Institute of Business Administration Karachi
Leadership and Ideas for Tomorrow

IBA CBER Centre for Business and Economic Research
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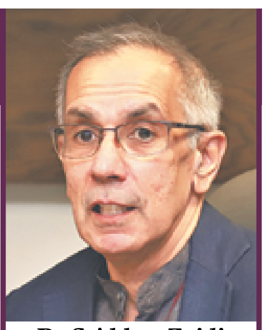
The State of Pakistan's Economy 2024-25

TAPPING THE ECONOMIC POTENTIAL

Strategies for Productivity and Growth

Message from Executive Director, IBA Karachi



Dr S Akbar Zaidi

THE perception is that in some ways, the economy has improved over the last financial year (FY), and FY24 may end up with a GDP rate of 2.4 per cent built on the basis of growth in agriculture of 6.3pc. As FY24 ended, the interest rate was also decreased and the budget presented fulfilled many requirements of the IMF which will lead to Pakistan's 24th agreement with the fund in the next few weeks, quite an ignominious achievement.

Austerity and stagflation are bound to be the outcome for the next FY, hence any perception that the economy is improving in any substantial manner needs to be thought differently. Following recent general elections, one had hoped that the new government would have taken some bold, if not radical, interventions for the economy and made some far needed deep structural reforms. Unfortunately, there are no signs of this, and the new government seems to continue its old, failed policy of more-of-the-same. With some key indicators in the economy showing some improvement, this is a huge lost opportunity.

Pakistan has lost its way in terms of policy initiatives and new ideas and is now lagging behind most comparable economies, whether in GDP per capita terms or as reflected in the Human Development Index (HDI). Countries which were way behind Pakistan just years ago now have outpaced Pakistan in development indicators. The loss for Pakistan has been both, in absolute and relative terms. The first budget of the new government has failed to take cognisance of a failing state, economy and society. The consequences for such failures will be catastrophic. ■

Highlights

Pakistan's fiscal challenges and budget FY25

The budget of FY25 is the first budget of the government formed after the general elections. The target for economic growth and deficit is set out as 3.6 per cent of GDP, aiming to maintain the fiscal deficit at 5.9pc of GDP.

The major challenges are debt servicing, defence expenditure and deficit. Others include economic slowdown, inflationary pressures, losses of state-owned enterprises (SOE), capacity payments, and circular debt. Under all these pressures a short IMF standby agreement July 2023 to April 2024 has been completed this year, focussed on avoiding default and bringing sustainability. After this budget, the government is likely to finalise an EFF with IMF.

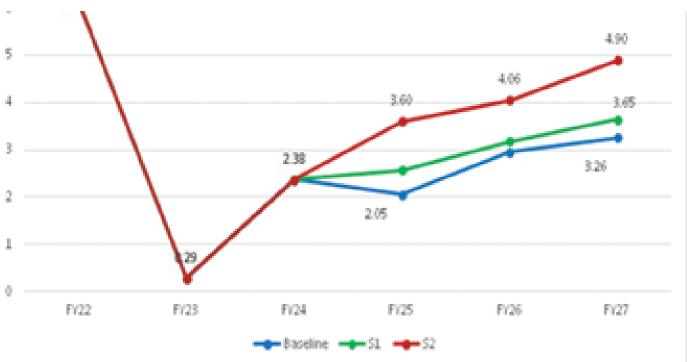
Despite many reforms and interventions, the real tax effort of the FBR has not improved significantly. The tax target for FY25 seems over-ambitiously high at PKR 12.97 trillion (10.45pc of GDP). The target for non-tax revenue has been set as PKR 4.85 trillion, which is 64pc higher than the revised estimate of FY24.

Given this context, for FY25 budget a debt and deficit driven fiscal equation might not have fiscal viability, but the situation will remain unchanged until a decent tax-to-GDP benefit taxation with fair tax incidence and equitable public spending system is in place.

