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Pakistan Development Update

Special topic: Restoring Fiscal Sustainability

Tuesday October 03, 2023

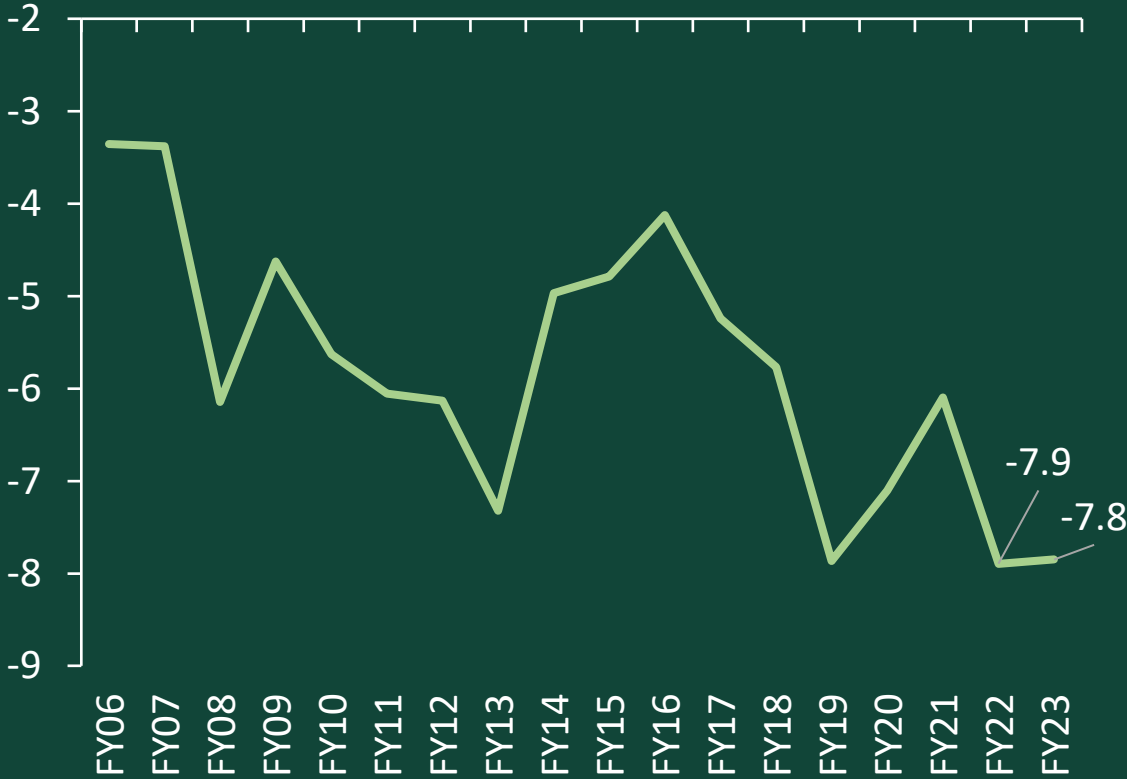
Islamabad



Why is fiscal sustainability important?

Pakistan's fiscal deficits are large, persistent & growing

Pakistan: Government Budget Balances (Percent of GDP)



Pakistan: Public and Publicly Guaranteed Debt (Percent of GDP)

