



WORLD BANK GROUP

Pakistan Development Update

Recent Economic Developments, Outlook & Risks

October 2024 | Islamabad

Summary of the key messages

Pakistan's economy has stabilized

- Macroeconomic situation has improved

However, the current recovery is neither sustainable nor sufficient

- Economic vulnerabilities remain high
- No reduction in poverty over the medium term

Over the medium term, a robust economic recovery will require the steadfast implementation of a broad-based reforms program:

- Improve the quality of expenditures
- Broaden the tax base
- Improve business environment and competitiveness,
- Minimize distortive presence of state in the economy, and
- Address the challenges of energy sector

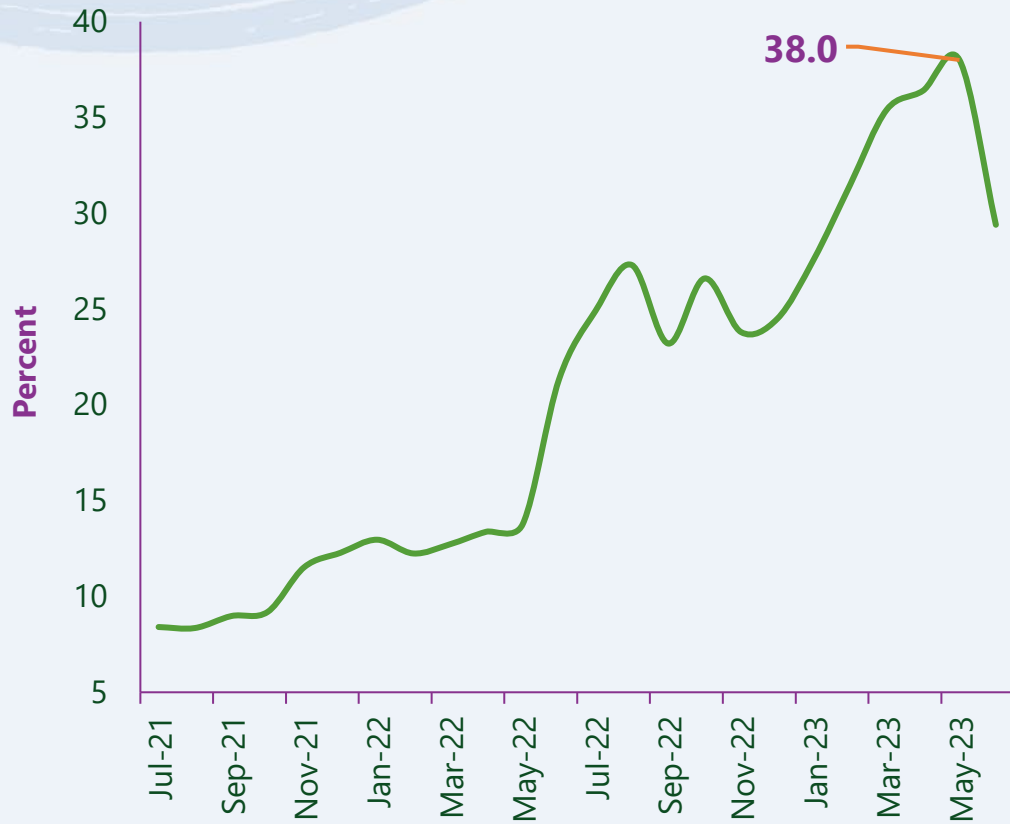
Context FY23



Pakistan's economy was on the verge of (another) crisis in FY23

In May 2023, Inflation Peaked at 38 Percent

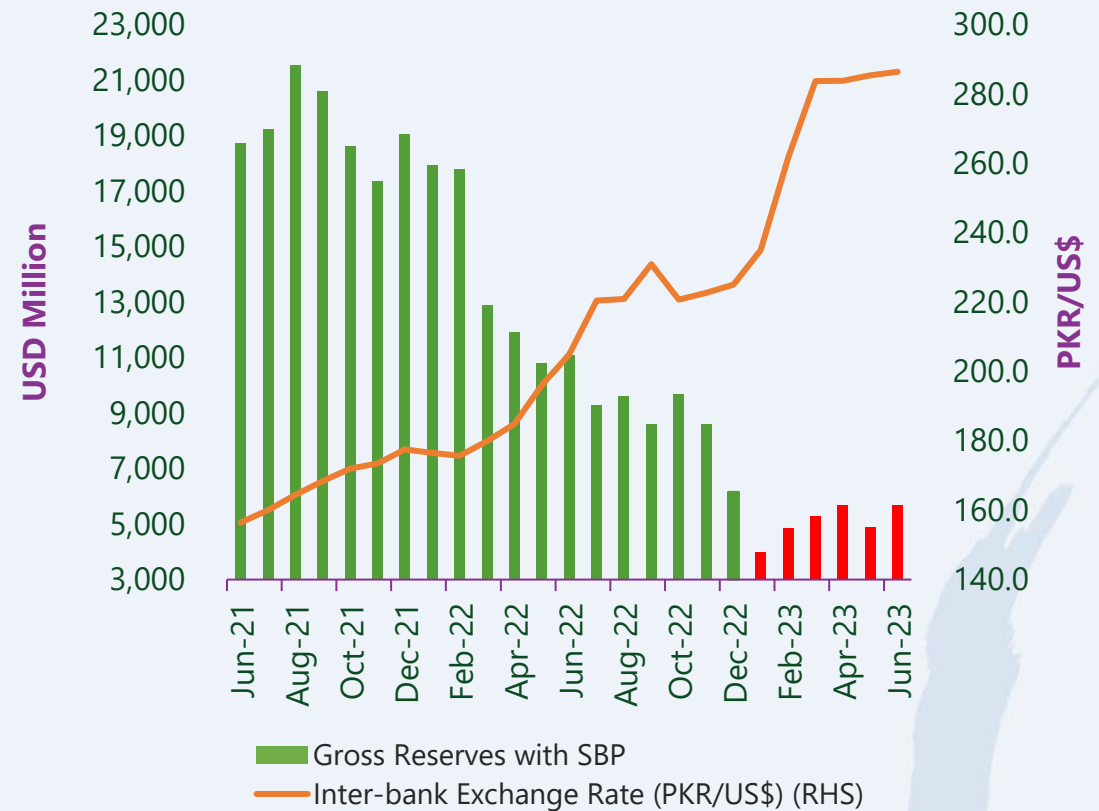
Headline CPI Inflation (percent, y-o-y)



