



ECONOMIC WING  
PLANNING & DEVELOPMENT BOARD  
GOVERNMENT OF THE PUNJAB



# ANNUAL MACROECONOMIC REPORT - FY 2023

## ECONOMIC UPDATES

MACROECONOMIC INDICATORS			%CHANGE	
REAL SECTOR & INFLATION	Annual	FY 2022 <sup>R</sup>	FY 2023 <sup>P</sup>	
	GDP Growth (%)	6.10	0.29	
		June 22	June 23	
	SPI (YoY)	193.89	261.60	34.92 ↑
		2021-22	2022-23	
	SPI (Average July-June % changes)	17.10	33.0	
		June 22	June 23	
	CPI Index (YoY)	175.71	227.37	29.40 ↑
		2021-22	2022-23	
	CPI (Average July-June % changes)	12.15	29.18	
		01.07.2022	30.06.2023	
	Brent Crude Oil Price (\$ Per Barrel)	111.63	75.41	-32.45 ↓
		30.06.2022 (closing)	27.06.2023 (closing)	
KSE-100 Index	41,540.83	41,452.69	-0.21 ↓	
	30.06.2022	27.06.2023		
MONETARY SECTOR	KIBOR Rate (% , 6 Month)	15.35	22.97	
		FY 2022 (Annual Avg)	FY 2023 (Annual Avg)	
	LIBOR Rate-overnight	0.26	3.82	
	LIBOR Rate (% , 6 Month)	0.82	4.80	
		30.06.2022 (180 day avg)	30.06.2023 (180 day avg)	
	SOFR (Secured Overnight Financing Rate)	0.39	4.78	
		FY 2022	FY 2023	
	Growth in M2 (percent)	7.83	8.94	
		30.06.2022	30.06.2023	
	Policy rate (percent)	13.75	22.00	

MACROECONOMIC INDICATORS			%CHANGE	
EXTERNAL SECTOR	Annual	FY 2022	FY 2023	
	Export of goods and services (US\$ bn)	39.595	35.210	-11.07 ↓
	Import of goods and services (US\$ bn)	84.485	60.013	-28.97 ↓
	Trade Balance (US\$ bn)	-44.890	-24.803	44.75 ↑
	Current Account Balance (US\$ bn)	-17.481	-2.557	85.37 ↑
	FDI (US\$ bn)	1.936	1.456	-24.8 ↓
	Remittances (US\$ bn)	31.279	27.024	-13.6 ↓
		30.06.2022	30.06.2023	
	Exchange Rate (USD to PKR)	206.6	290	40.37 ↑
		FY22 (Average)	FY23 (Average)	
	Real Effective Exchange Rate (Base 2010 =100)	97.61	92.25	-5.49 ↓
		June 2022	June 2023	
Real Effective Exchange Rate (Base 2010 =100)	94.86	87.75	-7.54 ↓	
RESERVES		30.06.2022	30.06.2023	
	Reserves with SBP (US\$ bn)	9.815	4.463	-54.53 ↓
	Reserves with other Banks (US\$ bn)	5.635	5.283	-6.25 ↓
	Total Reserves (US\$ bn)	15.450	9.746	-36.92 ↓
DEBT		Jul - Mar FY 2022	Jul - Mar FY 2023	
	Domestic Debt (Rs. Trillion)	29.516	36.667	24.23 ↑
	External Debt (Rs. Trillion)	21.590	32.526	50.65 ↑
	Total Debt (Rs. Trillion)	51.106	69.193	35.39 ↑

P = Provisional | R = Revised

Sources: <https://oilprice.com/>, <https://www.sbp.org.pk>,

<https://www.global-rates.com/interest-rates/libor/libor.aspx>, [www.pbs.gov.pk](http://www.pbs.gov.pk),

[www.psx.com.pk](http://www.psx.com.pk), <http://www.forex.com.pk>, <https://www.newyorkfed.org/markets/reference-rates/sofr>

## ANALYSIS

### INTERNATIONAL PERFORMANCE AND OUTLOOK

The global economy is characterized by weak recovery amid monetary tightening measures and heightened uncertainties. IMF expects global economic growth to fall from 3.4 percent in 2022 to 2.8 percent in 2023 and rebound slightly to 3.0 percent in 2024. World Bank in its Global Economic Prospects Report June 2023 has projected that global growth will decline to 2.1% in 2023 from a growth rate of 3.1% last year and recover slightly to 2.4% in 2024.

