

Pakistan Development Update

Recent Economic Developments, Outlook, & Risks

Tuesday October 03, 2023

Islamabad

Structure of presentation

1 Recent Economic Developments

2 Macro-Economic and Poverty Outlook

Pakistan's post-pandemic recovery came to a halt in FY23



Real GDP (at factor cost) is estimated to have contracted by 0.6 percent



Agriculture sector growth estimated at 1.0 percent

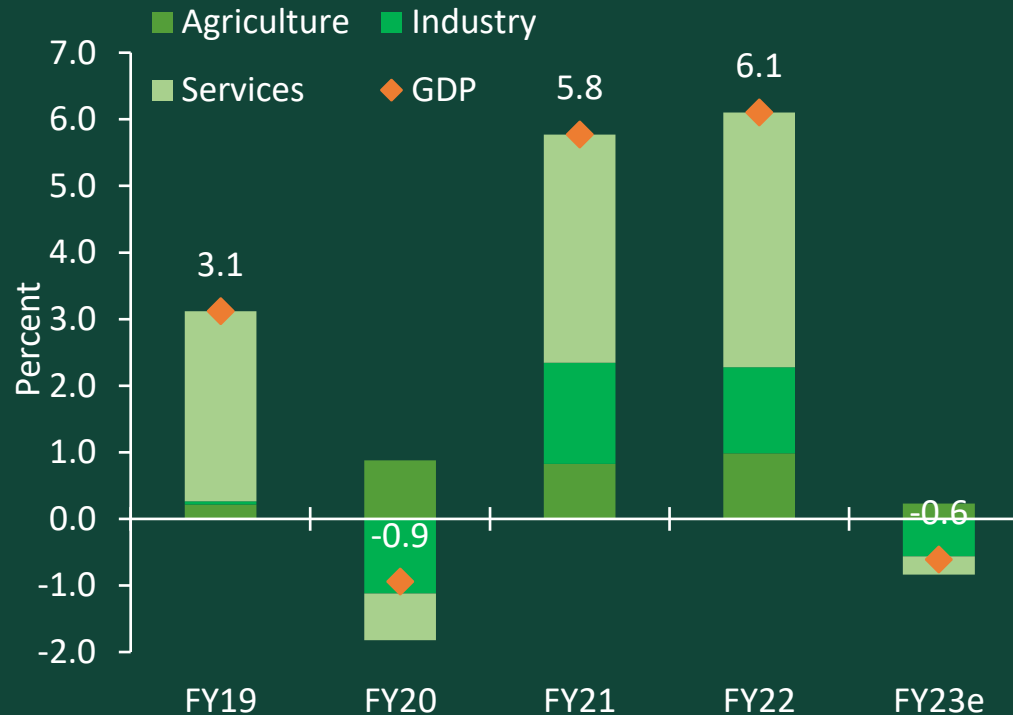


Industry sector contracted by 2.9 percent



Services sector is estimated to have contracted by -0.5 percent

