

PAKISTAN

Table 1 **2021**

Population, million	225.2
GDP, current US\$ billion	348.3
GDP per capita, current US\$	1546.5
International poverty rate (\$2.15) ^a	4.9
Lower middle-income poverty rate (\$3.65) ^a	39.8
Upper middle-income poverty rate (\$6.85) ^a	84.5
Gini index ^a	29.6
School enrollment, primary (% gross) ^b	95.5
Life expectancy at birth, years ^b	67.4
Total GHG emissions (mtCO2e)	456.3

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2018), 2017 PPPs.

b/ Most recent WDI value (2020).

Supported by accommodative macroeconomic policy, Pakistan's economy saw robust growth in FY22, at the cost of growing economic imbalances. The Government has begun to further tighten policy to constrain aggregate demand. However, the catastrophic flooding is likely to disrupt activity and may lead to delays in the required fiscal consolidation. Economic growth is expected to slow substantially in FY23. Unanticipated flood damages, policy slippages, and political uncertainty pose substantial risks.

Key conditions and challenges

Despite an economic rebound in FY21 and FY22, persistent structural weaknesses of the Pakistani economy, such as low productivity growth due to low investment and exports, are hindering a sustained recovery. Expansionary COVID-related macroeconomic policies supported aggregate demand that have contributed to pressures on domestic prices, external sector, the exchange rate, and foreign reserves. In response, the Government, amid the ongoing monetary tightening, passed a contractionary FY23 Budget and reversed unsustainable energy price subsidies.

Continued policy tightening has become more challenging on account of the catastrophic floods. The Government will face challenges in implementing the planned fiscal consolidation, given extensive relief and recovery needs. Additional downside risks include unexpected damages resulting from the still evolving flooding situation that could further reduce output and worsen economic imbalances, political pressures that undermine the implementation of a coherent and prudent macroeconomic policy mix, unanticipated deterioration of external conditions, and risks associated with large fiscal and external financing needs. To manage these uncertainties, the Government should adhere to sound economic management, while carefully targeting any new expenditures and maintaining

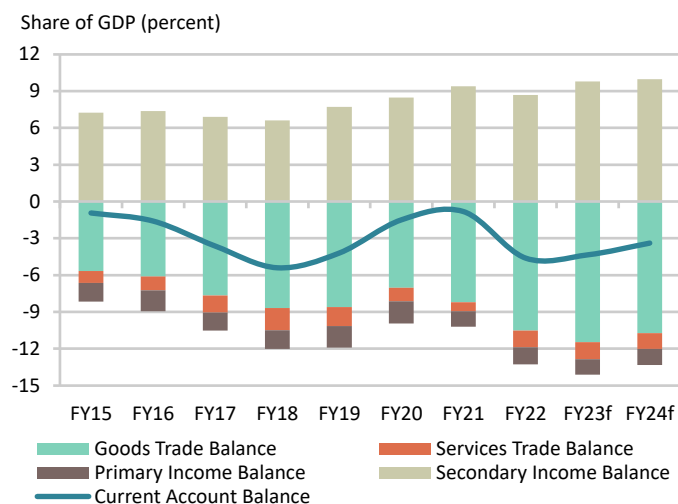
progress on critical structural reforms, including in the energy sector.

Recent developments

Growth of real GDP at constant 2015-16 factor prices for FY22 was estimated at 6.0 percent. Agricultural output growth increased significantly on larger crop production, in line with overall better weather conditions, and stronger livestock output. Growth of industry and services sectors remained strong but some industries, such as food and textiles, are weakening in line with the deteriorating macro conditions. On the external front, strong domestic demand and high global commodity prices led to a current account deficit (CAD) of 4.6 percent of GDP in FY22, the largest in 4 years (Figure 1). The large CAD, together with ongoing political and policy uncertainty, weakened investor confidence and the currency depreciated 23.1 percent against the U.S. dollar in FY22. Foreign reserves dwindled to 1.5 months of import cover at end-FY22.

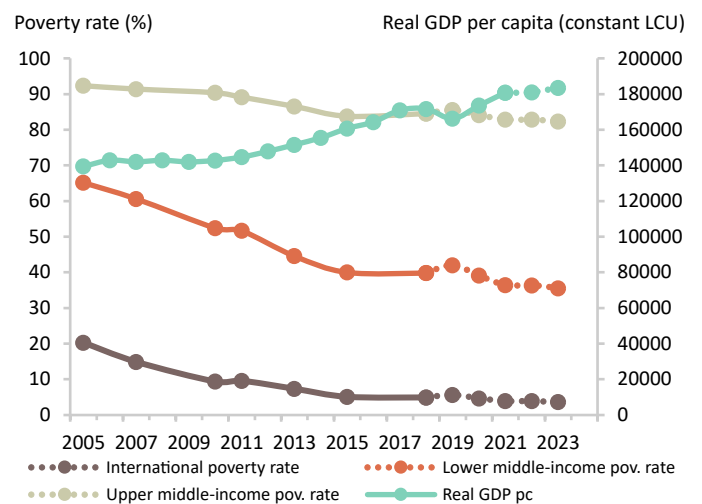
The weaker Rupee, high commodity prices, and the overheating economy, pushed up inflation, which reached an average of 12.2 percent in FY22, an 11-year high. Accordingly, the State Bank of Pakistan tightened monetary policy and raised the policy rate by a cumulative 800 bps beginning September 2021. However, at the current policy rate of 15 percent, the real interest rate is still negative.

