PAKISTAN

Table 1	2022
Population, million	235.8
GDP, current US$ billion	375.4
GDP per capita, current US$	1592.1
International poverty rate ($2.15)[a]	4.9
Lower middle-income poverty rate ($3.65)[a]	39.8
Upper middle-income poverty rate ($6.85)[a]	84.5
Gini index[a]	29.6
School enrollment, primary (% gross)[b]	95.5
Life expectancy at birth, years[b]	66.1
Total GHG emissions (mtCO2e)	492.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2021).

Pakistan's economy is estimated to have contracted in FY23 amid the catastrophic floods, high inflation, and tight macroeconomic policy. Import controls exacerbated supply chain disruptions and undermined confidence. Poverty is estimated to have increased due to record-high food and energy prices, weak labor markets, and flood-related damages. An IMF Stand-by Arrangement (SBA) was recently approved, unlocking new external financing. While recovering slightly, GDP growth will remain below potential over the medium term.

Key conditions and challenges

Pakistan's strong post-pandemic recovery came to a halt in FY23 with large economic imbalances that resulted from the delayed withdrawal of accommodative policy, and a series of domestic and external economic shocks. Pressures on domestic prices, external and fiscal balances, the exchange rate, and foreign exchange reserves mounted amid surging world commodity prices, global monetary tightening, recent catastrophic flooding, and domestic political uncertainty. Confidence and economic activity collapsed due to import controls, periodic exchange rate fixing, creditworthiness downgrades, and ballooning interest payments. Poverty is estimated to have increased due to deteriorating wages and job quality, along with high inflation that eroded purchasing power, particularly for the poor.

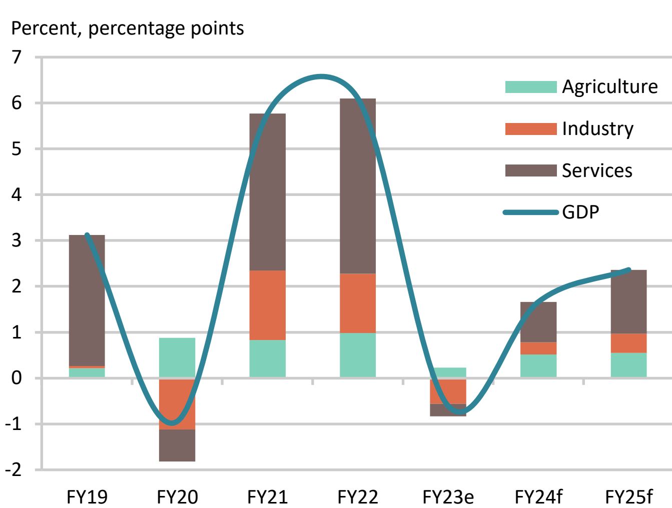
An IMF-SBA was recently approved, unlocking new external financing. Still, risks are exceptionally high, with the outlook predicated on remaining on track with the SBA, fiscal restraint, and continued external financing. Financial sector instability and policy slippages due to social tensions pose significant risks. Continued high inflation, localized insecurity, and weak growth increase vulnerability to falling into poverty and worsen the situation of the existing poor. More than 10 million people are currently just above the poverty line, and at risk of becoming classified as poor if the situation deteriorates.

Recent developments

Pakistan's economy is estimated to have contracted by 0.6 percent y-o-y in FY23, after growing by an average of 5.6 percent over FY21-22. The impact of devastating floods on agriculture and difficulties securing inputs, including fertilizers, slowed agriculture output growth to a modest 1.0 percent. With 44 percent of poor workers relying on agriculture, weak agricultural performance had significant poverty impacts. Supply chain disruptions due to import restrictions and flood impacts, high fuel and borrowing costs, political uncertainty, and weak demand affected industry and service sector activity and are estimated to have contracted by around 3 and 0.5 percent, respectively. This likely reduced the labor incomes of millions of workers, especially those who moved to lower-productivity informal jobs.

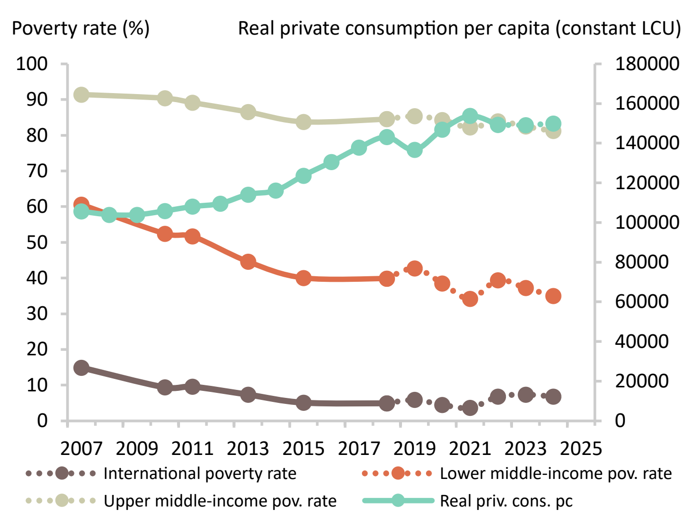
Average headline inflation rose to a multi-decade high of 29.2 percent y-o-y in FY23, up from 12.2 percent in FY22, owing to the weaker currency, reduced domestic fuel and electricity subsidies, and supply chain disruptions. Food inflation nearly tripled to 38.7 percent, particularly affecting poorer households that spend half their budget on food. Due to differing consumption patterns, households in the poorest decile experienced a higher inflation rate (seven percentage points higher) than the richest decile. Poverty is

FIGURE 1 Pakistan / Real GDP growth and sectoral contributions to real GDP growth



Sources: Pakistan Bureau of Statistics and World Bank staff estimates.
Notes: Pakistan reports data on fiscal year (FY) basis. The fiscal year runs from July 1 through June 30.

