Chapter 1

# GROWTH AND INVESTMENT

During FY2023, the Pakistan's economy faced international supply shocks, coupled with domestic natural disaster shock (Flood-2022), these shocks aggravated the growth vulnerability which was already being witnessed due to demand driven policies of the last year. While making the budget for FY2023, the government projected improvement in economic activities in FY2023 based on good expectations and the performance of key indicators. However, economy lost momentum in the first quarter of the ongoing fiscal year due to the severe downturn in the global economy and domestic supply shock induced by flash floods that engulfed a large part of agriculture land and jeopardize fiscal consolidation efforts of the government already recovering from the COVID-19. The agriculture sector's forward and backward linkages influenced important commodity sectors. Flood damage, GDP loss, and rehabilitation expenditures are PKR 3.2 trillion (US$14.9 billion), 3.3 trillion (US$15.2 billion), and 3.5 trillion (US$16.3 billion), respectively. The difficult economic environment both at home economy and major trading partners has hampered the economic growth. Further, due to weak participation from the development partner and resource difficulties, GDP growth slowdown to 0.29 percent in FY2023.

In the international scenario, the prolonged Russia-Ukraine conflict adversely affected global growth and inflation more than expected. Thus, the increased international prices affect currencies, commodities, and production costs while there are three pass-through effects in the economy of Pakistan. First, it raised commodity prices, especially for food and energy, boosted CPI inflation, lowered income value, and lowered aggregate demand. Second, supply chains and remittances disrupted Pakistan's trade-dependent economy. Third, global uncertainty has lowered confidence of businesses and asset values. Tighter financial conditions worldwide, especially in major trading partners, accelerated capital outflows

Nonetheless, it is widely understood that high prices can undermine the benefits of economic growth and adversely impact societal well-being. Despite the difficult economic situation, the government prioritized a balance between price stability and sustainable, inclusive growth. The Ministry of National Food Security & Research and the Ministry of Industries & Production in Pakistan are working together to maintain strategic wheat, sugar, and pulses reserves. The State Bank of Pakistan (SBP) has increased the policy rate to 21 percent to maintain low and stable inflation. The government allocated funds for the relief packages, including a Prime Minister relief package, a Ramzan Relief Package, and relief for flood-affected areas, to ensure the provision of essential commodities at subsidized rates through Utility Stores Corporation (USC). The allocation for the BISP Welfare schemes has been increased. The government is also expanding the network of Sasta Bazaars and Utility Store outlets to ease the inflationary pressure on the common man.

The primary economic sector LSM, which represents domestic industrial production, witnessed 8.10 percent decline in July-March FY2023, due to high inflation, currency depreciation, rapid monetary policy tightening, and financial market volatility. Most LSM sub-sectors contracted. Contrary to LSM growth, the trade deficit in goods and services improved by 39.6 percent in July-April FY2023, due to a 28.4 percent drop in goods imports and a 39.6 percent drop in service imports, according to SBP data. Remittances fell 10.8 percent to US$20.5 billion. However, a major drop in remittances offsets the goods and services trade imbalance. The current account deficit improved. However, Financial Account underperformance depleted foreign reserves and put the exchange rate under significant pressure.

On the fiscal side, to mitigate the economic damage caused by the floods, and provide relief to the vulnerable, the government took swift and timely measures that raised the need for additional public spending. At the same time, revenue mobilization activities were also hampered due to a downturn in economic activity. The government's prudent and calibrated response resulted in better fiscal accounts during the first nine months of the current fiscal year. During July-March FY2023, the fiscal deficit reduced to 3.6 percent of GDP (Rs 3,078.7 billion), and the primary balance posted a surplus of Rs 503.8 billion against a deficit of Rs 447.2 billion during the period under review, reflecting a slowdown in the growth of non-markup expenditures.

Balancing macroeconomic factors for long-term, sustainable, and inclusive growth requires attention to both supply and demand management and sectoral reforms in the economy. To keep supply-side strategies in focus, the government aims to expand production capacity, improving public and private investments domestically, attracting FDI, and participation in global value chains. This strategy also focuses on the investment friendly environment where potential investors feel confident making long-term decisions. Once production capacity increases, there will be a rise in the production of goods for export and import substitution, which can enhance trade performance. The government also understand that the focus should remain on infrastructure investment rather than consumption, and engaging youth in entrepreneurship, which indispensable to achieve sustainable growth raising the Percapita income. As such, the economy will be able to enhance the domestic production that will replace imports and offer more supply to foreign markets. These improvements are vital to boost the country's potential output and employment rates. Government is very much committed to ensuring stability and confidence in the economy.

**Global Perspective**

In the latest World Economic Outlook April 2023, the IMF revised the global growth forecast downward due to the weak performance in advanced economies and the monetary tightening stance at global level to address the problem of inflation. Global growth is expected to decelerate to 2.8 percent in 2023 and 3.0 percent in 2024, observing a drastic slowdown from 3.4 percent growth in 2022. The downside risk to global growth includes high inflation, the Russia-Ukraine conflict, and setbacks in China's recovery from Covid-19, including the worsening situation in the real estate sector. Global inflation is expected to decline from 8.7 percent in 2022 to 7.0 percent in 2023 on account of lower commodity prices, it will decline slowly, and return to target is unlikely before 2025 in most economies.

The situation between Russia and Ukraine dampens international economic activity. The economy was impacted a year later because of this dispute. Pre-conflict predictions put global economic growth in 2022 at 5 percent. The conflict also affected energy prices which slashed GDP growth to 3.4 percent in 2022. Due to interruptions in gas transit between Ukraine and Russia, both energy prices and volatility have increased. Because of their extensive economic and migratory ties to Russia, several nations in Eastern Europe and Central Asia have been impacted by the sanctions imposed. Further, in China, intermittent pandemic lockdowns due to zero-Covid policies and the weakening property sector are contributing to a slowdown the investment, industrial production, and retail sales. This inevitably has impacted other economies due to China's larger role in trade and input supplies.

