

PAKISTAN

Table 1 **2022**

Population, million	235.8
GDP, current US\$ billion	380.6
GDP per capita, current US\$	1613.8
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	66.3
Total GHG emissions (mtCO2e)	490.4

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2018), 2017 PPPs.
 b/ WDI for School enrollment (2019); Life expectancy (2020).

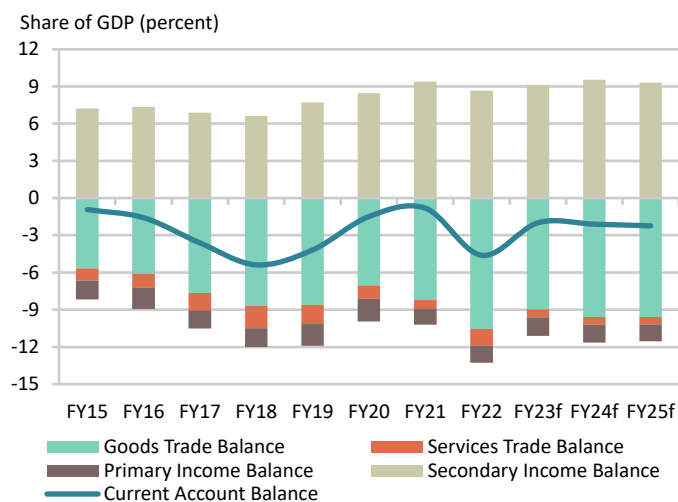
Pakistan's economy is under stress with low foreign reserves and high inflation. Activity has fallen with policy tightening, flood impacts, import controls, high borrowing and fuel costs, low confidence, and protracted policy and political uncertainty. Despite some projected recovery, growth is expected to remain below potential in the medium term. Poverty will inevitably increase with pressures from weak labor markets and high inflation. Further delays in external financing, policy slippages, and political uncertainty pose significant risks to the outlook.

Key conditions and challenges

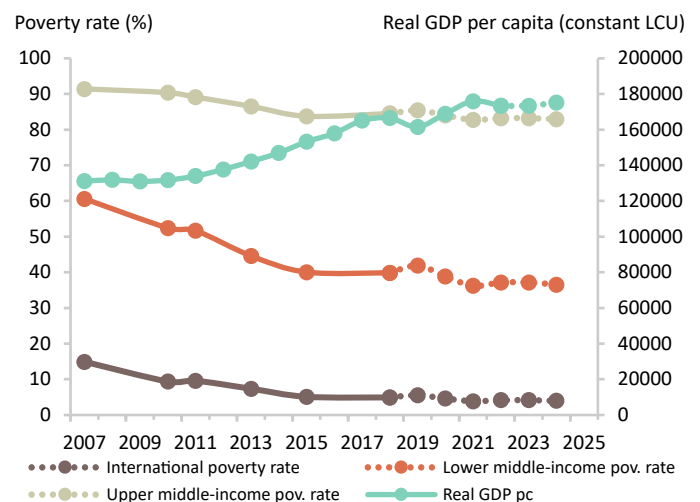
With high public consumption, economic growth increased substantively above potential in FY22 at the cost of growing imbalances that led to pressures on domestic prices, external and fiscal sectors, the exchange rate, and foreign reserves. These imbalances were exacerbated by the catastrophic flooding in 2022, surging world commodity prices, tightening global financing conditions, and domestic political uncertainty. Furthermore, distortive policy measures, including periods of exchange rate caps and import controls, delayed the IMF-EFF program and contributed to creditworthiness downgrades, lower confidence, high yields, and interest payments, and the loss of access to international capital markets. Key risks to the outlook are the non-completion of the IMF program due to policy slippages and the non-materialization of expected financing. Additional risks include political instability, deterioration of domestic security and external economic conditions, and financial sector risks associated with revaluation losses, liquidity shortages, and high sovereign-exposure. Health and education outcomes are also at risk as the high inflation and reduced incomes could lead poor households to lower school attendance and food intake.

Recent developments

Economic activity is estimated to have sharply declined over July-December 2022 (H1 FY23). The devastating floods, along with difficulties in securing quality fertilizers and animal feed, have reduced agricultural output and labor opportunities for low-income workers. Similarly, dwindling foreign reserves, import restrictions, flood impacts, high fuel costs, policy uncertainty, and the slowdown in domestic and global demand have affected industry and service sector activity, with large-scale manufacturing output contracting by an average of 3.7 percent over H1 FY23. With the destruction of infrastructure and disrupted access to schools, medical facilities, and sanitation systems, the floods have negatively impacted health and education outcomes, especially for rural areas, potentially affecting long-term human capital accumulation. Pakistan's external account weakened in H1 FY23 as foreign reserves fell significantly. With import controls, the trade deficit contracted by nearly 32 percent y-o-y in H1 FY23. Official remittance inflows also fell by 11.1 percent, partly due to the exchange rate cap that made informal non-banking channels preferable. Any decline in overall remittances would reduce households' capacity to cope with economic shocks, adding pressure on poverty. Overall, the current account deficit shrank to US\$3.7 billion in H1 FY23 from US\$9.1 billion in H1 FY22. With weaker sentiment and lower foreign exchange inflows, the financial

FIGURE 1 Pakistan / Current account balance and major components


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

account saw the largest half-year deficit in 12 years. Reserves therefore declined from US\$11.1 billion at the end-FY22 to US\$4.8 billion at the end-February 2023, equivalent to 0.8 months of total imports. With the release of the exchange rate cap in early-2023, the official exchange rate has fallen by more than 20 percent against the U.S. dollar as of end-February from end-June 2022.

