INSTITUTE FOR POLICY REFORMS

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FACT SHEET

COMMENTS ON THE PAKISTAN ECONOMIC SURVEY FY 24

June 2024

Comments on the Pakistan Economic Survey FY 24

Pakistan economy saw a period of stabilization that would hopefully lay the grounds for economic revival. The economy was in dire straits at the start of FY 24. Also, the fiscal year saw three governments in power. Two parliamentary governments and one of nominated caretakers. Yet, the strong urge to revive the IMF standby arrangement for release of the held up tranches led to prudent economic management. Now, GoP's target is a new multi-year SAF or EFF with IMF.

Growth and Investment

The growth rate of 2.38%, though modest, was higher than expected. It was below the target growth rate of 3.4%, though as events unfolded with a tight monetary policy during the year, made it an unlikely target. The high agriculture growth of 6.25% was well above the target and the anchor for the economy. In FY 23, the economy had contracted by 0.21%. Table 1 gives GDP performance against targets. GDP at current prices was estimated at Rs.106,045 billion, up from last year's Rs. 83,875 billion.

Three positives this year are remarkable. The current account deficit of 202 million for July-April 24, was 95% below last year, YoY. Inflation has started to ease. The trend began in January 2024 and has progressed for five months. From a high of 29.7% YoY for the month of December 2023, it dropped to 11.8% in May 2024, Table 5. Third, exports of goods and services went up by 8.6%. Imports fell by 2%, so trade deficit was down by 15%, Table 4.1. Rice production and some other food goods fueled the increase, while manufactures mainly fell. This happened despite the stable Rupee value.

There was no visible effort to reverse the underlying causes of our economic troubles. Investment already low at 14.13% of GDP in FY 23, fell further to 13.4%. Savings fell to 13% of GDP this year, marginally less than last year's 13.2 % . Government is still the big borrower this year. For the period, July to middle May FY 24, its debt stock rose by Rs 3.649 trillion, see Table 6. Debt servicing appropriated 57% of federal spending for the period July-March FY 24.

GDP performance

Below are GDP growth rates against targets approved by the NEC in Annual Plan 2023-24. Against a target of 3.4 % for the current fiscal, the expected GDP growth is 2.38 %, see Table 1 below:

Table 1: GDP performance

	Target FY 24 %	Actual FY 24 %
GDP growth	***3.5***	***2.38***
Industry	***3.4***	***1.21***
Manufacturing	4.3	2.42
LSM	3.2	0.07
Mining	1.2	4.85
Electricity and Gas Generation and Distribution	2.2	-10.6
Construction	1.5	5.86
Agriculture	***3.5***	***6.25***
Crops:	--	11.03
Important crops	3.0	16.82
Other crops	3.5	0.9
Cotton ginning	7.2	47.23
Livestock	3.6	3.89
Forestry	3.0	3.05
Fishery	3.0	0.81
Commodity producing (Industry + Agriculture)	***3.4***	***4.2***
Services	***3.6***	***1.2***
Wholesale * Retail	2.8	0.3
Transport & storage	3.5	1.2
Finance & Insurance	3.7	-9.6
Housing Services (OD)	3.6	3.8
General Government Services	3.2	-5.25
Other Private Services	5.0	3.6

Source: Targets Annual Plan 2022-23, Actual PES/National Accounts FY 23

Within the GDP, all sectors, except agriculture stayed sluggish. Industry grew by a weak 1.2%. Manufacturing grew by 2.4% on the back of SMEs growth of 9%. Large scale manufacturing hardly grew at all. LSM estimates are the most reliable, while those for SMEs use considerable assumptions. So, overall growth in manufacturing is uncertain and counter intuitive. This is to be expected in a year of high interest rates and almost constant uncertainty.

Electricity production was down 1 % from July-March FY 23. GoP's policy of repeated increase in power and gas tariff and its inability to correct the skewed policy and revenue losses has increased the 'circular debt', which has affected supply.

Services sector also grew by 1.2%. The key area of finance and insurance contracted a second year in a row. Transport and wholesale/retail hardly grew at all.

The economy has suffered from GoP's excessive focus on managing macro indicators in disregard of growth and even modest increase in investment within the economic framework.

Fiscal Operations

High share of debt servicing in total federal expenditure of 57 %, leaves very little space to focus on growth inducing spending. In the last five years, debt servicing and subsidies and grants have gained share over all other spending, including defence and PSDP. Expenditure on defence is now down to 12% of total. It had a 24% in FY 2000 and 18% in FY 2020.

Subsidy and grant was 14% of total federal spending for July-March FY 24. That amount stood at 8% of total in 2008. Its share could increase as IPPs' receivables keep climbing and the demand to pay the dues build up.

