

# PAKISTAN GENERAL ELECTIONS 2024 - OUTLOOK

With hung parliament on the cards, how would economic challenges take shape?

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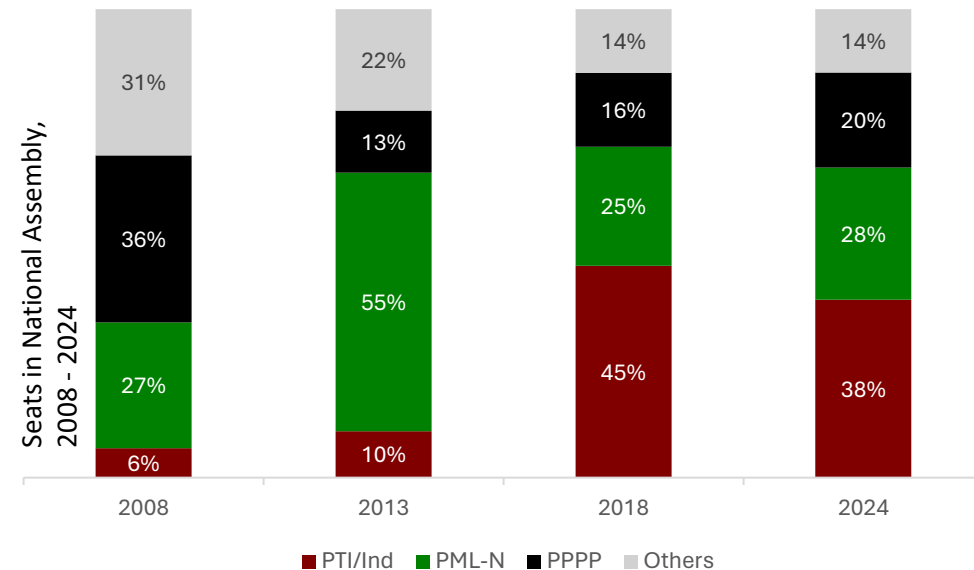
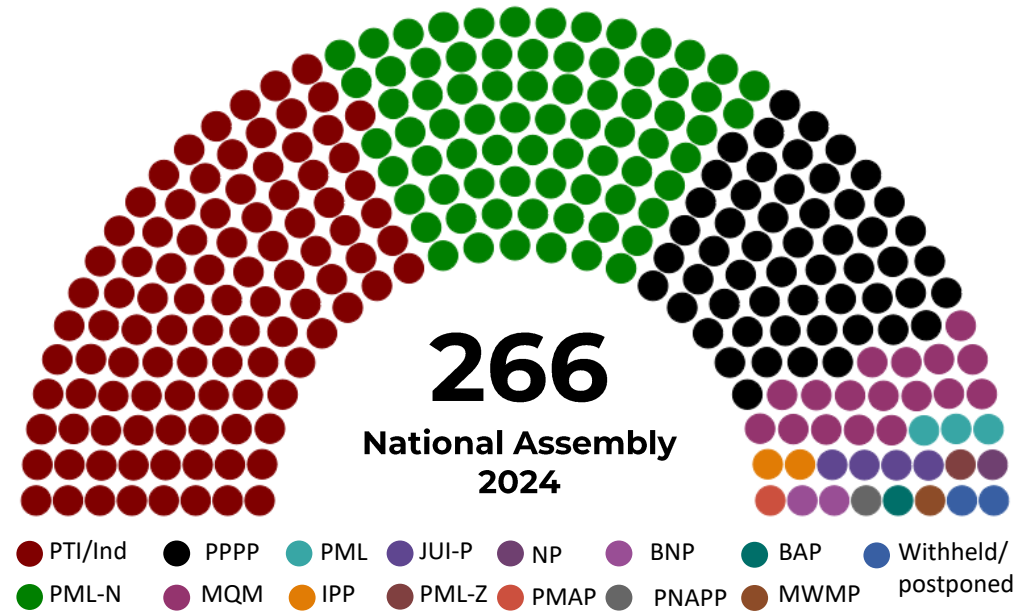
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Advisory | Strategy | Insights

