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PAKISTAN

DEVELOPMENT UPDATE

Reimagining a Digital Pakistan

APRIL 2025

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Reimagining a Digital Pakistan

April 2025

Preface

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

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List of Abbreviations and Acronyms

ADR	Advances-to-Deposits Ratio
BISP	Benazir Income Support Programme
BOP	Balance of Payments
CAR	Capital Adequacy Ratio
CNIC	Computerized National Identity Card
CPI	Consumer Price Index
DPI	Digital Public Infrastructure
EFF	Extended Fund Facility
FDI	Foreign Direct Investment
FTTH	Fiber-to-the-Home
FY	Fiscal Year
G2P	Government-to-Person
GDP	Gross Domestic Product
GNI	Gross National Income
GSMA	Global System for Mobile Communications Association
GST	General Sales Tax
HIES	Household Integrated Economic Survey
ICT	Information and Communication Technology
ID	Identification
IMF	International Monetary Fund
ISP	Internet Service Provider
NADRA	National Database and Registration Authority
NEET	Not in Education, Employment, or Training
P2G	Person-to-Government
P2P	Person-to-Person
PDL	Petroleum Development Levy
PDU	Pakistan Development Update
PKR/Rs	Pakistani Rupee
PSDP	Public Sector Development Programme
RAAST	Real-time Automated and Secured Transfer
RoW	Right-of-Way
SBA	Stand-By Arrangement
SBP	State Bank of Pakistan
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
US$/USD	United States Dollar
Y-o-Y	Year-on-Year

1. Executive Summary

Pakistan's economy continues to stabilize with easing inflation, improving financial conditions, and current account and primary fiscal surpluses

Amid a severe economic crisis, at the start of fiscal year (FY) 2024, Pakistan undertook decisive measures to prevent a sovereign default, stabilize the currency, and curb inflation. An International Monetary Fund (IMF) Stand-By Arrangement (SBA) helped to bridge financing gaps and restore confidence, allowing for the easing of import controls. However, fiscal consolidation measures, high interest rates, double-digit inflation, and supply chain disruptions weighed on economic activity, leading to declining real labor incomes and stagnating poverty.

The IMF Executive Board approved a new 37-month Extended Fund Facility (EFF) program in September 2024 to address longer-term constraints to stability and growth. The IMF program remains on track, and the economy has continued to stabilize. Headline inflation remains on a downward trajectory and the exchange rate remains stable. Continued slowing inflation has allowed for reductions in the policy interest rate, which is supporting confidence and helping to moderate increases in domestic debt servicing costs. The external position also remains favorable with a surge in remittances and stable external inflows. Government fiscal consolidation efforts have contributed to continued improvement of the fiscal position. Weak growth, however, has carried over into H1 FY25 with muted outturns across the agriculture, industry, and services sectors.

Structural reforms to address key constraints are required to sustain growth and spur a return to declining poverty rates

Pakistan's key challenge is to maintain macroeconomic stability and transform recent stabilization efforts into sustainable economic growth sufficient enough to reduce poverty from current high levels (around 25.6 percent using the national poverty line). This will require reforms to make the tax system more equitable, enhance the effectiveness of public spending, resolve the accumulated circular debt in the energy sector, reduce the large role of the state in the economy, lower trade barriers that hinder exports, improve the regulatory and business environment, and invest in human capital development. The Government has launched several initiatives to tackle these issues, including commitments to continued fiscal consolidation under the new IMF program, planned privatizations of state-owned enterprises (SOEs), reforms of power distribution companies, and an accelerated business regulatory reform agenda. In December 2024, the Government launched URAAN Pakistan—a five-year economic blueprint following closely the policies outlined in Prime Minister's Economic Transformation Agenda and Implementation Plan.

Implementing these reforms steadily is critical to improving confidence in the economy. Decisive measures should focus on: (i) prioritizing an equitable, efficient, and sustainable tax system by broadening the tax base and improving tax administration (ii) ensuring a well-functioning interbank foreign exchange market where the market-determined exchange rate accurately reflects underlying demand and supply conditions; (iii) significantly and credibly reducing trade restrictions over a consistent time-stamped period; (iv) improving the business environment with specific checkpoints; and (v) streamlining the public sector to signal reform intent and support short-term improvements in confidence and investment (see Box 3.1 for a discussion of possible short-term reforms to spur growth). Pakistan will need to implement reforms while navigating elevated risks, including those associated with an uncertain geo-economic environment, rising global trade tariffs, limited foreign exchange reserves, heavy exposure to climate change and natural disasters, and high domestic and external financing needs.

Economic activity remained muted in H1 FY25…

Real GDP at factor cost rose by 1.5 percent y-o-y in H1 FY25 (July-December 2024), slower than the 2.1 percent expansion in H1 FY24. Agriculture posted a low growth of 0.9 percent due to drought-like conditions, pest infestations, and high base effects.

Industry contracted by 0.4 percent, driven by high input costs, increased taxes, and lower government development spending. Services grew by a modest 2.4 percent, weighed down by weak agricultural and industrial spillovers.

…and growth was insufficient to reduce poverty

As a result of the muted economic growth, the poverty headcount is expected to remain nearly unchanged relative to the previous year at 25.6 percent in FY25.[1] Key sectors for the poor—agriculture, construction, and low-value added services—experienced low or negative growth, causing stagnant real wages. Combined with population growth of around 2 percent, this is expected to push approximately 1.9 million more individuals into poverty. The employment-to-population ratio at 49.7 percent, reflects low labor market engagement, particularly among youth and women. Meanwhile, social protection expenditures have not kept pace with inflation, constraining resources available to the poor for food, health, education, and other critical items, with negative implications for human capital and labor productivity.

The current account was in surplus in H1 FY25 as remittances surged

The current account posted a surplus of 0.6 percent of GDP in H1 FY25, reversing a 0.8 percent deficit in H1 FY24. Higher remittances more than offset wider trade and primary income deficits. Despite lower commodity prices, import growth outpaced export growth, reflecting base effects, rising domestic demand, and relaxed import controls. Investment also surged, increasing demand for imported machinery in power, textiles, and mining. Remittances rose 32.8 percent y-o-y as exchange rate stability redirected flows through formal channels. With lower external inflows and higher debt repayments, the balance of payments surplus narrowed to 0.9 percent of GDP, while gross reserves grew to US$12.9 billion at end-December 2024.

Inflationary pressures continued to abate

Headline inflation eased to an average of 7.2 percent y-o-y in H1 FY25 from 28.8 percent in H1 FY24. Food inflation declined due to adequate supply and lower global prices, while energy inflation fell with stabilizing electricity tariffs. Core inflation, though still high, moderated as transportation and production costs dropped. With slowing inflation, the monetary policy rate was reduced to 12.0 percent in January 2025 (from a high of 20.5 percent in July 2024) with real interest rates remaining positive. Inflation outpaced income growth, especially for the vulnerable, eroding purchasing power and hindering poverty reduction.

With revenue growth outpacing expenditures, the primary account registered a surplus

The overall fiscal deficit narrowed to 2.8 percent of GDP in H1 FY25, from 4.7 percent in H1 FY24, as revenues outgrew expenditures. Total revenue and tax revenues rose to 18.0 and 12.3 percent of GDP, respectively, following policy changes (increased taxes on industry, higher excise tax rates, and reduced General Sales Tax (GST) exemptions) and improved collections. A substantial one-off profit transfer from the State Bank of Pakistan (SBP) boosted non-tax revenue. Total expenditures rose to 20.8 percent of GDP in H1 FY25 primarily due to higher interest payments. Fiscal consolidation limited development spending, with especially negative impacts for the construction industry that employs 17 percent of the poor in daily wage jobs. Consequently, the primary fiscal surplus almost doubled to a historic high of 6.6 percent of GDP in H1 FY25.

GDP growth is expected to pick up but will remain tepid, making poverty reduction challenging

Real gross domestic product (GDP) growth is projected at 2.7 percent in FY25, supported by expanding private consumption and investment driven by subdued inflation, lower interest rates, and recovering business confidence. Growth is expected to pick up in FY26 and FY27 but remain low amid tight monetary and fiscal policies aimed at rebuilding buffers and containing risks of imbalances. Combined with slower wages and employment increases, and high population growth, poverty reduction will remain challenging in the short-term. If the Government accelerates structural reforms -

[1] Poverty headcount based on the national poverty line.

presenting an upside to the economic outlook - growth projections could be revised upward.

Inflation is expected to bottom out in FY25 and increase slightly in the medium term

Consumer price inflation is projected to decline to 5.0 percent in FY25, reflecting subdued demand, lower commodity and energy prices, and a stable exchange rate. However, inflation is expected to pick up slightly to 6.0 percent in FY26 and 7.0 percent in FY27, driven by a recovery in domestic demand and investment, higher energy prices following sectoral reforms, and new taxation measures as part of macroeconomic reforms.

Table ES.1: Projections of Key Economic Indicators

	FY22	FY23	FY24	FY25e	FY26f	FY27f
Real GDP Growth, at constant factor cost	6.2	-0.2	2.5	2.7	3.1	3.4
Current Account Balance (% of GDP)	-4.7	-1.0	-0.5	0.2	-0.5	-1.0
Fiscal Balance (% of GDP), excluding grants	-7.9	-7.8	-6.8	-6.8	-6.2	-5.6
Public Debt, including govt. guaranteed debt (% of GDP)	80.6	81.5	72.7	74.6	77.0	76.9

Source: Data from the official sources, World Bank staff estimates. Note: This macroeconomic outlook was prepared by World Bank staff and differs from that of the Government. FY25e denotes estimates for FY25. FY26f denotes forecast projections for FY26.

A current account surplus is expected in FY25 but will swing to deficits in the medium term as growth picks up

In FY25, Pakistan's current account is projected to achieve a surplus of 0.2 percent of GDP, the first annual surplus in 15 years, driven by stronger worker remittances. This will help offset a widening trade deficit as import growth outpaces export growth. The current account is expected to move into a deficit of 0.5 percent and 1.0 percent of GDP in FY26 and FY27, respectively, due to strengthening imports from rising domestic demand and industrial investments.

The fiscal deficit is projected to remain unchanged in FY25 but narrow over the medium term, contingent on continued prudent fiscal policy

The fiscal deficit (excluding grants) is projected to remain stable at 6.8 percent of GDP in FY25, driven by a one-time transfer of profits from the SBP and increased tax revenues which offset higher interest payments. Over the medium term, the deficit is expected to gradually narrow further, supported by revenue mobilization, tight expenditure management, and lower interest payments. The primary balance is anticipated to reach a surplus of 1.9 percent of GDP in FY25, primarily due to SBP profits, and remain in surplus in FY26 and FY27 as tax revenues rise and non-interest expenditures are contained. This is contingent on the Government maintaining its prudent fiscal policy stance.

Elevated debt levels, domestic policy and external uncertainties pose substantial downside risks

Downside risks remain elevated, with continued stabilization dependent on the IMF program staying on track. Elevated debt levels and policy and external uncertainties, including rising global tariffs pose significant risks. Continued fiscal consolidation and deep structural reforms, such as those included in the Government's new economic transformation plan, URAAN Pakistan, remain critical. Trade liberalization, reducing the state presence in the economy, addressing business environment constraints, and increased human capital investment are required for higher real incomes and better jobs.

Reforms to bridge the digital divide are among the critical structural reforms needed to power economic growth and transformation

Digital connectivity is a key driver of economic growth and poverty reduction as it helps to improve firm productivity, strengthen exports, and boost jobs, particularly for women. When supported by critical digital public infrastructure (DPI), digital connectivity also enhances public services delivery. This edition of the PDU underscores the need for structural reforms to unlock opportunities for private capital mobilization for improving Pakistan's digital infrastructure. There are opportunities to improve the country's capability to digitally deliver services to its citizens and businesses through the ongoing development of its DPI. To build on progress thus far and address outstanding challenges, targeted legal and regulatory reforms are essential to crowd in private investment and improve access to affordable broadband and digital government services. Better coordination between federal and provincial authorities would also help close the spatial divide in digital connectivity and access.

2. Recent Economic Developments

a. Context

The economic crisis at the beginning of FY24 necessitated a series of macroeconomic measures that restored macro-stability

Pakistan experienced an economic crisis in FY24 as a result of weak macroeconomic management, inadequate policy buffers, surging world commodity prices, global monetary tightening, the catastrophic flooding in 2022, and domestic political uncertainty. Faced with the risk of sovereign default, an overvalued currency, soaring inflation, and critically low reserves, the Government entered into a new SBA program with the IMF in July 2023.[2] The successful implementation of the program, through fiscal restraint, energy tariff adjustments, exchange rate adjustment, and high policy rates, led to new external inflows early in the fiscal year, allowing for the easing of import controls and a gradual recovery in confidence. However, the import management measures disrupted local supply chains and heavily dampened economic activity.

