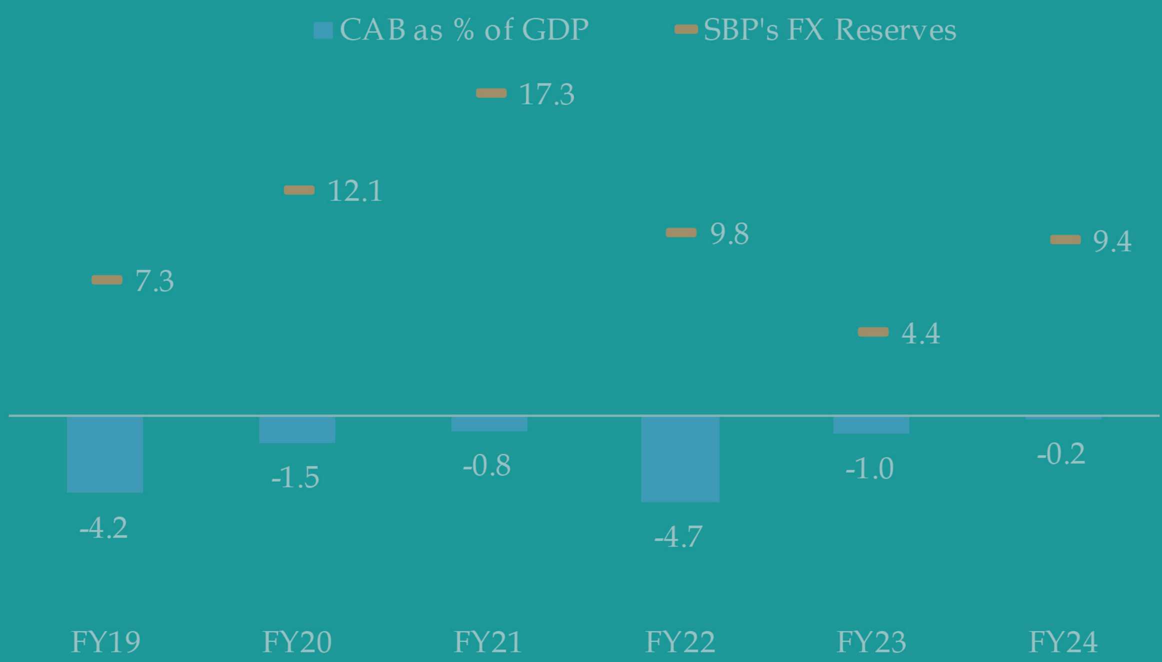
6

Balance of Payments

Pakistan's external account position improved during FY24, supported by stabilization policies, reforms in exchange companies, and successful completion of the IMF Stand-By Arrangement. The current account deficit narrowed further with increase in exports and remittances, as well as muted growth in imports. The financial account also saw net inflows in FY24, against net outflows in FY23, from both multilateral and bilateral creditors. The resulting improved liquidity in foreign exchange market offset the impact of higher interest payments and increased repatriation of profits and dividends. With these favorable developments, the country's liquid foreign exchange reserves almost doubled along with the reduction in outstanding forward/ swap liabilities; and the PKR stabilized, with Kerb-market premium plummeted since September 2023.



6 Balance of Payments

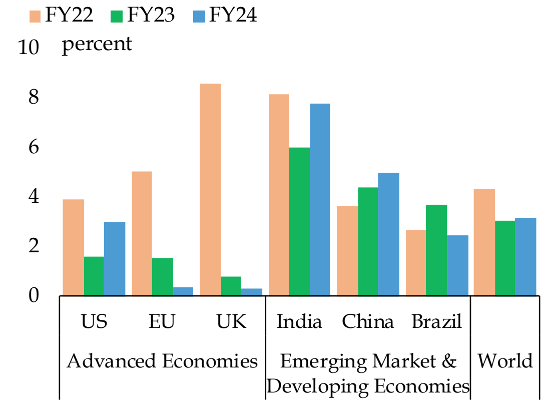
6.1 Global Economic Review

Global economic activity improved, driven by increase in private consumption and higher public spending, an uptick in services activity, and robust technological exports.[1] Accordingly, the global GDP grew by 3.2 percent in FY24 – only marginally higher than 3.1 percent in FY23 (**Figure 6.1**). Meanwhile, the pace of global disinflation decelerated due to persistently high services inflation. As a result, monetary policy stance remained tight in most of the advanced economies (AEs) and some of the emerging market and developing economies (EMDEs) during FY24.[2]

After experiencing a near stagnation in 2023, global trade volumes improved towards the end of FY24 in line with global GDP growth pattern as shown by the trend in manufacturing purchasing managers' index (PMI) (**Figure 6.2**).[3] However, the growth in trade volume still remains below its historical average mainly due to rising cross-border trade restrictions amid increased geopolitical concerns.[4] Additionally, global transportation costs increased after attacks on commercial shipping in the Red Sea region. This has caused severe container shortages as vessels remained stuck due to rerouting of cargoes. On balance, these challenges were largely offset by the ease in global supply chain pressures, reflected by decline in global commodity prices in FY24 (**Figure 6.3**).

The decline in global commodity prices was mainly driven by falling energy and food prices. Energy prices declined due to a sharp fall in gas prices as stocks piled up amid mild winter temperatures, slower industrial activity in

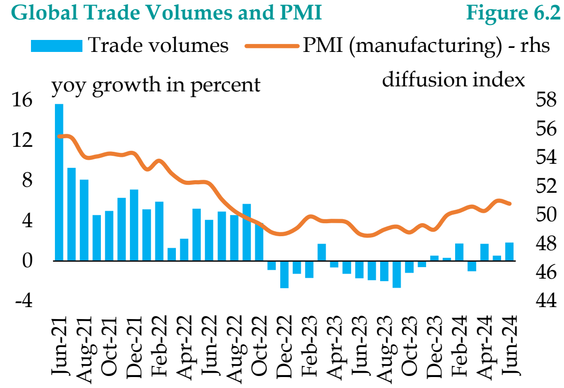
Real GDP Growth in Major Economies* **Figure 6.1**



*average of 4 quarters
Source: Bloomberg

Europe, and adequate supplies of liquefied natural gas (LNG). Compared to natural gas, the oil price witnessed a marginal decline as the concerns of sluggish demand and sufficient spare capacity due to an increase in supply from non-OPEC+ countries were more than

Global Trade Volumes and PMI **Figure 6.2**



Note: Monthly PMI is used as a proxy for GDP growth due to its leading indicator characteristics and historical correlation with economic activity.
Sources: CPB World Trade Monitor; Bloomberg

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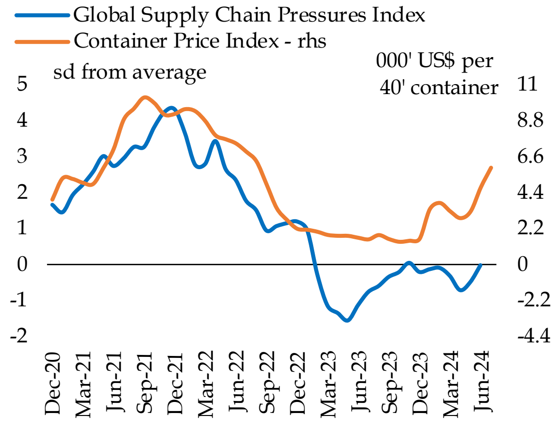
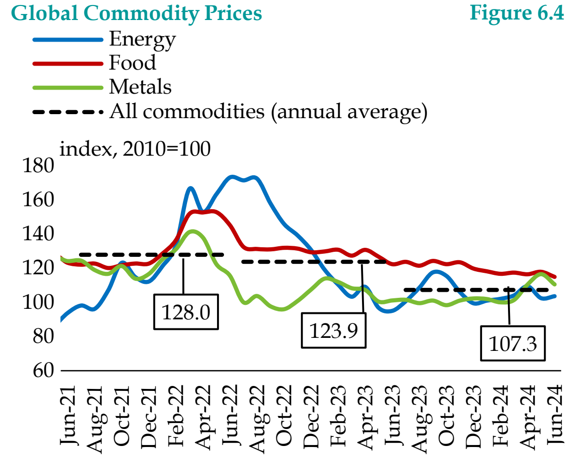
[1] Private consumption improved in US and China, services activity enhanced in Euro Area, while technological exports remained strong in major emerging economies. In addition, public spending, as measured by structural fiscal balance, became more expansionary than initially projected in US and Euro Area.
[2] See discussion on inflation and global monetary policy responses in **Chapter 3**.
[3] Monthly PMI is used as a proxy for GDP growth due to its leading indicator characteristics and historical correlation with the economic activity.
[4] Global Trade Alert reports there were about 3000 new trade restrictions in 2023.

Global Supply Chain Pressures **Figure 6.3**



Note: sd means standard deviation
Source: Newyork Fed and Bloomberg

Global Commodity Prices **Figure 6.4**



Source: World Bank

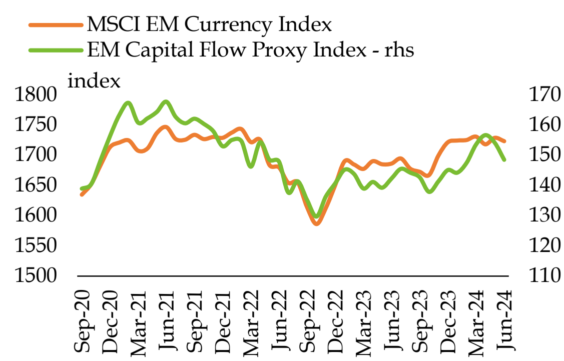
counterbalanced by output restrictions from OPEC+ (**Figure 6.4**). Moreover, global food prices have fallen, largely driven by a drop in vegetable oil prices, due to a seasonal increase in production as well as reduced import demand.

On the other hand, the prices of metals increased, before edging down towards the end of FY24. The rise was fueled by supply disruptions coupled with stronger-than-expected demand from China.[5] Nonetheless, prices of major commodities, which have strong bearing for EMDEs, declined in FY24.[6] The ease in global commodity prices had a favorable impact on inflation dynamics. The headline inflation seems to be on course to fall in the target range, albeit at a slower pace in AEs compared to the EMDEs. Accordingly, the central banks in EMDEs lowered the interest rates, while the central banks in AEs remained cautious.

As a result, funding cost continued to remain elevated as the delay in monetary policy easing in the US and other AEs exacerbated financial market volatility. Consequently, EMDEs witnessed net capital outflows lately, leading to increased pressures on their currencies (**Figure 6.5)**.

In addition, market expectations indicated the tight monetary policy stance in AEs to prolong, as shown by market-implied path for federal funds rate (**Figure 6.6**).[7] This has stressed fiscal position of EMDEs, burdened by higher debt servicing. Interest payments, as a share of total revenues, have increased in most of the EMDEs

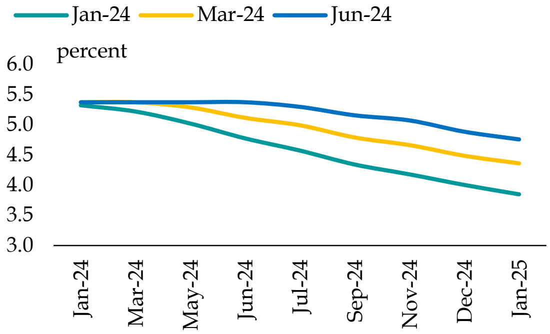
Capital Flows and Currency Index **Figure 6.5**



Note: The MSCI Emerging Markets (EM) Currency Index tracks the performance of twenty-five emerging-market currencies relative to the US Dollar.
Source: Bloomberg

[5] Supply disruptions arose following the ban on Russian-origin metals, including aluminum and copper, by major commodity exchanges in the United States and the United Kingdom. The reduction in copper and zinc supplies occurred as key producers scaled back their production in reaction to previous price declines
[6] Most of the EMDEs rely on import of commodities such as wheat, fertilizer, cotton, edible oil and crude oil. The prices of these commodities declined in FY24 over FY23 (**Figure 6.35)**.
[7] In June 2024, market expectations suggest federal funds rate to decline to 4.75 percent by January 2025. However, after a cut of 50 bps in September 2024 FOMC meeting, market expects the federal funds rate to decline to 3.75 percent by January 2025.

Market Implied Fed Funds Rate* **Figure 6.6**

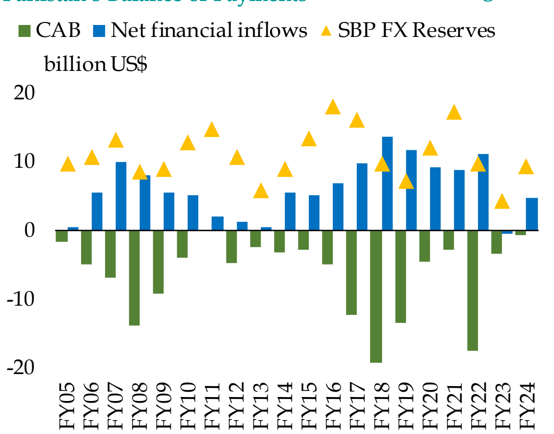


*The market-implied path of the federal funds rate is a prediction of the future path of the federal funds rate based on the prices of financial instruments.
Note: x-axis denotes monetary policy meeting months
Source: Bloomberg

(**Figure 6.7**). The resulting erosion in fiscal buffers is creating difficulties for many emerging economies to make necessary capital spending to cope with frequent adverse supply shocks, adopt to climate change, accelerate digital transformation, and ensure energy security.

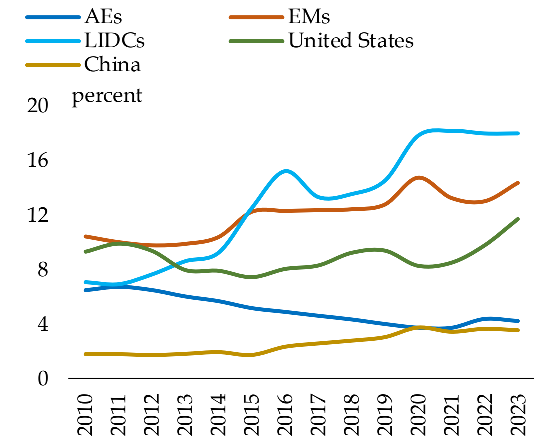
While global growth has stabilized, the pace of growth is still modest compared to the historical standards. Importantly, the growth remains notably weak in countries with high rates of inflation. The headline inflation is falling towards central bank targets, however, core

Pakistan's Balance of Payments **Figure 6.8**



Source: State Bank of Pakistan

Interest Payments as Percent of Revenue **Figure 6.7**



Source: IMF Fiscal Monitor

inflation continues to persist. This has led the central banks in AEs to adopt a cautious monetary policy stance.

