



KPMG Taseer Hadi & Co.
Chartered Accountants

Economic Brief 2023

June 2023

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Foreword

Economic Brief 2023 is a publication prepared by KPMG Pakistan to provide information and commentary on the performance of Pakistan's economy during FY23.

This publication includes an overview of the economic performance of Pakistan during FY23 and our analysis & commentary on key macro economic indicators. This publication is primarily based on the Pakistan Economic Survey 2022-23 released on 08 June 2023.

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Glossary

8m23	July to February	LC	Letter of credit
9m23	July to March	LSM	Large Scale Manufacturing
10m23	July to April	mn	Million
ADB	Asian Development Bank	MoU	Memorandum of understanding
AIIB	Asian Infrastructure Investment Bank	NRP	Non-resident Pakistani
bn	Billion	PKR	Pakistani Rupee
CAGR	Compound annual growth rate	PSEB	Pakistan Software Export Board
Cont'd	Continued	PSX	Pakistan Stock Exchange
CPI	Consumer Price Index	RDA	Roshan Digital Account
FBR	Federal Board of Revenue	SBP	State Bank of Pakistan
FDI	Foreign Direct Investment	SME	Small & Medium Enterprise
FY	Financial Year	SMEDA	Small and Medium Enterprises Development Authority
GDP	Gross Domestic Product	tn	Trillion
IMF	International Monetary Fund	USD	US Dollar
IPO	Initial Public Offering	YoY	Year on Year
IT	Information Technology		

KPMG Analysis

Key Takeaways

Pakistan faced unprecedented challenges during FY23 due to political uncertainty and devastating floods. Legacy issues like fiscal mismanagement, energy crisis, weak tax system, low human development, corruption & governance issues, infrastructure deficiencies, security concerns, and trade imbalances cannot be ignored.

In addition, the Ukraine-Russia war severely disrupted the global demand-supply balance which led to a commodity super-cycle resulting in slow down of the global economic growth. Inability of authorities in finalizing agreement with IMF compounded difficulties faced by the economy.

Consequently, there was immense pressure on foreign exchange reserves resulting in significant depreciation of PKR against USD and rising inflation for an import driven economy.

In such circumstance, any positive effort such as signing of charter of economy would be welcomed.

Key steps taken by the Government

Restructured USD 3bn in deposits each from China and Saudi Arabia along with securing Saudi oil facility worth USD 100mn each month (USD 900mn utilized till Mar 23) relieving some pressure on foreign exchange reserves.

Secured inflows from new Ijara sukuk instruments amounting to PKR 401bn, USD 1,166mn from IMF, USD 2,000mn from ADB and AIIB under BRACE program, and additional USD 1,900mn in loans from commercial banks were received to support budget targets.

Substantial reduction in unnecessary imports, resulted in remarkable decline in current account deficit with decrease from USD 72bn in FY22 to USD 51bn. Despite these measures, GDP growth was hardly 0.29% in FY23 in nominal terms.

Efforts to start barter trade, the Kissan Package, setting of an optimal support price for agricultural produce, and reliance on local resources for power generation were additional measures.

The government has taken tough decisions for restricting non-essential imports to tackle macroeconomic imbalances, coupled with significant economic gains resulting in fiscal deficit limiting to 3.6% of GDP in 9m23 against 3.9% for the same period last year.

KPMG Analysis (Cont'd)

Outlook for FY24

- According to World Bank, Pakistan is experiencing severe economic challenges reflecting long-standing structural weaknesses. The country would remain under severe stress with low foreign reserves, a depreciating currency, and high inflation. Burgeoning debt servicing, wasteful expenses, declining exports, industrial slow down, recession, inefficiencies and bad governance pose serious challenges for economic survival.
- The global economy is showing signs of recovery from the challenges posed by the pandemic and the Russia-Ukraine conflict. China's economy is rebounding and the disruptions in the global supply chain are expected to improve by 2024.
- Above factors collectively would impact GDP and achieving targeted growth would be challenging.

Way Forward

- Domestic production of goods and services should be encouraged, thereby reducing reliance on imports. To achieve this, domestic industries and sectors such as agriculture should be incentivized through policies, credit access and technical assistance, such as gradually reducing tariffs on raw materials and intermediate goods.
- Expand tax base while gradually reducing burden on existing tax payers. Encourage NRPs with incentives to increase worker remittances.
- Diversify and expand export base, thereby earning foreign exchange.
- Enhance transparency, accountability, and the rule of law. Implement measures to combat corruption, promote good governance, and ensure a level playing field for businesses.
- Promote research and development, technological innovation, and digitalization. Encourage the growth of the IT sector and support startups and tech-based enterprises.
- Improve energy distribution, encourage investment in renewable energy sources and reduce reliance on expensive imported fuels.