Future landscape of the economy

Pakistan's economic performance in the outgoing FY was subpar. The GDP growth target of 3.5 per cent and inflation target of 21pc set forth at the beginning of FY24 remain unattained, as the reported growth rate stands at 2.38pc and inflation stands at 26pc. Key factors contributing to this underwhelming economic growth include low private sector investment, high interest rates, slow momentum in credit to the private sector, deteriorating law and order conditions, ongoing political uncertainty, and historically low global economic growth.

Projected GDP growth rate

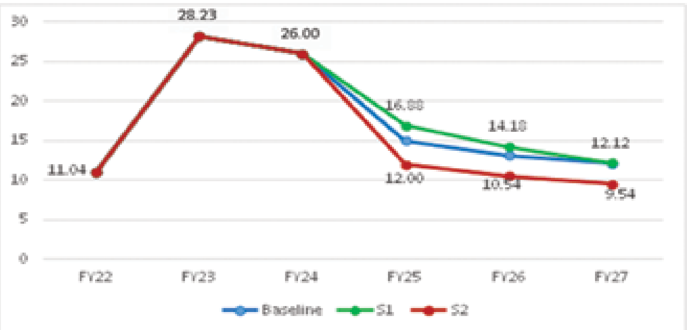


Source: Authors' estimation

Econometric projections of key macroeconomic indicators, including GDP growth rate and inflation, for the next three fiscal years is done based on three scenarios: 1) The country will not face another political crisis and severe floods, and economy remains on the balanced growth path; 2) the proposed budgetary spending in 2024-25 and current policy rate will prevail, and; 3) optimal scenario with implementation of key interventions (a 41.25pc growth in government investment, a 32.5pc increase in credit to the private sector, and a 16.75pc policy rate.) In all three scenarios the GDP growth rate is positive staying in the range of 2-3.6pc and inflation will decline from 26pc but stay between 12pc and 16.8pc, given the stated assumptions hold true.

The estimates show that the GDP growth rate target of 3.6pc for FY25 is not possible with the allocated resources. Our analysis suggests that the targeted growth rates in GDP and CPI can be achieved if the optimal scenario interventions, as mentioned above, are implemented.

Projected inflation rate



Source: Authors' estimation

Despite setting an ambitious revenue target of PKR 12.97 trillion, leaving a significant gap (PKR 7.5 trillion). Only the debt repayment of about PKR 7.3 trillion and nearly PKR 5.4 trillion for NFC deplete the entire resource pool. The situation is forecast to worsen next year, with debt servicing costs exceeding PKR 9 trillion.

Giving imports a break: the impact of recent import restrictions

The recent balance of payment crisis and sluggish economic growth rates in Pakistan created significant challenges on the economic front. One of the measures to curtail the outflow of dollars was to impose restrictions on imports in 2022, when the crisis was at its peak and the foreign exchange reserves were dwindling. The three common measures undertaken included in Pakistan were import tariffs, internal taxation of imports, and trade payment measures, which affected almost half of the imports into Pakistan.

On one hand, Pakistan reported a decrease of 21pc in the imports of products on which it imposed harmful government interventions. On the other hand, regional counterparts experienced a positive growth rate of imports, particularly of goods which were restricted in Pakistan due to government interventions.

The largest impact was on the imports of capital goods, which decreased by about 40pc, followed by a decrease of 20pc in the imports of raw materials. The government restrictions have adversely impacted new investments into Pakistan and its productive capabilities. The impact on the imports of consumer goods was comparably lower.

Given that the economic growth rates are likely to remain low in Pakistan, it may have further implications on the imports of goods into the country.

Business Confidence Survey: highlighting the fragile economic conditions

The Business Confidence Index (BCI), which is the average of the current BCI and the expected BCI, moved into the negative zone between June 2022 and December 2023. It has recovered into the positive zone since December 2023.