To support continued stabilization, the Government has entered into a new IMF program and launched a new economic transformation plan

The economy began to show signs of stabilization at the end of FY24 supported by an agricultural boom, a sustained deceleration in inflation, stronger external inflows that buttressed foreign reserves, a stable currency, and current account and primary fiscal surpluses. Despite ongoing economic stabilization, key constraints to faster growth persist, including a fragmented and inequitable tax system, ineffective public spending, accumulated circular debt in the energy sector, a large state role in the economy, trade barriers that hinder exports, a challenging regulatory and business environment, and a human capital crisis. To address some of these critical constraints, the Government embarked on a new 37-month EFF-IMF program in September 2024[3] and launched URAAN Pakistan—a five-year economic blueprint—in December 2024 that follows closely the policies outlined in Prime Minister's Economic Transformation Agenda and Implementation Plan.[4]

Box 2.1: URAAN Pakistan – A New Homegrown Economic Transformation Plan

In December 2024, the Government launched an economic transformation plan—URAAN Pakistan. The framework focuses on five pillars: (i) enhancing exports to strengthen foreign exchange reserves and boost Pakistan's global trade position; (ii) accelerating digital transformation to improve operational efficiency and innovation; (iii) implementing sustainable practices to preserve the environment, combat climate change, safeguard natural resources, and ensure water and food security; (iv) developing affordable and efficient energy solutions to reduce costs, support industrial expansion, and secure long-term energy sustainability; and (v) promoting social justice and equitable growth, ensuring that all segments of society benefit from economic progress.

b. Real Sector

Growth

Economic activity remained muted in H1 FY25 due to lower agriculture and industrial production

Real GDP at factor cost rose by an average of 1.5 percent y-o-y in H1 FY25 (July–December 2024)— a considerable slowdown from GDP growth of 2.1 percent in H1 FY24.[5] Following strong growth in FY24, the agriculture sector grew by only 0.9 percent in H1 FY25 due to high base effects, drought-like conditions, and pest infestations. Meanwhile, the industrial sector shrank by 0.4 percent in H1 FY25, due to higher input

[2] IMF (July 12, 2023) "IMF Executive Board Approves US$3 billion Stand-By Arrangement for Pakistan."
[3]https://www.imf.org/en/News/Articles/2024/09/27/pr-24343-pakistan-imf-concludes-2024-aiv-consultation-pakistan-approves-37-mo-extended-arr
[4] Details of URAAN Pakistan are available on its website. PM Transformation Plan available here.
[5] The H1 GDP growth rate is an average of official GDP growth rate for Q1 and Q2.

prices, increase in taxes, and sharp cuts in government development spending.[6] The limited spillover effects from the agriculture and industry sectors weighed on wholesale and retail trade, and transport and storage activity, resulting in a modest service sector growth of 2.4 percent. Despite slower economic growth, business and consumer confidence continued to improve over the first half of the fiscal year, bolstered by sovereign credit rating upgrades in July and August, declining inflation and overall macroeconomic stability.

Table 2.1: Real GDP Growth
(percent)

	FY22	FY23	FY24	H1 FY23	H2 FY23	H1 FY24	H2 FY24	H1 FY25
Agriculture	4.2	2.3	6.2	1.8	2.7	7.0	5.4	0.9
Industry	7.0	-3.6	-1.6	0.7	-8.0	-3.3	0.1	-0.4
Services	6.7	0.0	2.4	2.5	-2.4	1.9	2.9	2.4
Real GDP	**6.2**	**-0.2**	**2.5**	**2.0**	**-2.3**	**2.1**	**3.0**	**1.5**

Source: Pakistan Bureau of Statistics. World Bank Staff Computation.

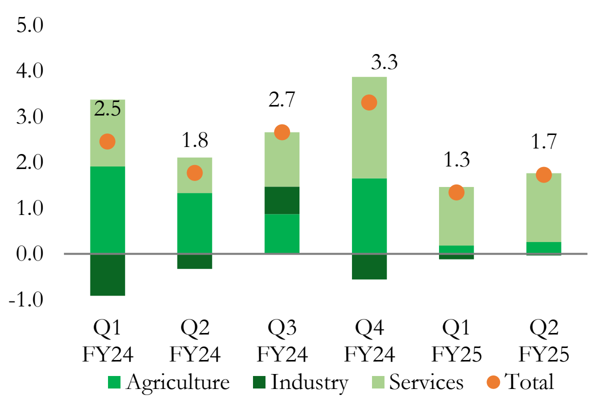
Unfavorable weather conditions impacted output of important crops…

After the record-high growth in FY24, important crop production in the agricultural sector declined due to unconducive weather conditions, pest infestations, and changes in farmers' production choices.[7] Provisional estimates suggest that rice production fell by 1.2 percent y-o-y, sugarcane by 2.2 percent, maize by 15.6 percent, and cotton by 29.6 percent. Meanwhile, the wheat area sown also declined by 8.2 percent.

…while the industrial sector remained weak

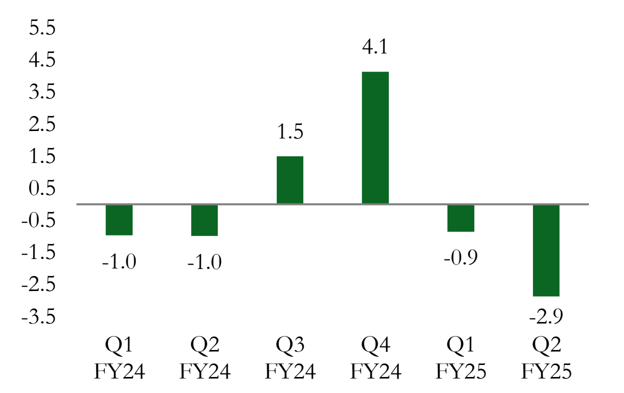
Large-scale manufacturing, which comprises nearly half of the total industrial sector value added, recorded an overall contraction of 1.8 percent y-o-y during H1 FY24, with Q2 FY24 recording even weaker y-o-y growth than Q1 FY24. Key sub-sectors, including sugar, petroleum products, cement, and iron and steel, all posted lower cumulative y-o-y growth. Other industrial sectors reporting lower growth included construction and mining and quarrying. Higher input prices, particularly for electricity, hikes in government taxes under the FY24–25 Budget, and lower government spending on the Public Sector Development Programme (PSDP) all contributed to the contraction.

Figure 2.1: Contribution to GDP Growth by Sector
(y-o-y, percentage points)



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

Figure 2.2: Large Scale Manufacturing (LSM) Index
(y-o-y, percentage change)



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

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[6] In the FY24–25 Budget, the Federal Excise Duty on cement was doubled from PKR 2 per kilogram to PKR 4 per kilogram. Source: Cemnet (July 8, 2024) "Post-Budget 2025 Impact on Pakistan's Cement and Steel Industries." Tax on income of builders and real-estate developers was also modified in the budget. Source: Profit (July 30, 2024) "FBR Details New Tax Rules for Builders and Developers."

[7] Below normal rains and higher daytime temperatures contributed to the decline in crop production. Pest attacks during the first two months of the fiscal year, coupled with a decline in area sown for cotton and sugarcane as farmers shifted to other crops, further impacted overall production. Sources: SUPARCO (October 1, 2024) *Pakistan Satellite Based Crop Monitoring System Bulletin*; SUPARCO (September 1, 2024) *Pakistan Satellite Based Crop Monitoring System Bulletin*.

The services sector was also impacted by weak spillovers and lower transport activity

The wholesale and retail trade sector (the largest services sub-sector) was weighed down by limited spillover effects from the agriculture and industrial sectors, during H1 FY25. Further, the transport and storage sub-sector activity was also weak, Q1 growth for the sector was the lowest in 16 quarters, partly due to lower air travel. On the other hand, several sub-sectors posted higher growth due to declines in their respective deflators, including information and communication, finance and insurance, and public administration and social security.[8]

Inflation

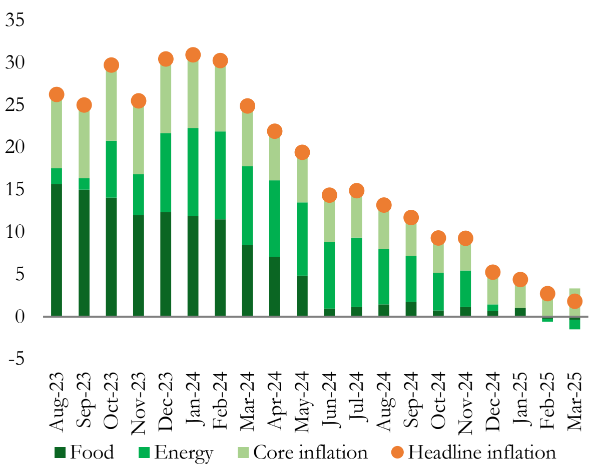
Headline inflation remains on a downward trajectory

Headline inflation eased from 28.8 percent y-o-y in H1 FY24 to 7.2 percent in H1 FY25, the lowest half yearly inflation since FY19. The slowdown reflects a notable downward adjustment in electricity tariffs, adequate supply of key food items leading to low levels of food inflation, and favorable base effects. Supply-side dynamics were supportive, with easing global prices and a stable exchange rate.[9] Fiscal consolidation also weighed on domestic demand, further contributing to the downward inflation trajectory.

Food inflation plunged, reflecting adequate domestic supply and lower global prices

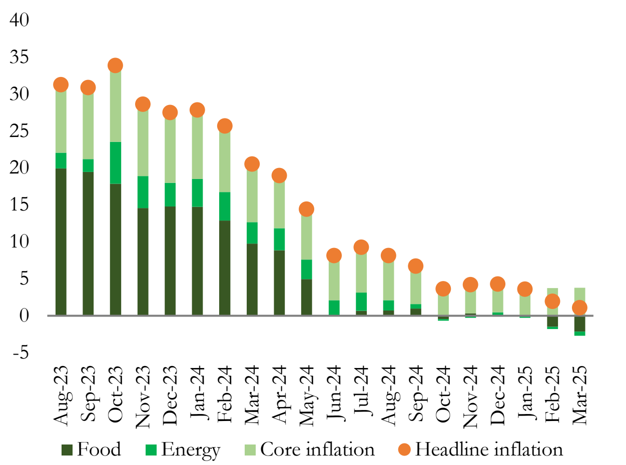
Food inflation saw a significant decrease in H1 FY25 compared to H1 FY24. On average, urban food inflation dropped to 2.7 percent y-o-y from 33.4 percent, and rural food inflation declined to 0.4 percent from 34.0 percent. The large drop was mainly due to an adequate supply of domestically produced food items combined with a decline in global food prices.[10]

Figure 2.3: Contribution to Headline Inflation in Urban Areas
(Percentage points)



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

Figure 2.4: Contribution to Headline Inflation in Rural Areas
(Percentage points)



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

Energy inflation declined due to lower electricity tariffs

Urban energy inflation decreased from 50.6 percent y-o-y in H1 FY24 to 27.8 percent in H1 FY25, while rural energy inflation declined from 27.8 percent to 2.4 percent over the same period. Domestic energy prices were lower in both urban and rural areas due to a decline in quarterly electricity tariffs and fuel cost adjustments. Average motor oil prices

[8] Pakistan Bureau of Statistics. Press Release. 112th National Accounts Committee Meeting. 26th Mar 2025.
[9] Global average energy prices decreased from US$108.1 in H1 FY24 to US$99.1 in H1 FY25. Similarly, global average food and fertilizer prices declined from US$122.7 and US$149.8, respectively, to US$114.6 and US$120.3 for the same time period.
[10] Global average grain prices declined from US$125.4 in H1 FY24 to US$108.9 in H1 FY25.

were 11.5 percent lower in H1 FY25.[11] This downward trend was also supported by lower global energy prices.[12]

Core inflation continued to ease

While still elevated, both urban and rural core inflation eased to an average of 9.5 and 12.8 percent y-o-y, respectively, in H1 FY25, down from 18.4 and 25.9 percent in H1 FY24. This moderation largely reflects the fall in energy prices and stabilization of the rupee that have reduced transportation and production costs.

Monthly inflation reached a near decade low in March

Due to lower food and energy inflation, the monthly headline inflation fell from 2.4 percent y-o-y in January 2025 to 0.7 percent in March 2025. The decline in inflation in both urban and rural areas was largely due to an adequate supply of key food items, muted adjustments in electricity tariffs, and favorable global prices.

Poverty

Weak economic growth, coupled with population expansion, remain key challenges towards poverty reduction

The poverty rate, measured at the national poverty line, is estimated to have remained stagnant at 25.6 percent in H1 FY25 compared to 25.4 percent in FY24.[13] The stagnant poverty partly reflects a weak labor market, with the sectors that employ higher shares of the poor, (agriculture, construction and low quality services) experiencing weak or negative growth, resulting in little or no real increase in incomes for the poor in H1 FY25.[14] In addition, the national employment-to-population ratio is estimated at 49.7 percent, unchanged relative to FY23 but on a downward trajectory since FY16. This is driven by low labor market engagement: 37 percent of youth and 62 percent of women are not in education, employment, or training (NEET).[15] Despite nominal daily wages nearly doubling for low skilled workers, such as masons, painters, plumbers, and unskilled workers, between FY19 and Q1 FY25, real wages remained stagnant or even slightly decreased.[16]

c. Monetary and Financial Sector

Monetary

With inflation easing further, the SBP has lowered interest rates

With a faster-than-expected decline in inflation and reduced pressures on the rupee, the SBP reduced the policy rate by 850 basis points from July 2024 to 12.0 percent in January 2025. Broad money (M2) declined by 0.8 percent y-o-y during H1 FY25 compared to an increase of 4.5 percent in H1 FY24 and reflecting a 7.2 percent decline in Open Market Operations from July 2024 to December 2024. With headline inflation averaging 7.2 percent, real interest rates turned positive.