Development expenditure, in the shape of PSDP, was 5% of GDP in FY 2013. It has fallen consistently, perhaps reflecting government's priority. In FY 23, it was 2.3% of GDP. For July-March FY 24, it is 1.1% of GDP. The present challenges of making ends meet, do not leave funds for growth. Yet, it may also reflect political choice. Current expenditure on interest and subsidy have left little space for development. Thus, constant fall in GDP growth rates were inevitable and expected.

Total debt servicing is expected to reach Rs. 7.3 trillion in FY 23, despite correction in interest rates. For July March 2023-24, payment of interest is 4% more than federal government's net revenue receipts. All other expenses are met from debt.

GoP has not made known its strategy to exit the debt burden. The only focus is on accessing more credit and increasing tax revenue to service it.

This is questionable public finance management and seems designed to promote low growth, high indebtedness, loss of opportunity and inequity.

Table 2: Summarized fiscal operations, expenditure					Billion Rs.
	July-March FY 23	July-March FY 24	% +/-	July-June FY 23	% Share in total fed expenditure Jul-Mar FY24
Federal and Provincial	10,017	13,682	36.5	16,155	100
Total	6,978	9,652	38	11,332	100
Current	6,675	9,202	38	10,732	96
Defence	1,001	1,222	22	1,586	12
Debt servicing	3,582	5,518	54	5,696	57
Subsidies and grants	1,209	1,331	10	2,150	14
Pension	487	611	25	666	6
Sub-Total of above 3	6,279	8,682	38	10,098	90
Balance for civil government	396	520	31	634	5
PSDP	428	322	-25	743	3
Budget Deficit / GDP%	-3.7	-3.7	-	-7.7	-
Primary Balance/GDP%	0.6	1.5	-	-1.0	-

Table 3 shows considerable effort to increase GoP revenue despite a slow economy. Growth is positive even after accounting for the inflation and the modest GDP growth effect. Provincial operations also helped by contributing a surplus. The Economic Survey estimates budget deficit to correct to 6.5% of GDP from 7.7% in FY 23. GoP has yet not expanded the tax base.

Direct taxes rose by a high 41%, though from the present tax payers. Indirect taxes grew by 22% for July-March FY 24. The Economic Survey estimates a total increase by 30 % in direct taxes for FY 24 and 32 % for indirect taxes.

Table 3: Revenue Collection

Rs. Billion

	Target FY 24	Revenue FY 23 July March	Revenue FY 24 July March	% Growth
Total Revenue Fed and provincial	--	6,938	9,780	41
Tax Revenue	--	5,618	7,262	29
Federal Revenue	12,378	6,397	9,128	43
FBR Tax Revenue	9,415	5,156	6,712	30
Direct Taxes	4,255	2,309	3,265	41
Indirect Taxes	5,160	2,847	3,447	22
• Customs	1,211	701	808	15
• Sales tax	3,411	1,901	2,237	18
• Fed Excise	538	245	402	65
Non-Tax Revenue	2,963	1,241	2,417	95

Source: Budget from Budget in Brief FY 23, Revenue actuals from respective Fiscal Operations

Budget deficit

In the budget speech delivered in June 2023, the fiscal deficit was targeted to be 6.5 % of GDP. The July-March actual is 3.7%. Expenditures have risen because of high interest rate and overall inflation. The Economic Survey estimates budget deficit to stay within the target and the interest correction could help.

As GoP biggest expense is on debt servicing, the primary deficit is well below the overall budgetary balance.

Expenditure on the social sector continue to fall, especially on education. GoP's lack of concern for health and education is alarming. No wonder Pakistan continues to fall in HDI rankings. HDI level is a major indicator for economic growth. Pakistan is wasting the huge opportunity of demographic dividend.

Overall, GoP spends more on non-productive expenditure than on those public goods that would boost the economy and create jobs.

Balance of Payment

This year's major achievement is a substantial reduction in the current account balance by 95 %, which comes on top of a big decrease in FY 23. Ten-month actual current account deficit is USD 202 million against last year's USD 3.28 billion. The current account deficit for FY 23 would stay far below this year's target of USD 6 billion in the annual plan and is likely to not go over $ 1 billion.

Trade deficit for July-April FY 24 fell by 15 % as exports grew by 8.6% and import fell by 2%. Remittances have grown by 7.5% for the ten months, July-April FY 24. Net Forex Exchange Reserves with the SBP stood at $ 9.1 B at end May 2024 and total liquid reserves are $ 14.2 billion, as foreign capital inflows began again. Yet, this is below 3 months imports. Workers' remittances have also grown by 7.5% for the ten months.

