Economy

GDP Growth:
+5.97%

Agriculture Growth:
+4.4%

Industrial Growth:
+7.2%

Services Growth:
+7.9%

Inflation:
11.5-12.0%

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Pakistan Economic Survey

2022 Growth Rebound To 6.0%; but Expected to Taper-Off As Global Risk Increases

- Pakistan GDP growth up 5.97%, with services sector continue to be growth driver.
- This growth was supported by accommodative monetary and fiscal policies, but has led to rise in consumption.
- With global risks in place, inflation is likely to gather pace, country's gdp growth is expected to slowdown

We review key summary points from Economic Survey of Pakistan for the year 2021-22 published on 9th June, 2022.

Pakistan GDP growth up 6.0%

As per the latest Pakistan Economic Survey (PES) released Pakistan gdp posted an impressive +5.97% growth, rebounding from 2020 pandemic led contraction of 0.94%. This takes gdp size of Pakistan to PKR 66.9trn up by +20% while in US dollars terms total size increased to US$ 383bn from last year US$ 349bn; +9.8%y. As a result Pakistan current GDP per capita comes at US$ 1,798 which is roughly equal to 2018 level of US$ 1,768.

Services sector continue to be growth driver

In terms of sector, service sector continue to dominate the major share; 48% growing +7.9%y followed by industrial sector at 18.6%, up by +7.9%y. Lastly the agriculture sector printed a growth of +4.4% having a share of 21%.

Supportive monetary and fiscal policies…

A look back at 2022, growth was primarily driven supportive monetary and fiscal policies which was necessary to phase out pandemic led contraction of 2020. Nevertheless, this increased overall country's consumption, which rose by +22.5%y to occupy 96.2% share of gdp from 93.3% during the pandemic year.

…But has led to rise in consumption

Rising consumption brought along a plethora of issues, the fore most of which is rise in country's trade deficit which widened by +52% to US$ 37bn. Imports of g&s surged by 39%y to US$ 69bn compared to US$ 59bn (+26%y) combined receipts of exports of g&s and Remittances, leading to a gap of US$ 10bn; last year this gap was less than US$ 0.2bn.

This bulge in imports of g&s brought back country's old problem; the balance of payment crisis. SBP FX reserves as of now declined to US$ 9.2bn down from US$ 17.3bn starting FY22; roughly down by US$ 8.1bn, pushing government to yet again seek assistance form IMF.

Inflation to gather pace, Growth to slowdown

Looking into 2022-23, the Russian-Ukrainian Conflict induced rise in commodity prices posing significant risks to global inflation levels. The impact is becoming more and more pronounced in Pakistan given country's heavy reliance on imported petroleum products. This is having two way affect, firstly fueling domestic inflationary pressure and secondly further widening of country's trade terms. As a result, Pakistan growth is bound to slowdown next year; a phenomenon dubbed as 'Stagflation'.

