

Appraisal of Pakistan's Economy

Dr Aneel Salman

July 2024

Appraisal of Pakistan's Economy

(1st July 2023- 30th June 2024)

Macroeconomic Overview

This economic brief outlines a cautiously optimistic recovery for Pakistan's economy following a contraction in FY23. The GDP growth rate rebounded to 2.4% from -0.2%, driven predominantly by a robust agricultural sector which expanded by 6.25%. This resurgence highlights Pakistan's reliance on its agricultural base, particularly noting significant increases in the production of key crops like cotton, rice, and wheat.

Key Indicators and Economic Health

- GDP Growth:** The transition from a negative growth rate in FY23 to 2.4% in FY24 is primarily attributed to agricultural advancements, though industrial and service sectors saw marginal growth at 1.21% each.
- Inflation and Monetary Policy:** Average inflation remained high at 26%, but showed signs of easing towards the latter half of the fiscal year, prompting the State Bank of Pakistan (SBP) to reduce the policy rate by 150 basis points to 20.5% in June 2024.
- Fiscal Deficit:** The fiscal deficit remained relatively stable at 3.7% of GDP, indicating ongoing challenges in balancing the budget despite improvements in revenue collection and tax administration.
- Trade Balance:** A notable reduction in the current account deficit, from USD 3.9 billion to USD 0.2 billion, was achieved through a combination of increased exports (up 11%) and reduced imports (down 5%), driven by strategic trade policies and local production enhancements.
- Foreign Exchange Reserves and Remittances:** Forex reserves rose significantly to USD 14.2 billion, strengthened by higher remittances which increased by 7.7% to USD 27.1 billion, reflecting strong support from the Pakistani diaspora.
- Stock Market Performance:** The Pakistan Stock Exchange (PSX) experienced unprecedented growth, with the KSE-100 index climbing from 40,000 to 73,000 points, indicating robust investor confidence fuelled by political stability and favourable economic policies.

Sectoral Performance

- Agriculture:** The sector's growth was underpinned by substantial increases in the production of major crops, with cotton production alone soaring by 108.2%. This sector's performance underscores its critical role in the country's economic framework.
- Industry:** The industrial sector showed a modest recovery with 1.21% growth, hindered by high interest rates and sluggish aggregate demand.
- Services:** Growth in the services sector was also limited to 1.21%, with significant contributions from transport and communication.

Challenges and Risks

Despite the positive trends, Pakistan faces significant challenges:

1. **Debt Servicing:** With debt servicing accounting for 56% of total revenues, managing both domestic and external debt remains a critical concern.
2. **Energy Sector:** Circular debt in the energy sector continues to escalate, reaching 4.5% of GDP, necessitating urgent structural reforms.
3. **Policy Implementation:** Ensuring the effective implementation of fiscal and monetary policies is crucial to sustaining economic stability.

Economic Outlook for FY25

The forecast for FY25 includes expectations of continued monetary easing, a potential hike in energy tariffs, and the privatization of state-owned enterprises. The government is also negotiating a new IMF program, expected to stabilize foreign exchange reserves and maintain the PKR/USD parity.

Conclusion

There has been significant improvements in key macroeconomic indicators while acknowledging persistent structural challenges. Strategic policy reforms and effective governance will be essential to sustaining this recovery and achieving long-term economic stability.

Action Matrix

Action Area	Pathways to Solution	How to Implement Each Solution	Actor Responsible	Implementation Timelines
Fiscal Reforms	Emphasize debt management, tax system rationalization, and address circular debt	Develop and implement a comprehensive debt management strategy, streamline the tax system to improve compliance and efficiency, and implement measures to reduce and manage circular debt	Ministry of Finance, Federal Board of Revenue (FBR), Energy Sector Regulators	Immediate and ongoing
Investment in Human Capital	Prioritize education, healthcare, and skills development to create a competitive workforce	Increase budget allocations for education and healthcare, develop and promote vocational training programs, and implement policies to improve access to quality education and healthcare services	Ministry of Education, Ministry of Health, Ministry of Labor and Human Resource Development	Short-term to medium-term
Governance Reforms	Enhance public service delivery and economic documentation to improve transparency and efficiency	Implement e-governance solutions to streamline public service delivery, enhance economic documentation and record-keeping, and promote transparency in government operations	Ministry of IT and Telecommunication, Ministry of Finance, Auditor General's Office	Short-term to medium-term
Leveraging External Factors	Enhance remittances, secure IMF support, and foster favorable conditions for foreign direct investment (FDI)	Promote policies that encourage remittances from the Pakistani diaspora, negotiate and secure IMF support for economic reforms, and create an investment-friendly environment to attract FDI	State Bank of Pakistan (SBP), Ministry of Finance, Board of Investment (BOI)	Immediate and ongoing

About the Authors

Dr. Aneel Salman holds the distinguished OGDCL-IPRI Chair of Economic Security at the Islamabad Policy Research Institute (IPRI) in Pakistan. As a leading international economist, Dr Salman specialises in Monetary Resilience, Macroeconomics, Behavioural Economics, Transnational Trade Dynamics, Strategy-driven Policy Formulation, and the multifaceted challenges of Climate Change. His high-impact research has been widely recognised and adopted, influencing strategic planning and policymaking across various sectors and organisations in Pakistan. Beyond his academic prowess, Dr Salman is a Master Trainer, having imparted his expertise to bureaucrats, Law Enforcement Agencies (LEAs), military personnel, diplomats, and other key stakeholders furthering the cause of informed economic decision-making and resilience.