The global economy's gradual recovery from both the pandemic and the Russia-Ukraine conflict remains on track in 2023. China's reopened economy is rebounded. Supply chain disruptions are unwinding, while dislocations to energy and food markets caused by the war conflict are receding. Simultaneously, the massive and synchronized tightening of monetary policy by most central banks has started to bear its fruit, with inflation moving back towards targets. However, tightening of global financial conditions could have a dramatic impact on credit conditions and public finances, especially in emerging markets and developing economies. It would further precipitate large capital outflows, an increase in risk premia, a dollar appreciation, and lower investors' confidence, household spending and investment. However, the intensity of impact varies across countries, depending on trade and financial linkages, exposure to commodity price increases, and the strength of the existing inflationary pressure. Moreover, the risk posed by climate change continues to be a threat to future global economic growth.

**Global Economic Growth and Pakistan Economy**

Despite low participation in the global value chain, Pakistan's economy is influenced by economic growth in the major trading partners. The cyclical position of Pakistan's major trading partners, measured by the weighted average Composite Leading Indicators (CLI). The CLIs show slow growth in 2022 and 2023 in OECD and major economies, which is dragged down by high inflation, rising interest rates, and falling share prices, remain below trend and continue to anticipate growth losing momentum in the US, the UK, and Canada, as well as in the euro area as a whole, including Germany, France, and Italy. The CLI for China (industrial sector) shows stabilization driven by the production of motor vehicles and share prices.

The cyclical nature of Pakistan's manufacturing sector, which has a ripple effect on the overall economy, is closely linked to the foreign CLI. The fluctuations in the manufacturing sector have a multiplier effect on the other sectors of the economy. Pakistan's growth performance in FY2023 has been negatively affected by a decline in the manufacturing sector output.

The economy has been significantly impacted by global inflation and rising commodity prices that increased domestic inflation, and deteriorated trade balance with depleted international reserves. The currency depreciation has further fueled domestic inflation. These factors, including external imbalances, fiscal deficits, and elevated interest rates, yet pose a risk to Pakistan's economic growth prospects in FY2023 and FY2024.

The supply-side and demand-side shocks transmit its effects on the economy through sectoral backward and forward linkages with varying intensities across sectors to drive economic growth, explained in Box-I.

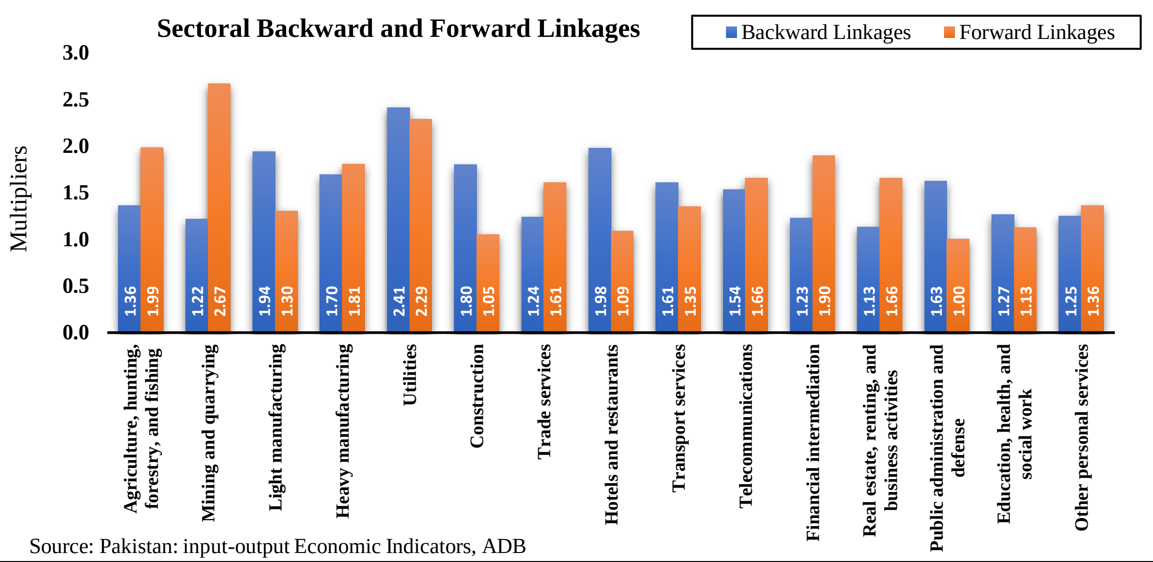
**Box - I: Sectoral Backward and Forward Linkages**

In the ongoing fiscal year, Pakistan's economy suffered a significant supply shock in the aftermath of the devastating floods of August 2022 in addition to massive disruptions in the external sector. Due to the forward and backward linkages of this key economic sector, the shock has considerably affected the output of the other sectors. The influence of the supply-side and demand-side shocks which flows through backward linkages and forward linkages varies across sectors and can play a vital role in driving economic growth.

*Backward linkages* refer to the intersectoral flows between a specific sector and the sectors that supply its required inputs. A high level of backward linkages indicates that a sector is heavily reliant on inputs from other sectors. This reliance can have various implications, such as vulnerability to supply chain disruptions. However, strong backward linkages can also foster innovation and efficiency, as sectors can leverage the expertise and resources from a diverse range of suppliers.

*Forward Linkages* represent the relationships between a particular sector and the sectors that purchase its output. When a sector has strong forward linkages, it signifies that many other sectors depend on its products or services. This dependency can translate into market power, also the sector may become a crucial player in the economy. Additionally, strong forward linkages can encourage investments and growth in the sector, as demand from other sectors fuels its expansion. However, it may also create vulnerabilities, as downturns in the purchasing sectors could impact the sector's overall performance.

