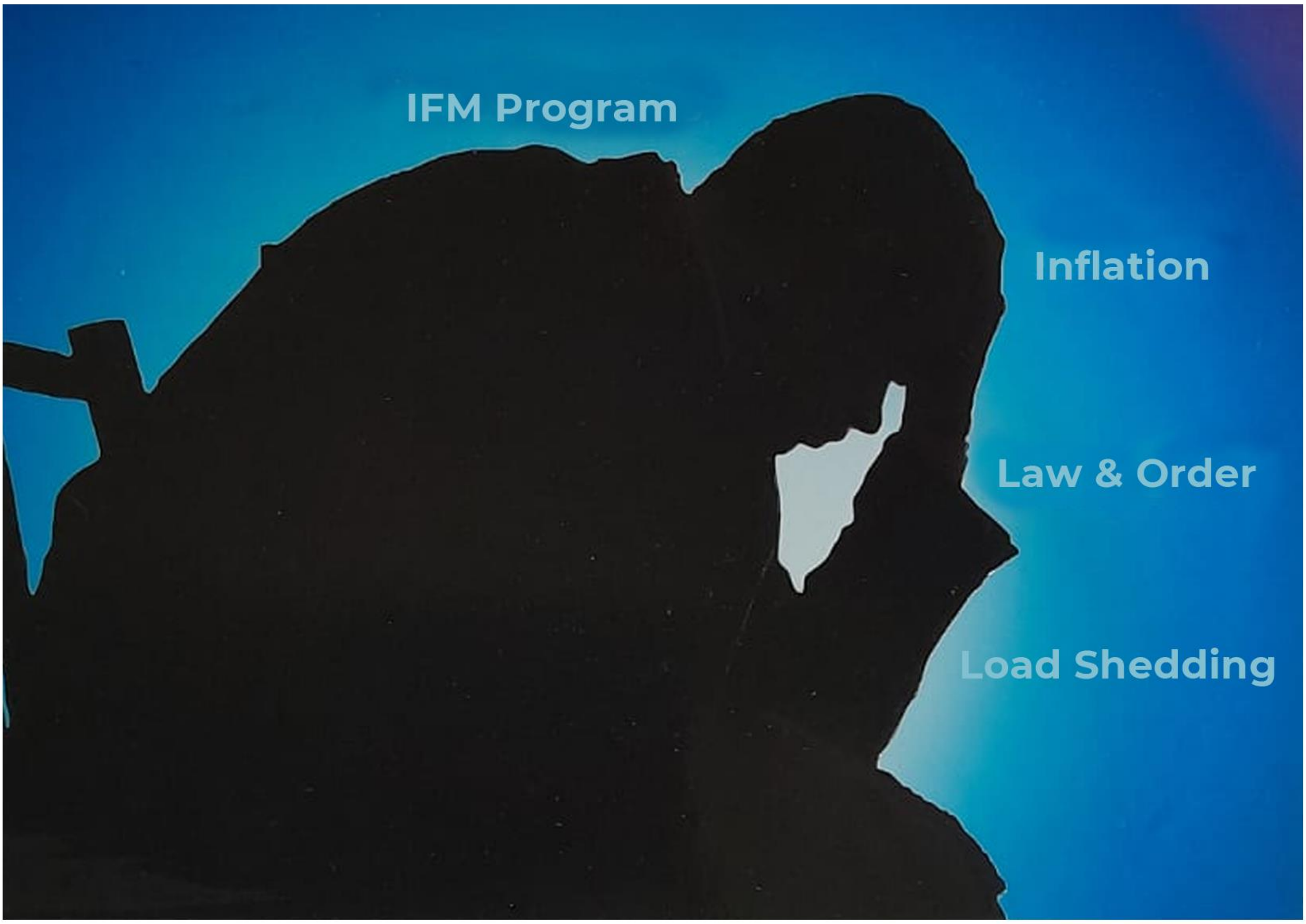
PAKISTAN ECONOMIC APERÇU

2023-2024



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PREAMBLE:

Asalam-o-alaikum everyone!

Hope this publication finds you in good health. The Pakistani economy is trying to make a modest recovery after a very precarious situation in the previous Fiscal Year. Moreover, the outgoing Fiscal Year 2023-24 has witnessed decent economic conditions. To decipher and analyze the major fundamentals of our economy for this Fiscal Year, we hereby offer our analysis through this document titled "Pakonomics (Special Edition) Economic Survey 2023-24" on the major economic developments that took place during the outgoing Fiscal Year.

Further, this publication analyzes trends in agricultural and industrial production, money supply, inflation, foreign exchange reserves, balance of payments, debt profile, savings, investment, and other relevant macroeconomic factors that have a bearing on the budget. This document also provides a glimpse of what to expect in the coming Fiscal Year.

We hope this publication will assist our readers in understanding better, the macroeconomic indicators that influence the Pakistani economy.

Towards the end, we would like to reiterate that tough times never last, and that our prayers are with Pakistan for a full recovery from the current economic turmoil it is in.

Kind Regards,

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THE ECONOMY OF PAKISTAN- A BIRD'S-EYE VIEW:

Economic Indicators	Period	Status	Current Year	Last Year
Real GDP Growth	Jul-June	↑	2.38%	(0.20) %
Agriculture Sector	Jul-June	↑	6.30%	2.30%
Industrial Sector	Jul-June	↑	1.20%	(3.70)%
Services Sector	Jul-June	↑	1.20%	(0.01)%
Inflation (General CPI)	Jul-May	↓	24.50%	29.20%
Current Account Deficit	Jul-April	↓	USD (202) Million	USD (3,920) Million
Imports of Goods	Jul-May	↓	USD 49.80 Billion	USD 51.01 Billion
Exports of Goods	Jul-May	↑	USD 28.07 Billion	USD 25.37 Billion
Worker's Remittances	Jul-May	↑	US $ 27,093 Million	US $25,145 Million
Domestic Debt	Up to March	↑	PKR 43.43 Trillion	PKR 35.08 Trillion
Central Government Debt	Up to March	↑	PKR 65.37 Trillion	PKR 57.12 Trillion
External Debt	Up to March	↓	PKR 21.94 Trillion	PKR 22.05 Trillion
FBR Tax Collection	Jul-May	↑	PKR 8,122 Billion	PKR 6,208 Billion
Foreign Exchange Reserves	As of 24th May	↑	USD 9.09 Billion	USD 4.09 Billion
Exchange Rate (PKR/USD)	As of 3rd June	↓	PKR 278.37	PKR 286.2
Investments (% of GDP)	Jul-June	↓	13.10%	14.10%
National Saving (% of GDP)	Jul-June	↓	13.00%	13.20%
Currency in Circulation	Jul-19th May	↓	PKR (212) Billion	PKR 1,230 Billion

OVERVIEW OF THE ECONOMY:

The Annual Plan Coordination Committee ("**APCC**"), has elucidated the provisional estimates of the GDP growth rate in Fiscal Year 2023-24 ("**FY24**"), that stands at 2.38% compared to the revised estimates of a 0.2% contraction in FY23.

The FY24 began under the influence of unprecedented economic disruptions on the back of a 0.2% economic contraction in FY23. This downturn was primarily due to catastrophic floods, rising global commodity prices, monetary tightening, political uncertainty, and baggage of past economic decisions.

The real GDP growth in FY24 was primarily driven by the agriculture sector; with wheat, cotton, and rice production reaching record levels. The growth of the industrial and services sectors was constrained by limited import demand, high input and energy costs, elevated borrowing costs, and weak domestic demand.

Despite the detrimental effects of severe floods in the last FY23, the agriculture sector in Pakistan experienced an overall robust growth of 6.3% during the FY24. The Agriculture sector was projected to grow by 3.5% based on the assumptions of adequate water availability, certified seeds, fertilizers, pesticides, affordable agricultural credit facilities, and increased livestock productivity.

