Day Break

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GDP: +0.3%

Agriculture: +1.5%

Industrial: -2.9%

Services: +0.9%

Inflation: 28.5-29%

Exports: US$ 23bn

Imports: US$ 25bn

Remittances: US$ 23bn

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Economy

Pakistan Economic Survey 2023: Key Highlights

- Pakistan's GDP grew by 0.3% in FY2023, with a decline from 6.1% in 2022. Challenges at the beginning of FY2023 included floods and high domestic inflation.
- The government aims for 5.0-5.5% medium-term growth, focusing on stability and sustainability.
- Inflation averaged 28.2% in 11M2023 and is expected to be around 28.5-29% in 2023. Efforts to achieve price stability include favorable commodity prices and improved crops.
- Fiscal consolidation presents challenges, balancing subsidies and rising interest payments.
- The external account improved, with a lower current account deficit and better export prospects. Higher loan repayments strain foreign exchange reserves. Export growth is expected with an improved global trade outlook and eased import restrictions.

We review key summary points from Economic Survey of Pakistan for the year 2022-23 published on 8th June, 2023.

Pakistan GDP Growth: Marginal Increase and Contracting Per Capita

According to the latest Pakistan Economic Survey (PES), the country's GDP posted a mere growth of 0.3%, a decline from 6.1% in 2022. This brings the size of Pakistan's GDP to PKR 85tn, up by +27%, but in US dollar terms, the total size decreased to US$ 342bn from last year's US$ 375bn, a decline of 9% y/y. As a result, Pakistan's current GDP per capita contracted to US$ 1,568, from US$ 1,766 in 2022, down by 11%y/y.

Sector Performance: Agriculture Leads While Manufacturing Contracts

In terms of sectors, the service sector continues to dominate with a major share of 58.6%, growing by 0.9% year-on-year, followed by the industrial sector at 18.5%, which declined by 2.9% year-on-year. Lastly, the agriculture sector recorded a growth of 1.5%, representing a 23% share of the economy.

Challenging Start To The Year 2023

At the onset of FY2023, Pakistan's economy faced major challenges. Firstly, the devastating floods in July-August 2022 resulted in an economic loss of nearly US$ 15.2 billion. Additionally, higher global commodity prices led to decade-high domestic inflation. Navigating the economy out of this slow growth and high price trap became even more challenging amid tough choices imposed by the IMF program and domestic political instability.

Medium-Term Growth Projection: Aims for Stability and Sustainability

The government's medium-term growth projection of 5.0-5.5% reflects its commitment to ensure a stable and sustainable economic trajectory. This projection takes into consideration the need for price stability, which will be instrumental in creating a conducive environment for businesses and investors. Furthermore, the government recognizes the significance of maintaining the fiscal and external sectors' sustainability to support long-term economic growth. By setting this growth target and prioritizing stability and sustainability, the government aims to foster a resilient and prosperous economy in the years to come.

Inflationary Pressures and Prospects for Price Stability

Pakistan experienced one of the highest inflation rates in the region, with the headline inflation index CPI reaching a decade-high level. It averaged 28.2%y/y during 11M2023, compared to 11.0% y/y in the previous year. For the entire 2023, inflation is expected to fall in the range of 28.5-29%y/y highest in decades.

Global inflationary pressures persist, but recent favorable international commodity price movements and outlook, along with improved crop prospects and a stable exchange rate, offer prospects for achieving price stability. In the medium-term, the government expects prices to normalize in FY24 and FY25 due to the high base effect, improvements in the agriculture sector, and favorable global and domestic environments.

Fiscal Consolidation Challenges and Tough Choices

Addressing the high inflation problem will require significant fiscal adjustments, presenting a challenge for the government. The government needs to strike a balance between protecting the lower income segment through subsidies and managing expenditures on rising interest payments. These fiscal choices will play a crucial role in the upcoming budget as the government navigates this complex situation. Despite the challenges, the government has shown credibility in fiscal consolidation thus far, maintaining a surplus in the primary fiscal balance during the first nine months of 2023 by effectively containing expenditures.

External Account Improvements and Challenges

While the government has made progress in fiscal consolidation, the balance of payments position has faced challenges due to global shocks and domestic developments. These factors have resulted in pressure on foreign exchange reserves and the exchange rate.

However, post 3QFY23, there are some signs of improvement, with c/a deficit posting a surplus of US$ 0.02bn (US$ 3.3bn in first 9MFy23). As a result, the c/a deficit was initially projected to be 2.2%of GDP for FY2023, it is now expected to remain around 1 to 1.5% of GDP due to a contained import bill.

