A group of Wakhi women comes back from their daily trek across the Hunza riverbed to gather fodder and wood for their cooking fires – Photo by Matthieu Paley
# Table of Contents

List of Acronyms .................................................................................................................. 1

Executive Summary ................................................................................................................. 2

Real Sector Developments ...................................................................................................... 5

Monetary Aggregates and Inflation ......................................................................................... 7

Fiscal Policy and Public Debt ............................................................................................... 11

External Sector ....................................................................................................................... 16

Financial Sector Developments ............................................................................................. 20

Poverty in Pakistan .................................................................................................................. 22

Progress with Structural Reforms .......................................................................................... 24

Medium-Term Outlook .......................................................................................................... 26

   External Environment .......................................................................................................... 26

   Macroeconomic Outlook .................................................................................................... 28

Annex I: Impact of Lower Oil Prices on Economy ................................................................. 30

Annex II: One Stop Shop for Business Registration-Progress so far .................................... 31

Annex III: Paying Taxes in Pakistan-Status and Challenges .................................................. 32

Annex IV: Pakistan International Sukus: Foot-printing the Shariah-compliant Capital Markets after almost a Decade .............................................................................................................. 33

Annex V: World Bank Support to Pakistan ........................................................................... 35

Annex VI: Pakistan Data Sheet ............................................................................................... 36

---

This brief is prepared by Saadia Refaqat (Economist, MFM) under the guidance of Jose R. Lopez-Calix (Lead Economist, MFM).

Sector analysis: Executive summary and progress with structural reforms (Jose R. Lopez-Calix), external sector and macroeconomic outlook (Muhammad Waheed), public debt (Mehwish Ashraf), inflation (Syedah Mohsina Atiq), monetary aggregates (Mohammad Omar Joya), financial sector developments (Sarmad Shaikh and Rafay Khan), poverty (David Locke Newhouse), World Bank support to Pakistan (Sana Shahid Ahmed) and real sector developments, fiscal, and external environment (Saadia Refaqat).
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>3G</td>
<td>Third Generation</td>
</tr>
<tr>
<td>4G</td>
<td>Fourth Generation</td>
</tr>
<tr>
<td>BISP</td>
<td>Benazir Income Support Programme</td>
</tr>
<tr>
<td>BOP</td>
<td>Balance of Payments</td>
</tr>
<tr>
<td>CAR</td>
<td>Capital Adequacy Ratio</td>
</tr>
<tr>
<td>CY</td>
<td>Calendar Year</td>
</tr>
<tr>
<td>CCTs</td>
<td>Conditional Cash Transfers</td>
</tr>
<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
</tr>
<tr>
<td>CSF</td>
<td>Coalition Support Fund</td>
</tr>
<tr>
<td>DB</td>
<td>Doing Business</td>
</tr>
<tr>
<td>DFID</td>
<td>Department for International Development</td>
</tr>
<tr>
<td>DPC</td>
<td>Development Policy Credit</td>
</tr>
<tr>
<td>EFF</td>
<td>Extended Fund Facility</td>
</tr>
<tr>
<td>EMBI</td>
<td>Emerging Market Bond Index</td>
</tr>
<tr>
<td>ERU</td>
<td>Economic Reform Unit</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FATA</td>
<td>Federally Administered Tribal Areas</td>
</tr>
<tr>
<td>FBR</td>
<td>Federal Board of Revenue</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FY</td>
<td>Fiscal Year</td>
</tr>
<tr>
<td>GCC</td>
<td>Gulf Cooperation Council</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GIDC</td>
<td>Gas Infrastructure Development-Cess</td>
</tr>
<tr>
<td>GSP</td>
<td>Generalized System of Preferences</td>
</tr>
<tr>
<td>GST</td>
<td>General Sales Tax</td>
</tr>
<tr>
<td>H1</td>
<td>First half (of the fiscal year)</td>
</tr>
<tr>
<td>H2</td>
<td>Second half (of the fiscal year)</td>
</tr>
<tr>
<td>HIES</td>
<td>Household Integrated Economic Survey</td>
</tr>
<tr>
<td>HOBC</td>
<td>High Octane Blending Component</td>
</tr>
<tr>
<td>IBRA</td>
<td>Indicator Based Reform Advisory</td>
</tr>
<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>KESC</td>
<td>Karachi Electricity Supply Corporation</td>
</tr>
<tr>
<td>KIBOR</td>
<td>Karachi Interbank Offered Rate</td>
</tr>
<tr>
<td>KSE</td>
<td>Karachi Stock Exchange</td>
</tr>
<tr>
<td>LSM</td>
<td>Large-scale Manufacturing</td>
</tr>
<tr>
<td>M2</td>
<td>Broad Money</td>
</tr>
<tr>
<td>MENAP</td>
<td>Middle-East, North Africa, Afghanistan and Pakistan</td>
</tr>
<tr>
<td>MFN</td>
<td>Most Favored Nation</td>
</tr>
<tr>
<td>MRTBs</td>
<td>Market Related Treasury Bills</td>
</tr>
<tr>
<td>MTBs</td>
<td>Market Treasury Bills</td>
</tr>
<tr>
<td>NATO</td>
<td>North Atlantic Treaty Organization</td>
</tr>
<tr>
<td>NDA</td>
<td>Net Domestic Asset</td>
</tr>
<tr>
<td>NFA</td>
<td>Net Foreign Asset</td>
</tr>
<tr>
<td>NFNE</td>
<td>Non-food, non-energy</td>
</tr>
<tr>
<td>NPLs</td>
<td>Non-performing Loans</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OGDCL</td>
<td>Oil and Gas Development Company Limited</td>
</tr>
<tr>
<td>OSS</td>
<td>One Stop Shop</td>
</tr>
<tr>
<td>PBS</td>
<td>Pakistan Bureau of Statistics</td>
</tr>
<tr>
<td>PIB</td>
<td>Pakistan Investment Bond</td>
</tr>
<tr>
<td>PKR</td>
<td>Pakistani Rupee</td>
</tr>
<tr>
<td>PSDP</td>
<td>Public Sector Development Programme</td>
</tr>
<tr>
<td>PSLM</td>
<td>Pakistan Social and Living Standards Measurement</td>
</tr>
<tr>
<td>Q1</td>
<td>First Quarter (of the fiscal year)</td>
</tr>
<tr>
<td>Q2</td>
<td>Second Quarter (of the fiscal year)</td>
</tr>
<tr>
<td>Q3</td>
<td>Third Quarter (of the fiscal year)</td>
</tr>
<tr>
<td>Q4</td>
<td>Fourth Quarter (of the fiscal year)</td>
</tr>
<tr>
<td>REER</td>
<td>Real Effective Exchange Rate</td>
</tr>
<tr>
<td>SBP</td>
<td>State Bank of Pakistan</td>
</tr>
<tr>
<td>SOEs</td>
<td>State Owned Enterprises</td>
</tr>
<tr>
<td>SROs</td>
<td>Statutory Regulatory Orders</td>
</tr>
<tr>
<td>UAE</td>
<td>United Arab Emirates</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
</tr>
<tr>
<td>US</td>
<td>United States</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollar</td>
</tr>
<tr>
<td>Y-o-Y</td>
<td>Year-on-Year</td>
</tr>
</tbody>
</table>
Executive Summary

The Pakistani economy faced four major domestic shocks: (i) a political sit-in by opposition parties in Islamabad that lasted between August and December and raised significant political uncertainty; (ii) the September floods in Punjab that affected agricultural crops; (iii) the postponed sale of Oil and Gas Development Company Limited (OGDCL) equity shares in November that reduced its expected privatization proceeds and foreign direct inflows (FDI); and (iv) the terrorist attack in a school in Peshawar that heightened security concerns. However, supported by a favorable slump in international oil prices, and steady implementation of structural reforms by the government, the economy is improving. Gross domestic product (GDP) growth is projected to pick up from 4.1 percent in FY14 to 4.3-4.6 percent this year, mainly driven by dynamic agriculture and service sectors on the supply side, and slightly better energy availability, continuous revival of credit and to a lesser extent, growing investor confidence on the demand side. Low oil prices have also had a marked disinflationary effect. Headline inflation rate, Year-on-Year (Y-o-Y), achieved a 13-year low last November at 4 percent and the average inflation rate for FY15 is now projected at around 5.5 percent. The fiscal deficit remains contained at around 5 percent of GDP, but slightly below target due to legal challenges and lower than expected revenue from taxes on oil imports. Improved tax collection, restricted current (especially power subsidies) and development expenditures, and small provincial surpluses account for sustained fiscal consolidation. And on the external front, strong remittances and oil prices also favor to keep the current account deficit modest at around 0.6 percent of GDP. The external position has markedly improved since monetary and exchange rate policies converged toward rebuilding reserves, which reached 2.5 months of next year’s imports last December. Coupled with decreasing public debt ratios, this result has allowed Pakistan to qualify again for International Bank for Reconstruction and Development (IBRD) financing. Performance under the International Monetary Fund (IMF) program remains on track, with the Sixth Review satisfactorily concluded on March 27th 2015. Although they are easing, domestic and external risks remain high.

Preliminary data for the first half of FY15 show growth picking up, driven mainly by strong performance in the agriculture and services sectors. Despite the floods last year, growth improved in the cotton, wheat, and rice crops. The services sector was boosted by transport, storage, communications, finance, and insurance. Arising from strong performance of pharmaceuticals, electronics, automobiles, iron and steel, growth of large-scale manufacturing was positive but below that of last year’s. The manufacturing sector continues to be constrained by gas shortages, the security situation and weak external demand of cotton yarn.

On the demand side, growth continues to be driven by private consumption partly fuelled by high remittance inflows. Credit to the private sector continued to grow, but slightly less rapidly than last year: as a percentage of GDP, it fell to 13.4 percent in January 2015 compared with 14.1 percent in January 2014. Credit growth to the manufacturing sector was the lowest among all sectors. Much of this outcome is inherited from the persistent crowding out of private-sector credit by government borrowing, which, for the first time, was kept below the quantitative ceiling agreed under the IMF’s Extended Fund Facility (EFF) program.
Pakistan is on track to meet a fiscal deficit target of 4.8 percent of GDP in FY15. The newly elected government appears to be committed to fiscal discipline and has made fiscal consolidation the cornerstone of its economic program supported by the IMF, the World Bank and other donors. Collection by the Federal Board of Revenue (FBR) is positive relative to last year but slightly below target, which has prompted two minor official revisions. Last February, the government approved a series of tax contingency measures equivalent to about 0.3 percent of GDP. On the expenditure side, energy-related budgeted subsidies keep being reduced with power tariff adjustments and surcharges, favored by the oil price windfall that has provided room for their adjustment with very little negative impact on the final tariff for consumers. However, the circular debt is re-emerging. And public investment—constrained by lack of fiscal space and the commitment to reduce the fiscal deficit—remains contained as well. Public debt is above the 60 percent of GDP allowed by the Fiscal Responsibility Law, but on a decreasing trend. As past large fiscal deficits were financed increasingly through domestic borrowing, such trend is reversing. Previously scarce access to external financing available to the government, has significantly improved in the first two quarters, which includes a placement of USD 1 billion in Sukuks in international markets under very favorable conditions last November.

Favored by cheap oil prices, the current account deficit remains small and on track to achieve about 1.2 percent of GDP by end-FY15. Gross official foreign exchange reserves reached about 2.5 months of imports at the end of December 2015 and should approach a minimum cushion of 3 months of next year’s import in the second half of FY15. This is due not only to successful bond placements and external aid, but to the fact that since the second quarter of FY15, the State Bank of Pakistan (SBP) has started to purchase dollars on the spot market, turning decisively toward rapid rebuilding the reserves to a minimum cushion level.

At present, Pakistan is facing three sources of risk: First is the prospect of an early reversal of the fall in oil prices. Second is the repeat of political events of the first half that keep FDI flows and private investment low; and also affects foreign reserves, privatization program and growth prospects. An uncertain political environment undermines investor confidence and depresses economic activity. Third is the continuation of a troubled domestic energy sector that continues to endure a long-due complex inheritance on its circular debt. Its accumulation might affect the magnitude of the fiscal deficit. In the meantime, markets seem to underplay such risks. Pakistan’s Emerging Markets Bonds Index Plus (EMBI+) risk spread keeps declining from the high levels shown at the start of the new administration. And confidence in the government’s program is bearing fruit, as the EMBI+ has almost halved from 1,011 basis points in March 2013 to around 525 basis points as of December 31, 2014. The government intends to benefit from it and reinvigorate the speed of its reform program in the current fiscal year.