Headline inflation rates have started to ease reflecting monetary tightening measures, stabilization of commodity markets and improvement in supply-chain conditions. IMF expects global headline inflation to fall from 8.7 percent in 2022 to 7.0 percent in 2023.

The FAO Food Price Index averaged 122.3 points in June 2023, down 1.7 points (1.4 percent) from May 2023. This reflects a continuing downward trend and records a decline of 37.4 points (23.4 percent) from the peak reached in March 2022. The month-on-month decline in June reflects decline in the indices for sugar, vegetable oil, cereal and dairy products while the meat price index remained virtually unchanged.

### GDP GROWTH PERFORMANCE AND OUTLOOK FOR PAKISTAN

During FY2023 Pakistan's economy was severely impacted by international supply shocks due to the global economic downturn caused by the Russia-Ukraine war as well as damages incurred on account of 2022 monsoon floods. Moreover, several factors such as policy tightening, import limitations, high borrowing costs, high energy costs and political uncertainty also constrained economic growth. The GDP growth rate for the outgoing fiscal year stands at 0.29%,

marking a significant decline from the growth rate of 6.10% achieved in 2021-22.

In the agricultural sector, growth has been estimated at 1.55%. However, there has been a decline in the growth of important crops, with a negative growth rate of -3.20% due to decreased production of cotton by 41% and rice by 21.5%. Nevertheless, some crops have shown positive growth, including wheat with 5.4%, sugarcane with 2.8%, and maize with 6.9%.

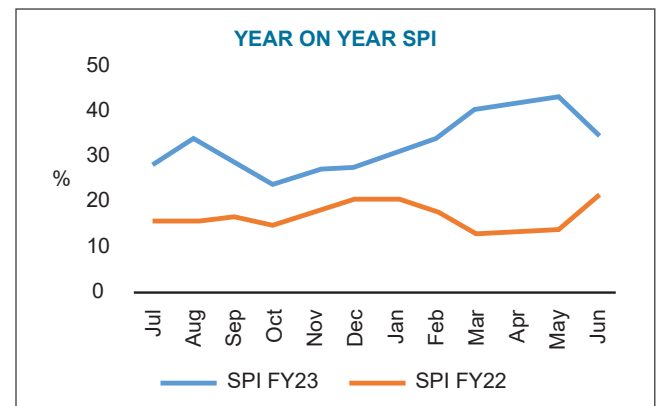
The growth rate in the industrial sector is -2.94%, indicating a contraction. Particularly, large scale manufacturing has experienced a negative growth rate of 7.98%.

The services sector, on the other hand, has shown a slow growth rate of 0.86%. Particularly, Wholesale and Retail trade, which constitutes 30.7 percent of services has declined by 4.46%.

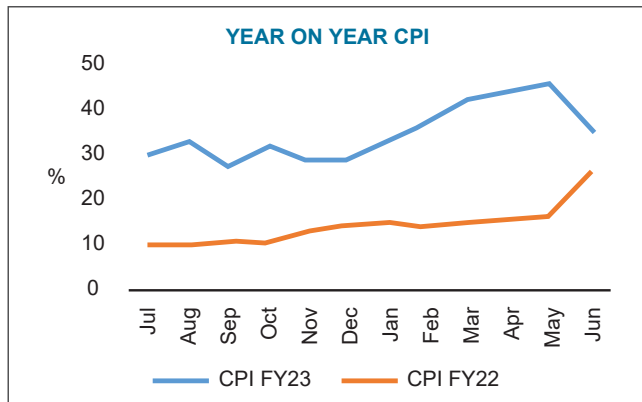
The National Economic Council has approved a GDP growth target of 3.5% for the fiscal year 2023-24 budget. World Bank has projected Pakistan's GDP growth for FY2024 at 2%.

### INFLATION PERFORMANCE AND OUTLOOK

Average SPI inflation during July-June FY23 was 33% compared to 17.1% in FY22.



