



WP/05/139

# IMF Working Paper

---

## Pakistan's Macroeconomic Adjustment and Resumption of Growth, 1999–2004

*Henri Lorie and Zafar Iqbal*

## IMF Working Paper

Middle East and Central Asia Department

### Pakistan's Macroeconomic Adjustment and Resumption of Growth, 1999–2004

Prepared by Henri Lorie and Zafar Iqbal<sup>1</sup>

July 2005

#### Abstract

**This Working Paper should not be reported as representing the views of the IMF.**

The views expressed in this Working Paper are those of the author(s) and do not necessarily represent those of the IMF or IMF policy. Working Papers describe research in progress by the author(s) and are published to elicit comments and to further debate.

The main findings are as follows: (1) an increase in private national saving during 2001–03 was the key contributor to the turnaround in Pakistan's external current account during this period; (2) while Pakistan's growth was mainly export-led before 2003–04, it was largely led by domestic demand in 2004, especially consumer demand but also private and public investment; and (3) the structural reforms implemented in Pakistan during the past four years should make the observed strengthening in domestic savings and rise in domestic investment permanent, auguring well for accelerated growth within a sustainable external balance. The country's growth prospects would be further enhanced by a more externally driven growth process, and by an acceleration of structural reforms to further improve productivity and the investment climate.

JEL Classification Numbers: E01, F43, O4

Keywords: Pakistan, Macroeconomic Adjustment, Economic Growth

Author(s) E-Mail Address: [hlorie@imf.org](mailto:hlorie@imf.org); [ziqbal2@imf.org](mailto:ziqbal2@imf.org)

---

<sup>1</sup> The authors are Senior Resident Representative of the IMF in Pakistan and Senior Economist in the IMF Resident Representative Office in Pakistan, respectively. We thank Axel Schimmelpfennig and the participants at a Development Economics Seminar at the World Bank in Islamabad for useful comments. The views expressed in this paper are our own, and do not necessarily represent the views of the IMF.

## Contents

	Page
I. Introduction.....	3
II. A Simple Accounting Framework .....	4
III. Key Findings.....	5
A. Macroeconomic Balances .....	5
B. Sources of Growth .....	8
IV. Towards Sustainable High Growth Rates.....	20
V. Conclusions.....	27
References.....	32
 Tables	
1. Macroeconomic Balances, 1999/2000–2003/04.....	6
2. Profits of Companies Listed on the Karachi Stock Exchange, 2001–03 .....	9
3a. Real Growth Rates (Demand Side), 2000/01–2003/04.....	10
3b. Contributions to Real Growth Rates (Demand Side), 2000/01–2003/04 .....	10
4a. Major Exports (In millions of U.S. dollars), 1999/2000–2003/04.....	12
4b. Major Exports (Percentage change), 1999/2000–2003/04.....	13
5a. Major Imports (In millions of U.S. dollars), 1999/2000–2003/04.....	14
5b. Major Imports (Percentage change), 1999/2000–2003/04.....	15
6a. Real Growth Rates (Production Side), 1999/2000–2003/04.....	17
6b. Contributions to Growth (Production Side), 2000/01–2003/04.....	17
7. Production of Selected Large Scale Manufacturing Items, 2001/01–2003/04 .....	18
8. Growth and Development Indicators, 1980–2003 .....	23
9. Comparative Investment Climate In Pakistan.....	25
 Figures	
1. Macroeconomic Adjustment.....	7
2. Private Savings Behavior.....	8
3. Breakdown of GDP Growth (Demand Side) .....	11
4. Breakdown of GDP Growth (Production Side) .....	19
5. Growth and Incremental Output (Capital Ratio) .....	21
 Annex Tables	
1. Macroeconomics Balances (In billions of Pakistani rupees), 1999/2000–2003/04.....	28
2. Deflators, 1999/2000–2003/04 .....	29
3. Real GDP (Demand Side), 1999/2000–2003/04.....	30
4. Real GDP (Production Side), 1999/2000–2003/04.....	31

## I. INTRODUCTION

Over the past four years, Pakistan has returned to a relatively high growth rate, which is estimated to have accelerated to more than 6 percent for fiscal year 2003–04. This turnaround followed three years of steady decline in growth during 1998–99 through 2000–01. Even in per capita terms, growth has been robust in recent years. Per capita income in U.S. dollars is estimated to have reached \$652 in 2003–04, compared to \$501 in 2000–01.<sup>2</sup>

The resumption of growth is especially impressive when viewed in the context of the substantial macroeconomic adjustment that took place in this period. While this adjustment has in part been driven by external factors, right policies played a key role, in particular the government of Pakistan's commitment to fiscal consolidation and to the pursuit of a broad agenda of market-oriented structural reforms in the fiscal, banking, and corporate sectors. These reforms have aimed at increasing efficiency, including through privatization, transparency, and good governance, and generally improving the business environment.

This paper looks back at the sources of the macroeconomic adjustment and resumption of growth over the past four years by providing an in-depth quantitative analysis of various factors at play. Based on the 2003–04 findings, the paper also highlights the conditions needed to ensure that growth of more than 6 percent can be sustained in 2004–05 and beyond, while maintaining internal and external stability. Both demand and supply factors are analyzed, and while the emphasis is mainly on quantitative indicators, the paper also qualitatively assesses the impact of ongoing structural reforms undertaken in Pakistan. Finally, comparisons are made between Pakistan and selected emerging markets which have managed sustained high growth rates, focusing on key variables recognized as critical for accelerated growth.

Section II details the accounting framework to derive and analyze the behavior of key macroeconomic aggregates in 1999–2000 through 2003–04. Section III looks at the numbers and highlights: first, the sources of macroeconomic adjustment and, second, the sources of economic growth in the period. The main findings are (1) an increase in private national savings during 2001–03 was the key contributor to the turnaround in the external current account in the period. This increase reflected both an increase in disposable private national income and a sharp rise in the savings *rate* itself. A surge in net private transfers from abroad, enhanced by a post-September 11 portfolio shift by Pakistanis to the home country contributed to this outcome. But a significant improvement in the financial performance of the corporate sector appears to have been a key contributing factor as well; and (2) while growth was mainly export-led before 2003–04, it was largely led by domestic demand in 2004, especially consumer demand but also private and public investment. This assessment is generally supported by an analysis of the breakdown of growth looking at the production side. Section IV draws conclusions for the sustainability of high growth rates going forward. The favorable impact of structural reforms on the business environment and on financial deepening, as well as the improvement in the efficiency and profitability of the corporate sector, augur well for the

---

<sup>2</sup> Using new GDP numbers based on 1999–2000.

sustainability of high growth rates, even if certain exceptionally favorable factors, including low international interest rates, level off. We argue that those structural reforms have permanently raised the prospects for higher savings and investment. However, a more externally driven growth would reduce the risk of it not being sustainable. Furthermore, international comparisons with fast growing emerging market economies suggest that Pakistan needs to further catchup in terms of investment levels, external trade orientation, and financial deepening. While Pakistan fares well with regard to the business environment within the South Asia region, it lags behind China and other Southeast Asian countries. Thus, Pakistan needs to further pursue outward-oriented policies to boost exports and encourage foreign direct investment; continue with a broad range of structural reforms aimed at improving the investment climate; focus on developing its human capital toward a more skilled and competitive labor force; accelerate reforms in agriculture to garner potential productivity gains; and strengthen the country's productive infrastructure, in particular for water management, ports, rural roads, and energy supply.

## II. A SIMPLE ACCOUNTING FRAMEWORK

We first outline an accounting framework to analyze the behavior of key macroeconomic aggregates consistent with GDP, fiscal accounts, and balance of payments data.<sup>3</sup> The framework is in line with Pakistan's national accounts methodology, **but attempts to more clearly differentiate between nongovernment (private)<sup>4</sup> and government (public) consumption, thus savings, and their determinants. Here, we limit government to the coverage of the consolidated budget**, which allows a direct linkage between macroeconomic developments and the more visible fiscal policy stance.<sup>5</sup>

Regarding the macroeconomic adjustment over 2000–04, the analysis mainly focuses on the behavior of private and public consumption and savings, private and public gross investment, and external current account transactions **expressed as ratios to GDP**. Subsequently, the

---

<sup>3</sup> The analysis uses the recently rebased GDP series available for 1999–2000 through 2003–04 (fiscal year starting in July). With the new base year of 1999–2000, the coverage of productive activities was broadened, and, as a result, the new GDP numbers are about 20 percent higher than the GDP numbers based on the old base year of 1980–81.

<sup>4</sup> Including state-owned enterprises.

<sup>5</sup> The accounting framework operates as follows: first, national savings are derived from the external current account balance (including official transfers) plus total gross investment. Second, public savings are derived from the fiscal accounts (revenue including net official transfers from abroad minus current expenditure). These steps allow a derivation of private national savings. Third, public consumption is derived from government current expenditure by subtracting those government current expenditures that are mere transfers of resources to the domestic private sector or to abroad. Fourth, private consumption is derived by subtracting private national savings from disposable gross private national income. The latter is GDP at factor cost (GDP at market prices minus indirect taxes plus subsidies) plus government transfers to the domestic private sector, minus direct and other taxes, plus government domestic interest payments, plus net private transfers from abroad, and minus net profits/dividends to abroad. It is then verified that the sum of private and public consumption, private and public investment, and net exports of goods and nonfactor services add up to GDP at market prices.

analysis assesses the contribution of these aggregates to growth by looking at their **estimated real growth rates and contribution to overall growth**. Further insights are gained by looking at the sectoral breakdown of growth from the production side. The role of productivity improvements is inferred from the observed behavior of incremental output-capital ratios.

### III. KEY FINDINGS

#### A. Macroeconomic Balances

The macroeconomic balances derived for 1999–2000 through 2003–04 based on the above accounting framework are presented in Table 1 and Annex Table 1 and illustrated in Figure 1. For the analysis, it is convenient to break down the last four years into two subperiods.

##### 2000–01 Through 2002–03

**The turnaround in the external current account balance from a deficit of almost 2 percent of GDP in 2000–01 to a surplus of close to 5 percent of GDP in 2002–03 mainly reflected the sharp increase in national savings.**

**National savings increased mainly on account of private national savings**, which are estimated to have risen from 17 percent to almost 22 percent of GDP. Higher public savings contributed to about 1/4 of the external current account adjustment. Gross private and government investment changed little in percent of GDP.

**Higher private national savings reflected in part higher private national income in connection with the significant increase in net private transfers from abroad (remittances and foreign currency deposits of residents-FCAs) by almost 4 percentage points of GDP. Disposable gross private national income** in percent of GDP increased much less, and this is apparently due to two main factors: an increase in revenues collected by government, as part of fiscal consolidation, and a decline in domestic interest payments made by government (reflecting both lower market interest rates and the phasing out of the subsidy element in the interest rates on the National Saving Scheme's instruments).<sup>6</sup>

**The main explanatory factor for the turnaround in the external current account was an increase in the private national savings rate<sup>7</sup> from a low of about 18 percent to 23 percent in the period (Figure 2).** Household behavior in line with application of the permanent income hypothesis could in part account for this increase. But since the increase in *disposable* gross

---

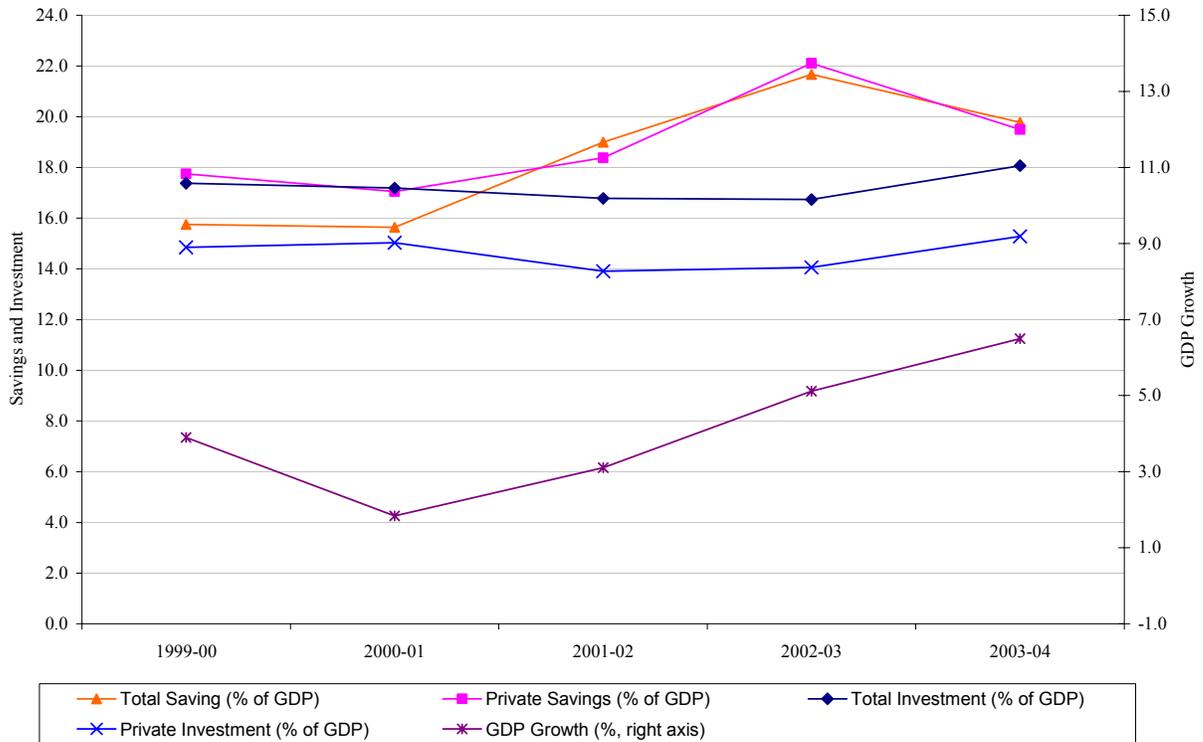
<sup>6</sup> Table 1 shows that in percent of GDP *disposable* gross private national income was only about 1 percentage point higher in 2002–03 than at the beginning of the period.

