Chapter 01

Growth and Investment

In FY 2024, especially in the third quarter, Pakistan's economy began to show signs of resilience and stability after facing significant challenges during FY 2023. The economy was hit by international supply shocks and domestic natural disasters (floods) in FY 2023. These events increased the country's vulnerabilities as it was recovering from the pandemic, leading to a negative GDP growth rate. GDP growth started to rise, while inflation continued to trend downward. These positive developments were attributed to the government's resilient policy management and renewed support from both multilateral and bilateral partners. Despite the challenges, the government successfully completed the IMF Stand-By Arrangement (SBA) program. Looking ahead, the government anticipates a new 3-year IMF program to support the external sector further and encourage investment flows, aiming to steer the economy toward its potential growth. Amid these positive developments, GDP growth reached 2.38 percent in FY 2024.

While the global economy has stabilized with signs of moderate recovery, it's crucial to remain vigilant about potential risks. Geopolitical tensions arising from conflicts in Ukraine and Gaza, and differing inflation rates among major economies are factors that could impact global prices, leading to currency depreciation, commodity price changes, and increased production costs in Pakistan. However, the government's proactive measures and strategic planning are aimed to mitigate these risks and boost economic stability.

The inflationary pressure that has been a concern started to ease in FY 2024. In May 2024, headline inflation reached its lowest point in 30 months. On a year-on-year basis, CPI inflation was 11.8 percent in May 2024, a significant decrease from 38.0 percent in May 2023. This decline can be attributed to several factors, such as monetary tightening, fiscal consolidation, smooth supplies of food items, favorable global commodity prices, and exchange rate stability. The government's efforts to manage these factors have played a significant role in containing inflation, demonstrating its commitment to maintaining price stability.

The government is implementing a comprehensive set of administrative, policy, and relief measures to address inflation and proactively help the vulnerable members of society. This approach is reflected in the recent decrease in inflation. From an administrative standpoint, the government has implemented structural reforms to stabilize the foreign exchange rate and ensure the availability of essential goods by targeting illegal activities such as foreign exchange malpractices, smuggling, and hoarding. Initiatives like Sasta Bazaars and Utility Stores are also being expanded to improve the availability of daily necessities. Regarding policy, government is working diligently to maintain the stability and availability of crucial goods, supported by programs like the Kissan Package, which provides subsidies and technological advancements to support agriculture. The State Bank of Pakistan maintained a high policy rate to manage inflation and economic demand effectively. Through relief measures, government is providing subsidized essentials through Utility Stores and increasing the budget of the Benazir Income Support Programme, which supports millions through the BISP Kafalat Program. These coordinated efforts aim to provide immediate relief to the masses.

The agriculture sector is recognized as a key driver of economic growth in FY 2024, with a robust growth rate of 6.25 percent. The quarterly growth rates have been observed at 8.6 percent, 5.8 percent, and 3.9 percent in Q1, Q2, and Q3 of FY 2024, respectively. The sector's recovery is attributed to government initiatives, improved input supply, and increased credit disbursement to farmers. Important crops like cotton, rice, and wheat observed healthy growth, while sugarcane and maize experienced negative growth. However, the negative impact of sugarcane and maize was offset by the high growth of wheat, cotton, and rice. Livestock, a significant portion of the agriculture sector, showed resilience and maintained average growth. This positive growth in the agriculture sector is a promising sign for Pakistan's overall economic recovery.

Industrial Sector grew by 1.21 percent in FY 2024 compared to contraction of 3.74 percent last year. The sub-sector large-scale manufacturing (LSM), representing domestic industrial production, has been consistently recovering. It experienced a slight decline of 0.1 percent during July-March FY 2024, compared to a significant contraction of 7.0 percent during the same period last year. After consecutive negative growth in Q1 and Q2 of FY 2024, the LSM sector is now showing a V-shaped recovery in Q3 of FY 2024, with a growth of 1.47 percent. Almost 50 percent of sub-sectors have recovered and posted positive growth. Factors such as high inflation, prolonged tight monetary policy, and the low recovery process in major trading partners have contributed to the contraction of the LSM sector.

Despite the slow recovery in LSM, the Commodity Sector posted a growth of 4.02 percent, which also supported the services sector. The services sector posted a growth of 1.2 percent based on significant growth in subsectors of services like Education, Human Health, Social Work Activities, and Other Private Services.

On the external front, the current account showed improvement, with the current account deficit decreasing from US $ 3.9 billion last year to US $ 0.2 billion in July-April FY 2024. This improvement was due to a 10.6 percent increase in exports and a 5.3 percent drop in imports of goods. According to the SBP data, remittances increased by 3.5 percent to US $ 23.8 billion, contributing to the current account balance improvement. Additionally, Pakistan's financial account performance improved as the country successfully increased its foreign reserves and achieved stability in the exchange rate, which is crucial for overall economic stability.

On the fiscal front, revenue growth exceeded expenditure growth during the first nine months of FY 2024. Both tax and non-tax collections saw significant increases of 29.3 percent and 90.7 percent, respectively. Additionally, efforts to limit non-mark-up spending led to an improvement in the primary surplus to Rs 1615.4 billion (1.5 percent of GDP) during July-March FY 2024, up from Rs 503.8 billion (0.6 percent of GDP) last year. The overall fiscal deficit remained at 3.7 percent of GDP, consistent with the previous year's figure.

Managing supply and demand and effectively implementing sectoral reforms are crucial to achieve sustainable and inclusive growth. On the supply-side, government is focusing on expanding production capacity, increase domestic and foreign investment and participating more actively in global value chain. This approach also involves creating an investment-friendly environment to encourage long-term commitments from potential investors. Enhanced production capacity, productivity and competitiveness will lead to increase in goods available for export and import substitution, thereby improving trade performance. The government recognizes the importance of prioritizing infrastructure investments over consumption and promoting youth entrepreneurship, which is essential for sustainable growth and increasing per capita income. This will help the economy to boost domestic production, substitute imports, and expand supply to international markets. These improvements are vital for increasing the country's potential output and employment rates. The government is fully committed to maintaining stability and fostering economic confidence.

1.1 Global Perspective

In the latest World Economic Outlook April 2024, the IMF revised the global growth forecast upward slightly due to the better performance in advanced economies and receded inflation at the global level. Global growth, estimated at 3.2 percent in 2023, is projected to continue at the same pace in 2024 and 2025. This resilience is attributed to positive supply developments, a rebound in labour supply, and effective monetary policies. Growth in emerging markets and developing economies is expected to be stable at 4.2 percent in 2024 and 2025. Moderation in emerging and developing Asia will be offset mainly by the rising growth of economies in the Middle East, Central Asia, and sub-Saharan Africa.

Although risks to the global outlook are now broadly balanced, on the downside, new price spikes could arise from several sources. First, geopolitical tensions, including those from the Russia-Ukraine and Gaza conflict. Second, a divergence in disinflation speeds among major economies could also cause currency movements that put financial sectors under pressure. Third, growth could weaken in China without a comprehensive response to the troubled property sector, hurting trading partners. Fourth, amid high government debt in many economies, a disruptive turn to tax hikes and spending cuts could weaken activity, erode confidence, and sap support for reform and spending to reduce risks from climate change.

Nonetheless, on the upside, loose fiscal policy than necessary along with optimistic projections could raise economic activity in short term but would have ramifications for growth in the future. Inflation could fall faster than expected amid further gains in labor force participation, allowing central banks to implement easing plans. Artificial intelligence (AI) and more robust structural reforms than anticipated could also spur productivity in the major trading partners ahead.