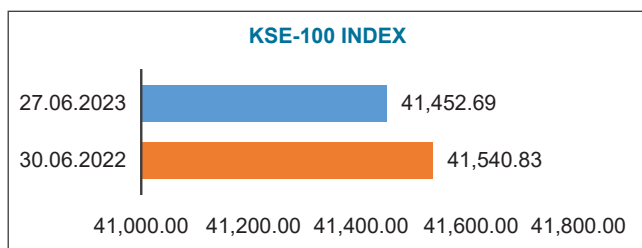
YoY CPI inflation for June 2023 clocked in at 29.40%, which marks a decline from the inflation rate of 38% recorded in May 2023. The recent decline in inflation rate may be attributed to dip in international commodity prices and improvement in exchange rate following Pakistan’s staff level agreement with the IMF. Average CPI inflation during FY23 was 29.18% compared to 12.15% in FY22. A number of external and domestic factors including global impact of the Russia-Ukraine war, supply chain disruptions caused by catastrophic monsoon floods, depreciation of the rupee, increase in sales tax and higher energy prices contributed to elevated inflation during FY23.



The inflation rate in the medium-term i.e. FY2024 and FY2025 is expected to be normalized due to high base effect as well as improvement in global conditions. SBP hiked the policy rate to 22 percent after a meeting of the bank’s Monetary Policy Committee on 26.06.2023 to rein in inflation.

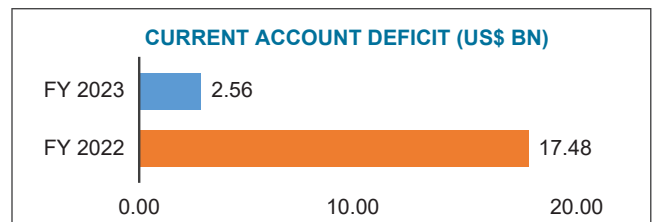
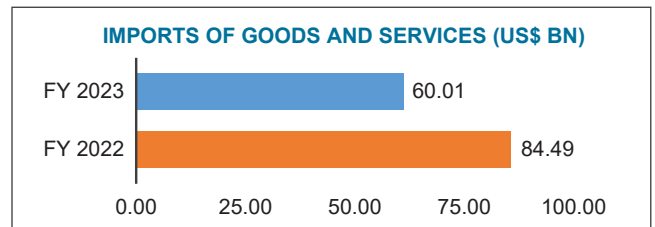
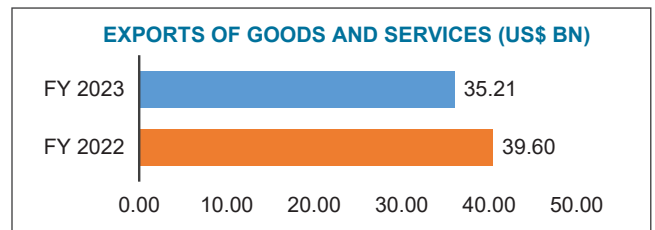
**PERFORMANCE OF KSE 100 INDEX**

The KSE-100 index recorded at 41,452.69 on 27.06.2023 as compared to 41,540.83 on 30.06.2022, a decline of 0.21%.



**EXTERNAL SECTOR**

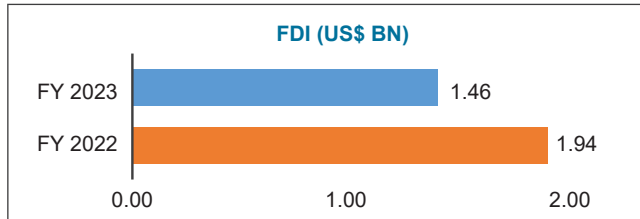
The current account deficit narrowed to \$2.56 billion during FY23 from a deficit of \$17.48 billion in FY22, shrinking by 85.4%. Exports of goods and services recorded at \$35.21 billion compared to \$39.60 billion in the previous year, reflecting a decline of 11.07%. Imports of goods and services recorded at \$60.01 billion compared to \$84.5 billion in the previous year, reflecting a decline of 29%. Overall trade balance improved by 44.75% in FY23 as compared to FY22. The improvement in current account deficit can be attributed mainly to decline in import bill on account of measures taken by the Government to limit imports. However, curtailment of imports can have a negative impact on growth as many industries rely on imported raw materials to continue operations.



