MONTHLY
ECONOMIC
UPDATE & OUTLOOK
JULY 2024

GOVERNMENT OF PAKISTAN
FINANCE DIVISION
ECONOMIC ADVISER'S WING

Economic Update

Pakistan's economy moved towards stability in FY2024 with decreasing inflation, a surplus in the primary fiscal account (Jul-May), a negligible current account deficit, and a stable exchange rate. In the real sector, agriculture outperformed, whereas large-scale manufacturing is set to take off. In June 2024, CPI inflation reached the cusp of the single-digit range. The external account position improved due to contained imports resulting from prudent fiscal and monetary management, while exports and remittances increased significantly. To further strengthen stability, government has recently reached a staff-level agreement with IMF on a 37-month Extended Fund Facility Arrangement (EFF) for $7 billion.

The agriculture sector registered robust growth in FY2024.

In FY2024, tractor production reached 45,529, marking a 43.5 percent increase from FY2023. Tractor sales also rose by 47.0 percent to reach 45,494. Agricultural credit disbursement reached Rs 1,972.8 billion during Jul-May FY2024, 26.0 percent up from previous year. However, due to the cobweb phenomenon, the sowing area of cotton decreased in Punjab (1.304 million hectares against the target of 1.680 million ha) and Sindh (0.550 million ha against the target of 0.630 million ha). Similarly, for Kharif sowing of 2024 (April-June), urea offtake remained at 1,210 thousand tonnes, 18.1 percent less than Kharif 2023, while DAP offtake was 256 thousand tonnes, 6.8 percent less. However, improved-quality cotton seed availability has been ensured in both Punjab and Sindh, which will likely improve yield, provided the weather remains favourable.

The large-scale manufacturing (LSM) sector is on the path to recovery.

LSM expanded 1.0 percent during Jul-May FY2024, compared to last year's contraction of 9.6 percent. In May 2024, LSM registered growth of 7.3 percent year-on-year (YoY) and 7.5 percent month-on-month (MoM), driven by strong performance in food, apparel, leather, coke & petroleum products, chemicals, pharmaceuticals, and machinery and equipment. Additionally, cement dispatches experienced a 1.6 percent increase in FY2024, totalling 45.3 million tonnes. Domestic dispatches accounted for 38.2 million tonnes, reflecting a 4.6 percent annual decline, while exports stood at 7.1 million tonnes, signifying a 55.7 percent yearly upsurge. However, compared to the previous year, local dispatches and exports declined in June 2024, reaching 3.1 and 0.58 million tonnes, respectively. The automobile sector struggled due to high interest rates and import restrictions, resulting in a 22.0 percent and 15.7 percent decrease in car production and sales, respectively. Similarly, truck and bus production and sales decreased by 30.5 percent each.

CPI inflation is heading towards single digits .

The CPI inflation was recorded at 12.6 percent YoY in June 2024, compared to 11.8 percent in the previous month and 29.4 percent in June 2023. It increased by 0.5 percent MoM in June 2024, compared to a decrease of 3.2 percent in the last month. The average annual inflation fell to 23.4 percent in FY2024 from 29.2 percent last year. The significant contributors to inflation were Housing, Water, Electricity, Gas & Fuel (35.3 percent), Perishable food items (20.8 percent), Health (19.8 percent), and Clothing & Footwear (17.8 percent). On the other hand, prices of non-perishable food items declined by 1.8 percent. The Sensitive Price Index (SPI) witnessed 0.76 percent weekly growth in the week ending on July 18th, 2024. Within the SPI, prices of 5 items declined, 17 remained stable, and 29 increased.

Fiscal balance improved on account of the government's consolidation efforts.