# The Story So Far...

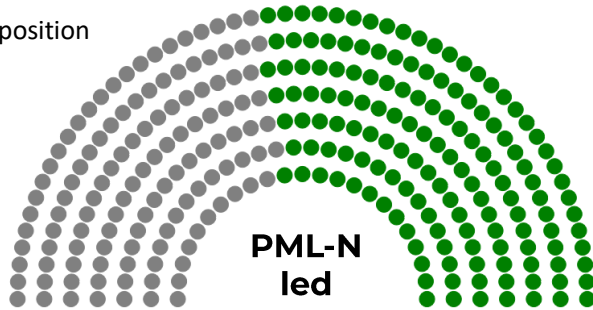
- The general elections of Pakistan took place on February 8<sup>th</sup>, 2024 with a turnover of over 127 million (over 50% of total population) registered voters casting vote across 266 consistencies in Pakistan.
- Amidst the eventful 4 days post-election, the independent candidates, including PTI's, have managed to bag the greatest number of seats so far in the National Assembly, totaling at 101 seats, making up 38% of the total seats.
- In close pursuit, PML(N) led by 3-time Prime Minister of Pakistan, secured a total of 75 seats (28%) and Bilawal Zardari's PPP secured a total of 54 seats (20%) followed by MQM with 17 seats (6%).
- With no single-majority party in sight, it raises concerns about the possibility of a hung parliament setup with the mainstream parties seeking support from both independents as well as other parties to form a government.
- As of yet, Election Commission of Pakistan (ECP) has directed re-polling in several polling stations for national and provincial assemblies. Whereas results of ~26 seats, both national and provincial assemblies have been challenged in the Lahore High Court.
- The ECP has until 2 weeks to announce the official results whereas the independents will have 3 days to join a political party.
- Clarity on the results is of utmost importance as it will play a crucial role on the development of the national and provincial assemblies as well as new government setup.



Source: Election Commission of Pakistan, Alpha Beta Core

# The Art of Possibilities...

- Government
- Opposition



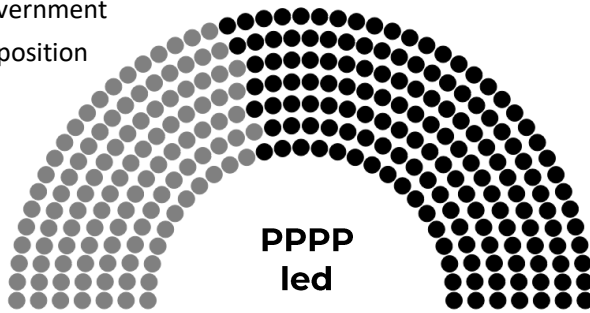
## Scenarios

## Implications

**Scenario 1:**  
PML-N led coalition  
PPPP, PML-N, MQM  
in government

- The PML-N-led coalition scenario would mean continuity in policy of last PDM setup. This would include coalition partners such as PPPP and MQM.
- One possibility under the same scenario highlighted in the media is a coalition setup with PML-N and PPPP splitting the term equally for the Prime Minister with half the term represented by PML-N and the other half represented by PPPP.

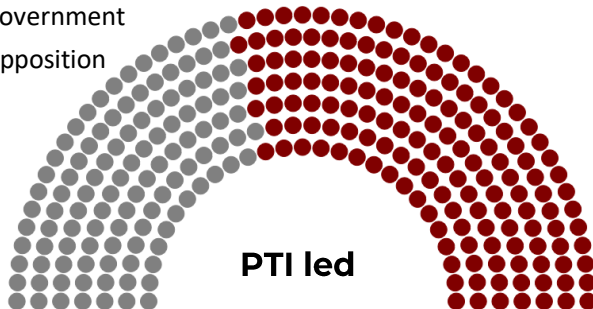
- Government
- Opposition



**Scenario 2:**  
PPP led coalition  
PPPP, PTI(Ind) in  
government, PML-N  
and others in  
opposition

- Another scenario is a setup between the PPPP and enough of PTI (independents) while PML-N sits in the opposition. This could only materialize if negotiations between PPPP and PML-N falter and independents join PPPP-led setup in an attempt to keep PML-N from power.
- We believe this scenario would be an unusual alliance between PPPP and PTI, however it does yield a majority in terms of numbers and PML-N would have a weak opposition.

- Government
- Opposition



**Scenario 3:**  
PTI-led coalition, with  
MQM and other small  
parties in government,  
while both PML-N and  
PPPP in opposition

- An alternate scenario is a PTI-led independents form government with a combination of smaller parties/other joining. This may materialize in the wake of re-polling, recounting or court proceeds going in favor of PTI.
- We believe this scenario would have several considerations involved including current status of PTI as a political party and lack of senior leadership in the general assembly.