<sup>7</sup> Defined in percent of disposable gross private national income.

Table 1. Pakistan: Macroeconomic Balances, 1999/2000–2003/04  
(In percent of GDP at market prices, unless otherwise indicated; new base)

	1999–2000	2000–01	2001–02	2002–03	2003–04
			Savings-Investment Balances		
1. National Savings (S = CA + I)	15.7	15.6	19.0	21.7	19.8
Private savings (Sp = S - Sg)	17.7	17.0	18.4	22.1	19.5
Public savings (Sg = Rg - Ceg)	-2.0	-1.4	0.6	-0.4	0.3
Government revenue including net official transfers from abroad (Rg)	14.8	14.8	16.3	16.0	14.8
Government current expenditure adjusted for statistical discrepancy (Ceg)	16.8	15.9	15.6	16.5	14.5
2. Gross total investment (I = Ip + Ig)	17.4	17.2	16.8	16.7	18.1
Private investment (Ip)	14.9	15.0	13.9	14.1	15.3
Government gross investment i.e. PSDP (Ig)	2.5	2.2	2.9	2.7	2.8
Government gross investment including net lending (Igm = Ig + nl)	2.2	1.7	2.9	2.2	3.0
Net lending (nl)	-0.3	-0.4	0.0	-0.5	0.2
3. External current account balance including official transfers	-1.6	-1.6	2.2	4.9	1.7
			Expenditure on Gross Domestic Product		
1. Total Consumption (C = Cp + Cg)	85.6	86.0	84.0	83.7	84.8
Private consumption (Cp = Yp - Sp)	77.7	78.3	76.3	74.2	76.6
Public consumption (Cg = Ceg - id - Tg - SG - if)	7.9	7.6	7.7	9.5	8.2
Government current expenditure adjusted for statistical discrepancy (Ceg)	16.8	15.9	15.6	16.5	14.5
Domestic interest payments (id)	5.2	4.4	4.2	3.3	3.0
Transfers from the government (i.e. pension) (Tg)	0.9	0.7	0.6	0.8	0.8
Subsidies and grants (SG)	0.7	0.9	1.1	1.5	1.7
Net foreign interest payments (if)	2.1	2.2	2.0	1.3	0.9
2. Gross total investment (I)	17.4	17.2	16.8	16.7	18.1
3. Balance of exports and imports of goods and nonfactor services (X - M)	-3.0	-3.1	-0.8	-0.4	-2.9
Exports of goods and nonfactor services (X)	13.0	14.4	15.4	16.6	15.8
Exports of goods	11.2	12.5	12.7	13.3	13.0
Exports of nonfactor service	1.9	1.9	2.7	3.3	2.8
Imports of goods and nonfactor services (M)	16.0	17.5	16.2	17.0	18.7
Imports of goods	13.1	14.3	13.1	13.7	14.5
Imports of nonfactor service	2.9	3.3	3.1	3.3	4.2
4. Nominal GDP at market price (GDPmp = C + I + X - M)	100.0	100.0	100.0	100.0	100.0
Memorandum items:					
1. Disposable gross private national income (Yp = GDPmp - Ti + SG + Tp - PD - To + id + Tg)	95.5	95.4	94.7	96.3	96.1
Nominal GDP at market price (GDPmp)	100.0	100.0	100.0	100.0	100.0
Indirect taxes (Ti)	7.2	7.2	7.2	7.8	7.5
Subsidies and grants (SG)	0.7	0.9	1.1	1.5	1.7
Net private transfers from abroad (Tp)	2.7	3.4	4.2	6.9	6.4
Net profits/dividends to abroad (PD)	0.6	0.9	1.2	1.3	1.4
Direct and other taxes (To)	6.3	6.1	7.0	7.1	6.8
Domestic interest payments (id)	5.2	4.4	4.2	3.3	3.0
Transfers from the government (i.e. pension) (Tg)	0.9	0.7	0.6	0.8	0.8
2. Aggregate Demand (C + I + X)	116.0	117.5	116.2	117.0	118.7
3. Domestic Demand (C + I)	103.0	103.1	100.8	100.4	102.9
4. Private savings in percent of disposable income (Sp/Yp*100)	18.6	17.9	19.4	23.0	20.3
5. Growth in real GDP at factor cost (GDPf/g) (in percent)		1.8	3.1	5.1	6.5
6. Growth in real GDP at market price (GDPmp/g) (in percent)		1.9	3.2	5.2	6.1
7. Incremental output capital ratio (GDPmp/gt/(I/GDPmp)t-1)		0.11	0.19	0.31	0.36
8. Nominal exchange rate (rupees per U.S. dollar; p. a.) (ER)	51.7	58.3	61.3	58.4	57.4

Figure 1. Pakistan: Macroeconomic Adjustment, 1999/2000–2003/04



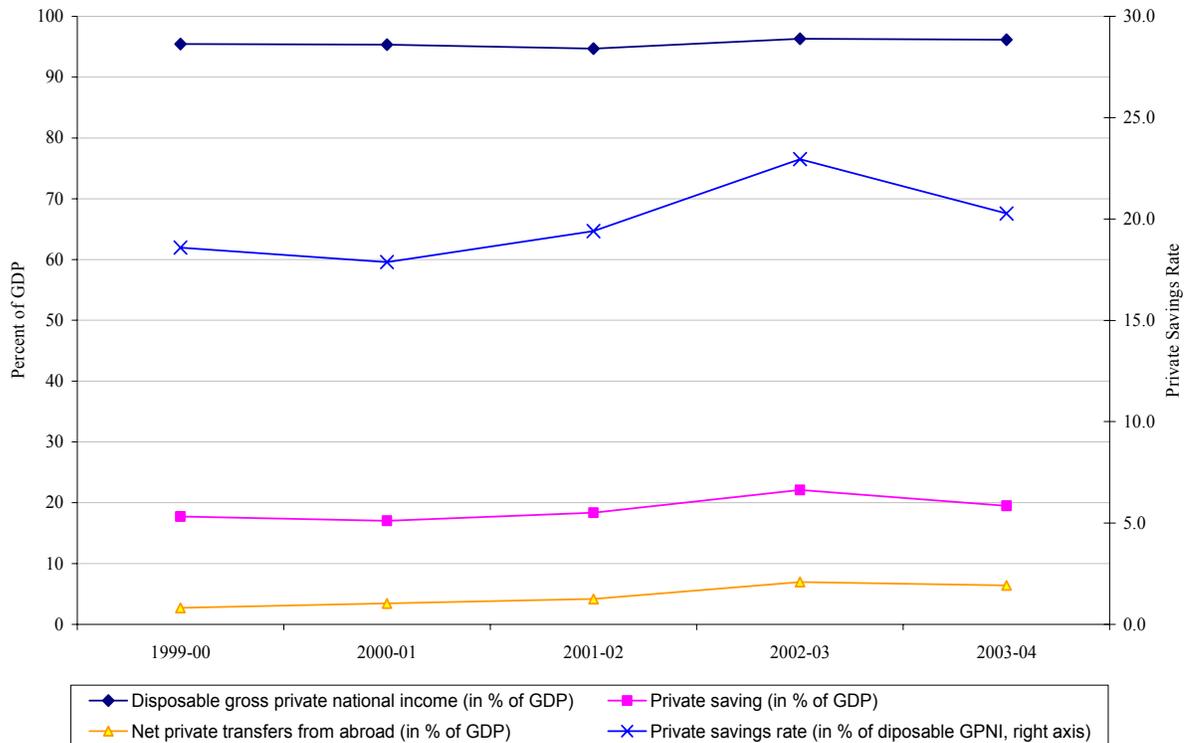
private national income in percent of GDP was only modest, as just mentioned, other factors must have been at play. Foremost, the much improved financial performance of the corporate sector (both private and public) should have been a major contributor to the higher savings rate. This would reflect the direct impact of retained earnings on savings and the greater propensity to save out of distributed earnings. As shown in Table 2, after-tax profits of corporations listed on the Karachi Stock Exchange (KSE), which covers only about 700 corporations, alone rose by more than a full 1 percent of GDP in the period 2001–03.<sup>8</sup>

### 2003–04

**A leveling-off in net private transfers from abroad and a decline in the savings rate contributed to a decline in national savings in 2003–04 by about 2 percentage points of GDP to just below 20 percent. At the same time there was an increase in investment, both private and public, by about 1 ½ percentage points to just above 18 percent of GDP, with a concomitant decline in the external current account balance.** The downward correction in the private savings rate could reflect, on the households’ side, the working of the permanent

<sup>8</sup> For evidence on the improvement in the financial performance of state-owned enterprises, see, in particular, Iqbal (2004).

Figure 2. Pakistan: Private Savings Behavior, 1999/2000–2003/04



income hypothesis. It also correlates with the banking system’s success in intermediating more of the abundant liquidity to the household and enterprise sectors. It is worth noting that national savings remained significantly higher than at the beginning of the period under review. This development, if continued, would augur well for the sustainability of higher rates of economic growth.

## B. Sources of Growth

### 1. Demand Side

By analyzing the sources of the acceleration in growth from the demand side, we built a constant 1999–2000 prices series of national accounts aggregates highlighted above; the deflators used (Annex Table 2) are from the Federal Bureau of Statistics (FBS).<sup>9</sup> From the results in Tables 3a and 3b, Annex Table 3, and also illustrated in Figure 3, we draw the following observations.

<sup>9</sup> Because the breakdown of total consumption between public and private consumption is derived somewhat differently, private consumption at constant prices is obtained as a residual to ensure consistency with the overall GDP at constant prices from FBS sources, while public consumption at constant prices is derived using the FBS deflator for public consumption.

Table 2. Pakistan: Profits of Companies Listed on the Karachi Stock Exchange, 2001–03  
(In millions of Pakistani rupees)

	2001	2001	2002	2002	2003	2003
	before tax	after tax	before tax	after tax	before tax	after tax
Mutual fund	493	490	546	544	5,613	5,602
Modaraba	-197	-289	711	682	1,182	1,150
Leasing	381	288	96	20	984	875
Bank	5,869	2,930	17,380	9,186	28,916	18,545
Insurance	193	-6	1,628	937	2,261	1,776
Textile spinning	2,561	1,678	1,359	713	1,606	1,003
Textile wearing	446	317	158	42	230	113
Textile composite	2,849	2,170	3,074	2,263	3,499	2,897
Woolen	91	63	85	70	70	63
Synthetic and rayon	3,103	2,142	2,088	1,553	1,400	1,045
Jute	-164	-204	-86	-128	371	216
Sugar and allied industries	-687	-901	-492	-1,013	-242	-386
Cement	-1,663	-1,835	362	87	-568	-18
Tobacco	975	763	1,802	1,166	1,915	1,176
Fuel and energy	9,708	4,574	7,752	1,808	20,489	13,147
Engineering	-84	-186	3	-172	930	695
Auto and allied industries	2,725	1,653	4,560	3,101	9,214	6,180
Cable and electrical goods	329	152	610	438	881	514
Transport and communication	27,115	15,892	33,860	22,453	41,430	25,192
Chemical and pharmaceutical	2,783	-731	9,913	7,788	9,959	5,527
Paper and board	1,201	949	1,746	1,384	2,154	1,663
Vanaspati and allied industries	-227	-266	77	37	33	-62
Construction	10	-3	-1	-1		
Leather and tanneries	324	241	200	138	130	65
Food and allied industries	3,618	2,264	4,829	3,149	5,563	3,697
Glass and ceramics	208	159	156	106	334	317
Miscellaneous	483	329	676	493	359	252
Total	62,443	32,633	93,091	56,845	138,715	91,244
(in percent of GDP)	(1.5)	(0.8)	(2.0)	(1.2)	(2.8)	(1.8)
Memorandum items:						
Number of listed companies	747	747	711	711	701	701

