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EROSION OF HOUSEHOLD WELFARE:

Evidence from HIES 2024–25 and the Broader
Macroeconomic Environment

About PRIME

Policy Research Institute of Market Economy is a public policy research and advocacy organization striving for an open, free, and prosperous Pakistan. PRIME was established in Islamabad in 2013 and has played a leading role in advancing ideas and policies for free market, open trade, and economic competition in Pakistan through its research and advocacy.

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SECTION-I
EROSION OF HOUSEHOLD WELFARE:
EVIDENCE FROM HIES 2024–25

EXECUTIVE SUMMARY

- Household incomes have risen, but so have essential expenditures, neutralising welfare gains. Across per-capita expenditure quintiles, essential spending continues to absorb a large share of household budgets, ranging from around 67 percent in the lowest quintile to 56 percent in the highest.
- Budget rigidity remains high across the lower and middle distribution. The essential expenditure share declines only gradually from Q1 to Q3, suggesting that lower-middle and middle-income households face consumption constraints similar to those at the bottom. This limited flexibility restricts households' ability to adjust spending.
- HIES 2024–25 shows that food insecurity among households increased from 15.9 percent to 24.4 percent since 2018–19. The rise is especially pronounced in urban areas, where food insecurity more than doubled, reflecting the disproportionate impact of food inflation and cash-based cost pressures on urban households.
- Reported savings overstate household resilience. While nearly half of households in the lowest quintile and two-thirds in the middle quintile can finance at least one month of essential expenditure from savings, far fewer can sustain themselves for three months. In the context of savings, urban households are systematically less resilient than rural households at similar welfare levels.
- Digital access in Pakistan is widespread but largely non-autonomous and uneven in quality. Although over 90 percent of individuals report using a mobile phone, only about half own one, indicating heavy reliance on shared access.
- Pakistan's economy presents mixed signals, with tentative stabilisation alongside persistent external pressures. Export performance weakened across major markets and sectors, reflecting declining competitiveness amid a real appreciation of the exchange rate. The external account remained volatile, supported primarily by strong remittance inflows and relatively contained import pressures, while foreign direct investment stayed subdued.

EXECUTIVE SUMMARY

- On the domestic front, easing inflation created space for some monetary easing, but rising public debt and weak private-sector credit continued to weigh on growth. Industrial activity showed signs of gradual recovery, and business confidence remained above neutral, yet high input costs and ongoing energy constraints limited momentum. Sustaining macroeconomic stability will require strengthening export performance, diversifying investment inflows, maintaining fiscal discipline, supporting private credit, and advancing structural reforms to underpin durable growth.



1. Introduction:

Over the past several years, Pakistan's economic policy has been dominated by crisis management rather than growth strategy. Successive internal and external shocks, including COVID-19, repeated episodes of floods, and severe balance of payment crises, have narrowed fiscal and policy space. Notably, Pakistan experienced one of the severe price shocks in 2023, with the headline consumer price index (CPI) peaking at nearly 38%. This is the highest recorded inflation since the availability of the inflation data series from 1965[1]. Driven by a sharp increase in food and energy prices, the high inflation resulted in erosion of household welfare. To counter the inflation effect and achieve price stability, interest rates rose to as high as 22% in 2023, resulting in a further slowdown of economic activities. In response to these crises, the measures adopted included a tight fiscal adjustment, import compression, and inflation-driven revenue mobilization. These measures, while necessary, had some trade-offs as well. These measures placed a disproportionate adjustment burden on households through rising prices, reduced purchasing power, and constrained consumption. While headline indicators now suggest improved stability, the persistence of weak growth raises concerns that stabilization has not translated into a recovery of household welfare or productive demand. Understanding how households experience and respond to these pressures is therefore essential for any meaningful assessment of policy effectiveness.

In this context, the release of the latest Household Integrated Economic Survey (HIES) after the previous round conducted in 2018-19 is particularly consequential. The six-year gap means the survey

captures household conditions after an extended period of cumulative stress during which income, consumption patterns, and coping mechanisms were repeatedly tested. This policy analysis draws on micro-level evidence from HIES 2024-25. HIES is Pakistan's primary source of nationally representative data on household income, consumption, and living standards. Conducted periodically by the Pakistan Bureau of Statistics, HIES provides detailed insights into how households allocate resources, adjust expenditure patterns, and absorb economic shocks across income groups. Unlike aggregate indicators, the main unit of analysis in HIES is households and individuals. This allows for welfare to be examined where it ultimately matters.

The analysis is structured around two interlinked dimensions of household welfare. The first examines material well-being and economic stress through trends in income and consumption, expenditure composition across per capita expenditure quintiles, and food insecurity. These indicators capture the extent to which households are worse off. Also, these indicators highlight the channels through which economic pressure is transmitted, most notably through the compression of essential and non-essential consumption and rising difficulty in meeting basic needs. The evidence points toward a broadening of vulnerability, with welfare erosion extending beyond traditionally low-income groups.

The second dimension assesses a household's capacity to adapt to these pressures through access to digital connectivity. In an economy where employment search, financial transactions, and informal education attainment increasingly rely on digital platforms, access to mobile phones and the internet has become a critical enabling factor rather than a discretionary asset. The analysis highlights how unequal digital access risks reinforcing existing welfare gaps, specifically where the gig economy is growing and has the potential to grow further, limiting households' ability to cope with economic stress and excluding vulnerable groups from emerging opportunities.

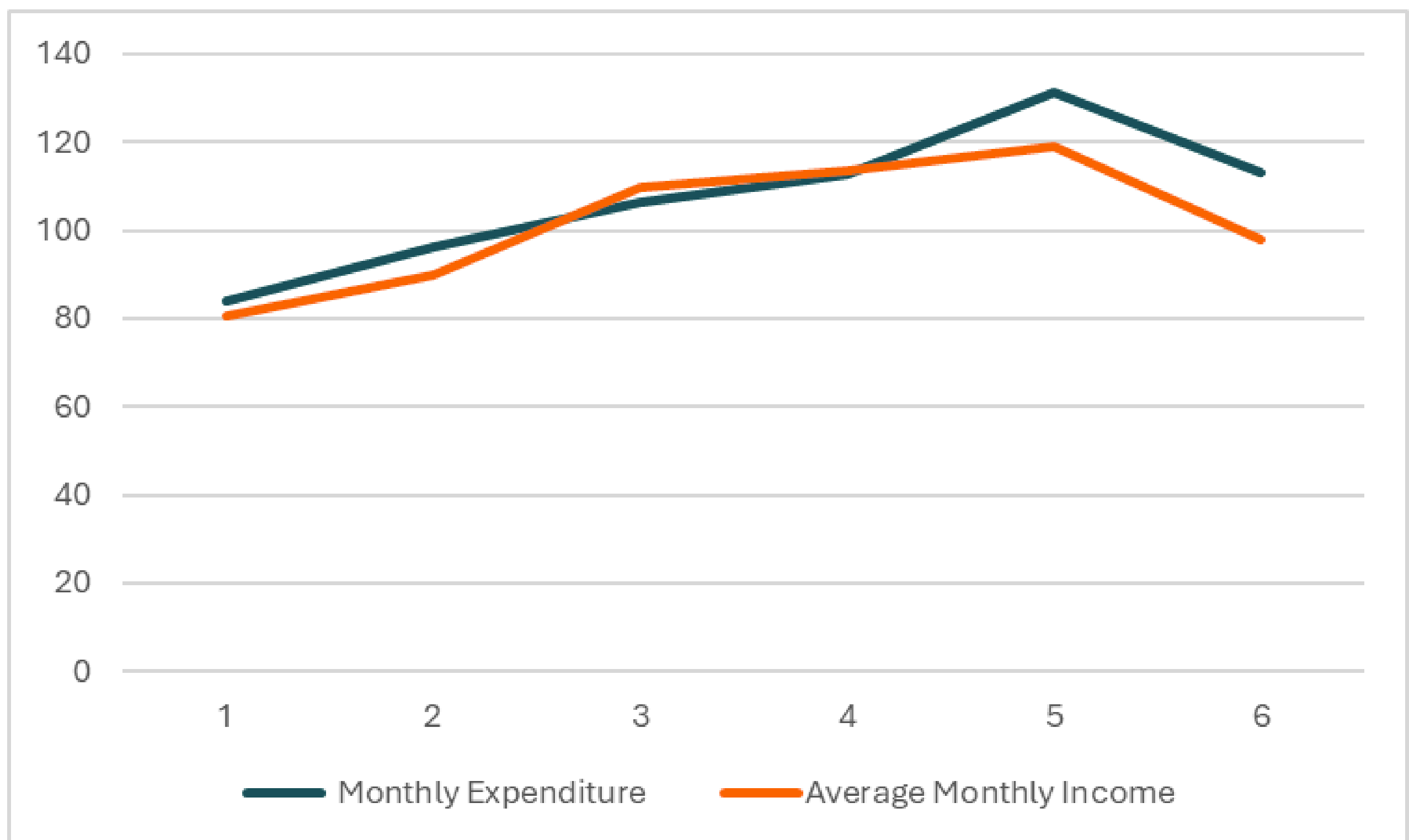
[1] Pakistan's headline inflation in April at a record high, hits a distressing 36.4%
<https://www.brecorder.com/news/40239915/pakistans-headline-inflation-in-april-at-record-high-hits-a-distressing-364>

What does HIES 2024-25 tell us?

HIES 2024-25 reveals a nuanced picture of household welfare in Pakistan. At first glance, household income appears to have increased across the distribution. Average monthly household income has risen for all quintiles between 2018-19 and 2024-25. However, this improvement is purely nominal. When examined alongside consumption behaviour, the data reveals more constrained reality.

While households are earning more in rupee terms, consumption has grown at an equal or faster pace across most quintiles, particularly at the lower and upper ends of the distribution. This indicates that income growth has largely been absorbed by higher living costs rather than translating into improved real purchasing power or savings. This is evident from the graph shown below.

