



WORLD BANK GROUP

# Pakistan Development Update

*Staying the Course for Growth and Jobs*

October 2025 | Islamabad

# Outline

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**A**

**Recent Economic Developments, Outlook, & Risks**

**B**

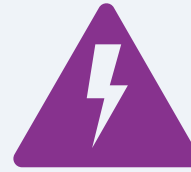
**Tackling the External Deficit Through Exports**

# Key PDU messages



## *Pakistan achieved macro stabilization in FY25*

- Fiscal consolidation led to a record high primary surplus.
- Stable growth and low inflation.
- Lower policy rate.
- Reserve position improved.
- Confidence increased, including credit rating upgrades.
- Poverty headcount decreased.
- Broader economic vulnerabilities remain high, including limited fiscal space and high financing needs.



## *Recent floods pose significant risks to the initially positive outlook*

- Growth projections have been lowered based on the Government's most recent estimates of flood-related economic losses.
- Spillovers are expected on services and industry, e.g., textiles may face cotton input shortages.
- Inflation is expected to increase due to food supply disruptions.
- Strong remittances expected to offset higher imports and lower exports.



## *Staying the course on reforms remains critical*

- Ensure market-determined exchange rate with a functional interbank market.
- Broaden the direct tax base & fully harmonize GST.
- Improve the business & regulatory environment.
- Reduce state dominance in the economy through divesture.
- Implement the National Tariff Policy as announced in the budget.

# PART A

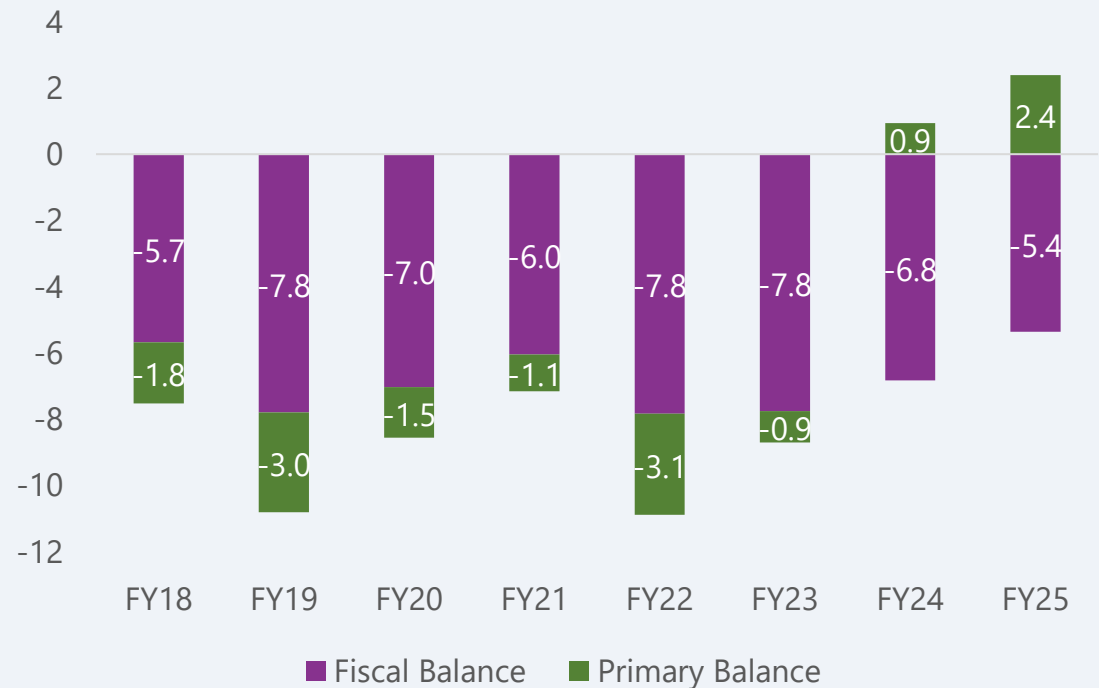
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## Recent Economic Developments, Outlook, and Risks

# Stabilization measures restored fiscal discipline and helped rebuild confidence in the economy

## Strong revenue increases led to a record-high primary surplus

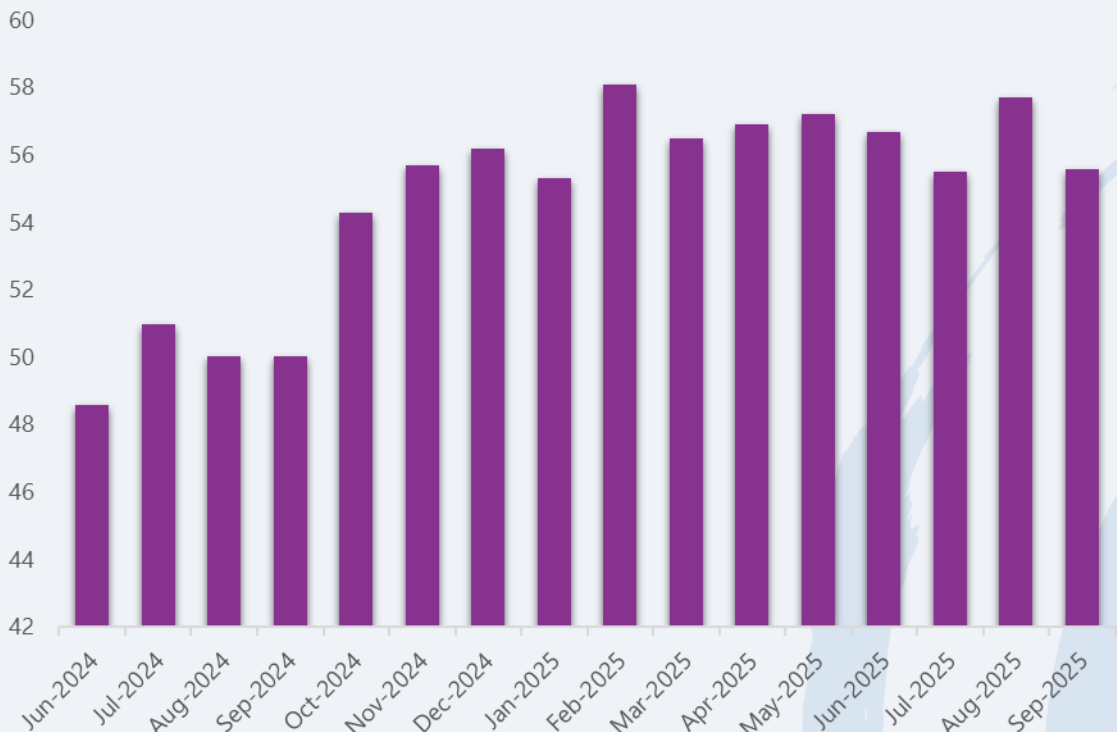
Fiscal and Primary Balances (% of GDP)