Macroeconomic Highlights

GDP Growth

Pakistan's economy attained a GDP growth of 0.29% in FY23 compared to the GDP growth of 6.1% recorded last year in FY22. The significant decline was attributed to various internal and external challenges.



Current Account Deficit

The current account deficit during 9m23 stood at USD 3.4bn compared to a deficit of USD 13.7bn during the same period last year. This improvement in current account deficit was due to decline in import of goods by 21.3%.

Remittances

Remittances, posted a decline of 10.8% during 9m23 from the same period last year, and were recorded at USD 20.5bn.



Higher Inflation

Average CPI for 10m23 was 28.2% compared to 11% during the same period last year.

Fiscal Deficit

The fiscal deficit stood at 3.6% of GDP during 9m23, compared to 3.9% during same period last year. Total revenue collection grew by 18.1% in 9m23, compared to the growth of 17.7% during the same period last year.



Credit Rating Downgrade

The recent financial turmoil has led to a downgrade in credit rating outlook by Fitch from CCC+ to CCC-. While, Moody's downgraded Government of Pakistan's debt rating from Caa1 to Caa3.



Economic Snapshot

Exports
USD 26.6bn
+
Remittances
USD 20.5bn
+
Other inflows
USD 1.6bn

—

Imports
USD 47.2bn
+
Other outflows
USD 4.9bn

Current Account
Deficit

USD
3.4bn

USD 13.7bn in
9m22

Total Revenues



PKR 6.9tn

▲ 18.1%
growth from
9m22

Total Expenditures



PKR 10tn

▲ 18.7%
growth from
9m22

Fiscal Deficit



3.6% of GDP

3.9%
of GDP in 9m22

21%

Current Policy Rate

▲ 725bps
Increased during
10m23

PKR Depreciation

▼ vs 23%
in FY22

28.4%

1 bn

FDI (USD)

▼ 22%
decline from 9m22

Income per Capita USD

▼ 11%
decline from 9m22

1,568

▲ Increase ▼ Decrease

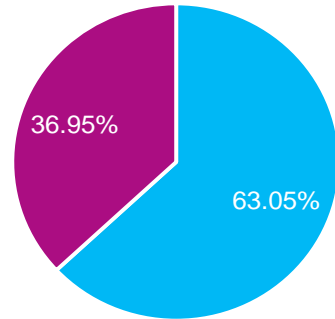
Demographics



Total population
229.22 million

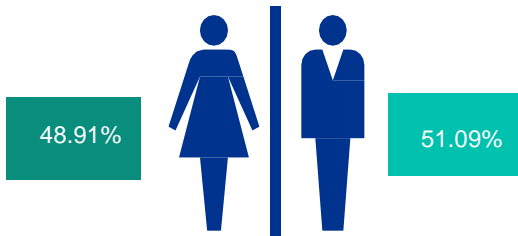
5th most populous country

Urban vs Rural Population Breakdown



■ Urban ■ Rural

Gender ratio (%)



Source: Pakistan Economic Survey

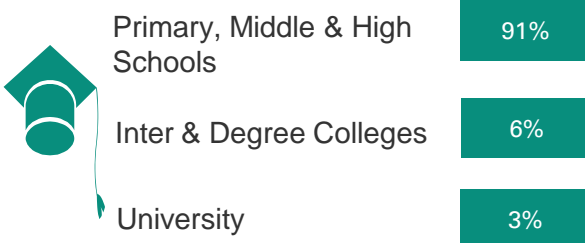
Labour force



Source: Pakistan Economic Survey

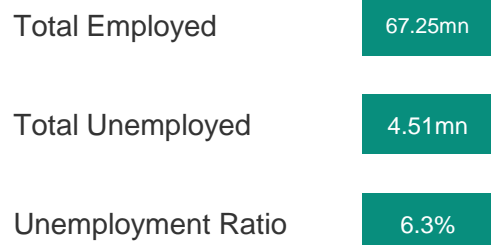
Distribution of total enrollments (%)