These developments, especially the modest GDP growth, coupled with the cautious monetary policy stance adopted by AEs is affecting the growth prospects of EMDEs, including Pakistan. Moreover, it also creates volatility in their currency markets and affects capital flows. To some extent, this is contributing to inflationary pressures as weaker currency makes imports costlier.[8] Given these challenges, the medium-term growth prospects of EMDEs appear less sanguine.

6.2 Pakistan's Balance of Payments

Pakistan's balance of payments improved with further narrowing of current account deficit (CAD) and increase in net financial inflows, supported by IMF's Stand-By Arrangement (SBA). Consequently, by end June 2024, the SBP's gross FX reserves more than doubled from the end June 2023 level (**Figure 6.8 & Table 6.1)**. These developments, accompanied by administrative actions and reforms in the exchange companies, contributed to a modest exchange rate appreciation during FY24.

[8] Some of the emerging economies like Moldova, Ukraine, Sri Lanka witnessed a slight upturn in their inflation readings of June 2024 on YoY basis.

Pakistan's Balance of Payments **Table 6.1**

million US$; growth in percent

	FY23	FY24		FY24	FY24	
		H1	H2		Abs. Change	Growth
Current account balance	-3,275	-922	257	-665	2,610	-79.7
Trade balance	-24,819	-10,152	-11,913	-22,065	2,754	-11.1
Exports	27,876	15,276	15,825	31,101	3,225	11.6
o/w Textile exports	16,633	8,214	8,087	16,301	-332	-2.0
Non-textile exports	11,243	7,062	7,738	14,800	3,557	31.6
Imports	52,695	25,428	27,738	53,166	471	0.9
o/w Energy imports	18,882	7,354	7,808	15,162	-3,720	-19.7
Non-energy imports	33,813	18,074	19,930	38,004	4,191	12.4
Services balance	-1,042	-1,156	-1,150	-2,306	-1,264	121.3
Primary income balance	-5,765	-3,899	-4,724	-8,623	-2,858	49.6
o/w interest payments	4,612	2,899	2,788	5,687	1,075	23.3
Secondary income balance	28,351	14,285	18,044	32,329	3,978	14.0
o/w Workers' remittances	27,333	13,436	16,814	30,250	2,917	10.7
Capital account balance	375	88	87	175	-200	-
Financial account balance*	468	-4,523	-131	-4,654	-5,122	-1,094.4
Direct investment (net)†	-670	-834	-801	-1,635	-965	144.0
Portfolio investment (net)†	1,012	-71	448	377	-635	-62.7
o/w Eurobonds/Sukuk	-1,000	0	-1000	-1000	-	-
Build-up in FX assets abroad	-964	-215	95	-120	844	-87.6
FX loans & liabilities	-1,099	3,403	-127	3,276	4,375	-
Banks	1,241	151	588	739	-502	-40.5
General government	-2,085	2,138	-593	1,545	3,630	-174.1
Disbursements	9,891	2,896	3,136	6,032	-3,859	-39.0
Amortization	11,660	2,851	3,884	6,735	-4,925	-42.2
Other liabilities (net)	-316	2,093	155	2,248	2,564	-
Other sectors	-255	115	-122	-7	248	-97.3
Disbursements	398	644	1,768	2,412	2,014	506.0
Amortization	1,663	788	1,135	1,923	260	15.6
Other liabilities (net)	1,010	259	-755	-496	-1,506	-
Net Errors and Omissions	-850	-683	-619	-1,302	-452	-
Overall Balance	4218	-3006	144	-2862	-	-
SBP’s liquid reserves (end-period)	4,445	8,233	9,390	9,390	4,944	-
PKR app(+)/dep(-) in percent (end-period)	-28.4	1.5	1.3	2.7	-	-

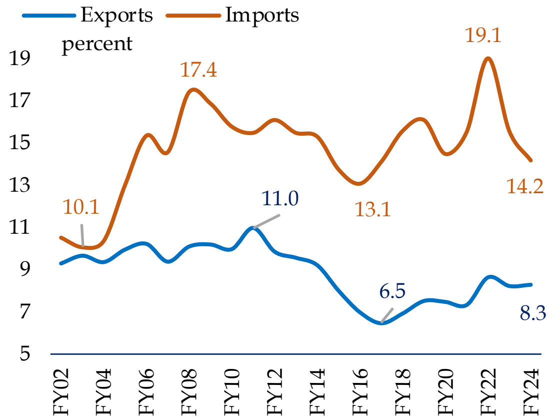
*as per BPM6, negative sign means net FX inflow into Pakistan and vice versa; †net investment abroad minus net investment in Pakistan

Source: State Bank of Pakistan

The CAD fell to 0.2 percent of GDP in FY24 – the lowest in last 13 years. This significant reduction can be attributed to improved trade balance and increase in workers’ remittances. The improvement in trade balance was mainly due to quantum-driven growth in exports, as imports also slightly increased. A muted growth in imports is attributed to a moderate recovery in economic activity, ease in global commodity prices, and lower food and raw cotton imports. Nonetheless, the primary income deficit has widened substantially due to increased interest payments and repatriation of profits and dividends. Similarly, the trade in services balance also deteriorated largely due to an increase in passengers traveling abroad.

The financial account witnessed net inflows in FY24, against net outflows in the previous year. This reversal is mainly due to official inflows, supported by IMF’s SBA disbursements. There was also an uptick in foreign investment in

Pakistan's Exports and Imports as Percent of GDP **Figure 6.9**



Source: State Bank of Pakistan

Pakistan, both in equity and debt, attributable to relatively higher returns. As a result, external buffers improved during the year.

The SBP's FX reserves rose by US$ 4.9 billion during FY24 to reach US$ 9.4 billion at end June 2024. The reserves are sufficient to finance 1.6 months of next year's imports of goods and services.[9] Further, narrowed current account deficit, improved financial inflows and reforms in the foreign exchange companies led to strengthening of PKR against US$ since September 2023. As a result, the exchange rate has remained broadly stable in the second half of FY24 after gradual appreciation from mid of September to December 2023. The real effective exchange rate (REER) also appreciated, largely due to rising inflation differential amid sharp decline in trading partners' inflation vis-à-vis domestic inflation. This may have implications for competitiveness of Pakistan's exports.

Notwithstanding the improvements in external account during FY24, Pakistan's exports-to-GDP ratio has stagnated below 10 percent in the last decade (**Figure 6.9)**. This can be attributed to lack of competitiveness, diversification, value addition, research and development (R&D); and limited penetration of Pakistani firms in global markets (**Box 6.1**). Addressing these challenges would support growth, both via development of manufacturing base and reduction in country's reliance on external borrowing over the medium to long term.

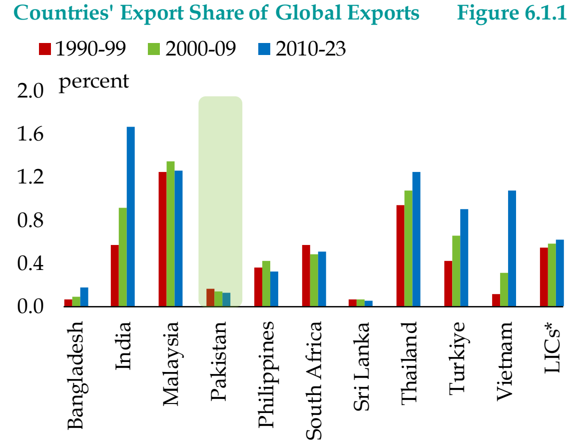
Box 6.1: Addressing Structural Challenges to Pakistan's Exports

Pakistan's exports have averaged around 8 percent of GDP since 2010 and its share in global markets has been on a decline in contrast to peer countries (**Figure 6.1.1**). These trends have increased country's susceptibility to balance of payment pressures, accumulation in foreign debt, and exchange rate volatility, amongst other macroeconomic issues.[10]

In this regard, SBP's (forthcoming) Thematic Report on Exports has analyzed the key structural issues underpinning Pakistan's weak export performance, and made recommendations based on international best practices. It is important to note that most of these issues are interrelated, hence the recommendations for one issue may serve as a catalyst in addressing the other. This box summarizes the key findings of the report as follows:

Removing anti-export bias in trade policies: Pakistan's anti-export bias and protectionist measures incentivize allocation of resources away from exports to domestic markets, encouraging inefficiencies and high cost.[11] This protectionism

Countries' Export Share of Global Exports **Figure 6.1.1**



*low-income Countries
Source: UNCTAD

[9] Source: IMF available at; https://www.imf.org/en/News/Articles/2024/09/27/pr-24343-pakistan-imf-concludes-2024-aiv-consultation-pakistan-approves-37-mo-extended-arr
[10] 'What are the factors making Pakistan's exports stagnant? Insights from literature review'; PIDE Knowledge Brief; March 2023
[11] IMF (2022). Pakistan: Selected Issues, IMF Staff Country Reports, Vol. 2022, No. 27.

shields local producers from competition, fostering rent-seeking behavior.[12] As a result, Pakistan is largely disconnected from the global value chain, leading to an inward-oriented economy.

In this regard, the tariff policy needs to be revisited with the objective of simplifying and lowering import duties to remove anti-export biases. Additionally, there should be a long-term aim to phase out protectionism as a policy and create the requisite supply conditions to enable a graduation towards low and uniform tariffs. Moreover, the government's approach must permanently shift away from using tariffs as revenue measures with the removal of para-duties. These reforms can be supplemented by maintaining exchange rate flexibility, curtailing smuggling and bolstering international trade agreements. These steps will serve to increase incentives to export by lowering costs and tariffs, enhancing international competitiveness, and reducing market distortions.

Improving aggregate productivity: Long-term productivity growth in Pakistan has been stagnant across agriculture, manufacturing, and services.[13] It is specifically hampered by scarce skilled human capital, limited female labor force participation and inadequate investment.[14] This is further exacerbated by low foreign direct investment and limited presence of multinational companies which results in lack of technological transfer and development of human skills.[15]

To address these issues, efforts should be diverted towards the development of human capital and encourage female employment through; (a) imparting skills keeping in view the industry's demand, (b) equipping the existing vocational and training institutions with the latest machines, systems and staff trainings, (c) arranging awareness sessions for marginalized sectors like SME and agriculture, and (d) gender-blind hiring and improving workplace harassment legislation. In addition, firms should be incentivized to boost productivity by upgrading machinery and technology including digital solutions.

Strengthening institutional and business environment:[16] Pakistan's institutional environment is characterized by weak contract enforcement, inefficiency, and policy uncertainty. This undermines export prospects by creating distortions, increasing business costs, and adding administrative burdens, which impedes the development of a dynamic and competitive landscape. In addition, weak quality infrastructure owing to lack of standardization and testing facilities, and weak accreditation raise costs for exporters, as they must obtain various certifications for different countries. Informal producers also undercut the market with inferior products, preventing compliant firms from achieving cost efficiencies in an environment where enforcement of standards is weak and policies tend to favor low price over quality.

Accordingly, there is a need for institutional reforms aimed at streamlining regulations and procedures. These include, but not limited to, reducing organizational entities with overlapping jurisdictions, revitalizing the e-office suites in the ministries, introducing public finance management, strengthening the secretaries' committees for ministerial coordination.[17] On the issue of quality infrastructure, government needs to facilitate in obtaining global equivalence as well as get the domestic institutions accredited with international bodies. Further, digitization of government services like the issuance of licenses, approvals, no-objection certificates and other public goods will not only reduce the cost of doing businesses but will foster a competitive export sector as well.[18]

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[12] For example, government intervention such as protectionism may have the unintended consequence of making domestic profits abnormally high. Consequently, this leads to inward looking firms which devote all business and resources locally. Anti-export bias is thus an umbrella term for such distortions.

[13] WBG (2021). Pakistan Development Update, Reviving Exports: World Bank

[14] Source: World Development Indicators, World Bank.

[15] Amjad, R., & Awais, N. (2016). Pakistan's productivity performance and TFP trends 1980-2015: Cause for real concern. Khan, S. U. K.

[16] World Development Indicators, World Bank.

[17] Volume –I. Institutional Reforms in the Federal Government August 2018-August 2021. Reports on Reorganizing the Federal Govt.; Civil Services Reforms, Business Process Re-Engineering and Restructuring Key public sector Institutions. Available at: ishrathusain.iba.edu.pk/pdf/icr-volume-i.pdf

[18] South Korea's UNI-PASS e-system automates all customs procedures without requiring service users to pay in-person, enhancing the country's export efficiency. Source: Jones, D. S. (2008). Comparative Governance Reform in Asia: Democracy, Corruption, and Government Trust Research in Public Policy Analysis and Management, Volume 17, 111–134

Enhancing research and development (R&D): Low R&D in Pakistan hinders innovations and productivity. This is evident from Pakistan's low scores in the Global Innovation Index 2023 in areas like patents, creative goods exports, and knowledge-intensive jobs.[19] One of the major hurdles behind low levels of R&D and innovation is insufficient funding. Globally, pooling of funds and technical collaboration is done by sectoral trade organizations (TOs), unlike Pakistan where it is typically relied upon government.[20]

This can be addressed by pooling of government funds with the private sector (export development fund/sectoral levies) and establish dedicated research institutes to conduct R&D projects. An oversight body may be established to ensure effective utilization of R&D funds. Research commercialization should also be a key end-product of every sectoral R&D framework.[21] In addition, the country's TOs needs to be reformed along with fiscal incentives for private sector R&D, where sectoral R&D frameworks' integration along global value chain also needs to be in place.

Addressing the issue of Intellectual Property Rights (IPRs): Despite signing major IPR treaties and having a legal framework and regulator, Pakistan struggles with poor implementation of IPRs. For example, there is a dearth of IP tribunals leading to significant delays in IPR violation cases. There is also low awareness of IPRs in the country and weak penalties for its violations. These problems harm exports by discouraging R&D, complicating branding, and preventing innovators from scaling up.

To overcome this, specialized IPRs government bodies need to educate businesses about the value of protecting IPRs, facilitate firms in IPR protection, and ready them for international markets. This may be done in coordination with other public sector bodies, such as SMEDA and private sector trade associations. Domestically, it is vital to expand and strengthen specialized IPR courts as well as IPR training to judges and legal practitioners for better IPRs enforcement in Pakistan.

Increasing outreach to new markets for exports: Pakistan's exports have remained concentrated in a few sectors and destinations. For instance, the textile and food constitute major portion of exports, with little change to this pattern.[22] Similarly, most of Pakistan's exports between FY06 and FY23, went to USA, UK, select EU economies and China. Due to the lack of diversification in export markets, exports are susceptible to destination-specific and sectoral shocks. The ability to expand export destinations is also constrained by weak levels of competitiveness and poor trade infrastructure.[23]

To tap new export markets, public and private sector stakeholders need to extensively engage in conducting market research, localized marketing, forging partnerships and leveraging e-commerce platforms.[24] Further, assessment of Pakistan's comparative advantage in difference sectors and analysis of top traded global commodities in new or non-traditional sectors is also warranted to diversify exports.[25] The trade missions abroad can facilitate Pakistani exporters by maintaining an up-to-date list of relevant information, such as key markets, quality standards, safety protocols, non-tariff barriers, key contacts in relevant government institutions, product-specific trade bodies and their key staff, buying agents and other local agents.

