

# Pakistan Development Update

## Recent Economic Developments, Outlook & Risks

Tuesday April 2, 2024

Islamabad

# Key messages

Pakistan's economy has been stabilizing and is showing early signs of a recovery

- Macroeconomic situation has improved

However, the current recovery is neither sustainable nor sufficient

- Economic vulnerabilities remain high
- No reduction in poverty over the medium term

Over the medium term, a robust economic recovery will require the steadfast implementation of a broad-based reforms program:

- Improve the quality of expenditures
- Broaden the tax base
- Improve business environment and competitiveness,
- Minimize distortive presence of government in the economy, and
- Address the challenges of energy sector

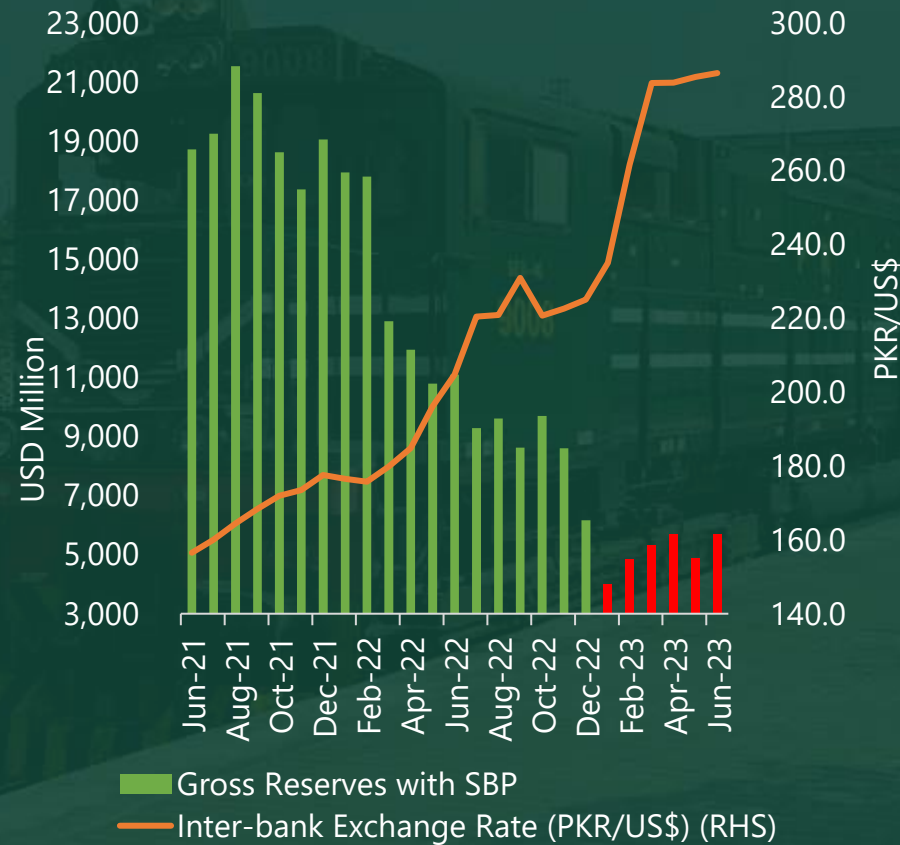
# Pakistan's economy was in a very difficult situation in FY23

Headline CPI Inflation (percent, y-o-y)



