



KPMG Taseer Hadi & Co.
Chartered Accountants

Economic Brief 2022

June 2022

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Foreword



Economic Brief 2022 is a publication prepared by KPMG Pakistan to provide information and commentary on the performance of Pakistan's economy during FY22.

This publication includes an overview of the economic performance of Pakistan during FY22, our analysis and commentary on key macro economic indicators. This publication is primarily based on the Pakistan Economic Survey 2022-22 released on 09 June 2022.

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Glossary

8m22	July to February	IPO	Initial Public Offering
9m22	July to March	LSM	Large Scale Manufacturing
10m22	July to April	PKR	Pakistani Rupees
11m22	July to May	PSX	Pakistan Stock Exchange
ADB	Asian Development Bank	SBP	State Bank of Pakistan
CAGR	Compound annual growth rate	SEZ	Special Economic Zones
CPEC	China-Pakistan Economic Corridor	SME	Small & Medium Enterprise
CPI	Consumer Price Index	SOEs	State Owned Enterprises
ECNEC	Executive Committee of the National Economic Council	USD	US Dollar
FATF	Financial Action Task Force	UN	United Nations
FDI	Foreign Direct Investment	bn	Billions
FY	Financial Year	mn	Millions
GDP	Gross Domestic Product	tn	Trillions
GoP	Government of Pakistan	YoY	Year on Year
IMF	International Monetary Fund		
IT	Information Technology		

KPMG Analysis

Key Takeaways

Pakistan's economy continued to demonstrate cycles of boom and bust. Impressive GDP growth rate of almost 6% was overshadowed by ballooning twin fiscal and current account deficits. Political instability, high international fuel & commodity prices and bludgeoning trade deficit exerted immense pressure on foreign exchange reserves resulting in significant depreciation of PKR against USD which in turn contributed towards high inflation.

Delay in reaching an agreement with IMF for release of next tranche resulted in major uncertainty about Pakistan's ability to meet its foreign financial obligations and international rating agencies including Moody's downgraded Pakistan's credit rating outlook from stable to negative.

Recent steps by the government such as partial withdrawal of fuel subsidies and commitment for gradual withdrawal of subsidies on electricity & other utilities are expected to revive the IMF program which is critical to bring back the confidence in Pakistan's economy. Future outlook is one of austerity whereby belt tightening measures would need to be taken in order to bring back fiscal and current account deficits within manageable limits which is expected to result in curtailment of GDP growth.

With another financial year closing, economic managers are still striving to strike the right balance of achieving broad based GDP growth without putting unsustainable pressure on foreign reserves.

Rebasing of Economy

After showing a V-shaped recovery last year, Pakistan's economic activity continued to remain positive.

In 9m22, Pakistan surpassed its targets for GDP, agriculture, services, and industrial sectors. However, targets for containing inflation, trade deficit, imports, current account deficit, growth targets for investment, national savings and production targets of wheat and cotton could not be achieved.

During 10m22, the current account deficit stood at USD 13.8bn in comparison to 0.5bn during the same period last year. Inflation during 11m22 was 11.3% against 8.8% during the same period last year. Increase in inflation and energy prices has shaken the confidence of business community.

Remittances during 9m22, remained high showing a positive trajectory and posted a further growth of 7.1% to reach USD 22.95bn compared to USD 21.4bn for the same period last year. Moreover, FBR collected an impressive PKR 4,855bn net tax revenues in 10m22 with a growth of 28.5%.

Key Steps taken by the Government

During FY22, the government launched digital banking framework and licensing to include wider customer base by creating ease in onboarding and providing cost effective digital financial service combined with line of credit for underserved and unbanked population.

The Federal government also established the Special Technology Zones Authority (STZA) in FY22 to encourage knowledge economy and technology-driven ecosystem and support entrepreneurship along with foreign investors.

SBP has also launched Raast, which is Pakistan's instant payment system to enable instant end-to-end digital payments among individuals, businesses and government entities.

During FY22, SBP also introduced specific measures to bring forward a shift towards women friendly business practices in the financial sector. It will also help in achieving National Financial Inclusion Strategy (NFIS) target of reaching 20mn active women bank accounts 20mn by the end of 2023.

KPMG Analysis (Cont'd)

Outlook for FY23

Government intends to expedite development of Special Economic Zones and Dam projects to further support sustainable growth in the exports, technological ecosystem and energy sector performance.

The government intends on using indigenous energy resources like Thar coal in addition to green resources like solar, wind and dams to ease the balance of payments and reduce fuel imports.

To further curtail the future expenditure, the government has slashed the fuel quota for government officials.

For FY22, FY23 and FY24 the World Bank has estimated a moderate growth in GDP of Pakistan at 4.3%, 4% and 4.2% respectively.