1.1-a Global Economic Growth and Pakistan Economy

Despite limited integration into the global value chain, Pakistan's economy remains sensitive to economic fluctuations in its major trading partners. The economic condition of these partners is assessed using the weighted average of their Composite Leading Indicators (CLI). Since the second half of 2023, the CLI positions of Pakistan’s main export markets, including the UK, US, China, and Euro Area countries, have consistently expanded.

The cyclical nature of Pakistan's manufacturing sector plays a pivotal role in shaping the overall economy, as it is closely linked to the CLI of its major trading partners. Fluctuations in manufacturing output have a cascading effect on other economic sectors. In FY 2024, despite minor positive growth, the LSM sector showed resilience and signs of recovery compared to last year, leaving no offsetting impact on the overall economic growth.

The global economic downturn is dissipating, and international growth is showing signs of recovery, according to IMF's World Economic Outlook for 2024. However, significant risks persist due to geopolitical tensions, such as the ongoing conflicts in Ukraine and Gaza, coupled with differences in reduction in inflation across major trading partners. These factors will likely affect the external sector and growth prospects in Pakistan. Despite a slight decrease in global inflation, these risks could exacerbate pressures on international prices, potentially leading to currency depreciation, fluctuations in commodity prices, and increase in production cost. Moreover, stringent financial conditions globally, particularly in key trading partners, may lead to heightened capital outflows from the country.

Technological advancements are occurring rapidly in advanced economies, particularly in the major trading partners. The role of AI in boosting productivity and economic growth is widely discussed to spur its actual benefits.

Though emerging economies lag in this race, Box-I highlights the implications of artificial intelligence for productivity and economic growth in the context of Pakistan.

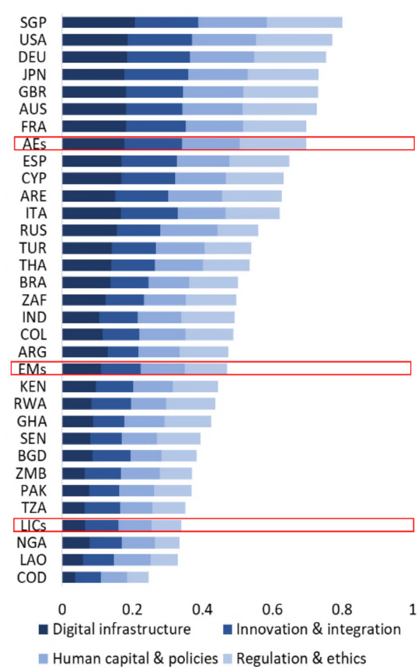
Box - I: Artificial Intelligence, Productivity, and Economic Growth

The world stands on the edge of a technological revolution poised to boost productivity, stimulate global economic growth, and elevate income levels worldwide. This new era is driven by the emergence of Artificial Intelligence (AI). AI is broadly defined as the capability of a machine or an agent to mimic human intelligence, achieve goals in a variety of environments, and perform complex tasks traditionally carried out by humans. AI encompasses various technologies designed to enable machines to perceive, interpret, act, and learn to replicate human cognitive abilities.

Integrating AI into the economic system is expected to unleash productivity gains soon. These gains in productivity could lead to high growth and higher incomes. AI is being integrated around the world at a remarkable speed. Capital deepening and a surge in productivity could raise worker productivity and incomes, contributing to overall economic growth (Cazzaniga, 2024). It promises to boost productivity and transform all sectors, including manufacturing, finance, retail, agriculture, healthcare, education, transportation, logistics, and energy.

In this technological transformation process, many actors can play a pivotal role in affecting the direction of AI integration. Major corporations have to make important decisions about how they choose to integrate AI into their workforce. The largest of these companies will also develop in-house AI. AI/computer science labs at universities will also develop AI models, some of which they will make open-source. Federal legislators and policymakers will have a significant impact through innovative policy interventions that help shape the future of technology and the economy.

The Artificial Intelligence Preparedness Index 2024



Source: IMF

The full harnessing of AI's potential depends on each country's development level. Therefore, it is crucial to focus on foundational infrastructure development and the creation of a digitally skilled labour force. Additionally, it is important to prioritize AI innovation and integration and establish adequate regulatory frameworks to maximize the benefits of increased AI use.

AI and Pakistan

Pakistan's economy has the potential to benefit from the technological revolution, which could significantly increase productivity and growth in various sectors. However, Pakistan needs to adequately prepared for this global change. Pakistan should focuss on digital infrastructure development, innovation, integration, and human capital development, which are crucial for harnessing the potential of artificial intelligence (AI). There is strong realization in Pakistan that digital infrastructure development, regulations, and policies be integrated into national policy. Such strategic policy interventions can shape the future of technology and the economy, focusing on developing digital infrastructure and skills and incentivizing research and development across all sectors of the economy. Without these measures, sectors heavily reliant on manual and traditional roles may miss out on the early benefits of AI, leading to further economic divergence.

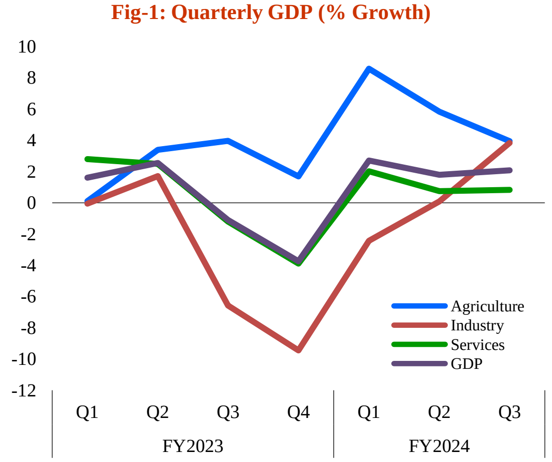
1.2 Pakistan Economy in Quarters FY 2024

GDP-Quarterly Growth

The economic journey in FY 2024 has been optimistic. External shocks and the adverse effects of floods disrupted economic activity in FY 2023, as evident from Fig-1. Quarter by quarter, the impact on agriculture was not as large as that experienced by the services and industry sectors. Over four quarters, the steep fall in service and industry growth led to negative growth in FY 2023.

However, the economic sectors experienced a 'V-shaped' recovery in FY 2024, as was historically expected post-flood; the agriculture sector increased in the first quarter. This increase in growth was attributed to government initiatives through improved input supply and increased credit disbursement to farmers. Along with improving important crops, the recovery of major trading partners and prudent measures led to a pickup in the industry and services sectors since Q1 of FY 2024. In Q3, GDP grew by 2.09 percent due to a 3.94 percent growth in agriculture, 3.84 percent in industry, and 0.83 percent in the services sector. Through the quarters, the economic sectors reflected the short-term economic performance and provided a basis for the economy's future trajectory.

Fig-1: Quarterly GDP (% Growth)



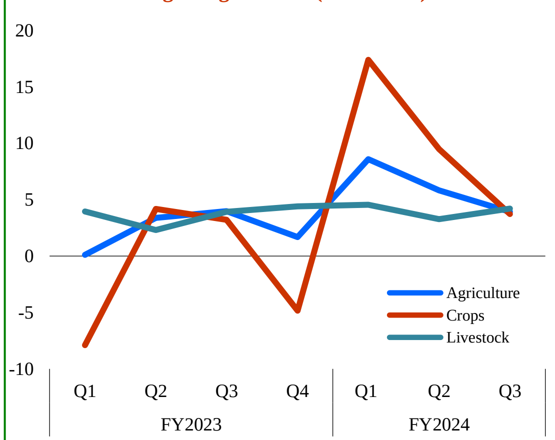
Source: PBS

Agriculture-Quarterly Growth

The FY 2024 is marked as the fiscal year of agriculture-led GDP growth. In FY 2023, due to flash floods in Q1, the agriculture sector showed moderate growth across the quarters. However, it exhibited a pronounced increase in Q1 of FY 2024, indicating a healthy start to the fiscal year.

