

PAKISTAN



Pakistan's key economic numbers

	FY21	FY22R	FY23P	FY24E
GDP growth (%)	5.8	6.1	0.3	3.6
- Agri	3.5	4.3	1.6	5.6
- Industry	8.2	6.8	-2.9	1.7
- Services	5.9	6.6	0.9	3.4
GDP per capita (US\$)	1,676	1,765	1,568	1,524
GDP (US\$ bn)	349	375	341	360
Investment (% of GDP)	14.5	15.7	13.6	14.5
Saving (% of GDP)	13.7	11.1	12.6	13.1
CPI (%)	8.9	12.2	29.3	20.5
Fiscal (% of GDP)				
- Tax	9.4	10.1	8.7	9.1
- Fiscal deficit	6.1	7.9	7.0	6.5
External				
- Rs-US\$ parity	160.3	178.0	245.6	300.5
- SBP forex (US\$ bn)	16.1	9.8	4.1	9.7
- CAD (% of GDP)	-0.8	-4.6	-1.0	-1.8
Monetary policy				
- Policy rate	7.0	13.8	21.0	15.0

Source: MoF, SBP, Foundation Research, June 2023

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FY23 Economic Survey

Growth remained sluggish

GDPg at 0.3% in FY23

FY23 Economic Survey was released today as a preamble to the FY24 Federal Budget scheduled for tomorrow. FY23 GDPg stood at 0.3% as tightening of monetary and fiscal policy to improve the balance of payment position played a role in the contraction of industrial activity and economic slowdown. The severe macroeconomic imbalances, flood damages, domestic supply shocks, political unrest and international economic slowdown have dampened economic growth in FY23.

GDP at current market prices stood at Rs84.7tn, showing a growth of 27.1% during FY23 over last year (Rs66.6tn). While in US\$, it was US\$341bn, as per FSL estimates. Per capita income decreased by 11.2% from US\$1,765 in FY22 to US\$1,568 in FY23.

Agriculture grew despite record floods

Agriculture sector (~23% weight) grew by 1.6% in FY23 as against 4.3% in FY22. Important crops declined by 3.2% due to 41/22% YoY decline in cotton/rice production amid devastating floods. In the aftermath of the flood, the Kissan Package which provided cheap agri loans, subsidy for interest-free loans, subsidy for fertilizer, funds for agro-SME, and free seeds including several other agri-linked reliefs have helped in the revival of agriculture growth. Wheat (↑5.4%), sugarcane (↑2.8%) and maize (↑7.0%). Livestock and forestry sector grew by 3.8/3.9%.

Services sector supported growth

Services sector (~59% weight) was the main growth driver with growth of 0.9% but with mixed trends within the sub-sectors. Transportation and Storage sector (~10% weight) showed increase of 4.1%. Real Estate activities (~6% weight) and other private services (~9% weight) witnessed growth of 3.7% and 5.0%, respectively. Whereas, wholesale and retail trade (~18% weight) sector declined by 4.5% due to negative growth of 4.6% in crops, a decline of 8.1% in LSM, and fall in imports of -12.7%. In addition, general gov't services (~4% weight) declined by 7.8%.

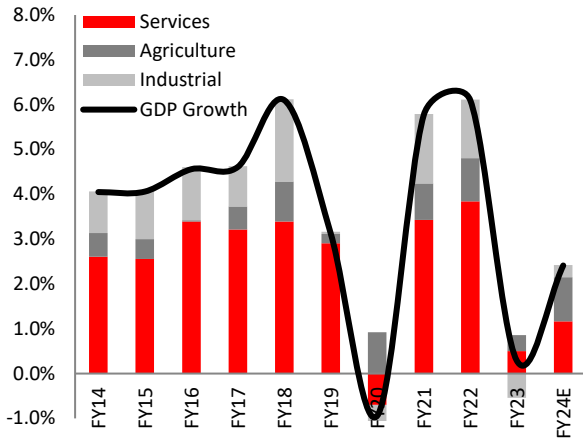
Industrial activity declined on back of fall in LSM

Industrial sector (~18% weight) witnessed decline of 2.9% driven by LSM (~9% weight) receding by 8.0% in 9MFY23 (vs growth of 11.9% in FY22). Gov't prudent measures and continuous support along with rising global demand, easy access to credit, and partially subsidized energy supplies bode well in boosting business sentiment and achieving higher LSM growth. Major contributors to decline are Food (-8.71%), Textile (-16.03%), Coke and Petroleum (-10.24%), Fertilizers (-9.54%), Non-metallic (-10.75%), Iron & Steel (-4.02%) and Automobiles (-46.01%). Whereas, Electricity and Gas sector (~2% weight) grew by 6.0%. Construction activity (~2% weight) decreased by 5.5% mainly due to conservative reporting of construction-related expenditure by private as well as public sector enterprises and increase in WPI building material deflator.

