

PAKISTAN

Pakistan has achieved macroeconomic stabilization with declining inflation, rising reserves, and fiscal consolidation. Modest industrial growth and low food inflation have slightly reduced poverty. Economic growth was expected to strengthen, yet unfolding catastrophic floods create uncertainty, potentially lowering growth and affecting fiscal consolidation. Flood impacts will need to be managed amid ongoing risks, including limited fiscal space, and high external financing needs.

Population ¹ million	251.3	Poverty ² millions living on less than \$4.20/day	101.5
Life expectancy at birth ³ years	67.6	School enrollment ⁴ primary (% gross)	82.7
GDP ⁵ current US\$, billion	371.8	GDP per capita ⁶ current US\$	1479.5

Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2018 (2021 PPPs). 3/ 2023. 4/ 2022. 5/ 2024. 6/ 2024.

Key conditions and challenges

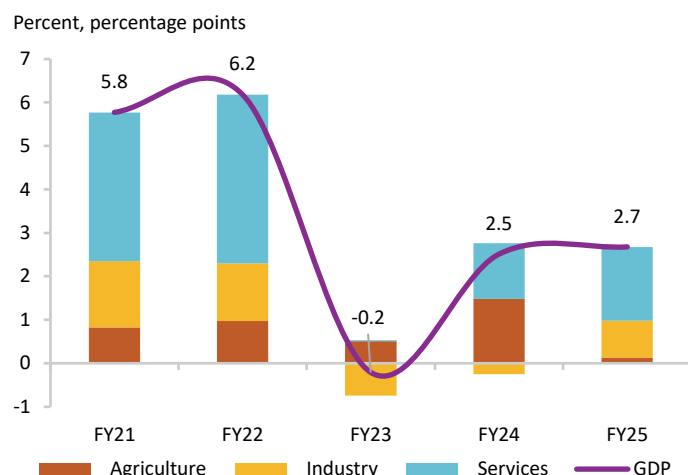
In FY25, policy efforts stabilized Pakistan's economy despite a challenging global environment. Multilateral and bilateral inflows helped close the financing gap, restore confidence, and ease import restrictions. Industry and services supported growth, while agriculture underperformed. Economic growth remained fragile, dependent on the continued implementation of prudent macro-fiscal policies and a flexible, market-determined exchange rate. Ongoing catastrophic floods are expected to significantly disrupt economic activity, potentially slowing economic growth and affecting fiscal consolidation due to urgent relief needs. Additional risks include delays in structural reforms, volatile global trade, further climate shocks, and limited fiscal and external buffers. On the upside, sustained fiscal discipline and timely implementation of structural reforms under the Prime Minister's Economic Transformation Agenda and Implementation Plan and Uraan Pakistan, along with reducing the state's economic footprint and regulatory simplification would boost growth and employment, including for youth and women.

Recent developments

Real GDP at factor cost is expected to have grown by 2.7 percent y-o-y in FY25, slightly above FY24's 2.5 percent expansion. Agriculture, employing 37 percent of the labor force, grew 0.6 percent due to droughts, pest infestations, and high base effects from FY24. Industry, employing 24 percent of the workforce, rebounded by 4.8 percent, driven by increased electricity production and construction in the final quarter. Services, employing 39 percent of the workforce, expanded by 2.9 percent, constrained by weak spillovers from agriculture and underperformance in large-scale manufacturing. Poverty at the \$4.20 2021 PPP international threshold fell to 45 percent in FY25 from 47.1 percent in FY24, driven by higher labor incomes in construction and logistics, along with low food inflation.

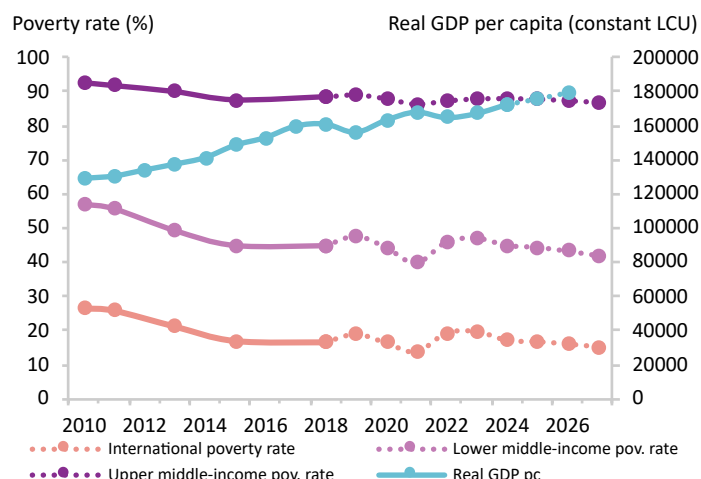
The external position strengthened in FY25 due to record-high official remittances. The current account recorded a surplus of 0.5 percent of GDP, the highest in two decades, compared to a 0.6 percent deficit in FY24. Imports rose due to stronger demand, base effects, and eased import controls. Investment-related imports in power, textiles, and mining added to import growth. Remittances,

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



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

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



Source: World Bank. Notes: See footnotes in table on the next page.

combined with new external financing, contributed to a balance of payments surplus of 0.9 percent of GDP, and gross reserves rose to USD 15.8 billion (2.5 months of import cover) by end-June 2025.