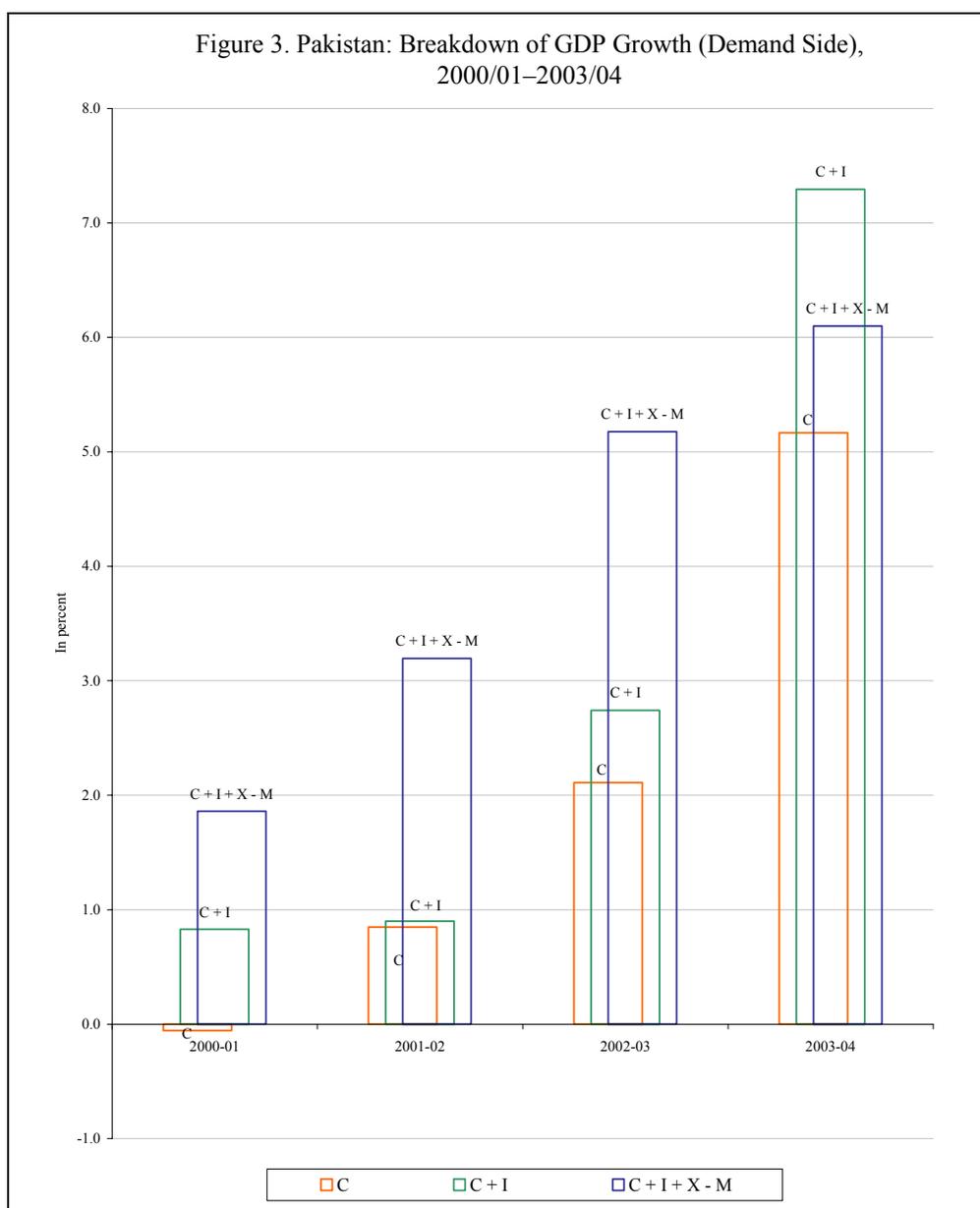
Source: Karachi Stock Exchange website (<http://www.kse.com>).

Table 3a. Pakistan: Real Growth Rates (Demand Side), 2000/01–2003/04  
(In percent, new base)

	2000–01	2001–02	2002–03	2003–04
1. Gross total investment ( $I = I_p + I_g$ )	5.1	0.3	3.6	12.4
Private investment ( $I_p$ )	7.5	-4.9	4.7	13.2
Government gross investment i.e. PSDP ( $I_g$ )	-9.2	36.3	-1.4	8.3
2. Total Consumption ( $C = C_p + C_g$ )	-0.1	1.0	2.6	6.4
Private consumption ( $C_p = Y_p - S_p$ )	-0.2	0.7	-0.3	8.2
Public consumption ( $C_g = C_{eg} - id - T_g - SG - if$ )	1.2	3.8	29.6	-6.2
3. Exports of goods and nonfactor services ( $X$ )	13.2	13.2	26.0	3.2
Exports of goods	15.0	7.7	22.2	5.9
Exports of nonfactor service	2.8	49.4	44.0	-7.9
4. Imports of goods and nonfactor services ( $M$ )	4.3	-2.3	10.9	11.0
Imports of goods	4.0	-2.8	10.5	6.6
Imports of nonfactor service	5.7	-0.2	12.7	29.3
5. Aggregate Demand ( $C + I + X$ )	2.2	2.4	5.9	6.8
6. Domestic Demand ( $C + I$ )	0.8	0.9	2.8	7.5
7. GDP at constant market price (GDPmp)	1.9	3.2	5.2	6.1

Table 3b. Pakistan: Contributions to Real Growth Rates (Demand Side), 2000/01–2003/04  
(In percent, new base)

	2000–01	2001–02	2002–03	2003–04
1. Gross total investment ( $I = I_p + I_g$ )	0.9	0.1	0.6	2.1
Private investment ( $I_p$ )	1.1	-0.8	0.7	1.9
Government gross investment i.e. PSDP ( $I_g$ )	-0.2	0.8	0.0	0.2
2. Total Consumption ( $C = C_p + C_g$ )	-0.1	0.8	2.1	5.2
Private consumption ( $C_p = Y_p - S_p$ )	-0.1	0.6	-0.2	5.8
Public consumption ( $C_g = C_{eg} - id - T_g - SG - if$ )	0.1	0.3	2.3	-0.6
3. Exports of goods and nonfactor services ( $X$ )	1.7	1.9	4.1	0.6
Exports of goods	1.7	1.0	2.9	0.9
Exports of nonfactor service	0.1	0.9	1.2	-0.3
4. Imports of goods and nonfactor services ( $M$ )	0.7	-0.4	1.7	1.8
Imports of goods	0.5	-0.4	1.3	0.9
Imports of nonfactor service	0.2	0.0	0.4	0.9
5. Aggregate Demand ( $C + I + X$ )	2.6	2.8	6.9	7.9
6. Domestic Demand ( $C + I$ )	0.8	0.9	2.7	7.3
7. GDP at constant market price (GDPmp)	1.9	3.2	5.2	6.1



### 2000–01 Through 2002–03

**The sustained double digit growth in export volumes was a remarkable source of growth during these years.** The growth in investment was erratic, while the growth in consumption, although showing an upward trend, was relatively weak. The growth in export volumes was especially impressive in 2002–03, with all sectors (primary commodities, textile manufactures, and others) contributing to it (Tables 4a and 4b). Inputs for textile and machinery (textile and others) appear to have led the recovery in import volumes in this year (Tables 5a and 5b).

Table 4a: Pakistan: Major Exports, 1999/2000–2003/04  
(Value: million U.S. dollar; Unit value: U.S. dollar)

	1999/2000		2000/01		2001/02		2002/03		2003/04		
	Unit	Quantity	Value	Unit val.	Quantity	Value	Unit val.	Quantity	Value	Unit val.	
A. Primary commodities											
1 Rice	MT	1,916.1	1,106.9	281.7	2,294.3	1,999.9	1,073.1	1,684.3	1,263.9	1,822.7	1,275.0
2 Raw cotton	MT	83.0	72.6	874.6	135.1	139.3	1,031.0	35.0	24.7	707.4	634.5
3 Raw wool (excluding wool tops)	MT	0.9	1.2	1,315.6	0.5	0.7	1,209.9	1.1	0.9	860.6	47.7
4 Fish and fish preparations	MT	89.9	138.9	1,545.7	82.0	137.8	1,679.6	84.5	125.6	1,487.7	2.2
5 Leather	SQM	12,898.3	175.2	13.6	17,532.2	232.9	13.3	17,290.4	234.8	15.3	103.3
6 Guar and guar products	MT	25.9	36.0	1,390.8	22.1	20.5	926.9	23.5	23.8	932.9	16,049.6
7 Fruits	MT	239.8	79.9	333.1	260.1	78.7	302.7	289.8	83.1	286.7	24.5
8 Vegetables	MT	238.9	42.9	179.7	190.5	36.9	193.6	183.5	29.1	183.5	354.4
9 Crude animal material	MT	24.3	15.8	648.2	30.5	15.8	517.0	21.7	13.2	606.1	83.2
10 Oil Seeds & nuts, etc.	MT	9.7	4.9	501.2	22.8	11.8	519.7	48.5	20.5	422.5	172.8
11 Wheat	MT				80.5	11.0	136.7	642.6	71.4	111.1	7.6
B. Textile manufactures											
12 Cotton yarn	MT	513.0	1,071.6	2,089.0	545.1	1,073.5	1,969.3	540.0	929.7	1,721.6	19.4
13 Cotton fabrics (woven)	SQM	1,574.9	1,096.2	0.7	1,735.8	1,032.5	0.6	1,909.3	1,130.8	0.6	42.9
14 Hosiery (Knitwear)	DOZ	39,313.1	886.7	22.6	39,384.5	911.4	23.1	36,556.3	845.9	23.1	8,073.0
15 Bed wear	MT	132.6	709.9	5,354.4	148.4	744.9	5,020.6	181.2	918.6	5,070.2	1,126.9
16 Towels	MT	51.2	195.6	3,818.5	67.5	241.7	3,582.6	78.7	267.7	3,401.1	928.4
17 Cotton bags and sacks	MT	4.4	19.2	4,397.1	4.7	19.0	4,034.9	4.0	15.8	3,931.2	22.0
18 Ready-made garments	DOZ	30,420.0	771.7	25.4	35,860.1	826.8	23.1	41,414.8	875.0	21.1	2,409.4
19 Tarpaulin & other canvas goods	MT	20.9	52.9	2,533.0	21.8	49.2	2,262.8	22.5	49.7	2,204.6	2,409.4
20 Tulle, lace embroidery, etc.	(-)		13.3			10.4			9.7		11.4
21 Synthetic textiles	SQM	640.6	457.7	0.7	842.9	544.6	0.6	654.9	410.0	0.6	74.8
22 Other textile made-up	(-)		307.6			330.9			350.9		11.2
23 Waste material of tex. fibres/fabrics	MT	9.8	5.7	580.7	11.3	6.0	528.5	12.1	6.9	571.3	31.9
C. Other manufactures											
24 Carpets, carpeting rugs & mats	SQM	5,141.0	264.3	51.4	6,381.1	288.7	45.2	5,081.0	249.6	49.1	470.8
25 Petroleum and petroleum products	MT	439.8	81.9	186.2	824.5	183.9	223.1	1,021.4	190.7	186.7	654.6
26 Sports goods	(-)		279.2			270.6			304.5		416.6
27 Leather manufactures	(-)		338.7			425.5			385.2		6.8
28 Surgical and medical instruments	NO	86,210.2	120.1	1.4	96,655.5	124.1	1.3	120,377.4	145.0	1.2	1,776.2
29 Cutlery	GR	497.8	22.9	46.0	757.7	26.4	34.9	728.4	24.5	33.6	231.4
30 Onyx manufactured	MT	5.7	10.0	1,741.3	7.0	12.0	1,712.3	6.3	10.0	1,601.2	29.7
31 Chemicals and pharmaceuticals	(-)		100.0			164.3			152.8		25.2
32 Molasses	MT	1,748.8	42.5	24.3	1,190.0	41.3	34.7	1,742.7	68.7	39.4	11.6
33 Sugar	MT	30.5	9.4	309.9	0.0	0.0	3.8	3.8	1.3	335.3	6.8
D. Others			604.6		673.8				936.8		27.6
Total exports			8,568.6		9,201.6		9,134.6		11,160.2		12,313.29

Source: Federal Bureau of Statistics.

