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I. Basic Macroeconomic Indicators

Table 1: Basic Macroeconomic Indicators

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<tbody>
<tr>
<td>Population (mid-year; mln)</td>
<td>175.3</td>
<td>178.9</td>
<td>182.5</td>
<td>186.2</td>
<td>189.9</td>
</tr>
<tr>
<td>Average exchange rate (PAK/ USD)</td>
<td>85.5</td>
<td>89.2</td>
<td>96.7</td>
<td>102.8</td>
<td>101.2</td>
</tr>
<tr>
<td>Inflation rate (CPI average; %)</td>
<td>13.7</td>
<td>11.0</td>
<td>7.4</td>
<td>8.6</td>
<td>4.5</td>
</tr>
<tr>
<td>GDP at current prices, (nat. currency bln)</td>
<td>18,276</td>
<td>20,046</td>
<td>22,378</td>
<td>25,068</td>
<td>27,383</td>
</tr>
<tr>
<td>GDP at current prices (USD, bln)</td>
<td>214</td>
<td>225</td>
<td>231</td>
<td>244</td>
<td>270</td>
</tr>
<tr>
<td>GDP / capita (in current. prices; USD)</td>
<td>1,274</td>
<td>1,320</td>
<td>1,333</td>
<td>1,383</td>
<td>1,512</td>
</tr>
<tr>
<td>Real GDP growth (%)</td>
<td>3.6</td>
<td>3.8</td>
<td>3.7</td>
<td>4.0</td>
<td>4.2</td>
</tr>
<tr>
<td>Unemployment rate (%)</td>
<td>6.0</td>
<td>6.0</td>
<td>6.2</td>
<td>6.0</td>
<td>n.a.</td>
</tr>
<tr>
<td>Remittances, net (USD bln)</td>
<td>11.2</td>
<td>13.2</td>
<td>13.9</td>
<td>15.8</td>
<td>18.4</td>
</tr>
<tr>
<td>Direct foreign net investment (USD bln)</td>
<td>1.6</td>
<td>0.8</td>
<td>1.5</td>
<td>1.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Consolidated budget balance / GDP (%)</td>
<td>-6.5</td>
<td>-6.8</td>
<td>-8.2</td>
<td>-5.5</td>
<td>-5.3</td>
</tr>
<tr>
<td>Gross government debt / GDP (%)</td>
<td>58.9</td>
<td>63.3</td>
<td>63.9</td>
<td>63.8</td>
<td>61.8</td>
</tr>
<tr>
<td>Exports (fob, USD bln)</td>
<td>25.3</td>
<td>24.7</td>
<td>24.8</td>
<td>25.1</td>
<td>24.1</td>
</tr>
<tr>
<td>Imports (fob USD bln)</td>
<td>35.8</td>
<td>40.4</td>
<td>40.2</td>
<td>41.8</td>
<td>41.2</td>
</tr>
<tr>
<td>Trade balance (exp. fob. - imp.fob.; USD bln)</td>
<td>-10.5</td>
<td>-15.7</td>
<td>-15.4</td>
<td>-16.7</td>
<td>-17.1</td>
</tr>
<tr>
<td>Current account balance (USD bln)</td>
<td>0.2</td>
<td>-4.6</td>
<td>-2.5</td>
<td>-3.1</td>
<td>-2.2</td>
</tr>
<tr>
<td>Current account / GDP (%)</td>
<td>0.1</td>
<td>-2.0</td>
<td>-1.1</td>
<td>-1.3</td>
<td>-0.8</td>
</tr>
<tr>
<td>Official reserves(excl.gold; eop; USD bln)</td>
<td>14.8</td>
<td>10.8</td>
<td>6.0</td>
<td>9.0</td>
<td>13.5</td>
</tr>
</tbody>
</table>

Sources:
2. Pakistan Bureau of Statistics
3. Ministry of Finance
II. Economic Overview and Outlook

Real Sector
The economy of Pakistan has improved upon its sub-par performance that is still ongoing since the eruption of the global economic crisis of 2009. Even though the economy managed to exceed an average real gross domestic product (GDP) growth rate of 4% over the last two fiscal years, it is functioning below its long-run performance due to critical external and internal challenges. During this period, the government dealt with reviving the economy with a new IMF deal, dealing with the energy crisis, and improving security situation in order to provide the economy a strong footing.

The economy has experienced an average annual growth rate of 4.0% in FY14 which was the highest rate seen after five years while the growth for FY15 even exceed it at 4.2% which is below the 5.1% target set officially. The growth is supported by all sectors of the economy and in order to maintain this positive trend vital steps are taken in energy policy, security policy, privatization, ease of doing business, taxation system, and employment.

The services sector makes an increasing contribution to the economic revival of the country in recent years. It is also worth noting that once again the contribution of industry to GDP growth exceeded agriculture in FY14. Since the growth in industry and agriculture remained limited due to adverse weather and energy shortages over the last four fiscal years, the services sector picked up the burden to produce more than two thirds of the real GDP growth while the other main sectors’ contribution were almost even.

Per capita income is continuing to increase and is up 9% y/y in FY15. The per capita income has come around fifty percent higher since the global economic crisis to an estimated USD 1,512 in FY15. The major factors, which contributed in the rise of per capita income, include acceleration in real GDP growth, inflows of workers remittances and a relatively stable exchange rate, supported by growing falling oil prices.

Continued security issues, unresolved energy problems have limited economic growth and employment creation in Pakistan over the recent years. In order to achieve the required economic growth in this environment, the government’s new growth strategy framework decided to put emphasis on productivity and efficiency, to build a better government and markets, to implement sustained reforms in public sector management, to develop competitive markets, and to improve urban management. The ‘Vision 2025’ which was launched in August 2014 promises to address all the obstacles which are pulling back economic growth.

External Sector
The continuing slow and uneven recovery in major developed countries and moderate growth in developing countries have led to sluggish trade growth in Pakistan in the past several years. Despite the slowing down of the world trade, Pakistan’s external sector showed positive developments over the last two fiscal years. Exports from Pakistan reached a two-year high in FY14 at USD 25.1 billion but it should be noted that the level of exports is floating in a narrow band since 2011. After a record year, exports have plunged to a four-year low of USD 24.1 billion in FY15 missing the target around USD 3 billion.

Despite the stagnant exports since FY11, imports on the other hand, is continuing to reach higher levels every year as it reached USD 41.2 billion in FY15, up by 15% compared to FY11. Resultantly, the gap between imports and exports stood at USD 17.1 billion in FY 15. Even though the trade deficit is surged 62% compared to FY11, the deficit compared to country’s GDP is in a four-year gradual decline.

One of the important targets of the ‘Vision 2025’ is increasing the exports of the country to USD 150 billion in ten years. In FY15 the exports had to be increased to USD 37.5 billion to achieve the overarching goal which was missed by a margin of USD 13.4 billion.
The current account deficit shrank by USD 850 million in FY15 compared to the preceding fiscal year when it amounted to USD 3.1 billion. The notable improvement in current account in FY15 was recorded primarily during Q3 (Jan-Mar) when it posted a substantial surplus of USD 730 million. Inflows from Coalition Support Fund (CSF), surged workers’ remittances and a sharp reduction in the oil import bill all contributed to the steady current account deficit. Resultantly, as a percentage of the GDP, the current account deficit decreased from 1.3% in 2013-14 to 0.8% in 2014-15.

Pakistanis remitted a historically high USD 18.4 billion in FY15, a growth of 16.4% compared to a year ago. Remittances kept increasing each month with a substantial growth rate rand made up for roughly 45% of the country’s import bill and 94.3% of deficit in the goods and services accounts. But despite the positive IMF relation and stable economy, the foreign direct investment into Pakistan declined 59% y/y to USD 0.7 billion in FY15 compared with USD 1.7 billion in FY14.

**Fiscal Outlook**

During FY14 and FY15, all major fiscal indicators showed significant improvement as the budget balance to GDP ratio significantly improved from a critical 8.2% of GDP in FY13 to 5.5% a year later and to 5.0% in FY15. The deficit was effectively brought down through prudent expenditure management strategy as total expenditures were reduced while total revenues were increased around two percentage points compared to FY13.

Low tax revenue is a structural issue for the economy as tax revenues historically have remained stagnant at 9% to 10% of GDP which is one of the lowest globally. With focused efforts on containing expenditure along with broadening the tax base and improving tax collection, the tax revenue to GDP ratio reached double digits with 10.4% in FY14 and FY15 and hit 11.0% in FY15.

As a result of the recent success on the fiscal front, the country’s total government debt which surged to a record 63.8% of GDP in FY14 is projected to drop two percentage points. External debt is also continuing to shrink in its share of GDP from 25.2% in FY12 to an estimated 18.2% in FY15.

Due to the potential difficulties in external debt financing capacity, Moody’s in summer 2012 had downgraded Pakistan’s foreign and local currency long term bond ratings by one notch to Caa1 from B3. The government’s difficulty to get a mounting budget and trade deficit under control, coupled with deteriorating domestic and external conditions may force Pakistan to return to IMF for financial assistance once again after the 2013 elections.

The positive effects of the successful implementation of the ongoing IMF program is revealing itself gradually as Moody’s in June 2015 upgraded Pakistan’s foreign currency issuer and senior unsecured bond ratings to B3 from Caa1 and assigned a stable outlook. In May 2015, S&P had upgraded outlook on Pakistan’s sovereign rating from stable to positive while rating was reaffirmed at B-.

The improvement in Pakistan’s external debt dynamics has eased access to markets and funding costs for the government. In December 2014, a successful Sukuk was subscribed five times over the accepted offer of USD 1 billion for a five-year tenor at a profit rate of 6.75%, which is half percentage points lower than the price at which the five-year Euro bond was sold in April 2014.