Given past trends and the current growth rate, poverty is expected to continue to fall and shared prosperity to improve in this and the next fiscal year. However, a large mass of the population is clustered around the official poverty line, so that small improvements in household real consumption can translate into substantial movement in poverty in either direction. This makes the precise number in any year less informative than looking at the overall trend over time. The trend has shown a steadily declining level of poverty but the pace of decline is likely to be a good bit smaller than previously estimated due to a range of issues, principally those related
to prices and inflation. These are being reviewed for correction. The Government has recently decided to hold sixth population census which is a positive development given that the last population census took place in 1998.
Pakistan Development Update

Real Sector Developments

Economic growth continues to be supported by strong performance of agriculture and services sectors despite sluggish growth of manufacturing

Pakistan’s economic growth is showing signs of sustained recovery

Pakistan’s economic growth is showing gradual signs of recovery. Economic growth during FY15 is expected to be around 4.3-4.6 percent of GDP, marginally above 4.1 percent of GDP reached in FY14 but significantly better than 3.7 percent of GDP growth during FY13. Growth impetus in FY15 appears to come from agriculture (which accounts for one fifth of GDP) and services sector (which accounts for 60 percent of GDP) despite weaker than expected performance by manufacturing sector (almost 14 percent share of GDP). Growth would have been higher had it not been for difficult domestic environment that prevailed during the first half of FY15.2

Agriculture sector growth will be supported by a bumper wheat crop, resilient livestock sector and strong growth of minor crops despite weak performance of major kharif crops (cotton, rice, sugarcane). Kharif crops, accounting for almost one fourth of the agricultural value added, have already been harvested and preliminary estimates show weak results (Table 1). Cotton production remained below the targeted level while sugarcane production failed to reach last year’s production levels. The area under sugarcane declined as a result of a price dispute between cane growers and mill owners as well as stagnant prices last year.3 Cotton production was better than last year,4 but remained below the target of 15.1 million bales for the fiscal year. Low international prices translated into low domestic price and,5 as a result farmers did not wait for third and fourth cotton picking.

For the second consecutive year, preliminary estimates for production of wheat, the key rabi crop,6 predict a bumper crop of around 25.8 million tons. This prediction is based on sowing patterns across the country. This news is positive for overall growth of the agriculture sector as wheat contributes 13 percent of the total value added of the agricultural sector, and is cultivated over 37 percent of the country’s cropped area. A major policy incentive this year for the wheat crop has been the increase in the support price to PKR 1,300 per 40 kilograms from PKR 1,200 per 40 kilograms last year. Moreover, this year’s wheat crop is expected to benefit from moderate temperatures and timely availability of key inputs, including water and fertilizers.7 Minor crops are expected to grow close to their targeted growth of 4.5 percent due to improved water availability. Livestock, with the highest share in agriculture, is expected to meet the targeted growth of 3.8 percent.

---

1 Due to paucity of data on demand side, discussion on real sector developments focuses on the supply side.
2 First six months of FY15 have been marked by several domestic shocks. Firstly, floods hit the country, particularly central Punjab. Secondly, domestic political situation remained uncertain as a result of protest rallies and sit-in by one of the opposition parties.
3 The government announced the sugarcane support price at PKR 182 per 40 kilograms. This price did not satisfy either the growers or millers. Growers believe they are unable to breakeven at a price below PKR 200 per 40 kilograms while millers complained of maintaining high inventories (as a result of bumper crop last year) and regulatory hurdles.
4 The cotton arrivals were higher by 12.1 percent in Punjab and 5.3 percent in Sindh compared to last year.
5 Chinese government’s policy to stockpile cotton reserves has created a surplus of around 11 million bales in the international market, leading to downward pressure on prices.
6 Rabi season: October to March
7 Punjab has two irrigation zones namely Jhelum-Chenab Zone and Indus Zone. Water availability for the rabi season (October-December 2014) remained 7 percent above same time last year. Irrigation water supply in Jhelum-Chenab zone and Indus zone was 2.6 percent and 15.8 percent higher than last year respectively. In Sindh, irrigation water supply was also up by 4.4 percent.
Table 1: Performance of Major Crops

| Production in millions of tons | FY13 | FY14 | FY15† | FY15‡ | FY15‡/FY14 | FY15‡/FY15†%
|-------------------------------|------|------|-------|-------|-----------|----------------|
| Cotton*                       | 13.0 | 12.8 | 15.1  | 13.5 | 5.7       | -10.6
| Sugarcane                     | 62.5 | 66.5 | 65.5  | 63.9 | -3.9      | -2.4
| Rice                          | 5.5  | 6.8  | 6.8   | 6.9  | 1.5       | 1.4
| Wheat                         | 24.2 | 25.3 | 25.8  | 26.0 | 2.8       | 0.8

T: Target, P: Provisional
*Millions of bales


Large-scale Manufacturing sector continues to exhibit weak performance

Growth in the large-scale manufacturing (LSM) continues to remain constrained by numerous factors such as domestic security situation, gas shortages, and continued weakening of demand of cotton yarn export.\(^8\) During the first half of FY15 (H1-FY15), LSM\(^9\) exhibited a growth rate of only 2.7 percent, compared to 6.6 percent growth achieved in the same period last year (Figure 1). A closer look reveals that almost 40 percent of sectors with 50 percent share in LSM exhibited single or double digit contraction. This included agro-based industries (sugar, edible oil, and fertilizers).\(^10\) Growth in other key sectors (with 20 percent share in LSM) including textiles, coke and petroleum products, rubber, and paper and board appears to be tapering off. Only select sectors such as pharmaceuticals,\(^11\) electronics, automobiles, iron and steel products,\(^12\) registered strong growth but not enough to maintain resilience of LSM sector at the same level as last year.

Services sector is boosted by road transport and telecom industry as well as by recovering profits of scheduled banks

Performance of the services sector, which contributes to around 60 percent of domestic output, is expected to remain strong.\(^13\) This is on account of the transport, storage, communication, finance and insurance and general government services sub-sectors (with almost 40 percent share in services).\(^14\)

Transport, storage and communication: Within this category “road transport” enjoys the largest share (70 percent share), followed by “communication” (22 percent share). Growth in “road transport” during H1-FY15 proxied by sale of commercial vehicles remained strong while in “communication” category 3G/4G

\(^8\)On demand side, cotton exports remained low as a result of China’s supply policies while gas shortages proved to be a severe constraint for textile mills on the supply side.

\(^9\) LSM (with a share of 52 percent in the overall industry) is integral for the industrial growth of Pakistan.

\(^10\)As a result of base effect as well as reduced gas supply to industries such as paper, glass, leather, and fertilizers.

\(^11\)This industry is heavily dependent on imported raw material and benefited from strengthening of local currency.

\(^12\)Steel demand rose as a result of number of mega construction projects including Rawalpindi-Islamabad Metro bus, construction at Port Qasim, and Multan-Faisalabad motorway.

\(^13\)Despite its growing share, timely availability of detailed and reliable information on this sector poses a major constraint in meaningful analysis. Currently, Pakistan Bureau of Statistics (PBS) releases information only on annual basis.

\(^14\)General government includes federal, provincial and district governments; local bodies; cantonment boards; and social security funds.
licenses auction last year will continue to have a positive impact on revenues thus creating positive momentum for value addition from this sub-sector.

**Finance & insurance:** Recent available information suggests that scheduled banks recorded a recovery in their profitability on account of higher investment in government papers (see Box-1: *Banks still remain the prime lender to the government*) and an expansion in their deposit base.\(^{15}\) Moreover, commercial banks benefited from the slowdown in the incremental stock of nonperforming loans. Strong growth in SBP’s profits will also support the value addition in this sub-sector.

**Wholesale and retail trade:** This category, the largest within services, captures the value of margins on commercial trading activities. A closer look reveals decreased trading activity for manufactured goods (reflecting large-scale manufacturing’s sluggish performance) and decreased trading in agriculture products (following the losses in cotton and sugarcane crops). Still, services sector growth is projected to be better than last year and close to the targeted level.

**Monetary Aggregates and Inflation**

<table>
<thead>
<tr>
<th>Box-1: Banks are still the prime lenders to the government</th>
</tr>
</thead>
<tbody>
<tr>
<td>During the H1-FY15, banks held 70 percent of the outstanding Pakistan Investment Bonds (PIBs) as opposed to a 54 percent share in July-December 2014. The buildup of long-term assets on the banking sector’s financial statements against the short-term nature of their liabilities (bank deposits) point to a maturity risk underlying the domestic banking industry. However, encouragingly, PIBs holding by the non-banks have increased significantly, by about 80 percent during July-December 2014 as compared to the same period last year, in terms of volume.</td>
</tr>
</tbody>
</table>

\(^{15}\)According to SBP’s Monetary Policy Statement for January 2015, financial analysis of the banking sector as of Q1-FY15, reveals that the sector remains profitable, capital adequacy is above minimum regulatory requirements, and there is sizeable growth in investments and advances as compared to Q1-FY14.
Monetary expansion remained sluggish despite better external inflows

Credit to private sector continues to slow down as a result of multiple factors including unprecedented government borrowing from scheduled banks

Broad money (M2) growth remained sluggish in H1-FY15 as a result of reduced government borrowing from the SBP. The year-on-year growth of broad money was 12 percent on February 27th 2015; 1.6 percentage points lower than that in the same period previous year. While the external inflows helped in boosting Net Foreign Assets (NFA), Net Domestic Assets (NDA) decelerated (Table 2) mainly due to lower private sector credit off-take.

Credit to private sector grew less rapidly in the first half of FY15 compared to the same period of last year. The banking sector extended PKR 224.5 billion more in total credit to private sector in the first half of the year. However, this amount was lower than the credit growth recorded in the same period previous year (i.e. PKR 325.8 billion). One of the major reasons for this has been increased demand for bank financing from the government. During the first eight months of the current fiscal year, borrowing from the banking sector stood at almost PKR 1 trillion as compared to only PKR 292 billion in the same period in the previous year. As a result of this shift, government has been able to retire PKR 570 billion to the central bank during this period compared to PKR 186 billion borrowed in the same period last year. This general trend in government borrowing shift towards scheduled banks, is expected to continue in the coming months owing to SBP (Amendment) Act 2012, under which the government has to bring net borrowing from the SBP down to zero at the end of each quarter. Other factors such as challenging security situation, falling commodity prices, and continued energy/gas shortages for the industry also led to slowdown in credit growth.

<table>
<thead>
<tr>
<th>Table 2: Selected monetary indicators</th>
<th>Feb 28th 2014</th>
<th>Feb 27th 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net foreign assets</td>
<td>-57.3</td>
<td>23.71</td>
</tr>
<tr>
<td>Net domestic assets</td>
<td>6.8</td>
<td>2.8</td>
</tr>
<tr>
<td>o/w: Government borrowings</td>
<td>8.4</td>
<td>-4.2</td>
</tr>
<tr>
<td>o/w: Private sector borrowings</td>
<td>4.9</td>
<td>1.0</td>
</tr>
<tr>
<td>M2</td>
<td>5.0</td>
<td>4.0</td>
</tr>
<tr>
<td>M2 to GDP ratio</td>
<td>34.9</td>
<td>35.5</td>
</tr>
<tr>
<td>Private sector credit to GDP ratio</td>
<td>13.2</td>
<td>13.3</td>
</tr>
</tbody>
</table>

*Source: Monetary Policy Information Compendium, SBP, Jan 2015*

16Credit growth to manufacturing sector, particularly to the textiles industry, was the lowest.
Inflationary pressures have considerably reduced owing to falling global commodity prices, especially oil, and a combination of better supply side factors

The SBP lowered the policy rate (called SBP reverse repo rate) from 10 percent to 9.5 percent on November 17th 2014 and further to 8.5 percent on January 26th 2015 and then another 50 basis point cut to 8 percent on March 24th 2015. Real weighted average lending rates remained positive since December 2013. The Karachi Interbank Offer Rate (KIBOR) remained marginally above policy rate and only fell below the discount rate in the last two months under analysis – January and February 2015.