Total enrollments **53.5mn** students



Source: Pakistan Economic Survey

Employment Ratio



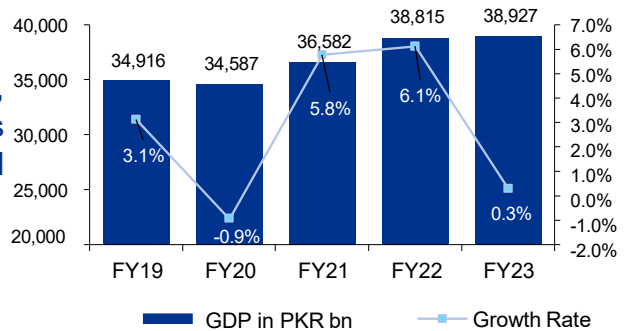
Source: Pakistan Economic Survey

Gross Domestic Product

GDP

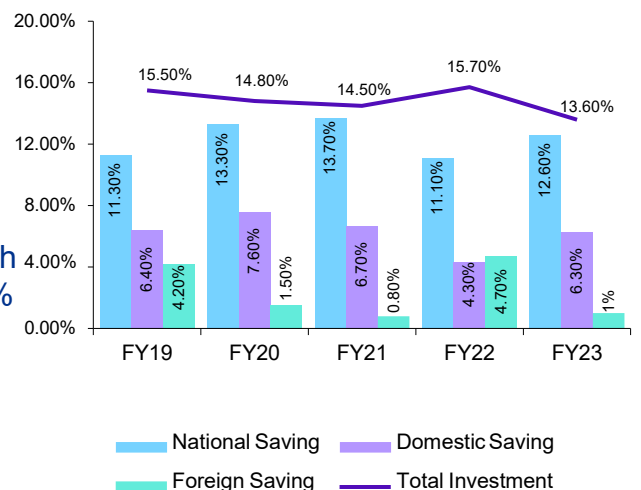
- GDP growth rate for FY23(P) is 0.29% as compared to 6.10% in the same period last year.
- The severe macroeconomic imbalances, flood damages, domestic supply shocks and international economic slowdown led to a fall in GDP growth rate. The agriculture, industrial and services sector grew by 1.55%, -2.94% and 0.86% respectively.
- The Investment to GDP ratio stood at 13.6% in FY23 as compared to 15.7% in FY22.
- The per capita income decreased from USD 1,765 in FY22 to USD 1,568 in FY23.

GDP (PKR bn) and Growth rate



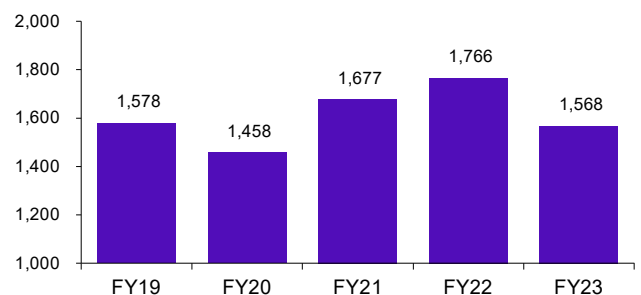
Source: Pakistan Economic Survey

Investment and Saving as a % of GDP



Source: Pakistan Economic Survey

Per Capita Income (USD)



Source: Pakistan Economic Survey

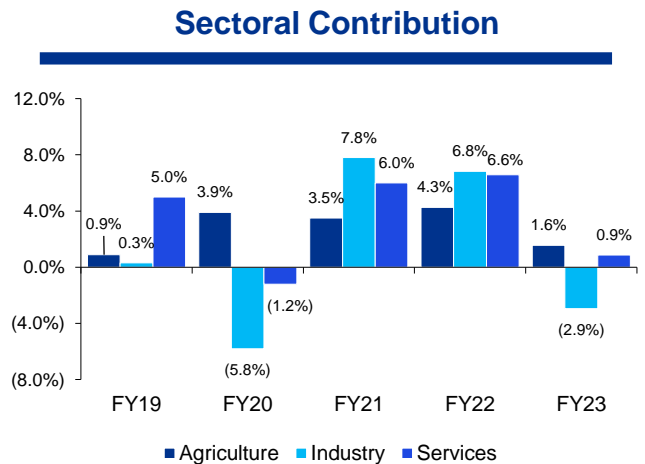
Agricultural Sector

- The Agriculture sector recorded a growth of 1.55% in FY23 as compared to 4.27% in FY22. This can be attributed to the heavy monsoon spell in July-August 2022 which caused massive damage to crops and livestock sector.
- Growth in important crops recorded a decline of 3.2% which include cotton, sugarcane, rice, maize and wheat.
- Livestock which constitutes 62.68% of agricultural sector and 14.36% of GDP grew at a pace of 3.78% as compared to 2.25% in the previous year.
- During 9m23 the agriculture financial institutions disbursed PKR 1,222bn which is 27.5% higher than PKR 958bn disbursed during the same period last year.