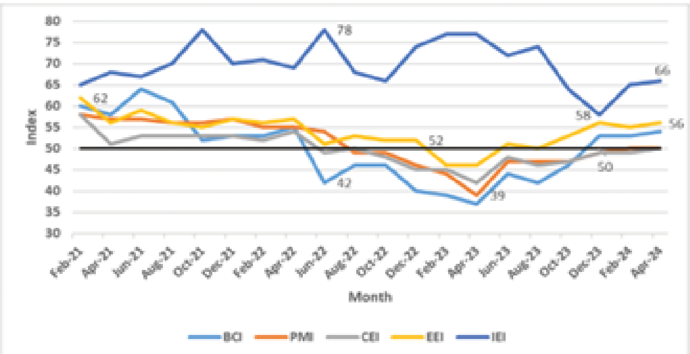
Other than the BCI, the employment index and the Purchasing Manager Index (PMI) plunged into the negative zone in the latter half of 2022 and recovered at the end of 2023.

The business community felt less confident about its hirings and purchases, suggesting poorer business prospects in the economy for most of 2022 and 2023. However, since late-2023, all major indicators have recovered suggesting improved levels of confidence. The Inflation Expectation Index (IEI) has also reduced in recent months.

The Large-Scale Manufacturing Industries (LSMI) index and the trading activities from Pakistan were also showing a downward trend in 2022 and 2023 as the average values were lower than in 2021.

However, the indicators have recovered in late 2023. This suggests that the BCI does well in explaining the economic trend in Pakistan as it correlates well with the trend in LSMI index and exports, particularly in explaining the economic slowdown in 2022 and the recovery in late 2023.

Recent trend in selected indicators suggesting the level of confidence in the economy



Source: Business Confidence Survey

Youth population, employment and skill development programmes

Pakistan presents a unique demographic situation. A large youth population, estimated at around 55pc under 35 years, signifies a potential demographic dividend. This window of opportunity can propel economic growth if this young population is equipped with the necessary skills.

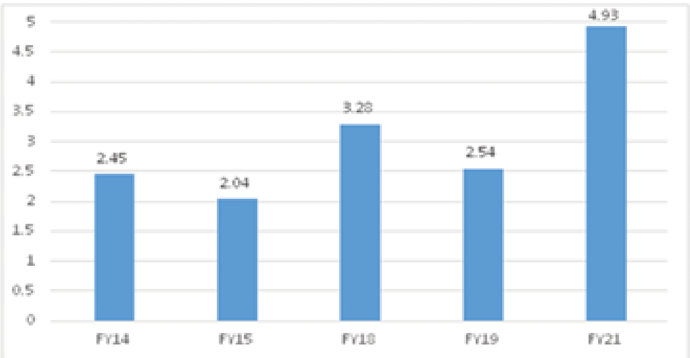
To propel Pakistan's economic and social wellbeing, a critical step lies in reforming the Technical and Vocational Education and Training (TVET) programmes offered in public institutions. There are 3634 TVET institutes in the country.

Out of these 963 are technical and 2671 are vocational training institutes. Entities similar to the National Vocational and Technical Training Commission (NAVTTC) operate at the provincial level.

Vocational training is required especially in the context of job market requirements, both nationally and internationally. Considering the country's high poverty and inequality rate it deprives the young population from education, particularly with skill development focus. The LFS 2020-21 data shows that 90.38pc have received no training.

The figure shows that for those who do receive training the level of unemployment amongst them has continued to rise. This is due to the increasing mismatch between the skills acquired and the skills demanded in the job market.

Unemployed trained labour force (percentage)



Source: LFS of various years

Watt's next? Exploring Pakistan's energy quandary

Despite having a substantial electricity generation capacity of 46,035 MW, Pakistan faces severe power outages, especially during the peak summer months. The peak demand stands at 29,000 MW, and during winter, it drops to 12,000 MW, revealing a mismatch between supply and actual demand. Millions of households across the country suffer prolonged load shedding despite paying their bills. The root of this issue lies in the structure of the power sector.

Electricity tariffs in Pakistan cover fixed costs including debt and equity payments, irrespective of demand. This structure, combined with a single-buyer model for electricity, leads to inefficiencies. High fixed costs persist, driving up consumer prices, particularly as demand fluctuates seasonally. The advent of solar power, though beneficial, introduces further complexities. Solar generation reduces grid demand during peak sunlight hours, yet the grid must still be maintained for use when solar power is unavailable.

