Pakistan's Economic Situation During the First Quarter (July-September), 2000-01

I. Introduction

Pakistan's economy is passing through a critical phase in its history. Persistent lapses and frequent interruptions in the implementation of structural reforms and stabilization measures in the past have caused deceleration in economic activity on the one hand and serious macroeconomic imbalances on the other. The rising levels of poverty are the natural outcome of these developments. As against an average growth rate of 6.2 percent per annum in the 1980s, the real GDP growth slowed to an average of 5.1 percent and further to 4.2 percent in the first and second halves of the 1990s. Large fiscal deficits continue to pose a serious threat to macroeconomic stability. Fiscal deficits as percentage of GDP averaged 7.1 percent in the 1980s but increased to 7.5 percent in the first half of the 1990s. The figure declined marginally to 7.0 percent in the second half of the 1990s, mainly through material cuts in development expenditure. The current account deficit is another indicator of the macroeconomic imbalances. This has fluctuated since the 1980s but averaged at 4.5 percent in the 1990s. Low levels of foreign exchange reserves have necessitated declines in current account deficit in some years with consequential negative impact on the growth of the economy.

Declining economic growth, persistence of severe macro-economic imbalances, lack of social safety nets, coupled with poor governance in the 1990s have had adverse effects on the country's most vulnerable income groups. The incidence of caloric-based poverty has increased from 17.3 percent in 1987-88 to 22.4 percent in 1992-93 and further to 32.6 percent in 1998-99. In other words, the number of poor people who cannot meet their daily minimum nutritional requirements fell below the poverty-line, increased from 17.6 million in 1987-88 to 44 million in 1998-99[1]. It is generally accepted that entrenched poverty and rising income inequality can themselves be impediments to growth.

Following October 1999, an attempt has been made to stem the rot. There is a recognition of the fact that the recovery will be gradual given the depth and severity of economic problems. The last year's indicators however, show that the economy has begun to stage a modest turnaround. The performance of the economy during the last fiscal year was mixed and in line with expectations. There were positive short-term developments along with indicators of underlying weaknesses which will require sustained attention until an improvement is visible. but at the same time there were weaker areas which are receiving greater attention in the current fiscal year (2000-01). A modest recovery in growth, strong rebound in agriculture, broad-based growth in large-scale manufacturing **excluding** sugar, lowest inflation in two decades, containment of money supply growth at targeted level, a significant increase in exports, and improvement in the trade and current account balances are certainly the positive developments of the last fiscal year (1999-2000).

[1] It is important to note that no consistent estimates of poverty are available for Pakistan. The number stated above are derived by different authors using different poverty-lines and/or different methodologies. Therefore, the statistics presented in the text should be used with great caution.

The large fiscal deficit continues to be a major source of concern. The fiscal situation deteriorated slightly in 1999-2000 compared with that in 1998-99. This could have deteriorated further had the present government not decided to take a series of revenue and expenditure measures in mid-year. Reducing the fiscal deficit is, therefore, the centerpiece of the government's stabilization policies for the current fiscal year. This will continue to attract close attention over the medium-term as well.

Another area of concern is the level of poverty in the country. The incidence of poverty has increased in the 1990s. Sustainable economic growth accompanied by macroeconomic stability is ultimately the most powerful means of reducing poverty over the medium-term. However, some direct anti-poverty programmes and higher productivity from social sector investment will assist in alleviating poverty over the medium-term.

With a view to consolidating the last years gain in some areas and making further progress in others, the government has set modest targets for the key economic variables for the fiscal year 2000-01. These targets will be discussed as we proceed further. The first quarter (July-September) of the current fiscal year (2000-01) has ended on September 30, 2000. What has been the performance of the key macroeconomic aggregates during the first quarter? What are the possibilities of achieving the targets? This report attempts to provide answers to these queries.

The report is structured as follows: in section II, we review the performance of the real sector where discussion on the outlook of agriculture and the performance of large-scale manufacturing are contained. An update on the privatization programme is also included in section II. A review of the fiscal and monetary developments during the first quarter is contained in section III. The price situation has been analysed in section IV while a detailed discussion on external sector is reported in section V. Concluding remarks are contained in the final section.

II. REAL SECTOR

Against a backdrop of declining economic growth during 1996-99, a modest recovery in real GDP growth was witnessed in 1999-2000. As against an average growth rate of 3.1 percent during 1996-99 the real GDP grew by 4.8 percent last year (1999-2000). The real GDP is targeted to grow by 4.5 percent in the current fiscal year (2000-01) as against the provisional estimates of 4.8 percent last year. Fixing real GDP growth target lower than last year estimates was based on two considerations. Firstly, as will be explained below, the agricultural sector is not going to repeat its performance this year because of the shortage of irrigation water to the extent of 31 percent. Secondly, the current year's performance will be measured from a relatively higher base.

II.1 Agriculture

Agriculture has staged an impressive recovery during the last fiscal year (1999-2000). As against a growth rate of 2.0 percent in 1998-99, agriculture grew by 7.1 percent. The production of three major crops (wheat, rice and cotton) surpassed the targets by a wide margin. The performance of sugarcane has, however, been poor. The details are presented in Table-1.

Agriculture growth target for the current fiscal year (2000-01) has been scaled down to 2.6 percent as against an impressive growth of 7.1

percent last year owing mainly to the protracted drought situation and shortage of irrigation water to the extent of 31 percent. **The crop situation as on October 31, 2000 for the fiscal year 2000-01 is reviewed below.**

Table 1: Production of Major Crops

(Million Tons)

Major Crops	**1998-99 Actual**	**1999-2000**		**% Increase (Actual over Actual)**
		Target	**Actual**	
Wheat	17.90	19.9	21.094	17.8
Rice	4.67	4.96	5.156	10.3
Cotton (Million Bales)	8.79	9.70	11.240	27.9
Sugarcane	55.19	55.66	46.333	-16.0

Source: MINFAL

Cotton

Cotton crop was targeted to be sown in the area of 2.930 million hectare with a production target of 9.7 million bales. The latest information suggests that the area sown under cotton has surpassed the target by 1.5 percent, i.e., 2.973 million hectare. The area sown under cotton in Punjab was 5.8 percent higher than the target (2.433 million hectares as against the target of 2.3 million hectares). The sowing of cotton in Sindh was however, seriously affected by shortage of water. As against the target of 630,000 hectares, cotton is sown in the area of 522,000 hectares, i.e. 7.2 percent lower than the target. The loss in area sown in Sindh was more than compensated by higher sowing in Punjab. The provisional estimates as reported by the Provinces to the Federal Committee on Agriculture (FCA) on October 31, 2000 suggest that the size of the cotton crop is 9.5 million bales as against the target of 9.7 million bales and last year's production of 11.24 million bales. In other words, the size of the cotton crop is 15.4 percent lower than last year (See Table.2). Water shortage and attack of American Boll worm and white fly are responsible for the decline in cotton production this year.

Table:2 Targets and Achievements of Major Crops 2000-01

Crops	2000-01				1999-2000 Production	% Change in 2000-01 over 1999-2000
	Area		Production			
	Target	Achievement	Target	Achievement		
Cotton*	2930	2973.3	9700	9504.6	11240	-15.4
Rice	2411	2314.4	5102	4520	5156	-12.3
Sugarcane	1000	925.0	51647	41800	46333	-9.8
Wheat	8430	-	20000	-	21094	-

Source: MINFAL
Note: Area (000 Hectares); Production (000 Tons)
*: Production in thousand bales.

