

PAKISTAN

Key conditions and challenges

Recent developments

Table 1 **2023**

Population, million	240.5
GDP, current US\$ billion	338.2
GDP per capita, current US\$	1406.1
International poverty rate (\$2.15) ^a	4.9
Lower middle-income poverty rate (\$3.65) ^a	39.8
Upper middle-income poverty rate (\$6.85) ^a	84.5
Gini index ^a	29.6
School enrollment, primary (% gross) ^b	84.4
Life expectancy at birth, years ^b	66.4
Total GHG emissions (mtCO ₂ e)	520.3

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2018), 2017 PPPs.

b/ Most recent WDI value (2022).

Pakistan's economy stabilized in FY24, supported by strong agricultural growth, improved macroeconomic policies, new external financing, easing import controls, and political uncertainty. However, with policy tightening, elevated inflation, and so far limited structural reforms, growth will remain below potential, and labor income, employment, and human capital accumulation rates will decrease. Monetary poverty will remain high. Policy uncertainty, limited policy buffers, and the financial sector pose substantial risks to the outlook.

Pakistan faced an economic crisis at the beginning of FY24 with heightened risks of debt default. Political uncertainty, fiscal and external imbalances, and global monetary tightening led to pressures on domestic prices and foreign reserves. Measures to manage imports and capital outflows were introduced, disrupting local supply chains, economic activity and exacerbating inflationary pressures.

The situation has improved significantly since then, even if risks remain high. With the approval of the IMF Stand-By Arrangement in July 2023, exchange rate flexibility was restored, import controls were relaxed, and fiscal consolidation measures were introduced. Political uncertainty also lessened post-elections. Coupled with strong agricultural growth, the economy began recovering in FY24. However, overall real labor income declined, and with elevated inflation, poverty rose in FY24.

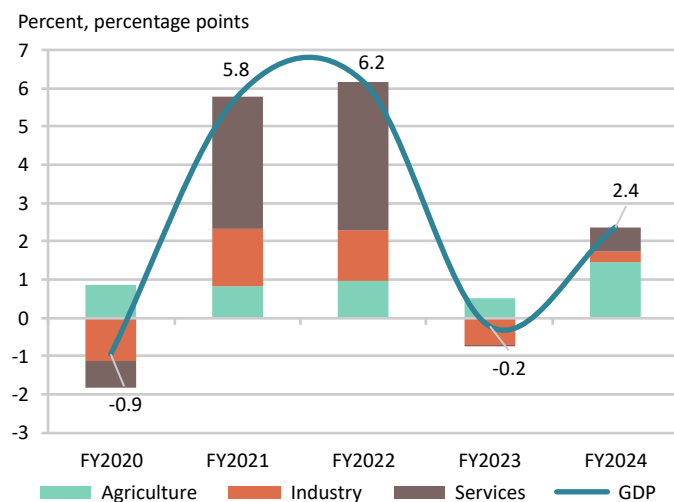
Downside risks remain high, with the recovery expected to continue but predicated on the new IMF-EFF program remaining on track and on additional external financing inflows. Continued fiscal restraint will dampen aggregate demand, income, employment, and poverty alleviation. Heavy banking sector exposure to the sovereign, domestic policy uncertainty, federal-provincial government political misalignments, and geopolitical instability pose significant risks.

After contracting by 0.2 percent y-o-y in FY23, real GDP growth at factor cost rose to 2.4 percent in FY24. On favorable weather conditions, agriculture growth reached a 19-year high of 6.3 percent (Figure 1), real agricultural labor income grew by 5 percent and the sector's share in GDP rose to 22.7 percent. As easing external pressures permitted the lifting of import and capital controls, the industry and services sectors grew by a modest 1.5 percent and 1.1 percent, respectively. Tepid growth in non-agricultural sectors led to falling real wages for construction, trade, and transportation, while employment and labor force participation rates and job quality indicators have not risen. These together with fiscal consolidation and high inflation led to a poverty rate of 40.5 percent in FY24 and an additional 2.6 million Pakistanis falling below the poverty line (Figure 2).

The current account deficit (CAD) narrowed to 0.2 percent of GDP in FY24 from 1.0 percent in FY23 due to a smaller trade deficit on lower domestic demand and global commodity prices. With fresh multilateral and bilateral inflows, the balance of payments swung from a deficit in FY23 to a surplus of 0.8 percent of GDP in FY24. International reserves increased to US\$10.6 billion at end-FY24, equivalent to 1.9 months of imports, while the Rupee appreciated modestly against the U.S. dollar.

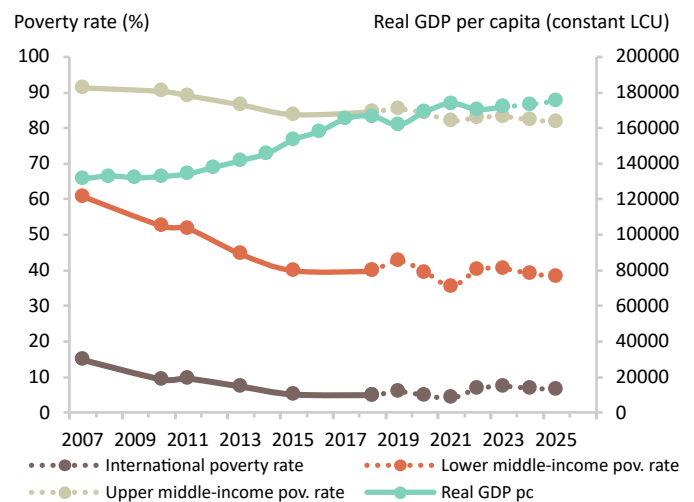
Headline inflation decelerated to an average of 23.4 percent in FY24 from 29.2 percent in FY23 owing to high base effects,

FIGURE 1 Pakistan / Real GDP growth and sectoral contributions to real GDP growth



Sources: Pakistan Bureau of Statistics and World Bank staff calculations.