Table 4b. Pakistan: Major Exports, 1999/2000-2003/04  
(Percentage change over corresponding period)

	1999/2000		2000/01		2001/02		2002/03		2003/04	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
A. Primary commodities										
1 Rice	MT	10.4	8.4	-18.7	-10.6	17.8	0.2	17.8	0.2	0.9
2 Raw cotton	MT	4,645.9	3,017.5	-6.6	-34.3	-74.1	-14.7	23.9	14.7	14.0
3 Raw wool (excluding wool tops)	MT	-48.2	-56.3	-39.6	-44.4	-8.0	-28.9	36.5	25.8	43.6
4 Fish and fish preparations	MT	13.6	13.2	-8.7	-0.8	2.9	-8.8	10.4	4.6	5.8
5 Leather	SQM	2.3	-1.2	35.9	-3.4	-1.4	3.0	-11.2	10.2	2.6
6 Gaur and gaur products	MT	33.3	9.6	-17.8	-43.1	6.1	-20.1	8.7	4.6	7.2
7 Fruits	MT	32.5	43.9	8.6	-1.5	11.4	5.5	-10.7	33.6	-11.7
8 Vegetables	MT	21.3	-10.7	-26.4	-14.1	7.7	-21.2	23.2	-4.0	-9.8
9 Crude animal material	MT	-0.1	-7.0	-6.9	0.0	-20.2	-16.4	-21.9	-11.4	12.1
10 Oil Seeds & nuts, etc.	MT	-49.1	-55.2	-12.0	133.8	142.4	3.7	-70.2	-55.0	154.5
11 Wheat	MT					698.3	548.6	76.9	34.4	55.2
B. Textile manufactures										
12 Cotton yarn	MT	12.4	13.4	3.6	-6.8	0.2	-5.7	25.0	2.6	23.0
13 Cotton fabrics (woven)	SQM	16.2	-1.7	-15.4	-14.5	10.0	9.5	-3.8	-3.9	11.2
14 Hosiery (Knitwear)	DOZ	21.0	19.5	-1.3	2.8	-7.2	0.0	6.7	18.3	21.4
15 Bed wear	MT	19.3	16.2	-2.6	4.9	22.1	23.3	42.6	27.3	27.2
16 Towels	MT	16.9	10.1	-5.8	31.7	23.5	10.8	33.5	1.0	-0.1
17 Cotton bags and sacks	MT	-7.6	-7.7	-0.1	-8.2	-14.7	-16.9	27.8	9.6	6.4
18 Ready-made garments	DOZ	8.8	18.5	8.9	7.1	15.5	5.8	3.6	1.2	1.2
19 Tarpaulin & other canvas goods	MT	27.4	29.8	1.9	-10.7	3.5	0.9	-12.0	41.9	20.1
20 Tule, lace embroidery, etc.	(-)	43.1	-4.4	-21.7	-9.4	---	-7.1	43.0	-2.4	2.9
21 Synthetic textiles	SQM	26.7	14.8	31.6	-9.6	-22.3	-24.7	20.3	16.3	1.1
22 Other textile made-up	(-)	20.5	---	7.6	---	---	6.0	---	---	---
23 Waste material of tex. fibres/fabrics	MT	7.3	-5.8	-12.3	-9.0	7.0	8.1	30.8	-23.9	-13.4
C. Other manufactures										
24 Carpets, carpeting rugs and mats	SQM	35.0	30.4	-3.4	-12.0	-20.4	-13.6	-16.2	-2.6	7.6
25 Petroleum and petroleum products	MT	-0.4	72.6	124.7	19.8	23.9	3.7	-1.6	-1.8	20.6
26 Sports goods	(-)	9.0	---	-3.1	---	---	12.5	---	---	---
27 Leather manufactures	(-)	1.3	---	25.6	---	---	-9.9	---	---	---
28 Surgical and medical instruments	NO	-9.3	7.7	18.7	-7.8	24.5	16.8	-7.3	---	---
29 Cutlery	GR	11.5	26.9	13.8	-24.2	-3.9	-7.3	30.6	24.0	0.3
30 Onyx manufactured	MT	68.0	70.7	1.6	-1.7	-10.8	-16.6	6.0	2.0	-1.3
31 Chemicals and pharmaceuticals	(-)	102.9	---	64.3	---	---	-7.0	---	---	---
32 Molasses	MT	-4.7	8.0	13.4	42.9	46.4	66.2	-27.0	14.5	3.1
33 Sugar	MT	-96.6	-95.9	-100.0	-100.0	---	---	748.2	---	259.5
D. Others										
Total exports		10.1	7.4	-0.7	22.2	6.9	30.0	22.2	---	10.3

Source: Federal Bureau of Statistics.

Table 5a. Pakistan: Major Imports, 1999/2000-2003/04  
(Value: million U.S. dollar; unit value: U.S.dollar)

	1999/2000			2000/01			2001/02			2002/03			2003/04			
	Unit	Quantity	Value	Unit val.												
A. Food Group																
1. Milk & cream incl. milk food for infants*	MT	173	1,113.1	6.4	990.0	1,961.1	1.98	823.2	823.2	823.2	12.8	978.0	76.4	1,033.3	11.0	1,936.5
2. Wheat unmilled	MT	2,005.8	283.5	141.3	80.0	192.4	2.41	50.0	187.2	2.41	147.9	28.7	194.2	108.0	23.6	218.6
3. Dry fruits	MT	57.2	48.0	839.2	84.8	37.2	438.0	91.2	31.2	342.0	108.1	172.7	1,597.3	116.0	192.5	1,660.1
4. Tea	MT	108.6	210.5	1,937.1	111.9	206.4	1,845.2	99.4	156.6	1,575.1	108.1	172.7	1,597.3	116.0	192.5	1,660.1
5. Spices	MT	22.9	23.3	1,019.6	16.8	1,072.2	63.8	17.0	793.5	35.1	23.0	654.7	72.0	40.8	566.5	40.8
6. Edible oil	MT	1,050.9	413.4	393.4	1,143.6	327.6	286.4	1,196.8	393.0	328.4	1,293.5	586.8	453.6	1,360.7	658.6	484.0
Soyabean	MT	202.4	88.4	436.6	128.4	44.1	343.5	34.3	12.7	369.4	82.7	47.5	574.5	80.8	45.6	564.8
Palm oil	MT	848.5	325.1	383.1	1,015.2	283.5	279.2	1,162.5	380.3	327.2	1,210.9	539.3	445.4	1,280.0	613.0	478.9
7. Sugar	MT	66.6	14.8	222.1	930.2	251.9	270.8	85.7	23.5	273.7	8.3	2.6	315.2	11.4	3.3	287.2
8. Pulses	MT	293.0	89.6	305.7	364.8	113.0	309.7	460.3	135.9	295.3	394.4	115.6	293.2	261.4	74.9	286.4
B. Machinery group																
1. Power generating machinery																
2. Office machinery																
3. Textile machinery																
4. Construction & mining machinery																
5. Electrical machinery & apparatus																
6. Railway vehicles																
7. Road motor vehicles																
8. Aircraft, ships, and boats																
9. Agricultural machinery & implements																
10. Other machinery																
C. Petroleum group																
1. Petroleum products	MT	16,263.0	2,804.4	172.4	16,983.6	3,360.8	197.9	16,368.9	2,807.0	171.5	15,241.6	3,066.4	201.2	13,303.7	3,166.6	238.0
2. Petroleum crude	MT	11,809.9	1,999.4	169.3	10,128.5	2,000.3	197.5	9,228.5	1,576.2	170.8	8,449.5	1,699.9	201.2	5,412.2	1,401.4	258.9
3. Petroleum products	MT	4,453.1	805.0	180.8	6,855.0	1,360.6	198.5	7,140.4	1,230.8	172.4	6,792.0	1,366.5	201.2	7,891.5	1,765.1	223.7
D. Textile group																
1. Synthetic fibre	MT	61.9	76.5	1,236.4	60.2	77.8	1,291.3	59.9	74.4	1,242.1	69.7	92.0	1,319.9	71.4	106.1	1,485.9
2. Synthetic & artificial silk yarn	MT	23.0	47.5	2,063.5	34.0	59.5	1,753.5	54.2	82.4	1,521.3	59.6	91.8	1,541.7	69.4	118.0	1,699.7
3. Worn clothing	MT	81.7	28.5	349.6	140.6	24.5	174.1	99.8	30.7	307.5	117.1	37.8	322.5	112.5	36.4	323.4
E. Agricultural and other chem. group																
1. Fertilizer	MT	1,120.9	197.6	176.3	954.0	170.5	178.7	1,219.3	176.2	144.5	1,295.2	239.8	185.1	1,347.8	284.7	211.2
2. Insecticides	MT	26.1	90.7	3,472.1	21.3	61.2	2,878.6	31.8	85.9	2,703.6	22.2	58.5	2,629.2	41.4	124.1	2,997.3
3. Plastic materials	MT	391.7	332.9	849.9	418.3	354.3	847.0	457.9	352.7	770.2	513.2	421.1	820.5	605.4	549.3	907.4
4. Medicinal products	MT	11.7	259.4	22,244.5	18.3	238.7	13,067.5	9.7	228.1	23,471.0	8.7	221.8	25,472.1	9.5	274.6	28,965.4
5. Others																
F. Metal group																
1. Iron and steel scrap	MT	190.4	23.8	125.2	367.2	43.0	117.1	409.2	50.6	123.7	344.5	47.9	138.9	545.9	93.6	171.4
2. Iron and steel	MT	861.0	304.5	353.7	824.7	277.9	337.0	1,145.8	336.1	293.3	1,099.0	402.3	366.1	1,264.2	512.0	405.0
3. Aluminium wrought & worked																
G. Miscellaneous group																
1. Rubber crude	MT	55.6	37.0	665.9	58.7	39.2	668.0	65.4	41.1	628.5	63.8	49.1	770.0	76.6	89.0	891.0
2. Rubber tyres & tubes	Nos	2,825.4	69.4	24.6	2,789.4	62.5	22.4	3,156.7	66.6	21.1	3,809.9	78.3	20.5	4,061.1	89.0	21.9
3. Wood & cork																
4. Jewellery	MT	72.7	20.5	281.6	89.4	23.2	259.4	90.9	26.2	288.1	89.2	21.0	235.6	112.9	30.9	273.7
5. Paper and paper-board & manufactures	MT	175.0	117.5	671.5	160.5	125.3	780.7	197.2	136.8	693.7	217.1	131.7	606.4	263.4	164.4	624.1
H. Others																
Total imports:																
			10,309.4			10,728.9			10,339.5			12,220.3			15,591.8	

Source: Federal Bureau of Statistics.

Table 5b. Pakistan: Major Imports, 1999/2000-2003/04  
(Percentage change over corresponding period)

	1999/2000		2000/01		2001/02		2002/03		2003/04	
	Unit	Quantity	Value	Unit val.	Quantity	Value	Unit val.	Quantity	Value	Unit val.
A. Food group										
1. Milk & cream incl. milk food for infants*	MT	-9.1	-17.1	-8.8	-11.1	-16.9	17.0	18.8	5.7	---
2. Wheat unmilled	MT	-38.1	-24.9	21.3	-33.3	-31.3	-19.7	82.7	-14.2	8.9
3. Dry fruits	MT	3.5	17.6	13.6	-40.9	233.9	224.9	-44.6	-27.0	12.6
4. Tea	MT	-9.2	-5.6	4.0	-22.7	7.5	-21.9	-6.9	-11.2	-8.7
5. Spices	MT	-37.7	-36.8	1.5	-26.5	-11.1	-24.1	8.8	7.2	3.9
6. Edible oil	MT	-20.7	-48.8	-35.5	8.8	-20.8	-27.2	64.0	105.4	-13.5
Soyabean	MT	-44.4	-60.5	-28.9	-36.6	-50.1	-21.3	141.0	274.8	6.7
Palm oil	MT	-11.7	-44.4	-37.0	-12.8	14.5	34.2	4.2	36.1	-1.7
7. Sugar	MT	558.0	382.8	-26.6	1296.1	1602.2	21.9	-90.3	37.1	24.9
8. Pulses	MT	50.8	43.4	-4.9	24.5	26.2	20.3	-14.3	-33.7	-2.3
B. Machinery group										
1. Power generating machinery										
1. Power generating machinery	MT	---	---	---	3.4	5.3	---	---	---	---
2. Office machinery	MT	---	---	---	39.6	3.0	---	---	---	---
3. Textile machinery	MT	---	---	---	47.5	-3.8	---	---	---	---
4. Construction & mining machinery	MT	---	---	---	75.5	9.9	---	---	---	---
5. Electrical machinery & apparatus	MT	---	---	---	-6.7	-43.7	---	---	---	---
6. Railway vehicles	MT	---	---	---	-15.1	-2.7	---	---	---	---
7. Road motor vehicles	MT	---	---	---	-35.0	49.1	---	---	---	---
8. Aircraft, ships, and boats	MT	---	---	---	-7.1	2.8	---	---	---	---
9. Agricultural machinery & implements	MT	---	---	---	-55.5	65.9	---	---	---	---
10. Other machinery	MT	---	---	---	-52.3	-32.4	---	---	---	---
C. Petroleum group										
1. Petroleum products	MT	7.5	104.5	---	4.4	-19.8	14.8	-3.6	54.2	---
2. Petroleum crude	MT	10.8	106.1	86.0	-14.2	-8.9	-21.2	-13.3	-6.9	18.3
D. Textile group										
1. Synthetic fibre	MT	-14.7	-18.8	-4.8	-2.7	1.6	4.4	-0.6	16.5	2.4
2. Synthetic & artificial silk yarn	MT	15.7	6.3	-8.2	47.5	25.3	-15.0	59.6	38.5	15.3
E. Agricultural and other chem. group										
1. Fertilizer	MT	5.3	-2.0	-6.9	72.2	-14.2	-50.2	-29.0	17.3	10.3
2. Insecticides	MT	-30.5	-25.0	7.8	-4.8	-2.0	---	---	---	---
3. Plastic materials	MT	-18.1	-18.1	0.0	-18.6	32.5	-17.1	49.5	40.4	---
4. Medicinal products	MT	-8.2	7.2	16.7	6.8	6.4	-0.3	9.5	-0.5	---
5. Others	MT	7.6	-0.1	-7.2	56.6	-8.0	-41.3	-46.8	-4.4	---
F. Metal group										
1. Iron and steel scrap	MT	---	6.6	---	-2.9	---	---	---	---	---
2. Iron and steel	MT	39.6	27.3	-8.8	92.9	80.4	-6.5	11.4	17.7	---
3. Aluminium wrought & worked	MT	28.8	4.0	-19.3	-4.2	-8.7	-4.7	38.9	20.9	---
G. Miscellaneous group										
1. Rubber crude	MT	---	1.4	---	-7.9	---	---	---	---	---
2. Rubber tyres & tubes	Nos	0.8	-3.9	-4.7	5.5	5.8	0.3	11.5	4.9	---
3. Wood and cork	MT	-13.1	-4.1	10.3	-1.3	-9.9	-8.8	13.2	6.5	---
4. Jute	MT	---	-0.2	---	-36.0	---	---	---	---	---
5. Paper and paper board & manufactures	MT	10.7	23.2	11.3	23.1	13.4	-7.9	1.7	12.9	---
H. Others	MT	7.0	3.9	-2.9	-8.3	6.6	16.3	22.9	9.2	---
Others	MT	---	0.8	---	1.1	8.8	-11.2	10.1	-3.8	---
Total imports:										
		10.4		4.1		-3.6		18.2		27.6

Source: Federal Bureau of Statistics.