The agriculture sector showcased a growth of 3.94 percent in Q3 compared to last year's period; this growth is driven by a 3.74 percent growth in important crops due to increased wheat, rice, and cotton production. The important crops showed an outstanding increase in Q1 and Q2 of FY 2024 compared to last year. This robust growth is attributed mainly to a bumper wheat crop, with wheat production reaching 31.44 million tonnes in FY 2024, up from 28.16 million tonnes the previous year. Other crops also experienced positive growth of 1.14 percent compared to a decline of 0.99 percent in Q3 of the last year, derived from the increased production of vegetables and fruits. These crops have maintained growth of around 1 percent over the quarters throughout FY 2024. Similarly, livestock, forestry, and fishing have also grown at normal pace.

Fig-2: Agriculture (% Growth)

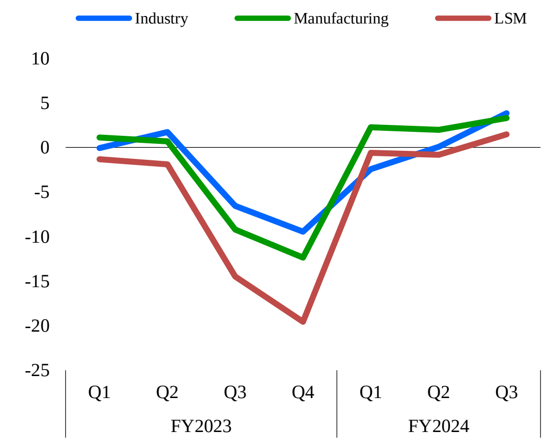


Source: PBS

Industry-Quarterly Growth

After facing negative growth in Q3 and Q4 of FY 2023 and Q1 of FY 2024, the industry has started to recover, showing positive growth of 0.09 percent and 3.84 percent in Q2 and Q3 of FY 2024, respectively. This marks a 'V-shaped' recovery, as indicated in Fig-3. The mining and quarrying sector also reported a positive growth of 0.63 percent, with significant increases in coal production (23.73 percent) and marble (5.87 percent). In large-scale manufacturing, there was a growth of 1.47 percent, driven by higher production of yarn, towels, garments, paper & board, fertilizer, tractors, and footballs. Small-scale industries and slaughtering reported steady growth. The electricity, gas, and water supply industry experienced a remarkable growth of 37.30 percent due to increased outputs from WAPDA, various companies, and DISCOs, also benefiting from a low base effect of the previous year and an increase in gas production in Q3. However, the construction industry witnessed a sharp decline of -15.75 percent in Q3, mainly due to falls in cement (-15.42 percent) and iron & steel production (-2.83 percent).

Fig-3: Industry (% Growth)

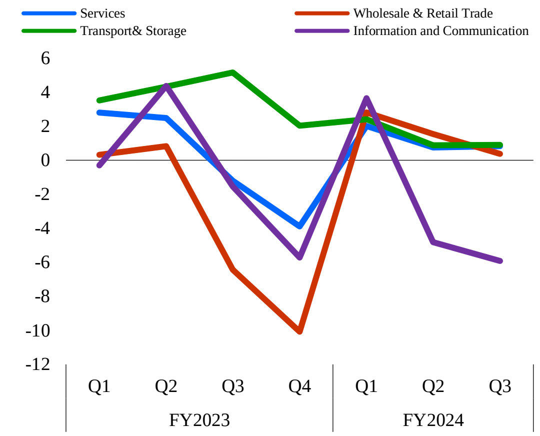


Source: PBS

Services-Quarterly Growth

After consecutive negative growth in Q3 and Q4 of FY 2023, the services sector showed resilience with moderate growth in FY 2024. The services sector observed growth of 0.83 percent in Q3 of FY 2024 compared to 2.02 percent and 0.75 percent in Q1 and Q2 of FY 2024, respectively. The most extensive wholesale and retail trade sector, which experienced sizeable negative growth until Q4 of FY 2023, also observed a positive but meager growth of 0.38 percent in Q3 of FY 2024 on the backdrop of positive growth in agricultural output and LSM. Although there was a decline in imports, the negative impact was offset by the increase in agriculture and industry output. The transport and storage industry's growth increased by 0.91 percent because of increased production from Karachi Port Trust, Karachi International Container Terminal, Qasim International Container Terminal in Karachi, and railways. Information and communication badly affected by high inflation. After a 'V-shaped' recovery in Q1 of FY 2024, it could not maintain the growth trajectory and observed negative growth in Q2 and Q3 of FY 2024. Quarter by quarter, a mixed trend is observed in all other sub-sectors of services due to high inflation and tight monetary policy, despite improvements in the commodities sector.

Fig-4: Services (% Growth)

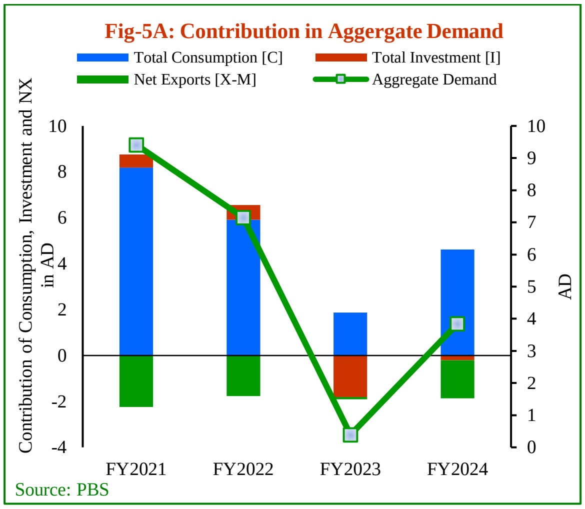


Source: PBS

1.3 Pakistan Economic Performance FY2024

Pakistan's economy rebounded the aggregate demand in the post-COVID period, with the opening up of international trade and sizeable growth in workers' remittances in FY 2022; this led to an increase in consumption as a percent of GDP. The significant contribution of the total consumption to aggregate demand in FY 2022 overheated the economy (Fig-5A). The net exports and CAD increased steeply, and the Financial Account was insufficient to offset the CAD, which increased financing requirements and exerted severe pressure on the exchange rate (Fig-5B). Deteriorating external account position, flood damages, and an increase in international prices deteriorated the economy. Consequently, the government stabilization policy and the contractionary monetary and fiscal policy pursued to contain the aggregate demand were inevitable in improving the balance of payment issues, which has played a role in the contraction of economic activity in FY 2023.

The net exports improved, and the current account posted a deficit of $ 0.2 billion in Jul-Apr FY 2024 against a deficit of $ 3.9 billion last year, narrowed down by 94.8 percent. The reduction in net exports and current account balance did not bar the boost in aggregate demand. With external sector resilience, aggregate demand has picked up on the back of domestic economic activity (Fig-5A).