To address these challenges, reforms are necessary. Encouraging demand through incentives, implementing a late-night tariff, and creating a competitive market through wheeling could help. Additionally, smoothing cash flows by restructuring tariffs to include more fixed components may prevent seasonal financial mismatches. Transitioning towards low-carbon, baseload, and renewable energy sources while balancing evolution of technological advancements such as solar and storage solutions is crucial for sustainable energy security in Pakistan.

Technology and elections: a tech-powered democracy

The critical role that technology may play in the political sphere, particularly the electoral process, has garnered momentum in the last decade. The recent elections of 2024 noticed political parties in Pakistan using technology in their election campaigns.

The use of technology proved to be an effective medium given the fact the share of young voters was higher as compared to other age groups. In Pakistan, 45pc of the registered voters were in the age group of 18-35 years.

Due to the low transaction costs generated by technology, we will likely see a rise in competition at both the candidate and party levels which will consequently strengthen participatory democracy.

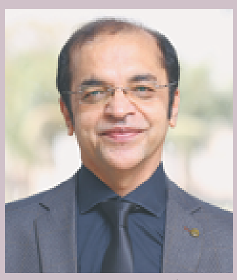
Marine plastic pollution: economic losses to economy

Marine plastic pollution (MPP), the presence of plastic particles of different sizes in rivers, seas, and oceans, is a cause for concern not merely for biodiversity and ecology, but also for economic development. This is even more so true for Pakistan, a country in desperate need of growth and development.

Based on the total volume of plastic pollution on Karachi's beaches, the report estimates the damage caused by each marginal unit of plastic pollution. This total economic loss comprises of loss to three different sectors: tourism, fisheries, and cleanup costs. Comparing the result of the total economic cost with other countries, Pakistan does not seem to be facing exceptional costs.

However, the report makes some policy recommendations capable of drastically ameliorating Pakistan's MPP issue and boosting economic development. ■

Authors


Heman Das Lohano


Lubna Naz


Qazi Masood Ahmed


Wali Ullah


Faiz ur Rehman

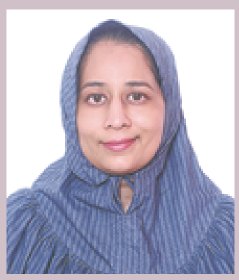

Aadil Nakhoda


Ghamz-e-Ali Siyal

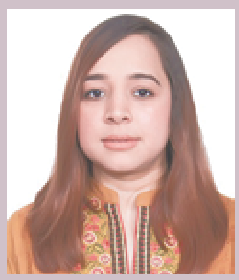

Fatima Sadik


Ammar Habib


Asim Bashir Khan


Shagufta Shabbar


Shujaat Hussain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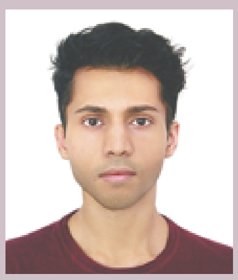
Fasih Zulfiqar