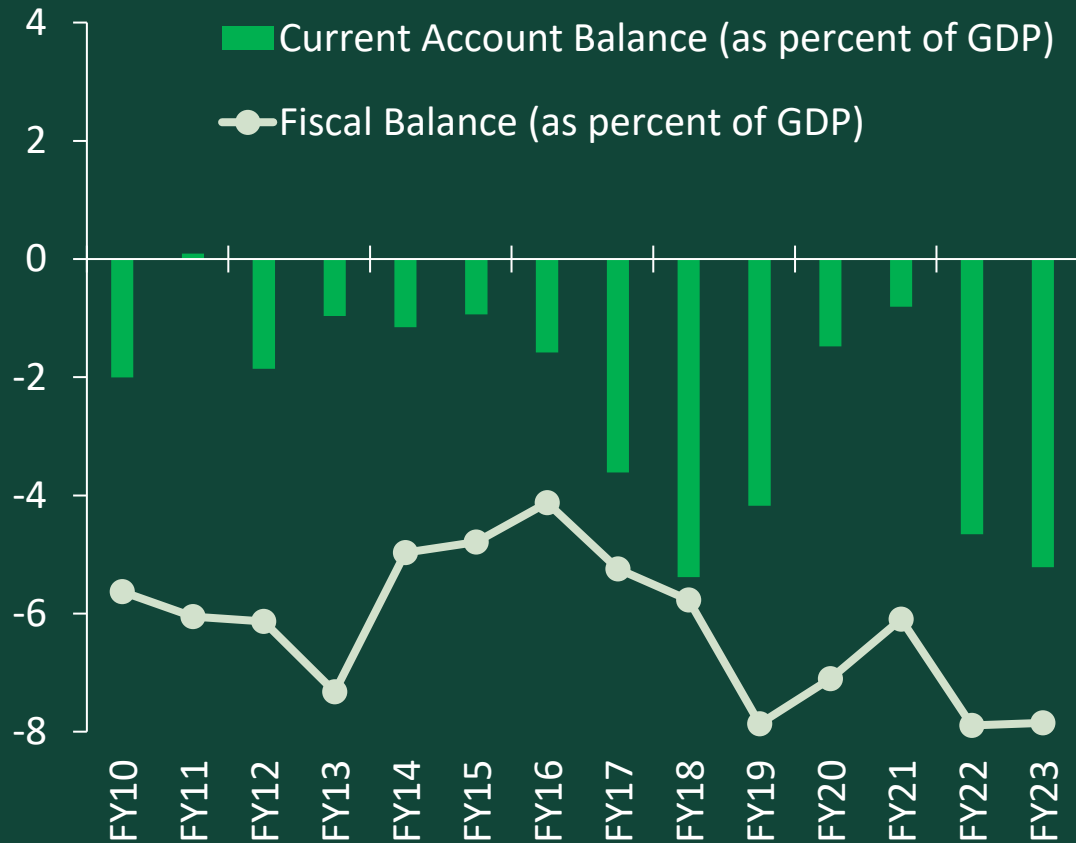


Sources: Ministry of Finance, World Bank staff calculations

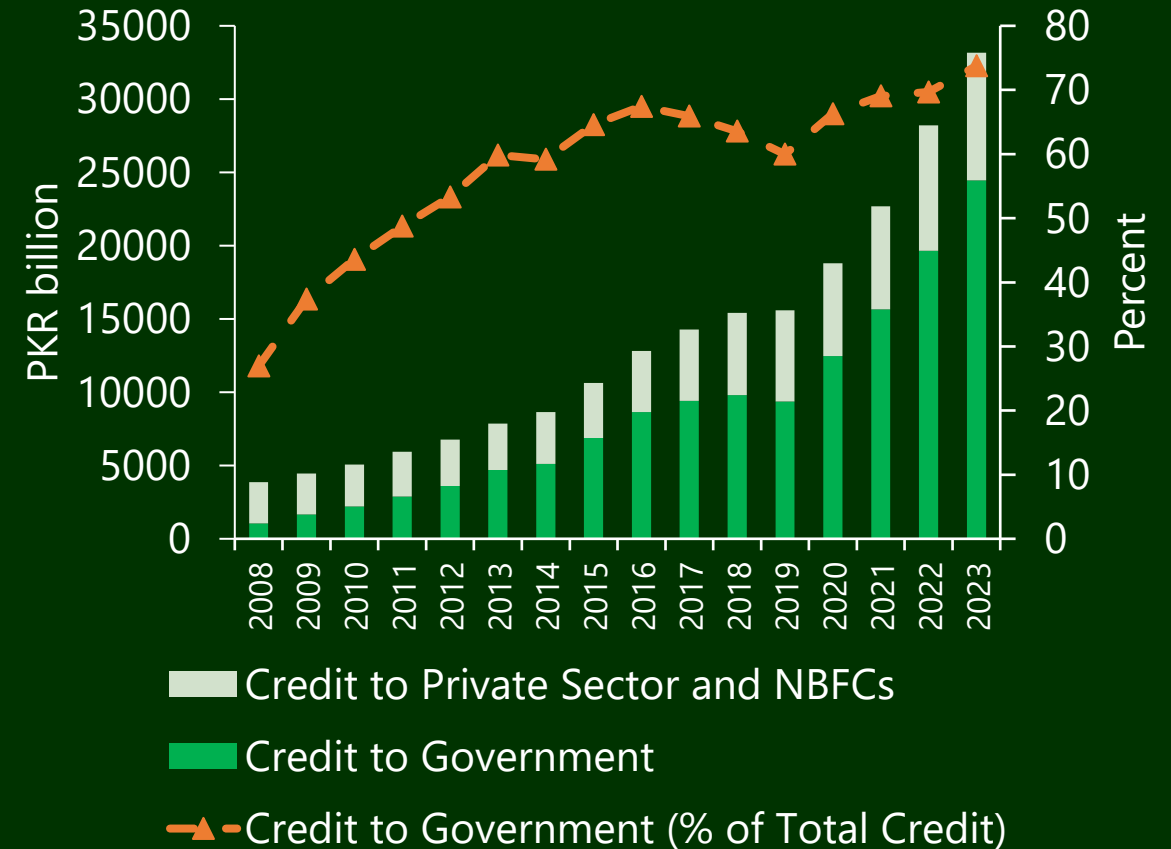
Sources: Ministry of Finance, World Bank staff calculations