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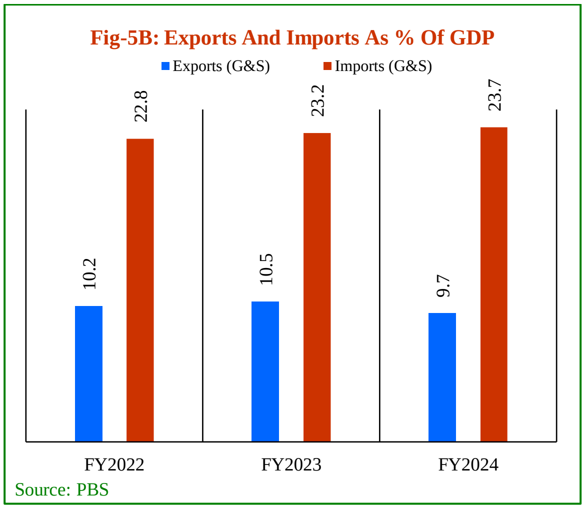
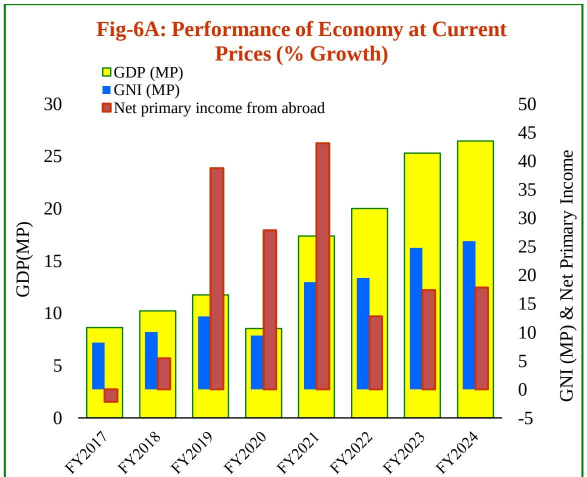


Source: PBS

Aggregate Demand Analysis

In FY 2024, the GDP at current market prices increased by 26.4 percent compared to 25.8 percent last year. It stands at Rs 106,045 billion compared to Rs 83,875 billion the previous year.

Gross National Income (GNI) is primarily used to measure the wealth of the country, which is calculated by adding net primary income (NPI) to GDP (MP). However, the movement of GNI and GDP (MP) follow a similar pattern. However, since FY 2019, significant growth has been observed in NPI, mainly due to a substantial increase in workers' remittances due to travel restrictions. During July-April FY 2024, workers' remittances posted a positive growth of 3.5 percent on the back of the recovery in the global economy and better economic performance in the main remit corridors such as the USA, UK, and EU. In comparison, GNI in rupee term posted a 25.9 percent growth in FY 2024, up from 25.1 percent last year (Fig-6A). Similarly, the per capita income in dollar terms vis-à-vis PKR witnessed a rebound in this fiscal year, standing at US $ 1680 compared to US $ 1551 last year; the stability in exchange rate and surge in economic activity increased the per capita income by 8.3 percent (Fig-6B).



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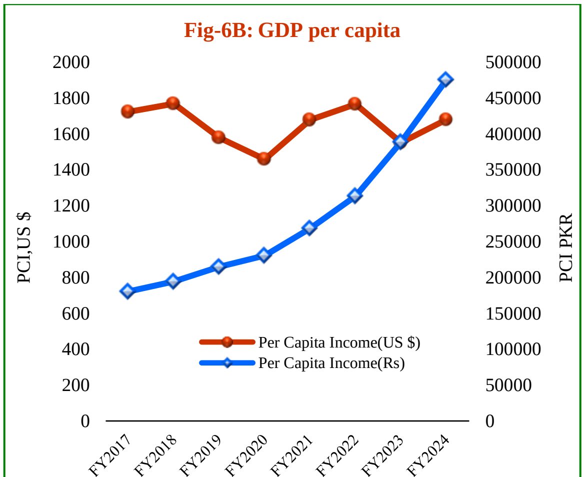


Source: PBS

Consumption: Household consumption consistently holds a large share of the GDP and remains unaffected by inflationary pressures. The decision to consume is crucial for long-term and short-term economic growth. Since FY 2016, the increased share of household spending led to a surge in imports, as domestic production could not keep up with the rising consumer demand. This situation has amplified the role of international prices in domestic inflation and uncertainty in currency value.

Table 1.1 presents the components of Aggregate Demand. The final consumption expenditure covers private consumption, Non-Profit Institutions Serving Households (NPISH), and General Government Consumption. Regarding household private consumption expenditures, it has been observed that tight monetary policy and high international prices have slightly altered the consumption pattern in FY 2023 and FY 2024. This private consumption expenditure may not be changed because of the workers' remittances and cash transfers to the low segment of society through relief packages. The private consumption share is up by 0.6 percent, while the share of public consumption is slightly decreased due to contractionary public expenditures in the same period.

Table 1.1: Composition of GDP (at Current Prices): Expenditure Approach

	FY2022	FY2023	FY2024	FY2022	FY2023	FY2024	FY2022	FY2023	FY2024
	As percent of GDP (MP)			Growth Rates (%)			Point Contribution		
Household Consumption	85.01	82.38	83.06	23.02	21.94	27.48	18.99	18.65	22.64
NPISH Consumption	0.89	0.82	0.78	9.81	16.23	20.43	0.10	0.14	0.17
General Government Consumption	10.49	10.32	9.31	14.60	23.76	14.01	1.60	2.49	1.45
Total Consumption [C]	**96.39**	**93.52**	**93.15**	**21.91**	**22.08**	**25.93**	**20.68**	**21.29**	**24.25**
Gross Fixed Investment	13.85	12.42	11.43	28.93	12.80	16.40	3.71	1.77	2.04
Private	10.36	9.46	8.67	25.48	14.93	15.81	2.51	1.55	1.50
The public, including the General Public	3.49	2.96	2.77	40.38	6.50	18.28	1.20	0.23	0.54
Changes in Stock + Valuables	1.71	1.71	1.71	19.38	25.83	26.43	0.33	0.44	0.45
Total Investment [I]	**15.56**	**14.13**	**13.14**	**27.81**	**14.24**	**17.61**	**4.04**	**2.22**	**2.49**
Exports (Goods & Services) [X]	10.54	10.49	10.31	39.02	25.23	24.32	3.53	2.66	2.55
Imports (Goods & Services) (M]	22.49	18.14	16.61	49.34	1.48	15.76	8.87	0.33	2.86
Net Exports [X-M]	**-11.95**	**-7.65**	**-6.29**	**59.81**	**-19.47**	**4.02**	**-5.34**	**2.33**	**-0.31**
Aggregate Demand [C+I+X]	**122.49**	**118.14**	**116.61**	**23.95**	**21.36**	**24.79**	**28.25**	**26.16**	**29.29**
Domestic Demand [C+I]	**111.95**	**107.65**	**106.29**	**22.69**	**20.99**	**24.84**	**24.72**	**23.50**	**26.74**
GDP (MP)	**100.00**	**100.00**	**100.00**	**19.38**	**25.83**	**26.43**	**19.38**	**25.83**	**26.43**

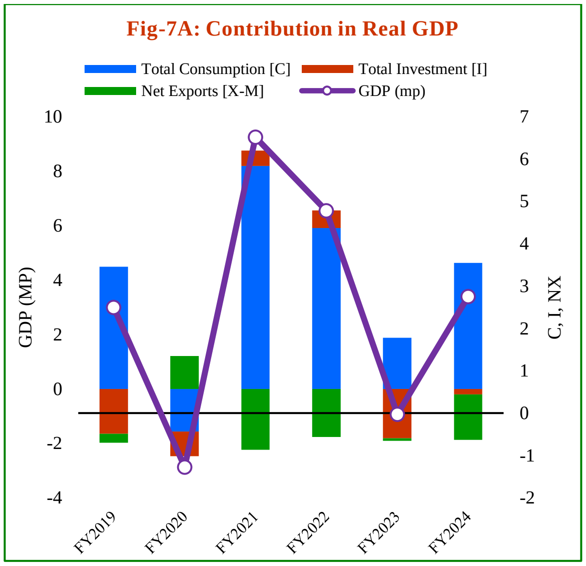
NPISH: Non-profit institutions serving households