Exhibit: Key Economic Indicators from Pakistan Economic Survey (PES) 2020-21

		2017a	2018a	2019a	2020a	2021a	2022p
Gross Domestic Product							
GDP	USDbn	339.6	356.8	321.8	300.8	348.7	382.8
GDP (Constant)	PKRtn	31.9	33.9	34.9	34.6	36.6	38.8
GDP (MP)	PKRtn	35.6	39.2	43.8	47.5	55.8	66.9
Agriculture	PKRtn	8.3	9.0	9.8	11.2	12.8	15.2
Industries	PKRtn	6.9	7.9	8.5	8.8	10.5	12.8
Commodity Producing Sector	PKRtn	15.2	16.8	18.4	20.0	23.4	28.0
Services	PKRtn	20.3	22.4	25.4	27.5	32.4	39.0
GDP per capita	USD	1,723	1,768	1,578	1,458	1,676	1,798
Growth Rate							
Real GDP	%	4.6	6.1	3.1	(0.9)	5.7	6.0
Nominal GDP	%	8.2	10.0	12.8	9.4	18.8	19.5
Agriculture	%	2.2	3.9	0.9	3.9	3.5	4.4
Industries	%	4.6	9.2	0.2	(5.7)	7.8	7.2
Commodity Producing Sector	%	3.3	6.3	0.6	(0.6)	5.4	5.7
Services	%	4.6	8.8	0.9	(0.8)	7.5	7.9
%age Share of GDP							
Agriculture	%	23.4	22.9	22.4	23.5	23.0	22.7
Industries	%	19.5	20.0	19.5	18.5	18.9	19.1
CPS	%	42.9	42.9	41.9	42.1	41.9	41.8
Services	%	57.1	57.1	58.1	57.9	58.1	58.2
GDP Expenditure / GDP							
Private Consumption	%	81.0	81.4	82.9	80.5	82.4	85.2
Consumption	%	92.7	93.4	94.6	93.3	94.3	96.2
Capital Expenditure	%	14.6	15.4	13.8	13.1	12.9	13.4
Investment	%	16.3	17.1	15.5	14.8	14.6	15.1
National Saving	%	12.6	11.5	11.2	13.5	12.4	9.6
Prices and Monetary							
CPI	%	6.5	4.7	6.8	10.8	8.9	11.7
SBP Policy Rate (avg.)	%	5.9	6.3	9.9	10.1	7.0	9.9
Fiscal Policy							**(Jul-Mar)**
Total Revenue	%	13.9	13.3	11.2	13.2	12.4	8.8
Tax Revenue	%	10.4	10.8	9.7	9.3	9.4	7.2
Total Expenditure	%	19.1	19.1	19.1	20.3	18.5	12.6
Current Expenditure	%	14.6	14.9	16.2	17.9	16.3	11.0
Markup Payments	%	3.8	3.8	4.8	5.5	4.9	3.2
Development Expenditure	%	4.8	4.0	2.7	2.4	2.2	1.5
Overall Deficit	%	5.2	5.8	7.9	7.1	6.1	3.8

Source: IGI Research, PBS, SBP, Ministry of Finance, IMF

Key Extracts from Pakistan Economic Survey 2021-22

	Overview	Outlook
Growth	**Pakistan Achieved a real GDP growth of 5.97% in 2022** This takes total GDP size to PKR 66.9trn up by +20% while in US dollars terms total size increased to US$ 383bn from last year US$ 349bn; +9.8%y.	**Economic growth seems to be slow down next year.** ▪ At current Pakistan's economy faces several severe challenges, fore mostly high Inflation which is challenging future growth in potential output. ▪ Moreover, fiscal deficit is at a level where its financing is becoming challenging. ▪ High trade deficit is leading to external imbalances putting extra pressure on foreign reserves and on the exchange rate. ▪ Hence a need for demand management fiscal and monetary policies should on average be neutral and play their role of cyclical stabilizers when temporary shocks create deviations from the long-term growth path **Shot-term objectives:** ▪ Finance its external finance requirements stemming from current account deficits and foreign debt servicing. ▪ Successful conclusion of the seventh review of Pakistan's reform program which is supported by an IMF.
Inflation	**In 2022 average inflation is expected to print 11.5-12% growth vs. 5.7%y in 2021** Average inflation forecasts have been revised upwards and will remain11.5-12.0% in 2022.	**Uncertain and rising** ▪ There is significant uncertainty around the outlook for international commodity prices ▪ Rising input costs on the back of high utility prices combined with the lagged impact of exchange rate depreciation likely to maintain upward pressure on inflation in the following month of outgoing fiscal year. ▪ The impact will be more visible in non-food prices ▪ Food prices are likely to remain stable due to effective monitoring of prices and smooth supply of essential items by the federal and provincial governments.
Fiscal	**Tax collection increased, but unabated rise in expenditure increased fiscal deficit** ▪ During the 9mFy22, country's fiscal deficit increased to 3.8% of gdp compared to 3.0% last year same period. ▪ Budgetary estimates (BE) suggests the fiscal deficit will likely reach 6.3% or PKR 3.42trn compared to 6.1% in 2021. ▪ Based on BE, tax collections are looking strong rising to 12.0% of the gdp in 2022 compared 9.4% last year. ▪ However, higher current expenditure of 22.6% of gdp (highest in past 5 years) vs. 18.5% last year is core reason for widening fiscal deficit. This rise in expenditure is mainly due to increase in country's debt servicing cost and additional spending under Covid-19 vaccination program, circular debt and other social spending.	**Rising commodity prices, a double-edge sword on fiscal management** ▪ Rising commodity prices double-edged sword, potentially increasing the fiscal deficit, and reducing fiscal space ▪ the government is reducing the subsidy by raising the price of petroleum products ▪ Emphasis is on rationalizing untargeted subsidies and reducing the losses of public sector enterprises through improved governance.
External balances	▪ Export enhancement measures such as reduce electricity tariffs, release of duty drawbacks, duty-free import of textile machinery, etc. taken back in 2021, have congregated to exports sector growth in 2022 as well. But rising global commodity prices and delays in cutting back on non-essential imports caused unprecedented growth in imports. ▪ Current account deficit widened to US$ 13.8bn vs. US$ 0.54bn last year during the first 10 months of the year.	**Resuming IMF a critical to FX reserve build up and market confidence** ▪ Given the current pace of rise inflation, domestic demand is likely to further firm up, which will keep overall imports growth high. ▪ Depletion of foreign reserves is becoming vulnerable. In this scenario, seeking assistance from friendly counties and resuming IMF program is critical to build-up FX reserve and to build market confidence.