Subdued inflationary expectations were the main driving force behind the sharp policy rate cut by the central bank (≈ 200 basis points) in a period of only five months. These expectations were led by food, non-food factors (including falling oil prices that have a second round effect for example, on transport services), lagged impact of previous conservative policy rate and moderating aggregate demand. The Institute of Business Administration-State Bank of Pakistan (IBA-SBP) Consumer Confidence Survey of January 2015 also proposed passive inflation, an idea supported by the inclination of banks towards long-term government securities. Overall inflationary pressures eased in FY14 and the trend of single-digit Y-o-Y Consumer Price Index (CPI) continued well into H1-FY15 and beyond, despite witnessing some volatility in Y-o-Y headline inflation (Figure 2). The average headline inflation in Q1-FY15 was recorded at 7.5 percent, markedly lower compared to previous quarter’s figure of 8.6 percent. In Q2-FY15, average headline inflation stood at 4.7 percent, a fall of almost 52 percent from corresponding quarter of FY14 (Table 3). At the end of February 2015, CPI inflation recorded a further shrinkage to 3.2 percent as compared to 3.9 percent in January 2015 and 7.9 percent in February 2014. A number of broad-based domestic and international factors are responsible for this downward trend in inflation in FY15 so far.

Less than expected severity of floods in Punjab, timely imports of certain food items like fresh vegetables, depressed exports of rice and improved supply management of onion and tomato crops all contributed to low food inflation. Food inflation (Y-o-Y) fell from 6.6 percent in Q1-FY15 to 3.6 percent in Q2-FY15, a reduction of 45 percent and further declined to 2.1 percent in February 2015. The weighted contribution of Food group towards Y-o-Y inflation fell dramatically as well in Q2-FY15 by almost 40 percent specifically in November 2014 (Figure 3) attributable to the above mentioned factors.
Lowering oil prices led to lower transportation cost

The government considerably cut retail oil prices in Q2-FY15, inducing a negative contribution of transport group to Y-o-Y inflation in this quarter and extending well into January 2015 (Figure 3).

An upward move was owed to increases in electricity tariffs on different consumption slabs,\(^6\) and a revision of federal excise duties on cigarettes,\(^7\) which pushed up the retail price of this commodity.\(^8\) However, these rising price pressures were more than offset by domestic food and international crude oil factors as a result of which Q2-FY15 witnessed a 13-year low CPI inflation of 4.0 percent in November 2014,\(^9\) and food, non-food and core (NFNE) inflation fell by 46 percent, 33 percent and 11 percent respectively from Q1-FY15 (Table 3).

The prime reason for decline in core NFNE inflation was a drop in the price index of transport services of 2.0 percent from Q1-FY15 to Q2-FY15 and a further fall of 7.8 percent from Q2-FY15 to February 2015.\(^{10}\) Core trimmed inflation also exhibited a downward trend, registering at 7.3 percent in Q1-FY15, 5.5 percent in Q2-FY15 and 4.2 percent in February 2015.

There were some upward pressures on inflation but not enough to offset the decline coming from food and lower transportation cost

Source: State Bank of Pakistan

![Figure 3: Weighted Contribution to CPI](image)

**Table 3: Quarterly Averages of Y-o-Y Inflation (percent)**

<table>
<thead>
<tr>
<th></th>
<th>General % change*</th>
<th>Food % change*</th>
<th>Non-Food % change*</th>
<th>NFNE % change*</th>
<th>Trimmed % change*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FY2014</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td>8.1</td>
<td>-</td>
<td>9.1</td>
<td>-</td>
<td>7.8</td>
</tr>
<tr>
<td>Q2</td>
<td>9.7</td>
<td>19.8</td>
<td>10.7</td>
<td>17.6</td>
<td>9.0</td>
</tr>
<tr>
<td>Feb</td>
<td>7.9</td>
<td>-</td>
<td>7.6</td>
<td>-</td>
<td>8.2</td>
</tr>
<tr>
<td>Q3</td>
<td>8.1</td>
<td>-20.2</td>
<td>8.0</td>
<td>-25.2</td>
<td>8.2</td>
</tr>
<tr>
<td>Q4</td>
<td>8.6</td>
<td>6.2</td>
<td>8.2</td>
<td>2.5</td>
<td>8.9</td>
</tr>
<tr>
<td><strong>FY2015</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td>7.5</td>
<td>-12.8</td>
<td>6.6</td>
<td>-19.5</td>
<td>8.2</td>
</tr>
<tr>
<td>Q2</td>
<td>4.7</td>
<td>-37.3</td>
<td>3.6</td>
<td>-45.5</td>
<td>5.5</td>
</tr>
<tr>
<td>Jan</td>
<td>3.9</td>
<td>-</td>
<td>3.0</td>
<td>-</td>
<td>4.5</td>
</tr>
<tr>
<td>Feb</td>
<td>3.2</td>
<td>-2.1</td>
<td>2.1</td>
<td>-</td>
<td>4.0</td>
</tr>
</tbody>
</table>

\(^*\)Percent change from previous quarter.

Source: State Bank of Pakistan and Pakistan Bureau of Statistics

---

\(^6\)Price index of electricity increased by almost 16 percent in October 2013 and almost 2 percent in November 2014 (Source: SBP First Quarterly Report FY15 and Inflation Monitor January 2015).

\(^7\)An increase of 13.5-27.6 percent for different brands (Source: SBP First Quarterly Report FY15).

\(^8\)During Q1-FY15, this commodity contributed 0.4 percentage points to overall CPI inflation (Source: SBP First Quarterly Report). The weight assigned to this commodity is 1.39 but its weighted contribution in January 2015 was 8.6 percent with a Y-o-Y change of 16.2 percent in January 2014 and 20.4 percent in January 2015 (Source: PBS and SBP).

\(^9\)Last record low inflation was documented in FY03 (Source: Pakistan Economic Survey 2006).

Fiscal Policy and Public Debt

Containment of fiscal deficit is encouraging but much more needs to be done during the remainder of the year. Continued consolidation effort has put public debt to GDP ratio firmly on a downward trajectory.

Pakistan’s fiscal position has undergone significant consolidation over the last two years. Two factors explain this apparent departure from the past. First, the newly elected government appears to be committed to fiscal discipline. Second, the government prepared an economic reform program with fiscal consolidation as its cornerstone supported by the IMF.

In the first half, the consolidated fiscal deficit increased slightly to 2.2 percent of GDP compared to 2.1 percent over the same period last year (Table 4). Total expenditures registered a growth of 4.8 percent, just below 5 percent growth in total revenues allowing deficit to be contained. However, primary balance which remained in surplus (0.2 percent of GDP) in the first quarter turned to a deficit of 0.3 percent during H1-FY15, reflecting underlying pressures such as increased defense expenditures, weak revenue mobilization, and higher development spending.

Table 4: Summary of Pakistan Fiscal Operations (First Half)

<table>
<thead>
<tr>
<th>Billions of PKR unless mentioned otherwise</th>
<th>Growth (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY15*</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>4,248</td>
</tr>
<tr>
<td>Tax Revenue</td>
<td>3,361</td>
</tr>
<tr>
<td>Federal</td>
<td>3,129</td>
</tr>
<tr>
<td>Provincial</td>
<td>232</td>
</tr>
<tr>
<td>Non-Tax</td>
<td>887</td>
</tr>
<tr>
<td>Federal</td>
<td>803</td>
</tr>
<tr>
<td>Provincial</td>
<td>84</td>
</tr>
<tr>
<td>Expenditures</td>
<td>5,681</td>
</tr>
<tr>
<td>Current of which:</td>
<td>4,339</td>
</tr>
<tr>
<td>Interest</td>
<td>1,325</td>
</tr>
<tr>
<td>Subsidy</td>
<td>203</td>
</tr>
<tr>
<td>Defense</td>
<td>700</td>
</tr>
<tr>
<td>Development Expenditure</td>
<td>1,342</td>
</tr>
<tr>
<td>Net lending</td>
<td>5</td>
</tr>
<tr>
<td>Statistical Discrepancy</td>
<td>87</td>
</tr>
<tr>
<td>Fiscal Balance (excl. grants)</td>
<td>-1,432</td>
</tr>
<tr>
<td>% of GDP</td>
<td>-4.9</td>
</tr>
</tbody>
</table>

Memorandum items:

| GDP (nominal)                              | 29,078           | 22,489  | 25,402  | 29,078  |

*Budgeted whole year
Source: Pakistan Fiscal Operations, Ministry of Finance.

FBR tax collection continues to be a major challenge

FBR revenue collection (with the major share in total tax collection) continues to experience shortfall—resultantly revenue target has been revised downward several times. At the time of budget, target was set at PKR 2,810 billion envisaging 24 percent growth in its tax collection over last year. However, floods and major political turbulence (as discussed earlier) during the first half of the fiscal year created significant headwinds and FBR’s tax collection during H1-FY15 grew only by 13.6 percent leading to a downward initial revision of the target by almost PKR

---

On June 15th, the Government of Pakistan launched operation “Zarb-e-Azb,” a full-fledged military operation in North Waziristan.

FBR revenue collection has almost 85 percent share in total tax collection of the consolidated government.
55 billion (requiring 22 percent growth). Government remained cognizant of weak performance and took several mid-year course correction measures including increase in the General Sales Tax (GST) rate on petroleum products, and imposition of regulatory duty on several items. The overall impact of these two measures is projected to be around 0.3 percent of GDP. This anticipated gain however may be eroded as a result of two tax measures introduced at the time of the budget which presently stand challenged in the court of law. Consequently, FBR’s target was revised downward to PKR 2,691 billion, requiring 19 percent growth over last year. At present, meeting this revised target appears challenging.

Table 5: FBR Tax Collection

<table>
<thead>
<tr>
<th>Billions of PKR unless mentioned otherwise</th>
<th>Growth (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FY15</strong></td>
<td><strong>H1-FY13</strong></td>
</tr>
<tr>
<td>Direct</td>
<td>1,149</td>
</tr>
<tr>
<td>Indirect</td>
<td>1,661</td>
</tr>
<tr>
<td>Customs</td>
<td>284</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>1,206</td>
</tr>
<tr>
<td>Federal Excises</td>
<td>171</td>
</tr>
<tr>
<td>Total Taxes</td>
<td>4,471</td>
</tr>
</tbody>
</table>

*Budgeted
Source: Federal Board of Revenue

Non-tax revenues during H1-FY15 stood at PKR 388 billion compared to PKR 493 billion during the same period last year (Table 6). Some support came on account of dividends from OGDCL (PKR 24 billion), Pakistan Petroleum Limited (PKR 10 billion) and Pakistan Arab Refinery Limited (PKR 4.5 billion) and the Coalition Support Fund (CSF, PKR 75 billion). Collections last year, however, were abnormally high, due to one-off inflows (i.e., universal service fund) and the mark-up received from state owned enterprises (SOEs) against the circular debt settlement.

Current expenditures of the federal government have risen by 5 percent. Recurrent spending appears to be high compared to last year as a result of additional defense related expenditures and federal grants to SOEs. Domestic interest payments during H1-FY15 declined by almost 6 percent compared to last year, despite registering a growth of 31 percent during Q1-FY15. This decline in interest payments remains surprising because the maturity profile of domestic debt has been shifting towards costlier long-term government bonds. Additional fiscal space was created as subsidies registered a decline for the third consecutive year— from 0.7 percent of GDP in H1-FY14 to 0.4 percent of GDP during H1-FY15.