Source: Ministry of Finance, WB staff calculations.

## Macro stability supported increasing confidence in the economy

Business confidence index

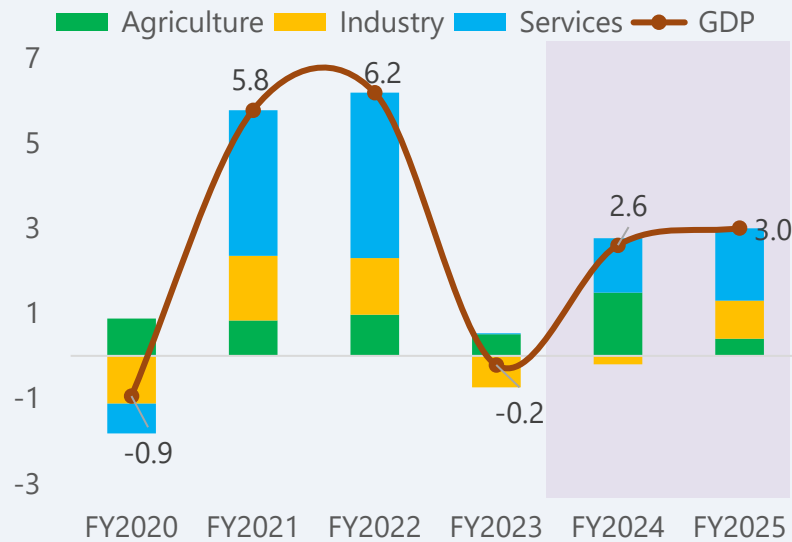


Source: State Bank of Pakistan.

# Economic growth and lower inflation helped reduce poverty

## Growth increased modestly supported by a rebound in industry

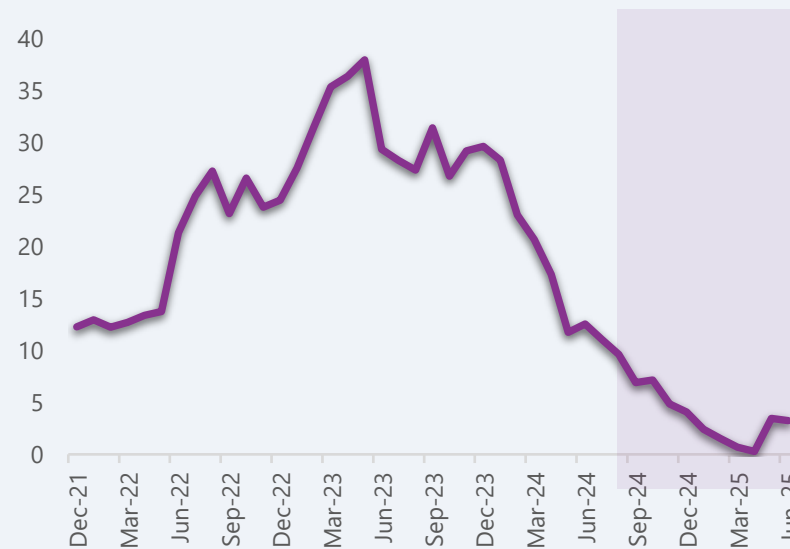
Contribution to GDP growth (% , y-o-y)



Source: PBS and WB staff calculations.

## Inflation fell, driven by cost push factors and fiscal consolidation

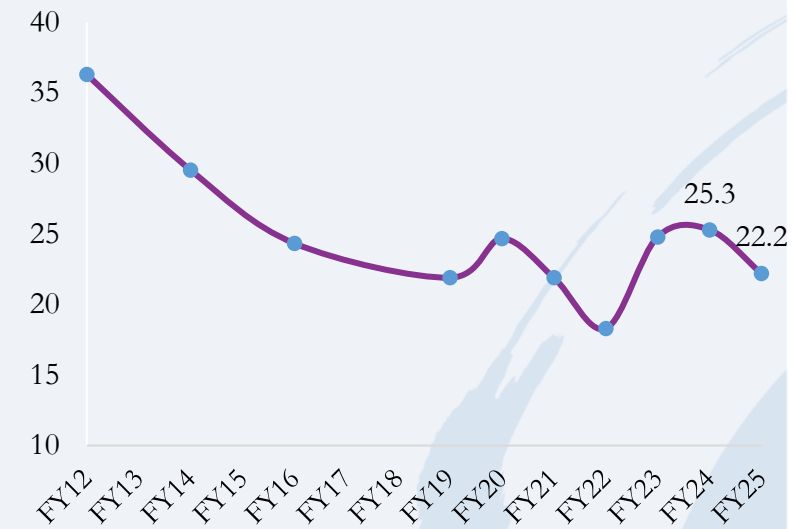
Percent (y-o-y)



Source: PBS.

## Higher growth and lower inflation helped reduce poverty

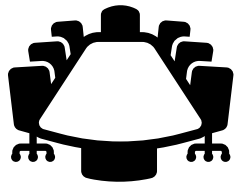
Poverty rate (percent of population)



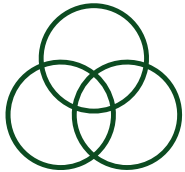
Source: WB staff calculations.