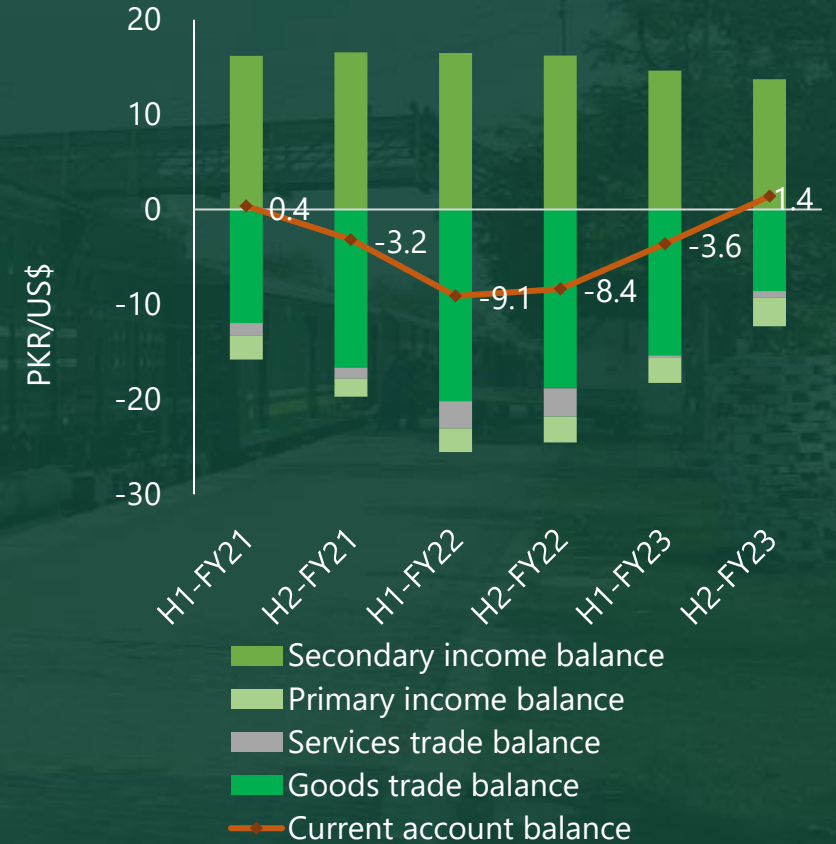
Source: Sources: Pakistan Bureau of Statistics

Foreign Exchange Reserves and PKR/US\$ Exchange Rate



Source: State Bank of Pakistan and WB staff calculations

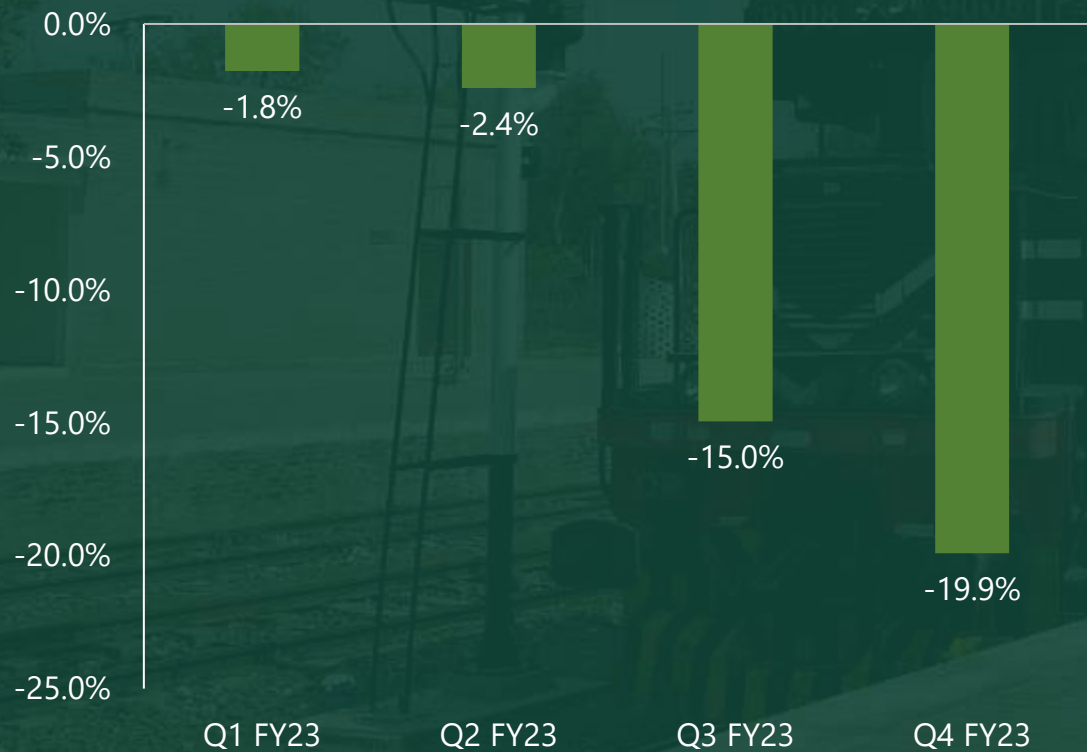
Half yearly Current Account Deficit (Billion PKR)



