UNITED NATIONS ESCAP
Economic and Social Commission for Asia and the Pacific

ECONOMIC AND SOCIAL SURVEY OF ASIA AND THE PACIFIC 2014

Regional Connectivity for Shared Prosperity

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PAKISTAN

Country briefing notes

Slower economic growth

- Economic growth slowed to 3.7% in the fiscal year 2013 from 3.8% a year earlier. Growing security concerns and energy shortages continued to hamper the business environment.

- Agricultural output growth decelerated in 2013 due to poor weather conditions, while industrial production picked up on capacity enhancement and investment in alternate energy, especially by large-scale manufacturing operations.

- On the demand side, an impetus to growth came from private and public consumption, whereas overall investment remained sluggish. The investment-to-GDP ratio fell slightly to 14.2% of GDP in 2013, which is lower than most other economies in South and South-West Asia.

- Growth is projected to pick up to 4.1% in the fiscal year 2014. There have been some positive changes in the economy in recent months, such as improved growth of large-scale manufacturing industries, expansion in private sector credit, accumulation of foreign exchange reserves, and local currency appreciation.

Inflation softened but still high

- Inflation decreased to 7.4% in 2013, although the impact of the depreciating currency was felt in the later part of the year. The currency has appreciated in recent months, which should help contain inflation in the current fiscal year.

Current account deficit shrank

- Goods exports rebounded in 2013 after a contraction in 2012. The pickup was mainly fuelled by revived import demand from developed economies. Export items are typically low value-added and concentrated in textiles and garments.

- The current account deficit decreased to 1% of GDP in 2013, from 2.1% of GDP in 2012. In addition to the export rebound, the government addressed a trade deficit by introducing measures to curb gold imports.

- Remittances inflows have been growing in recent years. These remittances have supported household spending but they also point to inadequate job opportunities at home.

- External account vulnerability is high. Foreign exchange reserves dropped in 2013. The level at year-end was equivalent to only 2 months of imports, although this has improved in recent months. Financial support from the IMF was secured after the Government made commitments to tackle the fiscal deficit.

- However, reducing the fiscal shortfall should not be at the cost of development and social expenditures, but rather through revenue-raising measures, reforms of state-owned enterprises and rationalizing current spending.

Accommodative macroeconomic policy stance

- The fiscal deficit edged up to 8.2% of GDP in 2013, from close to 7% in both 2011 and 2012. The shortfall has widened over the past years, partly due to contingent liabilities associated with public-private partnership projects, especially in the energy sector.

- Concerns regarding medium-term fiscal sustainability remain high. Limited fiscal space has not only reduced available funds for development expenditure, but a large proportion of current expenditure is financed through borrowing.

- After some easing in mid-2013 amid lower inflation and weaker growth momentum, the monetary policy changed course in the later months of the year as inflationary pressure escalated.

Medium-term development challenges

- Tackling severe energy shortages is key to promoting investment and growth. A recent World Bank study shows that almost 70% of firms surveyed in Pakistan cited electricity shortages as the most binding business obstacle. Such firms estimated that sale values would have been at least 10% higher without power outages.

- There is also a need to reduce the trade deficit by improving production efficiency and export competitiveness and by enhancing energy use efficiency to lower the reliance on imported oil.

- The budget deficit needs to be reduced markedly in the coming years. Taking into account Pakistan’s economic structure, ESCAP analysis suggests that tax revenue could be raised by nearly 20%. Among others, policies to enhance domestic resource mobilization include rationalizing the tax system to create a larger tax base, tackling tax evasion and tax fraud, and strengthening tax administration. The government is already addressing some of these issues.