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## Sector Economy

### Pakistan Economy

Similar to other world economies, Pakistan's economy too passed through a difficult year in 2007-08. The economy registered 5.8% GDP growth in 2007-08 against the target of 7.2%. The main reason for this slow growth is attributed partly to past domestic political uncertainties, few undesirable law & order situations, supply shocks, worsening international financial crisis, and an unprecedented spike in energy prices globally. Pakistan's economy has grown at an average rate of almost 6.6% per annum during the last five years. Interestingly despite the odds, the economy has shown great resilience against internal and external shocks of extraordinary nature during the out going fiscal year. Among sectoral performance, agriculture sector has shown dismal performance and grew by only 1.5% as against 3.5% of its previous year's growth. One of

**Table - 1**  
Comparative Performance of Key Economic Indicators

	Unit	2003-04	2004-05	2005-06	2006-07	2007-08
<b>I. Real Sector</b>						
Real GDP Growth	%	7.5	9.0	5.8	6.8	5.8
Investment	% of GDP	16.6	19.1	22.1	22.9	21.6
National Savings	% of GDP	17.9	17.5	18.2	17.8	13.9
Inflation		4.6	9.3	7.9	7.8	12.0
- Food Inflation	%	6	12.5	6.9	10.3	17.6
- Non-Food Inflation		3.6	7.1	8.6	6.0	7.9
- Core Inflation		3.7	7.6	7.1	5.5	8.2
<b>II. Fiscal Sector</b>						
Revenue Collection (CBR)	Billion Rs	518.8	591	713	846.0	1004.0
Fiscal Deficit	% of GDP	2.4	3.3	4.2	4.3	6.5
Public Debt	% of GDP	67.1	62.2	57.2	55.2	53.5
<b>III. External Sector</b>						
Exports (f.o.b)	Billion \$	12.4	14.5	16.5	17.3	20.1
Imports (f.o.b)	Billion \$	13.7	19.0	25.0	27.0	35.4
Trade Deficit	Billion \$	-1.3	-4.5	-8.4	-9.7	-15.3
Remittances	Billion \$	3.8	4.2	4.6	5.5	6.4
Current Account Balance	% of GDP	1.4	-1.6	-3.9	-5.0	-8.1
	Billion \$	1.31	-1.77	-5.0	-7.0	-14.1
Total Foreign Investment	Million \$	921.7	1676.6	4485.5	8428.3	5192.9
Foreign Direct Investment	Million \$	949.4	1524	3521	5140	5153
Foreign Exchange Reserves	Billion \$	12.3	12.6	12.8	15.7	11.6

Source: Ministry of Finance, 2008



the reasons behind this poor performance of the sector is the decline in the growth of wheat and cotton crops by 3% against 8.5% previous year's growth rate. Pakistan's total liquid foreign exchange reserves stood at \$ 12,344 million at the end of April 2008, lower than the end-June 2007 level of US\$ 15,646 million. Exchange rate after remaining stable for more than 4 years, lost significant value against the US dollar and depreciated by 6.4% during July 2007 to April 2008. Most of the depreciation of rupee against dollar was recorded after November 2007 owing to a combination of factors like political uncertainty, trade related outflows and speculative activities.

Comparing past history we can observe that net exports didn't perform positively. A slight progress was seen only in the period 2000-04. During 2007-08, the contribution of investment has declined substantially from as high as 47.6% in 2005-06 to 11.7% in 2007-08. The share of private sector investment in domestic fixed investment has increased from less than two-third (64.2%) to more than three-fourth (76.0%) in the last seven years clearly reflecting the growing confidence of private sector in the current and future prospects of the economy.