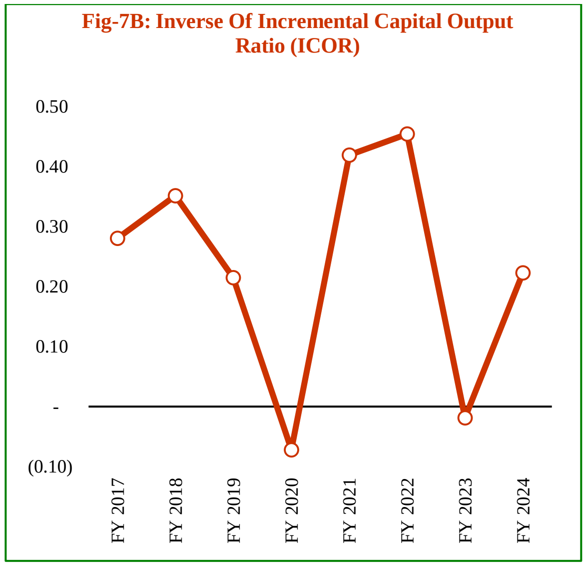
Source: Pakistan Bureau of Statistics

Investment: The national income accounts define net capital outflows that must satisfy the identity in which net exports must equal the difference between its national saving and investment. If the net capital outflow is negative, the economy is experiencing a capital inflow where investment exceeds saving, and the economy borrows from abroad in the form of foreign savings. In Pakistan, the investment-to-GDP ratio is stagnant at around 14 percent, the lowest among the regional countries. The investment contribution to real GDP is shown in (Fig – 7A).

The influence of economic policies on the trade balance can be assessed by analyzing their effects on domestic saving and investment. Policies that boost investment or reduce saving generally lead to a trade deficit, while those that decrease investment or enhance saving typically result in a trade surplus (Fig-7A & Fig-8).

The current tight monetary policy stance, tight credit conditions, and fiscal measures resulted in an increase of 5.6 percent in primary income, the trade balance improved in FY 2024 (Fig-7A). In this scenario, investment and national savings as ratios of GDP slightly declined in FY 2024, and consumption as a percent of GDP also contracted somewhat from 93.5 to 93.2 percent.

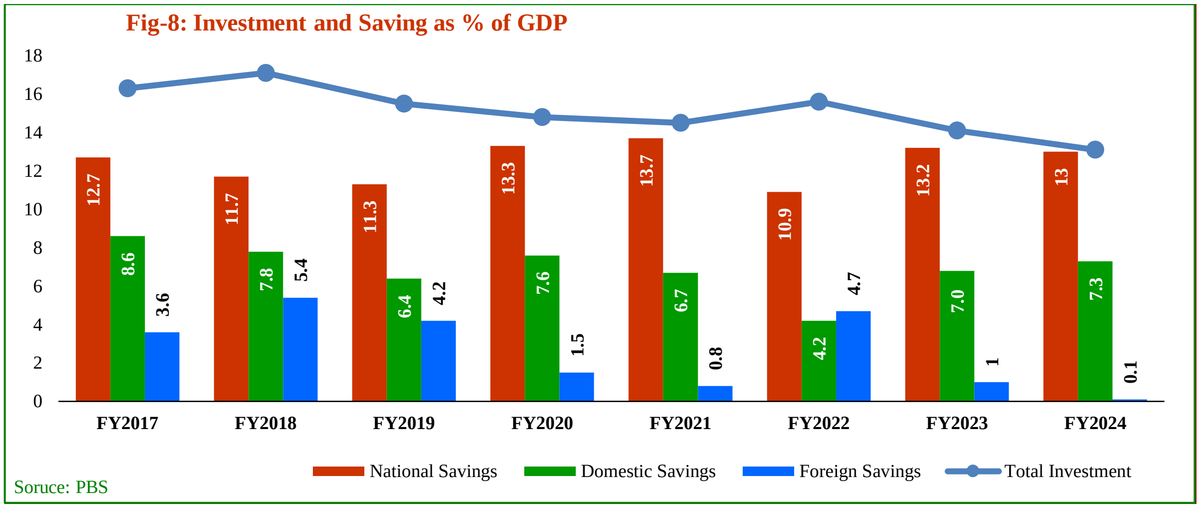




The inverse of incremental capital output ratio (ICOR) represents the production efficiency or addition of investment to produce the additional unit of GDP. The trend of Inverse ICOR suggests that, despite achieving high GDP growth, investment is not showing as the driver of growth. Over the years, the marginal increase in investment has fallen or is at a low level, which is required to produce the additional unit of GDP (Fig-7B).

In Pakistan, like some other countries, for Household Final Consumption Expenditure, PBS applies an assessment of this aggregate as the residual of GDP because of the non-availability of the income approach to measure GDP. Thus, given the data for investment and current account balance, National Savings are worked out as a residual from the identity, which says “savings and investment gap is always equal to the current account balance and which is also termed as Foreign Saving in FY 2024, Foreign Savings reduced to 0.1 percent of GDP. It has been observed historically that, high growth was correlated with high foreign savings (CAD), and therefore with low domestic and national savings. For instance, in FY 2022, Foreign Saving remained at 4.2 percent of GDP while National Savings and Domestic Savings remained at 10.9 and 4.2 percent respectively during the same period. For the last ten years, on average, the National Savings rate in Pakistan hovered around 12.7 percent, while Gross Fixed Capital Formation remained around 13.5 percent of GDP. In contrast, foreign savings were observed to either increase or decrease with an increase or decrease in GDP growth, implying reduced or increased national and domestic savings in Pakistan (Fig-8). It is mentionable that, the current state of savings and investment rate is not adequate to boost sustainable growth. The government realized this fact and thus, approved the establishment of the Special Investment Facilitation Council (SIFC) on 20 June 2023.

The SIFC is supervised by the Prime Minister and is composed of all provincial and federal ministers, secretaries, and high-ranking representatives from the Pakistan Armed Forces. The primary objective of the Council is to facilitate large-scale investments at the government level in the lucrative industries of mining and minerals, energy, agriculture, livestock, information technology, and defence production. These sectors have enormous profit and development potential on a mutually beneficial basis. The Pakistani government welcomes investments from all nations in the region and beyond in these sectors. Such investments will be prioritized, expedited, and facilitated at the Prime Minister's office under the supervision of SIFC.



The total investment contains three components: Gross Fixed Capital Formation (GFCF), changes in inventories, and net acquisition of valuables. The GFCF is a change in fixed assets used in the production process for more than one year. Whereas the changes in inventories are calculated as a change in the value of physical stocks of raw material, work-in-progress, and finished goods held by industries and producers of government services. Finally, Valuables are not used primarily for production or consumption but are held as stores of value over time to keep the production process smooth.

The GFCF for the FY 2024 recorded at Rs 12,122.5 billion, showing an increase of 16.4 percent compared to 12.8 percent growth in FY 2023. During the same period, The GFCF of the private sector is estimated at Rs 9189.3 billion as against Rs 7934.6 billion in FY 2023, witnessing an increase of 15.8 percent. The GFCF of the Public Sector is estimated at Rs 508.8 billion against Rs 545.4 billion during FY 2023, registering a decline of 6.7 percent. Likewise, Estimates of GFCF in the General Government sector are based on federal, provincial, and district government budgetary data. The overall provisional GFCF for this sector has been estimated at Rs 2424.4 billion during FY 2024, with an increase of 25.3 percent compared to Rs 1934.6 billion in FY 2023.

Private Sector GFCF: The estimates of GFCF in agriculture, forestry, and fishing industries stand at Rs 2976.0 billion in FY 2024 as against Rs 2342.9 billion in FY 2023 with an increase of 27.0 percent due to the rise in imported agriculture machinery as well as additions in stock of livestock. The GFCF in the mining and quarrying industry during FY 2024 has been estimated at Rs 85.2 billion as against Rs 77.2 billion in FY 2023, registering an increase of 10.4 percent due to higher expenditure on exploration costs incurred by companies.