FIGURE 1. PERCENTAGE CHANGE IN AVERAGE MONTHLY INCOME AND CONSUMPTION BETWEEN 2018-19 AND 2024-25



SOURCE: HIES 2024-25

For lower-income households or the 1st Quintile, consumption growth exceeds income growth, suggesting that households have managed to maintain minimum living standards under inflationary pressure. At the top end, faster consumption growth reflects greater ability to pass inflation through discretionary spending. Higher nominal incomes have not delivered proportional welfare gains, reinforcing the idea that recent economic stability has not eased household-level stress.

Beyond income levels, the composition of income also matters. HIES reports multiple income channels, including wages, self-employment, agriculture, remittances, and transfers. The changing reliance across these channels points to greater income volatility, especially for households dependent on informal work, casual labour, and non-salaried activities. Such shifts suggest that households are diversifying income sources not out of opportunity but necessity. This also provides a signal of economic distress.

Thirdly, and perhaps the most striking insight from HIES 2024-25 is the degree of budget rigidity. On average, nearly two-thirds of household expenditure is devoted to essential items. This leaves only one-third for education, health, entertainment, clothing etc.

TABLE 1: AVERAGE SHARE OF HOUSEHOLD EXPENDITURE

Expenditure Component	Mean Share
Essential spending	63.10%
Flexible spending	36.89%

NOTE: ESSENTIAL SPENDING INCLUDES FOOD, TRANSPORT, AND UTILITIES.
SOURCE: AUTHOR'S OWN CALCULATIONS USING HIES 2024-25 DATA

It is important to note that mean household expenditure alone is not a sufficient indicator of welfare as households of different sizes may report similar expenditures while experiencing different living standards. To account for these differences, the analysis relies on per capita expenditure, which provides a more accurate measure of

of household welfare by adjusting for household size, thus allowing for meaningful comparison across the distribution. However, interestingly, even disaggregated by per capita expenditure quintiles, the expenditure rigidity barely changes across the lower and middle distribution, as shown in the table below.

TABLE 2: MEAN EXPENDITURE SHARES BY PER-CAPITA EXPENDITURE QUINTILE

Per-Capita Expenditure Quintile	Essential Share (%)	Flexible Share (%)
Q1 (lowest)	66.8	33.2
Q2	66.1	33.87
Q3	64.7	35.29
Q4	62	38.04
Q5 (highest)	56	44.02

SOURCE: AUTHOR'S OWN CALCULATIONS USING HIES 2024-25 DATA

Budget rigidity remains persistently high across the lower and middle quintiles, with only marginal reductions in essential expenditure shares from the first quarter to the third quarter. Meaningful flexibility emerges primarily in the top quintile, suggesting that economic freedom is concentrated at the upper end of the distribution.

The distribution of essential expenditure shares within each quintile further deepens these insights. The distribution **reveals that not only is the lowest quintile deprived of economic freedom in terms of expenditure, but the middle class is also pronouncedly squeezed.** While the poorest households exhibit the highest budget rigidity, households in the second and third expenditure quintiles continue to allocate nearly two-thirds of total spending to essential items. Despite higher nominal incomes, these households remain consumption-constrained, with limited discretionary space to absorb shocks or build meaningful savings. This slow decline in budget rigidity across the lower and middle quintiles suggests that income gains in the middle of the distribution translate weakly into financial flexibility, leaving middle-income households particularly exposed to inflationary pressures and indirect taxation.

This also reinforces the idea of a shrinking middle class in Pakistan[2], where the middle class **is rigid enough to feel inflationary pressure but not protected enough to absorb shocks, i.e., through transfer payments.**

TABLE 3: DISTRIBUTION OF ESSENTIAL EXPENDITURE SHARE WITHIN QUINTILES

Expenditure Quintiles	p10	p25	p50	p75	Mean
1	51.13	59.29	67.83	75.68	66.79
2	51.6	59.09	66.75	73.86	66.12
3	50.27	57.48	65.21	72.53	64.7
4	46.6	54.23	62.63	70.16	61.95
5	37.51	47.5	57.05	66.05	55.97
Total	46.81	55.29	64.16	72.066	55.97

SOURCE: AUTHOR'S OWN CALCULATIONS USING HIES 2024-25 DATA

The above idea is reinforced by the increased prevalence rates of food insecurity in Pakistan over the years. As shown in the table below, the percentage change in food insecurity between 2018-19 and 2024-25 points to a marked deterioration in household welfare, with particularly acute stress emerging in urban areas. The increased food insecurity in urban areas signals the breakdown of traditional urban buffers such as diversified income sources and better market access, largely under pressure from persistent food inflation, declining real wages, and rising living costs. The parallel worsening of food insecurity at the individual level suggests that households are no longer able to shield members from nutritional stress through internal adjustments.

TABLE 4: PREVALENCE RATES OF FOOD INSECURITY

Category	Food Insecurity 2018-19 (%)	Food Insecurity 2024-25 (%)	Percentage Change (%)
Overall Households	15.92	24.35	53.00%
Urban Households	9.22	20.58	123.20%
Rural Households	19.96	26.72	33.90%
Individuals	15.98	23.75	48.60%

[2] Pakistan's headline inflation in April at a record high, hits a distressing 36.4%

<https://www.brecorder.com/news/40239915/pakistans-headline-inflation-in-april-at-record-high-hits-a-distressing-364>

Taken together, these trends imply that recent macroeconomic stabilization has come at a tangible welfare cost with adjustment pressures absorbed through reduced food consumption rather than improved income growth. This highlights the urgency of re-orienting policy towards protecting food security alongside fiscal and price stability objectives.

In addition to the food insecurity, savings trends also suggest a squeezed middle class and households with a low savings buffer. A comparison of short-term and longer-term savings buffers reveals a sharp disconnect between apparent financial security and actual household resilience. As shown in Table 6, nearly half of households in the lowest per-capita expenditure quintile can finance at least one month of essential spending from savings, and this share rises steadily across the distribution, reaching 80 percent in the highest quintile. On the surface, this suggests that a majority of households retain some degree of financial cushioning.

However, this picture changes markedly when a six-month benchmark is applied. Only 31% of households in the lowest quintile possess savings sufficient to cover three months of essential expenditure. Most strikingly, the drop from one-month to six-month coverage is steepest among lower-middle and middle-income households, indicating that while many households can absorb brief shocks, far fewer can withstand sustained periods of stress.

This pattern highlights a critical vulnerability in Pakistan's post-stabilization economy. Short-term buffers may allow households to cope temporarily with inflation or income disruptions, but the absence of deeper savings among middle-income households limits their ability to smooth consumption, invest in human capital, or respond confidently to new economic opportunities.

TABLE 5: PREVALENCE OF ONE MONTH VS THREE MONTH SAVINGS ACROSS QUINTILES IN PAKISTAN

Quintile	≥1 month	≥3 months
Q1 (lowest)	48.40%	31.60%
Q2	57.90%	35.10%
Q3 (middle)	65.90%	42.20%
Q4	71.80%	49.20%
Q5 (highest)	80.00%	59.50%

SOURCE: AUTHOR'S CALCULATIONS USING HIES 2024-25

Table 7 highlights a clear distinction between short-term liquidity and medium-term financial resilience across both the welfare distribution and spatial location. While most households in each per-capita expenditure quintile can finance at least one month of essential spending from savings, this capacity declines sharply when a three-month benchmark is applied, particularly among urban households. The drop is most pronounced in the lower-middle and middle quintiles, indicating that apparent financial security often masks shallow savings buffers.

At comparable welfare levels, rural households consistently exhibit stronger savings resilience than their urban counterparts, especially beyond the one-month horizon. **This suggests that urban households face higher fixed and cash-based living costs, such as housing, utilities, and transport, that erode their ability to retain savings despite similar per-capita expenditure.** Rural households, by contrast, appear better able to smooth consumption through lower cash expenses and informal coping mechanisms.

These patterns help explain why recent macroeconomic stabilization has not translated into a stronger recovery in household demand. Although stabilization measures preserved

short-term solvency, they appear to have constrained households' capacity to rebuild medium-term buffers, particularly among the urban middle class. Without restoring household savings resilience, especially in urban areas, the transmission of stability into sustained consumption growth and broader economic recovery is likely to remain weak.

TABLE 6: PREVALENCE OF SAVINGS IN RURAL VS URBAN AREAS

Per-Capita Expenditure Quintile	1 Month's Savings		3 Months' Savings	
	Rural	Urban	Rural	Urban
Q1 (Lowest)	48.8	45.8	31.4	33.2
Q2	62	47	38.6	26.1
Q3 (Middle)	69.2	60.4	46.5	35.1
Q4	78.2	64.6	56.2	41.4
Q5 (Highest)	80.6	79.6	63.8	56.6

SOURCE: AUTHOR'S CALCULATIONS USING HIES 2024-25



Digital Connectivity in Pakistan

This section examines entry-level digital access in Pakistan using individual-level data from the Household Integrated Economic Survey (HIES). Rather than treating connectivity as a binary outcome, the analysis distinguishes between **use, ownership, device capability, and autonomy of access**, offering a layered understanding of digital inclusion. All estimates are population weighted.

Mobile phone use in Pakistan is near universal, with over 91 percent of individuals reporting mobile use in the last three months. At face value, this suggests deep penetration of digital technology.

TABLE 7: MOBILE PHONE USAGE IN PAKISTAN

Indicator	Weighted Percentage	Interpretation
Used a mobile phone	91.10%	Mobile phones are widely used, often through shared access
Did not use a mobile phone	8.90%	Completely excluded from mobile connectivity

SOURCE: AUTHOR'S CALCULATIONS USING HIES 2024-25

However, ownership rates tell a different story. Only **half of the population owns a mobile phone**, while the remainder relies on shared or borrowed devices.

