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Pakistan Development Update

Recent Economic Developments & Outlook

Thursday October 6, 2022

Islamabad

Economic rebound continued in FY22

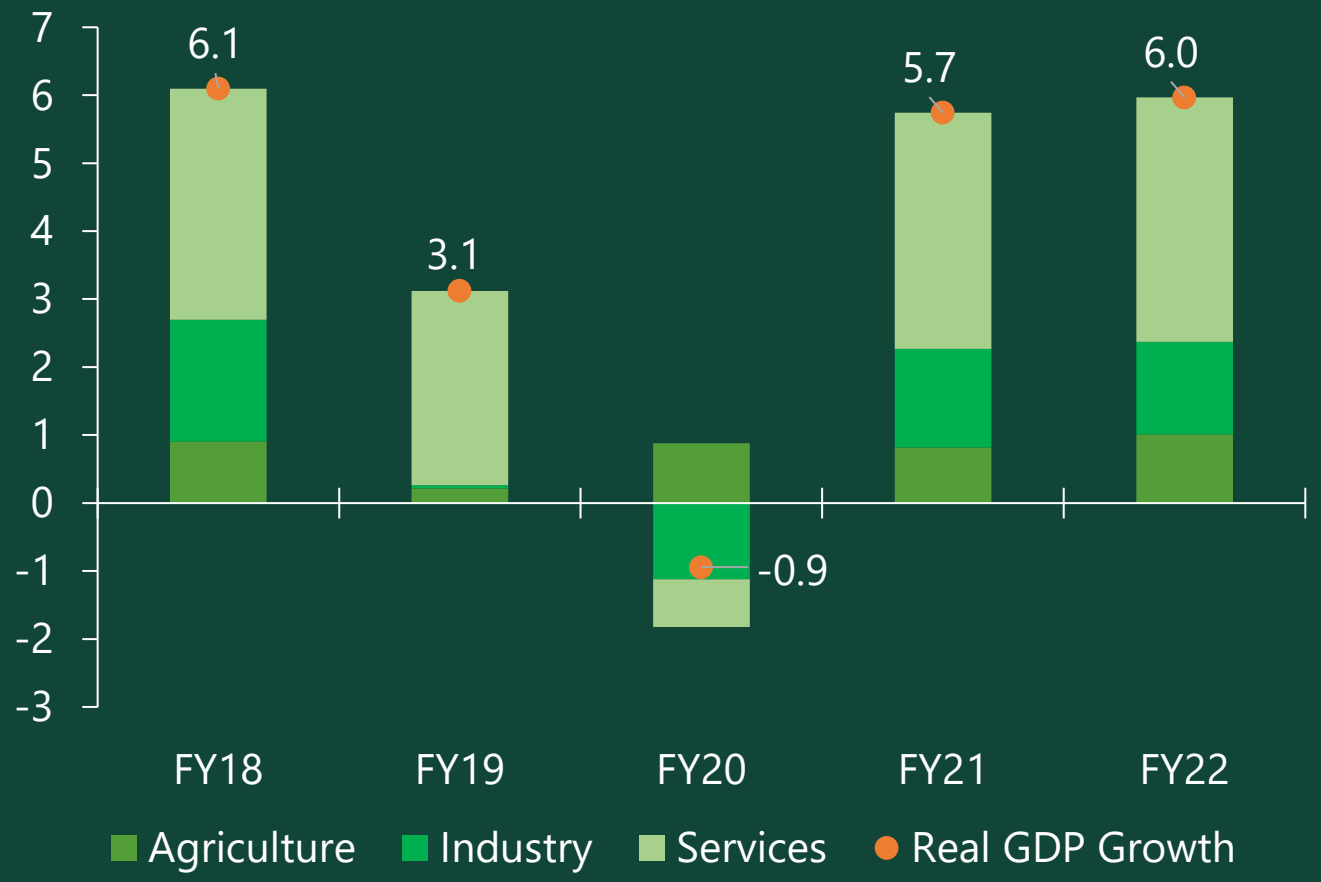
Growth of real GDP at factor cost - 6.0 percent, 4-year high