Gross Domestic Product (Cont'd)

Industrial Sector

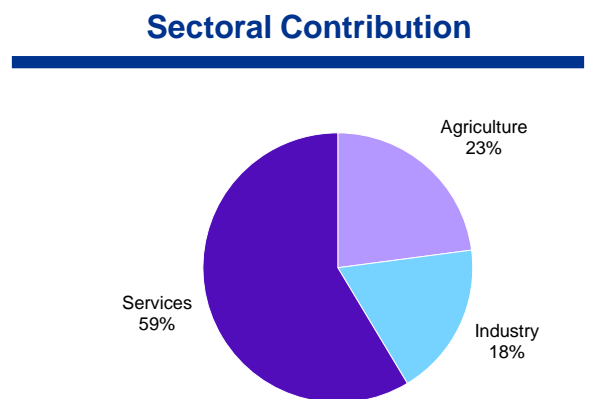
- The Industrial sector recorded a negative growth of 2.94% as compared to 6.83% last year. This is due to global economic slowdown, flood damages, restrictive SBP policies (import restrictions, high interest rates and closure of LCs) and high inflation which dampened consumer and investor confidence.
- Large Scale Manufacturing (LSM) recorded a decline of 8.11% in 9m23 as compared to a growth of 10.61% in the corresponding period last year.
- The mining and quarrying sector contributes around 1.6% of GDP and recorded a negative growth of -4.4% in FY23 as compared to -7.0% last year.



Source: Pakistan Economic Survey

Services Sector

- The Services constitutes 58.61% of GDP and recorded a growth of 0.86% in FY23.
- The Wholesale and Retail trade industry which constitutes 30.7% of total services declined by 4.46% due to decline in crop output, LSM and imports.
- The Transportation & Storage sector which constitutes 18.2% of services and is the second largest sector grew by 4.73%.
- Information and communication sector increased by 6.93% due to an increase in IT activities.
- The finance and insurance sector declined by 3.82% due to high CPI based deflator.



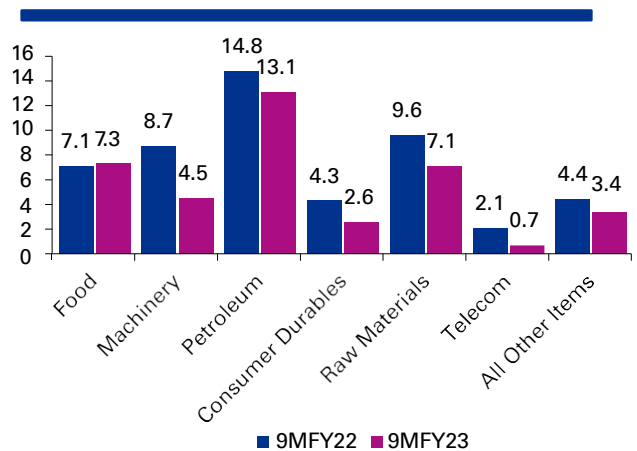
Source: Pakistan Economic Survey

Current & Fiscal Account

Current Account

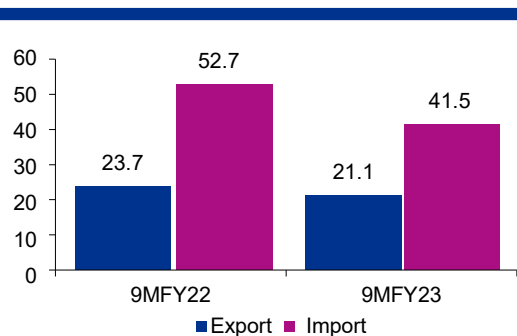
- During 9m23, current account deficit declined by 74.1% to USD 3.4bn compared to USD 13.7bn in same period last year.
- A primary current account surplus of USD 750mn in Mar 23 was recorded, marking the first monthly current account surplus since 2020.
- Curtailment of current account deficit was on the back of a significant decline in imports by 21.3% in 9m23. This helped in countering the combined decline in remittances and exports.
- Export of goods declined by 11% in 9m23 while worker remittances witnessed a fall of 10.8% during that period.
- Fall in deficit was supported by a sharp decline in services imports particularly in the transport sector, travel services and transport sea freight.

