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PAKISTAN

DEVELOPMENT UPDATE



Staying the Course for Growth and Jobs

October 2025

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Preface

The World Bank Pakistan Development Update (PDU) provides an update on the economy of the Islamic Republic of Pakistan, its economic outlook, the development challenges the country faces, and the structural reforms that should be considered.

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The findings, interpretations, and conclusions expressed in this report do not necessarily reflect the views of the Executive Directors of the World Bank or the governments they represent. The World Bank does not guarantee the accuracy of the data included in this work. The data cut-off date for this report was October 15, 2025. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of the World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

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Abbreviations and Acronyms

BISP	Benazir Income Support Programme
BOP	Balance of payments
CPFTA	China–Pakistan Free Trade Agreement
DISCO	Distribution company
DPP	Digital Product Passport
EFF	Extended Fund Facility
EFS	Export Finance Scheme
EMDE	Emerging market and development economies
EU	European Union
FBR	Federal Board of Revenue
FBS	Federal Bureau of Statistics
FDI	Foreign direct investment
FY	Fiscal year
GDP	Gross domestic product
GSP+	Generalized Scheme of Preferences Plus
GST	General Sales Tax
GSTS	Goods and Sales Tax on Services
GVC	Global value chain
HDI	Human Development Index
HIES	Household and Income Expenditure Survey
IMF	International Monetary Fund
IT	Information technology
KP	Khyber Pakhtunkhwa
LMIC	Low- and middle-income country
LSM	Large-scale manufacturing
LTFF	Long-Term Financing Facility
MFN	Most favored nation
MNC	Multinational corporation
NQP	National Quality Policy
OMO	Open Market Operation
PDU	Pakistan Development Update
PKR	Pakistani Rupee
PTA	Preferential Trade Agreement
RFID	Radio frequency identification
SAFTA	South Asian Free Trade Agreement
SBP	State Bank of Pakistan
SME	Small and medium enterprise
SOE	State-owned enterprise
UK	United Kingdom
UMIC	Upper-middle-income country
UNDP	United Nations Development Programme
USA	United States of America
US\$	United States dollar
WDI	World Development Indicators
WHT	Withholding tax
WITS	World Integrated Trade Solution
WTO	World Trade Organization
y-o-y	Year-on-year

1. Executive Summary

Recent floods threaten remarkable macroeconomic stabilization gains

Pakistan's progress with macroeconomic stabilization continued through fiscal year (FY) 2025, marked by declining inflation, rising reserves, and fiscal consolidation. Modestly higher growth and low food inflation slightly reduced poverty. The FY26 budget, including major trade reforms, set the stage for continued stability and a gradual recovery in growth over FY26 and in the medium term. Recent floods, however, have complicated the outlook, imposing significant human costs and economic losses, thereby dampening growth prospects, and posing additional challenges to macroeconomic stability amid constrained fiscal space, high external financing needs, and major regional and global uncertainties.

Sustaining progress will require staying on course on prudent economic management and continuing major reform implementation

An appropriate combination of revenue and expenditure measures will be required to manage flood impacts while maintaining progress towards fiscal consolidation. Ensuring exchange rate flexibility will be critical to managing potential negative current account impacts, safeguarding against the reemergence of dollar shortages, and maintaining hard-won gains in restoring business confidence. Returning to a trajectory of faster and sustained growth will also require sustained implementation of priority reforms, including broadening the tax base while strengthening tax administration, simplifying regulations, continuing implementation of the National Tariff Policy, reducing the presence of the state in the economy through state-owned enterprise (SOE) divesture, addressing high electricity costs, and rationalizing the public sector (see Box 3.1). Building on ongoing initiatives, such as the Prime Minister's Economic Transformation Agenda and Uraan Pakistan, timely implementation of these measures can restore investor confidence, boost growth, support employment, and protect recent poverty reduction gains against flood-related disruptions.

Trade reforms are critical to unlock higher growth

Persistent external deficits, alongside fiscal imbalances, have kept Pakistan in a boom-bust cycle, driving unsustainable borrowing in good times and forcing painful adjustments in downturns. An export-oriented trade regime, with lower tariffs and reduced anti-export bias, would boost competitiveness, expand exports, and attract foreign exchange. Section 4 of this report provides a detailed discussion and reform options to address persistent external deficits by boosting exports.

Real GDP growth rose modestly in FY25, driven by industry, while agriculture lagged

Real gross domestic product (GDP) growth at factor cost is estimated to have reached 3.0 percent year-on-year (y-o-y) in FY25, slightly higher than the 2.6 percent achieved in FY24 (Table ES1). The increase in real growth was driven by a rebound in industrial output, which grew at 5.3 percent due to higher electricity production and construction activity in the last quarter of FY25. Agricultural growth for FY25 is estimated at only 1.5 percent due to drought conditions, pest infestations, and high base effects after strong growth in FY24. The services sector expanded by 3.0 percent but was held back by weak agricultural spillovers and was insufficient to offset the declines in agriculture and large-scale manufacturing.

The sharp drop in inflation enabled a major policy rate cut

Headline inflation decelerated sharply to 4.5 percent y-o-y in FY25 from 23.4 percent in FY24. Food inflation declined due to adequate supply and lower global commodity prices, while energy inflation fell with stabilizing electricity tariffs. With inflation easing, the State Bank of Pakistan (SBP) cut the policy rate from

	20.5 percent in July 2024 to 11.0 percent, though real interest rates remained elevated.
All of which contributed to poverty reduction	Higher growth and lower inflation contributed to a decrease in poverty, with the poverty rate, measured at the national poverty line, estimated to have fallen to 22.2 percent in FY25 from 25.3 percent in FY24. Strong growth in the construction and logistics sectors, which employ around one-quarter of all working poor, boosted labor incomes. Furthermore, the sharp drop in food inflation reduced price pressures and improved the purchasing power of the poor, who spend roughly 45 percent of their household budgets on food.
Record high remittances brought the first current account surplus in decades	The trade deficit widened in FY25 as rising imports, driven by stronger domestic demand, base effects, and the easing of import restrictions, outpaced subdued export growth. Higher investment activity also boosted imports of machinery for the power, textile, and mining sectors. However, record high official remittances, supported by a market-determined exchange rate, more than compensated for the trade deficit, driving the current account to a surplus of 0.5 percent of GDP, the highest in two decades. Together with new external financing, these inflows also contributed to a balance of payments (BOP) surplus of 0.9 percent of GDP and lifted gross reserves to US\$15.8 billion (2.5 months of import cover) by end-June 2025.
Strong revenue growth led to a historic primary fiscal surplus	In FY25, fiscal performance improved as revenue growth outpaced expenditure increases. Total revenues rose to 15.8 percent of GDP, supported by higher income tax rates, reduced General Sales Tax (GST) exemptions, stronger collection efforts, and a one-off transfer of substantial SBP profits. On the expenditure side, total spending increased to 21.2 percent of GDP from 19.5 percent in FY24, largely due to higher provincial development outlays. The stronger revenue performance relative to expenditure growth more than doubled the primary fiscal surplus to a record 2.4 percent of GDP. However, elevated interest payments kept the overall fiscal deficit sizeable at 5.4 percent of GDP, though it narrowed from 6.9 percent in FY24.
The economic outlook, however, has dampened due to catastrophic floods	Economic growth, initially expected to further strengthen in FY26, is now projected to be lower as recent floods disrupt agricultural production and incomes. Early official estimates point to economic losses from reduced yields of major crops such as rice, sugarcane, cotton, and maize. Cotton losses are expected to weigh on the textile, wholesale, and transport sectors. Outcomes will depend on the extent of the as-yet-unclear damage, the effectiveness of response efforts, and the ability of government to stay the course with macroeconomic stabilization and structural reform efforts, including maintaining the trade tariff changes introduced in the FY25 budget. Under a baseline scenario, further flood impacts are limited, fiscal discipline is maintained, and the International Monetary Fund (IMF) Extended Fund Facility (EFF) program stays on track. FY26 real GDP growth is expected to remain at 3.0 percent before recovering to 3.4 percent in FY27, supported by a rebound in agriculture, reconstruction, and lower global commodity prices.
Inflation is expected to increase in FY26 due to food supply disruptions	The flood-related shock to food supply is expected to push inflation above earlier projections, peaking at 7.2 percent in FY26 before easing to 6.8 percent in FY27 as food supply constraints resolve, commodity and energy prices decline, and the exchange rate remains market-determined. The current account is projected to return to a small deficit of 0.3 percent of GDP in FY26 as remittances and lower oil prices offset export losses and higher food imports. As post-flood recovery

boosts import demand and remittances normalize, the deficit is expected to widen further in FY27.

The fiscal deficit is expected to remain elevated in response to the flood-related relief measures

Fiscal consolidation is expected to continue under the ongoing IMF program. However, flood-related relief and reconstruction needs will add to spending pressures, with the fiscal deficit projected to remain elevated at 5.4 percent of GDP in FY26. Improved revenue mobilization, declining interest costs, and expenditure rationalization are expected to narrow the deficit over the medium term. The primary balance is projected to remain in surplus in FY26 and FY27, supported by SBP profits and tax revenue gains. Public debt is expected to remain elevated in FY26 before gradually declining.

Table ES1: Projections of Key Economic Indicators

	FY22	FY23	FY24	FY25e	FY26f	FY27f
Real GDP Growth, at constant market prices	6.2	-0.2	2.6	3.0	3.0	3.4
Current Account Balance (% of GDP)	-4.7	-1.0	-0.6	0.5	-0.3	-0.6
Fiscal Balance (% of GDP), excluding grants	-7.9	-7.8	-6.9	-5.4	-5.4	-5.2
Public Debt, including govt. guaranteed debt (% of GDP)	80.6	81.8	73.0	76.0	75.9	75.0

Sources: Data from the official sources, World Bank staff estimates.

Note: This macroeconomic outlook was prepared by World Bank staff and differs from that of the government. e=estimate; f=forecast.

Floods are expected to slow progress with poverty reduction

The floods are anticipated to affect poor and vulnerable rural households, who face the loss of agricultural assets, with limited savings and inadequate coping mechanisms. These vulnerabilities are compounded by rising food inflation and the volatility of informal jobs in low skill industry and services sectors. As a result, the pace of poverty reduction is expected to slow, with poverty declining only modestly to 21.5 percent in FY26 and to 20.6 percent in FY27. Sustaining welfare gains and preventing long-term setbacks in human development for flood-affected households will require timely reconstruction and support efforts, complemented by robust social protection measures.

Staying on course with stabilization and reform is critical to medium-term growth prospects

Urgent recovery needs will pose challenges to fiscal consolidation and structural reforms. Additional flood damage, potential policy reversals, or external shocks pose additional risks. To manage the current shock, mitigate ongoing risks, and sustain hard-won progress in rebuilding confidence, the government should: (i) carefully address recovery needs while safeguarding progress towards fiscal consolidation; (ii) ensure continued sound broader macroeconomic management, including prudent monetary policy and exchange rate flexibility; (iii) safeguard social spending; and (iv) accelerate key structural reforms, especially in tax, privatization, trade, and energy.

2. Recent Economic Developments

a. Context

Economic stabilization continued through FY25

Macroeconomic conditions improved in FY25 despite a challenging global environment. Fiscal consolidation, declining inflation, rising reserves, and modest growth contributed to macroeconomic stabilization and a slight poverty reduction. Industry and services supported growth, while agriculture underperformed amid lingering weather and productivity constraints. Monetary policy eased, taking a more growth-supportive stance and signaling a shift towards a more growth-supportive overall macroeconomic environment. However, recent floods that began in early FY26 could jeopardize these hard-won gains, creating risks to growth, fiscal stability, and poverty reduction.

b. Real Sector

Growth

Private consumption was the main driver of the modest FY25 real GDP growth uptick

Real GDP at factor cost grew by an estimated 3.0 percent y-o-y in FY25, a modest increase from 2.6 percent in FY24. The modest uptick was primarily fueled by private consumption, supported by robust remittance inflows and slower inflation (Table 2.1). Private investment rose for the second consecutive year as declining interest rates and stronger investor sentiment encouraged spending. Government spending and investment also supported growth, benefiting from a low base effect and reduced debt-service costs that created space for non-interest current and development expenditures. Import volumes increased, especially machinery, transport equipment, metals, and textiles, as domestic demand and investment strengthened. Services imports rose notably in passenger transport and travel as demand picked up. Meanwhile, export volumes slowed, partly due to weaker agricultural output and lower food exports, notably rice, following India's removal of its export ban.

Water shortages and climate challenges dampened agricultural output

Agricultural growth slowed sharply to 1.5 percent y-o-y in FY25 from 6.4 percent in FY24, a five-year low. Drivers included the removal of wheat support prices, water shortages, and climate-related disruptions. Output of key crops fell by 13.1 percent, with cotton ginning experiencing a significant decline of 19 percent. Cotton dropped by 30.7 percent, wheat by 8.9 percent, and maize by 15.4 percent. Livestock, accounting for roughly 60 percent of the agricultural value added, grew by 2.7 percent, the slowest increase since FY21.

Industry rebounded, led by energy and construction, but LSM remained subdued

Industry grew an estimated 5.3 percent y-o-y in FY25, rebounding from a 1.2 percent contraction in FY24. Electricity, gas, and water supply were the key contributors, surging by 28.5 percent on account of a low base and increased output from the Water and Power Development Authority and other utility companies. Small-scale manufacturing, slaughtering, and construction also supported the rebound, with the latter expanding by 6.4 percent due to higher construction-related expenditures from both the private sector and general government.¹ In contrast, large-scale manufacturing (LSM) contracted by 0.7 percent. Within LSM, positive momentum came from automobiles, wearing apparel, and textiles, while iron and steel products, electrical equipment, and

¹ Pakistan Bureau of Statistics (Oct 08, 2025) [National Accounts Committee Meeting](#).

non-metallic mineral products declined, reflecting stabilization headwinds and soft domestic demand.

The services sector recorded modest growth

Services expanded by 3.0 percent y-o-y in FY25, up from 2.3 percent in FY24. Wholesale and retail trade, the largest subsector, grew by only 0.5 percent, constrained by the weak growth in agriculture and LSM. Transport and storage rose by 2.4 percent due to greater use of water, air, and road transport, reflecting a gradual pickup in logistics and mobility services. Information and communication grew robustly at 5.9 percent on account of digital adoption and tech growth, after a surge in computer programming and consultancy services.² Slower inflation and a low base effect supported finance and insurance, which grew by 3.9 percent, and public administration and social security, which grew by 9.9 percent. Finally, education grew by 4.1 percent while human health and social work recorded growth of 3.6 percent.

Table 2.1: Real GDP Growth

(y-o-y, percent)

	FY21	FY22	FY23	FY24	FY25e
Real GDP Growth (at factor cost)	5.8	6.2	-0.2	2.6	3.0
Agriculture	3.5	4.2	2.2	6.4	1.5
Industry	8.2	7.0	-3.9	-1.2	5.3
Services	5.9	6.7	0.0	2.3	3.0
Real GDP Growth (at market prices)	6.5	4.8	-0.4	3.0	3.7
Private consumption	9.4	7.0	2.0	6.0	1.9
Government consumption	1.8	-1.3	-3.9	-8.7	11.8
Investment	4.0	4.6	-14.1	-0.9	12.4
Gross fixed capital formation	3.7	4.6	-16.1	-1.6	13.9
Private	1.5	2.1	-14.2	2.6	6.6
Public	11.8	13.1	-21.9	-16.0	44.3
Exports of goods and non-factor services	6.5	5.9	2.9	-1.3	0.6
Imports of goods and non-factor services	14.5	11.0	0.6	5.8	2.5

Source: Pakistan Bureau of Statistics, World Bank staff calculations.

Note: e=estimate.

Inflation

Headline inflation decelerated markedly in FY25

Headline inflation dropped sharply to 4.5 percent y-o-y in FY25 from 23.4 percent in FY24, reaching its lowest level since FY18. Lower electricity tariffs, adequate key food supplies that kept food inflation subdued, favorable base effects, easing global commodity prices, and a market-determined exchange rate supported the decline.³ On the demand side, fiscal consolidation helped contain domestic demand pressures, reinforcing the disinflationary trend.

Food prices fell due to adequate supply and lower global prices

Food inflation fell markedly in FY25 compared to FY24. Urban food inflation averaged 1.7 percent y-o-y, down from 23.4 percent, while rural food inflation dropped to -0.9 percent from 23.0 percent. This decline reflected abundant domestic food supplies, lower global food prices, a relatively stable exchange rate, and favorable base effects.⁴

Energy inflation

Urban energy inflation fell from 63.6 percent y-o-y in FY24 to 9.8 percent in FY25, while rural energy inflation dropped from 25.4 percent to -0.5 percent. The sharp

² Ministry of Planning Development & Special Initiatives (2025) *Annual Plan 2025–26*. Government of Pakistan.

³ Global average energy prices decreased from US\$106.0 in FY24 to US\$96.4 in FY25. Similarly, global average food and fertilizer prices declined from US\$119.9 and US\$132.4, respectively, to US\$112.7 and US\$126.1 for the same time period.