However, the industrial sector faced challenges during FY24; leading to a low growth of 1.2% in FY24. Various factors such as reduced demand, supply chain disruptions, high policy rate and the overall economic slowdown have contributed to this decline.

The Large-scale manufacturing sector ("**LSM**"), which constitutes nearly half of the industry, recorded a minimal growth rate of 0.1%. Positive cumulative growth during July-March 2023-24 was observed in sectors such as wearing apparel, pharmaceuticals, chemicals, and furniture, while negative growth contributions came from textiles, automobiles, and tobacco.

The commodity-producing sectors grew by 4% during FY24; however, this growth did not fully translate into the dependent services sector, which posted a lower growth rate of 1.2%. The wholesale and retail trade sub-sector, grew marginally by 0.3%.

The GDP growth rate for FY24 is much lower than the official target of 3.5% projected by the APCC in their annual report last year. However, the GDP growth had been revised down to 2.0% by the World Bank in their report on May 2024 titled "IMF - Pakistan SBA Country Report".

Various macroeconomic indicators were indicating a recovery in the economic activity. As can be seen, both the trade deficit and the current account deficit decreased on a Year-on-Year ("**Y-o-Y**") basis, reaching lower levels in FY24.

The Consumer Price Index ("**CPI**") has witnessed a mixed trend. In September 2023, the inflation rate stood at 31.4%, whereas by May 2024, the inflation rate decreased to 11.8% on a Y-o-Y basis.

The magnitude of this decline is attributed to the elevated inflation levels in the previous year and improvements in the domestic supply chain of perishable items.

A Beacon of Hope: Government's Remarkable Achievement in FY24. The Government has been successful in curtailing the Current Account Deficit ("**CAD**"), which is down to USD 202 million during the Jul-April period of FY24.

One of the key reasons for a decline in the CAD is a reduction in total imports of Goods, which decreased by 2.37% from USD 51.01 billion in FY23 to USD 49.80 billion in the Jul-May period of FY24. As a result, the Trade deficit has contracted by 15.3% during the Jul-May period of FY24.

Further, it is imperative to note that the export-to-import ratio has improved significantly in FY24. Comparing the export-to-import ratio, it is observed that the same stands at 56% in FY24, a notable increase from the 50% recorded in the FY23.

For FY24, the Federal Government set a budget deficit target of PKR 7,505 billion, or 7.09% of GDP. By Jul-March period of FY24, the deficit had already reached 58% of the annual target at PKR 4,338 billion. Given historical trends of increased spending in the last quarter, the deficit may exceed PKR 7.5 trillion, reaching 7% to 7.25% of GDP.

Further, in FY24, the interest rate remained at 22.0%, for the majority of the FY24 despite a reduction in inflation; however, the interest rate was reduced only yesterday on 10th June 2024, by 150 bps to 20.5%. This high interest rate severely inflated the cost of doing business and interest repayments on debt. When compared regionally, Bangladesh has an interest rate of 8.5%; India has an interest rate of 6.5%; and the interest rate in China is 3.45%.

This has significantly impacted the finance cost as a percentage of the selling price for a textile unit that operates its working capital three times; resulting in the finance cost as a percentage of the selling price recording at 7.3% for Pakistan; 2.7% for Bangladesh; 1.25% for China; and 1.25% for India.

When assessing electricity costs as a fraction of the cost of goods sold ("**COGS**"), Pakistan incurs a 7% cost, while India, Bangladesh, and China bear a 3.5%, 4.25%, and 3.75% cost, respectively. When analyzing the combined influence of interest rates and electricity costs on operational expenses, Pakistan emerges as 8% more expensive than the most cost-effective country within the group.

This disparity in input costs raises concerns regarding the competitiveness and profitability of Pakistan's textile sector. Despite a sector profit margin typically ranging between 3-5%, the elevated input costs may present obstacles for businesses to maintain viability and competitiveness on a global scale.

The currency parity has experienced a resilience, after reaching a record low level of 304.85/USD in the end of August 2023, to a relatively sustainable rate at 278.37/USD as of 10th June 2024. Despite the PKR recently showing signs of recovery and stability; stabilizing around 278/USD in the past few weeks, the same is still well above the market determined rates.

In our humble view backed by a proper valuation, the PKR currency rate is valued in the range of 234/USD in FY24. Additionally, Goldman Sachs and Optimus have valued the rupee parity at 224/USD and 243/USD during the FY24, respectively. Further, aligning the currency parity with its true value could reduce the inflation rate by 9%.

Ensuring a stable, market-determined exchange rate is crucial for Pakistan. The Government must evaluate if the economy can handle a suboptimal exchange rate and restrictive monetary policy, given the stagnant per capita income of USD 1500-1700. With better currency management, the per capita income could have reached USD 1,900 in FY24.

Striking a Balance: Inflation, Inclusive Growth, and Revenue Targets: One of the critical challenges for the current regime lies in effectively managing inflationary pressures while ensuring inclusive growth and economic stability.

The size of the Economy of Pakistan in USD terms has increased to USD 375 billion in FY24 from USD 338 billion in FY23, increasing by almost USD 37 billion or 11.0%. Similarly, the per capita income that was USD 1,551 in the FY23, surged to USD 1,680 in FY24, reflecting a increase of USD 129 or 8.3% when compared to FY23. Moreover, Pakistan still has the lowest Per capita GDP, and is lagging behind those countries who have the highest inflation rate. (**Annexure I**).

I. GDP – GEOGRAPHICAL COMPARISON:

The GDP growth of Pakistan has consistently trailed behind that of regional economies, placing it marginally ahead of Sri Lanka's economy, which is also recovering from a significant political and economic crisis. In contrast, countries such as Bangladesh, India, and China have exhibited robust GDP growth rates of 7.5%, 8%, and 4.6% in 2024. The disparity in GDP growth between Pakistan and its regional counterparts highlights the need for Pakistan to address the underlying factors hindering its economic progress.

The graph hereinbelow shows the GDP growth trend for the regional countries:

Major Regional Countries GDP Growth (%)

	2024	2023	2022	2021	2020
Pakistan	2.38	(0.20)	6.18	5.77	(0.94)
India	8.20	7.00	8.50	(7.00)	3.90
Bangladesh	7.50	6.03	7.10	6.94	3.45
Sri Lanka	2.20	(2.30)	(7.30)	4.20	(1.66)
China	4.60	5.20	3.00	8.40	2.20

II. PAKISTAN'S GDP GROWTH AND CONTRIBUTION:

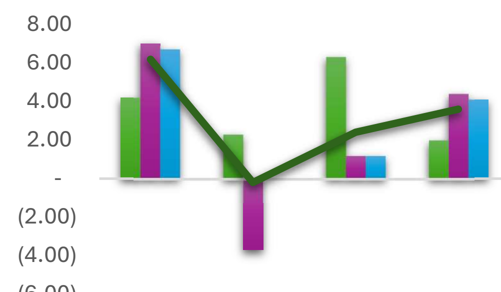
The real growth of 2.38% in FY24 was primarily driven by the agriculture sector, with wheat, cotton, and rice production reaching record levels.

This agricultural recovery supported agro-based industries, which maintained moderate growth in the manufacturing sector.

On the other hand, the industrial sector faced challenges during FY24, leading to a low growth of 1.2% in FY24.

Various factors such as reduced demand, supply chain disruptions, high policy rate and the overall economic slowdown have contributed to this decline.