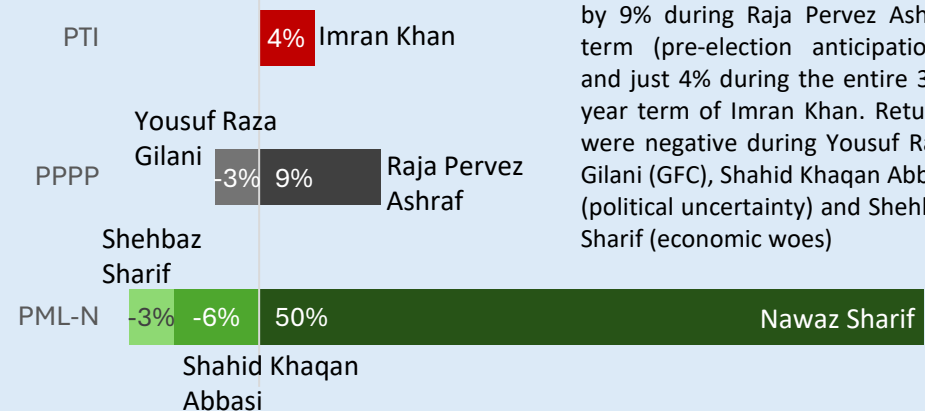
# Impact Assessment Under Possible Scenarios

Scenarios	PML-N led Coalition	PPP led Coalition	PTI led Coalition
Economic Policy Framework	Continuity of PDM policies followed by anti-populist moves under IMF conditions	Still likely to follow IMF conditions but tilt towards moderately populist moves for farmers, subsidies etc. in order to gain popularity under Bilawal's leadership	Expected to take pro-populist moves at the expense of economic measures and may even enter stalemate with IMF
Explanation	The PML-N led coalition would have to take difficult decisions in order to put the country back on recovery and achieve its goals regarding shrinking current account deficit and containing inflation. This includes continuing with the IMF program, as well as containing the fiscal deficit. Interest rates are also expected to remain high in short term amid corrective measures. Privatization will also be on the agenda with a focus on the FDIs.	PPP-led coalition would largely be focusing on reconciliatory measures with continuity of policy under IMF program, building international relations while also maintaining a populist stance with focus towards providing relief and introducing reforms in agriculture. Under this coalition, some renegotiation with IMF program may take place though any significant breakthrough is not expected.	The PTI-led coalition would focus more on relief and providing subsidies. This may likely result in a higher fiscal deficit, which would also cause rifts while securing the IMF program, resulting in a possible stalemate. Expansionary fiscal policy would result in higher current account deficit with little focus towards privatization and other structural reforms.
IMF Program	Status-quo, will continue as before	Status-quo in most policy actions	Renegotiation or delayed
Fiscal Deficit	Low, around 5-6% of GDP	Moderate, around 6-6.5% of GDP	High, around 7-8% of GDP
International Affairs	Diplomatic ties with allies	Diplomatic ties with allies	Difficult relationship with allies
Economic Implication	Negative initially, positive long-term	Neutral in short term, negative in long term	Negative in medium-term due to uncertainties
Market Implication	Positive	Neutral	Negative on account of uncertainty

# Economic Performance at a Glance

Political Parties & Prime Ministers	Policy Direction	Term in Years	GDP Growth	Inflation	M2 Growth	Fiscal Deficit	Debt to GDP	CAD to GDP	FX Reserves (US\$ bn) - EoP	Import Coverage (Months)
<b>PML-N (2013-18 &amp; 2022-23)</b>		<b>6.3</b>	<b>3.4%</b>	<b>10.2%</b>	<b>12.0%</b>	<b>5.6%</b>	<b>62.8%</b>	<b>2.1%</b>	<b>17.1</b>	<b>3.8</b>
Nawaz Sharif	Stable	4.1	4.0%	5.2%	11.8%	4.8%	58.7%	1.9%	20.1	4.6
Shahid Khaqan Abbasi	Expansionary	0.8	6.1%	4.7%	9.7%	5.8%	63.7%	5.4%	13.9	2.8
Shehbaz Sharif	Contractionary	1.3	-0.2%	29.2%	14.2%	7.8%	74.8%	0.7%	9.6	2.1
<b>PPP (2008-13)</b>		<b>5.0</b>	<b>2.7%</b>	<b>11.9%</b>	<b>13.5%</b>	<b>6.3%</b>	<b>55.0%</b>	<b>2.2%</b>	<b>14.2</b>	<b>3.8</b>
Yousuf Raza Gilani	Contractionary	4.1	2.5%	13.0%	13.0%	6.1%	54.6%	2.4%	15.2	4.1
Raja Pervez Ashraf	Expansionary	0.9	3.9%	7.4%	15.9%	7.3%	57.1%	1.1%	9.7	2.6
<b>PTI (2018-22)</b>		<b>3.6</b>	<b>3.6%</b>	<b>9.6%</b>	<b>14.6%</b>	<b>7.3%</b>	<b>74.1%</b>	<b>2.8%</b>	<b>14.9</b>	<b>2.2</b>
Imran Khan	Expansionary	3.6	3.6%	9.6%	14.6%	7.3%	74.1%	2.8%	14.9	2.2