As part of the IMF requirements, government has come up with a new set of targets for divestment and strategic sell-offs. A total of eleven deals in divestments and twenty four companies for strategic sell-off have been identified which are largely concentrated in banking and energy sectors.

Pakistan in April 2015 approved divesting all of its state-owned shares in top private bank HBL for USD 1.2 billion, in what is the country’s largest-ever equity offering. The current offering is the largest privatization deal since 2006, when the then government raised USD 712 million from selling its stake in an energy company. The completion of HBL offer enabled Pakistan to complete a key IMF structural benchmark.
The government has also decided to cut power sector subsidies by around 50% to PKR 118 billion in FY16 budget. The reduction in power subsidies is a key pillar of fiscal reform under the IMF program.

**Monetary Policy and Inflation**

The price dynamics depicts a volatile trend in Pakistan. From 1997-2007, consumer price index (CPI) inflation was contained to single digit ranging from 3% to 9%. However, it switched to mostly to double digits with the onset of the global economic crisis ranging from 8% to 17%. The rates were back to single digits since FY13 due to revision in CPI basket.

The CPI inflation is on a downward trajectory since the start of the FY15. The CPI inflation has been contained in single digit during 2014-15 at 4.5%. In August 2015, it was recorded at 1.7% which is the lowest in 12 years. In response to various measures being taken by the government, the CPI inflation averaged at 1.76% in July-Aug 2015-16. A broadly stable exchange rate, reduced reliance of government budgetary borrowing from central bank, and positive global commodity price developments helped keep inflationary pressures low in the country.

Persistent core inflation was one of the key challenges for Pakistan since 2008. During FY15, core prices also benefitted from the positive environment as positive commodity price shocks eased the inflationary pressure.

Due to the disinflation process, SBP slashed the discount rate by 300 basis points since November 2013 to bring it to 7.0% as of May 2015 to an all-time low. Cut in discount rate will likely start to further dampening consumer prices in FY16 while existing government bonds will mature and new papers will be issued at a lower premium.

SBP in FY15 also introduced a much anticipated three-tier interest rate structure through implementing Target Rate 50 basis points below discount rate at 6.5%, and shrunk the interest rate corridor by 50 to 200 basis points.

It is worth noting that the once shaky foreign exchange reserves significantly improved over the past two years. The total liquid foreign reserves held by SBP stood above USD 13 billion by the end of FY15. Together with commercial banks, the total foreign exchange reserves at the end of FY15 almost matched the all-time high of USD 18.24 billion realized in FY11.

**Labor market**

Pakistan’s population has grown by an average 1.94% per annum over the past decade, taking its labor force to amount to 60.09 million according to the most recently revealed Labor Survey of 2013-14 while participation rate was only 32%, which is very low in relation to its comparators. Surveys show that a large part of the employed labor force is unpaid, works less than 35 hours a week, and works in the informal sector.

The latest available unemployment rate is for 2013-14 at 6.0% which is down 20bps compared to a year ago. Generating employment for a young and fast-growing population is also a key policy challenge for the economy.

The recent pick up in real economic growth has the potential to stop the labor market worsening in the medium-run. The economy needs to get back to its long-run average performance in order to meet the job demands of the new entrants and to drop the unemployment rate.

**Future Outlook**

Economic growth is projected continue is upward acceleration in the medium-term supported by low international oil prices and the expected uptick in economic growth in advanced economies. The country’s economic revival hinges closely on steady progress in macroeconomic and structural reforms, alleviation in energy shortages, improvement in security challenges, and no adverse climate shock.
Successful implementation of the IMF requirements improved confidence to the Pakistan economy and opened various avenues to strengthen the macro outlook of the country to provide sustainable development. As the most important development for many years for Pakistan, the China-Pakistan Economic Corridor was formally signed in 2015 with USD 45 billion investment in energy and infrastructure.

CPI inflation is expected to remain subdued in the upcoming period. International prices of primary commodities have been on the slide for past two fiscal years and no upturn is visible on the horizon. The Brent oil price is projected to continue its downward journey in 2015 and 2016, as the gap between demand growth and supply growth is not expected to be bridged.

Getting the fiscal deficit under control is vital to safeguarding macroeconomic stability and setting the foundations for higher growth the economy desperately needs. For that reason, the government revealed a PKR 4.45 trillion budget for FY16 with a fiscal deficit target of 4.3% which is a 9-year low.

There is an aggressive development budget of 4.9% of GDP, primarily targeting energy & infrastructure. In order to achieve the fiscal target, the government has pinned hopes on new tax measures, significant contribution from non-tax revenues, and a major privatization program.

III. Review of Bank’s Operations

The Bank’s operations have been growing in Pakistan across following means i.e. lending through financial intermediaries, project and corporate finance loans. From the beginning of operations in 2008, the total disbursement of the Bank to various operations in Pakistan amounted to USD 259 million by the end of 2014. In addition, undisbursed commitments of USD 32.5 million will be released according to performance of the active operations. The Bank’s total outstanding portfolio in Pakistan was USD 98.4 million as of end-December 2014.

The Bank has been working with selected local financial intermediaries in Pakistan where such delegation of responsibility assists the Bank in serving a targeted market segment more efficiently and effectively than the Bank might be able to do directly. The liberalized financial institutional and formation of privately held banks provide a conducive environment for a thriving intermediary business. In Pakistan, supporting expansion of the financial sector and improving financial inclusion is important in enhancing credit flow to development of real sector and alleviate poverty as well. Efforts are made to encourage financial institutions to provide support to real sector investments and development of SMEs, micro-enterprises, rural areas. Particular, microfinance has huge potential in the country for generating employment opportunities and reducing poverty. Pakistan is one of the few countries in the world that has a separate legal and regulatory framework for microfinance banks and enjoys the number three position in the world in terms of microfinance business environment. The SBP has been taking significant steps to promote the growth of the microfinance sector. Therefore, through micro-finance banks, the Bank will focus on expanding access to finance, particularly among lower-income groups and micro-enterprises. In line with the Pakistan’s poverty reduction strategy, the Bank would also cooperate and provide support to relevant programs that focus on community empowerment. The Bank would also enhance its guarantee facilities as one of the most complementary instruments to its credit operations in order to stimulate trade finance and investment in Pakistan.

In order to improve its disbursement positions vis-à-vis Pakistani banks, in the ensuing period the Bank would focus more on mid-tier banks, microfinance banks and evaluate financially sound institutions in order to add them to its list of approved FIs. Furthermore, the economic situation is now showing signs of stabilization and it’s expected that private sector credit from the larger banks would also increase in near future making them more receptive towards ETDB’s financing facilities.

In the forthcoming period, the Bank will give due consideration to identification of bankable projects and increasing its operations in Pakistan. Broadly defined, operations would be directed towards supporting
the financial sector, M-SMEs, trade finance, corporate sector and development of production infrastructure.

- **Micro-Small and Medium Sized Enterprises (M-SMEs) Development Facility**

  Under this program the Bank offer loans to various financial institutions which subsequently on-lend to the Micro and SMEs. This facility is designed in a manner where the Bank risk is on the financial institutions and their expertise to on lend to SME Sector of the country. SME facility plays a vital role in creating jobs and generating income for low income people. It also serves the ETDB mandate in an optimal manner.

  The Bank is seeking co-funding from the participating financial institution in each on-lending, in order to strengthen the relationship between the intermediary and its clients, and to increase the intermediaries’ interest in the good performance of the credit line. The main goal of these intermediated loans is to support growth and employment potential of the SMEs. The Bank has specific eligibility criteria which are defined to the selected Financial Institution in order to assure that funds are moving to the Bank’s target market. Funds will be allocated to M-SMEs according to following amounts and requirements.

<table>
<thead>
<tr>
<th>Client Category</th>
<th>Micro</th>
<th>SME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headcount</td>
<td>&lt;50</td>
<td>51-250</td>
</tr>
<tr>
<td>Annual Turnover</td>
<td>&lt;EUR 50,000.-</td>
<td>EUR 51,000-EUR</td>
</tr>
<tr>
<td></td>
<td></td>
<td>15,000,000</td>
</tr>
</tbody>
</table>

a. Only be applied to SMEs which are bankable, financially sound and will be able to use the funds economically.

b. Only be applied to finance of SMEs domiciled in the territory of the ETDB member states.

c. Only be used by SMEs which comply with ETDB rules on sector eligibility and restrictions as defined in this document.

In addition to above final beneficiaries of the SME development loan will be filtered according to the negative list of products and sectors and the environmental policy of the Bank.

The SMEs comprise 85 percent of entrepreneurial businesses in Pakistan, employ approximately 78 percent of the non-agricultural labor force and contribute over 25 percent of the country’s exports of manufactured goods. Therefore, promoting the production and innovation capacity of vibrant SMEs in Pakistan remains a priority for the Bank. The total disbursements amounted to USD 37.5 million by the end of December 2014. The operations of the Bank supported the availability and lengthen the maturity of funding for M-SMEs. The SMEs that benefitted from these funds were mainly active in the manufacturing, trade, agriculture and services sectors, thereby contributing to the economic development of the country and job creation.

In 2014 ETDB initiated microfinance lending in Pakistan. This was the first international loan facility to a microfinance institution in Pakistan. The Bank was able to disburse funds to a leading microfinance bank which worked mainly for agriculture financing to small farmers. Small farmers are mainly people from the low income group or the population which resides below the poverty line. As the loan size to an individual farmer was small, the overall impact in the region was phenomenal. The microfinance bank was able to disburse the loan to approx. 19,200 farmers out of which 80% loan is given for agriculture financing.