Agriculture sector growth – 4.4 percent, 17-year high

Industry sector growth – 7.2 percent

Services sector growth – 6.2 percent

Contributions to Real GDP Growth



Sources: Haver Analytics, Pakistan Bureau of Statistics

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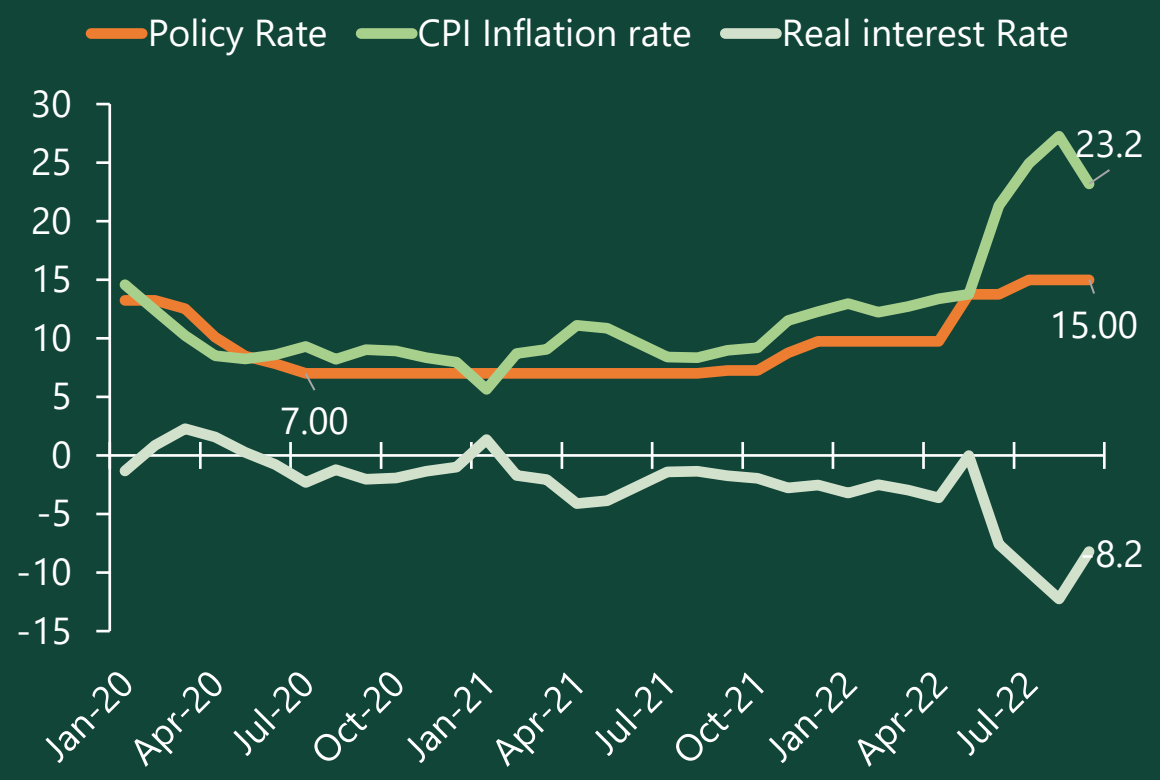
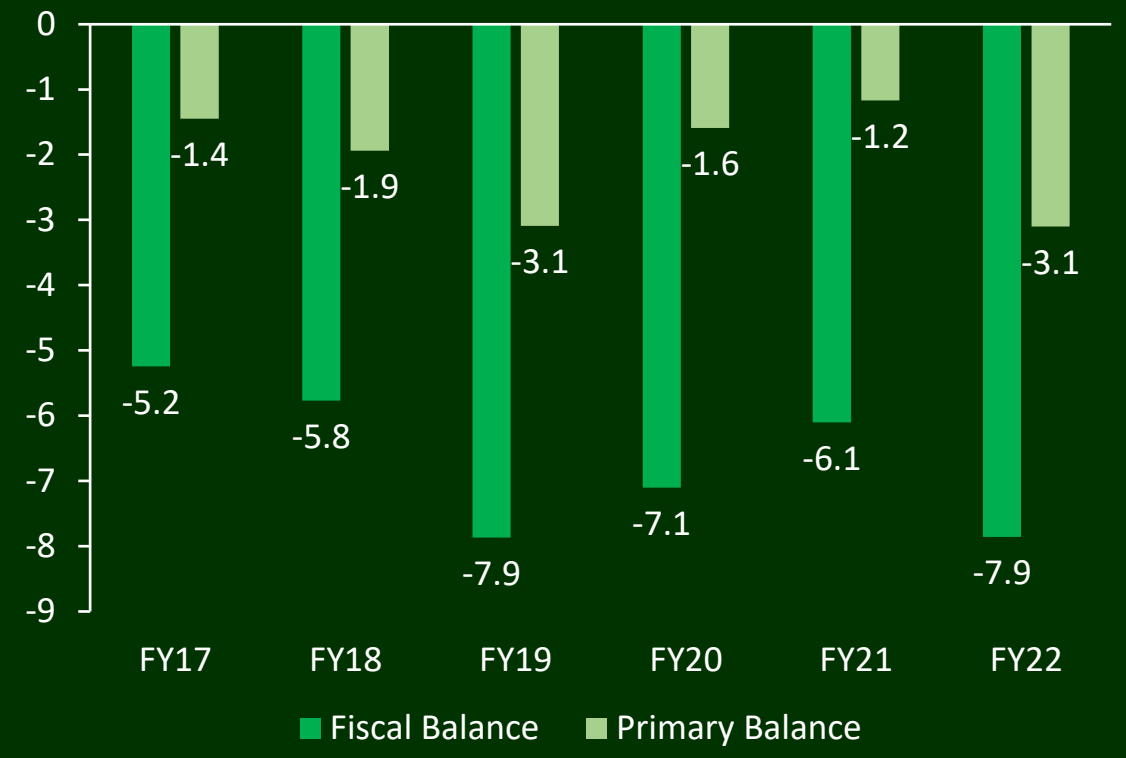
Supportive macroeconomic policy fueled aggregate demand