**Thus, net exports contributed 1.0, 2.3, and 2.4 percentage points to the overall real GDP growth rates of 1.9, 3.2, and 5.2 percent during these years.**

### **2003–04**

**There was a remarkable pick-up in both public and especially private investment in this year**, with an overall increase of more than 12 percent in real terms. **At the same time, private consumption rebounded strongly**, growing by more than 8 percent in real terms. Given its share in GDP, consumption mainly drove the acceleration in overall GDP growth in 2003–04.

**Indeed, consumption contributed 5.2 percentage points, and gross investment 2.1 percentage points to the overall 6.1 percent real GDP growth achieved in the year.** Net exports appear to have been a drag on overall growth in 2003–04.

**In real terms, exports of goods and services grew by only 3 percent in 2003–04**, consistent with the observation that the 10 percent increase in exports of goods in U.S. dollar terms (primary commodities, textile manufactures, and other manufactures) appears to have mainly reflected higher unit values.<sup>10</sup> The growth in “other” exports, by 27 percent in U.S. dollar terms, was, however, encouraging, following a similar growth in 2002–03 and suggests some progress toward export diversification, albeit from a still relatively low level (representing only about 10 percent of total exports).

**The acceleration in import growth in U.S. dollar terms in 2003–04 owed in part to the aircraft, ship, and boat category, but also to other machinery, as well as agricultural, metal, and other inputs.** Notwithstanding the sharp rise in other machinery (still representing less than 10 percent of imports), the breakdown of imports only partially supports the view that a broad-based surge in productive investments has mainly been driving the growth in imports.

## **2. Production Side**

Next, we look at the production side of GDP to gain further insights on the sources of growth and corroborate the findings so far. From Tables 6a and 6b (based on Annex Table 4), Table 7, and Figure 4 we draw the following observations.

### **2000–01 Through 2002–03**

**Services remained the main contributor to growth during 2000/01–2002/03 accounting for more than half of the overall GDP growth rate achieved. But manufacturing was the sector experiencing the faster growth in the period, averaging almost 7 percent.** Even in its

---

<sup>10</sup> It is possible that, for some exports, the higher unit values reflect not just higher export prices, but also new products moving up the value-added scale.

Table 6a. Pakistan: Real Growth Rates (Production Side), 1999/2000–2003/04  
(In percent, at constant factor cost of 1999/2000, new base)

Sectors	2000/01	2001/02	2002/03	2003/04
A. Commodity Producing Sectors (1+2)	0.5	1.3	4.9	7.9
1. Agriculture	-2.2	0.1	4.1	2.6
2. Industry (i + ii + iii + iv)	3.6	2.6	5.8	13.5
i. Mining and quarrying	-1.7	7.3	16.1	0.0
ii. Manufacturing	9.3	4.5	6.9	14.0
Large scale	11.0	3.5	7.2	<b>18.1</b>
Small scale	7.5	7.5	7.5	7.5
Slaughtering	3.0	3.0	3.0	2.8
iii. Construction	0.5	1.6	3.1	7.9
iv. Electricity, gas, and water supply	-13.7	-7.0	-2.6	22.5
B. Services Sectors (3+4+5+6+7+8)	3.1	4.8	5.3	5.2
3. Transport, storage, and communication	5.3	1.2	4.0	3.9
4. Wholesale and retail trade	4.5	2.8	5.9	8.0
5. Finance and insurance	-15.1	17.2	-3.2	-3.7
6. Ownership of dwellings	3.8	3.5	3.5	3.5
7. Public administration and defence	2.2	6.9	10.1	5.9
8. Public administration and defence	5.6	7.9	6.3	4.8
GDP at factor cost (A + B)	1.8	3.1	5.1	6.5
GDP at market price	1.9	3.2	5.1	6.1

Sources: Federal Bureau of Statistics; and IMF staff estimates.

Table 6b. Pakistan: Contributions to Growth (Production Side), 2000/01–2003/04  
(In percent, new base)

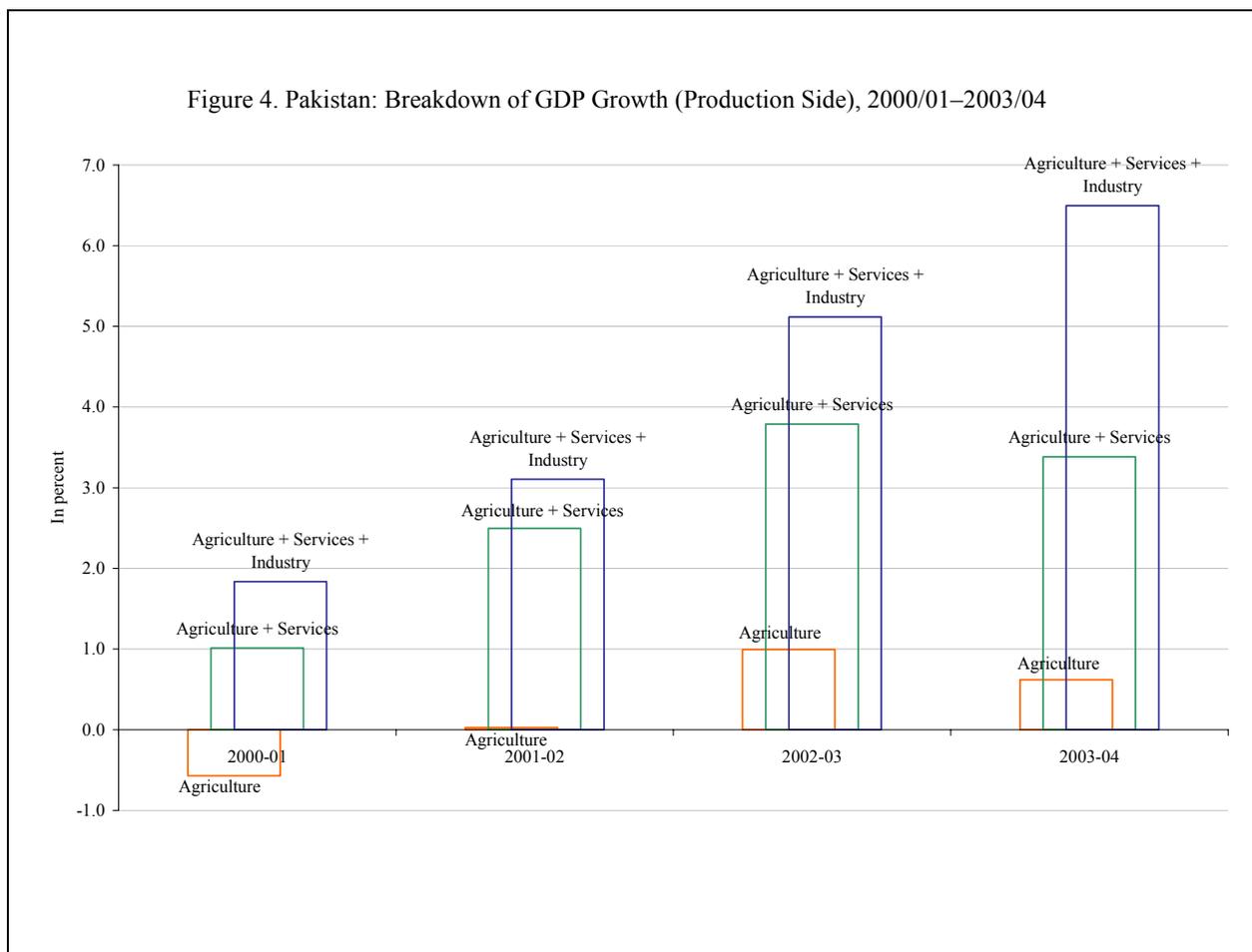
Sectors	2000/01	2001/02	2002/03	2003/04
A. Commodity Producing Sectors (1+2)	0.3	0.6	2.3	3.7
1. Agriculture	-0.6	0.0	1.0	0.6
2. Industry (i + ii + iii + iv)	0.8	0.6	1.3	3.1
i. Mining and quarrying	0.0	0.1	0.2	0.0
ii. Manufacturing	1.4	0.7	1.1	2.3
Large scale	1.1	0.4	0.8	1.9
Small scale	0.3	0.3	0.3	0.3
Slaughtering	0.0	0.0	0.0	0.0
iii. Construction	0.0	0.0	0.1	0.2
iv. Electricity, gas, and water supply	-0.5	-0.2	-0.1	0.6
B. Services Sectors (3+4+5+6+7+8)	1.6	2.5	2.8	2.8
3. Transport, storage, and communication	0.6	0.1	0.5	0.4
4. Wholesale and retail trade	0.8	0.5	1.1	1.5
5. Finance and insurance	-0.6	0.5	-0.1	-0.1
6. Ownership of dwellings	0.1	0.1	0.1	0.1
7. Public administration and defence	0.1	0.4	0.7	0.4
8. Public administration and defence	0.5	0.7	0.6	0.5
Growth in real GDP at factor cost	1.8	3.1	5.1	6.5
Growth in real GDP at market price	1.9	3.2	5.1	6.1

Sources: Federal Bureau of Statistics; and IMF staff estimates.

Table 7. Pakistan: Production of Selected Large Scale Manufacturing Items, 2000/01–2003/04  
(Growth rates in percentage)

	Weights	2000/01	2001/02	2002/03	2003/04
Textile	24.5	4.8	7.5	3.6	5.7
Cotton yarn	13.1	3.1	5.1	5.9	1.1
Cotton cloth	7.5	12.1	16.0	2.4	13.0
Cotton ginned	3.4	-4.6	-1.2	-3.7	3.3
Others (five) items	0.5	1.1	-12.4	8.4	9.5
Food, beverages, & tobacco	14.4	20.0	4.3	1.2	15.7
Petroleum products	5.2	19.1	14.1	2.8	4.4
Pharmaceuticals	5.0	-1.9	2.3	2.3	13.8
Chemicals	4.8	8.3	4.8	11.9	24.4
Nonmetallic minerals	4.2	3.7	2.5	9.8	19.4
Cement	4.1	3.8	2.7	9.2	19.5
Leather products	2.3	11.0	-4.8	-2.5	31.7
Paper and board	0.6	22.2	-38.7	15.6	8.1
Tyres and tubes	0.3	5.7	9.7	16.6	0.3
Wood products	0.0	-18.8	-1.7	8.3	-25.4
Automobiles	4.0	13.8	1.0	46.6	50.2
Cars and jeeps	2.5	21.9	2.8	53.7	58.2
Tractors	0.7	-7.1	-25.3	8.9	36.2
LCVs	0.4	4.6	22.0	43.4	15.7
Motorcycles	0.1	24.2	13.1	32.4	71.9
Trucks	0.1	-3.0	20.4	70.9	3.7
Buses	0.1	-11.7	-17.5	21.9	3.0
Metals	3.5	3.6	-2.9	9.8	2.2
Fertilizers	3.4	44.4	-33.3	-7.4	65.5
Electronic equipment	2.5	3.0	37.4	30.4	53.6
Engineering items	0.4	18.2	0.8	35.7	16.3
Overall index	75.1	11.0	3.5	7.1	18.1

Source: Federal Bureau of Statistics.



best year of 2002–03, agriculture contributed less than 1 percentage point to overall growth. Textile, which accounts for about 25 percent of large-scale manufacturing production, was a significant contributor to growth, especially during the first two years of this period, which corroborates the earlier conclusion of an export-led economic recovery.