# Growth is projected to slow due to the floods, but the economy is expected to remain on a stable path

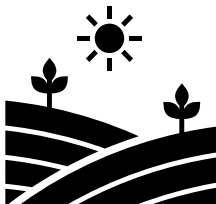
## Baseline assumptions



Continued reform implementation and Gov remains current with the IMF-EFF reviews



Continued rollovers & re-financing from bilateral partners



Lower growth due to economic losses from the floods



**Real GDP growth in FY26 is expected to increase less than initially expected** to 3 percent due to lower agricultural output but is expected to recover to 3.4 percent in FY27.



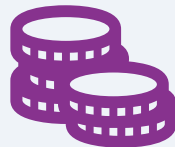
**Inflation is expected to increase in FY26** to 7.2 percent amid food supply disruptions but should ease to 6.8 percent in FY27 and further over the medium-term.



**The current account is expected to move only marginally** to a 0.3 percent of GDP deficit in FY26 and a wider 0.6 percent of GDP deficit in FY27 with recovering growth.



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



**The overall fiscal deficit is expected to remain elevated at** 5.4 percent of GDP in FY26 and 5.2 percent in FY27.



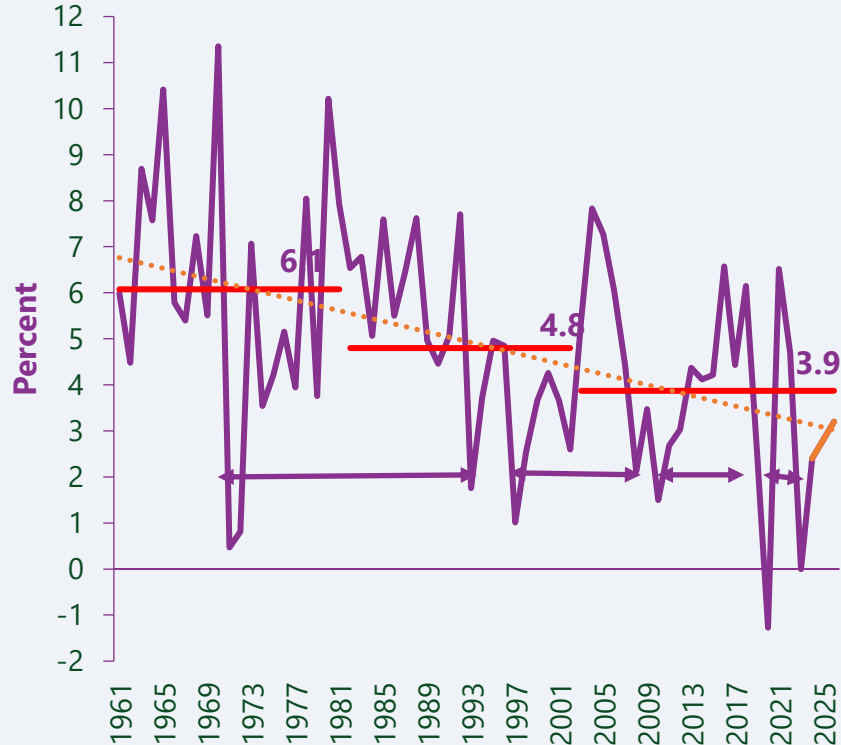
**Public and publicly guaranteed debt is expected to decline** in the medium term, reaching 75.9 percent of GDP in FY26 and 75 percent of GDP in FY27.

# This growth scenario would be insufficient to significantly improve living standards

With rapid population growth, the current outlook will be insufficient for a material improvement in living standards

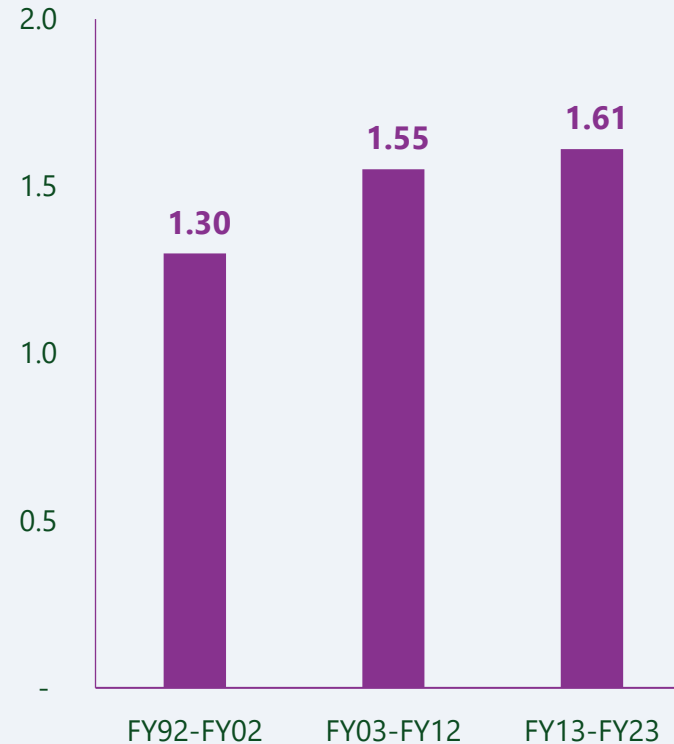
Pakistan's growth potential has been declining for decades...