[19] GII is calculated on basis of a country's state of institutions, human capital and research, infrastructure, market sophistication, business sophistication, knowledge and technology outputs and creative outputs. Some of the metrics analyzed for this table include sub-metrics of Business sophistication including knowledge intensive employment and the sub-metrics of the metric Creative Outputs including creative goods exports as percent of total trade. It also includes the sub-metrics of Knowledge and Technology Outputs including Patents by origin and high-tech exports as a percent of total trade. The rank is out of 211 economies. Source: WIPO

[20] For instance, the Barcelona Chamber of Commerce developed the Knowledge Innovation Market with the objective of promoting innovation through technology evaluation and collaborations with universities, research centers, technology parks and public administrations.

[21] South Korea's heavy R&D investment in semi-conductor sector and the subsequent commercialization of high-quality semiconductor products helped it in becoming one of the world's leading exporters of semiconductors.

[22] For instance, textile and food exports combined accounted for 74.2 percent of total exports in FY06, which increased marginally to 77.6 percent in FY23.

[23] *WBG (2021). Pakistan Development Update, Reviving Exports: World Bank*

[24] *International Trade Council website: https://tradecouncil.org/export-market-diversification/*

[25] SBP estimates suggest, other than textile, Pakistan has comparative advantage in vegetable products, footwear and live animals.

To facilitate logistics and trade infrastructure, government needs to develop a rail cargo system to improve the efficiency of goods transportation within Pakistan and potentially extend it across borders. While these projects are long-term in nature, government may consider subsidizing international air cargo flights in the interim to support exports to new and far-flung regions. Lastly, commercial banks may be taken on board to open operations in potentially new markets to facilitate exporters.

6.3 Current Account

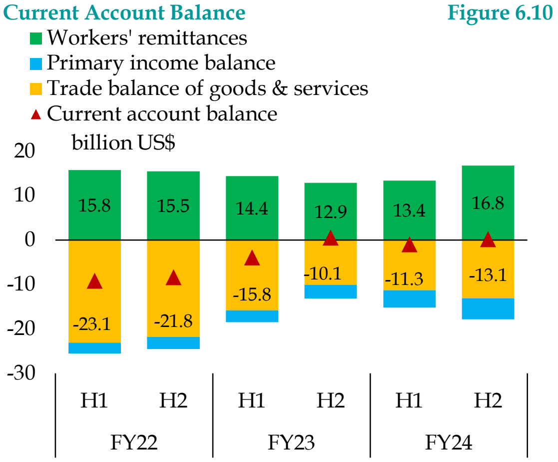
The CAD narrowed by 79.7 percent to $0.7 billion in FY24, from US$3.3 billion in FY23. This significant reduction in the CAD is attributed to improved trade balance and policy-driven growth in workers' remittances, which partially offset the widening in primary income deficit (**Figure 6.10**). Workers' remittances were particularly strong in the second half of FY24, driven reduced kerb premium, and various incentives announced by the government and the SBP.[26]

The narrowing of the trade deficit was primarily due to increase in exports, as imports also grew moderately by 0.9 percent in FY24 against the contraction of 26.3 percent in FY23. The key factors that contained growth in imports included increase in domestic crop output, improved electricity generation mix, and decline in global commodity prices.[27]

Exports grew by 11.6 percent, largely supported by increased volumes as unit values witnessed decline. Also, the growth in exports was majorly attributed to non-textile groups, especially food group, which was the first time since FY18. Food exports surged by 49.5 percent in FY24 on the back of record rice exports, supported by bumper harvest and India's ban on rice export.[28] Excluding rice, overall exports posted a growth of 6.4 percent.

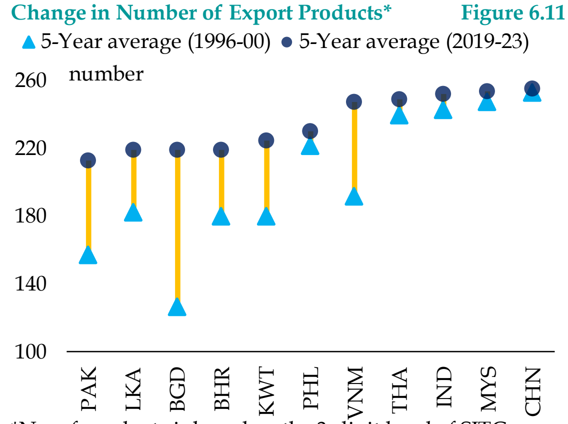
Notwithstanding improved export performance in FY24, occasional spurts in exports have remained mostly concentrated to a particular group or an item. This is because the country has a limited export basket, which does not bode well for sustained increase in exports. **Figure**

Current Account Balance — Figure 6.10



Source: State Bank of Pakistan

Change in Number of Export Products* — Figure 6.11



*No. of products is based on the 3-digit level of SITC, Revision 3. The maximum number of products is 261

Source: UNCTAD

[26] SBP and GoP introduced a number of policy measures including; Reforms in the Exchange Companies Sector (www.sbp.org.pk/epd/2023/FEC3.htm); Enhancement in the Reimbursement of TT Charges (www.sbp.org.pk/epd/2023/FECL14.htm); and Incentive Scheme for Marketing of Home Remittances (www.sbp.org.pk/epd/2023/FECL15.htm) to encourage the flow of remittances through formal channels.

[27] Disaggregated data reveals that there was a significant increase in non-essential imports like machinery, transport, metals, and raw materials as SBP eased priority guidelines since the start of fiscal year. However, improved domestic crop output coupled with declining global commodity prices led to decline in imports of essential items like food, petroleum and cotton.

[28] Worried over lower output due to the El Nino weather pattern, India banned shipments of non-basmati white rice varieties in July 2023, and imposed curbs on other grades in order to address the concerns over food security and high domestic prices.

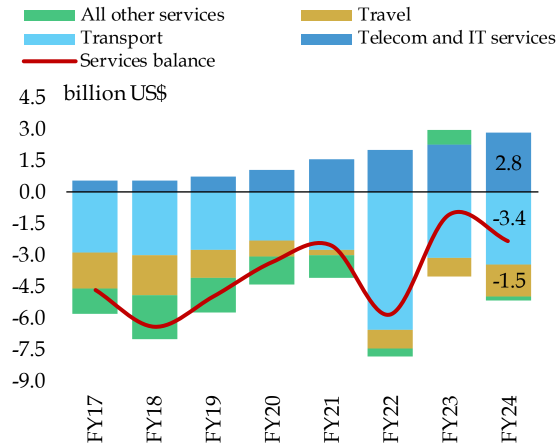
6.11 shows that even after witnessing an improvement over the last two decades, Pakistan's exports basket still has the lowest number of items as compared to the regional peers.

Services Account

The services trade deficit more than doubled in FY24, as growth in services imports outweighed the increase in exports. The import of services increased by 17.0 percent in FY24, against a decline of 33.3 percent in the previous year. This was primarily driven by increased payments for transport, travel, and technical services related to trade and other businesses (**Figure 6.12**).

Services Account Balance

Figure 6.12



Source: State Bank of Pakistan

Almost entire growth in transport payments came on the back of a surge in air travel, which can also be corroborated from the increased personal travel payments.[29] Specifically, these are because of a gradual increase in international air fares as well as higher international traffic, particularly from the Asian region, as measured by Revenue Passenger Kilometers (RPK) (**Figure 6.13**).[30,31] On the other hand, sea freight – the major component of goods transport segment – remained almost similar as in the previous year, in line with the lackluster growth in import of goods (**Table 6.2**).

Trade in Services in FY24

Table 6.2

million US$

	Import (M)		Export (X)		Balance (X-M)	
	FY24	Absolute Change	FY24	Absolute Change	FY24	Absolute Change
a) Transport	**4,292.0**	**233.8**	**859.0**	**-67.7**	**-3,433.0**	**-301.5**
Sea freight	2,603.3	-29.2	85.8	-58.0	-2,517.5	-28.8
Air passengers	1,164.8	272.3	344.8	-70.3	-820.1	-342.6
Air freight	54.2	-10.6	25.4	-0.4	-28.8	10.2
b) Travel	**2,270.5**	**393.5**	**759.1**	**-212.4**	**-1,511.5**	**-605.8**
Education expenses	519.9	160.6	21.3	9.7	-498.6	-150.9
Other (personal)	1,724.5	223.5	710.6	-235.9	-1,013.9	-459.3
c) ICT Services	**395.6**	**96.6**	**3,222.9**	**626.1**	**2,827.2**	**529.4**
Software consultancy services	166.6	36.8	870.1	109.9	703.5	73.2
Other computer services	28.0	-9.5	1,140.0	409.6	1,112.0	419.1
Export/Import of computer software	120.1	33.2	631.3	33.2	511.2	-0.1
Telecommunications services	74.3	36.8	299.4	34.9	225.0	-1.9
Subtotal (a+b+c)	**6,958.1**	**724.0**	**4,840.9**	**346.0**	**-2,117.2**	**-377.9**
Total services	**10,109.9**	**1,471.3**	**7,802.6**	**207.2**	**-2,307.3**	**-1,264.1**

Source: State Bank of Pakistan

[29] There is also increase in education-related expenditure under travel payments which is likely due to the surge in international education fees.

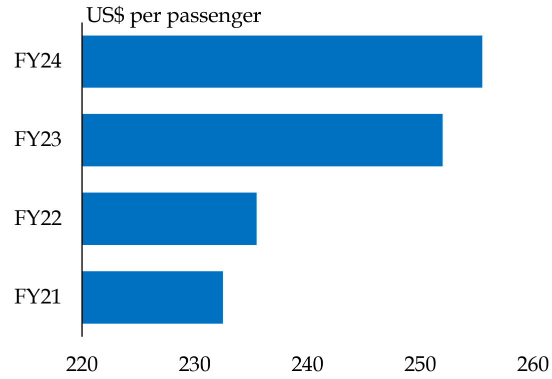
[30] Revenue Passenger Kilometers (RPK) or Revenue Passenger Miles (RPM) is an airline industry metric that shows the number of kilometers traveled by paying passengers. It is calculated as the number of revenue passengers multiplied by the total distance traveled. Since it measures the actual demand for air transport, it is often referred to as airline traffic.

[31] IATA reports that Asia Pacific carriers were the main contributors to the RPK growth followed by European carriers.

Export of services grew by only 2.7 percent in FY24, majorly contributed by robust ICT exports on account of increased demand for software consultancy, call center services, and other computer services. The rising demand for overall IT services is attributable to post-pandemic digitalization drive across the globe.

Among the major categories of IT spending, software segment has recorded the highest growth as companies focused on enhancing productivity, automation, and other software-driven transformation efforts to gain a competitive edge.[32] The recent initiatives by the SBP and the government also contributed to the increase in ICT services exports (**Box 6.2**).

Average Real Return Fare* **Figure 6.13**



*inflation adjusted fares before surcharges and taxes; based on 2018 US$ prices

Source: International Air Transport Association

Box 6.2: Pakistan's ICT Exports in the Context of Containing Services Trade Deficit

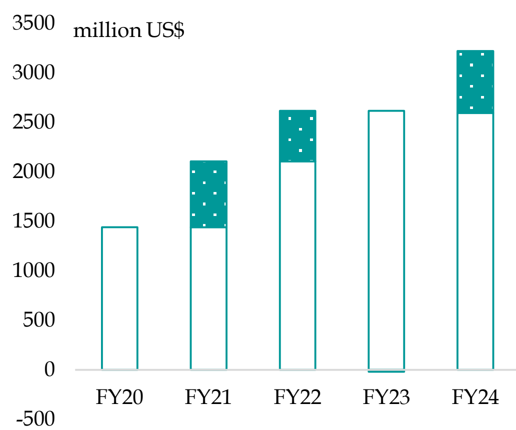
Pakistan's ICT exports grew by 24.1 percent to US$ 3.2 billion in FY24. This represents the highest ever ICT exports, accounting for 8.3 percent of Pakistan's total exports of goods and services in FY24 (**Figure 6.2.1**). Considering the potential and target set of the ICT exports over the medium term, these exports could help in containing the services account deficit, and thus contributing to sustainable current account balance.

ICT services are categorized into three main sub-groups: telecommunication services, computer services, and information services. Computer services is the largest segment, accounting for more than 80 percent of total ICT exports in FY24. Within this category, the highest revenue comes from other computer services including freelancers, followed by software consultancy and software exports (**Figure 6.2.2**).[33]

The significant growth in Pakistan's ICT exports, over the last year, is driven by a host of factors, including enhanced penetration of IT companies in the GCC region, Prime Minister's IT package, relaxation in the permissible retention limit by the SBP, new framework for freelancers, and stability in the exchange rate, which are briefly discussed below:

a) **Enhanced penetration in GCC region**: Pakistani IT companies are actively engaging GCC clients. There is an increasing focus of Gulf countries on diversifying their economies by scaling up digital infrastructure, particularly in sectors such as finance, healthcare, and education.[34] And, with the shared cultural similarities

ICT Exports **Figure 6.2.1**



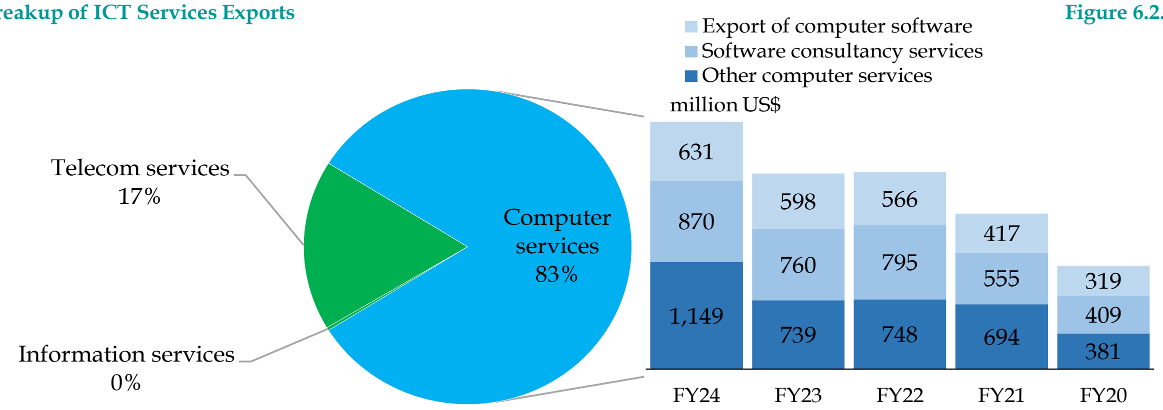
Source: State Bank of Pakistan

[32] Gartner for High Tech (a leading global research and advisory firm that provides insights and analysis for various industries, including high technology) reports that worldwide IT spending grew by 3.3 percent in 2023. The overall IT spending is comprised of Data Center Systems, Devices, Software, IT Services and Communication Services. Among these, only software segment has posted a double-digit growth of 12.4 percent in 2023, followed by data centers (7.1 percent), IT services (5.8 percent) and communication services (1.5 percent), whereas devices declined by 8.7 percent due to changing consumer preferences.

