Day Break

Wednesday, June 12, 2024

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GDP: +2.4%

Agriculture: +6.3%

Industrial: +1.2%

Services: +1.2%

Inflation: 26%

Exports: US$ 25.7bn

Imports: US$ 43.4bn

Remittances: US$ 23.9bn

Economy

Pakistan Economic Survey 2023-24: Key Highlights

- Pakistan's GDP grew by 2.4% in FY2024, with an increase from -0.29% in 2023. Challenges at the beginning of FY2024 included high interest rates and high domestic inflation.
- The government aims for 5.5% medium-term growth, focusing on stability and sustainability.
- Inflation averaged 24% in 11M2024 and is expected to be around 23-24% in FY24. Efforts to achieve price stability include favorable commodity prices and improved crops.
- Fiscal consolidation presents challenges, balancing subsidies and rising interest payments.
- The external account improved, with a lower current account deficit and better remittances. Higher loan repayments strain foreign exchange reserves. Export growth is expected with an improved global trade outlook and eased import restrictions.

We review key summary points from Economic Survey of Pakistan for the year 2023-24 published on 11th June, 2024.

Pakistan GDP growth recorded at 2.4%

According to the latest Pakistan Economic Survey (PES), the country's GDP posted a growth of 2.4%, an increase from -0.29% in FY23. This brings the size of Pakistan's GDP to PKR 106tn, up by +26%. In US dollar terms, the total size increased to US$ 375bn from last year's US$ 338bn, an increase of +11% y/y. As a result, Pakistan's current GDP per capita increased to US$ 1,680, from US$ 1,551 in 2023, up by +8.3%y/y or US$ 129.

Sector Performance: Mainly Led by Agriculture

In terms of sectors, the service sector continues to dominate with a major share of 57.7%, a growth of +1.2%y/y, followed by the agriculture sector at 24%, which increased by 6.3%y/y. Lastly, the industrial sector recorded an increase of +1.2%, representing a 18.2% share of the economy.

Challenging Start To The Year 2024

At the onset of FY2024, Pakistan's economy faced major challenges. Firstly, the declining foreign reserves resulted in import restrictions. Moreover, the rising inflation situation led the SBP to increase the policy

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rate to its all-time high of 22%. Additionally, higher global commodity prices kept inflation elevated during start of FY24. Pakistan was almost at the verge of default when the stand-by agreement was reached with IMF which was a breather for the completely overhauled economy of the Country.

Medium-Term Growth Projection: Aims for Stability and Sustainability

The government's key aim is to stabilize the economy, striving for a 5.5% growth target by FY27 by emphasizing on exports and investment. Plans include ramping up trade and investment openness, addressing foreign exchange speculation, and implementing sector-specific reforms. Foreseen global economic recovery is expected to bolster the industrial sector by FY25, in turn, benefiting services and fostering domestic production while maintaining price stability.

Global inflationary pressures persist, but recent favorable international commodity price movements and outlook, along with improved crop prospects and a stable exchange rate, offer prospects for achieving price stability. In the medium-term, the government expects prices to normalize in FY24 and FY25 due to the high base effect, improvements in the agriculture sector, and favorable global and domestic environments.

Fiscal Landscape of Pakistan: FY24 Overview and Outlook

With revenue at PKR 9.8 trillion, up by 41% YoY, the fiscal deficit for 9MFY24 was recorded at 3.7% of GDP, slightly up from last year. Total expenditures rose by 37% to PKR 13.7tn, driven by a 33% increase in current expenditure, notably in markup payments.

The primary balance achieved a surplus of PKR 1,615bn. Tax collection rose by 29%, while non-tax revenues grew by 91%. Annual inflation averaged 24.52% during 11MFY24, driven down by a high base effect and reduced food index.

In response, the State Bank of Pakistan reduced the policy rate to 20.5% in June 2024. Total public debt reached PKR 67.5tn by March 2024. Looking ahead, the government aims for fiscal consolidation in the FY25 budget, focusing on prudent expenditure and revenue reforms.

Pakistan’s External Accounts: FY24 Recap & Future Prospects

In the first ten months of fiscal year 2024, Pakistan significantly reduced its current account deficit to just US$ 0.2bn, a massive improvement compared to the US$ 3.9bn deficit during the same period last year. This positive change was mainly due to lower imports, which helped shrink the trade deficit by over 20% to US$ 17.7bn. However, the deficit in the primary income account increased due to higher dividend payments and interest.

Remittances remained substantial at US$ 23.9bn up by 4% y/y. The country also experienced net financial inflows of US$ 3.9bn, including increased foreign direct investment. With total reserves at US$ 14.0bn and a strengthened Pakistani Rupee, the economic outlook seems promising.

Looking ahead, there's hope for export growth and increased remittances, which should positively impact the current account balance for fiscal year 2025. The government aims to secure long-term support from the IMF to implement necessary reforms and sustain economic progress.

