

PAKISTAN

Table 1 **2023**

Population, million	240.5
GDP, current US\$ billion	338.4
GDP per capita, current US\$	1407.0
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	84.4
Life expectancy at birth, years ^b	66.1
Total GHG emissions (mtCO2e)	499.5

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2018), 2017 PPPs.

b/ Most recent WDI value (2021).

Despite some recovery, Pakistan's economy remains under stress with low foreign reserves and high inflation. Policy uncertainty remains elevated and economic activity is subdued, reflecting tight fiscal and monetary policy and import controls. Growth is projected to remain below potential with heightened social vulnerability and limited poverty reduction in the medium term. Financial sector risks, policy uncertainty, and stronger external headwinds pose significant risks to the outlook.

Key conditions and challenges

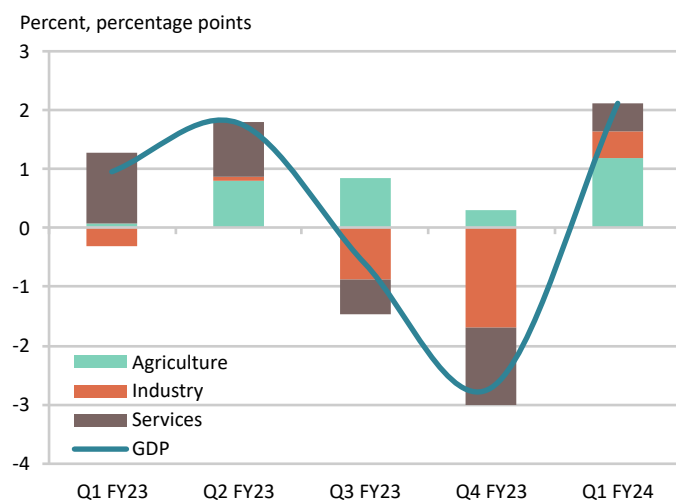
Pakistan's economy contracted by 0.2 percent in FY23 (based on real GDP at factor cost) on surging world commodity prices, global monetary tightening, catastrophic flooding, and inadequate macroeconomic management (Figure 1). These headwinds led to pressures on domestic prices, external and fiscal accounts, the currency, and foreign reserves. Import and capital controls were consequently imposed, disrupting domestic supply chains, fueling inflationary pressures, and smothering economic activity. In response to deteriorating real wages and declining job quality, poverty rose by 4.5 percentage points in FY23, with approximately 10 million people just above the poverty line at risk of poverty in the face of shocks (Figure 2). New multilateral external financing this year improved the foreign reserve position and permitted the easing of import controls. The economy has shown broad-based but still nascent signs of a recovery. Despite this, risks remain high, with the outlook predicated on the IMF-SBA program remaining on track, continued fiscal restraint, and additional external financing. Financial sector risks, policy uncertainty, and stronger external headwinds pose significant risks.

Recent developments

After contracting for two consecutive quarters, real GDP at factor cost rose by 2.1 percent y-o-y over July to September 2023 on strong agricultural growth and some improvement in confidence. Agricultural output expanded by 5.1 percent in Q1 FY24, the highest quarterly growth on record, as conducive weather conditions led to strong yields. On easing import controls, the industry sector grew by 2.5 percent in Q1 FY24, the strongest growth in five quarters, while service sector output rose by 0.8 percent. However, daily wages for unskilled labor, in which most of the poor are engaged, grew by just 5 percent in H1 FY24, much lower than inflation. Because of falling real wages, growth did not translate into poverty reduction.

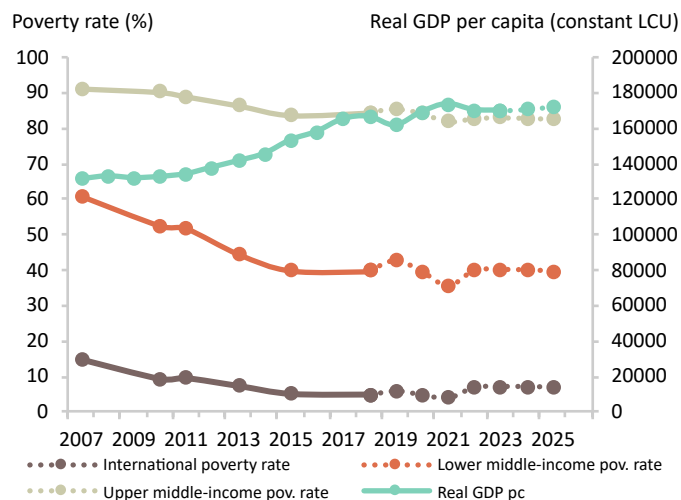
Pakistan's current account deficit (CAD) narrowed to US\$0.8 billion in H1 FY24 from US\$3.6 billion in H1 FY23, on import controls, reduced domestic demand, and lower global commodity prices. Meanwhile, official remittances fell by 6.8 percent y-o-y in H1 FY24 due to exchange rate rigidities earlier in the year. Fresh external inflows led to a balance of payments (BOP) surplus of US\$3.0 billion. Consequently, international reserves increased to US\$9.4 billion at the end of December 2023, equivalent to 1.7 months of imports. With the BOP surplus and regulatory reforms in the forex market, the rupee appreciated modestly against the U.S. dollar over H1 FY24.

