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Pakistan's Economic Update 2023

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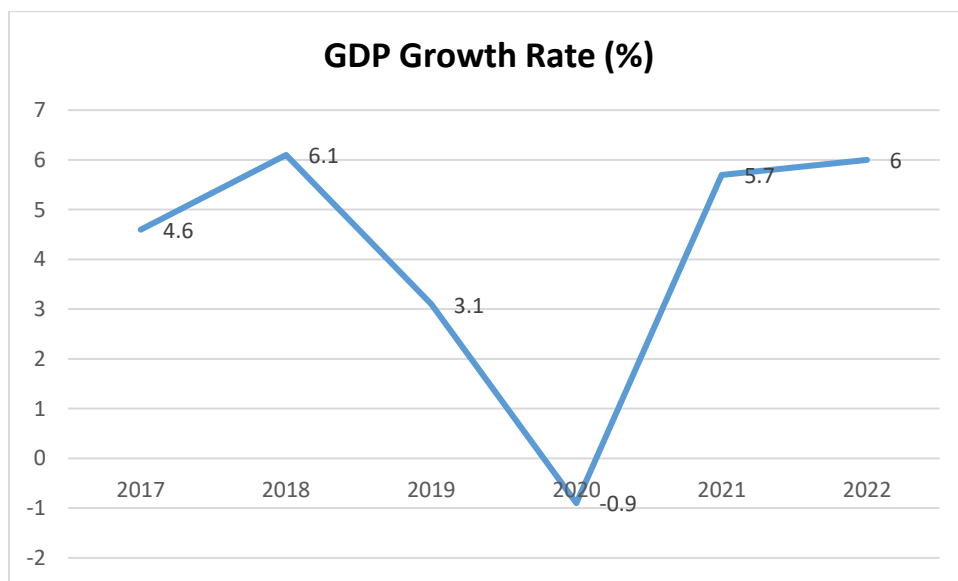
Pakistan's Economic Update 2023

By

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Pakistan's economic outlook is very challenging. The economy experienced negative growth and shrank by 0.9 percent in FY 2020 for the first time in 68 years (Saleem, 2022). The economic growth remained to stagnate in 2022 with additional and worrisome indicators including macroeconomic imbalances, i.e. large twin fiscal and current account deficits, a visible decline in foreign exchange reserves, progressively mounting pressure on the domestic currency and a severe balance of payment crisis. A substantial rise in foreign debt is another concerning challenge for Pakistan's economy as the external debt has risen from around US \$ 95 billion in 2018 to over US \$ 130 billion in FY 2022. Public debt is also high—approximately 71.3 percent of GDP—with rising sustainability concerns. Moreover, the recent devastating floods in the country definitely impact the economic outlook by adversely affecting the crops and agriculture performance. It is estimated that country have caused at least \$10bn (£8.5bn) of damage due recent floods of 2022.