Similarly, as per World Bank's estimate, the inflation in Pakistan would average out at around 10.7% by the end of FY22 due to increased prices of oil and commodity and would show a declining trend in the immediate future forecasts.

Higher agricultural output is expected in the coming year on account of better weather condition expectations coupled with 97.7% sowing targets achieved for wheat.

As per World Bank, LSM has also shown positive growth in 16 out of 22 sectors and are expected to grow further in FY23.

Way Forward

Remedying the weaknesses in the structural framework is critical that has adversely affected the financial sector resulting in its underperformance.

Government borrowing from public debt has put constraint on the availability of the financing for the public sector. Government will have to further reduce its reliance of debt and increase revenues as well as exports.

Resolving these constraints in the medium to long-term requires concerted efforts by the government, regulators, and other stakeholders.

In addition, five growth areas offer significant potential to unlock greater financing flows towards the real economy in the short to medium-term. These are:

- a) Digital finance;
- b) Risk capital;
- c) Microfinance;
- d) Development finance; and
- e) Capital markets.

Macroeconomic adjustment measures, specifically fiscal consolidation to complement the ongoing monetary tightening and exports, are urgently needed to relieve pressure on PKR and reduce trade and current account deficits, which altogether have brought pressure on the FX reserves.

Macroeconomic Highlights

Favourable GDP Growth

Pakistan's economy continued to witness a V-shaped economic recovery for the second consecutive period, in FY22. The country attained a real GDP growth of 5.97% which is higher than growth of 5.74% recorded last year.



Current Account Deficit

The current account deficit during 10m22 stood at USD 13.8bn compared to a deficit of USD 0.5bn during the same period last year. This huge deficit was due to surge in global commodity prices which resulted in an upward pressure on import payments.

Higher Remittances

Remittances, which always support in easing out the pressure of balance of payments, were recorded at USD 26.1bn during 10m22 and posted a growth of 7.6%.



Higher Inflation

Average CPI for 11m21 was 11.3%, as compared to average inflation of 8.8% during the same period last year.

Fiscal Deficit

The economy posted a fiscal deficit of 6.3% relative to GDP during FY22, compared to 6.1% for last year. Total tax collection grew by 28.1%, while non-tax revenues fell by 14.3% during 9m22. FBR surpassed the revenue target by collecting net tax revenue of PKR 4.86tn during 10m22.



Credit Rating Downgrade

The recent financial turmoil has led to a downgrade in credit rating outlook by Moody's from stable to negative.




Economic Snapshot - 9m22

Total Revenues




PKR 5.9tn

 **17.7%**
growth from
9m21

Total Expenditures



PKR 8.4tn

 **27%**
growth from
9m21

Fiscal Deficit



3.8% of GDP

3% of GDP in
9m21

Imports
USD 58.9bn
49.1% ↑ from 9m21

Exports
USD 23.3bn
25% ↑ from 9m21

Remittances
USD 22.9bn
7.1% ↑ from 9m21

Current Account Deficit

**3.6% of
GDP**

0.5% of GDP in 9m21

Average Inflation

Vs **8.3%** in
9m21


10.8%

13.75%

Current Policy Rate

 **675bps**
Increased during
FY22

Income per Capita USD

 **7.2%** growth from
9m21

1,797.5

1.28bn

FDI (USD)


 **2%** decline
from 9m21

Demographics

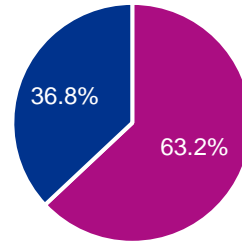
Population growth 1.98%



Total population 224.78 million



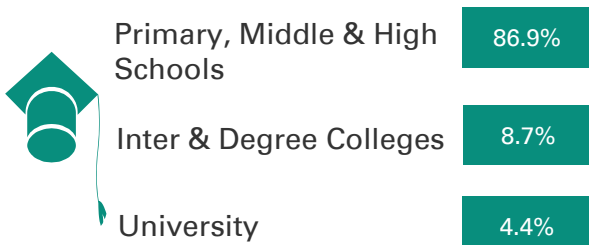
Urban vs Rural Population Breakdown



■ Rural ■ Urban

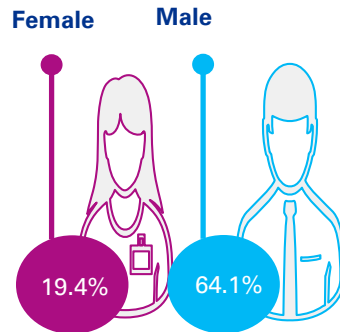
Source: Pakistan Economic Survey,

Enrolment in Educational Institutes (%)