The sectoral backward and forward linkage of the Pakistan Economy is provided below:



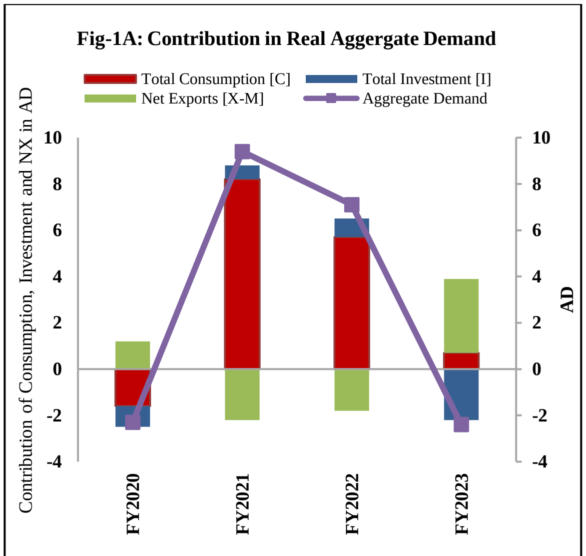

Source: Pakistan: input-output Economic Indicators, ADB

**For example,** the Agricultural sector is indispensable to the country's economic growth, food security, employment generation, and poverty alleviation. The agricultural sector experienced a loss in GDP due to flash floods in FY2023. With strong forward and backward linkages with the industrial and services sectors, it has transmitted its impact on GDP growth. Let's suppose, the agriculture sector's forward linkages suggest that the Rs 1 million loss in agriculture GDP would reduce GDP by Rs 1.9 million through intersectoral flows.

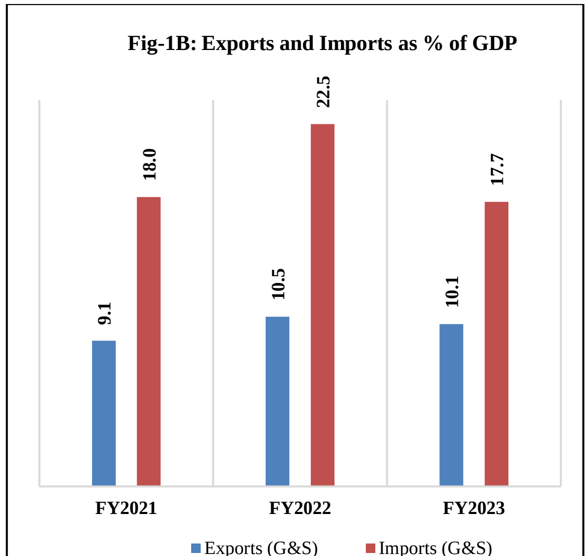
## Pakistan Economic Performance FY2023

In the post-COVID period, the economy started to stimulate the aggregate demand on account of the significant growth in workers' remittances in FY2022, this led to an increase in consumption as a percent of GDP. The large contribution of the total consumption to aggregate demand in FY2022 overheated the economy (Fig-1A). The net exports and CAD increased steeply, and the Financial Account was not enough to offset the current account deficit, which increased financing requirements and exerted severe pressure on the exchange rate (Fig-1B). Deteriorating external account position along with broad-based strengthening of USD against other currencies, the flood damages and increase in international prices hurt the economy.

The tightening of monetary and fiscal policy was inevitable to improve the balance of payment issue which has played a role in the contraction of economic activity and economic slowdown in FY2023.



Source: PBS

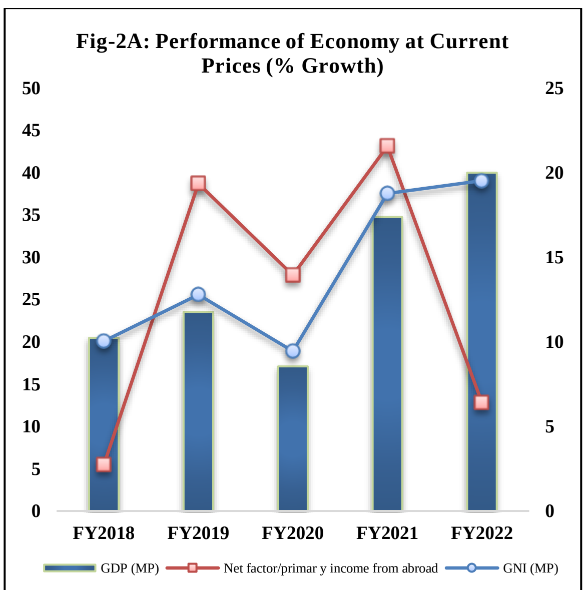


Source: PBS

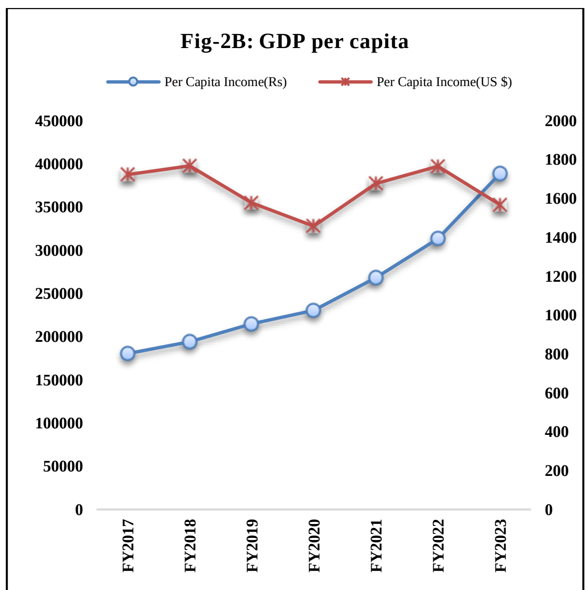
The net export improved and CAD recorded a deficit of US$ 3.4 billion during Jul-Mar FY2023, against a deficit of US$ 13.0 billion in the same period last year. However, aggregate demand is dampened which has slowdown economic growth.

## Aggregate Demand Analysis

For FY2023, GDP at current market prices stands at Rs 84,657.9 billion showing a growth of 27.1 percent over last year (Rs 66,623.6 billion).



Source: PBS



Source: PBS

Gross National Income (GNI) is also used for measuring and tracking a nation's wealth which is calculated by adding Net Primary Income (NPI) to GDP (MP). Although the movement of GNI and GDP (MP) follow a similar pattern. However, after FY2018, significant growth was observed in Net Primary Income (NPI) mainly due to substantial growth in workers' remittances on account of travel restrictions. However, during July-April FY2023, workers' remittances posted a negative growth of 11.0 percent due to a slowdown in the global economy vis-à-vis in the main remit corridors, while NPI in rupees term posted a growth of 26.5 percent compared to 19.1 percent growth recorded last year. Regarding per capita income in dollar terms, there was a rebound seen in FY2021 which showed a decline in FY2023 and standing at US$1568 which reflects the impact of rupee depreciation and decline in GDP growth.