[33] The 'other computer services' category includes various hardware, software, and related services. Industry estimates suggest that Pakistan primarily exports software and software-related services due to its less developed hardware sector.

[34] This is backed by Saudi Vision 2030 (https://www.vision2030.gov.sa/en/overview) which underscores Kingdom's growing demand for technological solutions and services. A similar development plans exists for UAE, Qatar, Egypt and Kuwait.

Breakup of ICT Services Exports **Figure 6.2.2**



Source: State Bank of Pakistan

between Pakistan and GCC nations, Pakistan has taken advantage of this opportunity with several leading companies setting up regional and representative offices in these countries to increase exports of IT services. Further, Pakistani delegations, led by high-level officials from concerned ministries, have been keenly visiting GCC countries in the outgoing year which are making investments to achieve the targets of their mega plans.[35]

b) **Government's IT package**: In FY24 budget, the government announced multiple incentives to promote IT and IT enabled services and boost the foreign exchange earnings.[36] Some of these are:
   - A concessional rate of income tax of 0.25 percent will continue till June 30, 2026;
   - Reduction in sales tax on IT services from 15 percent to 5 percent;
   - A tax concession of 20 percent to banks on earnings from lending to this sector;
   - Exemption from sales tax registration and filing of returns to freelancers having export volume up to US$ 24,000 per annum;
   - Permission to IT and IT-enabled service to import software and hardware valued at up to one percent of their exports without incurring any tax. The annual cap for these imports is set at US$ 50,000;

c) **Enhancement in the permissible retention limit of IT exporters**:[37] In order to facilitate IT exporters to boost export volumes and expand IT-enabled services, the SBP raised the allowable retention limit for IT exporters in their Exporters' Specialized Foreign Currency Accounts (ESFCAs) from 35 percent to 50 percent of their export earnings in October 2023. This facility has improved liquidity of IT companies and enabled them to procure intermediate inputs required for meeting big-ticket orders. Additionally, the process for using the balances in ESFCAs has been streamlined, allowing IT exporters to make payments directly from these accounts without needing approval from the SBP or banks. Banks have also been instructed to support the issuance of debit cards to IT exporters to make online payments using the funds in their ESFCAs.

d) **Introduction of new Framework for Freelancers:**[38] The SBP introduced a new Framework for Freelancers to simplify the process of opening bank accounts and permit greater retention of funds in their Foreign Currency (FCY) accounts. Freelancers can now open bank accounts either digitally or physically with minimal documentation. Their ESFCAs will be established simultaneously with their primary PKR accounts. Freelancers will be allowed to retain either 50 percent of their export proceeds or up to US$ 5,000 per month, whichever is

[35] In March 2024, a delegation of 38 Pakistani IT companies attended Leading Edge Advancement and Progress (LEAP) event in Saudi Arabia and in May 2024 Prime Minister and IT Minister of Pakistan attended UAE Pakistan Tech Collaboration in Abu Dhabi
[36] There are other measures, as highlighted in https://www.finance.gov.pk/budget/Budget_2023_24/Speech_english_2023_24.pdf, like, Issuance of Automated Exemption Certificate for Exporters of IT and IT Services, Creation of specialized courts to handle IT-related legal disputes and Professional training for 50000 IT graduates; however, their implementation status remains unclear.
[37] https://www.sbp.org.pk/epd/2023/FECL17.htm
[38] https://www.sbp.org.pk/bprd/2023/C5.htm

higher, in their ESFCAs and can make payments from these accounts without needing approval from the SBP or banks.

e) Exchange rate stability: The reduced volatility in the exchange rate has encouraged IT exporters to repatriate a larger portion of their profits to Pakistan. Previously, as anecdote suggests, the exporters were holding the proceeds in anticipation of the depreciation in PKR.

It is important to mention that these measures have been introduced in FY24 and their full impact may be reflected in the ongoing fiscal year. At the same time, it is also important to address the challenges IT firms are facing. These include providing seamless internet connectivity, state-of-the-art infrastructure, access to global payment system (like PayPal), reducing cybersecurity risks, data protection, and the development of advanced technical skills.[39]

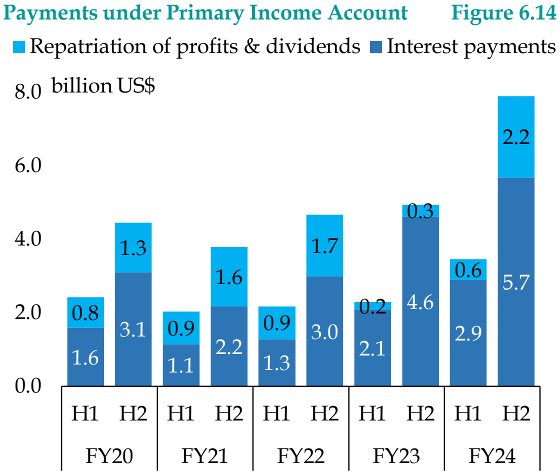
These challenges have already started to weigh on several IT firms and free lancers.[40] Hence, it is important to address these issues to sustain this trajectory and harness the transformative potential of IT. The government must prioritize the digitalization of economy in both public and private sectors. This includes tackling issues of uninterrupted IT service availability and affordability, fostering a supportive environment for start-ups and freelancers, ensuring robust technology by introducing ancillary frameworks, and improving the skillset of human resource through relevant training and equipment.

Primary Income Account

The primary income deficit rose to US$ 8.6 billion in FY24, compared to US$ 5.8 billion the previous year. This surge was mainly driven by a considerable increase in interest payments on external loans and repatriation of outstanding profits and dividends (**Figure 6.14**). The surge in interest payments is attributable to both the increase in external debt stock and global interest rates.[41]

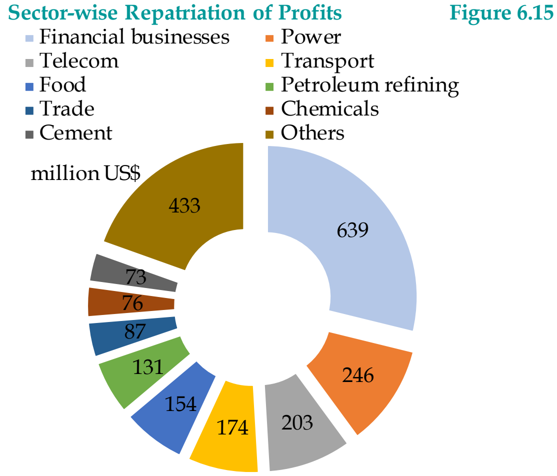
Meanwhile, improved forex liquidity allowed banks to clear the outstanding repatriation of profits and dividends, which increased nearly threefold in the second half compared to the first half, totaling $2.2 billion in FY24. About half of this originated from four key sectors—financial

Payments under Primary Income Account **Figure 6.14**



Source: State Bank of Pakistan

Sector-wise Repatriation of Profits **Figure 6.15**



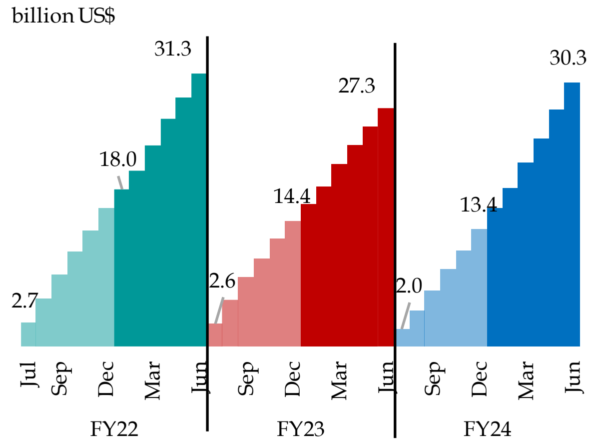
Source: State Bank of Pakistan

[39] As per Ookla's Speedtest Global Index, which measures internet performance of countries by their average internet download and upload speeds, Pakistan ranks at 142 in terms of median internet download speeds, as of June 2024. This is the lowest compared to its regional peers like Sri Lanka (131), Bangladesh (100), India (85) and Nepal (77).

[40] Pakistan Business Council (PBC) reports that most of the IT firms are relocating to other regions due to lack of conducive infrastructure in Pakistan. The key factors contributing to infrastructure include enforcement of contracts, high cost of doing business, political uncertainties, soaring electricity costs, and deteriorating law and order.

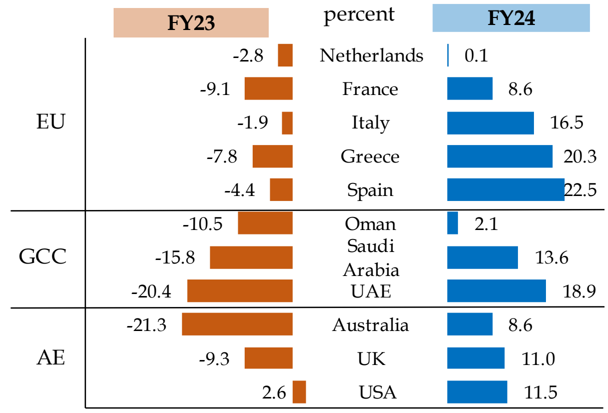
[41] 10-year US sovereign benchmark yield surged from 1.9 percent in FY22 to 3.6 percent in FY23, and 4.3 percent in FY24. A similar pattern was also seen in the yield for UK sovereign bonds.

Workers' Remittances - Cumulative Flows **Figure 6.16a**



Source: State Bank of Pakistan

Growth in Remittances from Major Destinations **Figure 6.16b**



Source: State Bank of Pakistan

services, power, telecom, and transport— which highlights the lack of diversification in investment orientation of economy (**Figure 6.15**).

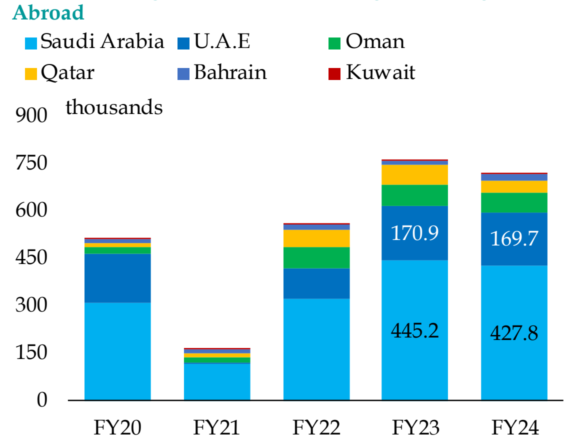
Workers' Remittances

After witnessing a decline in FY23, workers' remittances surged by 10.7 percent to US$ 30.3 billion in FY24. Importantly, the growth was broad-based, with inflows from all the major corridors recording a double-digit growth (**Figures 6.16a & 6.16b**). This increase is attributable to a host of global as well as domestic factors.

Globally, stronger labor markets along with declining inflation in US and Europe, resulted in improved real wages, thereby increasing remittance inflows from these economies.[42] In case of GCC countries, the main factor was robust employment opportunities in Saudi mega-projects, as indicated by increased number of emigrants to GCC (**Figure 6.17**). On the domestic front, policy measures aimed at reducing the kerb premium also facilitated increased remittance inflows through official channels.[43]

It is worth mentioning that several measures introduced by the SBP and the Government are yielding desirable results. The closure of some of the B-category exchange companies is helping in alleviating additional pressure on kerb market premium.[44] Further, most of the large and medium sized banks – actively engaged in foreign exchange business – have announced to establish their subsidiary exchange companies to capture the market. Besides, some of the banks have also introduced various incentives linked to remittance accounts/flows to enhance customer base.[45]

Number of Registered Workers Going Abroad **Figure 6.17**



Source: Bureau of Emigration & Overseas Employment

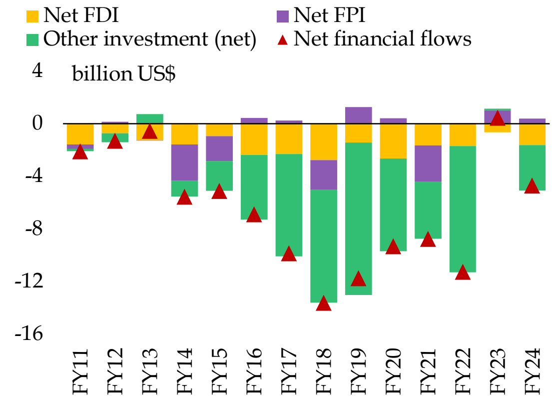
[42] World Bank's Migration and Development Brief 40, June 2024.
[43] Average monthly flow increased from US$ 2.28 billion in FY23 to US$ 2.52 billion in FY24.
[44] SBP press release on authorization of exchange companies dated Feb 13, 2024.
[45] For instance, one of the large-sized banks has offered free life and health insurance, and discounts on lab and medicines associated to its remittance account. Another medium-sized bank has introduced an advanced remittance service to expedite the processing of remittance with competitive exchange rates.