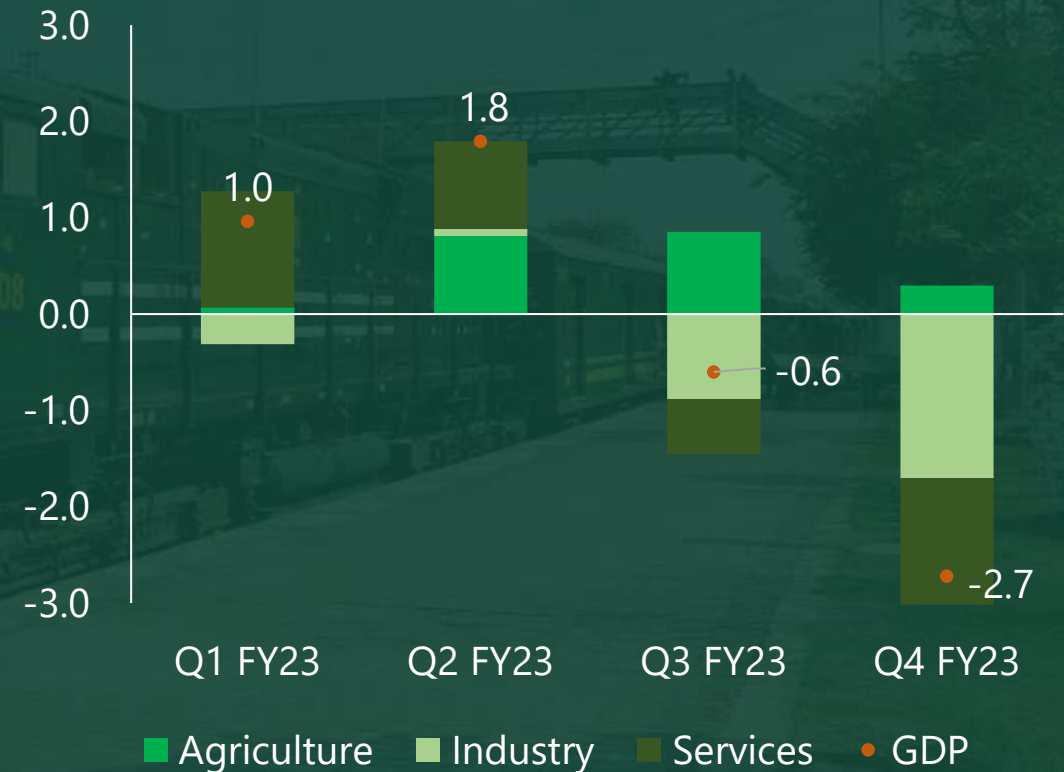
Source: Sources: Pakistan Bureau of Statistics

# Weak confidence and disrupted domestic supply chains dampened growth

Large-Scale Manufacturing Index  
(y-o-y, % change)



Quarterly contribution to GDP growth by sectors (percent, y-o-y)