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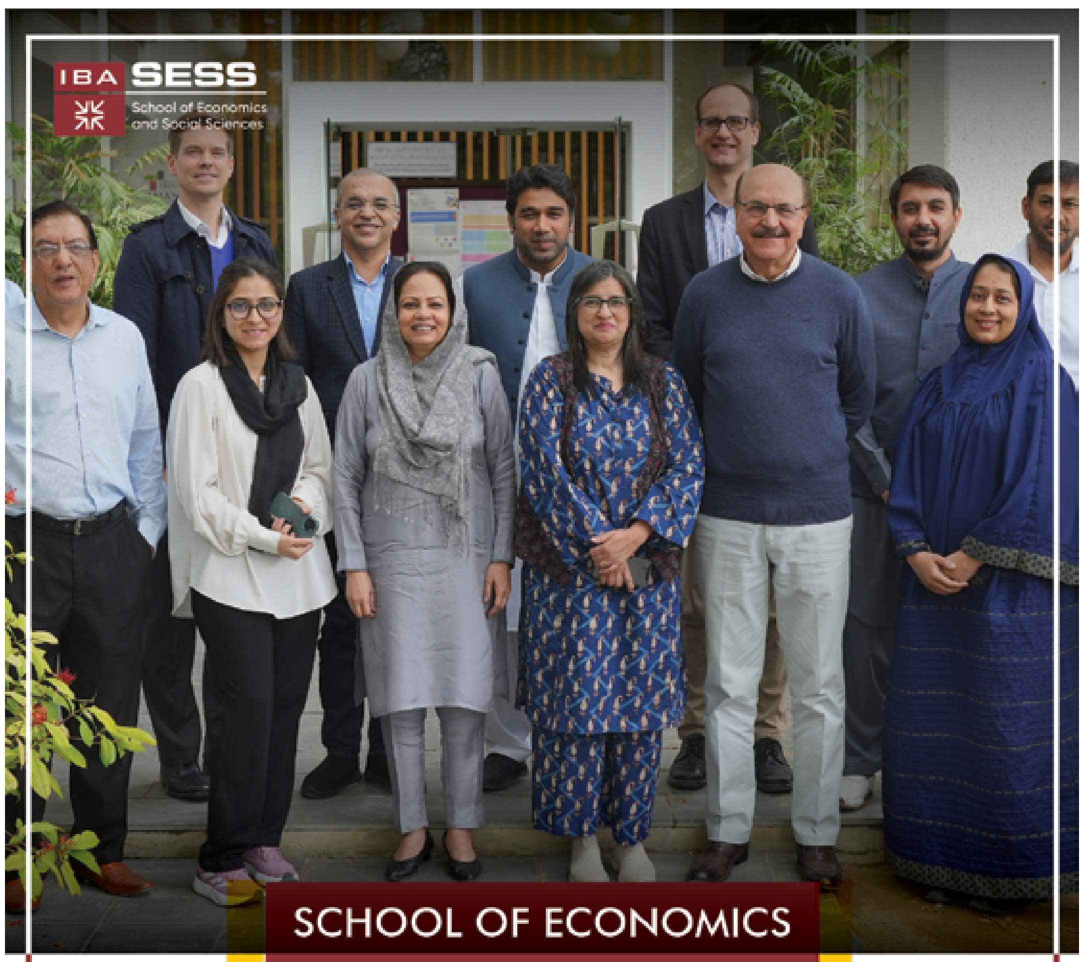

SCHOOL OF ECONOMICS AND SOCIAL SCIENCES

The School of Economics and Social Sciences (SESS) includes the Department of Economics, the Department of Social Sciences and Liberal Arts (SSLA), Centre for Business and Economic Research (CBER), Population Research Centre (PRC), Social Inequality Lab, Economic Growth and Forecasting Lab, Psychology Research and Testing Lab, and Karachi Urban Lab (KUL).

Highlights

- Over **1,000 students** are currently enrolled.
- **48:52** male-female student ratio, promoting a diverse and inclusive learning environment.
- **45+** PhD faculty members, contributing to academic excellence.
- Academic and research collaborations with world leading institutions.
- **55%** of alumni are attending programs at the top **200** universities around the world.
- Research grants for students to support innovative research initiatives.

Programs offered by SESS

- BS Economics
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CENTRE FOR BUSINESS AND ECONOMIC RESEARCH (CBER)

Centre for Business and Economic Research (CBER) is the research wing of the SESS, IBA Karachi. It serves as a platform for researchers to work with the private, public, and non-profit sectors across different disciplines of social sciences and public policy.

Mandate

- Serve as an independent think-tank to generate discourse on pressing economic and social issues.
- Publish a flagship yearly report on the state of Pakistan's economy, and organize an annual international conference of the SESS, IBA Karachi.
- Conduct training workshops for students and faculty.
- Arrange distinguished Lecture Series, Brown Bag Seminar Series and fund student research projects.

https://cber.iba.edu.pk/

POPULATION RESEARCH CENTRE (PRC)

The Population Research Centre (PRC) is dedicated to creating awareness and addressing critical issues pertaining to population dynamics and their socio-economic implications.