Overall, for the last couple of years, certain factors resulted in sub-optimal uptake of Bank’s SME funds by the partner financial institutions. Firstly, tough economic conditions, energy shortages and security situation in Pakistan took its toll on businesses which led to increasing ratios of non-performing loans in the portfolio of large banks making them scale back their SME operations. Secondly, the large deposit base of some financial institutions gave them access to sizeable amounts of liquidity at very low prices.
Given the above constraints, the Bank will continue to cooperate with further local financial institution for the benefit of the flourishing entrepreneurial activities in Pakistan in coming years. In this respect, the operation with partner institutions will improve the conditions offered to the end-beneficiaries in order to support the SMEs. In addition, ETDB would continue to focus on microfinance segment in Pakistan as well.

- **Short Term Trade Finance (STTF) Program**

  Trade finance is a distinct core business of the Bank. The program has been designed to strengthen the ability of local banks to provide trade financing to entrepreneurs throughout the country to expand their import and export trade. The FIIs participating in the program have been making use of relevant products offered under the STTF and have helped a number of businessmen in their trade transactions within and outside of the region. Each and every transaction is filtered according to the negative list of products and the environmental policy of the Bank.

  Since the beginning of the program in 2008, the Bank disbursed a total amount of USD 57.2 million in Pakistan by the end of 2014. There are two reasons behind the sub-optimal utilization of the STTF facilities by Pakistani partner financial institutions:

  1. The availability of alternative and concessional financing window available to the Pakistani banks from the State Bank of Pakistan for export financing dampened their eagerness for ETDB funds.
  2. High liquidity due low cost domestic funding eliminated the need for international funding

  Despite these challenges, the Bank will continue to seek new opportunities to provide short and medium term trade financing to eligible partner banks for trade finance purpose and to the companies for trade transactions under its Trade Finance Program. Priority will be given to export finance and for import finance, energy sector related importation of capital and intermediary goods will be promoted.

- **Corporate and Project Finance**

  The Bank continued to provide its assistance in fostering economic development and social progress in Pakistan by providing medium to long term corporate and project finance to businesses and development projects. The process of selecting projects is based on the assessment of additionality and development impact. Contribution to national priorities and promoting complementarities among member states will be the preferential factor in allocation of funds towards projects with the optimum risk/return ratio. The corporate loans are provided to firms and public sector entities in order to cover their needs such as acquisition of equipment, modernization of plant and structures, trade transactions and other related expenditures. As a result of sustained focus towards disbursements, since 2008, the total disbursements under corporate and project finance operations in Pakistan have increased to USD 164.2 million by the end of December 2014. In addition, disbursement of USD 32.5 million commitments to various projects will continue according to their progress.

  Continuing the bank’s focus towards power sector of the member state, in line with the energy deficiency in Pakistan, the Bank is considering investment opportunities in cooperation with national and international partners particularly for developing renewable resources. As a further testimony to the Bank’s commitment towards the member state’s energy requirements, a trade finance facility of USD 30 million was approved in early 2014 to contribute towards the government’s endeavors to maintain a steady flow of oil imports. This short term loan has been disbursed through the Ministry of Finance, Government of Pakistan.

  As for the existing portfolio, one of the outstanding project finance loans are to Zorlu Enerji Pakistan Limited, for the financing of a 56.4 MW wind power plant in Pakistan. The plant has been successfully commissioned in 2014; it is under operation and supplying electricity to the National Grid. The project has been financed jointly with IFC, ADB and HBL Pakistan.
The other existing project finance transaction is to DG Khan Cement Limited for the establishment of a waste heat recovery plant (WHR) for power generation with a capacity of 8.6 MW at the Khairpur Cement Plant and for the establishment of Refuse Derived Fuels (RDF) facilities for both plants in DG Khan and Khairpur, which will replace coal with alternative fuels in energy production. The RDF investment being among the first ones in Pakistan has been an archetype for other cement companies in the country.

Also the soft loan to the Government of Pakistan for flood relief continued to be serviced satisfactorily, with achievement of the desired objectives in the form of respective capacities coming online as envisaged.

On the basis of the experience being gained in the country, the Bank is putting efforts to identify projects that would have maximum impact. In this respect, efforts are intensified to such projects that contribute to development of renewable energy resources and water management systems, seeking to increase the coverage and effectiveness of such projects to sustain energy supply and development of real sectors. The Bank is also looking forward to work with medium size enterprises directly in increasing and improving their access to finance and economic performance.

IV. Review of Key Sectors and Investment Opportunities

The Bank will pursue its operations during 2015-2016 in order to contribute to Pakistan's development strategy and objectives keeping in perspective the Vision 2025 and framework for 11th Five Year Plan (2013-18). The Bank would also consider priorities envisaged in the Public Sector Development Programs (PSDP) and the Annual Plans. The Vision 2025 is the roadmap for achieving balanced human, physical, social, and economic development that is inclusive and sustainable. To achieve the goals set in the Vision, projects falling under the purview of the seven pillars have been initiated, which include integrated energy, modernizing infrastructure, institutional reforms in the public sector, value-addition in the commodity producing sectors, exports promotion, water and food security, private sector led growth and promoting entrepreneurship. In addition to these seven pillars, Vision 2025 identifies five key enablers, which are critical for success of the plan, namely; political stability, peace & security, rule of law, shared vision and social justice. Accordingly, the Vision aims to transform Pakistan into a self-reliant and prosperous nation by 2025. The PSDP 2015-16 has been formulated in line with development objectives emanating from Pakistan Vision 2025. It was approved by the National Economic Council (NEC) with a total size of PKR 1,513 billion (USD 15 bln), including foreign aid component of PKR 231.7 billion (USD 2.3 bln). The other development expenditure outside the PSDP has been estimated at PKR 164.4 billion in the budget 2015-16.

Accordingly, resources would be allocated to projects for building social and human capital, projects leading to food, water and energy security, initiatives necessary for fostering private sector led growth, harnessing regional connectivity, and improving national competitiveness. Reformatory measures to further improve governance and investment climate are envisages to put the economy on long term high growth path and create enough job opportunities. Despite significant efforts and large drop in oil prices, the power sector remains a key bottleneck for growth and a drain on public resources. In addition to reducing subsidies, the Government is taking steps to contain the circular debt problem in the sector. In addition, a number of initiatives for optimizing the utilization of existing capacity and developing various projects aimed to overcome the challenges.

The Government is determined to improve innovation and productivity in industrial and agriculture sectors with a view to achieving food security and enhancing exports. These include certification programme for SMEs, establishment of technology parks, training on industrial stitching units in clusters and other initiatives for cluster development. Similar initiatives for other sectors’ transformation are also part of the program. Other initiatives to be taken by the Government include implementation of development projects under China-Pakistan Economic Corridor (CPEC).
Overall, the Government’s resolve in addressing the immediate macroeconomic stabilization issues that it inherited are already bearing fruit. The economy has experienced an average annual growth rate of 4.0% in 2013-14 which was the highest rate seen after five years. The revival of growth has continued and real GDP registered a growth in 2014-15. The factors contributing this momentum in growth include the reform initiatives, commitment to a calibrated fiscal and monetary management and an overall improvement in macroeconomic situation. The impact of these factors was strengthened by a steep decline in oil prices, rise in foreign exchange buffers, growth in remittances and proceeds from privatization. Inflation hit the lowest level since 2003-04, the fiscal deficit has shrunk, exchange rate stabilized, the stock market has revived, the policy rate decelerated at 7 percent which was lowest in last 42 years, capital market created history, grading by international rating agencies improved, successfully reviews with IMF and international capital markets have expressed their confidence by oversubscription of the Eurobond. In the real sector likewise, the urgent measures have contributed to the resumption of healthy growth in large-scale manufacturing (unprecedented for the last 8 years), and respectable growth in the services sector. Despite declining exports, the external current account deficit narrowed to 0.8 percent of GDP in 2014-15 owing to favorable oil prices and strong growth of remittances. In the period ahead, macroeconomic stability, improvements in the domestic energy supply and business climate and good progress in implementing reform programs will be important to achieve higher exports, investment, jobs, and growth. The Annual Plan 2015-16 set a growth target of the GDP at 5.5 per cent with contributions from agriculture at 3.9 percent, industry 6.4 percent and services 5.7 percent.

Within this perspective, the Bank will continue to focus on providing support to strengthen competitiveness and resilience of the economy and transform Pakistan into a dynamic emerging market economy. The Bank will consider undertaking activities and providing services which may advance its purpose, paying special attention to activities promoting export of goods and services and development of infrastructure in co-operation with the private sector. In addition, through selected intermediaries, the Bank would attempt to expand its financing programs in favor of M-SMEs. The Bank would also put efforts to directly cater to financing needs of medium sized enterprises which would promote modernization of equipment and improvement of products and services. Promoting innovation and entrepreneurship would be the cornerstone of Bank’s facilitation to private sector. Particularly, providing support to the exporting companies would help to improve competitiveness and content of value added in exports.

The sustainable growth would depend primarily upon strong performance in agriculture, services, and manufacturing sectors provided there are major improvements in power supply and infrastructure bottlenecks. In the coming years, the operations relevant to energy, agriculture, transport, telecommunications and infrastructure would be the most immediate beneficiaries of ETDB facilities. There will also be a major focus on exploring viable projects in enhancing the competitiveness of the manufacturing sector. The Bank will also continue to seek opportunities for co-operation with a variety of other lenders including multilateral development banks, bilateral financial institutions, export-credit agencies, official lenders or guarantors, commercial banks, and other financial intermediaries.