TABLE 8: MOBILE PHONE OWNERSHIP

Ownership Status	Weighted Percentage	Interpretation
Own a mobile phone	49.60%	Direct and autonomous access
Does not own a mobile phone	50.40%	Rely on shared or borrowed access

SOURCE: AUTHOR'S CALCULATIONS USING HIES 2024-25

This divergence between use and ownership is economically significant. Shared access is inherently **fragile**. It is contingent on household dynamics, gender norms, and affordability. Individuals without ownership face higher transaction costs in accessing digital services, limited privacy, and reduced ability to engage consistently with online platforms. As a result, high usage rates overstate the depth and resilience of digital inclusion.

From a policy lens, this pattern indicates that Pakistan has achieved network reach without asset ownership, leaving a large segment of users exposed to policy-induced price shocks.

Over 41 percent of individuals use a mobile phone without owning one. This group is especially vulnerable to increases in device prices, telecom taxation, or service charges. Unlike owners, shared users cannot smooth shocks through delayed replacement or selective usage; access can disappear entirely if household budgets tighten.

This creates a non-linear policy risk: small increases in costs can lead to large drops in effective connectivity, particularly among low-income and marginal users.

Device type further stratifies digital access. While 46 percent of individuals have access to a smartphone, a sizeable 38 percent rely exclusively on feature phones. This matters because feature phones sharply limit the range of digital services that can be accessed, particularly education platforms, digital payments, telemedicine, and formal employment portals.

TABLE 9: TYPE OF MOBILE PHONE ACCESS

Type of Access	Weighted Percentage	Implication
Feature phone only	37.60%	Limited digital capability
Smartphone only	46.10%	Full digital access is possible
Both types	7.70%	Higher device capability
No mobile phone	8.50%	Digitally excluded

The coexistence of high mobile usage and limited smartphone penetration highlights a capability gap, not merely a coverage gap. Digital policy that focuses solely on expanding internet infrastructure risks ignoring this bottleneck. Without affordable smart devices, improvements in broadband or mobile data coverage will have muted welfare effects.

Internet usage stands at 54.5 percent, substantially lower than mobile use. This gap underscores that connectivity is not automatic once a device is present. Internet access requires:

- a capable device,
- affordable data,
- and sufficient digital literacy.

In economic terms, internet access represents the threshold at which digital technology begins to generate productivity and welfare gains. The fact that nearly half the population remains offline implies that digital dividends are unevenly distributed, reinforcing existing income and opportunity inequalities.

Spatial and Gender Dimensions of Digital Access

Urban–rural disparities remain pronounced. Mobile ownership is 68 percent in urban areas, compared to 48 percent in rural regions, reflecting differences in income levels, market access, and service availability.

TABLE 10: RURAL VS URBAN MOBILE OWNERSHIP

Region	Mean
rural	48%
urban	68%

Gender disparities are even more stark at the ownership stage. 68 percent of men own a mobile phone, compared to just 31 percent of women. Crucially, however, conditional internet use shows no meaningful gender difference. This shows that among those with access, men and women are equally likely to use the internet.

TABLE 11: GENDERED LENS OF MOBILE OWNERSHIP AND INTERNET USAGE

Mobile Ownership	
Male	68.23
Female	31.4
Internet Usage	
Male	57.04
Female	56.96

This distinction is critical. The digital gender gap in Pakistan is not a usage or capability gap; it is an access and affordability gap. Women are excluded upstream, at the point of device ownership, rather than downstream in digital adoption.

Taken together, the evidence suggests that Pakistan's digital exclusion is driven less by preferences or skills and more by budget constraints and asset affordability. Digital access behaves like a lumpy investment good. Without crossing the ownership and capability threshold, households cannot fully participate, regardless of network availability.

In this context, taxes on devices and telecom services function as implicit exclusionary mechanisms, disproportionately affecting women, rural households, and low-income users who rely on shared access.



Conclusion:

Taken together, the welfare and digital modules of HIES 2024–25 describe a country where adjustment has increasingly occurred inside the household, through compressed consumption, reduced resilience, and rising deprivation, rather than through broad-based improvements in productivity or earnings. The distributional work on income/consumption growth and expenditure shares captures the *mechanism* of stress. It shows that when essentials occupy a larger share of budgets (and the “essential squeeze” is visible even within quintiles), households have less room to smooth out shocks. The rise in food insecurity then becomes the natural endpoint of this process, and the key policy message is not simply that poverty exists, but that purchasing power volatility has become a mass phenomenon, including in urban areas, making vulnerability less “targetable” by old assumptions and more central to macro policy design.

Crucially, HIES 2024–25 also signals that human welfare cannot be reduced to consumption alone. Maternal and child health indicators in the HIES presentation show improvements in immunization and maternal care coverage, alongside reductions in neonatal and infant mortality, encouraging progress, but also a reminder that welfare is multi-dimensional and that gains are fragile when household food security and real incomes are under pressure. The same multi-dimensional lens appears in WASH and living conditions, improvements in sanitation access, and shifts in water sources matter because they affect disease burden, productivity, and nutrition absorption. In short, HIES 2024–25 supports a single integrated conclusion: Pakistan’s welfare challenge is no longer just low incomes, but a combination of high exposure to price shocks, limited household buffers, and unequal access to coping infrastructure (especially digital and basic services).



Recommendations:

1) Put food security back into the centre of macro policy.

Treat food insecurity as an early-warning welfare indicator, not a social-sector footnote. Institutionalize regular monitoring (HIES + price data + nutrition surveillance) to trigger time-bound responses when purchasing power collapses, especially in cities where vulnerability is rising fastest.

2) Re-target social protection for “new vulnerability,” not only chronic poverty.

Urban stress needs instruments designed for liquidity shocks: temporary top-ups, digital cash transfers, and shock-responsive support linked to inflation spikes. This is especially relevant because HIES shows deprivation expanding beyond the traditionally poor, making static beneficiary lists increasingly misaligned with reality.

3) Shift from blanket price controls to smarter food affordability tools.

Move away from distortive, leaky controls and toward (i) time-bound targeted subsidies for nutritionally critical items, (ii) competition and logistics reforms to reduce markups, and (iii) strengthening storage/cold-chain and market information systems. The objective is not to “administer” prices, but to reduce volatility and the regressive burden of food inflation.

4) Make digital inclusion an anti-poverty tool, not a tech-sector KPI.

Given that connectivity increasingly mediates access to jobs, services, and transfers, digital policy should be evaluated on

inclusion outcomes. This should include reducing the cost of entry (devices) and usage (data), expanding meaningful access in lagging regions.

5) Invest in WASH as an economic policy

Sanitation and safe water improvements reduce disease, protect nutrition absorption, and improve learning and productivity. Treat WASH spending as a high-return productivity investment, especially in areas where households already face food stress.

6) Build a “household resilience” dashboard inside government decision-making.

HIES 2024–25’s digital transformation shows Pakistan can modernize welfare measurement. Formalize a cross-ministry dashboard that tracks real consumption proxies, food insecurity, maternal/child indicators, WASH, and digital access, so stabilization programs can be assessed by whether households are coping or breaking.

RIGHTSIZING THE GOVERNMENT: PENULTIMATE DISPOSAL OF THE PIA SETS THE STAGE FOR FUTURE DEALS

At both ends of the burning candle, two pieces of good news emanated:

1) First Women Bank was allowed freedom to work in private hands (sold out to a UAE firm).

2) And that is the big news: PIA, one of the hugest white elephants, finally stands privatized. In fact, it can be a game-changer, but only if the model of its deal and transaction is replicated.

Apart from the details of the sell-out agreement, what is publicly known and important is the fact that out of the Rs.135 billion, the amount for which 75% shares of the PIA changed hands, only Rs.20 billion will go to the government kitty, and the rest of the Rs.115 billion will be spent in a period of 5 years for the improvement of the operations of the PIA.

In my view, it is a big deal. That is the model that ought to and must be followed in the case of every SOE, be it in profit or loss. That signals extremely lucrative positives to the prospective buyers. Instead of the proceeds of the privatization being spent by the government mindlessly, a far better option is a conditionality in the agreement making it mandatory for and requiring the buyer to allocate the maximum amount of the proceeds of the transaction to be spent on making the SOE functional or operational or improving it, as the case may be.

In that sense, the penultimate disposal of the PIA has set the stage for future privatization deals. And that could prove to be a silver lining on the SOE horizon, which has been looking bleak for the last few decades.

All else on every block, especially the GENCOs and DISCOs, and generally the physical size of the government, non-development spending, or liberalization and deregulation, is in the process, at this or that stage of deliberation or inclusion in or exclusion from the list. Let us imagine there is more pressure to come from the IMF on the government to do what it is required to do but has been dilly-dallying on this or that pretext. PIA is one such miracle. Otherwise, it is no secret that any government, this one or any other, is in no hurry.

One huge white elephant that has been “saved” happily by the PML (N) at the instance of the Pakistan Peoples Party (P) is Pakistan Steel Mills, which is to work again as a holdall for frivolous recruitment and stuffing their favorite cronies into it.

And what is happening with regard to the government’s commitment to move to an electricity market (CTBCM)? The only news is waiting and waiting and extending the deadlines whenever the previous one is on the verge of approaching.

Whatever relevant information was reported in various newspapers regarding the incumbent government’s efforts to limit its footprint in the economy from July 14, October 11, 2025 to January 25, 2026, has briefly been arranged in chronological order with issues and entities collated together.

