ZAFAR MASUD

Measuring Welfare-GDP

Beyond Arithmetic

Building a Competitive Pakistan — From Capital Allocation to Global Competitiveness

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1

Beyond Arithmetic
Visible Stability, Invisible Welfare

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The Most Consequential Number — Unmeasured

3.7%

the national accounts

?

the median household

Both are telling the truth.

The distance between them is the most consequential number in Pakistani economic policy — and we do not officially measure it.

Source: 'Visible Stability, Invisible Welfare' — Dawn, July 2026

Welfare GDP: Four Honest Adjustments

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1	**Population**	2.5% a year — 3.7% growth becomes barely 1.2% per head
2	**Income vs production**	GDP is blind to $42bn remitted; GNDI runs 8–9% above GDP
3	**Distribution**	bottom-40% wages have not recovered from the inflation shock
4	**The prices the poor pay**	food & energy claim over half their budget

Run five years through this arithmetic and the story inverts.

The bottom 40% is the World Bank's shared-prosperity cohort — growth of mean income of the poorest 40%, SDG indicator 10.1.1.

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Making It Measurable: The Method

Welfare growth = real GNDI per-capita growth, distribution-weighted, deflated by a poverty-line CPI

Tier 1 — the robust floor

Per-capita + GNDI — built entirely on World Bank national accounts

Tier 2 — the indicative overlay

Distribution + the prices the poor pay — parameterised; trust its shape more than its exact level

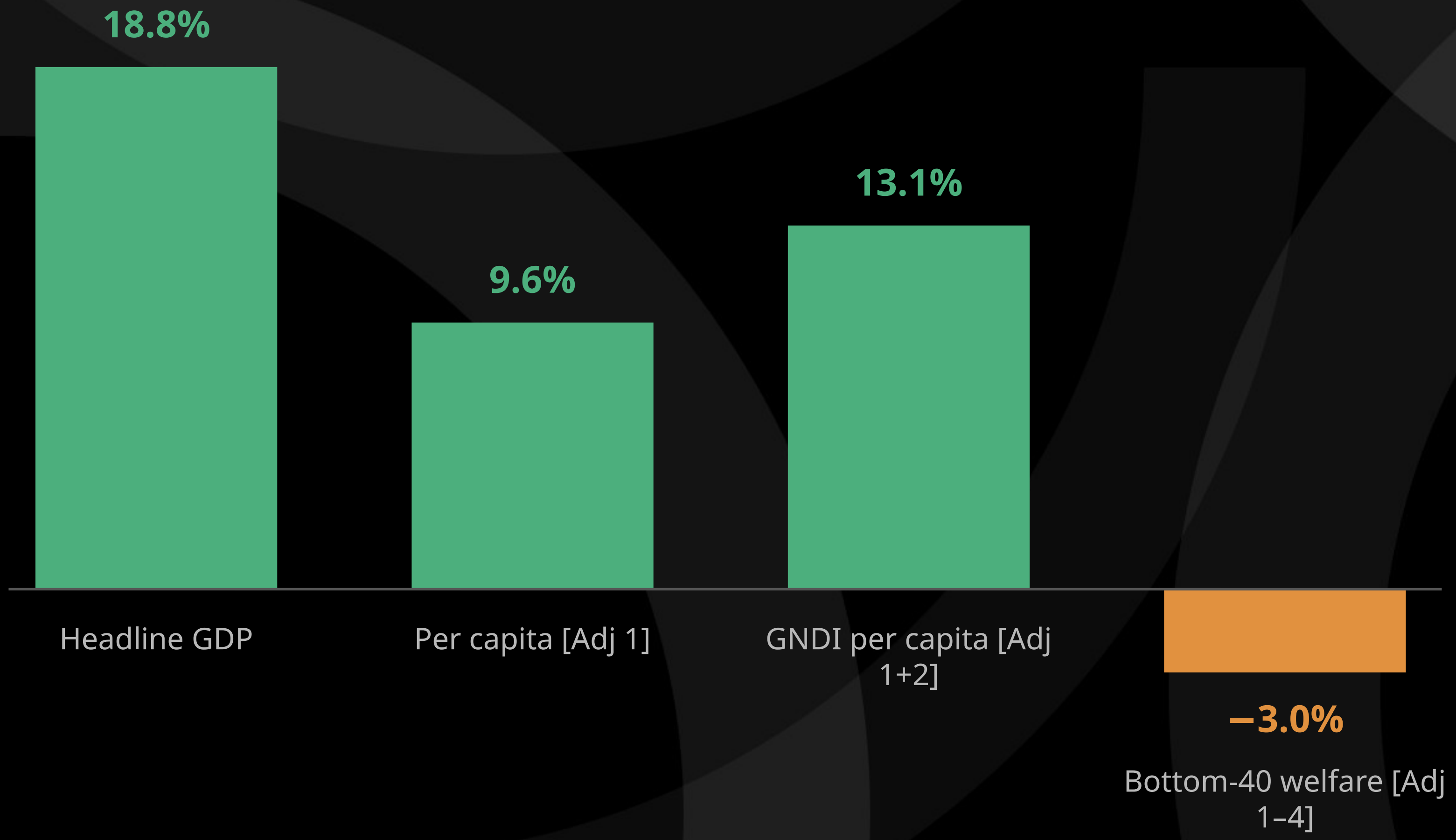
The caveat, upfront: the numbers are not sacrosanct — the concept is cardinal. The method will be refined with researchers and economists over the coming months; the figures that follow are there to trigger the debate on measuring Welfare-GDP.

