
Fresh fruits	1.86	14.17
Pulses	0.95	-17.14
Vegetables	1.68	4.99
Sugar	1.04	-11.01
Tea	0.84	13.51
Cigarettes	1.39	-10.17
Clothing and Footwear	**7.57**	**3.77**
Cotton cloth	1.73	2.96
Readymade garments	0.97	4.08
Tailoring	0.88	8.56
Housing, Electricity, Gas	**29.41**	**5.10**
House rent	21.81	6.94
Electricity	4.40	0.00
Gas	1.57	0.00
Health	**2.19**	**13.31**
Drugs and Medicines	1.27	20.33
Doctors' fee	0.59	7.87
Transport	**7.20**	**3.86**
Motor Fuel	3.03	8.92
Transport Services	2.70	0.23
Communication	**3.22**	**1.57**
Recreation & Culture	**2.02**	**0.23**
Education	**3.94**	**10.98**
Restaurants and Hotels	**1.23**	**5.45**
Misc. Goods and Services	**2.75**	**5.69**
Source: PBS, Monthly Review of Prices, Annexure A, June 2017[89]		

[89]http://www.pbs.gov.pk/sites/default/files//price_statistics/monthly_price_indices/2017/Monthly%20Review%20June%2C%20%202017.pdf

7. Balance of Payment

Declining exports, flat remittances, low FDI, and increase in import of capital equipment and LNG, means massive import of finance to meet Pakistan's BoP needs.

Exports that were in free fall for three years started to revive from March 2017. Overall, they declined by 1.6% for fiscal 2016-17 compared to last year (Table 16). After several years of growth, workers' remittances fell by 3% in 2016-17. They have revived since, growing by 13% in the first two months of 2017-18[90].

The decline in export includes the major export item of food (rice). Textile was at the same level as last year.

Imports grew by 18.6% to an unprecedented USD 53 Billion. The deficit on merchandise trade was USD 32.6 Billion, built around increase in machinery and petroleum products. LNG alone crossed USD 1 Billion in imports.

Despite late revival, exports are a big concern. Revival of knitwear and bedwear exports comes with lower unit value. Leather garments, gloves, and footwear continued to decline. Quantity and value of a number of food items reduced. They include Basmati rice, fish, fruits and vegetables. Revival in some textile goods follows fiscal incentives offered by government last January. These have been mainstays of Pakistan's exports. Several reasons account for their loss in competitiveness. Power supply is expensive and unreliable, though supply has improved of late. Law and order has been a major concern. Pakistan's textile industry is built around cotton crops. With agriculture in long-term slow down, supply of cotton too is uncertain. At the same time, textile goods manufacturers have to up their game. They have not moved into new areas. They have competed on price, usually with incentives, and now find other producers compete more efficiently. Those that have changed are doing well. Textile is an entry level sector in industrialization.

This seems a structural issue at two levels. First, domestic issues are important. It would help to revisit international competitiveness of our export products. Equally, it is critical to study how to enhance factor productivity. Pakistan may review too the current value of the Rupee against US Dollar. Exporters have lost out from Rupee value: from the appreciation of US Dollars against most other currencies, and because of adverse REER (many other developing economies have sharply reduced the value of their currencies). Second, for some years, world trade has not grown at past rates. It is important for policy makers to take note. Moderate GDP growth rates in China may not revive soon.

Increased import of LNG and coal for power plants have burdened the BoP, even with low energy prices. Import of machinery will also likely continue to increase.

[90] SBP, Summary Balance of Payments as per BPM6 - August 2017

Table 16: Trend in Trade
July-June 2016-17 compared with July- June 2015-16

Exports

Million USD, %

Commodity	July- June 2015-16	Share in total export %	July-June 2016-17	Share in total export %	Change in value %
Food Group	3,989.2	19.2	3,712.4	18.2	-6.9
Textiles	12,447.3	59.9	12,452.5	60.9	.04
Petroleum & Coal	160.7	0.8	190.1	0.9	18.3
Leather Manufactures	526.2	2.5	492.0	2.4	-6.5
Chemicals and Pharmaceuticals	804.4	3.9	878.5	4.3	9.2
Engineering Goods	188.4	0.9	175.3	0.9	-6.9
Others	2,670.3	12.8	2,546.9	12.5	-4.6
Total	**20,786.5**	**100**	**20,447.7**		**-1.6**