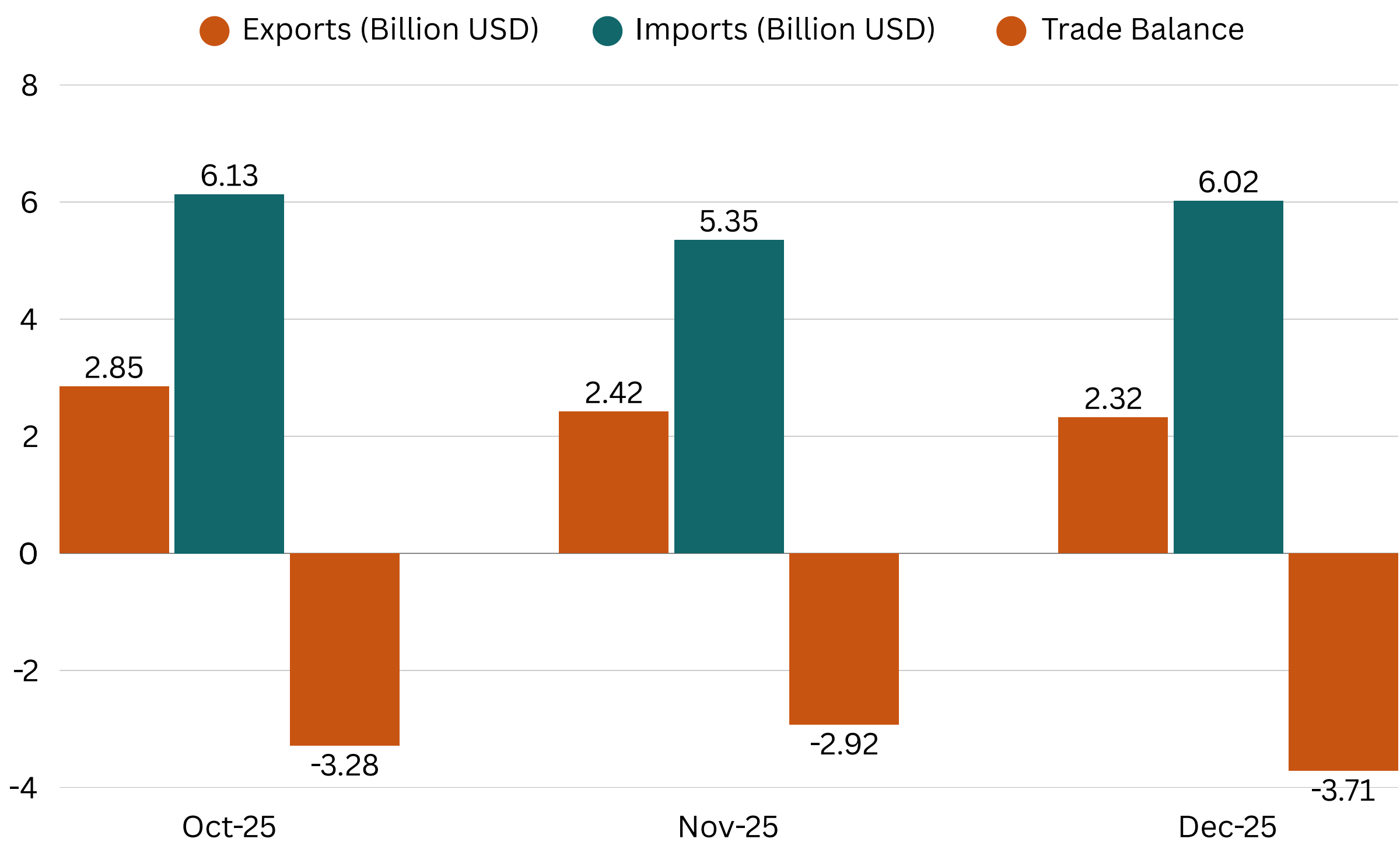
Khalil Ahmad

MACROECONOMIC ANALYSIS

External Sector

TRADE STATISTICS

Figure 2: Pakistan Trade Statistics Oct-Dec 2025 (Billion \$)



Pakistan Bureau of Statistics

KEY INSIGHTS

- Pakistan's exports fell from \$2.85 bn in October to \$2.32 bn in December, while imports remained high at \$6.02 bn (+2% YoY). Exports declined in major markets (USA -8%, China -9%, UK -3%) and key sectors (Textiles & Leather -3%, Agro & Food -41%, Engineering -9%).
- Policy Note: Contraction across markets and sectors highlights a narrow export base, limited diversification, and structural weaknesses in the external sector.

External Sector

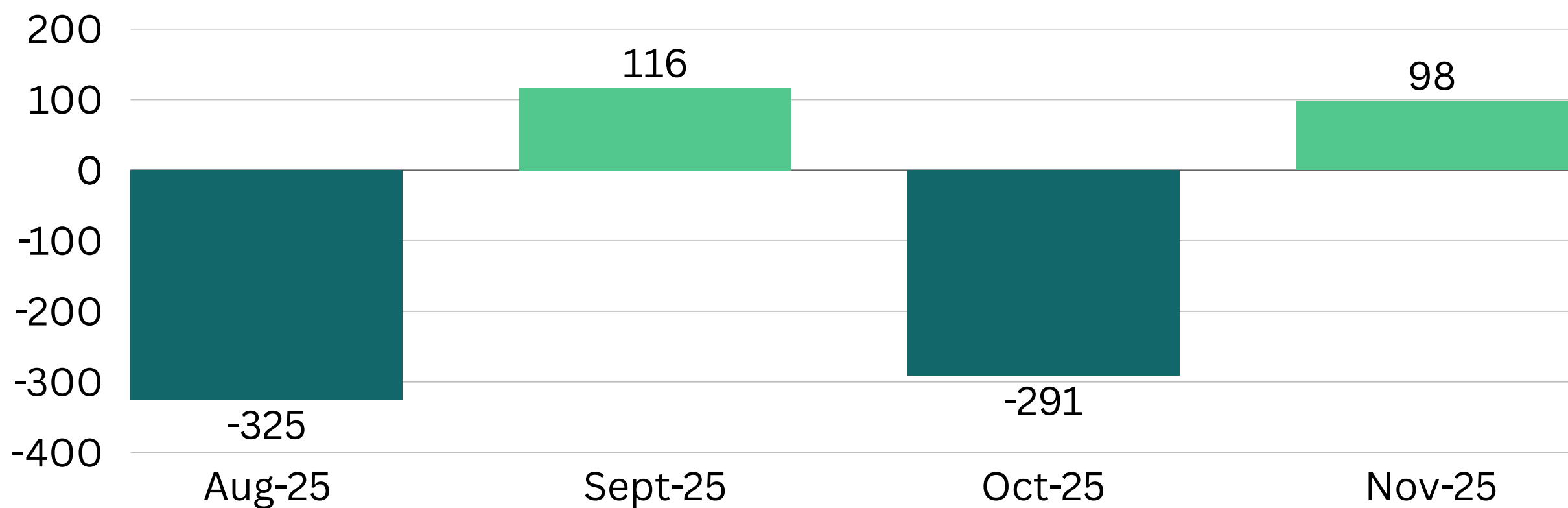
Figure 3: Real Effective Exchange Rate of Pakistan Aug-Nov 2025



- REER rose from 100.09 in August to 104.76 in November 2025, reflecting a slight increase in the relative prices of Pakistani goods.
- This increase in REER largely reflects a relatively stable exchange rate combined with inflation, which resulted in real appreciation, further straining the already weak exports and trade balance.
- A higher REER signals a decline in export competitiveness, as goods become more expensive compared to those of trading partners.
- Policy Note: Adopt flexible exchange rate management to prevent real overvaluation.

External Sector

Figure 4 : Current Account Balance Aug-Nov 2025 (Million USD)



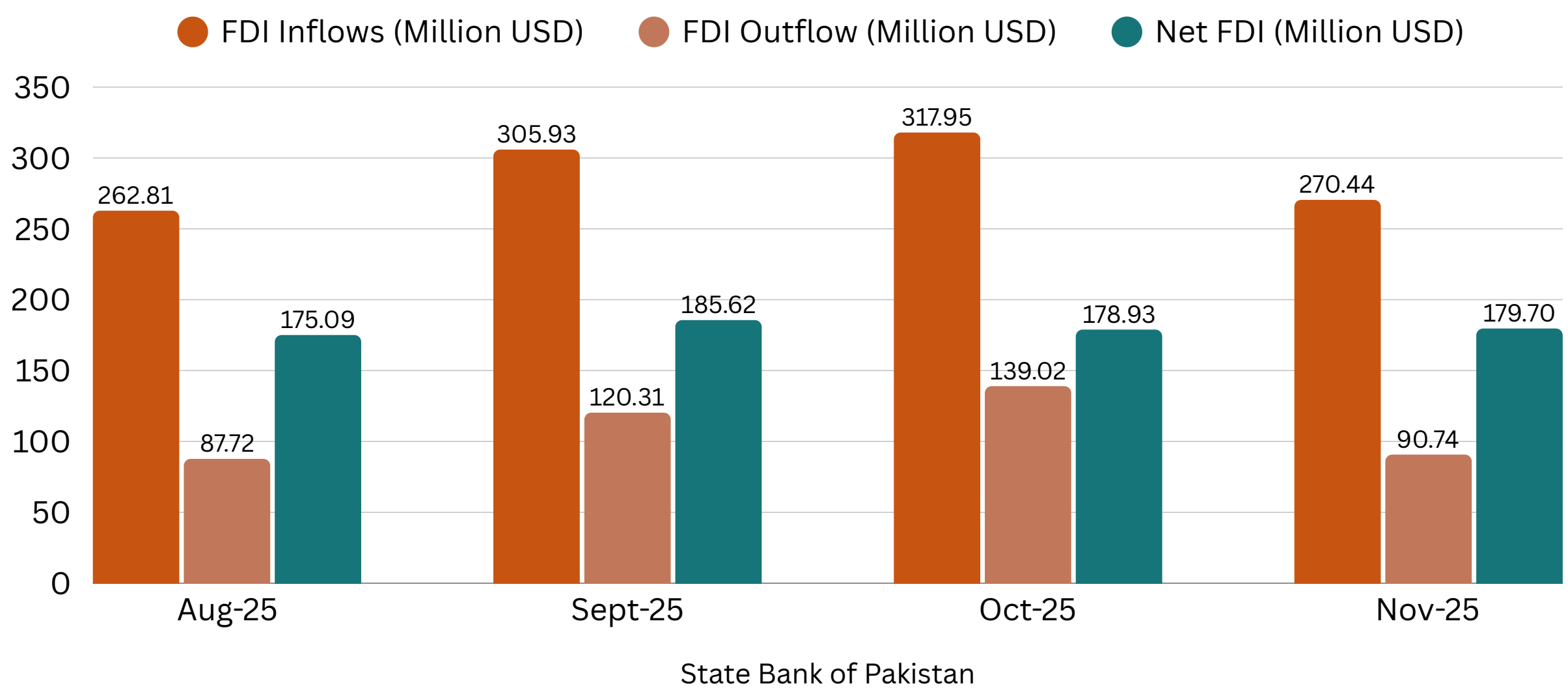
State Bank of Pakistan

KEY INSIGHTS

- Pakistan's current account remained volatile, with a \$325 million deficit in August and a \$98 million surplus in November 2025.
- Driven by a sharp drop in imports (\$6.13b → \$5.35b) supported by lower global commodity prices, alongside resilient remittances (\$3.19b).
- Recent import policy and tariff reforms are likely to keep imports elevated in the short term, adding pressure to the current account, but are intended to lower input costs and strengthen export competitiveness over the medium term.
- Policy Note: Sustainable current account stability requires strengthening exports, channeling remittances into productive sectors (SMEs and export industries), and maintaining adequate FX buffers.