Despite the lower current account deficit, higher loan repayments relative to disbursements continue to put pressure on foreign exchange reserves. The prospects for export growth in the upcoming year, FY24, are better, with an improved global trade outlook, a revival of growth in trading partners, and improved global and domestic supply chains. Additionally, the elimination of import restrictions and efforts to stimulate domestic economic activities are expected to contribute to a more sustainable external sector in FY24.

Exhibit: Pakistan Key Economic Forecasts

		2017A	2018A	2019A	2020A	2021A	2022A	2023P
Real Sector								
GDP (growth rate)	%	4.6%	6.1%	3.1%	-0.9%	5.8%	6.1%	0.3%
GDP (in PKR)	PKRtn	36	39	44	48	56	67	85
GDP (in US$)	US$bn	340	357	322	301	349	375	342
GDP per Capita	US$	1,723	1,768	1,578	1,458	1,677	1,766	1,568
%age Share								
Agriculture	%	23%	23%	22%	24%	23%	23%	23%
Industries	%	19%	20%	19%	19%	19%	19%	18%
Commodity Producing	%	43%	43%	42%	42%	42%	42%	41%
Services	%	57%	57%	58%	58%	58%	58%	59%
Growth Rate								
Agriculture	%	2.2%	3.9%	0.9%	3.9%	3.5%	4.3%	1.5%
Industries	%	4.6%	9.2%	0.2%	-5.7%	8.2%	6.8%	-2.9%
Commodity Producing	%	3.3%	6.3%	0.6%	-0.6%	5.6%	5.4%	-0.5%
Services	%	5.6%	6.0%	5.0%	-1.2%	5.9%	6.6%	0.9%
Prices and Policy Rate								
CPI (National)	%y/y	7%	5%	7%	11%	9%	12%	29%
Discount Rate (Ceiling)	%	6%	6%	10%	12%	8%	11%	22%
Policy Rate (Target)	%	6%	6%	10%	12%	7%	10%	21%
External Accounts								
Current Account Balance	US$bn	(12.3)	(19.2)	(13.4)	(4.4)	(2.8)	(17.5)	(4.1)
Exports (G)	US$bn	22.0	24.8	24.3	22.5	25.6	32.5	27.1
Imports (G)	US$bn	48.0	55.7	51.9	43.6	54.3	71.5	54.8
Trade Balance	US$bn	(26.0)	(30.9)	(27.6)	(21.1)	(28.6)	(39.1)	(27.6)
Remittances	US$bn	19.4	19.9	21.7	23.1	29.4	31.3	27.2
C/a Bal. / GDP	%	-4%	-5%	-4%	-1%	-1%	-5%	-1%
Trade Balance / GDP	%	-8%	-9%	-9%	-7%	-8%	-10%	-8%
Total: Import Cover	x	6.2	4.2	3.3	4.3	5.4	4.0	2.2
Exports & Remit. / Imports	%	0.9	0.8	0.9	1.0	1.0	0.9	1.0
FX Reserves								
Fx Reserves	US$bn	21.4	16.4	14.5	18.9	24.4	15.5	9.9
Fx Reserves: Sbp	US$bn	16.1	9.8	7.3	12.1	17.3	9.8	4.5
Fiscal Accounts*								
Tax Revenues	PKRtn	4.0	4.5	4.5	4.7	5.3	6.8	7.6
Non-Tax Revenues	PKRtn	1.0	0.8	0.4	1.5	1.6	1.3	1.7
Current Expenditure	PKRtn	5.2	5.9	7.1	8.5	9.1	11.5	12.2
Development Expenditure	PKRtn	1.7	1.6	1.2	1.2	1.3	1.7	1.9
Budget Deficit	PKRtn	(1.9)	(2.3)	(3.4)	(3.4)	(3.4)	(5.3)	(6.3)
Tax Revenues	%age of GDP	11.2%	11.4%	10.2%	10.0%	9.4%	10.1%	9.0%
Non-Tax Revenues	%age of GDP	2.7%	1.9%	1.0%	3.2%	2.9%	1.9%	2.0%
Current Expenditure	%age of GDP	14.6%	14.9%	16.2%	17.9%	16.3%	17.3%	14.4%
Development Expenditure	%age of GDP	4.7%	4.1%	2.8%	2.5%	2.4%	2.5%	2.3%
Budget Deficit	%age of GDP	-5.2%	-5.8%	-7.9%	-7.1%	-6.1%	-7.9%	-7.5%