Real GDP growth (at constant market prices)



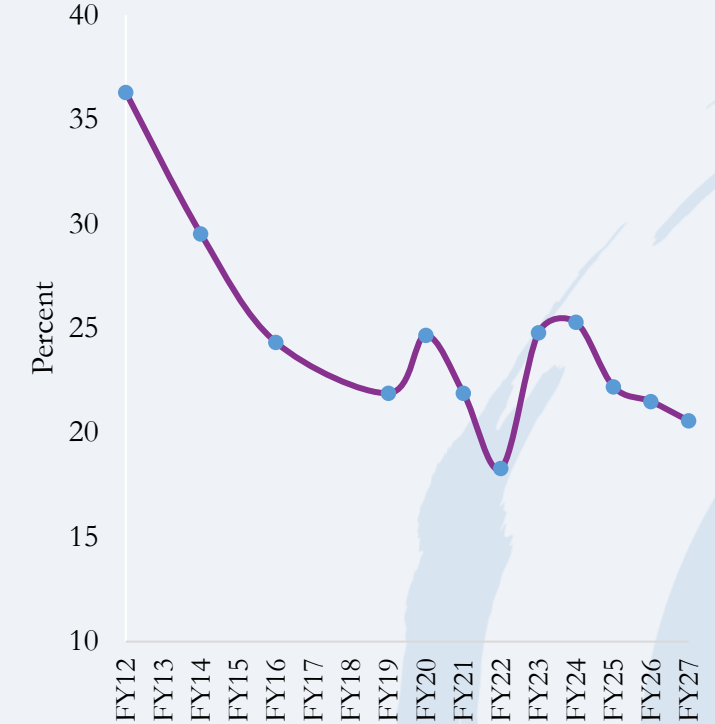
...which, combined with a growing labor force...

Average annual increase in labor force (in million workers)



...has undermined living standards

National Poverty Headcount (percent of population)



Source: Pakistan Bureau of Statistics and World Bank staff projections

Source: WDI

Source: World Bank staff estimation

# Staying the course on planned reforms is critical to boost growth and improve livelihoods

## Revenue Mobilization

*Prioritize an equitable, efficient, and sustainable tax system by broadening the direct tax base, harmonizing the GST, and improving tax administration.*

## Exchange Rate Reform

*Restore the functioning of the interbank foreign exchange market alongside the fully market-determined exchange rate.*

## Investment & Business Environment

*Implement privatizations announced in the FY26 budget to crowd in private investors. Improve the business-enabling environment.*

## Public Sector

*Demonstrate reform commitment through fiscal consolidation and government rightsizing.*

## Boosting Exports

*Credibly implement the tariff policy reforms announced in the FY26 budget and enhance trade finance.*

# PART B

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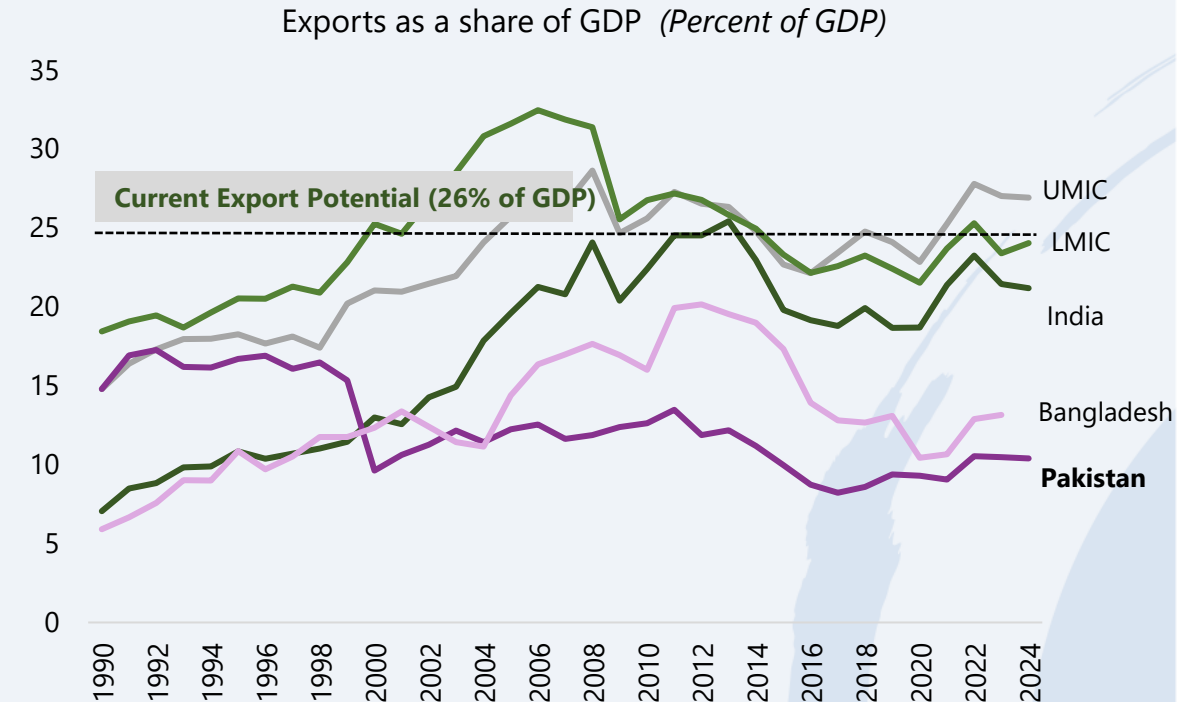
## Powering Growth through Exports

# Exports, critical to macro stability and productivity, remain below potential

Breaking the boom-bust cycle and achieving sustainable, inclusive growth will require strong exports

- Exports provide **foreign exchange** to finance vital imports (such as inputs) and help maintain a stable external position
- Importantly, firms that export benefit from larger markets and **technology and knowledge spillovers**
- Exports are also **a powerful driver of job creation** especially for women and the youth

However, exports remain below potential and lower than structural and aspirational peers