Financial Sector

The sovereign-bank nexus weakened in H1 FY25

Banks more than tripled their credit to the private sector, with credit increasing to 2.0 percent of GDP in H1 FY25 from 0.6 percent in H1 FY24. The share of banks' lending and investments in the public sector declined from 75.7 percent at end-September 2023 to 71.7 percent by December 2024, raising the private sector's share of total credit from 24.3 percent to 28.4 percent. Sector-wise, the manufacturing sector—particularly textiles, wearing apparel, refinement of petroleum, fertilizer, food products, pharmaceuticals, and cement—attracted higher financing. Lending to the telecommunications and education

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[11] Average motor oil prices declined from PKR 289.3 per liter in H1 FY24 to PKR 256.2 in H1 FY25.

[12] Global average crude oil prices decreased by 9.9 percent in H1 FY25 compared to H1 FY24. Source: World Bank Commodity Price Data (dataset), March 4, 2025.

[13] Poverty projections are based on a microsimulation framework using the Household Integrated Economic Survey (HIES) 2018–19 microdata and macroeconomic indicators. Headcount based on the national poverty line is reported. See Annex 1 for details.

[14] Income projections are a subset of the poverty microsimulation framework. See Annex 1.

[15] NEET rates are estimated using the Pakistan Bureau of Statistics' *Pakistan Labor Force Survey 2020-21*.

sectors also increased. A new tax based on banks' Advances-to-Deposits Ratio (ADR) also nudged banks to extend more credit to the private sector. Lower interest rates also appear to have bolstered private sector credit demand. Meanwhile, reduced bank lending to the Government was partly due to reduced government financing needs, resulting from lower interest rates and payments, the one-off dividend transfer from the SBP to the Government and fiscal consolidation measures.

Financial soundness indicators have improved but vulnerabilities persist

Overall financial soundness has improved with the Capital Adequacy Ratio (CAR) rising from 20.0 percent in June 2024 to 21.5 percent in September 2024, reflecting stronger capitalization. However, the non-performing loans (NPL) ratio increased from 7.6 percent to 8.4 percent as banks shifted from risk-free government securities to higher-risk private lending. The ADR declined slightly, driven by a 1.5 percent drop in advances and a 0.7 percent rise in deposits, suggesting that banks are not using the incremental increase in liquidity from deposits to generate advances. While corporate, agriculture, and consumer lending remain stable, small and medium enterprise (SME) and commodity financing saw rising infection ratios, requiring closer monitoring. Similarly, the microfinance sector faces growing vulnerabilities, with its CAR dropping to 2.8 percent and NPLs rising to 10.0 percent by September 2024, compared to 8.0 percent and 7.2 percent a year earlier. Infection ratios improved in enterprise, agriculture, and housing finance but worsened in livestock and consumer lending, increasing credit risk.[17] Persistent losses in microfinance, with negative return on assets and return on equities, threaten financial inclusion, particularly for SMEs, women, and rural borrowers.

The stock market has rebounded, partly reflecting improved investor sentiment

Pakistan's stock market has experienced a remarkable rally, with the Pakistan Stock Exchange index surpassing 117,000 in March 2025, reflecting a 50.1 percent gain since end August 2024. Market capitalization (in real terms) surged by around 28.2 percent between 2023 and 2024, while average daily turnover rose from 323 million to 564 million shares. This bullish trend is driven by improved investor sentiment, economic stabilization prospects, and declining returns on government securities. However, foreign ownership in the domestic stock market declined to 4 percent by December 2024, down from 4.8 percent in June.

d. External Sector

Supported by a surge in remittances, the current account recorded a surplus in H1 FY24

The current account recorded a surplus of 0.6 percent of GDP during H1 FY25 from a deficit of 0.8 percent in H1 FY24, the first half yearly surplus since H2 FY23 (Figure 2.5). The surplus was supported by strong growth in official remittances that more than offset a wider trade and primary income deficit. With a narrower financial account surplus, the overall balance of payments surplus narrowed to 0.9 percent of GDP in H1 FY25 from 1.7 percent a year earlier.

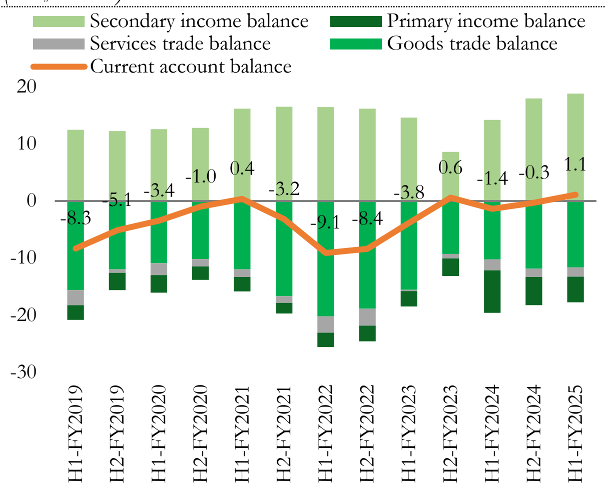
The trade deficit widened

The overall goods and services trade deficit increased from 6.5 percent of GDP in H1 FY24 to 6.8 percent in H1 FY25 as imports grew faster than exports. Goods exports increased by 7.2 percent y-o-y in H1 FY25, while goods imports grew faster at 9.8 percent. Goods exports were fueled by stronger growth for textile sector exports (5.2 percent) partly due to diverted international trade orders from Bangladesh where civil unrest disrupted supply chains.[18] Petroleum product exports also increased by 94.0 percent, as refineries processed higher volumes of imported crude oil to meet recovering domestic energy demand.[19] Similarly, food exports grew by 5.9 percent, supported by an increase

[17] The infection ratio refers to the proportion of NPLs to the total loan portfolio, indicating the risk of a financial institution's balance sheet. A high infection ratio suggests a significant amount of underperforming or defaulted assets, potentially signaling financial instability.
[18] World Bank (October 2024) *Bangladesh Development Update*.
[19] Petroleum crude oil is the raw, unrefined oil extracted from the ground, whereas petroleum products are refined outputs derived from crude oil, such as gasoline, diesel, jet fuel, and lubricants.

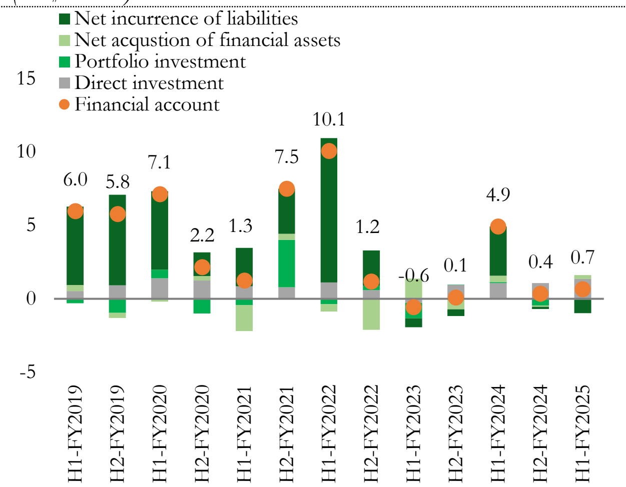
in rice exports as producers continued to benefit from global rice supply disruptions.[20] The increase in imports was broad-based with more pronounced growth in machinery, transport, metal, and textile group imports as domestic demand and investment strengthened. Services exports increased by 7.0 percent and services imports by 10.1 percent, with the latter mainly driven by increases in the imports of passenger transport and travel services as domestic demand picked up.

Figure 2.5: Half Yearly Current Account Balances
(US$ billion)



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

Figure 2.6: Half Yearly Financial Account Inflows
(US$ billion)



Source: State Bank of Pakistan and World Bank staff calculations.
Note: A positive financial account balance represents inflows.

The income account recorded a higher surplus due to an increase in remittance inflows

The income account surplus increased to 7.3 percent of GDP in H1 FY25 from 5.7 percent in H1 FY24 mainly due to higher remittance inflows. The primary income account deficit widened due to higher repatriation of income and dividends. Under the secondary income account, remittance inflows rose by 32.8 percent y-o-y in H1 FY25, which more than offset the wider primary income account deficit. Remittance inflows increased partly on lower political uncertainty with the confirmation of the new government, a stable exchange rate, and a narrow official-curb differential, redirecting remittances back through the formal banking system.

The financial account surplus narrowed due to higher government debt repayments

The financial account surplus narrowed with net inflows declining to 0.3 percent of GDP in H1 FY25 from 2.7 percent in H1 FY24, driven primarily by higher government debt repayments. Foreign direct investment (FDI) increased from 0.6 percent of GDP to 0.7 percent, the highest half year outturn in five years, with inflows coming mainly from China, Hong Kong, and the United Kingdom and going into the energy and financial sectors.[21] Despite the increase, FDI remains small compared to the overall trade deficit of 6.8 percent.

Higher international reserves helped to ease pressures on the exchange rate

After appreciating 2.9 percent y-o-y over FY24, the rupee rose by 0.14 percent to PKR 278.4 to the U.S. dollar in H1 FY25 (Figure 2.7). A BOP surplus, higher levels of international reserves, and implementation of regulatory measures and foreign exchange market reforms continue to support a stable exchange rate.[22] The rupee's real exchange rate appreciated by 2.8 percent in response to higher inflows from increased FDI and remittances.[23]

[20] Global rice supply chain disruptions stemming from the ban in Indian rice exports and ongoing effects of climatic shocks in the Pacific caused by El Niño and La Niña climatic shocks. India's ban on rice exports was lifted in September 2024. Source: Glauber, Joseph and Abdullah Mamun (November 8, 2024) "India Lifts Export Restrictions on Rice."
[21] Ministry of Finance (2025) "State of Pakistan's Economy-Half Yearly Report."
[22] State Bank of Pakistan (September 6, 2023) "Reforms in the Exchange Companies Sector."
[23] Real effective exchange rate, based on consumer price index (CPI). Source: IMF, International Financial Statistics dataset.

The current account moved into a deficit in the first two months of H2 FY25 as export growth slowed and import growth strengthened

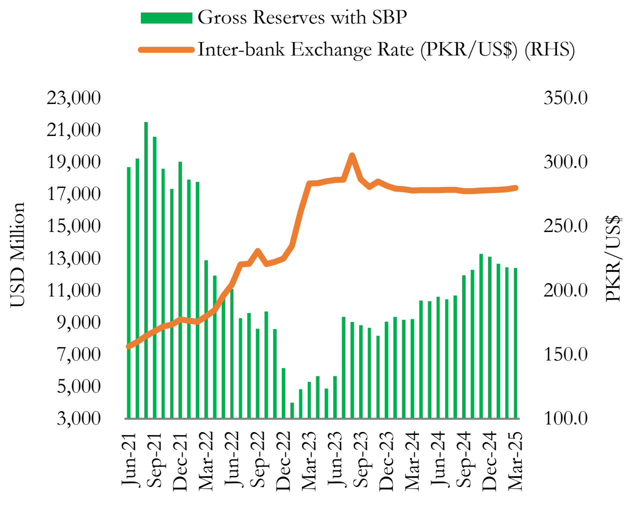
The current account swung to a deficit in the first two months of 2025 reflecting a widening of the trade deficit. Between January and February 2025, imports grew by an average of 16.2 percent y-o-y reflecting the continued increases in domestic demand and investment. Meanwhile, exports slowed to 2.9 percent. Driven by continued large remittance flows, the current account cumulatively recorded a surplus of US$0.7 billion in July–February FY25, compared to a US$1.7 billion deficit in the same period of FY24. Foreign exchange reserves stood at US$12.5 billion at end-February 2025, equivalent to 2.1 months of total imports (Figure 2.7).