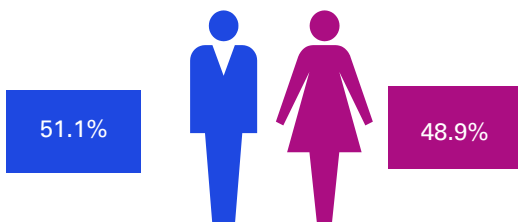
Source: Pakistan Economic Survey

Employment to Population Ratio (%)



Source: Pakistan Economic Survey

Gender ratio (%)



Source: Pakistan Economic Survey

Labour force

5th most populous country
71.76 mn in labour force
Top 10th Largest labour force in the world



Source: Pakistan Economic Survey

Gross Domestic Product

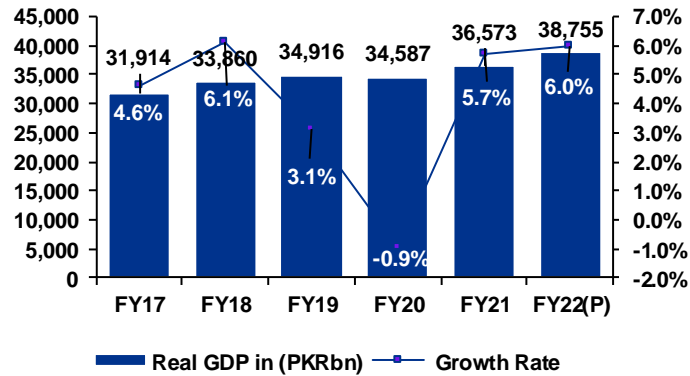
GDP

- GDP growth rate for FY22(P) is 5.97%, which is higher than the 5.74% in the same period last year.
- Pakistan’s economy showed a strong recovery after being depressed due to the global pandemic. Higher growth in GDP is due to robust growths of 4.4%, 7.2% and 6.2% in agriculture, industrial and services sectors, respectively.
- Investment to GDP ratio was recorded at 15.1% in FY22 compared to 14.6% last year.
- Household Consumption proved a significant contributor to GDP. It witnessed a healthy growth of 24.2% in FY22 compared to 20.1% in FY21 even during high inflation.

Agriculture Sector

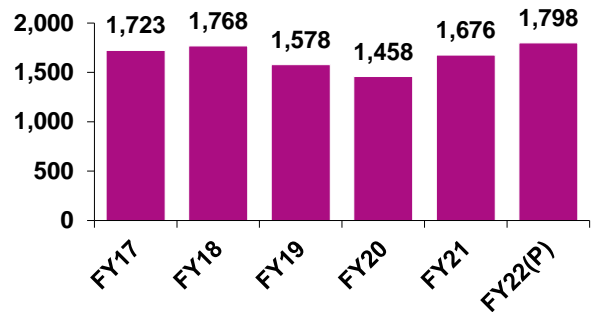
- The Agriculture sector recorded a steady growth of 4.4% in FY22, surpassing the target of 3.5%. This can be attributed to a multitude of factors such as high yields, attractive support prices, better availability of high quality seeds, pesticides and agricultural loans.
- Livestock, which accounts for 62% in agriculture sector, also showed a robust growth of 3.3%.
- During 9m22, the agricultural loans amounting to PKR 958.3bn were issued showing an increase of 0.5%.
- Domestic Production of fertilizers increased by 1.9% during 9m22, while tractor production increased by 13.5% in the same period.

Real GDP in (PKRbn) & Growth Rate (%)



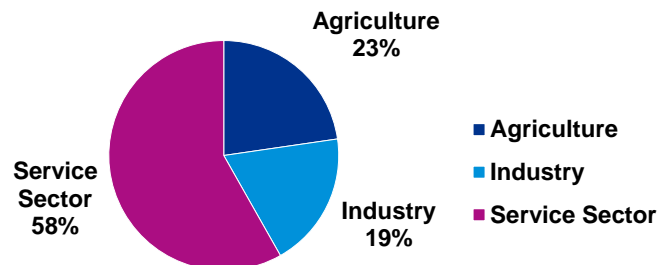
Source: Pakistan Economic Survey

Per Capita Income (USD)



Source: Pakistan Economic Survey

Sectoral Contribution



Source: Pakistan Economic Survey

Gross Domestic Product (cont'd)