The GFCF estimate in LSM comprises in-production, i.e., listed and non-listed companies covered through census and survey, respectively, and under-construction units estimated through financing by financial institutions. The provisional GFCF during FY 2024 in LSM is estimated at Rs 868.4 billion against Rs 891.6 billion during FY 2023, showing a decline of 2.6 percent due to conservative reporting by private companies. The provisional GFCF in small-scale manufacturing (including slaughtering) is estimated at Rs 199.3 billion using manufacturing SME financing as an indicator, showing a modest decline of 0.2 percent over the previous year. Expenditures on GFCF in the Electricity, Gas & Water Supply industry stands at Rs 157.1 billion during FY 2024 against Rs 281.0 billion in FY 2023, registering a decline of 44.1 percent because of lower expenditure reported by IPPs. The construction industry has registered an increase of 13 percent in GFCF during FY 2024.

The private sector enterprises engaged in most service-related industries i.e. wholesale & retail trade (21.7 percent), accommodation and food service activities (32.8 percent),transportation & storage (4.6 percent), finance & insurance (31.2 percent), real estate activities (20.5 percent), education (19.6 percent), human health & social work (32.0 percent) and other private services (22.3 percent)have registered positive growth in the provisional estimates of FY 2024 except for information & communication industry (-8.7 percent).

Public Sector Enterprises GFCF: During FY 2024, except for a few, most industries showed a decrease in GFCF compared to FY 2023. GFCF during FY 2024 in the Public Sector is estimated at Rs 508.8 billion against Rs 545.4 billion during FY 2023, registering a decline of 6.7 percent. The major industries with negative growth in FY 2024 over FY 2023 are mining and quarrying (27.5 percent due to OGDC), electricity, gas & water supply (7.5 percent due to WAPDA), construction (25.2 percent due to development authorities) and information and communication (11.5 percent due to PTCL and Ufone on machinery & equipment). However, public sector enterprises engaged in manufacturing (48.0 percent due to National Radio & Telecommunication Corporation and National Refinery) and transportation & storage (2.2 percent due to PNSC, PARCO, NHA, and CAA) have reported growth in provisional estimates.

General Government GFCF: Estimates of GFCF in the General Government sector are based on federal, provincial, and district government budgetary data. The overall provisional GFCF for this sector during FY 2024 has been estimated at Rs 2424.4 billion, with an increase of 25.3 percent over the revised estimates of Rs 1934.6 billion during FY 2023. While the GFCF-related expenditure by the federal government has registered a modest growth of 0.5 percent, the same has increased by 32.2 percent and 62.7 percent in provincial and district governments, respectively. Further, industry-wise disaggregation of the general government's GFCF suggests an increase of 23.7percent, 35.9 percent, and 52.8 percent in public administration and social security, education, and human health and social work, respectively.

Investment is a primary driver of economic growth in any country. In Pakistan, the investment rate is not only relatively low but also on a declining trend. To enhance investment and stimulate economic growth, it is essential to identify potential areas that can boost investment. The blue economy represents a promising new arena for investment that could efficiently utilize natural resources. Box-II provides some insight into the blue economy in the context of Pakistan.

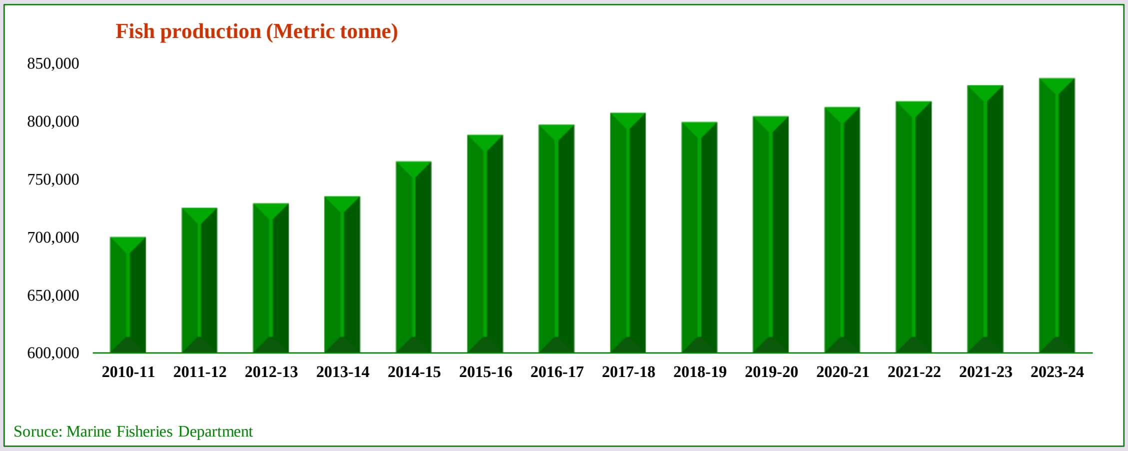
Box-II: Blue Economy-Marine Resources: Potential Avenue of Investment and Growth

In the wake of the pandemic's devastating impact on livelihoods, employment, and supply chains, the Blue Economy has emerged as a critical focus for sustainable economic activity. The Blue Economy encompasses a wide range of areas, such as marine affairs, offshore hydrocarbons, renewable energy, food security, energy security, climate change, ocean conservation, refugees at sea, oil spills and the environment, gender equality, tourism, maritime law, shipping regulations, sustainable development goals, international maritime organizations, shipyards, desalination, coastal wastewater treatment, inland waterways, port and shipping digitization, geopolitics, economic zones, water sports, healthcare, and fishing. The global value of the blue economy currently exceeds $ 1.5 trillion annually and is projected to double to $ 3 trillion by 2030 potentially. In Pakistan, the Ministry of Maritime Affairs (MoMA) is leading the country's blue economy development. MoMA is working with stakeholders, emphasizing the crucial role of each, to create a comprehensive Blue Economy Roadmap to promote and sustain blue sectors in Pakistan.

Blue Economy of Pakistan

Pakistan's extensive coastline of 1,046 kilometers and its 240,000-square-kilometer Exclusive Economic Zone (EEZ) in the Arabian Sea provide abundant marine biodiversity, offering significant opportunities for sustainable development and economic prosperity through the blue economy. The blue economy of Pakistan is a diverse landscape, encompassing sectors such as fishing, aquaculture, shipping, ports, and ship recycling. These sectors have the potential to enhance the livelihoods of coastal communities, improve food security, and create employment opportunities. The China-Pakistan Economic Corridor (CPEC) designed to promote maritime trade and connectivity, further supporting the blue economy. However, addressing challenges such as overfishing, pollution, and maritime security requires collaborative efforts. Strategic planning, infrastructure development, advanced technology, marine tourism, renewable energy, and establishing maritime commerce routes are essential for the growth of Pakistan's blue economy.

- **Fisheries Sector:** Aquaculture has significantly expanded in Pakistan, with freshwater fish cultivation being the predominant practice. The main species cultivated in aquaculture are carp, including silver carp, Rohu, Catlamori, bighead carp, and grass carp, which comprise most aquaculture output. However, aquaculture activities have the potential for further expansion and diversification, including cultivating economically valuable species such as trout, tilapia, and shrimp. Fishing is crucial for the livelihoods of coastal communities, and while inland fishing is also essential, maritime fisheries hold significant value. The fishing sector makes a small contribution to the GDP, but its exports can potentially increase national income. An overview of fisheries production is given as follows:



  The export of fish and fishery products has witnessed a positive trend, with a 4.04 percent increase in value during July-March FY 2024 compared to last year.