Imports by Category (USD bn)



Source: Pakistan Economic Survey

Trade Deficit (USD bn)



Source: Pakistan Economic Survey

Fiscal Account

- Total revenue for 9m23 amounted to PKR 6,938.2bn, having grown by 18.1% while tax revenues showed a growth of 16.5%, reaching PKR 5,617.7bn (6.6% of GDP).
- Although tax collection grew significantly during the period under review, higher total expenditure (current and development) widened the fiscal deficit by 20% during 9m23 to PKR 3,078.7bn

Current & Fiscal Account (Cont'd)

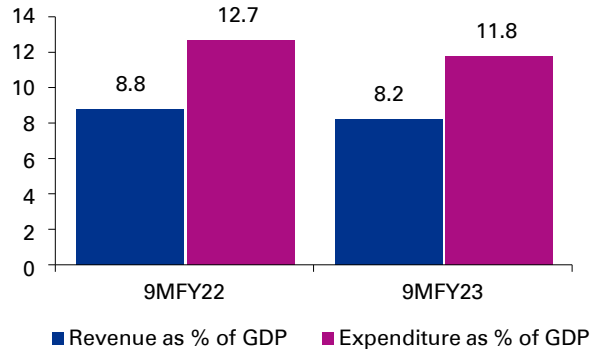
Fiscal Account (cont'd)

- In terms of GDP, the fiscal deficit during 9m23 decreased to 3.6% compared to 3.9% in the same period last year.
- The primary balance reverted from deficit to a surplus of PKR 503.8bn (0.6% of GDP) during 9m23 as compared to a deficit of PKR 447.2 bn (0.7% of GDP) in the same period last year.

Public Debt

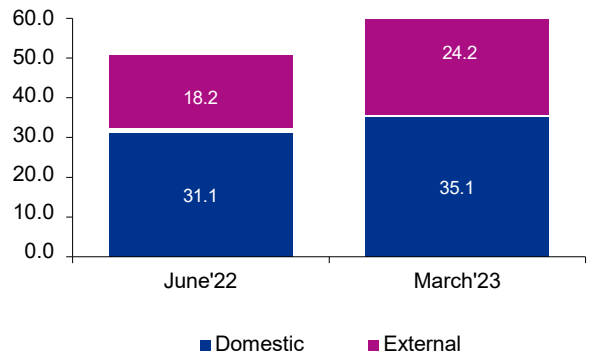
- As at Mar 23, total public debt stood at PKR 59,247bn, of which 59.2% was domestic and 40.8% was from external sources. During 9m23, public debt has increased by 20.3%, equivalent to Rs 10,005bn.
- During 9m23, the government repaid PKR 310 bn of debt to SBP.
- 3-year and 1-year Ijara sukuks were introduced in Jan 23 and Feb 23 respectively to diversify shariah compliant instrument base.
- In addition to rolling over USD 1,900mn in loans from commercial banks, government received USD 1,166mn from IMF program, USD 1,500mn from ADB, and USD 500mn from AIIB.

Fiscal Deficit (as a % of GDP)



Source: Pakistan Economic Survey

Public Debt (PKR tn)

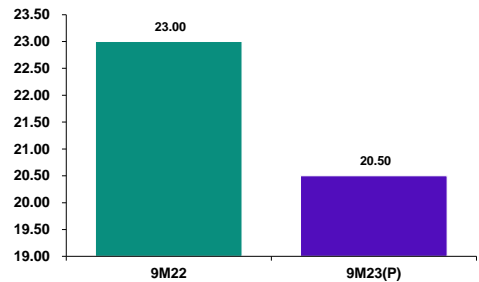


Source: Pakistan Economic Survey

Remittances

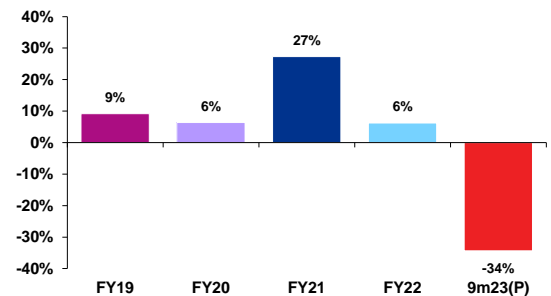
- Remittances were recorded at USD 20.5bn during 9m23 and posted a decrease of 10.8% as compared to the same period last year.
- Pakistani freelancers made a significant contribution to foreign exchange earnings through remittances totaling USD 0.27bn during 9m23.
- The primary cause of this decline can be attributed to the global economic slowdown, as higher inflation in developed countries has increased the cost of living abroad. Consequently, individuals have fewer surplus funds available to send back to their home countries as remittances.
- Over the last five years, worker remittances have declined by a CAGR of approximately 1%.
- During 2022, Bureau of Emigration and Overseas Employment (BE&OE) and Overseas Employment Corporation (OEC) registered 832,339 Pakistani workers for overseas employment. During Jan-Mar 2023 number of Pakistanis registered are 196,631.
- The new policy initiatives were taken by government to enhance the inflow of worker’s remittances to Pakistan, which include:
 - i. Disbursements of Inward Home Remittances by Exchange Companies as Sub-Agent of Authorized Dealers
 - ii. Home Remittances Agency Arrangements of Exchange Companies with Foreign Entities.
 - iii. Resumption of Pre-departure Financial Briefings Program