Real interest rate has been mostly negative since June 2020



Sources: Haver Analytics, Pakistan Bureau of Statistics, State Bank of Pakistan

Consolidated Fiscal and Primary Balance (excluding grants)



Sources: Ministry of Finance, World Bank staff Calculations

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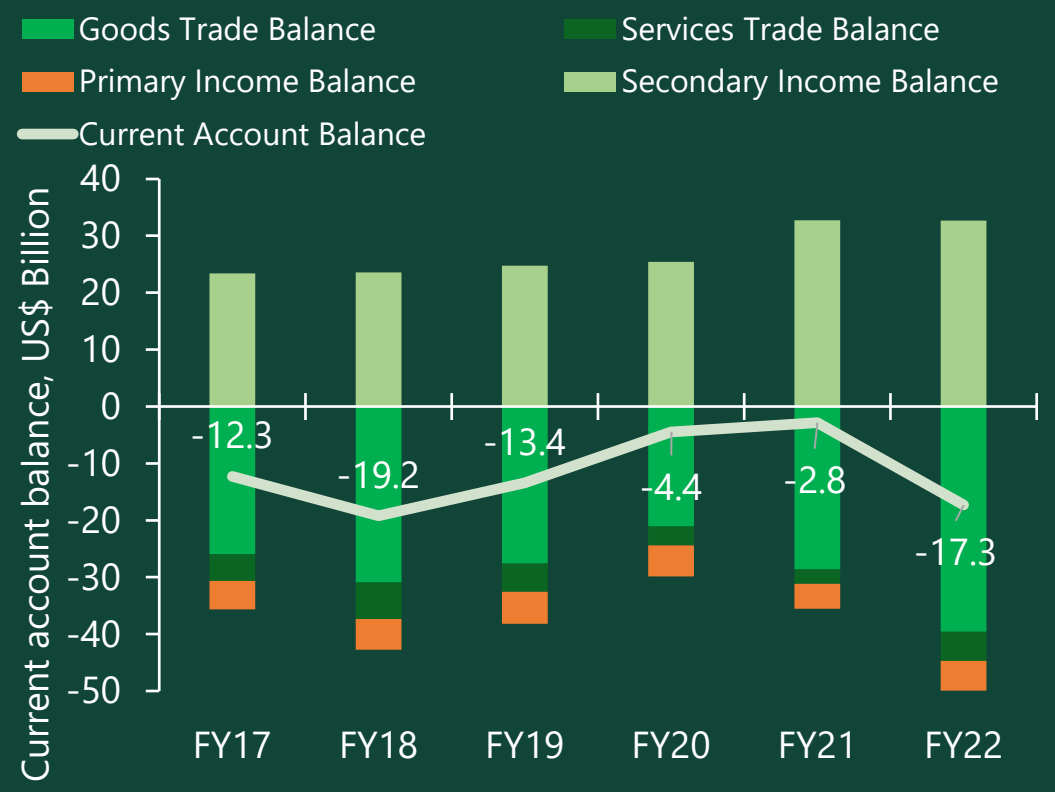
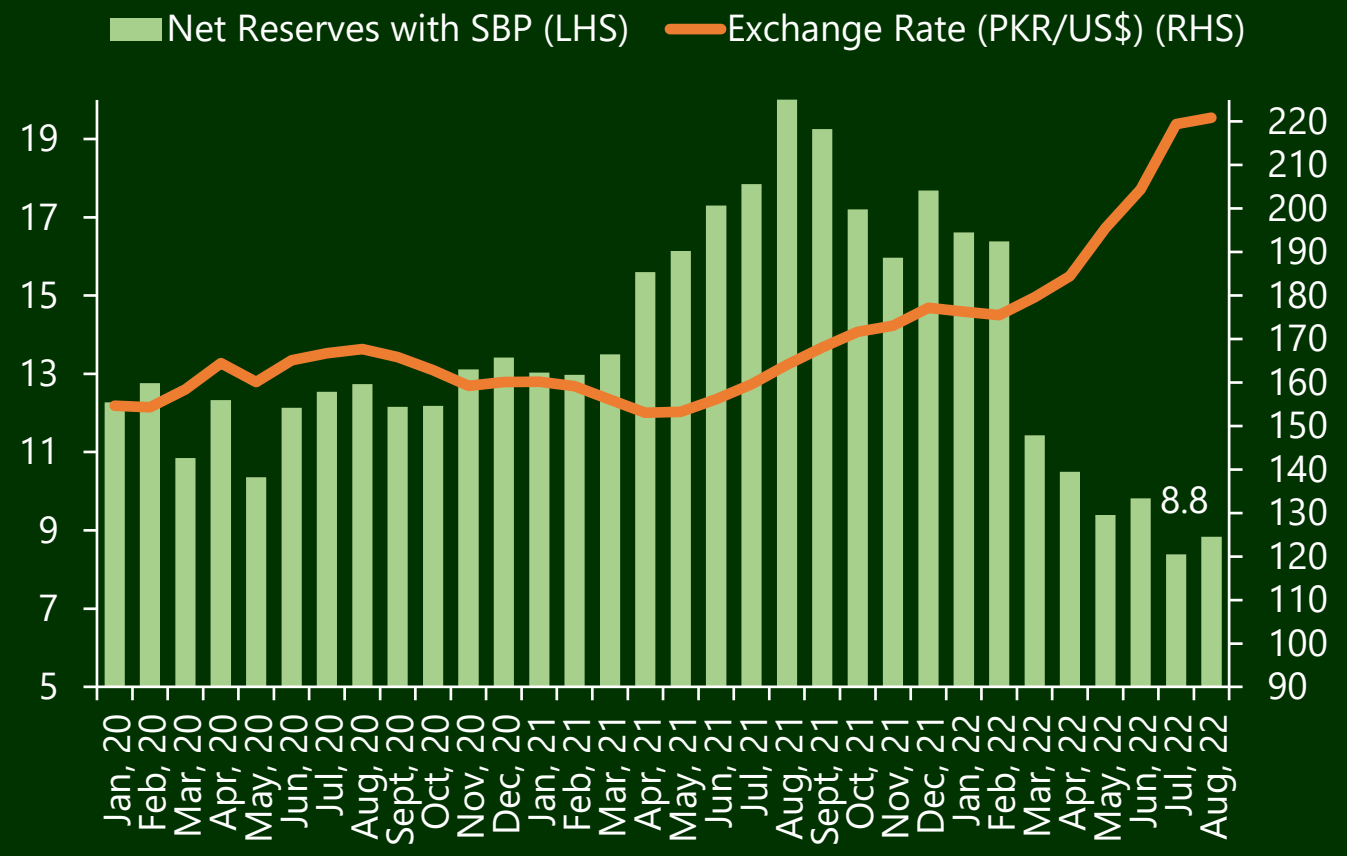
Strong growth came at the cost of economic imbalances

