Economy

Overview:

One year following the military coup and subsequent limited economic progress, impoverished and densely populated Pakistan has nonetheless recently garnered International Monetary Fund (IMF) support in light of large external debt obligations. Nuclear saber rattling and conflict in Kashmir with India compounded by alignment with Afghanistan's Taliban has defined Pakistan as a multi-faceted powder keg at the crossroads to the Middle East, Central and South Asia. Substandard development indicators rank the agrarian state at the bottom of large developing nations. General Musharraf's efforts towards engaging the international community have not been entirely fruitless as both the EU (European Union) and U.S. have given mildly positive, if guarded, signals. Recent action, however reluctant, progressing a survey of the economy, statutory reform and exchange rate liberalization are indicative of pragmatic government approach toward economic reform.

The military coup in the fall of 1999 marks Pakistan's fourth incidence of military rule, covering almost half of Pakistan's 53 year existence since independence. The recent exodus of numerous high-ranking public officials and resultant cabinet reshuffle reinforces the perception of arbitrary military rule. Deterioration of IMF and Commonwealth relations during the last year has softened as the Musharraf regime has acknowledged requisite compliance with particular economic and democratic processes. The EU re-established contact with Pakistan in November with fully normalized relations contingent upon the resumption of democracy.

Although agriculture is declining as a percentage of total output, this sector remains the primary economic activity in Pakistan. Cotton, wheat, rice and sugarcane are the primary crops, which benefit from an extensive irrigation system. This year's drought has not only caused two million animals to perish in Baluchistan, but has also driven three million Afghan refugees across Pakistan's ill-controlled northwestern border. The annual cotton crop is of particular importance as it provides the input to the textile and garment industry, which is the nation's dominant export industry. Pakistan, acutely aware of India's success, is attempting to increase its information technology (IT) sector, but only 3 percent of the populace have telephone installation at their residences. Having achieved self-sufficiency in the armaments sector, Pakistan is now promoting arms sales as a means of generating more diversified export revenue.

Pakistan is currently 63 percent self-sufficient in meeting its energy requirements, which are expected to increase significantly in coming years. Fossil fuels (83 percent) and hydroelectric facilities (17 percent) provide nearly all power with a nuclear facility near Karachi providing minimal contribution. A second nuclear facility was launched with Chinese assistance in March 2001. Pakistan is investigating import of both Central Asian and Persian Gulf natural gas as the preferred fuel of the future.

Poverty and social development indicators in Pakistan are sub-standard for the Asian sub-continent as well as for large developing nations as a whole. The literacy rate for adult males of 58 percent is low, but the 29 percent literacy rate amongst adult females speaks to gender inequality. Marked gender disparities also exist in generally low primary school enrollment. Despite ample hydro resources only 60 percent of the populace has access to drinking water. The high annual population growth rate of 2.6 percent strains Pakistan's ability to maintain, much less improve, social services. Debt service and the defense budget consume all public revenue, leaving social services to be funded by aid and further debt obligations. Nearly 30 percent of the population lives below the poverty line.

The IMF announced US$596 Stand-By Arrangement for Pakistan at the close of November in response to the government's Letter of Intent (LOI) sent earlier in the month. The IMF anticipates the implementation of a reform program incorporating a broadening of the tax base (only one percent of Pakistanis are taxpayers), exchange rate liberalization (the rupee was devalued by seven percent in early October), increased privatization and improved governance. The successful completion of the program will require wide participation by international financial institutions (IFIs), bilateral lenders and exceptional financing given Pakistan's overall external debt level of US$32 billion, US$4.5 billion of which matures in 2001. Re-negotiation of US$1.6 billion of Paris Club debt was completed early in 2001 and Pakistan successfully passed the first IMF review of the Stand By Facility in late March. Pakistan has never completed an IMF program due to failure to follow through with necessary reform. Pakistan's intent to convert to an Islamic banking system by the mid-2001 has raised concern within the international financial community. The transformation to an Islamic banking system is not expected, however, to impact existing and future foreign debt arrangements.

Written by CountryWatch.com. Sources: IMF 2000/2001 Staff Reports. For additional sources please see Appendix B of this review.

__Economic Performance:__

Fiscal Year (FY) 1999/2000 benefited from favorable climatic conditions, which led to a seven percent increase in agricultural output. Real GDP growth in FY 1999/2000 increased to 4.8 percent from 3.1 percent in FY 1998/1999. Cotton and wheat produced robust crops, while a deep decline in sugarcane production has lead to purchases of sugar from India. Cotton production fueled strong textile industry output, but was offset by the decline in sugar production, leading to industrial output growth of less than one percent for the year. The government had targeted minimum output growth of 4.5 percent for FY 2000/2001, but adverse agricultural conditions have led to a downward revision to 3.8 percent. Inadequate rainfall during the last half of 2000 will result in 8 to 10 percent declines in both the wheat and cotton crops. Capital formation as a percentage of GDP has declined the previous three years to a paltry 13 percent in FY 1999/2000.