---

24FBR’s revised target was initially set at PKR 2,756 billion (see IMF Country Report 14/357: December 2014)
25Effective January 1, 2015, GST on import and supply of petroleum products has been increased to 22 percent. The additional 5 percent tax will be charged on petroleum products including high-octane blended component (HOBC), motor spirit, kerosene oil, light diesel oil and high speed diesel oil.
26The Federal Board of Revenue has imposed regulatory duty of 10 percent on almost 314 items.
27These measures include 5 percent income tax on bonus shares and Gas Infrastructure Development Cess (GIDC). Revenue impact from the former is around PKR 12 billion while from the latter is PKR 18 billion.
28On February 28, in a bid to maintain oil prices following an upward revision in price of petroleum products in the international market, the government reduced tax rates on four oil products—petrol, light diesel, kerosene, and HOBC from 27 percent to 18 percent. However, sales tax rate on high speed diesel was increased to an unprecedented 37 percent.
29CSF is reimbursement for logistic support provided by Pakistan to North Atlantic Treaty Organization (NATO) troops in Afghanistan.
30This is mainly on account of monies from Universal Access Fund of the Telecommunication Ministry which were brought into the budget as non-tax revenue.
31This head includes the federal grant to Pakistan Railways (PKR 18 billion), Pakistan Bait-ul-Mal (PKR 1.0 billion), contingent liabilities (PKR 58 billion), outstanding liabilities (PKR 25 billion), and misc. items (PKR 39 billion).
Development spending of the consolidated government registered a marginal increase of 1.5 percent compared to last year. This almost static growth was surprising, given that the provincial Public Sector Development Programme (PSDP) grew by almost 53 percent compared to last year. Thus, it appears decline in net lending and stagnant growth in federal PSDP spending almost offset the increase in provincial development.\(^3\) At the current spending rate, reaching the budgeted target of PKR 525 billion for federal PSDP appears challenging.

During H1-FY15 the provincial combined surplus stood at PKR 143 billion or 0.5 percent of GDP, in line with the historical trend. Provincial PSDP spending however typically picks up during the third and final quarters of the fiscal year. Moreover, provincial tax revenue collection during the first half of the year remained dismal, showing a decline of almost 30 percent. These two factors during the remaining half of fiscal year make further increase in provincial surpluses unlikely.

During H2-FY15 much more effort is required if the government is to meet the budget deficit target of 4.9 percent of GDP for FY15. Lowering recurrent spending further may not be possible as a result of increased security related spending and higher interest payments on domestic debt due to change in domestic debt profile. Lackluster FBR revenue collection during H2-FY15 needs to shift gears if consolidation effort is to remain on track (see Annex III). Moreover, government needs to ensure provinces continue to support the consolidation effort and the present trend continues during H2-FY15.

---

\(^3\)The apparent fall in overall development expenditure is an outcome of accounting protocols which include all lending (net of repayments) of the federal government to SOEs as development expenditure.

---

Table 6: Non-Tax Revenues

<table>
<thead>
<tr>
<th></th>
<th>Billions of PKR unless mentioned otherwise</th>
<th>Growth (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>H1-FY14</td>
<td>H1-FY15</td>
</tr>
<tr>
<td>Interest (PSEs &amp; Others)</td>
<td>58</td>
<td>4</td>
</tr>
<tr>
<td>Dividends</td>
<td>28</td>
<td>40</td>
</tr>
<tr>
<td>SBP Profits</td>
<td>145</td>
<td>138</td>
</tr>
<tr>
<td>Defense</td>
<td>38</td>
<td>80</td>
</tr>
<tr>
<td>Passport Fee</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Development Surcharges on Natural Gas</td>
<td>29</td>
<td>0</td>
</tr>
<tr>
<td>Discount retained on local crude price</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Royalties on Oil/Gas</td>
<td>37</td>
<td>41</td>
</tr>
<tr>
<td>Others</td>
<td>117</td>
<td>49</td>
</tr>
<tr>
<td>Provincial</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>493</td>
<td>388</td>
</tr>
</tbody>
</table>

Source: Pakistan Fiscal Operations, Ministry of Finance
As of end-December 2014, total public debt stood at 60.3 percent of GDP, 1 percentage point lower than that of December 31, 2013 (Figure 4). When compared to end-June 2013 levels, this decline appears more vivid, by almost 450 basis points (bps). More phenomenal is the decline in the foreign currency component of public debt that ended in H1-FY15, at 18.9 percent of GDP, compared to 20.6 percent last December, despite healthy external debt-creating inflows. 33 Domestic debt increased and was at 41.4 percent of GDP as of December 31, 2014. Moreover, the maturity profile of domestic debt has considerably improved.

Market expectations of a cut in the policy rate rendered Market Treasury Bills (MTBs) unattractive during the H1-FY15. High term premiums on PIBs allowed overwhelming interest by the participants. 34 As a result, the government increasingly accepted more than

---

33This improvement is explained by reasonably appreciating Pakistani Rupee against US Dollar in the H1-FY15 (5 percent, Y-o-Y) as well as moderate economic growth.

34Term premium is the amount by which the yield of a long-term coupon bond (in the case of Pakistan, PIB) exceeds that of a short-term zero-coupon bond (MTB).
the targeted amounts in primary auctions,\(^{35}\) leading to elevated yields on PIBs.\(^{36}\) Moreover, half of the issuance in the domestic capital market is in 3-year PIBs.\(^{37}\)

While this re-profiling has helped the government shift away from issuing a bulk of short-term maturities and retire its stock of central bank borrowings,\(^{38}\) the debt servicing cost on permanent debt has almost doubled in just a year (Table 8).\(^{39,40}\)

Particularly, interest paid on PIBs constituted 34 percent of domestic debt service in July-December 2014 from a 14 percent share in July-December 2013 interest payments. Going forward, in order to curtail the fiscal burden as well as alleviate pressures on liquidity management, the government needs to adhere to its pre-auction targets.

### Table 8: Interest Payments on Government Domestic Debt

<table>
<thead>
<tr>
<th></th>
<th>FY13</th>
<th>FY14</th>
<th>H1-FY13</th>
<th>H1-FY14</th>
<th>H1-FY15</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Permanent Debt (&gt; 1 year)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Govt. Ijarah Sukus</td>
<td>42.8</td>
<td>37.3</td>
<td>22.9</td>
<td>20.0</td>
<td>15.7</td>
</tr>
<tr>
<td>Pakistan Investment Bonds (PIBs)</td>
<td>117.8</td>
<td>153.6</td>
<td>55.7</td>
<td>73.5</td>
<td>183.6</td>
</tr>
<tr>
<td>Prize Bonds</td>
<td>32.6</td>
<td>37.6</td>
<td>14.5</td>
<td>17.9</td>
<td>20.0</td>
</tr>
<tr>
<td><strong>B. Floating Debt (≤ 1 year)</strong></td>
<td>477.7</td>
<td>561.9</td>
<td>293.6</td>
<td>300.5</td>
<td>193.8</td>
</tr>
<tr>
<td>Market Treasury Bills (MTBs)</td>
<td>303.0</td>
<td>343.6</td>
<td>196.1</td>
<td>194.1</td>
<td>54.2</td>
</tr>
<tr>
<td>Market Related Treasury Bills (MRTBs)*</td>
<td>174.7</td>
<td>218.2</td>
<td>97.6</td>
<td>106.4</td>
<td>139.5</td>
</tr>
<tr>
<td><strong>C. Unfunded Debt (National Saving Schemes)</strong></td>
<td>236.2</td>
<td>252.3</td>
<td>121.0</td>
<td>112.4</td>
<td>121.3</td>
</tr>
<tr>
<td><strong>Total (A+B+C)</strong></td>
<td>907.2</td>
<td>1,042.8</td>
<td>507.8</td>
<td>524.3</td>
<td>534.4</td>
</tr>
</tbody>
</table>

*Since FY13, actual MRTBs interest payments are used. Previously it was on accrual basis.

Source: State Bank of Pakistan

---

\(^{35}\)Against an aggregate target of PKR 450 billion for H1-FY15 in PIB, the government accepted PKR 642 billion that constituted 54 percent of the offered amount.

\(^{36}\)The cut-off yield on 3-year PIBs stood at 10.6 percent, 112 bps above the 6-month Treasury bill cut-off as of end-December 2014. Secondary market yield (Pakistan Revaluation rate) for the 3-year paper was at 10.06 percent. Nevertheless, these have come down since the latest monetary policy decision.

\(^{37}\)No auction was held for Ijarah Sukaks during the first half of FY15, leaving a potential segment of market-Islamic banks-untapped (see Annex IV).

\(^{38}\)Evidenced by a 26 percent increase in interest payments on Market Related Treasury Bills (MRTBs) during July-December 2014.

\(^{39}\)Medium-to long term category of domestic debt and primarily includes Prize Bonds, PIBs and Ijarah Sukaks.

\(^{40}\)At the end of December 2014 (H1-FY15), the interest payments on permanent debt rose to PKR 219 billion from a payment of PKR 111 billion at the end of December 2013 (H1-FY14).
External Sector

*External position improved, despite widening of trade deficit, on the back of robust remittance inflow, successful completion of fourth and fifth IMF review, and issuance of Sukus in international market*

Despite a mildly higher current account deficit of USD 2.2 billion (0.8 percent of GDP), Pakistan’s overall external balance turns out positive USD 0.49 billion in H1-FY15 from a deficit of USD 1.9 billion in H1-FY14 (Table 9). This was due to resilient growth in workers’ remittances which offset a chronically negative trade balance, sustained decline in international prices, improved inflows in terms of CSF from USA for military assistance, an increase in the capital and financial account supported by receipts from the issuance of Sukuk bonds (see Annex IV). In addition, the successful continuation of the IMF’s EFF program further strengthened the market expectations as well as the reserve position, which reached at USD 10.6 billion at end December 2014 compared with USD 9.2 billion at June 30, 2014. Pak rupee also remained relatively stable in nominal terms during H1-FY15.

### Table 9: Balance of Payment Summary

<table>
<thead>
<tr>
<th>Bills of USD</th>
<th>H1-FY14</th>
<th>H1-FY15</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Current account (A+B+C+D)</td>
<td>-2</td>
<td>-2.21</td>
</tr>
<tr>
<td>A. Trade balance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export</td>
<td>12.46</td>
<td>12.19</td>
</tr>
<tr>
<td>Import</td>
<td>21.16</td>
<td>21.99</td>
</tr>
<tr>
<td>B. Services net</td>
<td>-1.45</td>
<td>-1.14</td>
</tr>
<tr>
<td>of which: CSF</td>
<td>0.32</td>
<td>0.74</td>
</tr>
<tr>
<td>C. Income net</td>
<td>-2.0</td>
<td>-2.31</td>
</tr>
<tr>
<td>D. Current transfers net</td>
<td>10.15</td>
<td>11.04</td>
</tr>
<tr>
<td>of which Remittances</td>
<td>7.79</td>
<td>8.98</td>
</tr>
<tr>
<td>ii. Capital and Financial A/c</td>
<td>0.41</td>
<td>2.57</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct investment</td>
<td>0.38</td>
<td>0.48</td>
</tr>
<tr>
<td>Portfolio investment</td>
<td>0.10</td>
<td>1.18</td>
</tr>
<tr>
<td>Other Investment Assets</td>
<td>0.06</td>
<td>0.23</td>
</tr>
<tr>
<td>Other Investment Liabilities</td>
<td>-0.30</td>
<td>0.57</td>
</tr>
<tr>
<td>iii. Errors and omissions</td>
<td>-0.30</td>
<td>0.13</td>
</tr>
<tr>
<td>Overall balance</td>
<td>-1.90</td>
<td>0.49</td>
</tr>
<tr>
<td>SBP reserves (excl. Cash Reserve Requirements, sinking fund)</td>
<td>3.63</td>
<td>10.59</td>
</tr>
</tbody>
</table>

**Memorandum Items**

| Current A/c Balance (% of GDP) | -0.81 | -0.80 |
| Trade Account (% of GDP)       | -3.51 | -3.56 |
| Financial & Capital A/c (% of GDP) | 0.16 | 0.93 |
| Export growth %                | 2.60  | -2.15  |
| Import growth %                | 5.30  | 3.10   |
| Remittance growth %            | 9.50  | 15.3   |

*Source: State Bank of Pakistan*
The slowing global economy and decline in international prices hit the major chunk of total exports. The negative exports growth was mainly driven by declining exports of textile, food items (wheat and tobacco), petroleum (Naptha, petroleum products), chemicals and pharmaceuticals. These declines reflected the impact of the domestic energy crisis as well as drop in international prices. Decline in cotton prices in international markets and saturation of the textile input market in China, and weaker activity in Bangladesh’s garment industry, were mainly responsible for low exports of textile raw material, which contributed 0.43 percent in overall decline in exports earning. This decline in textile exports is particularly challenging when the European Union has granted Generalized System of Preferences plus (GSP plus) to Pakistan and continued to be the largest markets for Pakistan’s exports. Although Pakistan exported larger quantity of rice during H1-FY15, a substantial drop in the international price of rice has resulted in neutralizing any positive impact on value of rice exports.