Annual current account balances



Source: State Bank of Pakistan, World Bank staff calculations

Foreign Exchange Reserves and PKR/US$ Exchange Rate



Source: State Bank of Pakistan and WB staff calculations

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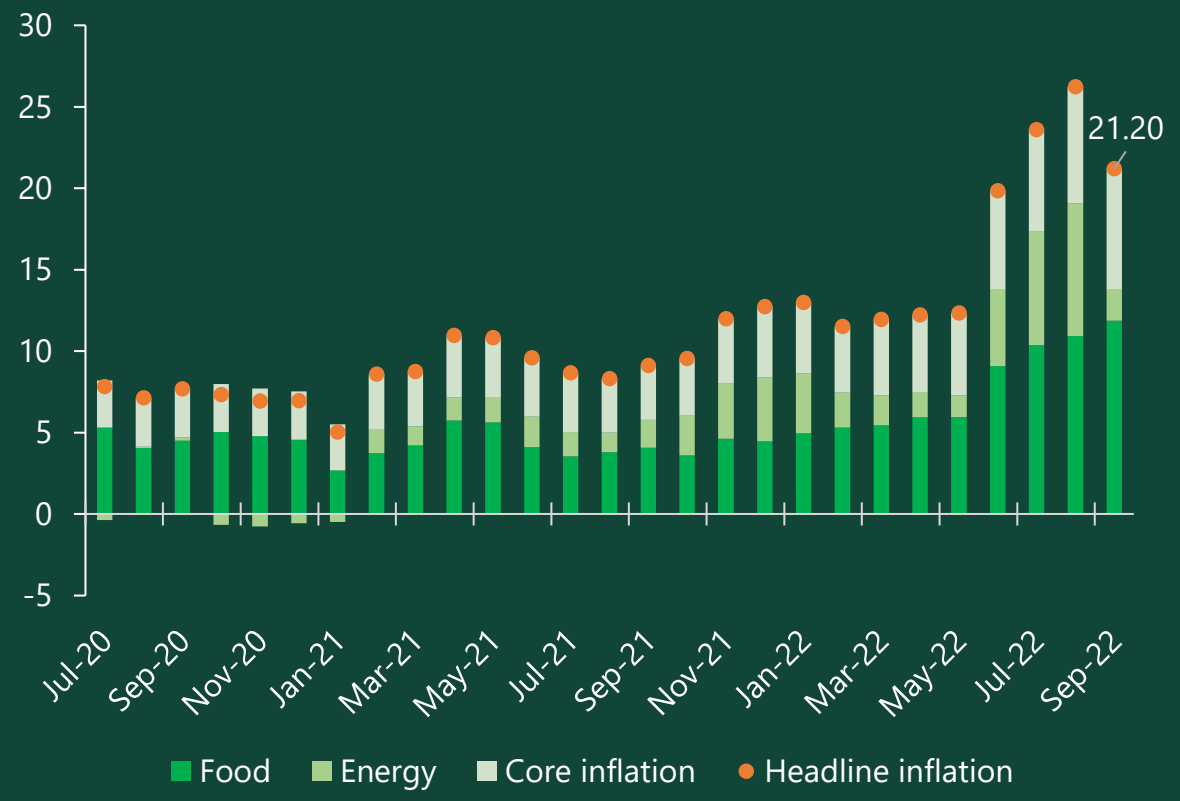
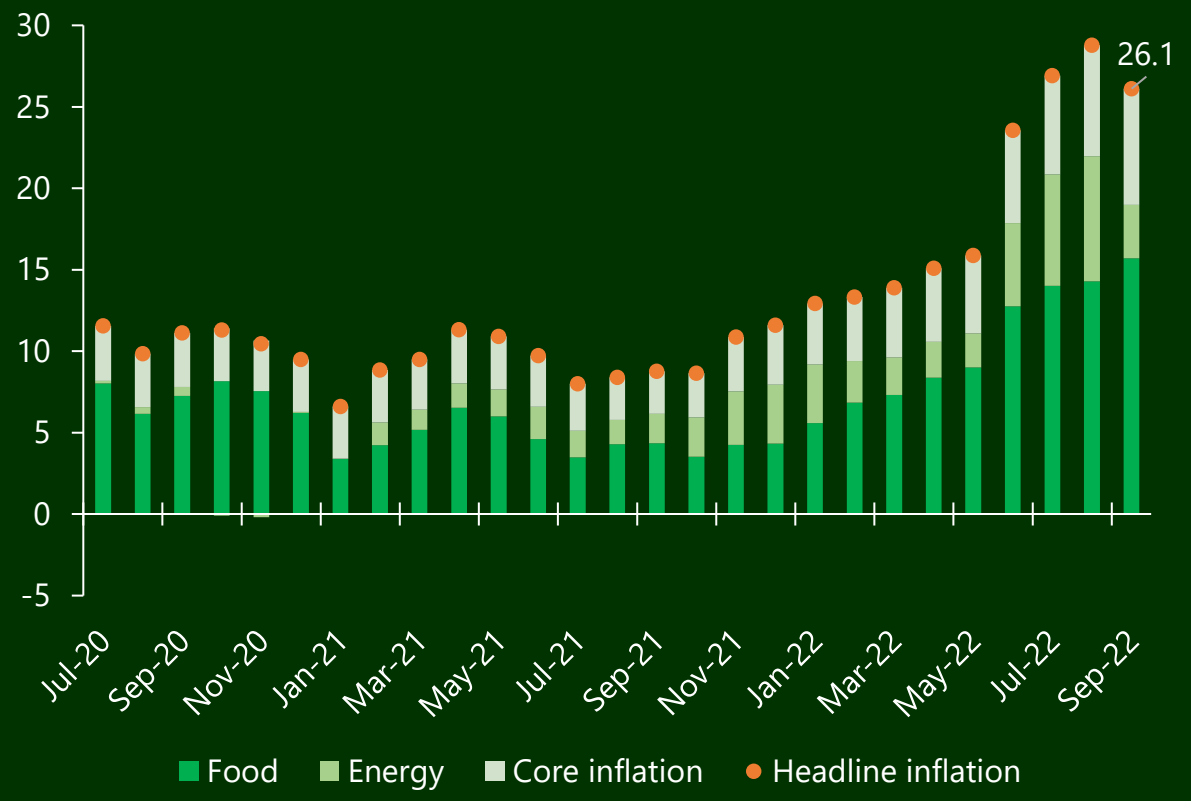
Inflation in FY22 rose to an 11-year high