Large deficits & debt have adverse economic effects

Pakistan's Twin Deficits
(Percent of GDP)



Government Borrowing from Banks
(PKR billions, Percent of Total)

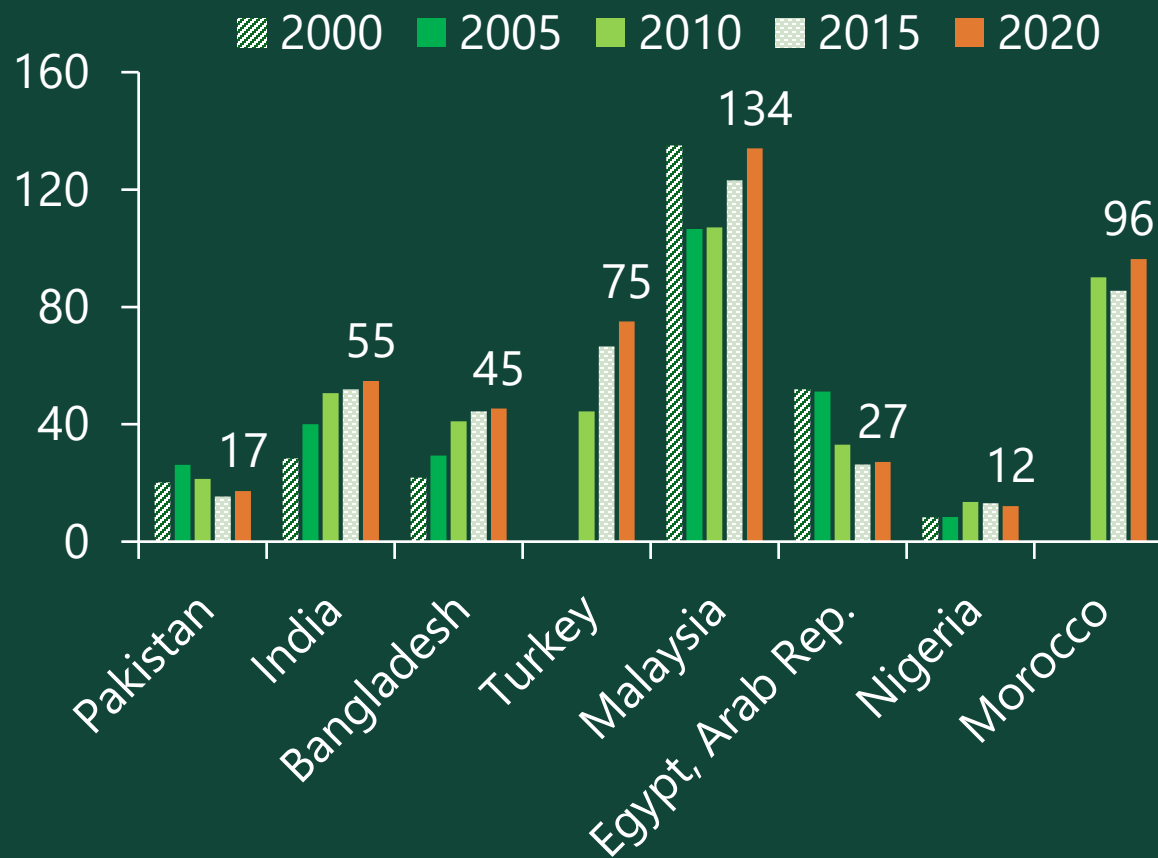


Sources: State Bank of Pakistan, Ministry of Finance, World Bank staff calculations

Sources: Pakistan Development Update: Financing the Real Economy. April 2022.

