

ECONOMIC REVIEW

Pakistan's economy continues to gain traction as it experiences the longest spell of its strongest growth in years. Economic growth accelerates to 7.0 percent in 2006-07 at the back of robust growth in agriculture, manufacturing and services. Pakistan's growth performance over the last five years has been striking. Average real GDP growth during 2003-07 was the best performance since many decades, and it now seems that Pakistan has decisively broken out of the low growth rut that it was in for more than one decade. Economic growth has been notably stable and resilient. With economic growth at 7.0 percent in 2006-07, Pakistan's real GDP has grown at an average rate of 7.0 percent per annum during the last five years (2003-07) and over 7.5 percent in the last four year (2004-07) in running. The good performance has resulted from a combination of generally sound economic policies, on-going structural reforms and a benign international economic environment. Based on the performance of half-a-decade of strong, stable, resilient and broad-based economic growth it appears that Pakistan's economy will continue to be a high mean, low variance economy over the medium-term.

This year's economic growth is mainly driven by strong domestic demand with investment taking lead over consumption for the first time in the last three years. Net exports appear to have been a drag on overall growth in 2006-07. Almost 53 percent contribution to this year's growth came from investment while consumption contributed 50 percent. Net exports contributed negatively to the extent of 3.0 percent. This year's economic growth has benefited from higher consumption and investment demand owing to a growing middle class and favourable demographics. Increased contribution of investment to growth is a healthy development as it will engender employment growth which will support consumption demand and together they will play an important role in sustaining strong growth momentum in the medium-term.

GDP Growth

Real GDP growth accelerated to 7.0 percent in 2006-07 as against the revised estimates of 6.6 percent last year and the 7.0 percent target for the year. The final estimate for 2004-05 has also been revised upward to 9.0 percent as against the revised estimate of 8.6 percent for the year. Thus, over the last four years the real GDP has grown at an average rate of 7.5 percent per annum. This year's growth has been broad-based as agriculture, manufacturing and services have grown robustly.

Services Sector

The services sector continued to perform strongly for third year in a row and grew by 8.0 percent in 2006-07 as against 9.6 percent last. Services sector has grown at an average rate of 8.7 percent per annum during the last three years. Almost 60 percent contribution to this year's growth has come from services sector.

Per capita income

Per capita income, defined as GNP at market price in dollar terms divided by the country's population, grew by 11 percent this year to US\$925 up from US\$833 last year. The per capita income in dollar terms has grown at an average rate of 13 percent per annum during the last five years, rising from US\$ 586 in 2002-03 to US\$ 925 in 2006-07.

Investment

Investment is a key determinant of economic growth. During the fiscal year 2006-07, the real gross fixed capital formation (real investment) grew by 20.6 percent as against 17.6 percent last year. Over the last three years, real fixed investment grew at an average rate of 17.3 percent. As percentage of GDP, total investment reached new heights touching 23 percent in 2006-07 increasing from 21.7 percent last year. Foreign direct investment (FDI) has also emerged as a major source of private external flows in Pakistan as well as contributing to the growth of domestic fixed capital formation. FDI grew by almost 37 percent in the first ten month of the current fiscal year to US\$ 4.16 billion as against US\$ 3 billion in first ten month of last fiscal year.

Capital Market

Pakistan's stock market is benchmarked through the Karachi Stock Exchange 100-index (KSE-100). This index stood at 9989 points at the end of the fiscal year 2005-06. The KSE-100 index rose by 24 percent since then to 12370 points until April 2007. During the same period total market capitalization increased by 28.6 percent rising from Rs 2801 billion (\$ 46.5 billion) to Rs 3604 billion (\$ 59.4 billion). The index reached all time high of 12961 points on 31st May 2007. Aggregate market capitalization also increased by 35.0 percent from Rs 2801 billion in June 2006 to Rs 3781 billion (\$ 62.3 billion) as of 31st May 2007.

Exports

Exports were targeted at \$ 18.6 billion or 12.9 percent higher than last year. Exports during the first ten months (July-April) of the current fiscal year are up

by 3.4 percent – rising from \$ 13.46 billion to \$ 13.9 billion in the same period last year. Exports of textile manufactures grew by 6.2 percent. Prominent among these are export of knitwear (13.9%), readymade garments (6.8%), made up articles (8.9%), cotton yarn (4.6%), and towels (2.6%). Exports of other textile materials registered a high double digit growth of 17.2 percent. Export of raw cotton, cotton cloth and bed wear on the other hand registered a decline. Exports of engineering goods increased by 6.7 percent while exports of petroleum products declined by 2.7 percent.

Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves stood at \$ 13,738 million at the end of April 2007, considerably higher than the end-June 2006 level of US\$ 13,137 million. Of these, reserves held by the State Bank of Pakistan amounted to \$ 11561.5 million and that by banks stood at \$ 2,176.9 million. In terms of reserves adequacy, the amount of reserves as of end April 2007 is sufficient to meet over 6 months of imports.

The Privatization Program

Privatization is the cornerstone of the successful economic reforms of the Government. As a result of these reforms which also included liberalization and de-regulation accompanied by transparency, good governance and continuity and consistency of policies, the economy has been completely transformed and the country has been placed on the path of rapid and sustained growth. The government is pursuing privatization policy vigorously and has achieved unprecedented success during the past seven years. From 1999 to date, a total amount of US\$ 6.1 billion have been realized from 61 transactions, which represents 87 percent of the total privatization proceeds of US\$ 7 billion from 1991 to date (from 163 transactions). During the period July 2006 to February 2007, the Privatization Commission completed five transactions that fetched an amount of Rs.67.664 billion. OGDCL's 10 percent listing and domestic offering was over subscribed yielding a total amount of \$ 811 million, which reflected the confidence of investors in the policies of government. The privatization transactions of Pakistan State Oil (PSO), Roosevelt Hotel, New York, Services International Hotel, Lahore, National Investment Trust Limited (NITL), Genco-1 Jamshoro, Hazara Phosphate Fertilizers Limited are at various stages of processing and are likely to be brought to the bidding soon.