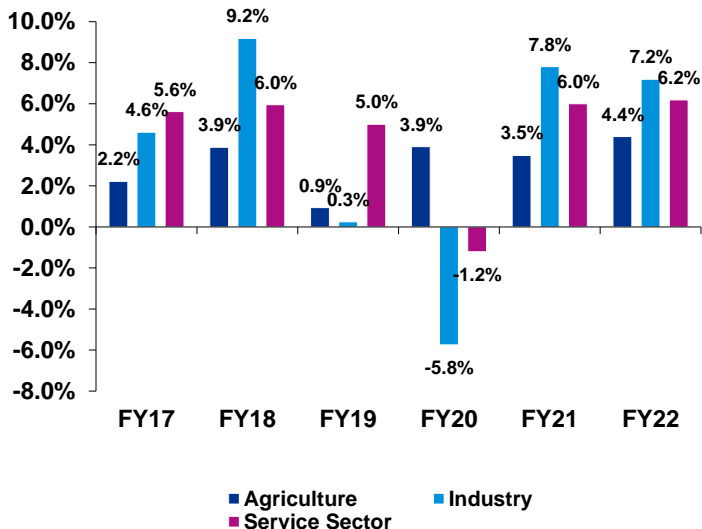
Industrial Sector

- The Industrial Sector continued its momentum with a growth of 7.2% in FY22 following last year's positive growth of 7.8%.
- The Quantum Index of Manufacturing (QIM) posted a robust growth of 10.4% during 9m22 as the governments initiatives to support the sector proved fruitful.

Services Sector

- The Services sector constitutes 58% of GDP making it the largest sector despite the usage of new methodology for the Change of Base of National Accounts on 2015-2016.
- The Wholesale and Retail Trade posted a growth of 10% due to growth in Agriculture & Industrial output and Imports.
- The Finance and Insurance industry grew by 4.9% due to an increase in Financial Intermediation Services Indirectly Measured (FISIM) on deposits and loans.
- The growth in Information and communication sector was recorded at 11.9% as a result of improvements in telecommunication, computer programming, consultancy, and related activities.

Sector-wise Growth (%)



Source: Pakistan Economic Survey



Current & Fiscal Account

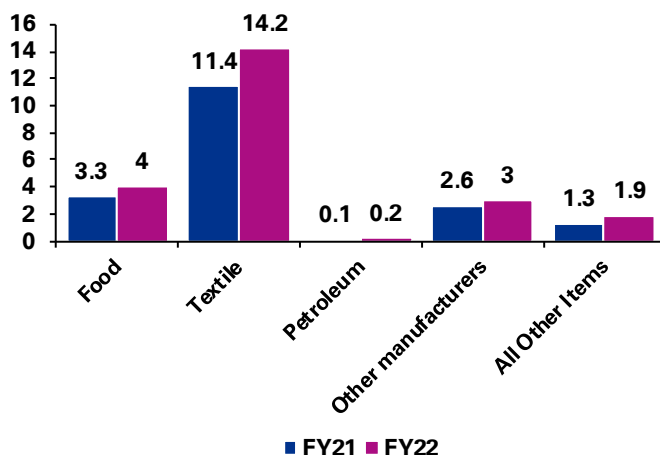
Current Account

- During 10m22, export of goods increased by 27.6% and reached USD 26.8bn. Around two-thirds of the increase was attributed to the textile sector. Similarly, the export of services grew by 18.2% to reach USD 5.8bn.
- The growth in imports also increased sharply resulting in a trade deficit of USD 32.9bn which is a historical high. The growth in trade deficit was recorded at 49.6% during 10m22.
- This huge deficit was slightly controlled by record high worker's remittances of USD 26.1bn during 10m22.
- Resultantly, the current account deficit during 10m22 was recorded at USD 13.8bn.
- Food, petroleum and raw materials made up a huge portion of imports amounting to USD 7bn, USD 10.9bn and USD 9.5bn respectively.
- The total spending during 9m22 showed a sharp increase of 27% against a curbed growth of 4.2% in the same period last year.
- Higher development and non-markup current spending contributed to an increase in the total expenditure.

Fiscal Account

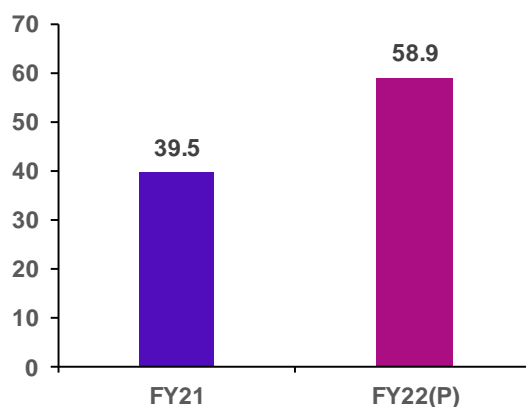
- FBR exceeded its revenue collection target for 10m22 and collected PKR 4,855.8bn (P) net tax revenues showing a huge growth of 28.5%.
- Although tax collection grew significantly during the period under review, higher current and development expenditure widened the fiscal deficit by 55.3% during 9m22.