The inflation rate has declined by two percent or more during the last three fiscal periods, moving from 11.8 percent in FY 1996/1997 to only 3.6 percent in FY 1999/2000. However, high imported hydrocarbon prices, moderated by monetary restraint, are expected to push price increases towards the government target of six percent in FY 2000/2001. The latest data indicates somewhat lower price increases for FY 2000/2001 at approximately 5 percent or lower. Pakistan's male dominated workforce lacks skills and is characterized by low productivity and high absenteeism.

High levels of debt service and defense spending combined with a populace that is not accustomed to paying taxes has kept the budget deficit in the 6 to 7 percent range in recent periods. The government's decision to proceed with the highly unpopular economic survey and implement a General Sales Tax (GST) has led to wide spread general strikes among retail community. Budget performance in early FY 2000/2001 was better than anticipated despite revenue shortfalls. In mid-June Pakistan announced a freeze in previously sacrosanct defense spending for the upcoming 2001/2002 fiscal period as a major concession to international financial institutions in an attempt to curb its budget deficit.

Written by CountryWatch.com. Sources: IMF 2000/2001 Staff Reports. For additional sources please see Appendix B of this review.

__Balance of Payments:__

Current account deficits, which exceeded six percent of GDP by FY 1995/1995 and FY 1996/1997, have been reduced to 1.6 percent in FY 1999/2000 owing to the strength of textile exports. Despite pressure by high imported hydrocarbon prices the deficit is expected to remain stable during FY 2000/2001. Pakistan’s current account is subject to considerable volatility due to the heavy concentration of cotton-based exports and other commodities. Remittances from Pakistani’s abroad, most of whom are working in the Persian Gulf’s petroleum sector, reached US$4 billion by 1997, offsetting annual debt service obligations of similar magnitude.

Pakistan’s capital account surplus, which varied in the US$2 to 4 billion range in the mid-1990s, turned sharply negative by FY 1999/2000. Infusions of foreign direct investment, which had reached nearly US$1 billion in FY 1996/1997, were decline as was concessionary aid. A crisis situation existed as foreign currency reserves held by the government fell to less than US$1 billion providing less than one month of import coverage. The IMF commitment to Pakistan has triggered rescheduling agreements in principle with a number of bilateral lenders including the U.S., China France, Italy, Britain, Sweden and Australia.

Written by CountryWatch.com. Sources: IMF 2000/2001 Staff Reports. For additional sources please see Appendix B of this review.

GDP World Rankings:

In terms of key economic indicators, Pakistan in 1999 had a gross domestic product (GDP) of $US 265.3 billion (in 1995 $US), a population of 138.50 million and a GDP per capita of $US 1,916. In terms of global rankings, this placed Pakistan 23 out of 191 countries in terms of GDP, 7out of 191 countries in terms of population and 129 out of 191 countries in terms of GDP per capita. (See Appendix A to Chapter III for global rankings.)

Regional Situation:

In the context of regional economic developments, Pakistan will not be helped by the current situation in the Asia-Pacific region where economic activity is faltering as indicated by falling stock markets and significant devaluations in a number of countries including Indonesia, Malaysia, South Korea, and Thailand as well as the slow economic growth and building problems in Japan. The impact of economic sanctions as a result of Pakistan's nuclear tests will also be harmful to economic growth. (See Appendix B to Chapter III for a global economic snapshot.)

Pakistan
Macroeconomic Activity
Real GDP Per Capita

	1996	1997	1998	1999	2000
Real GDP (Millions of 1995$US)	248,336	252,781	257,306	264,047	277,487
Total Population (Millions-Mid Year Average)	129.538	132.485	135.471	138.496	141.554
Real GDP Per Capita (1995$US Per Capita)	1,917	1,908	1,899	1,907	1,960

Sources: US CIA World Factbook, IMF World Outlook,
US Census Bureau International Data Base,
UN Statistical Yearbook, CountryWatch.com Calculations

Global Ranking

Gross Domestic Product (Millions of 1995$)			Population (Millions)		GDP Per Capita (1995$)	
Country	Rank	2000 GDP	Rank	2000 Population	Rank	2000 GDP Per Capita
	23	277,487	7	141.554	130	1,960

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