Contributions to real GDP growth



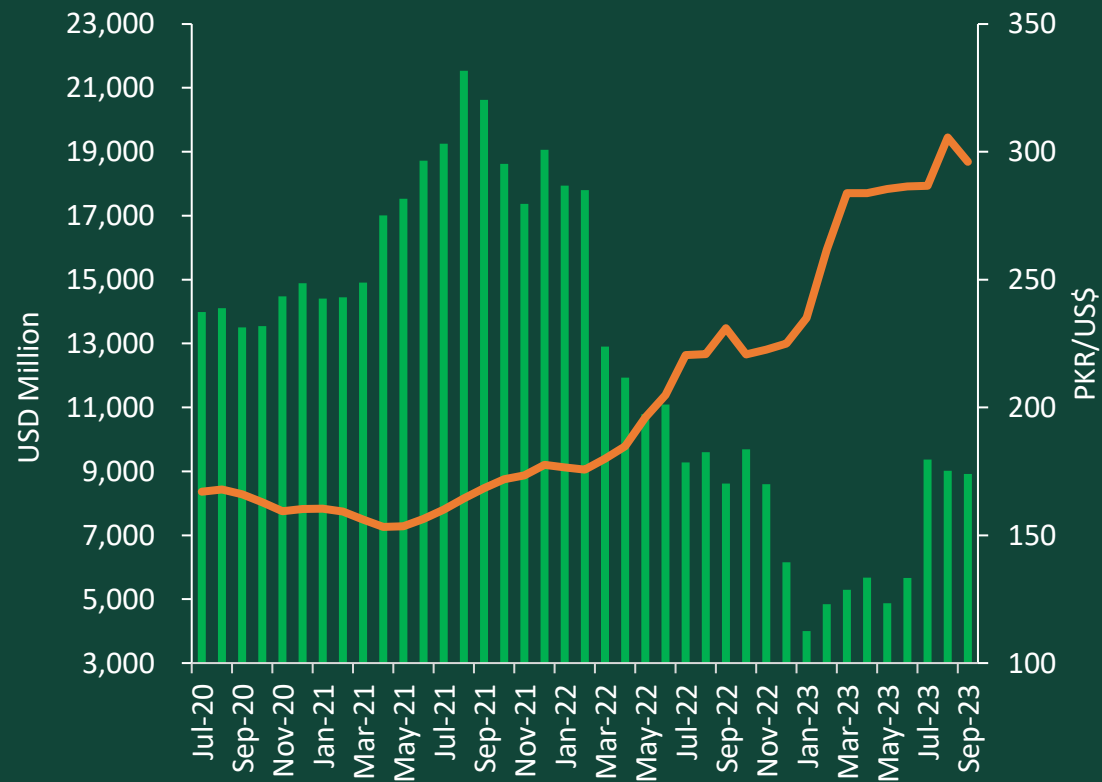
Series of shocks

- *Floods*
- *cost of production*
- *Import restrictions*

Sources: Pakistan Bureau of Statistics and World Bank staff estimates
 Notes: World Bank GDP growth estimates for FY23 differ from Government's provisional growth estimate of 0.3 percent.

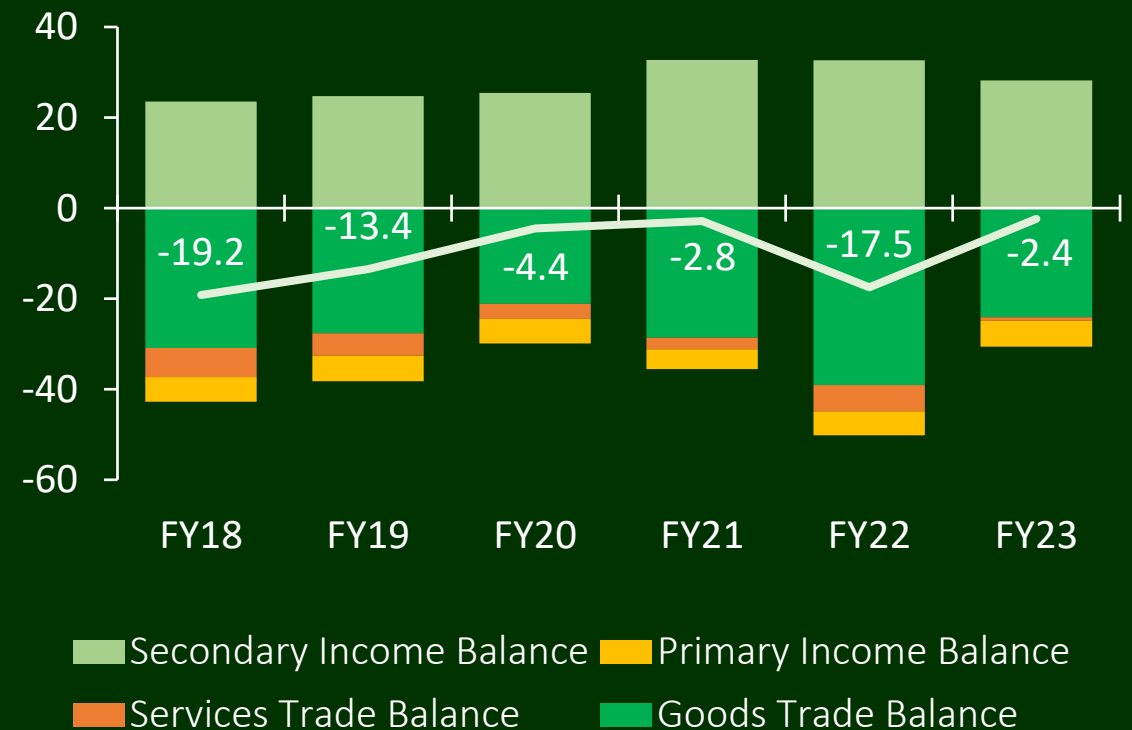
Import restrictions were used to preserve foreign exchange reserves. CAD narrowed but external position weakened

