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Editorial

SPECIAL ISSUE ON BUDGET & ECONOMY

Dear Readers!

We are pleased to share that the Pakistan Institute for Parliamentary Services (PIPS) continues to provide technical assistance to Honorable legislators of National Parliament and Provincial Legislatures as per its approved work plan. Honorable Yousaf Raza Gilani, Chairman Senate of Pakistan/President PIPS Board of Governors presided over the meeting of BoG on May 14, 2026 which unanimously approved the Institute's budget along with business plan as well as 45 cr hr mandatory Parliamentary Leadership Courses (PLC) for Members of all legislatures in Pakistan. As guided by the Board, PIPS will also commence Senior Parliamentary Course (SPC) and National Parliamentary Course (NPC) for BS19 and 20 officers in addition to the establishment division also offering existing SMC and NMC for officers of provincial assemblies, regional legislatures and the Institute.

We are pleased to inform that as part of Parliamentary Studies Initiative, PIPS is developing repository of dissertations, with thesis from Quaid e Azam Univ. QAU, International Islamic Univ. IIUI, Univ. of Punjab, Univ. of Peshawer, Univ. of Gujrat, GCU Lahore, Islamia Univ. Bahawalpur, & BZU Multan; accessible at: https://www.pips.gov.pk/parliamentary_study/. Team PIPS joins nation wide felicitations, to commemorate Marqa e Haq "Bunyanoun Marsus," on May 6-10, to acknowledge the blissful victory as bestowed by Allah swt. We salute martyrs and ghazis from amongst our people and forces who defeated a tyrannical enemy in four-days war in 2025. All legislatures in Pakistan manifesting the will of the people have expressed unflinching unity of the country in facing any future misadventure with renewed zeal and robust response. In continuation of last month, this Special Issue on Economy and Budget includes analytical articles on national economy emphasizing on way forward for improved tax to GDP ratio, FDIs and spending for social sectors: education, health, to trigger national human development index. Pls contact for technical services and feedback at research@pips.gov.pk

Muhammad Rashid Mafzool Zaka
Director General (Research)

Hon Syed Yousaf Raza Gilani Chairman Senate/President PIPS Board of Governors chairs the 45th Meeting of BoG unanimously approving business plan 2026-27 on Wednesday, 13th May, 2026

From Page 4 of article titled "Economy of Pakistan: Way forward for Public Welfare and Increased FDI"

Figure 3: Sector Wise (USD million)

4.1) Agri-Based Sector

Net Inflows

60.0 50.0 40.0 30.0 20.0 10.0 -

FY97 FY98 FY99 FY00 FY01

Food, Beverages Tobacco · Sugar · Leather and Leather Products

Inflows

700.0 600.0 500.0 400.0 300.0 200.0 100.0 0.0

FY 13 FY 14 FY 15 FY 16 FY 17 FY 18 FY 19 FY 20 FY 21 FY 22 FY 23 FY 24 FY 25

Leather & LeatherProducts · Su gar · Tobacco & Cigarettes · Beverages · Food Packaging · Food

Outflows

250.0 200.0 150.0 100.0 50.0 -

FY 13 FY 14 FY 15 FY 16 FY 17 FY 18 FY 19 FY 20 FY 21 FY 22 FY 23 FY 24 FY 25

Leather & LeatherProducts · Su gar · Tobacco & Cigarettes · Beverages · Food Packaging · Food

4.2) Light Industry

Net Inflows

40.0 30.0 20.0 10.0 -

FY97 FY98 FY99 FY00 FY01

Textiles · Paper and Pulp · Rubber and Rubber Products

Inflows

150.0 120.0 90.0 60.0 30.0 0.0

FY 13 FY 14 FY 15 FY 16 FY 17 FY 18 FY 19 FY 20 FY 21 FY 22 FY 23 FY 24 FY 25

Textiles · Paper & Pulp · Rubber & Rubber Products · Cosmetics · Storage Facilities · Ceramics

Outflows

40.0 30.0 20.0 10.0 -

FY 13 FY 14 FY 15 FY 16 FY 17 FY 18 FY 19 FY 20 FY 21 FY 22 FY 23 FY 24 FY 25

Textiles · Paper & Pulp · Rubber & Rubber Products · Cosmetics · Storage Facilities · Ceramics

4.3) Heavy Industry

Net Inflows

150.0 120.0 90.0 60.0 30.0 -

FY97 FY98 FY99 FY00 FY01

Chemicals, Pharmaceuticals, Metal&Fertilizers · Cement · Electrical Machinery & Electronics · Machinery other than Electrical

Inflows

500.0 400.0 300.0 200.0 100.0 0.0

FY 13 FY 14 FY 15 FY 16 FY 17 FY 18 FY 19 FY 20 FY 21 FY 22 FY 23 FY 24 FY 25

Chemicals · Pharmaceuticals&OTC Products · Fer tili zer s · Cement · BasicMetals · Metal Products · Machinery other than Electrical · Electrical Machinery · E lec tron ics

Outflows

450.0 400.0 350.0 300.0 250.0 200.0 150.0 100.0 50.0 -

FY 13 FY 14 FY 15 FY 16 FY 17 FY 18 FY 20 FY 21 FY 22 FY 23 FY 24 FY 25

Chemicals · Pharmaceuticals & OTC Products · Fertilizers · Cement · Basic Metals · Metal Products · Machinery other than Electrical · Electrical Machinery · Electronics

ANALYSIS

Economy of Pakistan: Way forward for Public Welfare and Increased FDI

Dr. Mahmood Khalid
Senior Research Economist, PIDE

Foreign Direct Investment (FDI) plays an important role for economic development in the host country through increasing capital accumulation, supporting technology transfer, and by virtue of back ward linkages promote integration into global value chains. In case of Pakistan FDI inflows had remained volatile, small, and not linked to structural economic transformation as desired in line with the theory. This does not mean theory is incorrect rather there are chock points which holds back this impact. In this paper we argued that the developmental impact of FDI in Pakistan is limited by macroeconomic instability, weak institutional quality, and low absorptive capacity hence the full potential is not realized. Using available data and policy evidence, the paper concludes that FDI in Pakistan has mainly been concentrated in non-tradable sectors which means limited spillovers, coupled with domestic structural weaknesses have resulted in FDI under performing on the sustained productivity gains. The paper recommends to have a policy framework centered on macroeconomic stability, export oriented industrialization, and institutional reforms to seize the true potential through bringing in more and relevant FDI.

1. Introduction

Pakistan's economic history since independence has been marked by recurring phases of growth acceleration along with macroeconomic instability. While early decades saw industrial expansion and agricultural modernization, particularly during the Green Revolution phase, subsequent policy shifts; including nationalization of the 1970s and uneven liberalization thereafter, produced a structurally fragile growth model.[1] Despite repeated stabilization efforts under International Monetary Fund (IMF) programs, the economy still continues to face persistent external imbalances, low investment rates, and limited export diversification.

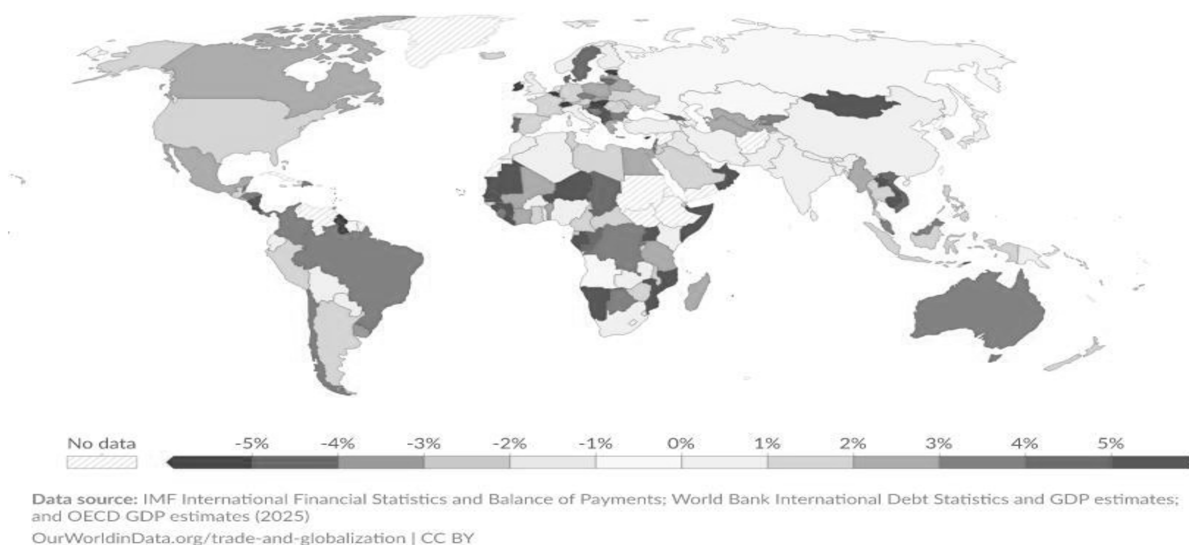
Figure 1

Source: FJK (2023)

[1] Ministry of Finance, *Pakistan Economic Survey 2023* (Islamabad: Government of Pakistan, 2023).

Given this background, Foreign Direct Investment (FDI) has mostly been viewed as a tool to augment domestic savings, enhance productivity, and support structural transformation as that's what the theory says. However, Pakistan's experience suggests that despite many incentives the FDI has not played this transformative role. FDI inflows in Pakistan have remained modest, unlike peer economies of South Asia. Pakistan's FDI inflows have remained below 1% of GDP, and highly volatile, peaking during privatization episodes in the mid-2000s before declining sharply again.[2]

Figure 2



If one draws conclusion that FDI has been ineffective in bringing the desired economic change then these facts also have to be considered. Such as the limitation lies not merely in volume of FDI, but in the broader economic and institutional environment under which FDI is attracted and that has not allowed harnessing the true potential for FDI inflow and its subsequent influence on socio-economic welfare of Pakistan. Structural constraints, governance weaknesses, and macroeconomic instability have restricted both the inflow of FDI and its ability to generate productivity spillovers and welfare gains put as promise for FDI.

2. FDI and Economic Development: Conceptual Linkages

The relationship between FDI and economic growth has been extensively studied in the literature. Here we briefly summarize the channel through which FDI contributes to development. These could be through multiple channels, including capital accumulation, technology transfer, human capital formation, and integration into global value chains.[3] Multinational firms introduce advanced production techniques and managerial practices, enhancing productivity in host economies especially if coming as a brown field investment (new sectors of the economy).

[2] State Bank of Pakistan, *Annual Report 2024* (Karachi: State Bank of Pakistan, 2024).

[3] E. Borensztein, J. De Gregorio, and J.-W. Lee, "How Does Foreign Direct Investment Affect Economic Growth?," Journal of International Economics 45, no. 1 (1998): 115–135; Lorenzo Alfaro, Areendam Chanda, Sebnem Kalemli-Ozcan, and Selin Sayek, "FDI and Economic Growth: The Role of Local Financial Markets," Journal of International Economics 64, no. 1 (2004): 89–112.