External Sector

Figure 5: FDI Inflows & Outflows (Million \$)

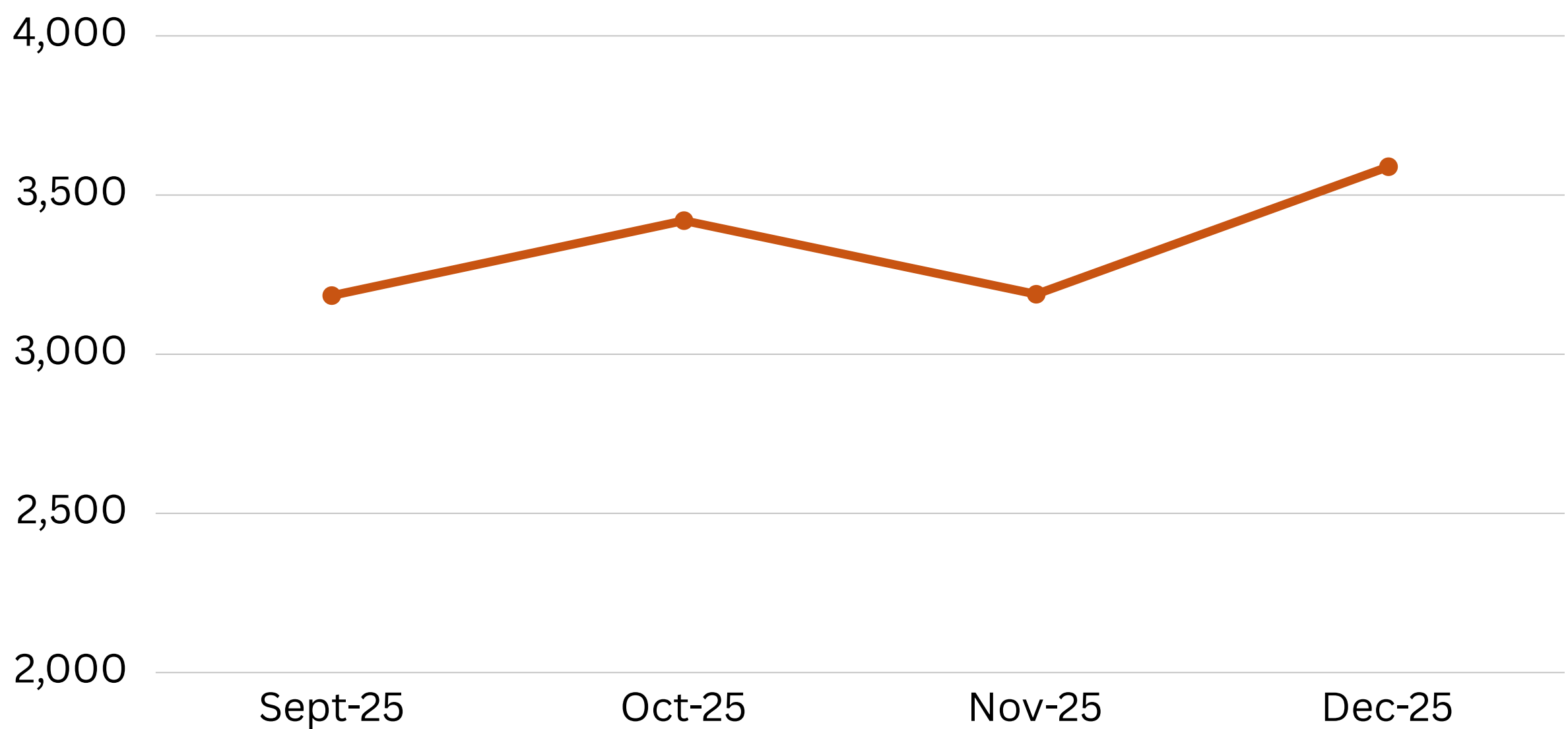


KEY INSIGHTS

- Net FDI stayed modest during Aug–Nov, peaking in October with higher outflows offsetting stronger inflows, reflecting cautious investor sentiment.
- In October, FDI reached \$178.9 million, led by the power (\$52.8m) and financial (\$79.6m) sectors, with China, UAE, and Hong Kong as top investors, reflecting continued foreign interest despite a slight month-on-month decline.
- Policy Note: Pakistan should diversify its investor base, ensure policy and fiscal certainty, limit excessive profit repatriation, and provide sector-specific incentives in manufacturing, energy, and technology.

External Sector

Figure 6: Worker's Remittances Inflow (Million USD)



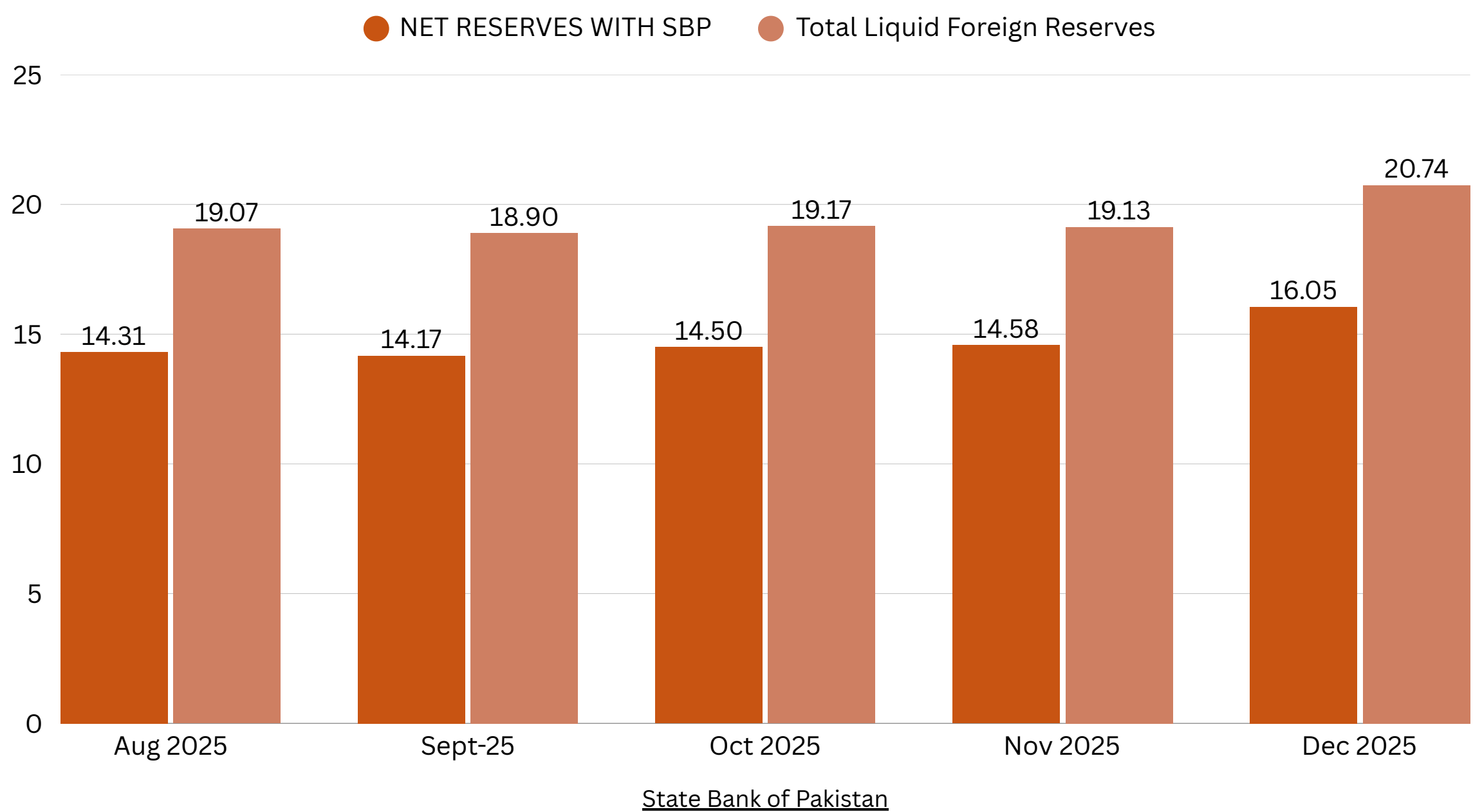
State Bank of Pakistan

KEY INSIGHTS

- The Pakistani diaspora in Saudi Arabia, the UAE, the United Kingdom, and the United States contributed to the quarter's strong and stable remittance inflows.
- Inflows from key countries increased from September to December, including the USA (12.15%), the UK (23.08%), Italy (23.40%), and Australia (25.44%).
- Policy note: Stable remittances provide a reliable source of foreign exchange, helping the external sector from trade and current account pressures

External Sector

Figure 7: Net Reserves with SBP & Total Liquid Foreign Reserves (Billion \$)