Gross SBP foreign exchange reserves (US\$ million) and official PKR/US\$ exchange rate



Source: State Bank of Pakistan

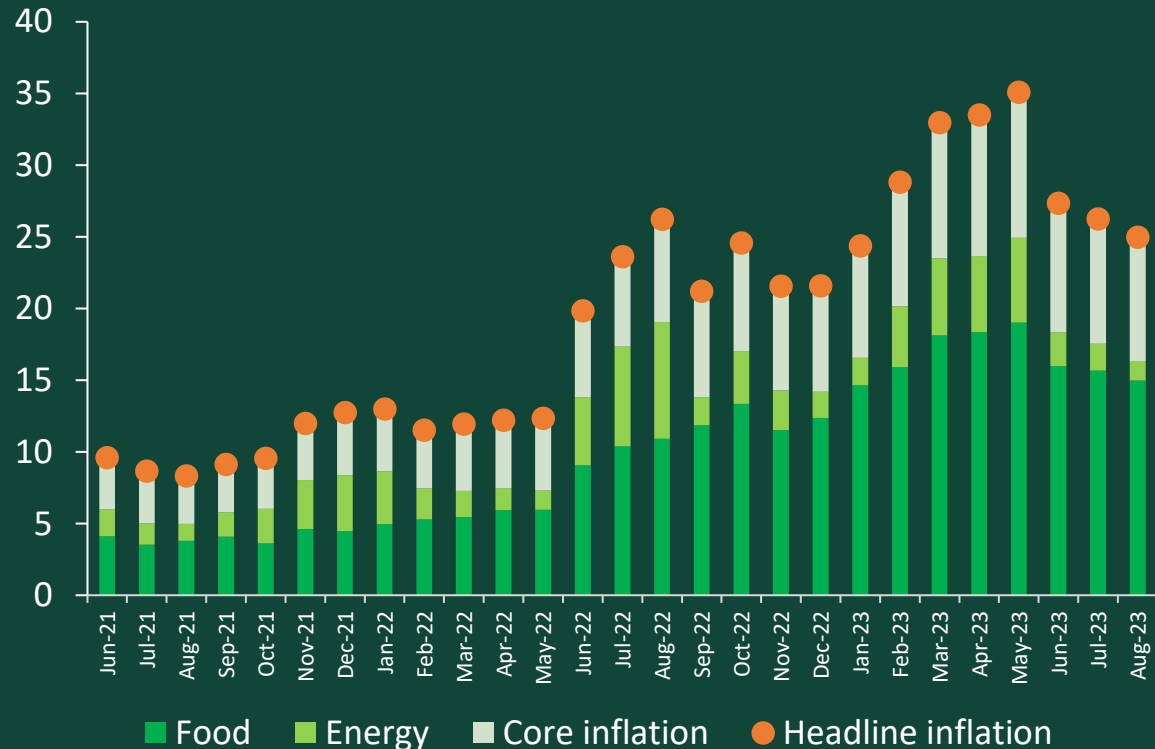
Current account deficit (US\$ billion)