GDP projected to grow more inclusively and sustainably

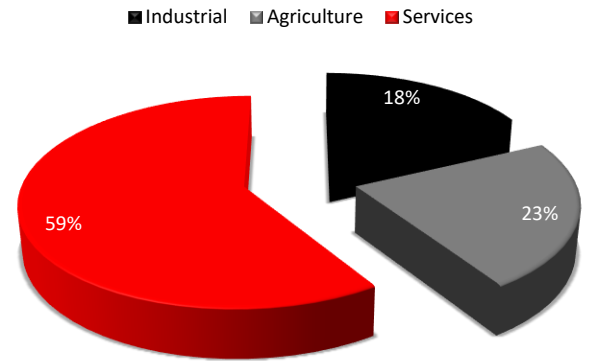
Gov't has shifted its focus from traditional development paradigm to 5-Es framework covering Exports, Equity, Empowerment, Environment and Energy that will overcome the current challenges and improve standard of living of the masses. Gov't is aiming for growth in exports with a focus on increasing agriculture, IT, and industrial exports. Gov't is also focusing to put economy on a higher, inclusive and sustainable growth path. However, political uncertainty amid external account challenges would be risk factors for growth outlook.

Fig 1: GDPg projected to recover in FY24



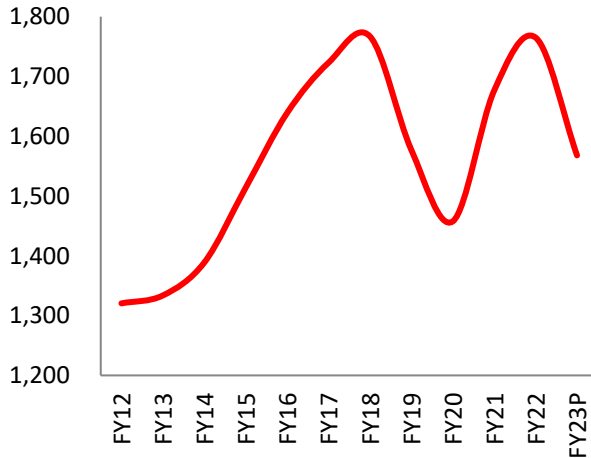
Source: MoF, Foundation Research, Jun 2023

Fig 2: Sector weightages – services the backbone



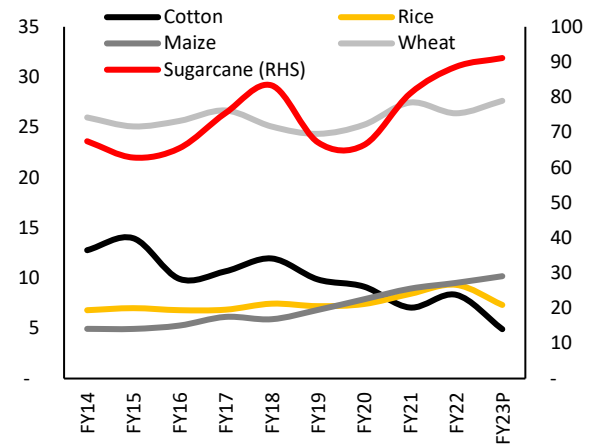
Source: MoF, Foundation Research, Jun 2023

Fig 3: Per capita income declined (US\$)...



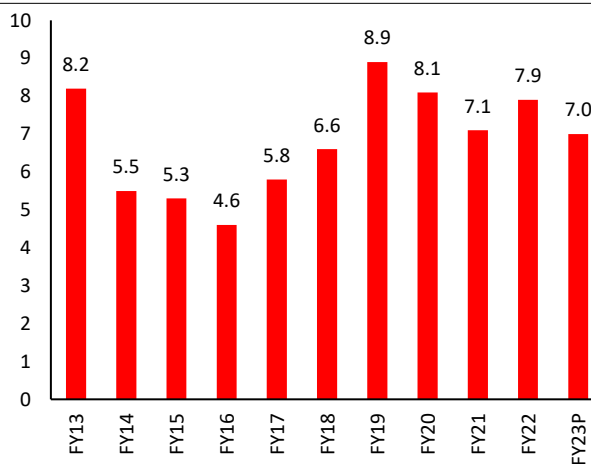
Source: MoF, Foundation Research, Jun 2023

Fig 4: Major crops – cotton/rice prod. fell (000's)...