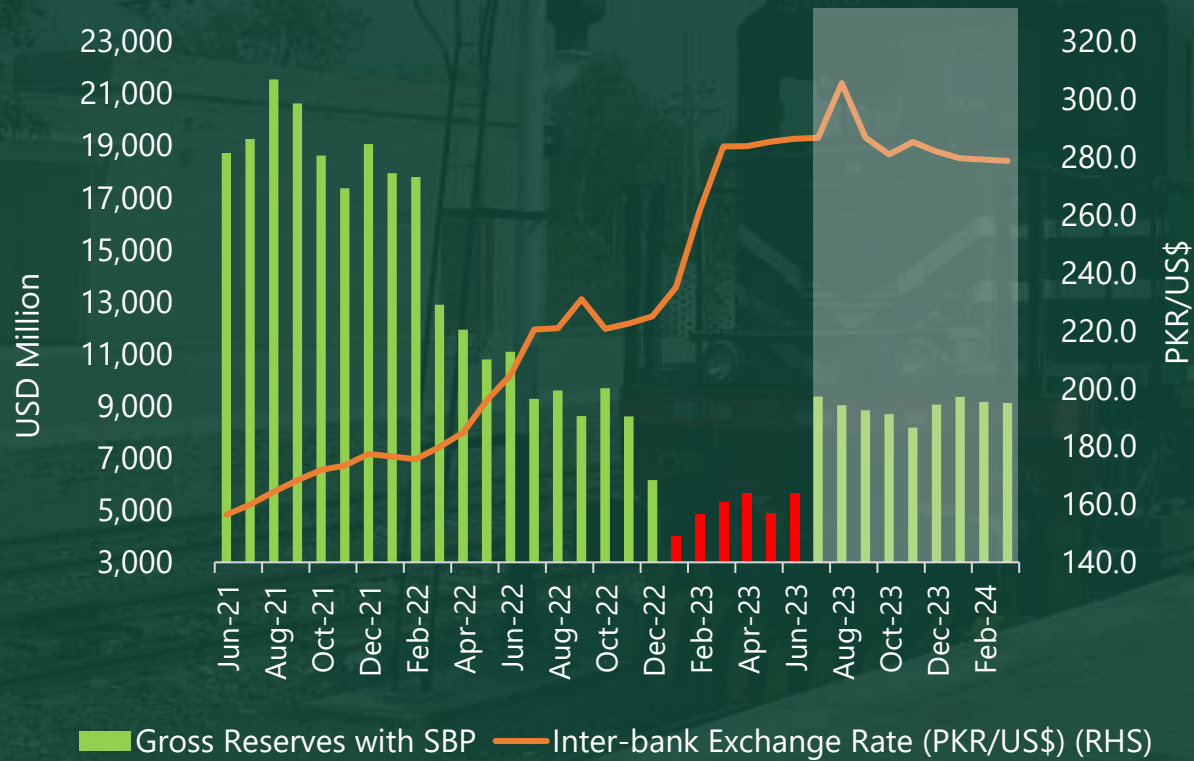


Source: Pakistan Bureau of Statistics and World Bank staff calculations

Source: Sources: Pakistan Bureau of Statistics

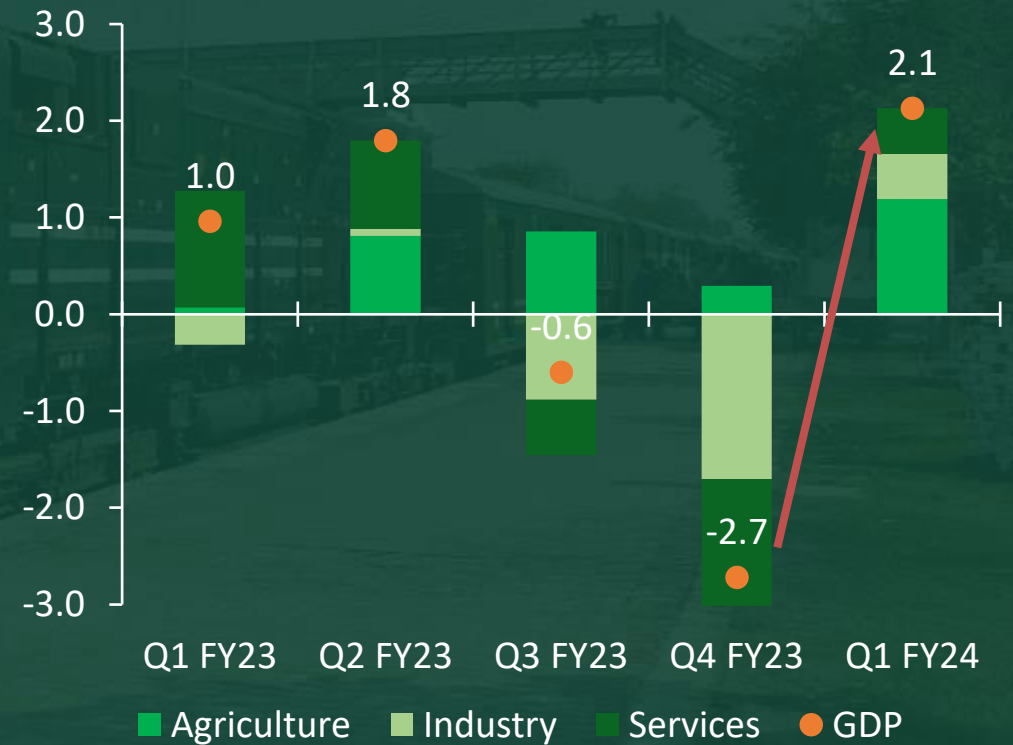
# Since July 2023, however, the economy has been stabilizing...