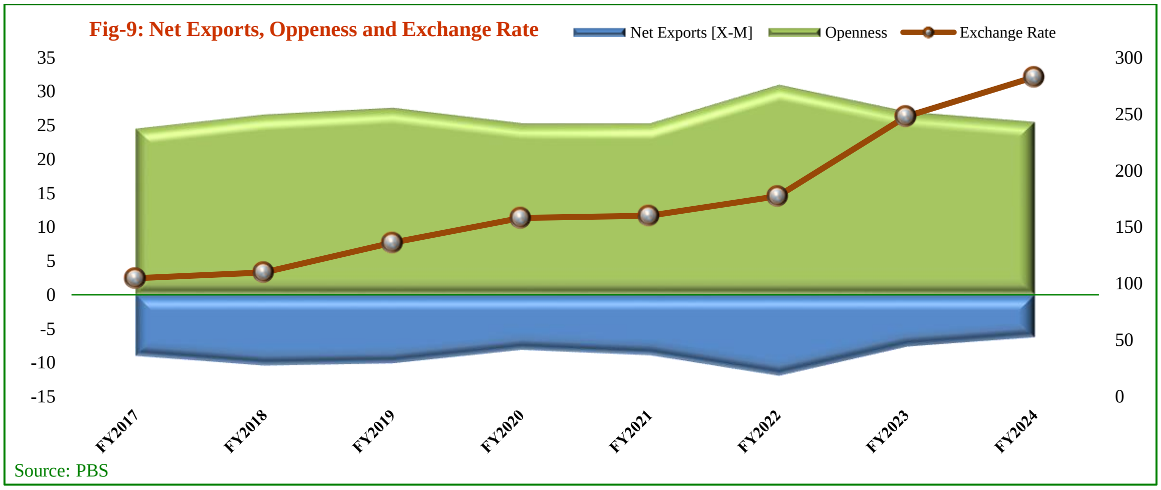
- **Ports Management Sector:** The port management sector of Pakistan plays a crucial role in facilitating trade, maritime transportation, and, thus, economic growth. Pakistan has three major ports: Karachi Port, Port Qasim, and Gwadar. These ports are vital to import-export operations. These ports must improve infrastructure, optimize operations, handle goods well, and follow the best international norms and laws. Security, customs clearance, and logistical coordination are also crucial in port management. Pakistan must invest in port infrastructure, technology, and human resources to compete, attract investment, and become a significant regional and global trade player.

- **Shipping Sector:** The Pakistan National Shipping Corporation (PNSC) is a state-owned maritime organization that plays a crucial role in facilitating the transportation of Pakistan's imports and exports. PNSC operates various vessels, such as bulk carriers, oil tankers, container ships, and gas carriers, to meet different cargo needs and trade routes. The PNSC fleet consists of twelve vessels of various types and sizes. These include five bulk carriers, five Aframax tankers, and two LR-1 Clean Product tankers. The total deadweight capacity, which refers to the cargo carrying capacity, is 938,876 metric tonnes.

- **Ship Recycling:** Pakistan was the first Asian country to separate ship dismantling from shipbuilding, making Gadani one of the world's top shipbreaking facilities. This industry employed 20,000–25,000 people at its peak and benefited another 100,000, including transporters, traders, resellers, and retailers.

In a nutshell, the 'Blue Economy' concept is becoming more popular as it advocates for better management of oceanic resources. For countries like Pakistan, embracing the blue economy has the potential to boost economic growth and create job opportunities. The blue economy involves more than just economic prospects; it also focuses on protecting and enhancing intangible 'blue' resources.

Net Exports: In the aggregate demand, the role of net capital outflow in the form of net exports is crucial due to the consistent gap in investment and saving. The net exports remained negative in FY 2024, mainly due to the massive decline in imports due to the international economic slowdown and domestic demand. According to National Accounts data, Exports of Goods and Services posted a growth of 24.4 percent, while Imports of Goods and Services posted a growth of 15.8 percent in FY 2024.Generally, trade openness is frequently used to measure the importance of international transactions relative to domestic transactions. It is defined as the ratio of exports plus imports over GDP. Pakistan’s openness to trade improved little after 2005, hovering around 25 percent. Trade openness is more closely linked to financing and trade balance.



Over the years, imports have significantly increased, decreasing the share of Net exports in GDP (Fig-9). This indicates a substantial increase in consumption in both government and private households, which has aggravated the recent BOP crises.

1.4 Sectoral Growth Analysis-Production Side

The provisional GDP for FY 2024 has been estimated at 2.38 percent compared to -0.21 percent last year. The growth estimates revealed that the agriculture sector has witnessed a healthy growth of 6.25 percent compared to 2.27 percent last year. The industry has moved from a negative zone to a positive zone by posting a growth of 1.21 percent against -3.74 percent last year. The services sector has also entered a positive growth trajectory with a growth of 1.21 percent against -0.01 percent last year. Sectoral point contribution is given in Table 1.2.

Box-III: Revised GDP for FY 2023

- The provisional GDP estimates for FY 2023 have been updated based on the latest available data.
- The revised GDP growth rate for FY 2023 stands at -0.21 percent, lower than the provisional estimate of -0.17percent.
- The growth of the agriculture sector has improved from 2.25 percent to 2.27 percent. The crops sub-sector has declined from 0.9 percent to -1.03 percent because of a decline in important crops from 0.42 percent to 0.34 percent mainly due to an increase in inputs, i.e., fertilizer offtake and pesticides.
- No significant change has been observed in the industry as the growth remained at the same level, i.e., from -3.76 percent to -3.74 percent.
- The services sector has declined from 0.07 percent to -0.01 percent due to a decline in education from 9.94 percent to 5.15 percent and human health and social work activities from 10.57 percent to 8.87 percent. Both these industries have witnessed downward revisions because of final budget numbers. Other private services have decreased from 5.02 percent to 4.27 percent due to updated revised data from the sources.

Table 1.2: Sectoral Point Contribution at Constant Prices 2015-16

	FY2022	FY2023	FY2024	FY2022	FY2023	FY2024	FY2022	FY2023	FY2024
	As percent of GDP			Growth Rates (%)			Point Contribution		
A. Agriculture	22.60	23.16	24.04	4.21	2.27	6.25	0.97	0.51	1.45
B. Industry	19.11	18.43	18.22	7.01	-3.74	1.21	1.33	-0.71	0.22
Commodity Producing Sector (A+B)	41.71	41.59	42.26	5.47	-0.48	4.02	2.30	-0.20	1.67
C. Services Sector	58.29	58.41	57.74	6.69	-0.01	1.21	3.88	0.00	0.70
GDP (GVA)	100.00	100.00	100.00	6.18	-0.21	2.38	6.18	-0.21	2.38

Source: Pakistan Bureau of Statistics

Agricultural Sector: The agriculture sector grew by 6.25 percent in FY 2024 due to healthy growth of 16.82 percent in important crops i.e. cotton, rice, and wheat. Sub-sectors of agriculture sector with respective shares in agriculture and GDP in Table 1.3.

Table 1.3: Components of Agriculture Sector FY 2024

	Share in Agriculture	Share in GDP	Growth Rate (%)
Agriculture, Forestry and Fishing		24.04	6.25
1. Crops	35.52	8.54	11.03
i) Important Crops	20.67	4.97	16.82
ii) Other Crops	13.51	3.25	0.90
iii) Cotton Ginning	1.34	0.32	47.23
2. Livestock	60.85	14.63	3.89
3. Forestry	2.33	0.56	3.05
4. Fishing	1.30	0.31	0.81

Source: Pakistan Bureau of Statistics

Wheat production recorded 31.44 million tonnes compared to 28.16 million tons last year, posting a growth of 11.6 percent. The cotton crop grew by 108.2 percent and produced 10.22 million bales in FY 2024 compared to 4.91 million bales last year which was severely damaged because of floods and rains. Similarly, rice witnessed a high production of 9.87 million tonnes in FY 2024 compared to 7.32 million tonnes last year, which registered a growth of 34.8 percent this year.