Moreover, the government has made changes in various incentive schemes to enhance their effectiveness and attract more remittance inflows through official channels. For instance, reimbursement of TT charges rate, for eligible home remittance transactions, was enhanced from SAR 20 to SAR 30. Similarly, the rate of cash incentive offered to the financial institutions for any incremental home remittances up to five percent, between five and ten percent, and over ten percent was also increased to Rs 1, Rs 2 and Rs 3 per US$, respectively, for each slab.[46] Lastly, a recent ADB study suggests that higher inflation in Pakistan has been an important factor leading to an increase in remittances as dependents in the host country need more money to cope with the rising cost of living.[47]

6.4 Financial Account

The financial account saw net inflows of US$ 4.7 billion in FY24, against the net outflows of US$ 0.5 billion in FY23 (**Figure 6.18**). This turnaround in financial account was due to both higher inflows and significantly lower debt amortization during the year. In case of private

Financial Account Breakdown — Figure 6.18



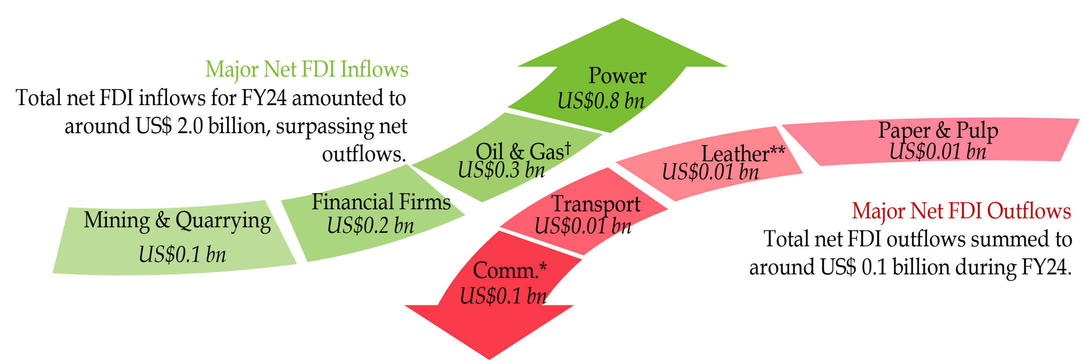
Note: as per BPM6, negative sign means net FX inflow into Pakistan and vice versa
Source: State Bank of Pakistan

inflows, while FDI recovered, foreign portfolio investments saw outflow on account of repayment of Eurobond in April 2024. Further capital transfers also remained lower as per the trend with the exception of FY23.[48]

Foreign Direct Investment in Pakistan

Unlike last year, gross inflows significantly outweighed the gross outflows. As a result, net FDI rose by 16.9 percent to US$ 1.9 billion in FY24. The sectors including power (excluding

Major Sector-wise Net FDI Flows in FY24 — Figure 6.19



*communications; **leather & leather products; †exploration

Source: State Bank of Pakistan

[46] Previously, this was Rs 0.5, Rs 0.75 and Rs 1 per US$, respectively, for each slab.
[47] The findings of the study available at https://www.adb.org/publications/understanding-drivers-remittances-pakistan suggest that domestic inflation has a persistent positive impact on remittances, albeit not always statistically significant. This result is also consistent with other studies and indicates that, in line with the altruistic motive to remit, migrants send more money back home when domestic inflation is accelerating and eroding households' real incomes.
[48] In FY23, capital account witnessed a sum of US$ 221 million on account of debt forgiveness via the Reko Diq project.

thermal), oil and gas exploration and mining and quarrying witnessed large gross inflows, compared to significant gross outflows from sectors including communications, thermal power, and financial businesses (**Figure 6.19**).

Major sectors recording gross FDI inflows

The power sector saw significant inflows into coal and hydel projects, largely from China. This included investment by an electric company to connect Thar coal fields by rail.[49] Additionally, inflows came due to a joint venture for a 1,320 MW coal-based power plant. Similarly, Suki Kinari project that is currently underway saw inflows from China.[50] Also, an ongoing solar power project received investment from a Dutch company.[51]

Oil and gas exploration experienced increased inflows due to ARAMCO's acquisition of equity stake in a local Pakistani oil drilling and exploration firm.[52] In the mining and quarrying sector, most inflows were realized in Reko Diq project from Barrick Gold Corporation.[53]

Oil refining saw an uptick in FDI after the government introduced a Brownfield Refinery Policy, aimed to counter eroding foreign investor confidence and stimulating investments in ongoing projects.[54] This policy follows the Greenfield Refinery Policy.

In the trade subsector, there were inflows from a French company that introduced cashless transactions. In the same vein, financial businesses saw inflows from Malaysian investment for the operation of a wholly-owned Exchange Company of a commercial bank. The storage facilities also saw inflows due to the partial acquisition of a terminal company by a Dutch entity. Collaborations with local hospitals also attracted inflows from a Swiss medical innovator.[55]

The miscellaneous sector – oilseeds, grains, and rice – attracted inflows from a Dutch company working on merchandizing and processing, which has a growing presence in Pakistan.[56]

Major sector showing gross FDI outflows

Power sector also witnessed outflows from a coal-based power project. Additionally, the completion of the Uch Power Project also led to outflows from a thermal power project.

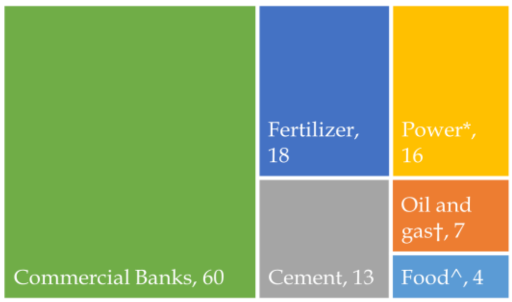
The communication sector saw substantial outflows as a major telecom company sold its stakes to a local company, resulting in net outflow of FDI from the sector.[57] Similarly, The chemicals sector observed outflows following the acquisition of a foreign company by a local entity. In petroleum refining, acquisitions led to gross FDI outflows to Luxembourg.

Gross outflows from food and beverages sector were largely due to the divestment of a partial stake in an infant-formula retailing company to a Japanese company. Furthermore, imposition of increased federal excise taxes on carbonated and artificially sweetened beverages appears to have discouraged foreign investment in the sector.[58]

The construction sector saw outflows from the UAE because of the completion of an apartment-

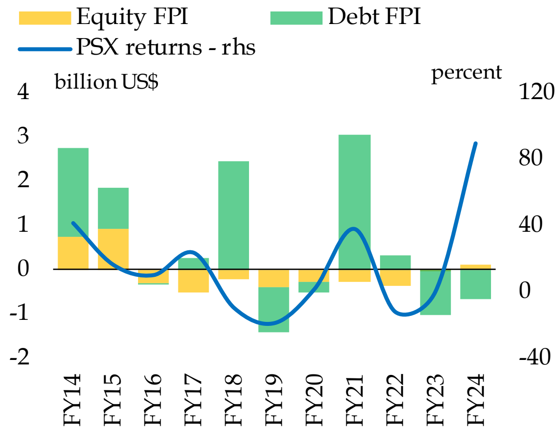
[49] Global Energy Monitor; www.gem.wiki/Port_Qasim_EPC_power_station
[50] CPEC; www.cpec.gov.pk/project-details/15
[51] NEPRA; www.nepra.org.pk/tariff/Tariff/Petitions/2019/December/Tariff%20petition%20-%20Helios%20Web.pdf
[52] Source: www.aramco.com/en/news-media/news/2024/aramco-completes-acquisition-of-stake-in-gas-and-oil-pakistan
[53] Source: www.barrick.com/English/operations/reko-diq/default.aspx
[54] Pakistan Oil Refining Policy for Upgradation of Existing/Brownfield Refineries, 2023; Ministry of Energy (Petroleum Division)
[55] AKUH; www.hospitals.aku.edu/pakistan/AboutUs/News/Pages/akuh-partnership-with-medtronic.aspx#:~:text=Medtronic%2C%20renowned%20for%20its%20prowess,and%20tackle%20global%20health%20challenges.
[56] Louis Dreyfus Company: 2023 Integrated Report
[57] PTCL Press Release, Dec 14, 2023
[58] Circular No.01 of 2023, C.No.3(1)ST-L&P/2019 (Pt-I)/33186-R, Government of Pakistan, Revenue Division, Federal Board of Revenue

Sector-wise Net FPI in FY24 **Figure 6.20**
million US$



**generation & distribution; †exploration & marketing; ^& personal care products*
Source: State Bank of Pakistan

FPI and Stock Market Performance **Figure 6.21**



Sources: SBP and Haver Analytics

building project. There were also outflows from an Emirati company nearing closure. Inflows from a Swiss trade company declined as it gradually winds down its operations in Pakistan.

Foreign Portfolio Investment

Net FPI outflows totaled US$ 0.4 billion in FY24, lower than the net outflows of US$ 1.0 billion in FY23. This was because increased inflows in debt and equity markets during FY24 partly offset the repayment of Eurobond worth US$ 1 billion.

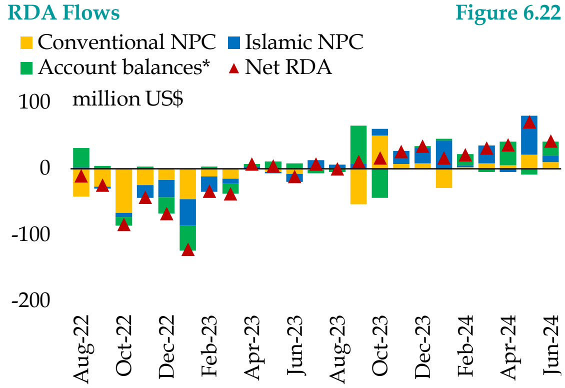
However, despite impressive returns, equity market could only attract inflows of US$ 121 million, mostly concentrated in commercial banks, fertilizer, cement, power, oil and gas, and food sectors (**Figure 6.20**). Economic and political uncertainty, weak growth prospects amid high inflation, and almost unchanged sovereign credit rating after a downgrade in February 2023 are some of the factors that restricted inflows in equity market (**Figure 6.21**).[59]

In debt instruments, it was mainly the Islamic Naya Pakistan Certificates (Islamic NPCs) that attracted significant inflows via Roshan Digital Accounts (RDA). There has been a growing interest in Islamic NPCs as reflected by the rising investments via the RDA in FY24. One of the reasons behind this increase was the upward revision in rates of return on these instruments (**Figure 6.22**).[60]

FX Loans and Liabilities

FX loans and liabilities posted a net inflow of US$ 3.3 billion during FY24. A breakdown of inflows reveals that most of the loan

RDA Flows **Figure 6.22**



*including Roshan equity investments and other liabilities (outstanding position in government securities like T-bills, Sukuk, real estate, mutual funds, etc. but excludes NPCs)
Source: State Bank of Pakistan

[59] Credit rating has remained unchanged during FY24, with upgrading by Fitch in July 2024. The status has been affirmed in December 2023, remaining at CCC. Other credit rating agencies have also kept Pakistan's ratings stable (Caa3 by Moody's and CCC+ by S&P). Sources: Trading Economics; Fitch Ratings
[60] Specifically, US$ rate of return on 3-month NPCs was increased from 7.0 to 8.25 percent, from 7.2 at 8.5 percent on 6-month, and from 7.5 to 9 percent on 12-month NPCs.

Breakdown of Foreign Loan Inflows in Major Projects of FY24 **Table 6.3**

Organization	Project Name	Project Description/Purpose	Amount Disbursed *million US$*
World Bank*	Sindh Flood Emergency Rehabilitation (SFER)	Physical resilience, supporting livelihoods via cash for work programs, institutional strengthening and technical assistance, project management and operational costs, and contingent emergency response.	243.2
	Sindh Flood Emergency Housing (SFEH)	Housing reconstruction grants, institutional strengthening and technical assistance, and project management and implementation support.	250.0
	Second Resilient Institutions for Sustainable Economy (RISE-II) Development Policy Financing	Aims to strengthen fiscal management while promoting competition for inclusive and sustained economic growth.	350.0
Asian Development Bank	Improved Resources Mobilization and Utilization Performance	To aid the government in achieving fiscal consolidation, as part of the Vision 2025.	300.0
	Promoting Sustainable Public-Private Program	Supporting the government in promoting broad-based, inclusive and sustainable economic growth.	250.0
Asian Infrastructure Investment Bank	Second Resilient Institutions for Sustainable Economy (RISE-II) Development Policy Financing	Target of strengthening fiscal management and promoting competitiveness for both sustained and inclusive economic growth.	249.4
Islamic Development Bank	MURABAHA Financing Facility	Islamic short-term financing for purchase of the following: product inventory, raw materials, commodities, agricultural inputs, equipment and machinery, vehicles.	100.0
	ITFC Short Term Financing	Import of oil and LNG.	100.0

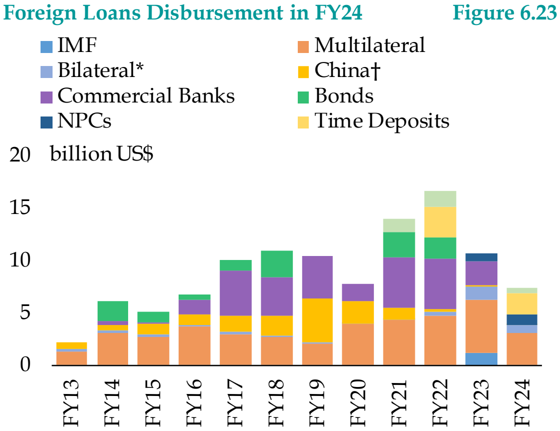
*includes International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD)

Sources: World Bank, ADB, AIIB, IsDB, EAD

disbursements were sourced from multilateral institutions, such as the IMF, the World Bank, and ADB (**Figure 6.23**). The IMF in particular disbursed US$ 3.0 billion in three tranches under the 9-month Stand-By Arrangement. The World Bank disbursed US$ 2.2 billion with a significant portion (US$ 493.2 million) meant for the Sindh Flood Emergency Rehabilitation and Housing Projects (SFER and SFEH). The details about major inflows by project and creditor are given in **Table 6.3**.

Besides multilateral inflows, other bilateral inflows included US$ 595.2 million under Saudi oil facility; US$ 96.3 million for Mohmand Dam Hydro Power Project;[61] and US$ 58.3 million from China for the Phase II of the Karakoram Highway and the Peshawar Karachi Motorway.[62]

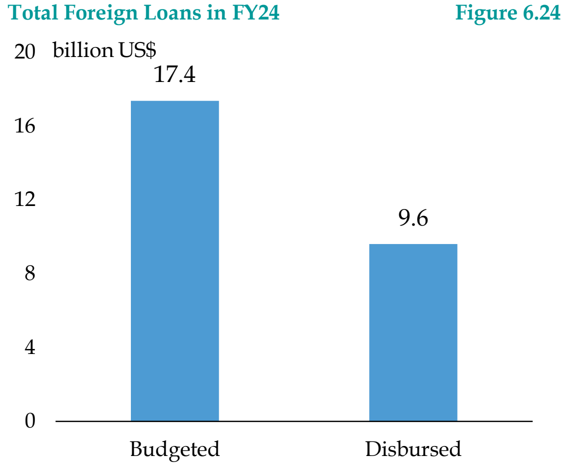
Foreign Loans Disbursement in FY24 **Figure 6.23**



*excluding China; †including deposits

Source: Economic Affairs Division

Total Foreign Loans in FY24 **Figure 6.24**

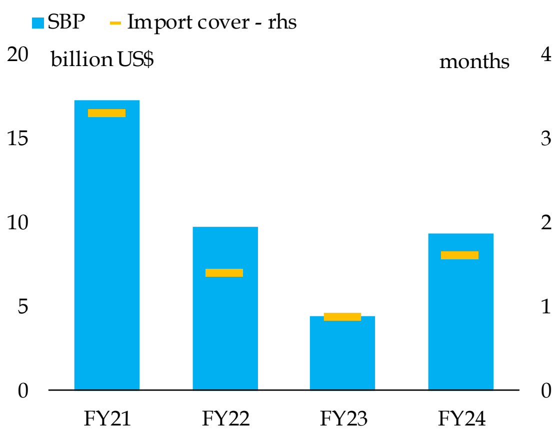


Source: Economic Affairs Division

61 WAPDA: www.archive.wapda.gov.pk/index.php/projects/water-sector/under-construction/mohmand-dam-hydropower-project

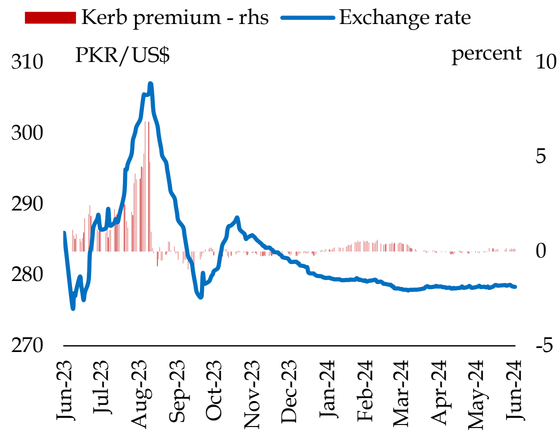
62 ead.gov.pk

Pakistan's End-Period Forex Reserves Figure 6.25



Source: State Bank of Pakistan

Exchange Rate and Kerb Premium in FY24 Figure 6.26



Source: State Bank of Pakistan

In addition, Pakistan received US$ 2.0 billion from Saudi Arabia (time deposit with the government) and US$ 1.0 billion from UAE (deposits with the central bank), and a guaranteed loan of US$ 508.3 million from China as major foreign liabilities during FY24. Loans from NPCs summed to US$ 1.1 billion during the period under review. Nonetheless, the disbursed amount of FX loans during FY24 was almost half of the budget estimates (**Figure 6.24**).