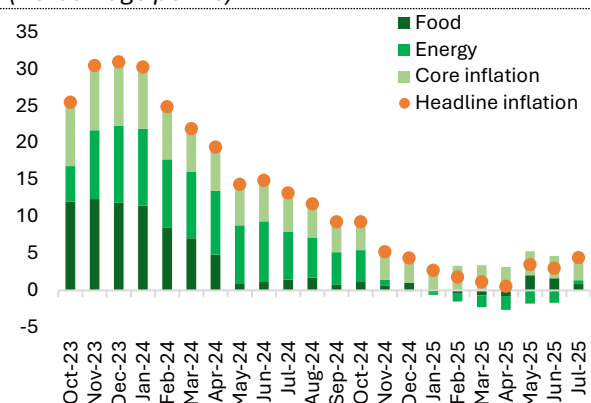
⁴ Global average grain prices declined from US\$121.1 in FY24 to US\$107.0 in FY25.

plunged with reduced electricity tariffs

easing in domestic energy prices was driven by significant reductions in quarterly electricity tariffs, lower fuel cost adjustments, and falling global energy prices. Domestic motor oil prices also declined by an average of 10.4 percent in FY25, reinforcing the overall disinflationary trend.⁵

Figure 2.1: Contribution to Headline Inflation in Urban Areas

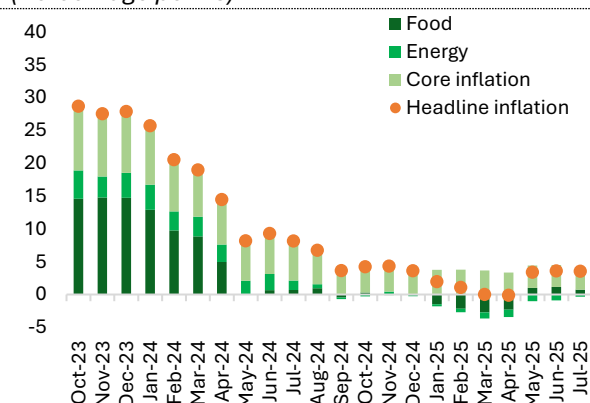
(Percentage points)



Source: Pakistan Bureau of Statistics, World Bank staff calculations.

Figure 2.2: Contribution to Headline Inflation in Rural Areas

(Percentage points)



Source: Pakistan Bureau of Statistics, World Bank staff calculations.

Core inflation also moderated

Urban core inflation averaged 8.5 percent y-o-y, while rural core inflation stood at 11.2 percent, both down sharply from 16.2 percent and 23.0 percent in FY24. Lower energy prices and a stable exchange rate reduced transportation and production costs, supporting this deceleration.

Monthly y-o-y inflation edged upward in Sep 2025

The monthly headline inflation accelerated to 5.6 percent in Sep 2025 from 3.2 percent in June, reflecting higher energy prices after government-administered fuel price adjustments and rising food inflation linked to recent flood-related supply disruptions.

Poverty

Modest growth and low inflation have supported poverty reduction

Modest growth and easing inflation supported a poverty reduction to 22.2 percent in FY25 from 25.3 percent in FY24, measured at the national poverty line. Gains reflect robust growth in construction and logistics, which employ around one-quarter of the working poor. The sharp decline in food inflation further strengthened the purchasing power of low-income households, which spend nearly half of their budget on food. Rural poverty remained elevated as agriculture slowed, and the share of the poor employed in agriculture rose by nearly 3 percentage points to 39.8 percent.

c. Monetary and Financial Sector

Monetary

Easing inflation allowed for monetary easing

As inflationary pressures subsided in FY25, the SBP cut the policy rate by a cumulative 1,100 basis points, from 22.0 percent in July 2024 to 11.0 percent by January 2025. With headline inflation averaging 4.5 percent, real interest rates turned positive. To support liquidity amid increased reliance on domestic commercial banks for fiscal financing, SBP injected substantial funds into the interbank market through Open Market Operations (OMOs), raising the OMO

⁵ Average motor oil prices declined from PKR 280.9 per liter in FY24 to PKR 254.4 in FY25.

stock to PKR 12.2 trillion by end-FY25 from PKR 11.9 trillion a year earlier. This contributed to an 11.5 percent expansion in money supply.

Financial Sector

The sovereign-bank nexus remained high, but productive investment increased

Government borrowing needs, private credit demand, and macroeconomic stabilization shaped financial sector dynamics in FY25. Initially, the requirement to keep banks' advance-to-deposit ratio above 50 percent limited investment in government securities. However, after its reversal in December 2024, banks increased their holdings sharply, with government securities accounting for 78.8 percent of total credit by June 2025, generating PKR 2.1 trillion in markup income, of which 94 percent is from government securities. Nevertheless, private sector credit expanded strongly by PKR 977.8 billion, more than double FY24 levels, driven by manufacturing (46 percent), wholesale and retail trade (15 percent), information and communication (13 percent), consumer financing (11 percent), and agriculture (8.9 percent). Notably, long-term fixed investment loans rose to 37.2 percent of total credit, up from 20.5 percent in FY24, signaling a structural shift toward productive investment.

Monetary easing spurred lending and lifted capital markets

Lower interest rates revived consumer lending after two years of contraction, adding PKR 111.5 billion mainly in car financing and credit cards. The banking sector remained resilient, meeting capital adequacy and profitability requirements, though strength remained concentrated among the top five banks. The microfinance segment faced stress, with its capital adequacy ratio falling to -1.6 percent due to high provisioning requirements, which reduced capital but strengthened risk buffers. Meanwhile, capital markets posted stellar gains, with the KSE-100 index surging 60.1 percent on the back of macroeconomic stabilization, successful IMF review, monetary easing, stable reserves, and an improved sovereign credit rating, placing Pakistan among the best performing equity markets globally.

d. External Sector

The trade deficit widened in FY25

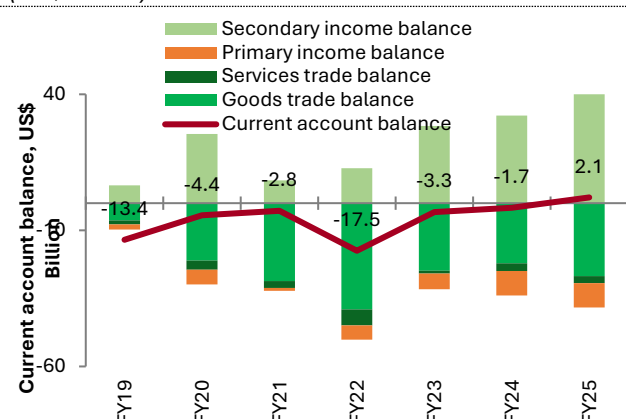
The overall goods and services trade deficit increased from 6.8 percent of GDP in FY24 to 7.2 percent in FY25 as import growth accelerated while export growth slowed. Goods exports grew by 4.3 percent y-o-y in FY25, down from 11.1 percent in FY24, reflecting base effects from the sharp FY23 contraction and lower rice exports after India lifted its export ban. Textile exports rose by 5.8 percent, partly benefiting from diverted international orders due to civil unrest in Bangladesh, while petroleum product exports surged by 51 percent as refineries processed higher crude oil volumes to meet recovering domestic energy demand. Escalating global trade tensions did not have a marked impact on fourth quarter exports, including to the USA and China. Meanwhile, goods imports increased by 11.2 percent, driven by machinery, transport equipment, metals, and textiles, reflecting strengthening domestic demand and investment. Services exports rose by 9.0 percent, while services imports increased by 1.9 percent, mainly passenger transport and travel services.

But remittances increased sharply

Remittance inflows rose by 26.6 percent y-o-y in FY25, reaching 9.4 percent of GDP. This was supported by reduced political uncertainty, a stable exchange rate, and a narrower official-kerb market differential that encouraged the use of formal banking channels. As a result, the secondary income surplus rose to 7.7 percent of GDP from 6.2 percent in FY24. The primary income deficit narrowed

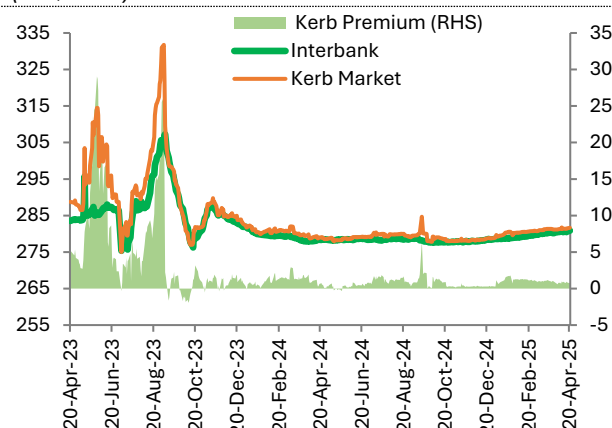
marginally as external outflows slowed but remained negative due to continued repatriation of dividends and investment income.

Figure 2.3: Current Account Balances (Jul–Jun)
(US\$ billion)



Source: State Bank of Pakistan, World Bank staff calculations.

Figure 2.4: Domestic Exchange Rate Movements
(US\$/PKR)



Source: State Bank of Pakistan, World Bank staff calculations.
Note: RHS=right hand side.

Leading to the highest current account surplus in two decades

Robust remittance inflows more than offset the wider trade deficit and the still negative, though narrowing, primary income balance. As a result, the current account recorded a surplus of 0.5 percent of GDP in FY25, compared to a deficit of 0.6 percent in FY24, the highest surplus in two decades (Figure 2.3).

The BOP surplus increased marginally

The financial account surplus widened slightly to 1.6 percent of GDP in FY25 from 1.3 percent in FY24, reflecting new multilateral and bilateral financing. Foreign direct investment (FDI) coming mainly from China, Hong Kong, and the United Kingdom (UK) into the energy and financial sectors, remained flat and chronically low at under 1 percent of GDP since 2010. Overall, the BOP surplus increased marginally to 0.9 percent of GDP in FY25. Overall, the BOP surplus increased marginally to 0.9 percent of GDP in FY25.

Reserves increased, easing exchange rate pressures

With the current account supporting the overall BOP surplus, gross reserves rose to 3.9 percent of GDP (2.5 months of imports cover) from 2.9 percent (1.9 months) in FY24. Supported by macroeconomic stabilization, stronger external buffers, and ongoing foreign exchange market reforms, the rupee appreciated by 1.9 percent y-o-y in FY25 to PKR 285 per US\$ by end-June (Figure 2.4).

The current account deficit widened over in the first two months of the FY26 as import growth strengthened

The current account deficit widened y-o-y for the first two months from \$430 million in FY25 to \$624 million in FY26 as import growth strengthened and exports, though growing by 10 percent y-o-y, were unable to contain the current account deficit. The current account was supported by sustained increase in income account surplus as the slight widening of the deficit on primary income account was offset by a surplus on secondary income account. This was primarily on account of continued robust remittance inflows - 7 percent y-o-y for the past two months.

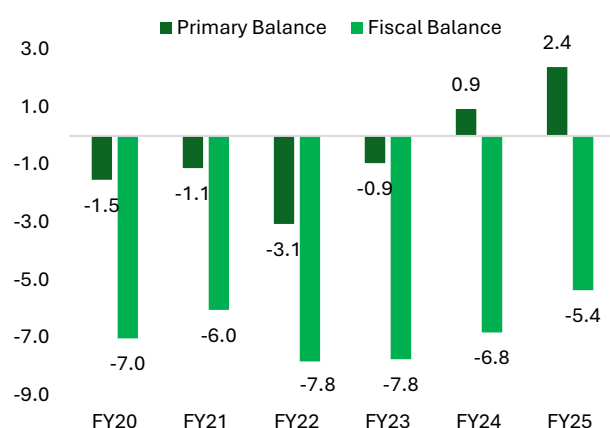
e. Fiscal and Debt Sustainability

Strong revenue growth supported fiscal consolidation

Total revenues increased to 15.8 percent of GDP in FY25, up from 12.6 percent of GDP in FY24, reflecting strong growth in both tax and non-tax components. Tax revenue rose to 12.3 percent of GDP from 10.6 percent in FY24, driven by higher direct and increased sales tax collection, which rose from 2.9 percent to 3.4

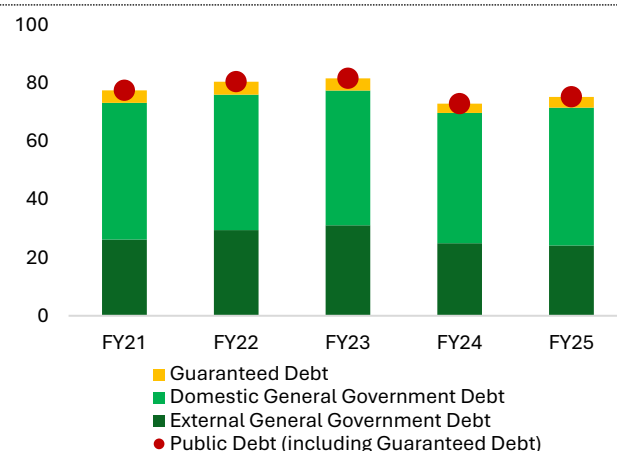
percent of GDP. Non-tax revenue increased from 2.0 percent of GDP in FY24 to 3.5 percent in FY25, largely due to record high profits of the SBP.

Figure 2.5: Consolidated Fiscal and Primary Balance (excluding grants)
(Percent of GDP)



Source: Ministry of Finance, World Bank staff calculations.
Note: Other federal current expenditure includes subsidies.

Figure 2.6: Public and Publicly Guaranteed Debt
(Percent of GDP)



Source: Ministry of Finance, World Bank staff calculations.

Total expenditure rose with higher provincial spending

Total expenditure increased to 21.2 percent of GDP in FY25, compared to 19.5 percent of GDP in FY24, as both current and development spending rose. Current expenditure increased to 18.9 percent of GDP in FY25 from 17.7 percent in FY24, mainly due to higher provincial spending, which rose to 5.1 percent of GDP, or PKR 5.8 trillion. Non-interest current expenditure increased to 11.1 percent of GDP in FY25 from 9.9 percent in the previous year, reflecting higher allocations to the provinces. Provincial spending also boosted development expenditure, which rose from 2.0 percent to 2.6 percent of GDP, largely reflecting higher provincial spending, which grew from 1.3 percent to 1.9 percent of GDP. Federal development expenditure increased slightly as a share of GDP, from 0.6 percent to 0.7 percent.

Robust revenues delivered a historic primary surplus

With higher revenues and controlled non-interest expenditures, the primary balance rose to 2.4 percent of GDP in FY25, up from 0.9 percent in FY24, representing a historic high. This marked improvement in the primary balance reflected the government's ability to generate a surplus before debt servicing, highlighting significant fiscal consolidation relative to previous years.

Overall interest payments remained high

Interest payments on domestic debt increased from 6.8 percent of GDP in FY24 to 7.0 percent in FY25, reflecting higher domestic borrowing. Growth in domestic debt servicing was moderated by declining interest rates, as 80 percent of the domestic debt stock comprised floating rate instruments at end-June 2025.⁶ Interest payments on external debt fell slightly to 0.8 percent of GDP, supported by limited access to international capital markets and a stable exchange rate. Overall, the interest burden remained high but manageable.

Leading to an overall fiscal deficit in FY25

Combining higher revenues, increased primary expenditures, and interest payments, the consolidated fiscal deficit fell to 5.4 percent of GDP in FY25, down from 6.9 percent in FY24. This 1.5 percentage point decline represents the largest annual reduction in the fiscal deficit over the past decade, demonstrating strong fiscal management and improved revenue mobilization.

⁶ According to the Ministry of Finance's [Annual Debt Review FY-2025](#), floating rate debt comprised 80 percent of total domestic debt.

The fiscal deficit was largely financed from domestic sources

The fiscal deficit was predominantly financed from domestic sources, which accounted for 90 percent of total financing, largely through bank borrowing. Domestic financing relied primarily on long-term instruments, lengthening the average maturity of domestic debt and reducing refinancing risks. External financing increased to PKR 619 billion in FY25, largely from multilateral lenders and commercial banks for budgetary support.

PPG debt increased slightly

At the close of FY25, total public and publicly guaranteed (PPG) debt rose to around 76 percent of GDP, up from 73.0 percent of GDP at the end of FY24. The composition of public debt shifted further toward domestic sources, with the share of external debt falling to 32.1 percent, compared to 34.2 percent in FY24, reflecting the increased reliance on domestic bank borrowing.

Box 2.1: Federal Budget FY26

The FY26 federal budget proposal underscores the government's continued commitment to fiscal consolidation while introducing ambitious and potentially transformative trade tariff reforms. Key measures include efforts to reduce subsidy spending, close tax exemptions, and enhance tax compliance. However, the budget faces high risks from the impact of recent floods, which could jeopardize planned tax collection and lead to expenditure overruns in provinces.

The budget continues to be predicated on optimistic growth targets and revenues. The budget estimates real GDP growth of 4.2 percent, significantly above World Bank and IMF forecasts. Total revenues are projected to grow to 14.9 percent of GDP, driven by tax policy changes including the withdrawal of sales tax exemptions (e.g., 10 percent tax on solar panels, gradual phase-in of a 10 percent sales taxes in the Newly Merged Districts of Khyber Pakhtunkhwa, KP), new digital taxes, increased taxes on hybrid vehicles, 5 percent tax on pension income above PKR 10 million (under age 70), and tax on profit on debt has been raised to 20 percent for certain financial instruments. The budget also includes compliance measures, such as expanded powers for tax officers to restrict bank accounts and seize assets, non-filers' restrictions on purchasing vehicles above PKR 7 million and on acquiring or transferring property above PKR 100 million, and penalties for fraud.

The budgeted decline in expenditure largely reflects lower interest payments. The budget estimates total federal expenditures to fall to 13.6 percent of GDP in FY26 from 15.0 percent in FY25. The decline is contingent on lower interest payments of 6.3 percent of GDP, compared to 7.7 percent in FY25, reflecting lower projected interest rates. Subsidies are estimated to decline to 0.9 percent of GDP in FY25 from 1.2 percent the year before.