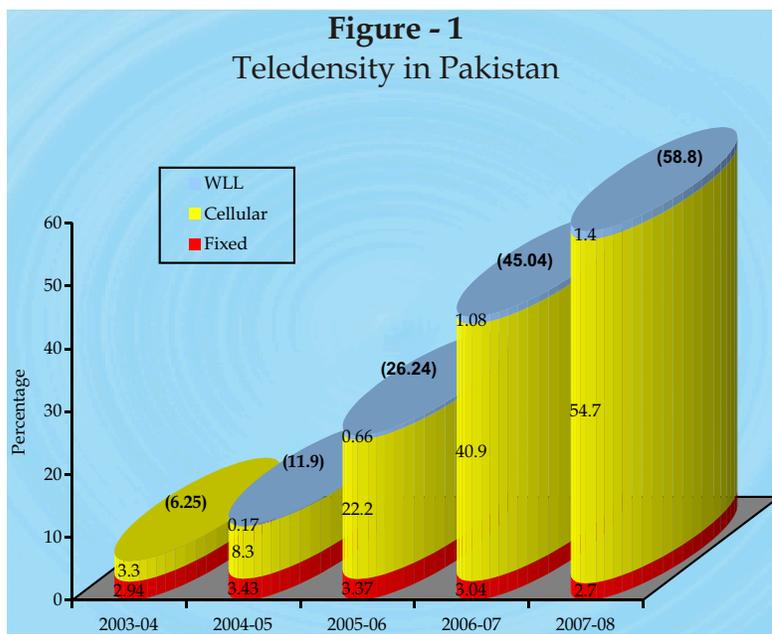
Pakistan's per capita real GDP has risen at a faster pace in real terms during the last six years (4.5% per annum on average in rupee terms) leading to a rise in average income of the people. Such increases in real per capita income have led to a sharp increase in consumer spending during the last three years of which one example is the spending on telecom services. The per capita income has risen from \$ 586 in 2002-03 to \$ 1,085 in 2007-08. The main factor that contributed to the sharp rise in per capita income include acceleration in real GDP growth, stable exchange rate and a four fold increase in the inflows of workers' remittances.

Services sector of Pakistan's economy, telecom being part of it, is the largest contributor in the composition of GDP and in 2007-08, its contribution to the real GDP of the country was reported at 73% compared to 58% in 2006-07.

### Economics of Telecom

Despite a difficult time for Pakistan economy, generally the telecom sector exhibited positive but slow growth in terms of revenue, subscribers and teledensity. Teledensity of the country jumped from 45% in 2006-07 to 58.8% in 2007-08. However, this jump was much bigger in 2006-07 compared to 2005-06.

Figure - 1  
Teledensity in Pakistan



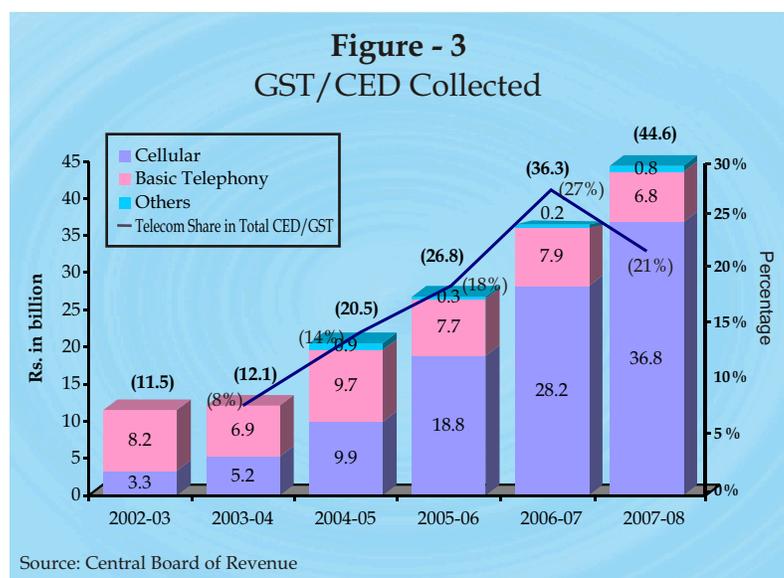
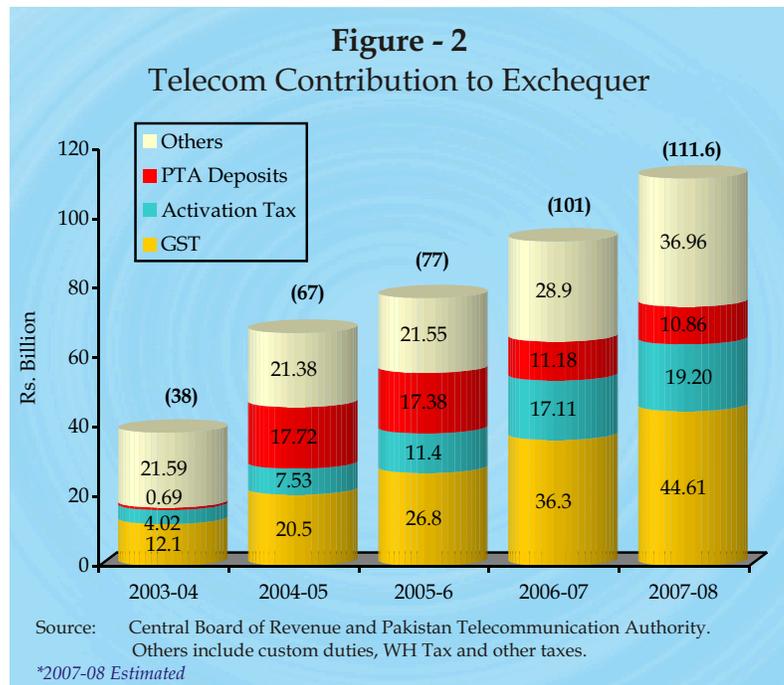


