PAKISTAN

Table 1	2021
Population, million	225.2
GDP, current US$ billion	345.5
GDP per capita, current US$	1534.3
International poverty rate ($1.9)[a]	3.6
Lower middle-income poverty rate ($3.2)[a]	34.4
Upper middle-income poverty rate ($5.5)[a]	77.6
Gini index[a]	29.6
School enrollment, primary (% gross)[b]	95.5
Life expectancy at birth, years[b]	67.3
Total GHG Emissions (mtCO2e)	469.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ Most recent WDI value (2019).

After a definitive economic recovery in FY21, Pakistan's GDP growth is expected to slow in FY22 and FY23 due to macroeconomic challenges emanating on both domestic and external fronts. Symptomatic of the long-standing structural issues associated with low potential growth, the record-high trade deficit and double-digit inflation, require urgent macroeconomic adjustment measures. The ongoing pandemic, a protracted surge in global commodity prices, and faster-than-expected tightening of global financing conditions pose substantial risks to the outlook.

Key conditions and challenges

Since imposing a widespread lockdown in response to the first COVID-19 wave, Pakistan has been effectively using localized lockdowns to curb the infection spread, allowing economic activity to largely continue. Expansion of the national cash transfer program, a mass vaccination campaign, accommodative macroeconomic policies, and supportive measures for the financial sector, all helped mitigate the adverse effects of the pandemic. As a result, growth of real GDP at constant factor 2015-16 prices rebounded to 5.6 percent in FY21, after contracting by 1.0 percent in FY20.

Nevertheless, long-standing structural weaknesses of the economy and low productivity growth pose risks to a sustained recovery. Strong aggregate demand pressures, in part due to previously accommodative fiscal and monetary policies, paired with the continued less conducive external environment for exports have contributed to a record-high trade deficit (Figure 1), weighing on the Rupee and the country's limited external buffers.

Macroeconomic risks are strongly tilted to the downside. They include faster-than-expected tightening of global financing conditions, further increases in world energy prices, and the possible risk of a return of stringent COVID-19 related mobility restrictions. Domestically, political tensions and policy slippages can also lead to protracted macroeconomic imbalances.

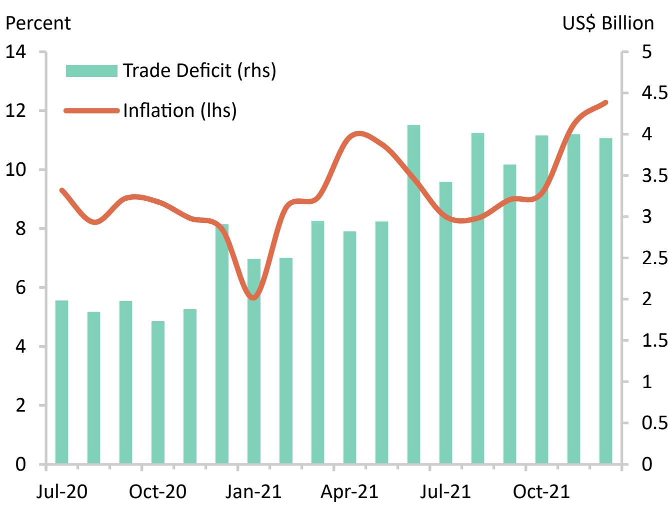
Recent developments

Indicators have mostly signaled positive economic momentum over July-December 2021 (H1 FY22). With continued improvement in community mobility and still robust official remittance inflows, private consumption is estimated to have strengthened. Similarly, investment is also expected to have increased with strong growth of machinery imports and government development expenditure. Government consumption also grew strongly with vaccine procurement. On the production side, agricultural output, mainly rice and sugarcane increased, reflecting better weather conditions. Similarly, large-scale manufacturing growth rose to 7.5 percent y-o-y in H1 FY22, higher than the 1.5 percent for H1 FY21. In contrast, business and consumer confidence have fallen since June 2021, partly due to concerns about higher inflation and interest rates.

Headline inflation rose to an average of 9.8 percent y-o-y in H1 FY22 from 8.6 percent in H1 FY21, driven by surging global commodity prices and a weaker exchange rate. Similarly, core inflation has been increasing since September 2021. Accordingly, the State Bank of Pakistan has been unwinding its expansionary monetary stance since September 2021, raising the policy rate by a cumulative 275 basis points (bps) and banks' cash reserve requirement by 100 bps.

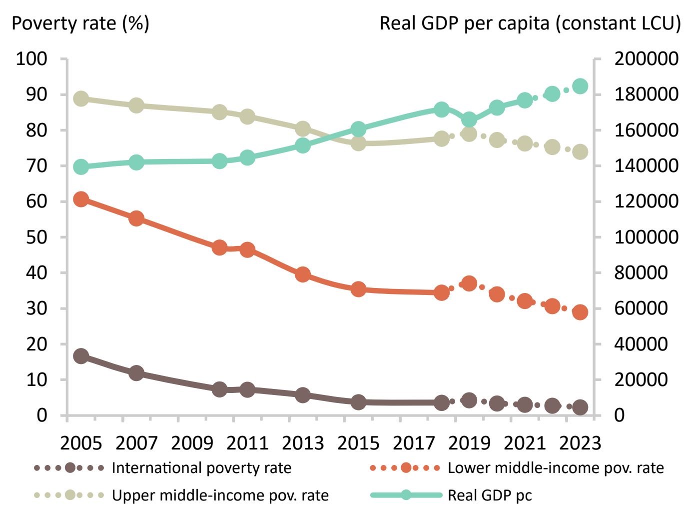
The current account deficit (CAD) in H1 FY22 widened to US$9.0 billion, from a surplus of US$1.2 billion in H1 FY21, as

FIGURE 1 Pakistan / Headline inflation and overall trade deficit



Sources: Pakistan Bureau of Statistics and State Bank of Pakistan.