Imports witnessed significant growth on the back of higher demand of food items (wheat, milk products, spices, pulses, etc), machinery (particularly power generation and electrical machinery), chemicals, transport, and industrial raw material, fertilizers, iron, steel, textiles (synthetic fiber and artificial silk yarn), paper, and rubber products etc. The higher value of imports is basically because of higher quantity imported (Figure 6). In contrast, with increased demand of petroleum products the drop in international oil price was mildly reflected in import bill of petroleum, contained by around USD 753 million. Hence, with sharp 51 percent fall in international oil prices – lowest in last six years during H1-FY15 – the biggest chunk in Pakistan’s import bill has become less of a concern and likely to shrink in remaining of FY15 (see Annex 1).

---

41 Textile contributed 57 percent in total exports, showed negative growth of 0.8 percent in H1-FY15 against a positive growth of 7.8 percent in comparable period last year (Figure 5).

42 Pakistani exports to EU mainly comprise textile and clothing, accounting for 75 percent of total exports to EU.

43 The petroleum import bill was USD 6.8 percent in H1-FY15 mildly below USD 7.5 billion in comparable period last year, which could be higher without favorable price effect.
During H1-FY15, current transfers stood at USD 10.9 billion against USD 10 billion in the comparable period of last year on the back of impressive growth by 15.3 percent in workers’ remittances, against 9.3 percent in comparable period of last year. Country wise data show that remittances from all major countries increased, except from the EU countries, which contributed only 2 percent in total remittance and thus had a negligible impact on overall volume and growth of remittances. The share of Saudi Arabia in overall remittances was the largest (29 percent); with the United Arab Emirates (21 percent), the United States (14 percent) and United Kingdom (13 percent) together contributing 79 percent in total remittances. Member countries of the Gulf Cooperation Council (GCC) contributed about 11 percent. However, because the oil exporting countries represent 61 percent of total remittances, the recent decline in the price of oil will likely have a negative impact on the growth in remittances.

After the continuous slack performance since FY11, the capital and financial account registered sizable net inflows of 1 percent of GDP in H1-FY15 (Figure 7). This is mainly supported by sizeable growth in portfolio investment after successful issuance of Sukuk bond worth USD 1.0 billion in the international bond market to augment foreign exchange reserves. It was further strengthened by the successful completion of fourth and fifth review of the IMF’s EFF which guaranteed some of multilateral debt inflows. However, foreign direct investment was around USD 488 million in H1-FY15, which is low by any standard thus putting a serious constraint on the country’s future productive capacity together with low domestic investment (see Annex II).

Overall, official reserves increased to USD 10.6 billion by end December, 2014 compared to USD 9.2 billion at end of FY14. Import coverage of reserves has improved recently to 2.6 months of import of goods and services by end-February, 2015.

---

44The significant growth can be largely explained by the initiative of channelizing international remittances through banks and other money transfer service under Pakistan Remittance Initiative.

45Growth rate turned negative in H1-FY15 from 15 percent in H1-FY14.

46Remittances from Saudi Arabia, UAE, USA and UK grew by 20 percent, 26 percent, 5 percent and 3 percent respectively in H1-FY15.

47The expected decline in remittance may reduce the overall welfare by hitting income levels of individuals. Nevertheless, it may somewhat be offset by decreased cost of transports and travelling as percent share of transport and travel expenses in total expenditure is increasing overtime (HIES 2012) – which translates into an increase in their real income.

48Against the budgeted amount of USD 500 million, government has raised USD 1.0 billion through the issuance of 5-year dollar denominated Sukuk bonds at a profit rate 6.75 percent. There were total offers of USD 2.3 billion.
Until October 2014, the Pakistani rupee remained under stress and depreciated sharply, by 4.2 percent, due to political uncertainty, non-completion of the fourth review under the IMF’s EFF during mid-August 2014, and unsuccessful bid to issue OGDCL Global Depository Receipts in the international market by the end of November 2014. However, positive inflows in the foreign exchange market started emerging in the beginning of November 2014 with the receipt of USD 1.0 billion from the issuance of Sukuk bond, USD 735 million under CSF and continuation of the IMF program. In addition, falling international oil price was also instrumental in reducing earlier pressure on exchange rate. Rupee slightly depreciated by 2 percent during H1-FY15 in nominal terms while the Real Effective Exchange Rate (REER) appreciated by 3.8 percent (Figure 8).

As oil imports account for approximately one third of total imports, overall import payments could fall significantly. This would help in narrowing the trade gap and reducing the pressures on exchange rate.

Figure 8: Movement in Exchange Rate
Financial Sector Developments

Pakistan’s banking sector remains profitable and well-capitalized with some signs of recovery in private sector credit, while the microfinance sector and equity markets continue to sustain positive growth momentum.

Banking sector remains profitable, solvent and tilted towards investing in government securities.

The banking sector remains profitable, capital adequacy is above the minimum regulatory requirements, and there is sizeable growth in investments and advances, despite the reduction of SBP’s key policy rate by 200 basis points, which was due to favorable trends in commodity prices and lower inflation. The structure of the banks’ investments remained tilted towards risk-free government securities, supported by increased budgetary borrowing from scheduled banks (as discussed above). The banking sector’s solvency position remained steady and strong. The accumulation of profits and slow growing Risk Weighted Assets helped maintain the high Capital Adequacy Ratio, at 17.1 percent in December 2014, compared to 15.1 percent in June 2014. This was well-above the minimum requirement of 10 percent (Table 10). Given adequate provisioning, the net non-performing loans (NPLs) ratio\textsuperscript{50} has declined from 2.9 percent in June 2014 to 2.7 percent in December 2014. The microfinance sector continued to grow substantially in calendar year 2014. The sector registered a 10.9 percent increase in active borrowers, 28.2 percent growth in gross loan portfolio, 42.5 percent increase in savers and 25 percent in value of savings.

Equity market has shown some volatility.

The Karachi Stock Exchange 100 (KSE-100) Index\textsuperscript{51} registered a growth of 16.9 percent between August 2014 and January 2015 on the back of strong macroeconomic fundamentals and general investor confidence. However, despite strong performance overall, the six months between August 2014 and January 2015 were marred by high volatility as a result of drawn out political protests. The KSE-100 index set a number of positive records in the second half of 2014. It broke the 31,000 and 32,000 ceilings in November and December, respectively. This upward trend in turnover volumes and the KSE-100 index was primarily driven by foreign portfolio investment (FPI), resilient corporate profitability, record foreign exchange

---

\textsuperscript{50} Defined as net-non performing loans/total loans.

\textsuperscript{51} The KSE-100 index is a capitalization weighted index in that its level is determined by aggregating the market value of outstanding shares. Market value in turn is determined by volume of transactions amongst other factors.
reserve levels, increased confidence shown by international agencies, and the government’s energy sector related initiatives.
Poverty in Pakistan

Poverty in Pakistan has fallen significantly during the decade of 2000’s

As shown in Figure 9, headcount poverty, according to World Bank staff calculations, fell nationally from 35 percent in 2002 to an estimated 13.6 percent in 2011. This figure is based on the 2001 poverty line, inflated by the CPI, which is equal to PKR 1,777 per adult equivalent in 2011, or USD 1.59 in Purchasing Power Parity terms. The 13.6 percent headcount poverty rate generated by applying this line to the Pakistan Social and Living Standards Measurement (PSLM) data is similar to the 12.4 percent rate found by the United Nations Development Programme (UNDP, 2014). Reductions in poverty have been strong in both urban and rural areas, and the fall in rural poverty from 40 to 16 percentage points between 2002 and 2011 is particularly striking. This decline in poverty is confirmed when examining the poverty headcount according to the international poverty line of USD 1.25 per capita. According to this metric, poverty in Pakistan declined from 36 percent in 2002 to 11 percent in 2011.\(^{52}\) Pakistan now has the second lowest headcount poverty rate in the South Asia region, after Sri Lanka (4 percent).

Figure 9: Official Statistics show great progress in reducing headcount poverty

![Figure 9: Official Statistics show great progress in reducing headcount poverty](image)

Notes: Based on national poverty line of $1.59 in PPP terms. Year indicates final year of data collection. Rates differ slightly from official numbers due to differences in data cleaning procedures. Source: World Bank staff calculations based on Pakistan Social and Living Standards Measurement surveys.

The sharp decline given by the official statistics has been largely dismissed as unlikely by a range of poverty experts, academics and policy makers, who have raised concerns regarding the quality of the household survey data (HIES/PSLM) and the official consumer price index as a measure of inflation faced by the poor, especially in rural areas. This longstanding controversy over poverty measurement has prevented the Planning Commission from publishing recent estimates.

A large mass of the population is clustered around the official poverty line, so that small improvements in household real consumption can translate into substantial movement in poverty in either direction. This makes the precise number in any year less informative than looking at the overall trend over time. Figure 10 shows the

\(^{52}\)Although the international line of USD 1.25 per day is lower than the national line, it based on per capita rather than per adult-equivalent consumption, and therefore generates a similar estimated headcount rate.
full distribution of household adult-equivalent consumption, which is the indicator used to measure poverty. In 2002, the consumption of nearly 21 percent of the population was PKR 400 below the poverty line (in 2010 prices), which is almost exactly the poverty reduction observed in 2002-2011. By 2011, the highest concentration of people are right above the poverty line and small income reductions can bring them back into poverty. For example, a reduction of PKR 325 per month would lead the poverty rate to double from 13.6 percent to 27.2 percent.

Since 1998-1999, poverty has been estimated using a simple food energy intake approach with a caloric threshold of 2,350. The initial estimates used the 1998-99 Household Integrated Economic Survey data. This was slightly modified using data from 2001-2002, when the Planning Commission re-estimated the poverty line and simplified the adult-equivalence scale.\(^5\) Since then, the official poverty line has been updated using the 2002 official poverty line and inflation rates from the CPI. For each round, only the national poverty line is updated and spatial price adjustments are carried out using food unit values from the HIES/PSLM, following the recommendation of Deaton and Zaidi (1998).\(^5\)

Since price increases in food have considerably outpaced those for non-food items during the past decade, a key issue with the construction of the CPI is the weight given to food. The weights applied to food in the CPI do not represent the share of food consumed by the poor, for two reasons. First, the weight given to food is taken from a survey of urban households. Second, the CPI is based on the food share of a typical household rather than a poor household. Since rural and poor households tend to spend a larger share of their budget on food, the official CPI underestimates inflation for the poor.

---

\(^{53}\) The household adult-equivalence scale adopted since 2002 gives children aged fifteen and below a weight of 0.7.

\(^{54}\) The HIES was incorporated into the PSLM in 2004, with minor changes in the questionnaire.
Progress with Structural Reforms

*The agenda of key structural reforms is now regaining momentum*

Political protests slowed down the pace of structural reforms, especially those in the privatization program, which requires some degree of political certainty. The protest also called for expanding reforms to tackle pro-inclusion and pro-governance policies. In such regards, the status of the main areas of reform is as follows:

**New energy policy to cut-down power outage**

The first and top sector priority of reforming the power sector remains, as lack of adequate power inhibits business, and subsidies contribute to the massive deficit. As a part of effective load-management, the government is prioritizing the industrial consumers for supply of electricity. The measures adopted are part of a new energy policy approved last July 2013. They have committed the government to go further, including: (i) adoption of a new tariff pricing formula; (ii) an improved operating efficiency and reduced losses within power distribution companies; and (iii) incentives for investments, including stronger efforts to develop gas production. All combined, these reforms will result in a decrease in the budgeted power subsidies to an estimated 0.5-0.7 percent of GDP in FY15.

