Pakistan’s Spending Challenge

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

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

- **35% Interest spending**: 4.7% of GDP
- **26% Subsidies**: 3.5% of GDP
- **15% Public sector staff**: 2.3% of GDP
- **10% Operating expenses**: 1.4% of GDP

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 increase in interest spending = 0.5 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.

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