FIGURE 2 Pakistan / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

currency appreciation, and slower food inflation, which lowered price pressures for the poor, vulnerable, and aspiring middle-class households who allocate 42 to 48 percent of their budgets to food. However, energy inflation rose to 65 percent, while core inflation including transportation remained elevated in rural areas. Higher indirect taxes have also driven further price increases for consumer goods and services. These have adversely affected the poor, vulnerable, and aspiring middle-class households, who allocate 23 to 28 percent of their budgets to energy, housing, and transportation services. Official remittances rose in nominal terms, but only 3.2 percent of the poorest households receive these directly, while currency appreciation and high domestic inflation reduced their real value. Depressed economic activity in the construction, trade, and manufacturing sectors has likely reduced internal remittance income. With slower inflation, the central bank reduced the policy rate by a cumulative 450 bps to 17.5 percent. The overall fiscal deficit narrowed by 0.9 percentage point to 6.8 percent of GDP in FY24 due to fiscal tightening.

With higher direct taxes and hikes in the petroleum development levy, total revenues rose more than non-interest expenditures, contributing to a primary surplus of 0.9 percent of GDP. However, interest spending rose, crowding out public investment. Social protection expenditures increased while development expenditures declined, weakening social service delivery and delaying reductions in alarmingly high stunting and learning poverty rates.

Outlook

The recovery is expected to continue, with real GDP growth reaching 2.8 percent in FY25, as the economy benefits from the availability of imported inputs, easing domestic supply chain disruptions and lower inflation. Business confidence will also improve with credit rating upgrades, reduced political uncertainty, and fiscal tightening measures, such as the devolvement of constitutionally mandated expenditures to the provinces and higher agricultural income taxes. However, output growth will remain below potential as tight macroeconomic

policy, elevated inflation, and policy uncertainty continue to weigh on activity. Limited growth in real wages and employment will keep the poverty rate near 40 percent through FY26. However, with continued progress on reforms and macroeconomic stability, poverty reduction is expected to gradually resume.

With high base effects and lower commodity prices, inflation will slow to 11.1 percent in FY25 but remain elevated due to higher domestic energy prices, expansionary open market operations, and new taxation measures. These price conditions are likely to exert more pressure on poor and vulnerable households by limiting real labor income growth to less than one percent in FY25. On the external front, the CAD is forecast to remain low at 0.6 percent of GDP in FY25 but widen as domestic demand recovers.

The fiscal deficit is projected to increase to 7.6 percent of GDP in FY25 due to higher interest payments but gradually decrease in fiscal tightening and falling interest payments. Fiscal consolidation will lead to continued high energy inflation and higher taxes on goods and services, which will worsen monetary poverty, welfare, and human development outcomes.

TABLE 2 Pakistan / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020/21	2021/22	2022/23	2023/24e	2024/25f	2025/26f
Real GDP growth, at constant market prices	6.5	4.8	0.0	2.8	2.8	3.2
Private consumption	9.4	7.0	2.6	2.5	2.7	3.3
Government consumption	1.8	-1.3	-3.9	-4.2	6.8	5.8
Gross fixed capital investment	3.7	4.6	-14.9	-2.4	2.6	2.8
Exports, goods and services	6.5	5.9	3.2	2.0	1.3	3.2
Imports, goods and services	14.5	11.0	1.8	-4.0	3.4	4.6
Real GDP growth, at constant factor prices	5.8	6.2	-0.2	2.4	2.8	3.2
Agriculture	3.5	4.2	2.3	6.3	1.9	2.8
Industry	8.2	7.0	-3.7	1.5	3.1	3.2
Services	5.9	6.7	0.0	1.1	3.0	3.3
Inflation (consumer price index)	8.9	12.2	29.2	23.4	11.1	9.0
Current account balance (% of GDP)	-0.8	-4.7	-1.0	-0.2	-0.6	-0.7
Net foreign direct investment inflow (% of GDP)	0.5	0.5	0.2	0.4	0.5	0.5
Fiscal balance, including grants (% of GDP)	-6.0	-7.8	-7.7	-6.8	-7.6	-7.3
Revenues (% of GDP)	12.4	12.1	11.5	12.5	13.9	12.9
Debt (% of GDP)	77.6	80.6	81.6	72.4	73.8	74.7
Primary balance, including grants (% of GDP)	-1.1	-3.1	-0.9	0.9	0.7	-0.1
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	5.0	4.2	6.8	7.4	6.9	6.6
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	39.5	35.5	40.2	40.5	39.1	38.2
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	84.1	81.9	83.0	83.2	82.2	81.7
GHG emissions growth (mtCO₂e)	4.6	4.1	2.4	4.1	4.4	4.4
Energy related GHG emissions (% of total)	44.3	44.5	44.0	44.4	45.0	45.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Calculations based on SAR-POV harmonization, using 2018-HIES. Actual data: 2018. Nowcast: 2019-2024. Forecasts are from 2024 to 2025.

b/ Poverty projections based on microsimulations using 2018-HIES and aggregate macroeconomic indicators (see Barriga-Cabanillas et al (2024), forthcoming).