Sugarcane

The area under sugarcane was targeted at 1.0 million hectare and production was targeted at 51.6 million tons—11.4 percent higher than last year's production. The latest information suggests that the area sown under sugarcane was 7.5 percent below the target (925,000 hectares against 1.0 million hectares). In Punjab, the area sown was 10.6 percent below the target, mainly due to the shortage of water. In Sindh, however, the area sown under sugarcane has surpassed the target by 5.2 percent (263,000 hectares against the target of 250,000 hectares) mainly because it escaped the shortage of water as crop is sown there in September. In NWFP, the area sown is at the last year's level. The provisional estimates, as reported by the Provinces to the FCA meeting on October 31,2000, suggest that the size of the sugarcane crop is 41.8 million tons as against the target of 51.6 million tons and last year's production of 46.33 million tons. In other words, sugarcane production is 12.3 percent lower than last year (See Table 2).

Rice

Rice was targeted to be sown in 2.411 million hectares area and production was targeted at 5.1 million tons. The sowing time for rice in Sindh was June/July and for Punjab it was July/August. As a result of the shortage of water, 78 percent area was sown under rice crop in Sindh. While area sown in Punjab was 3.4 percent above the target, it was more or less at the last year's level in NWFP and Baluchistan. The provisional estimates, as reported by the Provinces to the FCA meeting on October 31, 2000, suggest that rice production is 4.5 million tons as against the target of 5.1 million tons and last year's production of 5.156 million tons. In other words, rice production is 9.8 percent lower than last year (See Table.2).

Wheat

Wheat is a Rabi crop. The target for area sown and production are fixed for 2000-01 at 8.43 million hectare and 20 million tons, respectively (See Table.2). Provisional estimates of wheat production will be available around May 2001.

11.2 Manufacturing

Large scale manufacturing registered a **decline** of **0.7** percent as against an increase of 3.7 percent last year. Large-scale manufacturing **excluding sugar** grew by 6.0 percent in 1999-2000 as against an increase of 4.6 percent. Sugar production declined by 31.4 percent mainly because of the 16.0 percent decline in cane production.

Large-scale manufacturing is targeted to grow by 6.2 percent in 2000-01. Information for the first two months (July and August) suggests that the industrial sector performed rather well in August than in July 2000. Industrial production grew by 2.6 percent in July 2000 as against 7.7 percent in July 1999 **but growth accelerated to 6.8 percent in August 2000 as against 5.3 percent in August 1999.** On cumulative basis (July-August) industrial production grew by 4.7 percent in 2000-01 as against 6.5 percent in the comparable months of last fiscal year. Vegetable ghee (13%), cooking oil (8%) and cigarettes (24.3%) performed well in food, beverages and tobacco group, which grew by 6.8 percent. Cotton cloth (10.7%), and woolen and carpet yarn (18.8) performed well in textile sector, which grew by 3.1 percent. Leather products show a reasonable growth of 10.9 percent while basic metal industries registered a growth of 20.4 percent. Most importantly, **automobile sector** has picked-up. This sector had registered a decline of 16.7 percent last year but in the first two months of the current fiscal year

Table 3: Month-wise Industrial growth (July-August 1999-2000)

Months	1998-99	1999-2000
July	7.7	2.6
August	5.3	6.8
July-August (Cumulative)	6.5	4.7

Source: FBS

automobile sector grew by 12.3 percent. On the whole, the growth target of 6.2 percent for industrial sector is likely to be achieved.

Table 4: Group-wise Growth Performance

(% Growth in July-August 2000)

Group		2000-01
A.	Food, Beverages & Tobacco	6.8
	(Sugar)	(0)
B.	Textile and Apparel	3.1
C.	Leather Products	10.9
D.	Paper Printing & Publishing	36.0
E.	Chemicals, Rubber & Plastics	1.8
F.	Petroleum Group	12.0
G.	Tyres & Tubes	-26.7
H.	Non-Metallic Mineral Products	-11.9
I.	Basic Metal Industries	20.4
J.	Metal Products, Machinery & Equipment	-12.3
K.	Automobile	12.3
	Overall Growth	4.70
	Excluding sugar	4.70

Source: Economic Adviser's Wing

II.3 Privatization

Privatization Programme

The privatization programme was launched in 1991 in order to minimize the governments' role in commercial and business activities. So far 103 units have been privatized. The process of privatization remained slow since 1994 mainly due to litigation, depressed international markets after the East Asian Crisis, economic sanctions, and economic health of state-owned-enterprises (SOEs). The present government has prepared a privatization programme including action plan, critical success factors and short (0-8 months), medium (8-20 months) and long-term (beyond 20 months) transactions. The major principles of the privatization policy include: (a) strategic assets will remain outside the program (b) formulation of new procedure to realize highest price, transparency and fair play and (c) the proceeds of the privatization would be used for debt retirement.

The Privatization Commission Ordinance was finalized and promulgated on September 28, 2000.

The following main activities have been undertaken during September-October, 2000:

a) Oil & Gas Sector (Sale of Non-Core Assets)

i) The Cabinet Committee on Privatization approved the sale of LPG Business of SSGC on 13th September, 2000 and sale agreement has been signed on 24th October, 2000. However, it has been decided to re-auction the LPG Business of SNGPL & PSO.

ii) The transaction for Meter Manufacturing Plant of SSGC is at final stage and bidding is expected to be held in December, 2000.

iii) The Natural Gas Regulatory Authority has been established to facilitate the privatization of state owned entitles in the gas sector.

iv) The appointments of Merrill Lynch Consortium as financial advisers for privatization of OGDCL and that of Gaffney Cline & Jardine Fleming Consortium for working interests in oil & gas sectors have been approved. The agreement for the working interests has been singed and that for the OGDCL it is expected to be signed in November, 2000.

b) PTCL

The regulatory framework and rules have been vetted by the Law Division and are being notified to facilitate the privatization of PTCL.

c) Listing of GOP Shares on Stock Exchanges

Listing and public offer of GOP owned shares of SSGC, ABL, Muslim Commercial Bank, National Bank of Pakistan and Habib Bank Ltd have been made on the stock exchanges in Pakistan.

d) Privatization of State Owned Entities & Industries

The privatization process is also at various stages in respect of the sale of state owned 4 entities (HBL, UBL, NIT & ICP) and 8 industries (Pak Saudi Fertilizer Ltd, Associated Cement (Rohri) Ltd, Harnai Woollen Mills, Dir Forest Industries, Shadadkot Textile Mills, Pak Suzuki Motorcycle & PECO, Badami Bagh (Lot B)).

III. FISCAL AND MONETARY

III.1. Fiscal Developments

Large fiscal deficit has emerged as one of the major source of macroeconomic imbalances in Pakistan. The serious macroeconomic imbalances that persisted in the 1980s in terms of large fiscal deficit (7.1% of GDP) continued in the 1990s despite several revenue measures taken in the successive budgets on the one hand and cut in development expenditure on the other. Fiscal deficit in the first half of the 1990s remained, on average, at 7.5 percent of GDP but declined slightly to an average of 7.0 percent in the second half of the 1990s. Last fiscal year (1999-2000) ended with a budget deficit of 6.5 percent of GDP. The government is fully aware of the consequences of maintaining a large fiscal deficit and therefore has taken a series of fiscal measures to bring the deficit down to 5.2 percent of GDP in 2000-01.