Headline inflation decelerated to 4.5 percent y-o-y from 23.4 percent in FY24. Food inflation eased due to adequate supply and lower global commodity prices, while energy inflation declined as electricity tariffs stabilized. Core inflation moderated with lower transportation and production costs. Lower food prices improved the purchasing power of the poor. The policy rate was cut from 20.5 percent in July 2024 to 11.0 percent, though real interest rates remained elevated.

The fiscal deficit narrowed to 5.4 percent of GDP from 6.9 percent in FY24, supported by revenue growth and restrained spending. Total revenues rose to 15.7 percent of GDP, with tax receipts at 12.2 percent, reflecting higher income tax rates, fewer goods and services tax (GST) exemptions, and stronger collection. Non-tax revenues benefited from a one-time State Bank of Pakistan profits transfer. Total expenditure increased to 21.1 percent of GDP from 19.5 percent in FY24, mainly from higher provincial development spending. As revenue growth outpaced expenditures, the primary fiscal surplus more than doubled to a record 2.4 percent of GDP.

Outlook

Real GDP growth was projected to accelerate to 3.4 percent in FY26 and 3.6 percent in FY27, supported by higher agricultural output, lower inflation and interest rates, recovering consumer and

business confidence, and a rebound in private consumption and investment. These gains were expected on the back of tight fiscal and monetary policies aimed at rebuilding buffers and reducing risks from domestic imbalances and global trade. However, ongoing catastrophic floods have introduced significant uncertainty, with the full extent of the damage still to be determined. Early estimates suggest at least a 10 percent drop in agricultural output in Punjab, affecting major crops such as rice, sugarcane, cotton, wheat, and maize. Without broader industrial and services spillovers and assuming a modest increase in development spending, this could reduce FY26 real GDP growth to 2.6 percent. Disrupted food supply may push inflation above 7 percent, higher than previously projected, easing gradually over the medium term.

Under the flood scenario, the current account deficit could reach 0.1 percent of GDP in FY26, with remittances and lower oil prices offsetting export losses and higher food imports. The fiscal deficit could rise to 5.5 percent of GDP with modest flood-related spending. Medium-term deficit reduction will depend on revenue mobilization, agricultural recovery, interest costs, and rationalizing expenditures.

Poverty is expected to edge down to 44 percent in FY26 and 43 percent in FY27. Faster, sustained reductions will hinge on structural reforms and stronger growth, particularly in agriculture, which many poor households depend on for income and cushion against shocks. Ongoing floods could jeopardize poverty reduction, highlighting the need for robust social protection measures to prevent lasting welfare erosion that could lead to long-term human development setbacks.

Recent history and projections

	2021/22	2022/23	2023/24	2024/25e	2025/26f	2026/27f
Real GDP growth, at constant market prices	4.8	-0.4	3.0	4.8	2.6	3.4
Private consumption	7.0	2.0	6.0	4.3	3.3	4.0
Government consumption	-1.3	-3.9	-8.7	11.7	1.1	1.8
Gross fixed capital investment	4.6	-16.1	-1.8	10.3	3.3	4.3
Exports, goods and services	5.9	2.9	-1.3	-1.2	1.6	2.3
Imports, goods and services	11.0	0.6	5.8	5.2	4.5	4.8
Real GDP growth, at constant factor prices	6.2	-0.2	2.5	2.7	2.6	3.4
Agriculture	4.2	2.2	6.4	0.6	0.8	3.4
Industry	7.0	-3.9	-1.4	4.8	2.7	3.2
Services	6.7	0.0	2.2	2.9	3.3	3.5
Employment rate (% of working-age population, 15 years+)	49.7	49.7	49.7	49.7	49.7	49.7
Inflation (consumer price index)	12.2	29.2	23.4	4.5	7.2	6.8
Current account balance (% of GDP)	-4.7	-1.0	-0.6	0.5	-0.1	-0.5
Net foreign direct investment inflow (% of GDP)	0.5	0.2	0.6	0.6	0.6	0.6
Fiscal balance, including grants (% of GDP)	-7.8	-7.8	-6.8	-5.4	-5.5	-5.3
Revenues (% of GDP)	12.1	11.6	12.6	15.7	15.6	15.1
Debt (% of GDP)	80.6	81.8	73.1	75.4	75.7	74.9
Primary balance, including grants (% of GDP)	-3.1	-0.9	0.9	2.4	0.8	0.7
National poverty rate (%)^{1,2,4}	18.3	24.8	25.3	22.5	22.2	21.3
International poverty rate (\$3.00 in 2021 PPP)^{1,2,3}	13.8	19.3	19.8	17.2	16.8	16.1
Lower middle-income poverty rate (\$4.20 in 2021 PPP)^{1,2,3}	39.9	45.9	47.1	45.0	44.4	43.3
Upper middle-income poverty rate (\$8.30 in 2021 PPP)^{1,2,3}	86.4	87.3	87.9	87.9	87.8	87.4
GHG emissions growth (mtCO2e)	1.9	0.9	3.8	4.1	4.2	4.1

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ Calculations based on SAR-POV harmonization, using 2018-HIES. Actual data: 2018. Nowcast: 2019-2024. Forecasts are from 2025 to 2027.

2/ Poverty projections based on microsimulations using 2018-HIES and aggregate macroeconomic indicators (see Barriga-Cabanillas et al (2025)).

3/ Updated global poverty lines based on 2021 purchasing power parities (PPP).

4/ National poverty line is PKR 3,030 per adult equivalent in 2013/14 or PKR 8,231 in 2024 prices.