The PRC undertakes multiple impactful initiatives.

- The Population Bulletin, is a bi-annual newsletter that disseminates research findings, insights, and expert commentary on pressing population issues.
- Our distinguished Webinar Series invites national and international scholars from diverse areas to share their knowledge and latest research on population-related topics.
- The Young Researchers' Workshop Series, is aimed at cultivating the next generation of researchers and emerging demographers by helping them explore various datasets and tools available for quantitative and qualitative analysis.

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STUDENT HIGHLIGHTS

Eshal Arooj
Student, BS Economics and Mathematics

Over the past four years, my time at IBA has allowed me countless opportunities that would have been unimaginable elsewhere. I have expanded my understanding of economics, authored papers, led the Economics Club, and organized and presented at various conferences. I was selected to represent IBA at the South Asian Economics Student Meet in Sri Lanka. The World Bank recognized me as one of the top five budding economists in South Asia for 2024. The experience and confidence I have gained during my years at IBA are invaluable.

Abdullah Mehta
Student, BS Economics

The Economics faculty and curriculum at the IBA provided me with an exceptional platform to realize my potential as an emerging economist. The Institute's learning environment helped me explore academic ideas and write research papers, including my dissertation which I presented at esteemed conferences. With the mentoring of teachers and peers, I was able to achieve the first position within my department's Dean's list. Furthermore, the knowledge I acquired at IBA has helped me secure admission into Germany's #1-ranked economics master's program at the Universität Bonn.

Ibrahim Burriro
Student, MS Development Studies

The interdisciplinary nature of the program helped me understand the methods, policies, and practices of development through research-focused courses and rigorous training. During the course I learnt important insights about the theoretical understanding of development practices. I conducted research in flood-affected areas, leading to Association of Asian Studies' CHSS study grant for my research thesis.

Shagufta Shabbar
PhD Scholar, Economics

Joining IBA has been a transformative experience. It equipped me with strong analytical and economic thinking. Being a part of IBA's vibrant community allowed me to connect with like-minded individuals and participate in stimulating discussions. This, in turn, led to the incredible opportunity to present my research paper at the prestigious Royal Economic Society Conference, 2024 at Belfast, UK.

https://admissions.iba.edu.pk/

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CALL FOR PAPERS

FOURTH INTERNATIONAL CONFERENCE
SCHOOL OF ECONOMICS AND SOCIAL SCIENCES

9-10th DECEMBER 2024

RETHINKING ECONOMICS IN THE CONTEMPORARY WORLD

The School of Economics and Social Sciences (SESS), along with the Department of Economics and the Centre for Business and Economic Research (CBER), opens the call for papers for its fourth international conference: "Rethinking Economics in the Contemporary World."

The development of technology, the immediate effects of climate change, complex geopolitical situations, substantial migration, rapid urbanization, increasing income inequality, the emergence of digital economies, and global health crises have all engendered uncertainty and accelerated changes in the economic landscape, underscoring the imperative for better insights and new perspectives in economics profession.

This year's conference recognizes the new paradigms and shifts in economic thinking. We invite scholars and researchers from around the world to consider submitting their work, recognizing that diverse perspectives, methodologies, and frames of reference contribute to a more comprehensive understanding of social and economic issues on local, national, and global scales.

- Evolving Dynamics in Inflation and Monetary Policy
- Innovation, Productivity and Competitiveness
- Digital Transformation: Insights from Complex Economic Data
- Teaching of Economics
- Law, Institutions, and Economics
- Environment, Energy and Growth Nexus
- Cities and Infrastructure
- Human Development and Inclusion

SCAN QR CODE

Full paper / extended abstract must be submitted online by July 31, 2024 on https://cber.iba.edu.pk/rethinking-economics-in-the-contemporary-world

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