PAKISTAN
DEVELOPMENT UPDATE

April 2023

Recent Economic Developments, Outlook, and Risks

THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP

PAKISTAN DEVELOPMENT UPDATE

Recent Economic Developments, Outlook, and Risks

April 2023

THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP

Preface

The World Bank Pakistan Development Update (PDU) provides an update on the Pakistani economy, its economic outlook, together with the development challenges it faces and the structural reforms that should be considered.

This edition of PDU was prepared by Macroeconomics, Trade, and Investment Global Practice under the guidance of Najy Benhassine (Country Director, SACPK), Mathew Verghis (Regional Director, ESADR), Shabih Ali Mohib (Practice Manager, ESAC1), Ximena Del Carpio (Practice Manager, ESAPV), and Tobias Akhtar Haque (Lead Country Economist and Program Leader, ESADR). The core PDU team was led by Adnan Ashraf Ghumman (Senior Economist, ESAC1) and Mukhtar Ul Hasan (Economist, ESAC1), and includes Derek H.C. Chen (Senior Economist, ESAC1), Aroub Farooq (Research Analyst, ESAC1), Sayed Murtaza Muzaffari (Economist, ESAC1), Gonzalo J. Varela (Senior Economist, ESAC1), Rafay Khan (Economist, ESAF1), Fahad Hasan (Financial Sector Specialist, ESAF1), Oscar Eduardo Barriga Cabanillas (Economist, ESAPV), Moritz Meyer (Senior Economist, ESAPV), Florian Blum (Senior Economist, EECM2), Qurat ul Ain Hadi (Financial Management Specialist, ESAG1), Arsianti (Consultant, ESAC1), and Ali Shahid (Team Assistant, SACPK). The report benefited from detailed inputs from Shabih Ali Mohib (Practice Manager, ESAC1), and Tobias Akhtar Haque (Lead Country Economist and Program Leader, ESADR). The report was edited by Janani Kandhadai.

The photograph for the front cover is by northallertonman / www.shutterstock.com.

To receive the PDU and related publications by email, please email ashahid2@worldbanko.org. For questions and comments, please email aghumman@worldbank.org, and mulhasan@worldbank.org.

Table of Contents

List of Figures, Tables and Boxes

FIGURES

TABLES

BOXES

Lists of Abbreviations and Acronyms

AFS	Available for Sale
BISP	Benazir Income Support Programme
CAD	Current Account Deficit
CAR	Capital Adequacy Ratio
CDB	China Development Bank
CRR	Cash Reserve Requirement
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GST	General Sales Tax
HEC	Higher Education Commission
HFT	Held for Trading
HTM	Held to Maturity
IMF-EFF	International Monetary Fund-Extended Fund Facility
KSA	Kingdom of Saudi Arabia
LCs	Letters of Credits
M&E	Monitoring and Evaluation
NCHD	National Commission for Human Development
NPL	Non-Performing Loans
NSER	National Socio-Economic Registry
PDL	Petroleum Development Levy
PFM	Public Financial Management
PPP	Purchasing Power Parity
PSDP	Public Sector Development Program
PSEs	Public Sector Enterprises
PTA	Pakistan Telecommunication Authority
RLNG	Regasified Liquefied Natural Gas
SAR	South Asian Region
SCRR	Special Cash Reserve Requirement
SMEs	Small and Medium-Sized Enterprises
SOE	State-Owned Enterprises
SBP	State Bank of Pakistan
TSA	Treasury Single Account
UAE	United Arab Emirates
UK	United Kingdom

1. Executive Summary

Pakistan's economy has come under increasing stress.

Pakistan's economy continues to face the effects of recent flooding and the expansionary and counterproductive policy response, with precariously low foreign reserves and high inflation. The Government has taken ad hoc administrative measures to preserve scarce foreign exchange reserves, but these measures have weakened consumer and investor confidence. Private sector activity has been heavily impacted by import and dollar outflow controls, higher borrowing and fuel costs, and continued policy uncertainty leading to sharply slowing growth. Tighter global liquidity conditions and rising macro risks have curtailed Pakistan's access to international capital markets. Recent monetary tightening, fiscal consolidation, withdrawal of energy subsidies, and removal of the informal exchange rate cap have helped to limit imbalances, but foreign exchange reserves remain at very low levels, inflation is high, and activity and confidence are depressed. To avoid a macro-economic crisis and revive consumer and investor confidence, the Government must remain on track with stabilization and structural reforms under-pinning the IMF's Extended Fund Facility (EFF), and secure critical external financing from bilateral partners. To maintain stability and set the foundations for medium-term recovery, the Government has to: i) sustain IMF program reforms and continue to adhere to overall sound macroeconomic management, including maintaining a flexible exchange rate and independent monetary policy targeting inflation; ii) progressively remove all import and dollar outflow restrictions, including curbs on profit and dividend outflows, to restore investor confidence;[1] iii) contain the primary deficit within sustainability parameters through measures to increase revenues and rationalize expenditure; and iv) implement trade and private sector reforms to support improvements in investment, competitiveness, and productivity. Strong political ownership will be required to ensure reforms are credible and sustained over time.

Economic activity has remained subdued during H1 FY23

Economic activity is estimated to have slowed sharply over July–December 2022 (H1 FY23). Flooding, along with difficulties in securing fertilizers and animal feed, reduced agricultural output and labor opportunities for low-income workers. Similarly, dwindling foreign exchange reserves, administrative import controls, flood-related supply-chain disruptions, high fuel costs, policy uncertainty, and the slowdown in domestic and global demand have affected industry and service sector activity, with large-scale manufacturing (LSM) output contracting by an average of 3.7 percent over H1 FY23. Business and consumer confidence have continued to decline, suggesting continued suppressed activity over the coming months.

Monetary policy has been progressively tightened amid surging headline inflation

Headline consumer price inflation rose to a multi-decade high of an average of 25.0 percent (y-o-y) in H1 FY23, up from 9.8 percent during H1 FY22. This reflects surging global commodity prices, the reversal of unsustainable domestic fuel and electricity subsidies, and flood-related disruptions. The real interest rate remains negative despite the policy rate being raised by a cumulative 625 bps to 20.0 percent since July 2022.

The current account deficit narrowed significantly in H1 FY23 due to import compression measures

Pakistan's external position weakened in H1 FY23 as foreign reserves fell significantly. Import controls drove a 32.0 percent y-o-y contraction of the trade deficit in H1 FY23. Official remittance inflows also fell by 10.7 percent, with the informal exchange rate cap incentivizing the use of informal non-banking channels. Overall, the current account deficit reached just US$3.6 billion in H1 FY23, less than half of the US$9.1 billion deficit in H1 FY22. Declining sentiment saw sharply reduced private foreign exchange inflows, with the financial account recording the largest half-year deficit in 12 years. This trend

[1] Profit repatriation by multinationals 'on hold'.
https://www.oicci.org/news/profit-repatriation-by-multinationals-on-hold/
Blocked funds in Pakistan reduce aviation benefits
https://www.airlines.iata.org/news/blocked-funds-in-pakistan-reduce-aviation-benefits

continued in January-February 2023 and as a result, reserves declined from US$11.1 billion at end-FY22 to US$5.4 billion on March 10, 2023, equivalent to 0.9 months of total imports.[2] Low levels of reserves and loss of confidence contributed to a 27.9 percent depreciation of the PKR against the U.S. Dollar between July 2022 to March 22, 2023. With depreciation and removal of the informal exchange rate cap, the difference between the official and curb exchange rates as on March 22, 2023, was reduced to 0.5 percent compared to a peak of 5.1 percent on September 05, 2022.

Despite consolidation efforts, the fiscal deficit widened over the first six months of the year, driven by higher interest payments

Growing at the quickest pace for H1 since FY19, the fiscal deficit rose by 22.7 percent y-o-y in H1 FY23. This was driven by higher interest payments as the domestic interest rate rose and the currency readjusted to its market-determined rate, causing total debt servicing costs to jump by 77.1 percent. Reflecting fiscal consolidation efforts, non-interest expenditure declined by 1.7 percent, with reduced spending on subsidies and grants. Meanwhile, revenue increased by 18.8 percent, across tax and non-tax revenue, including direct taxes, reflecting higher prices and hikes in the petroleum development levy. Consequently, the primary surplus increased more than tenfold in comparison to H1 FY22. In contrast to the trend in nominal fiscal outcomes, the real fiscal deficit contracted by 1.8 percent. By end-Dec 2022, total public and publicly guaranteed debt had reached 64.0 percent of GDP, compared to 67.8 of GDP at end-Dec 2021.[3]

Limited access to international capital markets has further increased the Sovereign Bank Nexus

As Pakistan has been priced out of international capital markets, the Government relied on expensive domestic financing to bridge fiscal financing needs.[4] The rapid expansion in the banking sector's exposure to the government has led to credit to the sovereign accounting for 68.3 percent of all the credit extended by the banking sector as of December 2022, up from 43.0 percent in June 2010. Growing exposure to the sovereign has come at the cost of credit to the private sector and is now exposing the banking sector to risks in the context of recent macroeconomic headwinds (Box 2.1).

The outlook is highly uncertain and hinges on strong political ownership and effective implementation of critical reforms

Implementing macroeconomic and structural reforms agreed under the IMF-EFF program and securing much-needed external refinancing and new disbursements is critical to restoring macro-stability and confidence, and averting a public debt crisis. Maintaining stability will require that EFF program reforms are sustained and deepened, with additional new external financing flows required over the medium-term. Medium-term recovery will require the rapid development, communication, and effective implementation of a bold reform strategy. Strong political ownership will be needed to ensure that the strategy is credible and implementation is sustained. Such a reform agenda should include: i) keeping the exchange rate market-determined with a consistent fiscal-monetary policy mix; ii) increased domestic revenue mobilization through General Sales Tax (GST) harmonization, closing tax exemptions, and more effective taxation of assets and property; iii) curtailing and improving the quality of public expenditures, including through reduced subsidy spending (including to State-Owned Enterprises (SOE) and the energy and agricultural sectors), reducing discretionary recurrent expenditure items, reviewing federal development spending on provincial mandates, better delineation of service delivery responsibilities between provincial and federal governments, and pension reforms; iv) structural reforms to improve investment, competitiveness, and productivity, including trade and business regulatory reforms to remove distortionary protections; and v) urgent measures to improve the financial viability of the energy sector, including reducing distribution losses and generation costs. Projections are predicated on successful completion of the IMF-EFF program, effective implementation of reforms, and securing much-needed external refinancing and new disbursements from regional partners.

[2] Based on the projected imports of goods & services over the next 12 months. The import coverage ratio may change with the change in import projections.
[3] Public debt stock at end-Dec 2022 is reported as a share of WB estimated GDP for FY23
[4] The weighted average yield of 6 months treasury bills increased to 21.96 percent in the auction held on March 22, 2023.