Source: Ministry of Finance, SBP, PBS, IGI Research, *FY24: forecasts

Exhibit: GDP Growth Rates*

Pakistan Real GDP growth rate arrived at 0.29% for current Fy23

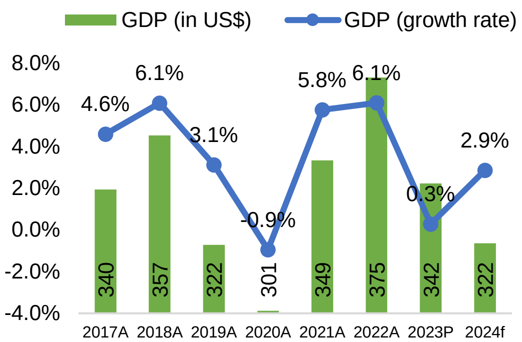


Exhibit: Sectoral Performance*

All sectors dived down during this Fy23; agriculture performed relatively well compared to others

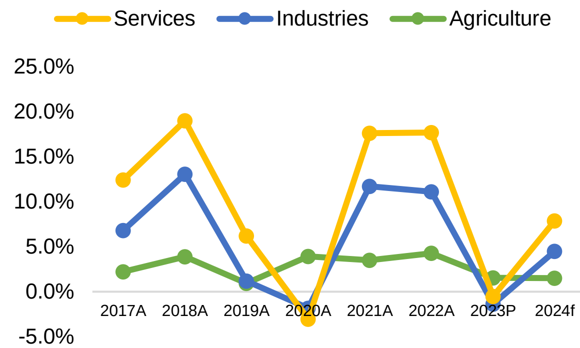


Exhibit: SBP Foreign Exchange (FX) reserves and Import coverage

SBP FX reserves declined to a multi-year low US$ 3.9bn, leaving close to a month of import cover.

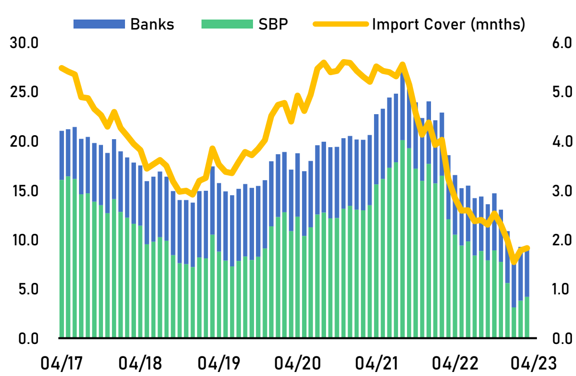


Exhibit: Inflation Indicators

All indicators trending toward north amid historically high

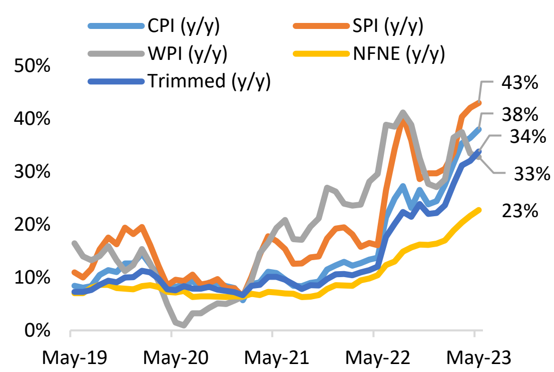


Exhibit: Pakistan CPI Historical

(BASE=2015-16) Headline Inflation Pakistan hit to an all-time high in May-23 (38%y/y).

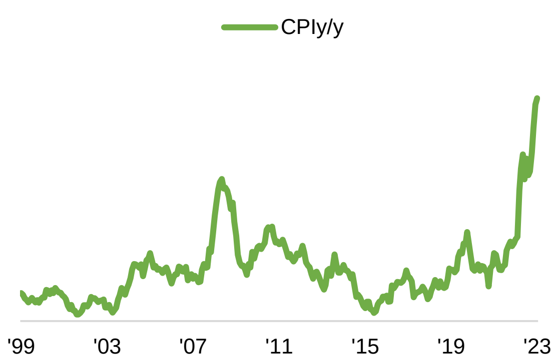
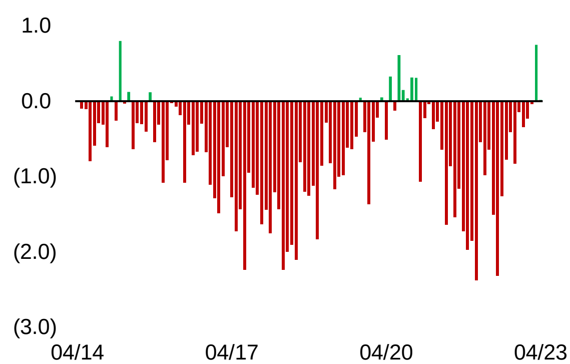


Exhibit: Monthly C/a Bal

Import control has pushed C/a bal into positive territory recently.



Source: Ministry of Finance, SBP, PBS, IGI Research, *FY24: forecasts

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