**Consumption:** Household consumption consistently holds a large share in the GDP, it remained unaffected by inflationary pressures. The household consumption decision is crucial for long-term and short-term growth. Since FY2016, the increased share of household spending led to a surge in imports, as domestic production could not keep up with the rising consumer demand. This situation has amplified the role of international prices in domestic inflation.

Table – 1, presents the components of Aggregate Demand. The final consumption expenditure covers private consumption, Non-Profit Institutions Serving Households (NPISH), and General Government Consumption. With regard to the household private consumption expenditures, it was observed that even an increase in the interest rate and steep depreciation of the Pak rupee exchange rate has slightly altered the consumption pattern in FY2023. This private consumption expenditure may not alter because of the workers' remittances and cash transfers to the low segment of society through the relief packages. However, the share of public consumption is slightly decreased on account of contractionary public expenditures.

**Table 1: Composition of GDP (at Current Prices): Expenditure Approach**

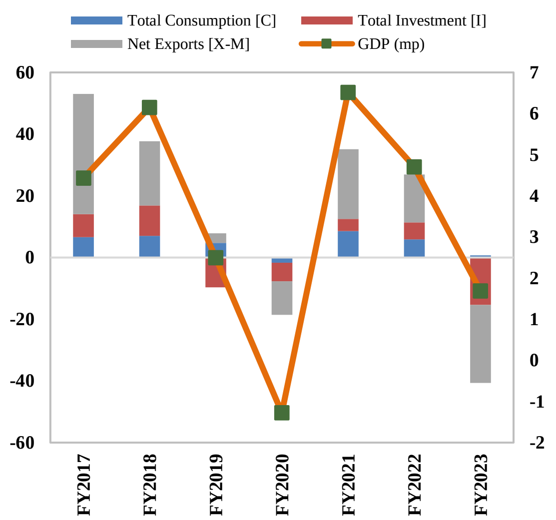
| | FY2021 | FY2022 | FY2023 | FY2021 | FY2022 | FY2023 | FY2021 | FY2022 | FY2023 |
|---|---|---|---|---|---|---|---|---|---|
| | As percent of GDP (MP) | | | Growth Rates (%) | | | Point Contribution | | |
| Household Consumption | 82.49 | 84.85 | 83.43 | 20.37 | 22.72 | 24.95 | 16.40 | 18.75 | 21.17 |
| NPISH Consumption | 0.97 | 0.89 | 0.80 | 11.03 | 9.77 | 13.66 | 0.11 | 0.09 | 0.12 |
| General Government Consumption | 10.93 | 10.50 | 9.73 | 8.89 | 14.60 | 17.84 | 1.05 | 1.60 | 1.87 |
| **Total Consumption [C]** | **94.39** | **96.24** | **93.96** | **18.82** | **21.65** | **24.07** | **17.56** | **20.44** | **23.16** |
| Gross Fixed Investment | 12.82 | 14.01 | 11.92 | 14.93 | 30.35 | 8.14 | 1.96 | 3.89 | 1.14 |
| Private | 9.85 | 10.54 | 8.81 | 12.62 | 27.66 | 6.18 | 1.30 | 2.73 | 0.65 |
| Public including General Public | 2.97 | 3.47 | 3.11 | 23.33 | 39.27 | 14.10 | 0.66 | 1.17 | 0.49 |
| Changes in Stock + Valuables | 1.71 | 1.71 | 1.71 | 17.45 | 19.32 | 27.07 | 0.30 | 0.33 | 0.46 |
| **Total Investment [I]** | **14.53** | **15.72** | **13.63** | **15.22** | **29.05** | **10.20** | **2.26** | **4.22** | **1.60** |
| Exports (Goods & Services) [X] | 9.05 | 10.55 | 10.08 | 14.33 | 39.02 | 21.41 | 1.33 | 3.53 | 2.26 |
| Imports (Goods & Services) (M] | 17.98 | 22.50 | 17.67 | 21.23 | 49.34 | -0.20 | 3.70 | 8.87 | -0.05 |
| **Net Exports [X-M]** | **-8.93** | **-11.96** | **-7.60** | **29.14** | **59.81** | **-19.27** | **-2.37** | **-5.34** | **2.30** |
| **Aggregate Demand [C+I+X]** | 117.98 | 122.50 | 117.67 | 18.01 | 23.89 | 22.06 | 21.15 | 28.19 | 27.02 |
| **Domestic Demand [C + I]** | **108.93** | **111.96** | **107.60** | **18.33** | **22.64** | **22.12** | **19.82** | **24.66** | **24.77** |
| **GDP (MP)** | **100** | **100** | **100** | **17.45** | **19.32** | **27.07** | **17.45** | **19.32** | **27.07** |

NPISH: Non-profit institutions serving households

Source: Pakistan Bureau of Statistics

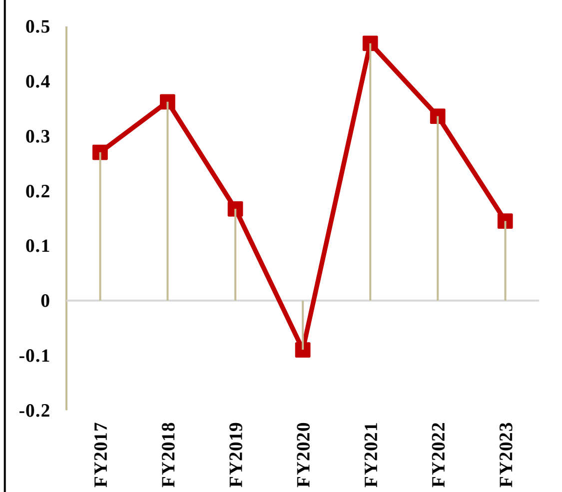
**Investment:** The national income accounts define net capital outflows that must satisfy the identity in which net exports must equal the difference between its national saving and investment. If the net capital outflow is negative, the economy is experiencing a capital inflow where investment exceeds saving, and the economy is borrowing from abroad in the form of foreign savings. In Pakistan, the investment to GDP ratio is stagnant at around 14 percent which lowest among the regional countries. The contribution of investment to real GDP is shown in (Fig – 3A).

