Pakistan Economy

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Pakistan
Economy

Pakistan economic survey FY23 highlights

External account crisis and floods slowed the pace of economic growth

Pakistan's economy in FY23 was marred by historic floods (agri, food, livestock and fisheries losses est. @ USD3.73bn) and lack of dollar reserves, which hampered the country's productive capabilities. Real GDP, as a result, grew by a mere 0.29% YoY vs 6.1% YoY in FY22. Fiscal deficit contracted to 4.6% of GDP in 10MFY23 vs 4.9% of GDP SPLY. Note that fiscal deficit trimmed despite massive increase in interest rates and govt. borrowing amid curbs on development spending and elimination of subsidies to fulfil IMF's condition; yielding a primary surplus of 0.12% in 10MFY23 vs deficit of 1.33% SPLY. LSM declined 8.11% YoY, thanks to import restrictions coupled with weakened consumer purchasing power and highest ever interest rates of 21%. CPI inflation clocked in at 29.2% in 11MFY23 vs 11.3% SPLY reaching multi-decade highs owing to ~40% PKR depreciation in 11MFY23 and supply shortages (especially food). In a desperate attempt to slow the pace of depleting FX reserves, import curbs were put in place, which resulted in current account deficit (CAD) easing off to USD3.3bn in 10MFY23 vs USD13.7bn SPLY.

Pakistan's provisional GDP growth for FY23 clocked in at a meagre 0.29% vs budgeted estimate of 5.0% and 6.1% recorded in FY22. Per capita income declined 11.1% in FY23 to USD1568 vs USD1765 in the preceding year.

Agriculture sector (22.9% of GDP) was hit the hardest following historic flooding with estimated losses (including related categories) to the tune of USD3.73bn. However, the sector still managed to post a growth of 1.55% YoY in output in FY23 vs target of 3.9%. Counterintuitively, livestock (14.36% of GDP) posted a growth of 3.78% YoY despite floods. Notable growth was witnessed in wheat, maize and sugarcane up 5.4%/6.9%/2.8% YoY in FY23. Cotton and Rice were most affected by floods, declining by 41% YoY and 21.5% YoY, respectively.

Industrial sector (18.5% of GDP) suffered greatly following import curbs and historic high interest rates leading to a 2.94% YoY decline. Large Scale Manufacturing (LSM) contracted 8.1% YoY in 9MFY23 with Automobiles, Food, Textile and Pharmaceuticals being the major drags.

Fiscal deficit contracted to 4.6% of GDP (PKR3.93trn) in 10MFY23 vs 4.9% of GDP (PKR3.28trn), while primary surplus was 0.12% vs deficit of 1.33% SPLY. We highlight that fiscal deficit came down despite consistent increase in interest rates, which reached historic highs. Moreover, government borrowing also surged during the same period.

CPI inflation for 11MFY23 clocked in at multi decade high of 29.2% given trimmed subsidies, increased tax burden on fuel prices, revision in gas prices, PKR depreciation, supply shortages due to import curbs and food inflation owing to crop losses. In response to soaring inflation, SBP continued its tightening stance where interest rates were increased to all time high of 21%. Interestingly,

Total public debt soared 20% in 9MFY23 to PKR59.2trn at the end of Mar'22. Steep PKR depreciation led external public debt up 33% whereas hefty fiscal burden expanded domestic public debt by 13%.

Outlook: Pakistan's economic policy will continue to be largely dictated by external account challenges where FY24 will prove to be even tougher in term of manoeuvrability given low FX reserve base. Therefore, we believe GDP growth will remain constrained (though higher than FY23 due to low base) amid continued import curbs and eroded purchasing power in FY24. In our view interest rate tightening cycle has largely ended, with expectation of inflation easing off in the 1HFY24 and upcoming budget to be largely focused on tax collection in advance form to increase tax base with restricted inflationary repercussions. However, we do not expect any substantial monetary easing, at least in the 1HFY24. Current account is expected to remain at a break-even level to manage flows.

Figure 1

Gross Domestic Product (GDP) at constant base prices of 2015-16 (PKRbn)

SECTORS	2021-22	2022-23	YoY
A. AGRICULTURE	8,784	8,920	1.55%
1. Crops	3,082	3,006	-2.49%
i). Important Crops	1,680	1,626	-3.20%
ii). Other Crops	1,289	1,292	0.23%
iii). Cotton Ginning	113	87	-23.01%
2. Livestock	5,388	5,591	3.78%
3. Forestry	191	199	3.93%
4. Fishing	122	124	1.44%
B. INDUSTRIAL SECTOR	7,409	7,191	-2.94%
1. Mining & Quarrying	649	620	-4.41%
2. Manufacturing	4,864	4,674	-3.91%
i). Large Scale	3,627	3,337	-7.98%
ii). Small Scale	768	838	9.03%
iii). Slaughtering	470	499	6.31%
3. Electricity, Gas and Water Supply	916	971	6.03%
4. Construction	980	926	-5.53%
COMMODITY PRODUCING SECTOR (A+B)	**16,193**	**16,111**	**-0.51%**
C. SERVICES SECTOR	22,622	22,816	0.86%
1. Wholesale & Retail Trade	7,333	7,007	-4.46%
2. Transport & Storage	3,967	4,155	4.73%
3. Accommodation and Food Services Activities (Hotels & Restaurants)	541	563	4.11%
4. Information and Communication	1,109	1,186	6.93%
5. Finance and Insurance Activities	732	704	-3.82%
6. Real Estate Activities (OD)	2,157	2,237	3.72%
7. Public Administration and Social Security (General Government)	1,853	1,709	-7.76%
8. Education	1,070	1,181	10.44%
9. Human Health and Social Work Activities	601	652	8.49%
10. Other Private Services	3,258	3,421	5.00%
GDP {Total of GVA at bp (A + B + C)}	**38,815**	**38,927**	**0.29%**
Indirect Taxes	2,906	3,089	6.28%
Subsidies	780	384	-50.75%
GDP at constant base price	**40,942**	**41,632**	**1.69%**
GDP at current market price	**66,950**	**84,658**	**26.45%**

Source: Pakistan Economic Survey 2022-23, Alfalah CLSA Research

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