Exports by Category (USDbn)



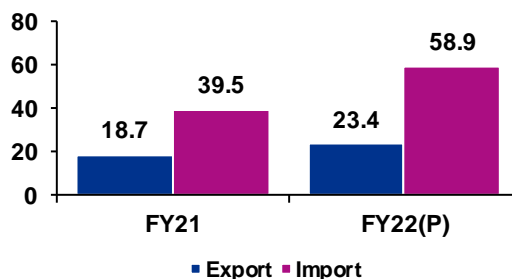
Source: Pakistan Economic Survey

Imports Value (USDbn)



Source: Pakistan Economic Survey

Trade Deficit (USDbn)



Source: Pakistan Economic Survey

Current & Fiscal Account (Cont'd)

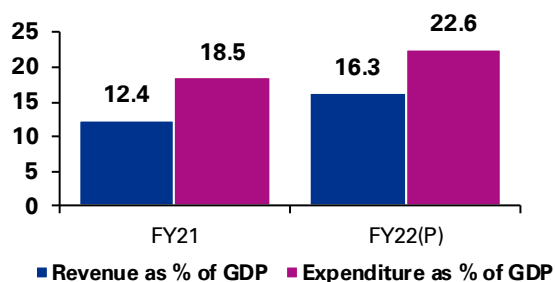
Fiscal Account (Cont'd)

- In terms of GDP, the fiscal deficit during 9m22 increased to 3.8% compared to 3% in the same period last year.
- The primary balance posted a deficit of PKR 447.2bn (0.7% GDP) during 9m22 as compared to a surplus of PKR 451.8 bn (0.8% GDP) in the same period last year.

Public Debt

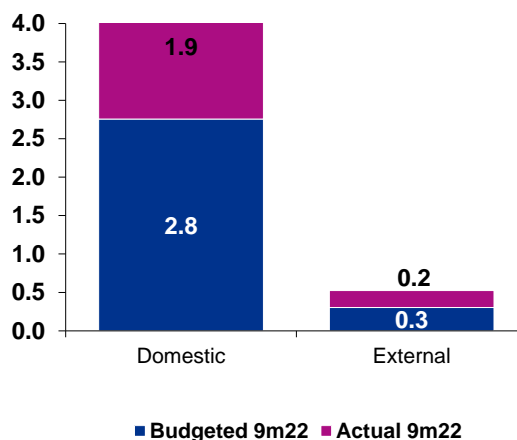
- During 9m22, the government repaid PKR 569 bn of debt to SBP.
- Debt from multilateral and bilateral sources cumulatively constituted around 79% of the external public debt portfolio at the end of 9m22.
- In January-22, the government of Pakistan successfully raised USD 1 bn through the issuance of International Sukuk under the 'Trust Certificate Issuance Program'. This was the first time that the government has issued International Sukuk with 7 Year maturity and at market-clearing price i.e., zero issuance premium.

Fiscal Deficit (as a % of GDP)



Source: Pakistan Economic Survey

Public Debt Servicing (PKRtn)

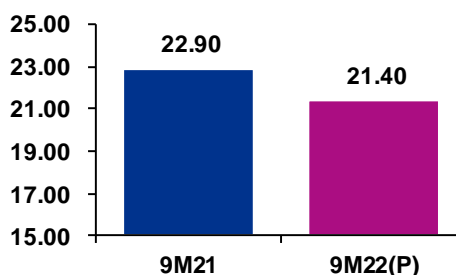


Source: Pakistan Economic Survey

Remittances

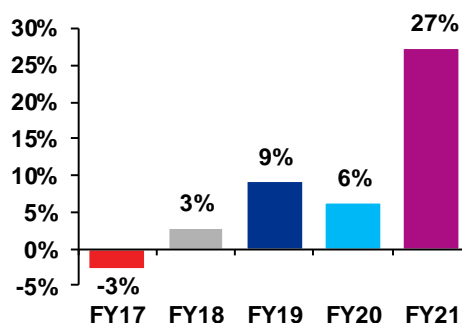
- Remittances were recorded at USD 26.1bn during 10m22 and posted a growth of 7.6% as compared to the same period last year.
- Remittances showed an impressive growth by following a positive trajectory. However, the current account deficit for 10m22 was recorded at USD 13.8bn compared to USD 0.5bn during the same period last year.
- During 2021, Bureau of Emigration and Overseas Employment (BE&OE) and Overseas Employment Corporation (OEC) registered 288,280 Pakistani workers for overseas employment. During Jan-Mar 2022 number of Pakistanis registered are 222,749, which is significantly higher than the same period last year.
- Over the last five years, worker remittances have grown by a CAGR of approximately 11%.
- Sohni Dharti Remittance Program (SDRP) is an innovative programme launched by Government of Pakistan during FY21. This programme incentivizes Pakistani workers abroad to send remittances to Pakistan through banks and exchange companies thereby earning reward points.