Foreign Exchange Reserves and PKR/US\$ Exchange Rate



Source: State Bank of Pakistan and WB staff calculations

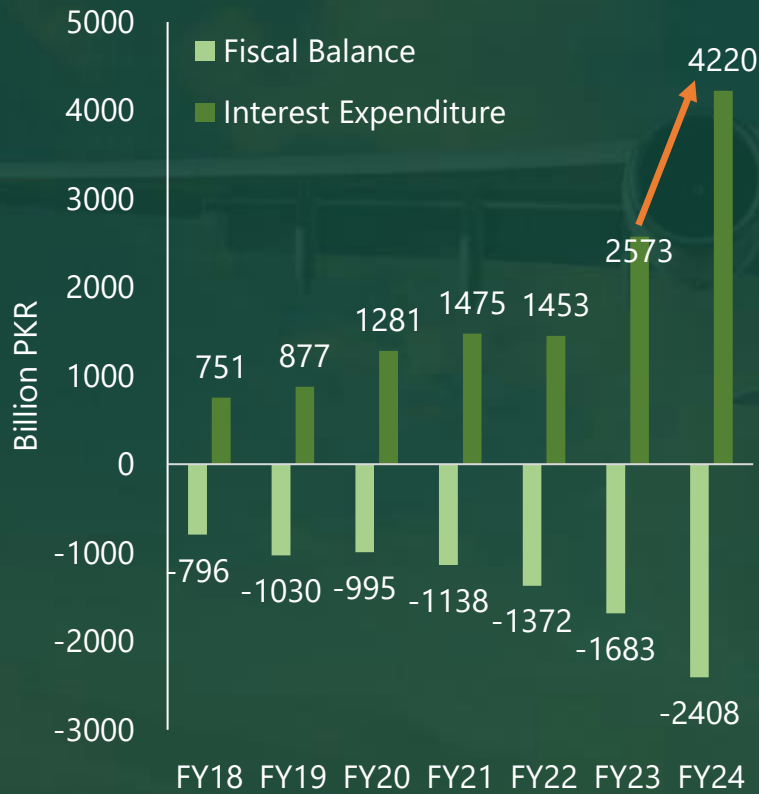
Quarterly contribution to GDP growth (y-o-y)



Source: Sources: Pakistan Bureau of Statistics

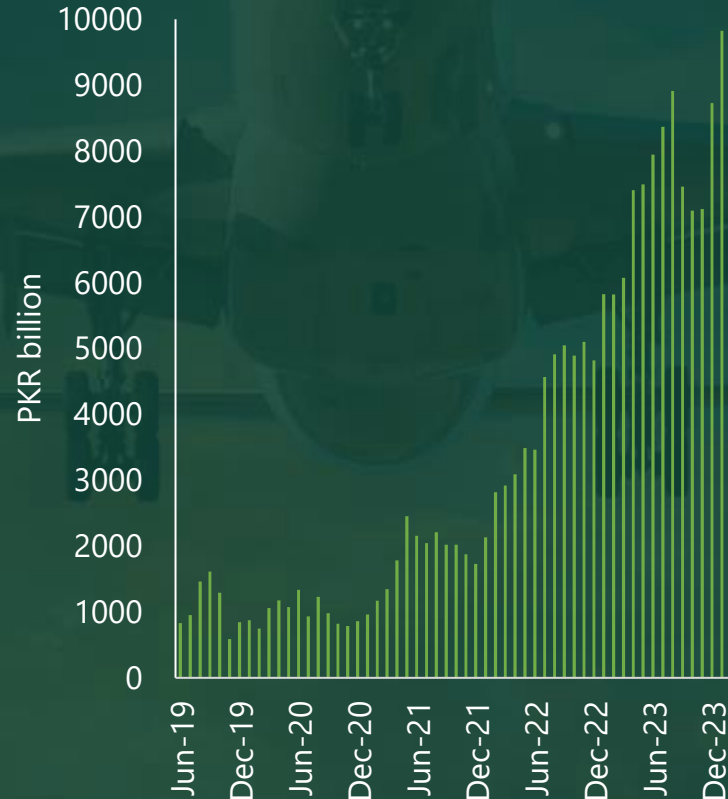
# Despite stabilization measures macroeconomic vulnerabilities remain high

