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PAKISTAN DEVELOPMENT UPDATE

Attaining Escape Velocity

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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 it should consider.

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Abbreviations and Acronyms

AI	artificial intelligence
bbl	barrel of oil
CPI	Consumer Price Index
DAP	diammonium phosphate
EFF	Extended Fund Facility
EXIM Bank	Export-Import Bank of Pakistan
FBR	Federal Board of Revenue
FY	fiscal year
GDP	gross domestic product
GST	General Sales Tax
H	half (fiscal year)
HS	Harmonized System
ICT	information and communications technology
IMF	International Monetary Fund
LNG	liquefied natural gas
LSM	large-scale manufacturing
MMBtu	million British thermal units
NPL	non-performing loan
PDU	Pakistan Development Update
PKR	Pakistani rupee
PSDP	Public Sector Development Programme
Q	quarter (fiscal year)
REER	real effective exchange rate
SBP	State Bank of Pakistan
SOE	state-owned enterprise
US$	United States dollar
y-o-y	year-on-year

01

Executive Summary

Pakistan has achieved important economic gains, adopting policies to stabilize the economy, preserve growth, rebuild confidence, and withstand the impacts of the ongoing conflict in the Middle East. Growth reached 3.7 percent in fiscal year (FY) 2026, largely reflecting an expansion in the service sector, despite weak agricultural and industrial performance. Pass-through of high energy prices has helped preserve fiscal balances, while strong remittances and dollar purchases have contributed to the accumulation of foreign exchange reserves. Sound macroeconomic management and active efforts to address public debt portfolio and external risks supported credit rating upgrades, with S&P Global Ratings upgrading Pakistan from B- to B in July and Moody's upgrading Pakistan from Caa1 to B3 in August, and Pakistan's return to international markets, with a US$750 million Eurobond placement in April and a US$3 billion Eurobond issuance in September 2026.

Pakistan now faces an opportunity to translate stabilization gains into much faster sustained growth. Prudent fiscal and monetary policy remains essential to sustaining confidence, rebuilding buffers, and managing risks. With the current International Monetary Fund (IMF) Extended Fund Facility (EFF) program ending in September 2027 and national elections scheduled for early 2029, developing, publishing, and effectively implementing a medium-term fiscal plan that preserves macroeconomic stability is critical to maintaining confidence. Growth-enabling reforms are also urgently required to reverse recent increases in poverty (from 22 percent in 2018/19 to 29 percent in 2024/25) and create sufficient jobs for the 3.6 million Pakistanis reaching working age every year. Continued implementation of trade liberalization reforms under the National Tariff Policy, and the recent privatization of Pakistan International Airlines are welcome developments. A broader program of reforms that upgrades policies and institutions to the quality seen in average upper-middle-income countries could drive sustained real gross domestic product (GDP) growth of up to 6.2–6.9 percent per annum. Specific, immediately implementable measures that would put Pakistan on a pathway to achieving per capita incomes of countries currently at the upper-middle-income threshold by 2050 include:

- **Foundational infrastructure:** Structural reform of the energy sector, including private participation in transmission and distribution; improving efficiency, effectiveness, and coordination in the delivery of basic services; and developing stronger frameworks for skills and qualifications.

- **Business-friendly environment:** A coherent national program of business regulatory reform, including a modern Investment Act; revenue-base broadening, including through effective implementation of agricultural and property taxation; harmonization of the General Sales Tax (GST) nationwide; fiscal federalism reforms through a new National Finance Commission Award; continued exchange rate flexibility in response to market signals and external shocks; further progress on trade liberalization; and strengthening compliance and standards systems for exporters.
- **Mobilizing private capital:** Increasing private participation in state-owned enterprises (SOEs); mobilizing additional private investment in health and education; strengthening the

insolvency regime; strengthening export finance; and developing the domestic bond and capital market.

Recent Developments and Baseline Outlook

Real GDP growth at factor cost accelerated to 3.7 percent year-on-year (y-o-y) in FY26, up from 3.2 percent in FY25. Agriculture, which accounts for 34 percent of employment, grew 2.9 percent, as strong livestock performance offset modest growth in crops. Industry slowed to 3.5 percent, as a contraction in the energy sector and higher input costs for oil, metals, and raw materials stemming from the conflict in the Middle East weighed on an otherwise strong manufacturing performance. Services, the largest employer at 41 percent, accelerated to 4.1 percent, driven by wholesale and retail trade.

The current account shifted from a surplus of 0.5 percent of GDP in FY25 to a small deficit of 0.1 percent in FY26. Higher imports of industrial inputs, vehicles, and food items were partly offset by high remittance inflows and strong exports of services. Strong financing inflows supported a financial account surplus and contributed to raising foreign exchange reserves to US$19.7 billion (2.8 months of imports) by end-FY26.

Headline inflation increased to 7.1 percent y-o-y in FY26, driven by the global oil price shock from March 2026. Food inflation picked up in the fourth quarter (Q4) of FY26, reflecting higher fuel, freight, and fertilizer costs, alongside the gradual deregulation of wheat prices. Core inflation remained elevated throughout FY26, owing to persistent services inflation. In response, the State Bank of Pakistan (SBP) raised the policy rate to 11.5 percent in April 2026, keeping real rates positive.

A sharp fiscal adjustment lowered the consolidated fiscal deficit significantly in FY26. Revenue performance remained resilient, with tax revenues rising from 12.3 to 12.5 percent of GDP, supported by stronger provincial collections and the federal Petroleum Development Levy. Non-interest current spending fell by 0.3 percent of GDP while development spending remained constant at 2.6 percent. Interest payments declined from 7.8 percent of GDP in FY25 to 5.5 percent in FY26, reflecting lower financing costs. These dynamics widened the primary surplus to 2.9 percent of GDP and reduced the consolidated fiscal deficit to 2.6 percent.

Under a baseline scenario with continued sound macroeconomic management and limited structural reform progress, growth is projected to remain broadly stable at 3.8 percent in FY27. Elevated commodity and energy prices are expected to weigh on services and industry. Livestock is expected to remain the main driver of agricultural growth. Headline inflation is expected to remain high, at 8.2 percent in FY27, reflecting the pass-through of high commodity prices.

Fiscal and external balances are expected to remain sustainable. Lower non-tax revenues are expected to pull the total revenue-to-GDP ratio down marginally in FY27. Non-interest expenditure is expected to increase gradually amid continued inflation and the lead-up to elections. The primary surplus narrows to 2.0 percent of GDP in FY27, while the consolidated fiscal deficit widens to 3.5 percent. A widening trade deficit, partly offset by remittances and continued growth in information and communications technology (ICT) services exports, is expected to push the current account deficit to 1.0 percent of GDP by FY28.

Table 1: Projections of Key Economic Indicators

	FY23	FY24	FY25	FY26e	FY27f	FY28f
Real GDP Growth, at factor cost	-0.2	2.6	3.2	3.7	3.8	4.2
Current Account Balance (% of GDP)	-1.0	-0.6	0.5	-0.1	-0.8	-1.0
Fiscal Balance (% of GDP), excluding grants	-7.8	-6.8	-5.4	-2.6	-3.5	-4.0
Public Debt, including govt. guaranteed debt (% of GDP)	81.8	73.0	76.3	72.9	69.6	67.9

Sources: Pakistan Bureau of Statistics, SBP, World Bank Group staff calculations.
Note: e=estimate; f=forecast.

02

Recent Economic Developments

Growth accelerated to 3.7 percent in FY26, reflecting continued confidence despite global price increases and regional security shocks. Services drove most of the acceleration, supported by strong confidence, while agriculture and industry lagged. The conflict in the Middle East pushed global energy prices to multi-year highs, reversing earlier disinflation and widening the trade deficit. Record remittances absorbed most of the shock to the current account, which deteriorated from a surplus of 0.5 percent of GDP in FY25 to a small deficit of 0.1 percent in FY26. Reflecting sustained expenditure restraint and lower debt-servicing costs, the fiscal deficit declined to 2.6 percent of GDP, while the primary surplus reached 2.9 percent.

2.1. Real Sector

Growth

Real GDP growth at factor cost accelerated to 3.7 percent y-o-y in FY26. The acceleration from 3.2 percent in FY25 occurred despite the negative impact of the conflict in the Middle East (Box 1). It was driven primarily by services, particularly wholesale and retail trade, which rebounded from a low FY25 base as large-scale manufacturing (LSM) and imports recovered. Agriculture recovered only moderately, with continued muted crops growth, while industry growth slowed on account of a contraction in electricity generation and gas distribution.

Box 1: Impact of the Conflict in the Middle East on Pakistan's Economy

The conflict in the Middle East, which began on February 28, 2026, raised Pakistan's nominal import bill through higher global oil and gas prices. In FY25, petroleum and gas products accounted for about one-quarter of total imports (3.7 percent of GDP), with Gulf Cooperation Council countries supplying around 80 percent of these imports.[1] By end-June 2026, oil and liquefied natural gas (LNG) prices had risen significantly relative to pre-conflict levels.[2] As a result, imports of the petroleum group increased by 9.2 percent y-o-y during January–June 2026. The import bill for crude petroleum increased by 46.4 percent over the same period, but the quantity-driven reduction of LNG imports, which decreased by nearly

[1] Gas refers to all products under Harmonized System (HS) code 2711, while oil refers to all products under HS codes 2709 and 2710. Pakistan imports around 75 percent of its oil consumption and 25 percent of its gas consumption. Source: Finance Division (2025) *Pakistan Economic Survey 2024–25 – Energy Chapter*. Around 20 percent of global oil and gas supply flows through the Strait of Hormuz. Source: International Energy Agency (February 2026) "Strait of Hormuz Factsheet."

[2] Brent prices rose from a monthly average of US$71 per barrel of oil (bbl) in February 2026, to an average monthly price of US$103/bbl between March and June 2026. After prices had eased in June and July 2026, they have since picked up again and reached US$130/bbl in mid-September 2026. Japan LNG prices rose from an average price of US$11 per million British thermal units (MMBtu) in Q1 2026 to an average price of around US$14/MMBtu in Q2. Sources: U.S. Energy Information Administration (dataset) Petroleum & Other Liquids; World Bank Commodity Price Data (The Pink Sheet).

50 percent, partially offset the higher oil import costs. Strong remittance inflows cushioned the impact of increased import costs on the current account.

The cost and availability of domestic and imported chemical fertilizers, which are natural gas derivatives, have also been affected by the conflict. International urea prices rose sharply between March and May before decreasing again, yet domestic availability and use for the upcoming Kharif season were less constrained due to domestic supply and sizeable buffers.[3] The use and import of diammonium phosphate (DAP), however, decreased significantly due to the significant price increase since the beginning of the conflict.[4] With DAP prices having remained high, imports in FY26 decreased, which weighed on its use in the Kharif season and will constrain productivity of the FY27 Rabi season. Elevated DAP prices beyond 2026 could have an impact on the agriculture seasons during FY27–28 and potentially on food prices.