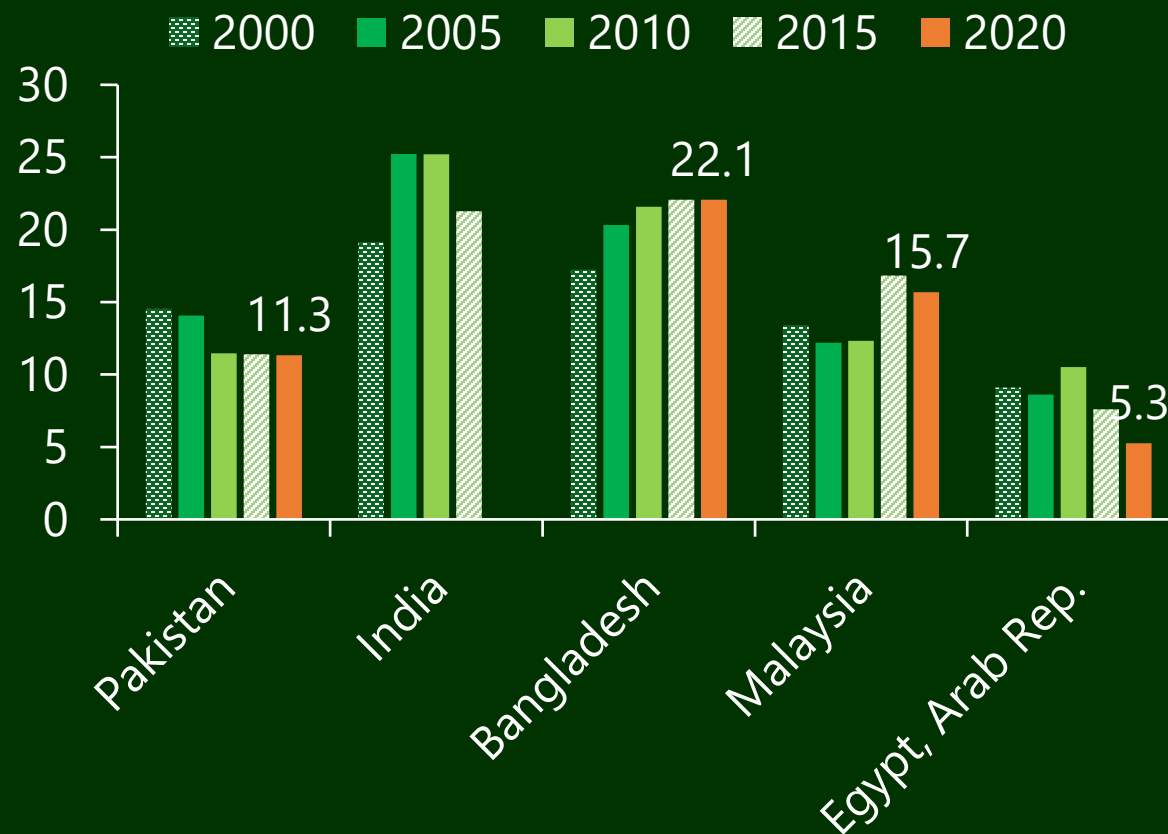
Crowding out of private investment

Credit to the Private Sector
(Percent of GDP)



Source: World Development Indicators, World Bank staff calculations

Private investment, selected years
(Percent of GDP)