Exhibit: GDP Growth

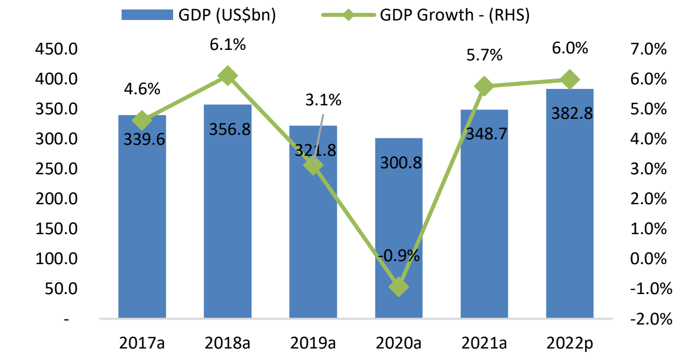


Exhibit: Sector wise Growth

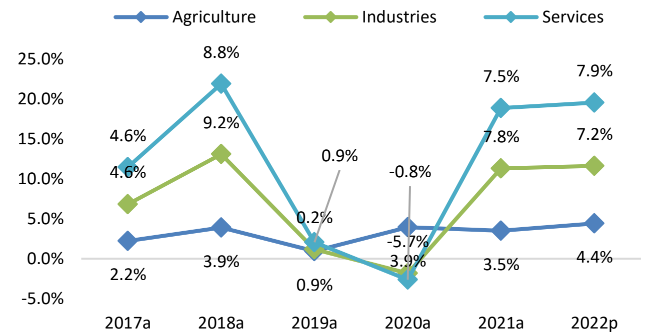


Exhibit: Sector wise Contribution

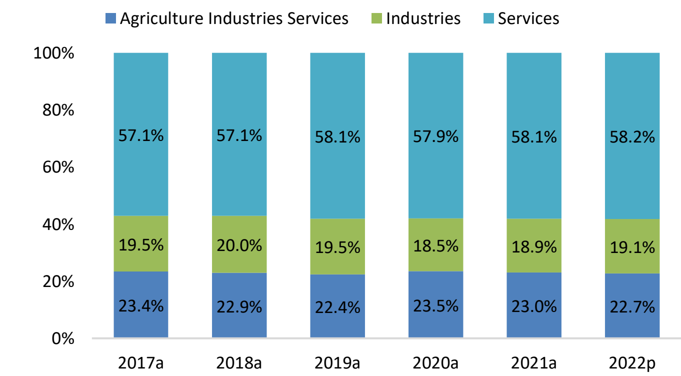


Exhibit: Per Capita Income

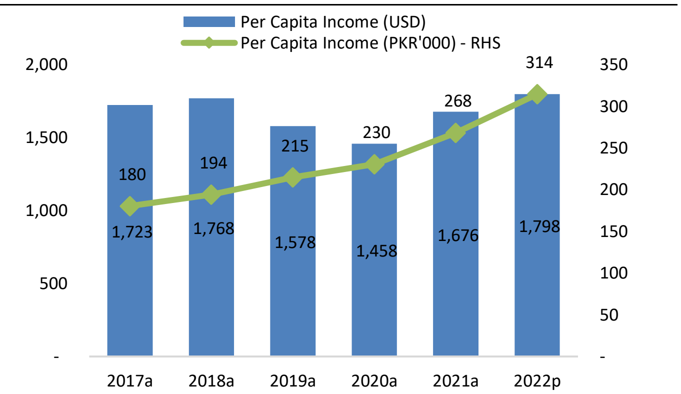


Exhibit: Large Scale Manufacturing growth

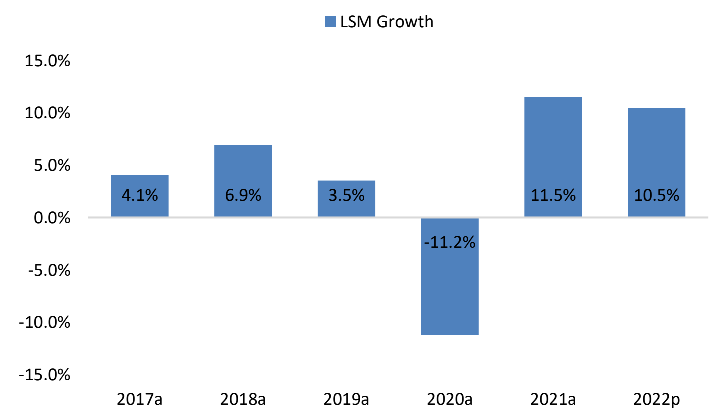