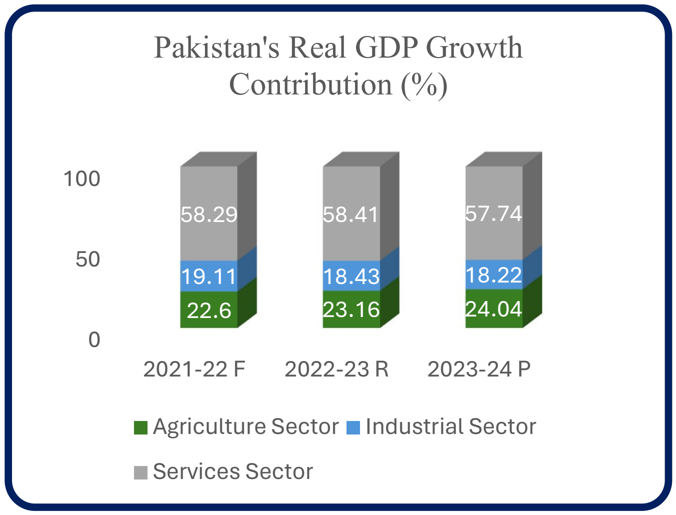
Real GDP Growth (Base Year 2015-16)



	2021-22 F	2022-23 R	2023-24 P	2024-25 E*
Agriculture	4.20	2.30	6.30	2.00
Industrial	7.00	(3.70)	1.20	4.40
Services	6.70	(0.01)	1.20	4.10
Overall GDP	6.20	(0.20)	2.40	3.60

The industrial sector's performance reflects the broader economic challenges faced by Pakistan during this period. Similar to the industrial sector, the services sector, which represents the largest segment of the economy, also managed to achieve a slim growth of 1.2%. This growth rate may appear modest, and it is not an encouraging sign given the prevailing circumstances of the backward commodity producing sectors.

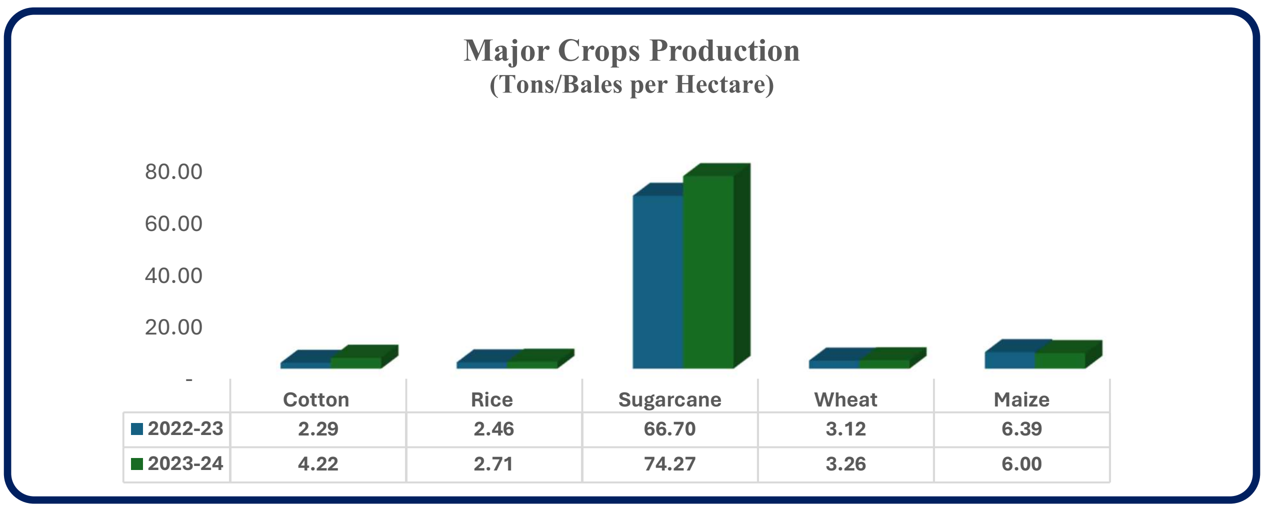
The share of main sectors in the GDP are also illustrated in the table *infra:*



A. AGRICULTURE SECTOR:

"Performance of Agriculture Sector: Mixed Growth in Key Crops and Sub-Sectors"

As of now, the agriculture sector accounts for 22-23% of the GDP in real terms. This sector comprises of four sub-sectors which include crops, livestock, forestry, and the fisheries sector.

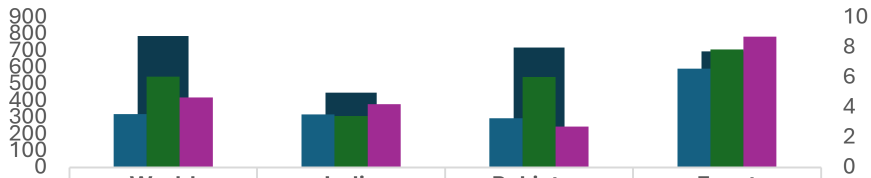


	Cotton	Rice	Sugarcane	Wheat	Maize
2022-23	2.29	2.46	66.70	3.12	6.39
2023-24	4.22	2.71	74.27	3.26	6.00

In FY24, the Agriculture sector secured a huge growth of 6.30% despite being severely affected due to the floods in FY23. Furthermore, the agriculture sector's contribution to the GDP also increased to 24.04% in FY24 from last year's 23.16%.

The graph hereinabove presents the yield per hectare for various cash crops in Pakistan, including the provisional estimates for the FY24 and the revised estimates for FY23.

Crop Production Comparison
(2023-24)



	World	India	Pakistan	Egypt
Cotton (Kg per Hectare)	785	446	717	693
Wheat (Metric tons per hectare)	3.54	3.52	3.26	6.57
Corn (Metric tons per hectare)	6.04	3.41	6	7.84
Rice (Metric tons per hectare)	4.65	4.19	2.71	8.7

The graph *supra* illustrates that Pakistan lags behind the world average in several key agricultural sectors. For wheat, Pakistan's yield is 3.26 MT per hectare, which is below the world average of 3.54 MT per hectare and slightly lower than India's yield of 3.52 MT per hectare. If Pakistan meets the world's average wheat yield, it could easily produce an additional 2.70 million metric tons ("**MMT**") of wheat. Pakistan imported a total of 3.54 MMT of wheat at a cost of USD 1.03 billion during the Jul-April period. Meeting the average yield could save Pakistan the wheat import bill, potentially leading to a surplus of wheat export.

Wheat Yield (Diff)	Productio n Area (000 MT)	Production (000 MT)	Current Production (000 MT)	Total Production (000 MT)	Per Capita Consumption (Kg)	Total population	Total Consumptio n Demand (000 MT)	Net surplus for Exports (000 MT)
A	B	C= A*B	D	E= C + D	F	G	H = F*G	I=H-D
0.28*	9,632	2,697	31,438	34,135	124	249**	30,876	3,256***

****Pakistan's Yield minus World Average Yield (3.54 - 3.26)***
***Total Population of Pakistan in Million*
****Net surplus production for exports could be 3.26 MMT, which accounts at $946 million*

The table hereinbelow illustrates the potential export surplus for FY25, which accounts for around USD 1.1 billion.

Production Area FY24	Production Area FY25	World Avg Yield	Production (000 MT)	Populatio n in FY25	Consumption Demand FY25	Export Surplus	Exportable Amount $ in Million
A	B	C	D =B*C	E	F = E*1.24 (Kg)	G = D - F	H = 290.59*G
9,847	10,103*	3.52	35,563	256**	31,708	3,855	1.120***

**Accumulate 2.8% of growth in production area*
***Assumption of Population Growth by 2.8%*
****$290.59 average wheat price per MT*

Pakistan's yield for rice stands at 2.71 MTs per hectare, markedly below the world average of 4.65 MTs per hectare and India's yield of 4.19 MT per hectare. If Pakistan is able to meet a yield of 3

MT per hectare, then Pakistan's rice production may approximately enhance by 1,114 thousand MT, and ultimately Pakistan's export may also increase by USD 668 million in FY25.

Rice						
Pakistan's Yield	**Assumption**	**Deficiency in Yield**	**Production Area FY25 (MT 000)**	**Production (000 MT)**	**Rice Price/MT**	**Export ($ in Million)**
A	**B**	**C = B - A**	**D**	**E = C*D**	**F**	**G = E*F**
2.71	3.0	0.29	**3,855***	1,114	$600	668
***Projected at an average growth of previous 5 years growth.**						

Overall, Pakistan's agricultural productivity has room for improvement, particularly in wheat and rice, to meet global standards.