**Particularly during 2002–03, other industrial sectors experienced impressive growth as well.** Noteworthy in that year was the strong growth of chemicals, nonmetallic minerals (mainly cement), and especially automobiles, electronic equipment, and engineering items. In total, these groups represent some 12 percent of large-scale manufacturing.

### 2003–04

**Industry became the largest contributor to growth in 2003–04, accounting for almost half of the 6.5 percent real GDP growth achieved. This mainly reflected large-scale manufacturing, which posted a growth rate of more than 18 percent for the year. But**

within industry, construction and especially electricity, gas, and water supply, registered significant gains as well.

**The significant pickup in large-scale manufacturing growth in the year was broad-based, but appears on balance consistent with the view that domestic rather than external demand was the main engine of growth.** Particularly impressive was the further acceleration of growth in automobiles and electronic equipment compared to 2002–03, as well as the high growth rates registered in food/beverages/tobacco, chemicals, cement, and leather products. The food and beverage and automobile sectors each contributed more to real GDP growth than textile. There is little evidence of a significant pickup in exports of such products, except perhaps in the case of leather products and electronic equipment, with the latter possibly explaining part of the high growth rate in “other” exports.

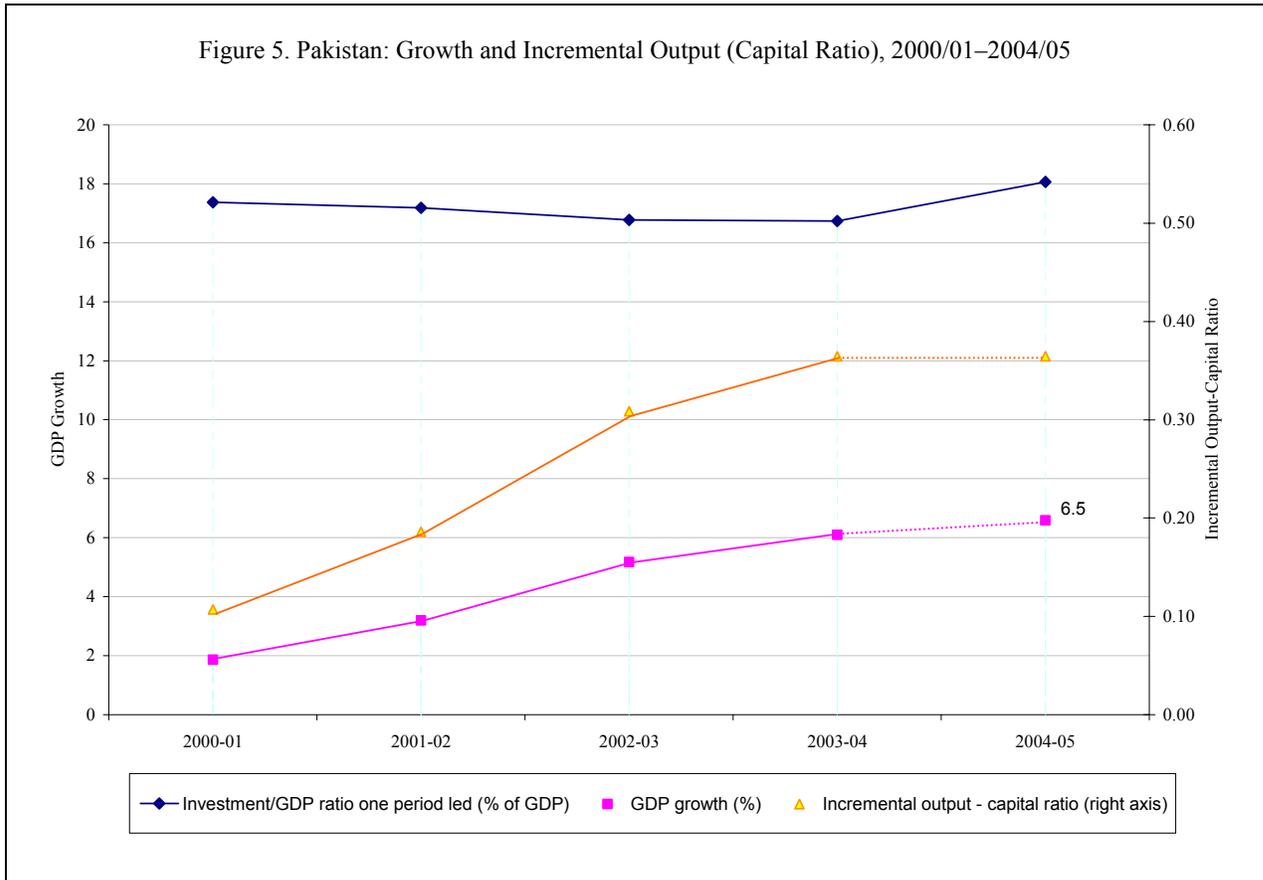
**There was a rapid recovery in the incremental output-capital ratio (GDP growth rate divided by the (lagged) investment to GDP ratio) during 2000–04, from barely 0.1 to almost 0.4 (Figure 5).** While this is consistent with an improvement in “efficiency,” the development also likely reflects the impact of cyclical recovery on productivity. Assuming that the incremental output-capital ratio of 0.36 achieved in 2003–04 applies to 2004–05, the higher investment-to-GDP ratio of 18.1 percent of 2003–04 would be consistent with a real GDP growth rate of 6.5 percent. Notwithstanding the scope for further improvement in efficiency, a significant acceleration in growth above 6.5 percent will necessitate a further rise in the investment/GDP ratio.

#### IV. TOWARD SUSTAINABLE HIGH GROWTH RATES

**Will the relatively high growth rate achieved in 2003–04 be repeated or even surpassed in 2004–05 and beyond?** The finding that domestic demand appears to have mainly driven growth in 2003–04 suggests a vulnerability. Did the surge in domestic demand in 2003–04 mainly reflect the lagged impact of a mostly one time surge in national income in connection with the post-September 11 portfolio shift by Pakistanis toward the home country? The ensuing abundant liquidity resulted in historically low domestic interest rates also supported by historically low international interest rates. The accommodating monetary policy could have encouraged a debt-financed domestic consumption and investment boom that might not be sustainable.

As those favorable circumstances level off, and in particular interest rates begin to rise, consumers and businesses might cut back their consumption spending and investment plans, in the latter case, especially if they have been domestic rather than outward oriented.

**The fact that *disposable* private national income increased significantly less than the surge in private external transfers, due to the concomitant impact of fiscal consolidation, suggests that the post-September 11 impact was blunt in part. This, and the impact of**



**significant structural reforms implemented in Pakistan during 2000–04, appear to argue against a “one-off” gain interpretation.** A more correct interpretation would be that the Pakistani authorities took advantage of the greater “breathing space” provided by the post-September 11 environment to push through their economic reforms, perhaps more effectively than otherwise.

**Improvements in macroeconomic management and the business environment, fiscal consolidation, as well as the strengthening of both the banking system and corporate sector should make a strengthening of domestic savings and a rise in investment permanent.** This augurs well for accelerated growth within a sustainable external balance. In particular, the structural reforms have enhanced the incentives for inward remittances; the process of financial deepening has contributed to increase permanent incomes and made the realization of new productive ventures possible; and higher profitability and efficiency of enterprises have permanently increased their contribution to national savings as well as the marginal efficiency of capital, thus investment.<sup>11</sup>

<sup>11</sup> For evidence on the key role of capital investment in the growth process in Pakistan and elsewhere, see, for instance, van Rooden (2004), Iqbal and Sattar (2004), Clements, Bhattacharya, and Nguyen (2003), Khan and Kumar (1997), Barro and Sala-i-Martin (1995), Easterly and Rebelo (1993), Easterly (1993), Barro (1991), and

(continued...)

**These processes, however, are still at an early stage in Pakistan when compared with the developments in China and other Southeast Asian countries** (Table 8). All comparator countries, except the Philippines, have investment/GDP ratios significantly higher than Pakistan; and all display a higher level of financial deepening.

**The prospects for continued and accelerated growth in Pakistan would be further strengthened if the process was more externally driven.** A faster growth in exports would make total demand less sensitive to rising domestic real interest rates and/or indebtedness, secure productivity gains as a result of competition on the international market, and relax the foreign exchange constraint for imports. The re-tooling effort that has apparently taken place in the textile sector over the past few years should position the sector well for the removal of textile exports quotas by the beginning of 2005, and Pakistan is expected to gain markets as a result of this liberalization. Only limited progress, however, has been made toward export diversification, which remains a challenge. Trade policy in recent years has been supportive, but more could be done to reduce the implicit (and sometimes explicit) export bias.<sup>12</sup>

**While Pakistan compares favorably with India (a much larger country) in terms of openness to international trade, it lags on all other comparator countries** (Table 8). The speed at which these countries (even India) have witnessed an increase in the volume of external trade in percent of GDP over the past 20 years is remarkable. In contrast, Pakistan's trade/GDP ratio has risen only marginally from the level of 30 percent already achieved in the 1980s.

**Higher foreign direct investment in Pakistan would relax the foreign exchange constraint for imports, and support the increase in the investment/GDP ratio necessary to deliver the higher growth rates.** With foreign direct investment, there should also be a productivity increasing transfer of technology. Given the size of Pakistan's domestic market, it is not surprising that the limited amount of foreign direct investment that has taken place so far has mainly been directed toward the domestic market. Prospects in this regard would be enhanced by a broad-based improvement in incomes. Direct foreign investment in labor intensive export sectors (agro-businesses and information technology, for instance) should offer great potential for growth and employment. To be realistic, however, FDI should only be expected to increase significantly in Pakistan once domestic investment itself has taken off.

---

Khan and Reinhart (1990).

<sup>12</sup> The relationship between growth and external trade has been well documented by Barro and Sala-i-Martin (1995), Barro (1991), and Iqbal and Zahid (1998), among others.

Table 8. Pakistan: Growth and Development Indicators, 1980–2003

	1980	1990	2000–03	2003
<b>Real GDP growth rates (in percent)</b>				
Indonesia	5.8	4.3	4.1	4.5
Philippines	2.0	2.8	4.5	4.9
Thailand	7.3	5.3	4.8	7.2
China	10.0	9.7	8.2	9.1
India	5.9	5.7	5.4	7.8
Pakistan	6.3	4.0	3.3	6.5 (2004)
<b>Investment/GDP ratio (in percent)</b>				
Indonesia	24.7	26.9	20.9	19.7
Philippines	22.3	22.2	18.3	16.6
Thailand	28.6	36.0	23.0	24.0
China	29.0	33.3	37.2	37.8 (2001)
India	20.4	22.3	22.1	22.5 (2002)
Pakistan	17.0	17.0	17.0	18.1 (2004)
<b>Exports/GDP ratio (in percent)</b>				
Indonesia	24.9	30.5	38.1	31.2
Philippines	24.7	38.1	50.8	49.1
Thailand	25.9	43.0	65.8	65.6
China	8.8	17.0	25.6	31.0
India	4.7	7.7	9.5	12.3 (2002)
Pakistan	10.4	14.0	14.9	15.8 (2004)
<b>Imports/GDP ratio (in percent)</b>				
Indonesia	22.7	28.2	30.8	25.7
Philippines	26.3	44.3	51.9	51.7
Thailand	28.8	44.0	58.5	58.9
China	9.8	14.6	22.4	27.9
India	7.2	9.4	12.3	12.3 (2002)
Pakistan	20.3	19.0	16.7	18.7 (2004)
<b>External trade/GDP ratio (in percent)</b>				
Indonesia	47.6	58.7	68.9	56.9
Philippines	50.9	82.4	102.8	100.7
Thailand	54.7	87.1	124.4	124.6
China	18.6	31.7	48.0	58.9
India	11.9	17.0	21.8	22.3 (2002)
Pakistan	30.7	33.0	31.6	34.5 (2004)
<b>Broad money/GDP ratio (in percent)</b>				
Indonesia	22.6	48.7	56.4	53.4
Philippines	28.1	49.1	59.3	56.9
Thailand	52.7	83.8	101.3	96.7
China	53.3	108.3	170.4	191.2
India	41.6	46.4	60.3	63.6
Pakistan	41.5	44.2	40.6	45.6 (2004)
<b>Private credit/GDP ratio (in percent)</b>				
Indonesia	18.7	48.3	22.4	24.2
Philippines	24.4	34.6	34.6	30.6
Thailand	42.2	91.9	79.9	79.2
China	66.7	98.0	133.4	147.7
India	25.6	24.4	30.6	31.9
Pakistan	28.2	27.2	22.5	25.0 (2004)
<b>FDI/GDP ratio (in percent)</b>				
Indonesia	0.4	1.1	-1.3	-0.3
Philippines	0.6	1.9	1.5	0.4
Thailand	1.0	2.6	2.1	1.4
China	0.5	3.9	3.6	3.3
India		0.4	0.7	0.7 (2002)
Pakistan	0.3	0.9	0.7	1.0 (2004)

Source: IMF, International Financial Statistics, 2004.