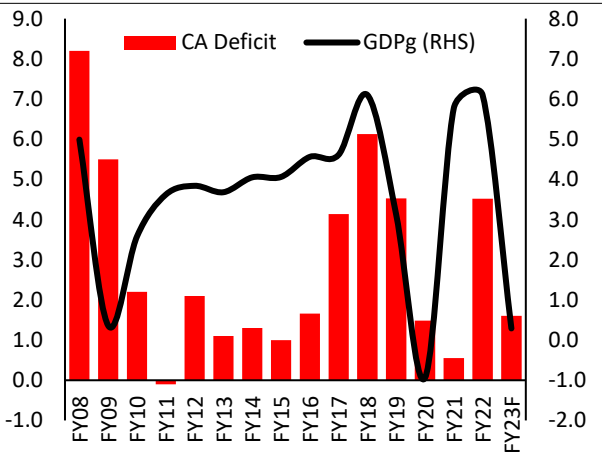
Source: MoF, Foundation Research, Jun 2023

Fig 5: Fiscal deficit remains uncomfortably high



Source: MoF, Foundation Research, Jun 2023

Fig 6: GDPg and Current Account Deficit



Source: MoF, SBP, Foundation Research, Jun 2023

Table 1: Production of important crops

mn tons	FY19	FY20	FY21	FY22	FY23
Cotton*	9.86	9.15	7.06	8.33	4.91
Rice	7.20	7.41	8.42	9.32	7.32
Maiz	6.83	7.88	8.94	9.53	10.18
Wheat	24.35	25.25	27.46	26.21	27.63
Sugarcane	67.17	66.38	81.01	88.65	91.11

Source: MoF, Foundation Research, June 2023

*mn bales

Box-I: Floods 2022; Damage and Loss in Agriculture

The 2022 monsoon rains followed by flooding were unprecedented in the history of Pakistan and had devastating impacts on the lives and livelihoods of the people, particularly the rural population and those relying on agriculture. The devastating flooding affected 33mn people in 94 districts across Pakistan, took the lives of more than 1,700 people, displaced around 7.6mn people, and resulted in the loss of critical agricultural infrastructure, standing crops, grain storage, and livestock. Sindh and Balochistan provinces were the hardest hit among Pakistan's six provinces/regions. About 14.6mn people were in need of food security and livelihood (agriculture) related emergency assistance.

Pakistan's agriculture sector was the hardest hit sector both in terms of damages and losses. About 4.4mn acres of crops were damaged and around 1mn animals lost. Total damages and losses amounted to US\$30.13bn, of which agriculture suffered US\$12.9bn (43% of total damages and losses). The crop subsector contributed to 82% of the total damage and losses, livestock to 7%, and fisheries/aquaculture to 1%. Out of the total need of US\$16bn for recovery and reconstruction, US\$4bn (25%) was required for the agriculture sector.

The losses and damages in the agriculture sector are expected to spillover effects on lives and livelihoods, poverty levels, food insecurity, and malnutrition, particularly among the poorest and most vulnerable rural communities. The preliminary findings of the Integrated Food Security Phase Classification (IPC) conducted by FAO and IPC partners for 43 vulnerable/flood-affected districts in Sindh, Balochistan and Khyber Pakhtunkhwa in Apr'23, estimate around 10.5mn people (29 % of the rural population) are food insecure (in IPC Phase 3 and 4) during Apr'23 to Oct'23. The number is expected to rise to 11.81mn people (32 % of the rural population) from Nov'23 to Jan'24.

In the immediate aftermath of the flood disaster, Government organizations at federal & provincial level and development partners especially FAO and partners ran an emergency campaign for most flood-affected farmers across the country. It is highly likely that the agriculture sector will return to normal by the Rabi season 2023, which is evident by the normal harvest of wheat and other food crops.

Source: FAO, MoF, Foundation Research, June 2023

Abbreviations

CAD	Current Account Deficit
CPI	Consumer Price Inflation
FX	Foreign Exchange
GDP	Gross Domestic Product
GDPg	Gross Domestic Product growth
IMF	International Monetary Fund
IMP	Import
LSM	Large Scale Manufacturing
MoF	Ministry of Finance
YoY	Year on Year

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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.