Consolidated Fiscal Balance and Interest Payments in H1 (FY18-FY24)



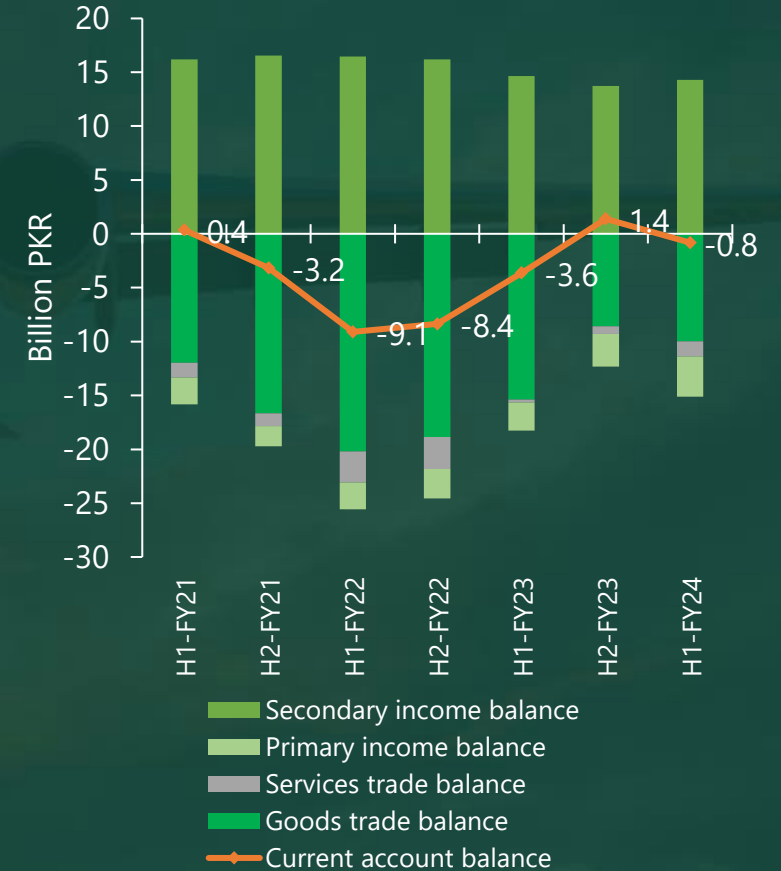
Sources: Ministry of Finance, World Bank staff Calculations

Outstanding open market operations (OMOs)