**i) Energy**

Pakistan is making efforts at all ends to get a sustainable resolution to the energy crisis. Since 2006, the energy sector has been afflicted by a number of challenges including inadequate capacity addition, high cost of generation, inefficient power transmission and distribution system, limited exploration and inefficient use of energy resources. The current situation leads to supply-demand gap of 5,000-8,000 MW. The losses in power transmission and distribution due to poor infrastructure and mismanagement estimated to be around 23-25%. Energy shortages have also been one of the main factors for under-performance of energy intensive industries including petroleum, fertilizer, iron and steel, textile, engineering industries and electrical. The power shortage is estimated to have 3 percent reduction in the annual GDP of the country. The aforementioned inefficiencies and high cost of generation are resulting in debilitating levels of subsidies and circular debt. To achieve the long-term vision of the power sector and overcome its challenges, the Government has set a clear strategy to address the demand-supply gap, affordability, efficiency, financial viability and governance of the system.
Accordingly, PKR 240 billion was allocated for the energy sector development projects in 2014-15. An addition of 536.2 MW out of 675 MW planned in 2014-15 was actualized. Moreover, an amount of PKR 317 billion has been allocated for various power projects for 2015-16. The WAPDA, NTDC, GENCOs and DISCOs will invest PKR 174 billion from their own resources. The installed power generating capacity is planned to be increased from 24,830 MW in June 2015 to 25,857 MW in June 2016. The demand-supply gap will, however, remain almost the same due to increase in demand, which is expected to grow at a rate of four to five percent. In this respect, the Government has initiated several projects to overcome energy shortages by the year 2017-18.

Within this framework, development of indigenous energy resources such as coal, hydro, and alternative and renewable sources are critical for the country. According to estimates, Pakistan has a hydro potential of about 60,000 MW of which only 6,900 MW (11.5 per cent) has been harnessed so far. Therefore, about 9,551 MW hydro projects including mega projects such as Diamer Bhasha (4500MW), Dasu (2500 MW) and Neelum Jhelum (969 MW) are at various stages of construction and pre-feasibility and feasibility studies of approximately 18,875 MW hydro projects have been completed.

In addition, imported and domestic coal (Thar Coal) has also been given high priority for thermal powers. The indigenous coal resources are estimated to be around 186 billion tons in the country. Approximately, a total of 4,445 MW coal and LNG based thermal projects in the public sector are under construction. The Government considers Thar coal development as a flagship project and believes in it as a means to energy security. Total power generation anticipated from current Thar Coal Projects is 2,400 MW by 2018. Efforts are also being made to increase the domestic exploration and development supplemented by imported regasified LNG (RLNG). Energy cost calculations clearly prove that RLNG is cheaper than all other imported fuels for power generation.

On the other hand, projects within the China-Pakistan Economic Corridor (CPEC) are expected to add 10,400 MW to the grid by 2018. Pakistan is currently operating three nuclear power plants i.e. Karachi Nuclear Power Plant (KANUPP) and Chashma Nuclear Power Plant Unit-1 and 2. The electricity sent to grid by the current plants was about 3,934 million KWh during July-March 2014-15. Similarly, 2,880 MW nuclear power projects are at various stages of construction. Further, renewable potential (wind and solar) are under active exploitation. Pakistan’s wind power potential is estimated at 20,000 MW and various initiatives are taken for optimal utilization of this potential. The current installed capacity in wind is about 106 MW where ETDB has also contributed to financing one of the installed projects. In addition, almost 31 wind power (1,810 MW) are at various stages of project development. In 2015, 100 MW solar energy project was operationalized and 33 other projects with cumulative capacity of approximately 888.1 MW have been initiated. Biomass/Waste-to-Energy projects with 48 MW are at various stages of implementation. Also for bagasse/biomass based sugar industry projects with 1500-2000 MW of power is expected to be generated in next 2-3 years. Pakistan encourages the private sector to play its role in development of energy project. Presently, approximately 50 percent of the generation capacity of the country is in the private sector. The private investment is promoted through favorable opportunities and incentives especially for development of indigenous energy resources. Recently a new investor friendly Power Generation Policy 2015 has been approved to further facilitate these investments.

The primary energy supplies which increased to 66.8 million tons of oil equivalent (TOE) in 2014 compared to 28.5 million TOE in 1991 indicate an annual compound growth rate of 3.6 percent. In 2014, per capita availability of primary energy supplies was estimated at 0.36 TOE. During July-March 2014-15, primary energy supplied increased to 50.9 million TOE from 48.8 million TOE in previous period. Oil and natural gas still continued to be the top two energy sources accounting for above 70 percent of energy demand. It is exerting a strain on the balance of payments besides making the energy mix unfavorable.

Pakistan’s oil import bill declined to USD 11.7 bln in 2014-15 from USD 14.8 bln in the preceding year. The import of petroleum crude was down by 29 percent to USD 4.2 bln in 2014-15 from USD 5.7 bln in 2013-14. And import of petroleum products in 2014-15 was also down by 16.3 percent to USD 7.5 bln from USD 9.1 bln in the preceding year. Overall, the projected demand for oil and gas during 2015-16 is 23 million tons and 2.1 trillion cubic feet (six billion cubic feet per day) respectively. Keeping in view the planned supply of the indigenous oil of only 110,000 barrels per day and 1.5 trillion cubic feet gas, during
2015-16 a supply-demand gap in both oil and gas sectors is required to be met through an import of 18 to 19 million tons of crude oil and petroleum products.

Pakistan has oil reserves of 362 million barrels (MMBBL), gas reserves of 24.5 trillion cubic feet (Tcf) and 105 Tcf of shale gas reserves. The natural gas production has been stagnant at the 4 billion cubic feet (bfc) per day. There exists constrained demand for natural gas of 6 bcf per day while the unconstrained demand for gas is estimated to be 8 bfc per day. Pakistan is pursuing its policies of enhancing gas production to meet the increasing demand. Still for supply of gas, the government has given priority to domestic and commercial sectors followed by power sector while general industry, fertilizer and captive power are on third priority. The government was promoting the use of CNG. Today Pakistan is the world leading CNG user country with more than 3 million NGVs (Natural Gas Vehicles) plying on the roads. The total supply of LPG during July-March, 2014-15 was 494,763 tones, accounted for about 0.5 percent of the total primary energy supplies in the country. Gas producing fields contributed 53 percent followed by refineries and imports with share of 26 percent and 21 percent respectively.

The Government of Pakistan is now successful to import 500 million cubic feet per day (mmcmd) of LNG from Qatar. The transnational gas pipelines i.e. 750 mmcmd Iran-Pakistan (IP) gas pipeline and 1,325 mmcmd Turkmenistan-Afghanistan-Pakistan-India (TAPI) are expected to be implemented in the coming years. The current 400 mmcmd of RNLG will be provided to the gas-based Independent Power Plants. This RNLG will allow these power plants to generate an additional 9 billion KWh per annum, equivalent to an additional 10 percent of total current annual power generation, without investment in any new generation capacity. Thus it is expected that import of LNG will help to overcome the shortage of gas as by providing LNG to power sector will give space in availability of gas for other sectors. During 2015-16, the LNG import will be enhanced to 600 MMCFD with further investment to be made by the public and private sectors in developing additional terminals.

Pakistan is making all possible efforts to diversify its energy mix and address the challenges of rising energy demand. The government is committed to add electricity generation of 10,400 megawatts to Pakistan's national grid by 2017-18 along with reduction in the cost of generation and transmission losses. According to Vision 2025, the country plans to further enhance power generation to 45,000 MW with provision of uninterrupted, affordable and clean energy. Overall, in order to meet the pressing energy demand in the country, the Bank will put maximum efforts to contribute energy security and efficiency plans of Pakistan. The Bank would seek to finance viable projects targeted to exploit the indigenous resources and renewable including hydro, wind, solar and clean coal-based sub-sectors. The Bank would also look to the opportunities in supporting development and improvement of power transmission and distribution system.

ii) Agriculture

Agriculture accounted for 20.9 percent of the Gross Domestic Product (GDP) in 2014-15 and is a source of livelihood of 43.5 percent of rural population. The Vision 2025 underlines importance of creating a modern, efficient and diversified agricultural sector. The Food and Agriculture Organization (FAO) has estimated that Pakistan cannot achieve its overall GDP growth target of seven to eight percent unless its agriculture sector grows at least by four percent. In this respect, major issues need to be addressed including technological innovation, adoption of progressive farming techniques, quality, quantity and timeliness of input supply, investment in construction and maintenance of infrastructure; marketing and trade restrictions, pest and livestock disease problems, and limited amounts of credit for agricultural production, processing and the lack of agriculture-specific financing.

During fiscal year 2014-15, the overall performance of agriculture sector recorded a growth of 2.9 percent compared to the growth of 2.7 percent during last year due to positive growth in all related agriculture sub sectors. Crops witnessed a growth of 1.0 percent, Livestock 4.1 percent, Forestry 3.2 percent and Fishing 5.8 percent. Wheat is the leading food grain of Pakistan occupying the largest area under single crop. The production of wheat stood at 25.478 million tons during 2014-15, showing a decrease of 1.9 percent over the last year. The production decreased due to prolonged winter season and unprecedented rains during April & May and caused damages to grain at harvesting time. Rice is the second largest staple food crop and is also an exportable item. During July-March 2014-15, rice export earned foreign
exchange of USD 1.53 billion. Rice recorded highest ever production at 7005 thousand tons, showing a growth of 3.0 percent over corresponding period of last year. Sugarcane production for the year 2014-15 stood at 62.7 million tons against 67.5 million tons last year. During July-March 2014-15, sugar export fetched foreign exchange of USD 171.7 million. The edible oil import bill during 2013-14 was PKR 246.895 billion (USD 2.50 billion) which decreased to PKR 139.344 (USD 1.377 billion) during 2014-15 (July-March).

Pakistan is the world's fourth largest producer and consumer of cotton. The economy of Pakistan depends heavily on cotton production. The cotton crop production accounts for 1.5 percent in GDP and 7.1 percent in agriculture value addition. Cotton production for the year 2014-15 stood at 13.9 million bales against 12.7 million bales last year showing an increase of 9.5 percent. During July-March 2014-15, textile industry fetched foreign exchange of USD 10.22 billion.