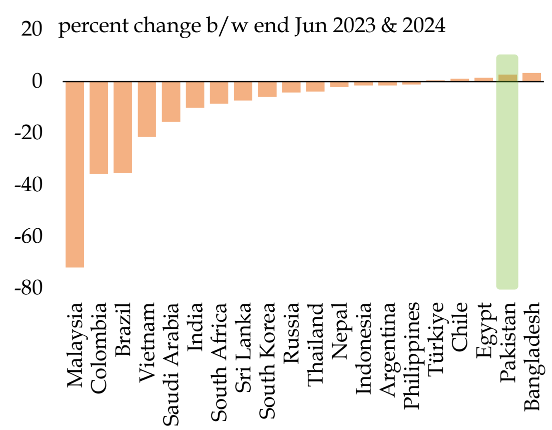
6.5 Exchange Rate and FX Reserves

The SBP's liquid FX reserves rose to US$ 9.4 billion at end June 2024 from US$ 4.4 billion at end Jun 2023 (**Figure 6.25**). Importantly, the quality of reserves has also improved, with a reduction in the SBP's forward/swap liabilities.[63] Major factors, as discussed above, included improved financial inflows and narrowing of the CAD, which provided the SBP room to build external buffers. Moreover, the amortization of FX loans was also lower in FY24. As a result, the reserve adequacy improved to 1.6 months of next year's imports of goods and services.

The reserve build-up, combined with the introduction of exchange company reforms in September 2023, supported the PKR appreciation by 9.8 percent between end August 2023 and end June 2024. These developments also led to a substantial reduction in the kerb premium, which averaged PKR 1.2 during FY24, down from an average of PKR 5.2 in FY23 (**Figure 6.26**).

Initially, during Jul-Aug 2023, tight global financial conditions, heightened domestic uncertainty, and higher CAD had increased pressures in the foreign exchange market. However, following administrative measures by the government and introduction of reforms in exchange companies by the SBP in September 2023, the PKR started to appreciate.

Cross-Country Currency Changes Figure 6.27



Source: State Bank of Pakistan

[63] The outstanding forward/swap liabilities reduced from US$ 4.5 billion at the end of FY23, to US$ 3.4 billion at the end of FY24.

Pakistan's Foreign Trade Table 6.4

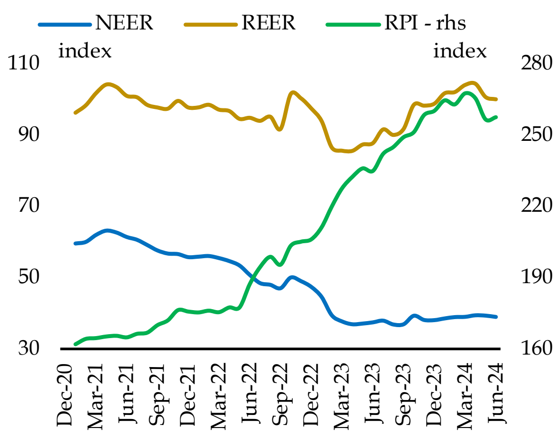
million US$, growth in percent

			Change (FY24)		Volume and Price Effects	
	FY23	FY24	Absolute	Percent	VE	PE
Trade Balance	**-27,474.0**	**-24,121.0**	**3,353.0**	**-12.2**	**-**	**-**
Exports	**27,724.0**	**30,677.0**	**2,952.3**	**10.7**	**-**	**-**
Textile	16,501.8	16,655.9	154.1	0.9	-	-
Apparel	7,928.7	7,971.2	42.5	0.5	1,947.5	-1,905.0
Home textile	3,691.2	3,857.8	166.5	4.5	545.4	-378.8
Cotton yarn	844.3	955.5	111.2	13.2	213.9	-102.7
Non-textile	11,227.4	14,025.8	2,798.4	24.9	-	-
Rice	2,149.1	3,931.9	1,782.6	82.9	1329.9	452.9
Meat	426.7	511.7	85.0	19.9	96.8	-11.8
Vegetables	300.3	430.1	129.8	43.2	11.0	118.8
Oil seeds	188.8	410.1	221.3	117.2	106.9	114.3
Petroleum	220.5	397.7	177.2	80.4	296.9	-119.8
Pharmaceutical	328.2	341.0	12.8	3.9	192.8	-180.0
Cement	189.9	266.5	76.6	40.4	126.8	-50.3
Imports	**55,198.0**	**54,798.0**	**-400.0**	**-0.7**	-	-
Energy	17,014.6	16,910.2	-104.3	-0.6	254.8	-655.4
Non-energy	38,183.2	37,887.7	-295.7	-0.8	-	-
Palm oil	3,640.7	2,778.6	-862.2	-23.7	-80.8	-781.3
Machinery	5,807.9	8,500.6	2,692.7	46.4	-	-
Transport	1,758.2	1,840.0	81.9	4.7	-	-
Cotton	1,679.4	447.9	-1,231.5	-73.3	-1,176.3	-55.2

Source: Pakistan Bureau of Statistics

In November 2023, uncertainty regarding the IMF's SBA tranche briefly increased pressures on PKR resulting in a slight depreciation. Once the tranche was disbursed, the PKR gradually appreciated to around Rs 278 in the start of March 2024 and since then, has remained steady around this level. This stability was further supported by a current account surplus observed during February to April 2024. In fact, the PKR has been one of the better-performing currencies amongst the selected EMs (**Figure 6.27**).

Real and Nominal Effective Exchange Rates **Figure 6.28**



Sources: State Bank of Pakistan

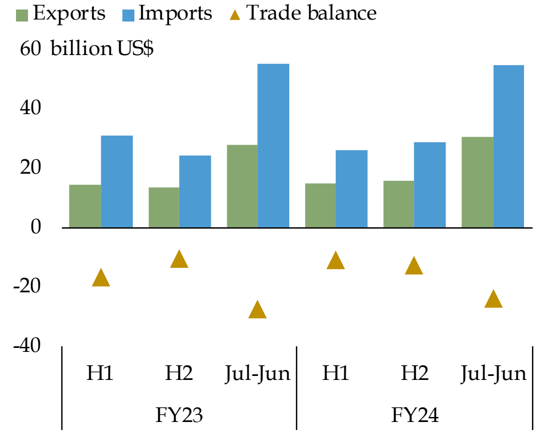
While NEER remained mostly stable during FY24, the REER appreciated amidst rising inflation differential (**Figure 6.28**). The Relative Price Index (RPI) rose 9.6 percent, mainly due to higher domestic inflation vis-à-vis inflation in trading partners. This may not bode well for export competitiveness.

6.6 Foreign Trade[64]

The trade deficit recorded a significant contraction, primarily attributed to a notable increase in exports, as well as a slight decline in merchandise imports (**Table 6.4 & Figure 6.29**). The upturn in exports was supported by higher agriculture production, particularly rice and oil seeds. This, along with the higher global demand and change in trade policy of one of the

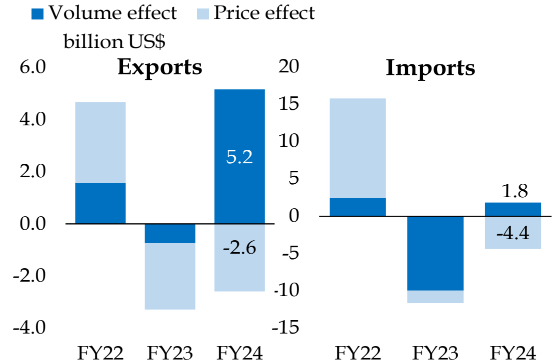
[64] This section is based on customs data reported by the Pakistan Bureau of Statistics (PBS). The PBS trade data would not tally with the payments record data, which is reported in Sections 6.2 and 6.3. For details on difference between these two data series, see Annexure on Data Explanatory Notes.

Foreign Trade Balance **Figure 6.29**



Source: Pakistan Bureau of Statistics

Price and Volume Effects **Figure 6.30**



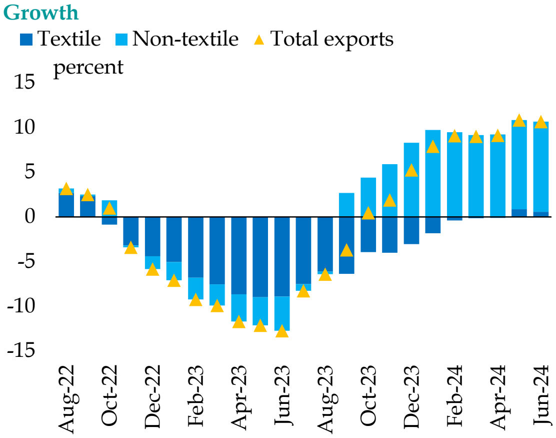
Note: Exports and imports cover around 84 and 54 percent of total items, respectively
Source: Pakistan Bureau of Statistics

biggest competitors, provided boost to exports of food commodities.

On the other hand, the decline in imports was mainly due to easing global commodity prices, as volumes recovered moderately in line with economic activity since February 2024.

In overall terms, volumes played a significant role in both exports and imports. Within the exports, the decline in unit values of textiles partially offset the gains from increase in volumes (**Figure 6.30**). On the other hand, the declining global prices of crude oil and some food items contributed to decline in import value.

Exports - Contribution in Cumulative Growth **Figure 6.31**



Source: Pakistan Bureau of Statistics

Exports

Pakistan's merchandise exports recovered strongly in FY24 from the previous year's contraction. Total exports rose by 10.7 percent to US$ 30.7 billion in FY24. This growth was underpinned by significant increase in non-textile exports, particularly food and other manufactures, driven by higher production and increased penetration in international market. Textile exports also moderately increased on account of higher export orders from the traditional markets (**Figure 6.31**).

Non-Textile Exports

Food

Food exports continued an upward trajectory throughout the year, with rice and sesame seeds playing pivotal roles. During FY24, Pakistan's rice exports reached a historic high, US$ 3.9 billion, reflecting both volume and price effects (**Table 6.5**). This upturn in rice exports was attributed to two key factors: First, India's export ban due to their concerns about food security, resulted in upward pressure on rice prices in international market (**Figure 6.32a & 6.32b**). Second, there was a record domestic rice production during the year (**Box 6.3**).

Also, the export of sesame seeds more than doubled, reaching US$ 414 million in FY24. The

Non-textile Exports - Volume and Price Effect **Table 6.5**

million US$, volume in 000 MT

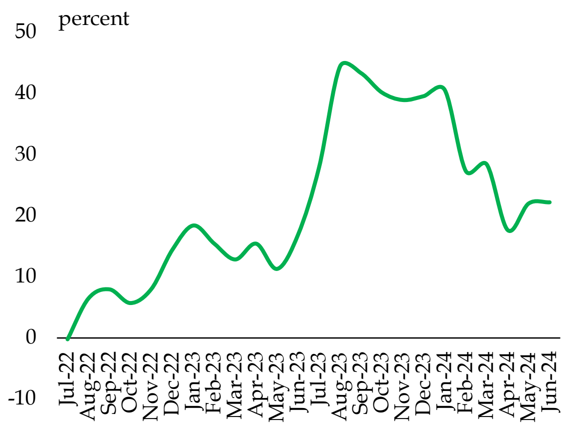
	FY23		FY24		FY24		
	Volume	Value	Volume	Value	Change in Value	Volume Effect	Price Effect
Non-textile exports	**-**	**11,227**	**-**	**14,025**	**2,798**	**-**	-
Of which	-	-	-	-	-	-	-
Food	-	**5,023**	**-**	**7,370**	**2,347**	-	-
Rice	3,718	2,149	6,019	3,932	1,783	1,330	453
Basmati	595	650	774	877	227	195	32
Others	3,123	1,499	5,245	3,055	1,556	1,019	537
Fruits	526	283	936	344	60	221	-160
Oil seeds	172	189	287	410	221	107	144
Meat	101	427	124	512	85.0	97	-12
Non-food	**-**	**6,205**	**-**	**6,655**	**450**	-	-
POL	338	221	793	398	177	297	-120
Plastic	212	268	379	400	132	213	-80
Pharmaceutical products	54	328	86	341	13	213	-80
Cement	4,248	190	7,087	267	77	127	-50
Sports goods	-	405	-	396	-9	-	-
Leather	-	577	-	546	-32	-	-

Source: Pakistan Bureau of Statistics

trend in exports mirrors domestic production. In view of rising export demand and attractive prices, Pakistani farmers have shifted to sesame production to maximize their returns.[65]

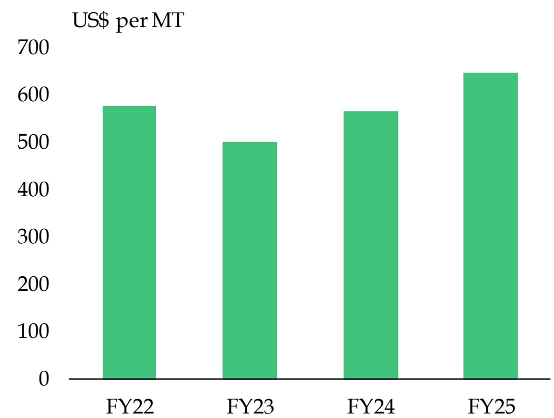
On the demand side, destination-wise analysis shows that the surge in export of sesame seeds was primarily driven by increased shipments to China. Benefiting from duty-free access under the China-Pakistan Free Trade Agreement (CPFTA) Phase II, Pakistan's sesame seeds have established a strong footprint in the Chinese market. Moreover, Pakistan also started exporting sesame to EU and Middle East owing to a significant demand for sesame extracts in their culinary industry.