However, these benefits are conditional on the host country's absorptive capacity. FDI by itself is not a guaranteed panacea; its benefits such as capital accumulation, technology transfer, and global value chain (GVC) integration, are conditional. Borensztein et al. (1998)[4] stated that the impact of FDI depends critically on the level of human capital in host country attracting FDI. Similarly, Alfaro et al. (2004)[5] emphasizes the role of financial development in these enabling spillovers. In weak institutional environments, FDI may remain confined to enclaved sectors with limited linkages to the domestic economy hence not delivering on the intended promises.[6]

Pakistan's case reflects these limitations; as structural and institutional weaknesses constrained the effective transmission of FDI into productivity gains. *The Absorptive Capacity Constraint* has minimized the "spillover" effects of FDI which in turn depended on domestic factors such as human capital, financial market depth, and institutional quality. Along with that Pakistan has hit a *Low-Investment Equilibrium* trap also where the economy has remained in a consumption-led growth model where 90% of growth is driven by domestic demand rather than investment or exports as the basis for it.

3. Structural Features of Pakistan's Economy

If we dig deep to identify the bottlenecks or factors which have constrained the full impact of FDI then a fundamental constraint on the effectiveness of FDI in Pakistan appears to be in the structure of its economy. Pakistan exhibits a consumption led growth model, with private consumption exceeding 80 percent of GDP in recent years.[7] This type of demand has led to a persistent reliance on imports (not just for imported raw materials but also inviting imports of FMCGs), contributing to chronic trade deficits as well. For instance, imports reached approximately $63.8 billion compared to exports of $38.6 billion, resulting in a significant external imbalance.[8]

Whereas exports have remained stagnant at around 8–10 percent of GDP over the past two decades, indicating weak competitiveness, lack of diversification and limited integration into global market.[9] This structural imbalance reduces the attractiveness of Pakistan for export oriented FDI altogether.

Sectoral composition further reinforces these constraints as a major reason. Agriculture contributes roughly 24 percent of GDP while employing over one third of the labor force, resulting in low productivity and low technology use.[10] FDI in this sector is restricted and minimal, meaning the largest employment block is excluded from global technological gains. The second important sector; the industrial sector, accounts for around 18 percent of GDP, and dominated by textiles products. It exhibits limited diversification, lack of value addition and innovation. Large-scale manufacturing concentration in low-complexity sectors like textiles and cement itself reflects lesser potential of higher FDI. The industrial sector's stagnation reflected a lack of export diversification as one of the major negative factor. Meanwhile, services sector in economy accounts for nearly 58 percent of GDP and have been the primary driver of growth, attracting significant FDI (sectors like Banking, Telecom) but it has led to "jobless growth" or inadequate high-quality job creation through this expansion. Much of this expansion has occurred in areas with low productivity, non-tradable activities.

Secondly the productivity trends also remained weak. Evidence suggests that despite capital deepening has contributed significantly less to productivity growth in Pakistan compared to regional peers or available

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[4] Borensztein et al., "Foreign Direct Investment and Economic Growth," 115–135.

[5] Alfaro et al., "FDI and Economic Growth: Local Financial Markets," 89–112.

[6] Ricardo Hausmann and Dani Rodrik, "Economic Development as Self-Discovery," Journal of Development Economics 72, no. 2 (2003): 603–633.

[7] World Bank, *World Development Indicators 2023* (Washington, DC: World Bank, 2023).

[8] Ministry of Finance, *Pakistan Economic Survey 2023*.

[9] State Bank of Pakistan, *Annual Report 2024*.

[10] Pakistan Bureau of Statistics, *National Accounts Data 2023* (Islamabad: Government of Pakistan, 2023).

literature. The overall total factor productivity growth has been modest even in times with higher FDI.[11] These factors and others collectively reduce the economy's attractiveness to foreign investors seeking dynamic and competitive production environments.

4. Trends and Composition of FDI in Pakistan

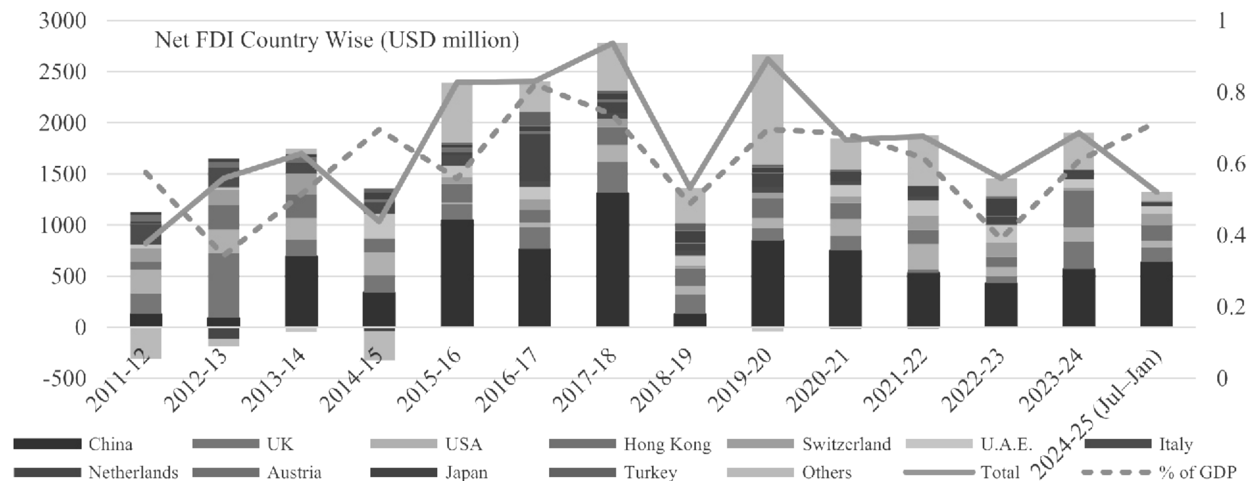
As mentioned earlier the FDI inflows in Pakistan have been characterized by volatility, sectoral concentration, and weak linkages to the domestic economy. Data shows that FDI peaked during 2006–2008 period, largely driven by privatization and liberalization policies in that period, but declined sharply thereafter despite initiation of bigger projects such as CPEC.[12] A notable feature of FDI in Pakistan is its concentration in sectors such as telecommunications, energy, and services only. While these sectors have contributed to infrastructure development, they have limited potential for export generation and technological spillovers. Manufacturing, which is typically associated with higher productivity gains and export diversification, has attracted relatively little foreign investment.

Figure 3: Sector Wise (USD million) *Source: SBP*

NOTE: *(Please see first inner page and last inner page for sector wise representation through charts)*

Specifically, the China Pakistan Economic Corridor (CPEC), launched in 2015, represented a major effort to enhance infrastructure and connectivity in the economy. While CPEC does have improved energy supply and transport networks, its impact on industrial development and exports remained limited. Empirical evidence suggests that while CPEC may increase welfare through improved connectivity, which isestimated at around 5 percent, its contribution to structural transformation has been modest.[13]

Figure 4



5. Institutional and Macroeconomic Constraints

Further, the macroeconomic instability has been a persistent feature of Pakistan's economy and thus a major deterrent to FDI. Instability and insecurity of return is a big negative marker. These "hidden taxes" on investment in Pakistan are often more prohibitive than the formal ones. Businesses ask for sovereign

[11] Asian Productivity Organization, *Productivity Databook 2024* (Tokyo: Asian Productivity Organization, 2024).

[12] State Bank of Pakistan, *Annual Report 2024*.

[13] Muhammad Aslam et al., "Impact of CPEC on Social Welfare," Indus Journal of Social Sciences 1, no. 2 (2023): 1–17.

advisories and any red flag increases the premium/risk adjustment for the investment returns. Exchange rate volatility, inflation, and recurring balance of payments crises increase uncertainty and raise the cost of investment. However evidence suggests that FDI inflows in Pakistan are relatively insensitive to exchange rate depreciation, indicating that investors prioritize macroeconomic stability over cost competitiveness.[14]

Institutional quality is another critical constraint. High levels of corruption and political instability impose implicit costs on businesses and reduce investor confidence. Firm level data from the World Bank Enterprise Survey indicate that political instability is cited as the most significant constraint (by 27.1 percent of firms), significantly higher than regional averages.[15] Corruption further increases transaction costs and discourages efficiency seeking investment. In this case 11.1% of firms identify corruption as their primary obstacle which is nearly double the global average (5.6%). This discourages "efficiency-seeking" investors who bring technology, leaving only "market-seeking" investors.

Table 1

Indicator	Pakistan (2022)	Middle East, North Africa, Afghanistan and Pakistan	All Economies
Percent of firms choosing access to finance as their biggest obstacle	14.8	21.4	17.8
Percent of firms choosing access to land as their biggest obstacle	7.4	3.1	3.2
Percent of firms choosing business licensing and permits as their biggest obstacle	3.4	5.7	3.2
Percent of firms choosing corruption as their biggest obstacle	11.1	5.8	5.6
Percent of firms choosing courts as their biggest obstacle	0.5	0.7	0.7
Percent of firms choosing crime, theft and disorder as their biggest obstacle	1	1.5	4.5
Percent of firms choosing customs and trade regulations as their biggest obstacle	6	4.8	3.8
Percent of firms choosing electricity as their biggest obstacle	7.7	9.2	7.2
Percent of firms choosing inadequately educated workforce as their biggest obstacle	1.6	11.4	11.9
Percent of firms choosing labor regulations as their biggest obstacle	2	4	4.2
Percent of firms choosing political instability as their biggest obstacle	27.1	9.7	9.5
Percent of firms choosing practices of the informal sector as their biggest obstacle	3.1	7.8	8.6
Percent of firms choosing tax administration as their biggest obstacle	0.3	2.4	3.1
Percent of firms choosing tax rates as their biggest obstacle	12.1	8.2	13
Percent of firms choosing transportation as their biggest obstacle	2	4.3	3.8

Source: WB Enterprise Survey

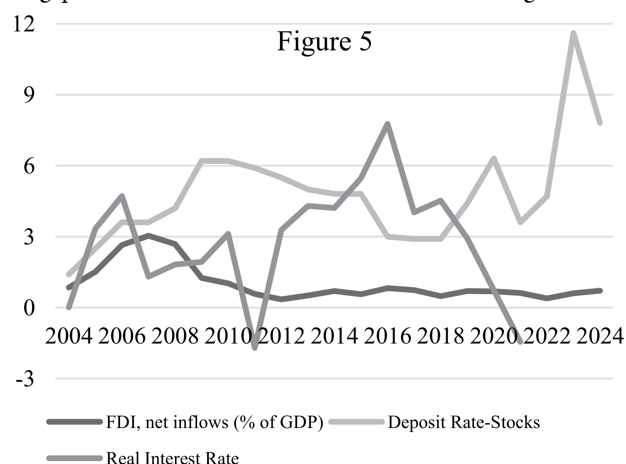
[14] State Bank of Pakistan, *Annual Report 2024*.