The government managed to reduce the fiscal deficit to 4.9 percent of GDP in Jul-May FY2024, from 5.5 percent last year. The primary balance showed a surplus of Rs. 1,620.5 billion (1.5% of GDP) during Jul-May FY2024, in contrast to a deficit of Rs. 112.0 billion (-0.1% of GDP) last year. This was achieved by increasing revenue and keeping non-interest spending in check. During Jul-May FY2024, net federal revenues reached Rs. 6,202.6 billion, a 49.0 percent increase from the previous year, driven by tax and non-tax collections. Non-tax revenues saw a 90.0 percent increase, supported by higher SBP profits and increased petroleum levy. Due to improved tax management and economic stability, FBR tax revenue, both domestic and from borders, collectively increased by 30.0 percent, reaching Rs. 9,311.0 billion in FY2024. Direct tax increased by 38.5 percent, while sales tax, federal excise duty, and customs duty rose by 19.6 percent, 56.1 percent, and 18.5 percent, respectively.

The external account position improved due to tangible increase in exports and remittances.

In FY2024, the current account deficit shrank to $0.7 billion compared to $3.3 billion last year. Goods exports increased by 11.5 percent, reaching $31.1 billion, while imports remained at $53.2 billion, compared to $52.7 billion FY2023 (0.9% growth). This has led to a goods trade deficit of $22.1 billion, down from $24.8 billion last year. As per the Pakistan Bureau of Statistics, the export commodities that registered significant positive growth include Rice (61.8%), Fruits (49.2%), Cotton Yarn (24.8%), and Plastic Materials (79.3%). The major imported items include Petroleum products ($ 6.6 billion), Petroleum crude ($ 5.5 billion), LNG ($ 3.9 billion), and Palm Oil, plastic materials and Iron & steel ($ 7.1 billion). The service exports grew to $7.8 billion (2.8%, up). In contrast, service imports were recorded at $10.1 billion (17.1% up), resulting in a service trade deficit of $2.3 billion compared to $1.0 billion in the previous year.

Foreign Direct Investment (FDI) stood at $1.9 billion, 16.9 percent up from the previous year. The main contributors to this growth were China ($568 million), Hong Kong ($358.5 million), and the UK ($268 million). The power sector received the FDI of $799.9 million, accounting for a 42.1% share, followed by Oil & Gas exploration with $303.6 million (16% share). In June 2024, FDI saw a 37.8% YoY increase. Private sector Foreign Portfolio Investment (FPI) had a net inflow of $120 million, while Public FPI recorded a net outflow of $503 million. Workers' remittances reached $30.3 billion in FY2024 (10.7% increase), with the largest share from Saudi Arabia. Remittances also increased by 44.4 percent YoY in June 2024. Pakistan's total liquid foreign exchange reserves were recorded at $14.7 billion on July 12, 2024, with the State Bank of Pakistan's reserves at $9.4 billion.

Despite high policy rate, money supply grew while the Pakistan Stock Market continues to trend upward.

During FY2024, the money supply (M2) increased by 15.5 percent, compared to 14.2 percent in the previous year. This increase was driven by the growth in the banking sector's net foreign assets by Rs 540.6 billion, contrasting with a decrease last year. Net Domestic Assets grew by Rs. 4337.2 billion, less than last year's increase. Private sector borrowing significantly rose to Rs. 368.4 billion in FY2024 from Rs. 208.3 billion in the previous year. The upward trend of the Pakistan Stock Exchange (PSX) that started in September 2023 continued in June 2024. The KSE-100 index gained 2,566 points in June and closed at 78,445 at the end of June 2024. The market capitalization of PSX increased by Rs 205 billion and settled at Rs 10,375 billion.

With limited fiscal space, the government is providing social safety.