Table 2.2: Balance of Payments Summary
(US$ million unless mentioned otherwise)

	FY22	FY23	FY24	H1 FY22	H1 FY23	H1 FY24	H1 FY25
i. Current Account (A+B+C+D)	**-17,481**	**-3,275**	**-1,695**	**-9,112**	**-3,847**	**-1,397**	**1,102**
A. Goods trade balance	**-39,050**	**-24,819**	**-22,089**	**-20,194**	**-15,551**	**-10,229**	**-11,624**
Goods exports	32,493	27,879	30,967	15,242	14,222	15,146	16,235
Goods imports	71,543	52,695	53,056	35,436	29,773	25,375	27,859
B. Services trade balance	**-5,840**	**-1,042**	**-2,822**	**-2,874**	**-254**	**-1,361**	**-1,614**
C. Balance on primary income[1]	**-5,248**	**-5,765**	**-8,996**	**-2,506**	**-2,672**	**-4,054**	**-4,500**
D. Balance on secondary income[1]	**32,657**	**28,351**	**32,212**	**16,462**	**14,630**	**14,247**	**18,840**
of which, remittances	31,279	27,333	30,251	15,808	14,418	13,436	17,847
ii. Capital Account	**205**	**375**	**195**	**116**	**317**	**109**	**78**
1. Balance from current and capital accounts (i+ii)[2]	**-17,276**	**-2,900**	**-1,500**	**-8,996**	**-3,530**	**-1,288**	**1,180**
2. Financial accounts[3]	**-11,261**	**468**	**-5,291**	**-10,070**	**566**	**-4,929**	**-652**
of which:							
Direct investment	-1,702	-670	-2,126	-1,115	282	-1,064	-1,353
Portfolio investment	55	1,012	376	374	1,033	-71	70
Net acquisition of financial assets	2,613	-964	-352	504	-1,375	-436	-266
Net incurrence of financial liabilities	12,226	-1,099	3,189	9,832	-632	3,358	-897
3. Errors and omissions	**-303**	**-850**	**-929**	**-286**	**-188**	**-635**	**-121**
Overall balance (-1+2-3)	**6,318**	**4,218**	**-2,862**	**-788**	**4,284**	**-3,006**	**-1,711**
Gross SBP reserves (incl. CRR, SCRR)[4]	11,090	5,669	10,627	19,058	6,159	9,443	12,977
Memorandum items							
Current account balance (percent of GDP)	*-4.7*	*-1.0*	*-0.5*	*-4.9*	*-2.1*	*-0.8*	*0.6*
Goods trade balance (percent of GDP)	*-10.4*	*-7.3*	*-3.3*	*-10.9*	*-8.8*	*-5.7*	*-5.9*
Goods export growth (percent, y-o-y)	*26.7*	*-14.2*	*11.1*	*29.0*	*-6.7*	*7.5*	*7.2*
Goods import growth (percent, y-o-y)	*31.8*	*-26.3*	*0.7*	*49.0*	*-16.5*	*-14.7*	*9.8*
Remittance growth (percent, y-o-y)	*6.2*	*-12.6*	*10.7*	*11.4*	*-8.8*	*-6.8*	*32.8*
Financial account (percent of GDP)	*3*	*0.1*	*-1.3*	*-5.4*	*0.3*	*-2.7*	*-0.3*
Overall balance (percent of GDP)	*1.7*	*1.3*	*-0.6*	*-0.4*	*2.4*	*-1.7*	*-0.9*

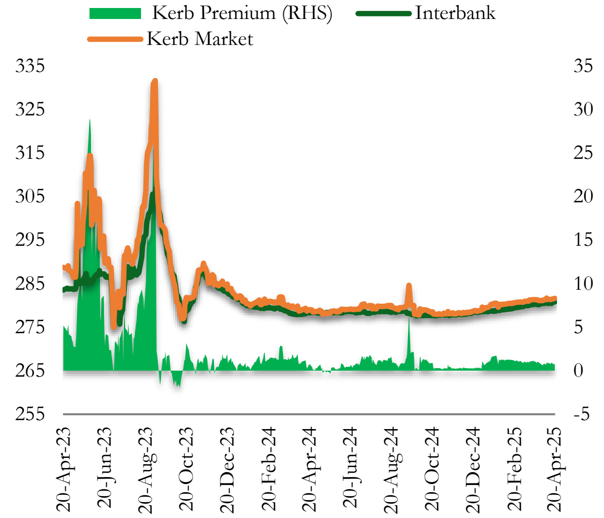
Source: State Bank of Pakistan and World Bank staff calculations.
Notes: Balance of payments summary is as per Balance of Payments Manual 6 (BPM6).
1 In BPM6, the income account has been renamed "primary income" and current transfers, "secondary income."
2 A negative balance shows that the economy is a net borrower from the rest of the world.
3 A negative balance highlights a net increase in the incurrence of foreign liabilities.
4 CRR=cash reserve requirement; SCRR=special cash reserve requirement.

Figure 2.7: Gross Official SBP Reserves and Exchange Rate
(US$ million)



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

Figure 2.8: Domestic Exchange Rate Movements
(US$/PKR)



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

e. Fiscal and Debt Sustainability

The primary surplus in H1 FY25 almost doubled, and the overall deficit continued to narrow

The consolidated fiscal deficit stood at 2.8 percent of GDP in H1 FY25, substantially lower than the 4.7 deficit in H1 FY24. The reduction was primarily due to fiscal consolidation efforts and a historically large one-off SBP profit transfer, reflecting the high policy rates in FY24. Meanwhile, the primary fiscal surplus nearly doubled to a historic high of 6.6 percent, partially due to total revenues growing faster than total expenditures.

Total revenue rose substantially in H1 FY25

Total revenue increased from 13.4 percent in H1 FY24 to 17.8 percent of GDP in H1 FY25 (Table 2.3). The rise was in part due to the growth in tax revenue, which rose to 12.2 percent of GDP from 10.4 percent, partly on account of tax policy changes. These measures included higher taxes on exporters, builders and developers (new amendment), and reduced GST exemptions. In line with fiscal consolidation efforts, an increase in point-of-sale tax rates and withdrawal of various tax exemptions and concession rates contributed to higher domestic sales tax collections, which increased to 3.5 percent of GDP in H1 FY25 from 3.0 percent in H1 FY24. Furthermore, revenues from federal excise duty grew to 0.6 percent of GDP.[24] Meanwhile, revenues from customs duties remained largely stable.

Non-tax revenues also increased significantly in H1 FY25

Non-tax revenue reached 5.7 percent of GDP in H1 FY25, almost doubling from the level in H1 FY24 and surpassing the total collected for FY24. The increase was mainly due to a surge in SBP surplus profit and dividends from investments.[25] However, the markup receipts on federal loans to Public Sector Enterprises and provinces declined by more than half due to high base effects on account of large receipts last year.

Current expenditures increased on account

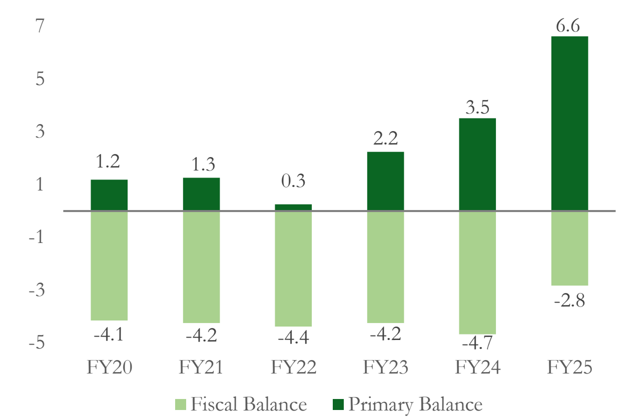
Total expenditure in H1 FY25 increased to 20.6 percent from 18.1 percent in H1 FY24. This increase was mainly due to higher current expenditure, which rose to 18.5 percent

[24] Mainly due to increases in tax rates on cement, filter rods for cigarettes, and the rate on airfare for international travel and imposition of new duty on selected items, such as acetate tow (fiber for cigarette filters), nicotine pouches and lubricating oil.
[25] Central banks, including the SBP, focus on stability rather than profits. Their income comes from interest, discounts, currency exchanges, and managing public debt, while expenses include staff pay, agency charges, and note printing. Surplus profits are transferred to the Government for budgetary support. For further information see: State Bank of Pakistan, "Finances."

of higher interest payments

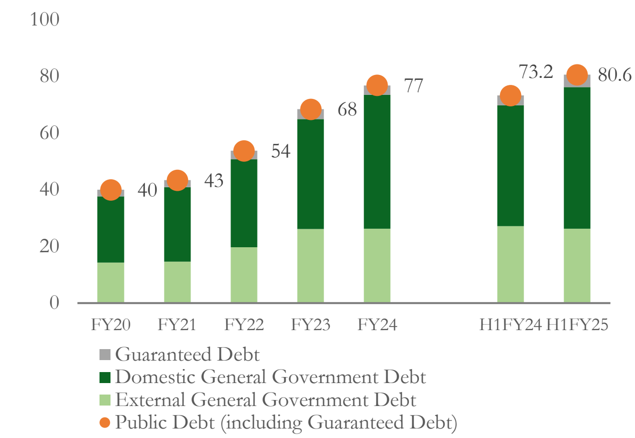
of GDP from 16.7 percent primarily because of higher interest payments and defense spending. As around 78 percent of domestic debt are on floating rates, growth in markup payments moderated compared to H1 FY24 due to the multiple decreases in the policy rate.[26] Moreover, subsidy spending has declined significantly, falling to 0.4 percent of GDP in H1 FY25 from 0.7 percent in H1 FY24, primarily due to the delay in release of power sector related subsidies.[27] In contrast, non-interest current expenditures rose to 9.1 percent of GDP in H1 FY25 compared to 8.5 percent in H1 FY24, mainly due to higher spending on grants and provincial expenditures.[28]

Figure 2.9: Consolidated Fiscal and Primary Balance (excluding grants) in H1 FY20–25
(Percent of GDP)



Source: Ministry of Finance and World Bank staff calculations.

Figure 2.10: Public and Publicly Guaranteed Debt
(PKR trillion)



Source: Ministry of Finance and World Bank staff calculations.

Development expenditures increased marginally

In line with fiscal consolidation efforts, development expenditures increased modestly to 1.4 percent of GDP in H1 FY25 compared to 1.3 percent a year earlier. Similarly, consolidated PSDP reached 1.4 percent of GDP reflecting a significant decline in federal PSDP, which amounted to only 0.2 percent of GDP in H1 FY25.

Public debt remained high amid sizeable financing needs

H1 FY25 saw net external financing outflows, due to lower bilateral inflows (compared to net inflows in FY24). The Government continued to rely primarily on domestic financing sources. Amid significant financing needs, the total public and publicly guaranteed debt increased to PKR 80.6 trillion by the end of December 2024, compared to PKR 76.8 trillion at the end of June 2024. Of the total public debt, the share of external debt was 35.0 percent, implying an ongoing substantial exchange rate risk. Short-term debt accounted for 11.2 percent of total debt at end-December 2024.

[26] Ministry of Finance (2024) *Semi Annual Public Debt Bulletin* (*Jul-Dec 2024*.)
[27] There is a significant reduction in tariff-related spending for K-Electric and under the category of additional subsidies in H1 FY25. Whereas inter-disco tariff differential related subsidy has increased at the same time.
[28] Federal grants increased by 24.6 percent (17.4 percent in real terms) due to higher social protection-related spending under the Benazir Income Support Programme (BISP). In addition, provincial current spending grew by 21.6 percent (14.4 percent in real terms). BISP provides cash to the poorest families. It was launched in 2008 to help with poverty, food price inflation, and the economic fallout from the global financial crisis. BISP expenditure rose by 26.4 percent in H1 FY25.

Table 2.3: Summary of Fiscal Operations
(PKR billion unless mentioned otherwise)

	FY23	FY24	H1 FY23	H1 FY24	H1 FY25	H1 FY24 Percent of GDP	H1 FY25 Percent of GDP
Total revenue	**9,634**	**13,269**	**4,699**	**6,854**	**9,764**	13.4	17.8
Tax revenue[1]	**8,441**	**11,163**	**3,938**	**5,325**	**6,659**	10.4	12.2
Federal	7,791	10,389	3,635	4,960	6,216	9.7	11.4
Provincial	650	774	303	365	443	0.7	0.8
Non-tax revenue	**1,193**	**2,106**	**760**	**1,529**	**3,105**	3.0	5.7
Total expenditure	**16,155**	**20,476**	**6,382**	**9,262**	**11,302**	18.1	20.6
Current expenditure	14,448	18,571	6,061	8565	10,118	16.7	18.5
of which:							
Interest payments	5,696	8,160	2,573	4,220	5,142	8.2	9.4
Non-interest expenditure	8,752	10,411	3,488	4,345	4,977	8.5	9.1
Defense	1,586	1,859	639	758	890	1.5	1.6
Subsidies	1,080	1,067	197	375	237	0.7	0.4
Development expenditure and net lending	**1,953**	**2,079**	**637**	**661**	**744**	**1.3**	**1.4**
of which:							
PSDP	1,893	2,027	591	673	772	1.3	1.4
Statistical discrepancy	-246	-173	-315	36	440	0.1	0.8
Fiscal balance (excl. grants)	**-6,521**	**-7,207**	**-1,683**	**-2,408**	**-1,538**	**-4.7**	**-2.8**
Primary balance (excl. grants)	**-826**	**953**	**890**	**1,812**	**3,604**	**3.5**	**6.6**
Public debt (incl. guaranteed debt)	**68,422**	**76,818**	**57,328**	**73,216**	**80,600**	**69.9**	**71.0**
Domestic debt	38,810	47,159	33,178	42,588	49,884	40.5	43.9
External debt	26,092	26,291	21,069	27,133	26,297	25.8	23.2
Guaranteed debt	3,520	3,368	3,080	3,495	4,419	3.3	3.9
Memorandum items							
Fiscal balance (excl. grants) as percent of GDP	*-7.8*	*-6.9*	*-4.2*	*-4.7*	*-2.8*		
Primary balance (excl. grants) as percent of GDP	*-1.0*	*0.9*	*2.2*	*3.5*	*6.6*		
GDP (PKR billion)	*83,651*	*105,413*	*39,674*	*51,296*	*54,759*		

Source: Ministry of Finance and World Bank staff calculations.
Notes:
1 From FY21 onwards, the Ministry of Finance has included revenue from Gas Infrastructure Development Cess, natural gas development surcharge, and petroleum levy in non-tax revenue. For consistency across years, these taxes have been included in tax revenue.
2 Prior to FY21, subsidies data was not reported in the fiscal operations data published by the Ministry of Finance.