With the implementation of critical reforms, GDP growth is projected to recover gradually but will remain below potential over the forecast horizon

Real GDP growth is expected to slow sharply to 0.4 percent in FY23, reflecting the tightening of fiscal policy, flood impacts, high inflation, high energy prices, and import controls (Table ES.1). Agricultural output is expected to contract for the first time in more than 20 years due to flood impact. Industry output is expected to shrink with supply chain disruptions, weakened confidence, and higher borrowing costs and fuel prices. Lower activity is expected to spill over to the wholesale and transportation services sectors, which account for more than 50 percent of services output. With improving confidence amid strong political ownership of a clearly communicated and effectively implemented reform agenda, output growth is expected to recover gradually in FY24 and FY25 but to remain below potential with low foreign reserves and elevated gross financing needs necessitating continued tight fiscal and monetary policy.

Table ES.1: Projections of Key Economic Indicators

	FY19	FY20	FY21	FY22e	FY23f	FY24f	FY25f
Real GDP growth, at constant factor prices	3.1	-0.9	5.7	6.0*	0.4	2.0	3.0
Current Account Balance (% of GDP)	-4.2	-1.5	-0.8	-4.6	-2.0	-2.1	-2.2
Fiscal Balance (% of GDP), excluding grants	-7.9	-7.1	-6.1	-7.9	-6.7	-6.3	-6.1
Public Debt, including govt. guaranteed debt (% of GDP)	78.0	81.1	75.6	78.0	74.0	72.1	72.2

Sources: Data from the official sources, World Bank staff estimates.
Notes: e = estimate; f =forecast. FY19 corresponds to fiscal year 2018-19 which runs from July 01, 2018, to June 30, 2019
*The Government's provisional FY22 estimate of real GDP growth (at 2015-16 prices) is 6.0 percent
This macroeconomic outlook was prepared by World Bank staff and differs from that of the government.

The Current Account Deficit (CAD) is expected to narrow in FY23, and widen marginally over FY24-25

Policy tightening, administrative controls, and the weaker currency are expected to dampen imports, and as a result, the current account deficit is projected to narrow to 2.0 percent of GDP in FY23. The CAD is expected to widen marginally to 2.1 and 2.2 percent of GDP in FY24-FY25 as import controls are phased out amid continued fiscal and monetary restraint. The reserves position is expected to gradually improve as financial flows recover in FY24-FY25.

The fiscal deficit is projected to narrow in line with the consolidation efforts

The fiscal deficit (excluding grants) is projected to narrow to 6.7 percent of GDP in FY23 and gradually narrow further over the medium term as fiscal consolidation takes hold. Fiscal consolidation is anchored by revenue measures, including GST harmonization and personal income tax reforms, and rationalization of expenditures, including costly and regressive energy subsidies.

The outlook is subject to major downside risks, which, if they materialize, could result in a macroeconomic crisis

Non-completion of the IMF program and failure to secure expected rollovers, refinancing, and new financing from key bilateral partners presents major risks. Recovery and medium-term growth depend on implementation of a broader range of reform measures. Additional risks include political instability in the lead-up to planned elections, unanticipated deterioration of external economic conditions, regional security conditions and financial sector risks associated with revaluation losses, liquidity shortages, and the dominance of public debt in the banking sector's portfolio. Given the country's low foreign exchange reserves and debt service obligations, in case the EFF is not completed, and additional financing flows are not secured, a macroeconomic crisis could materialize.

Pakistan can use fiscal reforms to spur sustainable economic growth and strengthen the economic recovery

Pakistan's large and persistent fiscal deficits threaten sustainability, stability, and economic growth. Large and persistent fiscal deficits have contributed to economic imbalances and lower productivity growth. In the short-run, Pakistan is implementing policy measures needed to resolve the macroeconomic imbalances that result in recurrent boom–bust cycles and deter incentives for investment. These short-term measures will further weigh on economic growth. Therefore, Pakistan must implement fiscal consolidation reforms in parallel to create fiscal space for progressive social spending and investments in growth-enhancing social and physical infrastructure. Box 2.2 provides a list of potential fiscal consolidation reforms that can support this agenda.

In the long term, productivity enhancing reforms are crucial to sustain fast growth

Pakistan's long-term growth has been stunted by its inability to allocate its resources and talent to the most productive uses. Underlying that inability are various distortions that are introduced or unaddressed by policies, such as tax policies that discourage investments in the tradable sector, import duties that encourage firms to sell in domestic rather than in export markets, export incentives that are biased against diversification and innovation, or investment laws that discriminate against foreign investors and deter inflows of needed foreign direct investment (FDI). Because the size of the tradable sector, trade, and FDI are directly and positively linked with productivity growth, these distortions that limit their expansion act as penalties on productivity. A long-term growth agenda needs to alleviate these distortions, so that Pakistan can lever integration into the global marketplace for faster, sustainable growth (World Bank, 2022a).

2. Recent Economic Developments

a. Context

Accommodative policies in FY22 resulted in strong growth at the cost of growing economic imbalances

Supported by accommodative monetary and fiscal policies, Pakistan's economy was made to grow beyond potential in FY22. Rapid growth came at the cost of pressure on domestic prices, external and fiscal imbalances, exchange rate depreciation, and the depletion of foreign reserves in the context of long-standing structural weaknesses, particularly low productivity, low private investment, and weak exports. Growing imbalances were exacerbated by the recent devastating floods that disrupted economic activities, especially agricultural production. Pakistan's economy is currently under severe stress, with low foreign reserves, a depreciating currency, and high inflation. Economic activity has slowed significantly, with much-needed policy tightening, import controls, flood impacts, weakened consumer and investor confidence, higher borrowing and fuel costs, and policy uncertainty.

b. Real Sector

Growth

Economic activity weakened, reflecting multiple domestic and external challenges

Economic growth is estimated to have slowed sharply over July–December 2022 (H1 FY23) in the face of multiple shocks, including widespread floods, import controls, high borrowing costs, and soaring domestic prices. Private consumption and investment growth are estimated to have slowed sharply, as reflected by the multi-year low consumer and business confidence indicators, in light of the credit downgrades and a severely weakening currency.[5] In H1 FY23, car and petroleum sales decreased y-o-y by 40.0 percent and 19.0 percent, respectively.[6] Meanwhile, investment is also estimated to have contracted in line with capital goods imports, such as machinery, which declined sharply. Public investment growth also slowed substantially to 11.4 percent in H1 FY23 from 24.8 percent over H1 FY22 on fiscal consolidation measures. Similarly, government consumption growth is also expected to have declined, with non-interest fiscal current expenditure rising by only 8.2 percent in H1 FY23, compared to an increase of 26.2 percent in H1 FY22 (Figure 2.1). Activity in the external sector was also subdued, although with imports falling faster than exports, net exports improved slightly but remained in negative territory.

Agricultural output was affected by widespread flooding

Widespread flooding had devastating impacts on agriculture in H1 FY23. These impacts were exacerbated by broader unfavorable weather conditions and difficulties securing quality fertilizers and animal feed, with livestock and Kharif season crop outputs declining significantly. According to the latest available information, more than one million livestock are estimated to have perished due to floods, and the production of major crops, including cotton and rice, significantly declined in H1 FY23.[7] With regard to agriculture inputs, tractor production and sales significantly dropped, and fertilizer off-take was lower than in H1 FY22.[8,9] In the case of the ongoing Rabi season, wheat sowing has been largely on track, reaching 21.5 million acres, which is 94.0 percent of the target area.[10]

Large-scale manufacturing

A combination of policy tightening, import controls, and lower global demand affected the performance of the industry sector in H1 FY23. The LSM index, a key indicator for industrial activity, decreased by 3.7 percent in H1 FY23 compared to growth of 7.7

[5] The consumer confidence index declined from a six-month average of 39.7 in June 2022 to 33.6 in December 2022, and business confidence declined from 51.50 to 45.13 during the same period.
[6] Monthly economic update and outlook, January 2023. Ministry of Finance. https://www.finance.gov.pk/economic/economic_update_January_2023.pdf
[7] Federal committee for Agriculture, press release. http://pid.gov.pk/site/press_detail/21085
[8] SBP website, LSM index. https://www.sbp.org.pk/ecodata/index2.asp
[9] Pakistan: satellite-based crop monitoring system, bulletin, December 2022
[10] Monthly economic update and outlook, January 2023. Ministry of Finance. https://www.finance.gov.pk/economic/economic_update_January_2023.pdf

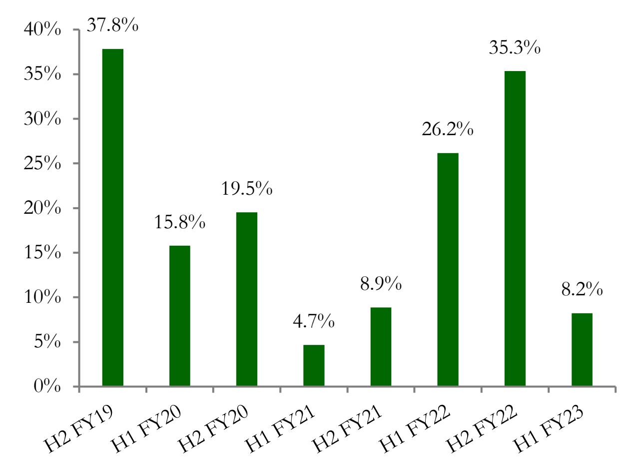
contracted in H1 FY23

percent in H1 FY22 (Figure 2.2). The contraction was broad-based, with 18 out of the 22 sectors (accounting for 89.6 percent of the index) recording lower production. Only wearing apparel, leather products, furniture, and other manufacturing sectors saw an increase in production. Similarly, domestic cement dispatches, an important indicator of construction sector activity, decreased by 20.7 percent during H1 FY23.[11] Likewise, industrial credit disbursement grew by only 9.5 percent in H1 FY23 compared to 16.9 percent in H1 FY22.[12]

Service sector activity weakened

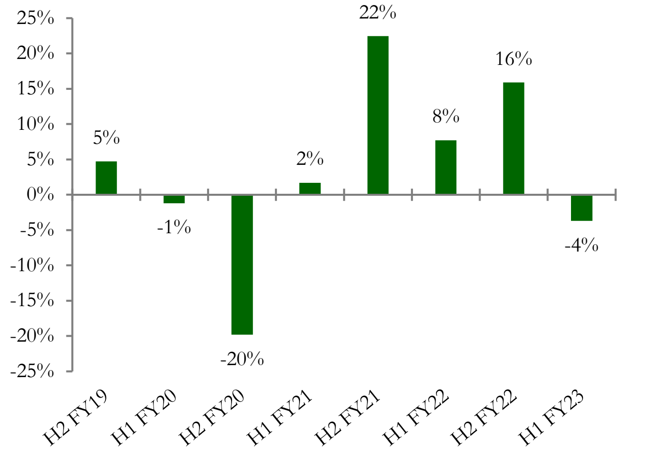
Activity in the services sector is also expected to have been disrupted by flood-related damages to critical infrastructure and the high fuel cost. Declining agricultural and industry sector output had negative impacts on associated service activities. Financing for wholesale and retail trade and transportation—two key sub-sectors of services—declined by 1.2 and 4.6 percent, respectively, between June and December 2022.[13] Service sector business confidence fell in H1 FY23, in line with lower activity.