Source: Sources: Pakistan Bureau of Statistics

Reserves Reached Critically Low Levels

Foreign Exchange Reserves and PKR/US\$ Exchange Rate



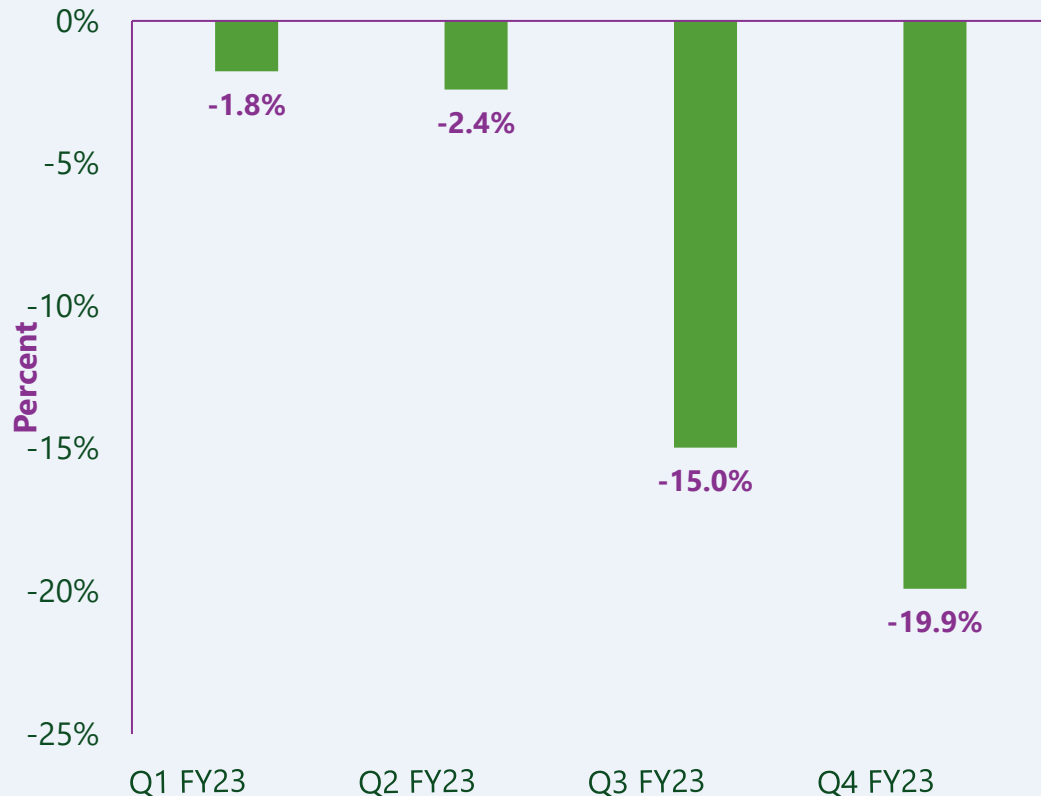
Source: State Bank of Pakistan and WB staff calculations

Pakistan's economy was on the verge of (another) crises in FY23

Inappropriate policy settings combined with **political uncertainty** had major negative impacts on **confidence and investment**

Production slowed.

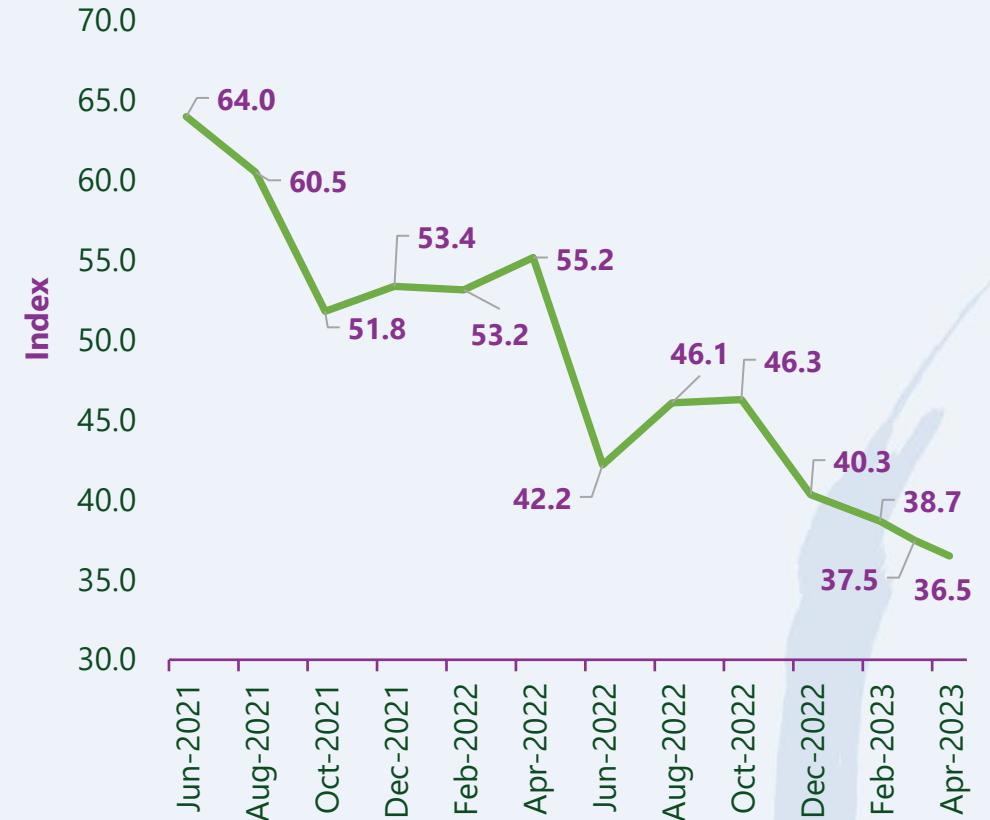
LSM Index (y-o-y, % change)