Exhibit: LSM point Contributors (top 4 leaders and laggards)

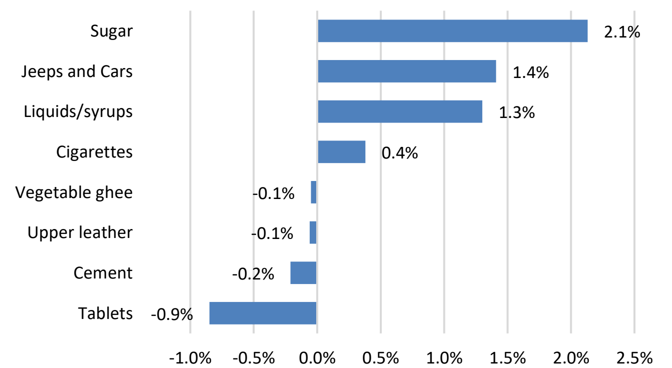


Exhibit: Major Crop production (in mn.Tons)

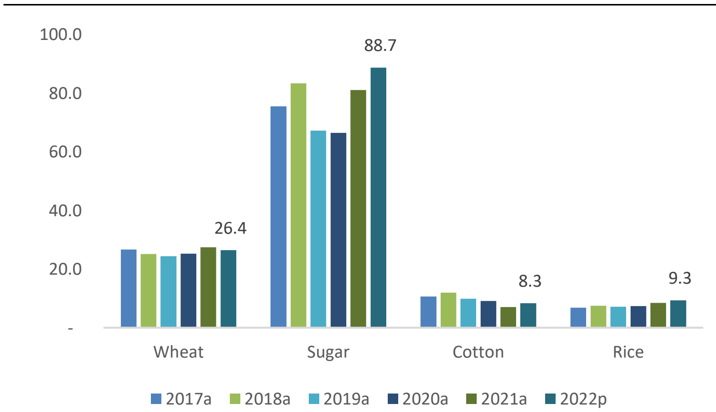
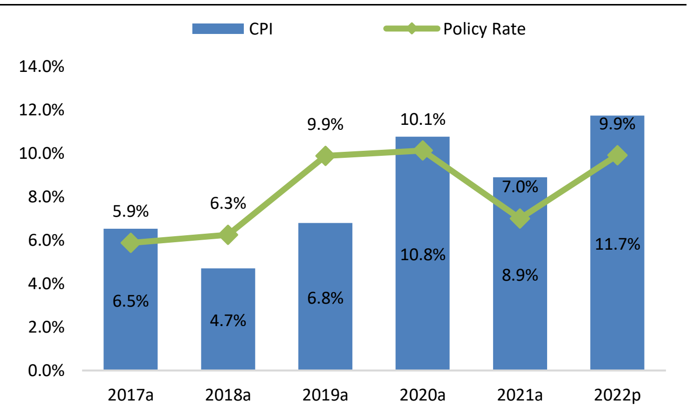


Exhibit: CPI and Policy rate



Source: IGI Research, PES 2021-22

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