**Much has been done in recent years to improve the business climate in Pakistan, and Pakistan ranks well in this regard within the South Asia region (Table 9).**<sup>13</sup> Among 22 indicators of the World Bank's "Doing Business," Pakistan is doing better than other South Asian countries with regard to 13. It lags, however, significantly behind China and Thailand outside South Asia. The World Bank's "Investment Climate Surveys" also suggest that Pakistan is behind India, China, and even the Philippines in terms of providing an enabling environment for investors. Clearly, further progress can be made in Pakistan. For instance, property rights remain weak, including because of poor land record; there is still too much government intervention with the market mechanism in the case of some key commodities; red tape is still excessive, particularly at the provincial level; labor regulations have hindered the functioning of formal labor markets and employment; corruption remains a problem (Pakistan ranked 129 out of 146 countries in Transparency International Corruption Perception Index 2004); and the enforcement of contracts, financial obligations, and bankruptcy law, as well as the interpretation of tax laws remain difficult. In addition, educational and more generally human development indicators remain quite weak in Pakistan, resulting in a workforce often ill-equipped with the skills necessary for higher value-added productions. Finally, there is much room for improving the physical infrastructure of the country, the current state of which contributes to the high costs of doing business. Of course, some impediments to domestic and foreign investment, namely political and security risks, cannot easily be removed or offset with right economic policies; but this should be viewed as a challenge to do more and better than elsewhere in the region.

**With agriculture still representing close to 25 percent of GDP, growth in this sector and in related rural activities will have to pick up for the objective of significantly higher overall GDP growth rates to be sustained in the near term.** The scope for productivity gains appears to be still large, land remains underutilized, and the market infrastructure in the rural areas remains weak. Recent positive developments, if sustained, could boost the prospects for large productivity gains. They include greater availability of bank financing for agriculture (from a low base) and the decision to increase Public Sector Development Program expenditures for improving water availability (lining of canals and water courses) and for rural infrastructure (roads to market). A productivity enhancing land reform, reduction of government intervention in the development and working of competitive markets in agriculture, and strengthening of research and extension services would increase the prospects for accelerated growth in the sector.

---

<sup>13</sup> The critical role played by a conducive business environment, and generally good governance, for growth was especially highlighted in the latest World Development Report (World Bank, 2005).

Table 9. Pakistan: Comparative Investment Climate in Pakistan

	Pakistan vs China	Pakistan vs India	Pakistan vs Bangladesh	Pakistan vs Sri Lanka	Pakistan vs Nepal	Pakistan vs Philippines	Pakistan vs Indonesia	Pakistan vs Thailand	Pakistan vs South Asia	Pakistan vs OECD
<b>I. Doing Business Indicators 1/</b>										
<b>1. Macroeconomic Environment</b>										
GNI Per Capita in U.S. Dollar (2003)	W	B	B	W	B	W	W	W	B	W
External Debt, Present Value (in percent of GNI, 2002)	W	W	W	B	W	B	B	B	-	-
Avg. Annual Real GDP Growth (in percent, 1990-2003)	W	W	W	W	W	W	B	W	W	B
Avg. Annual Growth in GDP Deflator (in percent, 1990-2003)	W	W	W	B	W	W	B	W	-	-
External Balance of Goods and Services (in percent of GDP, 1990-2003)	W	W	W	B	B	W	W	W	-	-
External Trade (openness of economy) (in percent of GDP, 1990-2003)	W	B	B	W	W	W	W	W	-	-
Foreign Direct Investment (in percent of GDP, 1990-2003)	W	B	B	W	B	W	B	W	-	-
<b>2. Starting a Business (2004)</b>										
Number of Procedures (in numbers)	B	E	W	W	W	E	B	W	W	W
Duration (Days)	B	B	B	B	W	B	B	B	B	B
Cost (percent in GNI per capita)	W	B	B	W	B	W	B	W	B	W
Minimum Capital (percentage of GNI per capita)	B	E	E	E	E	B	B	E	E	B
<b>3. Hiring and Firing of Workers (2004)</b>										
Difficulty of Hiring Index (higher values imply more rigid)	W	W	W	W	W	W	W	W	W	W
Rigidity of Hours Index (higher values imply more rigid)	E	W	E	E	W	B	E	E	W	B
Difficulty of Firing Index (higher values imply more rigid)	B	B	W	B	B	B	B	W	B	W
Rigidity of Employment Index (higher values imply more rigid)	W	W	W	W	W	W	B	W	W	W
Firing Costs (weeks)	E	W	W	B	E	E	B	W	W	W
<b>4. Registering Property (2004)</b>										
Number of Procedures (in number)	W	B	-	B	-	B	B	W	E	W
Time (days)	W	B	-	B	-	B	W	W	B	W
Cost (percentage of property per capita)	W	B	-	B	-	B	B	B	B	B
<b>5. Getting Credit (2004)</b>										
Legal Rights Index (higher scores imply better laws to access credit)	B	E	-	B	E	W	W	W	B	W
Credit Information Index (higher values imply more credit information)	B	B	B	B	B	B	B	W	B	W
Cost to Create Collateral (percentage of income per capita)	W	W	B	W	W	W	W	W	W	W
<b>6. Protecting Investor (2004)</b>										
Disclosure Index (higher values imply more disclosure)	E	E	B	E	B	W	E	W	B	W
<b>7. Enforcing Contracts (2004)</b>										
Number of Procedures (in number)	W	W	W	W	W	W	W	W	W	W
Time (days)	W	B	W	B	W	W	B	W	W	W
Cost (percentage of debt)	W	B	W	W	W	B	B	W	B	W
<b>8. Closing Business (2004)</b>										
Time (years)	W	B	B	W	B	B	B	W	B	W
Cost (percentage of estate value)	B	B	B	B	B	B	B	W	B	B
Recovery Rate (cents on each dollar)	B	B	B	B	B	B	B	W	B	W
<b>Summary Results of Doing Business</b>										
	B = 8	B = 15	B = 11	B = 14	B = 10	B = 13	B = 19	B = 4	B = 13	B = 6
	W = 18	W = 10	W = 12	W = 12	W = 13	W = 14	W = 8	W = 23	W = 9	W = 18

Table 9. Comparative Investment Climate in Pakistan (continued)

	Pakistan (2002) vs China (2002/03)	Pakistan (2002) vs India (2003)	Pakistan (2002) vs Bangladesh (2002)	Pakistan vs Sri Lanka	Pakistan vs Nepal	Pakistan vs Philippines (2003)	Pakistan vs Indonesia (2004)	Pakistan vs Thailand
II. Investment Climate Survey Indicators 2/								
1. Policy Uncertainty								
Policy Uncertainty as Major Constraint (in percent)	W	W	B	-	-	W	B	-
Unpredictable Interpretation of Regulations (in percent)	W	W	W	-	-	W	W	-
2. Corruption								
Corruption as Major Constraint (in percent)	W	W	B	-	-	W	B	-
Reports Bribes are Paid (in percent)	W	-	B	-	-	W	W	-
Average Bribes (percentage of sales)	W	-	W	-	-	B	B	-
3. Courts								
Lack Confidence Courts Uphold Property Rights (in percent)	W	W	B	-	-	W	W	-
4. Crimes								
Crimes as Major Constraint (in percent)	W	W	B	-	-	B	B	-
Report Losses from Crimes (in percent)	B	-	B	-	-	B	B	-
Average Losses from Crimes (in percent of sales)	B	-	W	-	-	B	B	-
5. Regulation and Tax Administration								
Tax Rates as Major Constraint (in percent)	W	W	W	-	-	W	W	-
Tax Administration as Major Constraint (in percent)	W	W	B	-	-	W	W	-
Obtaining Licensing as Major Constraint (in percent)	B	W	B	-	-	W	B	-
Management Time Dealing With Officials (percentage of management time)	B	B	W	-	-	B	B	-
Average Days to Clear Customs (days)	W	W	W	-	-	W	W	-
6. Finance								
Finance as Major Constraint (in percent)	W	W	B	-	-	W	W	-
Small Firms With a Loan (in percent)	W	W	W	-	-	W	W	-
7. Electricity								
Electricity as Major Constraint (in percent)	W	W	B	-	-	W	W	-
Firms Reporting Outage (in percent)	W	W	W	-	-	W	W	-
Losses From Outage (in percent of sales)	W	B	W	-	-	B	W	-
8. Labour								
Skills as Major Constraint (in percent)	B	W	B	-	-	W	B	-
Labour regulation as major constraint (in percent)	B	B	W	-	-	B	B	-
<b>Summary Results of Investment Climate Surveys</b>								
	<b>B = 6</b> <b>W = 15</b>	<b>B = 3</b> <b>W = 14</b>	<b>B = 11</b> <b>W = 10</b>	-	-	<b>B = 7</b> <b>W = 14</b>	<b>B = 10</b> <b>W = 11</b>	-
III. Economic Freedom Index (2004) 3/								
IV. Corruption Perceptions Index (2004) 4/								
	B	B	B	W	B	W	B	W
	W	W	B	W	W	W	B	W

'B' denotes relatively better; 'W' denotes relatively worse; 'E' denotes equal, and '-' denotes not available

1/ World Bank *Doing Business* (2005) and *World Development Report* (2005).

2/ World Bank, *Investment Climate Surveys* (2002).

3/ *The Heritage Foundation Wall Street Journal Index of Economic Freedom*, 2004.

4/ *Transparency International Corruption Perceptions Index*, 2004.

## V. CONCLUSIONS

Pakistan achieved a remarkable turnaround during 2000–04, marked by a sharp adjustment in macroeconomic balances toward external sustainability and a resumption, followed by acceleration, in economic growth. The adjustment was mainly driven by a rise in private savings, though fiscal consolidation helped as well. Both favorable external factors, post-September 11, and greater domestic confidence, resulted in a significant increase in private remittances from abroad and in foreign currency deposits of residents. Structural reforms in the banking and corporate sectors contributed to rebuilding domestic confidence as well as to enhancing productivity and profitability. These factors combined to increase the private savings rate and strengthen the incentives to invest.

Net exports were the key driving force behind the restoration of growth early in the period, but consumption as well as investment led the acceleration of growth in 2003/04. While this suggests a vulnerability with regard to sustainability of accelerated growth, the structural reforms implemented in Pakistan should lead to a permanent rise in both savings and investment, auguring well for sustainable higher growth rates. These reforms have improved Pakistan's performance in terms of variables generally recognized as important for higher growth. Nevertheless, Pakistan appears to still lag behind other competitor Asian countries in this regard. Further advancing structural reforms on a broad front, while maintaining overall macroeconomic stability and paying close attention to the human development effort that will determine the effectiveness of these reforms, should allow Pakistan to catch up with the fast growing economies of Asia.

Annex Table I. Pakistan: Macroeconomic Balances, 1999/2000–2003/04  
(In billions of Pakistan rupees, unless otherwise indicated, new base)