Similarly, the revenues of Cellular Mobile sector, which is an engine of growth in the sector, have grown by 35% in 2007-08 while this growth was recorded at 48% in 2006-07. Cellular Mobile subscribers have grown by about 39% in 2007-08 while this growth was over 80% in 2006-07 and more than 100% in 2005-06. Main reason for this declining growth could be the rising food inflation and high taxes by the government, which affects the affordability of general masses. Saturation of the urban markets & low tariffs and SIM blocking by PTA could be some of the other reasons for this slow growth.

### Taxes

Telecom sector is an important sector of Pakistan's economy contributing reasonably in the national GDP. The sector is contributing a handsome amount to the national exchequer through taxes and duties. During the last year, its contribution in terms of taxes was more than Rs. 100 billion, which has risen to Rs. 111 billion in 2007-08. The rise is mainly attributed to GST, which has increased from Rs. 36 billion in 2006-07 to Rs. 44 billion in 2007-08 a 22% increase. Activation Tax is another area where government collects a huge amount annually. This amount has increased by about 11% and stood at Rs. 19.6 billion compared to Rs. 19.2 billion last year. Cellular Mobile sector remained a leader in terms of GST deposits. It is contributing over 80% in GST collection.

The major source of revenue comes in the form of GST/CED from telecom sector which increases with the usage of telecom services because it is charge on airtime charges. Cellular Mobile sector contributes more than 80% in this tax collection. This tax collection continued to rise over the years and was recorded at Rs. 44.6 billion in 2007-





08 while in 2006-07 it was Rs. 36.3 billion. Though the volume of this tax collection increased, however, its growth has declined significantly during 2007-08. In 2006-07, collection in this head grew by 18% while the growth during 2007-08 declined by 17% compared to the previous year. It is further explored that GST collection from Cellular Mobile Sector has increased by about 25% while GST collection from basic telephony mainly from PTCL has declined by 14% in 2007-08. GST collection from cellular mobile sector has grown by 25% in 2007-08 while this growth was recorded 50% in 2006-07. On the other hand, the share of telecom GST to total domestic collection has also declined from 27% in 2006-07 to 21% in 2007-08. FBR collected GST from cellular mobile sector amounting to Rs. 36.8 billion in 2007-08 compared to Rs. 28.2 billion in 2006-07 while the collection from Basic telephony has been reported Rs. 6.8 billion in 2007-08 compared to Rs. 7.9 billion in 2006-07.

The main reason for this decline could be attributed to the lower tariffs, increase in GST rates from 15% to 21% and closure of unverified SIMs by Government of Pakistan. Churning of customers from the fixed line to wireless based services could be reason for

decline of usage and GST from the fixed line sector. GST rates need to be reviewed downwards to increase telecom service usage and ultimately increase the tax collection.

## Imports of Telecom

During the fiscal year 2007-08, Pakistan's economy faced US\$ 15.3 billion trade deficit, which is a major concern for the government. Major share in this year's additional import has come from petroleum products (40%) whose prices in international market surged unprecedentedly. During 2007-08, exports grew by 16% and reached US\$ 20.1 billion while last year total exports were US\$ 17.3 billion. On the other hand, imports increased by 31% in 2007-08 and reached US\$ 35.4 billion compared to US\$ 27 billion in 2006-07.