Global precedents: Bhutan's Gross National Happiness · New Zealand's Wellbeing Budget · OECD Better Life Index — none yet anchors an IMF-era stabilization to welfare. Pakistan can be first.

Source: EPBD Think Tank working note, 29 July 2026 — World Bank WDI

The Five-Year Test: FY2020-21 – FY2024-25

The story inverts as the adjustments accumulate.



−6.6%

of bottom-40 welfare erased by FY2022-23 alone — more than the four surrounding years restored

The bottom-40 end the window worse off than five years earlier.

Independently verified: recomputed from the raw World Bank API — GDP and per-capita match exactly; GNDI floor +10.4% vs +13.1%; bottom-40 verdict holds (−3.5%; band −8.3% to +1.4%).

Source: EPBD Think Tank Discussion Record, 1 August 2026 — World Bank WDI

The Decile View: FY2020-21 – FY2024-25

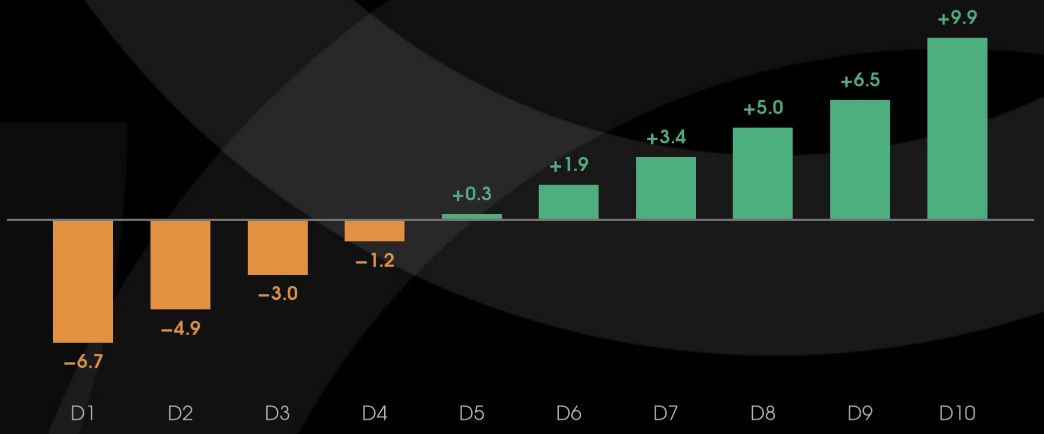
Ten income groups, same five years — the crossover from loss to gain sits at the median.

Decile	φ	Food wt	20-21	21-22	22-23	23-24	24-25	Cum. 5-yr
D1 (poorest)	0.35	0.60	−0.2	4.6	−5.5	−7.7	2.4	**−6.7%**
D2	0.45	0.55	0.5	4.5	−5.3	−6.8	2.6	**−4.9%**
D3	0.55	0.50	1.2	4.4	−5.2	−5.8	2.8	**−3.0%**
D4	0.65	0.45	2.0	4.2	−5.0	−4.9	2.9	**−1.2%**
D5 (median)	0.75	0.42	2.6	4.3	−5.0	−4.3	3.2	**+0.3%**
D6	0.85	0.39	3.2	4.3	−5.0	−3.6	3.4	**+1.9%**
D7	0.95	0.36	3.9	4.3	−5.1	−2.9	3.6	**+3.4%**
D8	1.05	0.33	4.5	4.3	−5.1	−2.3	3.8	**+5.0%**
D9	1.15	0.30	5.2	4.3	−5.1	−1.6	4.0	**+6.5%**
D10 (richest)	1.38	0.25	6.6	4.4	−5.2	−0.4	4.6	**+9.9%**