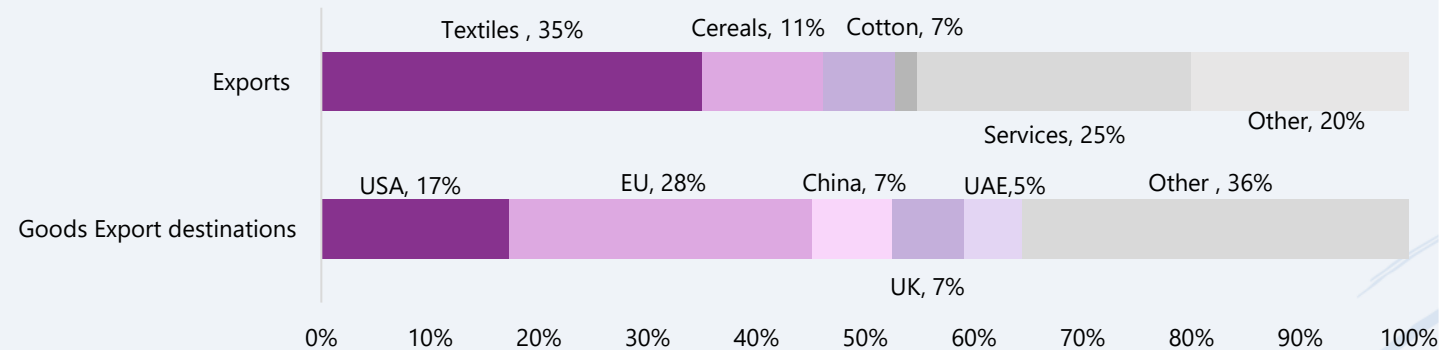
Source: World Bank staff calculations using data from World Development Indicators.

# The export base is narrow and insufficiently focused on services export and GVCs

**Weak product and market diversification have left the export base highly vulnerable to global price and demand fluctuations. Pakistan's share in global services exports also remains low.**

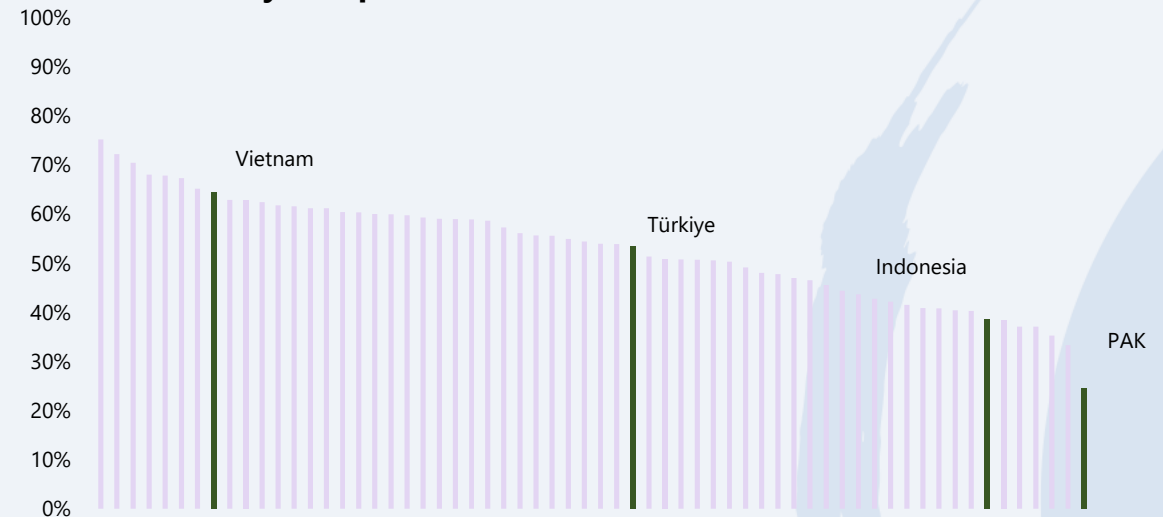
**Notably, Pakistan's share of total trade related to global value chains (GVCs) is comparatively low**

**Breakdown of Exports and Goods Exports Destinations**



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

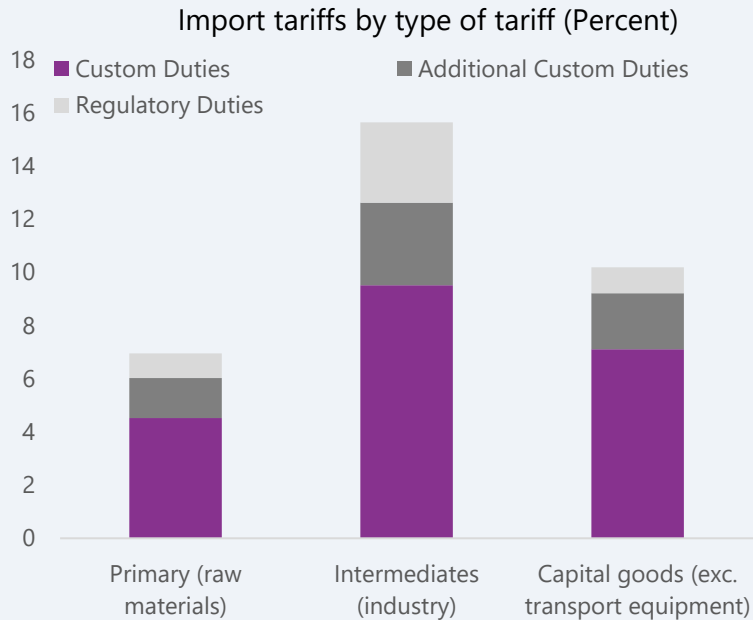
**Country Comparison of GVC Trade in 2022 (Percent of total trade)**



Source: World Bank staff calculations using data from WITS.