Table 5: Federal Revenue Collection

(Billion Rs)

	1999-2000	**2000-01**	**% Increase**
July	18.8	21.1	12.2
August	20.6	26.4	28.2
September	33.2	32.5	-2.1
July-September (Cumulative)	72.688	79.942	10.0
Targets for the year		**430.0**	
Targets for Ist Quarter		**82.55**	
Achievements in Ist Quarter		**79.9**	
% Achievement		96.8	

P= Provisional — Source: CBR

Accordingly, the annual target of federal tax collection for the fiscal year 2000-01 by the CBR has been fixed at Rs.430 billion, which is

Table 6: Tax-Wise Performance (July-September)

(Billion Rs)

	Target For 2000-01	**1999-2000**	**2000-01**	**% Increase**	**% Achievement of the Target**
Direct Tax	138.44	21.3	21.64	1.5	15.6
Sales Tax	176.67	21.4	31.5	47.2	17.8
Central Excise	50.29	12.9	12.7	-1.1	25.3
Customs	64.64	17.1	14.1	-17.8	21.8
Total Tax Collection	430.0	72.6	79.9	10.0	18.6

Source: CBR

24.1 percent higher than last year's collection. Provisional tax collection during the first quarter (July-September) of the current fiscal year 2000-01 amounted to Rs.79.9 billion, which is 10.0 percent higher than the net collection of Rs.72.7 billion of the corresponding quarter of last year. Tax collection target for the first quarter was set at Rs.82.55 billion but the actual collection stood at Rs.79.9 billion, which was 97 percent of the target. Direct taxes have increased by 1.5 percent and indirect taxes increased by 13.5 percent on net basis. Within indirect taxes, sales tax have registered a growth of 47.2 percent mainly because of the import bills of POL products, withdrawal of exemptions on some items, broadening of the tax base of sales tax, and drive to collect arrears. Custom duties have declined by 17.8 percent mainly because of slower growth in dutiable imports in rupee term. Similarly central excise collection declined by 1.1 percent over the corresponding period of last year. (See Tables 5 and 6).

At the end of the first quarter the CBR has collected 18.6 percent of the overall target. The achievements of direct and indirect taxes were 15.6 percent and 20 percent, respectively. For details see Tables 5 and 6.

III.2 Monetary and Credit Developments

As a result of prudent monetary management the money supply growth remained on the target during the fiscal year 1999-2000. Monetary expansion (M2) target for 2000-01 has been set at Rs 147.0 billion or 10.5 percent higher than last year. During July-September, 2000, money supply (M2) contracted by 0.25 percent as against a contraction of 1.2 percent during the same period last year. Contraction of money supply in the first quarter is a normal phenomenon. Domestic credit increased by 1.1 percent or by Rs 16.5 billion against the target of Rs 87.0 billion for 2000-01 and a contraction of Rs 13.3 billion during the comparable period of last year [see Table 7].

Borrowing for budgetary support (net) amounted to Rs 36 billion during July-September, 2000 as against the retirement target of Rs 2.2 billion for the whole year and an increase of Rs 10.9 billion in the same period last year [see Table 7]. There was a contraction of credit to the private sector to the tune of Rs 4.5 billion during July-September, 2000 as compared to a contraction of Rs 19.8 billion during the same period last year.

III.3: Interest Rates

The weighted average lending rate has come down from 14.61 percent in June 1999 to 12.66 percent in August 2000 but moved upward to 13.2

Table 7: MONETARY SURVEY (FLOWS)

(Rs.Million)

		Credit Plan 2000-01	01-07-99 To 30-09-00 (P)	01-07-99 To 30-09-99
I.	Government Sector Borrowing (Net)	-2200	23877	5464
	Gross Budgetary Borrowings	29800	49863	26329
	Speical Account-Debt Repayment	-32000	-13870	-15446
	A. Net Budgetary Borrowings	-2200	35992	10883
	B. Commodity Operations (Commercial Banks)	0	-11554	-4252
	C. Effect of Zakat Fund/Privatization etc.	0	-730	-204
	D. Others (e.g. Credit to NHA & CAA by Commercial Banks)	0	169	-963
II.	Non-Government Sector	89200	-935	-23865
	A. Public Sector Enterprises	4000	-9762	-9384
	B. Net Credit to Private Sector & PSCEs	85200	8827	-14481
	(Credit to Private Sector & PSCEs)	(99800)	0	0
	i. Commercial Banks	94400	-2121	-16615
	a. PSCEs	0	2359	3208
	b. Private Sector	0	-4479	-19823
	ii. Other Financial Institutions	5400	12740	5068
	iii. PSEs Special Account Debt Payment with SBP	-14600	-1792	-2934
III.	Other Items (net)	0	-6477	5094
IV.	Domestic Credit Expansion (+)/Contraction(-) (I+II+III)	87000 (6.00%)	16466 (1.13%)	-13307 (-1.00%)
V.	**Foreign Assets (Net)**	**60000**	**-19898**	**-1579**
VI.	**Monetary Expansion (+)/Contraction (-) (IV+V)**	**147000 (10.50%)**	**-3432 (-0.25%)**	**-14886 (-1.16%)**

P= Provisional

Source: State Bank of Pakistan

percent in September 2000 as a result of the tightening of monetary policy by the SBP. The weighted average deposit rate has also declined from 7.96 percent in June 1999 to 6.63 percent in September 2000. However, due to lower rate of inflation during the current fiscal year the real lending and deposit rates averaged 8.2 percent and 1.9 percent, respectively during the first quarter. One of the weaknesses of the financial sector has been the large spread between the lending and deposit rates. Despite banking sector reform the average spread remained as large as 6.4 percent during the first quarter of the current fiscal year which is marginally lower than last year (6.65% in June 1999)(See Table 8).

Table-8: Weighted Average Lending and Deposit Rates

(Percent)

Period	Deposit Rate	Lending Rate
December 1998	8.45	15.88
June 1999	7.96	14.61
December 1999	7.30	14.40
June 2000	7.37	12.94
July 2000	6.80	13.30
August 2000	6.63	12.66
September 2000	6.63	13.20

Source: State Bank of Pakistan.

In an effort to achieve the twin objectives of reducing the government's cost of borrowing on domestic debt and at the same time encouraging private sector credit expansion, the SBP, starting in July 1998, has been pursuing a relatively easy monetary policy. The SBP has succeeded in reducing the interest rate of T-Bills by 8.2 percentage points (6 &12 months maturity) until July 27, 2000. Beginning August 2000, the SBP has been pursuing a relatively tight monetary policy, which led to the sharp increase in the T.Bills rate of 6 and 12 months maturity. The last auction (November 1, 2000) saw the 6 months Treasury Bills yield rising to almost 11.0 percent from 7.38 percent on August 24, 2000 and 12 months yield rising from 8.01 percent to 11.48 percent during the same period. Thus, in a short span of less than two months the six and twelve months treasury bills yield increased by 3.6 percentage points and 3.5 percentage points, respectively (see Table-9) and Fig.1.