[15] World Bank, *Enterprise Surveys: Pakistan* (Washington, DC: World Bank, 2022).

Whereas the regulatory complexity and the large state footprint also contributed to an unfavorable investment climate. It works like a capture which affects businesses decision making and profitability. The government footprint accounts for 67% of GDP, with over-regulation affecting 39% of overall economic activity. Government involvement across multiple sectors, combined with extensive licensing requirements/regimes and the use of Statutory Regulatory Orders (SROs) many a times during a fiscal year, creates uncertainty and distorts market incentives.[16] These creates serious drag on the FDI by increasing uncertainty and requiring more risk premium.

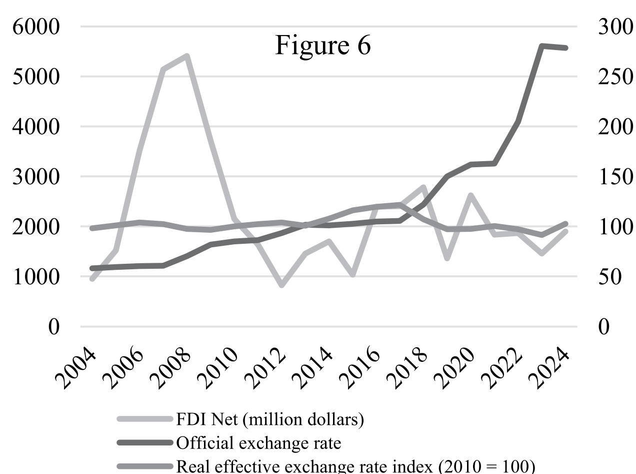
6. Financial Sector Constraints and Crowding Out

Contrary to the standard rationale of financial sector developing facilitating the investment; the financial sector in Pakistan has played a limited role in supporting private investment let alone the FDI. High levels of government borrowing have led banks to allocate a significant share of their portfolios to government securities for funding the government debt, crowding out private sector credit by making it expensive for them. As per SBP data, the government borrowed Rs8.52 trillion in FY24, Rs5.43 trillion in FY25, and Rs2.1 trillion so far in the first seven months of FY26, totalling nearly Rs16 trillion. As a result, access to finance remains a major constraint for private investors, with only a small proportion of firms being able to obtain formal credit despite widespread access to banking services. Only 2.1% of firms can access formal credit. 14.8% of firms cite this as their biggest obstacle, with loan rejection rates as high as 35.3%.[17]



On the other hand monetary tightening, implemented to control inflation, has further increased the cost of capital. High real interest rates discourage investment and reinforce the crowding out effect. This creates a cycle in which fiscal pressures reduce private investment, weaken growth, and ultimately discourage FDI.

Figure 6 shows that there are still persistent balance of payments and external financing gaps as the exchange rate continues to feel the pressure to depreciate, especially after transitioning to a more market-oriented regime after 2018, indicating that the low and irregular responses of FDI to the depreciation are a sign of low elasticity of FDI in relation to the exchange rate. This implies that foreign investors look for macroeconomic stability over the potential benefits of currency depreciation, as SBP reports that political and economic instability, high taxation, and poor infrastructure hinder FDI. Moreover, issues such



[16] Pakistan Business Council, *Improving Pakistan's Investment Climate* (Karachi: Pakistan Business Council, 2020).
[17] World Bank, *Enterprise Surveys: Pakistan 2022*.

as security, legal systems, property rights, and above all the law and order situation also impact investor confidence. Also, the relative stability of the Real Effective Exchange Rate (REER) despite nominal depreciation implies that partial pass-through of exchange rate variations is only partial, especially on to domestic prices. As a result, the expected gains from better external competitiveness that come with depreciation are negated. In addition, higher exchange rate volatility increases currency risk premiums, which not only deters long-term FDI flows but also encourages short-term speculative investments.

7. Tax Policy, Incentives, and Welfare Implications

FDI can significantly contribute to Pakistan's economic Development, supported by various tax incentives such as those outlined in the Income Tax Ordinance 2001, Special Economic Zones Act 2012, and Double Taxation Agreements (DTA). Notable incentives include a 10-year tax holiday and duty-free imports in Special Economic Zones, as well as tax exemptions for IT services until 2025 and for renewable energy projects. These policies aim to lower the effective tax rate (ETR) imposed on foreign investors. By doing so, they enhance the after-tax rate of return on investments, which plays a crucial role in attracting foreign direct investment (FDI) inflows. On the institutional mechanism side, compliance with SECP and FBR registration and documentation requirements is essential for foreign investors to access these benefits. However, investors must be cautious about potential pitfalls, such as timely filing and proper documentation, to avoid penalties. While these incentives reduce the effective tax burden on investors, their impact has been limited. High overall tax rates and complex administration continue to deter investment, with over 40 percent of firms identifying tax rates as a major obstacle.[18]

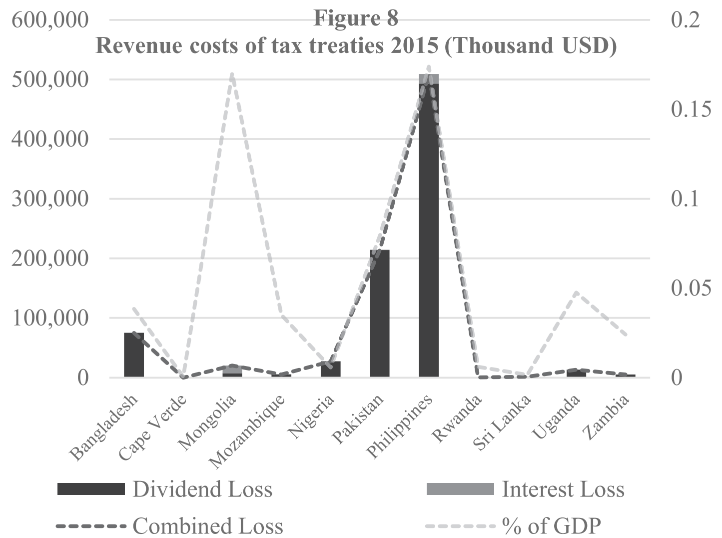
Double taxation treaties (DTTs) allocate taxing rights between countries to prevent double taxation of cross-border activities with an aim to discourage tax evasion and create a regulatory framework consistent with UN and OECD models. It focuses on direct taxes on income and capital and provide guidelines for withholding taxes on passive income and attribute income taxation rights to the residence state, which may conflict with the rise of remote work currently covering the global landscape. Income earned in Pakistan under international tax treaties remains tax-exempt, as outlined in the updated Income Tax Ordinance, 2001, for the tax year 2024-25, which affirms Pakistan's adherence to its international tax commitments and ensures that foreign investors and individuals working on international projects are not double-taxed. Overall, Pakistan is engaged with 68 countries having full double tax agreements and limited purpose agreement with 4 different countries' transportation companies and also have some multilateral treaties. There is an elaborate frame work though which these treaties are chalked out.

Figure 7: Pakistan Tax Treaties Map

Source: ICTD

[18] World Bank, *Enterprise Surveys: Pakistan 2022*.

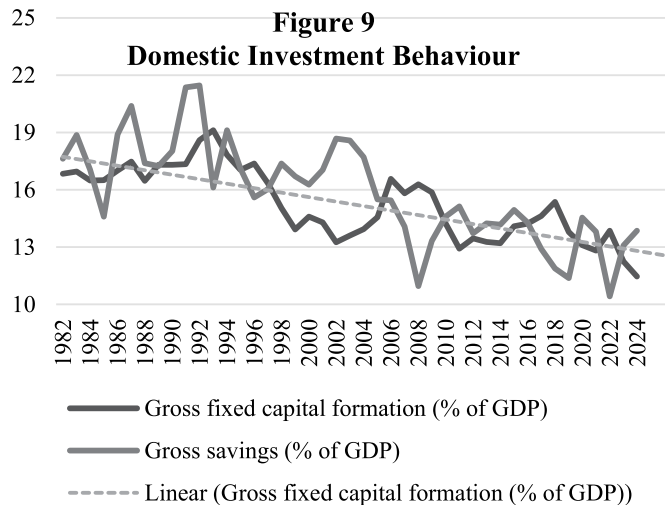
Theoretically all Double Taxation Treaties (DTTs) reduce tax barriers and facilitate investment, but they also result in revenue losses and profit repatriation. Which in case of Pakistan is significant. Pakistan has estimated to lose approximately 0.079 percent of GDP in tax revenue due to treaty provisions, highlighting the fiscal costs associated with attracting FDI or the inappropriate design because of which the true potential has not been achieved.[19] On the one side revenue is also lost but the FDI is not coming in. It reflects that incentives alone are insufficient to attract productive investment. Without improvements in institutional quality and economic fundamentals, such policies may generate limited welfare gains.



8. The Role of Domestic Investment

Finally; a critical insight from literature emerges which is related to the importance of domestic investment as a complement to FDI. Foreign businesses incase of more sovereign risks tend to look for partnerships. Low domestic savings and investment rates in Pakistan signal weak economic fundamentals and reduce the attractiveness of the economy to foreign investors. There is a declining trend in gross fixed capital formation, reinforcing the characterization of Pakistan as a consumption driven economy.[20] Domestic investment which is crucial for a nation's financial health, influences development and attracts foreign investment by signalling confidence. It signals economic stability, creates infrastructure conducive to foreign direct investment (FDI), fosters market development, and mitigates risks. Further, it also complements foreign investment through partnerships, enhances productivity, and supports technology adoption, ultimately leading to a robust investment climate. But in the absence of counterpart private investments it remains an ambition.

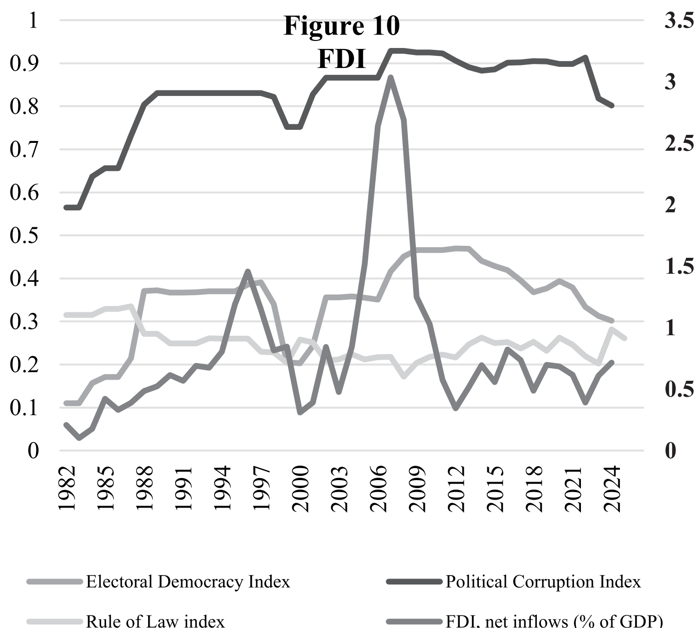
Pakistan has consistently struggled to attract both domestic and foreign investment. This underperformance spans all categories of fixed capital formation, particularly in manufacturing sector which do not receive the necessary investment for growth. The ongoing challenges highlight deep-rooted systemic and structural issues in the investment climate, recognized by various stakeholders since the decade of 1990s. The failure to increase domestic savings rates equal to the South Asian level resulted in low investment rates and unstable growth in



[19] Petr Janský and Tomáš Šedivý, "Estimating Revenue Losses from Tax Treaties," ICTD Working Paper (Brighton: International Centre for Tax and Development, 2019).
[20] World Bank, *World Development Indicators 2023*.