The budget introduces major trade policy reforms. Non-standard customs duty (CD) slabs are being replaced with a streamlined structure of 5, 10, and 15 percent, the removal or reduction of additional customs duties (ACDs) and regulatory duties (RDs) across thousands of tariff lines, and an expansion of the 0 percent CD slab to over 3,100 items. The exemption regime will also be streamlined, with the deletion of 479 entries. In the medium-to-long term, this tariff reform is estimated to increase overall revenues as cheaper access to imports stimulates local and export industries, leading to larger follow-on import demand.

Increases in provincial surpluses carry risks due to floods. The FY26 federal budget projects a 45.1 percent increase in provincial surpluses, a key component of Pakistan's fiscal consolidation strategy. This increase hinges on the successful implementation of provincial Agriculture Income Tax (AIT) regimes, effective since January 1, 2025, with tax liabilities for the second half of FY25 expected to be collected in the first quarter of FY26. Provinces are also expected to strengthen GST collection of services. However, these targets carry significant risks. Provinces will need to curb expenditure growth to maintain surpluses, a task that may prove difficult if revenue performance falls short. The recent floods, particularly in Punjab, threaten agricultural output and complicate AIT collection. Recovery and reconstruction spending could further strain provincial budgets, posing challenges to meet surplus targets.

3. Outlook and Risk

a. Medium-Term Outlook

The economic outlook has been impacted by the floods

The economic outlook has been affected by the floods. Early official estimates suggest a decline in agricultural output in Punjab, affecting major crops such as rice, sugarcane, cotton, and maize. This shock, compounded by a tight monetary stance, a rebound in inflation, and a less favorable global environment, will weigh on growth. While public spending on relief and rehabilitation will partially offset these losses, the full extent and consequences of the damage remain uncertain. Outcomes will depend on the extent of economic losses, the effectiveness of response efforts, and the ability of the government to stay the course with macroeconomic stabilization and structural reforms. Under a baseline scenario, fiscal discipline is maintained, and the IMF-EFF program stays on track. Real GDP growth, initially projected to accelerate to 3.4 percent in FY26 and 3.6 percent in FY27, is now expected to remain at 3.0 percent in FY26 (Table 3.1). In FY27, growth is projected to recover to 3.4 percent, supported by a rebound in agriculture, reconstruction efforts, lower global commodity prices, and improved confidence from continued macroeconomic stabilization. However, flooding is expected to impose a lingering drag on output through the loss of livelihoods and human capital, disruption to crop cycles, and infrastructure damage. Disrupted food supply chains are expected to push inflation to 7.2 percent in FY26, higher than earlier projections, before easing gradually over the medium term.

Table 3.1: Pakistan Macroeconomic Outlook (FY26–27)

(Annual percent change unless indicated otherwise)

	FY22	FY23	FY24	FY25e	FY26f	FY27f
Real GDP Growth, at constant factor prices	6.2	-0.2	2.6	3.0	3.0	3.4
Agriculture	4.2	2.2	6.4	1.5	2.3	3.3
Industry	7.0	-3.9	-1.2	5.3	3.1	3.4
Services	6.7	0.0	2.3	3.0	3.3	3.5
Real GDP Growth, at constant market prices¹	4.8	-0.4	3.0	3.7	3.0	3.4
Private consumption	7.0	2.0	6.0	1.9	3.7	4.0
Government consumption	-1.3	-3.9	-8.7	11.8	1.1	1.5
Gross fixed capital formation	4.6	-16.1	-1.6	13.9	3.3	4.2
Exports, goods, and services	5.9	2.9	-1.3	0.6	1.7	2.4
Imports, goods, and services	11.0	0.6	5.8	2.5	4.5	4.8
Inflation (Consumer Price Index)	12.2	29.2	23.4	4.5	7.2	6.8
Current Account Balance	-4.7	-1.0	-0.6	0.5	-0.3	-0.6
Financial and Capital Account Balance, (% of GDP)	3.1	0.0	1.5	0.4	0.9	1.1
Fiscal Balance (excluding grants, % of GDP)	-7.9	-7.8	-6.9	-5.4	-5.4	-5.2
Debt (% of GDP)	80.6	81.8	73.0	76.0	75.9	75.0
Primary Balance (excluding grants, % of GDP)	-3.1	-1.0	0.9	2.4	0.9	0.8

Sources: Pakistan Bureau of Statistics, State Bank of Pakistan, World Bank staff estimates.

Note: This macroeconomic outlook was prepared by World Bank staff and differs from that of the government. e=estimate; f=forecast.

Crop losses weigh on agriculture, and lower global prices and reconstruction

Agriculture is expected to remain subdued for the second consecutive year due to flood-related losses, particularly to rice, cotton, sugarcane, and maize crops, which could weigh on rural incomes and food security and create spillovers to industry and services. The textile sector, accounting for about one-quarter of

spending may only soften the impact on overall GDP growth	industrial output and over half of goods exports, may face input shortages as domestic cotton typically supplies around half of its needs. Food processing and slaughtering industries could also be affected by reduced harvests and livestock losses. Lower agricultural and industrial activity may dampen wholesale and transportation services, which together represent about 50 percent of the services sector, and infrastructure damage could disrupt supply chains. However, the overall impact on industry and services may be moderated by lower global commodity prices that ease import costs and by public spending on reconstruction, which is likely to stimulate construction and related services.
Inflation is expected to increase amid food supply disruptions	Consumer price inflation is projected to average 7.2 percent in FY26, driven by flood-related disruptions to supply chains and higher prices for perishable food items. Over the forecast horizon, inflation is expected to ease as high base effects, declining global commodity prices, and the resolution of flood-induced supply constraints ease price pressures.
The current account is expected to turn into a small deficit in FY26 amid strong remittances	Flooding is expected to increase goods imports, particularly for food and cotton, while exports, especially rice and textiles, are likely to decline. The current account is projected to shift only to a small deficit of around 0.3 percent in FY26, as higher food imports and lower exports are partly offset by strong remittance inflows and lower global oil prices. In FY27, the deficit is expected to widen as economic growth strengthens, import demand rises, and remittance inflows normalize post-flood.
The fiscal deficit is projected to remain elevated in FY26 with relief measures	The fiscal outlook assumes the government maintains a prudent fiscal stance and avoids large off-budget commitments, and that the IMF-EFF program remains on track, anchoring investor confidence and ensuring access to external financing. The fiscal deficit is projected to remain elevated at 5.4 percent of GDP in FY26, before narrowing gradually over the medium term as revenue mobilization improves, agriculture recovers, interest costs decline, and expenditures are rationalized. In line with fiscal consolidation efforts and reduced subsidy spending, the primary balance is expected to reach a surplus of 0.9 percent of GDP in FY26, supported by strong SBP profits, and to remain in surplus in FY27 as tax revenues increase and non-interest expenditures are contained. Continued progress on tax policy and administration reforms will be critical to sustaining this trajectory, alongside efforts to broaden the tax base and improve compliance.
PPG debt is projected to decline relative to GDP over the medium term	PPG debt is projected to reach 75.9 percent of GDP in FY26 due to modest flood-related spending and elevated financing needs, before declining steadily over the forecast period, supported by continued primary surpluses. Gross financing needs will nevertheless remain high, reflecting maturing short-term debt, repayments to multilateral and bilateral creditors, and upcoming Eurobond maturities.
Poverty reduction hinges on successful reforms, social protection, and climate resilience	The floods are anticipated to affect poor and vulnerable rural households, who face the loss of agricultural assets, and have limited savings and inadequate coping mechanisms. Rising food inflation, and the volatility of informal jobs in low skill industry and services sectors compound these vulnerabilities. Poverty reduction is therefore expected to lose pace, declining only modestly to 21.5 percent in FY26 and 20.6 percent in FY27. Major delays with reconstruction, inadequate resourcing of social protection, or further negative impacts on agriculture would have additional negative poverty impacts, undermining long-term human development. Adequate financing of social protection is required to prevent long-term welfare erosion and human development setbacks. Faster

and sustained poverty reduction will depend on structural reforms and stronger growth, particularly in agriculture, which remains a key source of income and resilience for many poor households.

Staying on course with stabilization and structural reform is critical

The outlook for FY26 and beyond depends on how these shocks and policy responses interact. Floods are expected to weigh on agricultural output, household incomes, and potentially public finances, with spillovers to inflation, external balances, and poverty. At the same time, sustaining stabilization gains will require continued fiscal discipline, exchange rate flexibility, and accelerated structural reforms to boost competitiveness, strengthen revenues, and protect vulnerable households.

b. Risks and Priorities

The full impacts of the floods are not yet known

The full economic impact of the floods remains uncertain. Loss estimates could worsen as more information emerges from previously inaccessible areas or as additional crop and livestock losses occur due to feed shortages, disease, or disruptions to the next planting season. Economic challenges would intensify if flood impacts deepen or if response and recovery efforts are delayed or inadequate.

Additional risks weigh on the outlook

Any additional climate shocks or natural disaster could further impact agricultural productivity, disrupt supply chains, and damage critical infrastructure. Tightening global financial conditions could raise external borrowing costs and drive volatility in global commodity markets, especially for food and energy. Rising protectionism and trade restrictions may further strain supply chains and drive inflation, while slower global growth could weaken external demand and investment flows. Limited access to credit for households and small businesses, along with liquidity constraints in microfinance institutions, continues to restrict financial inclusion, amplifying risks for households and the private sector.

Sound macroeconomic management, IMF-EFF program execution, and deep structural reforms are vital for a higher growth path

Sustaining recent stabilization gains and moving to a higher growth path hinges on deep structural reforms. These are essential to complement prudent macroeconomic management, ongoing fiscal consolidation efforts, and the completion of the IMF-EFF program. Reforms must tackle longstanding bottlenecks such as broadening the tax base, strengthening tax administration, simplifying regulations, reducing the state's role in the economy, cutting high electricity costs, and rationalizing the public sector (see Box 3.1). These measures are essential to create the conditions for durable growth beyond short-term stabilization.

Trade reforms are essential to address the external deficit and boost competitiveness

Trade reforms remain integral for macroeconomic stability and stronger long-term growth. Decades of import substitution and high protection have left the export base narrow and uncompetitive (Section 4). While recent tariff reforms have been an important step towards boosting exports, they need to be complemented by a flexible exchange rate, full operationalization of the EXIM Bank of Pakistan, stronger trade facilitation, and broader structural reforms to boost export competitiveness.

Box 3.1: Recommended Reforms to Enhance Economic Growth in the Near Term**1. Domestic Revenue Mobilization Reforms**

Fragmented tax policy function, paired with multiple property valuations at the federal and provincial levels, non-digitized land records, data silos, and limited institutional capacity on newly assigned taxes, have resulted in underutilized revenue sources.

Reform	Description
Prioritize an equitable, efficient, and sustainable tax system by broadening the tax base and improving tax administration	- Fully implement the single portal for Goods and Sales Tax on Services (GSTS). - Fully implement the recently revised AIT and continue reforms on property valuation to address systematic undervaluation. - Improve taxpayer e-services, implement compliance risk management, and introduce pre-populated tax forms to curb tax evasion and misreporting. - Develop and implement a tax expenditure policy to reduce tax expenditures. Reduce the number of zero-rated items under the fifth schedule, eliminate preferential treatments under the income tax ordinance, and conduct ex-ante cost assessments for new exemptions, evaluate past exemptions, and institute sunset clauses.

2. Exchange Rate Reforms

Central bank exchange rate intervention creates temporary stability but leads to disruptive adjustments, deterring investment and undermining confidence.

Reform	Description
Restore the functioning of the interbank foreign exchange market alongside the fully market-determined exchange rate	- Enable a deep and liquid interbank market without SBP intermediation and broader participation from market players, including exporters, importers, and foreign investors. - Publish detailed data on interbank market transactions, including volumes and participants. - Phase out ad hoc interventions so that the exchange rate reflects actual supply and demand.

3. Trade Reforms

High tariffs and limited trade finance, exacerbated by the incomplete operationalization of EXIM Bank, continue to hinder investment, competition, and productivity growth.

Reform	Description
Credibly implement tariff policy reforms and enhance trade finance	- Implement year-two actions of the National Tariff plan through the upcoming annual budget. Prioritize ambitious tariff reductions for inputs to support export competitiveness. - Fully operationalize the EXIM Bank through the appointment of a Chief Executive Officer and capitalization through the annual budget, seeking development partner support as needed.

4. Investment and Business Environment Reforms

The government's large presence in commercial sectors, delays in privatization, and a complex business environment have created credibility gaps and deterred investment.

Reform	Description
Implement high-profile privatizations to crowd in private investors	- Conclude the concessioning process of key airports to the private sector. - Introduce private participation in energy sector SOEs. - Offer shares of selected SOEs to the public to improve commercial discipline, corporate governance, and performance.
Improve the business enabling environment	- Establish a National Regulatory Delivery Office to implement business environment reforms, including under the Pakistan Regulatory Modernization Initiative, incorporating private sector feedback. - Pass the revised Investment Act to align the legislative framework with policy and international best practice and establish a single business registry. - Fill leadership vacancies at the Competition Commission and Competition Appellate Tribunal with qualified staff. - Strengthen the legal and institutional framework for creditor/debtor relations by implementing recommendations from the Insolvency and Creditor/Debtor Rights Report on the Observance of Standards and Codes shared with the Securities and Exchange Commission of Pakistan.

5. Public Sector Reforms

Reform	Description
Demonstrate reform commitment through public sector austerity measures	- Further right-size the government, including eliminating redundant or unproductive positions or agencies. - Review public sector compensation, including monetization and simplification of in-kind benefits to reduce costs and enhance transparency. - Implement parametric pension reforms to reduce future liabilities and gradually transition to a contribution-based system.

4. Powering Growth Through Exports

a. Introduction

Exports are a cornerstone of sustained growth

Exports are critical to economic development and long-term growth. They generate critical foreign exchange to finance imports, expand firms' access to markets far beyond domestic demand, and expose businesses to international competition that drives innovation, technological upgrading, and productivity gains. Nearly all countries that have achieved rapid and durable growth have done so by tapping into global markets.

However, weak exports have left Pakistan's growth reliant on consumption, fueling repeated boom-bust cycles

Pakistan has struggled to follow this path. Exports have declined from 16 percent of GDP in the 1990s to just around 10 percent in 2024, with the export basket still concentrated in low-value textile and agricultural products. Economic upturns have been fueled instead by debt and remittance-financed consumption, rather than export dynamism. As growth accelerates and is fueled by higher imports, foreign exchange reserves are strained, particularly when the exchange rate is tightly managed, triggering recurrent BOP crises. This cycle of boom and bust has undermined investor confidence, constrained private investment, and eroded the foundations of long-term sustainable growth.

Structural barriers have locked firms into low productivity limiting export competitiveness and leaving a US\$60 billion export gap

Underlying this weak export performance are deep-seated productivity and competitiveness challenges. Distortionary policies such as high tariff barriers have increased input costs and consumer prices, driving up production costs, and encouraging firms to focus on protected local markets. Excessive and redundant red tape and regulation, and a heavy presence of the state within the economy (including through more than 200 SOEs at the federal level) has undermined efficiency, deterred investment, and distorted resource allocation. Exporters face major constraints to accessing finance, including trade finance. Costs of customs management and logistics are also high, and government supported measures to assist firms in accessing foreign export markets have often been insufficient including in terms of the negotiation of trade deals, establishing a system to support export market compliance, and helping to promote Pakistan's exports abroad. Finally, fundamental constraints to firm productivity remain to be addressed, including the very high cost of electricity and limited access to core digital infrastructure. In combination these challenges have led to missing exports of close to US\$60 billion.

While recent tariff rationalization marks a historic shift, a broader set of reforms are needed to power both goods and services exports

Pakistan has recently taken critical steps to safeguard macroeconomic stability and improve economic performance. Alongside critical fiscal reforms, the government has approved major tariff reforms which, if fully implemented, would align Pakistan's tariff structure with peers. Lower tariffs will reduce input costs for exporters, reduce incentives to focus on local markets, and encourage progress towards a more open and export-oriented economy. Yet tariff reform alone will not suffice. Leveraging exports for sustained economic growth would require a broader package of complementary reforms to unlock firm competitiveness, strengthen trade facilitation, and enable deeper integration into global value chains.

This Section sets out a roadmap for export-led growth. Sections 4b and 4c outline the critical role of exports and track Pakistan's export performance in a regional and global context. Section 4d outlines key reforms needed to unlock Pakistan's export potential, including: (i) *fully implementing tariff reductions*; (ii) *ensuring a liquid interbank foreign exchange market alongside a market-determined exchange rate*; (iii) *strengthening trade finance*; (iv) *streamlining business regulations to attract FDI*; (v) *modernizing trade facilitation and logistics, including standards compliance*; (vi) *deepening trade agreements*; and (vii) *closing infrastructure and connectivity gaps in energy and digital sectors*. **Reform recommendations are presented in Table 4.1.**

Table 4.1: Recommended Reforms to Boost Exports

1. Tariff reform to lower the cost of inputs for exporters and reduce anti-export bias

- Stay the course on the implementation of the National Tariff Policy.
- Build the capacity of the National Tariff Commission to monitor, evaluate, and implement anti-dumping and countervailing measures to protect against unfair trade practices.
- Focus on trade negotiation efforts on further tariff reductions with key and emerging trade partners.

2. Maintaining a flexible exchange rate to ensure export competitiveness and complement tariff reform

- Allow the emergence of a deep and liquid interbank market without SBP intermediation and encourage greater participation from a diverse range of market players, including exporters, importers, and foreign investors.
- Publish detailed data on interbank market transactions, including volumes and participants.
- Phase out ad hoc interventions, allowing the exchange rate to reflect genuine supply and demand.