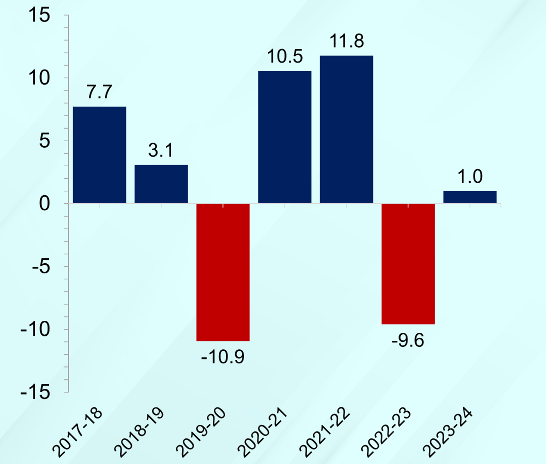
In May 2024, Pakistan Poverty Alleviation Fund, through its 24 partner organizations, disbursed 28,913 interest-free loans amounting to Rs 1.38 billion. From February 2023 to March 2024, the government disbursed Rs 83.683 billion to 140,702 beneficiaries for business under the Prime Minister Youth Business & Agriculture Loan Scheme. Despite limited fiscal space, the government is taking various measures to mitigate the impact of inflation on vulnerable population, including providing a three-month electricity subsidy for users of up to 200 units. In June 2024, the Bureau of Emigration & Overseas Employment registered 43,356 workers for overseas employment in different countries.

Economic Outlook

The agriculture sector growth target is set at 2 percent for FY2025. Due to a high base in the previous year, important and other crops are projected to keep a reasonable good pace of growth in 2024-25. Furthermore, livestock, fishery, and forestry are projected to continue on the growing trajectory due to favourable and encouraging environment. The recovery that began in the LSM will likely continue throughout FY2025, driven by a stable exchange rate, macroeconomic stability, and relaxed import restrictions. Inflation is expected to range 12.0-13.0 percent for July 2024 and 11.0-12.0 percent in August 2024. It is expected that exports and imports will continue to observe an increasing trend and will remain within the range of $2.4-2.7 billion and $4.5-4.9 billion, respectively, in July 2024. Revived domestic economic activities, better agriculture output, stable exchange rate, improved foreign demand, and low global commodity prices will remain instrumental for external sector stability.

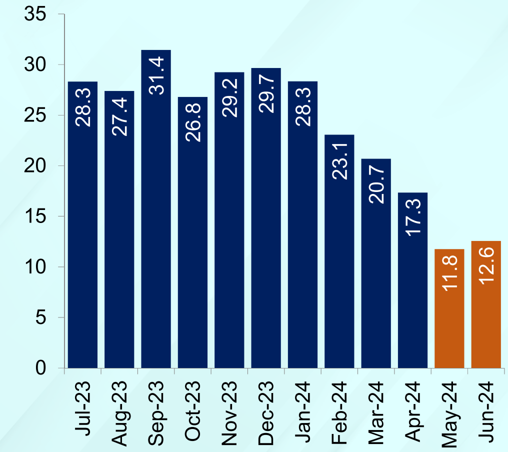
LSM growth turned positive after a year of negative growth. Inflation in May-June 2024 reached one-third of the level it was a year ago.

LSM Growth (Jul-May)



Source: PBS

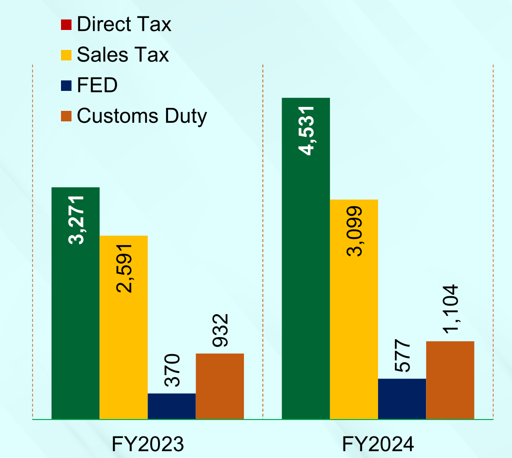
CPI Inflation (%)