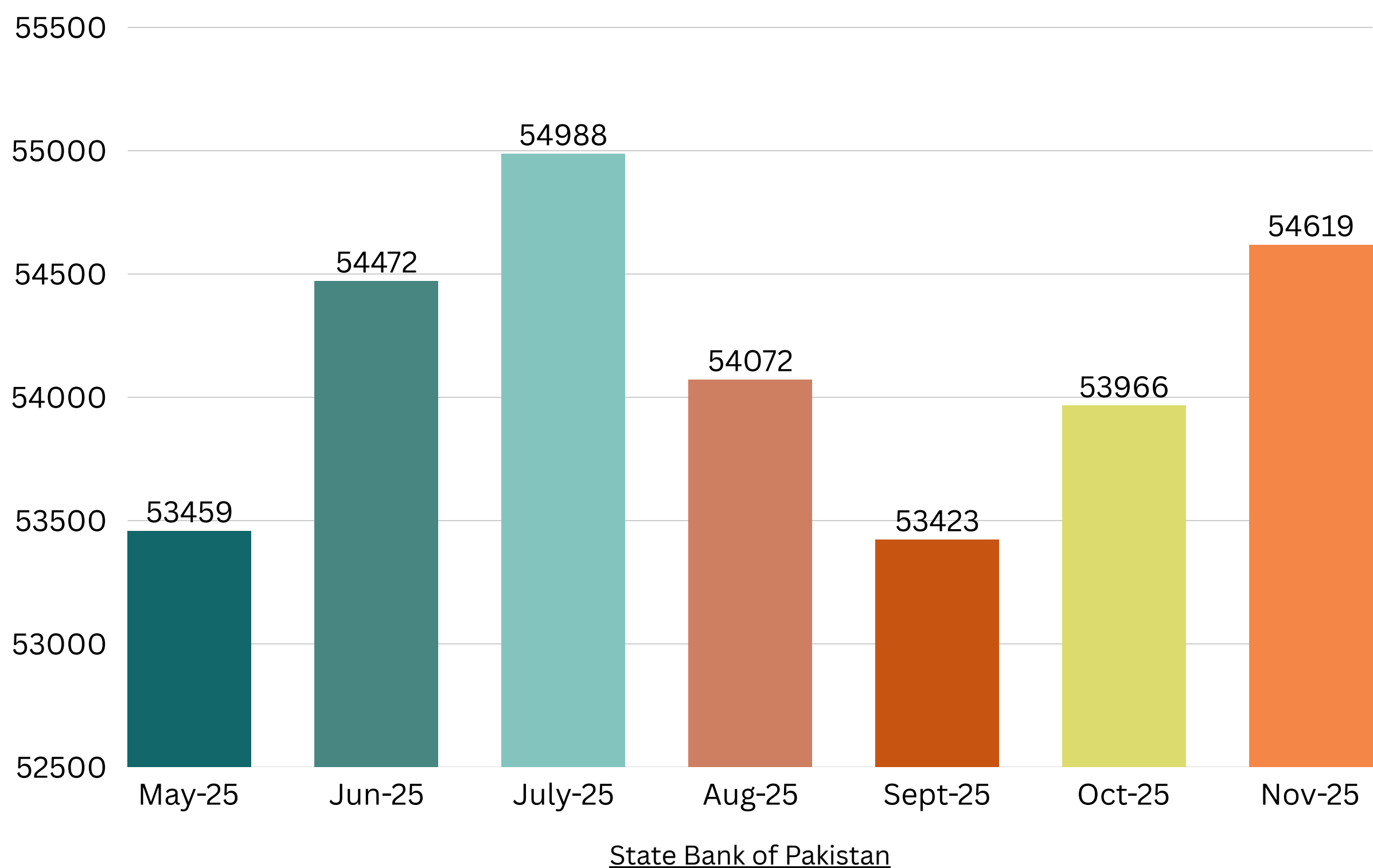


KEY INSIGHTS

- Forex reserves remained broadly stable from August to November and increased in December, supported by steady remittances, IMF inflows, and management of annual external debt rollovers (~\$12.7 bn from China, Saudi Arabia, and UAE).
- SBP supported reserves and exchange rate stability through interbank dollar purchases and open market operations, including Shariah-compliant instruments.
- Policy note: Reliance on FX interventions, IMF inflows, and bilateral rollovers highlights vulnerabilities; durable buffers require export growth, deeper FX markets, and stable macro policies.

Monetary and Fiscal Conditions

Figure 8: Gross Domestic Debt (Billion PKR)

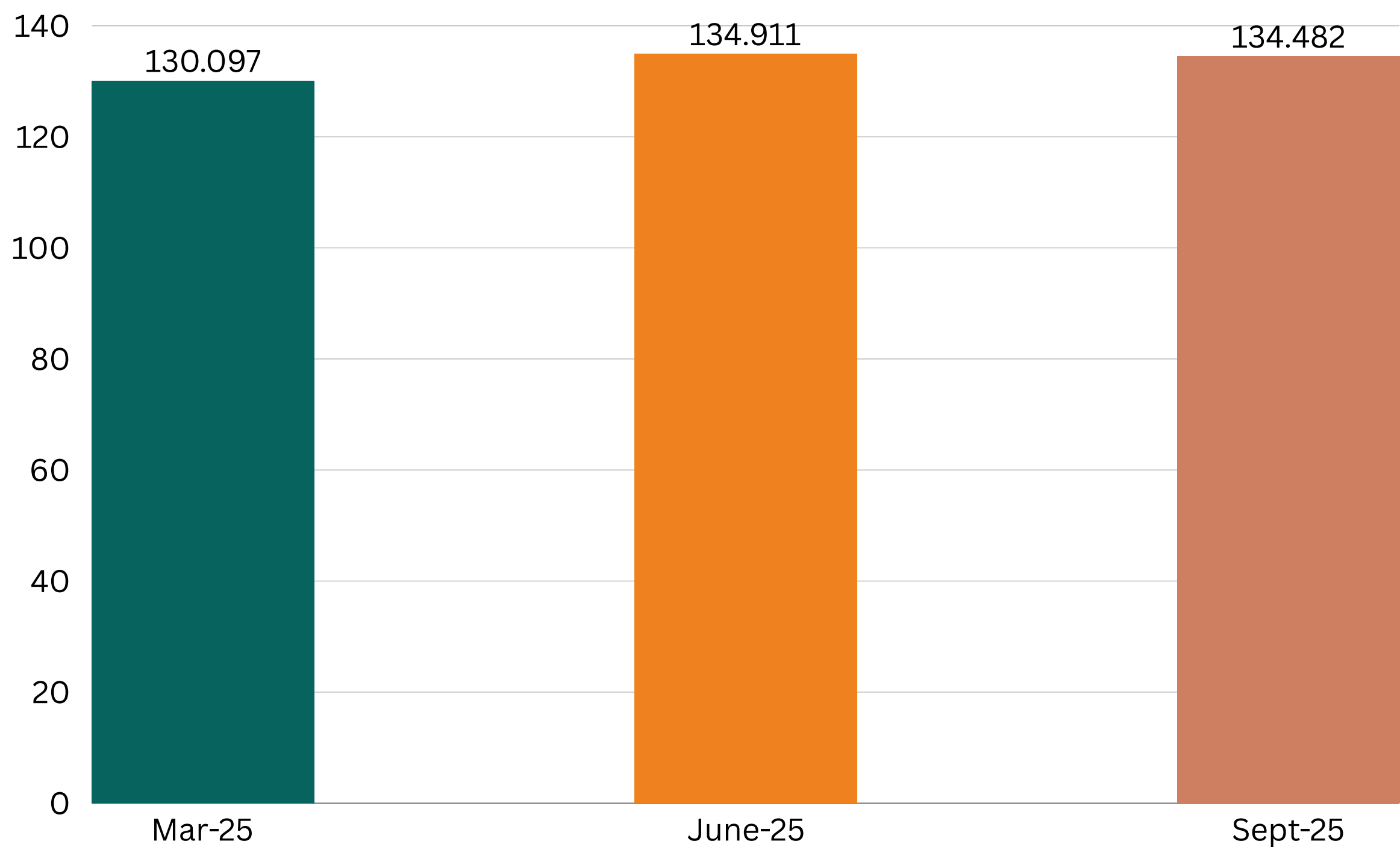


KEY INSIGHTS

- Government domestic debt rose from PKR 53.4 trillion in September to PKR 54.6 trillion in November, following a brief dip in August–September, indicating resumed reliance on local financing to fund the budget and rollover obligations.
- The rise reflects continued reliance on treasury bonds and short-/medium-term bills to cover revenue gaps.
- Policy note: Rising domestic borrowing pressures fiscal space and private credit; improving revenue, spending control, and debt management is key for macro stability.