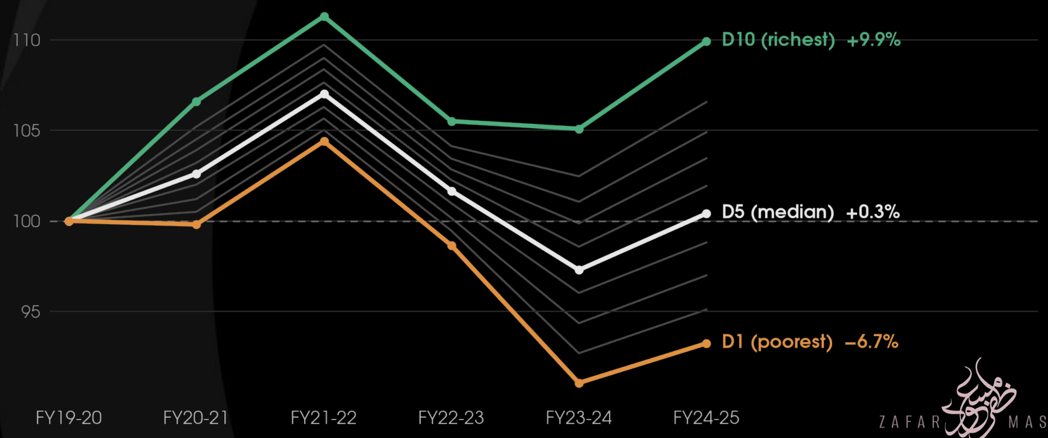
φ ladder 0.35→1.38, income-share-weighted to reproduce aggregate GNDI (adding-up constraint); food weights 0.60→0.25 per HIES 2024-25. Tier-2 modelled overlay — trust shape and ordering more than levels. Decile-specific inflation is now official statistics — the US BEA's income-stratified PCE price index (June 2026) validates adjustment 4.

Source: EPBD Think Tank Discussion Record, 1 August 2026 · World Bank WDI · PBS HIES 2024-25

CUMULATIVE WELFARE GROWTH BY DECILE (%)



YEARLY WELFARE INDEX PATHS (FY2019-20 = 100)



How to Read the Number: Assumptions & Caveats

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Every modelled parameter declared — and the conclusion stress-tested against independent recomputation.

THE ASSUMPTIONS — DECLARED

The φ pass-through ladder

0.35 (poorest) to 1.38 (richest). Only the income-share-weighted average — which must equal 1 — is pinned by the adding-up constraint; the slope is an assumption anchored to an employment elasticity of ~0.5.

Food weights

0.60 to 0.25 across deciles, from the PBS Household Integrated Economic Survey (HIES) 2024-25 food-share gradient; 0.50 for the bottom-40 cohort.

Constant parameters

φ and food weights held at HIES 2024-25 values in every window; population growth applied uniformly — the census (2.5%) vs World Bank (~1.6%) flag touches every per-capita figure.

CPI timing mismatch

WDI headline CPI is calendar-year; PBS food CPI is fiscal-year. Single-year food premiums carry noise; it largely cancels over multi-year windows.

THE CHECKS — INDEPENDENT VERIFICATION

Replication from raw data

All three recommended series recomputed from the World Bank API (July 2026), blind to the note's worked figures: headline GDP +18.8% and per-capita +9.6% match exactly.

The floor — softer, but standing

Independent GNDI floor +10.4% vs the note's +13.1%; the gap sits in FY2023-24 remittance treatment. Same story, softer level.

Bottom-40 confirmed

Central −3.5% vs −3.0%, band −8.3% to +1.4%. D3's path reproduces the bottom-40 estimate — an internal coherence check.

The poverty cohort strengthens it

Bottom-22.5 (φ 0.40, food weight 0.60): −6.2%, band −9.3% to −3.1% — negative under every parameter combination tried.

Tier-2 status: a parameterised overlay, not survey data — trust ordering and shape more than exact levels. The direction survives every assumption tried.