3. Outlook and Risk

a. Medium-Term Outlook

Pakistan's economy is stabilizing, but growth and poverty challenges will persist in the medium term unless bold and sustained structural reforms are implemented to encourage private investment and export competitiveness

The macroeconomic outlook hinges on continued macroeconomic stabilization and implementation of critical structural reforms underpinned by both the IMF-EFF program and URAAN Pakistan. Projections are predicated on continued fiscal restraint, sound macroeconomic management, the realization of expected rollovers and new external financing, and gradual progress with the structural reform agenda. Under these assumptions, real GDP growth is estimated to reach 2.7 percent in FY25, supported by private consumption and investment, buoyed by lower inflation, increased credit to the private sector and higher business confidence. While economic activity is expected to strengthen in FY26 (3.1 percent) and FY27 (3.4 percent), growth is expected to remain constrained by tight macroeconomic policies focused on rebuilding fiscal and external buffers and mitigating risks to economic stability. Persistent low growth will continue to hinder poverty reduction amid rapid population growth and constrained economic opportunities. Sustained medium-term growth acceleration can be achieved if the Government: (i) implements reforms to credibly and consistently reduce bureaucratic red-tape in the business regulatory environment; (ii) makes bold reductions in the anti-export bias of the national tariff policy; (iii) pivots tax policy towards broad-based direct taxes; (iv) right-sizes not just government institutions but also the footprint of the SOEs in economic sectors; and (v) ensures that the market-determined exchange rate regime gets embedded into the core fabric of economic management rather than a reform to tinker with depending on political exigencies of the time. In such a scenario, Pakistan can experience the growth acceleration envisaged under URAAN Pakistan.

Growth is expected to accelerate in the medium term but remain relatively low

Agricultural growth is projected to slow to 1.7 percent in FY25 as the sector recovers from a weak H1. Over FY26–27, an average medium-term growth rate of 3.0 percent is projected as the sector recovers from unfavorable weather conditions. In addition, farmers are expected to shift to high value-added crops as they diversify away from wheat amid growing public and private investments that enhance agricultural productivity.[29]

Industrial growth is also expected to strengthen to 1.7 percent in FY25 as the construction and electricity industries rebound from a decline in the previous year. In the medium term, industrial growth is forecast to strengthen to an average of 2.8 percent. Construction sector growth is expected to strengthen as PSDP expenditure gradually increases following the recent fiscal consolidation, and investments and domestic demand pick up due to higher private sector lending (Section 2.D). The energy sector, particularly electricity and gas, is expected to recover as energy tariff reforms and adjustments near completion and prices stabilize.

Spillovers from strengthening growth in agriculture and industry coupled with lower inflation are expected to positively impact the services sector, which is projected to grow by 3.3 percent in FY25. Services growth will be driven by recoveries in the financial sector as financial conditions ease. The transport and storage sub sectors are also expected to pick up as aggregate demand and imports increase. Services sector growth is projected to reach an average growth of 3.6 percent in the medium term.

The current account is expected to record

In FY25, the current account is expected to close with a surplus of 0.2 percent of GDP, largely due to strong worker remittances, offsetting a wider trade deficit as imports continue to outpace exports. If realized, this projected surplus would be the first annual

[29] World Bank (October 2024) *Pakistan Development Update: The Dynamics of Power Sector Distribution Reforms*.

a surplus in FY25, the first since FY10

current account surplus in 15 years. In the medium term, the current account is expected to move into a deficit with strengthening imports reflecting rising domestic demand and increased investment in the industrial sector.[30] While exports are also expected to expand, their growth will likely be constrained by lower projected commodity prices and global trade uncertainty. Rice exports will moderate as supply chains normalize with the resumption in rice exports from India and the impacts of climatic shocks in the Pacific subside. Worker remittance growth is expected to initially slow due to high base effects but will strengthen in the medium term due to stronger economic conditions in major remitting countries.

Inflation is expected to remain in the single digits

Consumer price inflation is projected to decline to 5.0 percent in FY25, reflecting lower commodity and energy prices alongside a stable market-determined exchange rate. However, inflation is expected to slightly pick up to 6.0 percent in FY26 and 7.0 percent in FY27, driven by a recovery in domestic demand and investment, higher energy prices following sectoral reforms, and new taxation measures. Even with moderating inflation, and barring significant shifts in economic conditions, monetary policy is expected to remain tight in the near term.

The fiscal deficit is expected to narrow in FY25 and subsequent years

The fiscal deficit (excluding grants) is projected to remain unchanged at 6.8 percent of GDP in FY25, reflecting the one-time transfer of SBP profits in the first half of the year and continued fiscal consolidation measures offsetting higher interest payments. Similarly, the primary balance is projected to record a surplus of 1.8 percent of GDP in FY25. Over the medium term, the overall fiscal deficit is expected to gradually narrow, driven by continued gains from revenue mobilization efforts, tight expenditure management, and a gradual decline in interest payments.

Table 3.1: Pakistan Macroeconomic Outlook (FY22–27)

(Annual percent change unless indicated otherwise)

	2021/22	2022/23	2023/24	2024/25e	2025/26f	2026/27f
Real GDP Growth, at constant factor prices	**6.2**	**-0.2**	**2.5**	**2.7**	**3.1**	**3.4**
Agriculture	4.2	2.2	6.2	1.7	2.9	3.1
Industry	7.0	-3.7	-1.7	1.7	2.6	3.0
Services	6.7	0.0	2.3	3.3	3.4	3.7
Real GDP Growth, at constant market prices[1]	**4.8**	**0.0**	**3.2**	**2.7**	**3.1**	**3.4**
Private consumption	7.0	2.6	6.3	3.1	3.6	3.7
Government consumption	-1.3	-3.9	-11.8	3.9	1.1	2.1
Gross fixed capital formation	4.6	-14.9	-3.6	3.6	3.3	3.6
Exports, goods, and services	5.9	3.2	-1.1	0.7	1.7	2.5
Imports, goods, and services	11.0	1.8	4.1	4.4	3.6	3.7
Inflation (CPI)	**12.2**	**29.2**	**23.4**	**5.0**	**6.0**	**7.0**
Current Account Balance (% of GDP)	**-4.7**	**-1.0**	**-0.5**	**0.2**	**-0.5**	**-1.0**
Financial and Capital Account Balance (% of GDP)	3.1	0.0	1.5	1.8	1.4	1.6
Fiscal Balance (excluding grants, % of GDP)	**-7.9**	**-7.8**	**-6.8**	**-6.8**	**-6.2**	**-5.6**
Debt (% of GDP)	**80.6**	**81.5**	**72.7**	**74.6**	**77.0**	**76.9**
Primary Balance (excluding grants, % of GDP)	**-3.1**	**-1.0**	**0.9**	**1.8**	**1.5**	**1.5**

Sources: Pakistan Bureau of Statistics, State Bank of Pakistan, World Bank staff estimates.
Notes: This macroeconomic outlook uses the re-based national accounts data at 2015–16 prices. It was prepared by World Bank staff. It may differ from that of the Government. e=estimate; f=forecast.
[1] World Bank estimates for FY25.

The public debt-to-GDP ratio is projected to decline

Gross financing needs will remain elevated throughout the forecast period, reflecting maturing short-term debt, repayments to multilateral and bilateral creditors, and upcoming Eurobond maturities. Public debt, including guaranteed debt, is projected to

[30] Imports declined by 27.3 percent in FY23 and grew modestly at 3.6 percent in FY24. Import growth in FY25 is partly expected to be influenced by low base effects.

over the medium term

reach 74.6 percent of GDP in FY25. Public debt is projected to peak in FY26 at 77.0 percent, before declining steadily over the forecast period.

Weak economic growth, coupled with population expansion, will remain key constraints to poverty reduction

With annual population growth rates of nearly 2 percent, poverty is expected to remain broadly stagnant in the near term. With climatic conditions impacting overall agricultural production of key crops such as rice and maize, nearly 10 million people, mostly in rural areas, are expected to experience high levels of acute food insecurity in FY25.[31] A recent real increase in the Benazir Income Support Programme (BISP) benefits, as well as a planned expansion of the unconditional cash transfer program to 500,000 additional households by the end of the fiscal year, will help support consumption and partially cushion the poor from the short-term impacts of market shocks.

b. Risks and Priorities

Pakistan outlook is subject to sound macroeconomic management and the IMF-EFF program staying on track

Pakistan's economic outlook remains fragile and contingent on the successful completion of the IMF-EFF program, strict fiscal discipline, access to new external financing, and political stability. Any setbacks in policy implementation or delays in structural reforms could dampen the nascent recovery in business and consumer confidence and intensify external pressures. The country's significant external financing requirements, coupled with modest foreign exchange reserves and the elevated debt burden, also pose ongoing risks. Limited access to credit for households and small businesses, together with liquidity constraints in microfinance institutions, continues to limit financial inclusion, magnifying risks to households and the private sector.

Geo-economic and climatic risks weigh on the outlook

Rising protectionism and trade restrictions could reduce external demand and drive domestic inflation through impacts on global supply chains food and energy commodities—a large share of Pakistan's import basket. A slowdown in major economic partners, including China, may weaken foreign direct investment and trade. Tightening global financial conditions, with interest rate hikes in advanced economies in response to economic volatility and high domestic inflation, could raise external financing costs and pressure debt sustainability. Additionally, intensifying geopolitical conflicts in the Middle East and Eastern Europe could disrupt supply chains and investment flows. Climate change-induced weather events, particularly floods, continue to threaten agricultural productivity and infrastructure both domestically and abroad. A continued focus on strengthening policy buffers, boosting investments and exports, enhancing climate resilience, and actively fostering regional and global trade cooperation will help mitigate these risks.

With stabilization underway, reforms to unlock growth are urgent

Pakistan has historically experienced recurrent BOP crises, with growth dependent on consumption rather than productivity-driving investment and exports. To achieve higher rates of economic growth and poverty reduction, without unwinding progress in addressing fiscal and external imbalances, Pakistan should focus on: (i) ensuring a liquid inter-bank foreign exchange market operates alongside the fully market-determined exchange rate; (ii) advancing tariff policy reforms and reforming trade financing; (iii) accelerating high-profile privatizations to attract private investment; (iv) streamlining business regulations; (v) restructuring deposits to mitigate liquidity risks; and (vi) demonstrating reform commitment through public sector austerity. High-profile and high-impact reforms could help signal reform commitment, build confidence, and attract investments (Box 3.1). Additionally, digital connectivity is a key driver of economic growth and poverty reduction through its contribution to improving firm productivity, exports, and boosting jobs particularly for women. However, Pakistan falls behind peers in the access and quality of broadband and DPI. Targeted legal and regulatory reforms, increased private investment, and better coordination between federal and provincial

[31] Integrated Food Security Phase Classification, IPC Analysis Portal for Pakistan (dataset).

authorities are essential to closing the digital divide and expanding access to digital services (Section 4).

Box 3.1: Recommended Reforms to Ignite Economic Growth in the Immediate Term

1. Domestic Revenue Mobilization Reforms

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

Reform	Description
Prioritize an equitable, efficient, and sustainable tax system by broadening the tax base and improving tax administration	• Complete the implementation of the single portal for Goods and Sales Tax on Services (GSTS). • Implement the recently revised Agriculture Income Tax and reform property valuation to address systematic current 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 rationalize and reduce tax expenditures. Reduce the number of zero-rated items under the fifth schedule, eliminate preferential treatments under the income tax ordinance, and conduct ex-ante cost assessments for new exemptions, evaluate past exemptions, and institute sunset clauses.

***2.* Exchange Rate Reforms**

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

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

3. Trade Reforms

Slow implementation of an ambitious tariff reform plan, protectionist policies, and limited trade finance—exacerbated by the incomplete operationalization of EXIM Bank—continue to hinder investment, competition, and productivity growth.

Reform	Description
Credibly implement tariff policy reforms and enhance trade financing	• Announce commitment to an ambitious National Tariff Policy with a detailed and transparent implementation plan and avoid tariff policy reversals. • Start implementing year one actions under the above plan through the annual budget to eliminate regulatory duties and additional customs duties. Prioritize ambitious tariff reductions for inputs to support export growth in the latter years. • To support exporting firms, the government could announce the full operationalization of the EXIM Bank through the appointment of a Chief Executive Officer and capitalization through the annual budget, with development partner support as needed.

4. Investment and Business Environment Reforms

Inefficiencies and distortions associated with Government's large presence in commercial sectors of the economy are well known. Lags with implementing plans for privatization or the introduction of private participation are contributing to a credibility gap, with negative impacts on sentiment and investment. Additionally, the business environment remains complex and costly.

Reform	Description
Implement high-profile privatizations to crowd in private investors	• Complete ongoing concessioning process of key airports to the private sector. • Accelerate planned introduction of private participation in energy sector SOEs. • Make public offerings of shares in selected SOEs as a step towards commercial discipline, corporate governance, and enhanced performance.
Implement critical business enabling environment reforms	• Establish a National Regulatory Delivery Office to implement high-profile business environment reforms, including under the Pakistan Regulatory Modernization Initiative, and drawing from ongoing private sector consultation and feedback. • Pass the revised Investment Act to align the legislative framework with policy and good international practice; establish a single business registry for all firm registrations. • Fill leadership vacancies at the Competition Commission and Competition Appellate Tribunal with skilled and relevant staff. • Strengthen the country's legal, regulatory, and institutional frameworks for creditor/debtor relationships by implementing the recommendations from the Insolvency and

	Creditor/Debtor Rights Report on the Observance of Standards and Codes shared with the Securities and Exchange Commission of Pakistan.
5. Public Sector Reforms	
Reform	**Description**
Demonstrate reform commitment through public sector austerity measures	• Take further measures with government right-sizing, 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 substantially reduce future liabilities and facilitate transition to a contribution-based system over time.