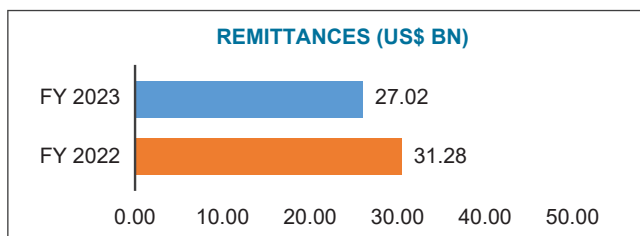
Foreign Direct Investment (FDI) for FY23 recorded at \$1.456 billion compared to \$1.936 billion a year earlier, reflecting a decline of 24.8%. This decline reflects the reluctance of foreign investors to invest in Pakistan due to persistent political instability and economic uncertainty. The largest



investor in Pakistan was China, with \$432 million in 2022-23 but was less than \$596 million in the previous year. Japan was the second biggest investor with \$183 million compared to a net outflow of \$ 10.8 million last year.



Remittances in FY23 recorded at \$27.02 billion compared to \$31.28 billion in the previous year, reflecting a decline of 13.6%. A significant decline in remittance inflows came from Gulf countries. This was because remittances were diverted to informal channels as a gap in rates between interbank and informal markets emerged due to a cap on the exchange rate. Remittance inflows are expected to improve in the current fiscal year as the gap between interbank and informal market rates has reduced and the exchange rate cap has been removed.



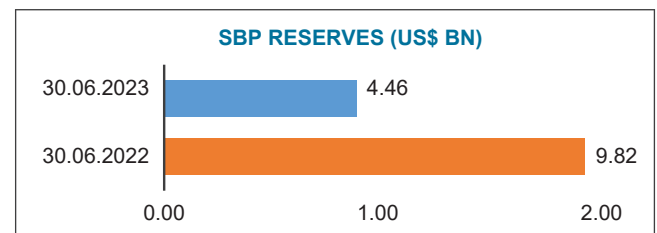
## EXCHANGE RATE

The exchange rate recorded at 290 rupees per dollar on 30<sup>th</sup> June, 2023 as compared to 206.6 rupees per dollar on 30<sup>th</sup> June, 2022. Political and economic uncertainty prevailing in the country exerted pressure on the stability and performance of the currency during FY23. The real effective exchange rate recorded at 87.75 in June 2023 as compared to a value of 94.86 in June 2022, reflecting a decline of 7.54%. This value for real effective exchange rate indicates that Pakistan's currency is undervalued compared to its

major trading partners. A REER above 100 indicates a loss in trade competitiveness with exports becoming more expensive and imports getting cheaper, while a REER below 100 means the country's exports are competitive. Pakistan's current value of REER suggests that exports offer better returns.

## RESERVES WITH SBP

Foreign exchange reserves with SBP recorded at \$4.46 billion on 30<sup>th</sup> June, 2023 as compared to \$9.82 billion on 30<sup>th</sup> June, 2022, marking a decline of 54.5%. Total foreign exchange reserves recorded at \$9.75 billion on 30<sup>th</sup> June, 2023 as compared to \$15.45 billion on 30<sup>th</sup> June, 2022, marking a decline of 36.9%.



## TOTAL DEBT

The total debt for FY23 reached Rs. 69.2 trillion, marking a significant increase of 35.4% compared to FY22. The composition of this debt includes domestic debt amounting to Rs. 36.7 trillion and external debt amounting to Rs. 32.5 trillion. The rise in debt can be attributed to several factors, including the country's substantial financing requirements, the depreciation of its currency and the upward trend in interest rates.

## RECENT DEVELOPMENTS

IMF Executive Board has approved a nine-month \$3 billion standby arrangement for Pakistan. This program aims to support immediate efforts to stabilize the economy and guard against shocks while creating the space for social and development spending to help the people of Pakistan. Pakistan has

since received \$1.2 billion from IMF. SBP has also received inflow of \$2 billion from Kingdom of Saudi Arabia and \$1 billion from United Arab Emirates. SBP reserves stood at \$8.73 billion on 14<sup>th</sup> July, 2023. China has recently rolled over \$600 million loan to Pakistan.

## **FORECASTS**

IMF has forecasted Pakistan's real GDP growth at 2.5% in FY24 and average inflation for FY24 at 25.9%. Current account deficit is projected to equal 1.8% of GDP.



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