A lot of improvement have come from the stable exchange rate and control on the illegal shipments via the Afghan Transit Trade.

Table 4: Summary of Balance of Payment Major Indicators

	Target FY 24	FY 23	July-April FY 23	July-April FY24	Change +/-
			Million USD		%
Current Account Balance	-6,012	-3,275	-3,920	-202	-95
Trade Deficit FOB (incl. Services)	-31,220	-25,8661	-23,111	-19,590	-15
Workers' Remittance	30,534	28,351	23,743	25,526	7.5

Source: SBP, Pakistan Balance of Payments, for targets Annual Plan FY 24

Table 4.1: Trade Flows July-April FY 24, goods and services
Million USD

	Target FY 24	FY 23	July-April FY 23	July-April FY 24	% +/-
Exports, goods+ser	36,757	35,472	29,567	32,111	8.6
Imports, goods+ser	67,977	61,333	52,678	51,701	-2
Trade Deficit, g+s	-31,220	-25,861	-23,111	-19,590	-15
Current Account Def	-6,012	-3,275	-3,920	-202	-95

Source: SBP, Pakistan Balance of Payments and Annual Plan FY 24 for targets

Low savings and investment

Low savings and investment affect growth. Along with low technology content in our production base, this has been an enduring predicament of our economy. As per the Economic Survey, investment was 13.1 % of GDP in FY 24 against a target of 15.1 % of GDP. Fixed investment is 11.4% against a target of 13.4%. For many years, total and fixed investment have declined. With an Incremental Capital Output Ratio of 4 or more, 20% investment is needed to generate 5% GDP growth.

National savings is 13 % of GDP in the current fiscal against a low target of 13.4 %. Domestic savings (i.e., national savings minus remittances) was a low 7.2 % of GDP. Over the years, domestic savings have progressively fallen. This is grave cause for concern and yet not mentioned in GoP's policy discussion. There is a direct relationship between savings, investment, manufacturing, export, GDP growth and jobs.

Inflation

CPI for July-May FY 24 grew by 24.5 % Vs 29.2 % for July May 23. YoY growth in May 2024 was 11.8%, sharply down from 37.9% the previous year. See Table 5 below:

Table 5: Inflation: July-May FY 24 and YoY May 24

%

	Average July-May		*YoY May 2020*	
	FY 23	**FY 24**	**May 2023**	**May 2024**
CPI	29.2	24.5	37.9	11.8
SPI	32.8	28.9	42.9	15.3
WPI	33.9	21.1	32.8	9.9

The combination of a stable exchange rate, control on illegal import via the Afghan Transit Trade has helped control prices. The cause is not helped by regular increase in tariff of utilities and essentials. Yet, the trend of prices is in the right direction.

Public Debt

Public debt including external debt grew rapidly, as in the past years. Gross Public debt was 74.8 % GDP in FY 23. In nine months from June 2023, gross public debt has grown by 7 % to Rs. 67,525 billion, Table 6.

Resultantly, debt servicing has taken an increasing share in expenditure. External debt and liabilities comprise 48% of total debt and stands at 40% of GDP. The share of external debt in total debt and in GDP has consistently increased, though this year inflows were restricted.

Table 6: Summary of Pakistan Debt and Liabilities

Rs. Billion

	June FY 22	June FY 23	March FY 24	Increase from Jun 23, %
Gross Public Debt	49,242	62,881	67,525	7
Total Government Debt, FRDLA	44,362	57,779	61,574	7
Total External Debt & Liabilities	26,635	36,125	36,245	0.3

Source: SBP

As percent of GDP, %

	June FY 22	Jun FY 23
Total Debt and Liabilities		
Gross Public Debt	73.9	74.8
Total Debt of the Government - FRDLA Definition	66.6	68.7
Total External Debt & Liabilities	40	43.0
Government domestic debt	46.6	46.2

Foreign debt and liabilities are 43% of GDP. Debt servicing consumes about 60% of federal spending. Total debt servicing is almost 11 % of GDP, of which foreign debt servicing is 4.6% of GDP. The latter is bound to grow as more debt inflows take place under the new IMF programme (still under negotiation).

External debt and liabilities alone is now over 43% of GDP. In dollar terms, external debt has grown to $ 130.4 B and will rise after the IMF nod. Of this, public debt was $ 106.5 billion, 82 % of total. Total external debt and liability as of June 2023 was $ 126.1 billion.

In the last several years, we have also seen increase in bonds and commercial debt, though there is a decline since 2023. The increase in market-based debt with limited tenure and high cost foreign debt is a big factor in causing fragility in the economy.

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