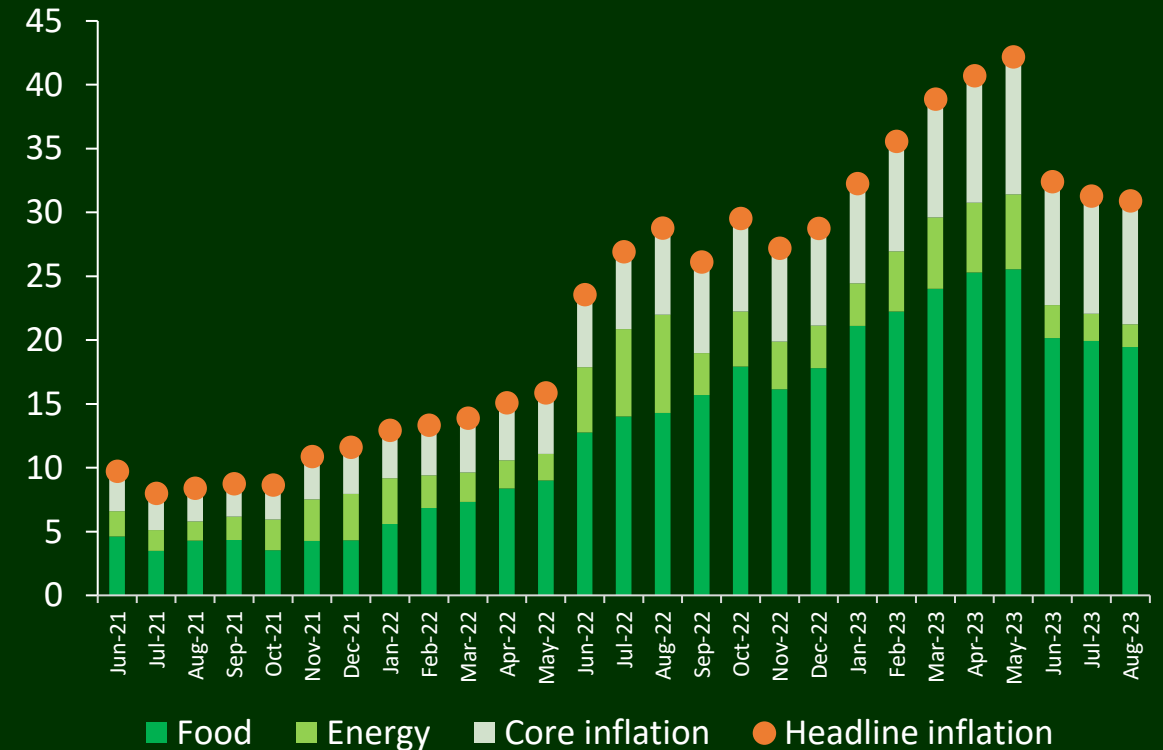
Source: State Bank of Pakistan

Inflation surged to multi-decade high

Contribution to headline inflation in urban areas
(Percentage points)



Contribution to headline inflation in rural areas
(Percentage points)