Source: Sources: Pakistan Bureau of Statistics

Business confidence reached historic lows.

Overall Business Confidence Index



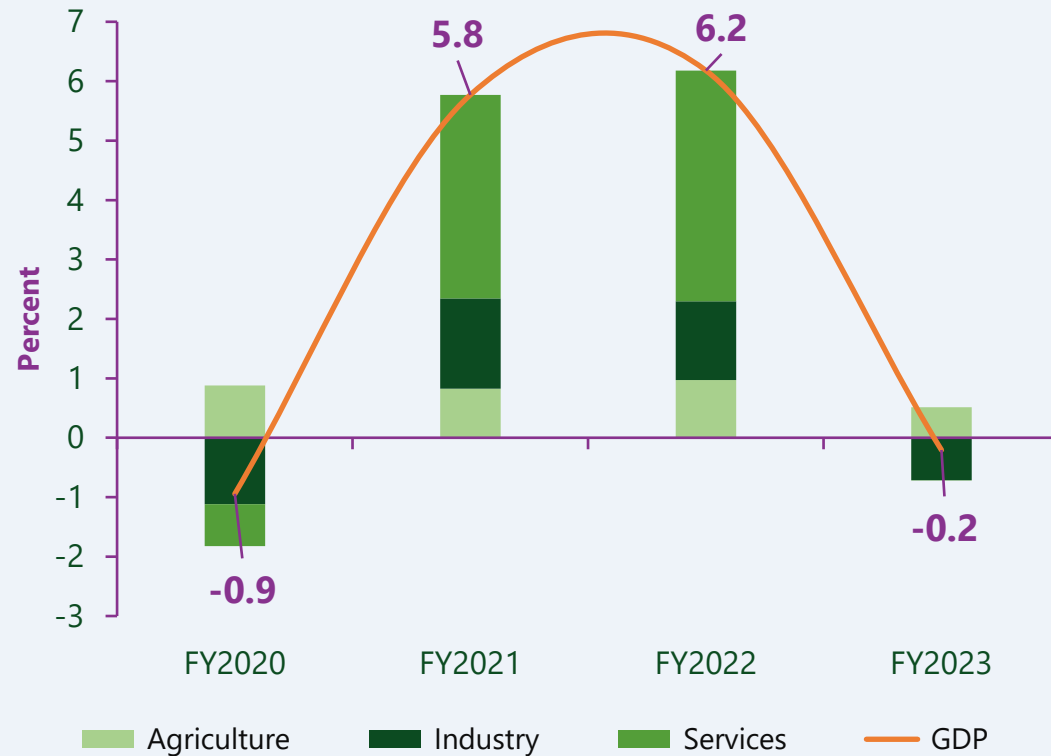
Source: State Bank of Pakistan

Growth slowed and poverty increased

Low confidence, **flood-related supply chain disruptions**, and high inflation drove poverty rate

The Economy Contracted...

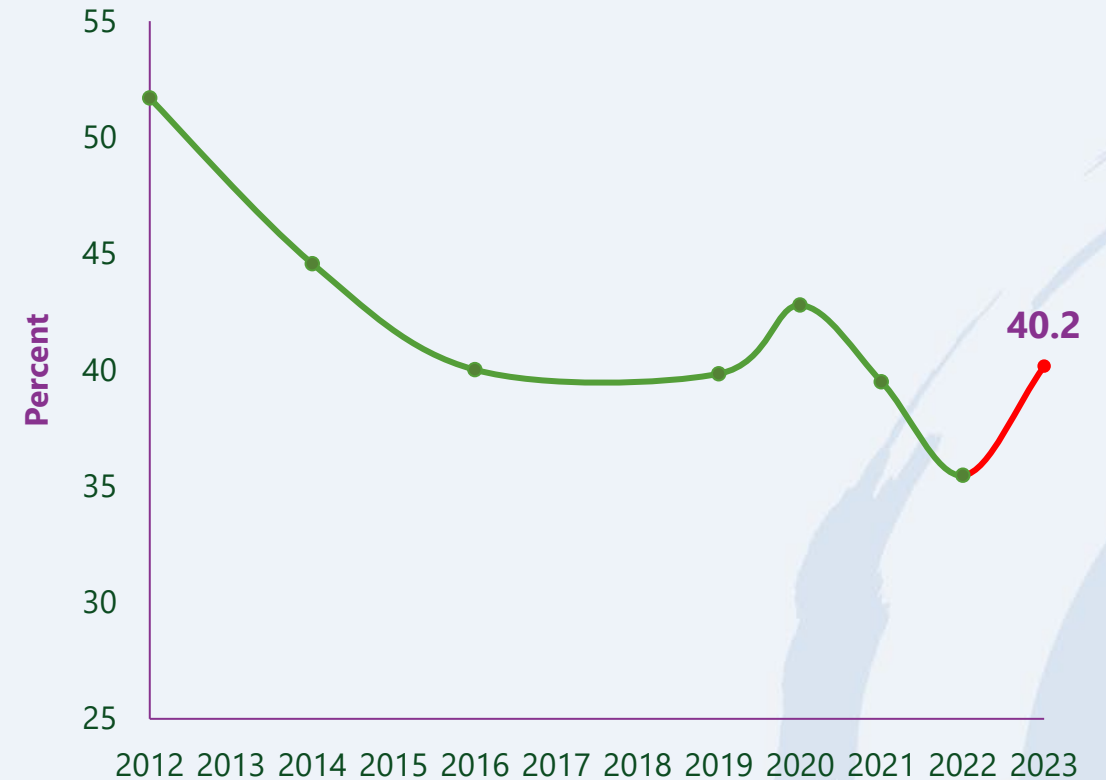
Contribution to GDP growth by sectors (percent, y-o-y)