3. Expanding access to trade finance

- Support the full operationalization of the EXIM Bank through the appointment of a Chief Executive Officer.
- Strengthen the balance sheet of the EXIM Bank to enable it to deliver on its mandate and offer a diverse set of financial instruments in support of unlocking finance for trade in the country.
- Strengthen the capacity of the EXIM Bank and financial institutions to offer more innovative instruments.
- Prioritize new export ventures and segments when offering financing products.

4. Creating an enabling environment for export-oriented FDI

- Establish a National Regulatory Delivery Office to implement high-profile business environment reforms, including under the Pakistan Regulatory Modernization Initiative, drawing from ongoing private sector consultations.
- Pass the revised Investment Act to align the legislative framework with policy and good international practice.
- Establish a single business registry for all firm registrations.
- Remove restrictions and barriers around profit repatriation for investors
- Fill leadership vacancies at the Competition Commission and Competition Appellate Tribunal with skilled staff.
- Strengthen the country's legal, regulatory, and institutional frameworks for creditor/debtor relationships by implementing the recommendations from the Insolvency and Creditor/Debtor Rights Report.

5. Improve customs management and standards and compliance for enhanced trade facilitation

- Fully implement the World Trade Organization (WTO) Trade Facilitation Agreements.
- Implement the Federal Board of Revenue (FBR) Transformation Plan.
- Improve the transparency and administration of the Export Facilitation Scheme (EFS): simplify and fully digitize the program, clear the backlog of refunds, increase awareness of the scheme among small and medium enterprises (SMEs), and strengthen risk management.

6. Supporting exporters in complying with evolving standards in global markets

- Develop a revised National Quality Policy (NQP) implementation plan that aligns with the updated Strategic Trade Policy Framework and Industrial Policy.
- Develop a Technical Regulation Framework (TRF) and establish a Technical Regulation Coordination Office.

7. Deepening preferential free trade agreements and expanding markets

- Strengthen negotiations capacity through targeted training, ensure regular consultations with exporters and industry to align agreements with business opportunities, and establish robust mechanisms to monitor implementation and performance of trade agreements.
- Upgrade existing shallow Preferential Trade Agreements (PTAs) toward deeper agreements covering services, investment, and digital trade.
- Leverage trade attachés to explore agreements with non-traditional export markets in regions such as Sub-Saharan Africa and Latin America.

8. Close critical infrastructure and connectivity gaps by reforming the energy and digital sector

Energy:

- Continue cost-reduction reforms including timely implementation of electricity and gas tariff adjustments.
- Improve the management of power distribution companies (DISCOs) to improve grid reliability.

Digital:

- Accelerate the implementation of the planned National Fiberization plans.
- Implement new regulations and update existing regulations around data sharing and governance aligned with global standards.
- Strengthen the Pakistan Software Export Board to support international promotion activities, facilitate business activities and streamline procedures and regulations.

b. Exports are Critical to Sustainable Growth

Exports are critical to macro stability and sustainable and inclusive growth

International evidence and experience illustrate that exports are critical for long-term sustainable growth. Exports generate the foreign exchange needed to finance critical imports of productive inputs (energy, machinery, and raw materials), reducing reliance on external borrowing and supporting macroeconomic stability. Moreover, when firms export they gain access to much larger markets than are available domestically, and exposure to international export markets drives firms to innovate, adopt new technological adaptation, and in the process increases economy-wide productivity, spurring economic growth and the creation of better jobs.⁷ Nearly all countries that have achieved rapid and sustained growth have done so through accessing the potential of global markets. Economies that have sustained rapid growth—notably East Asia—have steered away from import substitution and channeled a large share of investment into export industries, creating a virtuous cycle of larger and more productive firms and stronger external balances.

c. Pakistan's Export Performance

Pakistan's exports as a share of GDP have been declining and are substantially below potential

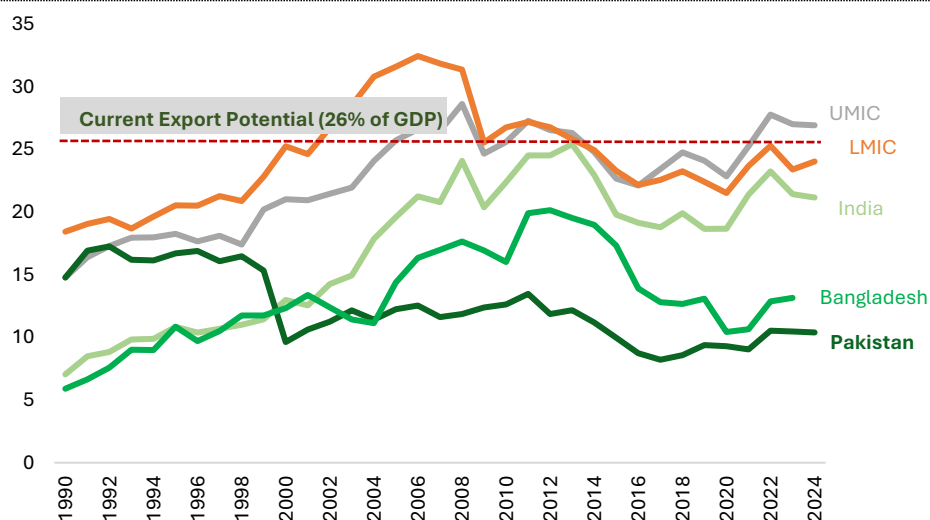
Since 2000, exports as a share of GDP have steadily declined from an average of 16 percent in the 1990s to just around 10.4 percent in 2024.⁸ Pakistan's export performance once outpaced Bangladesh and India, but today it lags both countries and is below the low- and middle-income country (LMIC) and upper middle-income country (UMIC) averages. This decline has happened against the backdrop of a widening exports gap, i.e., the difference between actual exports and Pakistan's export potential. Taking account of core economic characteristics such as population, level of development, and proximity to major markets, current estimates suggest an untapped export potential of close to US\$60 billion (Figure 4.1 and Box 4.1). Closing this gap would put Pakistan on par with the average of UMICs but would require the current export share in GDP to double.

⁷ World Bank (2020) *Quality Infrastructure Gap Assessment for Pakistan*.

⁸ "Exports" includes both goods and services exports. To distinguish the two, this section will use the terms "goods exports" and "services exports."

Export growth has progressively declined to levels below potential and below structural and aspirational peers

Figure 4.1: Exports as a Share of GDP
(Percent of GDP)



Source: World Bank staff calculations using data from World Development Indicators.

Box 4.1: Pakistan's Export Potential

Determining an economy's export potential and identifying untapped markets is essential for guiding trade policy. Between 2010 and 2022, missing exports averaged 11 percent of GDP, suggesting that, had Pakistan matched its potential, exports would have been more than double their observed levels (Figure B4.1.1 and B4.1.2). Over time, potential exports have grown steadily while actual exports have stagnated, widening the gap.

Figure B4.1.1: Missing Exports (estimation range, billion USD)

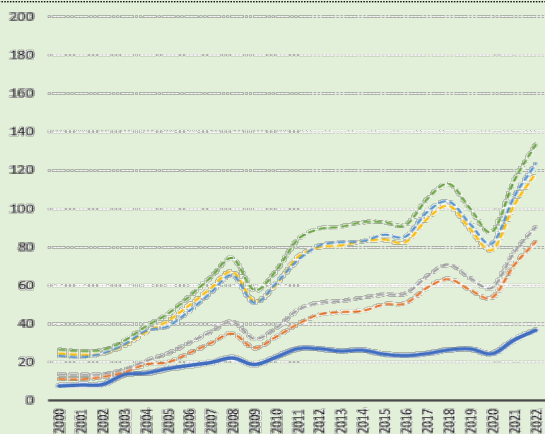
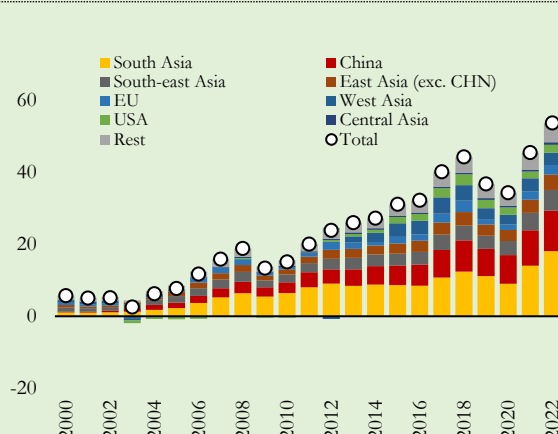


Figure B4.1.2: Missing Exports by Destination (billion USD)



Source for both figures: Ganz, Varela, and Taniguchi 2025.

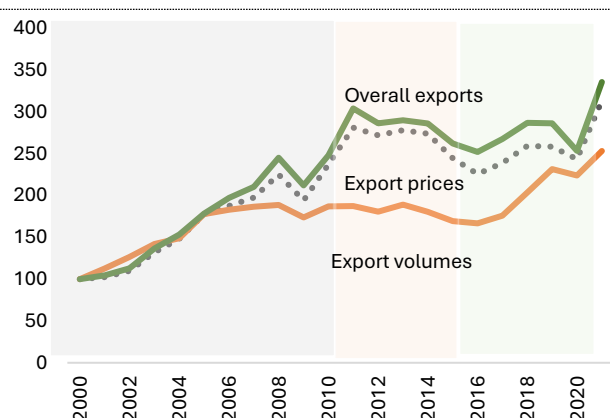
Using different model specifications, the current missing exports are estimated to be between US\$46 billion and US\$146 billion. By destination, South Asia offers the largest untapped potential, followed by China. Other regions including the European Union (EU), Southeast Asia, and the USA also present meaningful, though smaller, opportunities (Figure B4.1.2). Estimating export potential using the predicted trade flows from a gravity model is a widely accepted method in international trade literature. Common predictors for export potential include economy size, distance, language, and shared borders or geographic proximity between two countries. See Ganz, Varela, and Taniguchi (2025) for detailed discussion. See Box 4.5 for a discussion on Pakistan's services export potential.

Pakistan's export challenge reflects weak diversification and eroding market shares...

With exports volume growth slowing, prices have played a larger role in driving exports rather than quality or innovation, leaving Pakistan highly exposed to swings in global prices (Figure 4.2). This slowdown has been accompanied by persistently low and stagnant levels of market access and product diversification—two critical markers of export dynamism (Figure 4.3). Since 2000, Pakistan's share in global export markets has steadily eroded, with the broad-based decline across sectors—a trend that has been more acute in the recent decade.

Goods exports, once driven by increasing volumes and prices, has stagnated

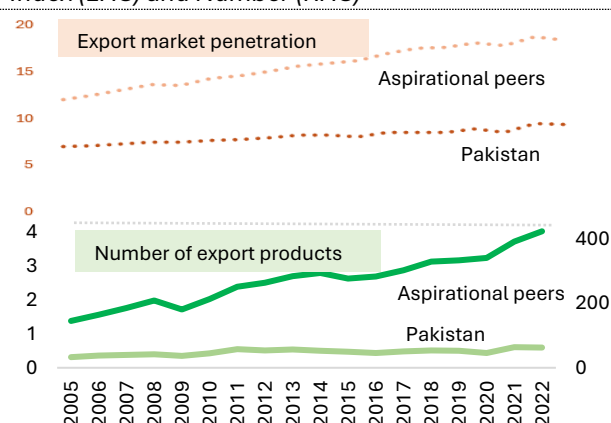
Figure 4.2: Trends in Goods Exports since 2000
Index (2000=100)



Source: World Bank staff calculations using data from the World Integrated Trade Solution (WITS) database.

The reduction in volumes underlies low and stagnant market penetration and product diversification

Figure 4.3: Export Market Penetration, Number of Export Products
Index (LHS) and Number (RHS)



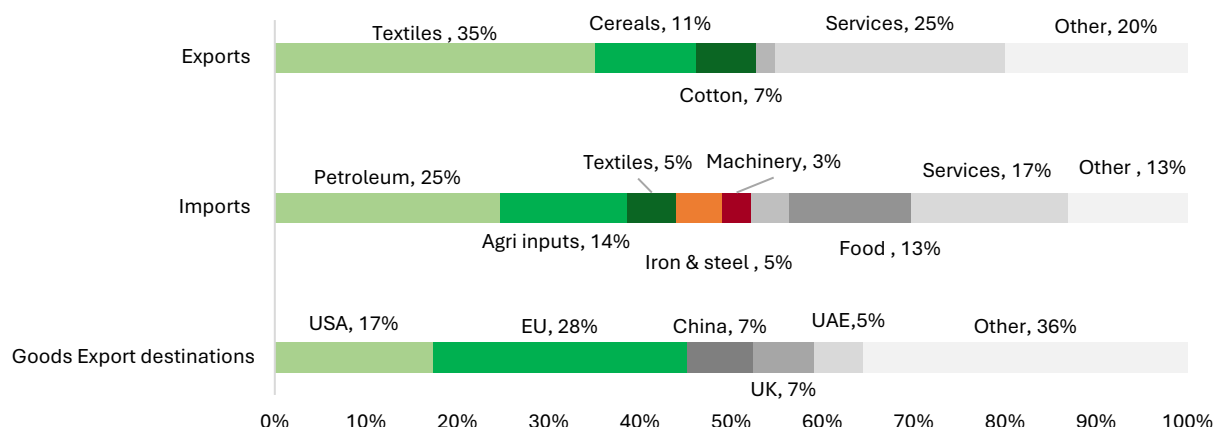
Source: World Bank staff calculations using data from WITS.

...leaving the country increasingly behind its peers

Additionally, Pakistan has been slow to deepen markets for existing products it exports, with the gap widening with aspirational peers. For example, while Pakistan added about 22 textile export markets at and over US\$1 million between 2005 and 2024, India added more than twice that amount despite starting with a comparable textile export base in 2005. These dynamics are reflected in Figure 4.4, which shows exports being significantly driven by a narrow base of textile, cereal, and cotton exports, and a concentrated focus on US and EU markets.

Exports are concentrated in a few goods, services, and markets

Figure 4.4: Breakdown of Exports, Imports, and Goods Exports Destinations



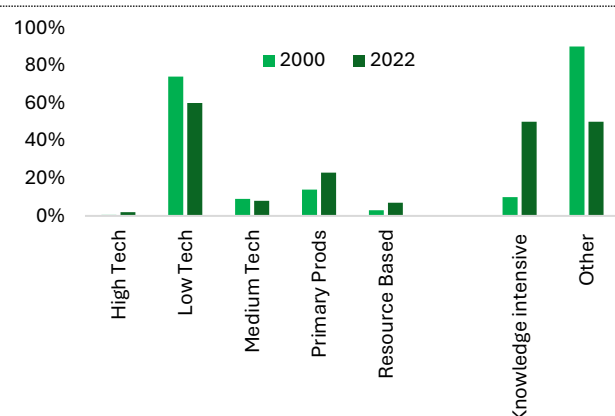
Source: World Bank staff calculations using data from the Pakistan Bureau of Statistics.

Sluggish export performance is compounded by limited upgrading into higher-value products and shallow participation in global value chains

Pakistan's export competitiveness is also closely linked to the quality and technological sophistication of its products as well as its integration into global value chains (GVCs). Economies that move into higher-quality segments and embed themselves in international supply chains capture greater value addition and thus generate more and better-paid jobs (Box 4.2).⁹ In Pakistan's case, however, the technological content of goods exports has steadily declined over the past two decades, with the share of high-technology goods exports falling, even as services exports have become more knowledge-intensive (Figure 4.5). At the same time, GVC-related trade as a share of total trade remains low, limiting Pakistan's ability to leverage supply chains for upgrading, productivity spillovers, and job creation. This stands in stark contrast to countries such as Vietnam, which have integrated into GVCs while also moving into more technology-intensive manufacturing such as electronics and machinery. This enables them to sustain robust growth as they capitalize on greater value addition, and in the process generate higher-quality and better-paid jobs.¹⁰

Technology embedded in goods exports have declined but have increased in services

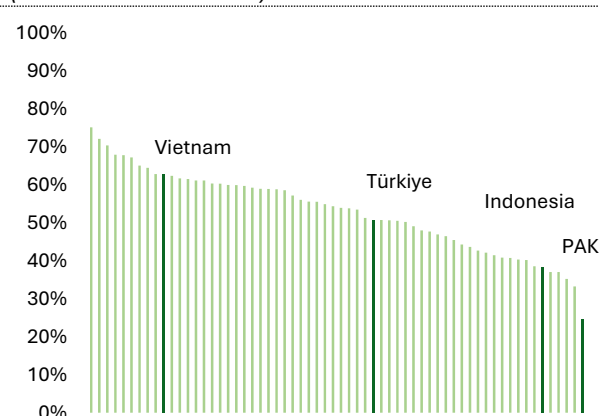
Figure 4.5: Technological Content of Goods Exports (Percent)



Source: World Bank staff calculations using data from WITS.

GVC trade as a percentage of gross trade remains low, limiting export potential

Figure 4.6: Country Comparison of GVC Trade in 2022 (Percent of total trade)



Source: World Bank staff calculations using data from WITS.

Box 4.2: Deepening Trade through Global Value Chains

What are GVCs and how do they differ from traditional trade? GVCs fragment production across borders, with different stages of design, manufacturing, assembly, and marketing taking place in different countries. This means that a single product may be produced with contributions from multiple economies, each adding value along the chain. Unlike traditional trade, where countries simply sell commodities or finished goods to each other, GVCs are built on ongoing, firm-to-firm relationships. They rely heavily on imports of intermediate goods and services, which are then used to produce exports. This interconnectedness not only reshapes how trade flows operate but also determines how a country such as Pakistan can and should integrate into the global economy.