**Reformed tax administration to increase revenues**

A second priority is to raise revenue from below 10 percent of GDP to 14 percent over five years. Measures adopted in the FY15 budget are projected to raise the tax ratio by about 0.7 percent of GDP. Their goal is to increase revenue mainly by broadening the tax base, while strengthening compliance with a solid set of tax administration reforms and a reinvigorated and performance-based tax administration. The government also approved a series of contingency tax measures to fill the gap with respect to its end-of-year target. Key measures expected to be adopted in next budget FY16 will also be part of the tax reform strategy approved in February 2014. These include: (i) the second stage of the 3-year program of elimination of tax exemptions and concession supported by Statutory Regulatory Orders (SROs); (ii) transfer of legal power to approve concessionary tax exemptions, based on SROs from FBR to Parliament; (iii) the second stage of the tariff rationalization plan to move towards a trade regime based on four slabs; (iv) continuity of the new income and sales tax registration schemes; and (v) upgrading of the enforcement and auditing coverage targets supported by an upgraded and tax integrated information technology (IT) system at the FBR.

**Continuation of a rigorous and comprehensive privatization process**

A third critical reform is the implementation of an ambitious privatization process, especially dealing with the sale of loss-making SOEs. This remains essential to improve service delivery, and reduce fiscal losses. A list of 31 loss-making enterprises has been approved by the Cabinet Committee on Privatization. After the government completed the capital market transactions scheduled for the first year, the second year plans include additional equity sales and the startup of the strategic sales, including several electricity generation and distribution companies.

**Fostering a healthy business environment**

A fourth critical reform is to enhance the business environment, as part of a comprehensive ongoing effort at improving Pakistan’s ranking in doing business indicators. This is needed to foster private investment and attract investors, and requires federal and provincial measures. Last December, they launched the virtual

---

55 According to Ministry of Water and Power load-shedding for industrial consumers from May 2014 to November 2014 (on dedicated feeders) virtually declined to zero from 8-10 hours load-shedding last year.
One Stop Shop (OSS) for business registration and expect to open the first physical OSS in Lahore. The government also submitted the credit bureau law to Parliament, launched a National Financial Inclusion Strategy, applied for admission at the global better than Cash Alliance Initiative and approved a plan to improve Doing Business Indicators mainly centered on federal indicators: getting electricity, paying taxes, enforcing contracts, starting businesses, trading across borders, and getting credit.

Finally, a fifth critical reform is the strengthening of the Benazir Income Support Programme (BISP) as part of the support of the poor and vulnerable and, through its conditional cash transfer program, increase enrolment in primary school. As part of the FY15 budget, the government increased BISP’s allocation to PKR 97.2 billion, which allowed for a raise in individual family allocations to PKR 1,500 per month, a 25 percent increase, well above inflation. BISP also started activities to expand Conditional Cash Transfers (CCTs) in 27 districts and approved an increase in the benefit per child from PKR 200 to PKR 250. BISP has also strengthened its internal governance by completing its Board appointments and issuing new regulations to prevent overlap on management affairs between Chairperson, Secretary, and rest of the administration.
Medium-Term Outlook

External Environment

Global growth is projected to remain volatile despite lower oil prices. Volatility arises from many sources. Last year, among major economies, growth diverged significantly. The recovery in the United States was stronger than expected, while economic performance in all other major economies fell short of expectations. Growth in the Euro Area has picked up but still remains modest. Euro Area investment and export prospects are projected to improve marginally, thanks to the euro depreciation to the US dollar but rising uncertainty surrounding the Greek bailout plan and unresolved tensions with Russia remain significant downside risks. Growth in China continues to slow. Further rebalancing is anticipated. The emerging markets as a group are now expected to grow at rates below those observed before the global financial crisis. Uncertainty surrounding the political and security transition in Afghanistan has negatively impacted economic activity and business confidence. Bangladesh’s outlook for the near term remains mixed with political instability hardly showing any prospect of abating. Revenue losses of oil exporters in the region of MENAP are significant due to the large decline in oil prices. In line with the prospects for global growth and international trade, the outlook for most of Pakistan’s main trading partners remains weak (Figure 11). 56

Agriculture prices are expected to maintain a downward trend. Agriculture prices fell 3.4 percent in FY14, and are projected to decline almost 5 percent in FY15 (before recovering marginally in FY16) given good crop prospects. Pakistan’s exports remain narrow and heavily dependent on two main types of exports; food (17 percent share, half of which comes from rice exports) and textiles (55 percent share in total exports). Global prices of cotton and rice, particularly cotton, continue to shape Pakistan’s export outlook. Global prices of cotton 57 have fallen significantly—almost 26 percent during FY14—while rice prices during Q4-FY14 are almost 5 percent lower than last year. Consequently, country’s exports remained sluggish reflecting fall in global commodity prices.

56 Pakistan’s exports are highly geographically concentrated. Less than 10 percent of countries (out of 215 export destinations) account for about 75 percent of the country’s export value. Thus, the economic performance of few countries can impact Pakistan’s export performance quite substantially.

57 Cotton A-index (USD6/kg).
However, over the past six months, crude oil prices have fallen sharply, with the Brent crude benchmark down by 55 percent. And as a net oil importer, Pakistan benefited from a reduced oil import bill (see Annex I), but this benefit to some extent, continues to be offset by declines in the export values of agriculture commodities and lower trade related revenues. Low oil prices nevertheless have created an opportunity to step up the structural reform particularly on the energy side. Moreover, there is an opportunity to boost domestic demand through additional exchange rate flexibility or by reducing domestic interest rates.

Figure 12: Global Commodity Prices-Rice

![Figure 12: Global Commodity Prices-Rice](https://example.com/image12)

**Source:** DECPG, The World Bank

Figure 13: Global Commodity Prices-Cotton

![Figure 13: Global Commodity Prices-Cotton](https://example.com/image13)

**Source:** DECPG, The World Bank

...low oil prices offer important opportunities to do structural reforms
Macroeconomic Outlook

Preliminary outlook for FY15 remains cautiously optimistic

The medium-term macroeconomic framework FY15-FY18 projects gradual growth recovery with low inflation, supported by fiscal consolidation and rebuilding of the economy’s external position (Table 11). This path assumes tackling the key growth constraints: (i) power load-shedding, (ii) a cumbersome business environment, and (iii) limited access to finance and stable commodity prices. GDP growth is expected to be 4.4-4.6 percent in the current fiscal year and recover to 4.8 percent in FY17 and onwards. On the supply side, growth is expected to be driven by the services and large-scale manufacturing sectors, which will benefit from decreased power load-shedding, an improved business climate, and improved availability of credit ensuing from fiscal consolidation. On the demand side, growth will be supported by strong remittances, with strengthened private investment, and renewed export dynamism, and to an increase in public investment. Inflation, which has been below double digits for the last two fiscal years, is expected to settle around 5 percent by FY16, owing to continued fiscal prudence. Relatively stable or declining international commodity prices and a stable exchange rate are expected to help contain imported inflationary pressures.

Table 11: Medium Term Framework

<table>
<thead>
<tr>
<th>Percent of GDP unless mentioned otherwise</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth at factor cost</td>
<td>3.7</td>
<td>4.1</td>
<td>4.3-4.6</td>
<td>4.6</td>
<td>4.8</td>
</tr>
<tr>
<td>Consumer Prices Inflation (period average)</td>
<td>7.4</td>
<td>8.7</td>
<td>5.0-6.0</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Current Account Balance</td>
<td>-1.1</td>
<td>-1.2</td>
<td>-1.2</td>
<td>-1.2</td>
<td>-1.6</td>
</tr>
<tr>
<td>Exports of goods &amp; services</td>
<td>13.6</td>
<td>12.3</td>
<td>11.3</td>
<td>10.8</td>
<td>10.6</td>
</tr>
<tr>
<td>Imports of goods &amp; services</td>
<td>20.9</td>
<td>20</td>
<td>18.7</td>
<td>17.9</td>
<td>18.1</td>
</tr>
<tr>
<td>Remittances</td>
<td>6.0</td>
<td>6.4</td>
<td>6.3</td>
<td>6.3</td>
<td>6.3</td>
</tr>
<tr>
<td>Gross official reserves (in months of imports of G&amp;S)</td>
<td>1.5</td>
<td>2.1</td>
<td>3.6</td>
<td>4.2</td>
<td>4.1</td>
</tr>
<tr>
<td>Revenues</td>
<td>13.1</td>
<td>14.3</td>
<td>14.6</td>
<td>15.0</td>
<td>15.4</td>
</tr>
<tr>
<td>Expenditures</td>
<td>21.4</td>
<td>19.8</td>
<td>19.6</td>
<td>19.5</td>
<td>19.6</td>
</tr>
<tr>
<td>of which: Current</td>
<td>16.6</td>
<td>16.2</td>
<td>16.3</td>
<td>16.2</td>
<td>16.1</td>
</tr>
<tr>
<td>Overall Fiscal Balance</td>
<td>-8.3</td>
<td>-5.5</td>
<td>-5.0</td>
<td>-4.5</td>
<td>-4.2</td>
</tr>
<tr>
<td>Memorandum:</td>
<td>22,489</td>
<td>25,402</td>
<td>28,081</td>
<td>30,566</td>
<td>33,536</td>
</tr>
</tbody>
</table>

Notes:
1/ Excluding gold and foreign currency deposits of commercial banks held with the State Bank of Pakistan.
2/ Excluding grants
Source: The World Bank staff

Fiscal consolidation is expected to continue in the medium-term because of the efforts to raise tax revenue, curtail federal government grants and subsidies, and increase development spending for key public infrastructure and human resource development. Revenues are projected to increase from 14.3 percent of GDP in FY14 to 15.4 percent in FY17 as a result of a sound tax reform strategy. On the expenditure side, energy-related budgeted subsidies continue to decline with power tariff adjustments. This is a result of the oil price windfall, which has provided room for their adjustment with very little negative impact on the consumers. The overall fiscal deficit will therefore decline from 5.5 percent of GDP in FY14 to 4.2 percent of GDP in FY17.
Faster growth will require higher imports (including oil) of raw materials. Thus, the current account deficit is expected to increase to 1.6 percent of GDP in FY17-up from a modest 1.2 percent of GDP in FY15. Export recovery and the strong dynamism of remittances will finance the current account deficit in the medium term—despite some negative spillovers from lower oil prices. Official foreign exchange reserves are expected to continue rising from USD 9.2 billion at the end of FY14 and will reach USD 15.4 billion by FY15 (about 3.6 months of import coverage). This expected reserve build-up will continue in the medium-term based on the expected strong financial inflows.
Annex I: Impact of Lower Oil Prices on Economy

The recent steep oil price decline is driven by a global oil glut and exacerbated by an economic slowdown in Europe and Asia. Prices fell by more than 40 percent from about USD 109 per barrel in H1-FY14 to below USD 60 per barrel in December 2014. Pakistan being a net importer of energy is expected to benefit from this. This decline may have the following impacts on key indicators of Pakistan economy.

Lower oil prices are positive for BOP. During the last few years, about one-third of Pakistan’s import payments were for crude oil and petroleum products. During FY14, Pakistan spent USD 14.7 billion on oil related imports. Assuming similar quantum, a 25-30 percent average decline in prices would reduce the import bill by about USD 3.0-4.0 billion. In addition, prices of key inputs such as fertilizers and chemicals are also declining. This may have a positive effect on exports as well, provided that external demand for textiles is not affected by slowdowns in Europe and Asia. This bodes well for the trade balance and will help the central bank build up its foreign exchange reserves. Nevertheless, the downside risk from any decline in remittances from oil exporting countries remains in the medium run. Improvements in current account balance and resultant buildup of foreign exchange reserves will help reduce the exchange rate volatility.

Declining oil prices may have neutral to negative impact on fiscal deficit. With a pass through of lower international oil prices to domestic market, the government is likely to collect lower ad valorem sales taxes. This is likely to put a drag on the government’s effort to meet its tax revenue targets. In addition, government is expected to receive lower royalties from domestic oil and natural gas producers. Also as discussed in the next section, lower expected inflation may decrease the overall tax buoyancy. On the positive side, Pakistan is expected to benefit from lower electricity generation costs, as more than half of electricity is generated from imported fuel oil. This may reduce the amount of the power differential subsidy (difference of cost of electricity generation and domestic electricity prices) that the government pays to power producers. But the exact magnitude of these benefits would depend on the government’s decision to adjust domestic electricity prices downwards or not. If government decides to lower the price of electricity, these benefits may not accrue.

