

ECONOMIC AND INVESTMENT PROSPECTS IN PAKISTAN

- **MARKET SIZE OF 140 MILLION PEOPLE WITH PER CAPITA INCOME OF APPROXIMATELY PPP \$ 2000.**
- **A LARGE EMERGING MIDDLE CLASS WITH GROWING DEMANDS OF AUTOMOBILES, DURABLE CONSUMER GOODS AND SERVICES OF ALL KIND.**
- **PAKISTAN'S GDP GROWTH OF 6 PER CENT ANNUALLY BETWEEN 1950-90 WAS ONE OF THE FASTEST SUSTAINED GROWTH AMONG THE DEVELOPING COUNTRIES. CURRENT GROWTH RATE IS 5 PER CENT.**
- **PAKISTAN HAS AN AGGRESSIVE AND TRANSPARENT PRIVATIZATION PLANS OVER NEXT 18-24 MONTHS FOR SELLING ASSETS IN OIL AND GAS, BANKING, TELECOMMUNICATIONS AND ENERGY TO STRATEGIC INVESTORS. FOREIGN INVESTORS ARE ENCOURAGED TO PARTICIPATE IN PRIVATIZATION.**
- **PAKISTAN HAS LIBERALIZED ITS FOREIGN EXCHANGE REGIME AND FOREIGN INVESTORS CAN BRING IN AND TAKE BACK THEIR CAPITAL, REMIT, PROFITS, DIVIDENDS, FEES, ETC. WITHOUT ANY RESTRICTIONS.**
- **PAKISTAN'S TRADE REGIME HAS BEEN OPENED UP AND THE CURRENT MAXIMUM TARIFF RATE OF 35 PER CENT WILL BE CUT DOWN TO 25 PER CENT WITH ONLY 3 SLABS DURING THE NEXT TWO YEARS.**
- **FINANCIAL SECTOR HAS BEEN RESTRUCTURED AND OPENED UP FOR COMPETITION. AT PRESENT 21 FOREIGN BANKS HAVE CAPTURED 20% OF MARKET SHARE IN LOANS AND DEPOSITS.**
- **ADMINISTERED PRICES OF PETROLEUM, GAS, ENERGY, AND OTHER KEY INPUTS HAVE BEEN REPLACED BY MARKET DETERMINED PRICES AND IMPORTS AND DOMESTIC MARKETING HAVE BEEN DEREGULATED.**
- **A DYNAMIC AGRICULTURE SECTOR HAS NOT ONLY MADE THE COUNTRY SELF SUFFICIENT IN FOOD BUT ALSO TURNED INTO A NET EXPORTER. PRODUCER PRICES ARE RELATED TO INTERNATIONAL PRICES.**
- **AGRO-BASED INDUSTRIES AND AGRO-RELATED INDUSTRIES ARE HIGHLY COMPETITIVE AND ORIENTED TOWARDS EXPORTS. TAX INCIDENCE ON EXPORT SECTOR IS MINIMAL.**

- **A NEW AREA OF EMPHASIS FOR INVESTMENT AND EXPANSION IS INFORMATION TECHNOLOGY AND INTERNET-BASED SERVICES WHICH ENJOYS THE BENEFIT OF A POOL OF LOW WAGE, ENGLISH SPEAKING, EDUCATED MANPOWER TRAINED IN I.T. SCIENCE.**
- **AS THE TEXTILE TRADE IS LIBERALIZED AS A RESULT OF PHASING OUT OF MFA PAKISTAN OFFERS EXCELLENT ADVANTAGE FOR JOINT VENTURES AIMED AT THE INTERNATIONAL TRADE IN TEXTILES.**
- **PAKISTAN HAS PLANS TO MODERNISE ITS TEXTILE INDUSTRY TOWARDS VALUE ADDED GOODS BY INVESTING OVER \$ 30 BILLION DURING THE NEXT FIVE YEARS. FOREIGN INVESTORS HAVE OPPORTUNITIES THROUGH VARIOUS FORMS OF FINANCING SUCH AS SUPPLIER'S CREDIT, EXPORT CREDITS, ETC.**
- **A MASSIVE SURVEY AND DOCUMENTATION DRIVE IS UNDER WAY TO WIDEN THE TAX BASE, EXTEND TAX INCIDENCE TO ALL SECTORS OF THE ECONOMY AND REDUCE MULTIPLICITY OF TAXES AND RATE OF INCOME AND CORPORATE TAX OVER TIME. TAX ADMINISTRATION IS BEING SIMPLIFIED TO IMPROVE TAX COMPLIANCE.**
- **MACRO-ECONOMIC STABILIZATION OUTCOME:**
 - PRIMARY BUDGETARY SURPLUS HAS BEEN ACHIEVED**
 - FISCAL ADJUSTMENT OF ABOUT 2 PERCENTAGE OF GDP**
 - QUASI-FISCAL DEFICITS REDUCED**
 - CURRENT ACCOUNT DEFICIT REDUCED FROM 2.8% OF GDP TO 1.6%. HAD OIL PRICES NOT RISEN THE DEFICIT WOULD HAVE BEEN ONLY 1%**
 - EXPORT GROWTH RATE OF 10%**
 - INFLATION LESS THAN 4%**
 - MONETARY AGGREGATES HAVE BEEN CONTAINED**

CHALLENGES:

- **HIGH EXTERNAL AND DOMESTIC DEBT BURDEN WHICH PUTS SERIOUS PRESSURE ON BALANCE OF PAYMENTS, FOREIGN RESERVES AND BUDGETARY ACCOUNTS.**
- **POVERTY HAS RESURGED OVER THE LAST DECADE AS GROWTH RATE HAS SLOWED DOWN AND POOR GOVERNANCE AND WEAK FISCAL POSITION DID NOT PERMIT THE DELIVERY OF GOODS AND SERVICES TO THE POOR. POVERTY-TARGETED PROGRAMS HAVE BEEN INITIATED.**
- **LINGERING DISPUTE WITH THE HUB POWER CO – THE LARGEST INDEPENDENT POWER PRODUCER – SHOOK FOREIGN INVESTOR CONFIDENCE. NEGOTIATIONS HAVE MADE GOOD PROGRESS IN FINDING AN AMICABLE SOLUTION TO THIS PROBLEM.**
- **MANY KEY ECONOMIC INSTITUTIONS HAVE SUFFERED DUE TO POLITICAL INTERFERENCE IN APPOINTMENTS, CONTRACTS, ETC. AND ARE BEING REBUILT AND STRENGTHENED.**
- **CIVIL SERVICE, JUDICIARY AND LEGAL PROCESSES ARE HIGHLY CUMBERSOME AND COMPLEX AND CREATE UNNECESSARY BUREAUCRATIC HURDLES. REFORMS IN THESE SECTORS WILL RESULT IN DEVOLUTION OF POWER TO ELECTED REPRESENTATIVES WITH THE CIVIL SERVICE ACCOUNTABLE TO THE ELECTED HEADS OF THE DISTRICTS. LEGAL AND JUDICIAL REFORMS WILL IMPROVE THE DELAYS IN ENFORCEMENT OF CONTRACTS.**
- **SOCIAL SECTORS HAVE BEEN NEGLECTED IN THE PAST AND THE SOCIAL INDICATORS ARE UNSATISFACTORY. EMPHASIS IS BEING LAID ON BASIC HEALTH SERVICES, POPULATION CONTROL AND INCREASING GIRLS' ENROLMENT RATIO.**
- **INVESTOR CONFIDENCE REVIVAL AND PRIVATE SECTOR INVESTMENT ARE THE ONLY VIABLE VEHICLES WHICH WILL PROMOTE EMPLOYMENT AND OUTPUT EXPANSION IN THE ECONOMY. PUBLIC SECTOR ROLE HAS TO BE CONTAINED EXCEPT FOR COMPLEMENTARY INVESTMENTS IN PHYSICAL INFRASTRUCTURE AND HUMAN DEVELOPMENT.**

SELECTED MACRO ECONOMIC INDICATORS(1996-97 TO 2000-01)

(Up-dated on September 21, 2000)

| | Unit | 1996-97 | 1997-98 | 1998-99 | 1999-2000 | 2000-2001 (T) |
|---|------------|---------|---------|---------|-----------|---------------|
| <u>A.Real Sector</u> | | | | | | |
| -Real GDP | % | 1.9 | 4.3 | 3.2 | 4.8 | 4.5 |
| -Agriculture | % | 0.1 | 3.8 | 2.0 | 7.1 | 2.7 |
| -Large-Scale Manufacturing | % | -2.1 | 7.7 | 3.6 | -0.7 | 5.6 |
| -Excluding Sugar` | % | -2.2 | 1.2 | 4.6 | 6.0 | - |
| <u>B. Money & Inflation</u> | | | | | | |
| -Money Supply (M2) | % | 12.2 | 14.5 | 6.2 | 7.0 | 10.5 |
| -Inflation | | 11.8 | 7.8 | 5.7 | 3.6 | 6.0 |
| -Food Inflation | % | 11.9 | 7.6 | 5.9 | 2.2 | - |
| -Non-FoodInflation | % | 11.7 | 8.0 | 5.6 | 5.0 | - |
| <u>C. Fiscal</u> | | | | | | |
| -Development Expenditure (PSDP) | Rs.Billion | 85.5 | 105.2 | 109.0 | 95.6 | 115.4 |
| -CurrentExpenditure | Rs.Billion | 455.4 | 522.5 | 563.5 | 636.2 | 654.5 |
| -CE Minus Debt Servicing | Rs.Billion | 217.3 | 236.2 | 216.0 | 293.6 | 336.5 |
| -CE Miinus interest Payment | Rs.Billion | 293.3 | 326.2 | 350.2 | 391.1 | 414.8 |
| -CBR Tax revenue | Rs.Billion | 282.0 | 293.6 | 308.5 | 346.6 | 430.0 |
| -Fiscal Deficitas % of GDP | % | 6.3 | 7.7 | 6.1 | 6.5 | 5.0 |
| -Primary Deficit/(Surplus) | As% GDP | 0.2 | -0.3 | 1.3 | 1.2 | 1.8 |
| <u>D. External Sector</u> | | | | | | |
| -Exports (f.o.b) | Million \$ | 8096 | 8434 | 7528 | 8163.0 | 9355 |
| -Growth | % | -2.6 | 4.2 | -10.7 | 8.4 | 14.5 |
| -Imports (f.o.b) | Million \$ | 11241` | 10301 | 9612 | 9598.0 | 10491 |
| -Growth | % | -6.4 | -8.4 | -6.7 | -0.1 | 9.3 |
| -Trade Deficit (f.o.b) | Million \$ | -3145 | -1867 | -2084 | -1435 | -1136 |
| -Current AccountDeficit | Million \$ | -3346 | -1921 | -2224 | -1010 | -981 |
| -As % GDP | % | -6.1 | -3.1 | -3.8 | -1.6 | -1.6 |
| Foreign Exchange Reserves (End June) | Million \$ | 1219 | 930 | 1740 | 1358 | 2429 |
| -Exchange Rate | Rs.per\$ | 40.5 | 44.6 | 50.1 | 51.8 | 57.6 |

*Provincial

T Target