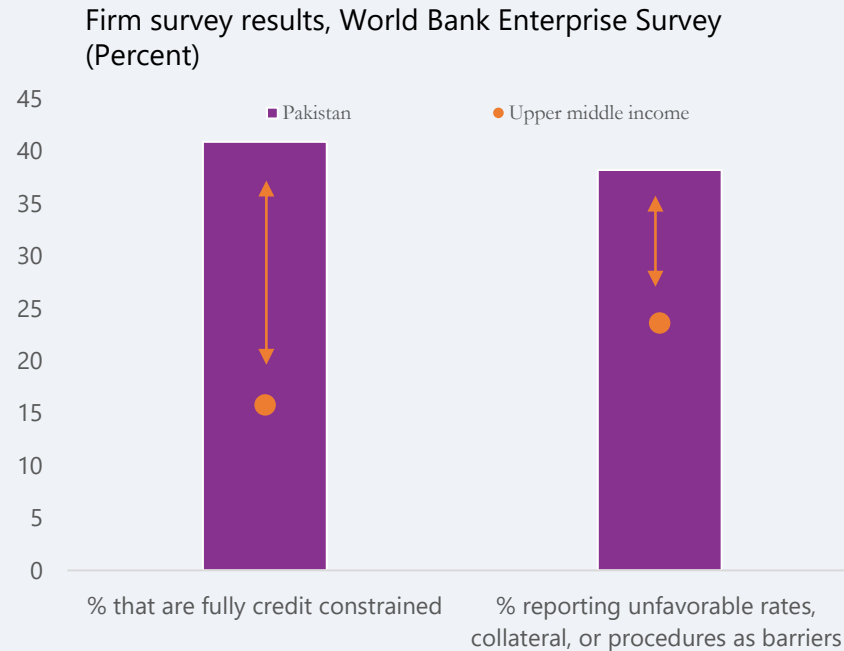
# Distortionary policies have undermined export competitiveness

**High import tariffs prioritize revenue and protect local industry but hurt exporters**



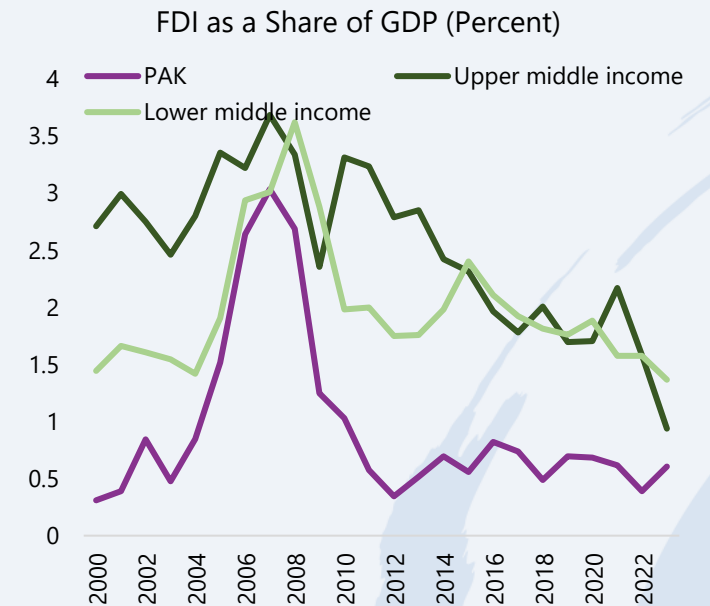
Pakistan has maintained some of the highest tariff levels and most complex tariff structure, both regionally and globally with impacts on productivity

**While high Government borrowing due to fiscal imbalances crowds out private sector lending**



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

**Excessive red tape and regulation increase costs and discourage investments**

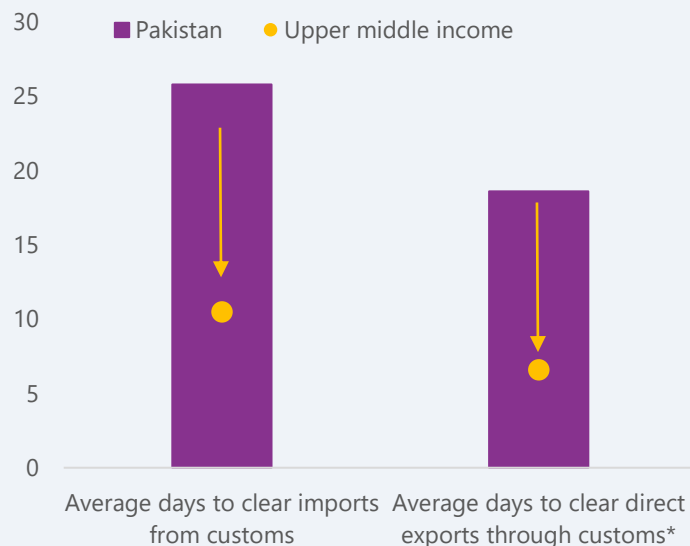


Though important for exports, both domestic investment and FDI have been largely concentrated in protected and domestic-oriented sectors, driven by a captive local market

# Trade facilitation barriers raise costs and restrict access to export markets

## Poor customs management makes it costly to import and export

Firm survey results, World Bank Enterprise Survey

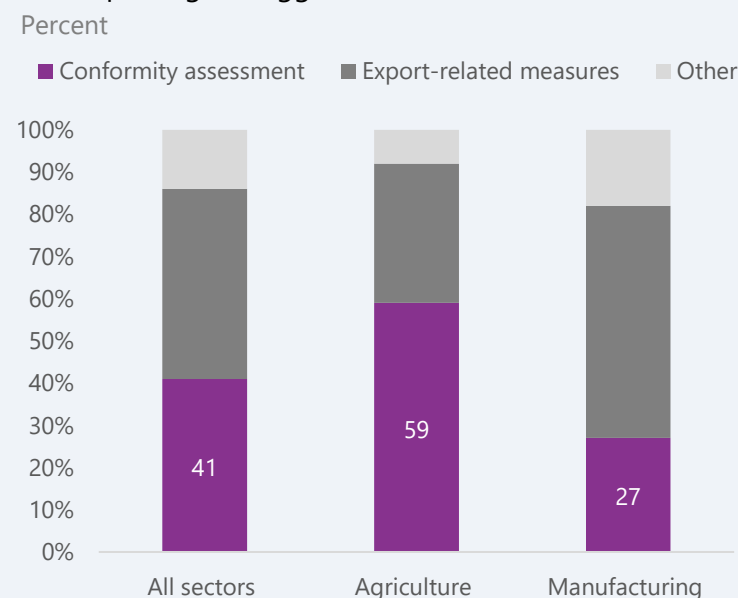


Source: World Bank Staff using WBG Enterprise Survey

Evidence shows that each additional day required for export compliance can reduce exports by 9 to 18 percent. Cutting clearance times from 7 to 2 days can raise trade volumes by up to 25 percent