Imports for telecom sector in 2007-08 have declined marginally and stood at US\$ 1.33 billion, which are 4% of the total imports. Imports of cellular Mobile handsets reduced significantly by about 33% during the year 2007-08, which indicates saturation of the market while imports of the telecom equipment has increased by 31% in the same period. To discourage imports of cellular mobile handsets the government has imposed a duty of Rs. 500 per mobile handsets in the budget of 2007-08. The competitive environment has compelled all operators to import machinery and equipment to expand their infrastructure.

**Table - 2**  
Telecom Imports

Description	US\$ (Million)			
	2004-05	2005-06	2006-07	2007-08
Cellular Mobile sets with Battery	371.10	569.24	670.17	445.8
Other Telecom Apparatus	406.32	628.31	677.52	885.1
<b>Total</b>	<b>777.42</b>	<b>1,197.55</b>	<b>1,347.69</b>	<b>1,330.9</b>
Telecom Share in Total Imports (%)	3.8	4.20	4.4	4.0

Source: State Bank of Pakistan



## Investment in Telecom Sector

PTA always took lead to safeguard the interest of investors and facilitated a conducive environment for investors. This year again, all operators continued to invest in infrastructure development to get more share of subscribers in a competitive environment. Though investment in the sector in 2007-08 has declined compared to previous year it is still very encouraging and stood at US\$ 3.1 billion. Cellular Mobile sector invested over US\$ 2.3 billion, which is 11% lower than the previous year. One reason for this decline could be that operators have already covered the urban areas and are not investing to as much in the rural areas, which are less lucrative from business point of view. Moreover, substantial taxes could be another reason to stop investors from further expansion.

**Table - 3**  
Telecom Investment

US\$ Million

Service	2005-06	2006-07	2007-08
Cellular	1,420.9	2,584.7	2,337.7
Local Loop	0.3	746.9	333.7
LDI	50.5	602.7	390.1
WLL	259.4	40.5	51.7
<b>Total</b>	<b>1,731.1</b>	<b>3,974.8</b>	<b>3,113.2</b>

\*FLL, LDI & LL Estimated

## Foreign Direct Investment in Telecom

Since, the liberalization of the sector, Telecom sector is attracting a large sum of Foreign Direct Investment in Pakistan. Telecom sector provides large scope for foreign investors to further explore avenues where the business could be lucrative for them. Telecom sector has attracted more than US\$ 5.6 billion foreign investment in last four years, which has created large employment opportunities in Pakistan. During 2007-08, a sum of US\$ 1.4 billion FDI was made in telecom sector of Pakistan, which is about 30% of the total FDI in the country. During 2007-08, telecom sector ranked second after financial sector as major FDI recipient of FDI in Pakistan.

**Table - 4**  
FDI in Major sectors of Pakistan

US\$ Million

Sector	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Textiles	26.1	35.5	39.3	47.0	59.4	30.1
<i>% Share</i>	3.3	3.7	2.6	1.3	1.2	0.6
Oil & Gas Explorations	186.8	202.4	193.8	312.7	545.1	634.8
<i>% Share</i>	23.4	21.3	12.7	8.9	10.6	12.3
Power	32.8	-14.2	73.3	320.6	193.4	70.3
<i>% Share</i>	4.1	-1.5	4.8	9.1	3.8	1.4
Telecommunications	13.5	207.1	494.4	1,905.1	1,824.2	1,438.6
<i>% Share</i>	1.7	21.8	32.4	54.1	35.6	27.9
I.T.Service	4.2	6.2	9.6	24.2	62.1	160.5
<i>% Share</i>	0.5	0.6	0.6	0.7	1.2	3.1
Financial Business	207.6	242.1	269.4	329.2	930.3	1607.6
<i>% Share</i>	26.0	25.5	17.7	9.3	18.2	31.2
<b>Total FDI in Pakistan</b>	<b>798.0</b>	<b>949.4</b>	<b>1,524.0</b>	<b>3,521.0</b>	<b>5,124.9</b>	<b>5,152.8</b>