**Fig-3A: Contribution in Real GDP**




Source: PBS

**Fig-3B: Inverse of Incremental Capital Output Ratio (ICOR)**



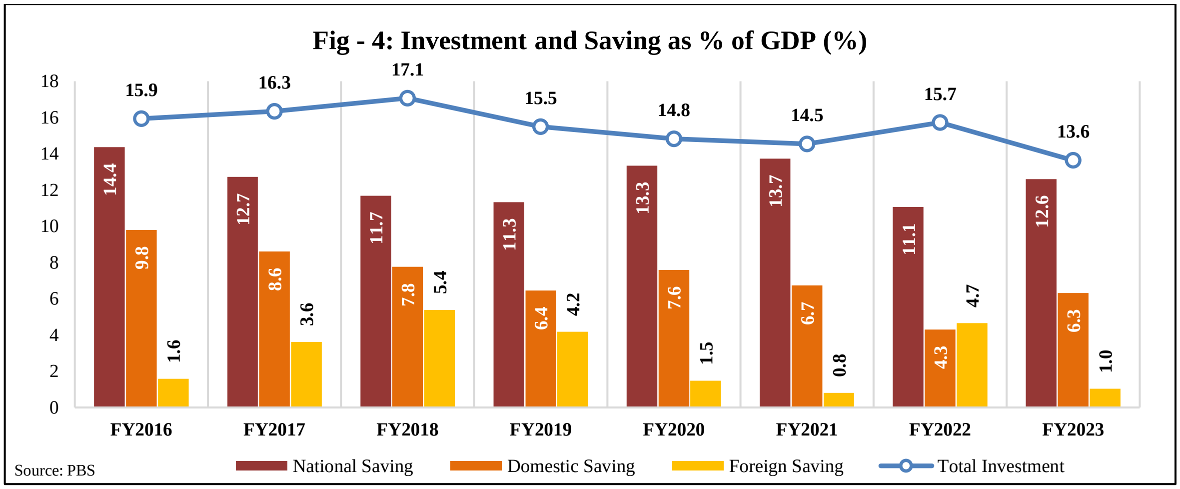

Source: PBS

The impact of economic policies on the trade balance can always be found by examining their impact on domestic saving and domestic investment. Policies that increase investment or decrease saving tend to cause a trade deficit, and policies that decrease investment or increase saving tend to cause a trade surplus.

The current tight monetary policy stance, tight credit conditions, and fiscal measures led to showing its results. Despite a decline in primary income, the trade balance improved in FY2023(Fig-3A). In this scenario, investment to GDP declined in FY2023 while National savings increased and consumption as a percent of GDP also slightly contracted from 96.2 to 94.0 percent.

The inverse of incremental capital output ratio (ICOR) represents the production efficiency or addition of investment to produce the additional unit of GDP. The trend of Inverse ICOR suggests that, despite achieving high GDP growth, investment is not showing as the driver of growth. Over the years, the marginal increase in investment is falling or at the low level which is required to produce the additional unit of GDP (Fig-3B).

The saving rate in Pakistan stuck around 11 percent while investment is around 14 percent. Foreign savings increase or decrease with an increase or decrease in GDP growth. For instance, in FY2022, high growth was due to high foreign savings (current account deficit) resulting in low domestic and national savings (Fig -4). However, on account of contractionary monetary and fiscal policy, in FY2023, the national saving increased from 11.1 percent to 12.6 while foreign savings reduced from 4.7 percent of GDP to 1.0 percent of GDP. Hence, the current savings and investment level is insufficient to boost sustainable growth.




The total investment contains three components: Gross Fixed Capital Formation (GFCF), changes in inventories, and net acquisition of valuables. The GFCF is defined as a change in fixed assets, used in the production process for more than one year. Whereas the changes in inventories are calculated as a change in the value of physical stocks of raw material, work-in-progress, and finished goods held by industries and producers of government services. Finally, Valuables are not used primarily for purposes of production or consumption but are held as stores of value over time to keep the production process smooth.

In FY2023, the Gross Fixed Capital Formation (GFCF) stood at Rs 10,093.5 billion against Rs 9,334 billion in FY2022, thus, posting a growth of 8.1 percent as compared to 30.3 percent growth in FY2022. During the same period, the GFCF in the private sector was estimated at 7,457.5 billion against Rs 7,023.7 billion in FY2022 showing a growth of 6.2 percent. The GFCF in Public Sector remained at Rs 472 billion during FY2023 compared to Rs 512 billion last year registering a negative growth of 7.9 percent. Likewise, the GFCF in the General Government sector during FY2023 stood at Rs 2,162 billion compared to Rs 1,798 billion during FY2022, posting a growth of 20.4 percent.

**Private Sector GFCF**: During FY2023, GFCF in Agriculture has the highest share of 29.3 percent in Private Sector GFCF which is almost consistent for the past few years and encouraging as private investment increases in the key economic sector. Within the agriculture sector, private GFCF livestock share is around 23 percent. Followed by Real Estate activities with 22 percent compared to 18 percent in FY2022. The share of Manufacturing in Private Sector GFCF declined from 17 percent in FY2022 to 11 percent in FY2023. However, within Manufacturing, the share of Large Scale stood at 8 percent, while it was 14 percent in FY2022. The share of Transport and Storage declined to 7 percent in FY2023 as compared to 11 percent in FY2022.