Sugarcane posted negative growth of 0.39 percent during FY 2024, with a production of 87.64 million tonnes against 87.98 million tonnes last year. Maize has also been declined by 10.4 percent this year, with 9.84 million tonnes of production compared to 10.99 million tonnes last year. The impact of the negative growth of sugarcane and maize has been offset by the substantial growth of wheat, cotton, and rice. Other crops have also shown a positive growth of 0.90 percent compared to -0.92 percent last year because of positive growth in fruits (9 percent) and vegetables (7 percent). Cotton ginning & miscellaneous components have registered a growth of 47.23 percent because of high growth in cotton crops. Finally, the livestock, forestry and fishing have retained their normal growth.

Industrial Sector: After experiencing a downturn in FY 2023, the industrial sector has rebounded, recording a growth of 1.21 percent in FY 2024. The sector's performance heavily relies on manufacturing, which constitutes 65.3 percent of the industry.

The mining and quarrying sector, which makes up 9.1 percent of the industry, observed a growth of 4.85 percent, contrasting with its decline in the previous year. A rise in crude oil, coal, marble, limestone, and laterite production during FY 2024 fueled this increase. Furthermore, the GFCF of private sector in mining and quarrying achieved a significant growth of 10.5 percent in FY 2024 over the positive growth in FY 2023, indicating a support to overall positive growth in this sector. Sub-sectors of industrial sector with respective shares in industry and GDP are given in Table 1.4.

Table 1.4: Components of Industry FY 2024

	Share in Industry	Share in GDP	Growth Rate (%)
Industrial Activities		18.22	1.21
1. Mining and Quarrying	9.13	1.66	4.85
2. Manufacturing	65.25	11.89	2.42
i) Large Scale	45.24	8.24	0.07
ii) Small Scale	12.65	2.30	9.08
iii) Slaughtering	7.37	1.34	6.63
3 Electricity, Gas and Water supply	12.61	2.30	-10.55
4. Construction	13.01	2.37	5.86

Source: Pakistan Bureau of Statistics

During FY 2023, the Manufacturing sector, which contains LSM, small-scale manufacturing, and slaughtering, remained negative mainly because of the prolonged growth of LSM, measured through QIM. Based on the nine-month QIM (January to March), the LSM growth has been estimated at 0.07 percent in FY 2024 compared to -9.87 percent last year. This slow growth is attributable to mixed trends within the LSM among various groups such as Food (1.69 percent), Beverages (-3.43 percent), Textile (-8.27 percent), Tobacco (-33.59 percent), Wearing Apparel (5.41 percent), Non-metallic mineral products (-3.89 percent), Wood (12.09 percent), Coke & Petroleum (4.85 percent), and Pharmaceuticals (23.19 percent).

Finally, the Electricity, Gas, and Water supply industry has shown a growth of -10.55 percent during FY 2024 as compared to growth of 9.95 percent in FY 2023, mainly due to a decline in subsidies (in real terms) from Rs 464.8 billion in FY 2023 to Rs 298.5 billion in FY 2024 as well as the high deflator, which increased from 194.8 to 299.5. The construction industry has witnessed positive growth of 5.86 percent as compared to -9.25 percent last year. A shallow base and increased private sector expenditure on construction have resulted in positive growth in the construction industry this year.

Services Sector

The services sector has constituted the largest share of GDP, 58 percent, for the last several years. It has posted modest growth of 1.21 percent during FY 2024, compared to -0.01 percent last year, but with mixed industry trends. Sub-sectors of services with respective shares in services and GDP are given in Table 1.5.

Table 1.5: Components of Services FY 2024

	Share in Services	Share in GDP	Growth Rate (%)
1. Wholesale & Retail Trade	30.8	17.78	0.32
2. Transport & Storage	18.2	10.53	1.19
3. Accommodation and Food Services Activities (Hotels & Restaurants)	2.6	1.48	4.10
4. Information and Communication	4.7	2.73	-3.02
5. Finance and Insurance Activities	2.6	1.51	-9.64
6. Real Estate Activities (OD)	10.1	5.85	3.78
7. Public Administration and Social Security (General Government)	7.1	4.11	-5.25
8. Education	5.4	3.13	10.30
9. Human Health and Social Work Activities	3.0	1.76	6.80
10.Other Private Services	15.4	8.86	3.58

Source: Pakistan Bureau of Statistics

The wholesale & retail trade sector, which was significantly negative last year because of the low output of the agriculture and manufacturing industry, has shifted to a positive trajectory by recording growth of 0.32 percent. The main contributors to the positive growth have been the increase in the output of crops in the agriculture sector. Although there was a decline in imports, the negative impact was offset by the increase in agriculture and industry output. The transport and storage industry has posted a growth of 1.19 percent. The main contributors have been Railways 9.73 percent, and water transport 8.01 percent because of the increase in output of Karachi Port Trust, Karachi International Containers Terminal, and Qasim International Containers Terminal. Road transport showed growth of 1.15 percent, which has been below the normal trend because of the abnormal increase in automobile prices, non-issuance of letters of credit to auto assemblers, and high interest rates, as reported by the sources. The decline in air transport (-6.44 percent) has been observed because of the high deflator.

The information and communication industry demonstrated growth of -3.02 percent because of a decline in telecommunication (Spectrum fee was down by Rs 75 billion in FY 2024 compared to FY 2023). High deflator (increase from 117.24 to 131.61 in CPI communication) also resulted in negative growth in this sector.

Finance and Insurance sector, which was negative last year, is still negative in FY 2024 because of a high deflator (increase in CPI general from 199.4 to 248.4) and a decline in the output of insurance companies. Public administration and social security, which is based on the budget of federal, provincial, district, and local/TMAs (which constitutes general government), has been estimated at -5.25 percent. The education sector is showing a growth of 10.30 percent compared to last year, and human health & social work activities are showing a growth of 6.80 percent in FY 2024. Other private services have posted a growth of 3.58 percent because of increased subsectors such as professional scientific & technical activities, architectural & engineering activities, etc.

Concluding Remarks

The government is focused on maintaining a stable economy by prioritizing exports and investment. Through continued policy and reform implementation, growth is anticipated to reach its medium-term potential of 5.5 percent by FY 2027 gradually. A critical part of this strategy is to increase openness in trade and investment flows to ensure industries have access to the required raw materials. The government has taken steps to control speculation in the foreign exchange market to reduce uncertainty in the external sector. It is notable that by following suitable policy measures, improved agricultural output, and administrative actions, inflation decreased to 11.8 percent in May 2024 from its peak of 38.0 percent in May 2023.

The government is aware of macroeconomic trends and is fully committed to ensuring sustainable economic growth in the medium term. To achieve this, sector-specific measures in agriculture, industries, and services, along with fiscal consolidation, energy sector reforms, state-owned enterprises, and governance reforms, are being implemented to move the economy towards higher and sustainable growth. Both federal and provincial governments are working together to achieve medium-term growth targets with price stability, demonstrating a dedication to sustainable economic growth.

The world economy is bouncing back from the challenges brought on by the pandemic and the Russia-Ukraine conflict. Key trading partners are experiencing economic growth, and global supply chain disruptions are anticipated to diminish by 2024. Consequently, the industrial sector is expected to witness improvements in FY 2025. Thus, improvement in the commodity-producing sector will be translated into the services sector with its backward and forward linkages. In addition, improved business confidence from different government initiatives along with a stable exchange rate will enhance domestic production reducing supply chain distortion and therefore help in maintaining price stability. The inflation rate is projected to normalize due to the high base effect, improvements in the agricultural sector, and favorable global conditions.