Figure 2.1: Growth in Non-Interest Current Expenditure
(y-o-y)



Source: Ministry of Finance

Figure 2.2: LSM Growth
(y-o-y)



Source: Pakistan Bureau of Statistics

Inflation

Average headline consumer price inflation rose to a multi-decade high, reflecting higher energy and food prices

Pakistan's headline consumer price inflation rose to a multi-decade high in H1 FY23, reflecting the reversal of fuel and electricity subsidies, surging global commodity prices, and a weaker exchange rate. Inflation during H1 FY23 reached an average of 25.0 percent compared to 9.8 percent during H1 FY22. The increase in inflation was broad-based, with all product categories except communication services recording higher inflation. Across product categories, inflation for transportation, given its direct link to fuel prices, registered a sharp increase of 55.2 percent in H1 FY23 compared to 15.1 percent in H1 FY22. Meanwhile, inflation for utilities (water, electricity, gas, and other fuels), was less pronounced partly because there were fewer adjustments in electricity tariffs over the period.[14]

Energy prices rose during H1 FY23, partly due to tariff

Energy inflation reached 40.6 percent in urban areas and 41.9 percent in rural areas during H1 FY23, compared to 25.1 and 22.7 percent, respectively, during H1 FY22.[15] The increase in domestic energy prices was attributable to i) rising global oil prices,[16] ii) a

[11] Monthly economic update and outlook, January 2023. Ministry of Finance. https://www.finance.gov.pk/economic/economic_update_January_2023.pdf.
[12] State Bank of Pakistan (February 2023), credit/loans classified by borrowers. https://www.sbp.org.pk/ecodata/creditloans.pdf.
[13] State Bank of Pakistan (February 2023), credit/loans classified by borrowers. https://www.sbp.org.pk/ecodata/creditloans.pdf.
[14] Gas and fuel prices have significantly increased in Q1 FY23. For instance, LPG prices rose by PKR60 per Kg in January. Price of petrol also has increased by more than PKR50 per Liter during Jan-Feb 2023.
[15] Energy inflation consists of electricity charges, gas prices, liquified hydrocarbons, solid fuel, and motor fuel.
[16] Average Brent oil prices increased by 22.9 percent in H1 FY23 compared to H1 FY22. Source; World Bank Commodity Price Data, January 04, 2023. https://thedocs.worldbank.org/en/doc/5d903e848db1d1b83e0ec8f744e55570-0350012021/related/CMO-Pink-Sheet-January-2023.pdf.

reforms in the energy sector

weaker exchange rate,[17] and iii) higher energy tariffs associated with the reversal of the energy subsidies and broader tariff reforms for both electricity and fuels. The electricity tariff increased by 47.0 percent (PKR7.91) per unit in H1 FY23, from an average of PKR16.89 per unit in June 2022 to PKR24.8 per unit. Meanwhile, average petrol prices increased by around 74.0 percent to PKR229.8 per liter in H1 FY23 from an average of PKR132.3 in H1 FY22, due to a significant increase in the petrol base price and the re-introduction of the petroleum levy, which was increased to PKR50 during July–November.[18]

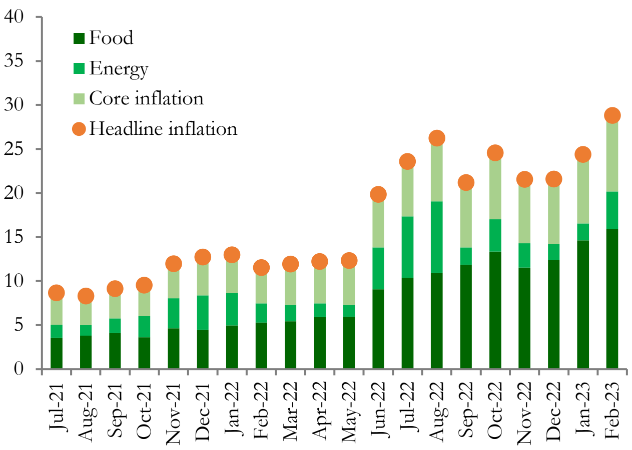
Catastrophic flooding impacted food prices

Food inflation sharply rose in H1 FY23, primarily due to the impact of catastrophic floods but also reflecting higher global food prices and the second-round impact of currency depreciation. At the national level, inflation in the product category of food and non-alcoholic beverages more than tripled, from 9.6 percent in H1 FY22 to 32.2 percent in H1 FY23. Item-wise analysis reveals that the highest inflation was for fresh vegetables, including tomatoes and onions, cooking oil/ghee, pulses, meat, and fresh fruit. The sharp increase in food inflation was partly due to the floods that resulted in damages and supply disruptions that significantly affected crop output, while the high transport, fertilizer, and animal feed costs increased agricultural producers' input costs. In addition, the higher global food prices together with the weaker exchange rate have added to domestic food inflationary pressures.

Persistently high energy and food inflation spilled over onto broader prices

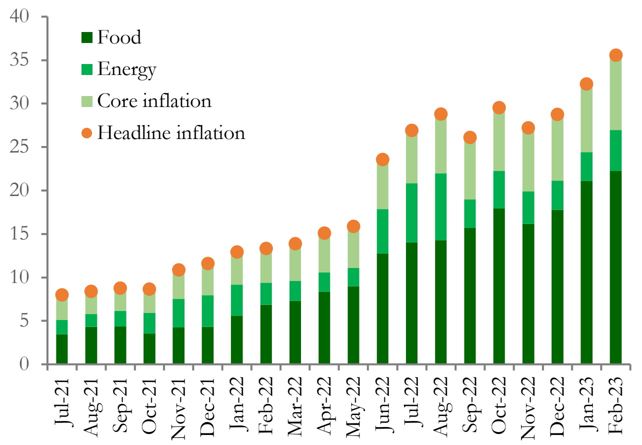
Core inflation has steadily risen since October 2021 in rural and urban areas, reflecting persistent energy and food inflationary pressures and exchange rate depreciation. Urban core inflation more than doubled to an average of 14.1 percent in H1 FY23 from 7.0 percent in H1 FY22. Similarly, rural core inflation increased from an average of 7.2 percent in H1 FY22 to 17.4 percent in H1 FY23. Price increases were broad-based and except for communications, all categories of goods and services recorded double-digit inflation. The rise in core inflation was partly due to the depreciation of the exchange rate and the spillover of persistent inflationary pressures onto wages and the production cost of core goods, including durable goods.[19]

Figure 2.3: Contribution to Headline Inflation in Urban Areas
(percent)



Source: Pakistan Bureau of Statistics, WB staff calculations

Figure 2.4: Contribution to Headline Inflation in Rural Areas
(percent)



Source: Pakistan Bureau of Statistics, WB staff calculations

Headline inflation rose in January–February 2023, with food inflation being the main contributor

On a monthly basis, headline inflation rose to 31.5 percent y-o-y in February, the highest monthly inflation rate in more than four decades. After easing slightly, both urban and rural energy prices recorded a sudden hike in February, reflecting the recent fuel and electricity tariff adjustments, reaching 37.1 and 37.5 percent, respectively. Similarly, both urban and rural food inflation increased significantly, reaching 41.9 and 47.0 percent respectively, indicating the continuing rising trend in overall food inflation. Both urban

[17] PKR depreciated by 9.8 percent against USD in H1 FY23.
[18] https://www.ogra.org.pk/latest-notified-oil-prices
[19] State Bank of Pakistan (SBP) (January 2023a), Monetary policy statement. https://www.sbp.org.pk/press/2023/Pr1-23-Jan-2023.pdf

and rural core inflation have also been steadily rising, reaching 17.1 percent and 21.4 percent, respectively, in February 2023, as the Rupee continued to depreciate.

Poverty

A weaker labor market combined with high levels of food inflation have reduced living standards, especially among poorer households

Poor households have been negatively impacted by: i) the effects of flooding and import restrictions on production and labor incomes in economic sectors that employ a large number of the poor, including agriculture and the textile industry; ii) high food inflation, which has reduced the real purchasing power of all households, with particularly severe impacts on poorer households that lack savings to preserve consumption amid higher prices; and iii) a potential decline of international remittances. In the absence of public transfers that cover income losses or mitigate the impact of higher prices, poverty measured at the lower middle-income poverty line (3.65 USD/day 2017 PPP per capita) is projected to increase to 37.2 percent in FY23, pushing an additional 3.9 million people into poverty as compared to FY22. The depth and severity of poverty has also increased, reflecting the overlapping impacts of multiple shocks and households' lack of savings to mitigate short-term impacts.

Natural disasters increased spatial disparities, while the use of negative coping mechanisms eroded human development outcomes

The floods have damaged and destroyed assets and public infrastructure, including roads, sanitation and clean water access points, and health and education centers. As a result, human development outcomes such as health and education are at risk of deterioration. In this sense, natural disasters have deepened existing spatial disparities in access to services and opportunities. Household strategies to cope with declining incomes and the rising cost of living, such as lowering school attendance and reducing the quantity and the quality of food intake, have negative short-, medium-, and long-terms effects on child development and human capital acquisition, including stunting rates.

c. Monetary and Financial Sector

Monetary

In response to rising inflationary pressures, the State Bank of Pakistan raised the policy rate in H1 FY23

The State Bank of Pakistan (SBP) has been tightening its monetary policy since September 2021 to contain elevated inflationary pressures and rapid currency depreciation. The central bank recently increased the policy rate by 300 bps to 20.0 percent, the highest since October 1996, a cumulative increase of 625 bps from July 2022 to March 2023.[20] Headline consumer price inflation rose to a multi-decade high of an average of 25.0 percent y-o-y in H1 FY23, up from 9.8 percent during H1 FY22. Moreover, in line with the SBP's forward guidance, monetary policy is expected to remain tight in the near term to achieve price stability. In the latest SBP survey, consumer and business inflation expectations have drifted upwards over the short and medium term.[21] To anchor the higher inflation expectations over a longer-than-anticipated period, the market expects further policy tightening to achieve mildly positive real interest rates, which are still negative, as evidenced by the recent bid pattern for government T-bills, indicating a preference for three-month papers.