Source: PBS

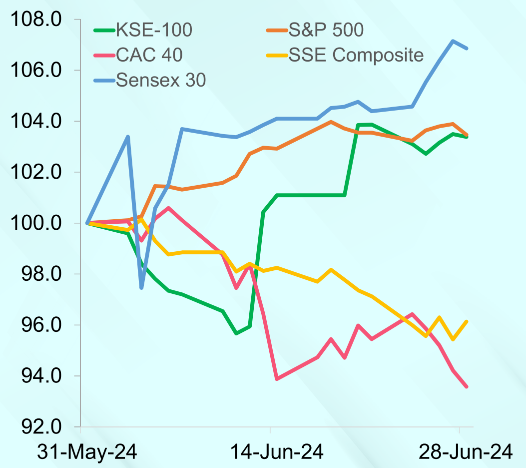
Macroeconomic stability and efficient tax management have led to increased tax collection. The Pakistan Stock Market has been trending upwards since September 2023.

FBR Tax Collection (Rs. Billion)



Source: FBR

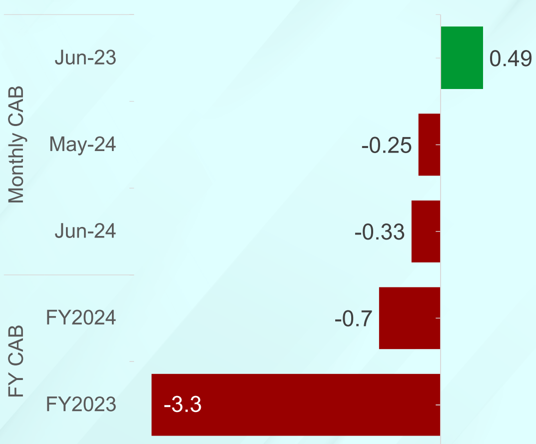
Trend of Major Stock Indices (Standardized)



Source: PSX and Investing.com

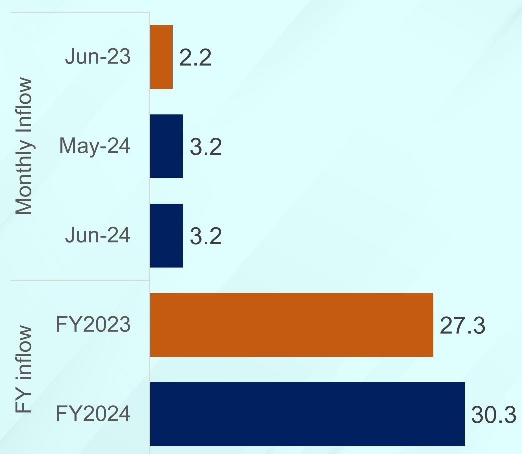
Current account position improved in FY2024 compared to the previous year due to contained imports, increased exports, and higher remittances.

Current Account Balance (US$ Billion)



Source: SBP

Remittances (US$ Billion)



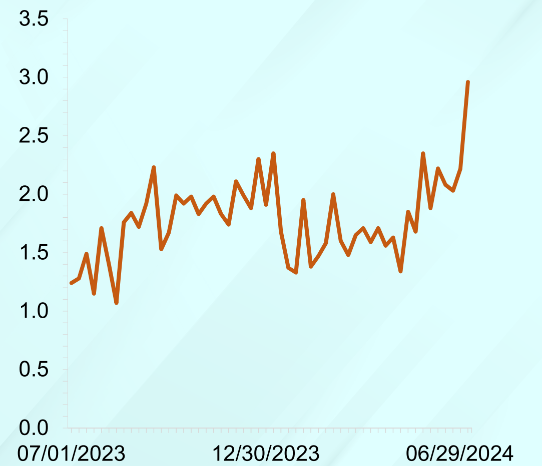
Source: SBP

Global Economic Update and Outlook

The World Economic Outlook report for July 2024 forecasts global economic growth of 3.2% in 2024 and 3.3% in 2025. However, there are downside risks due to a global disinflation slowdown and escalating trade tensions. The J.P. Morgan Global PMI Composite Output Index decreased to 52.9 in June from 53.7 in May, indicating a global economic growth rate of 3.0% for June and the second quarter of 2024. Inflation remains high, with slower service sector inflation offset by rising goods sector prices. The FAO Food Price Index held steady in June at 120.6 points, showing a 2.5% decrease compared to last year. Global commodity prices increased in June 2024, with significant rises in natural gas, fertilizers, and beverages, but declines in non-energy items, food, metal, and precious metals.