Worker Remittances (USDbn)



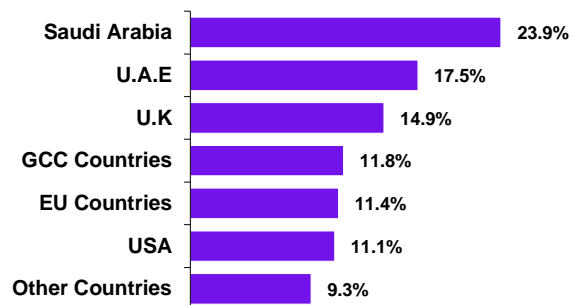
Source: SBP

YoY Growth in Remittances



Source: SBP

% Share in Remittances 9m23

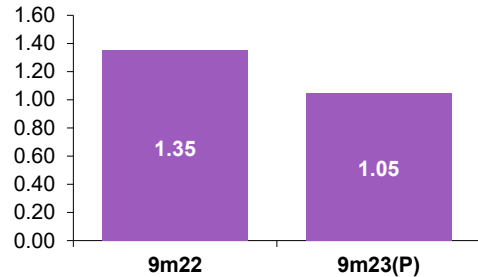


Source: SBP

Foreign Direct Investments

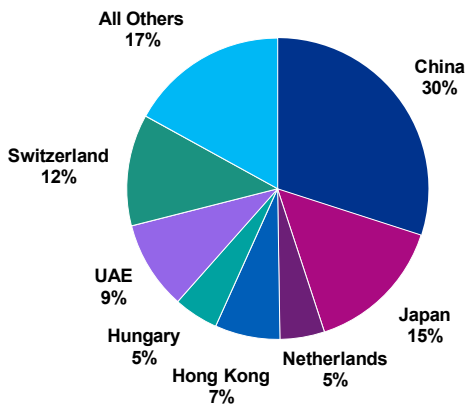
- Net Foreign Direct Investment stood at USD 1.05bn during 9m23(P), compared to USD 1.35bn in the same period last year, reflecting a decline of 22%.
- The largest FDI received by Pakistan from China during 9m23 was USD 0.32bn as compared to USD 0.38bn in the same period last year.
- FDI contribution by China represented 30% (9m22:26%) of the total FDI received followed by Japan which contributed 15%.
- Regarding FDI inflow by sector, the Power industry gained the most FDI, at USD 0.46bn during 9m23 as compared to 0.51bn in the same period last year
- FDI contribution by power sector represented 44% of the total FDI received (9m22:38%) followed by financial sector which contributed 24%.

Net FDI (USD bn)



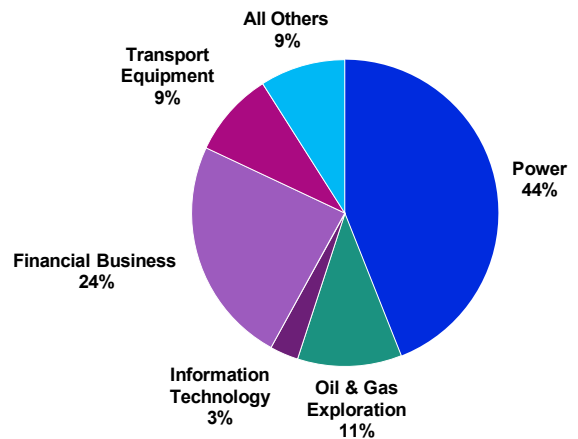
Source: Pakistan Economic Survey

Country-wise Contribution in FDI – 9m23



Source: SBP

Sector-wise Contribution in FDI – 9m23



Source: SBP

Monetary Policy

Inflation

- Average inflation rate in Pakistan stood at approx. 28.2% during 10m23 compared to 11.0% in the same period last year. This sharp increase in headline inflation is emanating from weaker exchange rate, supply disruptions created by flood damages and increased prices of electricity and fuel.
- The prolonged Russia-Ukraine conflict, after-effects of pandemic, and climate change have adversely disrupted international energy and food markets. However, the government is making efforts to mitigate the effects of global inflation through careful monitoring and monetary tools.

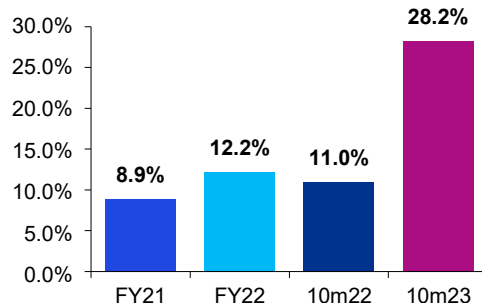
Policy Rate

- Due to persistent inflationary pressures and external sector imbalances, SBP decided to raise the policy rate to combat inflationary pressures. As a result, the policy rate increased by a cumulative of 725 basis points from Jul 22 to Apr 23.