4. Reimagining Digital Pakistan through Improved Digital Public Infrastructure and Connectivity

a. Introduction

Pakistan has increasing need for better connectivity, wider use of digital payments, and secure and trusted digital transactions

A profound digital transformation is shaping Pakistan. The digital economy has been growing, especially in major cities, increasing the need for connectivity, digital payments, and secure and trusted digital transactions. Digital government services have been increasingly deployed, including the Emergency Cash Program during the COVID-19 pandemic, leveraging the national ID system managed by the National Database and Registration Authority (NADRA) and household socioeconomic data from the National Socio-Economic Registry. Pakistan's Instant Payment System (RAAST) offers new possibilities for expanding digital government-to-persons payments.[32]

Pakistan lags comparators in terms of its digital infrastructure, digital governance, and enabling environment for the digital economy

Despite this progress, Pakistan lags comparators in terms of its digital infrastructure, digital governance, and enabling environment for the digital economy. The quality of digital connectivity is remarkably uneven across districts, and low by regional standards. Fixed broadband connections are unaffordable relative to international benchmarks. The uptake of digital services is constrained by limited or uneven digital literacy, unreliable connectivity, and costly devices. Despite strong national ID and payment systems, the lack of interoperability frameworks and mechanisms limits the capacity of the Government, as well as non-government actors, to exchange data responsibly.

Policy measures are required to address broadband infrastructure access and demand gaps for the country to reach its digital potential

To realize its digital potential, policy measures are required to address broadband infrastructure access and demand gaps. Action is required to: (i) accelerate the implementation of the National Fiberization Plan (NFP) to address the supply- and demand-side challenges faced by connectivity markets; (ii) provide one-time capital subsidies to overcome initial deployment barriers, subject to rigorous cost-benefit analysis, and ensuring longer-term commercial sustainability; (iii) expand investments to improve access to the national backbone infrastructure beyond traditional north-south corridor routes and improve resiliency of links in climate-vulnerable and flood prone areas; (iv) expand last-mile connectivity in select underserved and unserved areas through satellite connectivity; (v) reform policies to reduce market inefficiencies, including to address the fragmented RoW approval system; (vi) address demand-side barriers, including through targeted device affordability schemes, digital literacy and skills programs, and addressing social norms that restrict women's digital participation.

DPI can be a key enabler of inclusive economic growth and development and can also help to close the digital use gap within and between countries

Pakistan's digital potential is also constrained by underdeveloped Digital Public Infrastructure (DPI). DPI is an intermediate layer in the digital ecosystem that sits on top of a physical layer (including internet connectivity, devices, servers, data centers, the cloud, and routers) and enables applications across various sectors (for example, e-commerce, social protection, remote education, and telehealth). DPI can be a key enabler of inclusive economic growth and development in Pakistan and contributes to closing the digital use gap within and between countries. To complement measures to expand quality and access to broadband infrastructure, measures should be taken to further develop DPI. Key priorities for the Government are to: (i) invest in the integration of key DPI components operated by the public sector - including secure digital identification systems and digital payment platforms; and (ii) leverage data sharing across high-impact sectors,

[32] RAAST (Real-time Automated and Secured Transfer) is Pakistan's first instant payment system, developed by the State Bank of Pakistan (SBP). It enables real-time, digital fund transfers between individuals, businesses, and government entities. RAAST allows users to use their mobile phone numbers as their RAAST ID, making it easier to share and receive funds

for example, linking health systems with local government birth registration platforms or enabling educational institutions to verify degrees and credentials digitally.

b. Digital Connectivity Plays a Key Role in Driving Economic Growth and Inclusion

Digital connectivity is a key driver of economic growth and poverty reduction...

Digital connectivity is a key driver of inclusive and sustainable economic growth, enhancing productivity, expanding market access, and fostering innovation across sectors. By improving access to information, financial services, and digital infrastructure, connectivity enables businesses to scale, enhances public service delivery, and creates new economic opportunities, particularly in emerging markets. Internet connectivity also plays a crucial role in promoting inclusion by bridging gaps in education, healthcare, and financial access, ensuring that marginalized and underserved communities can participate more fully in economic and social life. Digital connectivity is also key to achieving the six outcomes of the new World Bank Pakistan Country Partnership Framework (CPF).[33] Evidence from Africa and Asia shows that the adoption of broadband internet can result in increased consumption and incomes, with effects often concentrated in the poorest households.[34] The contribution of the digital economy to Pakistan's economic growth is incipient. The ICT sector remains a relatively small part of Pakistan's economy, accounting for just 3 percent of GDP in FY24 and contributing only marginally to economic growth over the past decade. While digitally delivered exports have increased to around 10 percent of total exports, Pakistan's share in globally delivered digital exports remains low at just 0.1 percent.[35]

…through its contribution to improving firm productivity, exports, and boosting jobs particularly for women

Digital connectivity also supports increased labor force participation, new job creation based on new business models and expanded access to new markets. For example, evidence suggests that there are significant employment impacts of mobile internet expansion from 2G to 3G networks across 14 low- and middle-income countries. A 10-percentage point increase in 3G coverage increases employment rates by 2.1 percentage points.[36] The arrival of submarine cables that brought high-speed internet to Africa had a significant impact on firm productivity, exports, and job creation, especially in higher skill occupations.[37] When fast internet became available, the probability that an individual was employed increased by up to 13.2 percent, total employment per firm increased by up to 22 percent, and firm exports nearly quadrupled. Digital transformation also enables flexible and remote work options. This has been shown to have beneficial impacts for women in countries with low rates of female labor force participation and can be a pathway to better-paying jobs.[38]

When supported by adequately developed DPI, digital connectivity also enhances public services delivery

Access to digital connectivity also improves services delivery. Evidence suggests that digital connectivity and tools can increase immunization coverage, helping complete scheduled vaccinations on time; enable digital financial services, which can serve as a pathway to women's financial inclusion; improve last-mile service delivery of social protection programs; and reduce distortions in agricultural markets.[39] A key building block for service delivery is DPI, which enables applications across various sectors

[33] The six CPF outcomes are: (i) reduced child stunting; (ii) reduced learning poverty; (iii) increased resilience to climate change; (iv) cleaner energy and better air quality; (v) more public resources for inclusive development and (vi) increased productive private investment.

[34] Evidence shows that expanding internet coverage increased household consumption by 10.8 percent in Nigeria, 14 percent in Senegal, and 7 percent in Tanzania. These gains reduced extreme poverty by 10 percent in Senegal and 5 percentage points in Tanzania. In the Philippines, new internet connectivity increased household income by 17 percent, and expenditures by 10 percent. Source: Blumenstock et al. (2020) "The Impact of Mobile Phones: Experimental Evidence from the Random Assignment of New Cell Towers."

[35] Based on data from the World Trade Organization's digitally delivered services trade dataset.

[36] Chiplunkar and Goldberg (2022) "The Employment Effects of Mobile Internet in Developing Countries."

[37] Hjort and Poulsen (2019) "The Arrival of Fast Internet and Employment in Africa."

[38] Jalota and Ho (2024) "What Works for Her? How Work-from-Home Jobs Affect Female Labor Force Participation in Urban India."; Alhorr (2024) "Virtual Windows Through Glass Walls? Digitalization for Low-mobility Female Entrepreneurs."

[39] Banerjee et al. (2021) "The Effects of Financial Inclusion on Development Outcomes: New Insights from ASEAN and East Asian Countries;" Jack and Suri (2014) "Risk Sharing and Transaction Costs: Evidence from Kenya's Mobile Money Revolution;"

through core digital systems—such as digital ID and e-signatures, payments, and secure data exchange mechanisms.

c. Pakistan's Digital Connectivity Challenge

Pakistan faces major digital access and quality challenges

In Pakistan, internet access, quality, and usage remain low

Nationwide internet access remains low, with only 33 percent of the population reporting using the internet in 2022.[40] Additionally, Pakistan has the third-largest broadband usage gap in the world, with 140 million people living within the range of mobile broadband networks but not using the internet.[41] With nearly 17 percent of its population still living beyond the coverage of mobile broadband networks, coverage gaps in Pakistan are also among the highest in South Asia. Both 3G and 4G mobile population coverage in Pakistan—at 74.9 percent and 83.6 percent respectively—are below the South Asia regional average of 88.1 percent and 90.9 percent respectively. 4G is the dominant technology, accounting for two-thirds of the total mobile connections; however, around one-third of mobile users are still on legacy 2G networks.[42] In addition, Pakistan is one of the three countries in the region where 5G coverage is not available due to limited availability of fiber optic networks, low tower density, and a lack of feasible use cases. The low levels of internet access and high usage gaps partly stem from supply-side challenges within the country's connectivity value chain, as well as barriers related to literacy, skills, social norms, and affordability.

… and these challenges are more pronounced in rural areas

According to the Pakistan Social and Living Standards Measurement Survey 2019–20, there are significant disparities in digital device ownership and internet access between urban and rural areas. While 48 percent of urban households report having internet access, rural area internet access is less than half at 23 percent. Similarly, Global System for Mobile Communications Association (GSMA) surveys find that mobile ownership in urban areas stands at 80 percent, while actual adoption of mobile internet (53 percent) and use (47 percent) show considerable drop-off, with only 22 percent of urban residents engaging in diverse daily mobile internet usage. Rural communities lag, with mobile ownership at 64 percent, adoption at 38 percent, and regular use at 32 percent, while diverse daily use remains limited to just 17 percent of the rural population.[43]

Limited literacy and digital skills hinder women and girls' adoption and use of mobile internet

Across low- and middle-income countries, Pakistan faces a 38 percent gender gap in mobile phone ownership and mobile internet adoption and a 49 percent gender gap in smartphone adoption in 2021[44] —the largest gap among surveyed countries. While 53 percent of women report owning mobile phones, nearly half of women mobile phone owners do not regularly use mobile internet, and only 27 percent report daily use. Beyond cost barriers, literacy and digital skills further adversely affect women and girls, as do restrictive social norms. In Pakistan, barriers pertaining to restrictive social norms are the top barrier to adoption or use for 19 percent of women compared to just 4 percent of men.

Inadequate fixed broadband infrastructure is a key constraint

Upstream challenges lead to uneven and inadequate broadband supply…

Pakistan's national backbone infrastructure exhibits significant concentration along primary transport corridors that follow the Indus River, connecting the country's northern and southern regions. Security concerns in western provinces have further limited the construction of additional broadband infrastructure. Few internet service

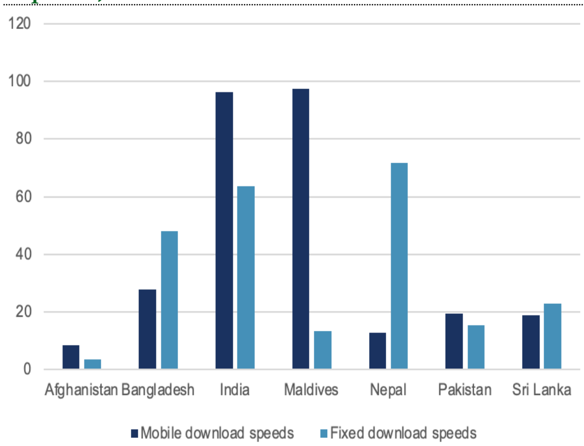
[40] World Bank Development indicators dataset, using data from International Telecommunication Union (ITU) World Telecommunication
[41] GSMA (2024) The State of Mobile Internet Connectivity 2024.
[42] GSMA (2024) The State of Mobile Internet Connectivity 2024.
[43] GSMA (2024) *The State of Mobile Internet Connectivity 2024*.
[44] GSMA (2024) *The State of Mobile Internet Connectivity 2024*.

providers (ISPs) have established nationwide fiber networks due to challenges in securing right-of-way (RoW) permissions from various stakeholders, key for deployment of critical infrastructure.[45] Consequently, Pakistan Telecommunications Company Limited maintains the only comprehensive nationwide connectivity infrastructure, creating dependency among smaller ISPs that rely on this dominant network. Disruptions along the north-south corridor result in significant disruptions to internet access within the country, as observed in August 2022 when a historical monsoon caused large-scale floods and led to multiple cuts along the country's backbone.[46]

… and contribute to low-quality costly internet for many regions

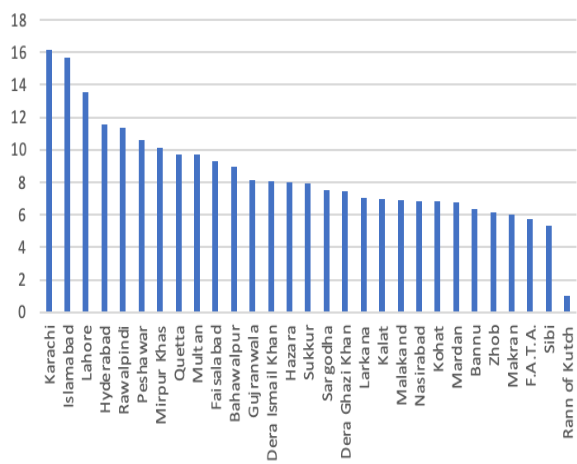
These challenges have downstream effects on quality measured in download speeds and costs of fixed and mobile broadband in the country. Pakistan has one of the lowest average fixed and mobile broadband speeds within the South Asia region. Average fixed broadband speeds are 16 Mbps in Pakistan, third lowest in the region. Average mobile broadband speeds are 20 Mbps, also the third lowest in the region (Figure 4.1). Fixed broadband speeds also vary across districts, with Karachi and Islamabad experiencing average speeds that are twice the speeds experienced in the median district (8 Mbps) (Figure 4.2). Fixed broadband packages cost 11.1 percent of the average monthly gross national income (GNI) per capita, more than five times above the international affordability benchmark set at 2 percent, and higher than the regional average. While entry-level mobile broadband packages cost 1.8 percent of average monthly GNI per capita, these packages can still be unaffordable for low-income and rural communities, which also experience poor quality of service due to lack of easy access to the fiber backbone and lack access to satellite-based internet facilities.