Contribution to headline inflation in urban areas (Percentage points)



Source: Pakistan Bureau of Statistics and World Bank staff calculations

Contribution to headline inflation in rural areas (Percentage points)



Source: Pakistan Bureau of Statistics and World Bank staff calculations

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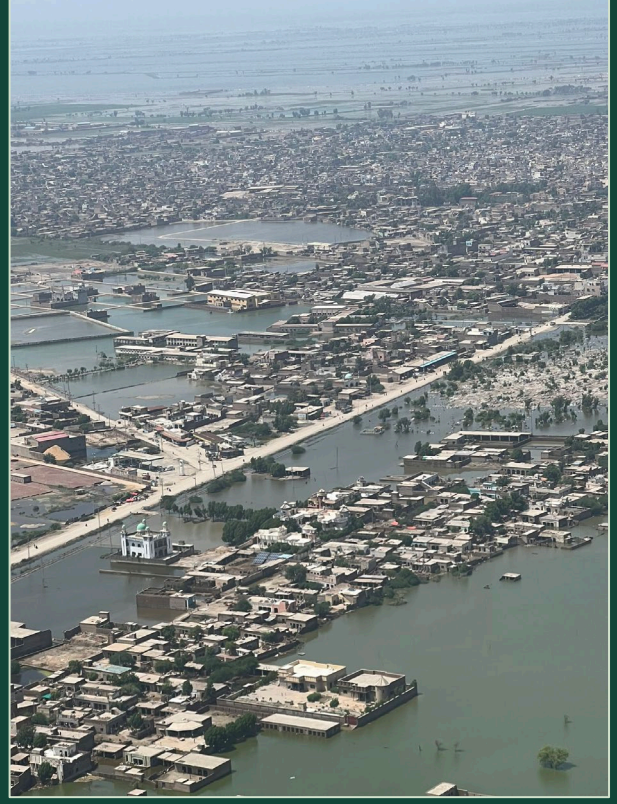

Severe flooding

Triggered by heavy rainfall nearly 3 times the national 30-year average

Nearly 1,700 fatalities, 13,000 injured and 33 million people affected

Out of a total of 160 districts, 84 districts are officially declared as calamity hit.

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Agriculture output substantially impacted

9.4 million acres of cultivated land impacted
- Significant losses to cotton, dates, wheat, rice

More than 1.1 million livestock lost (less than 0.5 percent of total)

Infrastructure, human capital and personal asset losses

Damaged: More than 13,000 km of roads; 440 bridges, and a number of dams; 1,460 health facilities; 24,000 schools

More than 2 million houses damaged

Estimated damages – wide range of US$10 billion to $40 billion

Industry and services sector activity will also be affected

Local textile industry constitutes 25 percent of industrial output and more than half of goods exports

- 50 percent of cotton input is from domestic sources

Food processing and slaughtering industries will also be affected

Lower agricultural and industrial activity could also affect wholesale and transportation services that make up 50 percent of the services sector.

Impact from the floods will exacerbate external sector pressures

Food and cotton imports will increase

Reduced shipments of agricultural output and textiles

Mitigated by increased remittances and international aid

Inflation has been spiking → Food shortages and hindered transportation

Fiscal pressures are also like to worsen → Expenditures likely to increase with relief efforts at the Federal and Provincial levels

Fiscal pressures are also like to worsen → Revenues likely to fall with smaller tax bases and relief on custom duties on food

The macroeconomic impact of the floods is large

Macro economy was already weakened with twin deficits, inflation above 20 percent, little external and fiscal buffers

The agricultural sector is likely to contract, first time in over 2 decades leading to substantially slower economic growth

Fiscal policy projected to remain expansionary with relief and recovery efforts

- require international aid to help finance the unanticipated expenditures

Macroeconomic outlook

Pakistan Macroeconomic Outlook (FY23-24)

	FY19	FY20	FY21	FY22e	FY23f	FY24f
Real GDP Growth, at constant factor prices	3.1	-0.9	5.7	6.0	**2.0**	3.2
Agriculture	0.9	3.9	3.5	4.4	-1.1	3.0
Industry	0.2	-5.7	7.8	7.2	2.3	2.9
Services	5.0	-1.2	6.0	6.2	3.2	3.4
Inflation (Consumer Price Index)	6.8	10.7	8.9	12.2	**23.0**	9.5
Current Account Balance	-4.2	-1.5	-0.8	-4.6	**-4.3**	-3.3
Fiscal Balance (excluding grants, % of GDP)	-7.9	-7.1	-6.1	-7.9	**-6.9**	-6.2
Debt (% of GDP)	78.0	81.1	75.6	78.0	**71.7**	71.9
Primary Balance (excluding grants, % of GDP)	-3.1	-1.6	-1.2	-3.1	**-3.0**	-2.1

A Balancing Act

Economic outlook and prospects for fiscal consolidation adversely affected

Government needs to both:

- respond to extensive relief and recovery needs
- cool the economy and regain fiscal sustainability

Government should consider:

- Fully aligning with sound economic management practices
- Articulating and adhering to a strategy for economic recovery
- Maintain progress on structural reforms, such as those in the power sector

Thank You

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