III.4: Non-performing and Defaulted Loans

The total non-performing loans of bank and DFIs were Rs 212.0 billion in June 1999, which increased to Rs 239.5 billion in June 2000 --- an increase of 13.0 percent. It further increased to Rs 263.1 billion by September 2000. In other word, during the last 3 months the non-performing loan increased by Rs 23.52 billion or by 9.8 percent. The defaulted loans of bank and DFIs, which amounted to Rs 143.1 billion in June 1999, increased to Rs 148.1 billion in June 2000-an increase of Rs 5.0 billion in one year. The defaulted loans increased marginally to Rs 149.1 billion by September 30, 2000, i.e. an increase of Rs 1.0 billion in three months. It may however, be noted that the defaulted loans of Rs 1.0 million and above of all the domestic and foreign banks have decreased by Rs

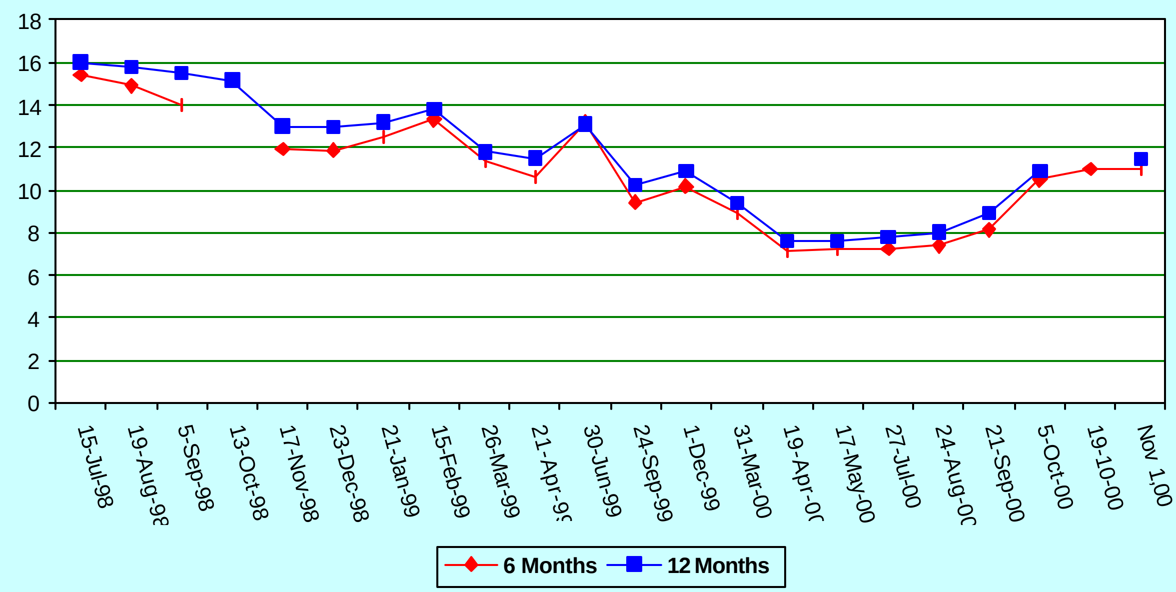
Table-9Auction of Treasury Bills (Weighted Average Yield)

Period	6 Months	12 Months
July 15, 1998	15.41	16.00
August 19, 1998	14.91	15.78
September 5, 1998	14.00	15.49
October 13, 1998	-	15.18
November 17, 1998	11.96	12.99
December 23, 1998	11.87	12.98
January 21, 1999	12.46	13.17
February 15, 1999	13.30	13.81
March 26, 1999	11.35	11.80
April 21, 1999	10.60	11.50
June 30, 1999	13.17	13.08
September 24, 1999	9.43	10.20
December 1, 1999	10.16	10.89
March 31, 2000	8.90	9.38
April 19, 2000	7.13	7.59
May 17, 2000	7.20	7.61
July 27, 2000	7.23	7.78
August 24, 2000	7.38	8.01
September 21, 2000	8.14	8.93
October 5, 2000	10.47	10.91
October 19, 2000	11.00	R
November 1, 2000	10.99	11.48

Source: State Bank of Pakistan
Note R=Bids Rejected

2668 million and Rs 892 million, respectively in the three months of the current fiscal year. It is the defaulted loans of the DFIs, which have increased from Rs 25.082 billion to Rs 28.809 billion—an increase of Rs 3727 million in three months.

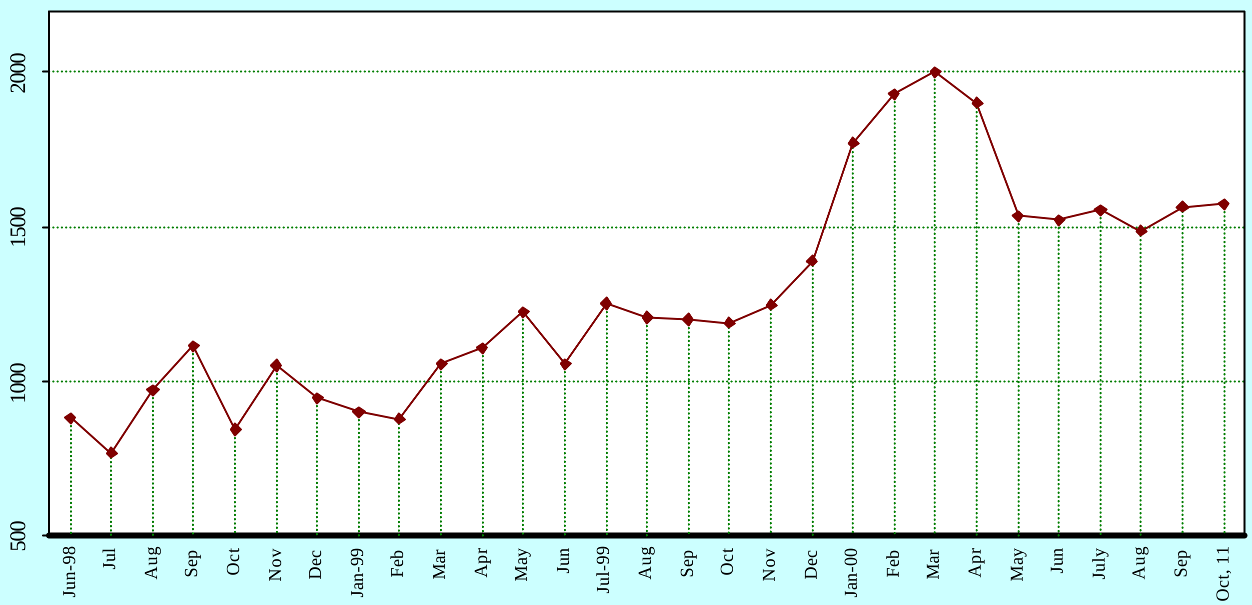
Figure 1: Auction of Treasury Bills (Weighted Yield)



III.5: Stock Market

After touching the lowest ebb in the preceding year, the leading stock markets indicator displayed some modest recovery during 1999-2000. The Karachi Stock Exchange Price Index (KSE Price Index) increased from 1054.7 points in June 1999 to 1520.7 points in June 2000—an increase of 466 points. Aggregate market capitalization increased from Rs 289.2 billion in June 30, 1999 to Rs 391.9 billion in June 30, 2000 recording a gain of Rs 103 billion during 1999-2000. During the first four months (ending October 30, 2000) of

Figure 2: Monthly KSE Price Index
(1998-2000)



the current fiscal year the KSE index exhibited stability and remained around 1500 points (see Table 10, Fig 2).

The aggregate market capitalization also remained at Rs.39.0 during the first four months of the current fiscal year. Over the last one year, i.e., from October 1999 to October 2000, the KSE Index is up by 300 points and market capitalization is higher by Rs 66.6 billion [see Table 10].

See Table 10: Monthly Business Trends at Karachi Stock Exchange (KSE)

Period End Month	KSE Price Index	Aggregate Market Capitalization (Rs Billion)
June 1998	**879.6**	**259.4**
July 1998	766.0	270.0
August 1998	970.8	279.6
September 1998	1111.5	313.6
October 1998	841.7	248.3
November 1998	1051.0	298.4
December 1998	945.2	265.6
January 1999	**900.6**	**253.5**
February 1999	874.9	260.9
March 1999	1056.8	289.5
April 1999	1107.0	298.9
May 1999	1222.0	325.2
June 1999	1054.7	289.2
July 1999	1251.8	330.4
August 1999	1206.5	321.8
September 1999	1199.3	322.0
October 1999	1189.3	319.5
November 1999	1247.4	334.3
December 1999	1389.2	361.3
January 2000	**1772.8**	**445.1**
February 2000	1930.6	484.7
March 2000	1999.7	500.1
April 2000	1901.1	481.3
May 2000	1536.7	400.1
June 2000	1520.7	391.9
July 2000	1554.9	401.0
August 2000	1488.9	393.2
September 2000	1564.8	405.0
October, 2000	1489.3	386.1

Source: State Bank of Pakistan & KSE.