Source: EPBD Think Tank Discussion Record, 1 August 2026 · World Bank WDI · PBS HIES 2024-25

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The Longer Horizons: Ten, Fifteen and Twenty-Five Years

The same decile model run backwards — the pattern holds at every horizon.

TEN YEARS · FY2015-16 → FY2024-25

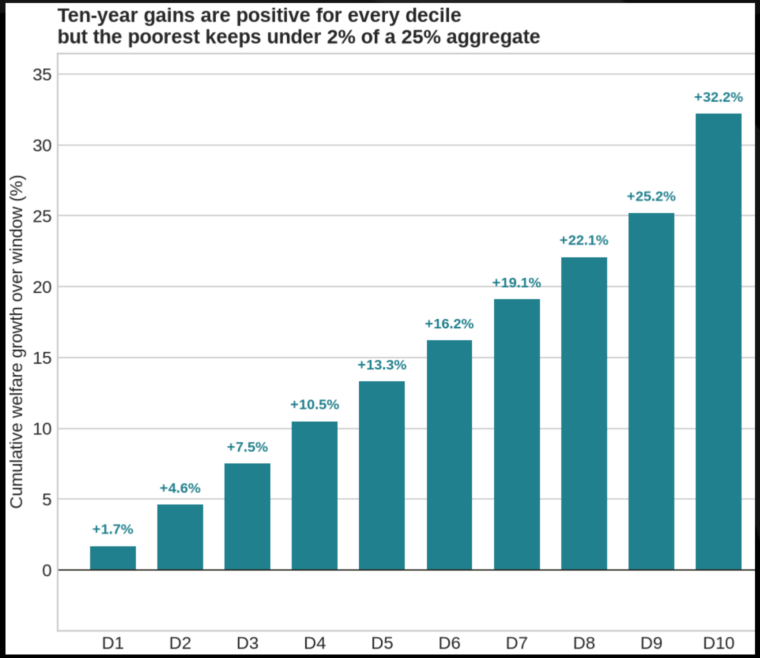
Every decile ends positive — but the poorest keeps +1.7 points of a +24.9 aggregate, against +32.2 at the top.