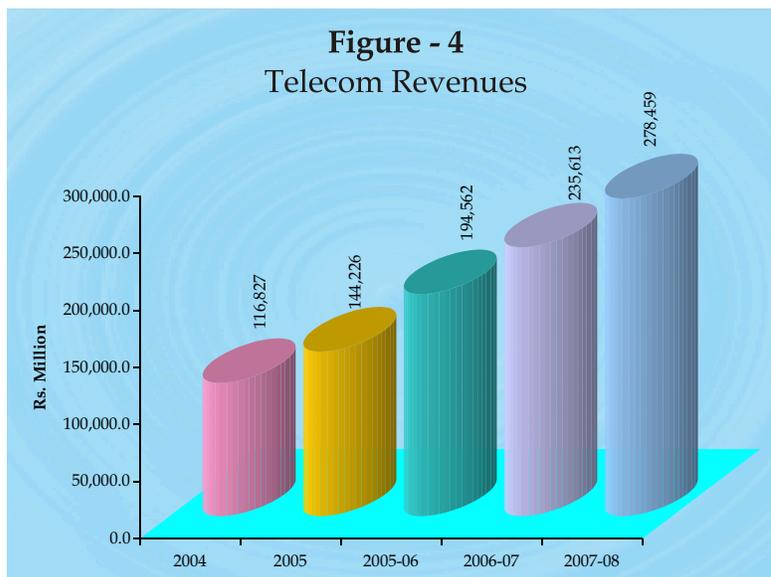
Source: State Bank of Pakistan, 2007



Of the total FDI in telecom sector US\$ 133.2 million were the privatization proceeds, which is 50% lower than the previous year. The highest contribution in FDI was by Telenor, a Norway based company whose share in total FDI in telecom sector for 2007-08 was 34% which is equivalent to US\$ 486 million. The FDI invested by Warid telecom and World call has been reported US\$ 214 million and US\$ 203 million respectively during 2007-08.

### Telecom Revenues

In line with the subscription and taxes, telecom revenues growth also remained slow in 2007-08. During 2007-08, telecom revenues grew by 18% and reached Rs. 278.5 billion while this growth was reported 21% in 2006-07. Cellular Mobile sector is the major driver of growth in telecom revenues whose share in total telecom revenues has increased from 56% in 2006-07 to 65% in 2007-08. Fixed line sector has shown negative growth in revenues mainly due to drop in PTCL revenues. Cellular Mobile revenues increased by 37% in 2007-08 and reached Rs. 182 billion.



### Market Potential

There exists a large potential for further growth in all the areas of telecommunication. Particularly, the Value Added services segment presents opportunities for investment in the sector. Cellular mobile operators offer a set of core and value added services including GPRS/EDGE, MMS & SMS. However, these services remain limited to few consumers and mostly services are being utilized for entertainment purposes. Currently, the operators' revenue from data services is only 3% of their total revenues and major source of revenue for the sector still comes from voice services. The reason behind the low use of existing services could be lack of awareness, proper education availabilities of PCs, expensive services and non availability of local content.

Development of local content is an important area to be explored in telecom sector of Pakistan. At the moment the service is being provided mostly in English language, which is not the first language of the majority of customers. Particularly, the rural population needs local content for communication. Pakistan telecommunication industry has made impressive strides in the last few years. However, broadband growth in the country has been very slow. The reasons for this slow growth are low awareness and high charges by operators. There is a great opportunity for growth of the broadband



services in Pakistan, as these services have shown their positive results in developed countries of Europe, North America and Asia.

Mobile banking is a known service around the globe and the customers world over are benefitting from its advantages rapidly, but Pakistan is far behind in this race. This area could be further explored and provide opportunity for growth.

## **Conclusion**

Telecom sector continued to grow positively and contribute in the national economy through taxes and employment opportunities etc. Cellular mobile subscribers grew substantially and crossed 88 million mark, which put this sector ahead of the neighboring and other comparable countries in terms of teledensity and other telecom developments. The present Government is committed to take Telecom sector to new heights and intends to extend all possible facilities to the investors in the sector. There is a need to review the taxes on the sector so that the growth may be sustained.