IV: PRICES

Inflation on the basis of Consumer Prices Index (CPI) was 3.6 percent in 1999-2000 as against 5.7 percent of last year. Food inflation was 2.2 percent and non-food inflation was 5 percent in 1999-2000 as against 5.9

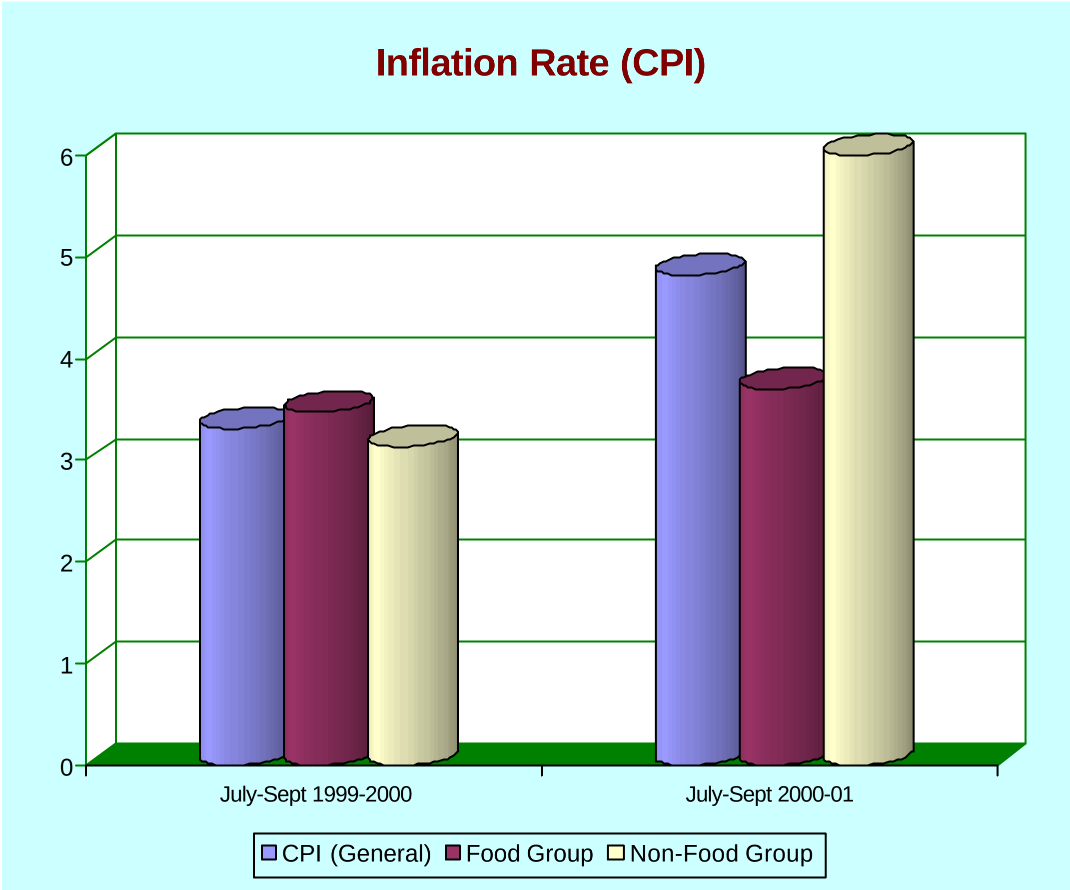


Table 11: Inflation Rate (CPI)				
Item	**July-Sept 1999-2000**	**July-Sept 2000-01**	**1998-99**	**1999-2000**
CPI (General)	3.31	4.82	5.74	3.58
Food Group	3.47	3.70	5.90	2.23
Non-Food Group	3.13	6.00	5.56	5.03
Source: Federal Bureau of Statistics				

percent and 5.6 percent respectively inflation is targeted at 6.0 percent in the current fiscal year (2000-01). During the first quarter (July-September) of the year, inflation is estimated at 4.8 percent as against 3.3 percent of comparable period of last year. The recent acceleration in inflation is mainly driven by oil price hike. The **core inflation** (inflation adjusted for oil price hike) is still around 3.1 percent but when the impact of fuel and lighting and concomitant increase in transport charges are taken into account the rate of inflation jumps to 4.8 percent.

Wholesale Price Index (WPI) measures the changes in prices of primary and wholesale markets and recorded an increase of 4.0 percent during July-Sept 2000 as against 2.9 percent in the same period of last year. The comparatively higher increase in the WPI over the last year has mainly been the result of increase in prices of Fuel, Lighting and Lubricant group (18.3%)[see Table 11a].

Table 11a: Inflation Rate (WPI, SPI and KII)

(Percent)

Commodity	Number of Items	Weight	July-Sept 1999-2000	July-Sept 2000-01	1998-99	1999-2000
General (WPI)	97	100.00	2.89	4.01	6.35	1.77
Food	40	45.79	2.65	2.72	6.00	1.27
Non-Food	57	54.21	3.11	5.17	6.66	2.23
Raw Materials	10	8.76	- 2.78	-5.53	10.02	-10.48
Fuel, Lighting & Lubricants	8	15.28	4.43	18.31	8.85	9.68
Manufactures	29	25.53	5.67	- 0.05	3.09	4.56
Building Materials	10	4.64	-2.33	2.73	1.02	-2.48
SPI	**47**	**52.61**	**3.13**	**4.23**	**6.44**	**1.83**
KII	**21**	**100.00**	**2.33**	**4.62**	**6.85**	**0.21**

Source: Federal Bureau of Statistics.

Sensitive Price Indicator is based on prices of 47 essential items of daily use. During July-Sept 2000, the rate of inflation as measured by the SPI was recorded at 4.2 percent as compared to 3.1 percent last year. The increase in the SPI-based inflation over last year was mainly due to increase in the prices of sugar and pulses [See Table 11a].

Kitchen Items Index (KII) covers prices of 21 essential items. A high level Committee on kitchen items keep a close watch on prices and supply position of these essential items through its regular weekly meetings and takes steps to control prices and increase supplies. The increase in kitchen items index during July-Sept 2000 has been recorded at 4.6 percent as against 2.3 percent last year. [See Table 11a].

V: EXTERNAL SECTOR

V.1: Exports

Exports during July-September, 2000 registered an increased of 14.5 percent – increasing from $ 1941.0 million to $ 2222.6 million. The increase in exports has come primarily from the exports of primary commodities (33.6%), textile manufactures (6.2%), and other manufactures (15.5%). Within **primary commodities,** exports of fish and fish preparation registered an increase of 27.5 percent and export of rice registered an increase of 17.5 percent. Pakistan was also able to export raw cotton worth $ 25.9 million as against no export in the same period last year [See Table 12].