Fertilizer is the most important and expensive agriculture input. Almost hundred percent soils in Pakistan are deficient in nitrogen; 80-90 percent is deficient in phosphorus and 30 percent in potassium. The domestic production of fertilizers during 2014-15 (July-March) increased slightly by 0.2 percent over the same period of last year and imported supplies of fertilizer increased by 15.4 percent. The policy of curtailment of supply of natural gas has affected fertilizer industry which resulted in low production. On the other hand, major strategy adopted to overcome the water sector's issues include construction of water storage small/medium dams, modernization/rehabilitation of existing irrigation system, protection of agriculture land, abides and infrastructure from floods and formulation of an effective implementation monitoring system for efficient management of water resources. An amount of PKR 43.557 billion was allocated for the above mentioned water sector's strategies/programmes during the year 2014-15, out of which it is expected that about PKR 38.445 billion (88% of total allocated budget) will be released up to June, 2015.

Around 90 percent farmers do not have access to proper set of farm implements. For agriculture productivity enhancement, there is a need of a complete mechanization package comprising proficient equipment, technologies and dissemination of skills for operation and maintenance of machinery pertaining to production, post-harvest processing, value addition, food engineering and renewable energy technologies focusing especially towards small farm holders.

During July-March 2014-15, the banks have disbursed PKR 326.0 billion agricultural credit which is 27.5 percent higher than disbursement made during the corresponding period last year. The outstanding portfolio of agriculture loans has also surged by PKR 31.6 billion or 11.2 percent i.e. from PKR 281.1 billion to PKR 312.7 billion at end March 2015 as compared to same period last year.

The livestock sector is contributing significantly in poverty reduction strategies. More than 8 million rural families are involved in raising livestock. Pakistan is the third largest milk producer country in the world. This sub-sector may be developed on fast track as all required inputs for it are available in sufficient quantity in the country. Livestock performed better in 2014-15 as it recorded a growth of 4.12 percent as compared to 2.76 percent last year. Its share in the agriculture value added stood at 56.3 percent while it is contributing 11.8 percent to the GDP during 2014-15. It also provides net source of foreign earnings. Gross value addition of livestock has increased from PKR 778.3 billion (2013-14) to PKR 801.3 billion (2014-15), recorded an increase of 3.0 percent as compared to previous year. The poultry value added at current factor cost has increased from PKR 130.7 billion (2013-14) to 140.5 billion (2014-15) showing an increase of 7.5 percent as compared to previous year.

Pakistan is also one of the leading exporters of fish and its products and fish processing plants are gradually increasing to contribute to employment generation. During 2014-15 (July-March), a total of 100.321 million tons of fish and fishery products were exported earning USD 253.6 million.

Overall, Pakistan is making all efforts to make the sector more vibrant and focusing on agro-base industries, strengthening linkages with the agricultural research and development to play a role in transfer of technology, and knowledge to the farming community. The Bank would support such initiatives including investments in infrastructure development, water management and productivity. Also the Bank
will focus on mechanization, packing, certification, building storage facilities, cold chain infrastructure, and other ventures to support value addition in the agriculture sector.

iii) Infrastructure
Pakistan’s physical infrastructure is relatively inadequate in comparison with other rapidly developing emerging economies and has been cited as one of the major bottlenecks for rapid economic growth. According to the World Economic Forum Survey-2014, Pakistan is ranked 113th out of 150 countries in quality of overall infrastructure. It is estimated that inefficiency in the transport system imposes a cost to the economy of 4-6% of GDP. Besides power shortages causes an annual loss of 7% in GDP and 2% reduction in real GDP growth. Unfortunately due to weak infrastructure services, Pakistan is unable to use its increased urbanization and agglomeration to generate the growth and high productivity jobs. Pakistan’s total requirements for infrastructure development over the medium-term estimated to be in the range of USD 100 bln, but would be much higher if the planned large water and energy projects are also included.

Pakistan Vision 2025 underlines that country need to build necessary infrastructure including logistics facilities to support GDP growth. In this respect, the Public Sector Development Programme (PSDP) is an important public intervention to spur private investment by way of developing human capital and improving the infrastructure. The infrastructure sector projects were allocated PKR 323 billion (60 percent) in the revised federal PSDP 2014-15. Within infrastructure, the transport and communication sectors received the highest allocation of PKR 158 billion, followed by the energy sector of PKR 109 billion and the water sector of PKR 46 billion. According to the PSDP 2015-16, sectoral allocations suggest that the priority has been given to the infrastructure with overall allocation of PKR 407.9 billion. Within infrastructure, the priority has been accorded to transport and communication sectors with an allocation of PKR 219.8 billion, followed by power at PKR 142.2 billion and PKR 30 billion for conservation and augmentation of water resources, and PKR 12.8 billion for physical planning and housing.

Accordingly, 2015-16 budget of Pakistan allocated PKR 185 billion for construction of roads, highways and bridges, compared to last year allocation of PKR 112 billion, which is an increase of 65%. Pakistan Poverty Alleviation Fund (PPAF) also provides assistance in microcredit, water and infrastructure, drought mitigation, education, health and emergency response interventions. During 2014-15 (July-March), Pakistan Poverty Alleviation Fund has managed to disburse an amount of PKR 9.8 billion to its various on-going projects.

Pakistan’s infrastructure needs are massive and tight fiscal constraints require innovative approaches to meet the investment gap for development of infrastructure investment gap. Therefore, promoting foreign investment and emerging schemes such as Public Private Partnerships (PPP) need to be further developed through a comprehensive policy regime. In this respect, adoption of PPP policy and establishment of Bureau of Infrastructure Development (BID) considered to be important measures taken by Pakistan. Meanwhile, Pakistan has become eligible for concessional IBRD funding which will be used to fund priority infrastructure/development projects. According to the World Bank, in 2013, Pakistan received a total of USD 263.1 million of private participation in infrastructure (PPI) and was 21st on a list of 30 countries.

Within the framework of China-Pakistan Economic Corridor (CPEC) projects worth about USD 46 billion is expected to provide a major support for development of various infrastructure projects including building of roads, rail networks, telecommunications, development of Gwadar Port and major projects for additional power and improvement in power transmission sub-sector. The plan is to immediately kick-start early harvest projects worth USD 28 billion, which are expected to be completed by the end of 2018. Projects worth USD 17 billion, which are in the pipeline, will follow as soon as required studies, processes and formalities are completed. Another component of the CPEC is the development of the Gwadar port, which has already been given to the Chinese with an operational control lasting 40 years. The Chinese government will construct a container handling facility, a major highway and an international airport. This will make Pakistan a primary gateway for trade between China and Middle East and Europe as well as making Xinjiang a transit hub for China. In this respect, the Kashghar-Gwadar trade corridor with China,
rail and road links with Afghanistan that go up to Central Asia, and the extending of railway tracks with Iran up to Turkey provide crucial opportunities.

The contribution of construction in industrial sector is 12 percent and in GDP it contributes 2.4 percent and provides employment opportunities to 7.3 percent of labor force. The seven percent plus growth in this sub-sector during last two years is due to rapid execution of work on various projects, increased investment in small scale construction and implementation of development schemes. The construction sector in Pakistan consumes 80% of National Development Budget. The sector had a total value of approximately USD 3.7 billion in 2012 and this value is expected to rise to around USD 10.4 billion by 2020.

The new initiatives under development of roads, highways, ports, railways and bridges would bring important business opportunities for the sector. The Government has also initiated several construction projects including thermal, hydro and alternative power resources to overcome energy shortages by the year 2017-18. In addition, there are need for development and rehabilitation of electricity, water and gas infrastructure network. With the population of the country rising at a rate of four million per annum, there is a need of 650,000 housing units annually which represents a significant investment opportunity. In the ICT sector, Pakistan earmarked about PKR 3,543 million for 2015-16 for ongoing projects and some new initiatives. The emphasis will be on the development of IT infrastructure and e-Government services. Concurrently, floods frequently hit various areas of the country including the infrastructure. The recent floods in September 2014, where Punjab province suffered the highest losses, impacted the agriculture and infrastructure. The estimated cost of the recovery effort was USD 439.7 million. Thus development flood protection and drainage infrastructure all over the country would also protect hard won infrastructure from onslaught of floods. The manufacturing sector will also benefit from the backward and forward linkages of huge infrastructure projects and increasing demand triggering sharp demand for iron, cement and related construction industries.

This state of affairs demonstrates that the Pakistan requires heavy investment in physical infrastructure in order to improve delivery of social services and to enhance its domestic and global competitiveness. It has been estimated that if a country wants to attain a 7% GDP growth rate, then it has to invest at least 7% of its GDP in infrastructure development. Given this scenario, the government needs to upscale both its own and private sector investment in the infrastructure field. Overall, infrastructural projects typically require large projects; however, the Bank would look for possibilities for not only financing appropriate project(s) but may also act as arranger to facilitate financing schemes.

iv) Transport

Transport contributes about 10 percent to the GDP, accounts for over 6 percent of employment, and consumes 35 percent of the total energy annually. Pakistan Vision 2025, assign great emphasis to modernize transport infrastructure to ensure economy in transportation cost, safety in mobility, effective connectivity between rural areas and markets/urban centers, integrated network between economic hubs, as well high capacity transportation corridors connecting between major regional trading partners. High road density of any country is an indicator of the level of prosperity and development. Therefore, it has been projected to raise road density to the level of 0.45 km/sq. km by 2018 against the existing 0.33 km/sq. km density level which will increase the road network of 263,942 km as of 2014-15 to 358,000 km.