Source: World Development Indicators and WB staff calculations

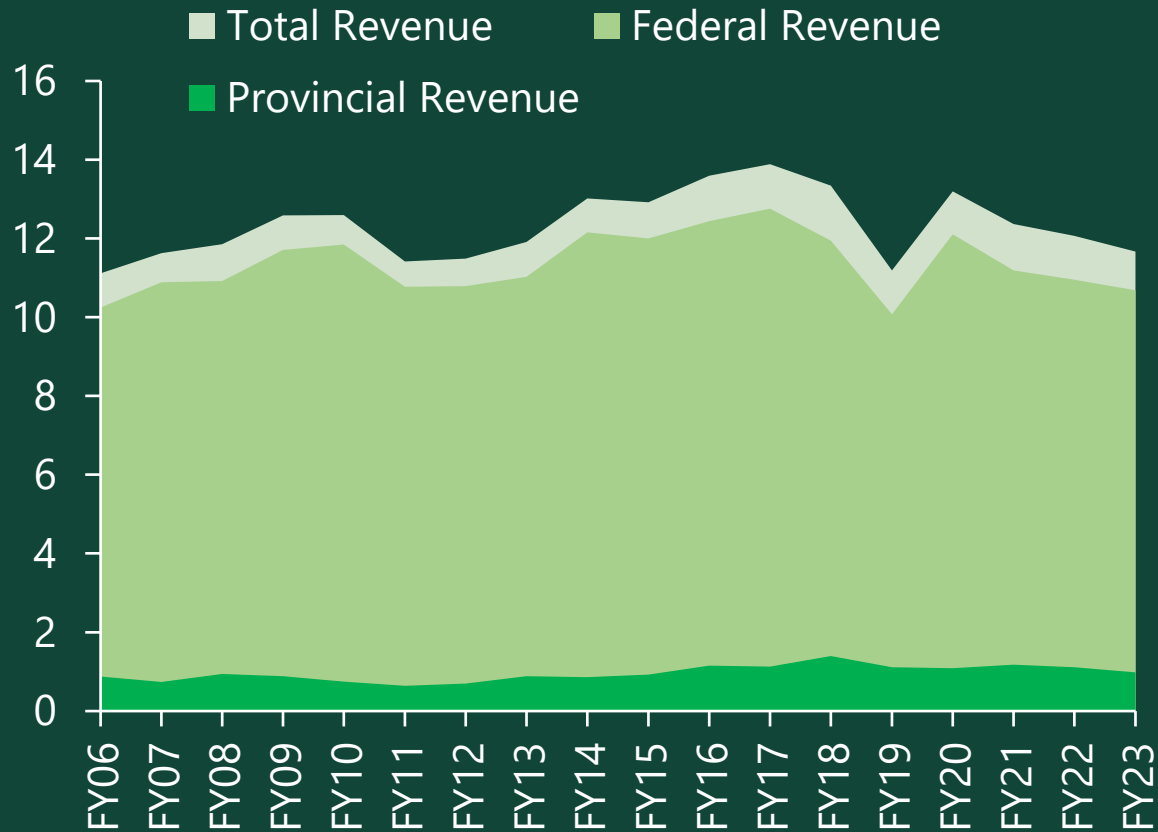


Key Drivers of Fiscal Imbalances in Pakistan



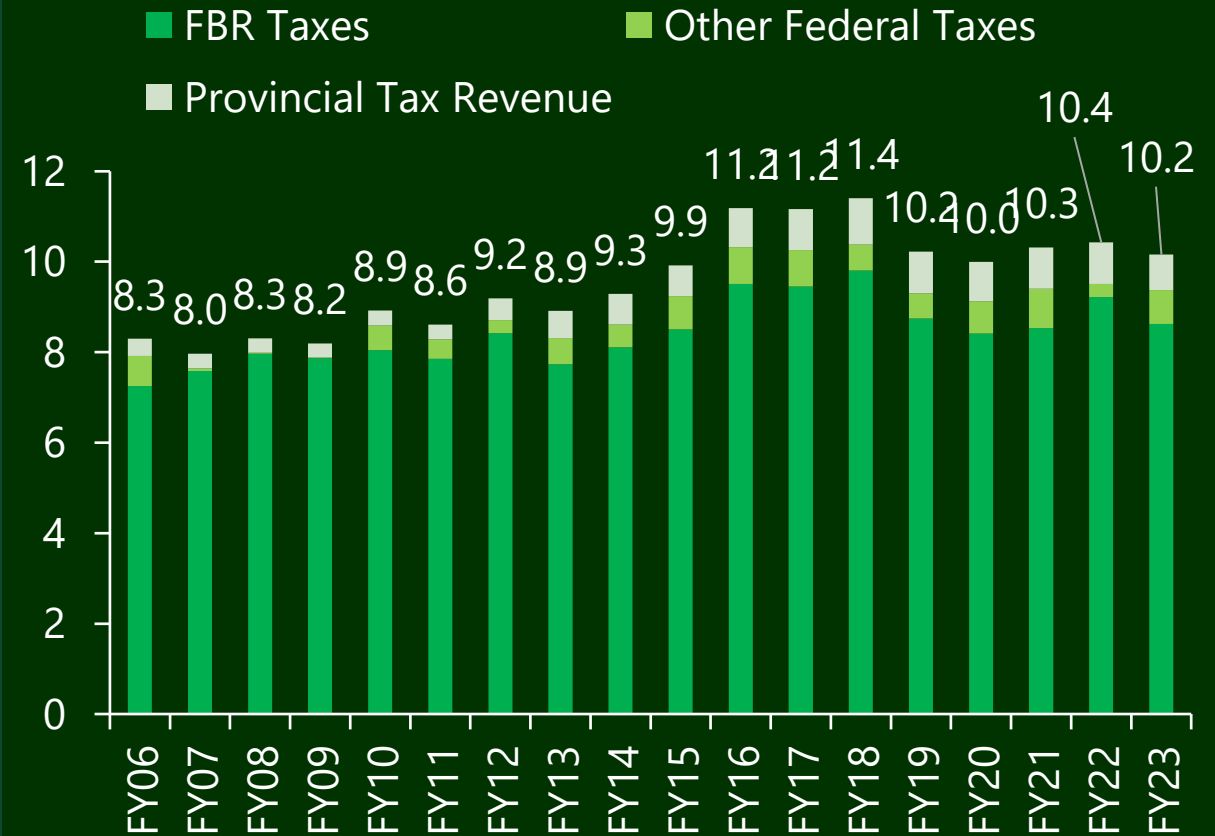
Revenue collection is low

Pakistan: Total Revenue, by source and year
(Percent of GDP)