Pakistan's vulnerability to higher global energy prices, combined with its high debt burden and limited fiscal and external buffers, has contributed to a rise in domestic borrowing costs. Coupons on Pakistan Investment Bonds across different maturities increased by at least 1.5 percentage points for auctions held after February 2026 compared to those before the conflict. Overall, the cost of new bonds nevertheless remained below the levels observed in 2024 and early 2025. Spreads on Eurobonds widened temporarily, but Pakistan successfully returned to markets in April 2026 after an absence of four years with a three-year Eurobond placement of US$750 million. The government raised fuel prices and introduced several austerity measures to contain the impact of the shock on the fiscal accounts and curb demand for energy imports. In parallel, the government announced targeted support measures for vulnerable groups to be funded through reallocations from the development budget and burden sharing with the provinces.[5]

The macroeconomic outlook assumes that Pakistan's economy will continue to be affected by the conflict in the Middle East through end-2026, with a gradual de-escalation over the course of 2027.

Livestock remained the engine of agricultural growth for the second straight year, while crops added little despite returning to growth. Livestock value-added growth increased from 2.9 percent y-o-y in FY25 to 3.8 percent in FY26, contributing 0.5 percentage points to overall growth. The strong performance reflected continued commercialization, improved disease management, and growing dairy and poultry activity. Crops returned to growth of 1.4 percent, supported by stronger wheat and sugarcane output and better fertilizer availability during the growing season, but contributed only 0.1 percentage points to overall real GDP growth. Cotton ginning remained constrained by weak cotton arrivals, pest attacks, and longstanding weaknesses in the value chain.

Industry growth slowed due to weakness in the electricity and gas sectors. Industry value-added growth **declined** from 5.6 percent in FY25 to 3.5 percent in FY26, despite a strong

[3] National Fertilizer Development Centre (2025) *Fertilizer Review 2024–25*.
[4] Trading Economics (live dataset) Urea; Di-ammonium Phosphate (March 29, 2026).
[5] Kiani (March 26, 2026) "ECC Approves Rs100bn Supplementary Grant for PM's Austerity Fund."; Ansari (April 1, 2026) "Centre, Provinces Agree on Targeted Fuel Subsidy."

turnaround in LSM, which moved from contraction in FY25 to 6.1 percent real growth in FY26. The recovery was led by a 62 percent surge in automobile production and supported by a broader improvement in business confidence. LSM alone contributed 0.5 percentage points to overall real GDP growth in FY26. Small-scale manufacturing and slaughtering also expanded strongly, by 8.5 percent and 6.2 percent, respectively, with the latter benefitting from continued livestock growth. These gains were more than offset by a 10.6 percent contraction in electricity generation and gas distribution. The decline was largely associated with the rapid expansion of solar net-metering capacity, with a further 1,663 megawatts added during the year. Households and industrial customers increasingly generated their own power rather than drawing from the grid. This contributed to a divergence between stronger manufacturing activity and weaker measured grid-based electricity output.

Services remained the main driver of the overall growth acceleration, but performance varied across subsectors. Real value-added growth in services accelerated to 4.1 percent in FY26 from 3.1 percent in the previous year, contributing 2.4 percentage points to overall real GDP growth. Wholesale and retail trade grew by 3.7 percent, from a low FY25 base. ICT accelerated to 7.5 percent, reflecting continued strength in ICT exports. Public administration, education, and human health also recorded solid gains. Financial and insurance activities were the main exceptions, with growth slowing sharply to 0.3 percent from 9.1 percent in FY25 due to weaker bank lending to households and private businesses. The slowdown points to persistent constraints on domestic credit despite the broader recovery in economic activity.

Table 2: Real GDP Growth

(y-o-y, percent)

	FY22	FY23	FY24	FY25	FY26e
Real GDP Growth (at factor cost)	**6.2**	**-0.2**	**2.6**	**3.2**	**3.7**
Agriculture	4.2	2.2	6.4	1.5	2.9
Industry	7.0	-3.9	-1.0	5.6	3.5
Services	6.7	0.0	2.3	3.1	4.1

Source: Pakistan Bureau of Statistics, World Bank Group staff calculations.
Note: e=estimate.

Current growth is not generating enough quality jobs for a rapidly expanding labor force, leaving many new entrants without work. Since 2018, the labor force has expanded by around 3.6 million people a year, but employment has grown more slowly. As a result, roughly one in six new entrants has been left without work. Unemployment rose to 7.0 percent in 2024, with the shortfall particularly concentrated among women and youth. Open unemployment is especially significant in an economy with limited social protection and no unemployment insurance. Most households cannot afford to go without earnings for extended periods. The challenge is not only the number of jobs being created, but also their low quality. Economy-wide labor productivity grew just 0.4 percent a year between 2014 and 2024, and most of the 17.7 million net new jobs created since 2018 have been in low-pay, low-productivity sectors. With declining real labor incomes amid very high inflation and slow productivity growth, Pakistan's poverty rate increased from 22 percent in 2018/19 to 29 percent in 2024/25. Box 5 examines how artificial intelligence (AI) could affect jobs in Pakistan.

Inflation

Headline inflation rose in FY26, as the energy price shock from the conflict in the Middle East reversed the disinflation of the first eight months of the fiscal year. Headline Consumer Price Index (CPI) inflation averaged 7.1 percent y-o-y in FY26, up from 4.5 percent in FY25. It averaged around 5.5 percent between July 2025 and February 2026, helped by receding flood-related food disruptions, a stable exchange rate, and subdued demand.[6] Higher global oil and gas prices, fuel price pass-through, fading base effects, and rising wheat and perishable prices lifted headline inflation to an average of 10.2 percent in March–June 2026, peaking at 11.7 percent in May.[7]

Food inflation increased as the post-flood moderation gave way to renewed pressures from wheat and perishables. In FY26, it averaged 4.3 percent y-o-y in urban areas (1.7 percent in FY25) and 5.4 percent in rural areas (-0.9 percent in FY25). After a flood-induced spike in September–November 2025, it accelerated again from April 2026, reflecting higher wheat prices after partial price deregulation, volatile perishables, and conflict-related fertilizer and fuel costs.[8] By August 2026, food was the largest contributor to headline inflation in both urban and rural areas (Figures 1 and 2).

Energy inflation surged from March 2026, and core inflation accelerated in its wake. Energy prices were contained until February, supported by lower electricity price adjustments;[9] but between February and June, petrol, high-speed diesel, and liquefied petroleum gas prices rose by around 36, 31, and 46 percent, respectively, and transport fares rose by around 30 percent over the same period.[10] During the same period, energy inflation increased from 11.7 to 26.8 percent in urban areas and from 5.7 to 27.6 percent in rural areas. In FY26, core inflation eased to 7.4 percent in urban areas and 8.5 percent in rural areas but rose from March as higher transport fares fed through, with urban core inflation reaching 9.0 percent in May.

[6] The World Bank energy price index fell to 86.4 in H1 FY26 from 99.1 in H1 FY25, while the food price index declined to 107.7 from 114.6. Source: World Bank Commodity Price Data (The Pink Sheet).

[7] The price of Brent and LNG (Japan) increased by around 70 and 40 percent, respectively, from February to April 2026. Prices moderated until July 2026 but rose thereafter as the conflict in the Middle East intensified. Source: World Bank Commodity Price Data (The Pink Sheet).

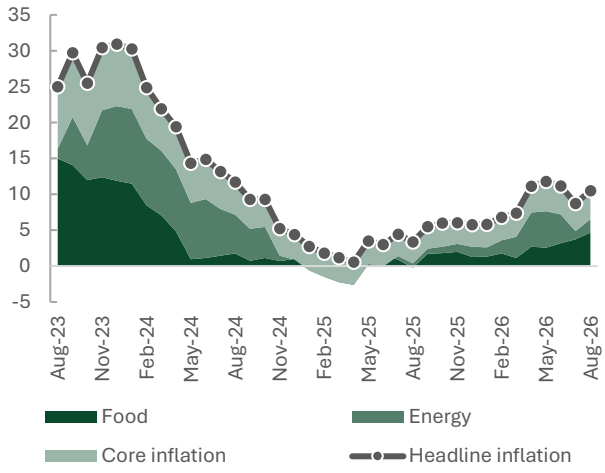
[8] International urea prices rose by 82 percent between February and April 2026 (from US$472 per metric ton (mt) to US$857/mt), before falling back below pre-conflict levels from June 2026. DAP prices, by contrast, rose steadily from US$627/mt in February to US$794/mt in August 2026, an increase of 27 percent. Source: World Bank Commodity Price Data (The Pink Sheet).

[9] Global crude oil prices were about 12 percent lower in H1 FY26 compared to a year earlier. Source: World Bank Commodity Price Data (The Pink Sheet).

[10] Cumulative month-on-month price changes between March and June 2026. Source: Pakistan Bureau of Statistics, as reported in SBP (August 2026) *Monetary Policy Report: Navigating Uncertainty*.

Figure 1: Contribution to Headline Inflation in Urban Areas

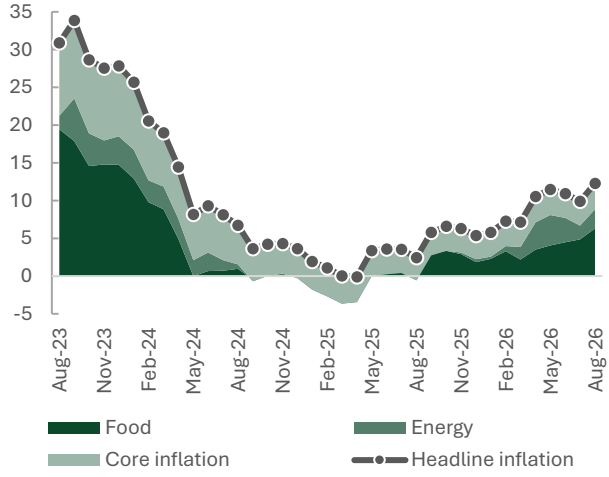
(percentage points)



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

Figure 2: Contribution to Headline Inflation in Rural Areas

(percentage points)



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

Headline inflation remained elevated in the first two months of FY27, driven by food prices and renewed energy pressures. It eased to 9.2 percent y-o-y in July 2026, reflecting the reduction in domestic fuel prices, before rising to 11.1 percent in August. Food inflation reached 12.1 percent in urban areas and 13.2 percent in rural areas in August. The re-escalation of the conflict in the Middle East from July 2026 revived petroleum price pressures, and higher transport costs lifted core inflation.[11]

2.2. Monetary and Financial Sector

Monetary

Monetary policy tightened in FY26 in response to energy price inflation. The SBP raised the policy rate by 100 basis points to 11.5 percent in April 2026, its first hike in nearly three years, as the prolonged conflict in the Middle East pushed up energy prices, freight charges, and insurance premiums. The SBP has since held the policy rate steady at 11.5 percent through three consecutive reviews, including its final FY26 decision in June.