Road transportation is the backbone of Pakistan's transport system, which accounts for 96 percent of all passengers and freight traffic. The present highway network comprises of 39 national highways, motorways, expressway, and strategic roads. Current length of this network is 12,131 km. The existing portfolio consists of 72 development projects costing PKR 1,342 billion. Government allocated PKR 111.56 billion for highway development projects in PSDP 2014-15. An allocation of PKR 159.60 billion has been proposed for PSDP 2015-16. Among the major upcoming development projects, Pakistan has planned to develop approximately 2,395 km long China-Pak Economic Corridor (CPEC) connecting Gwadar to Kashghar (China) and has also planned Karachi-Lahore Motorway (KLM) 6-lane controlled access. Similarly Pakistan Railways have taken many new initiatives in line with the Vision 2025 objectives for development of railways infrastructure to increase its share in the overall transport sector
from 4 percent to 20 percent by the end of 2025. The network of Pakistan Railways comprises of 7,791 route kilometers. Major upgrade in the railway system includes: increasing speed from 95 km per hour to 120-140 km per hour, doubling tracks of the main line sections, increasing line capacity with a modern signaling system, establishing North-South and East-West corridors and developing linkages through road and rail to the Central Asian states, China, and other neighboring countries and development of a separate freight corridor on the railway tracks. Particularly, development of Islamabad-Tehran-Istanbul road and railway networks will boost intra-regional trade and create a crucial corridor for East-West business linkage.

Pakistan has allocated PKR 39.566 billion in PSPD for the financial year 2014-15 for the development interventions in Pakistan Railways. Pakistan Railways is enduring the worst crisis since its formation mainly due to locomotive shortages. Therefore, efforts are aimed to improve availability of locomotives through special repair of existing locomotives and procurement of new locomotives. Meanwhile, Public Private Partnership (PPP) initiatives have been started by Pakistan railways to cater the needs of business community and general public.

Pakistan has a total of 46 airports for conducting commercial operations. Out of these airports, 42, including 10 international, are owned and operated by the Pakistan Civil Aviation Authority (CAA). At present, out of these 42 airports, 13 are being used for both international and domestic operations, whereas 11 are only for domestic operations, and the remaining 22 are either scaled down or closed for operations due to various reasons. Out of the four private airports, Sialkot is serving both international and domestic operations, while remaining three are for only chartered aircraft operations. Pakistan International Airlines (PIA), the major public sector airline, though facing competition from a few private airlines, carries approximately 70% of domestic passengers and almost all domestic freight traffic.

Pakistan has a coastline of over 1,000 km and an offshore exclusive economic zone, covering an area of 240,000 square kilometer, remains unexplored. Two major ports, Karachi and Qasim, handle 95 percent of all international trade, and 14 dry ports cater to high-value external trade. During July-March 2014-15, Karachi Port Trust handled 32.1 million tons and Port Qasim Authority handled 21.6 million tons of total cargo. The Gwadar Port will be built as a leading one in the region to serve as a gateway for the China-Pakistan Economic Corridor (CPEC). In May 2013, the port’s concessional rights were transferred to China. The port, offers lots of opportunities to prospective investors that include, inter alia, port related infrastructure such as storage, warehouses etc.; hotels, motels, travel and tourism; industrial sector including but not restricted to seafood processing and export, dates processing and export; construction of office spaces etc.; social sector and other infrastructure projects; telecommunication, road network, construction of airport, railways, and special economic zone.

The Bank would maintain its focus to support investments aimed to improve transport mainly via the National Trade Corridor program. The Bank would like to support both the public and the private sector entities in undertaking infrastructure projects that demonstrate clear development impact. It would be interested in supporting private sector participants in public-private-partnership transactions. Moreover investment opportunities in public transport service would be appraised in order to provide relief/benefit to all segments of the society.

v) Manufacturing
The manufacturing is the most important sub-sector of the industrial sector comprising 65.4 percent share in the overall industrial sector. It accounts 13.3 percent of GDP and 14.2 percent of total employed labor force. In order to be competitive at the international level, the Vision 2025 and 11th Five Year Plan envisage fundamental improvements for the manufacturing sector. Some salient features of the Vision for industrial sector are: strengthening institutions; removing infrastructure bottlenecks; promoting public private partnership; encouraging investment; developing skills and building knowledge economy; easing of doing business; increasing labour market efficiency; using of ICT; and tapping large domestic and regional markets. The strategy of 11th Five Year Plan includes: sufficient availability as well as an easy access to finance for entrepreneurial activities; business development services; strategic initiatives and infrastructure development, like industrial estates, parks, industrial zones, trade corridors, and others; and institution building and networking.
Growth of manufacturing is registered at 3.2 percent in 2014-15 compared to the growth of 4.5 percent last year. Large Scale Manufacturing (LSM) at 10.6 percent of GDP dominates the overall sector, accounting 80 percent of the sectoral share followed by Small Scale Manufacturing, which accounts for 1.7 percent of total GDP. The third component of the sector is slaughtering and account 0.9 percent of overall GDP. Generally industrial growth is influenced by availability of energy, raw material, skilled manpower and market forces. Market forces are oriented around profitability, consistency and continuity in policies, etc., therefore Government can perform an important role in creating conducive environment to foster private sector investment and increase growth. Large Scale Manufacturing (LSM) during July-June 2014-15 registered a growth of 4.96 percent compared to 4.08 percent in the same period last year. During 2014-15, the LSM growth was hampered by a broad range of issues that include weak export of cotton yarn, gas shortages in number of industries and sector specific factors like closure of large chip board plant and substitution of domestic production of edible oil with imports. Nevertheless, the positive trend continued in FY 16 as in July 15, growth in LSM recorded at 4.67 percent against 1.40 percent in July 14. During July 15, the sectors showing high growth were automobiles, fertilizers, chemicals, leather products, etc.

Iron and steel product has shown improved performance on account of government bailout package likewise automobile flourished due to reduction in sales tax on tractors as well introduction of new models by automobile manufacturers. The growth in iron & steel products was on account of growth recorded in pig iron 187.2 percent and Billets/Ingots 28.5 percent. The overall growth in steel production remained strong on account of expanding their existing capacities such as Mughal steel and International steel expanded their existing capacities.

The textile industry plays a pivotal role in Pakistan's economy. The sector contributes nearly one-fourth of industrial value-added, provides employment to about 40 percent of industrial labor force, and consumes about 40 percent of banking credit to manufacturing sector. Barring seasonal and cyclical fluctuations, textiles products have maintained an average share of about 54 percent in national exports. However, the sector has remained stagnant over the last decade due to a number of exogenous and indigenous factors such as subsidies given to cotton farmers and other textiles products by several countries which distorted prices, marketing constraints, global recession, and increasingly stringent buyer’s conditionality. Federal government has announced textile policy 2014-19. The package carries special duty-drawback rates, duty exemption on plants and machinery, subsidy on long-term loans and development subsidies. The Policy aims to boost exports to USD 26 billion by 2019 from USD 13 billion. The Finance Division will provide PKR 40.6 billion over the five years for duty drawback, technology up-gradation and brand development etc., while another PKR 23.5 billion will be provided for skill development, dedicated textile exhibitions, establishment of world textile center, weaving city, incubators, apparel house, and mega textile awards. Around 120,000 peoples will be trained through skill development program and 50 small companies from the sector will be picked each year for the next three years for government support and the proposed measures will promote value-addition.

As per Pakistan Automotive Manufacturers Association there are several automobile manufactures/assemblers working in Pakistan producing passenger cars, light commercial vehicles, trucks, buses, tractors and 2/3 wheelers. The vendor industry comprising of over 600 players is supplying parts to automobile sector. Although there has been negative growth in most of the existing models of passenger cars and jeeps but it was offset by recently introduced models in this category. Production of cars in 2014-15 (July-March) was 105,267 units which increased by 23 percent compared to same period of previous year. Similarly in case of Light Commercial Vehicles (LCVs) there is recovery with sizeable growth of 31 percent with production of 17,521 units in 2014-15 (July-March). In case of tractors, its production suffered a lot after imposed heavy tax (16 percent) in 2012. The present government levy finally settled at 10 percent in the second half of 2014, hence the revival increased the production to 35,753 units during July-March 2014-15 with 44.6 percent growth over the previous year. On the other hand car sales in Pakistan grew at a 5-year (FY11-15) CAGR of 5.3 percent to 179,953 units while volumes surged by 31 percent in FY15 on the back of new models, Taxi Scheme of Punjab government and an increase in car financing due to 42-year low interest rates in the country.
Pakistan stands among the top 20 cement producers in the world and among the top 5 exporters of cement. The cement production capacity in Pakistan has increased to 45.62 million tons in 2014-15 from 30 million tons in 2006-07 due to the establishment of new cement plants. In addition, a number of companies launched capacity enhancement projects in the past few years and after completion of these projects the capacity will be further enhanced. During July-April 2014-15, total dispatch was 29 million tons as against 28 million tons during the same period last year owing to rising domestic demand. The cement industry is still operating at a little over 76 percent capacity which translates into idle capacity of 8.94 million tones. Strong public sector development funding and growing private sector construction present solid growth opportunities in the sector. However, reductions in input costs stand to improve gross margins and ultimately allow manufacturers to reduce prices. But some stress of this aspect is seen in gas dependent manufacturers.

Pakistan is rich with all type of mineral resources but development of these has been limited due to lack of financial and technical resources. Besides oil and gas, some industrial minerals such as chromite limestone, rock salt, marble, gypsum and a modest amount of coal for power generation are also mined. Pakistan possesses a large number of industrial rocks, metallic and non-metallic minerals which need further field and laboratory studies for their physiochemical characteristics and industrial uses. The Mining and Quarrying sector grew by 3.8 percent in 2014-15 as against 1.6 percent last year. Soap stone, Crude oil, Gypsum, Coal and Lime Stone posted a positive growth rate. The estimated copper reserves 1.9 billion tones, 11.2 million ounces of gold and coal reserves of 185 billion tons are going to be utilized. Currently, minerals contribution to the GDP is less than 1 percent but it has a vast potential of increasing up to 5 to 6 per cent.