Why do GVCs matter? GVCs have been shown to generate more growth and more jobs than traditional trade. Since the 1990s, they have accounted for nearly half of all global trade and helped accelerate economic convergence by enabling developing countries to grow faster and catch up with wealthier economies. Research from the World Bank's *World Development Report 2020* shows that a 1 percent increase in GVC participation is estimated to boost per capita income by more than 1 percent, much more than the 0.2 percent income gain from

⁹ A 10 percent increase in exports is associated with higher employment levels (3.1 percent), labor earnings (3.9 percent) and productivity levels (0.95 percent) between 1995 and 2019 in the cross-country sample. World Bank (2025) *Leveraging Trade for More and Better Jobs*.

¹⁰ For a discussion on the role of exports in Vietnam's growth trajectory please see: World Bank (2019b) *Vietnam Development Report*.

standard trade. By connecting firms to global networks, GVCs provide access to higher-quality inputs, technical know-how, and stable buyer relationships, all of which translate into productivity gains and greater export opportunities. Importantly, firms integrated into GVCs tend to offer better jobs, with higher pay and safer working conditions, particularly with larger, more formal exporting firms. Together, these dynamics make GVCs a critical pathway for Pakistan to expand value-added exports, raise incomes, and create more inclusive jobs.

Additionally, firms, the engine of exports, remain too small, unproductive, and weakly managed to scale, innovate, or sustain competitiveness in global markets

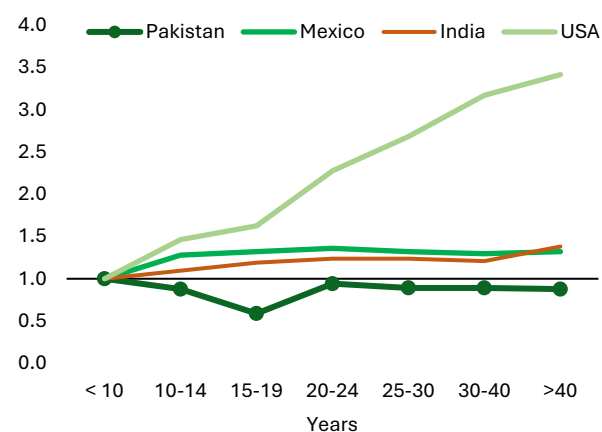
Successful exporters tend to scale up, innovate, and adapt to remain competitive in global markets.¹¹ However, Pakistan's exporters struggle to do so because they remain too small, unproductive, and weakly managed to expand or sustain markets. Productivity growth of Pakistani firms has been flat, mirroring trends in other developing countries.¹² Moreover, exporters are relatively small compared to aspirational peers, with average export revenues lagging behind countries such as Egypt and Bangladesh, and with fewer very large exporters that typically anchor export growth (Figure 4.7 and 4.8). Low levels of managerial quality, reflected in weak long-term planning and problem solving, and minimal innovation exacerbate the challenge. Notably, in the World Bank Enterprise Survey, only 2 percent of Pakistani firms report that they introduced a new product or process over a three-year period, well below the averages of LMICs (28 percent) and UMICs (38 percent) (Figure 4.9). Combined, these weaknesses partly explain the observed high rates of drop out of Pakistani exporters from international markets (Figure 4.10).

Firm productivity growth has been sluggish, with firms less productive over time

Firm and exporters are relatively small...

Figure 4.7: Country Comparison of Productivity Growth

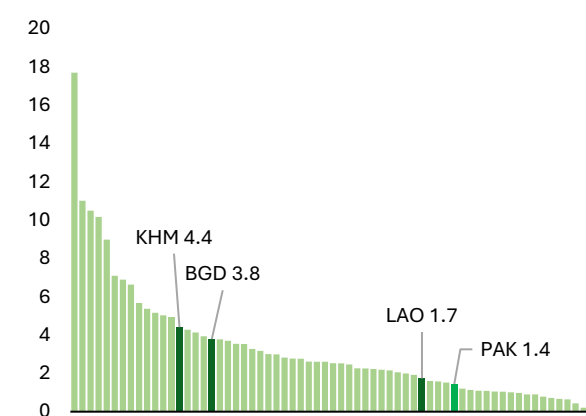
(Total factor productivity Index)



Source: World Bank Group 2022.

Figure 4.8: Country Comparison of Average Export Value

(Average export value per exporter, 2017)



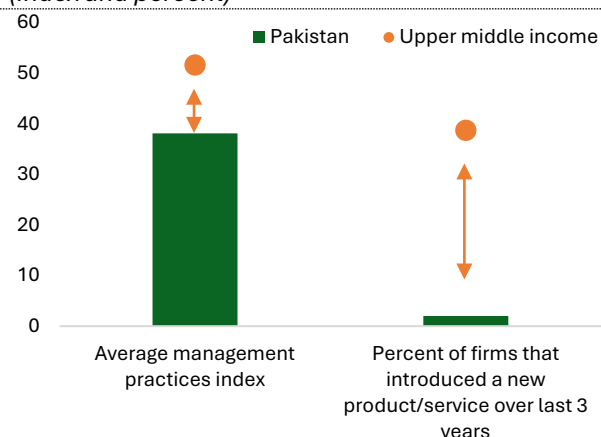
Source: World Bank Group 2022. PAK=Pakistan, BGD= Bangladesh, KHM=Cambodia, LAO=Lao People's Democratic Republic.

¹¹ World Bank (2020) *Quality Infrastructure Gap Assessment for Pakistan*.

¹² World Bank Group (2022) *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*.

... with low levels of management quality and innovation...

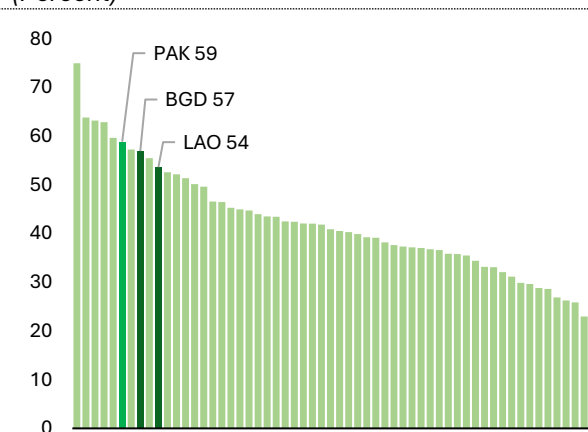
Figure 4.9: Management Quality and Innovation
(Index and percent)



Source: World Bank staff calculations based on World Bank Enterprise Survey data.

...contributing, in part, to a substantial share of exporters dropping out after the first year

Figure 4.10: Export Survival Rate
(Percent)



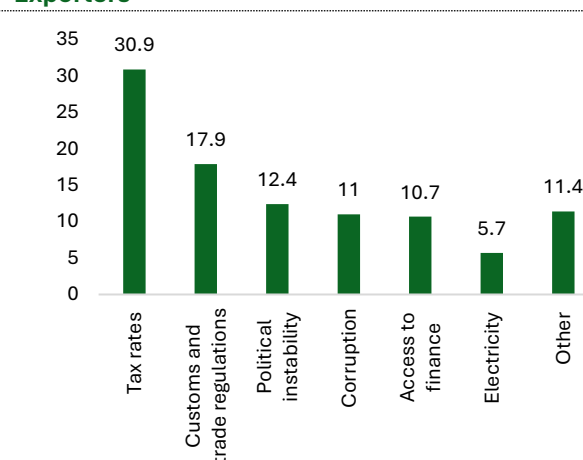
Source: World Bank Group 2022. PAK=Pakistan, BGD= Bangladesh, LAO=Lao People's Democratic Republic.

d. Reforms are Needed to Turbocharge Export Competitiveness

Pakistan's weak export performance—reflected in stagnant export volumes, limited market and product diversification, and low technological sophistication—stems from *chronic structural, firm-level, and policy weaknesses*. High and distortionary tariffs have kept input costs elevated, while gaps in access to finance and weaknesses in the business environment have limited firms' ability to invest, scale, and innovate.¹³ Unreliable energy supply, insufficient digital infrastructure, and inefficient trade facilitation and logistics further erode competitiveness, raising costs and slow integration into global markets. At the same time, shallow trade agreements have curtailed opportunities to diversify exports and embed more deeply in GVCs. These are reflected in export firm responses in the World Bank Enterprise Survey where over one-third of firms cite tax rates as their primary challenge with an equal number of exporters finding customs and political instability as their main binding constraint (Figure 4.11).

Addressing persistent structural and policy constraints will help unlock export growth

Figure 4.11: Biggest Constraints as Reported by Exporters



Source: World Bank Enterprise Survey released in 2025.

Parts 1 to 8 below discuss the reforms needed to address these constraints.

1. Tariff reform to lower the cost of inputs for exporters and reduce anti-export bias

For years, Pakistan has maintained some of the highest tariff levels and

Historically, Pakistan's trade regime has been among the most restrictive regionally and globally. Taxes on imports consist of customs duties and a set of discretionary and unpredictable para-tariffs (Figure 4.12). Introduced with the objective of raising more revenues to address fiscal pressures, these para-tariff

¹³ World Bank (2022) *Pakistan Enterprise Survey 2022*.

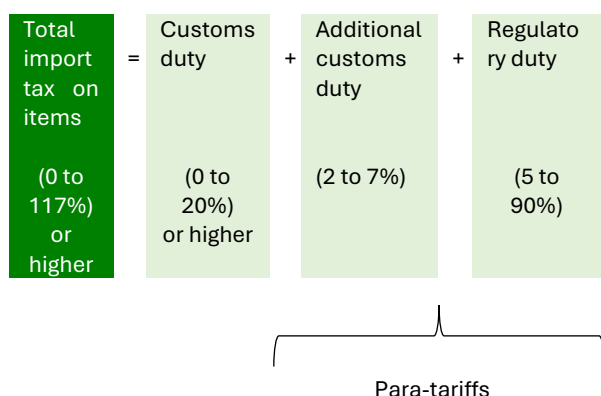
most complex tariff structure, both regionally and globally

measures have accounted for a significant share of the increases in import protection (Figure 4.13). Tariffs have also been used to protect selected industries from external competition, often under the objective of industrial policy, contributing to inefficiencies and distorting resource allocation across sectors.

Over the past decade, the rising use of para-tariffs—regulatory and additional customs duties—has pushed the average most favored nation (MFN) tariff to nearly 20 percent, one of the highest among selected comparators (Figure 4.14). The government’s discretionary tariff policy has led to high-cost inputs for exporters and a tilt in trade policy that makes exporting less attractive compared to serving the protected domestic market. World Bank research shows that higher input tariffs have directly undermined firm performance. A 1 percent increase in upstream protection (customs, regulatory, and additional customs duties) is associated with a 0.6 percent decline in downstream productivity (Figure 4.15), with similar effects when measured by labor productivity. Put another way, a 10 percent rise in input tariffs has effectively been shown to decrease productivity by 2.5 percent.¹⁴

Pakistan’s current import tariff structure is complex

Figure 4.12: Breakdown of Tariff Structure

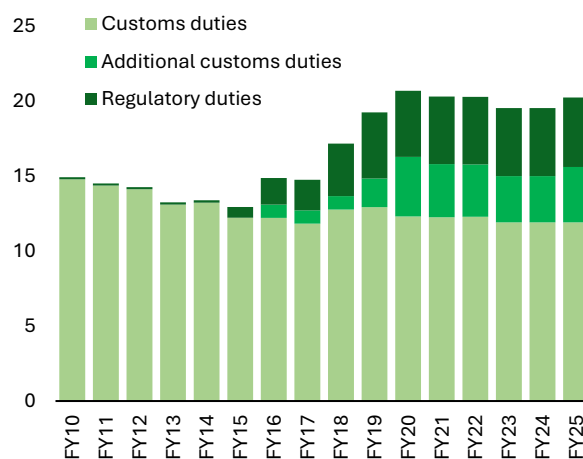


Source: World Bank staff illustration.

Note: Customs duties can exceed 20 percent for products in the fifth schedule or in strategic sectors such as auto and minerals.

Import duties remain high and contribute to anti-export bias

Figure 4.13: Pakistan’s Import Duties FY10–25 (Percent)

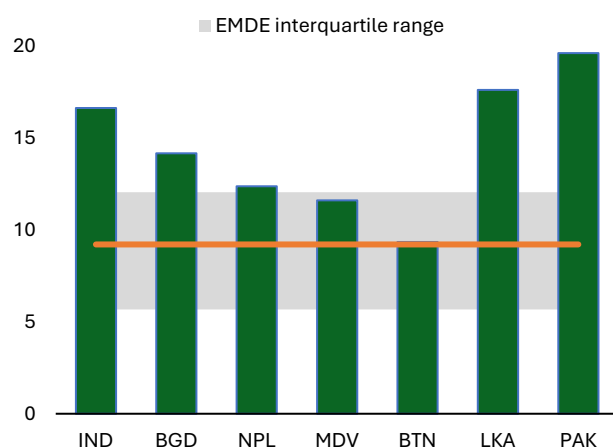


Source: World Bank staff estimates using data from the Government of Pakistan.

¹⁴ Detailed discussion in Box 3.3 in World Bank Group (2022) *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*.

Average tariffs, compounded by para-tariffs are comparatively high...

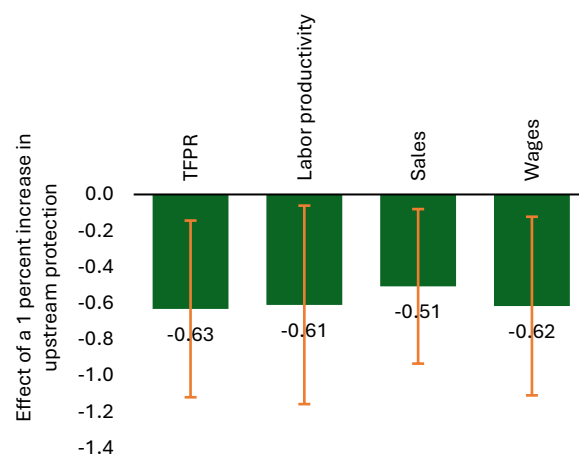
Figure 4.14: Simple Average Tariffs (Percent)



Source: World Bank staff calculations; WTO World Tariff Profiles (database); World Development Indicators (database).

...with high and distortive import tariffs reducing productivity and impeding exports

Figure 4.15: Impacts of Upstream Tariffs (Percent)



Source: World Bank Group 2022.

Note: The error bars indicate 95 percent confidence intervals.

To decisively change course, the government approved a five-year tariff reform plan to cut tariffs by half by 2030

Under the FY26 budget, the government approved a five-year National Tariff plan that outlined a reform path for tariff reductions that would reduce the simple average tariff from 20.2 to 9.7 by 2030. The reform path frontloads tariff reduction for raw materials and intermediates in the first three years and gradually tapers tariffs on finished products. The reform includes a readjustment of CD slabs from the current five to four (0, 5, 10, and 15 percent) within five years, and a reduction of CDs to a maximum rate of 15 percent over the same period. At the same time, RDs will be fully eliminated within five years, ACDs will be phased out within four years, and items covered under the fifth schedule will also be phased out within five years (Table 4.2). Collectively, these measures will reduce the trade-weighted average tariff from the current 10.6 percent to below 6 percent over a five-year horizon.

Table 4.2: Tariff Reform Path

Type of Duty	Current Simple Average Tariff	Year 1	Year 2	Year 3	Year 4	Year 5
Customs Duty	11.9	11.2	11.0	0.5	10.0	9.7
Additional Customs Duty	3.7	1.8	1.0	0.5	0.0	0.0
Regulatory Duty	4.6	2.7	1.0	0.5	0.3	0.0
Overall	20.2	15.7	13.0	11.5	10.3	9.7

Source: Ministry of Commerce 2025.

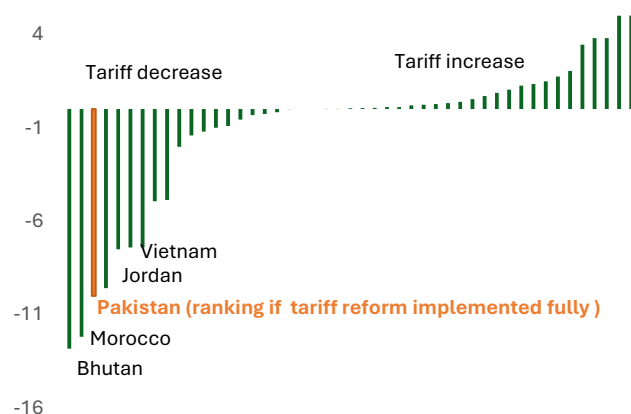
Successfully implemented revised tariffs would place Pakistan among top reformers globally

The scale of the approved reform would place Pakistan among the most ambitious tariff reformers globally. If fully implemented, Pakistan would rank in the five most ambitious LMIC reformers alongside Vietnam and Cambodia, and among the top 10 worldwide in terms of the size of tariff reduction over the past two decades. The first-year reductions included in the FY26 budget reduced tariffs by around 4.3 percentage points, among some of the largest single-year reductions recorded in the world over the past decade. This initial step marks a significant signal of the government's commitment to modernizing trade policy and enhancing export competitiveness. Full tariff reduction would align Pakistan's rates with aspirational peers (Figure 4.17).

Pakistan's tariff reform will place it among the most ambitious LMICs in the past two decades...