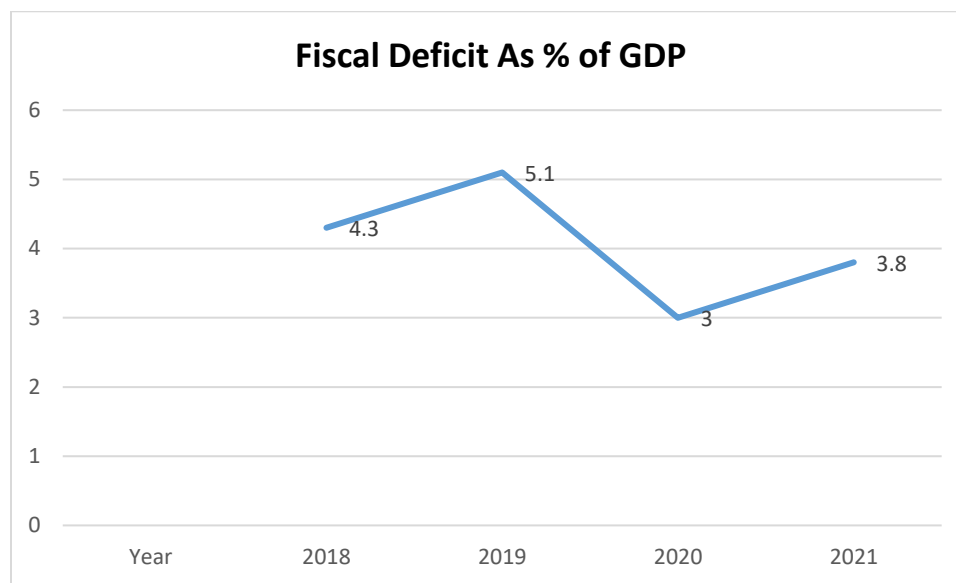
Figure 1



Source: Pakistan Economic Survey 2021-22

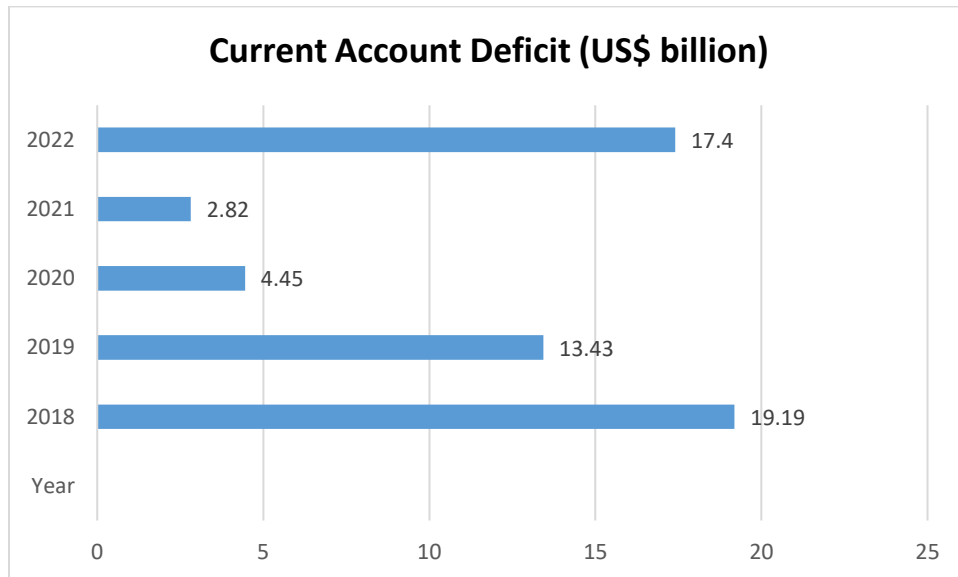
The deterioration in the macroeconomic situation is reflected in mammoth, unsustainable fiscal and current account deficits. The fiscal deficit which is the difference between revenues and expenditures of the federal government- stood at 3.8 percent of GDP (Rs 2,565.6 billion) during the first three quarters of the current FY 2022 as compared to 3 percent (Rs1,652.0 billion) during the corresponding period of the previous year. According to the World Bank report "*Pakistan @100: Shaping the Future*" Weak governance is responsible for the fiscal deficit. A poorly regulated financial system facilitates tax evasion that contributes to the growth of the fiscal deficit.