Exhibit: Pakistan Key Economic Forecasts		2018A	2019A	2020A	2021A	2022A	2023R	2024P*
Real Sector								
GDP (growth rate)	%	6.1%	3.1%	-0.9%	5.8%	6.2%	-0.2%	2.4%
GDP (in PKR)	PKRtn	39	44	48	56	67	84	106
GDP (in US$)	US$bn	356.9	321.9	300.8	348.9	375.6	338.5	375.0
GDP per Capita	US$	1,768	1,578	1,458	1,677	1,767	1,551	1,680
%age Share								
Agriculture	%	23%	22%	24%	23%	23%	23%	24%
Industries	%	20%	19%	19%	19%	19%	18%	18%
Commodity Producing	%	43%	42%	42%	42%	42%	42%	42%
Services	%	57%	58%	58%	58%	58%	58%	58%
Growth Rate								
Agriculture	%	3.9%	0.9%	3.9%	3.5%	4.2%	2.3%	6.3%
Industries	%	9.2%	0.2%	-5.7%	8.2%	7.0%	-3.7%	1.2%
Commodity Producing	%	6.3%	0.6%	-0.6%	5.6%	5.5%	-0.5%	4.0%
Services	%	6.0%	5.0%	-1.2%	5.9%	6.7%	0.0%	1.2%
Prices and Policy Rate								
CPI (National) - avg	%y/y	5%	7%	11%	9%	12%	29%	24%
Discount Rate (Ceiling) – Period end	%	6%	10%	12%	8%	11%	22%	22%
Policy Rate (Target) – Period End	%	6%	10%	12%	7%	10%	21%	21%
External Accounts								
Current Account Balance	US$bn	(19.2)	(13.4)	(4.4)	(2.8)	(17.5)	(4.1)	(0.2)
Exports (G)	US$bn	24.8	24.3	22.5	25.6	32.5	26.9	25.7
Imports (G)	US$bn	55.7	51.9	43.6	54.3	71.5	54.3	43.4
Trade Balance	US$bn	(30.9)	(27.6)	(21.1)	(28.6)	(39.1)	(27.4)	(17.7)
Remittances	US$bn	19.9	21.7	23.1	29.4	31.2	27.3	23.9
C/a Bal. / GDP	%	-5%	-4%	-1%	-1%	-5%	-1%	-0%
Trade Balance / GDP	%	-9%	-9%	-7%	-8%	-10%	-8%	-5%
Total: Import Cover	x	4.2	3.3	4.3	5.4	4.0	2.2	3.2
FX Reserves – Period end								
Fx Reserves	US$bn	16.4	14.5	18.9	24.4	15.5	9.2	14.2
Fx Reserves: Sbp	US$bn	9.8	7.3	12.1	17.3	9.8	4.4	9.1
Fiscal Accounts								
Tax Revenues	PKRtn	4.5	4.5	4.7	5.3	6.8	7.8	7.3
Non-Tax Revenues	PKRtn	0.8	0.4	1.5	1.6	1.3	1.8	2.5
Current Expenditure	PKRtn	5.9	7.1	8.5	9.1	11.5	14.4	12.3
Development Expenditure	PKRtn	1.6	1.2	1.2	1.3	1.7	2.0	1.1
Budget Deficit	PKRtn	(2.3)	(3.4)	(3.4)	(3.4)	(5.3)	(6.5)	(3.9)
Tax Revenues	%age of GDP	11.4%	10.2%	10.0%	9.4%	10.1%	9.3%	9.5%
Non-Tax Revenues	%age of GDP	1.9%	1.0%	3.2%	2.9%	1.9%	2.2%	2.4%
Current Expenditure	%age of GDP	14.9%	16.2%	17.9%	16.3%	17.3%	17.2%	11.6%
Development Expenditure	%age of GDP	4.1%	2.8%	2.5%	2.4%	2.5%	2.3%	2.6%
Budget Deficit	%age of GDP	-5.8%	-7.9%	-7.1%	-6.1%	-7.9%	-7.8%	-6.0%

Source: Ministry of Finance, SBP, PBS, IGI Research, *Provisional Jul-Mar 2024 or latest available data