Worker Remittances (USDbn)



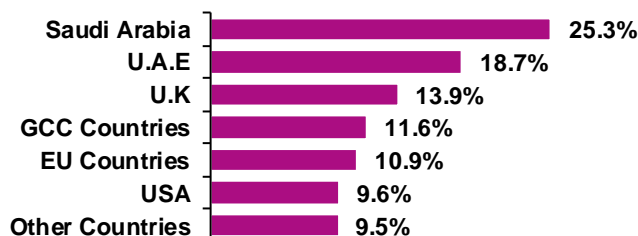
Source: Pakistan Economic Survey

YoY Growth in Remittances



Source: Pakistan Economic Survey

% Share in Remittances 9m22

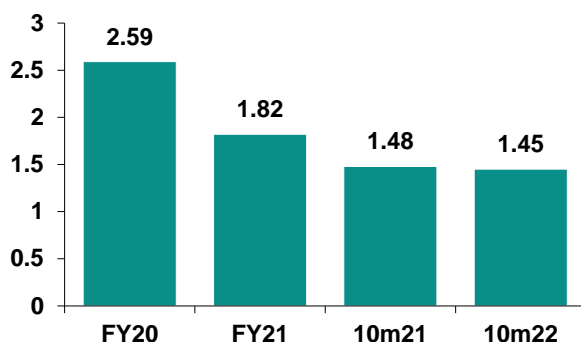


Source: Pakistan Economic Survey

Foreign Direct Investment

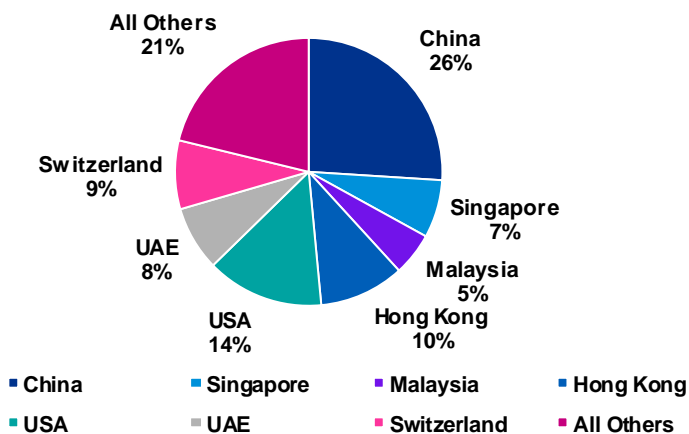
- Net Foreign Direct Investment stood at USD 1.46bn during 10m22, compared to USD 1.48bn in the same period last year, reflecting a decline of 1.65%.
- Net Foreign Direct Investment in Pakistan has decreased due to an increase in outflow related to the dividends paid by cellular companies to their international owners.
- Foreign Direct Investment (FDI) in the telecom industry was USD 107.9mn during 8m22 compared to the local investment in the telecom sector of USD 822.2mn during the same period.
- The power sector received the largest FDI (38%) followed by financial sector (25%).
- FDI contribution by China represented 26% of the total FDI followed by United States which contributed 14%.

Foreign Direct Investment (USDbn)



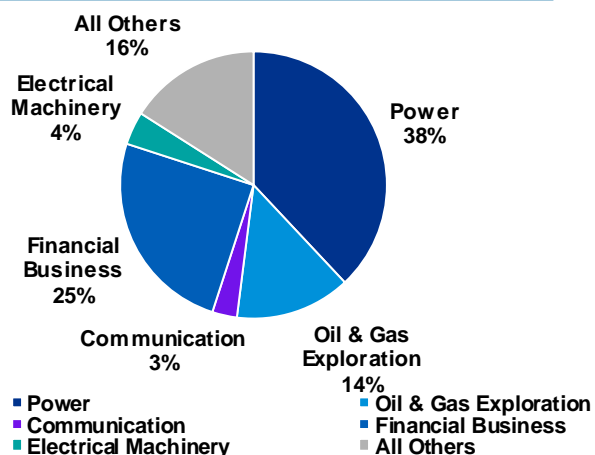
Source: SBP

Country-wise share in FDI (%)



Source: Pakistan Economic Survey

Sector-wise share in FDI (%)



Source: Pakistan Economic Survey

Monetary Policy

Inflation

- Average inflation rate in Pakistan stood at approx. 11.3% during 11m22 compared to 8.8% in the same period last year. This sharp increase in headline inflation can be attributed to the increase in the prices of electricity, gas and non-perishable food items resulting from massive increase in global petroleum and commodity prices.
- The Russia-Ukraine conflict has disrupted important supply chains, leading global gasoline and food prices to surge. The government, on the other hand, has made every effort to mitigate the effects of global inflation through careful monitoring and monetary tools.