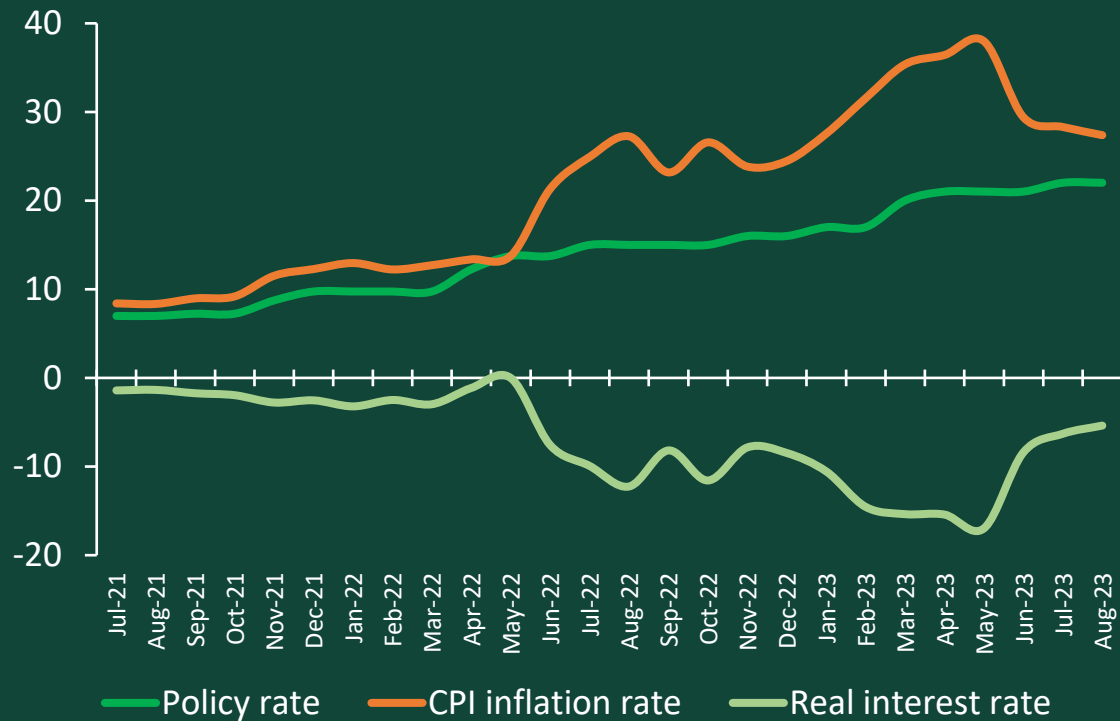


Source: Pakistan Bureau of Statistics and World Bank staff calculations

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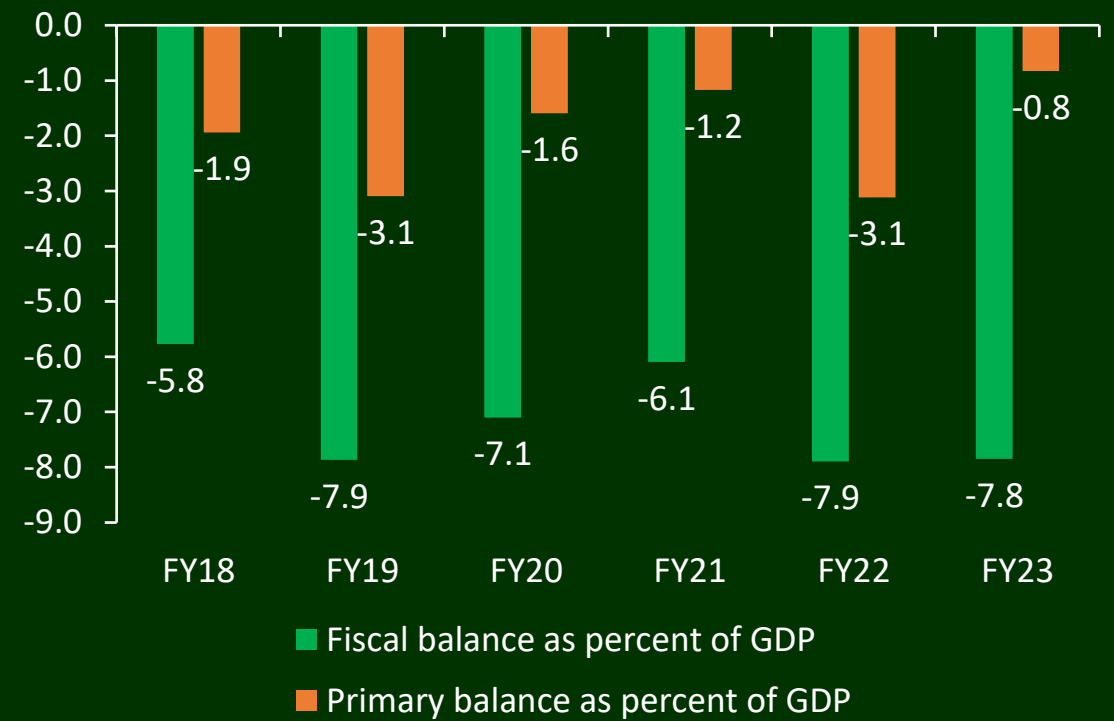
In response, Government increased interest rate and tightened fiscal policy

SBP increased policy rate by a cumulative 825 basis points to reach 22.0 percent.