FIGURE 2 Pakistan / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

imports values surged by 54.4 percent, doubling the 27.3 percent growth in exports values. Double-digit growth in remittances in H1 FY22 helped to finance the record-high trade deficit. The financial account recorded net inflows of US$10.1 billion, supported by the new IMF SDR allocation, short-term Government deposits from Saudi Arabia, and a Eurobond issuance in July 2021. In January-February, the Government obtained US$2.1 billion from International Sukuks and the IMF Extended Fund Facility (EFF). Despite these inflows, foreign exchange reserves had fallen to US$13.5 billion by March 25, 2022, equivalent to 2.0 months of imports of goods and services. Meanwhile, the Rupee depreciated by 14.3 percent against the U.S. dollar from July 2021 to end-March 2022.

Despite the high tax revenue growth with the surge in imports, the fiscal deficit widened by 20.6 percent in H1 FY22 due to higher spending on vaccine procurement, settlement of power sector arrears, and development projects. Public debt, including guaranteed debt, reached 70.7 percent of GDP at end-December 2021, compared to 72.0 percent at end-December 2020. To complement the tighter monetary policy, the Government approved a Supplementary Finance Bill in January 2022, withdrew tax exemptions, and cut back on federal development spending, while protecting social sector spending.

With the economic recovery and improved labor market conditions, poverty measured at the lower middle-income class poverty line of $3.20 PPP 2011 per day is estimated to have declined from 37.0 percent in FY20 to 34.0 percent in FY21 (Figure 2). Rising food and energy inflation is expected to diminish the real purchasing power of households, disproportionally affecting poor and vulnerable households that spend a larger share of their budget on these items. In response, the Government introduced a targeted food subsidies program (Ehsaas Rashan Riyat) in February 2022.

Outlook

On the back of high base effects, recent macroeconomic adjustment measures and stronger inflation, real GDP growth is expected to slow to 4.3 percent in FY22 and to 4.0 percent in FY23. However thereafter, economic growth is projected to recover to 4.2 percent in FY24, supported by the implementation of structural reforms to support macroeconomic stability and dissipating global inflationary pressures. Inflation is estimated to rise to 10.7 percent in FY22 but moderate over the forecast horizon. Largely reflecting the imports surge in H1 FY22, the CAD is expected to widen to 4.4 percent of GDP in FY22. Macroeconomic adjustment measures and the weaker currency are expected to tame imports mostly in FY23. The CAD is expected to narrow to 3.0 percent of GDP in FY24, as reforms to reduce import tariffs and the anti-export bias of trade policy gain traction. The fiscal deficit (including grants) is projected to widen slightly to 6.2 percent of GDP in FY22, and gradually narrow over the medium term as revenue mobilization measures, particularly GST harmonization and personal income tax reform, take hold. Public debt as a share of GDP is projected to stay high, but to gradually decline over the medium term. The outlook is predicated on the IMF-EFF program remaining on-track.

TABLE 2 **Pakistan** / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018/19	2019/20	2020/21	2021/22e	2022/23f	2023/24f
Real GDP growth, at constant market prices[a,b]	2.5	-1.3	6.0	4.3	4.0	4.2
Private Consumption	5.6	-3.1	6.3	5.5	3.0	3.9
Government Consumption	-1.6	8.4	3.1	6.9	6.0	3.8
Gross Fixed Capital Investment	-11.1	-5.5	6.8	4.4	2.5	4.4
Exports, Goods and Services	13.2	1.5	4.8	7.1	1.8	2.8
Imports, Goods and Services	7.6	-5.1	5.5	12.1	-0.7	2.1
Real GDP growth, at constant factor prices[a]	3.1	-1.0	5.6	4.3	4.0	4.2
Agriculture	0.9	3.9	3.5	3.6	3.2	3.3
Industry	0.2	-5.8	7.8	4.0	3.3	3.8
Services	5.0	-1.3	5.7	4.7	4.5	4.7
Inflation (Consumer Price Index)	6.8	10.7	8.9	10.7	9.0	7.5
Current Account Balance (% of GDP)	-4.2	-1.5	-0.6	-4.4	-3.1	-3.0
Net Foreign Direct Investment (% of GDP)	0.4	0.9	0.5	0.6	0.8	0.9
Fiscal Balance (% of GDP)	-7.8	-7.0	-6.1	-6.2	-6.0	-5.2
Debt (% of GDP)	78.0	81.1	76.0	76.0	74.4	72.5
Primary Balance (% of GDP)	-3.0	-1.5	-1.1	-1.4	-1.0	-0.3
International poverty rate ($1.9 in 2011 PPP)[c,d]	3.6	4.3	3.4	3.0	2.7	2.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	34.4	37.0	34.0	32.1	30.7	29.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	77.6	79.0	77.3	76.3	75.3	74.0
GHG emissions growth (mtCO2e)	2.8	0.4	3.8	3.0	3.3	3.4
Energy related GHG emissions (% of total)	45.2	44.6	45.5	45.7	46.0	46.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD. Macroeconomic outlook as of February 2022.
a/ Using re-based national accounts data at 2015-16 prices.
b/ 2020/2021 expenditure accounts are World Bank estimates that conform to the production accounts of the new base year.
c/ Calculations based on SAR-POV harmonization, using 2018-HIES.Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
d/ Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.