Table 12: Structure of Exports (Million $)			
	JULY-SEPTEMBER		
Commodity	**2000-01***	**99-2000**	**Growth (%)**
A. Primary Commodities	**269.77**	**201.99**	**33.6**
Rice	107.44	91.44	17.5
Raw Cotton	25.91	0.00	-
Fish & Fish Prep.	41.53	32.58	27.5
Leather	49.04	36.56	34.1
B.Textile Manufactures	**1409.14**	**1326.44**	**6.2**
Cotton Yarn	259.62	236.58	9.7
Cotton Fabrics	250.00	282.44	-11.5
Knitwear	241.74	211.69	14.2
Bed Wear	173.52	178.15	-2.6
Readymade Garments	209.07	181.45	15.2
Synthetic Textiles	128.36	104.11	23.3
C. Other Manufactures	**316.55**	**274.04**	**15.5**
Carpets	50.91	50.74	0.3
Sports Goods	56.50	62.84	-10.1
Leather Manufactures	99.50	81.98	21.4
Surgical Instruments	24.28	27.77	-12.6
D. Others	**227.15**	**138.51**	**64.0**
Total	**2222.61**	**1940.98**	**14.5**
*Provisional	Source: Federal Bureau of Statistics.		

Within **textile manufactures**, exports of cotton yarn, knitwear, readymade garments and synthetic textiles have registered impressive growth [See Table 12]. This export growth has been achieved in the midst of declining unit values of Pakistan's major exports in the range of 0.2 to 29.2 percent**. It may be noted that Pakistan has lost $ 164.9 million in export earning because of the decline in unit values of its major exports. Had unit values of Pakistan's exports remained at last year's level the export growth would**

<u>have been 23.0 percent and not 14.5 percent, as achieved during July-September,2000.</u>

V.2: <u>Imports</u>

Imports during July-September, 2000 increased by 12.5 percent, increasing from $ 2427.7 million to $ 2731.3 million. [See Table 13]. The major increase in imports was observed in the petroleum group (83.8%) because of a 62.6 percent increase in the prices of its products and 42.0 percent rise in the price of crude petroleum. The import of agri/other chemicals group <u>declined</u> by 2.4 percent (See Table 13). The surge in imports was mainly due to an almost $ 454.5 million increase in import bills of the POL. Excluding petroleum group, imports have **<u>declined</u>** by 8.0 percent.

Table 13: Structure of Imports

(Million $)

	JULY-SEPTEMBER		
Commodities	**2000-01***	**99-2000**	**Growth (%)**
A. Food Group	**296.86**	**243.10**	**22.1**
Wheat Unmilled	9.42	42.90	-78.1
Soyabean Oil	13.70	29.45	-53.5
Palm Oil	81.23	86.30	-5.9
Sugar	91.15	0.36	25291.1
Pulses	32.52	16.53	96.7
B. Machinery Group	**451.98**	**495.34**	**-8.8**
Power Gen. Machines	38.62	28.87	33.8
Textile Machinery	84.53	34.36	146.0
Electric. Mach. & App.	31.49	35.14	-10.4
Construction & Mining	15.47	23.04	-32.9
Aagri.Machinery	5.03	12.09	-58.4
C. Petroleum Group	**996.76**	**542.27**	**83.8**
D. Textile Group	**33.65**	**41.74**	**-19.4**
Synthetic Fiber	17.46	22.75	-23.3
E. Agri/Other Chemicals Group	**456.91**	**468.22**	**-2.4**
Fertilizer	24.97	29.09	-14.2
F. Metal Group	**78.14**	**101.73**	**-23.2**
Iron & Steel	63.61	88.10	-27.8
G. Miscellaneous Group	**62.12**	**65.48**	**-5.1**
H.Others	**354.84**	**469.83**	**-24.5**
Total	**2731.27**	**2427.70**	**12.5**
Excluding Petroleum Group	**1734.51**	**1885.43**	**-8.0**
Excluding Petroleum and Food Groups	**1437.65**	**1642.33**	**-12.5**

*Provisional Source: Federal Bureau of Statistics.

Further more, **non-oil and non-food imports** have declined by 12.5 percent**.**. It may be noted that Pakistan has lost $ 326.1 million in terms of paying higher import bills because of the rise in unit values of its major imports. Had there been no change in unit values, Pakistan's import would have registered a decline of 0.9 percent as against an increase of 12.5 percent recorded for July-September, 2000.

V.3: Balance of Trade

The higher POL imports ($ 996.8 million) during July-September, 2000 has caused trade balance to deteriorate by 4.5 percent to $ 508.7 million from $ 486.7 million of the comparable period of last year (see Table 14).

Table 14: Monthly Exports, Imports and Trade Deficit

(Million $)

	1999-2000			2000-01		
Months	**Exports**	**Imports**	**Trade Deficit**	**Exports**	**Imports**	**Trade Deficit**
July	601.5	789.0	-187.5	688.8	801.2	-132.4
August	639.4	827.3	-187.9	789.2	979.5	-190.3
September	700.1	811.3	-111.2	764.6	950.5	-185.9
July-September	1941.0	2427.6	-486.6	2222.6	2731.2	-508.6

Source: Federal Bureau of Statistics.

V.4: Workers' Remittances

Workers remittances during July-September, 2000 amounted to $ 365.8 million as against $ 215.6 million in July-September, 1999 indicating a rise of 69.6 percent (See Table 15). Further disaggregation of workers' remittances suggests that cash inflow amounted to $ 351.0 million in July-September, 2000 as against $ 201.5 million in July-September, 1999 showing a rise of 74.2 percent. The remaining $ 14.8 million came from encashment and profit of Foreign Exchange Bearer Certificates (FEBCs) and Foreign Currency Bearer Certificates (FCBCs) as against $ 14.1 million in July-September, 1999. The substantial increase was attributed to one time inflow of $ 56.1 million from Iraq-Kuwait war affectees and Haj sponsorship scheme. Excluding the inflow of Iraq-Kuwait war affectees the worker's remittances have grown by 43.6 percent in the first quarter of the current fiscal year [see Table 15].

Table 15: Workers' Remittances
(Million $)

	1998-99			**1999-2000**			**2000-2001**		
Month	Cash Flow	Encash-ment*	Total	Cash Flow	Encash-ment*	Total	Cash Flow	Encashment*	Total
July	101.35	32.24	133.59	62.56	3.98	66.54	74.05	4.20	78.25
August	70.53	25.57	96.10	59.31	5.37	64.68	168.23a	4.21	172.44
September	51.98	19.15	71.13	79.72	4.79	84.51	108.73	6.34	115.07
October	53.71	24.48	78.19	141.65	2.96	144.61			
November	97.27	11.93	109.20	65.49	6.05	71.54			
December	82.61	10.09	92.70	78.78	6.90	85.68			
January	65.56	11.84	77.40	61.79	7.17	68.96			
February	58.83	9.10	67.93	56.92	9.16	66.08			
March	74.17	6.57	80.74	71.78	7.07	78.85			
April	56.05	15.97	72.02	57.16	6.98	64.14			
May	68.08	11.97	80.05	101.77	5.92	107.69			
June	95.41	5.73	101.14	76.56	3.89	80.45			
Total	**875.55**	**184.64**	**1060.19**	**913.49**	**70.24**	**983.73**			

* Encashment and profit of Foreign Exchange Bearer Certificates and Foreign Currency Bearer Certificates.
a: includes Iraq-Kuwait war affectees inflow of $ 56.1 million. Also includes inflow under Hajj sponsorship schemes.

Workers' Remittances
(Million $)

	July –September 2000	**July-September 1999**	**% Change**
Cash flow	351.0	201.5	74.2
Encashment	14.8	14.1	4.6
Total	365.8	215.6	69.6

Source: State Bank of Pakistan

V.5: Foreign Exchange Reserves

Foreign exchange reserves held by the State Bank of Pakistan stood at $ 1028.2 million on end-September, 2000, showing a decrease of 24.0 percent over the level of $ 1352.3 million as on 30-06-2000. Foreign exchange reserves as on November 3, 2000 stood at $ 1098.4 million, up by $ 70.2 million from end-September [see Table 16].