Sources: Sources: World Bank staff calculations based on SBP data

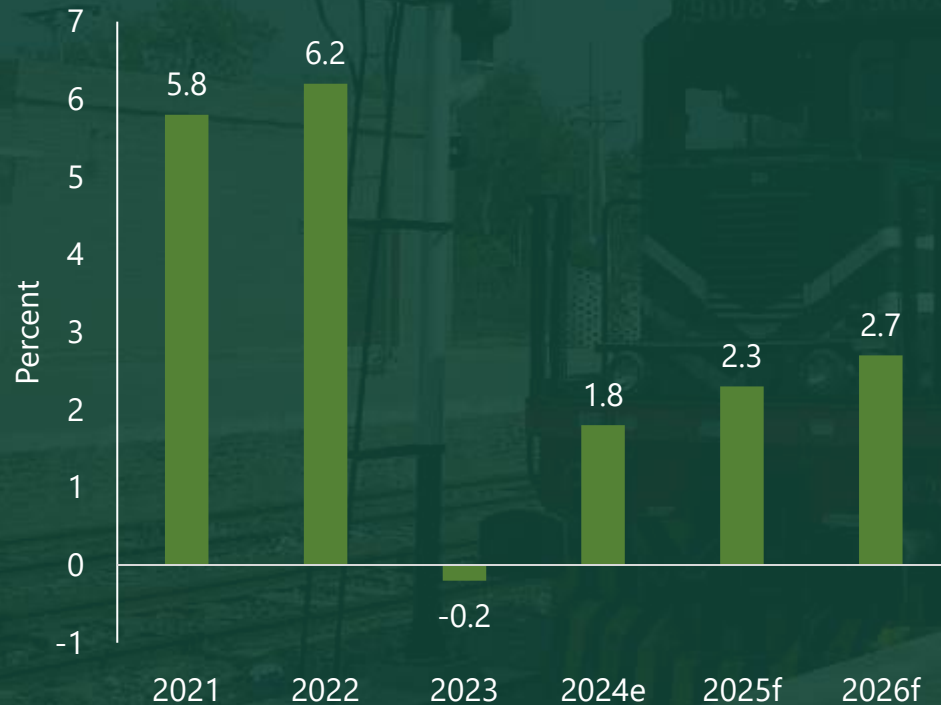
Half yearly Current Account Deficit



Source: Sources: Pakistan Bureau of Statistics

# The current recovery is not sufficient to reduce poverty

*Real GDP growth (at factor cost)*



Source: Pakistan Bureau of Statistics and World Bank staff projections

*Lower middle-income poverty rate (percent of population)*



Source: World Bank staff estimation

# Recommended economic reform priorities

Improve the quality of expenditures by:

- Reducing/eliminating subsidies
- Implementing the Treasury Single Account
- Reforming the pension system

Broaden the tax base by:

- Closing tax exemptions
- Taxing agriculture, retails and real estate
- Improving tax administration and simplifying the tax structure



# Continued...

## Improve business environment and competitiveness by:

- Strengthening private sector access to finance
- Simplifying the business environment
- Maintaining a flexible and market-determined exchange rate

## Minimize distortive presence of government in the economy by:

- Implementing the recommendations of the Triage (2021)
- Addressing SOEs governance and fiscal discipline issues

## Address the challenges of energy sector by:

- Continuing tariff reform
- Strengthening and expanding the transmission network
- Improving supply-side and demand-side efficiency

# Summary of the key messages

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Over the medium term, a robust economic recovery will require the steadfast implementation of a broad-based reforms program:

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# Macroeconomic outlook

## Pakistan Macroeconomic Outlook (FY24-26)

|   | FY21 | FY22 | FY23 | FY24e | FY25f | FY26f |
|---|------|------|------|-------|-------|-------|
| <b>Real GDP Growth, at constant factor prices</b>   | 5.8  | 6.2  | -0.2 | 1.8   | 2.3   | 2.7   |
| <b>Agriculture</b>                                  | 3.5  | 4.3  | 2.3  | 3.0   | 2.2   | 2.7   |
| <b>Industry</b>                                     | 8.2  | 6.9  | -3.8 | 1.8   | 2.2   | 2.4   |
| <b>Services</b>                                     | 5.9  | 6.7  | 0.1  | 1.2   | 2.4   | 2.9   |
| <b>Inflation (Consumer Price Index)</b>             | 8.9  | 12.1 | 29.2 | 26.0  | 15.0  | 11.5  |
| <b>Current Account Balance</b>                      | -0.8 | -4.7 | -0.7 | -0.7  | -0.6  | -0.6  |
| <b>Fiscal Balance (excluding grants, % of GDP)</b>  | -6.1 | -7.9 | -7.8 | -8.0  | -7.4  | -6.6  |
| <b>Debt (% of GDP)</b>                              | 77.6 | 80.7 | 81.4 | 73.1  | 72.3  | 72.5  |
| <b>Primary Balance (excluding grants, % of GDP)</b> | -1.2 | -3.1 | -1.0 | -0.1  | -0.3  | -0.3  |

# Thank You

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## PAKISTAN DEVELOPMENT UPDATE

Fiscal Impact of Federal SOEs

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