Sources: Ministry of Finance, World Bank staff Calculations

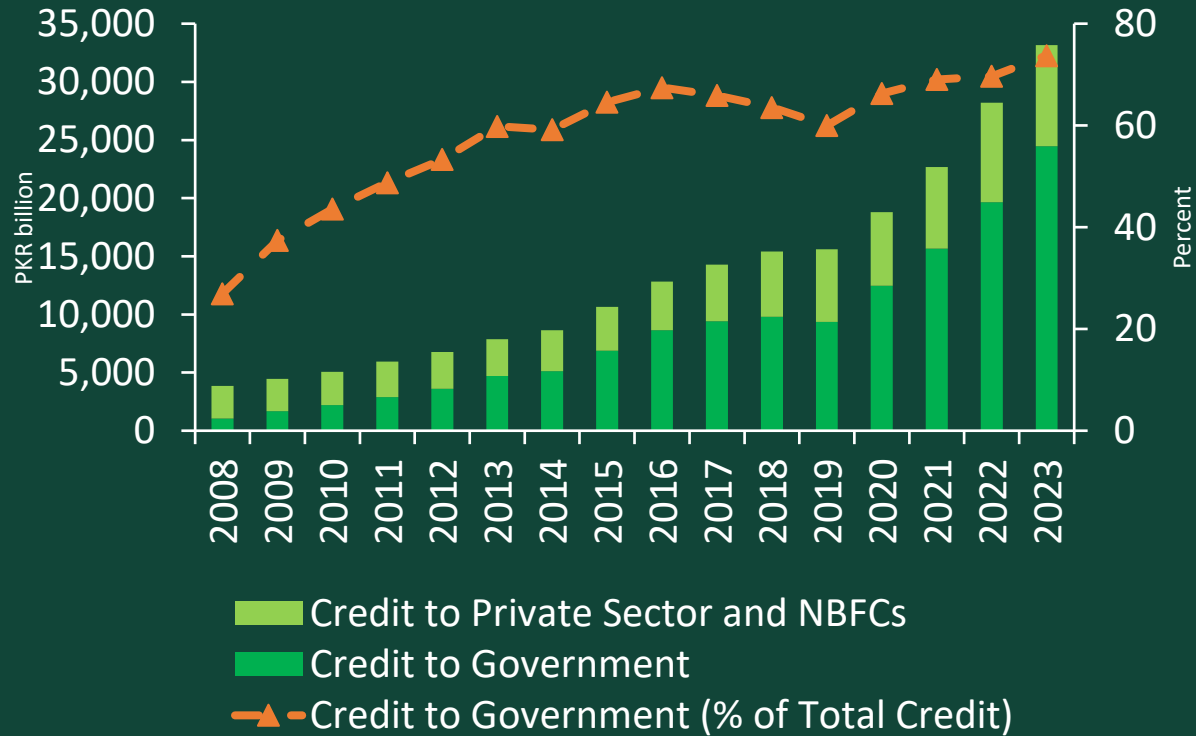
Consolidated Fiscal and Primary Balance (excluding grants) as percent of GDP