The following table describes the flow of the agriculture sector and the shares of the sub-sectors of the agriculture sector in the GDP:

Sub Sectors	Provisional Growth/(Contraction) 2023-24 (%)	Share in GDP (%) for FY 24
1. Crops (i+ii+iii)	11.03	8.54
i. Important Crops	16.80	4.97
ii. Other Crops	0.90	3.25
iii. Cotton Ginning	47.20	0.32
2. Livestock	3.90	14.63
3. Forestry	3.00	0.56
4. Fishing	0.80	0.31
Overall Growth	**6.30**	**24.04**
		(Source: PBS)

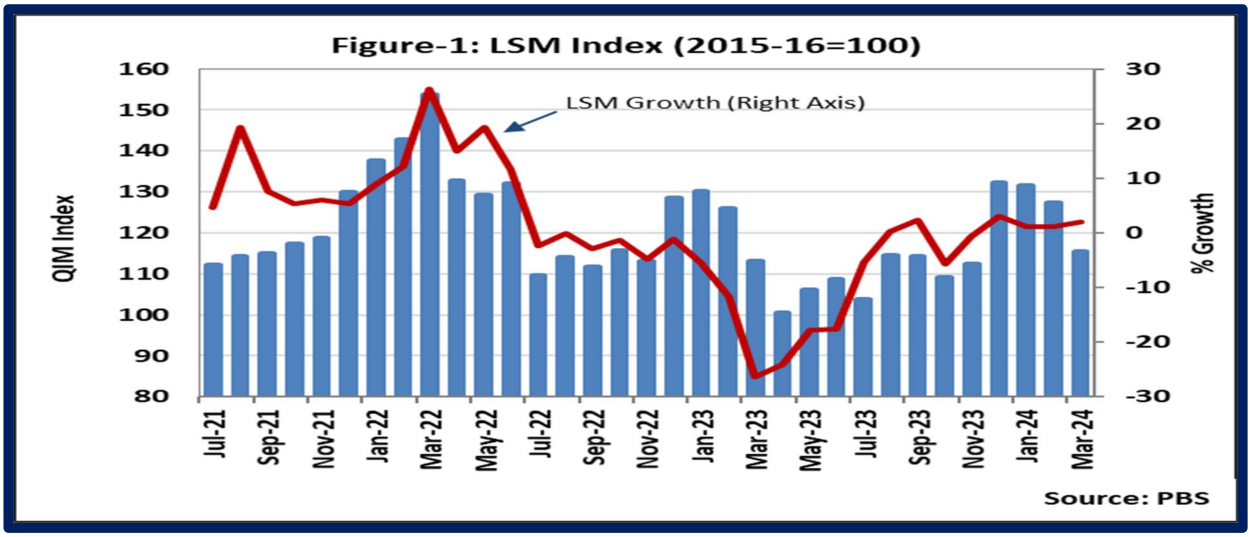
B. INDUSTRIAL SECTOR:

Industrial Sector: A declining share and challenging growth

The industrial sector's contribution to the GDP has contracted to 18.22% in FY24, down from 18.43% in FY23, due to persisting high interest rates, rising energy and raw material costs, and subdued domestic demand. This decline is concerning as the industrial sector plays a pivotal role in economic development, job creation, and maintaining the country's economic surplus. As such, the industrial sector achieved a modest growth of only 1.2% in 2023-24.

Despite an underwhelming performance by the industrial sector overall, the mining and quarrying subsector defied expectations, achieving a robust growth of 4.8%. This surge significantly exceeded its target of 1.2% and can be attributed to several factors such as coal production, crude oil extraction, and mineral output expansion.

Furthermore, the LSM, guided by the Quantum Index of LSM ("**QIM**"), registered an even lower expansion of 0.1% after adjusting for seasonal variations. This contraction can be attributed to declines in various sub-sectors such as, inter-alia: (a) Beverage (- 3.43%); (b) Tobacco (-33.59%); (c) Textile (-8.27%); (d) Non Metallic Mineral Products (-3.89%); (e) Iron & Steel Products (-2.20%); (f) Automobiles (-37.41%); (g) Electrical Equipment (-7.47%); (h) Fabricated Metal (-5.42%); (i) Paper & Board (-1.96%); (j) Other transport Equipment (-10.0%).



On a more positive note, the sugar industry, garments, petroleum products and fertilizers industry have shown a growth of 1.74%, 5.41%, 4.85% and 16.40%, respectively. However, the Cement, Cotton Yarn, and Cotton Cloth industry have registered a negative growth rate of 4.14%, 12.19%, and 7.27%.

Additionally, the table below shows the Provisional Growth of the Industrial sector in FY24 and the share of the sub-sectors of the Industrial sector, in the GDP

Sub Sectors	Provisional Growth/(Contraction) 2023-24 (%)	Share in GDP (%)
1. Mining and Quarrying	4.80	1.66
2. Manufacturing (i + ii + iii)	**2.40**	11.89
i. Large Scale	0.10	8.24
ii. Small Scale	9.10	2.30
iii. Slaughtering	6.60	1.34
3. Electricity Generation & Distribution & Gas	(10.50)	2.30
4. Construction	5.90	2.37
Overall Growth/(Contraction)	1.20	18.22
		(Source: PBS)

C. SERVICE SECTOR:

"Time to revive the dominance of the Service Sector in Pakistan? Some food for thought."

The share of services sector in the GDP stood at 57.74% in FY24 as per the new base year 2015-16, showing a decrease from 58.41% in FY23, supported by close backward and forward linkages with economic value added and output of commodity producing sectors (agriculture and industrial sectors). Whilst the commodity-producing sectors achieved a 4% growth in FY24, this positive momentum wasn't fully transmitted to the dependent services sector, which saw a more modest expansion of 1.2%.

The table hereinbelow indicates the provisional growth of the services sector, and the share of the sub-sectors of the services sector in the GDP.

Sub Sectors	Provisional Growth/(Contraction) 2023-24 (%)	Share in GDP (%)
1. Wholesale and Retail trade	0.30	17.78
2. Transport, storage , and communication	1.20	10.53
3. Accommodation and Food Services Activities	4.10	1.48
4. Information and Communication	(3.00)	2.73
5. Financial and Insurance Activities	(9.60)	1.51
6. Real Estate Activities (OD)	3.80	5.85
7. Public Administration and Social Security	(5.20)	4.11
8. Education	10.30	3.13
9. Human Health and Social Work Activities	6.80	1.76
10. Other Private services	3.60	8.86
Overall Growth	1.20	57.74
		(Source: PBS)

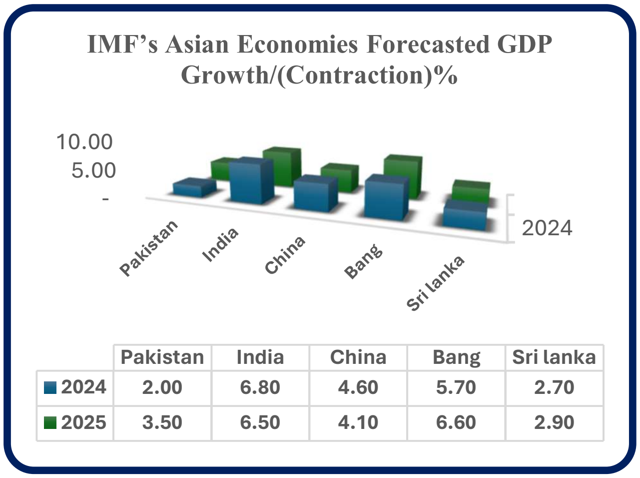
III. PAKISTAN'S ECONOMIC GROWTH PROJECTIONS FOR 2024-25:

As per the APCC, the pace of the overall GDP growth is expected to lift up in FY25. The GDP growth of the country for FY25 is targeted at 3.6% out of which, Agriculture, Industry and Services sector are expected to post a 2.0%, 4.4% and 4.1% growth, respectively.