Headline consumer price inflation rose to a multi-decade high of an average of 25.0 percent y-o-y in H1 FY23, up from 9.8 percent in H1 FY22. This reflects the weaker exchange rate, surging global commodity prices, lower domestic fuel and electricity subsidies, and flood-related disruptions. As food constitutes half of their expenditure, the real purchasing power of poor households has fallen significantly with higher food prices, putting poverty gains at risk. The real interest rate remains negative despite the policy rate being raised by a cumulative 625 bps to 20.0 percent since July 2022.

The fiscal deficit reached PKR1,683 billion in H1 FY23, 23.0 percent higher than in H1 FY22. This was driven by higher interest payments as interest rates rose and the currency weakened, leading debt servicing

costs to jump by 77.1 percent to PKR2,573 billion. Reflecting fiscal consolidation efforts, non-interest expenditure rose by only 8.2 percent, with reduced spending on subsidies and grants. Meanwhile, revenue increased by 18.8 percent, supported by higher revenue from direct taxes and hikes in the petroleum development levy. Consequently, the primary balance reached a surplus of PKR890 billion – significantly higher than the surplus of PKR81 billion for H1 FY22.

Outlook

Real GDP growth is expected to slow sharply to 0.4 percent in FY23, reflecting corrective tighter fiscal policy, flood impacts, high inflation, high energy prices and import controls. Agricultural output is expected to contract for the first time in more than 20 years due to the floods. Industry output is also expected to shrink with supply chain disruptions, weakened confidence, and higher borrowing costs and fuel prices. The lower activity is expected to spill over to the wholesale and transportation services

sectors, weighing on services output growth. Output growth is expected to gradually recover in FY24 and FY25 but remain below potential as low foreign reserves and import controls continue to curtail growth. In the absence of higher social spending, the lower middle-income poverty rate is expected to increase to 37.2 percent in FY23. Given poor households' dependency on agriculture, and small-scale manufacturing and construction activity, they remain vulnerable to economic and climate shocks.

Due to higher energy and food prices, and the weaker Rupee, inflation is projected to rise to 29.5 percent in FY23 but moderate over the forecast horizon as global inflationary pressures dissipate. With dampened imports, the current account deficit is projected to narrow to 2.0 percent of GDP in FY23 but widen to 2.2 percent of GDP in FY25 as import controls ease. The fiscal deficit is projected to narrow to 6.7 percent of GDP in FY23 and further over the medium term as fiscal consolidation takes hold. The macroeconomic outlook is predicated on the completion of the IMF-EFF program, sound macroeconomic policy, continued structural reforms, and adequate external financing.

TABLE 2 Pakistan / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019/20	2020/21	2021/22e	2022/23f	2023/24f	2024/25f
Real GDP growth, at constant market prices	-1.3	6.5	6.2	0.4	2.0	3.0
Private Consumption	-2.8	9.3	10.0	1.3	2.3	3.0
Government Consumption	8.5	1.8	-3.4	-16.1	3.8	4.5
Gross Fixed Capital Investment	-6.7	4.5	2.5	-15.6	1.3	2.8
Exports, Goods and Services	1.5	6.5	8.4	-8.3	4.4	3.3
Imports, Goods and Services	-5.1	14.5	15.6	-15.3	4.9	3.9
Real GDP growth, at constant factor prices^a	-0.9	5.7	6.0	0.4	2.0	3.0
Agriculture	3.9	3.5	4.4	-1.0	2.5	2.8
Industry	-5.7	7.8	7.2	-2.3	1.5	2.9
Services	-1.2	6.0	6.2	1.8	2.1	3.0
Inflation (Consumer Price Index)	10.7	8.9	12.2	29.5	18.5	10.0
Current Account Balance (% of GDP)	-1.5	-0.8	-4.6	-2.0	-2.1	-2.2
Net Foreign Direct Investment Inflow (% of GDP)	0.9	0.5	0.4	0.0	0.3	0.6
Fiscal Balance, including grants (% of GDP)	-7.0	-6.0	-7.8	-6.7	-6.2	-6.0
Revenues (% of GDP)	13.3	12.4	12.1	10.9	11.4	12.0
Debt (% of GDP)	81.1	75.6	78.0	74.0	72.1	72.2
Primary Balance, including grants (% of GDP)	-1.5	-1.1	-3.0	-0.6	-0.4	-0.4
International poverty rate (\$2.15 in 2017 PPP)^{b,c}	5.6	4.6	3.9	4.1	4.1	4.0
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{b,c}	41.9	38.9	36.2	37.2	37.1	36.6
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{b,c}	85.4	84.0	82.7	83.2	83.2	82.9
GHG emissions growth (mtCO₂e)	1.2	5.1	5.0	2.1	2.7	3.0
Energy related GHG emissions (% of total)	42.6	43.6	44.3	43.8	43.7	43.8

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

Notes: e = estimate, f = forecast.

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: 2019-2022. Forecasts are from 2023 to 2025.

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