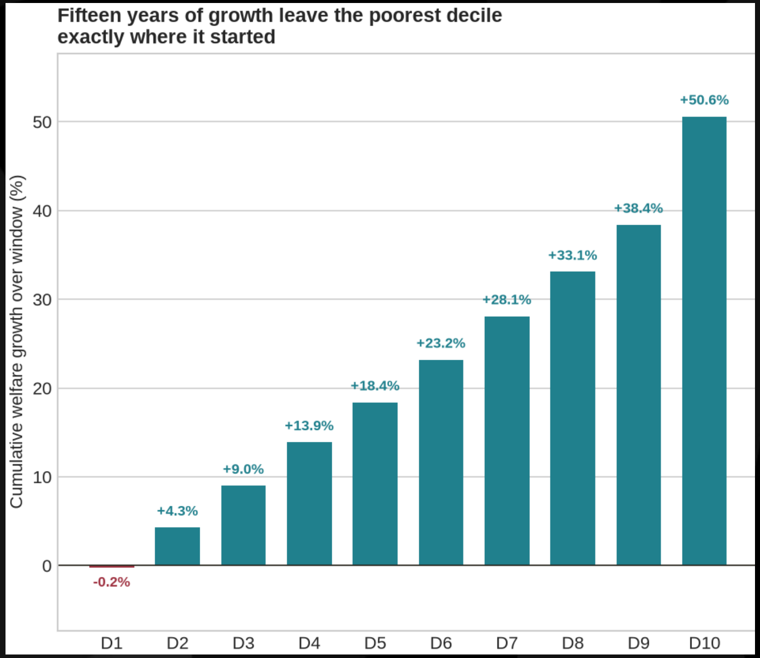
FIFTEEN YEARS · FY2010-11 → FY2024-25

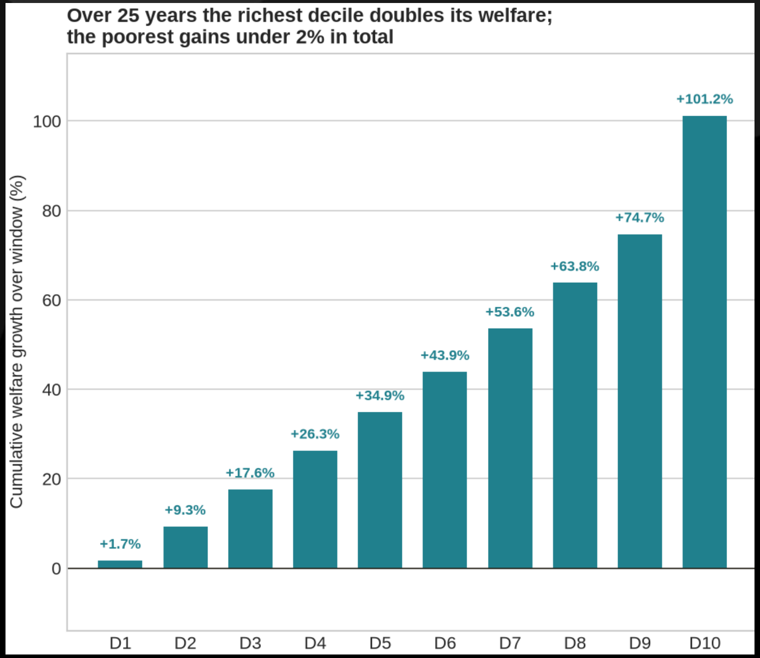
The starkest window — fifteen years leave the poorest decile almost exactly where it started: −0.2% against +50.6%.

TWENTY-FIVE YEARS · FY2000-01 → FY2024-25

A quarter-century doubles the richest decile's welfare (+101%); the poorest gains under 2% — a round-trip to 2000.







φ and food weights held at HIES 2024-25 values throughout — read direction and ordering, not point estimates.

Source: EPBD Think Tank Discussion Record, 1 August 2026 · World Bank WDI · Economic Survey (food CPI)

The Structure Beneath

1 in 4

Pakistanis earns an income — each earner carries three dependents

45%

labour force participation — fewer than half our adults, and only one woman in four

3m vs 1.5m

new entrants each year against jobs created

760,000

left for work abroad last year — the trend of recent years

Under a third of the population produces for all of it — earnings in Riyadh, spendings in Karachi, Kharian and Mandi Bahauddin.

The Equilibrium of Managed Decline

Why is a decade of stagnant household welfare so calmly borne?

- Exit substitutes for pressure — every remittance-receiving household is a grievance privately settled
- An informal economy of perhaps a third of GDP, kinship transfers, and world-leading private charity provide the safety net the state does not
- A system whose failures are privately insured generates little demand to fix them

The danger is not upheaval but its opposite — an equilibrium just tolerable enough never to be broken.

The Equilibrium Worth Pursuing

Breaking it is a choice — and composition matters more than pace.

5.5–6% growth

export-led, labour-intensive — not forced past the ~4% BoP ceiling

Investment 13% → 18% of GDP

lifted from today's anaemic levels

Female participation 25% → 35%

to the global average — far more women in paid work

Employment elasticity 0.5 → 0.7

so growth feeds wages, not only profits — with single-digit inflation

It Has Been Done — Greece, Sri Lanka, Argentina

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Three politico-economic collapses deeper than ours — and the conditions under which each turned.

Greece

Three bailouts, a ~25% GDP contraction, unemployment at 28% — a decade locked out of capital markets.

−55 pts

public debt-to-GDP since 2021 · unemployment 28% → 9.5% · investment grade regained in 2023

THE POLITICO-ECONOMIC LESSON

Discipline became wealth creation because it outlived every change of government.

Sri Lanka

April 2022: default on $46bn of external debt, reserves under $500mn, inflation past 79%.

79% → 2%

inflation by end-2025 · reserves $0.5bn → $6.8bn · first primary surplus in over a decade

THE POLITICO-ECONOMIC LESSON

Continuity is the reform — the program outlived the government that signed it.

Argentina (so far)

December 2023: annual inflation at 211%, poverty above 50% — and no money left.

211% → 33%

inflation by early 2026, without price controls · first sustained primary surplus in 14 years

THE POLITICO-ECONOMIC LESSON

Credibility is bought with a hard budget constraint — and re-earned every year.

Each collapse was deeper than Pakistan's; each turnaround outlived the government that began it.

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Source: IMF Article IV — Greece, April 2025 · 'Lessons from Sri Lanka's Recovery' — IMF, June 2025 · 'Argentina Economy 2026' — The Rio Times, April 2026

The Political Economy of Lasting Turnarounds

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Greece, Sri Lanka, Argentina — not politics, but the conditions under which economics delivers.