Monetary and Fiscal Conditions

Figure 9: External Debt & Liabilities (Billion PKR)



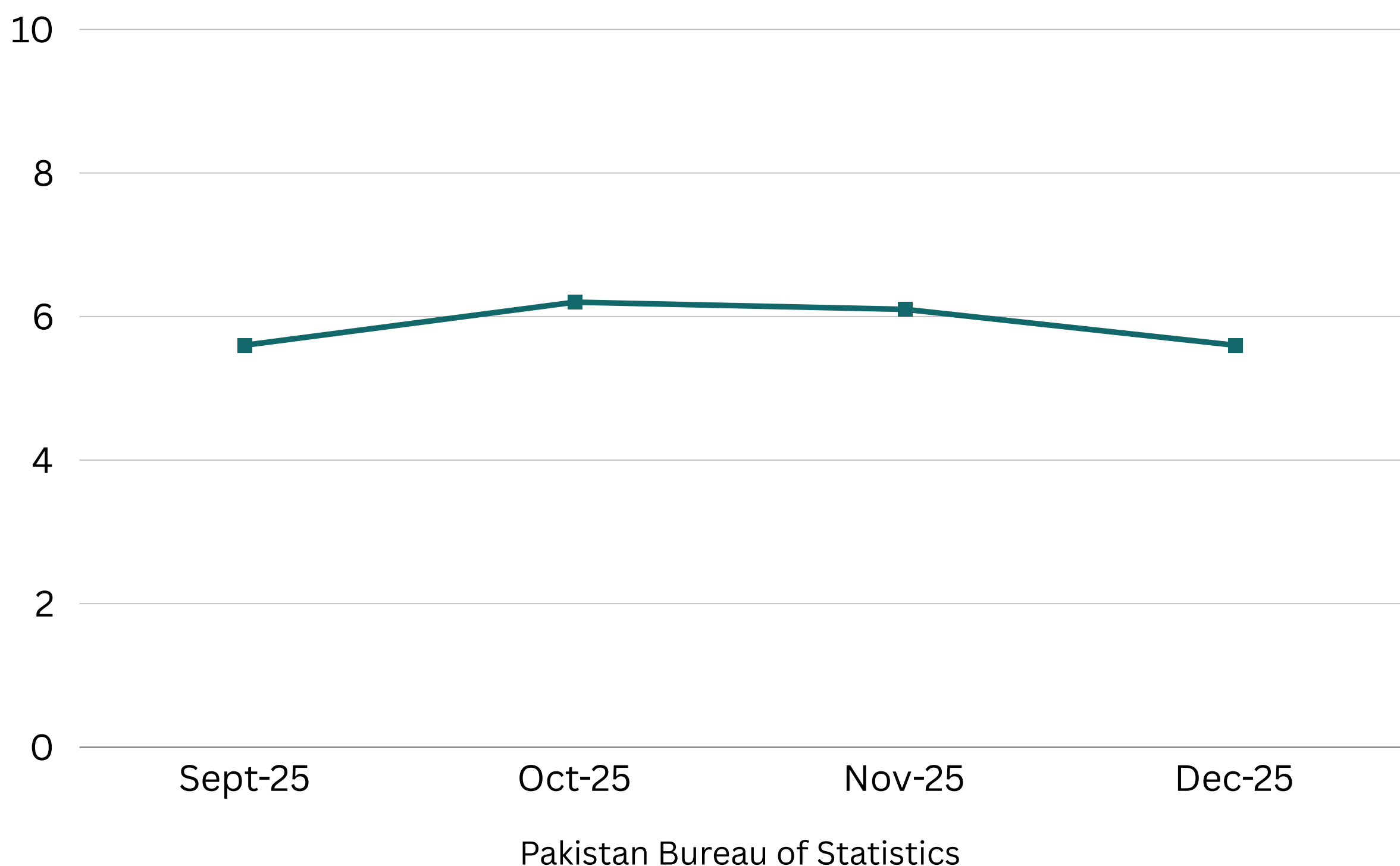
State Bank of Pakistan

KEY INSIGHTS

- Total external debt and liabilities increased from PKR 130.1 billion in March to PKR 134.9 billion in June, before easing marginally to PKR 134.5 billion by September, indicating continued reliance on external financing amid fiscal and balance-of-payments pressures.
- The mid-year increase reflects external disbursements and rollover of maturing obligations.
- Policy note: Sustained fiscal consolidation and improved debt structure have strengthened debt sustainability, but continued revenue mobilization and prudent debt management remain vital for macroeconomic stability and private credit growth.

Monetary and Fiscal Conditions

Figure 10: CPI Inflation of Pakistan Sept-Dec 2025

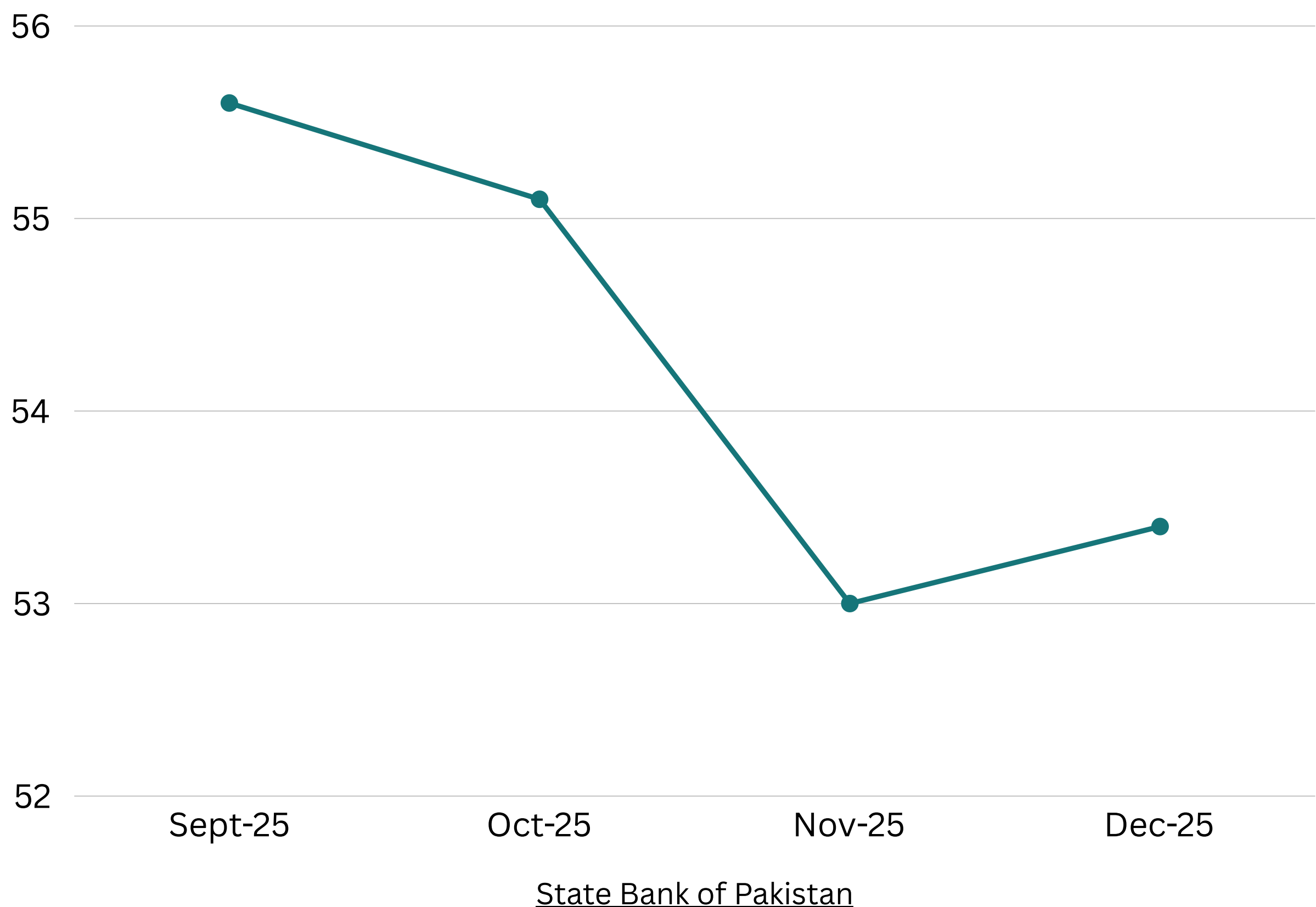


KEY INSIGHTS

- Headline inflation peaked at 6.2% in October due to food and energy supply shocks, easing to 5.6% in December as pressures moderated.
- Policy note: Sustained price stability requires supply-side management, structural reforms, and prudent monetary policy.
- Targeted food and energy interventions, stronger agriculture and energy supply chains, and predictable policy rates will anchor expectations, protect exports, and support reserves. Efficient remittance channels, productive imports, and monitored credit flows further reinforce macro stability.