The Bank would support capacity enhancement and modernization projects in manufacturing sector. It would like to partner with other financial institutions in undertaking large projects.

vi) SMEs
Small and Medium Enterprises Development Authority (SMEDA) is the apex organization for development of the SME sector in Pakistan. According to SMEDA’s 2013 survey, SMEs accounted for 14.9 million jobs (25% of total), working in 1.73 million enterprises, GDP of PKR 9.4 trillion (40 % of total) and export earnings of USD 18.2 billion (72 % of total). SMEs also represent the most nimble and scalable part of economy that also sits in the sweet spot of core national goals: inclusive and indigenous growth. In terms of business sectors, cotton and textile (spinning, weaving processing, garments, sportswear and apparel), are the leading sectors, followed by wood and furniture, auto parts, electric fans, fabricated metal products, beverages, carpets, art silk, and jewelry. The sector as a whole faces numerous challenges that include limited access to finance as well as lack of infrastructure and technology which are limiting their productivity and competitiveness.

The Vision 2025 seeks to provide SMEs a level playing field, and a fair competitive environment. The Federal government would work with provincial governments as well as domestic and international development institutions to ameliorate the problems faced by SMEs and help them in accessing capital through small business loans. Micro-businesses will be encouraged, thus promoting entrepreneurship and innovation. The rural non-farm sector will also be revitalized by formulating job schemes or business support loans to mitigate pressure on the urban areas. Village community centers will be established to harness potential of community mobilization and promoting ideas.

SMEs will be the main source of employment and poverty reduction in Pakistan that will create the value and innovation. It is envisaged that this sector can and will see unprecedented growth in: jobs (to 25 million), new entrepreneurial enterprises (reaching 2 million), GDP (to PKR 16 trillion) and exports (USD 54 billion). Needless to say, these targets represent a very promising opportunity for strategic growth targets for Vision 2025.

To further boost its significance in the economic development process, Pakistan has introduced various initiatives to promote SME-led economic growth with the dual aim to accelerate industrial development and export diversification. Most important of these initiatives include approval of the first SME Policy of Pakistan and Infrastructural Development through Public Sector Development Program. In addition to
these, SMEDA as a government agency for SME development has been involved in various activities such as providing over the counter services to SMEs, helpdesk facilitation, human resource development, technological upgradation and infrastructural support. The factors that impede development of the SMEs in Pakistan are well-known. According to business leaders, one of the major hurdles being faced by SMEs is limited access to finance. Therefore, the ETDB would continue to support SME sector through financial intermediaries in Pakistan.

vii) Financial Sector

Pakistan banking sector assets picked up its growth momentum in 2015 as total assets reached PKR 12.5 trillion (USD 124 bln) at the end of March 2015, up 16.5% y/y. Assets of the banking sector observed growth of 3.5% m/m compared to 2.0% m/m in the corresponding period last year. Customer deposits, which is the biggest chunk of the banks’ funding and constitute 97% of the total deposit base, grew by about PKR 85 bln (1.0%) only in Q1 while most of this growth came from saving deposit (3.4%). The local currency deposits make up 86.8% of the overall deposits which is up 1pps y/y. Customer deposits accounted 71% of banking sector assets as of March 2015 and y/y deposit growth is estimated to be strong in the current commercial year due to strong inflows of remittances from migrant workers and progress in penetrating the unbanked population.

Banks’ advances growth remained subdued at 7.8% y/y to PKR 4.3 trillion (USD 43 bln) in Q1 2015 while advances dropped 1.9% (PKR 96 billion) since end-2014 by mainly due to drop in commodity prices that also reflected in decline in working capital finance by PKR 23.6 bln. In last 5 years, advances have increased at an average annual rate of 8%, thus Q1 performance is within mid-term trends.

On the other hand, investments soared with 28% y/y to PKR 5.9 trillion (USD 58 bln) in Q1 2015. In last 5 years, investments have increased at an average annual rate of 29%, thus Q1 performance is within mid-term trends. Investment in government securities surged 12.9% q/q and 32.4% y/y to hit PKR 5.4 trillion in Q1 and was the main driver of asset growth during this period. SBP on its January 2015 meeting had reduced its policy rate by 100 bps to 8.5% for two months, after keeping it unchanged at 10% most of the last one year. After this move, SBP cut the rate twice to bring it to 7% which is an all-time low.

In 2014 banking sector had saw a profit level of PKR 163 billion, which made it the most profitable year in the history of the country. In Q1 2015 net profits came at PKR 52 billion which is up a whopping 57% compared to the same period in 2014. At this run rate, 2015 is looking for a new record in banking sector profits. The reason for the profitability is partly due to the surge in markup income with major contribution from return on investments in government bonds and return on advances as well as higher non-markup income due to substantial gains booked on sale of PIBs.

Liquidity of the banking system sits at a comfortable level in 2015 up to now. Banks maintained statutory liquidity ratio of 47.7% of eligible demand and time liabilities as of March end 2015, almost double the level required by SBP.

The asset quality slightly deteriorated in Q1 2015 as NPLs went up by 2.6% since end-2014 and 3% y/y to PKR 620 billion. While the NPL ratio was up 50bps to 12.8% in end-March 2015. Good news is that the infected portfolio is only limited to several sectors and provisions have been made against most of the infected loans, which improved the provisions coverage ratio to 80.2%.

The banking system’s overall total capital adequacy remained well above the statutory minimum capital requirement (CAR), at 17.4% at end-March 2015 which is up from 17.1% in 2014. Nevertheless, there are few banks (four) operating below CAR. Banks compliance with minimum Capital Requirements continued to improve during Q1 2015 as only one bank is indicated to fall short of the minimum CAR by a small amount.

Looking forward into 2015, Pakistani banks are likely to remain well-funded because of their strong deposit bases. Bank advances are likely to improve due rebound in the private sector credit as a result of declining interest rates. Specifically there are reports indicating that furthermore financing for public sector procurement and loans to PSEs for managing energy projects will support growth in advances. The banks
are likely to look to consumer business (8% of private sector loans) more aggressively in the new low-interest rate environment. The profitability of the banking system is likely to remain robust and will boost the equity base of the banking system. The capital deficient banks will make continuous efforts for meeting the capital requirements for enhancing their resilience and improve the sector’s solvency.

Importantly, the microfinance banking sector has started to benchmark itself with peers in banking system, in all key performance areas. During FY14, due to fresh equity injections in some of the Microfinance Banks (MFBs), the overall equity base of MFBs has jumped to PKR 13.5 billion as of end June, 2014, experiencing 12.5 percent y/y growth from PKR 12 billion last year. Deposits of MFBs have also shown a healthy growth of 29 percent during the year to reach all time high of PKR 36.9 billion as of June, 2014 compared to PKR 28.6 billion in the preceding year.

Microfinance banking assets have also shown a growth of 21 percent during the period under review and reached PKR 62.4 billion. The gross loan portfolio (GLP) of MFBs has increased by PKR 8.1 billion (32 percent) during the year to reach PKR 33.5 billion. The number of MFBs’ depositors has reached 4.3 million at end June, 2014 registering a staggering growth of 87 percent from 2.3 million depositors last year. The portfolio growth is largely result of higher loan size pursued by the leading MFBs. Importantly, the portfolio quality during the year also improved as NPLs decreased from 2.1 percent to 1.5 percent during the year.

viii) Telecom and IT
The first half of 2014-15 has brought many opportunities and challenges for the telecom industry in Pakistan. While the industry has witnessed a new wave of data growth driven by the launch of 3G and 4G networks and an outstanding response in terms of exponential growth in 3G and 4G subscribers, which has made Pakistan a success story at international arena. By the end of March 2015, the total number of mobile subscriptions in Pakistan reached 134.9 million with net decline of 3.5 million subscribers. Biometric SIM Verification was a massive exercise recently undertaken by the CMOs across Pakistan. The total teledensity including cellular mobile, Local Loop (LL) and Wireless Local Loop (WLL) decreased to 75.2 percent at the end of March, 2015 compared to 79.6 percent at the end of June 2014, showing a decline of 5.5 percentage points. Consolidation of cellular subscriptions, resulting in a decline of 5.1 million cellular subscribers during July-March 2015, was the main contributor towards the overall decline of teledensity. Cellular mobile teledensity has witnessed decline of 4.4 percent points, reducing from 76.5 percent in Jun 2014 to 72.1 percent in March 2015.

The government liberalized investment policies allowing foreign investors in the telecommunications sector to own all the shares in a company and repatriate all of the profit. Such policies have attracted significant FDI in telecom sector over the last few years. In 2013-14, the auction of spectrum for 3G and 4G services in Pakistan and deployment of next generation cellular networks brought an investment of USD 1,790 million in the telecom sector. Due to the continuous an outstanding subscriber’s response to the launch of 3G and 4G services in the country, cellular mobile operators are continuously expanding their next generation networks. The 3G and 4G LTE subscribers have sharply increased during the last ten months and have reached 12.1 million in March 2015. The 3G and 4G LTE subscribers constitute 8.9 percent of the total cellular subscriber base as of March-2015.

Revenues from telecom sector reached an estimated PKR 299 billion during the first two quarters of 2014-15. The commercial launch of 3G and 4G LTE services has opened new opportunities for revenue generation for the mobile operators. Availability of 3G and 4G services has enabled development of new applications and data base services. This has resulted in surge in data revenues of cellular mobile industry, reaching PKR 37.3 billion during July-December, 2014 compared to PKR 22.1 billion in July-December, 2013, showing an increase of 69 percent. Revenues are expected to further increase in the coming years as more subscribers are added into the 3G and 4G LTE fraternity, generating more data revenues of telecom industry.