Source: Ministry of Finance

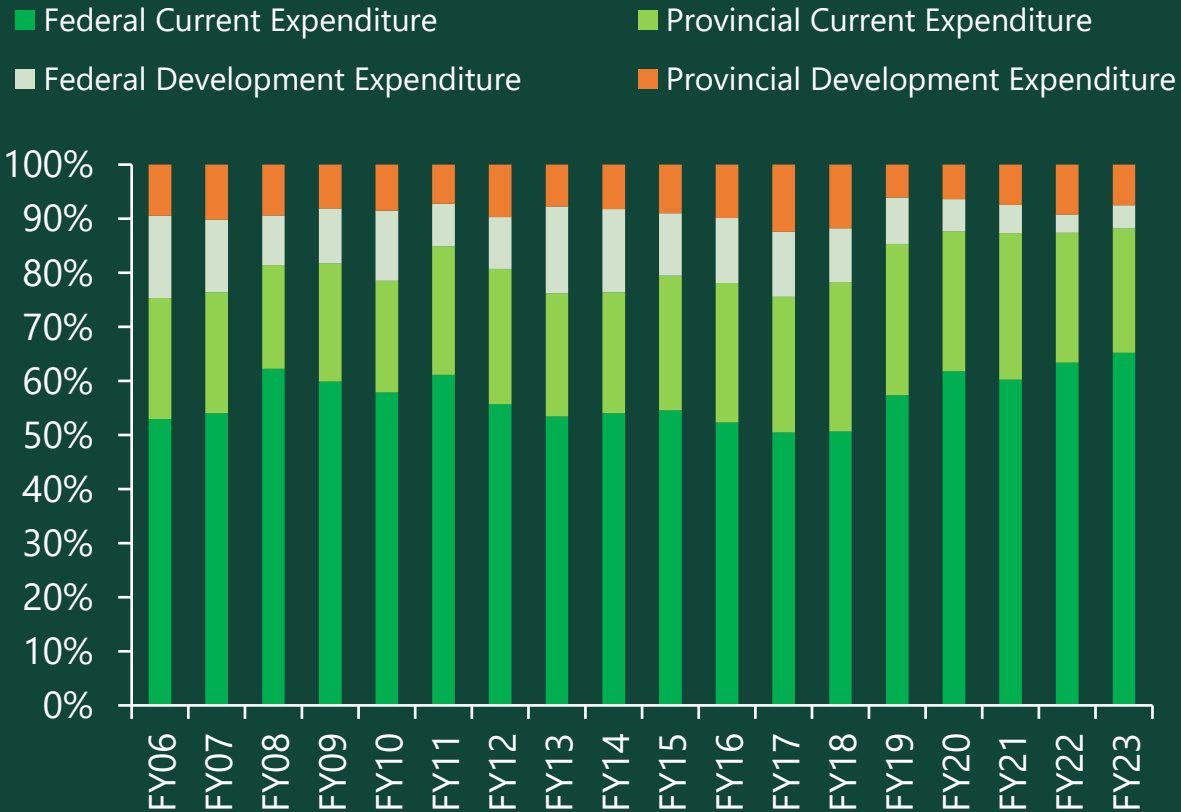
Total and Tax Revenues, Average 2013–22
(Percent of GDP)