Financial Sector

Private credit growth accelerated in FY26, but the structure of bank balance sheets remained largely unchanged, with financing continuing to favor the government over firms. Credit to the private sector grew by 14.7 percent during FY26, up from 13.0 percent a year earlier, as fixed investment credit growth rose from 13.2 percent to 16.3 percent while working capital financing growth moderated from 13.8 percent to 12.3 percent. Manufacturing captured most of this long-term financing, with fertilizers, plastic products, cement, motor vehicles, and textiles as the largest beneficiaries. The transport sector also saw sizeable gains, particularly in cargo

[11] Petrol and high-speed diesel prices increased by 6.7 and 10.3 percent month-on-month, respectively, in August 2026 and stood 27 and 34 percent above their levels a year earlier. Source: SBP (August 2026) *Inflation Monitor*.

handling. However, this growth has not meaningfully shifted the allocation of bank assets, with business lending still accounting for less than one-fifth of banks' total exposure, while government financing stands at 79.4 percent of bank assets, near its historical peak and still rising. Banks' reliance on SBP open market operations compounds this constraint, with outstanding injections of nearly PKR 14 trillion now exceeding the entire stock of private sector credit, which stood at PKR 11.4 trillion as of June 2026.

Banking sector soundness indicators remain strong, but this reflects growing exposure to low-risk government securities rather than a broader improvement in financial intermediation. The capital adequacy ratio stood at 19.6 percent as of end-FY26, comfortably above regulatory requirements, while profitability remained elevated, with return on assets at 2.4 percent and return on equity at 39.8 percent. Provisions continue to exceed non-performing loans (NPLs). Because these returns are driven substantially by banks' holdings of government paper, strong aggregate performance does not signal improved credit availability for productive private activity. Microfinance banks present a starkly different picture. Although profitability recovered in FY26, capital adequacy remained negative, NPLs stood at 9.1 percent of total loans, and the ratio of net NPLs to capital remained exceptionally high despite provisions exceeding NPLs. Non-bank microfinance companies were still constrained by limited access to funding and liquidity. This divide between a profitable, well-capitalized commercial banking sector and a fragile microfinance sector highlights the uneven distribution of financial soundness across Pakistan's financial system.

Capital markets performed strongly in FY26, but the rally was domestically driven, and they still play a limited role relative to banks in financing firms. The Pakistan Stock Exchange's KSE-100 index rose by 43.5 percent in FY26, and market capitalization expanded by 45.0 percent to PKR 18.6 trillion. Foreign participation remained limited, however, with cumulative flows through Special Convertible Rupee Accounts staying negative, indicating that domestic investors rather than renewed foreign portfolio inflows drove the rally. With bank lending still constrained by banks' concentration in government securities, deepening equity and debt capital markets will be important to diversify financing sources, reduce reliance on bank lending, and support private investment and growth.

2.3. External Sector

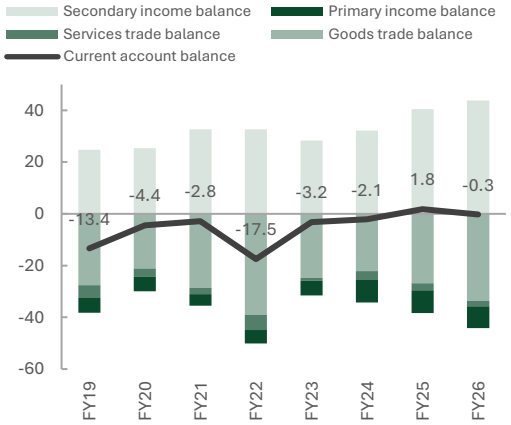
Goods exports fell in FY26 as rice lost further market share to India and textiles stagnated. Goods exports declined by 4.7 percent to US$30.8 billion in FY26, with rice accounting for more than half of the decline. Rice exports fell by about one-third to US$2.3 billion—mostly a volume effect as more Indian supply returned to world markets—while prices for non-basmati rice also dropped sharply. Textile exports were flat at US$17.6 billion. While readymade garments and cotton yarn exports increased, cloth, knitwear, and bedwear declined or stagnated, pointing to persistent competitiveness constraints in Pakistan's largest export sector.

Imports rose due to higher prices and volumes, with stronger demand for vehicles, machinery, and inputs. Goods imports increased by 9.0 percent to US$64.5 billion in FY26. Domestic vehicle demand drove a sharp increase in imports of completed vehicles, completely knocked down kits, and parts. Imports of machinery and industrial inputs rose alongside the expansion in LSM. The conflict in the Middle East significantly raised energy prices from March

2026 and, together with higher domestic refining, pushed crude oil imports up by 30.2 percent. The overall impact of higher prices on petroleum group imports was cushioned by a significant fall in LNG imports, by about 37 percent, largely reflecting deferred cargoes and supply disruptions.

Figure 3: Current Account Balances (Jul–Jun)

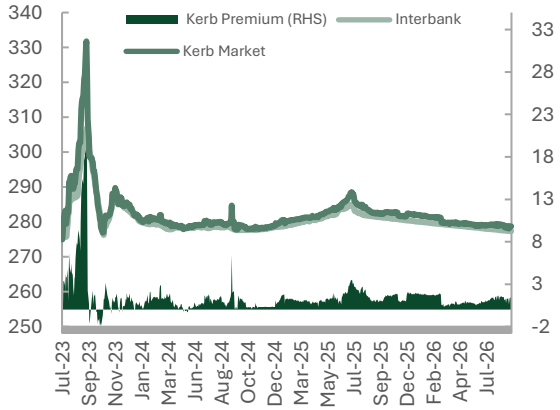
(US$ billion)



Source: SBP, World Bank Group staff calculations.

Figure 4: Domestic Exchange Rate Movements

(PKR/US$)



Source: SBP, World Bank Group staff calculations.
Note: RHS=right-hand side.

Strong services exports offset only part of the goods trade deficit, which widened to its highest level in four years. The goods trade deficit rose from US$26.8 billion in FY25 to US$33.7 billion, or 7.4 percent of GDP, in FY26. Services exports grew by 18.6 percent to US$10.0 billion, led by ICT, narrowing the services deficit to US$2.0 billion. The overall deficit on trade in goods and services still reached 7.9 percent of GDP in FY26.

Record remittances once again offset the trade deficit, keeping the current account close to balance. Workers' remittances rose by 8.6 percent to US$41.6 billion, despite already high growth in the previous year, when the shift from informal to formal channels boosted recorded inflows. Together with a slightly smaller primary income deficit of US$8.5 billion, remittances limited the current account deficit to US$0.3 billion, or 0.1 percent of GDP, compared to a surplus of US$1.8 billion in FY25 (Figure 3). Without remittances, the current account deficit would have been about 9 percent of GDP, underscoring the dependence of the external position on these inflows.

The financial account recorded a net inflow of US$1.4 billion, supporting the further accumulation of reserves. General government disbursements of US$8.5 billion exceeded amortization of US$6.8 billion, while net foreign direct investment fell by nearly 50 percent to US$1.3 billion. With positive errors and omissions, the overall balance recorded a surplus of US$1.8 billion.

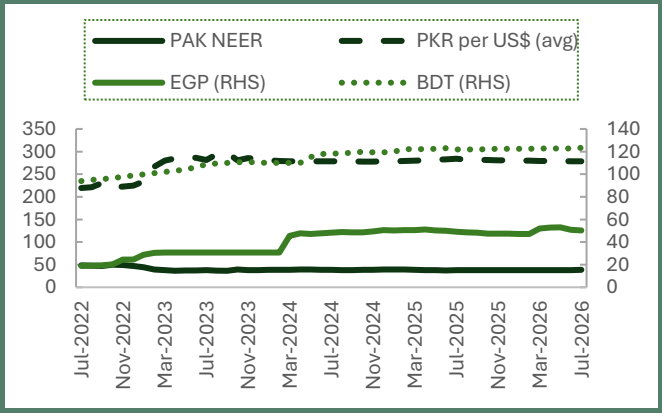
Reserves rose to US$19.7 billion by end-FY26, supported by official financing and SBP purchases of foreign exchange rather than by private capital. Net official borrowing and IMF disbursements accounted for most of the increase, while foreign direct investment remained at a low 0.3 percent of GDP. With the current account close to balance, the SBP was able to buy

US$8.1 billion of foreign exchange in the interbank market, contributing to reserves.[12] Reserves nonetheless remained below three months of imports, and bilateral deposits accounted for a significant share.

The rupee remained stable against the dollar, but the real exchange rate appreciated due to higher inflation, weighing on competitiveness. The average exchange rate in FY26 was PKR 280.4 per US$, compared to PKR 279.4 the previous year (Figure 4). With higher inflation, deteriorating terms of trade, and exchange rate stability, the real effective exchange rate (REER) appreciated 10 percent between end-June 2025 and July 2026 (Box 2).

Box 2: A Stable Rupee and a Rising Real Exchange Rate

Figure B2.1: Nominal Exchange Rates



Source: SBP, World Bank Group staff calculations.
Note: NEER=Nominal Effective Exchange Rate; EGP=Egyptian pound; BDT=Bangladeshi taka; RHS=right-hand side.

A stable nominal and a rising real rate

Since 2024, the rupee has traded in a narrow range of PKR 278–285 per US$ (Figure B2.1). Over FY25 and FY26, its standard deviation was below PKR 2, about 0.6 percent of its longer-term average. This stability held through a series of terms-of-trade shocks from FY25, including lower rice export prices and sharp increases in import prices linked to the conflict in the Middle East.[13] Stability in the face of these shocks suggests that the exchange rate is not responding freely to market conditions. A fully flexible, market-determined exchange rate would better serve Pakistan's economic development needs: it would buffer external shocks, support private sector confidence, and prevent a gradual erosion of competitiveness.

A flexible exchange rate provides a buffer against shocks

Cross-country evidence demonstrates that exchange rate rigidity increases macroeconomic risks. Among 50 emerging markets over 1980–2011, less flexible regimes were associated with greater vulnerabilities and more frequent crises.[14] Rigid regimes also

[12] SBP, "SBP's FX Interventions in the Interbank FX Market."
[13] Pakistan Bureau of Statistics unit value indices show the terms of trade falling by about 28 percent between Q2 FY25 and Q2 FY26. Unit value indices, however, are sensitive to changes in the mix of goods traded, particularly on the import side.
[14] Ghosh, Ostry, and Qureshi (2015) "Exchange Rate Management and Crisis Susceptibility: A Reassessment."

absorb shocks less well: in developing countries, negative terms-of-trade shocks cause larger output losses under fixed regimes than under flexible ones.[15]

Decisions to maintain exchange rate stability amid external pressure have preceded each of Pakistan's recent balance of payments crises. In 2008, 2018, and 2022, the exchange rate was held stable as current account deficits widened, leading to reserve losses and, in 2022, de facto import controls. Subsequent adjustments saw abrupt depreciation, contributing to high inflation. SBP gross reserves fell from US$18.1 billion in March 2016 to US$9.8 billion in March 2018, after which the rupee depreciated by about one-third.[16] In 2022, reserves fell to about US$3 billion, and an informal market with a sizable premium emerged; when the informal cap was removed in January 2023, the rupee lost 9.6 percent in one day.

A flexible exchange rate supports private sector confidence

Large, delayed adjustments have negative and distortive impacts on the private sector. Each of Pakistan's recent external crises ended in a sharp depreciation, a large increase in the policy rate, and an IMF-supported program. In 2022–23, import restrictions also led to temporary plant shutdowns.[17] When markets expect a depreciation, exporters delay converting proceeds and importers bring payments forward. Large parallel market premiums are associated with lower recorded exports and capital flight.[18] Exchange rate flexibility helps avoid expectations of future disorderly adjustments, helping to maintain confidence and investment, and preventing the emergence of distortive incentives.

