Pakistan's Macro Economy

The Pakistani economy is a tale of two halves according to the World Bank. On one hand, it noted that the county had seen economic growth of 5.3% in the 2017 financial year, its highest level in the last decade, and also predicted that this growth could potentially increase to attain 5.8% in 2019 fiscal. However despite this positive projection, the Pakistani fiscal and account deficits have increased.

The budget deficit reached record levels of Rs1.864 trillion equating to 5.8% of GDP, blowing past the government's target of 3.8%. This has been the result of some rather libertine spending for the upcoming 2018 election cycle. Furthermore their current account deficit had skyrocketed by 102% during July and August 2017 to $2.6bn compared to the previous year's total of $1.29bn. The largest determining factor is the increasing trade deficit which widened by 30% from $7.01bn in the previous fiscal year, to $9.08bn. This reflects failure of long term policy to diversify exports and reduce import dependency.

Pakistan should utilise its 46.2 million acres of arable land, as there is potential for improving agricultural output and efficiency. In 2015 Pakistan's agriculture sector was valued at approximately $68bn by the World Bank, however there is room for the industry to grow further, as there are a number of waste management and yield inefficiencies. In fact, despite agriculture being its second largest industry, Pakistan is a net importer of food. There is a definite potential for crop yields in the Punjab to increase two-fold from current levels. There is a similar trend in disparity between current yields and potential yields in maize, rice, cotton, and sugarcane. The yield gap is primarily due to the lack of investment in research and development and creation of high yielding varieties. Cultivated varieties of cotton, sugarcane, maize and potato for instance are instead developed abroad and adopted into Pakistan despite being created for different climatic conditions. The investment is most certainly worth it as the International Food Policy Research estimates that accelerating agricultural growth will lead to greater economic growth and an additional 2.6% gain in average household income.

Labour productivity is also an issue for Pakistan. Matters are not helped by the lack of incentives for the female labour force. Overall only 22% of female Pakistani's over the age of 10 are in work, and in some sectors earn approximately 40% of what men earn, and only 25% of women in Pakistan with a university degree work outside of homes.

Nonetheless Pakistan's demographics could be turned into a major strength, and currently it has the 6th largest population on the planet with 198 million people, with the middle classes numbering around 84 million according to economist Akbar Zaidi - a population size larger than the United Kingdom. The IBA-SBP Consumer Confidence Index showed a peak figure of 174.9 points which suggested rising consumer demand within Pakistan and consumer spending in Pakistan in 2017 amounted to $333.71bn, and retail sales growth reached 6.7% in the same year. All this points towards the increasing potential of Pakistan as a major FMCG and Food and Beverage market. The importance of Pakistan as a consumer market is best highlighted by PepsiCo which ranks Pakistan as one of its top 10 markets outside of US, posting revenues of Rs82bn. The food and beverages market in Pakistan grew by 4.8% last year, presenting a prime opportunity for investors to follow PepsiCo's lead by taking advantage of the burgeoning Pakistan middle class.

2017 has been something of a breakthrough year for the Pakistani IT industry primarily through the mobile and gaming application development sector. The PSEB stated that there was a need to promote gaming and animation at an international level to increase Pakistani developer's market share. The nation's IT exports reached a total of $2.9bn and total revenue neared $3.5bn. The industry is expected to continue developing in the long term with plans focusing on developing infrastructure, encouraging entrepreneurship and innovation, meeting increasing domestic demand for ICT products and services, and adopting ICT in the public sector. Educational and community broadband centres are being created across the country, and telecom coverage is being expanded to rural areas. With this being said, Pakistan still lags behind direct rivals India in the IT market as contribution of IT towards India's GDP is equal to the contribution of agriculture to Pakistan's GDP.

The smartphone and internet market in Pakistan is also rapidly growing. In fact, Pakistan's internet market is one of the fastest growing in Asia, last year 18% of the population currently were connected with the internet. There is massive potential to increase these numbers given that 73% of the population had a mobile subscription in 2016. Since then there has been continual growth in the amount of individuals connected to the internet, actively engaging in social media, and purchasing mobile subscriptions. Smartphones make up 70% of all web traffic in Pakistan, making mobile advertisement and marketing incredibly valuable. It is estimated by 2020 Pakistan will have 17 million new mobile subscribers.

The shining light in Pakistan's economic story is the Chinese investment into the China Pakistan Economic Corridor (CPEC), and China's One Belt One Road initiative includes investments of $57bn into Pakistan. Chinese companies are looking to explore mining opportunities in the Balochistan province, and extend its civilian and military naval influence in the Arabian sea via a port development in Gwadar. Plans for infrastructure improvement within Pakistan have also been underway - China has invested in building power plants to improve the unreliable electric supply in Pakistan. Other projects include improved roads, pipelines and railways, installation of fibre optic communications, new dams, and other infrastructural upgrades. It would therefore appear that CPEC's larger goal is to advance the local Pakistani economy. This would counter the potential improved relations between India and the United States.

One of the aims of the Chinese Silk Road project is to gain access to minerals in the area which include marble, limestone, coal, chromite, as well as precious metals such as gold and copper. Current valuations of potential earnings extend to the trillions.

Currently however there are questions about safety and security which has historically deterred Western investment. Balochi nationalists have been engaging in varying levels of guerrilla warfare in the region since 1948, preventing access and development in the most resource rich province. The Chinese are working closely with the Pakistani Army in order to secure the area, however the rest of the world is looking with renewed interest to ascertain whether the Chinese investment is a viable medium term project. Should this be the case, then the upside potential to the Pakistani economy will be significant, as it is predicated that other nations will join the mineral rush.

Authorised and Regulated by the Financial Conduct Authority with a registration number; 720217
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