Broadband subscribers stood at 15.6 million at the end of March, 2015 as compared to 3.8 million at the end of 2013-14, depicting a 311 percent growth over the last nine months. Broadband penetration of the country stands at 8.3 percent as of March, 2015 as compared to 1.95 percent at the end of corresponding
This enormous jump in the broadband penetration can be attributed to the NGMS spectrum auction as mobile broadband leads the way in the total broadband subscriber base. It is expected that mobile broadband will continue to form the major chunk of the broadband market and may also prove to be a catalyst for the other broadband technologies to prosper in the future.

Pakistan’s IT industry is now on the verge of experiencing an exponential growth. The Vision 2025 lays a very strong emphasis on knowledge economy, creativity and innovation, thus provides the strategic direction regarding investments in information technology. The ICTs hold the promise for an accelerated economic growth based on creativity and innovation. Thus this strategic goal will invariably contribute towards growth of a vibrant Pakistani ICT industry. The sector has the potential to attract young workforce in producing high value innovative products and services. Strategic objectives of the ICT sector include developing human resource for universities, research institutions, industry and agriculture sectors to bring about significant improvement in these sectors, effectively produce high quality software and enhance the software export of Pakistan and to provide access to information through internet to the remotest corners of the country, so that world knowledge can bring value addition in all sectors of the society.

The size of the ICT sector portfolio for PSDP 2015-16 is about PKR 3,543 million. The emphasis will be on the development of human resource, IT industry, IT infrastructure and e-Government. Major thrust in IT for the 2015-16 will be on Improvement of IT infrastructure to attract more international IT companies to undertake business in Pakistan alongside the domestic IT companies. In Pakistan, overall IT exports have been consistently low in terms of value compared to the potential in the country. In order to safeguard the interest of smaller software developer, the government needs to move them into viable clusters in Software Parks where these small development companies can manage larger IT development projects mutually. Moreover, development of incubators may be encouraged to provide academia-industry-research linkages and thus inculcating spirit of entrepreneurship.

Pakistan envisages telecom sector to become a major contributor in the economic growth of the country. The roadmap forecasts that mobile telephone subscribers will cross 160 million mark and broadband subscribers 19.5 million by 2020, while fixed line subscribers will remain in the range of 5 million. Broadband will be the main medium of personalized communication from which users will be able to effectively and affordably access any service from any device or network. In future, Pakistan will be concentrating on re-farming of spectrum in order to cater to the increased demand of broadband and wireless technologies. It envisions telecom to become the communication highway for sharing of knowledge as well as reaching out to a large segment of population in education and health services delivery. The sector offers attractive investment avenues to build on the investments made by telecom operators.

ix) Retail Sector
Pakistan has been experiencing a transition from small retail clusters to large wholesalers and shopping malls in the recent past. It has undergone a retail expanding in becoming focus of wide array of international brands and famous international wholesale chains. Global retail giants are expressing interest in establishing operations in Pakistan. The retail sector in Pakistan is unique and although mostly unorganized, enjoys being the third largest following agriculture and manufacturing. The share of wholesale and retail trade in GDP averaged around a steady 18% in the past decade and that in services, around 34%. It is also the country’s second largest employer, employing around 16% of its total labor force. As it appears, Pakistan’s wholesale and retail trade bears potential to steer the country’s overall economic growth by possessing a strong influence over contraction and expansion of services and GDP growth.

The wholesale and retail sector grew respectively at a rate of 3.4 percent in 2014-15 compared to 3.9 percent of last year. This sector is depended on agriculture and industrial sector output and imports. The moderate growth in the commodity producing sector impacted whole sale and retails trade while other private services sector contributed positively. Pakistan’s retail market is estimated at USD 50 billion. It has been growing at a real rate of 5.3 percent per annum for the past few years. The annual sales in excess of USD 130 billion by the end of 2014 is expected to grow by another USD 30 billion in a short span of just 3 years.
Innumerate retail investment opportunities exist in a range of sectors in Pakistan like food, apparel, footwear, health & beauty, consumer electronics and home furnishings. Important contributing factors for prospective growth of the sector include easy availability of merchandize and human resources, a young population (%73 under 35 years), growing middle income class (estimated at about 25% of the total population), increasing trend of enjoying the convenience of shopping under single roof, growing population; expanding cities and overall globalization and liberalization of trade. Given the agricultural and industrial base of the country, Pakistan offers a wide variety of grocery merchandise that is available in wholesale markets. The contemporary retail sector in Pakistan is well reflected in major cities like Karachi, Lahore, Islamabad and Faisalabad in the form of sprawling shopping centers and complexes. Ushering the current trend, local and foreign large scale real estate investments in these cities have remained crucial in developing the required infrastructure and buildings for such shopping areas.

Generally the Pakistani market is dominated by small ‘general stores’ and local market superstores. However, recently there has been a new trend whereby large investment has been made in super store by few multinational companies. There is evidence that despite some initial apprehensions the consumers have liked this concept due to the availability of all basic utilities under one roof which saves their time and also makes grocery shopping a whole family affair. The local apparel market is ever expanding, being an inevitable consequence of increased demand stemming from growing awareness of the general public. With more than 500 manufacturing units spread across the country, Pakistan’s footwear industry produces over 120 million pairs annually for domestic consumption and over 2 million pairs for export, on average. Pakistan’s consumer electronics market is expected to grow by an annualized average of about 14% to around USD 3.5 billion by 2016. The most booming subsector within the electronics market, however, is telecommunications and computers. The emphasis on home furnishings retail in Pakistan has grown tremendously in recent years. Pakistan’s wood industry, too, is well developed and captures 95% of the country’s total market for furniture.

The retail business in Pakistan is contributing to the job creation in agribusiness and supply chain sector. Moreover, with more stringent quality standards in place the supermarket sector would lead to better practices in agriculture production, marketing, and product packaging leading to increase the value addition in this sector. This would offer greater variety and better quality to the consumers as well. The consumers are steadily shifting towards buying packaged/branded products. Companies are striving to come up with better quality products.

The Bank would seek to finance projects that aim to develop retail infrastructure as well as strengthen the supply chain of agriculture and industrial merchandise to organized retailers.

V. Conclusion

Pakistan holds enormous potential for economic growth. The revival of growth that started in 2013-14 has accelerated in 2014-15 as per the latest indicators. The economy has experienced an average annual growth rate of 4.0 percent in 2013-14 which was the highest rate seen after five years. The industrial sector has shown strength amidst continuation of energy shortages. The country builds on respective gains in macroeconomic stabilization and further leverage the potential of the economy by placing it on the path of a long term Vision. Decline in international oil prices along with strong growth in remittances helped contain the current account deficit. The disbursement of tranches from the IMF and successful issue of Sukuk Bond in the international market swelled the foreign exchange reserves to a comfortable level. Fiscal data indicates that the government was able to contain its deficit due to low growth in expenditure. A stable exchange rate, and the fact that the government passed on the benefits of lower global oil prices to domestic consumers, not only softened inflationary expectations but also pulled down headline CPI inflation to a decade-low. The impact of these factors was strengthened by growth in proceeds from privatization. The revival of growth has continued and real GDP registered a growth of 4.2 percent in 2014-15. The current Five Year Plan 2013-18 is a comprehensive roadmap and sets timelines for achieving high growth rate. The growth of GDP for 2015-16 is targeted at 5.5 percent and gradually steering it to over 7 percent by 2017-18.
The Bank will keep on working to assist the country to meet the growing needs and achieving sustainable economic growth and prosperity. Infrastructure deficit and bottlenecks add to the costs of production and transportation in Pakistan. A crippling power shortage is the most serious manifestation of the infrastructure deficit in Pakistan. Traffic congestion in commercial centers and ports as well as non-availability of adequate water supply and sewage facilities in expanding urban centers are negatively impacting individuals and businesses. Urgent investment is needed to remove these impediments for opening up growth opportunities for small and large scale enterprises. Improving transport and logistics facilities is a pre-requisite for reducing cost of doing business and accelerating growth in Pakistan. Recognizing its vital role, the agriculture sector needs to be supported for ensuring food security, generating overall economic growth, reducing poverty and the transforming towards industrialization. It is the strategy of the Bank to contribute concerted efforts which would provide the environment necessary for growth and investment to take place in the country. In addition, Bank’s focus on improving access of the targeted segments to financial services would be critical to supporting economic transformation and sustainable growth. The current country program document has been developed in view of the development strategy and objectives established in its Vision 2025 document and the relevant priorities envisaged in the development programs/plans of Pakistan. In the coming years, the major components of the country program would include:

**Energy.** Promoting integrated energy development to increase energy security and efficiency. Support development of hydropower, clean coal-based power plants and renewable energy potentials. Promotion of energy efficiency across selected sectors of the economy particularly in manufacturing sector. Development of storage and transport facilities with emphasis on cross-border interconnections.

**Infrastructure.** Investments to improve transportation, education, health, technological research and communication technologies. Enhance public–private partnerships. Support urbanization as an important driver of growth. Engage in development of efficient transport system particularly through the National Trade Corridor program.

**Manufacturing.** The Bank will support local corporations to fund their needs with a focus on development of entrepreneurship, productivity, innovation, efficiency, capacity building, technological up-gradation and R&D leading to higher value added output.

**Agriculture.** The operations will focus to infrastructure development, water management and productivity. Emphasis will be given for improving and value addition to the produce of agriculture sector and allied sub-sectors to accelerate agriculture growth for reducing rural poverty, achieving self-reliance in essential food commodities, as well as expansion of exportable surplus and galvanizing agro-business potential. Promoting mechanization, storage facilities, packing, certification and marketing system would be targeted.

**Trade.** Support expansion & diversification of trade in terms of markets and products with an aim to contribute the target of Pakistan to boost exports to USD 150 billion by the end of 2025.

**Financial sector.** Support growth in financial access and assist development of services and products of local financial institutions in SMEs finance, trade finance, microfinance, Islamic finance and leasing.