Source: Pakistan Bureau of Statistics and World Bank staff calculations

...Contributing to Higher Poverty

Lower middle-income poverty rate (percent of population)



Source: World Bank staff estimation

FY24 Recent developments

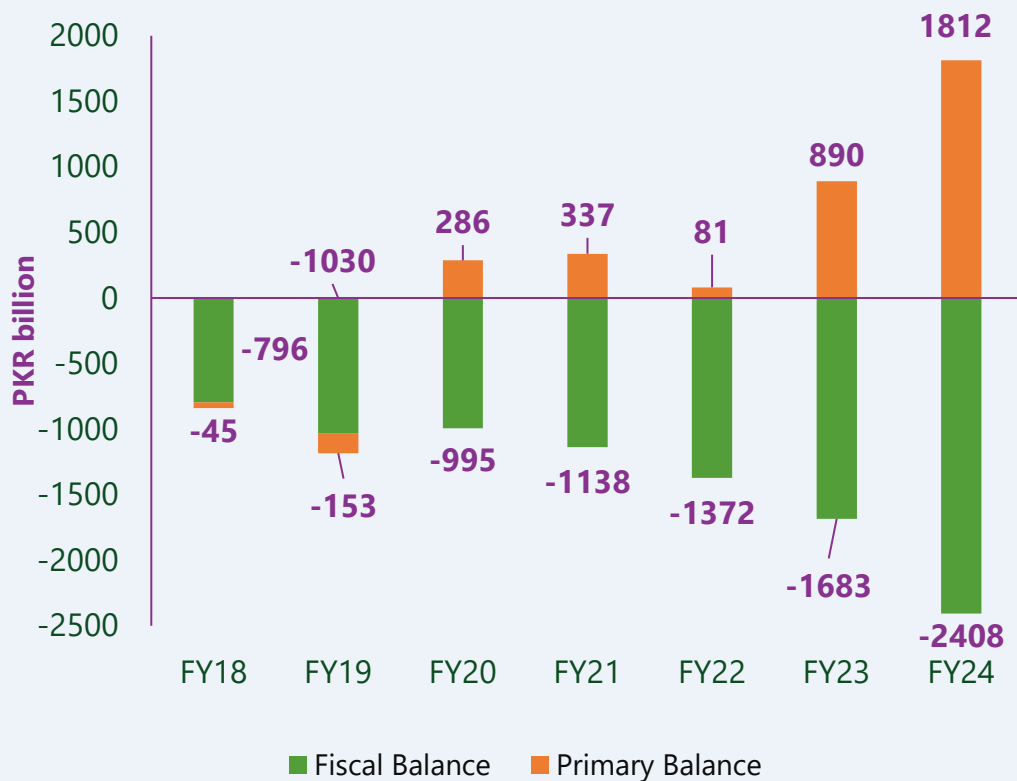


Pakistan implemented emergency stabilization measures under a new IMF program, enabling new foreign inflows

Sharp fiscal contraction, **subsidy reform**, **import controls**, and capital controls supported much-needed adjustment, **but** negatively impacted growth and investment

Fiscal Consolidation was Implemented...

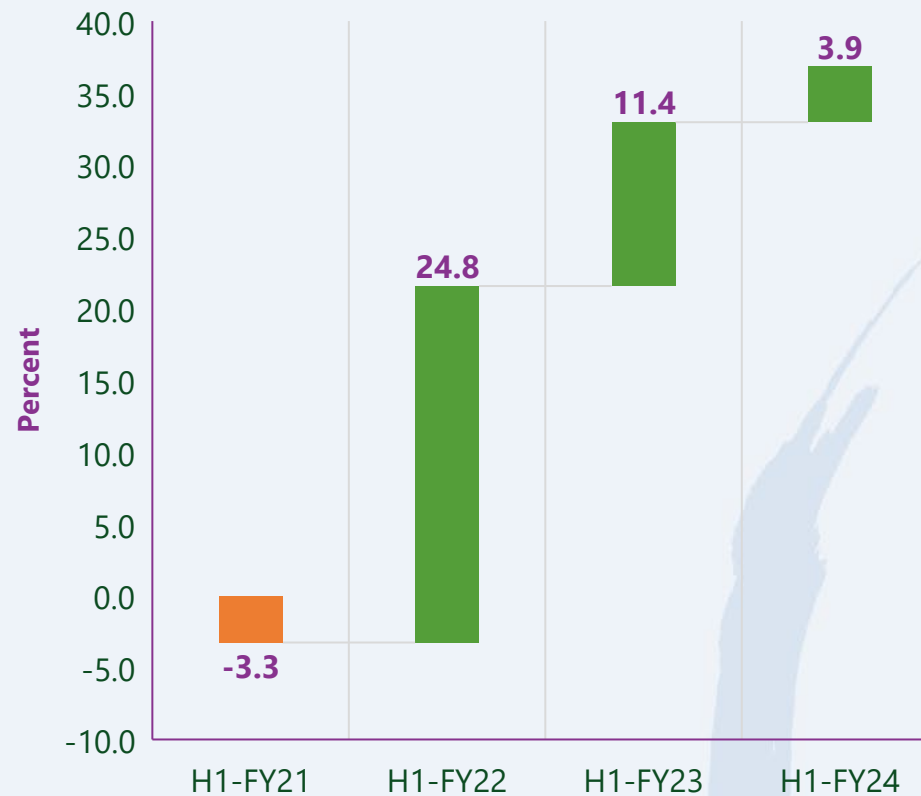
Fiscal and Primary Balances in H1 (FY18-24)