Better supply conditions, reduced external vulnerability and fiscal consolidation contributed to the softening of underlying inflationary pressures for the last 12 months. Nevertheless, lower oil prices have contributed significantly to this trend in recent months. The Y-o-Y CPI inflation eased to a record low of 3.9 percent in January 2015 compared to 8.2 percent in June 2014. Both food and non-food segments contributed to this decline. Food inflation (Y-o-Y) declined from 7.4 percent in June 2014 to 3.0 percent in January 2015. Similarly, non-food inflation (Y-o-Y) declined from 8.9 percent in June 2014 to 4.5 percent in January 2015. Moreover, core inflation (NPNE-Y-o-Y) decreased from 7.8 percent in October 2014 to 6.4 percent in January 2015. It is expected that falling domestic oil prices will not only contribute directly to lowering of inflation, but will also dampen inflation through a second round impact. In addition to better harvest, lower transport cost, and cheaper diesel and fertilizer inputs contributed to lowering of domestic food prices.

Although it is too early to quantify, lower fuel and electricity cost coupled with lower industrial input prices are expected to have positive impact on domestic economic activity. The impact of lower oil prices is expected to vary from neutral to positive. Agriculture is expected to benefit from lower diesel and fertilizer prices. However, lower cotton and rice prices in domestic market may negatively impact the demand of durables from these farmers. Similarly, industrial sector will benefit from lower fuel cost and decline in prices of key industrial raw materials. The downside risk is the lower external demand and shrinking domestic consumption which may result from falling remittances from oil producing countries.

---

58 Contributed by Muhammad Waheed.
59 Historically, price elasticity of demand for petroleum products (with 60 percent share in petroleum group) is quite inelastic. But there is a chance that government may import more crude oil at lower prices to increase domestic production of electricity.
60 There is an automatic adjustment mechanism for domestic fuel prices vis a vis international prices.
Pakistan has struggled to keep pace with investment climate reforms being implemented across the world. The country currently ranks 128th out of 189 economies in the Doing Business (DB) Ease of Doing Business Rankings 2015. Five years ago, it ranked 75th out of 131 economies. The largest decline in rankings in the past five years has been in the Starting a Business indicator, down from 63rd in DB2010 (South Asia median was 72nd) to 116th in DB2015, which is lower than the South Asia median rank of 104th. It currently takes 10 procedures and 19 days to register a limited liability company in the country.

In March 2013, the Economic Reform Unit (ERU) of the Ministry of Finance initiated a dialogue with the World Bank team to request support for developing a one stop shop (OSS) business registration platform which would simultaneously register businesses with multiple government institutions. During the course of diagnostic assessment exercise and implementation, there has been an unprecedented level of collaboration reached particularly between the Securities and Exchange Commission of Pakistan, FBR and the Employees Old Age Benefits Institution (EOBI), with strong leadership and commitment from ERU. The three institutions formalized their partnership through a Memorandum of Understanding which created a Joint Management Committee and a Technical Working Group to guide the process.

This positive energy was highlighted during discussions under the IMF program on reform actions as well as in a Development Policy Credit (DPC) series on Growth and Competitiveness. Once the initial one-stop-shop reform actions were included in these discussions, this paved the way for identifying technical requirements and preparing the feasibility of setting up a virtual one-stop-shop.

In December 2014, the government successfully developed and launched the online OSS (http://voss.secp.gov.pk/). In the initial phase, the virtual/online OSS reduced to two procedures and two days for business registration, and eliminated transaction costs related to interacting separately with three government institutions on company registration, tax registration, and employee social security/benefits registration. Further work is underway to (i) create a physical OSS in Lahore and Karachi, (ii) include one other provincial government institution in the virtual OSS, and (iii) further simplify procedures and requirements for business registration.

Annex II: One Stop Shop for Business Registration—Progress so far61

Contributed by Sarmad Shaikh and Rafay Khan.
Annex III: Paying Taxes in Pakistan—Status and Challenges

The Doing Business (DB) reports highlight difficulties for a medium-sized firm in Pakistan in paying taxes, as the country’s international ranking on this indicator has been slipping over time—from 168 (out of 189 economies) in 2013 to 172 in 2014. The total tax rate has reduced overtime (from 39.1 percent of profit in 2012 to 32.6 percent in 2014), while the number of tax payments (47) has remained constant for last nine years. However, the time to prepare, file and pay taxes has increased from 560 hours during 2006-2013 to 594 hours in 2014—about 6 percent increase, despite the introduction of mandatory electronic filing & payment facility and tax payer facilitation services. This administrative burden is higher than other South Asian and the member countries of the Organization for Economic Co-operation and Development (OECD) countries.

Among different taxes paid by the firms in a year, payment of GST takes most of the time (514 hours), followed by corporate tax and social security contributions (40 hours each). The firms reported highest compliance time taken at the preparation stage, as with the new systems more details are required to be provided while filing monthly GST returns. The filing of income tax returns by companies is also declining. This reflects on different internal and external issues related with existing processes, systems, and capacity (human resource and IT infrastructure) of the tax authority and education and morale of taxpayers.

To improve the situation, the FBR, with the support from the Indicator-Based Reforms Advisory (IBRA) team of the World Bank, has prepared a short-to-medium-term reform action plan. It is based on following measures focusing on modernizing tax administration and streamlining processes to reduce discretion and make it simpler, easier and quicker for both taxpayer and the administrator:

- Measures to directly benefit taxpayers: (i) update and simplify legal texts; (ii) review, simplify and streamline existing processes and forms (for both income tax and sales tax); (iii) strengthen IT infrastructure by enhancing network connectivity of IT systems for customs (WeBOC) and income and sales tax (IRIS), and increasing tax portal capacity (to take additional load on tax filing due dates); (iv) upgrade taxpayer services by improving helpline and facilitation centers, and updating information/guidance material; and (e) provide training to tax consultants.

- Other measures for tax authority: (i) implement performance-based reporting and monitoring system for a results-oriented administration; (ii) developing protocols and Standard Operating Procedures to share data with different departments and at different levels of the organization; (iii) improving tax audit and business intelligence related interventions; (iv) training of field staff to improve business knowledge and usage of tax/IT systems; and (v) conduct taxpayer perception and compliance survey to assess improvement.

The above legal, administrative, and capacity building measures are part of current tax strategy of FBR. For its implementation, the Bank is providing support through a Department for International Development (DFID) Task Force, to facilitate tax compliance and increase tax revenue. During the ongoing first year of the program, the team will conduct mapping of taxpayer register and tax collection processes (both income and sales tax), including electronic systems review, to identify specific bottlenecks and make recommendations. Streamlining core processes is part of the functional review of FBR, which is also planned to be conducted in FY15.

### Table 12: Pakistan’s performance on paying taxes indicator 2014

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Pakistan</th>
<th>South Asia</th>
<th>OECD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments (number per year)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall</td>
<td>47.0</td>
<td>47.0</td>
<td>47.0</td>
</tr>
<tr>
<td>Lahore</td>
<td>47.0</td>
<td>47.0</td>
<td>47.0</td>
</tr>
<tr>
<td>Karachi</td>
<td>47.0</td>
<td>47.0</td>
<td>47.0</td>
</tr>
<tr>
<td>Time (hours per year)</td>
<td>594.0</td>
<td>594.0</td>
<td>594.0</td>
</tr>
<tr>
<td>Profit tax (%)</td>
<td>18.7</td>
<td>18.7</td>
<td>18.6</td>
</tr>
<tr>
<td>Labor tax and contributions (%)</td>
<td>12.8</td>
<td>12.7</td>
<td>13.0</td>
</tr>
<tr>
<td>Other taxes (%)</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Total tax rate (% profit)</td>
<td>32.6</td>
<td>32.5</td>
<td>32.8</td>
</tr>
</tbody>
</table>

*Source: Doing Business database 2015*

---

62 Contributed by Irum Touqeer

63 As reported in Doing Business reports 2014 and 2015.

64 Per available data from Federal Board of Revenue, about 50 percent of registered companies filed taxes in FY11 which has reduced to 48 percent in FY13. The total tax filing data for FY14 is not available as it is currently being compiled.

65 The Board of Investment is tasked to lead the preparation of a consolidated action plan (with inputs from relevant agencies) for different DB indicators, including paying taxes, starting a business, dealing with construction permits, getting credit, trading across borders, and enforcing contracts.
Annex IV: Pakistan International Sukuks: Foot-printing the Shariah-compliant Capital Markets after almost a Decade

Pakistan has made two successful ventures in the international capital markets in 2014, refreshing its footprint after almost a decade. This is occurring at a time when international markets have an increased appetite for highly lucrative sovereign papers issued by developing economies and when interest rates are at historically low levels, in anticipation of a global economic slowdown. First, on April 9th, the country raised USD denominated dual tranche Eurobond aggregating USD 2.0 billion, USD 1.0 billion each in 5 and 10 years tenors-5 year bonds at a fixed rate of 7.25 percent (5-year US Treasury rate+558 basis points) and 10 year bonds at a fixed rate of 8.25 percent (10-yr UST+556 bps). This transaction represents the largest ever international bond offering by Pakistan. Second, on November 26th, Pakistan issued international Sukuk under Reg-S/144A format by accepting bids of USD 1.0 billion at a profit rate of 6.75 percent (5-yr UST+517 bps), priced lower than the (1) 5-year Eurobond issue in April 2014 by 50 bps and (2) initial guidelines of 6.9 percent. The international Sukuk is backed by the Islamabad-Lahore Motorway (M2).

Both the issues were highly oversubscribed and thus allowed the government to issue more than the initially targeted placement of USD 500 million for both of these. Moreover, geographic distribution of investors was encouraging, with 47 percent subscriptions coming from the United States, 32 percent from Europe, and 20 percent from Middle East and Asia, on aggregate. The substantial dollar proceeds helped shore up the country’s foreign exchange reserves while the rupee counterpart was utilized in retiring the expensive domestic debt.

However, when compared to regional peers, these issues appear costly. For instance, Sri Lanka issued a 5-year Eurobond a day before Pakistan at a yield of 5.125 percent. Similarly, Ethiopia raised a 10-year USD 1.0 billion debut international bond on December 4 priced to yield 6.625 percent. Despite declining country risk spreads since the smooth transition to the new democratic set-up (Figure 14), Pakistan was highly priced primarily on account of perceived risks that still mar the country. Furthermore, this mega issuance by Pakistan needs to be looked at in the perspective of its amortization schedule which entails an in-built bullet repayment feature. Given Pakistan’s history of volatile external imbalances, managing these outflows in the future may turn out to be challenging.

It may be worthwhile for Pakistan then to turn to unwinding the hidden potential of local markets. A promising-still untapped—segment of the domestic capital market is the Islamic banking industry. Nonetheless, government started issuing 3-year Ijarah Sukuks in September 2008 and this initiative was very well received by the Islamic market, as no Shariah-compliant avenue was available for them to place their idle cash with. Moreover, the Islamic financial market was able to prudently manage its Statutory Liquidity Requirements (SLRs) stipulated by the SBP.

This tapping continued for a period of three years against M-3 Motorway till June 2014. Islamic banks have, yet again, become investment hungry, and are maintaining high levels of deposits on their balance sheets. On top of re-invigorating the 3-year Islamic bonds, there are also proposals to introduce short-term Shariah-compliant securities on the lines of Treasury bills in order to create a parallel investment option for the Islamic segment to manage their asset-liability composition. But securing a (real) underlying asset for the Shariah-compliant papers appears to be the major challenge to keep the ball rolling or to launch new innovations under this concept.