The economic outlook for the next year is optimistic, with a moderate growth target. This positive trajectory hinges on several key factors including political stability and exchange rate stability.

GDP Components	Provisional estimates of APCC 2023-24 (%)	Target for 2024-25 (%) (2015-16 Base prices)
A. Agriculture	**6.30**	**2.00**
Important crops	16.80	(4.50)
Livestock	3.90	3.80
Forestry	3.00	3.20
Fishing	0.80	3.10
B. Industrial sector	**1.20**	**4.40**
Mining and Quarrying	4.80	5.00
Manufacturing (i+ii+iii)	**2.40**	**4.40**
i. Large Scale	0.10	3.50
ii. Small Scale	9.10	8.20
Construction	5.90	5.50
C. Services Sector	**1.20**	**4.10**
Wholesale and Retail trade	0.30	4.10
Transport, storage and communication	1.20	3.30
Information and Communication	(3.00)	5.70
Finance and Insurance	(9.60)	5.70
Real Estate Activities (OD)	3.80	3.70
Education	10.30	3.50
Health & Social Activities	6.80	3.20
GDP Growth Rate	**2.40**	**3.60**
		(Source: APCC)

The IMF's forecast for Pakistan's growth for 2024-25 is set at 3.5%[1]. Both the IMF and the World Bank have expressed concerns about an extended period of stagnation in the global economy. Furthermore, the IMF has lowered its projected GDP growth for Asian developing countries to 4.9% in FY25, a slight decrease compared to the GDP growth rate of 5.2% witnessed in FY24[2].



[1] https://www.imf.org/en/Publications/CR/Issues/2024/05/10/Pakistan-Second-and-Final-Review-Under-the-Stand-by-Arrangement-Press-Release-Staff-Report-548741
[2] WORLD ECONOMIC OUTLOOK retrieved from https://www.imf.org/en/Publications/WEO/Issues/2024/04/16/world-economic-outlook-april-2024

IV. RE-PROFILING OF THE ECONOMY: A CASE OF IMF VS HOME GROWN ("HG").

Recently, Pakistan has initiated negotiations with the IMF for the 24th time, for an Extended Fund Facility ("**EFF**") Programme. Pakistan is currently facing an exceptionally challenging situation, which will have serious implications for the future of Pakistan's economy. While Pakistan may receive some immediate relief, achieving long-term economic stability will require implementing Government's own strategies. For a country like Pakistan, with a mammoth economic profile, merely adjusting interest rates and exchange rates will not suffice. Therefore, Pakistan can achieve self-discipline by reducing the CAD and the Fiscal Deficit through policies that are efficient in practice.

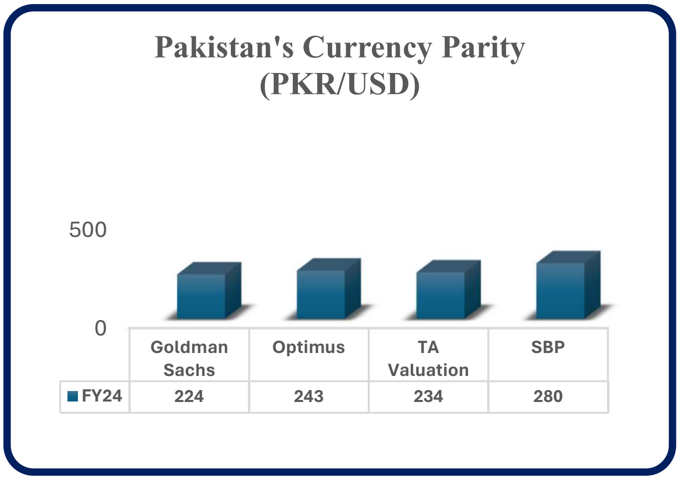
Points to Ponder – IMF v/s HG:

Factors	IMF	HG
Meeting Immediate USD Requirements	✓	X
International Confidence	✓	X
Economic Discipline	✓	✓ *
Economic Growth	X	✓
Rationalization Equity in Taxation	X	✓
Decreasing Policy rate	X	✓
International Fundings (World Bank. Asian Development Bank)	✓	X
Controlling CAD	X	✓
Reducing Fiscal Deficit	X	✓
Boosting Domestic Economy	X	✓
Enhancing Domestic Capital Formation	X	✓
Immediate Relief to masses	X	✓
Burden of Individual Taxation	✓	X
****We can bring self-discipline reducing CAD and Fiscal Deficits***		

Revaluing the PKR to its true value of PKR 234/USD, will have a positive impact on various macroeconomic indicators such as the inflation rate, policy rate, fiscal deficits, and debt levels.

As per the valuation, the PKR was valued at 234/USD, whereas Goldman Sachs reported that the PKR was undervalued by 20%, implying a value of 224 PKR/USD when the exchange rate was 280 PKR/USD.

Further, another research house Optimus suggested that the rupee's parity value should not exceed 243 PKR/USD. Based on external sector indicators, the projection of the true value of the rupee is to be 234 PKR/USD by the end of FY24. Further, also by averaging these three valuations, the valuations resulted in an average value of 234 PKR/USD.



The APCC estimates an inflation rate of 12.0% for the upcoming FY25. Similarly, the IMF projects an inflation rate of 12.7% for the same period. An analysis suggests that a depreciation of the currency by 10 rupees would result in a 2% increase in the inflation.

By the year end, the PKR/USD exchange rate is expected to stand at 280, reflecting a difference of (280-234→ 46 rupees) 46 rupees. This difference corresponds to an approximate 9% increase in inflation for FY25. If the current exchange rate is adjusted by 46 rupees, inflation is expected to decrease by 9%, which may also lead to a 9% reduction in the interest rate.

A 1% reduction in the interest rate will result in a decrease of PKR 434 billion in domestic debt interest repayments. Consequently, a 9% reduction will lead to a decline in debt interest servicing by approximately PKR 3,909 billion.

Current Policy Rate	Inflation Impact	Re-profiling of Policy rate	Net saving on 1% (PKR in Billion)	Total Saving
A	B	C = A- B	D	E=B x C
20.5%	9%	11.5%	434	3,909

Further, the exporters will benefit as well, considering that 70% of total exports are import-based, whilst the remaining 30% is domestic based. If the currency appreciates, this 30% will need to be adjusted for exporters through incentives.

Total Exports ($ in Billion)	Revaluation of PKR/USD	Export Incentives on True value	Total Exports Incentives (PKR in Billion)
A	B	C=B*30%**	I=A*C
30	45*	13.8	414
***** Considering that 70% of total exports are import-based, whilst the remaining 30% is domestic based.*			
***Change in true value and existing value of currency (278.4-233.7=44.7 → 45)*			

A 30% of the total adjustment of parity is PKR 13.8, given the 46 PKR/USD change. Consequently, around PKR 414 billion should be provided as incentives to exporters. This amount can be allocated from the savings realized through a reduction in the interest repayments.

Total Remittances ($ in Billion)	**Revaluation of PKR/USD**	**Export Incentives on True value**	Total Remittances incentives
A	B	C=B*30%**	I=A*C
30	45*	13.8	414
***Due to Remittances inflow is also average of $30 billion in FY, incentives would be same as Exporters**			
*****Change in true value and existing value of currency (280-234=46)**			

As a consequence of the appreciation of the PKR, additional incentives can be extended to families receiving remittances, aiming to mitigate the proliferation of hundi hawala within the economy. Despite these given incentives, the Federal Government will retain sufficient fiscal capacity to address the fiscal deficit.