Sources: Ministry of Finance, World Bank staff Calculations

...Primarily Through Cuts to Development Spending

Development expenditure (percent, y-o-y)

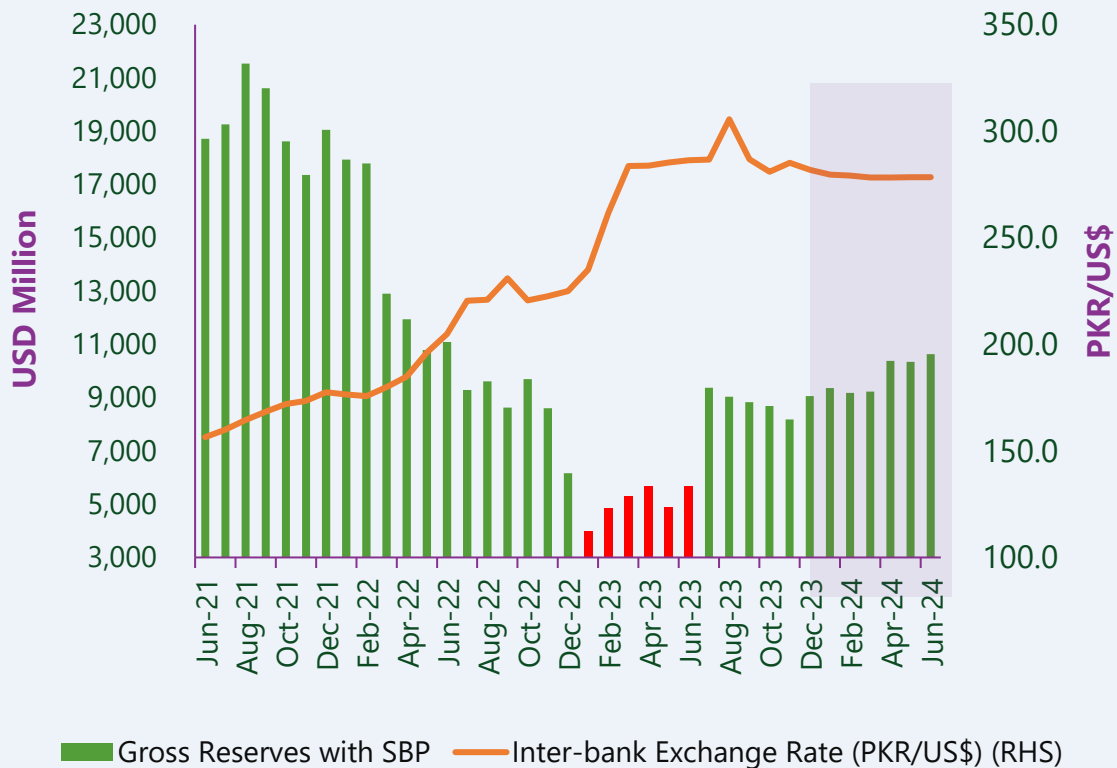


Stabilization continued with sound macro policies and the Completion of elections

The exchange rate has remained **stable**, inflation **slowed**, and foreign **reserves recovered**

Reserves Recovered as the SBA Unlocked External Flows

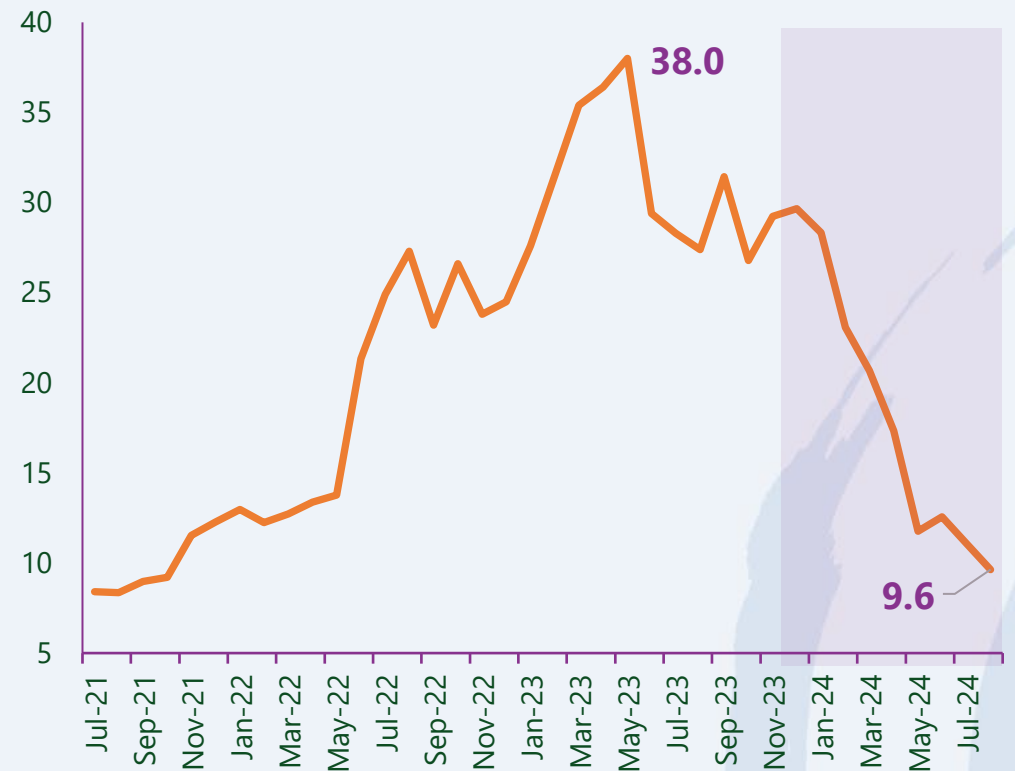
Foreign Exchange Reserves and PKR/US\$ Exchange Rate