## Contribution to KSE-100 returns (2008-2023)



50% of the entire return of KSE-100 between 2008-2023 came during Nawaz Sharif era, followed by 9% during Raja Pervez Ashraf term (pre-election anticipations) and just 4% during the entire 3.6-year term of Imran Khan. Returns were negative during Yousuf Raza Gilani (GFC), Shahid Khaqan Abbasi (political uncertainty) and Shehbaz Sharif (economic woes)

PML-N	<ul style="list-style-type: none"> <li>All major economic indicators during the 3<sup>rd</sup> term of Prime Minister Nawaz Sharif were relatively positive including high GDP growth, low inflation, low twin deficits and high reserve coverage. Highest contribution to KSE-100 returns also came during this period. Nawaz Sharif has also cumulatively served the longest duration in PM office compared to any other Prime Minister of Pakistan (9 years).</li> <li>In strong contrast, Shehbaz Sharif led PDM government stands with one of the weakest economic performances characterized by historically high inflation, currency volatility, negative GDP growth, high debt, fiscal deficit and low FX reserves.</li> </ul>
PPP	<ul style="list-style-type: none"> <li>Economic performance during PPP era under PM Yousuf Raza Gilani was largely overshadowed by Global Financial Crises of 2008-09, followed by widespread global recession. This was followed by relatively expansionary and populist policy regime during short tenor of PM Raja Pervez Ashraf ahead of 2013 polls.</li> </ul>
PTI	<ul style="list-style-type: none"> <li>PTI government led by Imran Khan was characterized by high GDP growth and low inflation, despite Covid-19 related challenges. However, performance was mostly based on populist measures resulting in significant expansion in fiscal deficit and public debt, coupled with high monetary growth.</li> </ul>

Source: PBS, SBP, ECP, PSX, Alpha Beta Core  
Note: All economic indicators are tenor-weighted

# The Challenge Ahead: Restoring Confidence in Economy

- One major challenge that lies ahead for the new government is restoring confidence in the economy by negotiating deal with the IMF and containing high inflation.
- Given the possible government setup, implementing policies would be a challenge on its own with responsibilities to lead the country towards economic stability.
- The current Stand-by arrangement with the IMF is expiring in April 2024.
- Higher investor confidence and stable currency is a direct derivative of how quickly the new IMF deal goes through.
- The other immediate cause of concern for the new government would be formulating the budget for FY25.
- Provided that the new IMF program would be likely in place by the next budget formulation, the challenge remains regarding how the new government will navigate through controlling fiscal expenditures and broadening its tax base while also putting through reforms required by IMF among other factors.
- Other major challenges such as energy and tax reforms are also a derivative of the fiscal policy. We have highlighted the key focus areas that require immediate attention and strategy to address them (next page).