Financial Sector

Credit to the private sector continues to be crowded out by credit to the public sector

In December 2022, bank credit to the public sector was 68.3 percent of total credit extended, with just 31.6 percent extended to the private sector. Credit to the private sector continues to be crowded out, as banking sector liquidity is tied up in financing the government. However, credit to the private sector grew marginally from 30.3 percent in June 2022, largely on account of growing credit to the manufacturing sector. The manufacturing sector is still the dominant borrower in the private sector, constituting 56.0 percent of private-sector credit in December 2022, up from 53.8 percent in June 2022. Consumer financing, including home financing, was down from 10.9 percent of private sector credit in June 2022 to 10.1 percent in December 2022, reflecting the rising interest

[20] SBP (March 2023). https://www.sbp.org.pk/ecodata/OVR-Repo-History.pdf
[21] SBP (January 2023b). https://www.sbp.org.pk/research/CSS/Reports/2023/CCS-Jan-2023.pdf and SBP (December 2022). https://www.sbp.org.pk/research/BCS-/Report/2022/Dec/BCS-Report.pdf

rates and suspension of mandatory lending targets for housing for Banks. While already limited, bank lending to small and medium-sized enterprises (SMEs) has also started to decrease. The number of SME borrowers has fallen by approximately 5 percent from June to December 2022, while SME non-performing loans (NPLs) have risen to 17.5 percent from 16.5 percent during the same period. The SBP's development finance schemes continue to be a mainstay of bank credit, comprising 17.6 percent of all credit to the private sector in December 2022. However, there has been a slight contraction since June 2022, when the schemes comprised 18.9 percent of bank credit. This may be attributable to the linking of interest rates on concessionary schemes with the policy rate.

Capital buffers have improved but mask risks to the sector

Despite some weakening, banks' reported solvency indicators look strong. The banking sector's reported capital adequacy ratio (CAR) was 16.6 percent in September 2022, above SBP's minimum prudential requirements of 11.5 percent and at its highest point in the calendar year. However, this was a downward slide in CAR from 18.6 percent in December 2020. Furthermore, bank capital to total assets has also trended downward, sitting at 5.8 percent in September 2022, from 6.5 percent in September 2021. Although CAR is above the regulatory requirements, it does not however capture banks' exposure to sovereign risks, as sovereign exposures are considered risk-free and receive a zero-risk weight. Given the scale of the banking sector's exposure to the sovereign, the sector's health is increasingly intertwined with the debt sustainability of the government. Furthermore, banks' profits and capital buffers are being eroded as, in an increasing interest rate environment, the inverse relationship of bond prices to interest rates can lead to sizable revaluation losses on banks' holdings of government securities.

Microfinance has been impacted by COVID-19, the floods of 2022, and inflationary pressures

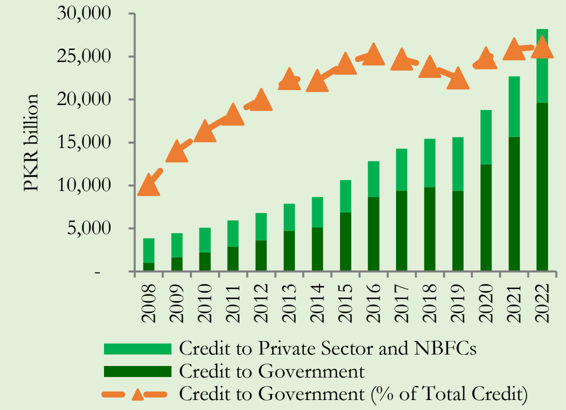
The microfinance sector, a driver of Pakistan's financial inclusion agenda, serves 76 percent of all borrowers from the financial sector and accounts for approximately a third of all outstanding agriculture advances.[22] The sector has been deeply affected by the combined impact of the COVID-19-related economic slowdown and mitigation measures, and the devastating floods of 2022. From June to September 2022, the microfinance sector gross loan portfolio grew approximately 4.8 percent to PKR 470 billion. However, the portfolio at risk over 30 days also expanded from 4.5 to 5.9 percent of the total portfolio. Of the total outstanding microfinance loan portfolio, an estimated 18 percent of borrowers and 40 percent of loans are in flood-impacted areas, putting additional stress on the asset quality of the sector. At the sectoral level, microfinance banks are already undercapitalized—with a dwindling CAR of 11.7 percent in September 2022, down from 14.9 percent in June 2022—and face growing NPLs. The proportion of microfinance bank NPLs to total advances has grown to 7.8 percent in September 2022, up from 6.5 percent in June 2022, while provisions for NPLs have fallen to 61.6 percent from 73.4 percent over the same period.

[22] This is based on the total number of active microfinance borrowers and personal borrowers from commercial banks.

Box 2.1: Sovereign-Bank Nexus in Pakistan: Looking Beyond Crowding Out

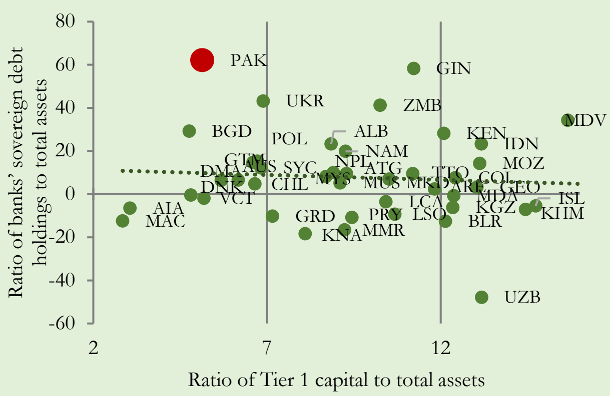
The banking sector's exposure to the sovereign has grown significantly in recent years. Credit extended by the banking sector to the sovereign has surged by 444 percent over the June 2012–June 2022 period (Figure B.2.1). This growth stands in steep contrast to growth in credit to the private sector, which stood at 170 percent over the same period. The rapid expansion in the banking sector's exposure to the government has led to credit to the sovereign accounting for 68.3 percent of all the credit extended by the banking sector as of December 2022, up from 43.0 percent in June 2010. The sovereign, in effect, is the dominant borrower in the banking system. International comparisons also confirm that Pakistan's banking sector is highly exposed to the sovereign. As of FY21, the exposure of commercial banks to the sovereign was the highest in Pakistan among a group of comparators.

Figure B.2.1: Government Borrowing from Banks FY08-22



Source: Author's calculations based on SBP data

Figure B.2.2: Tier 1 Capital-to-Total Assets Ratio and Banks' Holdings of Sovereign Debt, 2021



Source: Reproduced from Pakistan Country Economic Memorandum

Growing exposure to the sovereign has come at the cost of credit to the private sector… In the presence of a dominant and theoretically 'risk-free' borrower, the banking sector has few incentives to design innovative financial products or institute robust risk management practices to extend finance to underserved sectors. This is reflected in credit to private sector (% of GDP) which has dropped from a high of 29 percent in 2008 to 17 percent in 2020, half the SAR average and significantly lower than Pakistan's aspirational peers.

…and is now exposing the banking sector to risks in light of recent macroeconomic headwinds. One of these risks is duration (interest rate) risk, which has already manifested itself in losses on bank balance sheets, with significant implications on tier-2 capital. Bond prices move inversely with interest rates and are particularly sensitive to changes in interest rates at longer tenors. Whereas investments in the Held to Maturity (HTM) category of investments do not need to be revalued in response to changes in interest rates, those under Available for Sale (AFS) and Held for Trading (HFT) categories are to be revalued daily at a benchmark called PKRV, published by the Financial Markets Association of Pakistan. Any impairment in the value of AFS or HFT securities, as quantified by computing the differential between book and market values, is to be provided for by adjusting the revaluation reserves under tier-2 capital for AFS securities and charging it to the Profit and Loss Account for HFT securities. In essence, any impairment on investments in government securities in response to increases in interest rates, as has been witnessed in recent months, will lead to a direct impact on bank capital, with implications on their ability to lend to the private sector.

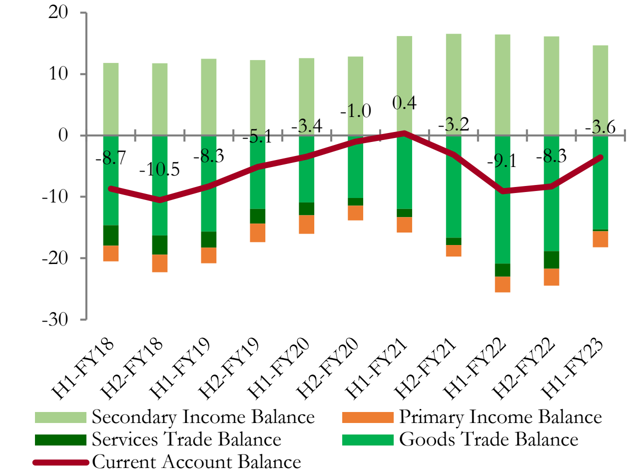
The dependence of the sovereign on banks has deepened at a time of muted growth in the funding available to banks to invest in government securities. The sovereign's dependence on the domestic banking sector has increased because of a bar on the monetization of debt and declining access to international capital markets, in addition to growing expenditure needs. The dependence, however, has increased at a time when deposit mobilization has slowed. Deposit growth in CY22 was 7.1 percent, the lowest in 14 years, down from 17 percent in CY21. The growing financing needs of the government along with slowing deposit growth have necessitated a surge both in the quantum and tenors of the Open Market Operations of the SBP. Outstanding aggregate bank borrowing from the SBP stood at PKR5.7 trillion in June 2022, up 341 percent from June 2019. This borrowing amounted to ~25 percent of the deposit base of the banks and ~9 percent of GDP, alluding to the importance of this channel for funding the government. In a context of growing macroeconomic stress and slowing deposit growth, refinance risks on domestic debt are of growing concern.

d. External Sector

The current account deficit narrowed sharply in H1 FY23…

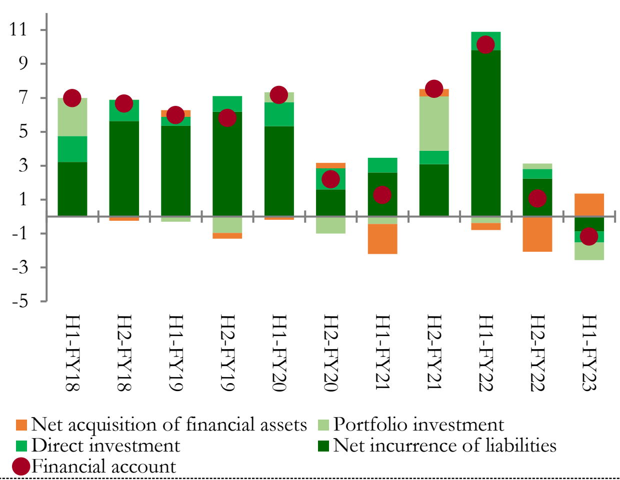
The current account recorded a deficit of US$3.6 billion during H1 FY23, narrowing 60.9 percent y-o-y from a deficit of US$9.1 billion in H1 FY22 (Figure 2.5). The narrower CAD was led by a smaller trade deficit (goods and services) more than offsetting a narrower income account surplus. The reduction in the trade deficit was due to a strong contraction in imports, in part reflecting the impact of administrative measures by the authorities to manage imports and curb domestic demand, such as the rationing of letters of credit (LCs).[23] Meanwhile, an informal cap on the official exchange rate resulted in its misalignment with open market rates – with a peak official-curb differential of 5.1 percent in September 2022. Accordingly, remittances were increasingly channeled outside the formal bank sector, reducing the income surplus. Despite a substantial decline, remittances still financed 92 percent of the trade deficit (goods) compared to 76 percent in H1 FY22.