FIGURE 2 Pakistan / Actual and projected poverty rates and real private consumption per capita



Source: World Bank. Notes: see Table 2.

estimated to have increased by five percentage points to 39.4 percent (US$3.65/day 2017 PPP) in FY23, with 12.5 million more poor Pakistanis relative to FY22. Poverty rose despite government efforts, including a 25 percent increase in cash payments under the Benazir Income Support Program, a one-off targeted fuel subsidy, and payments to flood-affected families.

Reflecting lower remittances, sizeable debt servicing payments, and no access to international capital markets, Pakistan's external account weakened, with foreign reserves falling significantly, equivalent to just one month of total imports at the end of FY23. Reflecting the imposition of import controls to preserve reserves and a weaker currency, the current account deficit shrank to a ten-year low, equivalent to 0.7 percent of GDP in FY23 from 4.7 percent in FY22. With large debt repayments amid limited foreign investment, the financial account saw a deficit for the first time since FY04. The official exchange rate depreciated by 28.6 percent against the U.S. dollar over FY23.

In line with some fiscal consolidation and rapid nominal GDP growth, the primary deficit narrowed to an estimated 0.8 percent of GDP in FY23. The overall fiscal deficit, however, is estimated to have remained high at 7.8 percent of GDP, reflecting larger interest payments with higher domestic interest rates and the weaker currency.

Overall, the economic contraction, high inflation, and flood-related devastation affected poorer households disproportionately, leading to greater inequality, with the Gini index estimated to have increased by 1.5 points to 30.7 in FY23. Moreover, the floods, which caused extensive damage to public infrastructure, including schools and clinics, coupled with maladaptive economic coping strategies such as removing children from schools, have likely worsened disparities in human development outcomes within and across regions.

Outlook

Even with the SBA, reserves are expected to average less than one month of total imports over FY24-FY25, necessitating continued import controls and constraining economic recovery. Real GDP growth is expected to only reach 1.7 percent in FY24, with tight fiscal and monetary policy, persistent inflation, and weak confidence due to political uncertainty surrounding upcoming elections. With the resumption of growth, poverty is expected to decline to 37.2 percent in FY24. The current account deficit is projected to gradually widen to 1.5 percent of GDP in FY25.

Inflation is projected to remain high at 26.5 percent in FY24 and moderate to 17.0 percent in FY25 amid high base effects and lower global commodity prices. However, the higher petroleum levy and energy tariff adjustments will maintain domestic energy price pressures and contribute to growing social and economic insecurity. Protracted and elevated food and energy price inflation, in the absence of substantial growth, could cause social dislocation and have negative welfare impacts, especially on the worse-off households with already depleted savings and reduced incomes.

The fiscal deficit is forecasted to narrow marginally, averaging 7.6 percent of GDP over FY24 and FY25, reflecting high-interest payments. The primary deficit will remain modest at an average of 0.3 percent of GDP, reflecting consolidation efforts. Despite liquidity pressures, the public debt-to-GDP ratio is projected to decline over the medium term.

TABLE 2 Pakistan / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019/20	2020/21	2021/22	2022/23e	2023/24f	2024/25f
Real GDP growth, at constant market prices	-1.3	6.5	4.7	-0.6	1.7	2.4
Private consumption	-2.8	9.4	6.7	-1.0	1.9	2.6
Government consumption	8.5	1.8	-1.3	-7.2	1.9	2.8
Gross fixed capital investment	-6.7	3.7	5.7	-17.8	0.8	2.2
Exports, goods and services	1.5	6.5	5.9	-8.6	0.7	2.0
Imports, goods and services	-5.1	14.5	11.0	-17.8	1.7	3.2
Real GDP growth, at constant factor prices[a]	-0.9	5.8	6.1	-0.6	1.7	2.4
Agriculture	3.9	3.5	4.3	1.0	2.2	2.4
Industry	-5.7	8.2	6.8	-2.9	1.4	2.3
Services	-1.2	5.9	6.6	-0.5	1.5	2.4
Inflation (consumer price index)	10.7	8.9	12.2	29.2	26.5	17.0
Current account balance (% of GDP)	-1.5	-0.8	-4.7	-0.7	-1.4	-1.5
Net foreign direct investment inflow (% of GDP)	0.9	0.5	0.5	0.1	0.1	0.4
Fiscal balance (% of GDP)	-7.0	-6.0	-7.8	-7.8	-7.6	-7.5
Revenues (% of GDP)	13.3	12.4	12.1	11.6	11.9	12.3
Debt (% of GDP)[b]	81.1	75.6	80.7	82.3	72.4	70.3
Primary balance (% of GDP)	-1.5	-1.1	-3.1	-0.8	-0.4	-0.2
International poverty rate ($2.15 in 2017 PPP)[c,d]	5.9	4.5	3.6	6.8	7.4	6.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	42.7	38.5	34.2	39.4	37.2	35.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	85.4	84.3	82.2	83.9	82.5	81.2
GHG emissions growth (mtCO2e)	1.2	5.2	5.2	2.0	1.8	2.6
Energy related GHG emissions (% of total)	42.6	43.7	44.5	43.8	43.8	43.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ The Government's provisional FY23 estimate of real GDP growth (at 2015-16 prices) is 0.3 percent.
b/ Prior to FY22, public debt does not include Central Bank deposits and bilateral SWAP liabilities.
c/ Calculations based on SAR-POV harmonization, using 2018-HIES. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
d/ Poverty projections based on microsimulations using 2018-HIES and aggregate macroeconomic indicators (see Caruso et al 2017).