Figure 4.16: Pakistan's Potential Ranking among LMICs

(Percentage points change, simple average MFN, 2005–23)



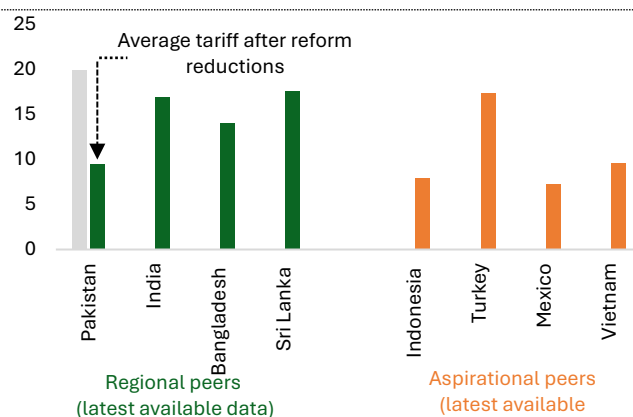
Source: World Bank staff calculations using latest tariffs available (includes para-tariff for Pakistan).

Note: Both figures assume reforms are fully implemented on time.

...with a simple average MFN tariff below regional peers and more aligned with aspirational peers

Figure 4.17: Simple Average Tariff Post Reform vs Peers

(Percent)



Evidence and modeling of the impacts of a reform of that magnitude on the Pakistani economy show medium-term gains

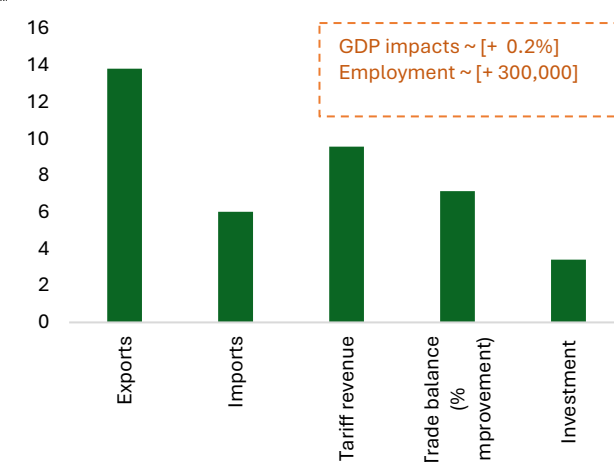
World Bank analysis using an economy-wide model points to positive impacts of lower tariffs on GDP, exports, investment, and employment. Although the model shows higher imports (and tariff revenue), the model also points to improvements in the trade balance as exports are estimated to outpace import growth in the medium term (Figure 4.18). An economy-wide model, as opposed to partial equilibrium or simple accounting analysis, allows for the simulation of policy changes across multiple

sectors, households, and firms and captures both the direct and indirect effects of trade policy reforms. The static model results are one-off estimates following the full implementation of tariff reforms so can be seen as lower-bound and medium-term estimates and not capturing the full long-term benefits of reforms. Notably, modelling estimates do not point to unsustainable declines in tariff revenue or run-away increases in imports, both of which are two common arguments against tariff reform. These results are in line with evidence from historical periods of tariff reform (Box 4.3). Despite this revenue, declines from the reforms are possible in the short term as export benefits take time to materialize. However, the revenue impacts (direction and size) will depend on various factors including exchange rate dynamics, import demand responses, and prevailing global commodity prices.

Economics gains from tariff reform

Figure 4.18: Preliminary Model Estimates of Economic Impacts of Lower Tariffs (static and medium-term)

(Percent)



Source: World Bank staff modelling estimates using Computable General Equilibrium Global Trade Analysis Project model.

Reform Path

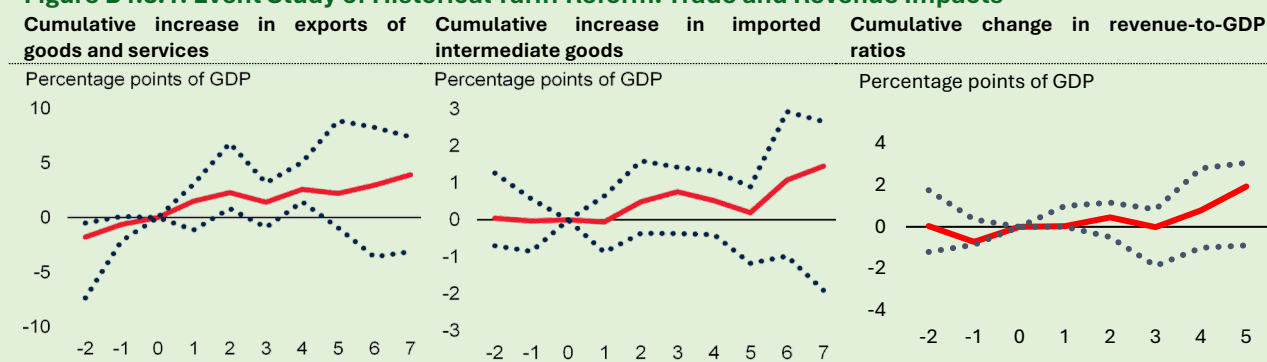
- Stay the course on the implementation of the National Tariff Policy with a particular focus on tariff reductions for raw materials, intermediates, and digital goods.
- Build the capacity of the National Tariff Commission to monitor, evaluate, and implement anti-dumping and countervailing measures to protect against unfair trade practices.
- Focus on trade negotiation efforts on further tariff reductions with key and emerging trade partners.

Box 4.3: Insights from Historical Tariff Reforms

An analysis on 20 episodes of significant tariff cuts among emerging market and developing economies (EMDEs) that are in the range of Pakistan's tariff reform show positive movements in exports, imports of inputs, and revenue. Since 1990, many EMDEs have sharply reduced their tariffs, on average by 8.3 percentage points between 1990 and 2022. The largest average cuts, by the largest number of EMDEs, occurred in the 1990s but a few EMDEs in the Middle East and North Africa region also cut tariffs sharply in the early 2000s. The 20 episodes with the largest tariff cuts in EMDEs featured cuts by 10–60 percentage points over five years. *Analysis of these reform episodes show the following:*

- **Broadly stable revenues.** On average, revenue-to-GDP ratios remained broadly stable, as losses in trade tax revenues were offset by gains in domestic tax collection. Only about 20 percent of countries experienced a decline in overall revenue in the three years following the reforms, underscoring the importance of complementary measures to strengthen domestic revenue mobilization.
- **Substantial increases in trade-to-GDP ratios.** Tariff reductions were typically accompanied by substantial increases in trade openness, averaging a 5-percentage point rise in the trade-to-GDP ratio, and often more. Only in one-quarter of cases did trade openness not increase significantly.

Figure B4.3.1: Event Study of Historical Tariff Reform: Trade and Revenue Impacts



Source: World Bank staff calculations; IMF Government Fiscal Statistics (database); World Development Indicators (database).
Note: Solid red line indicates unweighted average over episodes with available data; dotted blue lines indicate interquartile range. Figures show cumulative changes from t=0, the year of the start of the tariff reduction episode.

2. Maintaining a flexible exchange rate to ensure export competitiveness and complement tariff reform

The success of the national tariff reform plan hinges on a market-determined exchange rate

Exchange rate flexibility is key to managing the adjustment costs of trade reforms and maintaining export competitiveness. Allowing the exchange rate to respond to market forces helps prevent prolonged overvaluation, which can erode exporters' margins, and also provides a critical shock absorber against external pressures such as swings in global demand and commodity prices. Importantly, in the context of tariff reductions, maintaining a flexible exchange rate can help balance the overall trade response. Lower tariffs may initially stimulate imports; however, allowing for adjustments in the exchange rate can offset part of this effect by ensuring relative prices remain competitive for domestic producers and exporters. This is important for Pakistan, where the export base is narrow and

concentrated. Furthermore, a market-aligned exchange rate strengthens incentives for firms to diversify into new products and markets while also reducing the volatility that stems from repeated devaluations and administrative controls. Notably, an overvalued exchange rate has historically deterred investment in Pakistan's tradable sector and has weakened its ability to expand production even after conditions improve. As a result, exports have been found to respond asymmetrically to real exchange rate movements--falling rapidly during episodes of appreciation but recovering only slowly when the currency depreciates.¹⁵

Reform Path

- Allow the emergence of a deep and liquid interbank market without SBP intermediation and encourage greater participation from a diverse range of market players, including exporters, importers, and foreign investors.
- Publish detailed data on interbank market transactions, including volumes and participants.
- Phase out ad hoc interventions, allowing the exchange rate to reflect genuine supply and demand.

3. Expanding access to finance for exporters

Pakistani exporters have limited access to finance, which is critical for export competitiveness

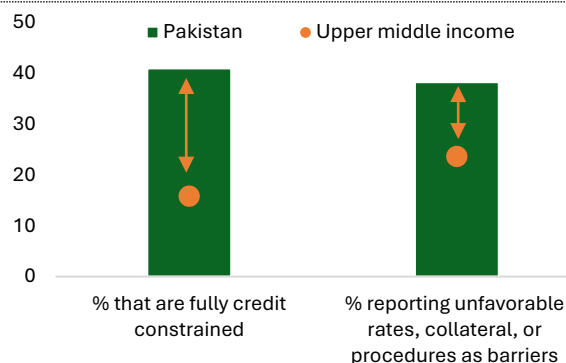
Access to finance, equity, or investment capital enables exporters to expand capacity, upgrade technology, and innovate, all of which are essential to scale up and move into higher-value segments of global markets. An equally important and specialized subset of this is trade finance. Trade finance typically encompasses short-term liquidity and risk mitigation products such as letters of credit, export credit insurance, and guarantees that are needed to fulfil international orders, bridge the time between production and payment, and price in cross-border risks. In Pakistan, limited access to financing has constrained exporters' ability to invest in scaling up and maintaining contracts with global customers, reinforcing the cycle of stagnant export growth and diversification (Figure 4.19). This is in part due to high government borrowing (to finance fiscal deficits) crowding out private sector financing and driving up borrowing costs while also stifling innovation in the financial sector (Figure 4.20). As of 2024, close to 80 percent of credit, extended by the formal financial system, was absorbed by the government, leaving only the equivalent of 11.4 percent of GDP for the private sector. This contrasts with LMICs and UMICs, where over 4 times and 10 times more credit flows into the private sector, respectively.

¹⁵ Brun, Gambetta, and Varela (2022) "[Why Do Exports React Less to Real Exchange Rate Depreciations Than to Appreciations? Evidence from Pakistan.](#)"

Pakistani firms are credit constrained...

Figure 4.19: Firm Survey Responses

(Percent)

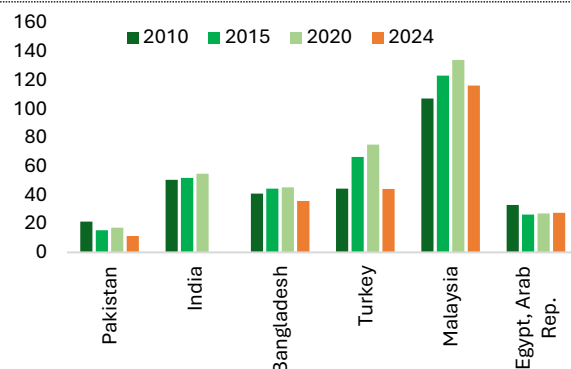


Source: World Bank staff calculations based on SBP data.

...with comparatively low levels of credit to private sector...

Figure 4.20: Credit to the Private Sector

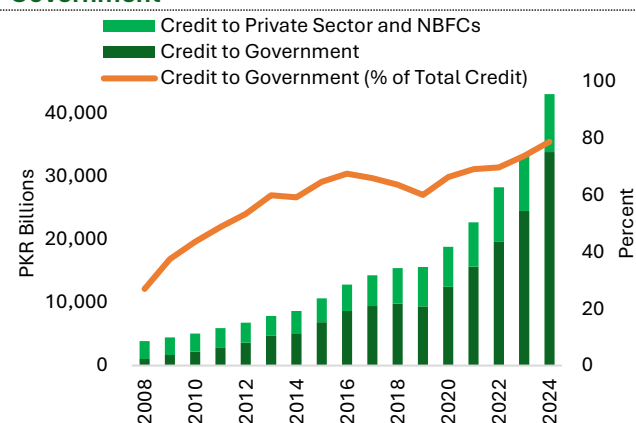
(Share of GDP)



Source: World Bank staff calculations based on SBP data.

...as government borrowing continues to crowd out credit...

Figure 4.21: Credit to the Private Sector and Government

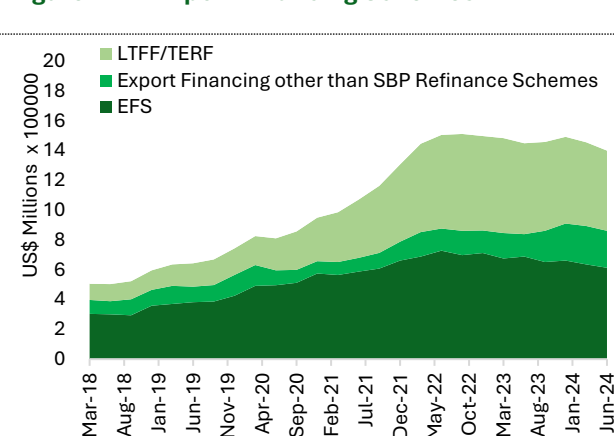


Source: World Bank staff calculations based on SBP data.

Note: NBFC=non-bank financial company.

...and already limited export financing fails to meet demand

Figure 4.22: Export Financing Schemes



Source: World Bank staff calculations based on SBP data.

Note: TERF: Temporary Economic Refinance Facility.

The recent squeeze on affordable and accessible trade finance makes it even more challenging for exporters to reliably service global customers

In Pakistan, formal trade finance options remain limited. As of 2023, less than 10 percent of the country's registered exporters had access to formal financing facilities, leaving most firms reliant on earnings or informal financing. Recent policy shifts are expected to further tighten conditions. The SBP's Export Finance Scheme (EFS) and Long-Term Financing Facility (LTFF)—which together accounted for nearly 90 percent of all trade-related financing—are being gradually phased out and transitioned to the EXIM Bank of Pakistan under a new administration model (Figure 4.21).¹⁶ The expected reduction in financing is concerning because evidence has shown that subsidized export finance has had a significant impact on export performance. Research has found that firms that benefited from the EFS had exports 7 percentage points higher than non-participants, while LTFF boosted exports by between 8.7 and 11.2 percentage points.¹⁷ Without adequate replacement of these schemes, exporters will be disadvantaged.

¹⁶ The SBP's EFS was a program that provided subsidized export financing through commercial banks but was phased out under conditions of the IMF EFF to improve monetary policy transmission.

¹⁷ Defever, Riaño, and Varela (2025) "Evaluating the Impact of Export Finance Support on Firm-level Export Performance: Evidence from Pakistan."

Reform Path

- Maintain progress with fiscal consolidation to reduce public sector borrowing, leaving more savings available within the banking sector to finance private investment.
- Support the full operationalization of the EXIM Bank through the appointment of a Chief Executive Officer and other requisite staff.
- Strengthen the balance sheet of the EXIM Bank to enable it to deliver on its mandate and offer a diverse set of financial instruments in support of unlocking finance for trade in the country.
- Strengthen the capacity of the EXIM Bank and financial institutions at large to offer more innovative trade finance instruments.
- Prioritize new export ventures and segments when offering financing products.

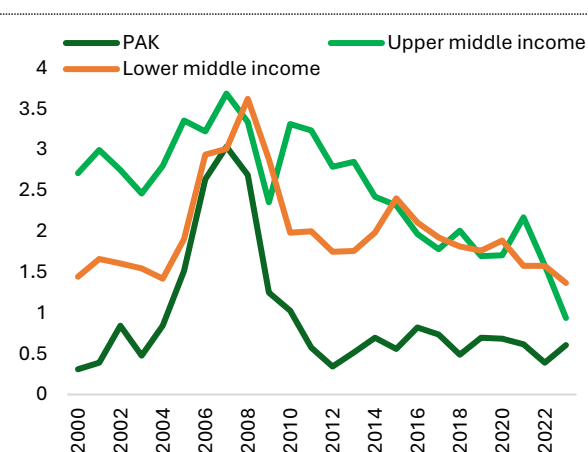
4. Creating an enabling environment for investment, including export-oriented FDI

Productive investment is critical for export growth, diversification, and deeper integration into GVCs

Domestic and foreign direct investment are powerful drivers of export growth as they expand productive capacity, lower costs, and enhance competitiveness. FDI in particular brings technology, skills, and access to GVCs, enabling economies to diversify and scale their exports.¹⁸ Exposure to FDI through supply chain networks has been shown to increase the chances of domestic firms integrating into GVCs, and in turn enhances productivity and creates higher-quality jobs. The experience of countries such as Costa Rica, China, and Vietnam shows how export-oriented FDI supported the shift into more sophisticated, technology-intensive industries. FDI from multinational corporations (MNCs) such as Samsung and Foxconn transformed Vietnam into a global hub for technology, while countries like Costa Rica shifted from low-value agriculture to high-tech manufacturing on the back of significant investments from MNCs such as Intel and Boston Scientific.¹⁹

FDI inflows lag comparators

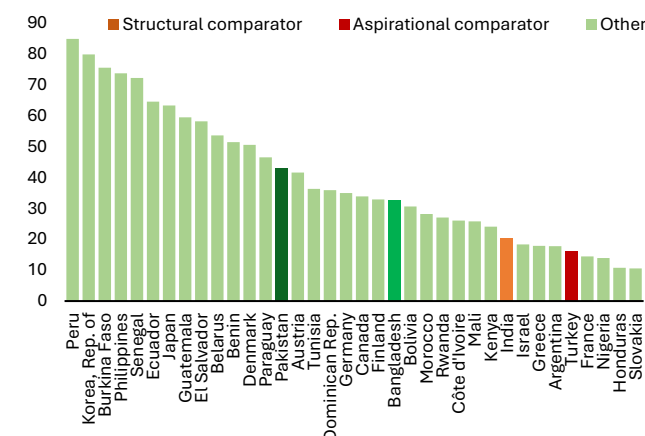
Figure 4.23: FDI as a Share of GDP
(Percent)



Source: World Bank World Development Indicators.