Figure 2

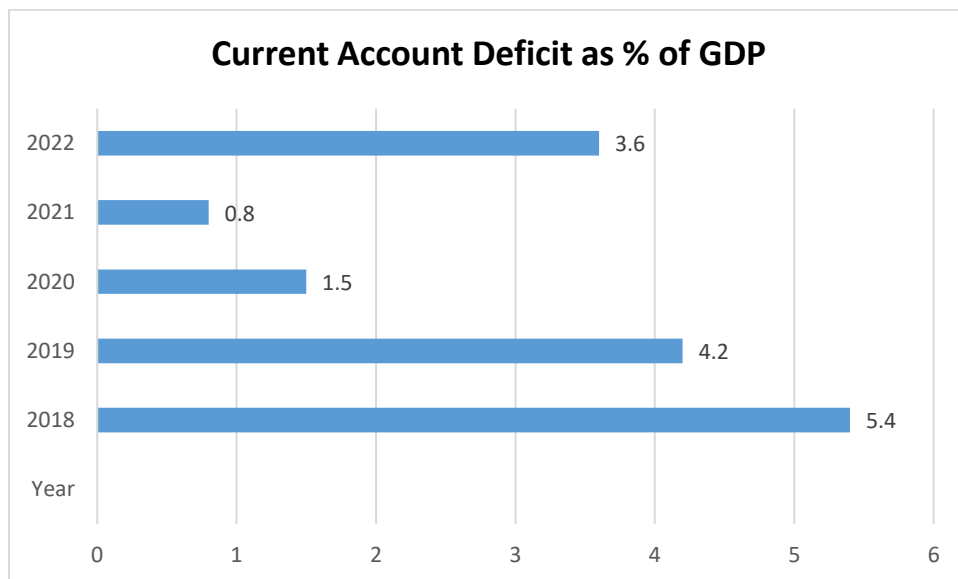


Source: Pakistan Economic Survey 2021-22

The current account deficit reached to US \$17.41 (3.6 percent of GDP) billion during the fiscal year 2021-22 as compared to a gap of US \$2.82 billion (0.8 percent of GDP) in the preceding FY 2020-21 which shows that the current account deficit of the country ballooned by over five times. The massive widening in the current account deficit may be attributed to the high trade deficit on the back of a significant increase in import bills. The import bill of the country recorded an increase of 42.21 percent to US \$80.18 billion during the FY 2021-22 as compared to \$56.38 billion in the preceding fiscal year (PBS). The massive rise in import bill resulted in a huge trade deficit.