Pakistan. Economic and social welfare indicators were poor, and deindustrialization became evident, with the services sector leading to inadequate job creation.[21]Political instability and macroeconomic uncertainty further decrease investment rates, leading to a preference for shorter-term, higher-return investments, often requiring sovereign guarantees, thus distorting resource allocation within the economy[22].

Domestic investment trends on the other hand reveal a harsh reality: since 2006, Pakistan has gradually become a consumption economy plagued with institutional issues (see figure 10). FDI is volatile, peaking from 2006-2008 and declining sharply afterward, while the Electoral Democracy Index improves until 2013 before a moderate decline post-2015. The Political Corruption Index rises over time, especially after the mid-1990s. During 2006-2008, FDI spiked despite high corruption due to factors like privatization. Post-2008, high corruption correlated with decreased FDI suggests that governance risks deter investors. Improvements in democracy do not consistently lead to increased FDI, indicating corruption and institutional quality play a more critical role. Ultimately, sustained FDI demands lower corruption and stable governance. Thus, Pakistan's rising corruption and moderate democratization led to declining FDI after 2008.



Overall without a strong domestic investment base, FDI is unlikely to generate significant spillovers or contribute to structural transformation. This underscores the need for policies that promote domestic investment alongside efforts to attract foreign capital.

9. Conclusion

Pakistan's experience demonstrates that FDI alone cannot drive economic development in the absence of supportive domestic conditions. Structural weaknesses, institutional constraints, and macroeconomic instability have limited both the inflow of FDI and its developmental impact.

The policy challenge is therefore not merely to increase FDI inflows, but to ensure that they are productive, export oriented, and integrated into the domestic economy. Achieving this requires a comprehensive reform agenda that addresses macroeconomic stability, institutional quality, and structural transformation.

- The analysis suggests that Pakistan must move beyond an incentive based approach to attract FDI and address underlying structural constraints. Macroeconomic stability is a prerequisite, requiring credible exchange rate management, fiscal discipline, and inflation control needs to be prioritised. At the same time, policies should focus on promoting export oriented manufacturing and integrating the economy into global value chains.

[21] URAAN Pakistan

[22] Pakistan Business Council, Improving Pakistan's Investment Climate.

- Institutional reforms are equally critical. Reducing corruption, improving regulatory quality, and ensuring policy consistency can significantly enhance investor confidence. Financial sector reforms aimed at increasing credit availability for the private sector are also essential.
- Finally, investment in human capital is necessary to enhance absorptive capacity and ensure that FDI generates productivity gains. This includes improving education, expanding technical training, and increasing female labor force participation.

OPINION

Stabilization without Structural Reform: Pakistan's Low-Growth Trap

Dr. Amanat Ali
Assistant Professor, School of Economics, QAU

Executive Summary
Pakistan has been stuck in the same loop for decades. The growth rate accelerates, imports increase, reserves decrease, a crisis occurs and IMF comes in. Then the nation normalizes, recuperates a bit, and repeats the process. The most recent South Asia Development Update published by the World Bank on 23 April 2025 confirms that this cycle persists: Pakistan's projected growth rate of GDP as per IMF estimates is 3.6 percent in real terms during the fiscal year, 2025/26. It is the lowest forecast in South Asia, and even less than half the rate. India will expand at 6.3 per cent. In Bangladesh, Nepal, and Bhutan, there are more favorable trends. Even South Asia without India is predicted to be at 4.3 per cent. The fact that Pakistan tops the list of the slowest growing countries in the region is not a simple one off failure but rather the natural result of 20 years of stabilization that did not entail structural reform. Twenty years of TFP have been close to zero. The export basket is similar to that of 1995, and private investment is among the lowest in South Asia. Tax-GDP ratio of 9.5 per cent deprives the government of the power to finance schools, hospitals, and roads through borrowing.

1. Introduction: The Anatomy of Repeated Crisis

Since 1958, more than practically any country on earth, Pakistan has signed twenty-three IMF programs, and not yet a single one of them has left it with the structural changes it requires to prevent the next one. The cycle is almost mechanical. Remittances rush in, confidence goes up, consumption increases, imports go up, reserves go down and rupee is put under strain. This is followed by an emergency program, the currency plummets, interest rates rise sharply and growth is destroyed. Over time things settles down, the programme concludes and the cycle goes around once more.

The 2022–23 episode was particularly brutal. Reserves dropped to less than three weeks of import cover, inflation hit 38 per cent year-on-year, and the rupee shed nearly half its value against the dollar within twelve months.[1] Around four million people fell below the poverty line in a single year. What is striking is not the scale of the crisis but how predictable it was. Every element had been forecast by analysts, flagged by the State Bank, and documented in prior IMF consultations. The country was not surprised into crisis; it walked into it.

The reason why reform never occurs has a compelling explanation by the political economy literature. Ishrat Husain, the former Governor of the State Bank, writes about a state that has been taken over by organized interests, that is, large landholders, who thwart agricultural taxation, industrialists, who lobby against trade reform, and organizations whose political worth is exactly in their inefficiency.[2] The state is not helpless due to the uncontrollability of the Pakistani people, it is helpless because the individuals who have control over the state enjoy the advantage of its debilitation. And that is the nub of the issue, and that is what Parliament can and sometimes will do.

2. The Latest Evidence: World Bank Growth Data, April 2025

The World Bank's South Asia Development Update: Taxing Times, released on 23 April 2025, provides the most authoritative and up-to-date assessment of Pakistan's growth prospects and the regional context. Its findings are sobering, and they deserve to be read by every Member of Parliament before the next budget debate.

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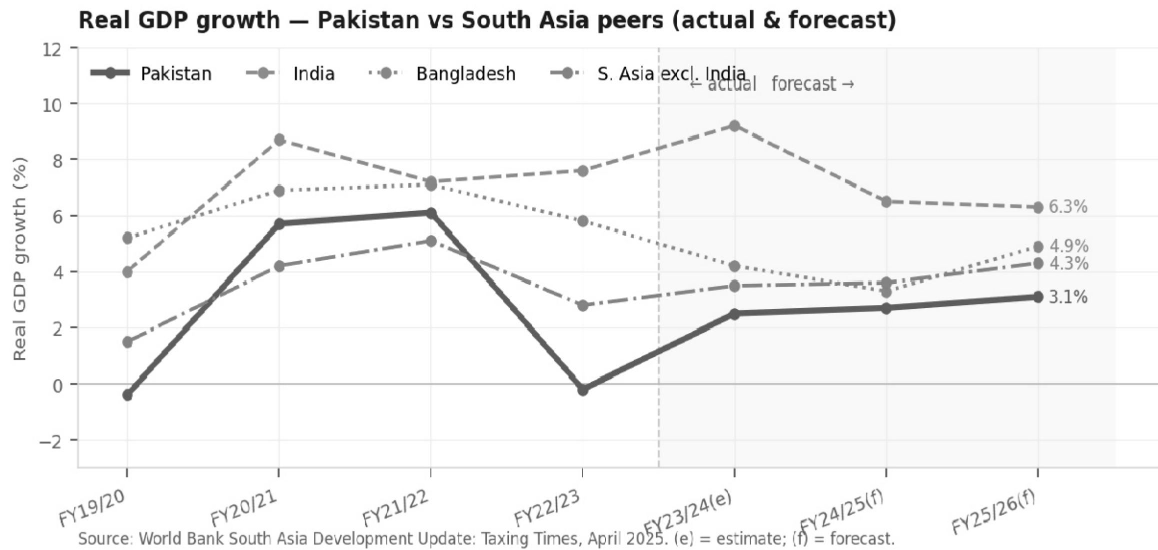
[1] State Bank of Pakistan, Annual Report 2022–23: The State of Pakistan's Economy (Karachi: SBP, 2023), 47.

[2] Ishrat Husain, Governing the Ungovernable: Institutional Reforms for Pakistan (Karachi: Oxford University Press, 2018), 23.

2.1 Pakistan Trails Every Peer in the Region

Figure 1: Real GDP Growth — Pakistan vs South Asia Peers, Actual and Forecast (%)

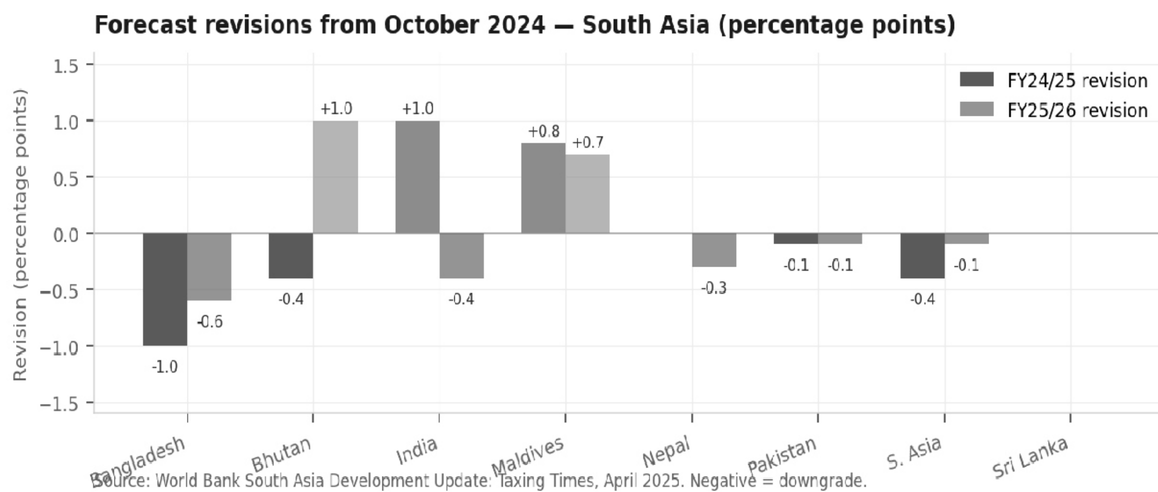


Source: World Bank, South Asia Development Update: Taxing Times, April 2025. (e) = estimate; (f) = forecast. Pakistan fiscal year: July to June.

Figure 1 narrates the story simply. The economy of Pakistan declined by 0.2 per cent in FY2022/23 and only climbed by 2.5 per cent in FY2023/24. The World Bank forecasts 2.7 per cent for FY2024/25 and 3.1 per cent for FY2025/26. These numbers leave Pakistan on the South Asian growth list- below Afghanistan, below Bangladesh in its recovery year and less than half of the predicted growth in India. In Figure 1, the shaded part of the Pakistani line indicates that there is hardly any change in the trajectory of the forecast: by 2025/26, growth is estimated at just 3.1 per cent, every regional comparator is converging to 5 per cent or more.