Exhibit: GDP Growth Rates*

Pakistan Real GDP growth rate arrived at 2.4% for FY24P

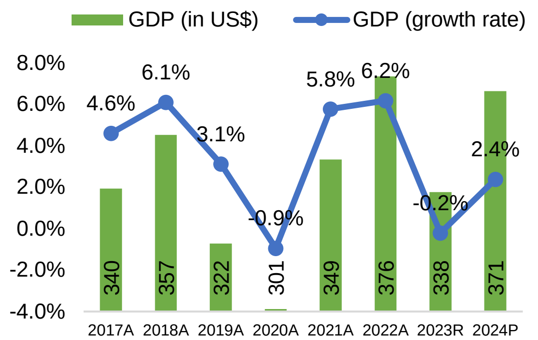


Exhibit: Sectoral Performance*

A rebound in all sectors was witnessed during FY24 primarily led by agriculture

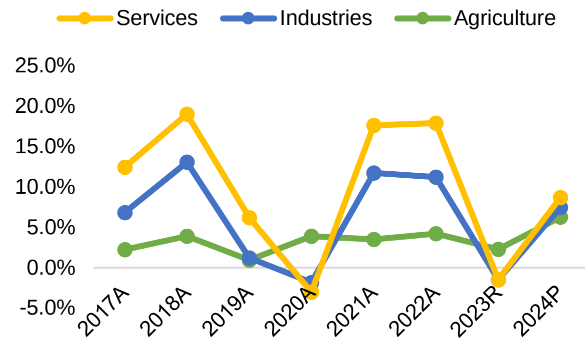


Exhibit: SBP Foreign Exchange (FX) reserves and Import coverage

SBP FX reserves recovered to US$ 9.1bn by end of May-24 increasing by US$ 4.7bn in 11MFY24. This has lifted import cover to 3.2 months.

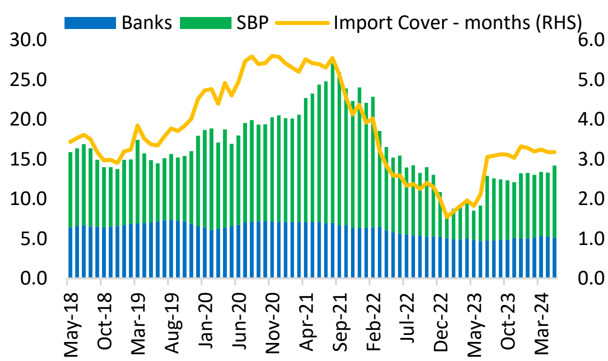


Exhibit: Inflation Indicators

All indicators depicting a downward trend in prices.

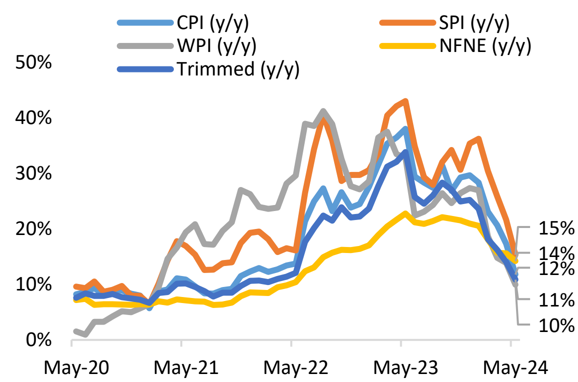


Exhibit: Pakistan CPI Historical

(BASE=2015-16) Headline Inflation Pakistan dropped to 31 month low during May-24.

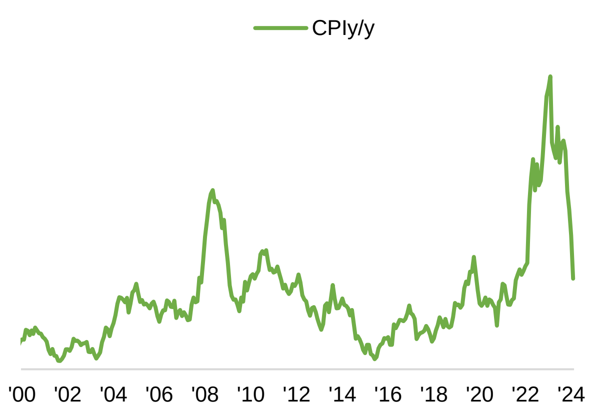
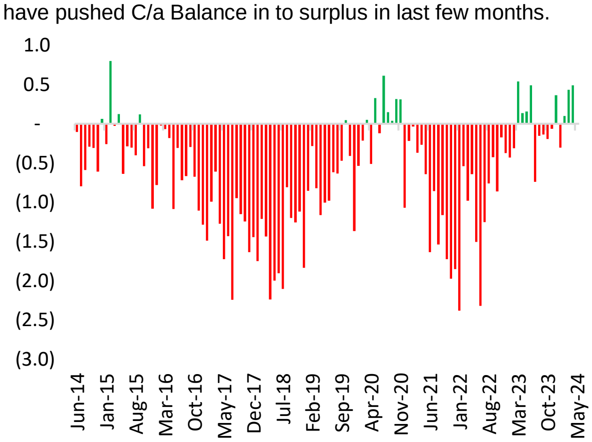


Exhibit: Monthly C/a Bal

Higher remittances and exports along with restricted imports have pushed C/a Balance in to surplus in last few months.



Source: Ministry of Finance, SBP, PBS, IGI Research, *FY24: forecasts

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