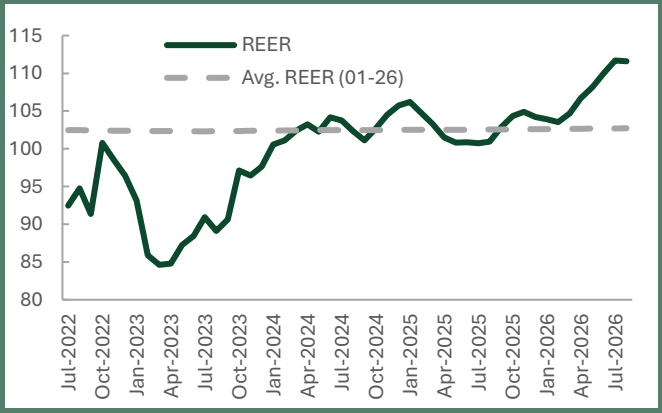
A flexible exchange rate prevents the erosion of trade competitiveness over time

Avoiding overvaluation matters for export performance. Overvaluation is associated with lower growth in developing countries, mainly through a smaller tradable sector.[19] Over the longer term, sustained export surges in developing countries are typically preceded by a real depreciation, which leads firms to enter new products and markets.[20]

A stable nominal rate in Pakistan has led to a steady real appreciation. With domestic inflation above that of trading partners, the REER rose 10 percent between end-June 2025 and July 2026, with relative prices contributing more than 8 percentage points (Figure B2.2). Since the start of FY24, it has appreciated by nearly 20 percent, although part of this reversed the overshooting of FY23. In July 2026, the REER was 5–9 percent above its long-term averages and trend. Keeping it at its June 2025 level would have required the rupee to be about 9 percent weaker against the US dollar. With inflation at 11.1 percent in August 2026, the appreciation will widen unless the nominal rate adjusts.

[15] Broda (2004) "Terms of Trade and Exchange Rate Regimes in Developing Countries."; Edwards and Levy Yeyati (2005) "Flexible Exchange Rates as Shock Absorbers."
[16] IMF (2019) "Pakistan: Request for an Extended Arrangement under the Extended Fund Facility."
[17] IMF (2023) "Pakistan: Request for a Stand-By Arrangement."
[18] Kiguel and O'Connell (1995) "Parallel Exchange Rates in Developing Countries."
[19] Rodrik (2008) "The Real Exchange Rate and Economic Growth."
[20] Freund and Pierola (2012) "Export Surges."

Figure B2.2: Real Exchange Rates



Source: SBP, World Bank Group staff calculations.

Standard external sustainability assessments would not necessarily identify this as overvaluation. Pakistan's projected medium-term current account deficit is consistent with a sustainable net international investment position (a commonly used benchmark).[21] However, this is largely due to very high remittances, which cover almost all of a large trade deficit. Exports of goods and services were equal to just 9 percent of GDP in FY26. This indicates that the current REER can be financed while remittances hold up rather than indicating the competitiveness of the tradable sector.

Broader reforms would be required to convert exchange rate flexibility into export growth. In Pakistan, exports have historically responded more slowly to real depreciations than to appreciations. A 10 percent real depreciation is associated with an increase in exports of about 5 percent in the long run, but only 13 percent of this adjustment takes place in the first quarter, compared with 46 percent after an appreciation.[22] The slow export response reflects the time required to find new buyers for differentiated products, limited access to finance, and foreign buyers negotiating lower US$ prices after a depreciation. Shifts toward a flexible, market-determined exchange rate should therefore be complemented by broader export-enabling reforms, including: (i) implementation of the National Tariff Policy, which is intended to eliminate additional customs and regulatory duties within four to five years and to reduce the trade-weighted average tariff from 10.6 percent to below 6 percent; (ii) expansion of export finance, including through the operationalization of the Export-Import Bank of Pakistan (EXIM Bank); (iii) improvements in national quality infrastructure and the export standards and compliance framework; (iv) trade facilitation and customs reform; and (v) negotiation of additional preferential trade agreements.

Early FY27 data show a similar pattern, with remittances keeping the current account deficit contained while the trade deficit continues to widen. The current account deficit was US$543 million in July–August 2026, smaller than a year earlier, as remittances grew by 14.7 percent y-o-

[21] Lee et al. (2008) "Exchange Rate Assessments: CGER Methodologies."
[22] Brun, Gambetta, and Varela (2020) "Slow Rockets and Fast Feathers or the Link between Exchange Rates and Exports: A Case Study for Pakistan."

y. The goods trade deficit, however, widened to US$6.2 billion over the two months, as imports continued to outpace exports.

The September Eurobond raised reserves to US$21.4 billion, around three months of imports.[23] The US$3 billion Eurobond issuance on September 2, 2026, consisted of two tranches: a US$1.75 billion bond at 5.5 years with a 7.5 percent coupon and a US$1.25 billion bond at 10 years with a 7.9 percent coupon. The issuance marks Pakistan's return to international markets after a successful private placement and Panda bond issuance in FY26.

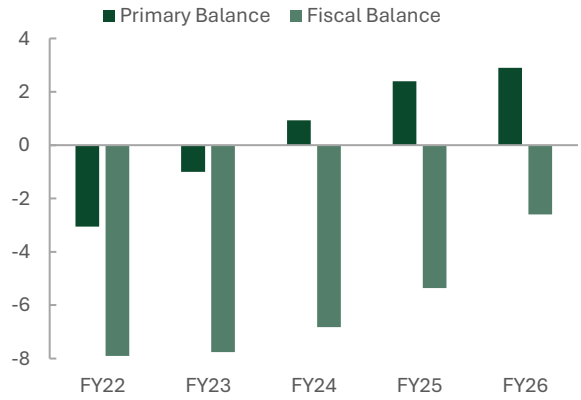
2.4. Fiscal and Debt Sustainability

A steep decline in current expenditure supported fiscal consolidation in FY26. Total expenditure fell from 21.2 percent of GDP in FY25 to 18.2 percent in FY26, with consolidated current expenditure falling by 2.6 percentage points to 16.3 percent in FY26.

Lower interest payments accounted for the largest share of the fiscal adjustment. Interest payments fell by 2.3 percentage points of GDP as previous monetary easing and strategic debt buybacks by the federal government reduced the cost of servicing domestic debt. The implicit interest rate on domestic debt fell from 15 percent in FY25 to 10 percent in FY26 as lower market interest rates passed through to a debt portfolio dominated by domestic issuances.

Figure 5: Consolidated Fiscal and Primary Balance (excluding grants)

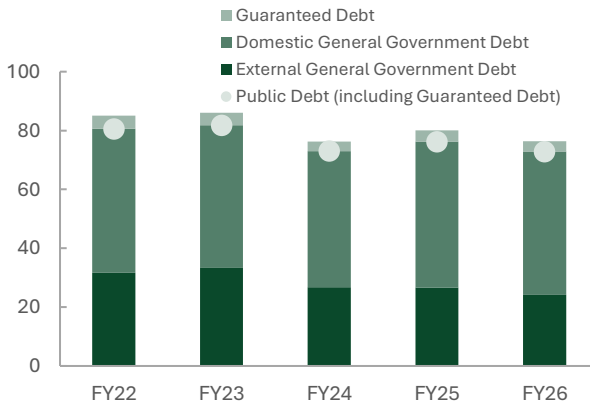
(percent of GDP)



Source: Ministry of Finance, World Bank Group staff calculations.

Figure 6: Public and Publicly Guaranteed Debt

(percent of GDP)



Source: SBP, World Bank Group staff calculations.

Non-interest current expenditure also declined. Consolidated non-interest current expenditure fell from 11.1 percent of GDP in FY25 to 10.8 percent in FY26, largely due to a further reduction in subsidies from 1.1 percent of GDP in FY25 to 0.8 percent in FY26. The reduction reflected continued efforts to improve cost recovery and timely tariff adjustments in the power sector, as well as lower financing costs associated with declining interest rates.

The government preserved development spending despite a sharp fiscal adjustment. Development expenditure and Public Sector Development Programme (PSDP) investment were broadly preserved at 2.6 percent of GDP, with a marginal decrease in federal PSDP spending

[23] As on September 18, 2026. Source: SBP, "Liquid Foreign Exchange Reserves."

offset by higher provincial development expenditure, suggesting that fiscal consolidation relied primarily on current expenditure restraint rather than cuts to growth-enhancing public investment.

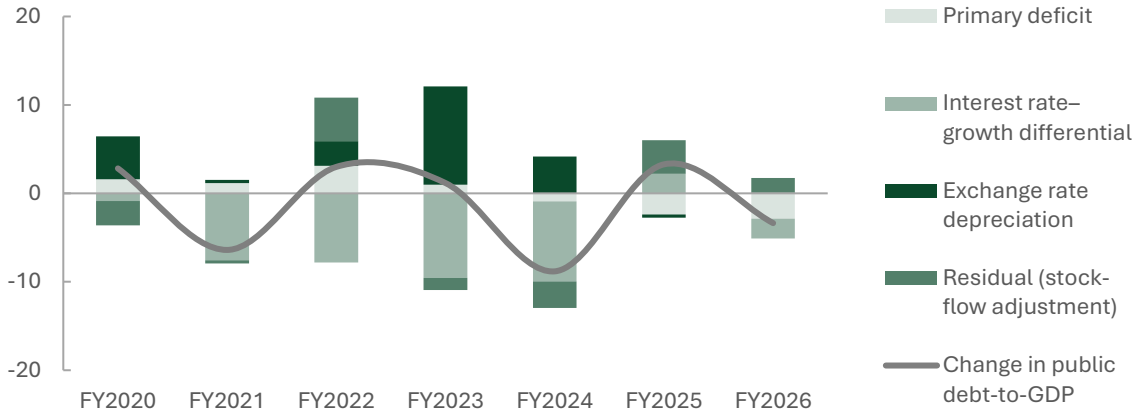
A decline in surplus profits of the SBP and flat federal tax collection as a share of GDP led to a modest reduction in consolidated revenues in FY26. Revenues fell from 15.8 percent to 15.6 percent of GDP in FY26, with increases in provincial tax revenues and Petroleum Development Levy collections (a combined increase of 0.2 percent of GDP) insufficient to fully offset the reduction in SBP profits from 2.3 percent of GDP in FY25 to 1.9 percent in FY26. Taxes collected by the Federal Board of Revenue (FBR) still exhibited moderate real growth of 3.7 percent (after real growth of 21.6 percent in FY25). The tax-to-GDP ratio increased from 12.3 percent in FY25 to 12.5 percent in FY26.

Reduced spending and lower debt-servicing costs resulted in a substantial improvement in fiscal balances (Figure 5). The consolidated fiscal deficit narrowed from 5.4 percent of GDP in FY25 to 2.6 percent in FY26, while the primary surplus increased from 2.4 to 2.9 percent of GDP (see Box 3 for a decomposition of the fiscal consolidation between FY22 and FY26).