Figure 2.5: H1 Current Account Balances (Jul–Dec)
(US$ billion)



Source: State Bank of Pakistan, World Bank staff calculations

Figure 2.6: H1 Financial Account Inflows (Jul–Dec)
(US$ billion)



Source: State Bank of Pakistan, World Bank staff calculations
Note: A positive financial account balance represents inflows

…as goods and services imports contracted sharply amid domestic demand and imports management measures

The overall goods and services trade deficit decreased by 32.0 percent y-o-y from US$23.0 billion in H1 FY22 to US$15.6 billion in H1 FY23, mainly due to lower imports. While the growth of goods exports declined by 6.7 percent in H1 FY23 due to less conducive external conditions, import management policy measures resulted in goods imports contracting by an even faster 18.2 percent, leading to a narrower goods trade deficit. While textile and other manufacturing exports grew slightly, exports of all other sectors contracted. Similarly, the contraction in goods import was broad based, with all major product groups declining, except for food and petroleum. In particular, the quantum of petroleum group imports was reduced by 30.6 percent in H1 FY23, owing to a fall in domestic demand due to the devastating floods, lower sentiment, and higher energy prices.[24] However, in value terms, petroleum imports increased by 16.2 percent, reflecting a more pronounced price impact owing to higher international oil prices.[25] In terms of services trade, services exports rose by 4.7 percent, while services imports shrank by 29.8 percent, with the latter mainly driven by a decrease in the import of trade-related transport services. As a result, the services trade deficit narrowed by 85.1 percent to US$0.3 billion in H1 FY23, from US$2.1 in H1 FY22.

The income account recorded a lower surplus due to

The income account surplus decreased by 13.2 percent y-o-y to US$12.1 billion in H1 FY23 from US$13.9 billion in H1 FY22, mainly due to reduced remittance inflows. The primary income account deficit increased due to higher interest payments on external debt. Under secondary income, remittance inflows declined due to a misaligned official

[23] SBP (May 2022). https://www.sbp.org.pk/epd/2022/FECL9.htm
[24] Based on quantum and price data reported by the *Pakistan Bureau of Statistics and World Bank staff calculations.*
[25] Monthly average Brent oil price increased by 22.9 percent to 93.8 US$/bbl in H1 FY23 compared to 76.3 US$/bbl in H1 FY22.

reduced remittance inflows

exchange rate and weaker labor market conditions in all key remitting countries.[26] As a result, total remittances were reduced to US$14.1 billion, down by 10.7 percent from US$15.8 billion in H1 FY22.

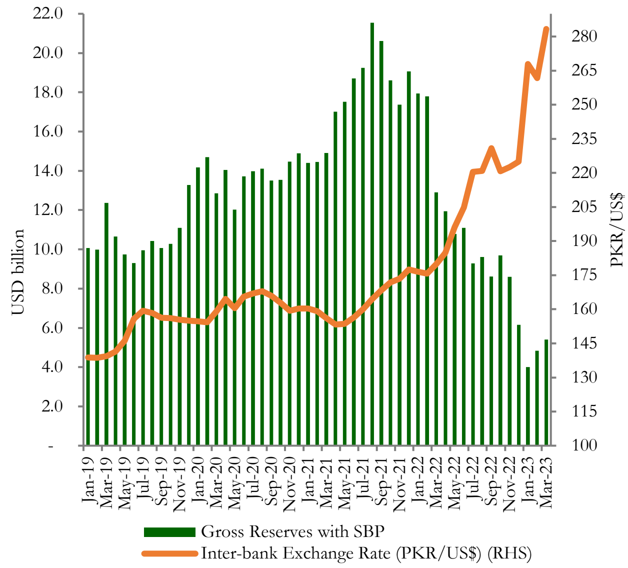
The financial account recorded a deficit due to lack of fresh financial inflows and debt repayments

The financial account ran a deficit of US$1.2 billion in H1 FY23 compared to a surplus of US$10.1 billion in H1 FY22, the largest half-year deficit in the last twelve years (Figure 2.6), which was due to the lack of fresh financial inflows and substantial debt repayments over the period. These repayments included those for international sukuks, commercial loans, and multilateral and bilateral loans. Due to a US$1.0 billion Sukuk bond repayment, portfolio flows recorded a net outflow of US$1.0 billion compared to US$0.4 billion in H1 FY22. FDI also saw a net outflow of US$0.7 billion in H1 FY23, owing to an investment in equity abroad of US$0.9 billion in a foreign entity (Barrick Gold) under the agreement to settle the Reko Diq dispute.[27]

Since Dec 2022, the CAD has experienced a sharp contraction, but reserves remain precariously low

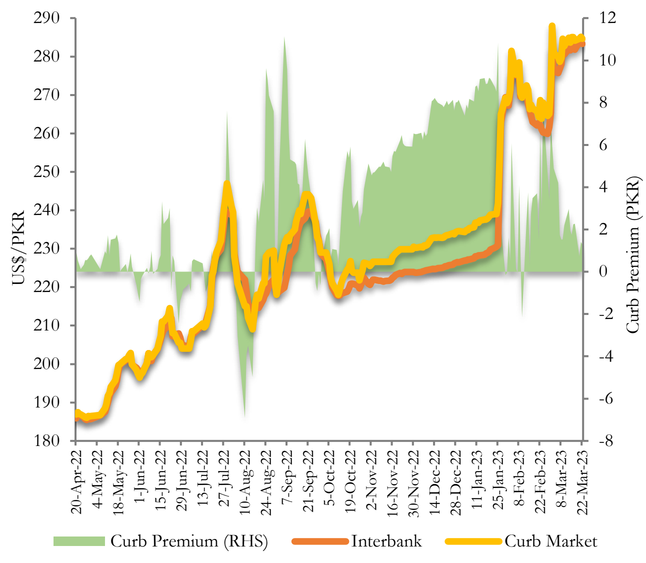
The CAD narrowed to US$0.23 billion and US$0.07 billion in January and February 2023 respectively as imports continued to contract due to administrative controls, and a weaker Rupee. Cumulatively, the CAD in Jul–Feb FY23 declined to US$3.9 billion compared to a deficit of US$12.1 billion in the same period in FY22. During Jul–Feb FY23, Pakistan received inflows of US$700 million against the refinancing of Chinese commercial loans and US$1.2 billion from the IMF.[28] However, due to a delay in the completion of the 9th review of the IMF EFF and associated external financing and larger amortization in the first 8 months of FY23, the financial account recorded a net outflow of US$2.2 billion. As a result, the external position continues to be under stress, with foreign exchange reserves reaching precariously low levels of US$5.4 billion on March 10, 2023, equivalent to 0.9 months of total imports (Figure 2.7).

Figure 2.7: Gross Official SBP Reserves and Exchange Rate
(US$ billion)



Source: State Bank of Pakistan, World Bank staff calculations

Figure 2.8: Domestic Exchange Rate Movements
(US$/PKR)



Source: State Bank of Pakistan, World Bank staff calculations

[26] Remittances from the United States, United Kingdom (UK), Kingdom of Saudi Arabia (KSA), and United Arab Emirates (UAE) constituted 68.1 percent of the total remittances received during Jul-Dec FY23. During this period, remittances from the United States increased by 2.2 percent y-o-y, whereas remittances from the UK, KSA., and UAE declined by 7.9 percent, 14.0 percent, and 13.5 percent, respectively.
[27] The deal was signed with the Canadian mining company Barrick Gold and its partner Antofagasta to revive the Reko Diq project and resolve the dispute.
https://www.barrick.com/English/news/news-details/2022/reko-diq-alliance-between-pakistan-and-barrick-set-to-create-long-term-value/default.aspx
Under the finalized new agreement, Barrick will hold half of the project ownership, and the federal and provincial governments will jointly hold the other half. https://icsid.worldbank.org/cases/case-database/case-detail?CaseNo=ARB/12/1
[28] This includes the China Development Bank (CDB) refinancing of US$700 million.

Low level of reserves and loss of confidence contributed to the Rupee's depreciation

The Rupee remained under pressure due to a loss of confidence in line with the precariously low level of international reserves, political uncertainty, and persistent current account deficit. Despite an informal cap on PKR/US$ exchange rate in the interbank market, the Pakistani Rupee officially depreciated by 9.8 percent against the U.S. Dollar in H1 FY23. The exchange rate cap led to a substantial spread, of as much as 5.1 percent in September 2022, between interbank and open market exchange rates (Figure 2.8). The spread incentivized the use of informal channels for transactions (through hundi/hawala) and contributed to further tightening of liquidity in the interbank market. The CAP on exchange rate was removed in January 2023 leading to cumulative depreciation of 27.9 percent between end-FY22 and March 22, 2023 and as a result, the spread between the interbank and open market rate reduced to 0.5 percent.

Table 2.1: Balance of Payments Summary[1]
US$ million unless mentioned otherwise

	FY21	FY22	H1-FY21	H1-FY22	H1-FY23
i. Current account (A+B+C+D)	**-2,820**	**-17,405**	**351**	**-9,091**	**-3,557**
A. Good trade balance	**-28,634**	**-39,681**	**-11,969**	**-20,853**	**-15,306**
Goods Exports	25,639	32,471	11,813	15,242	14,222
Goods Imports	54,273	72,152	23,782	36,095	29,528
B. Services Trade Balance	**-2,516**	**-5,019**	**-1,347**	**-2,139**	**-319**
Trade Balance	**-31,150**	**-44,700**	**-13,316**	**-22,992**	**-15,656**
C. Balance on primary income[2]	**-4,400**	**-5,296**	**-2,518**	**-2,554**	**-2,604**
D. Balance on secondary income[2]	**32,730**	**32,591**	**16,185**	**16,455**	**14,672**
of which, remittances	29,450	31,279	14,184	15,808	14,112
ii. Capital account	**224**	**208**	**127**	**119**	**314**
1. Balance from current and capital accounts (i+ii)[3]	**-2,596**	**-17,197**	**478**	**-8,972**	**-3,243**
2. Financial accounts[4]	**-8,768**	**-11,149**	**-1,254**	**-10,105**	**1,201**
of which:					
Direct investment	-1,648	-1,635	-858	-1,070	668
Portfolio investment	-2,774	54	442	374	1,031
Net acquisition of financial assets	1,345	2,490	1,763	415	-1,355
Net incurrence of financial liabilities	5,691	12,057	2,604	9,823	-860
3. Errors and omissions	**-619**	**-268**	**-450**	**-345**	**160**
Overall balance (-1+2-3)	**-5,553**	**6,316**	**-1,282**	**-788**	**4,284**
Gross SBP reserves (incl. CRR, SCRR)[5]	18,716	11,092	14,886	19,058	6,159
Memorandum items					
Current account balance (percent of GDP)	*-0.8*	*-4.6*	-	-	-
Goods Trade Balance (percent of GDP)	*-8.2*	*-10.5*	-	-	-
Goods Export growth (percent, y-o-y)	*13.8*	*26.6*	*-4.8*	*29.0*	*-6.7*
Goods Import growth (percent, y-o-y)	*24.4*	*32.9*	*2.0*	*51.8*	*-18.2*
Remittance growth (percent, y-o-y)	*27.3*	*6.2*	*24.7*	*11.4*	*-10.7*
Financial account (percent of GDP)	*2.5*	*3.0*	-	-	-
Overall Balance (percent of GDP)	*-1.6*	*1.7*	-	-	-