## Exporters also struggle to comply with standards in key markets

Firm reporting on biggest constraints

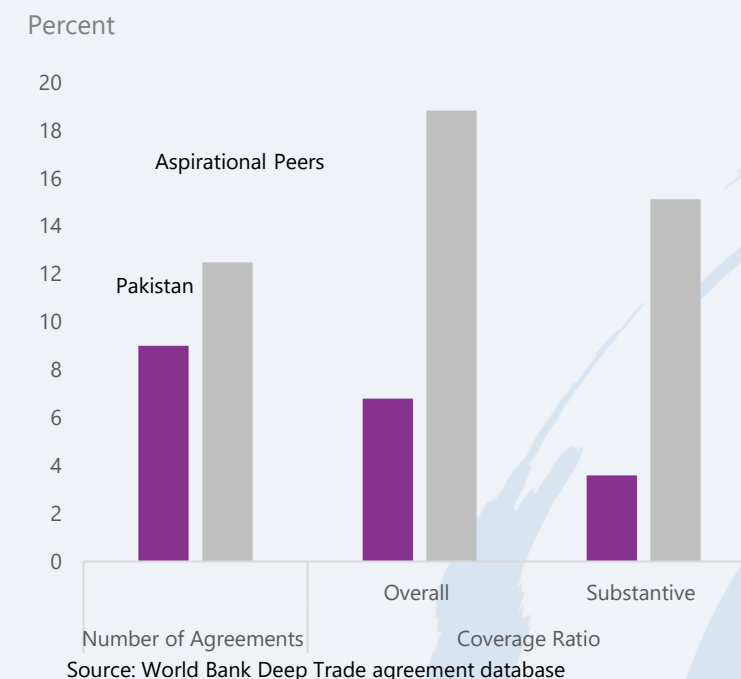


Source: ITC NTM Survey

Over 70 percent of Pakistan's goods exports (agriculture, textiles, and apparel) are at risk, as standards and technical regulations are becoming increasingly costly and complex

## Moreover, existing trade agreements are shallow, limiting opportunities to expand market access

Depth of trade agreements



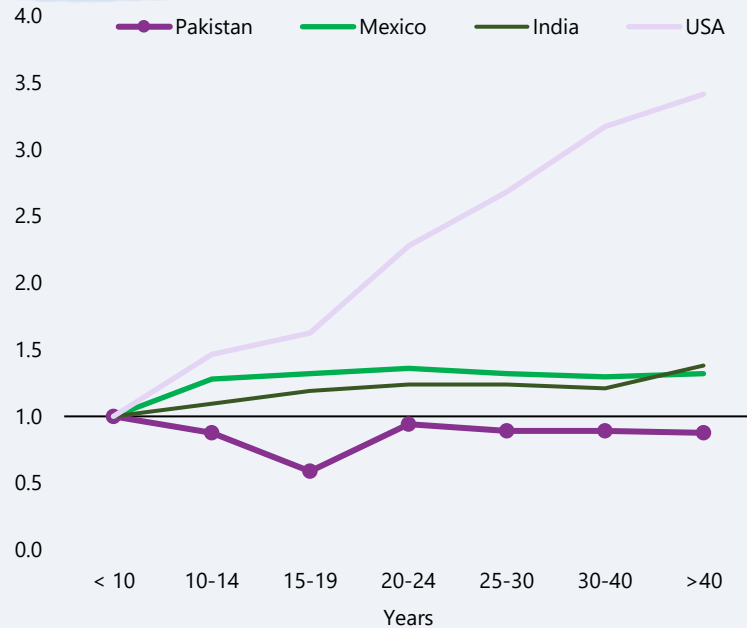
Source: World Bank Deep Trade agreement database

Modelling estimates show untapped export and GDP gains under existing trade agreements because of the low coverage of policy areas. Most only focus on tariff reductions

# Fundamental constraints to firm productivity also make it difficult for exporters to scale up

## Firms are small and productivity stagnant even as firms get older

Country Comparison of Productivity Growth  
(Total factor productivity Index)

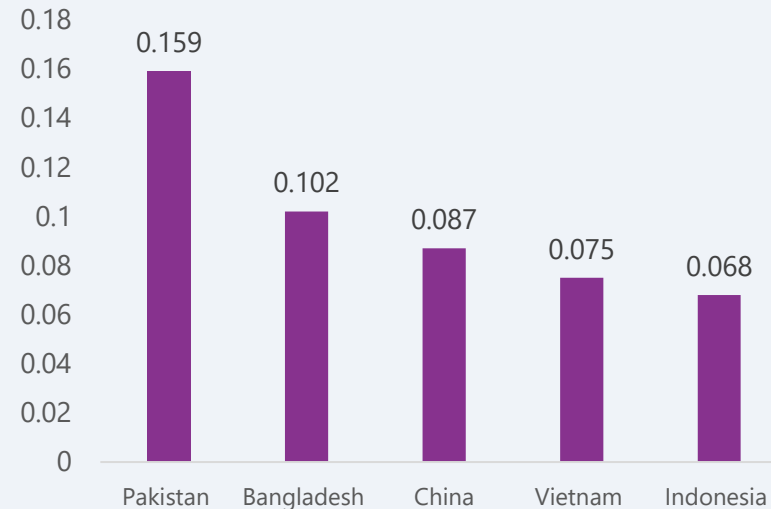


Source: World Bank 2022

The average Pakistan export export less than half the average exporter in Bangladesh.