---

66 Contributed by Mehwish Ashraf
67 Sukuk is the Arabic name for financial certificates, but commonly refers to the Islamic equivalent of bonds. Since fixed income, interest bearing bonds are not permissible in Islam, Sukuk securities are structured to comply with the Islamic law and its investment principles, which prohibits the charging, or paying of interest. This is generally done by involving a tangible asset in the investment, such as by giving partial ownership of a property built by the investment company to the bond owner. The bond owner is then able to collect his profit as a rent, which is allowed under Shariah law.
68 As of June 2014, the market had offered on aggregate PKR 858 billion against a cumulative target of about PKR 498 billion since the first issuance in September 2008
69 The SLR for Islamic Banks/Islamic Banking Branches with effect from June 03, 2011, is (1) 19 percent (excluding Cash Reserve Requirement) of Total Demand Liabilities (including Time deposits with tenors of less than 1 year); and (2) Time Liabilities (including Time deposits with tenor of 1 year and above) will not require any SLR.
70 The Financing to Deposits ratio (Liquidity indicator of Islamic banking) went down from 54.3 percent in CY09 to 38.2 percent in CY14, exhibiting a build-up of liquidity in the Islamic banking institutions in recent years.
71 As of December 2014, the Islamic banks underwent a huge growth of 23 percent in their deposit base (Y-o-Y).
Going forward, there is an immediate need to streamline as well as expand the horizon of domestic Islamic bond issuance—most probably linked to infrastructure financing that intrinsically takes care of the ‘tangible asset’ feature—so as to facilitate the Islamic banking sector. This will also help diversify the financing mix and funding base for the Government of Pakistan.
### Annex V: World Bank Support to Pakistan

**FY15 Pipeline (updated March 30th, 2015)**

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Total Commitment (USD millions)</th>
<th>Status of Preparation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Immunization Support Project</td>
<td>50</td>
<td>Scheduled for Board on May 28, 2015</td>
</tr>
<tr>
<td>2. Power Sector Reform DPC II</td>
<td>300*</td>
<td>Scheduled for Board on May 28, 2015</td>
</tr>
<tr>
<td>3. PK Growth, Investment &amp; Competitiveness DPC II</td>
<td>300*</td>
<td>Scheduled for Board on May 26, 2015</td>
</tr>
<tr>
<td>4. IDP Cash Support</td>
<td>75</td>
<td>Concept stage</td>
</tr>
<tr>
<td>5. Disaster and Climate Resilience</td>
<td>125</td>
<td>Concept stage (Board date May 29, 2015)</td>
</tr>
<tr>
<td><strong>Federal Total</strong></td>
<td><strong>850</strong></td>
<td></td>
</tr>
<tr>
<td>Punjab</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Punjab Skills Development Project</td>
<td>50</td>
<td>Scheduled for Board on April 30, 2015</td>
</tr>
<tr>
<td><strong>Punjab Total</strong></td>
<td><strong>50</strong></td>
<td></td>
</tr>
<tr>
<td>Sindh</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Sindh Agricultural Growth</td>
<td>76.4</td>
<td>Signed and Effective</td>
</tr>
<tr>
<td>8. Enhanced Nutrition for Mothers and Children</td>
<td>36.2</td>
<td>Signed and Effective</td>
</tr>
<tr>
<td>9. Sindh Public Sector Management Reform</td>
<td>50</td>
<td>Approved; pending signing</td>
</tr>
<tr>
<td>10. Sindh Water Sector Improvement AF</td>
<td>138</td>
<td>Signed; pending effectiveness</td>
</tr>
<tr>
<td>11. Sindh Irrigated Agriculture Productivity</td>
<td>187</td>
<td>Approved; pending signing</td>
</tr>
<tr>
<td>12. Sindh Barrages Improvement Project</td>
<td>160</td>
<td>Scheduled for Board on June 22, 2015</td>
</tr>
<tr>
<td><strong>Sindh Total</strong></td>
<td><strong>647.6</strong></td>
<td></td>
</tr>
<tr>
<td><strong>IDA Total</strong></td>
<td><strong>1547.6</strong></td>
<td></td>
</tr>
<tr>
<td>KP/FATA/ Baluchistan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Governance Support Project AF</td>
<td>4.1</td>
<td>Approved and effective</td>
</tr>
<tr>
<td>14. Rural Livelihoods Community Infrastructure AF</td>
<td>2.6</td>
<td>Pending approval</td>
</tr>
<tr>
<td>15. FATA Urban Centers AF</td>
<td>1</td>
<td>Approved and effective</td>
</tr>
<tr>
<td><strong>KP/FATA (Multi Donor Trust Fund) Total</strong></td>
<td><strong>7.7</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total FY15</strong></td>
<td><strong>1567.6</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Government request for USD 500 million has been received for each DPC.
## Annex VI: Pakistan Data Sheet

### ECONOMIC DEVELOPMENTS AND OUTLOOK — MAIN INDICATORS

<table>
<thead>
<tr>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (current USD, billion)</td>
<td>177.4</td>
<td>213.8</td>
<td>224.6</td>
<td>232.2</td>
</tr>
<tr>
<td>GDP growth (annual %)</td>
<td>2.6</td>
<td>3.6</td>
<td>3.8</td>
<td>3.7</td>
</tr>
<tr>
<td>Per capita GDP (Current US$)</td>
<td>1,002</td>
<td>1,212</td>
<td>1,252</td>
<td>1,275</td>
</tr>
<tr>
<td>Gross capital formation (% of GDP)</td>
<td>15.8</td>
<td>14.1</td>
<td>15.1</td>
<td>14.6</td>
</tr>
<tr>
<td>Gross national savings (% of GDP)</td>
<td>13.6</td>
<td>14.2</td>
<td>12.8</td>
<td>13.5</td>
</tr>
<tr>
<td>Prices</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Inflation (change in period-average CPI %)</td>
<td>10.1</td>
<td>13.7</td>
<td>11.0</td>
<td>7.4</td>
</tr>
<tr>
<td>Fiscal Sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue excluding grants (% of GDP)</td>
<td>14.0</td>
<td>12.4</td>
<td>12.8</td>
<td>13.1</td>
</tr>
<tr>
<td>Total expenditure (% of GDP)</td>
<td>20.2</td>
<td>19.5</td>
<td>21.6</td>
<td>21.4</td>
</tr>
<tr>
<td>Fiscal balance excluding grants (% of GDP)</td>
<td>-6.2</td>
<td>-7.1</td>
<td>-8.4</td>
<td>-8.3</td>
</tr>
<tr>
<td>Public debt (% of GDP)</td>
<td>62.0</td>
<td>60.0</td>
<td>64.5</td>
<td>64.8</td>
</tr>
<tr>
<td>External Sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External debt (% of GDP)</td>
<td>34.7</td>
<td>31.0</td>
<td>29.1</td>
<td>26.2</td>
</tr>
<tr>
<td>Current account balance (% of GDP)</td>
<td>-2.2</td>
<td>0.1</td>
<td>-2.1</td>
<td>-1.1</td>
</tr>
<tr>
<td>Foreign direct investment, net (in millions of US$)</td>
<td>2,073</td>
<td>1,591</td>
<td>744</td>
<td>1,258</td>
</tr>
<tr>
<td>Foreign direct investment, net (% of GDP)</td>
<td>1.2</td>
<td>0.7</td>
<td>0.3</td>
<td>0.5</td>
</tr>
</tbody>
</table>

### HIGH FREQUENCY INDICATORS

<table>
<thead>
<tr>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Latest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Indicators</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchange rate (LCU/USD), end of period</td>
<td>86.0</td>
<td>94.6</td>
<td>99.1</td>
<td>98.8</td>
</tr>
<tr>
<td>SMIR spurt, end of period</td>
<td>864.1</td>
<td>1,121.9</td>
<td>689.9</td>
<td>501.3</td>
</tr>
<tr>
<td>Policy interest rates, end of period</td>
<td>12.0</td>
<td>12.0</td>
<td>9.0</td>
<td>9.0</td>
</tr>
<tr>
<td>Economic Indicators</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial production index, average %</td>
<td>111.0</td>
<td>112.4</td>
<td>117.0</td>
<td>121.7</td>
</tr>
<tr>
<td>Change year on year (%</td>
<td>1.8</td>
<td>1.3</td>
<td>4.1</td>
<td>4.0</td>
</tr>
<tr>
<td>Private sector credit (change year on year, %)</td>
<td>4.0</td>
<td>7.5</td>
<td>(0.8)</td>
<td>1.4</td>
</tr>
<tr>
<td>Inflation year on year (%): end of period</td>
<td>13.3</td>
<td>11.3</td>
<td>5.9</td>
<td>8.2</td>
</tr>
<tr>
<td>Official foreign exchange reserves (in months of imports)</td>
<td>3.9</td>
<td>2.7</td>
<td>1.5</td>
<td>2.2</td>
</tr>
</tbody>
</table>

### ECONOMIC INDICATORS AND BUSINESS CLIMATE — Lower Frequency Indicators

<table>
<thead>
<tr>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structure of Economy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry, value added (% of GDP)</td>
<td>21.0</td>
<td>21.2</td>
<td>21.0</td>
<td>20.5</td>
</tr>
<tr>
<td>Agriculture, value added (% of GDP)</td>
<td>22.0</td>
<td>21.7</td>
<td>21.6</td>
<td>21.5</td>
</tr>
<tr>
<td>Services, etc. value added (% of GDP)</td>
<td>56.9</td>
<td>57.1</td>
<td>57.4</td>
<td>58.1</td>
</tr>
<tr>
<td>External Sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports of goods and services (% of GDP)</td>
<td>14.0</td>
<td>14.6</td>
<td>13.2</td>
<td>13.6</td>
</tr>
<tr>
<td>Imports of goods and services (% of GDP)</td>
<td>21.5</td>
<td>20.4</td>
<td>21.7</td>
<td>20.9</td>
</tr>
<tr>
<td>Remittances (% of GDP)</td>
<td>5.0</td>
<td>5.2</td>
<td>5.9</td>
<td>6.0</td>
</tr>
<tr>
<td>Monetary Indicators</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M2 (% of GDP)</td>
<td>38.9</td>
<td>36.6</td>
<td>38.1</td>
<td>39.4</td>
</tr>
<tr>
<td>Credit to domestic sector (% of GDP)</td>
<td>35.2</td>
<td>32.4</td>
<td>35.5</td>
<td>38.2</td>
</tr>
<tr>
<td>Business Climate</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Doing business, Rank</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>127</td>
</tr>
<tr>
<td>WEF global competitiveness index, Rank</td>
<td>123</td>
<td>118</td>
<td>124</td>
<td>133</td>
</tr>
</tbody>
</table>

### SOCIAL AND ECONOMIC INDICATORS

<table>
<thead>
<tr>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Indicators</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population (million)</td>
<td>173.5</td>
<td>177.1</td>
<td>180.7</td>
<td>184.4</td>
</tr>
<tr>
<td>Population growth (%)</td>
<td>2.1</td>
<td>2.1</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Economically, active population (% of total pop.)</td>
<td>33.0</td>
<td>32.8</td>
<td>32.8</td>
<td>32.9</td>
</tr>
<tr>
<td>2006</td>
<td>2008</td>
<td>2009</td>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td>% of poor (net PPP $1.25 a day)</td>
<td>22.6</td>
<td>17.2</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Number of poor (million)</td>
<td>36.0</td>
<td>31.7</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Literacy rate, adult (% of people 15+)</td>
<td>54.2</td>
<td>55.5</td>
<td>54.9</td>
<td>55.4</td>
</tr>
<tr>
<td>Literacy rate, female (% of females 15+)</td>
<td>39.6</td>
<td>40.1</td>
<td>40.3</td>
<td>41.0</td>
</tr>
<tr>
<td>Literacy rate, male (% of males 15+)</td>
<td>67.7</td>
<td>68.9</td>
<td>68.6</td>
<td>68.9</td>
</tr>
</tbody>
</table>

Source: Pakistan authorities, WB staff estimates, World Development Indicators, Doing Business database (doing business rank and business climate), World Economic Forum (global competitive index and governance indicators), Global economic monitor. "-" indicates not available
1/ as of December 2014
2/ Central bank reserves (liquid reserves plus foreign currency cash holdings less Cash Reserve Requirement) in months of next year’s imports of goods & services

Note: Data pertain to fiscal year. Fiscal year runs from July to June.