The private sector GFCF in agriculture, forestry, and fishing recorded Rs 2,225 billion in FY2023 compared to Rs 1,814 billion in FY2022, posting a growth of 22.6 percent on account of an increase in the value of stock in the livestock. The estimate of GFCF in the LSM is composed of in-production and under-construction units. Estimates of in-production units have been derived based on a census/survey of listed and non-listed companies. Estimates of GFCF in respect of under-construction manufacturing units are based on the financial assistance of industrial investment disbursed by the Developmental Financial Institutions (DFIs), special banks, scheduled banks, modarbas & leasing companies. Based on data from all sources the GFCF for private LSM is estimated at Rs 616.1 billion against Rs 1,000.1 billion during FY2022 showing a decline of 38.4 percent. Expenditures on GFCF in Electricity, Gas & Water Supply industry stand at Rs 126.6

billion during FY2023 against Rs 103.0 billion in FY2022 registering a growth of 22.9 percent because of higher expenditure reported by K-Electric and IPPs. The GFCF in the construction industry for the year FY2023 is estimated at Rs 45.8 billion against Rs 59.7 billion, which is 23.3 percent lower than the previous year's estimates due to a decrease in imported construction machinery.

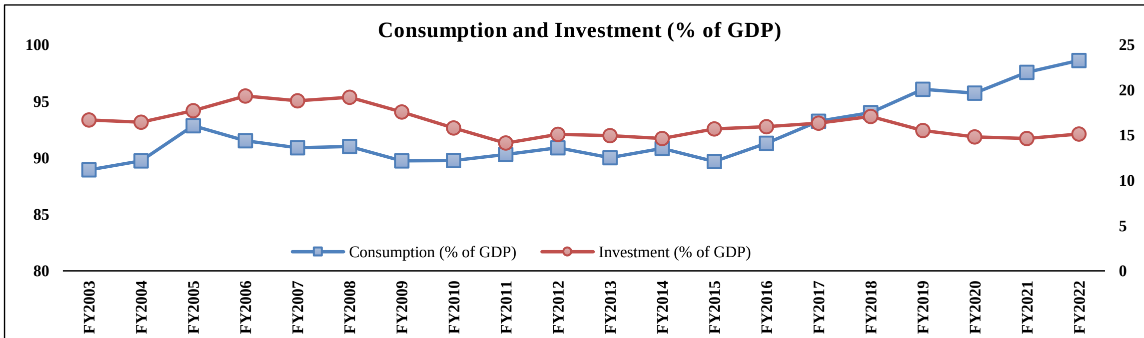
The GFCF in the wholesale & retail trade industry has declined by 18.7 percent during FY2023 and stands at Rs 382.2 billion. The estimates of private sector GFCF in the Transportation & Storage industry have declined by 29.6 percent in FY2023 to Rs 559.1 billion from Rs 794.7 billion in FY2023 due to lower imports as well as domestic sales of transportation equipment.

**Public Sector Enterprises GFCF:** During FY2023, except few, largely industries showed a decrease in GFCF compared to FY2022. During FY2023, GFCF in Public Sector is estimated at Rs 471.6 billion against Rs 512.1 billion during FY2022 recorded a decline of 7.9 percent. The major industries with negative growth in FY2023 over FY2022 are mining and quarrying with 29.9 percent due to OGDC, manufacturing with 52.3 percent because of the decline in the Karachi Shipyard & Engineering Works, and Pak Arab Refinery, electricity gas & water supply with 18.1 percent due to decline in expenditure for WAPDA, and communication with 51.7 percent due to the reduction in on machinery & equipment for the PTCL and Ufone. However, public sector enterprises engaged in construction registered a positive growth of 13.8 percent due to CDA and LDA and transportation & storage 99.5 percent due to the PQA, PNSC, and National Logistic Cell (NLC).

**General Government GFCF:** Estimates of GFCF in the General Government sector are usually based on budgetary data of federal, provincial, and district governments, which are subject to changes on the basis of actual and reconciled expenditure by various tiers of government in subsequent years. Based upon the latest available information, the overall GFCF in general government services for the year FY2023 has been estimated at Rs 2164.4 billion with an increase of 20.4 percent over the revised estimates of Rs 1798.1 billion during FY2023. The GFCF related expenditure by federal, provincial, and district governments have increased by 13.8 percent, 24.8 percent, and 13.0 percent respectively. Further, industry-wise disaggregation of GFCF by general government suggests an increase of 17.7 percent, 89.2 percent, and 5.9 percent in public administration and social security, education, and human health & social work respectively.

**Box-II: Investment vs. Consumption Led GDP Growth**

Investment as percent of GDP is stagnant over the years while consumption as percent of GDP is expanding in Pakistan. This situation predicts two consequences for future growth trajectory.



Source: PBS

First: the expansion of consumption as a percent of GDP will cause insufficient savings because low savings reduces the number of investible funds, low investments render growth spurts unsustainable, and poor growth generates fewer domestic savings. This ultimately increases the demand for foreign savings.

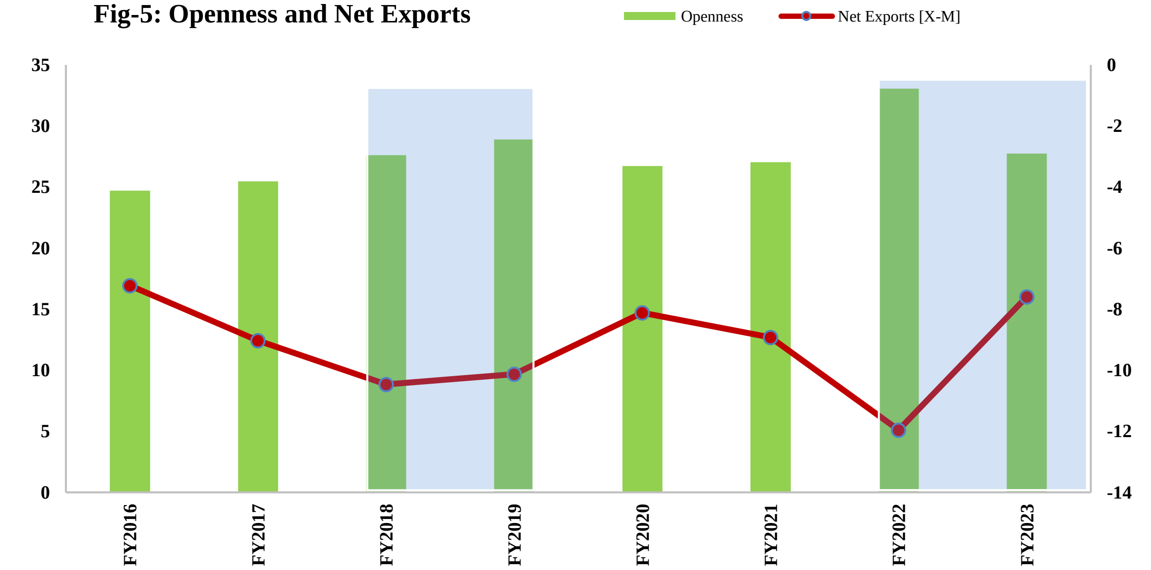
Second: the stagnant investment-GDP ratio suggests that it would not increase GDP based on domestic production. As a result, export earnings would not be increasing as a percent of GDP. Therefore, the current account balance will not attain sustainability without increasing savings and investment.