Growth in Global Rice Prices **Figure 6.32a**



Source: World Bank

Unit Value of Rice **Figure 6.32b**



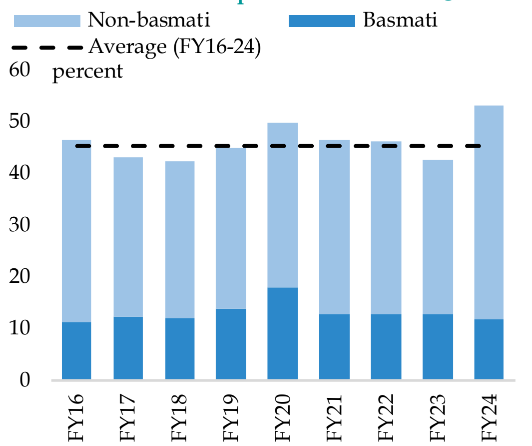
Source: Pakistan Bureau of Statistics

[65] Both the area under cultivation and production increased significantly by 54 and 98 percent during FY24. Source: Pakistan Economic Survey 2023-24

Box 6.3: Sustaining Recent Surge in Pakistan's Rice Exports

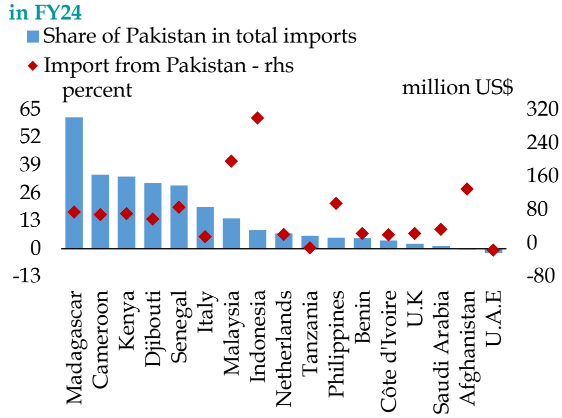
Rice is Pakistan's major export item, accounting for 12.8 percent in total exports and 53.3 percent in food exports in FY24, well above the average of 43 percent (**Figure 6.3.1**). In FY24, Pakistan's rice exports grew by 83 percent to reach a historic high at US$ 3.9 billion. The surge in rice exports contributed almost three-fourth of the growth in food exports during the period.

Share of Rice in Food Exports **Figure 6.3.1**



Source: Pakistan Bureau of Statistics

Imports of Pakistani Rice - YoY Change in FY24 **Figure 6.3.2**



Note: Based on Jul-Mar

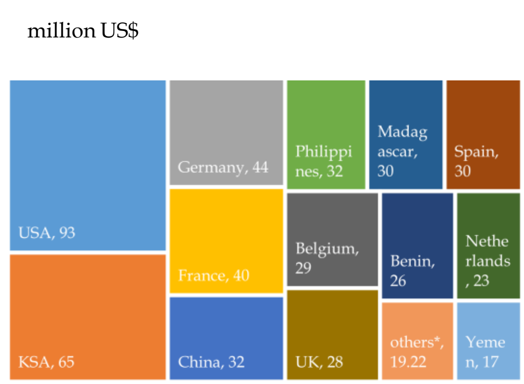
Sources: PBS, ITC Trade Map, Country Customs Data

The uptrend in rice exports was supported by both the demand and supply side factors including India's temporary export ban, prompted by their domestic production challenges and concerns about food security. India imposed a ban on white rice exports in July 2023. Later, in August 2023, the country placed an export tax on parboiled rice exports. This move led to supply shortages in the international market, creating an opportunity for Pakistan. Furthermore, the growth was supported by a bumper rice harvest on the back of favorable weather conditions and increased cultivation area, resulting in the production of 9.9 million metric tons of rice. Consequently, rice exports expanded to several new markets such as Madagascar, Cameroon, Djibouti, Senegal by the end of FY24 (**Figure 6.3.2**). Notably, the non-basmati rice segment witnessed a substantial growth, with 68 percent increase in export volumes.

While Pakistan's rice export benefitted from these market dynamics, sustaining this level of exports hinges on retaining the recently acquired export orders, which may be challenged by the potential re-entry of India into the global rice market, following the lifting of its export ban. To sustain and build up on the recent gain, it is pivotal to focus on both demand and supply side factors.

On the demand side, trade missions and diplomatic efforts should be mobilized in order to retain the new markets captured in FY24. In addition, there is a need to proactively explore potential markets with unrealized export prospects for rice to diversify its customer base, and reduce dependence on traditional markets. There is an unrealized export potential of around US$ 500 million for the existing rice products (**Figure 6.3.3**). Furthermore, offering competitive prices may be pivotal to sustain this export momentum, since prices of Indian non-basmati rice remain lower than of Pakistan's, which dampens the comparative advantage of Pakistani rice in international market (**Figure 6.3.4**). One way of achieving this is to focus on reducing input prices.

Pakistan's Rice Export Potential **Figure 6.3.3**



*others include combined exort potential of Afghanistan, UAE, Kenya, Somalia, Italy, Oman, and Mozambique

Sources: Export Potential Map, ITC

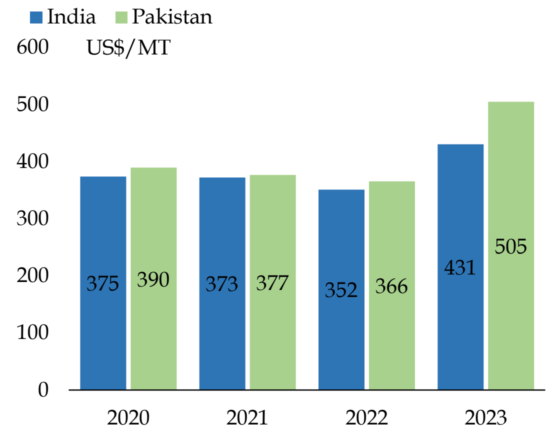
Global Exports of Value-added Rice Products — **Table 6.3.1**

million US$

	2021	2022	2023
Rice noodles			
World	4,480.4	4,979.8	5,395.2
Pakistan	0.0	6.6	0.2
Cereal			
World	2,248.1	2,697.8	2,540.7
Pakistan	4.6	0.8	0.3
Rice oil			
World	2,631.5	2,672.0	2,431.2
Pakistan	0.5	0.8	0.5

Source: ITC Trade Map

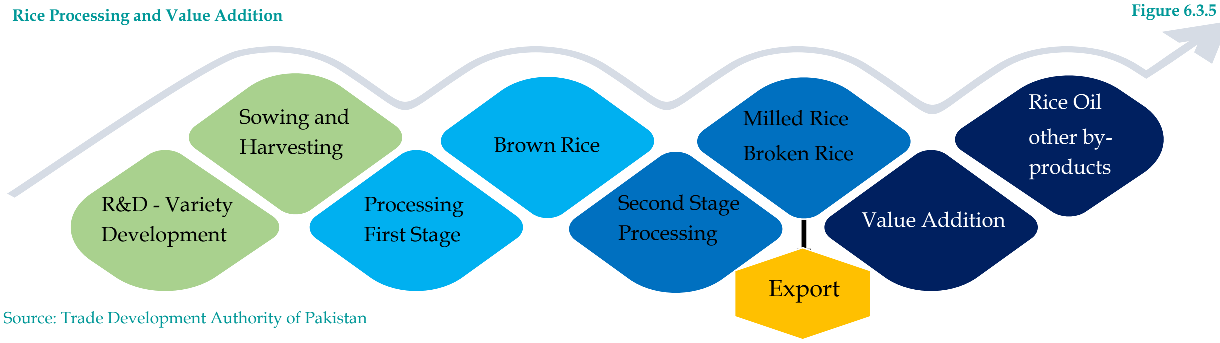
Price Comparison of Non-basmati Rice — **Figure 6.3.4**



Source: Food and Agriculture Organization

On the supply side, addressing low productivity remains crucial particularly in the wake of increasing domestic demand and maintaining sufficient exportable surplus. This can be done by improving per hectare yield through new and advanced seed varieties. Meanwhile, Pakistan maintains a strong Revealed Comparative Advantage (RCA) in rice compared to its main competitors such as Thailand, India and Vietnam. Thereby, a focused fiscal support may be provided to capitalize on this comparative advantage. In addition, diversifying the food export basket with value-added products, such as rice bran oil and rice flour, could provide additional avenues for growth, particularly in region like South-East Asia (**Figure 6.3.5 & Table 6.3.1**). Addressing these challenges will be pivotal to maintaining Pakistan's position in the global rice market and ensuring export momentum.

Rice Processing and Value Addition — **Figure 6.3.5**



Source: Trade Development Authority of Pakistan

Corn is the next major food item that recorded a considerable increase in exports during FY24. Like rice exports, this was mainly driven by higher exportable surplus due to decline in domestic demand from the poultry industry.[66] Vietnam emerged as the largest buyer of Pakistani corn, followed by Malaysia and Sri Lanka.[67]

Meat exports also maintained the rising trend, particularly to Saudi Arabia and the UAE, facilitated by the registration of new exporters and expansion of slaughterhouse facilities, along with the introduction of heat-treated meat exports to China.[68,69]

[66] Lower domestic demand due to high fluctuation in chicken prices in FY24, dented the demand for corn, which is the major input in the chicken feed. Source: USDA

[67] This increase of corn import in Vietnam and Malaysia is primarily due to rise in demand by the poultry and livestock industry, as most corn imports go into animal feed.

[68] Meat exports increased by 19.9 percent in FY24, on top of 25.1 percent in FY23.

[69] Heat-treated meat refers to the meat processed through cooking, pasteurization, or sterilization to ensure its safety and longevity. China's growing demand for heat-treated meat is explained by its preference for ready to eat food products.

Among other food items, export of ethanol was up by 80 percent, reaching US$ 544.9 million in FY24. This growth was entirely driven by higher export volumes, mainly to South Korea and Thailand.[70] Ethanol, produced from sugarcane fermentation as by-product of sugar, is extensively used as a biofuel input in cosmetics and medicinal products globally.[71] On the demand side, South Korea's enhanced use of biofuel domestically has led to higher ethanol import from Pakistan.[72]

Other Manufactures

The export of manufactured goods, including rubber tyres, cement, and plastics, witnessed a substantial growth. The increase in these products was mainly driven by higher volumes on the back of both the supply and demand factors. The establishment of new manufacturing facility in partnership with a Chinese tyre manufacturer, enabled the export of steel-belted rubber tyres for heavy vehicles to the USA, Middle-East and Brazil.

Cement exports rose to US$ 267 million during FY24, compared to US$ 190 million in the same period last year, with increased dispatches to Afghanistan, Bangladesh, Sri Lanka, and Africa. This was mainly due to resumption of construction activity in Afghanistan and Sri Lanka. Moreover, the domestic cement industry has increased its presence in the African and the US market, resulting in the higher export orders.[73]

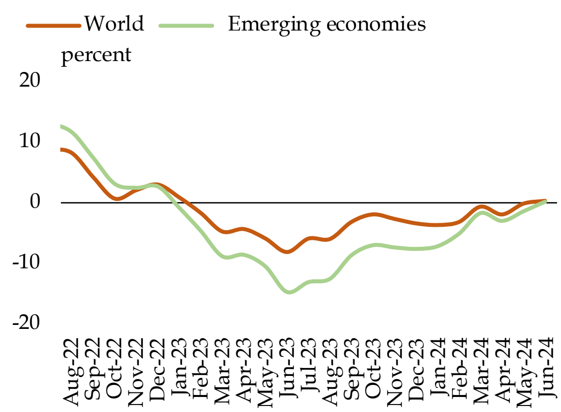
Plastics exports saw a 49 percent increase, amounting to US$ 400 million, mainly to African countries. The plastic manufacturers shifted their focus on exports, as the domestic demand for plastic items remained subdued in the last two years. The industry particularly benefited from exchange rate depreciation over the last few years, which made exports more competitive.[74] Moreover, some of the plastic exporters have met international standards that helped in acquiring new export orders during the period. Meanwhile, the exports of pharmaceutical products also increased significantly, primarily reflecting a volumetric gain resulting from targeting new markets in Africa and Central Asia.

Petroleum exports, mainly furnace oil, also surged during FY24. The uptick was driven by a decreased reliance on furnace oil for electricity generation, as evident from the shift in energy generation mix towards RLNG and other more cost-effective sources. This transition led to excess supply of furnace oil, followed by export permission from the government, resulting in higher export volume.

Textile Exports

Textile sector faced significant challenges throughout FY24. Notwithstanding an increase

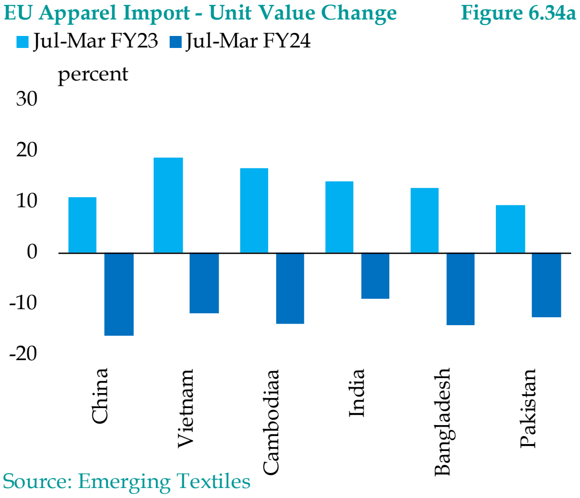
Trend in Emerging Economies Export Prices **Figure 6.33**



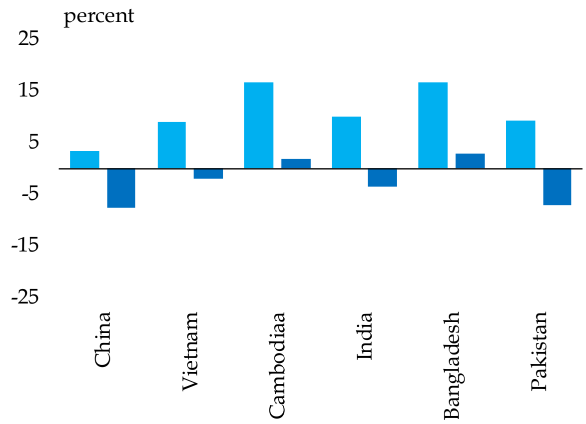
Source: CPB World Trade Monitor

[70] Ethanol is used as bio-fuel in Thailand and South Korea. Sources: Ethanol Use and Gasoline Consumption in Thailand, MPRA, and S&P Global.
[71] The surge in exports is closely linked to the production of sugarcane in the preceding year. Sugarcane production in Pakistan has surged to an average 86.3 MMT in the last four years.
[72] South Korea has been adopting to increase its bio-fuels share by adopting renewable fuel standard (RFS) since January 2024. Source: U.S. Grain Council
[73] Pakistan has started exporting cement to the US, owing to continued increasing demand in the country due to government's higher spending on infrastructure.
[74] The average mark-to-market exchange rate depreciated by 12.4 percent during FY24 compared to the previous year.