Fiscal adjustment led to a significant decline in public debt relative to GDP (Figure 6). Nominal public debt, including guarantees, rose by 6.3 percent in FY26, well below the nearly 18 percent average of the previous three years. As a result, the debt-to-GDP ratio fell from 76.3 percent in FY25 to 72.9 percent in FY26, with external debt declining more sharply, from 26.6 to 24.2 percent of GDP, than domestic debt, which fell from 49.7 to 48.7 percent. The primary surplus was the largest contributor to this decline, reducing debt by 2.9 percent of GDP. This marked the third consecutive year in which the primary balance pulled debt down, and its contribution grew each year, from 0.9 percent of GDP in FY24 to 2.4 percent in FY25 and 2.9 percent in FY26. Automatic debt dynamics also contributed, as real GDP growth outpaced the real interest rate on debt (Figure 7). Unlike in previous years, the exchange rate did not add to the debt burden, as the rupee held a stable path against the US dollar.

Figure 7: Debt Drivers

(percent of GDP)



Source: SBP, World Bank Group staff calculations.

Box 3: Pakistan's Fiscal Consolidation during FY22–26

Pakistan achieved one of the largest fiscal adjustments in its recent history between FY22 and FY26. The consolidated fiscal deficit narrowed from 7.9 percent of GDP in FY22 to 2.6 percent in FY26, while the primary balance improved from a deficit of 3.1 percent of GDP to a surplus of 2.9 percent. The cumulative adjustment amounted to 5.3 percentage points of GDP in the fiscal deficit and 6.0 percentage points of GDP in the primary balance, bringing both balances to their strongest positions in more than two decades.[24]

Table B3.1: Fiscal Consolidation FY22 to FY26 (percent of GDP)

	FY22	FY23	FY24	FY25	FY26e	Change FY22 to FY26
Primary Balance	-3.1	-1.0	0.9	2.4	2.9	5.98
Fiscal Balance	-7.9	-7.8	-6.8	-5.4	-2.6	5.28
Revenues	**12.1**	**11.6**	**12.6**	**15.8**	**15.6**	**3.53**
Tax Revenues	10.4	10.1	10.6	12.3	12.5	2.09
FBR Revenues	9.2	8.6	8.8	10.3	10.3	1.04
Provincial	0.9	0.8	0.7	0.9	1.0	0.03
Non-tax	1.6	1.4	2.0	3.5	3.1	1.44
Total Expenditure*	**19.9**	**19.3**	**19.4**	**21.2**	**18.2**	**-1.75**
Current Expenditure	17.3	17.3	17.6	18.9	16.3	-0.98
Federal	12.5	12.7	13.3	13.8	11.4	-1.14
Mark-up	4.8	6.8	7.7	7.8	5.5	0.70
Pension	0.8	0.8	0.8	0.8	0.8	-0.02
Grants to Others	1.7	1.2	1.2	1.3	1.5	-0.24
Other General Public Service	0.8	0.8	0.7	0.8	0.8	-0.01
Defense Affairs and Services	2.1	1.9	1.8	1.9	2.0	-0.08
Social Protection	0.0	0.0	0.0	0.0	0.0	0.00
Subsidies	2.3	1.3	1.0	1.1	0.8	-1.50
Provincial current	4.8	4.5	4.4	5.1	4.9	0.16
Development Expenditure and Net Lending	**2.5**	**2.3**	**2.0**	**2.6**	**2.6**	0.08
PSDP	2.4	2.3	1.9	2.6	2.7	0.28
Federal	0.6	0.8	0.6	0.7	0.6	-0.03
Provincial	1.8	1.5	1.3	1.9	2.1	0.30

* Includes Statistical Discrepancy

Source: Government of Pakistan Consolidated Fiscal Operations, Ministry of Finance.

[24] The only comparable historical consolidation episode occurred between FY93 and FY04, when the primary balance improved by 4.8 percent of GDP, from a deficit of 1.73 percent of GDP to a surplus of 3.03 percent. By comparison, the FY22–FY26 adjustment amounted to 6.0 percent of GDP and was achieved over a much shorter period.

Revenue mobilization and expenditure rationalization both contributed to the adjustment (Figure B3.1). The increase in consolidated revenues from 12.1 percent of GDP in FY22 to 15.6 percent in FY26 accounted for roughly two-thirds of the fiscal improvement. Tax revenues increased by 2.1 percentage points of GDP over the period, reflecting stronger federal and provincial tax collection, while non-tax revenues benefited from higher transfers of surplus profits from the SBP. Total spending declined from 19.9 percent to 18.2 percent of GDP. Lower subsidies, which fell from 2.3 percent of GDP to 0.8 percent, were among the largest contributors to expenditure savings.

Figure B3.1: Sources of Fiscal Consolidation FY22 to FY26
(% of GDP)

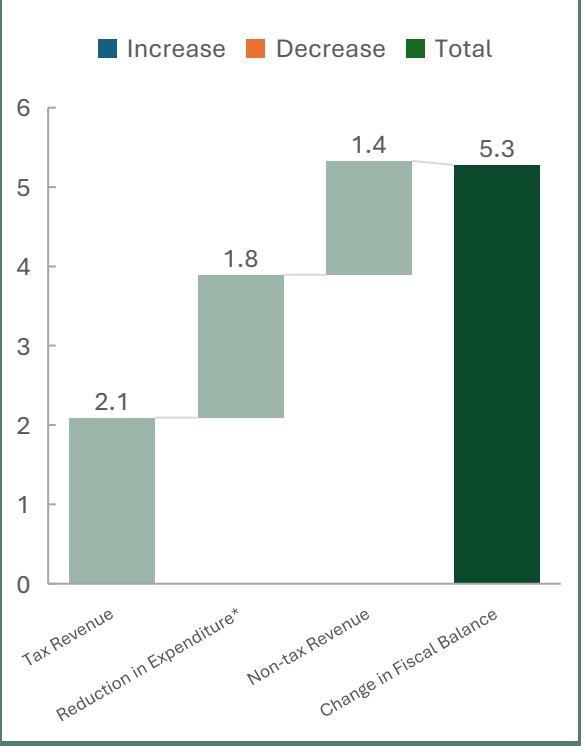
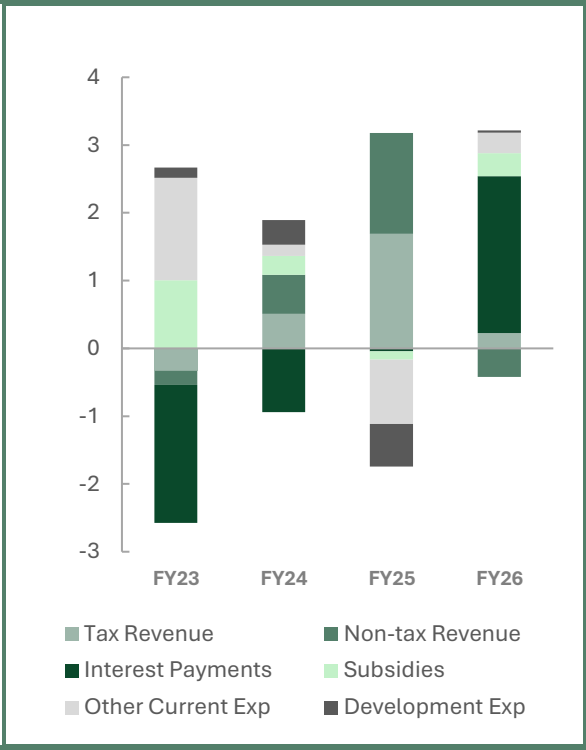


Figure B3.2: Drivers of Change in Fiscal Balance FY23 to FY26
(% of GDP)



Source: Government of Pakistan Consolidated Fiscal Operations, Ministry of Finance.

The drivers of the consolidation evolved over time, from expenditure restraint in FY23 to revenue mobilization in FY24–25 and lower debt-servicing costs in FY26 (Figure B3.2). The adjustment initially relied on expenditure restraint, particularly subsidy rationalization in FY23. Revenue mobilization became the primary source of consolidation in FY24 and FY25, led by strong gains in federal tax collection. By FY26, lower interest payments became the dominant contributor to fiscal improvement as monetary easing reduced the cost of servicing domestic debt. Despite the consolidation, development spending was broadly preserved as a share of GDP throughout the adjustment period, suggesting that fiscal gains were achieved primarily through revenue mobilization (tax and non-tax) and current expenditure restraint rather than sustained reductions in public investment.

Sustaining fiscal consolidation will require preserving the structural gains achieved during FY22–26. While higher tax revenues and lower subsidy spending point to lasting improvements in the fiscal position, part of the recent adjustment also benefited from factors that may prove less durable, including elevated transfers of SBP surplus profits and

the sharp decline in interest payments during FY26. Maintaining fiscal discipline while continuing to mobilize revenues and protect growth-enhancing development spending will be critical to preserving the fiscal space created over the past four years.

03

Outlook and Risks

3.1. Medium-Term Outlook

The conflict in the Middle East is expected to constrain growth in FY27. Under the baseline scenario, energy and commodity prices are expected to only return to their pre-conflict levels from the second half of FY27 on. El Niño is expected to weigh on agricultural output, with gradual recovery in crop output, while livestock growth remains broadly in line with the recent trend. The baseline does not incorporate possible El Niño outcomes such as a severe drought or other extreme weather events. Macroeconomic policies are expected to remain appropriate, with no additional major structural reforms, but more limited fiscal loosening through the 2029 general election than has been observed during previous election periods.

Sectoral Outlook

Baseline growth in FY27 is expected to reach 3.8 percent, slightly higher than in FY26. Livestock will remain the key driver of agricultural growth, while elevated fertilizer prices during the Rabi season and unfavorable El Niño weather conditions will weigh on crop output (Box 4). Industry is expected to strengthen marginally, led by manufacturing and construction, which benefits from the lower property taxes introduced in the FY27 budget. Services growth is expected to remain broadly unchanged from FY26, as the slow agricultural recovery and elevated inflation cap the momentum in the recovery of wholesale and retail trade.

Over the medium term, growth is expected to strengthen gradually as commodity prices normalize and inflation eases. Real GDP growth is expected to reach around 4.5 percent by FY31, as agriculture input costs ease, particularly for fertilizer. Industry continues to strengthen as manufacturing and construction sustain their recovery. Services remain the largest contributor to growth, as slowing inflation benefits household purchasing power and stronger growth in the commodity-producing sectors lifts demand further. ICT services' contribution to growth also strengthens, although from a low base.

Inflation is projected to remain elevated in FY27 amid high commodity prices. Headline inflation is projected to rise from 7.1 percent in FY26 to around 8.2 percent in FY27. Global commodity prices are expected to remain persistently high through the end of 2026, following the re-escalation of the conflict in the Middle East.[25] Elevated energy prices are expected to feed through to transport costs and core inflation through the first half of FY27. Domestic food price pressures from wheat and perishables are expected to keep food inflation elevated, compounded by the risk of El Niño-related disruptions to agricultural output.[26] Favorable base effects in Q4 FY27, moderate domestic demand under continued fiscal consolidation, and improved wheat availability are expected to lower inflation gradually over the course of the fiscal year.