During the last decade, investment (percent of GDP) stuck at 14 to 15 percent while consumption (percent of GDP) increased from 86 percent to 99.6 percent, it implies that consumption, particularly, household consumption remained intact even during high inflation and high growth periods. The higher shares of consumption fueled imports since domestic production could not meet growing consumers' demand. Thus, on the one hand, it brings imported inflation, on the other hand, consumption-based growth is financed heavily by foreign savings.

The current measures to improve the growth in exports with a focus on increasing agriculture, IT, and industrial exports, increasing exports competitiveness, improving agricultural productivity, and improving the ease of doing business to attract both domestic and foreign investors would decrease the investment-saving gap and reduce the demand for foreign saving to resolve the trade balance issues.

**Net Exports:** In the aggregate demand, the role of net capital outflow in the form of Net exports is crucial due to the consistent gap in investment and saving. The net exports stand remained negative in FY2023, mainly due to the massive decline in imports on account of international economic slowdown and domestic demand. According to National Accounts data, Exports of Goods and Services posted a growth of 21.1 percent, while Imports of Goods and Services posted a negative growth of 0.2 percent in FY2023. Generally, trade openness is frequently used to measure the importance of international transactions relative to domestic transactions. It is defined as the ratio of exports plus imports over GDP. Pakistan's openness to trade improved little after 2005 but declined after 2017. Trade openness is more closely linked to the situation of financing and trade balance.

**Fig-5: Openness and Net Exports**




Source: PBS

Over the years, there is a significant increase in imports which decreased the share of Net exports in GDP (Fig-5), it indicates a strong increase in consumption, in both government and private households that has aggravated the recent BOP crises. Moreover, the fall in the value of net export puts a severe limit on demand-driven growth.

**Sectoral Growth Analysis – Production Side**

The provisional growth rate of GDP for the year FY2023 is estimated at 0.29 percent. The growth of the agricultural, industrial, and services sectors has been estimated at 1.55 percent, -2.94 percent, and 0.86 percent respectively.

**Box-III- Revised GDP for 2021-22**

- The provisional GDP estimates for 2021-22 have been updated on the basis of the latest available data.
- The revised GDP growth rate for 2021-22 stands at 6.10 percent, higher than the provisional estimate of 5.97 percent.
- Agriculture sector's contribution to GDP has slightly declined from 4.40 percent to 4.27 percent. This was despite an improvement in the crops sub-sector, from 6.58 percent to 8.19 percent, due to a decrease in livestock (from 3.26 percent to 2.25 percent) and forestry (from 6.13 percent to 4.07 percent).
- The industrial sector's contribution has slightly declined from 7.19 percent to 6.83 percent, largely due to a decrease in electricity, gas, and water supply (from 7.86 percent to 3.14 percent). Growth in LSM, however, improved from 10.48 percent to 11.90 percent.
- The services sector saw an improvement from 6.19 percent to 6.59 percent. This was due to growth in the Wholesale and retail trade (from 10.04 percent to 10.32 percent), Information & Communication (from 11.90 percent to 16.32 percent), Finance & Insurance (from 4.93 percent to 7.18 percent), Public administration and social security (from -1.23 percent to 1.81 percent), Other private services (from 3.76 percent to 4.77 percent).

Sectoral point contribution is given in Table – 2.

**Table 2: Sectoral Point Contribution at Constant Prices 2015-16**

| | 2020-21 | 2021-22 | FY2023 | | 2020-21 | 2021-22 | FY2023 | | 2020-21 | 2021-22 | FY2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **As percent of GDP** | | | | **Growth Rates (%)** | | | | **Point Contribution** | | |
| A. Agriculture | 23.03 | 22.63 | 22.91 | | *3.52* | *4.27* | *1.55* | | 0.83 | 0.98 | 0.35 |
| B. Industry | 18.96 | 19.09 | 18.47 | | 8.20 | 6.83 | (2.94) | | 1.52 | 1.29 | (0.56) |
| Commodity Producing Sector (A+B) | 41.99 | 41.72 | 41.39 | | 2.39 | 1.90 | (5.53) | | 2.35 | 2.28 | (0.21) |
| C. Services Sector | 58.01 | 58.28 | 58.61 | | 5.91 | 6.59 | 0.86 | | 3.42 | 3.82 | 0.50 |
| **GDP (GVA)** | 100.00 | 100.00 | 100.00 | | 5.77 | 6.10 | 0.29 | | 5.77 | 6.10 | 0.29 |

Note: Figures in parenthesis indicate negative growth
Source: Pakistan Bureau of Statistics

**Agricultural Sector:** The growth of the agriculture sector has been estimated at 1.55 percent in FY2023. This growth was majorly driven by some main crops such as wheat, sugarcane, and livestock. Overall, the growth of the important crop is -3.20 percent due to the decrease in the production of Cotton and Rice. In FY2023, the crops of Cotton witnessed a decline of 41 percent from 8.33 to 4.91 million bales, and Rice production also reduced by 21.5 percent from 9.32 to 7.32 million tons. The flood has engulfed a large part of agriculture land that has affected the production of these major crops.

However, positive growth of 5.4 percent has been observed in Wheat. Wheat production increased from 26.208 to 27.634 million tons in FY2023. Similarly, Sugarcane increased by 2.8 percent from 88.65 to 91.11 million tons, and Maize increased from 9.52 to 10.183 million tons. Other crops have posted a modest growth of 0.23 percent due to a slight increase in the production of pulses, vegetables, fodder, oil seeds, and fruits. In the aftermath of the flood, the Kissan Package which provided cheap agri loans, subsidy for interest-free loans, subsidy for fertilizer, funds for agro-SME, and free seeds including several other agri-linked reliefs have helped in the revival of agriculture growth.