2.2 The Revision Story: Global Headwinds Are Not Pakistan's Excuse

Figure 2: Forecast Revisions from October 2024 — South Asia (Percentage Points)



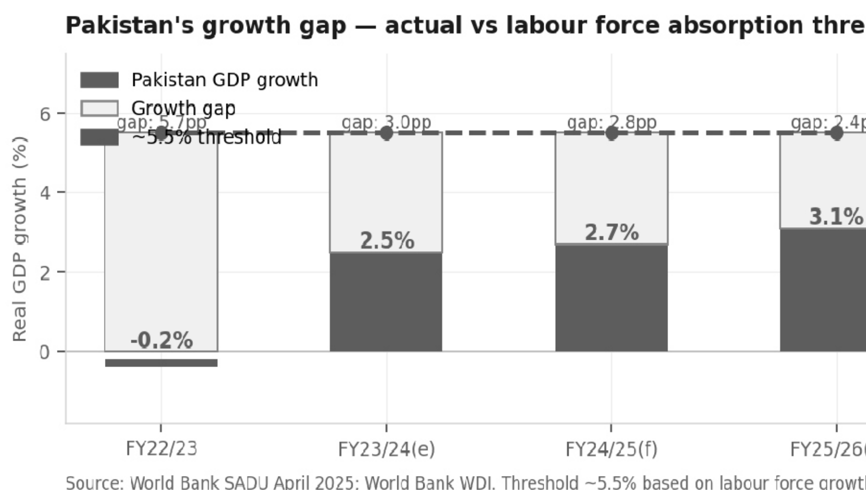
Source: World Bank, South Asia Development Update: Taxing Times, April 2025. Negative values = downgrade from October 2024 forecasts. Darker bars = FY24/25; lighter bars = FY25/26.

One might argue that Pakistan's weak growth reflects the difficult global environment. Figure 3 partially supports this: the World Bank downgraded its regional forecasts across the board, with Bangladesh revised down by a full percentage point and the South Asia region revised down 0.4 points from October 2024. But Pakistan's revision is only □0.1 percentage points— meaning the forecasters did not significantly change their assessment of Pakistan. The weakness was already baked in. Pakistan is not suffering unusually from the global slowdown; it was already at the bottom before the slowdown hit.

The World Bank's diagnosis is direct: Pakistan's slow growth reflects domestic structural vulnerabilities, not temporary external shocks. The report notes that South Asia's governments have insufficient fiscal buffers because of weak revenue collection, and that this leaves them unable to respond effectively to shocks. Pakistan is the clearest embodiment of this problem in the region, with a tax-to-GDP ratio that the World Bank identifies as among the most acute revenue shortfalls relative to the country's tax rates— meaning the gap is driven by collection failure and exemptions, not insufficient rates.

2.3 The Growth Gap: What Pakistan Needs vs What It Is Getting

Figure 3: Pakistan's Growth Gap — Actual/Forecast vs Labour Force Absorption Threshold



Source: World Bank SADU April 2025; World Bank WDI. Threshold of ~5.5% based on labour force growth and employment absorption requirements. Gap = shortfall below threshold.

Figure 3 converts the numbers in growth into their human impact. The labour force of Pakistan is increasing at an average of 3 per cent. To generate sufficient employment to absorb new entrants and lower the current unemployment and underemployment, economists have estimated that the economy must grow at least 5.5 per cent/year on average. Pakistan is predicted to expand at 3.1 per cent- a difference of 2.4 percentage points. With each passing year with such a gap, the unemployment queue of the youth increases.

In any nation with 60 per cent of the population being less than thirty, it is not an economic fact; it is a social and political time-bomb. The report by the World Bank is categorical that this cycle can only be broken through mobilization of domestic revenue, structural reform and development of the private sector and not through the provision of better external conditions. Pakistan cannot afford to wait till the global economy gets in the right path. The structural barriers are domestic, and so must be the solutions.

Table 1: Real GDP Growth at Constant Market Prices — South Asia (World Bank, April 2025)

Country / Region	FY 2022/23	FY 2023/24 (e)	FY 2024/25 (f)	FY 2025/26 (f)	Rev. 24/25	Rev. 25/26
South Asia region	7.4%	6.0%	5.8%	6.1%	−0.4pp	−0.1pp
saS. Asia excl. India	2.8%	3.5%	3.6%	4.3%	−0.4pp	−0.2pp
Afghanistan	−6.2%	2.3%	2.5%	2.2%	N/A	N/A
Bangladesh	5.8%	4.2%	3.3%	4.9%	−1.0pp	−0.6pp
Bhutan	5.0%	4.9%	6.6%	7.6%	−0.4pp	+1.0pp
India	7.6%	9.2%	6.5%	6.3%	+1.0pp	−0.4pp
Maldives	4.7%	5.5%	5.7%	5.3%	+0.8pp	+0.7pp
Nepal	2.0%	3.9%	4.5%	5.2%	0.0pp	−0.3pp
Pakistan	−0.2%	2.5%	2.7%	3.1%	−0.1pp	−0.1pp
Sri Lanka	−2.3%	5.0%	3.5%	3.1%	0.0pp	0.0pp

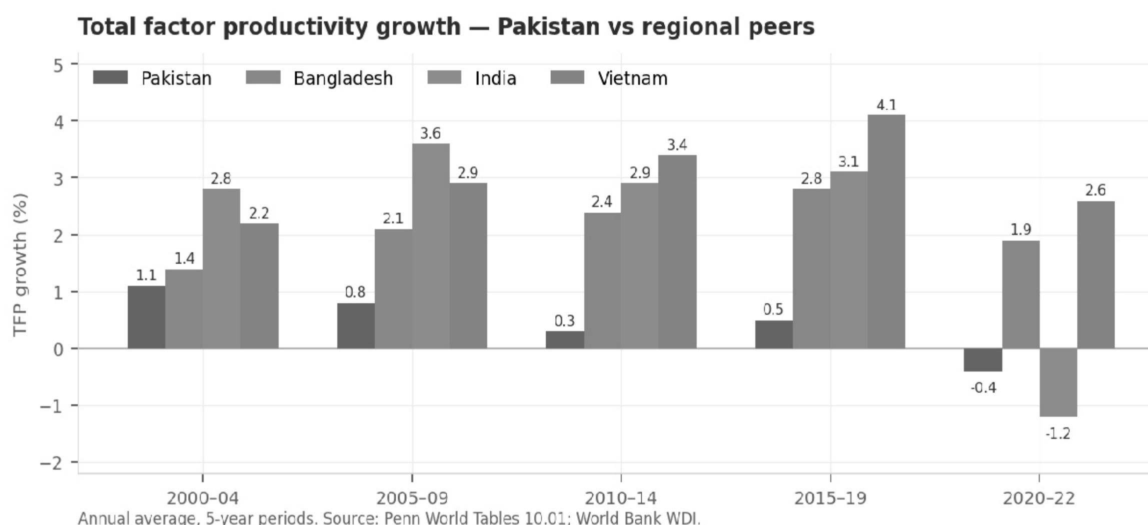
Source: World Bank, South Asia Development Update: Taxing Times, April 23, 2025. Pakistan fiscal year: July to June. (e) = estimate; (f) = forecast. Revision figures show change from October 2024 forecasts. Pakistan row highlighted.

3. Diagnosing the Structural Trap: Productivity, Investment, Revenue

The World Bank growth figures show where Pakistan is. The structural data in this section explain why it is there— and why it will stay there without reform. Four interlocking failures define the trap: near-zero productivity growth, an economy that does not produce enough, insufficient tax collection, and an energy sector in structural insolvency.

3.1 Total Factor Productivity: The Core Failure

Figure 4: Total Factor Productivity Growth — Pakistan vs Regional Peers (%)



Source: Penn World Tables 10.01; World Bank World Development Indicators. Annual average TFP growth by 5-year period. TFP measures output gains beyond capital and labour inputs.

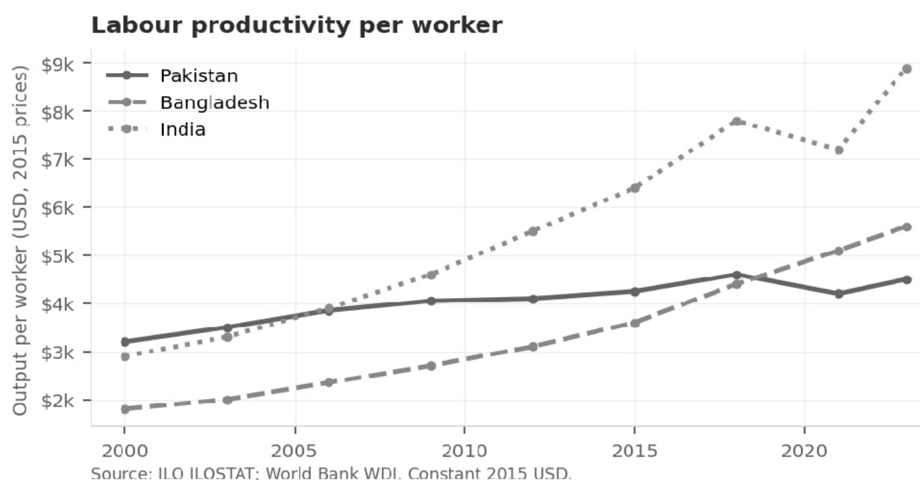
Figure 4 is the most important chart in this paper. Total factor productivity is used to measure the efficiency of the use of inputs (both capital and labour) of an economy. It embodies the technological adoption, the institutional quality, the managerial capability, and the resource allocation in one number. The TFP of

Pakistan has averaged only 0.5 per cent per year over the whole period since 2000, and became negative in 202022. During the same time, Bangladesh had an average of more than 2 per cent, India had over 2.8 per cent, and Vietnam had over 3 per cent.

The implication is clear: Pakistan has been expanding its economy by virtually nothing but the addition of labour and capital, not by becoming more efficient in its utilization. Such growth is limited arithmetically. We are sooner or later exhausted of the cheap labour and outside capital. There is no way to the sustained 5 -6 per cent GDP growth that the Pakistani demography needs, and the April 2025 data provided by the World Bank indicate that this way is not being discovered.

