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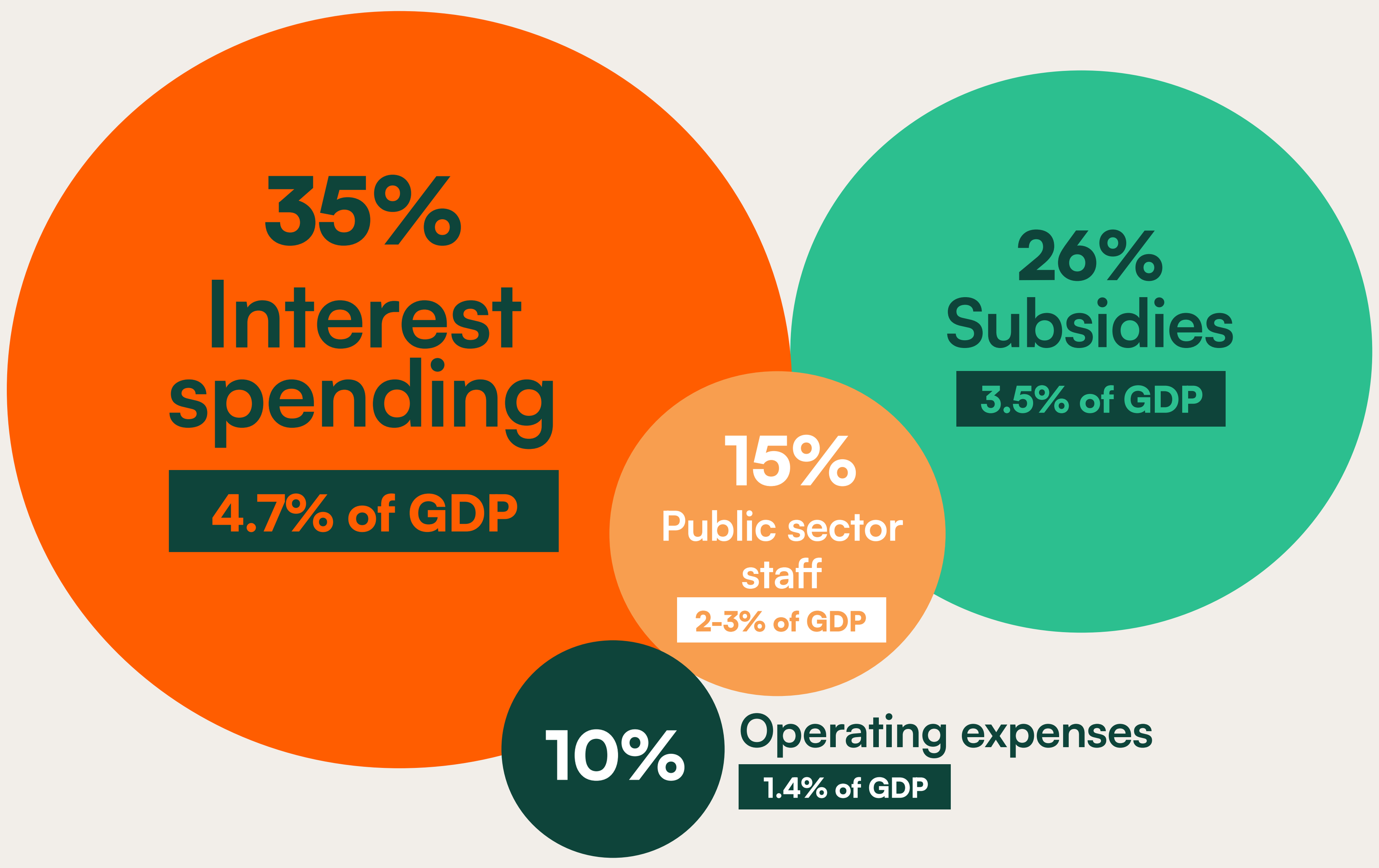
Pakistan's Spending Challenge

Pakistan's fiscal deficit has been persistently large and growing, posing risks to fiscal and debt sustainability.

The Problems

1 The primary driver of federal spending is interest payments to service public debt.



Federal-level spending in FY22

2 Pakistan's federal spending patterns are rigid.

Over the past decade, almost 80% of total government spending per year was allocated to pre-committed areas. This perpetuates the deficit and crowds out development spending.

3 Despite its importance, public development spending is low.

Only 1.2% of the GDP

was dedicated to federal development spending in FY22. This figure is small and declining.