	PKR in Billion
Total Savings for reduction in Interest rates	3,909
Incentives to Exporters	414
Incentives to remittance recipients	414
Net saving	3,081

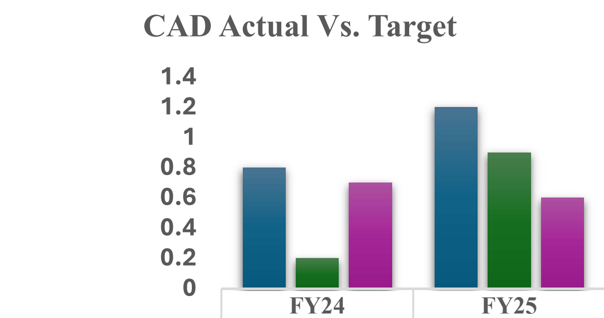
A similar scheme was implemented in 2016 but could not achieve desired results sans improving the performance of exports. Bangladesh is already following this policy measure to boost exports and control devaluation. Therefore, a proper strategic plan is essential. The Government must identify which exporters are truly influential; otherwise, exports will remain stagnant in real terms. Additionally, Pakistan needs to focus on becoming an agriculture export-based economy and work on import substitution to strengthen our economic position.

V. CURRENT ACCOUNT DEFICIT:

According to the SBP, Pakistan’s CAD has declined to USD 202 million during July to April FY24, against a huge deficit of last year of USD 3,920 million at the end of the Jul-April period for the last FY23. It is crucial to note that the CAD has declined by 95% or USD 3.72 billion.

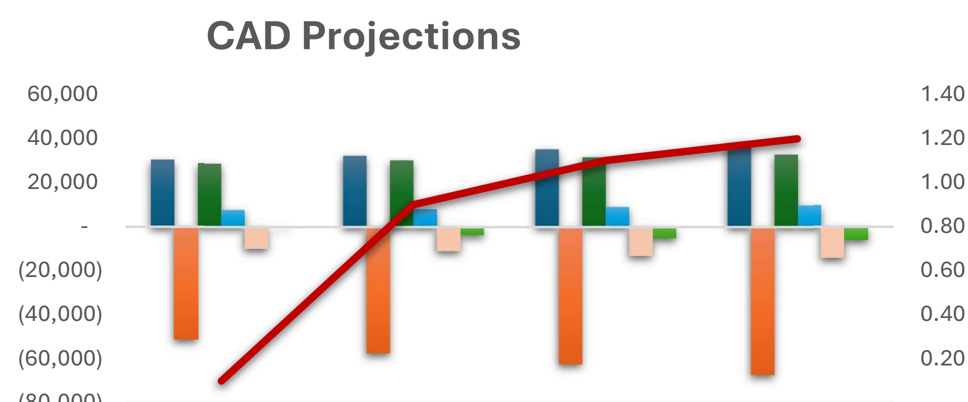
The current level of CAD is feasible and represents a positive development for the country's economic outlook. Looking ahead to FY25, the IMF projects a CAD of 1.24% of the GDP, whereas the APCC envisions a CAD to GDP ratio of 0.9%.

As indicated in the chart, there is a noticeable divergence in the CAD estimates provided by the IMF and the World Bank for FY24. The IMF's estimates appear to be disconnected from the ground realities in Pakistan, as they forecast a CAD of 0.8% of GDP or USD 3.0 billion for FY24, which seems unrealistic. Such inaccurate estimates often lead to recommendations for Pakistan to adopt contractionary policies.



	FY24	FY25
IMF Est.	0.8	1.2
Actual/Estimated	0.2	0.9
World Bank	0.7	0.6

The graph below shows the projections of CAD in coming years:



	FY24 P	FY25 T	FY26 T	FY27 T
Exports (Goods)	30,351	32,341	35,303	37,951
Imports (Goods)	(51,110)	(57,283)	(62,328)	(67,078)
Worker Remittances	28,782	30,278	31,706	32,911
Exports (Services)	7,784	8,169	9,136	9,823
Imports (Services)	(9,922)	(10,907)	(13,088)	(14,201)
CAD (USD in Million)	(492)	(3,707)	(5,122)	(5,955)
CAD (% of GDP)	0.10	0.90	1.10	1.20

As seen in the graph titled as "Actual figure of CAD v/s Target", as a result of planning faults and mismanagement in addressing the CAD, as seen in the weighted average of the Planning Ministry's 10-month planning, Pakistan has been compelled to adopt contractionary policies, creating barriers to economic growth.

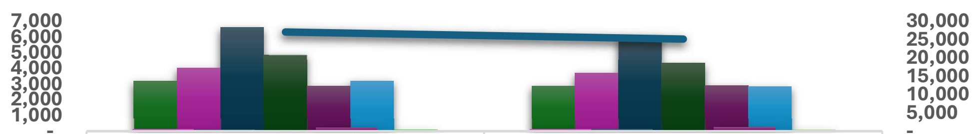
CAD	Jul-April FY23	Jul-April	
		FY24 P	FY24 T
i. BOT in Goods	(22,566)	(17,684)	(23,888)
Exports of Goods	23,200	25,669	25,025
Imports of Goods	45,766	43,353	(48,913)
ii. BOT in Services	(545)	(1,906)	(2,129)
Exports of Services	6,367	6,442	5,606
Imports of Services	6,912	8,348	7,735
iii. Balance on Primary Income	(4,552)	(6,138)	(5,621)
iv. Balance on Secondary Income	23,743	25,526	26,628
CAD (i + ii + iii + iv)	(3,920)	(202)	(5,010)

VI. WORKER'S REMITTANCES:

On a cumulative basis, worker's remittances have increased this year compared to FY23. At USD 27.09 billion in Jul-May FY24, the worker's remittances hiked by 7.70% over the same period last year. Economic stability is encouraging overseas Pakistanis to send more money back to their families, which is contributing positively to the stability of the rupee-dollar exchange rate.

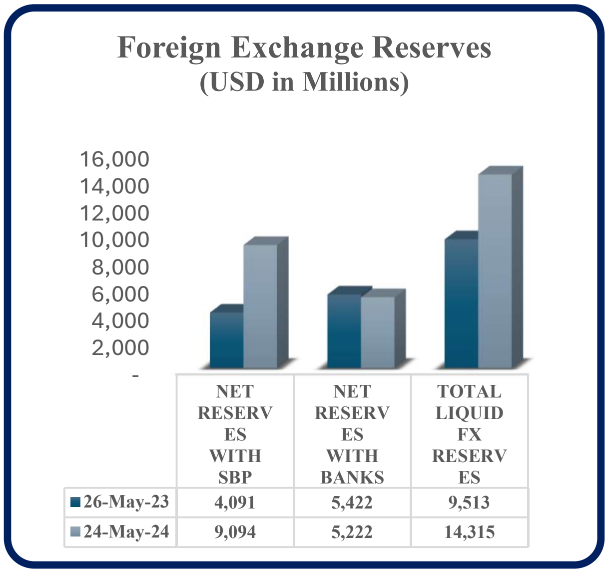
The chart and table below show the significant flows from key economic regions for the outgoing Fiscal Year.

Country-wise Worker's Remittances (PKR in Million)



	FY24	FY23
USA	3,209	2,895
U.K.	4,034	3,730
Saudi Arabia	6,616	6,017
UAE	4,880	4,331
Other GCC Countries	2,879	2,926
EU Countries	3,201	2,854
Malaysia*	121	98
Australia	585	546
Canada	460	509
South Africa*	183	199
Other Countries	925	1,039
Japan	47.1	70.1
Total Remittance	27,093	25,146