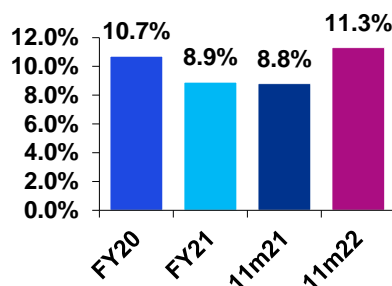
Policy Rate

- Due to a recovery in Aggregate Demand and higher commodity prices, SBP decided to raise the Policy rate to combat inflationary pressures. As a result, the policy rate increased by a cumulative of 675 Basis points from Sep-21 to May-22.

Currency

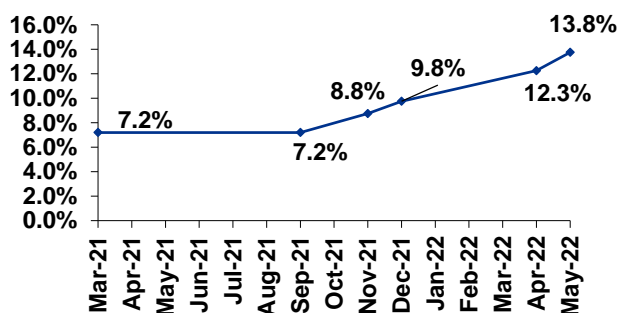
- During 9m22 the current account posted a deficit of USD 13.2bn primarily due to a substantial increase in a trade deficit of 55.5% on a YoY basis. This resulted in a depreciation of 14.1% in the PKR-USD exchange rate.
- The country's total FX reserves decreased by USD 7bn by the end of 9m22. SBP's reserves decreased by USD 5.9bn to USD 11.4bn, whereas commercial banks' reserves declined by USD 1.1bn. The 11m22 position of SBP FX reserves was USD 9.72bn.

Average Annual Inflation (%)



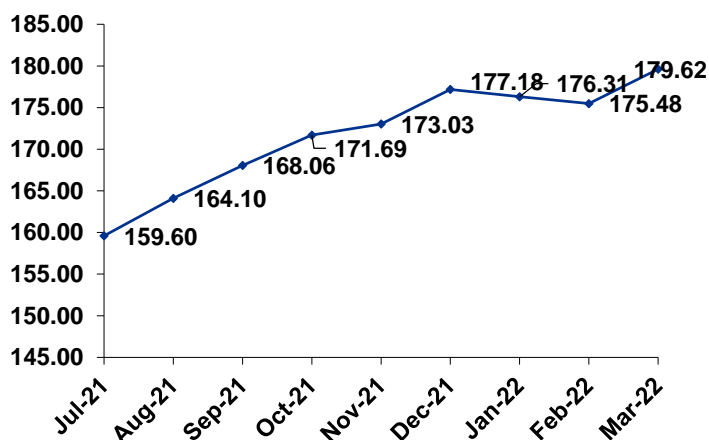
Source: Pakistan Bureau of Statistics

Policy Rate (%)