## Expensive and unreliable energy undermine productivity and competitiveness

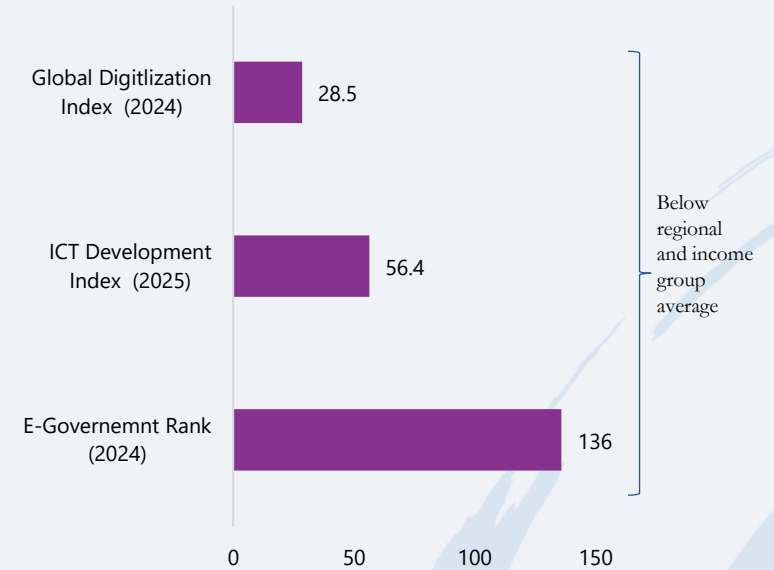
Electricity Prices for Industry, US\$ per kWh



Source: globalpetrolprices.com

Due to compounding effects of inadequate and outdated infrastructure, poor governance, weak long-term planning, fuel supply shortages, and limited access to financing

## Weak digital infrastructure and poor governance constrain firms' ability to export digital services.



Source: World Bank Deep Trade agreement database

Pakistan, exporters still face uneven, low-quality, and costly broadband, with average speeds among the lowest in the region and wide disparities across districts

# Notable progress has been made on reforms/initiatives to power exports

**Renewed Policy Vision: URAAN Pakistan and the PM's Economic Transformation Plan focus on export-led growth. Updated Industrial policy and Strategic Trade Policy Framework also in progress**

## World Class Pakistan Single Window



Pakistan Single Window became operational on 1st July 2021 and has quickly become a model national single window initiative



PSW was already handling over 65% of imports and 79% of exports covering maritime, air, railroad and road as of end 2024

## Streamlined Export Facilitation Scheme



Announced in 2021, the EFS merged existing export schemes to minimize document requirements and improve accessibility



The EFS allows exporters to import critical inputs at duty/tax free rates to enhance export competitiveness

## Recent & Historic National Tariff Policy



The government approved a five-year tariff reform plan to cut tariffs by half by 2030 which will lower costs for imported inputs. The reform will align rates with aspirational peers



If fully implemented, tariff reforms, complemented by a market determined exchange rate could **increase exports by close to 14%, boost GDP by 0.2% and create over 300,000 jobs**

# Looking ahead it is important to stay the course on reforms to enhance exports

**The National Tariff Policy marks a historic shift, but its success hinges on sustained government commitment and a broader set of urgent complementary reforms**

## What is needed

**1. Lowering the cost of inputs for exporters and reduce anti-export bias**

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

**3. Expanding access to trade finance**

## How to get there

- Implement the full set of tariff reforms under the National Tariff Policy
- Build the capacity of the National Tariff Commission to monitor, evaluate, and remedy unfair trade practices by trade partners
- Focus on trade negotiation efforts on further tariff reductions with key and emerging trade partners
- Allow the emergence of a deep and liquid interbank market
- Publish detailed data on interbank market transactions
- Phase out ad hoc interventions, allowing the exchange rate to reflect genuine supply and demand
- Fully operationalization of the EXIM Bank
- Prioritize new export ventures and segments when offering financing products

# Looking ahead it is important to stay the course on reforms to enhance exports

## What is needed

## How to get there

### **4. Creating an enabling environment for investments**

- Establish a National Regulatory Delivery Office to implement key business environment reforms
- Pass the revised Investment Act and establish a single business registry
- Fill leadership vacancies at the Competition Commission and Competition Appellate Tribunal
- Strengthen the legal, regulatory, and institutional frameworks for creditor/debtor relationships by implementing the Insolvency and Creditor/Debtor Rights Report recommendations

### **5. Improving customs management and standards and compliance for enhanced trade facilitation**

- Fully implement the World Trade Organization (WTO) Trade Facilitation Agreements.
- Implement the FBR Transformation Plan
- Improve the access, transparency and administration of the Export Finance 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

# Looking ahead it is important to stay the course on reforms to enhance exports

## What is needed

## How to get there

### **7. Deepening trade agreements**

- Strengthen negotiations capacity through targeted training and 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**

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



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**Thank You**

## Annex: The macroeconomic outlook in numbers

### Pakistan Macroeconomic Outlook (FY26-27)

|                                                     | FY22 | FY23 | FY24 | FY25r | FY26f | FY27f |
|-----------------------------------------------------|------|------|------|-------|-------|-------|
| <b>Real GDP Growth, at constant factor prices</b>   | 6.2  | -0.2 | 2.6  | 3.0   | 3.0   | 3.4   |
| <b>Agriculture (y-o-y % growth)</b>                 | 4.2  | 2.2  | 6.4  | 1.5   | 2.3   | 3.3   |
| <b>Industry (y-o-y % growth)</b>                    | 7.0  | -3.9 | -1.2 | 5.3   | 3.1   | 3.4   |
| <b>Services (y-o-y % growth)</b>                    | 6.7  | 0.0  | 2.3  | 3.0   | 3.3   | 3.5   |
| <b>Inflation (Consumer Price Index)</b>             | 12.2 | 29.2 | 23.4 | 4.5   | 7.2   | 6.8   |
| <b>Current Account Balance (% of GDP)</b>           | -4.7 | -1.0 | -0.6 | 0.5   | -0.3  | -0.6  |
| <b>Fiscal Balance (excluding grants, % of GDP)</b>  | -7.9 | -7.8 | -6.9 | -5.4  | -5.4  | -5.2  |
| <b>Debt (% of GDP)</b>                              | 80.6 | 81.8 | 73.0 | 76.0  | 75.9  | 75.0  |
| <b>Primary Balance (excluding grants, % of GDP)</b> | -3.1 | -1.0 | 0.9  | 2.4   | 0.9   | 0.8   |