Figure 4.1: Average Mobile and Fixed Broadband Speeds, 2024



Source: Ookla.

Figure 4.2: Median Speeds Observed at the District Level, Q3 2024



Source: Ookla.

Without reforms, it will take approximately 30 years for Pakistan to reach FTTH connectivity levels of high-income economies

The current rate of fixed broadband deployments has plateaued, and estimates indicate that, at this pace, it could take approximately 30 years for Pakistan to reach fixed broadband connectivity levels comparable to those of high-income countries. According to a recent study by the International Finance Corporation, Pakistan lags a benchmark group of countries—Bangladesh, Egypt, India, Indonesia, and the Philippines—by approximately 5.1 million Fiber-to-the-Home (FTTH) lines. To close this gap by 50 percent by 2027, an average investment of US$2.5 billion in fixed broadband is required.

[45] Right-of-way refers to the legal right to pass through or use a specific area of land for transportation, utilities, or infrastructure development. It is commonly used in the context of roads, railways, pipelines, and telecommunications infrastructure.

[46] ISOC Pulse (2024) Focusing on Technology Limits Understanding of Internet Resilience: Pakistan Case Study

Addressing broadband infrastructure gaps will require public action to mobilize private investment

Expanding broadband infrastructure can be achieved through policy reforms, increasing private capital and investments, enhancing digital literacy, and leveraging satellite technologies

To rapidly expand access to broadband infrastructure, the following measures should be pursued:

- **Accelerate the implementation of the planned NFP to address the supply- and demand-side challenges faced by connectivity markets in Pakistan.** The NFP should focus on mobilizing private capital while improving digital access with emphasis on the coverage of schools and health and other public facilities, in addition to improving the affordability of internet and disaster resilience of the connectivity and data infrastructure of the country. Pakistan should also explore sustainable business models using satellite options, particularly for mobile tower backhauling and improving the quality of connectivity in underserved and unserved areas.
- **Mobilize private capital to help bridge the digital infrastructure gap.** Effectively mobilizing private capital to close remaining infrastructure gaps and improve digital infrastructure quality is key to realizing Pakistan's potential. Market segmentation can help distinguish between areas requiring only regulatory reforms to attract private investment, those needing one-time capital subsidies to overcome initial deployment barriers while remaining commercially sustainable, and regions requiring ongoing subsidies to ensure universal access to broadband (see Annex 2 for a description of the Digital Gaps Assessment Framework). When such a framework was applied to the Khyber Pakhtunkhwa province, analysis suggests that US$1 can crowd in between US$1.1 to US$1.8 of private capital to support the addition of more than 300,000 new FTTH lines. Implementation of reformed policy along with supply-side and demand-side investments showed potential to increase FTTH coverage of urban households from 5.8 percent to 41.4 percent and mobilize US$36 million in public capital and US$53 million in private investment.
- **Expand investments to improve access to the backbone beyond traditional north-south corridor routes and improve resiliency of links in climate-vulnerable and flood prone areas.** Expanding the backbone beyond the traditional north-south corridors can yield both improvements in speeds experienced, especially in more rural western and northwestern regions of the country and contribute to overall network redundancy during floods that affect the Indus River valley. Ensuring non-discriminatory access to the backbone on fair, transparent pricing terms will be key to galvanizing participation by smaller ISPs and expanding coverage at affordable rates. In addition, tower fiberization efforts are critical. When cell towers are connected via fiber optic cables rather than traditional microwave backhaul, they gain significantly higher data transmission capacity, which enables towers to handle more simultaneous connections and deliver consistently faster speeds to end users. Beyond performance benefits, fiber connections to towers can also be more reliable during adverse weather conditions compared to microwave links, which is particularly important in Pakistan's flood prone regions.
- **Reform policies to reduce market inefficiencies that currently impede private investment in broadband infrastructure.** For example, Pakistan's fragmented RoW approval system currently creates significant deployment barriers. Enabling the effective implementation of the public private RoW directive with consistent fee structures across provinces can help reduce regulatory uncertainty and encourage private sector investment through predictable deployment costs.

- **Address demand-side barriers in addition to supply-side efforts to expand connectivity.** Digital literacy and skills programs delivered through existing community institutions and developing practical, locally relevant content in regional languages can be critical to ensure uptake of internet across regions. Addressing social norms that restrict women's digital participation via community-based initiatives with female role models, family engagement programs that emphasize the importance of digital inclusion, and access points that are designed to be inclusive of women and girls—especially in rural areas—can help overcome some deeply embedded barriers.

- **Leverage satellite options for digital connectivity to complement hard infrastructure investments.** Although fiber deployment is capital expenditure intensive, it remains a future-proof solution for high-bandwidth backhauling, which is essential for future 5G deployment. Therefore, despite the availability of satellite services, fiberization will continue to be a fundamental prerequisite for enhancing mobile broadband services across the country, regardless of the last-mile technology used. However, satellite technologies are a viable and complementary option for expanding connectivity to hard-to-reach and yet-to-connected areas (Box 4.1). The Universal Service Fund in Pakistan should explore innovative and sustainable business models leveraging satellite technology to enhance the quality of rural broadband services.[47] Given the challenges of last-mile connectivity in remote areas, satellite-based solutions can play a crucial role in bridging the digital divide.

Box 4.1: Satellite Technology as a Complement to Fixed Broadband Infrastructure

Satellite technology can serve as a crucial complement to fixed broadband infrastructure, playing a vital role in bridging the digital divide, particularly in remote and underserved areas. Satellite broadband uses low orbit satellites to provide connectivity, rather than traditional wired infrastructure such as fiber or cable. However, fixed broadband, particularly fiber, remains the backbone of high-speed, high-capacity, and future-proof connectivity, essential for long-term digital growth and technologies such as 5G. Despite this, satellite connectivity can complement fixed broadband infrastructure by providing connectivity to areas where laying fiber connections would be exceptionally cost-prohibitive or logistically challenging. It can enhance last-mile access, support emergency and disaster recovery communication, and ensure digital inclusion, particularly for rural and remote areas.

Pakistan's digital potential is also constrained by underdeveloped DPI

DPI can support broader digital transformation

Investing in core digital connectivity must be complemented by enabling its use to ensure that the benefits of digital transformation are experienced by all. DPI can support broader digital transformation strategies, including those focused on building digital public services and digitalization across sectors. The private sector has a role to play as both DPI providers and users, creating new opportunities for crowding private investment into the digital service ecosystem. A DPI approach embeds principles around inclusion and data protection, and advocates for strong safeguards to ensure that no one is left behind. To the extent that DPI accelerates digitalization, it can improve downstream outcomes for people, governments, and businesses and help reduce the digital gap.

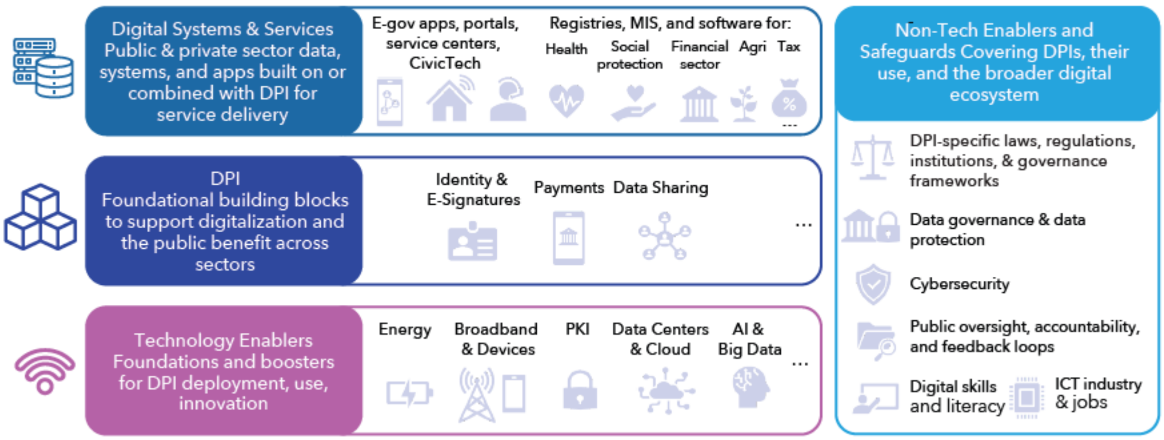
DPI also provides a foundation for digital investments and private sector development

At its simplest, DPI can be understood as an intermediate layer in the digital ecosystem that sits on top of a physical layer (including internet connectivity, devices, servers, data centers, cloud technology and routers) and enables applications across various sectors. These include for example, information systems and solutions to different verticals, e-commerce, social protection, remote education, and telehealth. It focuses on building core

[47] The Universal Service Fund in Pakistan is a government initiative aimed at expanding telecom and broadband services to underserved and remote areas, ensuring digital inclusion across the country.

digital systems—such as digital ID and e-signatures, payments, and secure data exchange—that serve as foundational tools for a wide range of services and transactions across both public and private sectors (Figure 4.1). To the extent that DPI accelerates digitalization, it can improve downstream outcomes for people, governments, and businesses and help reduce the digital gap.

Figure 4.3: The Role of Digital Public Infrastructure in Accelerating Digitalization



Source: Digital Public Infrastructure and Development: A World Bank Group Approach (forthcoming in 2025).
Note: MIS=Management Information System; PKI=public key infrastructure; AI=artificial intelligence.

DPI can help bridge the digital divide in Pakistan

DPI can be a key enabler of inclusive economic growth and development in Pakistan and contribute to closing the digital use gap within and between countries. DPI enables governments and businesses to swiftly introduce new or improved services by providing flexible, interoperable systems that integrate seamlessly into various software applications and processes. This approach eliminates the need to build solutions from scratch, improving efficiency and making it easy to scale up digital solutions.[48] For example, during the COVID-19 pandemic, countries with existing DPIs were able to provide emergency assistance faster and reach three times more beneficiaries compared to countries without.[49] The DPI approach can significantly improve efficiency and reduce costs of government and private sector service providers, accelerating the development of new services while also expanding inclusion. In Singapore, eKYC, facilitated by the Singpass consented data sharing service, has reduced the time required to complete digital transactions by 80 percent. In India, the Aadhaar ID system has lowered firms' onboarding costs from approximately US$23 to less than US$0.15.[50]

Pakistan's experience with digitalizing G2P payments demonstrates the critical role of DPI

The digitalization of Government-to-person (G2P) payments in Pakistan has further illustrated these benefits. Digital identification-linked cash transfers increased women's reported control over cash by 9 percentage points in Pakistan under BISP.[51] Research shows that DPI can accelerate progress towards achieving financial inclusion, for example via facilitating remote account opening, enabling more efficient digital remittances, or improving access to finance by micro, small, and medium enterprises.[52] This is especially important for vulnerable and disadvantaged groups that may otherwise be hard to reach. The digitalization of G2P payments has enabled 865 million people worldwide,

[48] Desai et al. (2022) *Unraveling Data's Gordian Knot: Enablers and Safeguards for Trusted Data Sharing in the New Economy*.
[49] Marin and Palacios (2022) *The Role of Digital in the COVID-19 Social Assistance Response*.
[50] World Bank Group (forthcoming) *Digital Public Infrastructure and Development: A World Bank Group Approach*.
[51] Clark et al. (2022) Using Biometrics to Deliver Cash Payments to Women: Early Results from an Impact Evaluation in Pakistan.
[52] Ardic Alper et al. (2023) *G20 Policy Recommendations for Advancing Digital Financial Inclusion through Digital Public Infrastructure*.

particularly women and low-income individuals, to open their first financial institution accounts to receive government payments.[53]

Despite progress with relatively high digital ID coverage, Pakistan has a large gender gap

Pakistan has achieved relatively high ID coverage among adults (88.3 percent) but also has one of the most significant gender gaps—22 percentage points—making it one of the largest globally. Foundational, digitalized ID systems are one of the core pillars of DPI, created to manage identity information for the general population and provide trusted and verifiable credentials that facilitate identity verification and authentication across public and private sector transactions. Within the context of DPI, for ID ecosystems to be effectively leveraged, some core features and capabilities include: (i) universal accessibility/coverage; (ii) the ability to offer trusted digitalized identity verification and authentication in the context of in-person transactions; and (iii) the ability to facilitate secure access for people and businesses to complete transactions fully remotely, online. Pakistan has made progress across (i) and (ii) but requires significant investments for (iii) (Table 4.1). NADRA's Computerized National Identity Card (CNIC) system offers multiple authentication and identity verification options for service providers across both the public and private sectors and enables millions of transactions each day through some forms of digital verification, authentication, and integration with various services. But this does not always translate into easy-to-verify identities in the context of service delivery. Digital identity solutions that can facilitate *secure and fully remote* access to online services and transactions—for example, to enable people to apply for a social grant, open a bank account, or register business anywhere, anytime, without the need for an in-person office visit—are still in the early stages.