[25] The projection also assumes continued full pass-through of international oil and gas prices to domestic consumers.
[26] Meteorological assessments indicate a high probability that El Niño conditions will strengthen through end-2026 and persist into early 2027, with potential adverse effects on Kharif and Rabi crop output, food prices, and food imports. Source: U.S. National Oceanic and Atmospheric Administration Climate Prediction Center, as cited in: SBP (August 2026) *Monetary Policy Report: Navigating Uncertainty*.

Inflation is expected to ease in the outer years. It is expected to fall to 7.0 percent in FY28 as commodity price pressures subside, before rising to 7.5 percent in FY29 in the lead-up to the 2029 general election. By FY30, inflation is projected to stabilize at around 7.0 percent.

Table 3: Pakistan Macroeconomic Outlook FY23 to FY31

(annual percent change unless indicated otherwise)

	FY23	FY24	FY25	FY26e	FY27f	FY28f	FY29f	FY30f	FY31f
Real GDP Growth, at factor cost	-0.2	2.6	3.2	3.7	3.8	4.2	4.4	4.5	4.5
Agriculture	2.2	6.4	1.5	2.9	3.3	3.5	3.7	3.6	3.6
Industry	-3.9	-1.0	5.6	3.5	4.3	4.7	5.0	5.3	5.4
Services	0.0	2.3	3.1	4.1	3.9	4.3	4.5	4.6	4.6
Inflation (CPI)	29.2	23.4	4.5	7.1	8.2	7.0	7.5	7.0	7.0
In percent of GDP									
Current Account Balance	-1.0	-0.6	0.5	-0.1	-0.8	-1.0	-1.5	-1.4	-1.2
Financial and Capital Account Balance	0.0	1.5	0.4	0.3	1.7	1.5	2.2	1.4	0.7
Fiscal Balance (excl. grants)	-7.8	-6.8	-5.4	-2.6	-3.5	-4.0	-4.5	-4.4	-4.3
Debt	81.8	73.0	76.3	72.9	69.6	67.9	65.1	64.1	63.1
Primary Balance (excl. grants)	-1.0	0.9	2.4	2.9	2.0	1.4	0.7	0.6	0.6

Sources: Pakistan Bureau of Statistics, SBP, World Bank Group staff calculations.
Note: e=estimate; f=forecast.

The current account deficit is projected to widen in FY27 as recovering demand keeps imports growing faster than exports, but remittances will remain a key offset. Merchandise exports are expected to recover only modestly with improving industrial activity, while ICT services exports continue to expand. Imports are projected to remain elevated as growth picks up. Workers' remittances are expected to remain strong and to finance most of the trade deficit and keep the current account deficit below 1 percent of GDP.

Official financing and renewed market access are expected to keep the financial account in surplus, with upside potential from investment inflows. Pakistan's return to international bond markets broadens financing options. The outlook would improve if remittances and services exports outperform, if energy prices decline, or if announced investment projects, including in mining and energy, translate more quickly into actual inflows.

Revenue growth is projected to moderate, as lower SBP profit transfers and limited new tax policy measures constrain further increases. Lower projected transfers of surplus profits from the SBP are expected to reduce non-tax revenues from 3.1 percent of GDP in FY26 to 2.7 percent in FY27, while the absence of major revenue-enhancing tax policy measures in FY27 is likely to limit further increases in the tax-to-GDP ratio. Although ongoing administrative reforms and improvements in compliance should support tax collection, these gains are expected to be

smaller than those achieved in FY24–25. FBR tax collection is projected to stay at 10.3 percent of GDP over the medium term.

Government expenditure is projected to rise moderately from FY26 on account of current and development spending. Non-interest current expenditure is expected to increase in FY27 with projected increases in defense and grants to others,[27] while development spending recovers from FY28 to support economic growth and service delivery, reflecting historical expenditure patterns associated with the electoral cycle. Interest payments are projected to remain at 5.5 percent of GDP, reflecting lower borrowing costs and a moderation in debt-servicing pressures.

The overall fiscal deficit is projected to widen over the medium term but to remain well within sustainable thresholds. The primary surplus is projected to decline from 2.9 percent of GDP in FY26 to 2.0 percent in FY27 and 1.4 percent in FY28 as expenditure growth outpaces revenue gains. The fiscal deficit is projected to widen moderately from 2.6 percent of GDP in FY26 to 3.5 percent in FY27 and 4.0 percent in FY28.

3.2. Risks

A more prolonged and intense conflict in the Middle East remains the most significant risk to Pakistan's near-term macroeconomic outlook. A longer or deeper conflict would sustain elevated energy prices and increase Pakistan's import bill while weighing on export demand and disrupting trade routes. These effects could widen the current account deficit and add pressure to reserves. Intensified domestic demand-management measures to contain energy shortages could deepen the drag on domestic activity, while sustained higher input costs would renew pressure on inflation and household purchasing power.

Pakistan's external financing needs remain elevated, exposing the country to refinancing risk in the context of shifts in market and creditor sentiment. External financing needs are estimated to average around 5 percent of GDP over the near term, reflecting the continued reliance on external debt rollovers and remittance-financed current account deficits. Tighter global financial conditions could raise borrowing costs and reduce capital flows to emerging markets, complicating the rollover of this financing at a critical juncture.

A stronger-than-expected El Niño poses an additional risk to agriculture, with knock-on effects on other sectors (Box 4). An extreme event could lower FY27 growth, with zero crop output growth reducing overall real GDP growth by 0.2 percentage points to 3.6 percent. Negative crop growth would lower overall real GDP growth even further, depending on the size of the shock. Current external buffers remain sufficient to absorb the additional import needs such a shock would generate without a significant drawdown of reserves.

Box 4: El Niño

El Niño is expected to peak strongly around November to December 2026 and persist into 2027, with some assessments pointing to one of the strongest events in history.

[27] Grants to others comprise federal transfers to social protection programs, autonomous bodies, public institutions, and other entities. Major FY27 allocations include the Benazir Income Support Programme.

Peak conditions coincide with Pakistan's transition from the Kharif to the Rabi season, exposing both the current harvest and the coming sowing season. Nationally, El Niño is expected to drive below-average rainfall and elevated temperatures overall, alongside potential episodes of more isolated regional flooding, though the 2026 monsoon brought close-to-normal rainfall to Punjab, the country's main agricultural province.

Kharif season crops, particularly cotton, remain exposed to adverse weather and pest-related risks during the harvest period, which continues into the final months of the year. Rabi season wheat, which accounts for roughly half of the value added of important crops, faces risk from delayed sowing and heat that would affect grain-fill in spring 2027, since a delayed Kharif harvest in rotation districts would push wheat sowing past its optimal late-October to November window. Lower fertilizer use could compound any weather-related effect on yields. The impact on reported GDP may nonetheless be understated, since livestock, which accounts for 62 percent of agricultural output, is expected to cushion any impact on crops. This reflects how livestock value added is measured: it relies on estimates rather than more granular accounts, and fodder is an intermediate input to the sector, so any negative shock to crops or fodder would mechanically increase livestock value added by reducing intermediate inputs.

Lower agricultural output and higher prices would spill over into industry and services. Textile production, the largest component of LSM, would face higher input costs from pricier cotton, both domestic and imported. In services, wholesale and retail trade would be squeezed by weaker rural incomes and higher inflation, a dynamic already reflected in the baseline given the conflict in the Middle East. Transportation and storage would see reduced volumes of agricultural goods moving through the system.

This agricultural supply shock would raise inflation through both domestic and international prices, hitting the poor hardest. Food accounts for 33 percent of the CPI, so even a modest food price increase would add substantially to headline inflation. The impact would be particularly significant for poor households, which spend nearly half of their consumption expenditure on food. Rural households would face an additional hit from lower agricultural incomes as crop yields weaken.

The external balance could worsen due to lower export volumes and higher import costs. Food exports, particularly rice, account for around 15 percent of total goods exports and would likely fall in line with lower crop output. The domestic production shortfall could require additional imports of food items, which would need to be purchased at higher international prices. While these dynamics would worsen the trade balance, buffers are currently sufficient to cover the additional foreign exchange needed without a significant drawdown of reserves.

Gross financing needs remain above 15 percent of GDP on average, exposing Pakistan to significant refinancing risk even in the absence of shocks. Sensitivity analysis indicates that either a 1 percent of GDP revenue shortfall or a 1 percent of GDP expenditure overrun would reduce fiscal space and slow the pace of fiscal consolidation but would not fundamentally alter debt dynamics. Under either scenario, the primary balance remains in surplus through FY29, and public debt continues to decline as a share of GDP, although around 4 percent of GDP above the

baseline path. However, a combined shock consisting of both a 1 percent of GDP revenue shortfall and a 1 percent of GDP expenditure overrun would largely eliminate the projected fiscal buffer, pushing the primary balance into a deficit of around 0.3 percent of GDP by FY28 and causing public debt to stabilize at approximately 71 percent of GDP over the medium term.

3.3. Reform Imperative – Attaining Escape Velocity

Under the baseline scenario, macroeconomic stability is maintained but with only moderate growth and high risks. Under baseline assumptions, Pakistan's medium-term growth rate would stabilize at around 4.5 percent, with real per capita GDP growing by only around 2.9 percent per year on average.[28] With growth at this pace, Pakistan would fall further behind regional and structural peers and not reach upper-middle-income status even by 2050. Public debt remains high, with substantial annual financing needs, while the external position remains heavily reliant on record remittance inflows.

With the right policies, much faster growth is possible. With constrained fiscal space and limited external buffers, attempts to drive growth solely through expansionary fiscal or monetary policies cannot deliver sustainable results, and risk pushing Pakistan back into another cycle of macroeconomic crises. The right combination of structural and institutional reforms, however, could allow Pakistan to escape this cycle, driving major improvements in productivity, competitiveness, exports, output, and sustainable job creation, and reconciling economic growth with macroeconomic stability.

Recent analytical work has quantified the relationship between the quality of policies and institutions and economic growth.[29] Based on econometric analysis across 50 countries, this work quantifies how improvements in policies and institutions (as measured by benchmark global indices) drive faster growth through increased capital investment, labor supply, and productivity.[30] This analysis shows that Pakistan's growth rate could increase substantially if it were to improve the quality of its policies and institutions to the quality of the average upper-middle-income country. This would require a broad range of institutional and policy improvements across the business enabling environment, labor market regulation, and trade openness.

The analysis produces the following results over the period to 2050:

- **Closing 50 percent of the gap in the quality of policies and institutions between Pakistan and the average upper-middle-income country over five years would be associated with a 2.4 percentage point increase in average growth (Figure 8).** Real GDP growth would rise from 4.5 to 6.9 percent, which would push per capita growth from 2.9 to 5.2 percent, assuming baseline population growth. If Pakistan were to sustain this growth rate, it would

[28] Based on United Nations World Population Prospects (2024) projections of around 1.6 percent average annual population growth in the longer term.
[29] For example, Rovo (2020) "Structural Reforms to Set the Growth Ambition."
[30] The growth dividend is derived from a supply-side model that uses cross-country panel regression to estimate elasticities of labor, capital, and productivity with structural reform indicators, including World Bank Worldwide Governance Indicators, World Development Indicators, and Fraser Institute data regarding the quality of business regulations, labor market regulations, and trade openness. The resulting growth dividends should be interpreted as associations, not forecasts.