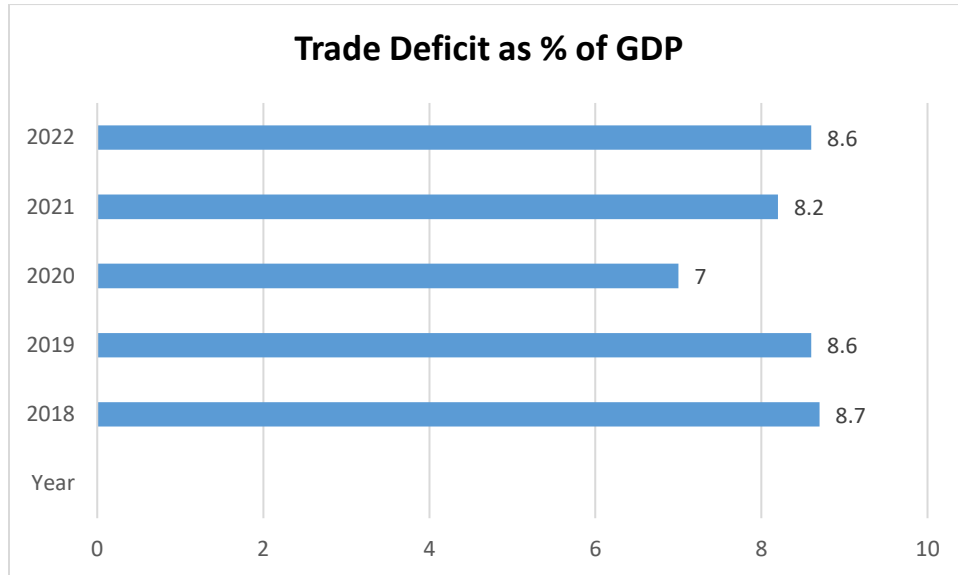
Figure 3

Source: State Bank of Pakistan

Figure 4

Source: Pakistan Economic Survey 2021-22

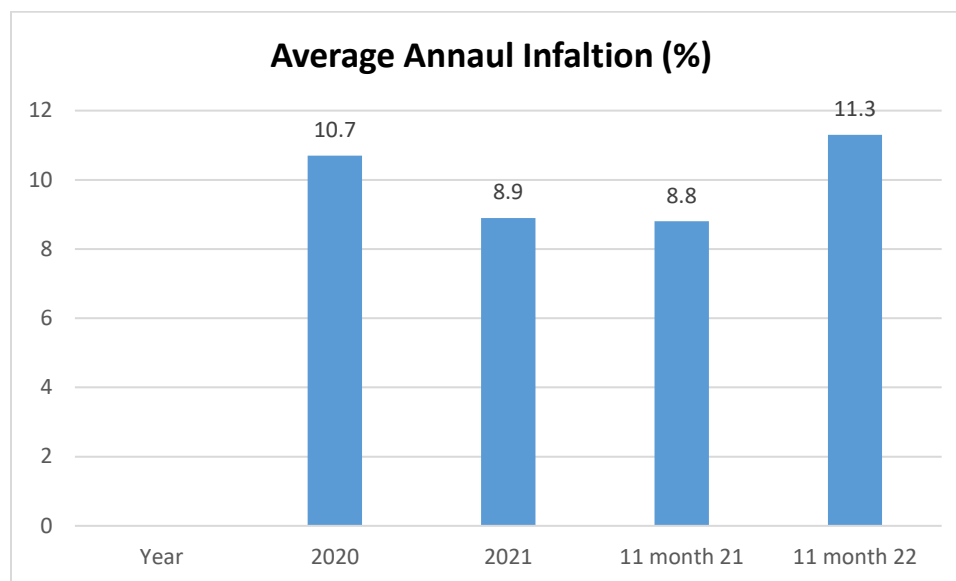
The balance of payments crisis particularly stood out with the trade deficit which increased by 55.5 percent (US \$48.38 billion) during July- March (2021-22) against 8.6 percent (US \$32.09 billion) in the previous year (Shah, 2022).

Figure 5

Source: Pakistan Economic Survey 2021-22

Pakistan's foreign exchange reserves declined from US \$ 24,3978 million in FY 2021 to US \$15,537 million in 2022. Reserves also experienced a sharp decline in July and June 2022. The government is negotiating with IMF to enhance the package and more short-term loans from China and Saudi Arabia.

The average CPI inflation is recorded at 11.0 percent during July-April (2021-22) as compared to 8.6 percent in the same period of the previous year. This tremendous increase in inflation may be attributed to the increase in the prices of electricity gas and non-perishable food items resulting from a massive increase in the global petroleum and commodity prices. The Russia-Ukraine conflict has disrupted important supply chains leading global gasoline and food price surge.

Figure 6

Source: State Bank of Pakistan

“Moreover, Long-standing structural weaknesses of the economy, particularly consumption-led growth, low private investment rates, and weak exports have constrained productivity growth and pose risks to a sustained economic recovery” (World Bank Bi- Annual Pakistan Development update Report, April 2022). “The economy is currently faced with include extensive government borrowing from the financial sector that crowds out the supply of credit to the private sector and deepens the sovereign nexus. It is further impeded by low domestic savings, underdeveloped capital markets, and low financial inclusion. Sharp and deep adjustments on the fiscal front suggested by the IMF might trigger stagflation, lowering GDP growth and rising inflation at an accelerated pace. The boom-and-bust cycle would persist, and Pakistan would again suppress demand by tightening fiscal and monetary policies” (Ani, 2022).

The government should consider the following short term and long-term measures to address the above-mentioned economic challenges

Short Term Measures

- Develop a new economic growth strategy.
- Coordinate with Fiscal and monetary policy, and retain exchange rate flexibility.
- The broaden tax base.
- Explore new export destination for exchange earnings.
- Create investment friendly environment to attract the more foreign direct investment.

Long Term Measures

- Structural economic reforms i.e, boosting private sector investment, exports, and productivity.

- Modernizing the export led industries,
- Enhancing the Pakistan's export portfolio
- Encourage SMEs for job creation

References

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Saleem, F. (2022, May). *Do we have an economic growth strategy.*

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(April 2022). *World Bank Bi- Annaul Pakistan Development update Report.*