Source: Sources: Pakistan Bureau of Statistics

CPI Dropped to Single Digits (34-month low)

Headline CPI Inflation (percent, y-o-y)



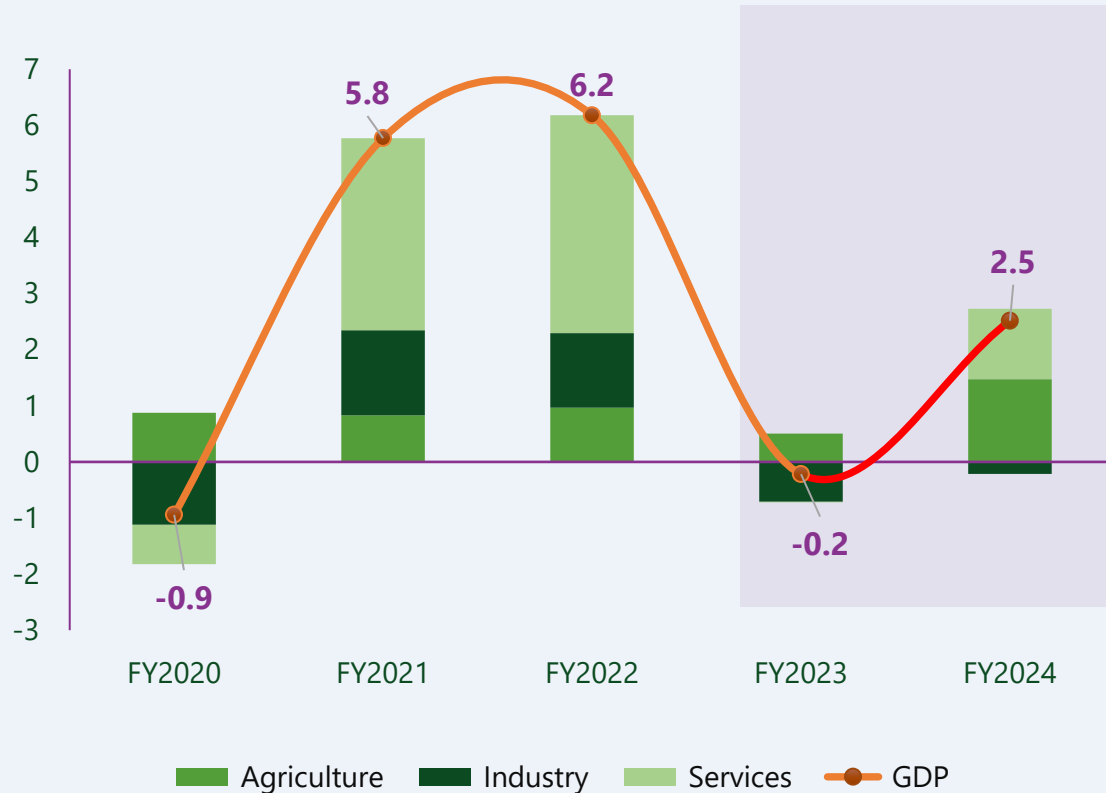
Source: State Bank of Pakistan and WB staff calculations

Sentiment and growth have improved

Output recovered supported by **good weather conditions** and some **recovery in investment**

Growth Recovered, Supported by High Agricultural Production (The Highest in 19 Years)