3.2 Labour Productivity: Bangladesh Has Caught Up

Figure 5: Labour Productivity — Output per Worker, USD (2015 Prices)

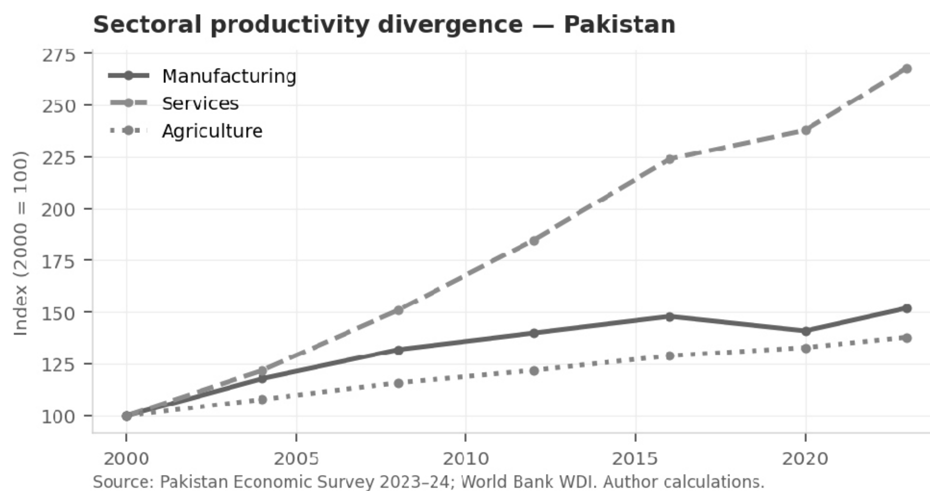


Source: ILO ILOSTAT; World Bank WDI. Constant 2015 USD. Dashed lines indicate comparator countries.

In 2000, a Bangladeshi worker produced roughly 56 cents for every dollar produced by a Pakistani worker. By 2023, Bangladesh had overtaken Pakistan in output per worker. This reversal happened within a single generation and reflects Bangladesh's investment in manufacturing capability, female labour force participation, and export market discipline. India's trajectory is even more instructive: starting from a comparable base, Indian labour productivity has grown at nearly twice Pakistan's pace, driven by a genuine services sector upgrade into software, finance, and professional services.

3.3 Sectoral Productivity and Export Stagnation

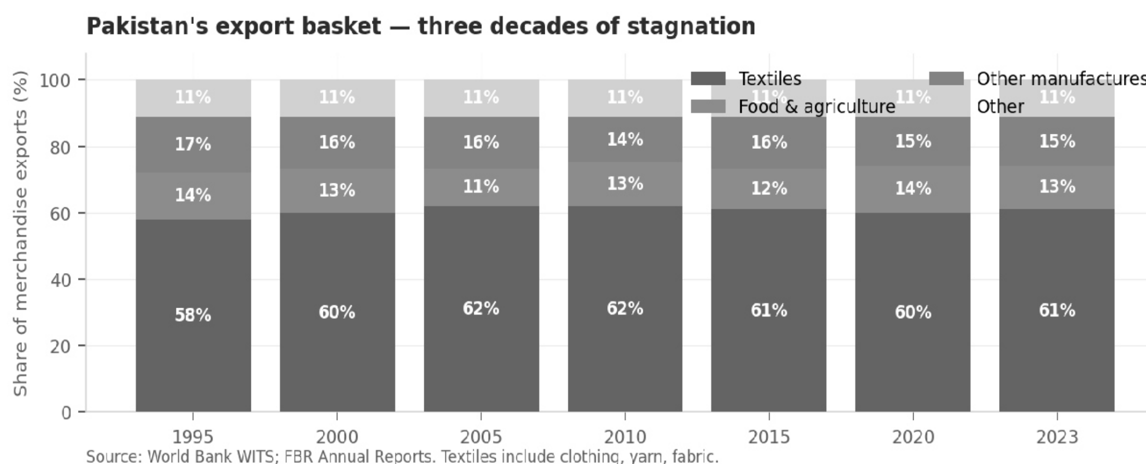
Figure 6: Sectoral Productivity Divergence — Pakistan (Index, 2000 = 100)



Source: Pakistan Economic Survey 2023-24; World Bank WDI. Author calculations. Index rebased to 2000 = 100.

Figure 6 shows the divergence within Pakistan's own economy. Services productivity has grown substantially, but Pakistan's services sector means government employment and informal retail, not knowledge-intensive activity. Manufacturing productivity, by contrast, has grown only 52 per cent since 2000, barely ahead of population growth. Agricultural productivity has barely moved at all. This matters because manufacturing is where countries have historically generated the sustained productivity gains that allow wages to rise and export baskets to diversify.

Figure 7: Pakistan's Export Basket — Three Decades of Stagnation (%)



Source: World Bank WITS; FBR Annual Reports. Textiles include apparel, yarn, fabric, and made-ups. Stacked bars show share of total merchandise exports.

Figure 7 requires almost no commentary. The share of textiles in Pakistan's merchandise exports has sat between 58 and 62 per cent for nearly three decades. No other major economy has a comparable record of export stagnation.[3] Vietnam in 2000 was a rice-exporting economy; today it is one of the world's major electronics manufacturers. Bangladesh has developed pharmaceuticals, electronics, and technology services alongside textiles. Pakistan in 2023 looks almost identical to Pakistan in 1995 in terms of what it sells to the world.

3.4 Investment: The Lowest in South Asia

Private investment has averaged around 12 to 13 per cent of GDP over the past decade— one of the lowest figures in South Asia.[4] As Figure 9 shows, India invests more than twice as much privately relative to its economy. Businesspeople will explain why: electricity goes out for hours at a time, getting a permit takes months or years, borrowing is prohibitively expensive when the central bank is fighting inflation with 20-plus per cent policy rates, and the government competes with every private borrower for bank credit. None of this is mysterious. All of it is correctable— but it has not been corrected.

3.5 The Revenue Crisis and the Energy Disaster

Pakistan's power sector compounds the fiscal crisis. Circular debt— the accumulated chain of unpaid bills between generators, distributors, and the government— stood at an estimated PKR 2.6 trillion by mid-2024, equivalent to about 2.5 per cent of GDP.[5] The IMF has flagged this explicitly: the real fiscal position is worse than the headline numbers suggest because power-sector losses flow through quasi-fiscal channels.[6] For factories, expensive and unreliable electricity is a primary reason Pakistani goods cannot compete in export markets. For households, tariff increases under cost-recovery programmes are devastating for those already spending a disproportionate share of their income on energy.

[3] Federal Board of Revenue, Annual Report 2022–23 (Islamabad: FBR, 2023), 9.
[4] State Bank of Pakistan, Annual Report 2022–23, 62.
[5] Pakistan Economic Survey 2023–24 (Islamabad: Ministry of Finance, 2024), 3.
[6] International Monetary Fund, Pakistan: 2023 Article IV Consultation (Washington, DC: IMF, 2023), 18.

Table 2: Pakistan's Productivity and Structural Profile — Key Indicators at a Glance

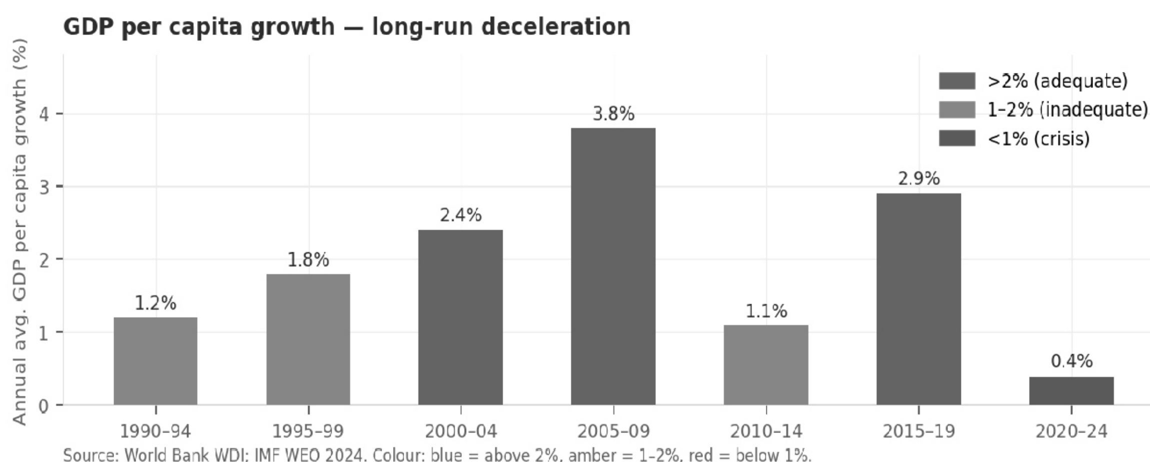
Indicator	Pakistan	Bangladesh	India	Vietnam
TFP growth avg. 2000–22 (% p.a.)	0.5%	2.1%	2.8%	3.2%
Labour productivity growth 2010–23 (% p.a.)	1.4%	5.2%	6.1%	5.8%
Private investment / GDP (avg. 2019–23)	12.4%	23.7%	28.3%	26.1%
Textiles share of exports (2023)	61%	83%*	12%	18%
Tax revenue / GDP (FY2023)	9.5%	10.1%	12.0%	18.7%
GDP per capita growth avg. 2018–24 (% p.a.)	1.1%	5.6%	4.8%	5.7%
WB growth forecast FY25/26	3.1%	4.9%	6.3%	—
Ease of Doing Business rank (2020)	108 / 190	168 / 190	63 / 190	70 / 190

*Sources: Penn World Tables 10.01; ILO ILOSTAT; World Bank WDI; IMF WEO 2024; FBR Annual Report 2022-23; World Bank Doing Business 2020; World Bank SADU April 2025. *Bangladesh textiles are predominantly apparel.*

4. Why Stabilisation Alone Is Not Enough

None of this is to say that stabilisation is wrong. When reserves fall below three weeks of import cover and inflation runs at 38 per cent, emergency measures are unavoidable. The 2023 IMF Extended Fund Facility brought Pakistan back from the edge. Without it, the consequences would have been worse. But stabilisation treats the symptom while the disease progresses— and Pakistan keeps proving this with each new crisis.

Figure 8: GDP per Capita Growth — Long-Run Deceleration (Annual Avg. % by Period)



Source: World Bank WDI; IMF WEO 2024. Blue = above 2% (adequate); amber = 1-2% (insufficient); red = below 1% (crisis). World Bank April 2025 forecast used for 2020-24 period.

Figure 8 makes the long-run trajectory visible. Pakistan's best period of per-capita growth in recent decades was 2005–09, at 3.8 per cent annually— itself insufficient to match regional peers. Since then, deceleration has been persistent. The 2020–24 period, incorporating the World Bank's latest forecasts, shows near-zero per-

capita gains. Each stabilisation programme has temporarily arrested the decline; none has changed the underlying trajectory.
These failure mechanisms are worked out in a number of channels. IMF programmes require fiscal consolidation. When revenue reform is deferred, cuts fall on development spending, infrastructure maintenance, education, and social protection, the expenditures with the highest long-term payoff.[7] The depreciation of the currency would increase the cost of imported machinery, which will deter the manufacturing investment to diversify the export. The high interest rates squeeze out the credit markets of the private borrowers and the government eats up the available savings. Banking is rational in that banks lend to the government not to businesses. This is how the disintermediation of the real economy by the financial sector is applied in reality.