Table 16: Foreign Exchange Reserves (End Period)
(Million US $)

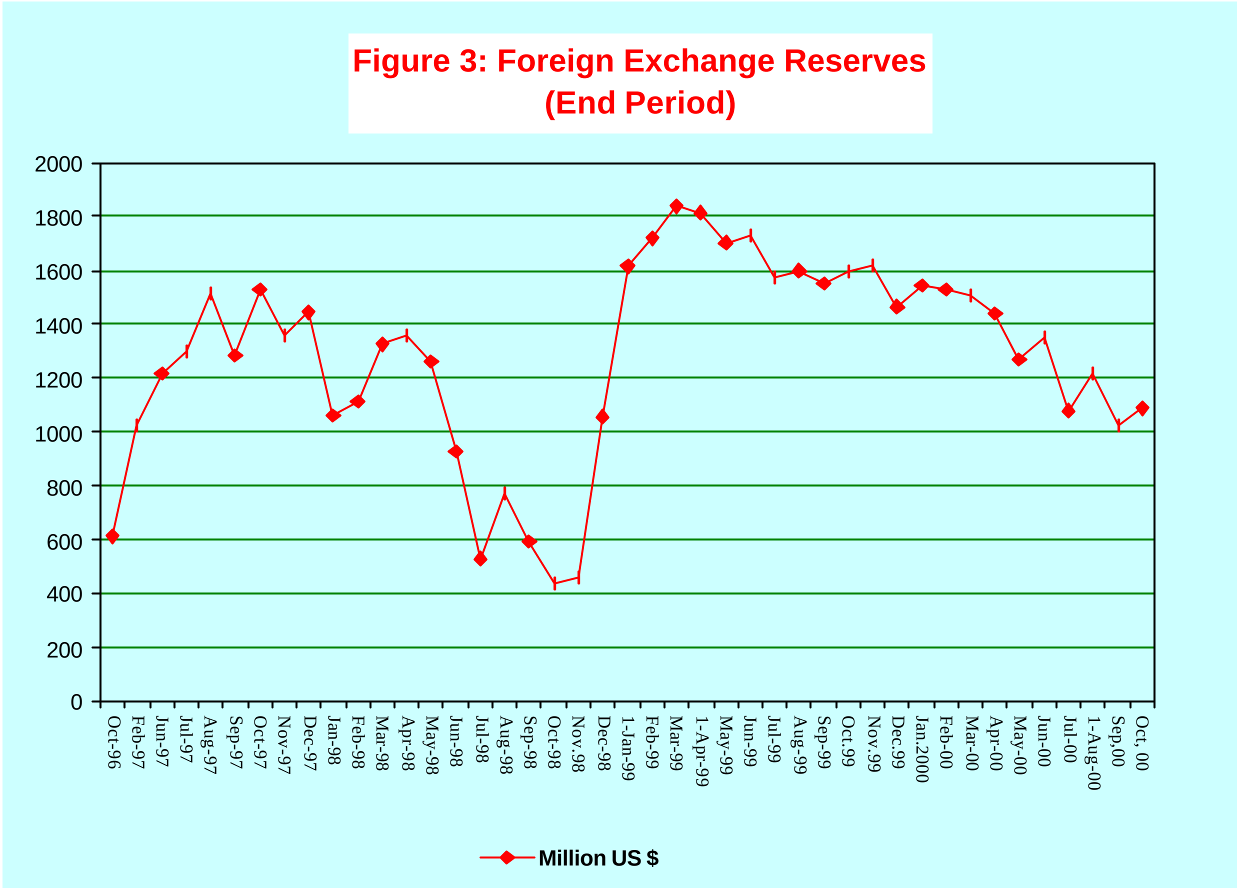
Month	1998	1999	2000
January	1059.5	1614.7	1545.0
February	1113.4	1721.0	1527.8
March	1326.5	1838.4	1507.2
April	1359.2	1814.1	1439.2
May	1262.8	1704.5	1270.1
June	930.0	1729.7	1352.3
July	530.8	1576.2	1079.2
August	770.1	1598.7	1219.6
September	595.5	1550.7	1028.2
October	440.4	1596.5	1088.7
November	460.2	1618.6	
December	1057.7	1465.6	

V.6: Exchange Rate

Pak rupee–dollar (US) inter-bank floating exchange rate for the month of September, 2000 averaged Rs 56.1 as against Rs. 58.5 prevailing in the open market, showing a premium of Rs. 2.4 per $ or 4.3 percent in September, 2000. (See Table 17). Exchange rate as on November 3, 2000 was Rs 56.76

Table-17: Monthly Trends in Exchange Rates and Premium				
				(Rs/US $)
	Composite/ Inter-Bank Rate	Open Market Rate	Premium (Rs)	Premium (%)
1998 Jun	44.6*	49.6	5.0	11.2
Jul	46.3*	55.6	9.3	20.1
Aug	49.9	58.0	8.1	16.2
Sep	50.1	58.4	8.3	16.6
Oct	50.4	55.9	5.5	10.9
Nov	50.8	56.1	5.3	10.4
Dec	50.1	55.1	5.0	10.0
1999 Jan	49.9	52.3	2.4	4.8
Feb	50.1	52.0	1.9	3.8
Mar	49.9	51.8	1.9	3.8
Apr	50.4	51.4	1.0	2.0
May	51.0	52.4	1.4	2.7
Jun	51.7	53.4	1.7	3.3
Jul	51.6	53.8	2.2	4.3
Aug	51.6	54.1	2.5	4.8
Sep	51.7	54.3	2.6	5.0
Oct	51.7	54.4	2.7	5.2
Nov	51.8	54.3	2.5	4.8
Dec	51.8	54.2	2.4	4.6
2000 Jan	51.8	54.0	2.2	4.2
Feb	51.8	54.3	2.5	4.8
Mar	51.8	54.2	2.4	4.6
Apr	51.8	54.3	2.5	4.8
May	51.8	54.4	2.6	5.0
Jun	52.0	54.8	2.8	5.4
July	52.5	55.1	2.6	5.0
Aug	54.0	56.5	2.5	4.6
Sept	56.1	58.5	2.4	4.3
Oct	58.2	61.6	3.4	5.8

* Official Rate



per US $ against the open market rate of Rs 61.25 per US $ showing a premium of Rs 4.49 per $ or 7.9 percent. The increase in the premium appears to be the result of the resumption of the SBP purchases from the market.

V.7: Foreign Currency Accounts

A total of $ 8284.3 million were converted into Pak-rupees and special US dollar bonds from frozen foreign currency accounts by end September 2000. Of which, the conversion in Pak-rupees amounted to $ 6377.2 million (77.0%) and $ 1907.1 million were converted into special US dollar bonds (23%). By end October, 2000, additional $ 45.7 million were converted into Pak-rupees and special US dollar bond, amounting to $ 8330 million. The details are given in Table 18.

Table 18: Frozen Foreign Currency Accounts converted into (End Period) (Million $)			
	Pak. Rupees*	Spl. US $ Bonds@	Total
June-1999	5081.1	1281.3	6362.4
June-2000	6244.3	1857.2	8101.5
July-2000	6286.7	1871.2	8157.9
August-2000	6328.1	1901.6	8229.7
September-2000	6377.2	1907.1	8284.3
October-2000	6416.8	1913.2	8330.0

* Compiled by Accounts Department, SBP
@ Compiled by Securities Department, SBP

Source: State Bank of Pakistan

V.9: External Debt

Total external debt outstanding as on 31st August, 2000 amounted to $ 29,376.7 million (provisional). Further dissagregation reveals that long-term debt amounted to $ 23,877.2 million and short/medium term amounted to $ 1,461.7 million while Euro Bonds, Supplier's Credit and the IMF debt amounted to $ 610.0 million, $ 1945.1 million, and $ 1482.7 million respectively (See Table 19]. Beginning from the fiscal year 2000-01 [July 1, 2000], the long-term debt as on August 31, 2000 registered a marginal increase of 0.18 percent. But all other debts have either declined or remained at the July 1, 2000 level. It may be noted that supplier's credit declined by $ 63.8 million which suggest that Pakistan made repayments of principal amounting to $ 63.8 million under supplier's credit in two months. The total outstanding debt **decreased** marginally by 0.11 percent during the same period [See Table 19].