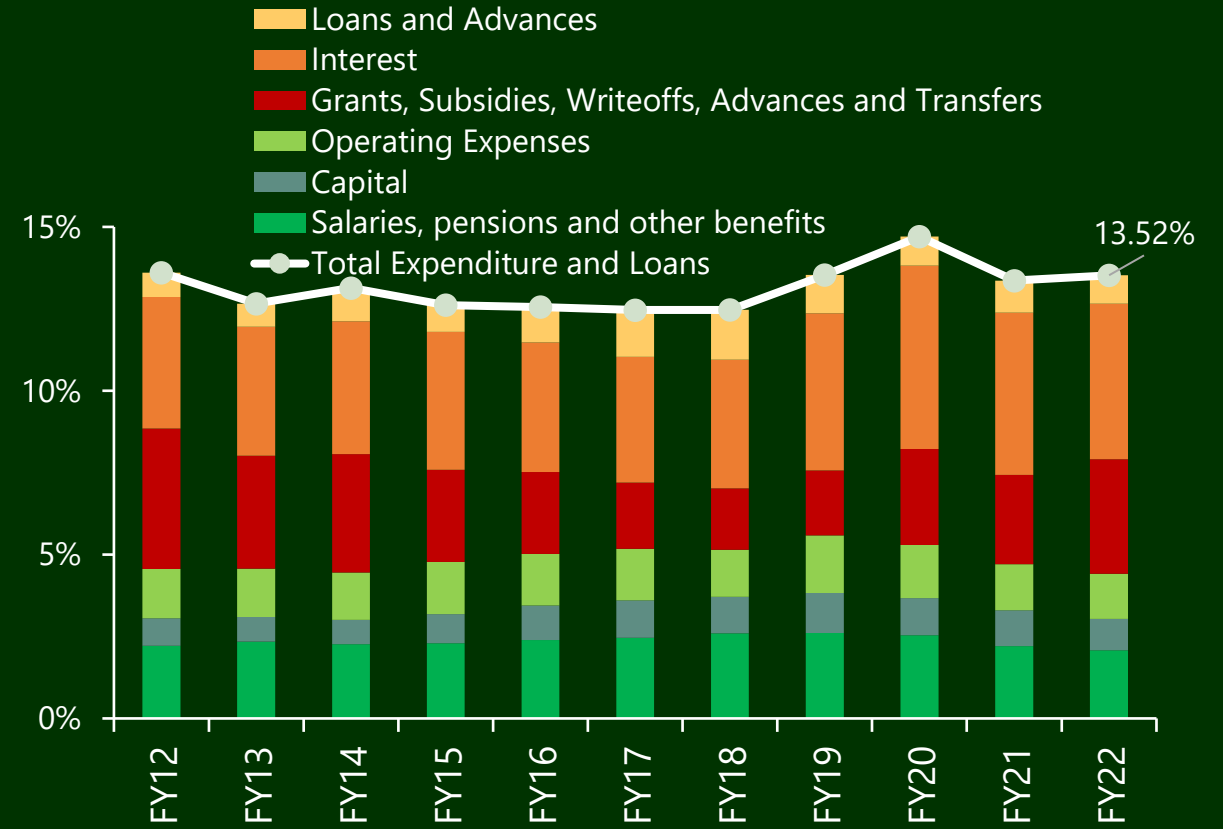
Source: World Bank Macro Poverty Outlook (MPO) database

Government spending – overwhelmingly rigid

Consolidated government spending, by rigidity
(percent of GDP)



Federal government spending, economic classification
(percent of GDP)