Partly due to energy price subsidies, the FY22 fiscal deficit widened to 7.8 percent

FIGURE 1 Pakistan / Current account balance and major components


Sources: State Bank of Pakistan and World Bank staff estimates.

Notes: Pakistan reports data on a fiscal year (FY) basis. The fiscal year runs from July 1 through June 30.

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


Source: World Bank. Notes: see Table 2.

of GDP and public debt rose to 78.0 percent of GDP. Banking sector sovereign exposure continued to increase, with lending to the public sector accounting for nearly 70 percent of all bank credit at end-June 2022. Considering the mounting risks, rating agencies downgraded Pakistan's government bonds, while bond yields rose sharply. The Government responded with a contractionary FY23 budget targeting a primary surplus of 0.2 percent of GDP and adjustments to energy prices, leading to some improvement in sentiment and stabilization of yields, and the exchange rate in early FY23.

Outlook

The economic outlook and prospects for overdue adjustment have been significantly affected by the floods. Agricultural output is expected to decline sharply, with losses to cotton, date, wheat, and rice crops. Nearly a million livestock is estimated to have perished. Cotton losses are expected to weigh on the domestic textile industry and the wholesale and

transportation service industries. Public relief and limited reconstruction activities are expected to partially offset the loss in activity. Real GDP growth is therefore expected to slow to 2.0 percent in FY23, but recover to 3.2 percent by FY24, supported by a recovery in agricultural production, reconstruction efforts, and projected lower global inflationary pressures.

Due to higher energy prices, flood disruptions, and the weaker Rupee, inflation is projected to rise to 23.0 percent in FY23 but moderate over the forecast horizon with declining international energy prices and resolution of flood-related supply constraints. Despite flood-associated effects, the CAD is expected to narrow slightly to 4.3 percent of GDP in FY23 with slower domestic economic activity and is projected to shrink further in FY24 as exports recover from flood impacts.

In line with fiscal consolidation efforts, the fiscal deficit is projected to contract modestly to 6.8 percent of GDP in FY23, despite negative revenue impacts from the flooding and increased expenditure needs. The fiscal deficit is expected to gradually narrow over the medium term as revenue mobilization

measures, particularly GST harmonization and personal income tax reform, take hold. With rapid nominal GDP growth, public debt as a share of GDP is projected to decline gradually over the forecast period, despite continued primary deficits. The macroeconomic outlook is predicated on the IMF-EFF program remaining on track. The high inflation and devastating floods will have an adverse impact on poverty. While rising prices reduced real purchasing power of all households, the floods primarily affected rural areas in Sindh and Balochistan where poverty rates are already high. Poorer households are more dependent on agricultural income and spend a larger share of their income on food, and therefore will be disproportionately affected by the loss of the harvest and assets like housing and livestock, and rising prices. As a direct consequence of the floods, the national poverty rate could increase by 2.5 to 4.0 percentage points, with adverse human development effects in disaster-affected areas. The size and duration of shocks will vary across locations and households, depending on the intensity of the flooding as well as the quality of relief and reconstruction efforts.

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	2.5	-1.3	6.5	6.2	2.0	3.2
Private Consumption	5.6	-2.8	9.3	10.0	3.1	3.3
Government Consumption	-1.6	8.5	1.8	-3.4	7.0	0.3
Gross Fixed Capital Investment	-11.1	-6.7	4.5	2.5	-9.7	2.9
Exports, Goods and Services	13.2	1.5	6.5	8.4	1.5	3.1
Imports, Goods and Services	7.6	-5.1	14.5	15.6	2.3	1.8
Real GDP growth, at constant factor prices^a	3.1	-0.9	5.7	6.0	2.0	3.2
Agriculture	0.9	3.9	3.5	4.4	-1.8	3.0
Industry	0.2	-5.7	7.8	7.2	2.4	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 (% of GDP)	-4.2	-1.5	-0.8	-4.6	-4.3	-3.3
Net Foreign Direct Investment Inflow (% of GDP)	0.4	0.9	0.5	0.4	0.6	0.7
Fiscal Balance, including grants (% of GDP)	-7.8	-7.0	-6.0	-7.8	-6.8	-6.1
Debt (% of GDP)	78.0	81.1	75.6	78.0	71.7	71.9
Primary Balance, including grants (% of GDP)	-3.0	-1.5	-1.1	-3.0	-2.8	-2.1
International poverty rate (\$2.15 in 2017 PPP)^{b,c}	4.9	5.6	4.7	3.9	3.9	3.7
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{b,c}	39.8	42.0	39.1	36.4	36.4	35.5
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{b,c}	84.5	85.5	84.1	82.9	82.8	82.4
GHG emissions growth (mtCO₂e)	2.5	0.0	3.9	3.2	3.1	2.5
Energy related GHG emissions (% of total)	42.9	41.9	42.3	42.2	42.0	41.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.

a/ The Government's provisional FY22 estimate of real GDP growth (at 2015-16 prices) is 6.0 percent.

b/ Calculations based on SAR-POV harmonization, using 2018-HIES. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.

c/ Projection using neutral distribution (2018) with pass-through = 0.7 based on GDP per capita in constant LCU.