Table 19: External Debt Outstanding				(Million $)
Items	**Debt Outstanding As on July 1, 1999**	**Debt Outstanding As on July, 1 2000**	**Debt Outstanding as on August 31, 2000**	**% Change from July1, 2000**
A. Long-Term	23,093.3	23834.4	23877.2	0.18
Consortium	10,614.9	11114.5	11150.3	
Financial Institutions	10,349.8	10528.6	10561.3	
Non-Consortium	1,718.8	1787.6	1767.1	
Islamic Countries	409.8	403.7	398.5	
B.ShortTerm/ Medium Term	1533.4	1472.0	1461.7	-0.70
One Year or Less	760.2	716.7	729.9	
One to Two Years Maturity	773.2	755.3	731.8	
C. Euro Bonds	610.0	610.0	610.0	0.0
D. Supplier's Credit	2379.6	2008.9	1945.1	-3.2
E. IMF	1852.8	1482.7	1482.7	0.0
Grand Total (A+B+C+D+E)	**29,469.1**	**29,408**	**29376.7**	**-0.11**

Source: Debt Management Wing, Economic Affairs Division.

V.10 FOREIGN PRIVATE INVESTMENT

Total foreign private investment amounted to US $ 19.5 million in the first quarter of the current fiscal year as against US $ 118.6 million of the comparable quarter of last fiscal year, thereby registering a decline of 83.6 percent. Further disagregation of foreign investment reveals that **Foreign Direct Investment (FDI)** has registered a decline of 76.2 percent, declining from $ 148.3 million to $ 35.3 million and portfolio investment registered an outflow of $ 15.8 million as against an outflow of 29.7 million last year[See Table 20]. Almost 80 percent FDI came in the power; oil and gas; chemicals; pharmaceutical and fertilizer; construction; food & beverages; transport storage and communication; petro-chemicals; and financial business sectors.

Table 20: FOREIGN PRIVATE INVESTMENT (Net)

(Million US $)

Country	(July-September) 1999-2000			(July-September) 2000-01		
	Direct	Portfolio	Total	Direct	Portfolio	Total
U.S.A.	30.9	2.2	33.1	-3.5	2.2	-1.3
U.K.	66.4	-42.1	24.3	12.9	-7.9	5.0
U.A.E.	3.5	10.4	13.9	1.9	-5.8	-3.9
Germany	2.9	-	2.9	1.0	-	1.0
France	0.1	-	0.1	0.4	-	0.4
Hong Kong	0.4	2.1	2.5	0.8	-1.9	-1.1
Italy	0.1	-	0.1	0.3	-	0.3
Japan	10.9	-	10.9	3.1	-	3.1
Saudi Arabia	16.8	-	16.8	7.6	-1.9	5.7
Canada	0.2	-	0.2	-	-	-
Netherland	0.9	-0.2	0.7	0.6	2.0	2.6
Korea	2.3	-	2.3	2.0	-	2.0
Singapore	0.5	0.5	1.0	0.6	0.7	1.3
China	0.0	0.1	0.1	0.1	-	0.1
Australia	-	-1.7	-1.7	0.6	-	0.6
Switzerland	0.1	-1.6	-1.5	0.5	-3.9	-3.4
Others	12.3	0.6	12.9	6.4	0.7	7.1
Total	**148.3**	**-29.7**	**118.6**	**35.3**	**-15.8**	**19.5**

Source: State Bank of Pakistan

Table 21: FOREIGN DIRECT INVESTMENT CLASSIFIED BY ECONOMIC GROUP		
		(Million U.S.$)
	(July-September)	
Sr.No. Economic Group	**1999**	**2000**
1. Chemicals, Pharmaceuticals & Fertilizers	63.4	4.1
2. Power	9.8	8.9
3. Mining & Quarrying - Oil & Gas	12.8	21.4
4. Food, Beverages Tobacco	13.5	2.2
5. Transport, Storage & Communication	7.6	12.7
6. Construction	5.1	5.6
7. Financial Business	14.7	-33.2
8. Petro-Chemicals and Petroleum Refining	9.4	2.3
9. Trade	1.3	2.6
10. Machinery other than Electrical	0.5	0.1
11. Textiles	0.5	2.1
12. Electronics	0.3	0.9
13. Electrical Machinery	0.8	0.3
14. Paper & Pulp	-	0.1
15. Leather & Leather Products	-	-0.3
16. Metal Products	1.3	-
17. Social & Personal Services	-	0.3
18. Others	7.2	5.3
TOTAL	**148.2**	**35.4**
Source: State Bank of Pakistan		

Almost three-fourth of FDI came from the United States and the United Kingdom followed by 6 percent and 4 percent from Saudi Arabia and Japan, respectively. Details of foreign direct investment and of portfolio investment are given in Tables 20 and 21.

VI. CONCLUDING REMARKS

The performance of the economy during the first quarter (July-September) of the current fiscal year has been broadly on track and in line with expectations. Industrial growth has picked up, the privatization programme has been put into operation, tax collection by the CBR is close to the target and monetary expansion was within target limits. Increase in the yield on treasury bills helped in restoring stability to the foreign exchange markets while the growth in defaulted loans has been checked. The stock market remained around the psychological level of around 1500 points. The inflation rate increased as expected but it was below the anticipated level. Exports remained buyont and workers' remittances were also high. The exchange rate has stabilized after some volatility when the rupee was allowed to find its equilibrium values on the basis of market conditions in the inter-bank market.

Notwithstanding these developments, the performance of some of the key macroeconomic aggregates have remained weak during the first quarter. Although the overall tax collection remained close to the target, the performance of direct taxes was not quite up to the expectations. While the overall monetary expansion remained under control the net bank borrowing for budgetary support was much higher than the corresponding period of last year. Imports remained high on account of higher import bills for oil, sugar and pulses. Persistence of this trend in imports is likely to create pressures on the balance of payments. Although the stability in the exchange market has been restored, the spread between the inter-bank and open market exchange rate has been relatively high. There is a likelihood that the spread may be reduced once the margin requirements are withdrawn. The higher spread or premium can discourage people from sending their remittances through official banking channels. Finally, the performance of the foreign private investment in general and foreign direct investment in particular, have remained weak.

While managing the economy it is essential to keep in mind the following risks which may affect the overall performance of the economy in the current fiscal year.

a) The shortage of irrigation water to the extent of 31 percent may adversely affect the performance of major crops in particular and of agriculture in general.

b) Persistence of higher international oil prices will adversely affect the balance of trade: it will lead to slower growth in GDP and higher than anticipated inflation.

c) The CBR's revenue collection has lagged behind targets. This trend will need to be reversed in the remainder of the year if a significant breakthrough is to be made in augmenting government revenues. The second stage of the tax survey needs to be followed up methodically and an effort made to raise additional sources of revenue to achieve the annual target of Rs 430 billion.

d) Growth in exports will be contingent inter-alia on an active exchange rate policy, particularly if the global economy in general and the United States and the European Union economies in particular slow down owing to higher oil prices.