	1999–2000	2000–01	2001–02	2002–03	2003–04	Sources of data
Savings-Investment Balances						
1. National savings (S = CA + I)	597.4	650.8	835.8	1044.5	1080.5	Derived
Private savings (Sp = S - Sg)	673.1	709.4	808.8	1065.7	1064.7	Derived
Public savings (Sg = S - Sp)	-75.7	-58.6	27.1	-21.2	15.8	Derived
Government revenue including net official transfers from abroad (Rg)	560.4	601.9	733.6	809.4	809.4	IMF BOP tables and SBP BOP Table (Aug. 18, 2004)
Government current expenditure (Ceg)	47.8	48.9	91.6	52.8	29.1	IMF BOP tables
Official transfers from abroad (in U.S. million)*ER (in PRs. billion) from BoP tables (G1)	14.4	8.3	8.4	-61.4	-2.6	Derived
Discrepancy in grants numbers (in PRs. billion)	636.1	660.5	688.6	794.9	793.6	IMF fiscal tables
Government current expenditure adjusted for statistical discrepancy (Ceg)	626.4	645.7	700.2	791.7	793.6	IMF fiscal tables
Statistical discrepancy (i.e. additional current expenditure)	9.7	14.8	-11.7	3.2	0.0	IMF fiscal tables
2. Gross total investment (I = Ip + Ig)	659.1	715.5	738.4	806.9	986.9	Federal Bureau of Statistics (new base)
Private investment (Ip)	563.5	625.7	612.2	677.7	834.9	Federal Bureau of Statistics (Ip = I - Ig)
Government gross investment i.e. PSDP (Ig)	95.6	89.8	126.2	129.2	152.0	IMF fiscal tables
Net investment gross investment including net lending (Igrt = Ig + nl)	95.6	89.8	126.2	129.2	152.0	IMF fiscal tables
Net lending (nl)	-12.9	-17.6	-0.2	-22.7	12.1	IMF fiscal tables
3. External current account balance including official transfers	-61.7	-64.8	97.5	237.6	93.6	IMF BOP tables and SBP BOP Table (Aug. 18, 2004)
Expenditure on Gross Domestic Product						
1. Total consumption (C = Cp + Cg)	3247.3	3578.2	3699.4	4035.5	4634.8	Derived
Private consumption (Cp = Yp - Sp)	2978.9	3208.2	3339.2	3585.2	4187.0	Derived
Public consumption (Cg = Yg - Sg - iF)	268.4	369.9	360.2	450.3	447.8	Derived
Government current expenditure adjusted for statistical discrepancy (Ccg)	636.1	660.5	688.6	794.9	793.6	IMF fiscal tables
Domestic interest payments (id)	198.4	183.5	184.6	160.5	161.5	IMF fiscal tables
Transfers from the government (i.e. pension) (Tg)	32.7	30.9	27.2	37.2	42.6	IMF fiscal tables
Subsidies and grants (SG)	27.4	38.0	46.6	74.4	91.7	IMF fiscal tables
Net foreign interest payments (if)	78.1	90.2	89.9	64.6	49.9	IMF BOP tables and SBP BOP Table (Aug. 18, 2004)
2. Gross total investment (I)	659.1	715.5	738.4	806.9	986.9	Federal Bureau of Statistics (new base)
3. Balance of exports and imports of goods and nonfactor services (X - M)	-113.0	-131.1	-36.1	-29.1	-158.9	IMF BOP tables and SBP BOP Table (Aug. 18, 2004)
Exports of goods and nonfactor services (X)	494.6	599.0	677.3	791.1	865.3	IMF BOP tables and SBP BOP Table (Aug. 18, 2004)
Imports of goods and nonfactor services (M)	423.1	520.4	559.9	640.8	712.2	IMF BOP tables and SBP BOP Table (Aug. 18, 2004)
Exports of nonfactor service	71.5	78.6	117.4	158.4	153.1	IMF BOP tables and SBP BOP Table (Aug. 18, 2004)
Imports of goods and nonfactor services (M)	607.6	730.2	713.4	820.2	1024.1	IMF BOP tables and SBP BOP Table (Aug. 18, 2004)
Imports of goods	495.9	594.3	577.8	661.7	793.7	IMF BOP tables and SBP BOP Table (Aug. 18, 2004)
Imports of nonfactor service	111.6	135.9	135.6	158.5	230.4	IMF BOP tables and SBP BOP Table (Aug. 18, 2004)
4. Nominal GDP at market price (GDPmp = C + I + X - M)	3793.4	4162.7	4401.7	4821.3	5462.9	Federal Bureau of Statistics (new base) and Latest Growth in QIN
Memorandum items:						
1. Disposable gross private national income (Yp = GDPmp - Ti + SG + Tp - PD - To + id + Tg)	3620.9	3969.6	4168.0	4643.0	5251.7	Derived
Nominal GDP at market price (GDPmp)	3793.4	4162.7	4401.7	4821.3	5462.9	Federal Bureau of Statistics (new base) and Latest Growth in QIN
Indirect taxes (Ti)	272.9	297.8	315.6	377.0	411.1	IMF fiscal tables
Subsidies and grants (SG)	27.4	38.0	46.6	74.4	91.7	IMF fiscal tables
Net private transfers from abroad (Tp)	105.2	143.3	184.1	335.0	350.0	IMF BOP tables and SBP BOP Table (Aug. 18, 2004)
Net profits/dividends to abroad (PD)	21.7	35.6	52.1	64.5	76.7	IMF BOP tables and SBP BOP Table (Aug. 18, 2004)
Other taxes etc (To)	239.7	253.2	308.5	343.8	369.2	IMF fiscal tables
Domestic interest payments (id)	198.4	183.5	184.6	160.5	161.5	IMF fiscal tables
Transfers from the government (i.e. pension) (Tg)	32.7	30.9	27.2	37.2	42.6	IMF fiscal tables
2. Aggregate demand (C + I + X)	4401.0	4892.8	5115.1	5641.5	6487.0	Derived
3. Domestic demand (C + I)	3906.4	4293.8	4437.8	4842.4	5621.8	Derived
4. Private savings in percent of disposable income (Sp/Yp*100)	18.6	17.9	19.4	23.0	20.3	Derived
5. Growth in real GDP at factor cost (GDPf/cg) (in percentage)	1.8	3.1	5.1	6.5	6.1	Federal Bureau of Statistics (new base) and Latest Growth in QIN
6. Growth in real GDP at market price (GDPmp/cg) (in percentage)	0.11	0.19	3.2	5.2	6.1	Federal Bureau of Statistics (new base) and Latest Growth in QIN
7. Incremental output capital ratio (GDPmp/cg/(100*(GDPmp)^(t-1)))	0.11	0.19	0.31	0.31	0.36	Derived
8. Nominal exchange rate (rupees per U.S. dollar, p.a.) (ER)	51.7	58.3	61.3	58.4	57.4	IMF tables on national accounts

Annex Table 2. Pakistan: Deflators, 1999/2000–2003/04  
(1999–2000=1)

	1999–2000	2000–01	2001–02	2002–03	2003–04	Sources of data
1. Total investment deflator (Id)	1.00	1.03	1.06	1.12	1.22	Federal Bureau of Statistics
Private investment deflator (Ipd)	1.00	1.03	1.06	1.12	1.23	Federal Bureau of Statistics
Public investment deflator (Igd)	1.00	1.03	1.07	1.11	1.20	Federal Bureau of Statistics
2. Total consumption deflator (Cd)	1.00	1.10	1.13	1.20	1.30	Federal Bureau of Statistics
Private consumption deflator (Cpd)	1.00	1.11	1.13	1.21	1.32	Federal Bureau of Statistics
Public consumption deflator (Cgd)	1.00	1.05	1.08	1.12	1.17	Federal Bureau of Statistics
3. Exports and imports of goods and nonfactor services deflator						
Exports of goods and nonfactor services deflator (Xd)	1.00	1.07	1.07	1.00	1.05	Federal Bureau of Statistics
Imports of goods and nonfactor services deflator (Md)	1.00	1.15	1.15	1.19	1.34	Federal Bureau of Statistics
4. GDP (at market price) deflator (GDPPd)	1.00	1.08	1.10	1.15	1.23	Federal Bureau of Statistics

Annex Table 3. Pakistan: Real GDP (Demand Side), 1999/2000–2003/04  
(In billions of Pakistani rupees at constant market price, new base)

	1999–2000	2000–01	2001–02	2002–03	2003–04	Sources of data
1. Gross total investment (I = Ip + Ig)	659.1	692.6	694.6	719.9	809.2	Federal Bureau of Statistics (new base)
Private investment (Ip)	563.5	605.7	576.3	603.2	682.8	Federal Bureau of Statistics (Ip = I - Ig)
Government gross investment i.e. PSDP (Ig)	95.6	86.8	118.3	116.7	126.4	IMF fiscal tables
2. Total Consumption (C = Cp + Cg)	3247.3	3245.2	3277.9	3362.0	3578.7	Derived (C = GDP - I - X + M)
Private consumption (Cp = Yp - Sp)	2947.8	2942.2	2963.5	2954.4	3196.4	Residual (Cp = C - Cg)
Public consumption (Cg = Ceg - id - Tg - SG - if)	299.5	303.0	314.4	407.6	382.2	IMF fiscal tables
3. Exports of goods and nonfactor services (X)	494.6	560.0	633.9	798.4	823.9	IMF BOP tables and SBP BOP Table (Aug. 18, 2004)
Exports of goods	423.1	486.5	524.0	640.2	678.1	IMF BOP tables and SBP BOP Table (Aug. 18, 2004)
Exports of nonfactor service	71.5	73.5	109.8	158.2	145.8	IMF BOP tables and SBP BOP Table (Aug. 18, 2004)
4. Imports of goods and nonfactor services (M)	607.6	633.8	619.0	686.4	762.0	IMF BOP tables and SBP BOP Table (Aug. 18, 2004)
Imports of goods	495.9	515.8	501.3	553.8	590.6	IMF BOP tables and SBP BOP Table (Aug. 18, 2004)
Imports of nonfactor service	111.6	118.0	117.7	132.6	171.4	IMF BOP tables and SBP BOP Table (Aug. 18, 2004)
5. Aggregate demand (C + I + X)	4401.0	4497.8	4606.4	4880.3	5211.7	Derived
6. Domestic demand (C + I)	3906.4	3937.8	3972.6	4081.9	4387.8	Derived
7. GDP at constant market price (GDPmp)	3793.4	3864.0	3987.4	4193.9	4449.7	Federal Bureau of Statistics (new base) and Latest Growth in QIN

Annex Table 4. Pakistan: Real GDP, (Production Side), 1999/2000–2003/04

(In millions of Pakistani rupees, at constant factor cost of 1999/2000, new base)

Sectors	1999/2000	2000/01	2001/02	2002/03	2003/04
A. Commodity producing sectors (1+2)	1,721.8	1,730.7	1,753.6	1,839.6	1,984.9
1. Agriculture	923.6	903.5	904.4	941.3	965.4
2. Industry (i + ii + iii + iv)	798.2	827.2	849.1	898.4	1,019.6
i. Mining and quarrying	48.4	47.6	51.0	59.3	59.3
ii. Manufacturing	522.8	571.4	596.8	638.0	727.3
Large scale	338.6	375.7	388.9	416.8	492.2
Small scale	132.4	142.3	153.0	164.5	176.8
Slaughtering	51.8	53.4	55.0	56.6	58.2
iii. Construction	87.4	87.8	89.2	92.0	99.3
iv. Electricity, gas and water supply	139.6	120.5	112.0	109.2	133.7
B. Services sectors (3+4+5+6+7+8)	1,807.5	1,863.4	1,952.1	2,055.6	2,163.3
3. Transport, storage and communication	401.0	422.2	427.3	444.3	461.4
4. Wholesale and retail trade	621.8	649.6	667.6	706.8	763.6
5. Finance and insurance	132.5	112.5	131.8	127.6	122.9
6. Ownership of dwellings	110.4	114.6	118.6	122.8	127.1
7. Public administration and defence	220.3	225.2	240.6	265.0	280.5
8. Public administration and defence	321.6	339.4	366.3	389.2	407.8
GDP at factor cost (A + B)	3,529.3	3,594.1	3,705.7	3,895.3	4,148.2
GDP at market price	3,793.4	3,864.0	3,988.4	4,193.8	4,449.7

Source: Federal Bureau of Statistics.

## REFERENCES

- Barro, Robert. J., 1991, "Economic Growth in a Cross Section of Countries," *Quarterly Journal of Economics*, Vol. 106, pp. 407–43.
- , and Xavier Sala-i-Martin, 1995, *Economic Growth* (New York: McGraw-Hill).
- Clements, Benedict J., Bhattacharya, Rina, and Nguyen, Toan Quoc, 2003, "External Debt, Public Investment, and Growth in Low-Income Countries," IMF Working Paper 03/249, (Washington: International Monetary Fund).
- Easterly, William, 1993, "How Much Do Distortions Affect Growth?" *Journal of Monetary Economics*, Vol. 32, pp. 187–212.
- , and Sergio Rebelo, 1993, "Fiscal Policy and Economic Growth: An Empirical Investigation," *Journal of Monetary Economics*, Vol. 32, pp. 417–58.
- Federal Bureau of Statistics, 2004a, "National Accounts of Pakistan: Rebasing from 1980–81 to 1999–2000," Islamabad.
- , 2004b, "Pakistan Statistical Year Book," Statistics Division, Islamabad.
- , "Monthly Bulletin of Statistics," Statistics Division, Islamabad, various issues.
- Government of Pakistan, 2003–04, "Pakistan Economic Survey," Finance Division, Economic Adviser's Wing, Islamabad.
- Iqbal, Zafar, 2004a, "The Contribution of Managerial Improvement in the Financial Rehabilitation of Selected Public Enterprises in Pakistan," Selected Issues Paper (Washington: International Monetary Fund).
- , and Abdus Sattar, 2004b, "Contribution of Workers' Remittances to Economic Growth in Pakistan," PIDE Research Report No. 187.
- , and Ghulam Mustafa Zahid, 1998, "Macroeconomic Determinants of Economic Growth in Pakistan," *Pakistan Development Review*, Vol. 37, pp. 125–48.
- International Monetary Fund, 2004a, "Pakistan-Eighth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Requests for Waiver and Modification of Performance Criteria."
- , 2004b, *International Financial Statistics* (Washington: International Monetary Fund).

Khan, Mohsin, and Manmohan S. Kumar, 1997, "Public and Private Investment and the Growth Process in Developing Countries," *Oxford Bulletin of Economics and Statistics*, Vol. 1, pp. 69–88.

———, and Carmen Reinhart, 1990, "Private Investment and Economic Growth in Developing Countries," *World Development*, Vol. 18, pp. 19–27.

State Bank of Pakistan, 2002–03, "Annual Report," Vol. I and II, Karachi.

———, "Monthly Statistical Bulletin," Statistics Department, Karachi, various issues.

———, "Balance Sheet Analysis of Joint Stock Companies," Statistics Department, Karachi, various issues.

van Rooden, Ron, 2004, "How to Accelerate Economic Growth: Does Investing in Human Capital Help?" Selected Issues Paper (Washington: International Monetary Fund).

World Bank, 2004a, *Doing Business in 2004: Understanding Regulation*, Washington, D.C.

———, 2004b, *Doing Business in 2005: Removing Obstacles to Growth*, Washington, D. C.

———, 2005, *World Development Report*, Washington, D. C.