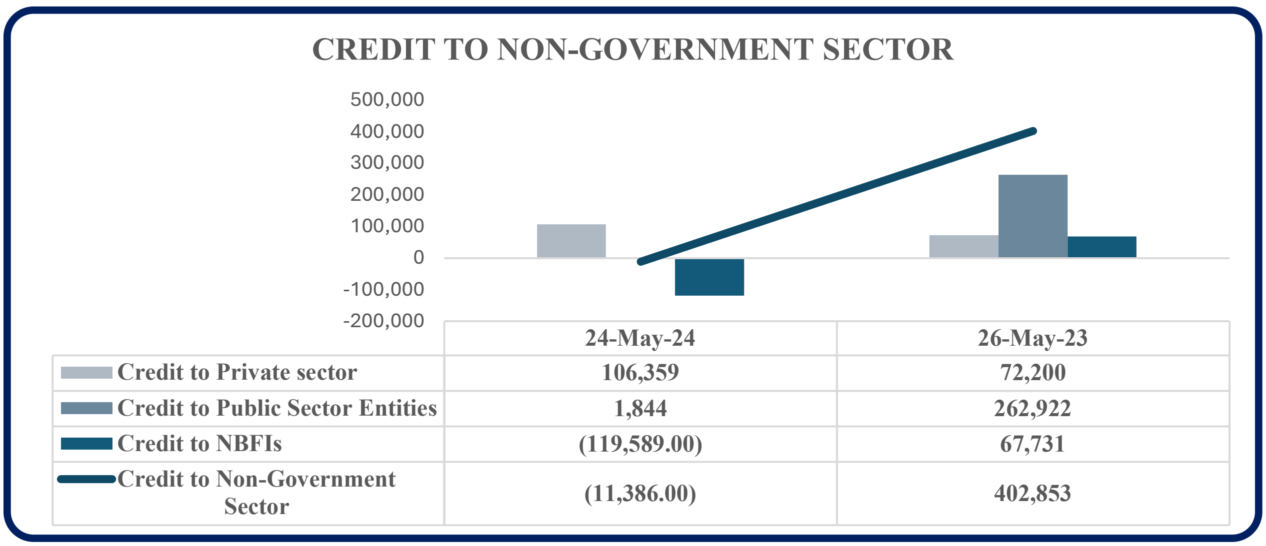
VII. FOREIGN EXCHANGE RESERVES:



	NET RESERVES WITH SBP	NET RESERVES WITH BANKS	TOTAL LIQUID FX RESERVES
26-May-23	4,091	5,422	9,513
24-May-24	9,094	5,222	14,315

The reserves held by the SBP stood at $9.09 billion as of May 24th, 2024, representing a decrease of 0.7%, or $63 million, compared to reserves of $9.16 billion recorded on May 17th, 2024. Moreover, when compared to the reserves for the same period last year (which were then USD 4.09 billion), the Net reserves have gone up by 122 times or USD 5.0 billion. The boost in foreign reserves is mainly credited to the acquisition of the second and final installment totaling $1.1 billion from the IMF. Therefore, Pakistan's foreign exchange reserves have reached its highest level in 22 months, exceeding the IMF projection for the end of June 2024.

VIII. CREDIT TO NON-GOVERNMENT SECTOR:



	24-May-24	26-May-23
Credit to Private sector	106,359	72,200
Credit to Public Sector Entities	1,844	262,922
Credit to NBFIs	(119,589.00)	67,731
Credit to Non-Government Sector	(11,386.00)	402,853

The credit to the non-Government sector, credit to public sector entities ("**PSE**"), and the Credit to Non-Banking Financial Institutions ("**NBFIs**") have declined. This indicates a substantial reduction in lending or investment to both the PSE and NBFIs, which could be due to various factors such as monetary tightening policies, increased risk aversion among lenders, or reduced demand for credit within the NBFI sector.

IX. NET GOVERNMENT SECTOR BORROWING:

According to the SBP, the net Government sector borrowing has surged to PKR 5,527 billion in the current fiscal year, compared to PKR 3,014 billion during the same period last year (from July 1 to May 24, FY24, and May 26, FY23, respectively).

Net Government Sector Borrowing

	24-May-24	26-May-23
Borrowings for Budgetary Support	5,682,232	3,014,241
Commodity Operations	(149,467)	346,601
Others	(5,480)	530
Net Government Sector Borrowings (a+b+c)	5,527,285	3,361,371

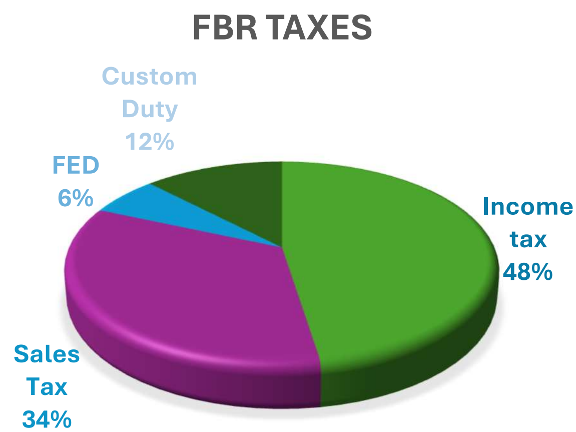
This significant increase in borrowing is primarily attributed to the elevated levels of the policy rate during FY24. The high policy rate has led to increased interest repayments, necessitating increased borrowing to manage fiscal obligations and fund Government expenditures. This trend highlights the fiscal challenges faced by the Government in a high-interest-rate environment.

X. FISCAL OPERATIONS:

In terms of Pakistan's fiscal operations, they have struggled to collect the ongoing FY24's target set by IMF at PKR 9.415tr. Official figures show that from July to May of FY24, FBR's tax revenue stood at PKR 8.12tr; 31% or PKR 1.91tr higher than last year's collection of PKR 6.21tr. The FBR still needs PKR 1.23tr more to reach the revised tax revenue target for FY24. A target of PKR 1.178tr was initially projected for June, however the same has now been adjusted to account for the PKR 75 billion backlog from previous months.

(PKR. In Billion)	July-May 2022-23	July-May 2021-22	Percentage change Y/Y
FBR's Tax collection	8,122	6,208	30.8%
(Source: FBR Press Release)			

Further, the breakdown of tax revenue share is given in the chart. Additionally, in May 2024, the IMF and Pakistan completed second and final review under the stand-by arrangement. The plan envisages FBR's tax collection target of PKR 12,240 billion for FY25 which would be 30.0% higher than the revised tax revenue target for FY24 of PKR 9.415tr. If inflation is projected at 12.0% and GDP growth at 3.5% in the upcoming Fiscal Year, then the FBR might easily collect PKR 10.87tr worth of tax revenue. Moreover, the IMF has recommended that Pakistan implement additional taxes amounting to approximately PKR 1.3tr in the upcoming budget.



XI. PAKISTAN'S DEBT PROFILE:

The total gross public debt stood at 62.0% of GDP and increased by 10.6% to PKR 65.5tr from PKR 59.2tr. The total gross public debt comprises of the Government's domestic debt, external debt, and IMF debt. Concurrently, the domestic debt stands at PKR 43.43 trillion, reflecting a growth rate of almost 23.8%, while external debt has reached PKR 20.7 trillion, with a contraction of 0.48% as of March 2024. Moreover, the debt owed to the IMF has slightly increased by 1.3% to PKR 2.2tr to PKR 2.1tr.

Pakistan's Total Debt & Liabilities			
(PKR in billion)	**March-24**	**March-23**	**% change**
Domestic Debt	43,432	35,077	23.8
% of GDP	**41.04**	**41.43**	
External Debt	21,942	22,047	(0.5)
% of GDP	**20.74**	**26.04**	
Gross Public Debt	65,528	59,249	10.6
% of GDP	**62.0**	**70.0**	
Nominal GDP	105,817	84,658	

XII. SAVINGS AND INVESTMENT GAP:

The investment-to-GDP ratio has decreased from 14.1% of GDP in FY23 to 13.1% in FY24 as per the report of the APCC, mainly because of a decrease in private investment which inched down from 9.5% to 8.7% of GDP in FY24. Likewise, public investment has gone down to 2.8% of the GDP from 3.0% of the GDP.

Further, the National savings decreased slightly to 13% of GDP in FY24, down from 13.2% in the previous year, primarily due to a reduced availability of foreign savings.