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



Sources: Pakistan Bureau of Statistics and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

Headline consumer price inflation rose to a multi-decade high of an average of 28.8 percent y-o-y in H1 FY24, up from 25.0 percent in H1 FY23, reflecting higher domestic energy prices and supply chain disruptions, which in turn raised overall production costs. Food inflation remained high, particularly impacting poor and vulnerable households who spend half of their budgets on food, leading to inflation inequality and increased food insecurity, especially in Sindh, Khyber Pakhtunkhwa, and Balochistan. Transportation costs rose faster in rural areas, increasing the cost of accessing markets, schools, and health centers for the rural poor, potentially leading to children being taken out of school and delayed medical treatments as households cope with the rising cost of living. The policy rate was held at 22.0 percent, implying negative real interest rates throughout H1 FY24.

With fiscal consolidation efforts, the primary fiscal surplus doubled to PKR1.8 trillion in H1 FY24. Supported by higher direct taxes and the petroleum development levy hikes, total revenue rose more than non-interest expenditure. The overall fiscal deficit stood at PKR2.4 trillion for H1 FY24.

The estimated consolidation of the Public Sector Development Program in real terms likely reduced public spending on construction, which employs many poor and vulnerable. In addition, federal public pensions grew while Benazir Income Support Programme (BISP) spending declined in H1 FY24, contributing to rising inequality.

Outlook

Economic activity is expected to remain subdued, with real GDP growth estimated at 1.8 percent in FY24, reflecting continued tight macroeconomic policy, import controls, high inflation, and continued policy uncertainty. Output growth is expected to increase to around 2.5 percent over FY25-26, remaining below potential. Poverty reduction is projected to stall in the medium term, owing to weak growth, limited increase in real labor incomes, and persistently high food and energy inflation. Poverty is expected to remain close to 40 percent until FY26.

Inflation is projected to remain elevated at 26.0 percent in FY24 due to higher domestic

energy prices, with little respite for poor and vulnerable households with depleted savings and lower real incomes. With high base effects and lower projected global commodity prices, inflation is expected to moderate over the medium term. With continued import controls, the CAD is expected to remain low at 0.7 percent of GDP in FY24 and to further narrow to 0.6 percent of GDP in FY25 and FY26.

The fiscal deficit is projected to widen to 8.0 percent of GDP due to higher interest payments but gradually decline as fiscal consolidation takes hold and interest payments fall over time. Fiscal consolidation will likely lead to continued high energy inflation and restricted public spending on development and social sectors, which may worsen monetary, welfare, and human development outcomes. While targeted transfers are critical in protecting the poorest, the 20 percent increase in BISP cash transfers in H2 FY24 may not be enough. The macroeconomic outlook is predicated on the successful completion of the IMF-SBA program, continued fiscal restraint, and external financing, but limited progress with major structural reforms and continued policy uncertainty.

TABLE 2 Pakistan / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020/21	2021/22	2022/23	2023/24e	2024/25f	2025/26f
Real GDP growth, at constant market prices	6.5	4.8	0.0	1.8	2.3	2.7
Private consumption	9.4	7.1	2.4	1.7	2.2	2.5
Government consumption	1.8	-1.3	-4.9	0.9	1.4	2.0
Gross fixed capital investment	3.7	3.3	-16.3	-0.5	1.2	2.0
Exports, goods and services	6.5	5.9	2.4	2.1	3.2	3.7
Imports, goods and services	14.5	11.0	-0.3	0.3	1.2	1.6
Real GDP growth, at constant factor prices	5.8	6.2	-0.2	1.8	2.3	2.7
Agriculture	3.5	4.3	2.3	3.0	2.2	2.7
Industry	8.2	6.9	-3.8	1.8	2.2	2.4
Services	5.9	6.7	0.1	1.2	2.4	2.9
Inflation (consumer price index)	8.9	12.1	29.2	26.0	15.0	11.5
Current account balance (% of GDP)	-0.8	-4.7	-0.7	-0.7	-0.6	-0.6
Net foreign direct investment inflow (% of GDP)	0.5	0.5	0.2	0.3	0.3	0.4
Fiscal balance, including grants (% of GDP)	-6.0	-7.8	-7.7	-8.0	-7.4	-6.5
Revenues (% of GDP)	12.4	12.1	11.5	12.2	12.3	12.4
Debt (% of GDP)	77.6	80.7	81.4	73.1	72.3	72.5
Primary balance, including grants (% of GDP)	-1.1	-3.1	-0.9	-0.1	-0.2	-0.2
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	5.0	4.2	6.8	7.0	7.0	6.9
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	39.5	35.5	39.9	40.1	40.0	39.7
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	84.1	81.9	82.9	83.0	82.9	82.7
GHG emissions growth (mtCO₂e)	5.2	5.2	1.5	3.4	3.5	3.7
Energy related GHG emissions (% of total)	43.7	44.5	43.5	43.6	43.7	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/ Calculations based on SAR-POV harmonization, using 2018-HIES. Actual data: 2018. Nowcast: 2019-2023. Forecasts are from 2024 to 2026.

b/ Poverty projections based on microsimulations using 2018-HIES and aggregate macroeconomic indicators (see Caruso et al 2017).