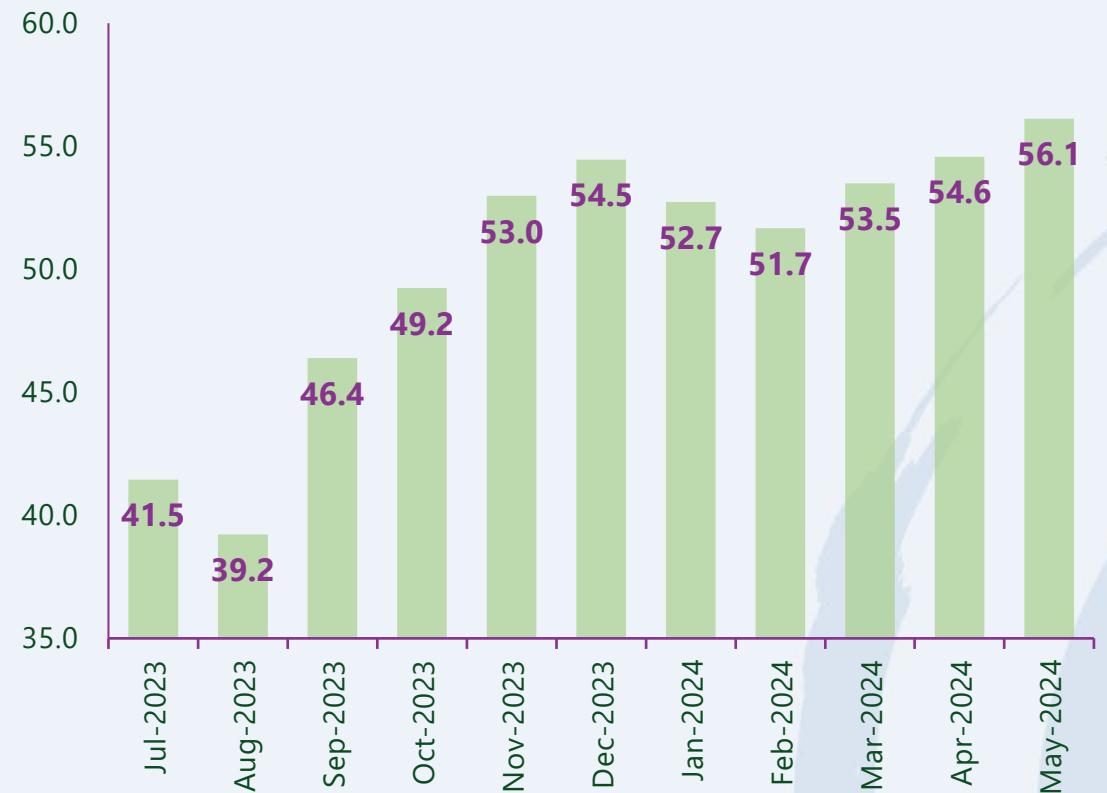
Contribution to GDP growth (Percent, y-o-y)



Source: Pakistan Bureau of Statistics and World Bank staff calculations

Improved Confidence was Driven by Macro Stability and the Suspension of Import and Capital Controls.

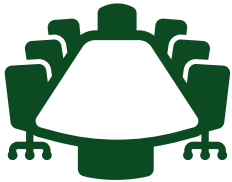
Overall Business Confidence Index



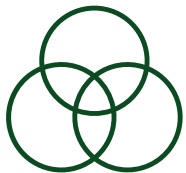
Source: State Bank of Pakistan

Outlook for FY25-26

Baseline assumptions are:



Effective implementation of IMF-EFF program



Continued rollovers and refinancing from bilateral partners



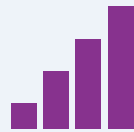
No major climate or external shocks



The projected GDP growth rates are 2.8 percent for FY25 and 3.2 percent for FY26, indicating positive economic momentum.



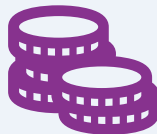
Inflation is expected to decrease to 11.1 percent in FY25 and to 9 percent in FY26.



CAD is expected to widen with recovering growth to 0.6 percent of GDP in FY25 and further to 0.7 percent in FY26.



FX reserves are expected to grow due to IMF inflows and new external financing.



Fiscal balance is expected to increase to 7.6 percent in FY25 and then slow down slightly to 7.3 percent in FY26.



Debt is projected to increase in the medium term to 73.8 percent of GDP in FY25 and further to 74.7 percent in FY26.

Macroeconomic outlook

Pakistan Macroeconomic Outlook (FY25-26)

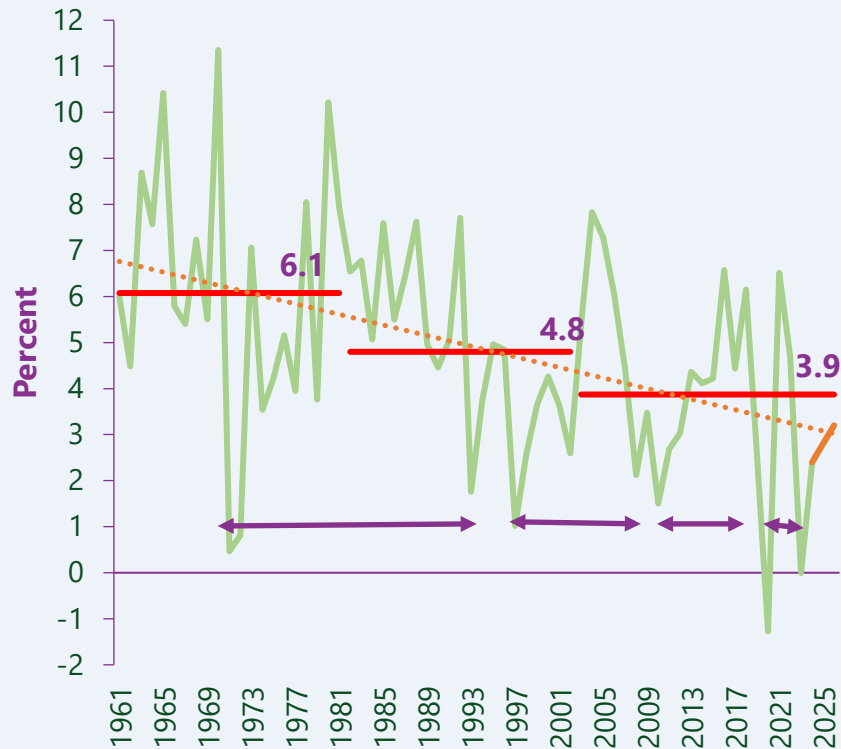
	FY21	FY22	FY23	FY24e	FY25f	FY26f
Real GDP Growth, at constant factor prices	5.8	6.2	-0.2	2.5	2.8	3.2
Agriculture	3.5	4.2	2.3	6.4	1.9	2.8
Industry	8.2	7.0	-3.7	-1.2	3.1	3.2
Services	5.9	6.7	0.0	2.2	3.0	3.3
Inflation (Consumer Price Index)	8.9	12.2	29.2	23.4	11.1	9.0
Current Account Balance	-0.8	-4.7	-1.0	-0.2	-0.6	-0.7
Fiscal Balance (excluding grants, % of GDP)	-6.1	-7.9	-7.8	-6.8	-7.6	-7.3
Debt (% of GDP)	77.6	80.6	81.6	72.4	73.8	74.7
Primary Balance (excluding grants, % of GDP)	-1.2	-3.1	-1.0	0.9	0.7	-0.2

A return to business as usual is not enough

With **rapid population growth**, the current outlook will see no improvement in **living standards for most** Pakistanis

Pakistan's Growth Potential has been Declining for Decades...