Real Economy/ Business Sentiment

Figure 11: Overall Business Confidence Index

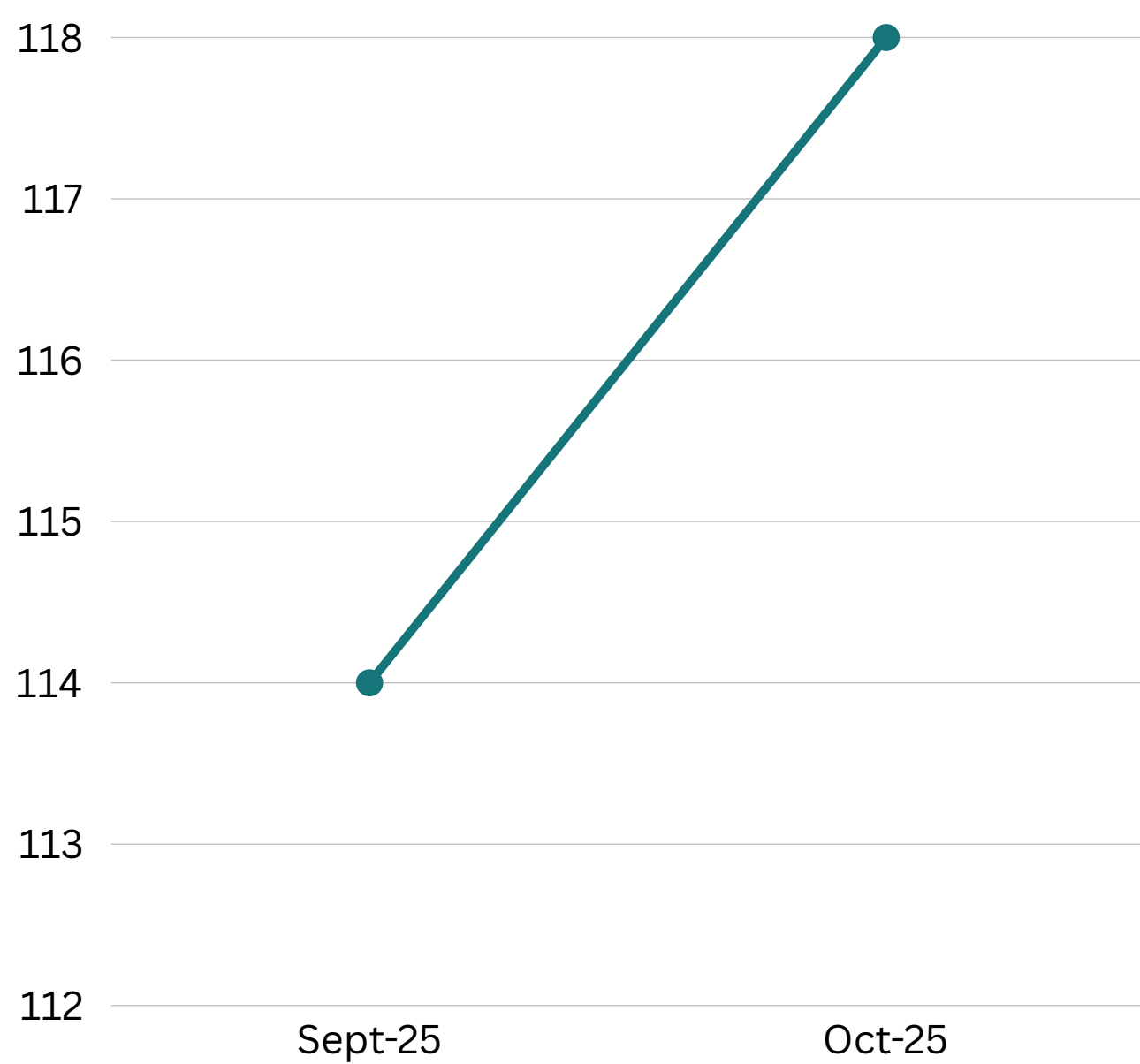


KEY INSIGHTS

- Business Confidence remained over the neutral threshold of 50, but fell progressively from 57.7 in August to 53.0 in November, before rising slightly to 53.4 in December.
- High inflation and energy costs weigh on investment and hiring, while also eroding export competitiveness through higher REER.
- Policy note: Maintain policy predictability (tax, trade, fiscal reforms) to improve investor sentiment.
- Sustaining business confidence requires predictable policies, cost-reduction measures, and strong engagement with the private sector.

Real Economy/ Business Sentiment

Figure 12: Quantum Index of Large Scale Manufacturing

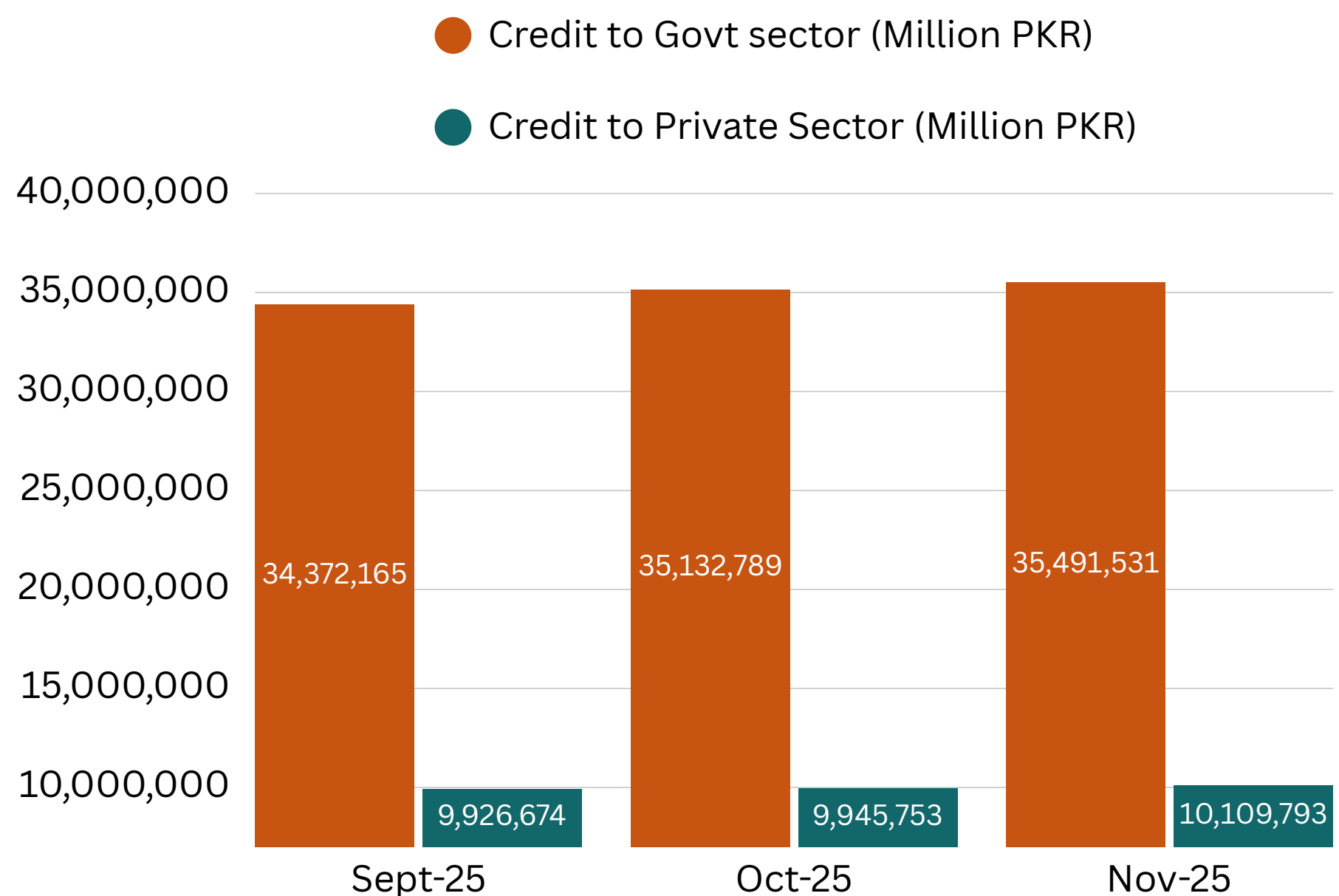


Pakistan Bureau of Statistics

- Quantum Index rose 3.8% M-o-M, driven by autos, cement, and consumer goods, signaling a gradual industrial recovery.
- High input costs, energy bottlenecks, and weak domestic/external demand limit broader momentum and competitiveness.

Figure 13: Credit to Government and Private Sector

- Banks' preference for safer government securities alongside slow private credit uptake has weighed on new investment financing.
- Policy Note: Encourage banks to extend credit to productive sectors (e.g., SMEs and industry), and deepen financial markets to ease credit constraints and stimulate broad-based economic growth.



State Bank of Pakistan

1. Physical Size: Government Departments and Employees

PC board okays plan to privatise management of Islamabad, Lahore, Karachi airports

Major airports up for privatisation

Privatisation Commission wants Islamabad airport privatised

Airport moved to privatisation list

Govt shelves Islamabad airport outsourcing plan as talk with UAE stall

PASSCO shutdown put on hold as ECC returns summary for revisions

ECC directs food ministry to resubmit summary after addressing highlighted issues

2. Power Sector: Privatization of GENCOs and DISCOs

More power plants to be privatised

Govt includes three more plants in sell-off list, plans to maintain uniform tariff

PM calls for expediting privatisation process of Discos, Gencos

Senate panel told: Guddu and Nandipur power plants ready for sell-off

PD seeks PM's intervention: Gencos owe Rs409bn to PSO, PPL, SNGPL

Financial adviser selected for DISCOs' privatisation

Agreement signing marks conclusion of appointment process for second batch of distribution companies

Interim tariff ruling: Three Discos slated for sell-off move Nepra

Discos privatisation: govt seeks Turkish help

Emphasises need for Turkish support in training human resources from Pakistan's power-sector organisations

Privatization critical for energy sector transformation: PM

Govt moving ahead with privatization of Islamabad, Faisalabad and Gujranwala power companies

DISCO privatisation sees big policy shift: only GEPCO up for sale?

GEPCO is up for outright privatisation, while IESCO and FESCO to be offered under long-term concession agreements, sources say

3. The SOEs: Privatization of PIA, Pakistan Steel Mills, Etc.

PM orders swift action on SOE privatisation

SBP flags delay in Roosevelt loan

Hotel's \$17.6m support plan faces scrutiny from central bank: ECC

Privatisation drive: HBFCL deal scrapped, Roosevelt Hotel process restarted

Pakistan clears UAE bid for First Women Bank privatisation

First Women Bank privatisation marks 'first drop of rain': PM

Pakistan sells First Women Bank to UAE firm

Govt plans 'Sea to Steel' corridor to revive steel mills

Steel mills land earmarked for revival, NA told

PIA Holding transfers engineering unit to PAF-owned firm

Rs45bn liabilities issue resolved with IMF consent

PIA received Rs24bn as bridge financing from CAA, NA told

Govt finally cuts loose 'white elephant' PIA

The Arif Habib-led consortium submitted the highest bid of Rs135 billion for the 75% shares

PIA finally goes private for Rs135bn: Arif Habib Group-led

consortium makes highest bid for 75% stake

PIA to be run by new owners from April subject to approvals, says PM's adviser

Fauji Fertiliser Company joins winning consortium after PIA auction

3 SOEs proposed for privatisation, 2 dropped

Saindak, PMDC, NICL to be privatised

State-owned entities' net losses jump 300% in a year

Revenues fall by Rs1.4tr while total SOE debt and liabilities climb to Rs11.7tr

SOE losses triple despite reforms

4. Liberalization and Deregulation

Govt to let consumers choose their own power supplier from 2026

Power Division secretary says consumers will have freedom to buy power from distribution company of their choice

Govt moves to phase out state-led power purchases

Govt moves to deregulate wheat, sugar sectors

Federal govt pushes sugar reforms as crushing begins in Punjab

Pakistan decides to fully deregulate sugar sector

Move will hand control of the sugar industry over to market forces, ending decades of state intervention

Govt to free sugar market by June 2026 under IMF deal

Move aims to hand the entire sugar economy, from farms to mills and markets, over to market forces

Pakistan makes major strides in regulatory reforms

Enhances transparency, business ease as country ranks 6th among 50 economies in WB's 2024 'Business Entry' indicator



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