Currency

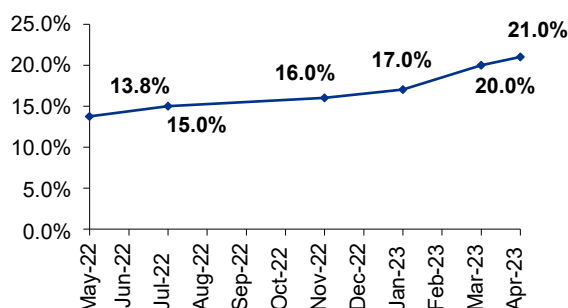
- Despite the improvement of current account balance, the external account pressure on the foreign exchange markets resulted in depreciation of PKR/USD exchange rate by 27.8%.
- SBP's foreign exchange reserves decreased to USD 4.2bn mainly due to the repayment of long-term liabilities and Sukuk bond payments, whereas commercial banks' reserves declined by USD 83mn because of import compression measures taken during the same period.

Average Annual Inflation (%)



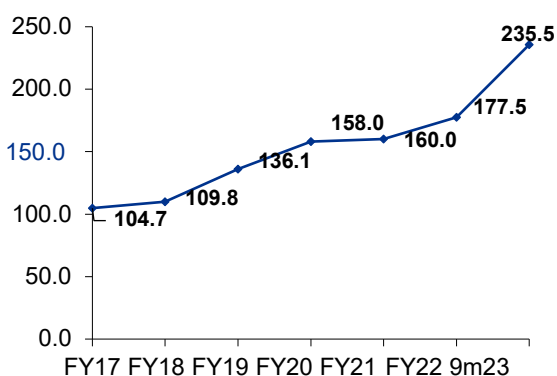
Source: Pakistan Economic Survey

Policy Rate (%)



Source: SBP

Average Exchange Rate (PKR/USD)



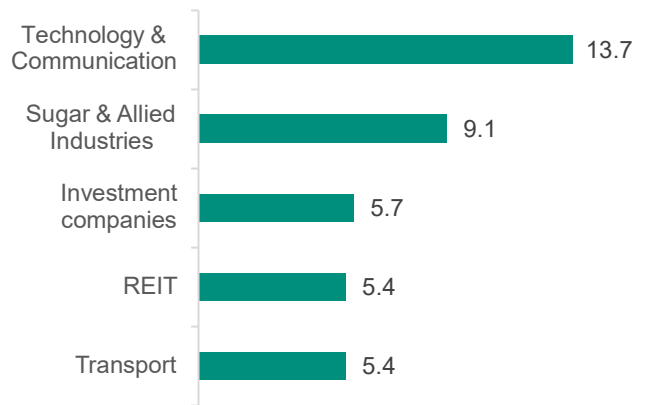
Source: SBP

Capital Markets

Pakistan Stock Exchange

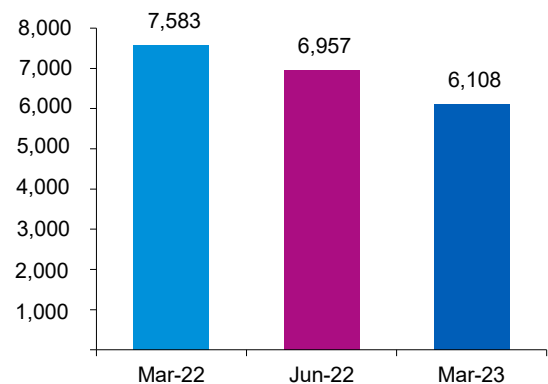
- The performance of PSX was impacted by political uncertainty, deteriorating current account deficit and currency devaluation. The market capitalization decreased by 19%, from PKR 7,583bn (Mar 22) to 6,108bn (Mar 23).
- During 9m23 the benchmark KSE-100 index decreased from 41,541 points to 40,001 points, losing 1,540 points. As of Mar 23, number of listed companies stood at 526 with total market capitalization of PKR 6,108.2bn.
- While the overall PSX performance declined during 9m23, the top sectors where market capitalization increased were Technology & Communication, Sugar & Allied Industries, Investment Companies, Real Estate Investment Trust (REIT) and Transport.