Table 4.1: Snapshot of the Digital Capabilities of Government-recognized ID across 3 Capabilities

	Digital ID Data (Y/N)	Digital ID Verification (Y/N)	Digital ID Authentication (Y/N)
Bangladesh	Yes	Yes	No
Bhutan	Yes	Unknown	Yes
India	Yes	Yes	Yes
Maldives	Yes	Yes	Yes
Nepal	Yes	Yes	No
Pakistan	Yes	Yes	No
Sri Lanka	Yes	Yes	No

Source: Metz et al. (2024) *ID4D Global Dataset 2021*.
Note: Data are shown in the following order of digital ID capabilities: (i) digitally stored records; (ii) digital verification or authentication for in-person transactions; (iii) digital authentication for online transactions.

Additionally, even with progress around developing a fast interoperable digital payments system, use cases remain limited…

Pakistan has a fast payments system with a rapidly growing adoption but still requires the capability to support a broad set of use cases, especially those for government payments. While financial system development and digital payment adoption in particular remain in the early stages of maturity across most South Asian countries, Pakistan stands out as one of the few countries in the region to have a fully interoperable fast payments system, RAAST (operated by the SBP). Currently, RAAST handles a daily average of 3 million transactions, with a total daily value of approximately PKR 51 billion (US$170 million), which are largely person-to-person (P2P).[54] It currently supports P2P, person-to-merchant, and bulk institutional payments. RAAST is still developing the necessary capabilities to be able to support person-to-government (P2G) and G2P payments. Once finalized, there will be a need for government platforms to integrate with RAAST for these P2G and G2P transfers, which can lead to increases in efficiency and cost-effectiveness for governments already digitalizing payments and could also represent an attractive opportunity for government payments that have not yet been digitalized. In

[53] Demirgüç-Kunt et al. (2022) The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19.
[54] State Bank of Pakistan (2024) *Payment Systems Quarterly Review: For the First Quarter of Fiscal Year 2024-25*.

turn, supporting digitalizing these payments can boost trust and convenience for users and can also contribute to advancing financial inclusion in the country.

…primarily because of low levels of financial inclusion with large disparities across gender and income

Financial inclusion, in particular account ownership, remains a challenge in Pakistan, hindering the impact a fast payment system could have in end users. Pakistan is not only the country with lowest account ownership in the region, but there are also persistent gaps between rich and poor and between men and women. Although account ownership and mobile money usage are on the rise, 114 million adults in Pakistan remain unbanked (Table 4.2). Only 18 percent of adults have made or received a digital payment, and large disparities persist—particularly across gender and income levels—both in owning accounts and using digital financial services.

Table 4.2: Fast Payment Systems and Financial Inclusion in South Asia

	Fast payment system (0/1)	Adults with an account (%)	Proportion of payments made electronically (share of total payments made in a month by the firm)	Adults that made a digital payment (%)	Adults that received a digital payment (%)
Bangladesh	0	53%	3%	41%	26%
Bhutan	1	N/A	72%	N/A	N/A
India	1	78%	N/A	25%	19%
Maldives	0	80%	N/A	61%	50%
Nepal	1	54%	10%	19%	19%
Pakistan	1	21%	22%	15%	8%
Sri Lanka	1	89%	N/A	43%	30%

Source: Demirgüç-Kunt et al. (2022) *The Global Findex Database, 2021*; World Bank Enterprise Surveys Data; World Bank FASTT Global Tracker, 2021.

Data governance, and integration, a core element of DPI, remains weak…

Progress on data sharing remains limited, with enabling policies, legal frameworks, institutional arrangements, and technical infrastructure still largely absent beyond sector-specific use cases. Although most public registries rely on NADRA's CNIC as a common identifier, there is limited system-wide integration for verification. This represents a critical gap that could be addressed through the development of interoperability frameworks and secure data exchange platforms—such as government service buses and API gateways—to allow data to flow both horizontally (across services providers) and vertically (within different tiers of government). Furthermore, data governance is devolved, with provinces advancing at different paces and often in isolation, reinforcing the urgent need to invest in shared infrastructure and institutional capacity to support coordinated, secure, and scalable data sharing.

…as legal, institutional, and regulatory enablers are either entirely absent or nascent

Effective data sharing also relies on strong legal, institutional, and regulatory enablers, such as the adoption and implementation of data protection legislation and cybersecurity frameworks—areas in which Pakistan continues to face significant gaps. While a draft data protection bill has been drafted, it has yet to be enacted. Once formalized, establishing the necessary institutions and processes to support its enforcement will be critical. Additional progress could involve establishing legal and regulatory frameworks for cross-border data flows. The 2020 Global Data Regulation Diagnostic found that South Asia, including Pakistan, remains highly fragmented in terms of digital trade and cross-border data governance—performing below the average for low-income countries (Table 4.3).[55] Similarly, the 2020 Global Cybersecurity Index ranks Pakistan 79th globally, compared to India in the top 10 and Bangladesh at 53rd.[56] Strengthening data protection, cybersecurity, and cross-border data frameworks across the region will be essential to breaking sectoral and regional silos.

[55] World Bank Global Data Regulation Diagnostic Survey Dataset 2021.
[56] ITU (2021) *Global Cybersecurity Index 2020*.

Table 4.3: Data Governance Maturity in Pakistan and South Asia

	E-commerce/ transaction	Public intent data	Private intent data	Personal data	Non-personal data	Cyber-security and cybercrime	Cross-border data transactions /flows	Enablers	Safeguards
Bangladesh	60	79	25	4	0	46	0	55	13
India	70	61	25	4	0	46	46	52	25
Nepal	45	64	0	42	50	50	0	36	35
Pakistan	95	50	25	4	50	50	27	57	20
Sri Lanka	80	93	0	0	100	38	0	58	34

Source: Global Data Regulation Diagnostic, 2020.
Note: Country scores on various Global Data Regulatory dimensions (0–100, high)

Policy actions are required to build Pakistan's DPI

Integrating and streamlining DPI can augment government services, increase access to social protection, and enhance user agency and trust, but this requires policy reforms

The potential benefits of digitization could be realized through the following measures to enhance DPI:

- **Invest in the integration of key DPI components**—including secure digital identification systems and digital payment platforms such as RAAST, through building technical architecture around G2P payments such as social transfers and subsidies, and P2G payments such as taxes, fees, and utility bills. By embedding these capabilities into the DPI ecosystem, governments can reduce administrative barriers, improve service delivery, and enhance user agency, privacy, and trust.

- **Leverage data sharing across high-impact sectors to enhance DPI.** Building on the DPI systems, digital transformation can be achieved by leveraging data sharing across high-impact sectors. For instance, linking health systems with local government birth registration platforms, or enabling educational institutions to verify degrees and credentials digitally, can dramatically improve service delivery. The COVID-19 pandemic highlighted the importance of digital identity solutions that allow individuals to apply for social assistance, open bank accounts, or register businesses from anywhere at any time—highlighting the critical role of DPI in enabling payments. Remote authentication and data exchange can also facilitate the fully digital delivery of services such as pensions and social protection payments, removing the need for in-person visits. Prioritizing life event-based services—such as birth registration, domicile certification, college admissions, driving licenses, tax payments, and utility connections—that rely on critical life events can generate meaningful cases.

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Annexes

Annex 1: Poverty Projections

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

World Bank poverty projections come from a model that is based on the 2018–19 HIES data and projects each household's consumption over time by simulating the evolution of real labor and non-labor income. The resulting consumption distribution is then used to produce poverty projections for FY20 to FY25. More specifically, labor income is modeled using the real growth rates of 11 sectors of the economy in which members of each household work. That is, each household member's projected income is computed by applying the growth rate of the relevant sector to their income at baseline. Total labor income is then calculated as a sum of all household members' projected incomes, weighted by their total contribution to that income component. For non-labor income, remittances and private transfers are assumed to have constant purchasing power over time, whereas public transfers are modeled after BISP payouts, which have stayed constant in nominal terms until very recently. Lastly, household-level monthly inflation rates are used to produce real consumption projections. Household-level inflation rates are produced using published inflation numbers for each major consumption category, weighted by each household's category-wise budget shares.

Using the 2018–19 baseline, the model projects monthly household consumption. Poverty headcount is then computed using the national poverty line (PKR 3,030 per adult equivalent per month in 2013/14, or PKR 8,231 in 2024 prices). The projected poverty headcount rates are outlined in Table A2.1 and Figure A2.1.

Figure A2.1: National Poverty Headcount

(Percent)

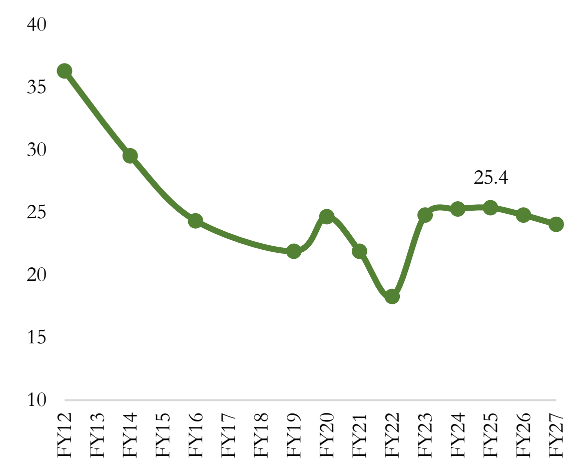


Table A2.1: Projected Poverty Headcount

(Percent)

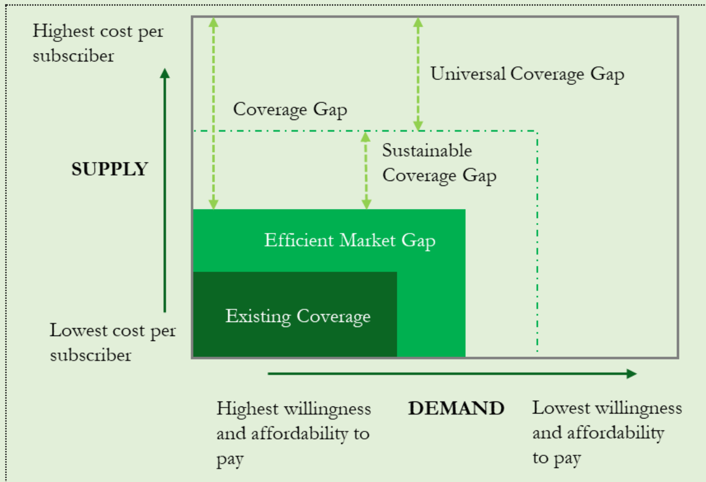
	FY19 (baseline)	FY20	FY21	FY22	FY23	FY24	FY25 (nowcast)	FY26	FY27
Poverty headcount, percent	21.9	24.7	21.9	18.3	24.8	25.3	**25.4**	24.8	24.0

Annex 2: Digital Gaps Assessment Framework (DGAF)

The Digital Gaps Assessment Framework (DGAF) provides a systematic methodology for identifying where and how to deploy resources most effectively.

The DGAF methodology segments the market into four:

- 1) Areas with existing broadband coverage where no intervention is required for well-functioning markets).
- 2) Areas where policy and regulatory reforms alone can fuel private investments and expand broadband coverage.
- 3) Areas that face an initial capital investment cost that is too high, but where viability gap funding can prove key and galvanize subscribership for a well-functioning market not requiring ongoing support.
- 4) Areas where ongoing subsidies may be required to close access gaps to high-speed broadband.



By categorizing areas based on commercial viability and investment requirements, policymakers can develop targeted interventions that address specific barriers to connectivity in each market segment. Analysis conducted in Khyber Pakhtunkhwa province demonstrates the power of targeted interventions across different market segments. The study revealed three critical intervention types with significant potential impact.

Policy reforms to reduce deployment costs: Standardizing RoW charges across regions (reducing from US$42 to US$17 per line in existing coverage areas) would substantially lower infrastructure deployment costs.

Targeted supply-side investments: Strategic public investments of US$84 per line in commercially viable but unserved areas and US$97 per line in areas requiring initial capital support would effectively lower deployment costs in regions where capital investments prove to be a key barrier.

Demand-side subsidies for affordability: Time-limited subsidies for specific user groups such as students could increase adoption by an additional 12 percent of households in otherwise sustainable markets.

The approach taken in the Khyber Pakhtunkhwa province shows remarkable potential for nationwide application. Each dollar of strategic public investment mobilized between US$1.10 and US$1.84 in private capital, with potential to increase FTTH coverage from 5.8 percent to 41.4 percent of urban households. Overall, the approach could mobilize US$36 million in public funding alongside US$53 million in private investment for over 345,000 new fiber connections. This evidence-based framework offers a blueprint for nationwide broadband expansion through smart public interventions that maximize private sector participation across Pakistan's diverse market segments.

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