The IMF is well aware of all this. Subsequent consultations of Article IV have stated clearly that gains of stabilization would be short-term without structural changes of taxation, energy and investment climate. The April 2025 report by the World Bank restates the diagnosis it made earlier: revenue mobilization is the primary problem facing the whole South Asian region, and Pakistan is its most urgent instance. The challenge is that both institutions cannot affect the person elected or the interests of legislators. That is all in the hands of Pakistan.

5. Why Reform Does Not Happen: A Candid Assessment

It would be unfair to pretend that reform is simply a matter of political will. The incentive structures are real, the distributional conflicts are genuine, and the people who block reform are not irrational; they are protecting interests that are very real to them. But understanding this does not make the status quo acceptable.

Agricultural income tax is the clearest case. The constitution gives provinces the authority to tax agricultural income, and provinces have consistently declined to exercise it meaningfully. The powerful interest groups make it difficult to carry forward these reforms. It has been estimated credibly that by imposing an equivalent tax on agricultural income as on other sectors, an addition of 1.5-2 per cent of GDP/year might be achieved- a figure sufficient to significantly decrease the fiscal reliance of Pakistan upon the IMF.

Energy sector reform runs into equally entrenched interests. IPP contracts of the 1990s and 2000s were negotiated by governments long gone, but their beneficiaries remain. Distribution company employees constitute an organized political constituency. Raising tariffs toward cost-recovery levels, or reducing capacity payments that drain the system, requires confronting groups with both legal recourse and political connections.[8] Trade protection tells the same story: sugar mills, auto assemblers, and pharmaceutical manufacturers that benefit from import duties and regulatory capture are not going to lobby for their own exposure to competition.

Husain makes it very simple: it has nothing to do with not having enough good analysis. Pakistan has produced excellent diagnostic work on its economic failings for decades.[9] The issue is that those who get advantages of the existing arrangements are organized better than the ones who would benefit in the event of their alteration. The peculiarity of the Pakistani variant of this collective action problem is that the costs of non-reform are paid by the young person who cannot get a job in the formal sector, the farmer who suffers

[7] World Bank, Pakistan Development Update, 26.
[8] Pakistan Economic Survey 2023–24, 41.
[9] Ishrat Husain, Governing the Ungovernable, 178.

because of an unfavorable harvest, the small business that is destroyed by high-interest rates, etc., and have a much less legislative voice than those who benefit by the saturation. Changing that equation is Parliament's job.

6. Recommendations for Honorable Members of Parliament

The following recommendations are addressed directly to Members of Parliament— not to the executive, not to the IMF, not to provincial governments acting alone. They are legislatively actionable, constitutionally grounded, and practically achievable within Pakistan's current framework. Some will be politically difficult. That is the nature of structural reform. But all of them are things Parliament can actually do.

6.1 Fix the Revenue Base

Parliament should create a statutory framework— operating through the Council of Common Interests— that ties federal transfer allocations to provinces' performance in collecting agricultural income tax, with binding two-year timelines for legislation at effective rates aligned with the personal income tax schedule.[10] The World Bank's April 2025 report identifies tax exemptions and weak administration as the primary drivers of South Asia's revenue shortfall, and calls explicitly for eliminating loopholes, streamlining tax codes, and tightening enforcement.[11] Pakistan's constitutional arrangements allow the federation to make fiscal behavior a condition of intergovernmental transfers. Other federal systems have done this; there is no legal obstacle, only a political one.

An independent audit of all tax avoidances -all exemptions, zero-rating and sectoral concessions may be helpful to find a better way forward to enhance tax base. The World Bank estimates this cost roughly 4 per cent of GDP annually.[12] Publishing this information would itself change the political calculus. Even half of it would rationalize sufficient fiscal space to substantially reduce borrowing without affecting rates of any regular taxpayer.

An Act of Fiscal Responsibility and Debt Limitation is to be passed with binding expenditure limits, primary balance goals and more importantly a revenue floor that will bring a mandatory corrective action in case the tax to GDP ratio drops below a specified threshold. It is not fiscal discipline to adopt the current trend of meeting deficit targets through reduction in development spending instead of increased revenue. It is future borrowing.

6.2 Confront the Energy Crisis Legislatively

Parliament should establish a statutory Energy Sector Oversight Authority mandated to review all IPP agreements above a threshold value, publish renegotiation terms, and refer cases where contracts appear to have been secured improperly to the relevant authorities.[13] This requires amending the Regulation of Generation, Transmission and Distribution of Electric Power Act of 1997 and genuine whistleblower legislation to protect officials willing to testify. The circular debt will not be resolved while the contracts feeding it remain unexamined.

[10] Haroon Sharif, Political Economy of Pakistan's Growth Odyssey (Islamabad: SDPI, 2022), 66.
[11] World Bank, South Asia Development Update: Taxing Times, April 2025, 7.
[12] World Bank, Pakistan Development Update, 33.
[13] Vaqar Ahmed and Musleh ud Din, eds., The Economy of Modern Pakistan, 198.

The Public Accounts Committee should open a formal inquiry into the circular debt stock— tracing how it accumulated, which policy decisions drove it, and who was responsible. The purpose is accountability, and accountability is a precondition for the public trust that any energy reform will require.

Parliament should legislate a time-bound programme of electricity distribution company restructuring and, where viable, privatisation— with explicit employee transition arrangements and a targeted voucher scheme for low-income households to replace blanket price suppression. Protecting the poor from tariff increases is legitimate; doing so by suppressing tariffs for everyone and letting circular debt grow is not protection— it is a slow-motion fiscal crisis.

6.3 Discipline State-Owned Enterprises

Professionally selected independent boards should be established under an SOE Governance Act, performance contracts between boards and the corresponding ministry are mandatory and financial performance, employment and government support received should be reported quarterly to the public. Unprofitable businesses that have no valid strategic justification must be obliged to generate plausible three-year restructuring strategies or undergo statutory dissolution proceedings. It is unsustainable that the present condition is that the entities are bleeding the taxpayer dry because no one has the political clout to shut them down.

A cross-party Parliamentary SOE Reform Committee with independent technical support should be established to oversee privatisation transactions, approve restructuring plans and review ongoing government support. Bringing these decisions into the legislative light provides an incentive to act and accountability for inaction.

6.4 Make It Possible to Run a Business in Pakistan

Pakistan was 108th of 190 economies in the Doing Business Index by the World Bank, and has notably weak scores in the construction permits, contract enforcement, and cross-border trade.[14] Parliament should consider enacting comprehensive changes to the business registration and licensing processes: mandatory time limits on registration approvals, deemed-consent provisions where time limits are not met, digital-first registration and adequate funding of commercial courts to ensure contract disputes are solved in months not years. Most of these changes are free, and do not involve spending money, but rather eliminating obstacles. Pakistan Export Diversification Strategy should be launched by the Standing Committee on Commerce with statutory support, such as incentives to promote R&D, facilitation of exports and and directed support for high-value manufacturing and technology services. The large, young, English speaking workforce and geographic location of Pakistan ought to make it competitive in areas where it is hardly involved. The obstacles are mostly policy-created and, consequently, can be removed by policy.[15]

6.5 Give Parliament the Tools to Do Its Job

An independent, statutorily independent Parliamentary Budget Office, with full access to the necessary fiscal information of the executive budget, would enable the Members the ability to question the budgetary projections of the executive budget, instead of merely approving them. The government presents numbers; Parliament currently has no independent means to verify them. It is this structural vulnerability that has enabled unchallenged fiscal misrepresentation.

[14]World Bank, Doing Business 2020: Comparing Business Regulation in 190 Economies (Washington, DC: World Bank, 2020), 166.

[15]Haroon Sharif, Political Economy of Pakistan's Growth Odyssey, 81.

Parliament should strengthen and ensure full implementation of the existing Public Finance Management law, especially by reinforcing the principles of a treasury single account, strengthening commitment controls, adopting a performance budgeting and the inclusion of a credible medium term fiscal framework in the annual budget process. Right now, structural fiscal discipline exists only when the IMF demands it. A proper PFM framework embeds that discipline in Pakistani law, so it outlasts each programme and applies to every government regardless of whether a fund arrangement is in force.

Table 3: Summary of Legislative Recommendations for Parliament

Area	Recommended Action	Instrument	Timeline
Revenue	Federal transfers tied to provincial agri-tax performance	CCI / statute	Immediate
Revenue	Independent audit and publication of all tax expenditures	Relevant Parliamentary Committee	Immediate
Revenue	Fiscal Responsibility & Debt Limitation Act with revenue floor	Legislation	Year 1
Energy	Statutory Energy Sector Oversight Authority for IPP review	Legislation	Immediate
Energy	PAC formal inquiry into circular debt accumulation	Committee inquiry	Immediate
Energy	Time-bound distribution company restructuring / privatization	Legislation	Year 1–2
SOEs	SOE Governance Act — independent boards, performance contracts	Legislation	Year 1
SOEs	Parliamentary SOE Reform Committee with technical secretariat	Standing committee	Immediate
Investment	Business registration and licensing reform — deemed consent	Legislation	Year 1
Investment	Export Diversification Strategy with statutory backing	Standing Committee / legislation	Year 2
Institutions	Parliamentary Budget Office — statutory independence	Legislation	Year 1
Institutions	Public Financial Management Act	Legislation	Year 1–2

Note: 'Immediate' = achievable within the current parliamentary session without new primary legislation. 'Year 1' = first legislative year; 'Year 1-2' = first to second year. CCI = Council of Common Interests.

7. Conclusion

The World Bank's April 2025 South Asia Development Update has delivered a verdict that Members of Parliament should hear plainly: Pakistan is forecast to grow more slowly than every other country in the region through 2026. Bangladesh, Nepal, Bhutan, India, Maldives- they are all catching up to Pakistan. Even Sri Lanka, which defaulted its external debt in 2022, is projected to be at the same level as Pakistan in terms of growth. This is no misfortune. It represents the sum of decades of structural choices. The same story has been told in a different perspective by the productivity data. Over the last two decades, total factor

productivity has been almost zero. In a generation, Bangladesh has surpassed Pakistan in its output per worker. Export basket appears to be the same as in 1995. The amount of investment by the privates is half the amount that is attracted in similar economies. These are not abstract figures; they tell us how a Pakistani young graduate with a degree fails to secure a job in the formal-sector, why a small-scale enterprise cannot get cheap credit, and why the nation goes back to the IMF every few years.

The stabilization will continue to occur. With the depletion of reserves, governments will be forced to revert to IMF, take up the terms, and take the adjustments. It is not a strategy; it is an emergency that keeps happening. The Parliamentary question is whether Pakistan is ready to engage in the more difficult, gradual, politically more expensive process of structural reform that would ensure that the next crisis is less probable and severe than the last.

The recommendations in this paper ask uncomfortable things. They compel legislators to cast a vote in favor of reforms in agriculture tax. They challenge committee leaders to hold strong institutions accountable. They request Parliament to establish checks and balances on executive discretion and bring light to the system of exemptions and contracts which have over decades shielded organized interests against accountability. All this is not simple. However, the other option, a decade more of 3 per cent growth, a growing disparity between it and every regional competitor and millions of young Pakistanis denied access to the formal economy, is much less desirable.