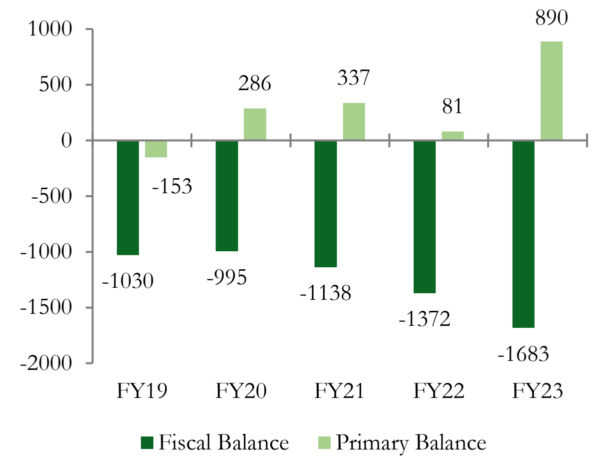
Source: State Bank of Pakistan, World Bank Staff calculations
Notes:
[1] As per Balance of Payments Manual 6 (BPM6).
[2] In BPM6, the income account has been renamed "primary income" and current transfers, "secondary income."
[3] A negative balance shows that the economy is a net borrower from the rest of the world.
[4] A negative balance highlights a net increase in the incurrence of foreign liabilities.
[5]CRR: Cash Reserve Requirement, SCRR: Special Cash Reserve Requirement.

e. Fiscal and Debt Developments

Despite a larger primary surplus, Pakistan's fiscal deficit widened as the cost of debt servicing increased

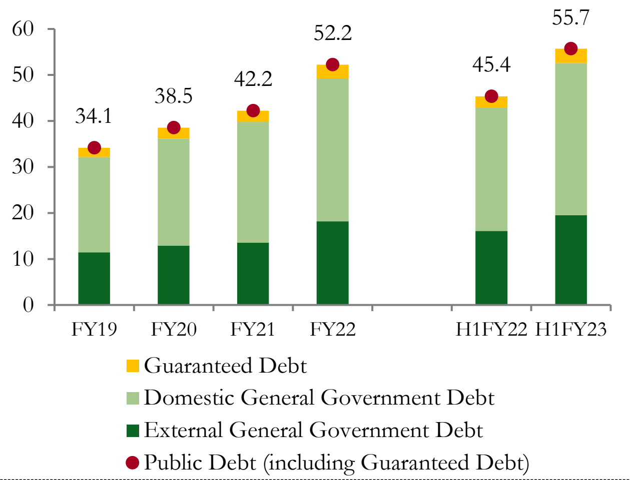
The consolidated fiscal deficit rose by 22.7 percent y-o-y in H1 FY23, slightly higher than the growth of 20.6 percent in H1 FY22 (Figure 2.9). As the cost of debt servicing increased, the fiscal deficit widened by the highest H1 growth rate in four years. Higher domestic and international interest rates, and further depreciation of PKR caused debt servicing to increase significantly and consume more than 50 percent of total revenue. However, the Government maintained fiscal consolidation efforts by reducing subsidies and grants leading to decline in non-interest expenditures. Meanwhile, total revenues increased, driven by higher prices supporting strong direct taxes receipts, and increases to the Petroleum Development Levy (PDL). Consequently, the primary surplus for H1 FY23 was more than tenfold the surplus for H1 FY22. In contrast to the trend in nominal fiscal outcomes, the real fiscal deficit contracted by 1.8 percent as both total real revenue and expenditure declined. However, total non-interest real expenditure reduced by 21.4 percent, supporting a ninefold increase in the real primary surplus in H1 FY23.

Figure 2.9: Consolidated Fiscal and Primary Balance (excluding grants) in H1
(PKR billion)



Source: Ministry of finance, World Bank Staff Calculations

Figure 2.10: Public and Publicly Guaranteed Debt
(PKR trillion)



Source: State Bank of Pakistan, World Bank Staff Calculations

Total revenue increased on account of higher tax and non-tax revenue

Total revenue increased by 18.8 percent y-o-y in H1 FY23, slightly higher than the 18.0 percent growth in H1 FY22. This was supported by continued momentum of growth in tax revenue that rose by 19.6 percent in H1 FY23, compared to 19.2 percent growth in H1 FY22 due to the impact of high inflation. The main drivers of growth in tax revenue were direct taxes and the PDL, as revenue from direct taxes increased by almost 50 percent and revenue from the PDL more than doubled in H1 FY23. After remaining at zero between mid-March 2022 and June 2022, the PDL was increased to PKR10 per liter at the start of July 2022, and gradually hiked to PKR50 per liter between July and November 2022. During H1 FY23, revenues from excise duty and sales tax on services increased by 12.9 percent and 27.9 percent, respectively.[29] The sharp contraction in imports led to stagnation in revenues from sales tax on goods, and a decline of 2.8 percent in revenues from international trade (custom duties).[30]

Non-tax revenues increased despite lower revenue from the regulatory authorities

Non-tax revenue increased by 14.9 percent in H1 FY23, compared to a growth of 12.6 percent in H1 FY22. The Government's interest receipts from lending to public sector enterprises (PSEs), royalties on oil and gas, and dividends from PSEs were the main drivers of the increase in non-tax revenue. In contrast, revenue from the SBP and the Pakistan Telecommunication Authority (PTA) declined by 2.3 percent and 16.2 percent, respectively.

[29] Under the Finance Act 2022, the Federal Excise Duty on locally produced cigarettes was increased from PKR5,200 to PKR6,500 per 1,000 cigarettes in tier-1 (retail price above PKR6,660 per 1,000 cigarettes), and from PKR1,650 to PKR2,050 per 1,000 cigarettes in tier-2 (retail price below PKR6,660 per 1,000 cigarettes). In addition, the price threshold for tier 1 and tier 2 was raised from PKR5,960 to PKR6,660 per 1,000 cigarettes.

[30] Goods imports contracted by 18.2 percent in H1 FY23.

Current expenditure increased on account of higher interest payments

Total expenditure increased by 19.8 percent in H1 FY23, slightly higher than the growth of 18.7 percent in H1 FY22. This was driven by higher growth in current expenditure, which rose by 29.6 percent in H1 FY23, nearly doubling the growth of 16.0 percent in H1 FY22, on account of higher interest payments. On external debt, interest payments more than doubled as the Rupee weakened against all major currencies.[31] Simultaneously, the SBP increased the policy rate by a cumulative 900 basis points to 16 percent over FY22 and H1 FY23 (July 2021–December 2022).[32] With 64 percent of domestic debt stock consisting of floating rate instruments at end-June 2022, the increase in policy rate had a direct impact on domestic debt servicing. As a result, the interest payments on domestic debt grew by 73.2 percent in H1 FY23. Collectively, total interest payments were 77 percent higher than in H1 FY22.

However, growth in non-interest current expenditure remained marginal

Non-interest current expenditure increased by only 8.2 percent in H1 FY23, less than a third of the 26.2 percent increase in H1 FY22. In line with the Federal Government's fiscal consolidation efforts to cut spending, expenditure on both grants and subsidies declined. Subsidies fell by 29.1 percent as the Government reversed last year's subsidy on electricity and petroleum prices,[33] and expenditure on grants declined by 37.3 percent. This created some fiscal space for the Government to provide subsidized electricity and RLNG for select export-oriented industries and increase spending under Benazir Income Support Programme (BISP) in the wake of the floods. Contrary to federal fiscal consolidation, provincial current expenditure increased by 24.5 percent, countering some of the impact from decline in federal non-interest current expenditure.

Development expenditure also increased marginally in line with fiscal consolidation efforts

Expenditure under development and net lending increased by 11.4 percent in H1 FY23, significantly lower than the 24.8 percent rise in H1 FY22. The combined Federal and Provincial spending under the Public Sector Development Program (PSDP) grew by only 4.5 percent as the expansion of Provincial PSDP was partially offset by a contraction in Federal PSDP.

Public debt remained high amid sizeable external financing needs

During H1 FY23, external flows saw net outflows compared to net inflows in H1 FY22, as external debt repayments exceeded inflows. As a result, the Government relied primarily on domestic financing sources in H1 FY23. Amid sizeable external financing needs, total public and publicly guaranteed debt reached PKR55.7 trillion (64.0 percent of GDP) by end-Dec 2022,[34] compared to PKR52.2 trillion (78.0 percent of GDP) and PKR45.4 trillion (67.8 percent of GDP) at end-June 2022 and end-Dec 2021, respectively (Figure 2.10). Of the total public debt, the share of external debt was 37.8 percent whereas short-term debt was 11.3 percent at end-Dec 2022. As the liquidity position worsened, the global credit rating agency, Moody's, downgraded Pakistan's sovereign credit rating to Caa3, while changing the outlook from negative to stable in February 2023.[35] Meanwhile, Fitch Ratings downgraded Pakistan's Long-Term Foreign Currency Issuer Default Rating to "CCC-" from "CCC+."