Sources: Ministry of Finance, World Bank staff Calculations

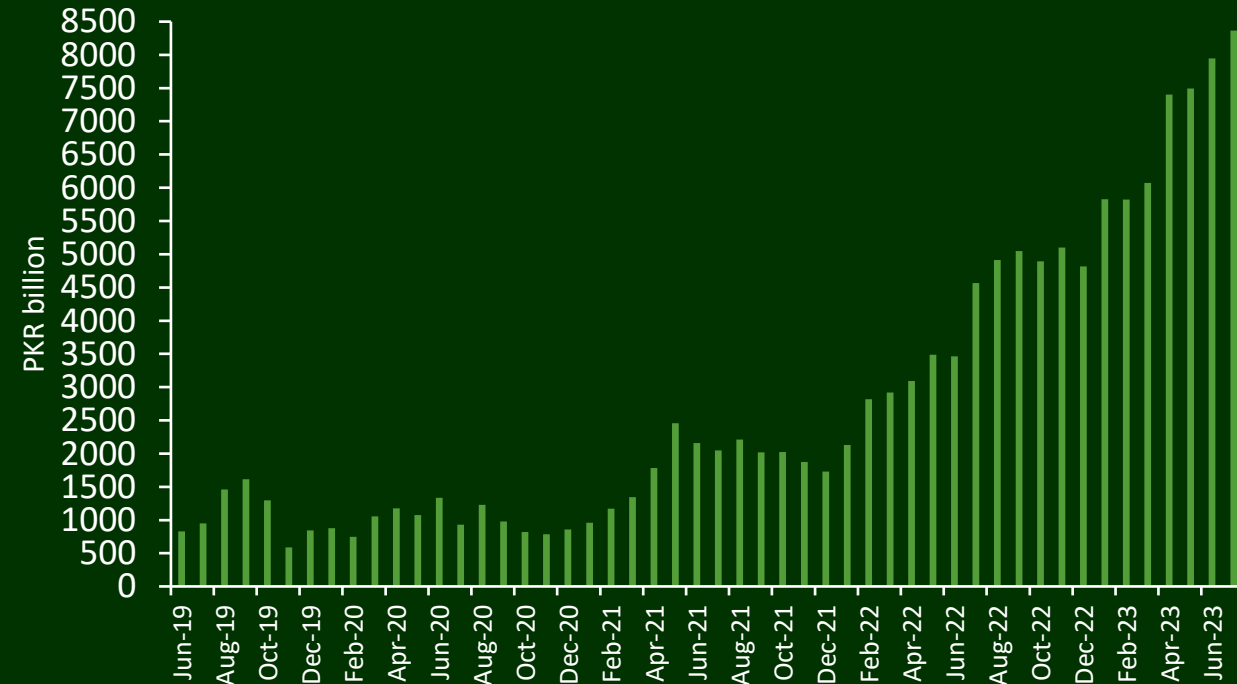
Government increased borrowing from commercial banks, diluting the impact of monetary tightening

Government borrowing from commercial banks increased substantially in FY23



Source: World Bank staff calculations based on SBP data

Banks relied on the liquidity injected by the SBP through open market operations



Source: State Bank of Pakistan

The macroeconomic outlook is uncertain and depends on effective implementation of reforms

Pakistan faces multiple downside risks including high liquidity risks and low international reserves, unstable political environment and external shocks

In the short-term, macroeconomic stability will depend on:

- Continued implementation of the FY24 budget and the IMF-SBA
- Coherent fiscal and monetary policy mix; market determined ER
- Reduced policy and political uncertainty

Over the medium-term, robust economic recovery will depend on:

- A broad-based reform strategy targeting restoration of fiscal and debt sustainability, fostering private sector growth and competitiveness, minimizing distortive presence of state, and improving financial viability of energy sector.