Source: Pakistan Bureau of Statistics

PKR/USD



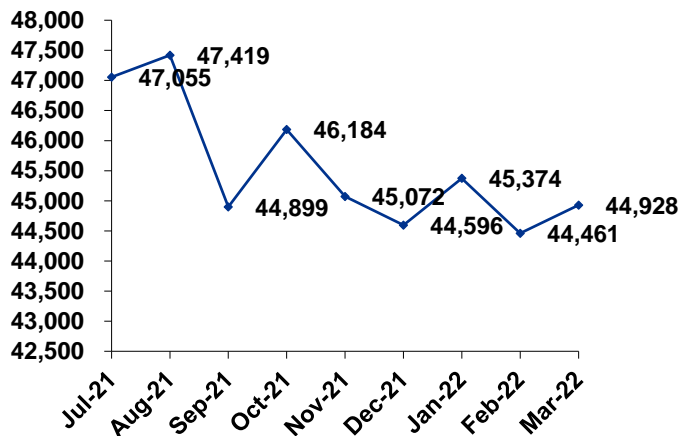
Source: Pakistan Bureau of Statistics

Capital Markets

Pakistan Stock Exchange

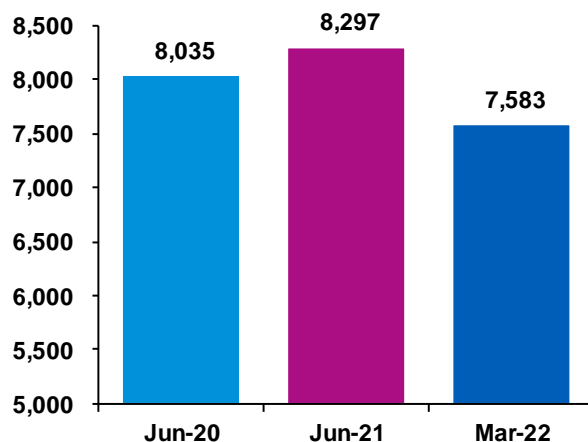
- During 9m22, the benchmark KSE-100 index decreased from 47,356 points to 44,928 points, losing 2,428 points. As of March-22, number of listed companies stood at 532, with total market capitalization of PKR 7,583bn.
- The turnover of KSE100 index on Pakistan Stock Exchange (PSX) during 9m22 was 57.7bn shares, compared to 45.1bn shares in the same period last year. The index averaged 45,554 points during 9m22, compared to 42,331 points during the same period in the previous year.
- The performance of PSX was impacted by the political uncertainty, deteriorating current account deficit and currency devaluation.
- PSX witnessed the following IPOs in FY22:
 - 1) Citi Pharma Limited
 - 2) Pakistan Aluminum Beverages Cans Limited
 - 3) Airlink Communications Limited
 - 4) Octopus Digital Limited
 - 5) Adamjee Life Assurance Company Limited

KSE 100 Index Performance



Source: Pakistan Economic Survey

Total Market Capitalization (PKRbn)



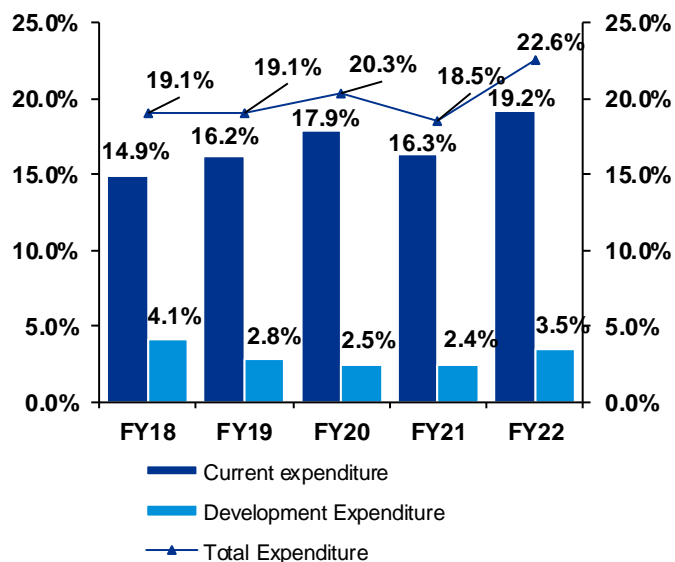
Source: Pakistan Economic Survey

Key Developments

Government Initiatives

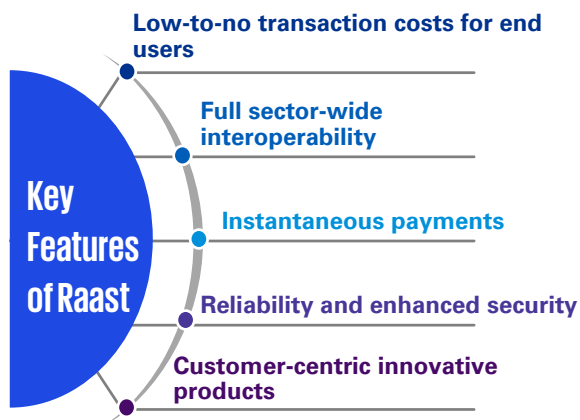
- During FY22, the SBP launched licensing and regulatory framework for setting up digital banks in Pakistan as a separate and distinct category in the banking business. The primary objectives of the framework include:
 - Financial inclusion
 - Providing cost effective digital financial services & providing credit access to the unserved and underserved.
- During FY22, the Federal government established the Special Technology Zones Authority (STZA). The primary objectives of the framework include:
 - Encouraging modern innovative solutions and futuristic entrepreneurship
 - Developing a knowledge economy and a technology-driven ecosystem
 - Providing special incentives to attract investors, builders, and technology companies to partner with the government
- SBP also launched Raast during FY22 which is Pakistan’s first instant payment system that will enable instantaneous end-to-end digital payments among individuals, businesses and government entities.
- During FY22, SBP launched a “Banking on Equality” policy, aiming to reduce the Gender Gap in the financial sector through specific measures that would bring a shift towards women friendly business practices. It will also help in achieving National Financial Inclusion Strategy (NFIS) target of 20mn active women bank accounts by 2023.

Fiscal Spending (% of GDP)



Source: Pakistan Economic Survey

Raast: Key Features



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