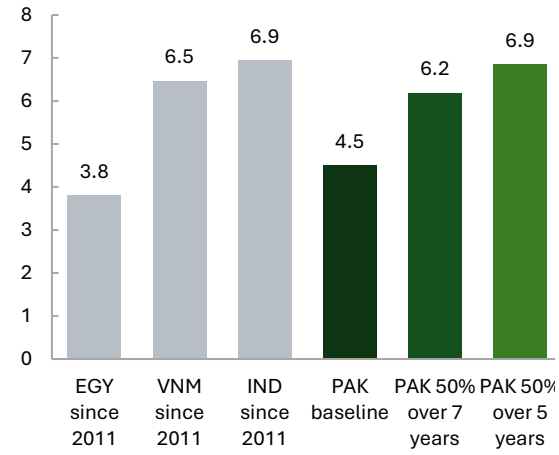
surpass India's current per capita GDP by 2035 and reach the current level of the Arab Republic of Egypt and Viet Nam by 2045 (Figure 9).

- **Closing 50 percent of the gap in the quality of policies and institutions between Pakistan and the average upper-middle-income country over seven years would be associated with a 1.7 percentage point increase in average growth.** Real GDP growth would rise from 4.5 to 6.2 percent, which would push per capita growth from 2.9 to 4.5 percent, assuming baseline population growth. If Pakistan were to sustain this growth rate, it would surpass India's current per capita GDP by about 2036 and would reach the current level of Egypt and Viet Nam by around 2048.

Such a reform path is ambitious but achievable. Reforms to close the existing institutional and policy gap with the average upper-middle-income country would need to be ambitious and expansive. Improvements would need to encompass: (i) specific technical reforms (business regulatory environment, access to finance, trade tariff reforms, energy sector reforms); (ii) system-wide reforms to support human capital improvements (in health and education); and (iii) broader governance reforms to enhance overall government effectiveness (strong political leadership, accountability, and coordination). Many countries, however, have achieved sustained periods of high growth following ambitious productivity-enhancing reforms. India and Viet Nam have achieved average annual real GDP growth of 6.3 to 6.9 percent since 2011 (excluding 2020), compared to 3.8 percent for Pakistan.

Figure 8: Real GDP Growth Comparison by Scenario

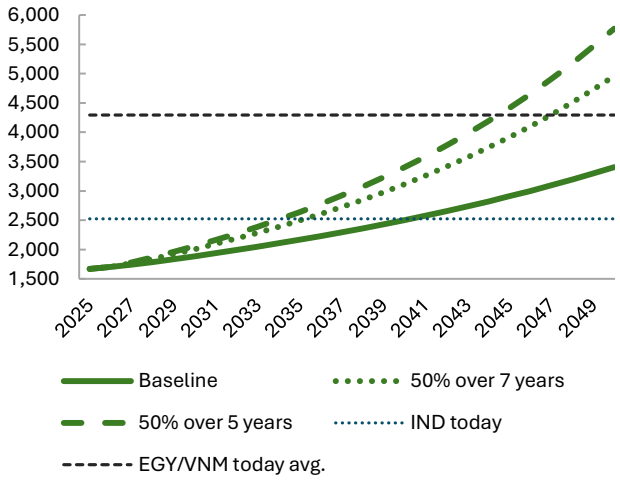
(percent)



Source: World Development Indicators, World Bank Group staff calculations.
Note: EGY=Egypt; VNM=Viet Nam; IND=India; PAK=Pakistan.

Figure 9: Real GDP per Capita by Scenario

(constant 2015 US$)



Source: World Development Indicators, World Bank Group staff calculations.
Note: EGY=Egypt; VNM=Viet Nam; IND=India.

3.4. Policy Recommendations

Maintaining macroeconomic stability is a precondition for sustaining growth. Pakistan has restored macroeconomic stability through sustained fiscal consolidation, appropriate monetary policy, and depreciation. Preserving the current fiscal stance, continuing to build reserve buffers, and avoiding a return to inefficient energy subsidies are critical for the management of risk and

gradual restoration of confidence. With the current IMF EFF program ending in September 2027, and national elections scheduled for early 2029, developing, publishing, and effectively implementing a medium-term fiscal plan consistent with medium-term debt sustainability is critical to maintaining confidence.

With recent hard-won gains, the macroeconomic foundations are in place from which Pakistan can now move toward much faster sustainable growth. A broad range of structural reforms should be progressed to move Pakistan to a sustainably higher growth trajectory and escape the historical boom-bust cycle. Table 4 presents an initial program of specific, immediately implementable economic reforms that would put Pakistan on a pathway to achieving per capita incomes of countries currently at the upper-middle-income threshold by 2050.

Table 4: Recommended Structural Reforms

1. 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.

2. 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; strengthen trade facilitation; and enhance trade finance	• Implement year-three actions of the National Tariff Policy through the upcoming annual budget. • Fully operationalize the EXIM Bank through the design of market-based export finance and guarantee products and capitalization under the annual budget, seeking development partner support as needed. • Upgrade the customs risk management framework for faster, more predictable customs processing. • Upgrade standards and accreditation systems and further develop national quality infrastructure.

3. 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 Pakistan Business Portal and reduce the regulatory complexity faced by firms through lower numbers of required approvals. • 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. • Unlock receivables-based finance for small and medium enterprises through dedicated factoring legislation and enabling regulations, building on the secured transactions registry to increase credit to firms against receivables.
Develop the domestic bond and capital market	• Improve the predictability and liquidity of the government securities market through consistent auction allocations against announced targets, a published benchmark policy, and stronger primary dealer incentives, supported by a better-resourced Debt Management Office. • Broaden the domestic investor base for longer-term securities by lowering ceilings on subsidized National Savings products, expanding retail access, and developing the pension and insurance sectors.

4. Domestic Revenue Mobilization Reforms

Fragmented tax policy function, large exemptions, multiple property valuations at the federal and provincial levels, uneven progress on digitized land records across provinces, 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 harmonize the GST and implement a single portal for Goods and Sales Tax on Services. • Fully implement the recently revised agricultural income tax 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, conduct ex-ante cost assessments for new exemptions, evaluate past exemptions, and institute sunset clauses.

5. Public Sector Reforms

Incomplete implementation of fiscal federalism reforms has led to duplication and misalignment of resources between federal and provincial governments. The federal government continues to spend on provincial mandates, while provincial spending is misaligned with service delivery needs. Public sector benefits and pensions impose an unsustainable fiscal cost.

Reform	Description
Demonstrate reform commitment through public sector austerity measures	• Leverage the National Finance Commission Award to address vertical imbalances; move toward stronger incentives for the delivery of national public goods; and strengthen the role and resourcing of local government. • 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.

6. Human Capital Reforms

Weaknesses in fiscal systems contribute to basic service constraints, holding back human capital development and labor force productivity.

Reform	Description
Strengthen coordination, efficiency, and effectiveness in basic services	• Address core public finance constraints in public services, including through needs-based resource allocation, performance standards, and strategic purchasing for private and parastatal providers. • Adequately resource basic services at the provincial level. • Mobilize private investment in health, education, and sanitation.

7. Labor Market and Skills Reforms

An inadequate qualifications framework, limited labor market information, and mismatch between skill supply and demand weaken labor force productivity.

Reform	Description
Enhance qualification standards and labor market information	• Develop new internationally recognized qualifications frameworks for priority industries. • Establish a credible labor market information system to better align skills supply and demand.
Enhance overseas employment pathways	• Simplify overseas employment clearance processes. • Pursue international agreements to facilitate labor mobility.

8. Energy Sector Reforms

Structurally high energy costs constrain investment and competitiveness, while subsidies continue to impose a substantial fiscal burden.

Reform	Description
Ensure fiscal sustainability	• Maintain energy price pass-through to protect fiscal sustainability and reduce fiscal risks. • Maintain progress with energy tariff reforms, including shifting from consumption-based to needs-based residential subsidies.
Address structural constraints	• Pursue private participation in the distribution and transmission sectors. • Address cross-subsidization and circular debt accumulation in the gas sector. • Shift the energy generation mix toward lower-cost renewable generation over time.

Box 5: Job Opportunities and AI in Pakistan

Recent advances in artificial intelligence represent both risks and important opportunities for Pakistan. An assessment of AI exposure and complementarities across the labor market shows where these lie.

Pakistan's aggregate occupational AI exposure is broadly aligned with the average for emerging market and developing economies (Figure B5.1). For 2024, Pakistan's average occupational exposure score stood 0.48 standard deviations below the median occupation, placing Pakistan between the relatively low exposure observed in Sub-Saharan Africa and South Asia and the higher levels seen in Eastern Europe and Latin America.

Figure B5.1: AI Exposure in Pakistan and Comparator Regions

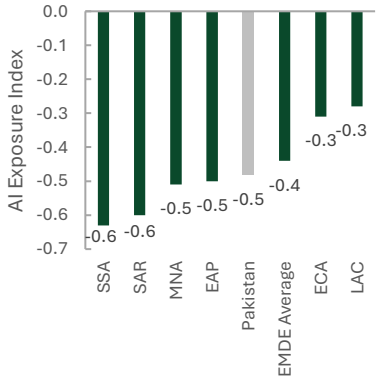


Figure B5.2: Share of Workers in High- and Low-Exposure Occupations, by Sector

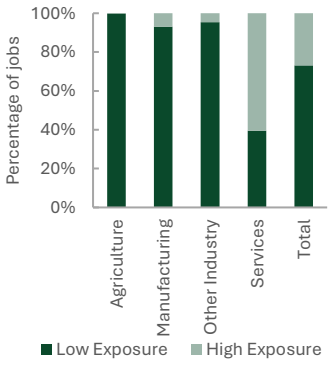
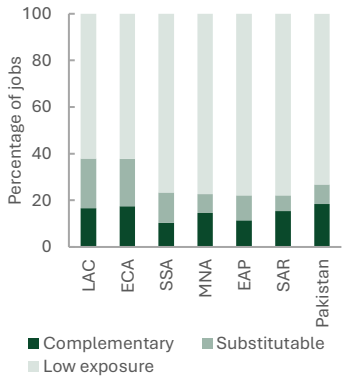


Figure B5.3: Employment by Type of AI Exposure



Sources: World Bank Group staff calculations using the AI exposure index developed by Felten, Raj, and Seamans (2021) and the Pakistan Bureau of Statistics Labour Force Survey (2024). Comparator regional estimates are taken from South Asia Development Update 2025, Chapter 2 (World Bank 2025).

Note: EAP=East Asia and Pacific; ECA=Europe and Central Asia; LAC=Latin America and the Caribbean; MNA=Middle East and North Africa; SAR=South Asia; SSA=Sub-Saharan Africa; EMDE=Emerging Market and Developing Economies.