Top performing sectors (% Increase)



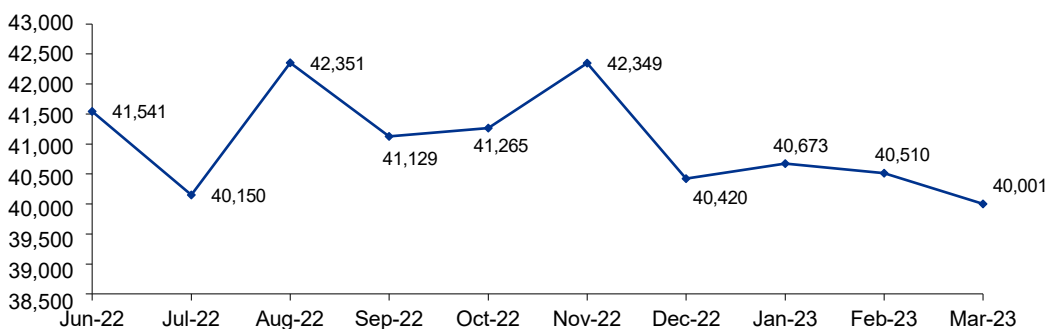
Source: Pakistan Economic Survey

Total market capitalization (PKR bn)



Source: Pakistan Economic Survey

KSE 100 Monthly Index Performance



Source: Pakistan Economic Survey

Key Developments

Technology

- In the first three-quarters of FY23, PSEB added seven Special Technology Parks to enhance infrastructure facilities across various cities in Pakistan, while IGNITE established additional National Incubation Centers in different cities, aimed at supporting startups and women entrepreneurs.

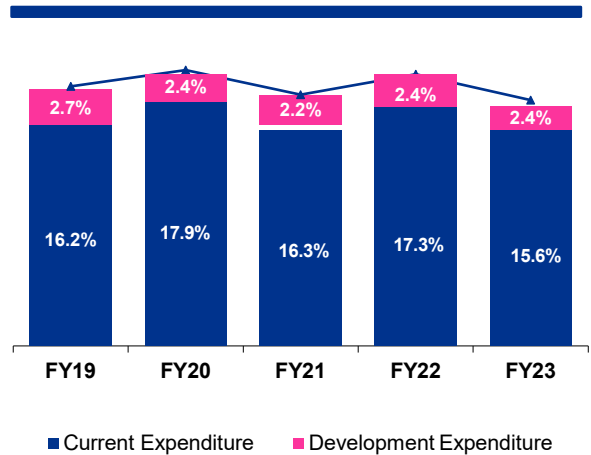
Climate Change

- The government launched National Clean Air Policy in March 2023, with the objective of improving air quality in the country by reducing pollution.

Banking and Finance

- SBP also added two new offerings to the product suite of RDA, namely Roshan Pension Plan (RPP) and Roshan Digital Business Account (RDBA). RPP is an exclusive product to allow NRPs to digitally and remotely contribute to voluntary pension schemes, while RDBA aims to strengthen the business alliances of NRP-owned entities abroad with their homeland Pakistan.
- During the outgoing fiscal year, Government rolled-over USD 3bn deposits each from China and Saudi Arabia which were utilized towards budgetary support. Moreover, the government utilized Saudi oil facility deferring USD 900mn.

Fiscal Spending (% of GDP)



Source: Pakistan Economic Survey



Key Developments (Cont'd)

Foreign Remittance

- The government has incentivized Exchange Companies (EC) to enhance the inflow of worker's remittances to Pakistan, by allowing ECs to act as sub-agents of Authorized Dealers/banks for disbursement of home remittances and encouraging ECs to explore new agency arrangements with foreign entities.

Energy

- During FY23, the government approved the Framework Guidelines for Fast Track Solar Initiatives 2022 to promote and develop cost-effective local renewable energy sources. Furthermore, sales tax exemptions have been granted for the import and local supply of solar panels.

Industry

- The government has approved "Greenfield Industrial Policy" aimed at promoting the adoption of new and efficient technologies in the industry. As part of this policy, custom duties are waived on the import of plant and machinery, reducing costs for industrial development.

Agriculture

- To promote agricultural financing, SBP introduced PM's Kissan Package 2022 to facilitate farmers and revive economic activities in flood affected areas.

Ease of doing business

- MoU for integration of business registration was signed between Special Technology Zones Authority (STZA), Pakistan Engineering Council (PEC) and Pakistan Software Export Board (PSEB) in December 2022. The one-window registration of businesses aims to reduce the time spent and costs incurred on establishing new businesses.
- SMEDA has launched One Window program to link SMEs and startups with regulatory authorities for compliance with regulations. The program aims to simplify the process of starting and running a business by consolidating federal and provincial government procedures.



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