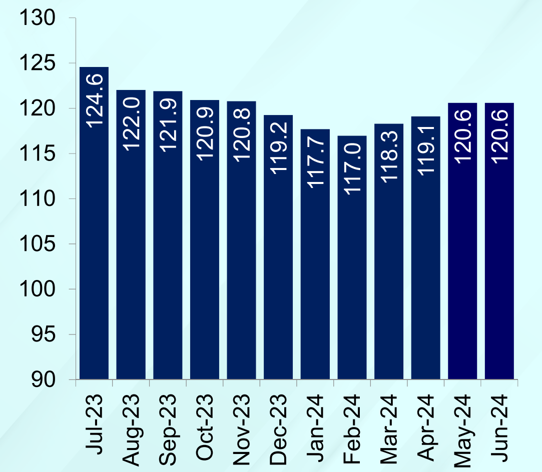
In the United States, economic growth is projected to decrease to 2.6% in 2024, with a further slowdown to 1.9% expected in 2025. The Fed Chair noted that the U.S. economy is no longer overheated. In the Euro Area, growth is expected to increase to 0.9% in 2024 and 1.5% in 2025. The UK's growth is projected to be 0.7% for 2024 and 1.5% for 2025. The growth forecast for China for 2024 has been revised upward to 5%, but it is expected to slow to 4.5% in 2025 and further to 3.3% by 2029. Improved economic conditions in Pakistan's key trading partners, such as the US, European economies, UK, and China, suggest a robust demand for Pakistan's exports. Global trade growth is anticipated to rebound to 3.25% annually in 2024–25, in line with the global GDP growth, despite heightened cross-border trade restrictions and subdued manufacturing.

Growth in WEI



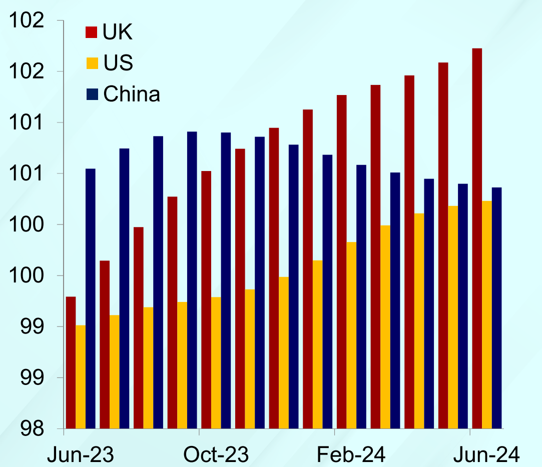
Source: Federal Reserve Bank of Dallas

FAO Food Price Index



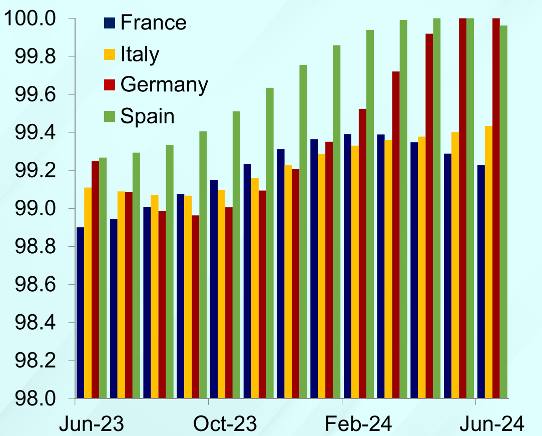
Source: FAO

(a) Composite Leading Indicator



Source: OECD

(b) Composite Leading Indicator



Source: OECDs