AI exposure is concentrated overwhelmingly in the service sector, where 61 percent of workers are employed in occupations with above-median AI exposure (Figure B5.2). In comparison, only 7 percent of workers in manufacturing, 5 percent in other industrial sectors, and less than 1 percent in agriculture were employed in above-median AI exposure occupations, highlighting the uneven potential impact of AI across the economy. Subsectors within services with more than 80 percent of high-exposure workers include wholesale and retail trade, financial and insurance activities, real estate activities, and education.

A complementarity-adjusted analysis points to worker augmentation and productivity enhancement, rather than large-scale labor substitution, as the more likely near-term

effect of AI in Pakistan (Figure B5.3).[31] In 2024, 18 percent of employed workers in Pakistan were in occupations characterized by both high AI exposure and high human-AI complementarity, while only 8 percent were in highly exposed occupations with low complementarity, and therefore greater potential for substitution by AI. These findings indicate that occupations with strong potential for worker augmentation substantially outnumber those with greater potential for substitution.

Highly exposed sectors differ not only in the extent of AI exposure but also in how workers are likely to be affected. Real estate and education are characterized primarily by complementary exposure, suggesting greater scope for AI-assisted productivity gains. In contrast, information and communication, financial services, and accommodation and food services contain relatively larger shares of workers in occupations with greater potential for task substitution.

The economy-wide significance of AI exposure depends not only on exposure levels within sectors but also on their share of total employment (Figure B5.4). While sectors such as real estate and financial services exhibit high levels of AI exposure, they account for a relatively small share of employment. In contrast, wholesale and retail trade combines high exposure with a large employment share, making it the single most important channel through which AI could affect Pakistan's labor market. The sector accounts for roughly half of both complementary and potentially substitutable jobs (Figures B5.5 and B5.6). Agriculture is overwhelmingly concentrated in low-exposure occupations, limiting the direct near-term impact of AI on much of the workforce.

Figure B5.4: Sectoral Distribution of Employment by AI Exposure and Complementarity

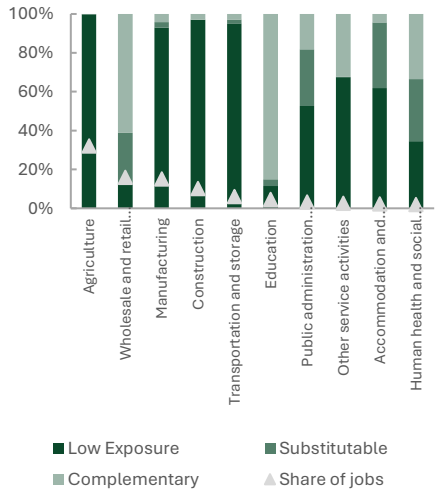


Figure B5.5: Distribution of Complementary Jobs across Sectors

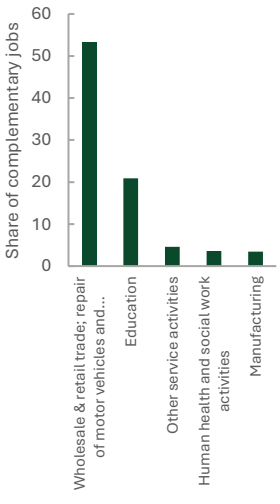
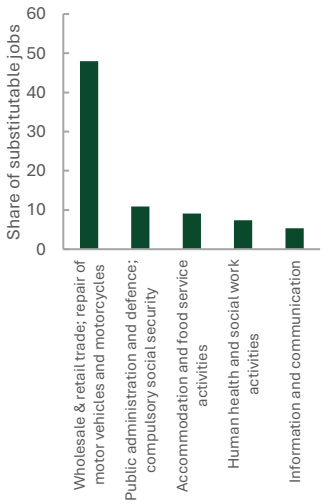


Figure B5.6: Distribution of Substitutable Jobs across Sectors



Source: World Bank Group staff calculations using the AI exposure index developed by Felten, Raj, and Seamans (2021) and the Pakistan Bureau of Statistics Labour Force Survey (2024).

[31] Occupations are classified as complementary when they combine above-median AI exposure with above-median human-AI complementarity, and as substitutable when they have above-median exposure but below-median complementarity.

Pakistan's opportunity from AI lies in raising worker productivity rather than replacing labor. Pakistan scores 0.37 on the IMF AI Preparedness Index, below the average for emerging market and developing economies (0.46), Latin America and the Caribbean (0.43), and the Middle East and Central Asia (0.40), though above the average for low-income countries (0.32).[32] The substantial gap with advanced economies (0.68) suggests that constraints related to digital infrastructure, skills, and institutional readiness could limit the pace at which AI-related productivity gains are realized. Realizing these gains will require strengthening the conditions that enable productive AI use, including reliable digital infrastructure, affordable connectivity, enhanced economic integration and innovation, the digital and analytical skills needed to effectively use AI tools, and wider access to AI applications adapted to local languages and deployed through digital public services.

[32] Cazzaniga et al. (2024) "Gen-AI: Artificial Intelligence and the Future of Work."

04

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05

Annexes

Annex 1: Pakistan's Balance of Payments

Table A1.1: Balance of Payments Summary

(US$ million unless mentioned otherwise)

	FY22	FY23	FY24	FY25	FY26	FY25 % of GDP	FY26 % of GDP
i. Current Account (A+B+C+D)	-17,481	-3,275	-2,072	1,838	-304	0.5	-0.1
A. Goods trade balance	-39,050	-24,819	-22,177	-26,803	-33,650	-6.6	-7.4
Goods exports	32,493	27,876	30,980	32,343	30,821	7.9	6.8
Goods imports	71,543	52,695	53,157	59,146	64,471	14.5	14.2
B. Services trade balance	-5,840	-1,042	-3,110	-2,836	-1,999	-0.7	-0.4
Services exports	7,102	7,596	7,691	8,450	10,020	2.1	2.2
Services imports	12,942	8,638	10,801	11,286	12,019	2.8	2.7
Trade Balance	-44,890	-25,861	-25,287	-29,639	-35,649	-7.3	-7.9
C. Balance on primary income[1]	-5,248	-5,765	-8,986	-8,838	-8,456	-2.2	-1.9
D. Balance on secondary income[1]	32,657	28,351	32,201	40,315	43,801	9.9	9.7
of which, remittances	31,279	27,333	30,251	38,300	41,585	9.4	9.2
ii. Capital Account	205	375	195	168	131	0.0	0.0
1. Balance from current and capital accounts (i+ii)[2]	-17,276	-2,900	-1,877	2,006	-173	0.5	0.0
2. Financial account[3]	-11,261	468	-5,369	-1,585	-1,442	-0.4	-0.3
of which:							
Direct investment	-1,702	-670	-2,126	-2,462	-1,335	-0.6	-0.3
Portfolio investment	55	1,012	377	720	1,177	0.2	0.3
3. Errors and omissions	-303	-850	-630	153	565	0.0	0.1
Overall balance (-1+2-3)	6,318	4,218	-2,862	-3,744	-1,834	-0.9	-0.4
Gross SBP reserves (incl. CRR, SCRR)[4]	11,090	5,669	10,627	15,836	19,689	3.9	4.4
Memorandum items							
GDP (US$, million)	374,890	336,686	371,923	408,137	452,523	-	-

Exports of goods and services growth (percent, y-o-y)	25.4	-10.4	9.0	5.5	0.1	-	-
Imports of goods and services growth (percent, y-o-y)	34.7	-27.4	4.3	10.1	8.6	-	-
Remittance growth (percent y-o-y)	6.2	-12.6	10.7	26.6	8.6	-	-

Source: SBP, World Bank Group 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)

	FY23	FY24	FY25	FY26	FY25 % of GDP	FY26 % of GDP	Change in % of GDP
Total revenue	**9,668**	**13,300**	**18,021**	**19,797**	**15.8**	**15.6**	**-0.2**
Tax revenue	**8,441**	**11,163**	**14,017**	**15,880**	**12.3**	**12.5**	**0.2**
Federal	7,169	9,311	11,744	13,010	10.3	10.3	0.0
Provincial	650	774	979	1,209	0.9	1.0	0.1
Non-tax revenue	**1,193**	**2,106**	**3,981**	**3,894**	**3.5**	**3.1**	**-0.4**
Total expenditure	**16,155**	**20,476**	**24,166**	**23,087**	**21.2**	**18.2**	**-3.0**
Current expenditure	14,448	18,571	21,529	20,686	18.9	16.3	-2.6
of which:							
Interest payments	5,696	8,160	8,887	6,948	7.8	5.5	-2.3
Defense	1,586	1,859	2,194	2,588	1.9	2.0	0.1
Subsidies	1,080	1,067	1,298	1,014	1.1	0.8	-0.3
Development expenditure and net lending	**1,953**	**2,078**	**2,966**	**3,254**	**2.6**	**2.6**	**0.0**
of which:							
PSDP	1,893	2,027	2,983	3,428	2.6	2.7	0.0
Statistical discrepancy	-246	-173	-329	-853	-0.3	-0.7	-0.4
Fiscal balance (excl. grants)	**-6,521**	**-7,207**	**-6,168**	**-3,313**	**-5.4**	**-2.6**	**2.8**
Primary balance (excl. grants)	**-826**	953	**2,719**	**3,634**	**2.4**	**2.9**	**0.5**
Public debt (including guaranteed debt)	**68,422**	**76,838**	**86,963**	**92,479**	**76.3**	**72.9**	**-3.4**
Domestic debt	40,431	48,619	56,685	61,835	**49.7**	**48.7**	**-1.0**
External debt	27,990	28,219	30,278	30,644	**26.6**	**24.2**	**-2.4**
Guaranteed debt	**3,520**	**3,387**	**4,265**	**4,440**	**3.7**	**3.5**	**-0.2**
Memorandum items							
GDP	83,651	105,290	114,039	126,870	-	-	-

Source: Ministry of Finance, World Bank Group staff calculations.

Annex 3: Data and Methodology of Mapping AI Exposure

- Estimates are based on the 2024 Pakistan Labour Force Survey merged with occupation-level AI exposure and human-AI complementarity measures using four-digit International Standard Classification of Occupations (ISCO-08) codes.
- AI exposure: Occupational AI exposure is measured using occupation-level exposure indices developed by Felten, Raj, and Seamans (2021) and mapped to workers through ISCO-08 occupations. Exposure scores are standardized across occupations, and occupations are classified as high exposure if their composite exposure score exceeds the median occupational exposure level and low exposure otherwise.
- Human-AI complementarity: Occupational complementarity is measured using the framework developed by Pizzinelli et al. (2023). The complementarity index is constructed from O*NET work-context indicators capturing dimensions such as communication, responsibility, criticality, physical work conditions, routine intensity, and skills requirements. Occupations with both above-median AI exposure and above-median complementarity are classified as complementary, while occupations with above-median AI exposure but below-median complementarity are classified as substitutable.
- AI readiness: Cross-country comparisons of AI preparedness are based on the IMF Artificial Intelligence Preparedness Index. The index assesses countries' readiness to adopt and benefit from AI across four dimensions: digital infrastructure, human capital and labor market policies, innovation and economic integration, and regulation and ethics. Scores range from 0 to 1, with higher values indicating greater preparedness to adopt and effectively leverage AI technologies.