EU Apparel Import - Unit Value Change **Figure 6.34a**



US Apparel Import - Unit Value Change **Figure 6.34b**



Source: Emerging Textiles

in export volumes, the total textile exports remained stagnant around the previous year's level of US$ 16 billion. This lackluster performance of textile exports was primarily attributed to the declining unit values in traditional markets, such as the EU and US (**Figure 6.33**).

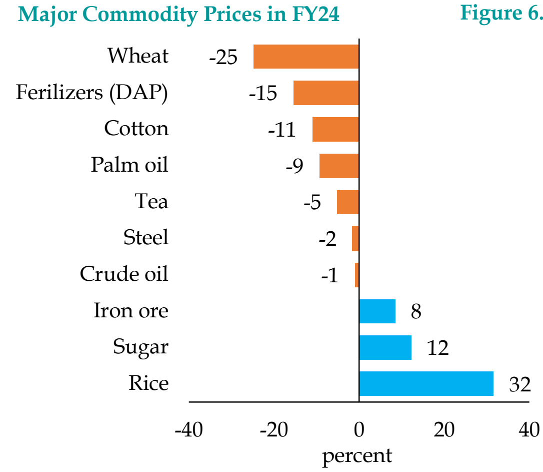
The decline in unit values was mainly driven by lower prices offered by Chinese exporters. China offered textile products at competitive prices by leveraging its ability to minimize production costs mainly on the back of lower wages, falling inflation, and declining borrowing cost.[75,76] This exerted downward pressure on textile prices in major markets. For instance, Pakistan's unit prices for apparel, from major exporters in the EU and the US, fell by 13 percent and 3 percent, respectively, during Jul-Mar FY24 (**Figure 6.34a & 6.34b**).

High value added (HVA) textiles were also affected by the decline in unit values. The impact was noticeable in apparel and home textiles, especially in the EU. In contrast, export volumes of HVA increased, with apparel and home textiles experiencing growth of 15.9 percent and 5.1 percent, respectively, in FY24.

Imports

Overall imports decreased slightly by 0.7 percent during FY24, compared to a 31.1 percent decline in the previous year. The reduction in imports was mainly explained by the decline in global commodity prices, subdued economic activity in the first half of the year, and continuation of contractionary monetary and fiscal policies (**Figure 6.35**).[77] Despite the ease in

Major Commodity Prices in FY24 **Figure 6.35**



Source: Bloomberg

[75] The headline inflation in China remained flat in FY24 compared to an increase of 1.5 percent in FY23. While, exchange rate depreciated by 3.7 percent in FY24 on top of 7.2 percent in FY23.

[76] In the last two-years, China lost significant apparel export volumes in the US and EU due to the ban on cotton – major input in apparel - produced in its Xinjiang province. This contributed around 90 percent of the total cotton production in China. Since then China gradually substituted it with imported cotton in order to re-gain its market share. With the production from imported cotton, China re-entered the US market, which increased the competition and hence downward pressures on export prices.

[77] GDP grew by 2.4 percent in Q3-FY24 compared to a decline of 1.1 last year.

Import Price and Volume Effects **Table 6.6**

value in million US$, volume in 000 MT

	FY23		FY24		FY24 over FY23		
	Volume	Value	Volume	Value	Change in Value	Volume Effect	Price Effect
Food	-	**8,937.0**	-	**7,903.8**	**-1,033.2**	-	-
Milk	41.6	144.3	34.5	114.2	-30.1	-24.7	-5.4
Wheat	2,729.2	1,072.5	3,536.2	1,031.7	-40.8	317.1	-357.9
Tea	231.4	569.0	260.3	656.6	87.6	70.9	16.7
Soybean oil	227.4	315.5	119.8	129.6	-186.0	-149.2	-36.8
Palm oil	3,064.7	3,640.7	2,996.7	2,778.6	-862.2	-80.8	-781.3
Energy	**18,942.9**	**17,014.6**	**19,406.8**	**16,910.2**	**-104.3**	-	-
POL	11,133.1	7,628.5	10,350.6	6,643.9	-984.5	-533.7	-450.8
Crude	7,809.8	4,947.2	9,054.5	5,531.1	583.9	788.5	-204.6
Textile	-	**3,741.7**	-	**2,713.7**	**-1,028.0**	-	-
Raw cotton	683.9	1,679.4	204.8	447.9	-1,231.5	-1,176.3	-55.2
Agro chemical	-	**8,928.6**	-	**8,508.4**	**-420.1**	-	-
Fertilizer	903.7	604.4	1,374.5	684.7	80.3	314.9	-234.6
Others	-	**868.6**	-	**894.4**	**25.8**	-	-
Rubber crude	347.5	208.9	444.0	254.4	45.6	58.0	-12.4
Rubber*	3,035.4	92.0	4,122.0	101.0	9.0	32.9	-23.9

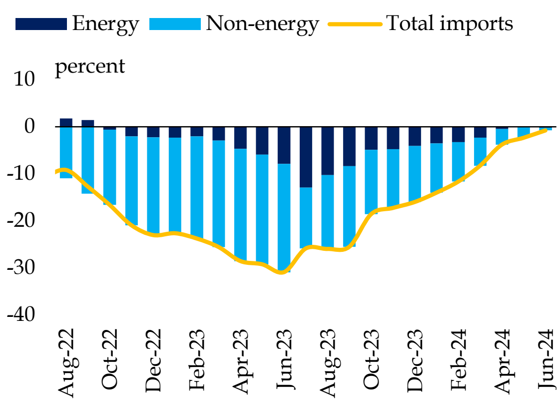
* volume in 000 No.

Source: Pakistan Bureau of Statistics

import priority guidelines, imports fell by 16.0 percent in H1-FY24 compared to last year on the back of slowdown in economic activity. However, imports rebounded strongly in H2-FY24 on account of higher volumes particularly of raw materials, amidst recovering domestic economic activity (**Table 6.6 & Figure 6.36**).

Food and energy imports remained subdued in value terms on the back of declining global prices. On the other hand, a volumetric increase in import of machinery, transport, and metals was recorded during FY24 reflecting the impact of ease in import priority guidelines.

Imports - Contibution in Cumulative Growth **Figure 6.36**



Source: Pakistan Bureau of Statistics

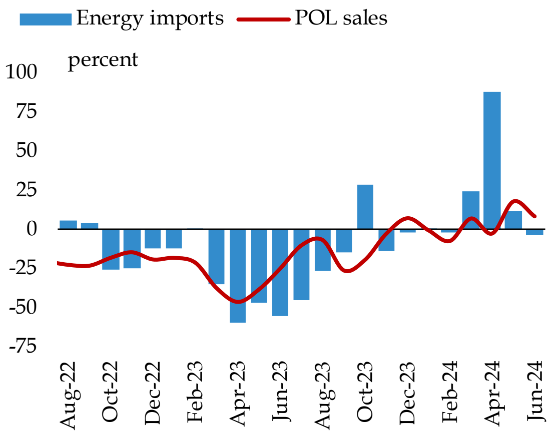
Food

Food imports declined, largely due to fall in import of palm oil, which constitutes the largest share in food imports**.** Import of palm oil was lower by US$ 862.2 million in FY24. This was mainly driven by declining global palm oil prices due to a supply glut mainly from Malaysia and Indonesia, coupled with lower international demand.[78]

In case of wheat, the import decreased by US$ 40.8 million, primarily due to a negative price effect. The dip in prices can be attributed to increased supplies from Russia – a major wheat producer, which experienced higher production. However, the import volume rebounded in H2-FY24 following the government's approval for import by the private sector. Thus, more than 60 percent of the total wheat was imported during second half of FY24.

[78] As indicated by a slight deterioration in 2024 compared to last year. For details, see **Figure 6.1**.

Energy Imports and Domestic POL Sales **Figure 6.37**



Sources: PBS and OCAC

Textile

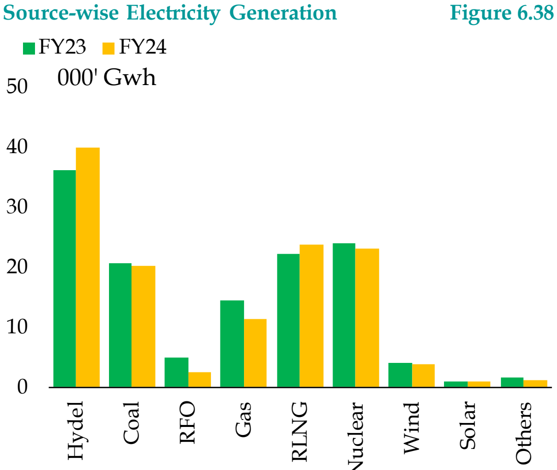
Textile imports posted a decline of 27.5 percent in FY24, largely driven by lower import volumes of raw cotton as well as prices. This decline can be attributed to a higher domestic production leading the textile industry to use locally produced cotton – a major input in textiles. In FY24, the cotton production rebounded after a considerable decline last year amid severe floods **(Chapter 2)**.[79]

Energy

Energy imports shrank by US$ 104 million in FY24, driven by the lower crude oil prices while oil import volumes increased. The disaggregated data shows a notable shift in import of energy products during H2-FY24. In value terms, energy imports increased significantly in the second half, after a 13.8 percent decline recorded in H1-FY24. The revival in economic activity, which is also evident from the recovery in LSM, explains this increase. Meanwhile, the demand indicators also showed a marked improvement during the period, as reflected from higher sales of automobile and POL products in the latter half of the year (**Figure 6.37**).

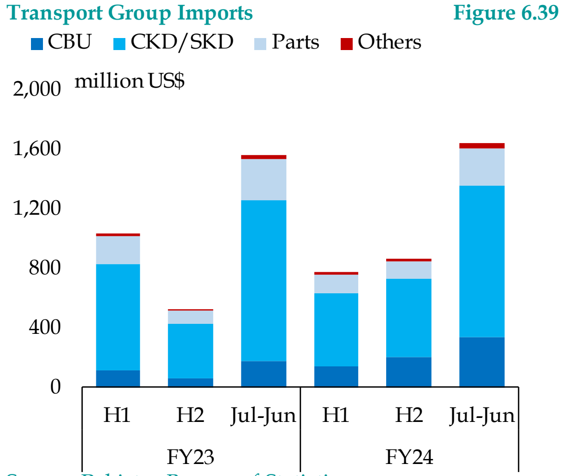
In terms of volumes, the import of crude oil continued to increase throughout the year, partially attributed to recovering economic activity. Although power sector demand for furnace oil dropped due to a change in energy mix, as electricity generation moved from furnace oil to more cost-effective sources such as coal, hydel, and LNG. This shift was prompted by a significant decline in global coal and LNG prices. In addition, the government allowed the export of furnace oil during the period, incentivizing refineries for higher production, which in turn led to a higher import of crude oil. Meanwhile, the decline in global crude oil prices offset the effect of higher import volumes, resulting in reduced import payments during FY24 (**Figure 6.38**).

Source-wise Electricity Generation **Figure 6.38**



Source: NEPRA

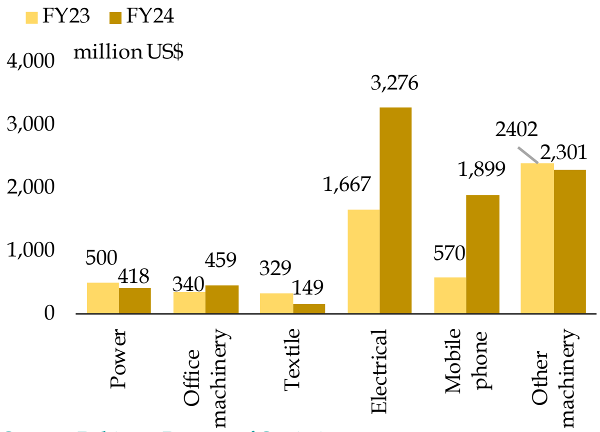
Transport Group Imports **Figure 6.39**



Source: Pakistan Bureau of Statistics

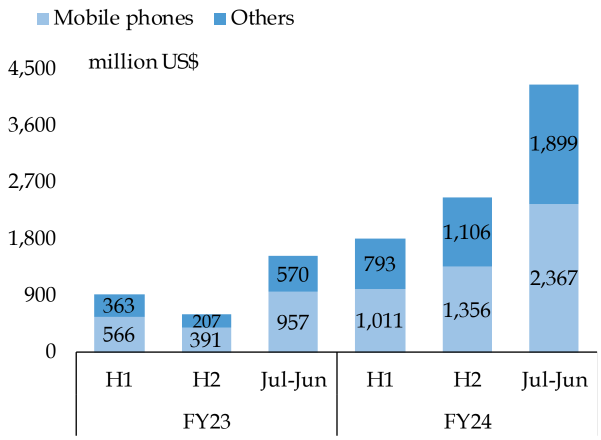
[79] For details, see Chapter 2

Machinery Imports **Figure 6.40a**



Source: Pakistan Bureau of Statistics

Telecom Imports **Figure 6.40b**



Source: Pakistan Bureau of Statistics

Transport

Transport imports witnessed a moderate increase, reaching US$ 1.8 billion in FY24 (**Figure 6.39**). The increase was more prominent in H2-FY24, driven by higher imports of CBU motor cars. While the ease in import constraints supported this increase, import volumes of CBU remained lower than the average of last 5 years. Meanwhile, CKD/SKD vehicle imports contracted owing to a sharp decrease in the sales of domestically produced vehicles particularly in H1-FY24. The domestic production of vehicles declined amid reduced demand, attributed to higher consumer financing cost and increase in vehicle prices. However, with a slight recovery in auto sales since January 2024, import of CKD picked up.

Machinery

In FY24, contrary to other major imports, the machinery group experienced a marked increase, primarily driven by rise in the import of electrical machinery and mobile phones. Within the electrical machinery, import of solar panels showed a notable growth on account of heightened demand for domestic solar electricity generation units (**Figure 6.40a & 6.40b**). Amidst increasing electricity cost and the availability of low-priced solar panels from the Chinese market, consumers have increasingly shifted towards in-house solar solutions, resulting in higher imports of electrical machinery.

Meanwhile, significant increase in mobile phone imports to US$ 1.9 billion in FY24 is largely explained by the pent-up demand. As the exchange rate started to stabilize since September 2023, in conjunction with the easing FX constraints, the import of mobile phones increased.