---

[31] The inter-bank exchange rate of PKR against the US$ depreciated by 9.8 percent in H1 FY23.
[32] The policy rate is currently at 20 percent.
[33] The Government reduced the prices of petrol and HSD by PKR10 per liter at the end of February 2022 and maintained these lower prices from March to end-May 2022. Simultaneously, from March to June 2022, base price of electricity was also reduced by PKR5 per unit.
[34] Reported as share of WB estimated GDP for FY23.
[35] https://www.moodys.com/research/Moodys-downgrades-Pakistans-rating-to-Caa3-changes-outlook-to-stable--PR_473488

Table 2.2: Summary of Fiscal Operations
PKR billion unless mentioned otherwise

	FY21	FY22	H1-FY21	H1-FY22	H1-FY23
Total revenue	**6903**	**8035**	**3351**	**3956**	**4699**
Tax revenue[1]	**5760**	**6947**	**2764**	**3294**	**3938**
Federal	5251	6335	2518	3023	3635
Provincial	508	612	246	271	303
Non-tax revenue	**1144**	**1088**	**587**	**662**	**760**
Federal	993	960	540	594	690
Provincial	150	128	47	68	71
Total expenditure	**10307**	**13295**	**4489**	**5328**	**6382**
Current expenditure	**9084**	**11521**	**4029**	**4676**	**6061**
of which:					
Interest	2750	3182	1475	1453	2573
Defense	1316	1412	487	520	639
Subsidies	425	1530	129	313	197
Development expenditure and net lending	**1316**	**1657**	**458**	**571**	**637**
of which:					
Total PSDP[2]	1211	1617	403	565	591
Other development expenditure	27	0	11	0	0
Net lending	77	40	44	6	46
Statistical discrepancy	-93	116	2	81	-315
Fiscal balance (excl. grants)	**-3403**	**-5260**	**-1138**	**-1372**	**-1683**
Primary balance	**-654**	**-2077**	**337**	**81**	**890**
Public debt (including guaranteed debt)	**42199**	**52214**	**39932**	**45379**	**55675**
Domestic Debt	26265	31036	24314	26747	33116
External debt	13526	18195	13208	16079	19479
Guaranteed debt	2407	2983	2409	2553	3080
Memorandum items					
Fiscal balance, excl. grants (percent of GDP)	*-6.1*	*-7.9*	-	-	-
Primary balance, excl. grants (percent of GDP)	*-1.2*	*-3.1*	-	-	-
Public and publicly guaranteed debt (percent of GDP)	*75.6*	*78.0*	*71.6*	*67.8*	*64.0*
Domestic debt (percent of GDP)	*47.1*	*46.4*	*43.6*	*40.0*	*38.1*
External debt (percent of GDP)	*24.2*	*27.2*	*23.7*	*24.0*	*22.4*
Guaranteed debt (percent of GDP)	*4.3*	*4.5*	*4.3*	*3.8*	*3.5*
GDP (PKR billion)	*55796*	*66950*			

Source: Ministry of Finance, Fiscal Operations
Notes:
[1] From FY21 onwards, the Ministry of Finance has included revenue from Gas Infrastructure Development Cess, natural gas development surcharge, and petroleum levy in non-tax revenue. For consistency of analysis across years, these taxes have been included in tax revenue.
[2] Public Sector Development Program

f. Priorities and Medium-Term Outlook

The economic outlook is highly uncertain, with stability and a return to sustainable growth dependent on the effective implementation of critical reforms

Implementing macroeconomic and structural reforms agreed under the IMF-EFF program and securing much-needed external refinancing and new disbursements is critical to restoring macro-stability and confidence and averting a public debt crisis. Maintaining stability will require that EFF program reforms are sustained and deepened, with additional new external financing flows required over the medium-term. Medium-term recovery will require the rapid development, communication, and effective implementation of a bold reform strategy. Strong political ownership will be needed to ensure that the strategy is credible and implementation is sustained. Such a reform agenda should include: i) keeping the exchange rate market-determined with a consistent fiscal-monetary policy mix; ii) increased domestic revenue mobilization through GST harmonization, closing tax exemptions, and more effective taxation of assets and property; iii) curtailing and improving the quality of public expenditures, including through reduced subsidy spending (including to SOE and the energy and agricultural sectors), reducing discretionary recurrent expenditure items, reviewing federal development spending on provincial mandates, better delineation of service delivery responsibilities between provincial and federal governments, and pension reforms; iv) structural reforms to improve investment, competitiveness, and productivity, including trade and business regulatory reforms to remove distortionary protections; and v) urgent measures to improve the financial viability of the energy sector, including reducing distribution losses and generation costs. Projections presented in this section are predicated on effective implementation of these reforms and securing much-needed external refinancing and new disbursements from regional partners.

Pakistan's growth prospects are expected to remain constrained over the medium term

Real GDP growth is expected to slow sharply to 0.4 percent in FY23, reflecting tight fiscal policy, flood impacts, high inflation, high energy prices, and import controls. Due to the floods, agricultural output is expected to contract for the first time in more than 20 years. Industry output is expected to shrink with supply chain disruptions, weakened confidence, and higher borrowing costs and fuel prices. Lower activity is expected to spill over to the wholesale and transportation services sectors, which account for more than 50 percent of services output. With no fiscal space for public transfers to mitigate income losses or high inflation, the lower middle-income poverty rate is expected to increase to 37.2 percent in FY23. Output growth is expected to recover gradually in FY24 and FY25 but remain below potential as low foreign reserves and import controls continue to curtail growth.

A mix of policy and administrative measures is expected to suppress domestic demand in the near term

Growth in private consumption and private investment is projected to decline in FY23, due in part to higher borrowing costs and erosion in real incomes because of high inflation and in part to administrative measures, including the import ban. Total investment growth is expected to pick up as the business environment improves. Constrained by the rising interest expenditures, government consumption is projected to contract in FY23 and see marginal recovery in FY24 and FY25.

Inflation is expected to peak in FY23 and remain elevated in FY24 and FY25

Consumer price inflation is estimated to surge to an average of 29.5 in FY23. The increase in prices is driven by exchange-rate pass-through to domestic prices and an increase in international oil prices.[36] Domestic energy prices (gas, electricity, and fuel) have been increased as part of the stabilization program, as the gap between generation costs and prices is further reduced. This will add to inflationary pressures directly and through second-round effects. In view of the rising inflation, the government has already adjusted the policy rate by 625bps to 20 percent in FY23. The inflation outlook suggests that real interest rates will remain in negative territory, which can warrant further policy tightening in the near-term. Energy price increases will affect consumption. Inflation will gradually moderate in FY24-FY25 as global inflationary pressures dissipate.

The current account deficit is expected to decline in FY23, but external gross financing needs will remain high

Policy tightening, administrative and regulatory measures, and the weaker currency are expected to dampen imports, with negative impacts on export-oriented sectors dependent on imported inputs. As a result, the current account deficit is projected to narrow to 2.0 percent of GDP in FY23. The authorities have committed to a market-based exchange rate going forward, which will ensure that the exchange rate moves in line with economic fundamentals to reduce external imbalances. The market-based exchange rate and easing of administrative import controls are expected to support a gradual revival of export and import growth in FY24 and FY25. As a result, the CAD is expected to expand marginally to 2.1 percent of GDP in FY24 and to 2.2 percent in FY25. Pakistan's external financing needs are projected to be, on average, US$28.9 billion per year (8 percent of GDP) during FY23-FY25, including IMF repayments, maturing Eurobonds, and repayments against Chinese commercial loans. The reserves position is projected to gradually improve,

[36] The empirical evidence suggests that nominal depreciation has moderate effect on domestic prices in Pakistan. The pass-through is primarily concentrated in commodities including fuel, wheat, cotton, and sugarcane.

assuming the authorities stick to consistent fiscal-monetary policies that are conducive to macro-stability.

The fiscal deficit is expected to narrow gradually on the back of revenue-based fiscal consolidation measures

The fiscal deficit (excluding grants) is projected to narrow to 6.7 percent of GDP in FY23 and gradually narrow further over the medium term as revenue mobilization measures, particularly GST harmonization and personal income tax reform, take hold. In parallel, the fiscal consolidation is also dependent on rationalization of expenditure, including the costly and regressive energy subsidies. Continuation of fiscal consolidation measures over the medium term is essential to maintain fiscal and debt sustainability.

Despite significant liquidity pressures the public-debt-to-GDP ratio is projected to decline

Although the country is projected to face significant liquidity pressures, the public debt-to-GDP ratio is projected to decline over the medium-term. Gross financing needs will remain sizeable throughout the projection period (averaging 24.2 percent of GDP during FY23-FY25) because of maturing short-term domestic debt, multilateral (including IMF) and bilateral repayments, and Eurobond bullet maturities. However, public debt as a share of GDP is projected to decline to 74.0 percent in FY23 and gradually to 72.2 percent in FY25 indicating limited solvency risks. Under the baseline scenario, moderately higher economic growth and negative real interest rates are expected to support the decline in public debt beyond FY23.

The poverty outlook is subject to substantial downside risks

In the context of slow growth and high inflation, limited progress towards poverty reduction is expected over the coming years, with the lower middle income poverty rate declining marginally from 37.2 percent in FY23 to 36.6 percent in FY25. Further economic instability or shocks would further diminish household incomes and likely increase poverty. The net effects on poverty will vary depending on which sectors are most affected. Agriculture continues to account for an important share of labor income for households, with poverty outcomes sensitive to adverse climatic events. Any substantial increase in inflation would reduce the purchasing power of households, but not all experience inflation in the same magnitude nor possess the same tools to manage its consequences (World Bank, 2022b). Food inflation is particularly detrimental to poor households' well-being as the poorest 10 percent of households spend on average 49.2 percent of their income on food, compared to around 28.4 percent for the richest 10 percent of households.

Table 2.3: Pakistan Macroeconomic Outlook (FY23-25)[1]

(Annual percent change unless indicated otherwise)

	2019/20	2020/21	2021/22e	2022/23f	2023/24f	2024/25f
Real GDP Growth, at constant factor prices	-0.9	5.7	6.0	0.4	2.0	3.0
Agriculture	3.9	3.5	4.4	-1.0	2.5	2.8
Industry	-5.7	7.8	7.2	-2.3	1.5	2.9
Services	-1.2	6.0	6.2	1.8	2.1	3.0
Real GDP Growth, at constant market prices	-1.3	6.5	6.2	0.4	2.0	3.0
Private Consumption	-2.8	9.3	10.0	1.3	2.3	3.0
Government Consumption	8.5	1.8	-3.4	-16.1	3.8	4.5
Gross Fixed Capital Formation	-6.7	4.5	2.5	-15.6	1.3	2.8
Exports, Goods, and Services	1.5	6.5	8.4	-8.3	4.4	3.3
Imports, Goods, and Services	-5.1	14.5	15.6	-15.3	4.9	3.9
Inflation (Consumer Price Index)	10.7	8.9	12.2	29.5	18.5	10.0
Current Account Balance	-1.5	-0.8	-4.6	-2.0	-2.1	-2.2
Financial and Capital Account Balance, (% of GDP)	3.2	2.6	3.0	2.4	1.8	2.8
Fiscal Balance (excluding grants, % of GDP)	-7.1	-6.1	-7.9	-6.7	-6.3	-6.1
Debt (% of GDP)	81.1	75.6	78.0	74.0	72.1	72.2
Primary Balance (excluding grants, % of GDP)	-1.6	-1.2	-3.1	-0.6	-0.5	-0.4

Sources: Pakistan Bureau of Statistics, State Bank of Pakistan, World Bank staff estimates.
Note: FY20 corresponds to fiscal year 2019-20, which runs from July 01, 2019 to June 30, 2020.
[1] This macroeconomics outlook uses the re-based national accounts data at 2015-16 prices. It was prepared by World Bank staff and differs from that of the Government.

g. Risks

The economy faces significant foreign exchange liquidity constraints and multiple downsides risks due to rising public debt levels and depleting international reserves

Expansionary macroeconomic policies over the past decade have resulted in rising public debt levels with substantial liquidity risk and precariously low international reserves. As a result, Pakistan has minimal economic buffers to withstand any additional domestic and external shocks. Pakistan remains heavily exposed to external conditions, with the macroeconomic outlook sensitive to global commodity prices and international interest rates. The successful conclusion of the 9th EFF review and securing much-needed refinancing, rollovers, and new external inflows is critical. Even with the IMF program remaining on-track, reserves are expected to remain precariously low. Narrowing the large current account deficit and meeting elevated external financing needs (which are expected to remain on average at 8.0 percent of GDP between FY23-FY25) depends upon a conducive international environment and restored access to international capital markets at manageable yields. Any economic reform strategy should focus on building buffers with which to withstand and manage economic risks in the context of high global uncertainty.