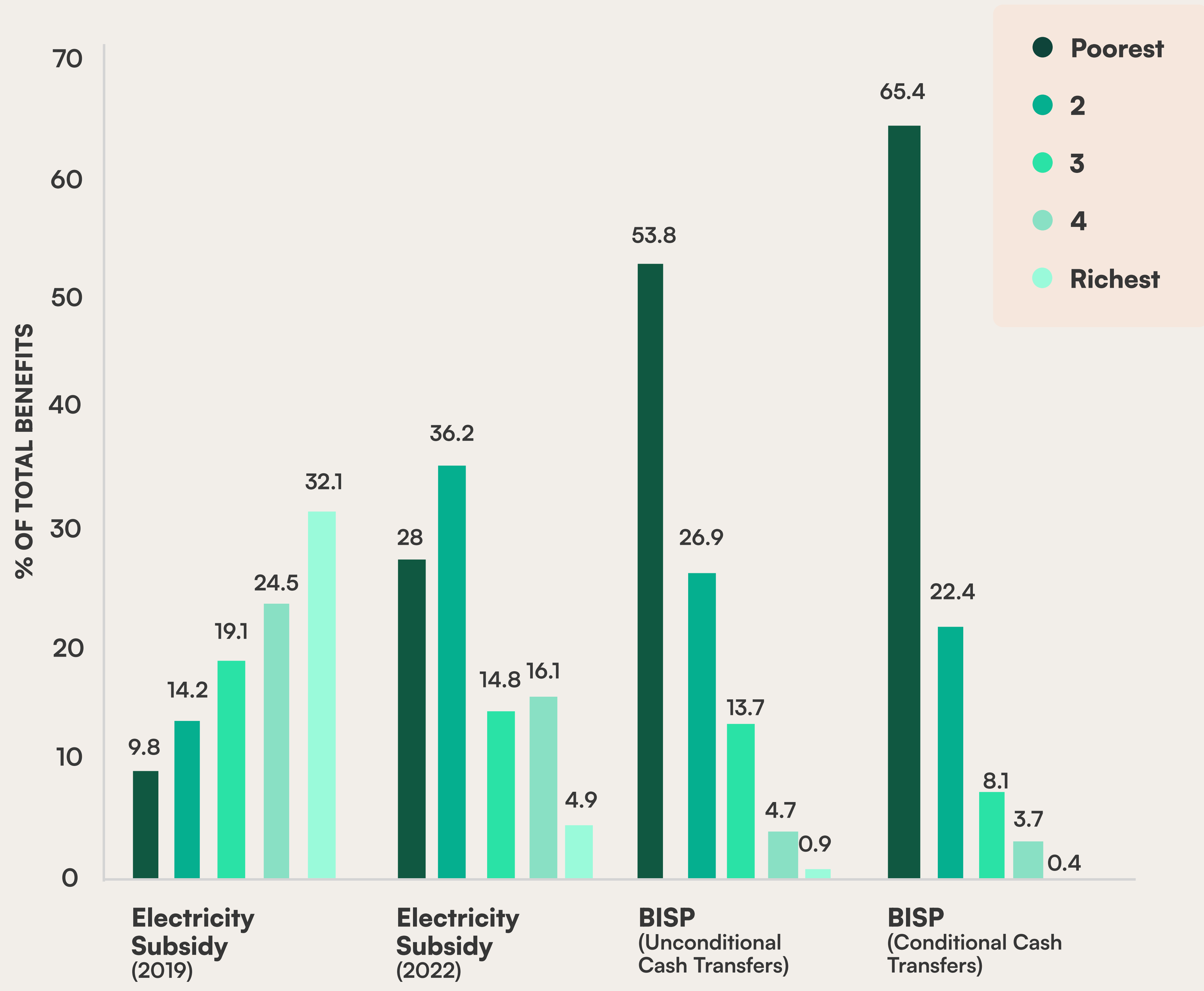
4 Development spending is being crowded out by interest payments.

1.0 PKR increase in interest spending = **0.5 PKR** decrease in development spending

IN THE PERIOD OF INTEREST RATE SHOCK AND IN THE SUBSEQUENT PERIOD

5 Spending on energy and commodity subsidies is distortive and wasteful

! While an improvement from before, a third of the subsidy benefits in FY22 still accrue to richer households.



Distribution of benefits of different subsidy schemes, by quintile

6 Pakistan's State Owned Enterprises are a significant fiscal drain

Pakistan's federal commercial SOEs have been consistently running losses since 2016

What now?

- Adopt the Treasury Single Account (TSA)
- Reduce energy and commodity subsidies
- Address the fiscal drain of SOEs
- Impose temporary austerity measures, while protecting maintenance expenditures

To learn more, read the World Bank Pakistan Discussion Note, Rationalizing Expenditures, 2023