## Pakistan Key Statistics

CPI Inflation  
Jan-24

**28.3%**  
YoY

Policy Rate

**22%**  
Unchanged

PKR-USD  
Avg FYTD24

**286.07**  
+15% YoY

Public Debt-to-GDP

**74.8%**  
+0.9% YoY

Source: SBP, PBS, IMF, Alpha Beta Core

# Major Themes and Challenges

Key Area	Plan
Debt management	<ul style="list-style-type: none"> <li>Implement a comprehensive debt management strategy, focusing on both local and foreign debt, especially reprofiling the Chinese portion for over a period of at least 3 years.</li> <li>Secure a new IMF program for debt planning, ensuring it aligns with a well-defined reform agenda.</li> <li>Explore opportunities for converting debt into green finance, considering the country's vulnerability to carbon emissions.</li> <li>Initiate a significant reduction in government expenditures, with the Ministry of Finance (MoF) and State Bank of Pakistan (SBP) exploring alternate funding sources such as the Pakistan Stock Exchange (PSX) and debt markets for depositors and institutional investors.</li> </ul>
Rationalization of fiscal expenditures	<ul style="list-style-type: none"> <li>The four key annual fiscal costs include running of the federal government (PKR 600bn), pensions (PKR 1.2trn), State-Owned Entities losses (PKR 1trn), and energy losses (PKR 1trn).</li> <li>The size of the government should be reduced significantly, aiming for an immediate reduction of more than half and a two-thirds reduction within two years. Ministries that duplicate provincial functions should be targeted to begin with.</li> <li>Reforms should be implemented in pension models, transitioning to a contribution model to save substantial allocations.</li> <li>Introduce performance and KPI-based compensation models for government employees.</li> <li>Debt, defense, and energy responsibilities need to be shared with provinces as well.</li> </ul>
Restructuring and privatization of Stated-Owned Entities (SOEs)	<ul style="list-style-type: none"> <li>Restructure SOEs by appointing independent boards and competitive managements to enhance efficiency, streamline operations, improving their balance sheets, thereby making them investor-ready before privatization.</li> <li>SOEs-owed debt should also be restructured to exclude it from sovereign ambit.</li> <li>Public-Private Partnership should also be explored.</li> </ul>
Energy sector transformation	<ul style="list-style-type: none"> <li>The energy sector should be overhauled, transitioning from a single-buyer market to a multi-buyer market by establishing wholesale and retail power market.</li> <li>Divert more gas to industries and the power sector to reduce power generation costs and to earn net-positive economic return.</li> <li>Restructure the transmission and distribution (T&amp;D) sector, invest in alternative energy sources like wind and solar, and decentralize and democratize energy by empowering households to generate their own energy.</li> <li>Lower taxes on electricity to stimulate consumption, provincialize energy management, and restructure Independent Power Producer (IPP) debt with Chinese entities to reduce burden of capacity payments.</li> </ul>

# Major Themes and Challenges

Key Area	Plan
Tax reforms for investment and growth	<ul style="list-style-type: none"> <li>• Gradually reduce corporate tax rate from the current 29% to 22% over three years and even lower for SMEs.</li> <li>• Further reduce the burden of undue taxation on select of sectors, such as banks, insurance, E&amp;Ps, etc.</li> <li>• Eliminate the Super tax regime and significantly reduce Turnover taxes to provide relief to businesses.</li> <li>• Restore tax incentive for salaried-class on investments.</li> <li>• Decrease Sales tax from 18% to 12% over the next three years while incentivizing filing and documentation.</li> <li>• Reduce the number of taxes and tax slabs; expand tax base.</li> <li>• Expand the tax net by taxing untaxed or low-taxed areas such as agriculture income, real estate, professionals, retail &amp; wholesale trade while controlling under-invoicing.</li> </ul>
Documentation and digital transformation	<ul style="list-style-type: none"> <li>• Digitize financial transactions by mandating the opening of bank accounts for all adults.</li> <li>• Facilitate digital payments and receipts through cost-free methods like QR codes, digital apps, and payment rails (e.g., Raast).</li> <li>• Make subsidy transfers conditional through digital means, which will require better, reliable, and low-cost internet infrastructure.</li> <li>• Massively reduce duties and taxes on mobilephones and digital gadgets to encourage digital infrastructure development.</li> <li>• Incentivize tax filers and make tax filing simpler and easier.</li> </ul>
Addressing worsening social indicators	<ul style="list-style-type: none"> <li>• 23 million children are out of school while about 25 million in-school kids are learning inadequately.</li> <li>• Over 90% of children are weak in critical subjects, while over 40% of the kids under 5 are stunted.</li> <li>• High rates of stunted growth, malnutrition, and poverty (touching 40%) are affecting both mothers and children.</li> <li>• The country faces a significant gap between the number of graduates and available opportunities.</li> <li>• Targeted programs should be developed to improve education quality, access to basic healthcare and nutrition and sanitation.</li> <li>• Implement measures to address malnutrition, stunted growth, and poverty.</li> <li>• Align educational programs with industry needs to enhance graduates' employability</li> </ul>

Addressing the identified key challenges and implementing effective strategies are pivotal aspects for the new government alongside building institutional capacity and building effective regulatory oversight and accountability system, thereby enabling a conducive ecosystem. However, it is essential to understand that several other priority areas also require detailed planning, alternative approaches, and execution. The successful resolution of these challenges is attainable, contingent to strong political will with a competent and empowered economic team.



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