The fragile fiscal outlook and curtailed access to the international capital market are exacerbating sovereign–bank nexus risk…

Pakistan is reliant on expensive domestic credit, with the weighted average yield of 6 months treasury bills increasing to 21.96 percent in auction held on March 22, 2023, to meet fiscal financing needs in the absence of international capital market access, leading to an intensifying sovereign–bank nexus**.** The rising demand for expensive domestic private credit by the sovereign increases the government's interest expenditures while also adding stress to the balance sheet of commercial banks. The crowding-out impact of government borrowing from the banking sector is expected to become more pronounced in the coming months as government borrowing continues to rise in the face of increasing interest expenditures and restricted access to international capital markets. As interest rates have increased in recent months, banks have sustained significant losses on their investments in government securities with longer tenors and classified as HFT and AFS. These losses have eroded the Tier 2 capital of banks with implications on their ability to lend to the private sector. In the context of growing macroeconomic stress and slowing deposit growth, refinancing risks on domestic debt are increasing.

…requiring targeted measures to mitigate financial sector risks

Alongside measures to manage overall macroeconomic risks, measures to mitigate financial sector risks should include: i) a more detailed emergency liquidity assistance framework to enable the SBP to respond more quickly and in a more coordinated manner to banks' requests for emergency liquidity; ii) an overhaul of the bank resolution framework to expand the range of resolution tools, introduce mechanisms for allocating losses to shareholders and liability holders, and better protect taxpayers against contingent losses in the banking sector; iii) further development of the Deposit Protection Corporation to strengthen financial and operational capacity to promptly compensate retail depositors in the event of a bank failure; and iv) improved coordination between the Ministry of Finance and the SBP, including through the establishment of a crisis management committee.

The difficult political situation presents additional risks

Policy reversals are possible in the lead-up to elections scheduled for October 2023, including delayed implementation of tariff adjustments, new subsidies, or other measures that would expand the fiscal deficit. Any substantial departure from the current macroeconomic framework would exacerbate external and domestic financing risks, and potentially place debt on an unsustainable path.

Box 2.2: Potential Fiscal Consolidation Measures

Immediate reforms for fiscal expenditure reduction:	
Reform	**Description**
Reduce regressive subsidy spending	
Electricity subsidies	Further improve the targeting of and eliminate electricity subsidies to achieve full cost recovery for non-protected consumers.
Natural gas subsidies	New gas tariff structure improves progressivity of the tariff by reducing the subsidies to richer households. Targeting can be further improved by using cash transfers through BISP/NSER.
Petroleum subsidies	Remove or reduce as they are highly regressive, with benefits accruing mostly to better off households.
Tube-well subsidies	Remove or reduce as they are distortionary and incentivize overconsumption.
Subsidies for wheat support price	Regressive subsidy, with benefits accruing to mostly large landowners.
Fertilizer subsidies	Regressive and distortive incentives toward economically inefficient and environmentally damaging production.
Adoption of the Treasury Single Account (TSA)	Rollout can be rapid and will enable proper accounting of the Government's available cash and reduce the amount that is required to be held in various government bank accounts. The available cash will also decrease public borrowing requirements that could reap significant interest cost savings.
Austerity measures of government staff and operational costs	The temporary imposition of stringent review requirements over staff and operational costs can generate immediate cost savings. The government could consider implementing a government-wide hiring freeze, wage freezes for the mid to upper echelons, conservative salary increases (if any) for the lower echelons and other measures such as halting vehicle purchases and limiting allowances for representation, meetings, travel, and petrol usage for all staff.
Consolidation of federal PSDP allocations	The Government could conduct a review of PSDP development expenditure and cancel all projects that have not undergone proper project preparation, selection, and prioritization, as well as delay previously vetted projects that are unlikely to bring any benefits to the poor.

Medium-term reforms for rationalizing fiscal expenditure	
Reform	**Description**
Reduced operational spending on devolved ministries	Despite the 18th amendment, the Federal Government maintains recurrent spending on areas that have been devolved to the provinces. The rationalization of overlaps between federal and provincial recurrent spending provides opportunities for fiscal savings. Spending on federal ministries focused on devolved subject areas can be gradually reduced and eventually eliminated.
Devolution of the Higher Education Commission (HEC) and the National Commission for Human Development (NCHD).	The Federal Government continues to engage on devolved subjects through semi-autonomous bodies that focus on devolved service delivery areas, such as the HEC and the NCHD. These institutions can be completely devolved to the provinces.
Refocusing federal development spending on federal mandates	There continues to be significant federal development spending on devolved areas. A refocusing of federal development spending on federal domains therefore has large savings potential for the Federal Government.
Reducing expenditures for SOEs	
Reduce SOE subsidies	Discontinue subsidies to SOEs that do not provide a public good benefit.
Cut lending to SOEs	Enforce all SOE loan agreements and establish stringent processes and criteria for evaluating SOE loan requests, including reviews of assets that can be collateralized and demonstrate repayment capacity.

Implement the recommendation of the 2021 triage exercise	Divest loss-making SOEs, especially those in sectors where there is no clear rationale for government involvement.
Strengthen SOE governance	Strengthen SOE governance through implementation of the new SOE law and improve financial management and performance, such as strengthen the capacity of the SOE Central Monitoring Unit and institutionalize performance monitoring.
Undertaking pension reform to reduce pension costs	Fiscal costs for Pakistan's civil servants' pension schemes have dramatically grown. Potential measures to constrain the growth of pensions spending include automatic indexation to inflation subject to a cap, instituting a minimum retirement age to receive benefits and circumscribing dependents eligible for survivorship benefits.
Strengthen public investment management to improve the quality of development spending	Fully implement the Public Financial Management (PFM) Act of 2019, including the use of economic and risk analysis for development projects. Establish an M&E system for public investment projects and programs.

Reforms for enhancing revenue collections	
Reform	**Description**
Reduce sales tax exemptions	
Remove concessional rates	Remove concessional rates on sales tax on goods through the elimination of the 8th schedule of the sales tax act and applying the standard rate on all goods subject to reduced rates.
Limit zero ratings	Limit the list of goods subject to zero-rating exclusively to exports. All domestically sold goods mentioned in the 5th schedule of the sales tax act could initially be moved to the exempt list under the 6th schedule before exemptions are rationalized.
Limit exemptions	Reduce items included in the 6th schedule of the sales tax act, limiting exemptions only to those considered as basic food, basic public health services, and selected financial transactions.
Increase cigarette excises	Collapse the two tiers into a single one and levy the premium excise tax rate, applied on an ad-valorem basis to allow automatic indexation to inflation.
Income tax reform	Merge the tax schedules for salaried and non-salaried taxpayers, reduce tax free threshold and simplify structure of the personal income tax.
Reduce import duty exemptions	Existing exemptions are distortionary and provide limited economic benefits, while imposing high fiscal costs. Remove import duty exemptions for non-exporters under the 5^{th} schedule of the tariff code.
Increase, improve, or implement new taxes on property and agriculture	Provinces to implement property and agricultural taxes to meet devolved expenditure responsibilities, reducing burden on the Federal Government.

References

Airlines.iata.org. 2023. Blocked funds in Pakistan reduce aviation benefits
https://www.airlines.iata.org/news/blocked-funds-in-pakistan-reduce-aviation-benefits

Barrick.com. July 18, 2022. Reko Diq Alliance Between Pakistan and Barrick Set to Create Long-Term Value.
https://www.barrick.com/English/news/news-details/2022/reko-diq-alliance-between-pakistan-and-barrick-set-to-create-long-term-value/default.aspx

Government of Pakistan, Ministry of Economic Affairs Policy Analysis & Development Wing. Monthly Report Foreign Economic Assistance. February 2023. https://ead.gov.pk/SiteImage/Misc/files/2023/Disbursement_Report_Feb2023.pdf

Government of Pakistan. Federal committee for Agriculture. press release. October 2022. Press Release.
http://pid.gov.pk/site/press_detail/21085

ICSID. Tethyan Copper Company Pty Limited v. Islamic Republic of Pakistan (ICSID Case No. ARB/12/1)
https://icsid.worldbank.org/cases/case-database/case-detail?CaseNo=ARB/12/1

Ministry of Finance. 2023. *Monthly economic update and outlook, January 2023*.
https://www.finance.gov.pk/economic/economic_update_January_2023.pdf

Moody. February 28, 2023. Moody's downgrades Pakistan's rating to Caa3; changes outlook to stable from negative.
https://www.moodys.com/research/Moodys-downgrades-Pakistans-rating-to-Caa3-changes-outlook-to-stable--PR_473488

OICCI. 2023. Profit repatriation by multinationals 'on hold'.
https://www.oicci.org/news/profit-repatriation-by-multinationals-on-hold/

PAK-SCMS Bulletin. December 2022. Pakistan: satellite-based crop monitoring system. https://suparco.gov.pk/wp-content/uploads/2022/12/Bulletin-December-2022.pdf

State Bank of Pakistan (SBP). May 2022. EPD Circular Letter No.09 of 2022.
https://www.sbp.org.pk/epd/2022/FECL9.htm

State Bank of Pakistan (SBP). December 2022. State Bank of Pakistan's Business Confidence Survey.
https://www.sbp.org.pk/research/BCS-/Report/2022/Dec/BCS-Report.pdf

State Bank of Pakistan (SBP). March 2023. SBP's Reverse Repo, Repo and Policy (Target) Rates.
https://www.sbp.org.pk/ecodata/OVR-Repo-History.pdf

State Bank of Pakistan (SBP). January 2023a. Monetary policy statement. https://www.sbp.org.pk/press/2023/Pr1-23-Jan-2023.pdf

State Bank of Pakistan (SBP). January 2023b. Consumer Confidence Survey January 2023 (67 th Wave).
https://www.sbp.org.pk/research/CSS/Reports/2023/CCS-Jan-2023.pdf

State Bank of Pakistan (SBP). February 2023. credit/loans classified by borrowers.
https://www.sbp.org.pk/ecodata/creditloans.pdf.

State Bank of Pakistan (SBP). March 2023. Liquid Foreign Exchange Reserves. https://www.sbp.org.pk/ecodata/forex.pdf.

State Bank of Pakistan (SBP). 2023. LSM index. https://www.sbp.org.pk/ecodata/index2.asp

World Bank Commodity Price Data. January 04, 2023.

World Bank. 2022a. From Swimming in Sand to High and Sustainable Growth: A Roadmap to Reduce Distortions in the Allocation of Resources and Talent in the Pakistani Economy. Pakistan Economic Memorandum. © World Bank, Washington, DC.
https://openknowledge.worldbank.org/entities/publication/414760a0-4a40-5311-acbb-c317379e73e6.

World Bank. 2022b. Pakistan Development Update October 2022: Inflation and the Poor.