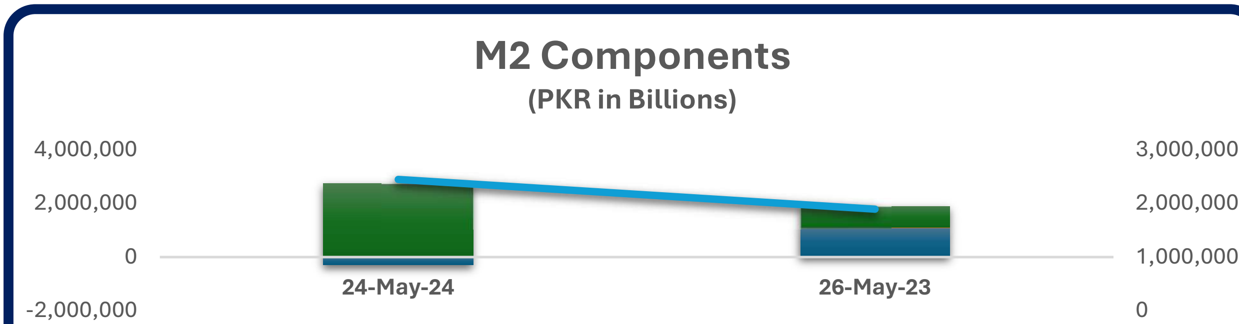
The table hereinbelow shows the target investment and savings for FY25:

% of GDP (mp)	Fiscal Year 2024-25	Fiscal Year 2023-24	
	Target	Provisional	Target
Total Investment	14.2	**13.1**	15.1
A. Fixed Investment	12.5	11.4	13.4
i. Public	2.8	2.8	3.2
ii. Private	9.7	8.7	10.2
National savings	**13.3**	**13.0**	**13.4**
External resource Inflow	0.9	0.1	1.7

(Source: APCC)

XIII. MONETARY DEVELOPMENTS:

In the FY24, the SBP implemented a substantial high policy rate throughout the FY24, rising to 22.0% in July 2023, with the same declining to 20.5% in the last MPC held on 10th of June 2024. The aim of the SBP has been to curb escalating inflation. Throughout most of the FY24, the SBP adopted a tight monetary policy to counter the impact of the steep devaluation of the domestic currency; however, the currency has been stable for the last five months.



	24-May-24	26-May-23
Total deposits with banks	2,732,744	784,970
other deposits with SBP	16,152	7,748
Currency in circulation	-299,047	1,104,353
M2	2,449,849	1,897,071

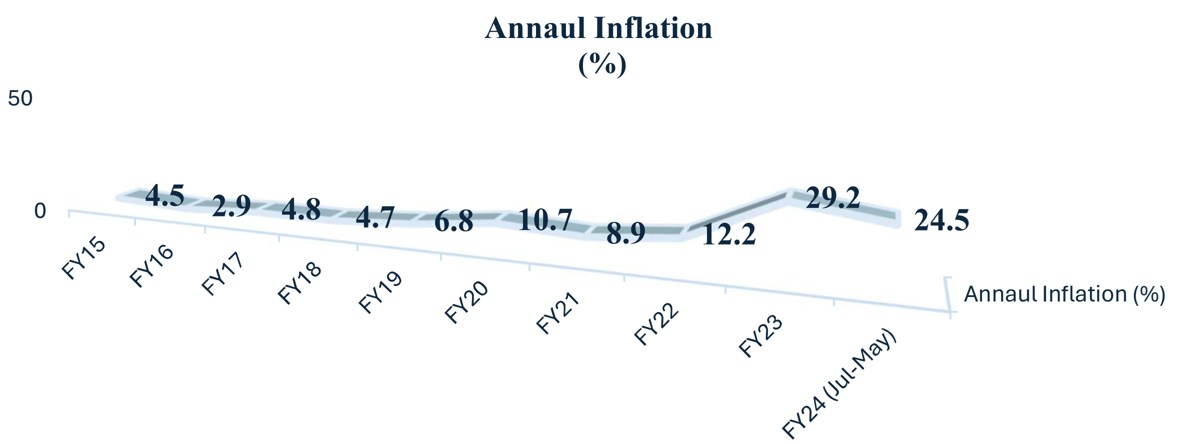
Broad Money (M2) expanded by 7.77% between July 1, 2023, and May 24th, 2024, compared to a 6.87% expansion during the same period last year. This growth was driven by a 6.29% increase in Net Domestic Assets and an improvement in Net Foreign Assets. The rise in NDA was primarily due to higher borrowings for budgetary support by the Government from commercial banks, which saw a growth of 88.5% over last year.

XIV. INFLATION:

In a recent report, the PBS reported that the monthly rate of inflation has eased to 11.8% in May 2024 on a Y-o-Y basis in Pakistan, marking the lowest annual inflation rate in nearly 29 months. This substantial decline in the rate of inflation is due to the decline in food inflation to a single digit in both the urban and rural areas of Pakistan.

	YoY	MoM	Jul-May FY24
CPI National	11.80	(3.20)	24.52
Food Inflation (Urban)	2.20	(6.30)	25.30
Food Inflation (Rural)	(0.10)	(7.40)	25.00
WPI	9.90	(2.50)	21.12
Core Inflation (Urban)	12.30	0.40	16.60
Core Inflation (Rural)	17.00	0.50	23.50
			(Source: PBS)

The declining trend in inflation continues, as the average inflation in Pakistan has declined to 24.5% in Jul-May FY24, compared to 29.12% a year ago for the corresponding period in FY 23. The graph hereinbelow illustrates the average inflation since FY15 as under:



	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24 (Jul-May)
Annaul Inflation (%)	4.5	2.9	4.8	4.7	6.8	10.7	8.9	12.2	29.2	24.5

ANNEXURE I

KEY MACROECONOMIC INDICATORS							
S. No.	**Country**	**GDP 2024 F (%)**	**Avg CPI 2023 Y-o Y (%)**	**Policy Rate (%)**	**Real Interest Rate (%) (Policy rate – CPI)**	**Current Account Deficit 2023 (% of GDP)**	**Per Capita GDP (Current USD)**
1	Argentina	**(2.80)**	**249.8**	40.00	(209.80)	(0.60)	13,651
2	Iran	**3.30**	**37.50**	23.0	(14.50)	3.40	4,670
3	Türkiye	**3.10**	**59.50**	50.0	(9.50)	(4.00)	10,675
4	Pakistan	**2.38**	**24.50**	20.50	(4.00)	(0.10)	1,680
5	Egypt	**3.00**	**32.50**	27.25	(5.25)	(1.20)	4,295
6	Sri Lanka	**2.20**	**0.90**	8.50	7.60	(1.90)	3,354
7	Hungary	**2.20**	**3.70**	7.25	3.55	0.30	18,930
8	Ukraine	**3.20**	**6.40**	13.50	7.10	(5.70)	4,534
9	Poland	**3.10**	**5.00**	5.75	0.75	1.60	18,688
10	Czech	**0.70**	**2.10**	5.25	3.15	0.20	27,227
11	Chile	**2.00**	**3.20**	6.00	2.80	(3.60)	15,355
12	Bangladesh	**7.50**	**9.30**	8.50	(0.80)	(1.00)	2,688
13	UK	**0.50**	**2.50**	5.25	2.75	(3.30)	46,125
14	Italy	**0.70**	**1.90**	4.50	2.60	0.50	34,776
15	Netherlands	**0.60**	**2.70**	4.50	1.80	11.10	57,025
16	Belgium	**1.20**	**3.60**	4.50	0.90	(1.00)	49,920
17	USA	**2.70**	**2.90**	5.50	2.60	(3.00)	76,330
18	Brazil	**2.20**	4.10	10.50	6.40	(1.42)	8,918
19	India	**8.20**	**4.60**	6.50	1.90	(3.30)	2,411
20	Russia	**3.20**	6.90	16.00	9.10	2.50	15,271
21	China	**4.60**	**1.00**	3.45	2.45	1.50	12,720
Note 1: GDP and CPI 2024 growth forecast gathered from IMF's World Economic Outlook April 2024.							
Note 2: Policy rate data extracted from Trading Economics							
Note 3: *CAD Extracted from the IMF website. ** CAD Extracted from the websites of Central Banks.							

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