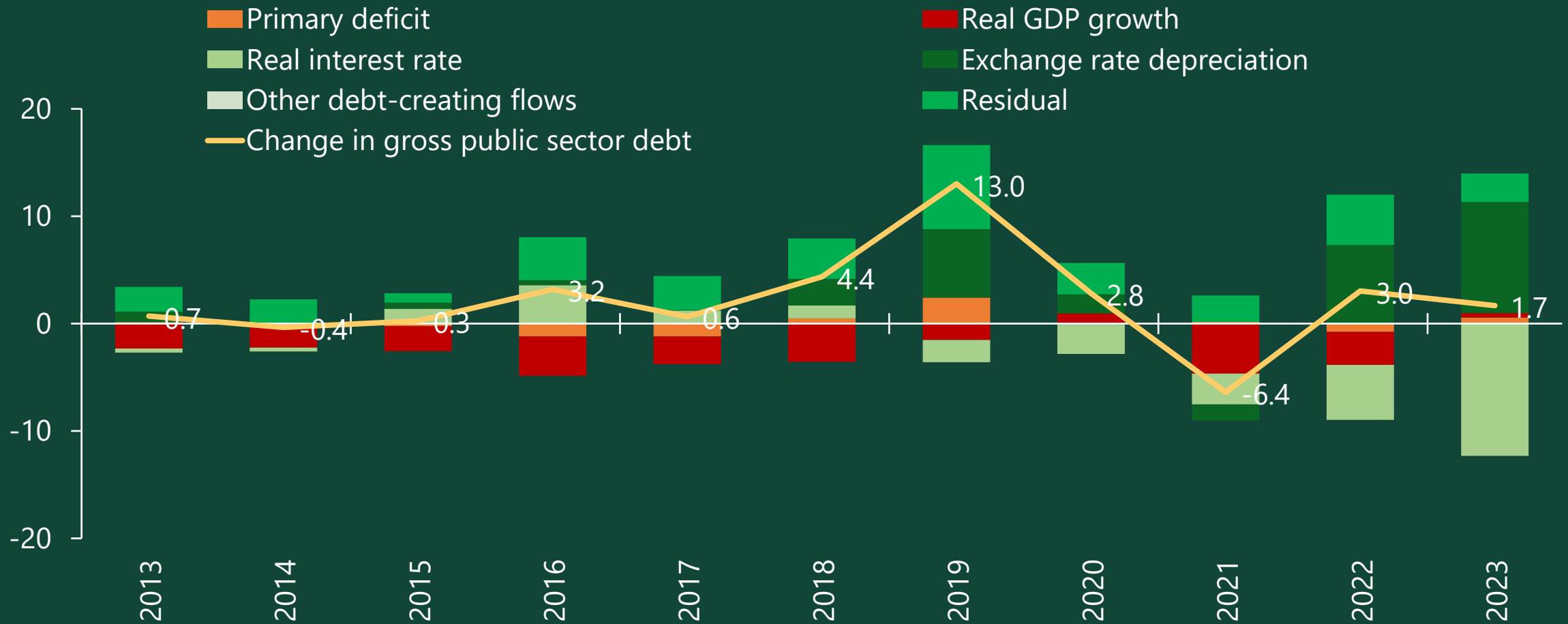


Source: Ministry of Finance, World Bank staff calculations

Source: Pakistan Bureau of Statistics and World Bank staff calculations

Pakistan's public debt is exposed to macroeconomic shocks

Key Drivers of Pakistan's Public and Publicly Guaranteed Debt
(Change in PPGD, % of GDP)



Source: Ministry of Finance and World Bank staff calculations



Policy options to restore fiscal sustainability



Policy options

To restore fiscal and debt sustainability



Increase

Increase domestic revenue collection

Rationalize

Rationalize federal fiscal expenditures

Improve

Improve debt management

Resolve

Fiscal federalism challenges



A. Priorities for Improving Revenues



I. General Sales Tax



Remove concessional rates



Limit zero ratings



Limit exemptions



Increase tax on retailers

II. Reform Income Tax

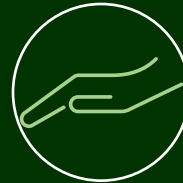
Broaden the income tax base



Merge personal income tax rates



III. Increase cigarette excise duty



IV. Reduce Import Duty Exemptions



V. Reform Agriculture Tax



VI. Strengthen Property Tax Collection



B. Priorities for Rationalizing Expenditures



Reduce Regressive Subsidies



Apply austerity measures to government staff and operational cost



Consolidate federal PSDP allocations and strengthen public investment management

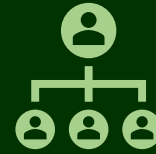


Divest or restructure SOEs through increased private participation



Constrain the growth of pension spending through

C. Priorities for Improving Debt Management



I. Improve debt management institutions and capacity



Debt management office recruitment



Enhance information and frequency of publications



Installation of debt recording system



Analyze and disclose fiscal risks and contingent liabilities



Adopt treasury single account



Develop domestic debt market



D. Priorities for More Effective Fiscal Federalism



I. Resurrect institutions for fiscal coordination



II. Implement legal reforms to support national fiscal policy



III. Limit federal spending on devolved areas



IV. Develop a national tax policy to facilitate higher provincial own-source revenue to finance expanded priorities



V. Enhance federal-provincial coordination on tax policy



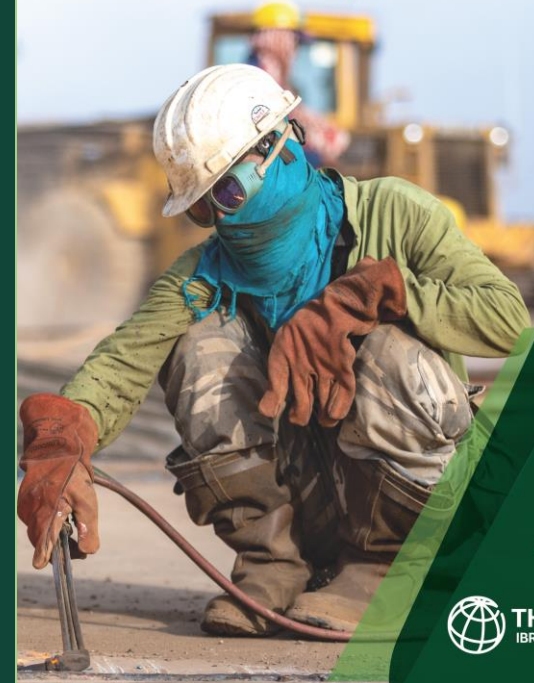
VI. Enhance federal-provincial coordination on tax policy

Thank you

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