Imports

Million USD, %

Commodity	July-June 2015-16	Share in total import %	July-June 2016-17	Share in total export %	Change in value %
Food	5,388.6	12.1	6,138.8	11.6	13.9
Machinery	8,572.8	19.2	11,768.2	22.2	37.3
Transport	2,962.2	6.6	3,307.5	6.2	11.6
Petroleum	8,371.4	18.7	10,902.5	20.6	30.2
Textile	3,146.9	7.0	3,353.1	6.3	6.5
Chemicals	7,225.9	16.2	7,584.5	14.3	5.0
Metal	4,120.8	9.2	4,407.6	8.3	7.0
Miscellaneous	1,109.8	2.5	1,222.8	2.3	10.2
Others	3,786.4	8.5	4,340.7	8.2	14.6
Total	44,684.8	100	53,025.8	100	18.7
Trade Deficit	**23,898.3**		**32,578.1**		**36.3**

Source: Ministry of Commerce Statistics, based on PBS data[91]

[91]http://www.commerce.gov.pk/wpcontent/uploads/2017/01/Comparative_Imp_Selected_Comodities_July-Dec_2016.pdf . http://www.commerce.gov.pk/wp-content/uploads/2017/01/Comparative_Exp_Selected_Comodities_July-Dec_2016.pdf

The Annual Plan 2016-17 sets a target of 1.5% of GDP for the Current Account deficit[92]. In the event, it turned out to be 4% compared to 1.75 in 2015-16[93]. Home remittance fell by 3%. It is an important external financing source for Pakistan.[94]. A significant part of remittances to Pakistan is from oil dependent economies. We cannot expect it to grow in a major way.

For the period July-June 2016-17, engineering goods and food group exports fell by 6.9% each. Leather manufactures fell by 6.5% and other goods by 4.6%. In addition to decline in exports, the second weakness in the Balance of Payment comes from low FDIs. The Annual Plan targets USD 4,550 Million as FDI for 2016-17. Actual FDI received in 2016-17 was USD 2,411 Million a slight increase over FDI for 2015-16[95].

Table 17
Government External Borrowing 2015-16

Million USD

Head	**End of year external debt stock**		**Increase in external debt 2016-17**
	June 2017	**June 2016**	
A. Public External Debt	**66,103**	**61,357**	**4,746**
1. Government	56,430	51,714	4,716
Long term	55,547	50,027	5,520
Short term	882	1,688	-806
2. From IMF	6,109	6,043	66
3. Forex Liabilities	3,564	3,600	-36
B. Public Sector Enterprises	**2,706**	**2,807**	**-101**
C. Banks	**4,507**	**2,695**	**1,812**
Borrowing	3,291	1,618	1,673
Deposits	1,216	1.078	138
D. Private Sector	**6,416**	**4.073**	**2,343**
E. Debt liabilities to investors	**3,248**	**3,013**	**235**
Total External Debt & Liabilities	**82,980**	**72,945**	**9,035**
Source: SBP[96]			

[92] PC Annual Plan 2016-17, Page 95
[93] SBP Summary Balance of Payments as per BPM6 – August 2017, Page 2
[94] SBP Summary Balance of Payments as per BPM6 – August 2017
[95] Board of Investment, Foreign Investment inflows in Pakistan($Millions), Country Wise FDI Inflows ($ Million)
[96] SBP Pakistan's External Debt and Liabilities-Outstanding http://www.sbp.org.pk/ecodata/pakdebt.pdf

Largely, external debt has sustained the BOP. For the year, 2016-17, public and private external debt increased by over USD 9 Billion. Of this, government debt grew by USD 4.7 Billion. Government borrowing normally centres on increase from multilateral and Paris Club (concessional). During the year, commercial loans grew manifolds by USD 3.9 Billion. Multilateral loans increased by USD 1.2 Billion. Paris Club credit, the most concessional source, was zero. IMF credit increased by USD 1.9 Billion and PSEs debt by USD 268 Million. Table 17 gives increase in external debt and liabilities for fiscal 2015-16. The country's total liabilities increased by USD 7,837 Million. Total stock of the country's forex liabilities stood at USD 72,978 Million.

On 30 June 2017, official net reserves stood at USD 16.1 Billion (against the USD 19 Billion target)[97]. Net foreign currency reserves were USD 13.8 Billion in September 2017.

Table 18: Summarized Balance of Payments Projections

	Annual Plan 2016-17	**Actuals 2016-17**
1. Current Account	**-4,530**	**-12,120**
Exports	24,750	21,686
Imports	45,210	48,582
Balance on Goods	-20,460	-26,896
Balance on Services	-2,585	-3,637
(Remittances)	(20,203)	(19,303)
2. Capital Account	**399**	**337**
3. Balance Current and Capital A/c	**-4,131**	**-11,783**
4. Financial Account	**5569**	**-9586**
FDI	(4,550)	(2,412)
FPI	(100)	(-251)
Net Foreign Assistance	(875)	(4,828)
Others	(919)	(2,445)
5. O&E	**0**	**251**
6. BoP deficit/surplus	**1,438**	**1,946**
7. Change in FE Reserves	**-**	**-1,946**

[97] SBP, LIQUID FOREIGN EXCHANGE RESERVES, September 2017