Pakistan Development Update
Recent Economic Developments, Outlook & Risks

Tuesday April 2, 2024
Islamabad
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)

Foreign Exchange Reserves and PKR/US$ Exchange Rate

Half yearly Current Account Deficit (Billion PKR)

Source: Sources: Pakistan Bureau of Statistics

Source: State Bank of Pakistan and WB staff calculations

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**

**Quarterly contribution to GDP growth by sectors (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)

Outstanding open market operations (OMOs)

Half yearly Current Account Deficit

Sources: Ministry of Finance, World Bank staff calculations based on SBP data

Source: Sources: Pakistan Bureau of Statistics

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<thead>
<tr>
<th></th>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
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<tr>
<td>Fiscal Balance</td>
<td>-796</td>
<td>-1030</td>
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<td>Interest Expenditure</td>
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<td>-995</td>
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<td>Interest Expenditure</td>
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<td>Secondary income balance</td>
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<td>Primary income balance</td>
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<td>-25</td>
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<td>-15</td>
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<tr>
<td>Services trade balance</td>
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<tr>
<td>Goods trade balance</td>
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<td>15</td>
<td>20</td>
<td>25</td>
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<tr>
<td>Current account balance</td>
<td>3.6</td>
<td>3.4</td>
<td>0.8</td>
<td>-30</td>
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Source: Sources: World Bank staff calculations based on SBP data

Source: Sources: Pakistan Bureau of Statistics
The current recovery is not sufficient to reduce poverty

**Real GDP growth (at factor cost)**

- 2021: 5.8%
- 2022: 6.2%
- 2023: -0.2%
- 2024e: 1.8%
- 2025f: 2.3%
- 2026f: 2.7%

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

- 2011: 57%
- 2012: 45%
- 2013: 38%
- 2014: 32%
- 2015: 30%
- 2016: 29%
- 2017: 29%
- 2018: 29%
- 2019: 28%
- 2020: 27%
- 2021: 24%
- 2022: 24%
- 2023: 24%
- 2024: 23%
- 2025: 22%
- 2026: 23%

Source: Pakistan Bureau of Statistics and World Bank staff projections

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

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

Continuing tariff reform
Strengthening and expanding the transmission network
Improving supply-side and demand-side efficiency
Summary of the key messages

Pakistan’s economy has stabilized and is showing early signs of a recovery
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However, the current recovery is neither sustainable nor sufficient
- Economic vulnerabilities remain high
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Over the medium term, a robust economic recovery will require the steadfast implementation of a broad-based reforms program:
- Improve the quality of expenditures
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# Macroeconomic Outlook

## Pakistan Macroeconomic Outlook (FY24-26)

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<thead>
<tr>
<th></th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24e</th>
<th>FY25f</th>
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<tr>
<td><strong>Real GDP Growth, at constant factor prices</strong></td>
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<td>Agriculture</td>
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<td>Industry</td>
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<tr>
<td>Services</td>
<td>5.9</td>
<td>6.7</td>
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<td>2.9</td>
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<tr>
<td><strong>Inflation (Consumer Price Index)</strong></td>
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<td>8.9</td>
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<tr>
<td><strong>Current Account Balance</strong></td>
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<td><strong>Fiscal Balance (excluding grants, % of GDP)</strong></td>
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<td><strong>Debt (% of GDP)</strong></td>
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<td>73.1</td>
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<td><strong>Primary Balance (excluding grants, % of GDP)</strong></td>
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<td></td>
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Thank You

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