Pakistan has one of the highest shares of missing FDI

Figure 4.24: Untapped FDI Potential for Pakistan and Comparators, 2015–2020
(Index)



Source: World Bank 2022.

¹⁸ World Bank (2020) *Quality Infrastructure Gap Assessment for Pakistan*. Notably, *efficiency-seeking FDI*—that is investment aimed at lowering production costs to integrate into global supply chains—is particularly supportive of export growth and diversification. Unlike market-seeking FDI, which is directed at serving domestic consumers, efficiency-seeking FDI is export-oriented and has been shown to foster technology and knowledge spillovers, and access to international production networks.

¹⁹ For study on Vietnam, see World Bank (2019b) *Vietnam Development Report*; and for study on Costa Rica see MIGA (2006) *The Impact of Intel in Costa Rica*.

Yet Pakistan's stagnant and primarily domestic-focused FDI has limited opportunities to robustly boost exports

Unfortunately, Pakistan's experience has been markedly different. Overall investment remains low and FDI inflows have been stagnant. Both domestic investment and FDI have been largely concentrated in protected and domestic-oriented sectors such as consumer goods and services, where the captive size of the local market is the main attraction for investors. Notably, a World Bank study finds that Pakistan's missing FDI stands at US\$2.8 billion per year, with greatest potential for FDI coming from North America and the EU.²⁰ From the perspective of firms, what matters most for investment decisions goes beyond individual incentive and relates to the overall policy and investment climate. Investors are also highly sensitive to the credibility of core guarantees of investment protection.²¹ Additionally, tariff and trade policy reforms to lower input costs (as discussed above), alongside improvements in logistics and digital infrastructure, stronger bilateral investment treaties, and deeper preferential trade agreements (discussed further below) can collectively help reposition Pakistan as a competitive investment destination. Finally, and just as importantly, **investor aftercare** is critical but has often been overlooked as an element of investment policy in Pakistan. Singapore and Costa Rica provide examples of strong aftercare programs that have been key alongside their investment promotion strategies.²²

Reform Path

- Establish a designated entity that is legislatively empowered to implement high-profile business environment reforms, including under the Pakistan Regulatory Modernization Initiative.
- Pass the revised Investment Act to align the legislative framework with policy and good international practice.
- Establish a single business registry for all firm registrations.
- Fill leadership vacancies at the Competition Commission and Competition Appellate Tribunal with skilled and relevant staff.
- Strengthen the country's legal, regulatory, and institutional frameworks for creditor/debtor relationships by implementing the recommendations from the Insolvency and Creditor/Debtor Rights Report.
- Remove restrictions and barriers around profit repatriation for investors.

5. Improving customs and logistics to speed up and reduce the costs of exporting and importing

Persistent bottlenecks in customs management continue to raise costs and slow delivery times

In a competitive global market, reliability and speed of delivery often become as important as price. Unfortunately, customs management and logistics bottlenecks remain a major constraint on Pakistan's trade performance. Firms surveyed report that it takes nearly twice as long to import, export, and comply with trade requirements compared to the average of UMICs (Figure 4.25). Though slightly dated, the extent of these bottlenecks, was reflected in Pakistan's drop in the Logistics Performance Index, where its ranking declined from 110 in 2010 to 122 in 2018, underscoring the persistence of outdated systems and weak trade facilitation. The costs of such inefficiencies are significant: a recent study estimates that each additional day required for export compliance can reduce

²⁰ Pakistan has yet to build the conditions that efficiency-seeking investors value most—a predictable regulatory environment, the ability to cheaply import production inputs and hire expatriate staff, reliable energy and infrastructure, and seamless access to government licensing and approvals (World Bank (2020) [Quality Infrastructure Gap Assessment for Pakistan](#)).

²¹ Insights from World Bank, 2020, [Global Investment Competitiveness Report](#). Legal guarantees to ensure a strong investments climate are *national treatment*, ensuring foreign investors are treated no less favorably than domestic ones, and *most-favored nation (MFN) treatment*, which extends to all investors any advantage granted to one. Equally critical is *protection against direct or indirect expropriation*, coupled with the *freedom to convert and transfer capital or currency* across borders. A strong framework also requires *fair and equitable treatment (FET)*, safeguarding investors against arbitrary or discriminatory actions, and *reliable access to effective dispute resolution mechanisms*. Together, these guarantees form the foundation of investor confidence and are central to attracting and retaining foreign direct investment.

²² Detailed discussion in World Bank (2019a) "[Retention and Expansion of Foreign Direct Investment](#)."

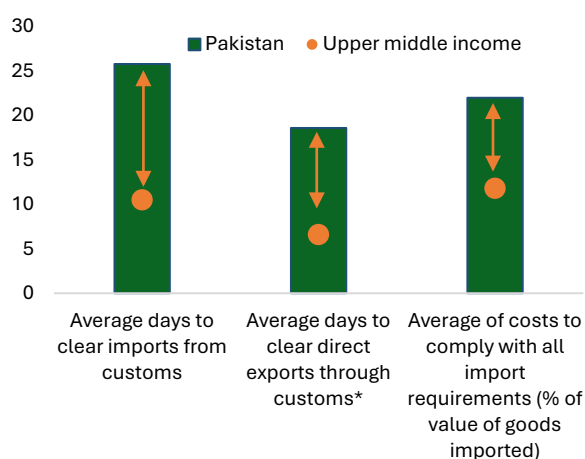
exports by 9 to 18 percent, while delays in imports raise costs for securing critical inputs needed in production.²³

Customs management under the FBR is constrained by institutional, legislative, and capacity weaknesses

There have been notable efforts to improve trade facilitation, through the establishment of the Pakistan Single Window, consolidation of export support schemes under the Export Facilitation Scheme, and improvements in modernization and capacity. However, customs management still faces longstanding challenges that limit its effectiveness and ability to support trade. Weaknesses in human resource management, from recruitment to training and retention, have left the system short of the skilled personnel needed to deliver modern services. Overlapping and sometimes contradictory legislation creates confusion and undermines consistent enforcement, and outdated systems and infrastructure slow operations, making it difficult to integrate smoothly with global supply chains. These institutional gaps are worsened by the absence of a comprehensive strategy and performance framework, leaving reforms fragmented and uneven. Addressing these shortcomings through modernization, clearer legislation, and stronger capacity will be critical for building a customs system that facilitates rather than frustrates Pakistan's exporters.

Firms report higher times for clearing imports and exports as compared to peers

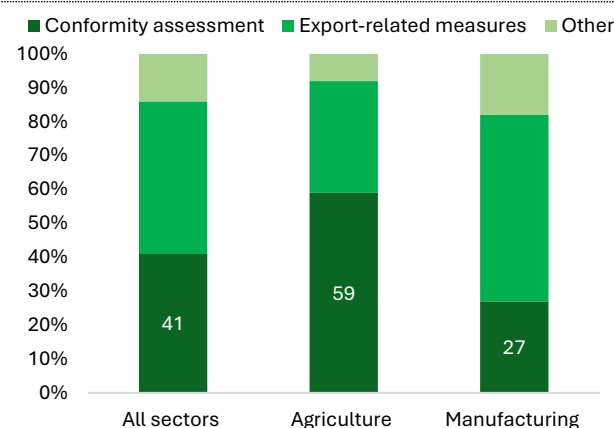
Figure 4.25: Time Required for Clearing Imports and Exports



Source: World Bank staff calculations using Enterprise Survey data.

Exports across all sectors find standards compliance burdensome

Figure 4.26: Non-tariff Measures Pakistani Exporters Find Burdensome



Source: World Bank staff calculations using International Trade Centre 2020.

Reform Path

- Fully implement the WTO Trade Facilitation Agreements.
- Implement the FBR Transformation Plan.
- Improve the transparency and administration of EFS. Simplify and fully digitize the program, clear the backlog of refunds, increase awareness of the scheme among SMEs, and strengthen risk management.

²³ Ganz, Varela, and Taniguchi (2025) "Estimating Asian Economies' Missing Exports." Earlier World Bank research shows that each additional day of export delay reduces trade by at least 1 percent (Djankov, Freund, and Pham (2006) "Trading on Time.").

6. Supporting exporters in complying with evolving standards in global markets

Standards and compliance are now defining aspects of export competitiveness, but Pakistani exporters find them costly and cumbersome

Export competitiveness is increasingly shaped by compliance with standards and technical regulations, particularly in sectors such as agriculture, textiles, and apparel, which make up over 70 percent of exports. Nearly half of exporters report difficulties meeting standards and conformity assessments (such as testing, inspection, and certification), often costing SMEs a disproportionate share of their revenues (Figure 4.26). For example, surgical instrument manufacturers in Punjab report facing conformity assessment costs for the EU Medical Device Regulation exceeding €200,000 in the first year. Home textile producers also pay thousands of dollars annually to maintain compliance with multiple sustainability labels demanded by global brands, many of which overlap.²⁴ These costs discourage firms from entering new markets, limit diversification, and erode export margins. Compounding the challenge, exporters face not only foreign regulations but also domestic barriers, including duplicative inspections, refund delays, and fragmented certification processes.

Rising and evolving global demands for traceability and stricter standards place market access further at risk

The landscape for standards and compliance is rapidly evolving with key markets such as the USA, EU, and UK requiring compliance with standards that are increasingly complex and stringent. Beyond increasing the number of standards around environmental and labor, as was done under the recent review of the EU's Generalised Scheme of Preferences Plus (GSP+), there is growing demand for evidence of compliance at every stage of a product's value chain—i.e., “traceability”—which, for example, needs to be demonstrated via digital product passports (see Box 4.4). However, textile firms, for instance, are missing a robust system that integrates barcodes and radio-frequency identification (RFID) technology, both of which are central to traceability infrastructure. Textile firms also do not have access to domestic forensics testing to ensure compliance with US market demands regarding cotton origin and adhering to the EU's rigorous regulations on genetically modified organisms.²⁵ While the adoption of a National Quality Policy (NQP) in 2021 marked a positive step forward, many critical reforms remain incomplete or are yet to be implemented.²⁶ Persistent challenges include a lack of a Technical Regulation Framework (TRF), limited private sector engagement, and the limited testing and certification scope of Pakistan's conformity assessment bodies for some key sectors. Furthermore, five years after the NQP approval, a detailed implementation plan has not been developed.

Reform Path

- Develop a revised NQP implementation plan that aligns with the updated Strategic Trade Policy Framework and Industrial Policy.
- Develop a TRF and establish a Technical Regulation Coordination Office.

²⁴ World Bank (forthcoming).

²⁵ APTMA (2024) “[Retaining Export Competitiveness through Traceability](#).”

²⁶ In 2020, the World Bank published an assessment of the national quality infrastructure (the ecosystem of laws, policies, regulations and institutions underlying domestic and international compliance). The report pointed to challenges with institutional and legal fragmentation that have led to a compliance system not fit for purpose. World Bank (2020) [Quality Infrastructure Gap Assessment for Pakistan](#).

Box 4.4: Global Trends in Standards and Compliance

Standards and technical regulations have increasingly become a defining feature of international trade, with implications for export market access and competitiveness. Three global trends are consequential for Pakistani exporters:

Rising number and complexity of standards. The scope and number of trade-related standards has expanded beyond product-specific standards to include environmental sustainability, legal labor practices, and the protection of human rights. The EU's GSP+ has progressively expanded its requirements, and key markets such as the USA and UK are increasingly embedding social and environmental obligations in trade rules.

Traceability. More key markets are looking to require that products be tracked across the full length of the supply chain to provide transparency on origin, production practices, and compliance with standards. For exporters, this would mean leveraging granular and real-time data on their products, which requires increased investments.

Digital Product Passports (DPPs). These support traceability compliance by providing firms with a system to digitally record and share data on a product's origin, composition, and lifecycle, and effectively its compliance. DPPs allow customers to engage with this information by simply scanning a QR code or accessing a database.

7. Deepening preferential free trade agreements – expanding markets

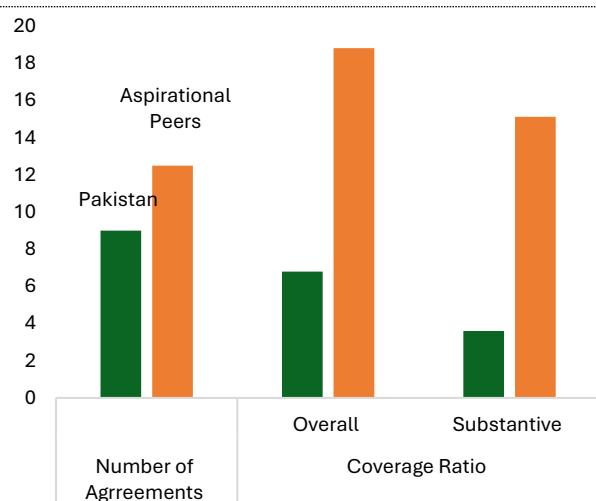
Trade agreements are a vital tool for market expansion... Trade agreements serve as another critical lever for strengthening competitiveness and market access. They allow for the negotiation of agreements that focus on reducing barriers and addressing trade facilitation issues such as customs procedures, standards, and investment integration, thereby creating an enabling environment for exporters to expand and diversify. In recent decades, Preferential Trade Agreements (PTAs) have emerged as a significant tool for countries to enhance market access and promote both regional and global integration.²⁷ These agreements have also become “deeper,” often extending beyond reducing trade tariffs to also including measures such as the harmonization of customs and border procedures, the establishment of quality standards, and investment promotion and integration.

...but they are underutilized in Pakistan, leading to missed opportunities Despite the benefits of trade agreements, Pakistan remains party to only 10 trade agreements, most of which are shallow and limited to tariff liberalization on a narrow set of goods. The China–Pakistan Free Trade Agreement (CPFTA) covers a larger share of areas including tariffs, investment and trade facilitation, while agreements with Malaysia, Sri Lanka, and the South Asian Free Trade Agreement (SAFTA) remain partial in scope. This leaves Pakistan behind aspirational peers that leverage a greater number and depth of agreements to embed themselves in global value chains and attract investment. Deepening existing trade agreements, expanding coverage under those agreements to services, non-tariff measures, and investment will be key. Modelling estimates show that deepening existing agreements could unlock significant gains for Pakistan's exports and growth (Figure 4.29 and Figure 4.30).

²⁷ PTA to refer to all types of trade agreements, both within and across regions and can be categorized as Customs Unions, Regional Trade Agreements, Free Trade Agreements, or Partial Scope Agreements. PTAs can also be classified as Economic Integration Agreements if they contain provisions covering trade in services. Mattoo, Rocha, and Ruta (2020) *Handbook of Deep Trade Agreements*.

Pakistan averages lower on the number and depth of its trade agreements...

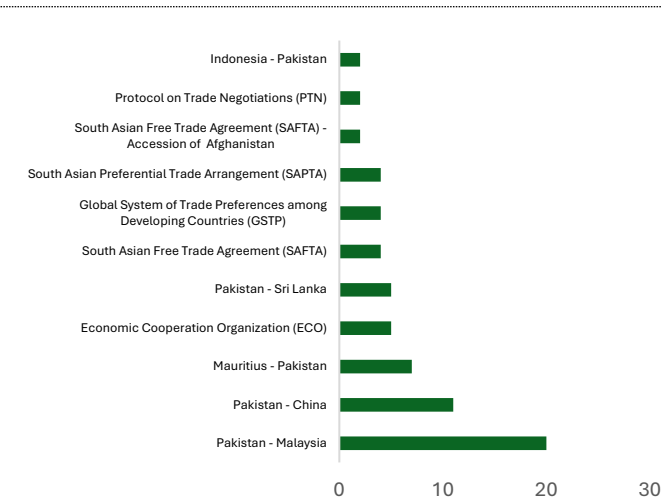
Figure 4.27: Measures of the Depth of Trade Agreements



Source: World Bank staff calculations based on the Deep Trade Agreements Database 2.0.

...with variable coverage of policy areas across trade agreements

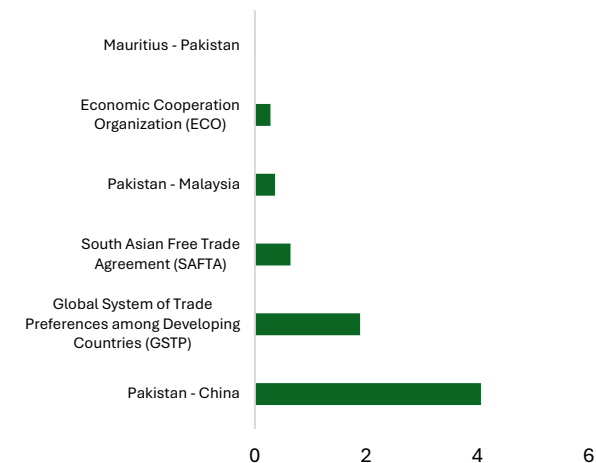
Figure 4.28: Coverage of Policy Areas (Number of Policy areas covered)



Source: World Bank staff calculations based on the Deep Trade Agreements Database 2.0.

Modelling estimates show export gains to deepening trade...