The Honourable Members of Parliament represent people who are getting impatient with a system that brings about crises on a frequent timetable and yet growth is not forthcoming and opportunities are becoming limited. The figures provided by the World Bank assure that the change window is not going down at a slow pace; other economies are pulling out each year. The instruments to transform the direction of Pakistan are in place. The power to exercise them is, in a large measure, vested in Parliament.

PARLIAMENTARY BUSINESS

National Assembly of Pakistan

RESOLUTION.

11-05-2026

"TO COMMEMORATE MARKA-E-HAQ"

This House;

Remembers, with a deep sense of national pride, the unmatched professionalism, vigilance, extraordinary preparedness and resolute response demonstrated by the Pakistan Armed Forces on May 10, 2025 in the face of the unprovoked and unwarranted Indian aggression;

Deplores that, in the aftermath of the Pahalgam terrorist incident on April 22, 2025 in Indian Illegally Occupied Jammu and Kashmir, a malicious campaign was immediately orchestrated by the Indian Government, and amplified by its state-sponsored media, to baselessly implicate Pakistan without any evidence or investigation, despite the fact that the incident was categorically condemned by the Government of Pakistan;

Condemns that, despite a sincere and generous offer by the Prime Minister of Pakistan to participate in any neutral, transparent, and credible investigation into what clearly appeared to be an overt false-flag operation, India proceeded to launch an unprovoked airstrike on Pakistan on May 6, 2025, targeting innocent civilians;

Pays rich tributes to the gallant Armed Forces of Pakistan, which, under the leadership and command of the Prime Minister, Mian Muhammad Shehbaz Sharif, and the Chief of Defence Forces, Field Marshal Syed Asim Munir, launched Operation Bunyanum Marsoos on May 10, 2025, delivering a befitting response to this aggression;

Commends the bravery and operational excellence of the Pakistan Air Force, which swiftly established air superiority and shot down multiple Indian aircrafts, including the much-hyped and pride of the Indian Airforce 'Rafale' jets;

Extends heartfelt gratitude to every officer, soldier, airman and sailor of the Armed Forces of Pakistan on the battlefield for making operation Bunyanum Marsoos successful through their courage, professionalism and sacrifice. In its retaliatory strikes, our brave Armed Forces targeted and destroyed an Indian brigade headquarters, air force and aviation bases of the enemy, including Brahmos facilities, which had fired missiles in Pakistan and killed innocent civilians. Pakistan Air Force's JF-17 Thunder jets destroyed India's $1.5 billion most sophisticated S-400 air defense asset;

Praises the Pakistan Navy for its strategic preparedness in giving a robust response with remarkable agility to the enemy and also successfully thwarted intrusion attempts to attack Pakistan. Consequently, the enemy was forced to retreat;

Honours the martyrs of the Pakistan Armed Forces, who bravely laid down their lives in the line of duty and inflicted a humiliating defeat upon a numerically superior enemy across all domains of warfare, including land, air, sea and cyber;

Acknowledges the valuable contribution and technical expertise of Pakistan's cyber warfare experts in effectively countering numerous cyber-attacks by the notorious Indian hackers. In response to these attacks, a large number of India's strategic infrastructure was rendered dysfunctional and paralyzed; also acknowledges valuable support of entire nation including electable representative from the Government and Opposition benches.

Warns India, in unequivocal terms, that Pakistan's desire for peace should not be misconstrued as weakness. Any misadventure against Pakistan's sovereignty and territorial integrity will not be tolerated and Pakistan's Defence Forces will hit back with all their might and main;

Reaffirms an unwavering resolve and determination of the nation to stand with the Armed Forces of Pakistan in defending the geographical and ideological frontiers of the motherland, come what may.

Pakistan Hamesha Zindabad!

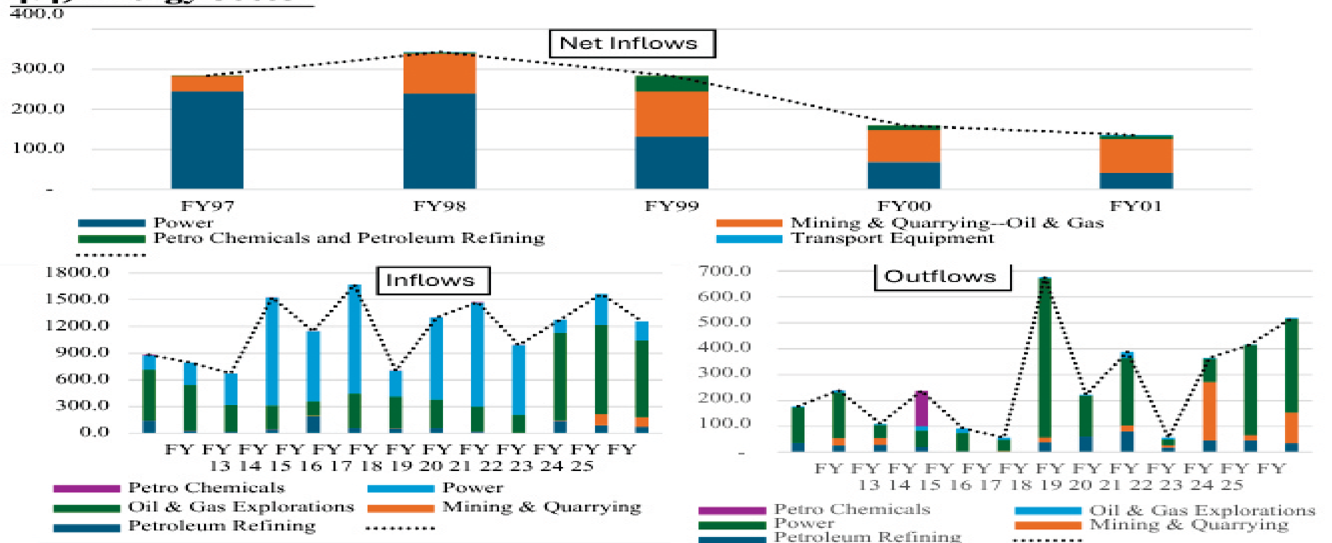
Sd/-

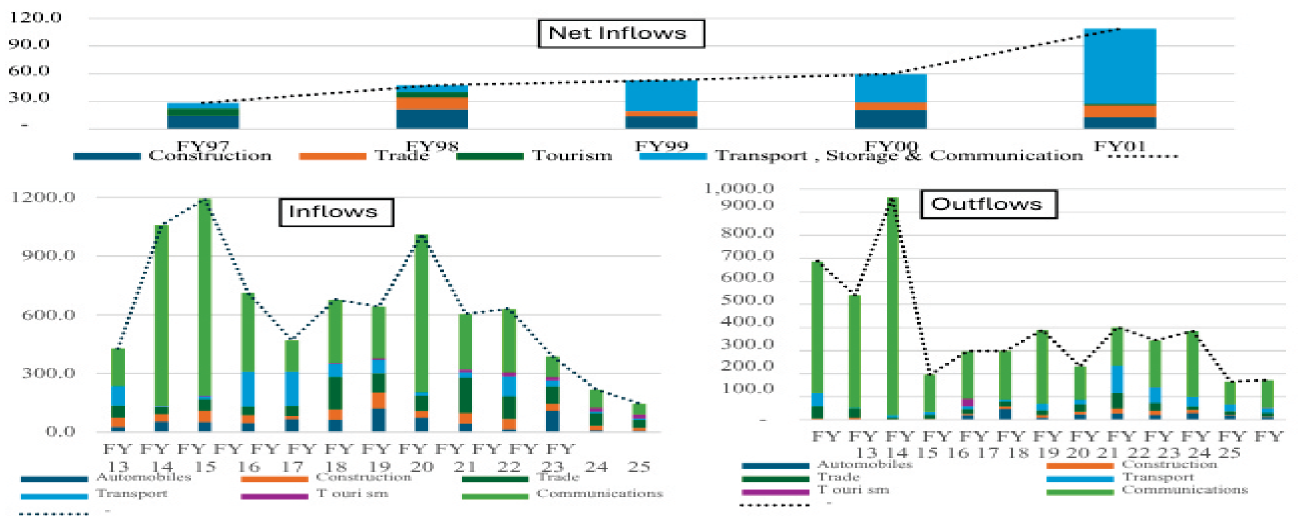
Senator Mr. Azam Nazeer Tarar

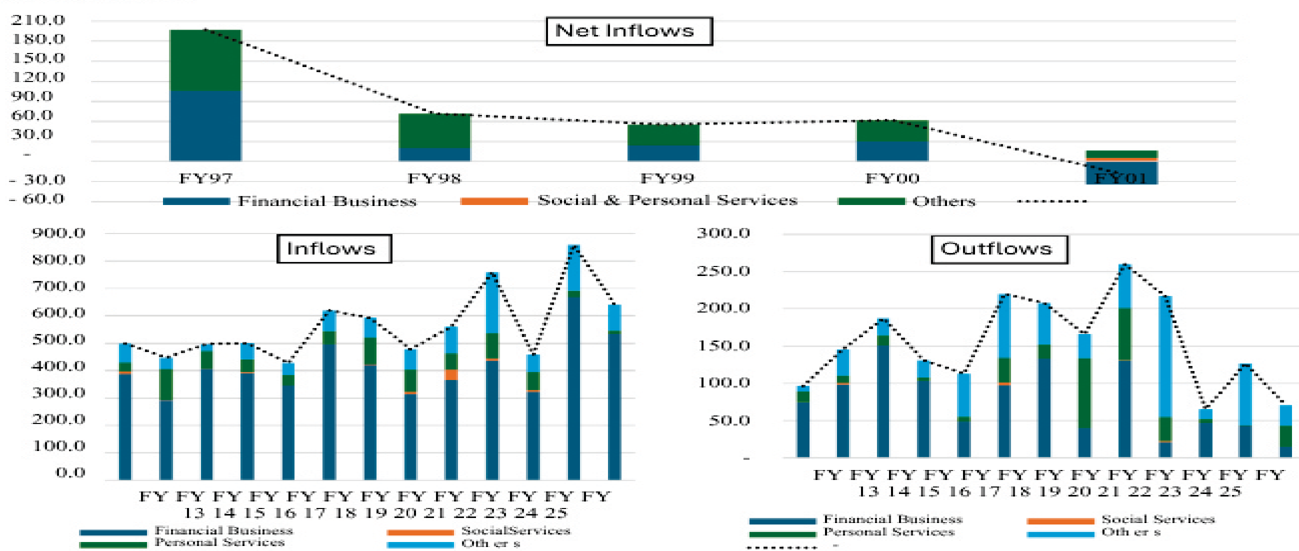
Federal Minister for Law and Justice

From Page 4 of article titled "Economy of Pakistan: Way forward for Public Welfare and Increased FDI"

Figure 3: Sector Wise (USD million) *Source: SBP*







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