Macroeconomic outlook

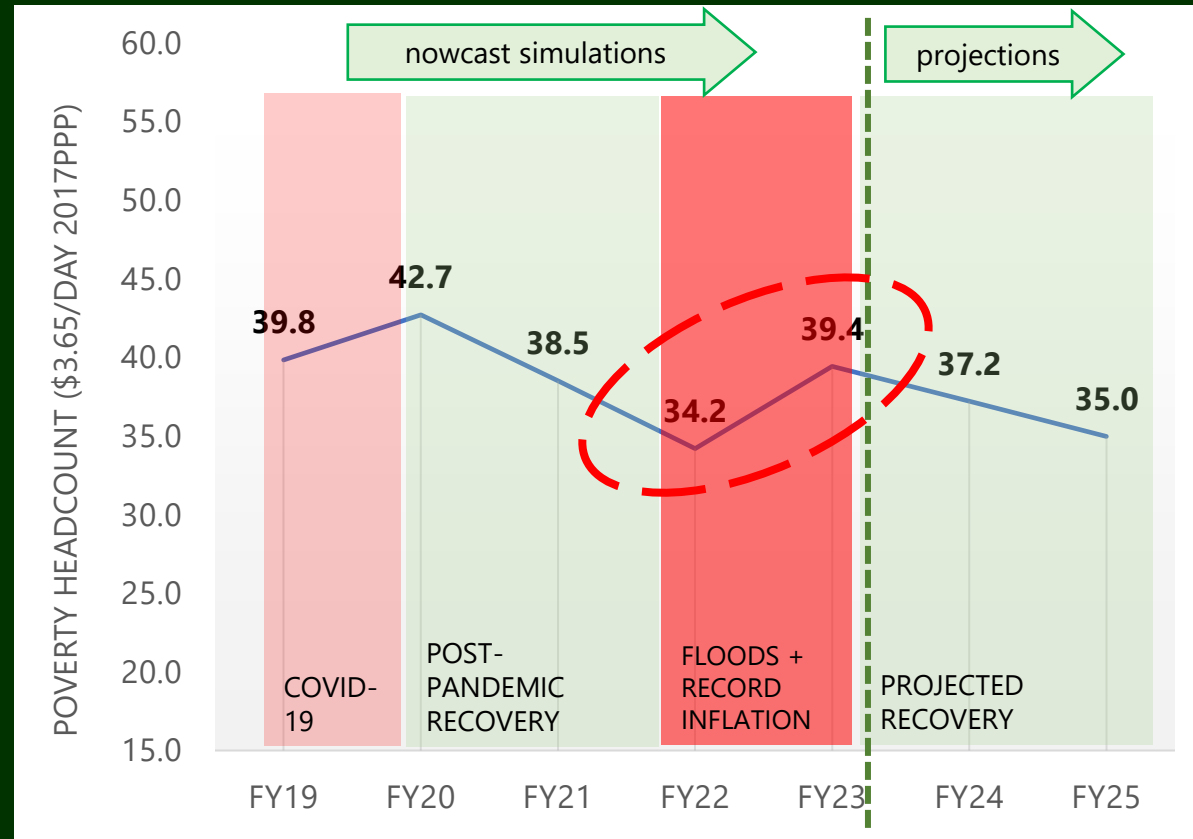
Pakistan Macroeconomic Outlook (FY23-25)

	FY20	FY21	FY22e	FY23e	FY24f	FY25f
Real GDP Growth, at constant factor prices	-0.9	5.8	6.1	-0.6	1.7	2.4
Agriculture	3.9	3.5	4.3	1.0	2.2	2.4
Industry	-5.7	8.2	6.8	-2.9	1.4	2.3
Services	-1.2	5.9	6.6	-0.5	1.5	2.4
Inflation (Consumer Price Index)	10.7	8.9	12.2	29.2	26.5	17.0
Current Account Balance	-1.5	-0.8	-4.7	-0.7	-1.4	-1.5
Primary Balance (excluding grants, % of GDP)	-1.6	-1.2	-3.1	-0.8	-0.4	-0.3
Fiscal Balance (excluding grants, % of GDP)	-7.1	-6.1	-7.9	-7.8	-7.7	-7.6
Debt (% of GDP)	84.0	77.6	80.7	82.3	72.4	70.3

Between FY22 and FY23, the number of poor increased by 12.5 million

Poverty increased significantly between FY22 and FY23. Declining household welfare reflects devastating floods in the summer of 2022, a decline in economic activity and labor incomes in FY23, and record-high levels of food and energy inflation.

Poverty simulations, FY19 – FY25



Source: World Bank calculations. Note: Last available survey, HIES 2018-19. Estimates for FY20-FY25 are based on micro-simulations.

Thank You

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PAKISTAN DEVELOPMENT UPDATE

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Restoring Fiscal Sustainability