Figure 4.29: Gravity Estimates of Export Impact of Deep Trade Agreements (Percent)

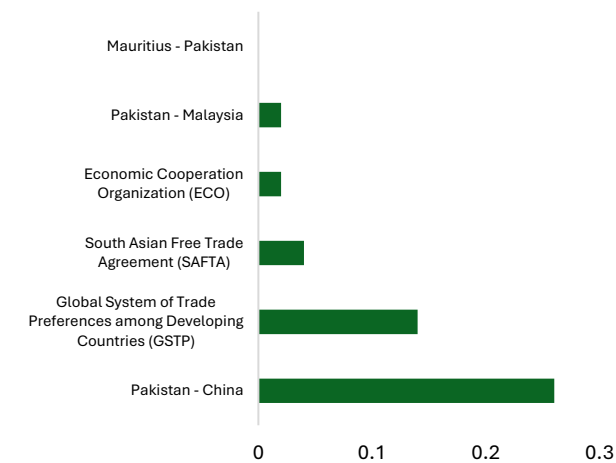


Source: World Bank Trade and Regional Integration Unit.

Note: Analysis for Figure 4.29 and Figure 4.30 is based on Fontagné et al. (2023) and builds on a structural gravity framework with general equilibrium effects in order to estimate the impact of existing agreements on GDP.

...with resultant positive impacts on GDP

Figure 4.30: Gravity Estimates of GDP Impact of Deep Trade Agreements (Percent)



Source: World Bank Trade and Regional Integration Unit.

Reform Path

- Strengthen negotiations capacity by enhancing the capacity of the negotiation unit through targeted training, ensure regular consultations with exporters and industry to align agreements with business opportunities, and establish mechanisms to monitor implementation and performance of trade agreements.
- Actively explore avenues to upgrade existing shallow PTAs toward deeper agreements covering services, investment, and digital trade.
- Leveraging trade attachés, explore agreements with non-traditional export markets in regions with export potential such as Sub-Saharan Africa and Latin America.

8. Close critical infrastructure and connectivity gaps by reforming the energy and digital sector

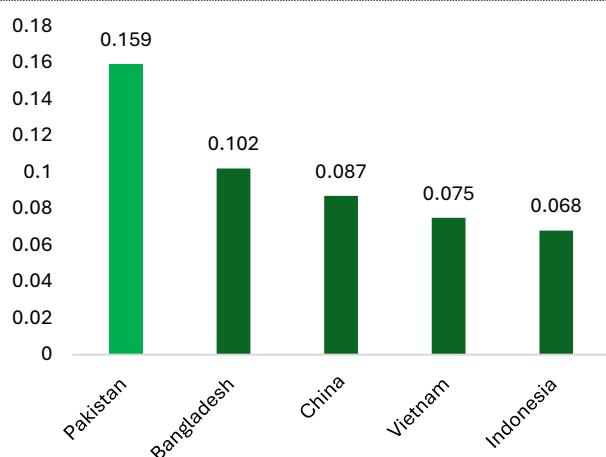
Firms need cheap and reliable electricity to power exports

The power sector suffers from inadequate and outdated infrastructure, poor governance, weak long-term planning, fuel supply shortages, and limited access to financing, resulting in frequent outages and costly load shedding. Unreliable electricity disrupts production, inflates costs, and undermines competitiveness, with inefficiencies in transmission and distribution pushing tariffs even higher. Mounting circular debt has further worsened the sector's fiscal burden, threatening sustainability. Exporters feel the impact acutely: 13 percent identify energy as their single largest constraint, and a majority list it among their top five challenges. With competitors such as Bangladesh and India offering more reliable and cheaper electricity, Pakistani exporters, particularly in energy-intensive sectors such as textiles, where margins are already slim, face an increasingly uphill battle in global markets.

High electricity prices for industry exceed comparators...

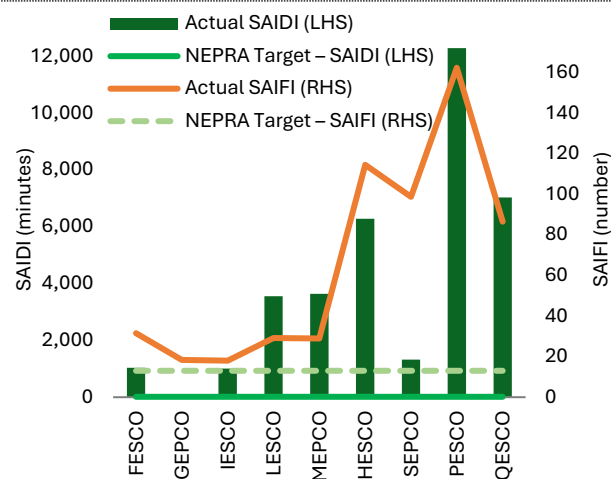
... and the number of electricity interruptions, and the duration of these interruptions, far exceed targets

Figure 4.31: Electricity Prices for Industry, June 2024
US\$ per kWh



Source: globalpetrolprices.com

Figure 4.32: Number and Duration of Electricity Interruptions



Source: NEPRA State of Industry Report 2024.

Note: LHS=left hand side; RHS=right hand side; SAIDI=system average interruption duration index; SAIFI=system average interruption frequency index.

Equally important is the “soft” digital infrastructure needed to tap into Pakistan’s digital export potential

Digital services exports remain largely untapped (Box 4.5). While digitally delivered exports have increased to around 10 percent of total exports, Pakistan’s share in globally delivered digital exports remains low at just 0.1 percent.²⁸ Moreover, even with significant progress in the information technology (IT) and digital space in Pakistan, exporters still face uneven, low-quality, and costly broadband, with average speeds among the lowest in the region and wide disparities across districts (Figure 4.33). Existing infrastructure gaps around low coverage of fiber optic networks are compounded by a weak digital regulatory environment, including fragmented approval systems for fiber expansion, low participation in digital trade negotiations, and restrictive content regulation (Figure 4.34).²⁹ Together, these constraints affect the ability of firms to expand

²⁸ Based on data from the World Trade Organization’s digitally delivered services trade dataset.

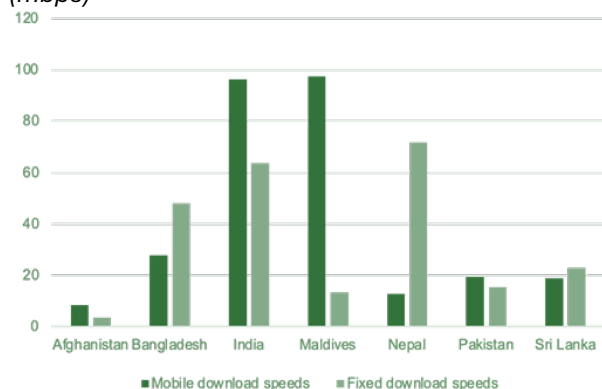
²⁹ See also the World Bank’s *Pakistan Development Update* (April 2025) for detailed discussion.

digital exports and impact on the freelance economy, a growing source of IT export receipts.

India and the Philippines present a useful blueprint on how policy frameworks can support an expansion in digital access to grow IT exports. The Philippine Cyber Corridor, launched in 2006, created a nationwide network of tech hubs that helped transform the country into a global leader in business process outsourcing and IT-enabled services. India's Digital India initiative, started in 2015, expanded broadband, digital identity, and e-governance systems, laying the foundation for its IT and digital export boom. Earlier, the Make IT Philippines campaign in the 2000s actively promoted the country as a regional IT hub, attracting major foreign call center and outsourcing investments. A similar coordinated policy effort could be beneficial for Pakistan.

Firms grapple with uneven, low quality and costly broadband access...

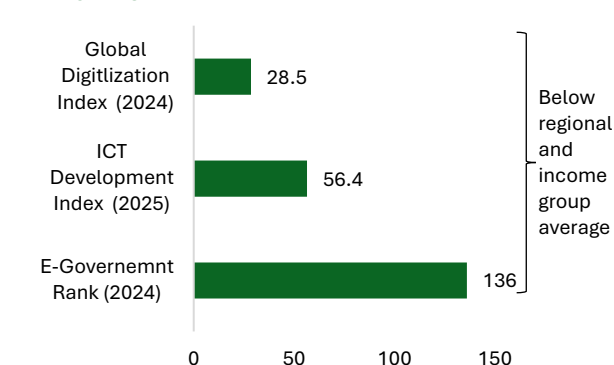
Figure 4.33: Broadband Speed (mbps)



Source: World Bank staff elaboration using Speedtest by Ookla.

... and a weak digital regulatory environment uncondusive to a turbocharging the IT export base

Figure 4.34: Measures of the Digital Enabling Environment



Source: World Bank Staff elaboration using data from Huawei, International Telecommunications Union and United Nations Department of Economic and Social Affairs

Box 4.5: Pakistan's Digital Export Opportunity

Pakistan's exports remain heavily concentrated in goods, leaving the country vulnerable to shocks and limiting diversification. Digitally delivered services (supplied remotely over computer networks, including IT, consulting, education, and financial services) have become a major driver of global trade and offer Pakistan an opportunity to boost exports. Their exports reached US\$3.8 trillion in 2022, growing 8.1 percent annually since 2005 and now accounting for more than half of global services trade (WTO, 2025).

Figure B4.5.1: Structure of Pakistan's Digitally Delivered Services Exports, 2024



Source: Data from WTO 2025.

Pakistan currently captures only 0.1 percent of digital services global market, lagging comparators such as India (5.8 percent) and Indonesia (0.2 percent). Even within strong gains in IT services exports, where Pakistan is the second-largest exporter in South Asia (after India) with more than US\$2.9 billion in annual exports, its global share remains just 0.3 percent, underscoring the scale of untapped potential. The strongest near and medium-term opportunities lie in expanding services exports in IT services, business and knowledge process outsourcing, gig economy, and fintech.

Realizing this potential will require addressing persistent constraints: skills mismatches and infrastructure gaps, high tariffs on digital products, inefficient tax regimes, and weak investor perceptions of Pakistan as an IT hub. Strengthening digital infrastructure, improving data governance, and building digital skills could enable Pakistan to expand into high-value digital services, helping shift its export base from goods toward services and supporting more resilient, inclusive growth.

Reform Path

Energy:

- Continue cost-reduction reforms in the energy sector, including timely implementation of electricity and gas tariff adjustments.
- Improve the management of DISCOs to improve efficiency and grid reliability of DISCO networks.
- Implement wholesale market to allow multiple buyers and sellers to directly enter bilateral contracts for electricity at mutually agreed prices.

Digital:

In addition to reforms to reduce tariffs on digital products the following would be crucial:

- Accelerate the implementation of the planned National Fiberization plans.
- Improve regulations around data sharing and governance by adopting and implementing basic internationally recognized regulatory principles, such as the OECD good regulatory practices and strengthening capacity at the agency levels, including at the provincial level.
- Strengthen the Pakistan Software Export Board to support international promotion activities in close coordination with the Trade Development Authority of Pakistan, while maintaining its efforts to facilitate business activities and streamlining procedures and regulations.

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Annex 1: Pakistan's Balance of Payments

Table A1.1: Balance of Payments Summary

(US\$ million unless mentioned otherwise)

	FY21	FY22	FY23	FY24	FY25	Percent of GDP - FY24	Percent of GDP - FY25
i. Current Account (A+B+C+D)	-2,820	-17,481	-3,275	-2,072	2,113	-0.6	0.5
A. Goods trade balance	-28,634	-39,050	-24,819	-22,177	-26,786	-6.0	-6.6
Goods exports	25,639	32,493	27,876	30,980	32,302	8.3	7.9
Goods imports	54,273	71,543	52,695	-53,157	-59,088	-14.3	-14.5
B. Services trade balance	-2,516	-5,840	-1,042	-3,110	-2,622	-0.8	-0.6
Services exports	5,945	7,102	7,596	7,691	8,383	2.2	2.1
Services imports	8,461	12,942	8,638	10,801	11,005	2.6	2.7
Trade Balance	-31,150	-44,890	-25,861	-25,287	-29,408	-6.8	-7.2
C. Balance on primary income¹	-4,400	-5,248	-5,765	-8,986	-8,902	-2.4	-2.2
D. Balance on secondary income¹	32,730	32,657	28,351	32,201	40,423	8.7	9.9
of which, remittances	29,450	31,279	27,333	30,251	38,300	8.1	9.4
ii. Capital Account	224	205	375	195	170	0.1	0.0
1. Balance from current and capital accounts (i+ii)²	-2,596	-17,276	-2,900	-1,877	2,276	-0.5	0.6
2. Financial accounts³	-8,768	-11,261	468	-5,370	-1,501	-1.4	-0.4
of which:							
Direct investment	-1,648	-1,702	-670	-2,126	-2,398	-0.6	-0.6
Portfolio investment	-2,774	55	1,012	376	637	0.1	0.2
3. Errors and omissions	-619	-303	-850	-631	-40	-0.2	0.0
Overall balance (-1+2-3)	-5,553	6,318	4,218	2,862	3,739	0.8	0.9
Gross SBP reserves (incl. CRR, SCRR)⁴	18,716	11,090	5,669	10,627	15,836	2.9	3.9
Memorandum items							
GDP (US\$, million)	348,933	375,643	338,151	371,660	407,187	-	-
Export growth (percent, y-o-y)	12.9	25.4	-10.4	9.0	5.2	-	-
Import growth (percent, y-o-y)	19.7	34.7	-27.4	4.3	9.6	-	-
Remittance growth (y-o-y)	27.3	6.2	-12.6	10.7	26.6	-	-

Source: State Bank of Pakistan, World Bank Staff calculations.

Notes: Balance of payments summary is as per Balance of Payments Manual 6 (BPM6).

1 In BPM6, the income account has been renamed "primary income" and current transfers "secondary income."

2 A negative balance shows that the economy is a net borrower from the rest of the world.

3 A negative balance highlights a net increase in the incurrence of foreign liabilities.

4 CRR=Cash Reserve Requirement; SCRR=Special Cash Reserve Requirement.

Annex 2: Pakistan's Fiscal Operations

Table A2.1: Summary of Fiscal Operations

(PKR billion unless mentioned otherwise)

	FY22	FY23	FY24	FY25	FY24 Percent of GDP	FY25 Percent of GDP	Change in Percentage of GDP
Total revenue	8,035	9,634	13,269	17,977	12.6	15.8	3.2
Tax revenue	6,947	8,441	11,163	14,019	10.6	12.3	1.5
Federal	6,143	7,169	9,311	11,744	8.9	10.3	1.4
Provincial	612	650	774	979	0.7	0.9	0.1
Non-tax revenue	1,088	1,193	2,106	3,979	2.0	3.5	1.5
Total expenditure	13,295	16,155	20,476	24,166	19.5	21.2	1.68
Current expenditure	11,521	14,448	18,571	21,529	17.7	18.9	1.1 3
of which:							
Interest payments	3,182	5,696	8,160	8,887	7.8	7.8	0.01
Defense	1,412	1,586	1,859	2,194	1.8	1.9	0.1
Subsidies	1,530	1,080	1,067	1,298	1.0	1.1	0.1
Development expenditure and net lending	1,657	1,953	2,078	2,966	2.0	2.6	0.6
of which:							
PSDP	1,617	1,893	2,027	2,983	1.9	2.6	0.7
Statistical discrepancy	116	-246	-173	-329	-0.2	-0.3	-0.1
Fiscal balance (excl. grants)	-5,260	-6,521	-7,207	-6,168	-6.9	-5.4	1.4
Primary balance (excl. grants)	-2,077	-826	953	2,719	0.9	2.4	1.5
Public debt (including guaranteed debt)	53,745	68,422	76,819	86,472	73.0	76.0	3.0
Domestic debt	31,085	38,810	47,160	54,471	44.8	47.9	3.1
External debt	19,677	26,092	26,291	27,773	25.0	24.4	-0.6
Guaranteed debt	2,983	3,520	3,368	4,229	3.2	3.7	0.5
Memorandum items							
GDP	66,658	83,651	105,143	113,748			

Source: Ministry of Finance, World Bank staff calculations.

Note: PSDP=Public Sector Development Programme.

Annex 3: Poverty Projections

The latest official poverty rates are available for FY19, which was the year of the last Household Integrated Economic Survey (HIES). Since then, Pakistan has undergone several major crises, including the COVID-19 pandemic, devastating floods in 2022, and a macroeconomic crisis made more precarious by increased political uncertainty. It is expected that these shocks had a profound impact on household welfare and poverty rates in the country, but recent survey data is not available to quantify these. In this context, welfare levels for Pakistan can be estimated using a micro simulation tool which models the path of household welfare based on macroeconomic indicators. The underlying assumption for this approach is that macroeconomic indicators, such as sectoral GDP growth, inflation, and changes in the real value of private and public transfers, directly influence households' real labor and non-labor incomes, which in turn has a direct bearing on consumption levels and poverty.¹⁵

World Bank poverty projections are based on a model using the 2018-19 HIES data, that projects each household's consumption over time by simulating the evolution of real labor and non-labor income. The resulting consumption distribution is then used to produce poverty projections for the years FY20 to FY25. More specifically, labor income is modeled using the real growth rates of eleven sectors of the economy in which members of each household work. That is, each household member's projected income is computed by applying the growth rate of the relevant sector to their income at baseline. Then, total labor income is calculated as a sum of all household members' projected incomes, weighted by their total contribution to that income component. For non-labor income, remittances and private transfers are assumed to have constant purchasing power over time, whereas public transfers are modeled after BISP payouts. Lastly, household-level monthly inflation rates are used to produce real consumption projections. Household level inflation rates are produced using published inflation numbers for each major consumption category, weighted by each household's category-wise budget shares.

Poverty headcount is computed based on simulated monthly household consumption using the national poverty line (PKR 3,030 per adult equivalent per month in 2013/14, or PKR 8,231 in 2024 prices). The projected poverty headcount rates are as follows:

	FY19 (baseline)	FY20	FY21	FY22	FY23	FY24	FY25 (nowcast)	FY26	FY27
Poverty headcount, percent	21.9	24.7	21.9	18.3	24.8	25.3	22.2	21.5	20.6



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