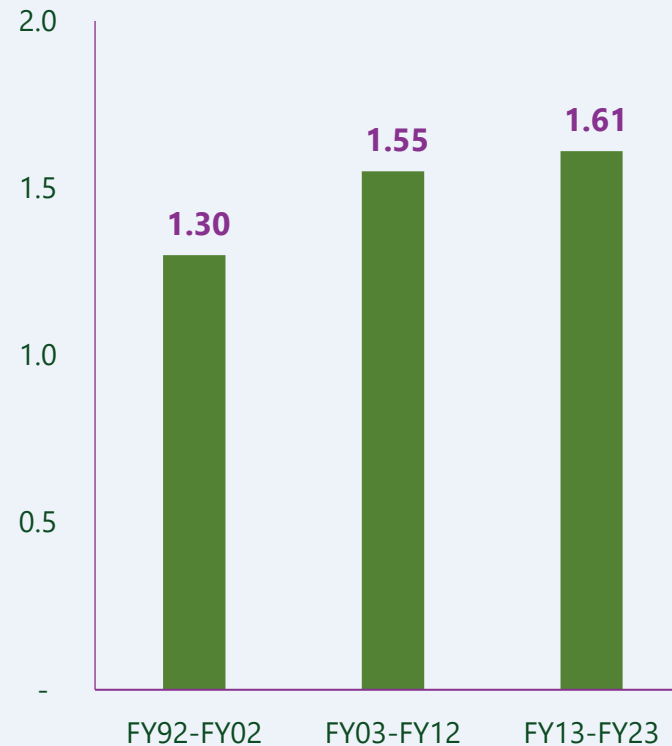
Real GDP growth (at constant market prices)



Source: Pakistan Bureau of Statistics and World Bank staff projections

...which Combined with a Growing Labor Force...

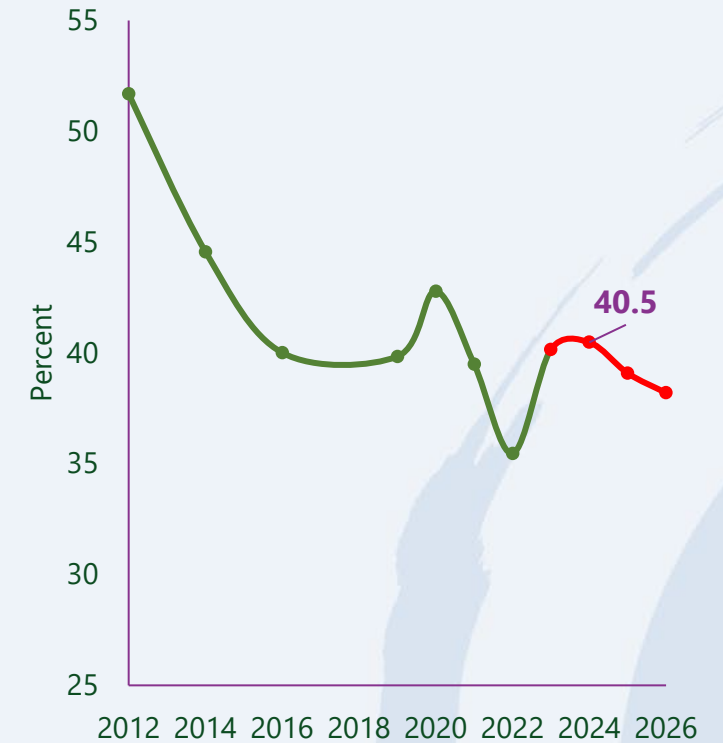
Average annual increase in labor force (in million workers)



Source: WDI

...is Undermining Living Standards

Lower middle-income poverty rate (percent of population)



Source: World Bank staff estimation

Reform priorities are reflected in recent government plans

Improve the quality of expenditures

- Planned fiscal consolidation
- Government right-sizing exercise
- Planned state-owned enterprise (SOE) privatizations
- Ongoing efforts towards pension system reform

Broaden the tax base

- Transformation strategy for the Federal Board of Revenue (FBR)
- Efforts to tax agriculture and property under the 'fiscal pact'

Improve business environment and competitiveness

- Acceleration of the business regulatory reform under the PRMI (Pakistan Regulatory Modernization Initiative)
- Development of a growth strategy centered on trade liberalization and export growth

Address energy sector constraints

- Planned reforms in DISCOs (power distribution companies)
- Planned introduction of private sector participation (PSP)
- Planned movement towards renewable generation under the least cost generation plan

Summary of the key messages

Pakistan's economy has stabilized

- Macroeconomic situation has improved

However, the current recovery is neither sustainable nor sufficient

- Economic vulnerabilities remain high
- No reduction in poverty over the medium term

Over the medium term, a robust economic recovery will require the steadfast implementation of a broad-based reforms program:

- Improve the quality of expenditures
- Broaden the tax base
- Improve business environment and competitiveness,
- Minimize distortive presence of state in the economy, and
- Address the challenges of energy sector



WORLD BANK GROUP

Thank You.