The livestock sector which constitutes almost 62 percent share in agriculture, posted a growth of 3.78 percent. The other components of agriculture, forestry, and fishing posted growth of 3.93 and 1.44 percent, respectively.

**Industrial Sector:** The industrial sector posted a negative growth of 2.94 percent in FY2023. Industrial sector performance is more dependent on the Manufacturing sector which has a share of 65.0 percent in the industry. LSM is reflected by Quantum Index Numbers (QIM) data. Large Scale Manufacturing driven by QIM has posted a negative growth of 7.98 percent due to Food (-8.71 percent), Tobacco (-23.78 percent), Textile (-16.03 percent), Coke and Petroleum Products (-10.24 percent), Chemicals (-6.29 percent), Pharmaceuticals (-23.20 percent), Fertilizers (-9.54 percent), Non-metallic products which include cement (-10.75 percent), Iron & Steel Products (-4.02 percent), Electrical equipment (-11.15 percent), Automobiles (-46.01 percent) and other transport equipment (-38.91 percent). However, Electricity, gas and water industry show a growth of 6.03 percent mainly due to higher output reported by the sources. The value added in the construction industry, mainly driven by construction-related expenditures by industries, has registered a negative growth of 5.53 percent mainly due to conservative reporting of construction-related expenditure by private as well as public sector enterprises and unusual increase in relevant deflator i.e. WPI building material.

The Mining and Quarrying which has a 9.0 percent share in Industry, the growth in mining and quarrying is -4.41 percent due to a decline in the production of natural gas, crude oil, and exploration cost. This sector also observed a negative growth of 7 percent in FY2022. The GFCF in Mining and Quarrying posted a negative growth of 23.5 percent in FY2023, while it posted negative growth of -1.9 percent in FY2022. Thus, there may be a lag effect of GFCF in this sector.

It is worth mentioning that during FY2023, the other components of Manufacturing, Small Scale, and Slaughtering posted growth of 9.0 and 6.3 percent, respectively. The positive growth in Small Scale and Slaughtering is probably driven by the substitution effect of restricted imports. Overall, the Manufacturing sector posted a growth of -3.94 percent.

Finally, Electricity, Gas and Water Supply, the other sub-sector of Industry posted a growth of 6.0 percent. One reason is that there was a 28.0 percent growth in Public GFCF during FY2022 in this sector. The lag effect of GFCF in this sector has played a role in the positive growth.

**Services Sector:**

The services sector constitutes the largest share of 58 percent in GDP for the last several years. The growth in the services sector shows a slow growth of 0.86 percent but with mixed trends within the industries.

Sub-sectors of Services with respective shares in Services and GDP in Table – 3.

**Table 3: Components of Services FY2023**

| | Share in Services | Share in GDP | Growth Rate (%) |
|---|---|---|---|
| 1. Wholesale & Retail Trade | 30.70 | 18.00 | (4.46) |
| 2. Transport & Storage | 18.20 | 10.70 | 4.73 |
| 3. Accommodation and Food Services Activities (Hotels & Restaurants) | 2.50 | 1.40 | 4.11 |
| 4. Information and Communication | 5.20 | 3.00 | 6.93 |
| 5. Finance and Insurance Activities | 3.10 | 1.80 | (3.82) |
| 6. Real Estate Activities (OD) | 9.80 | 5.70 | 3.72 |
| 7. Public Administration and Social Security (General Government) | 7.50 | 4.40 | (7.76) |
| 8. Education | 5.20 | 3.00 | 10.44 |
| 9. Human Health and Social Work Activities | 2.90 | 1.70 | 8.49 |
| 10. Other Private Services | 15.00 | 8.80 | 5.00 |

Source: Pakistan Bureau of Statistics

The Wholesale and Retail Trade industry which constitutes 30.7 percent of services and 18 percent of the total GDP, has declined by -4.46 percent due to negative growth of 4.57 in the output of crops, a decline of 8.1 percent in LSM, and the negative growth in imports (-12.68 percent).

On the contrary, Transportation & Storage, the second largest services sector has increased by 4.73 percent whereas accommodation and food services activities have grown by 4.11 percent. Information and communication increased by 6.93 percent due to an increase in telecommunication.

The finance and insurance industry show an overall decrease of -3.82 percent mainly due to high CPI- based deflator. Real estate activities grew by 3.72 percent while public administration and social security (general government) activities posted a negative growth of 7.76 percent due to high deflator.

Education has witnessed a growth of 10.44 percent due to public sector expenditure. Human health and social work activities also increased by 8.49 percent due to the general government. The provisional growth in other private services is 5.0 percent.

**Outlook**

The government is committed to put the economy on a stable path by focusing on exports and investment. In the medium term, the growth projection is set at 5.0-5.5 percent considering the stability in prices and fiscal & external sector sustainability.

To achieve these targets, the government is focusing on the growth in exports with a focus on increasing agriculture, IT, and industrial exports, increasing competitiveness, improving agricultural productivity, improving the ease of doing business to attract both domestic and foreign investors, strengthening the resource mobilization, creating better job opportunities, encouraging entrepreneurship, strengthening the social safety net and human capital development. The overall aspiration is to build a structure of highly inclusive and sustainable growth that remains there in all its splendor.

The federal and provincial governments are working together to put the economy on a higher and more sustainable growth trajectory by focusing on different sectors of the economy, such as agriculture, industries, and services. The coordinated effort between the federal and provincial governments is essential in achieving the medium-term growth target and ensuring sustainable economic development for the country in the long run.

The global economy is showing signs of recovery from the challenges posed by both 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. Therefore, the industrial sector is projected to show improvement in FY2024.

In FY2024, the better crop outlook due to several measures of the agriculture sector especially the Kissan Package, political stability, and the stable exchange rate would help to achieve price stability. The inflation rate in the medium term i.e., FY2024 and FY2025 will be normalized due to the high base effect as well as improvement in the agriculture sector and favorable global factors.