	THE LESSON	PAKISTAN READ-ACROSS
1	**Continuity outlives governments** Sri Lanka's new government kept its predecessor's IMF program; Greece recovered only once rivals converged on one fiscal path.	*Anchor reform in a bottom-up Charter of Society, so consensus outlives any single government.*
2	**Ownership, not imposition** Externally drafted programs stretched Greece's recovery to eight years; Sri Lanka's domestically owned reforms held.	*Write the program in Islamabad — then get it signed off from foreign partners.*
3	**Devolution needs capacity** Greece merged 1,034 municipalities into 325 and built 13 elected regions before pushing real power down.	*Give the provinces funding and capacity — in tandem.*
4	**Institutions with continuity** Greece's independent revenue agency; Sri Lanka's governance reforms; Argentina's hard budget constraint on provinces.	*Statutory independence for tax administration and public procurement.*
5	**Candour about the cost** Argentina's adjustment was announced upfront; public support held through the squeeze because the fiscal anchor never moved.	*Communicate the cost of adjustment before it arrives — not after it leaks, or hits the masses.*

Source: IMF, European Commission ex-post evaluation, Chatham House

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The Charter of Society: The Deeper Compact

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A politico-economic consensus built grassroots-up — the precondition for reforms to endure.

THE ARGUMENT

Why charters struggle to take root

Agreements in isolation alone rarely endure. The pressure that makes any charter work is driven bottom-up — from society at large.

Widen the Overton Window

A narrow window of acceptable ideas blocks serious economic discourse. The charter's job is to widen it — hard policies must become mainstream before they become law.

What consensus unlocks

SOE reform, privatisation, a sovereign wealth fund, a wider tax net, performance-based subsidies, asset and wealth taxes. Difficult decisions become palatable; the risk of backlash essentially eliminates.

THE PRECEDENT — COMPACT FIRST, PROSPERITY AFTER

1688 United Kingdom

Parliament constrained the crown; property rights became credible, borrowing costs collapsed, and capital markets financed the Industrial Revolution.

1787 United States

Enforceable contracts and one continental market; later renewals — the New Deal, the GI Bill — turned the compact into a mass middle class.

1938 Sweden

The Saltsjöbaden Accord: labour and capital agreed the rules of conflict themselves — five decades of industrial peace built shared prosperity.

Anchored compact → credible rules → cheap capital → prosperity for the masses.

Source: 'We Need a Charter of Society' — Business Recorder, Oct 2023, North & Weingast (1989)

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The Bridge Decade

Until the engine is built, labour export is our bridge financing — run like a treasury operation.

Scale

five years or so

Taper

thereafter

Retire

when domestic hiring outpaces departures

The interim decides everything: remittance savings channelled into investment — Roshan Digital, Skill Impact Bonds, diaspora quotas in public-sector listings, housing and pension products; exports and skills built; the classroom repaired.

Korea, 1964–84 — ran the bridge, then exited it

Miners and nurses to Germany, construction crews to the Gulf — remittances financed the engine until domestic hiring caught up; then the bridge was retired.

Philippines — the bridge became the business model

Labour export turned permanent — remittances became the revenue line rather than the bridge; the engine was never built. The caution, not the model.

Do this and the bridge lands; fail and it becomes a pier.

Source: South Korea and Labor-Export-Mediated Industrialization — Oxford, World Bank

A Modest Beginning That Costs Nothing

Publish welfare-adjusted growth alongside the headline — per-capita disposable income, distribution-weighted.

What gets measured gets managed.

Growth that never reaches the household ledger is arithmetic, not development — a welfare-growth series turns that distinction into something that can be managed.

Stability is visible; welfare is not — until we choose to measure it.

Source: 'Visible Stability, Invisible Welfare' — Dawn, July 2026

The Direction of Travel

From measurement to action — the economic transformation plan, and the bridge that finances it.

THE DESTINATION

A productive, competitive, sustainable and inclusive economy — prosperity measured in the welfare of people.

THE PLAN — FIVE MOVES

01 **Ask the right question —** stabilizing an economy is not building one.

02 **Escape the stabilization trap —** rebuild revenue, restore honest data and accounting.

03 **Reallocate capital —** make the rupee compound where it lands — agriculture, SMEs, the capital market.

04 **Compete on productivity, not price —** energy, logistics and skills before exchange-rate arithmetic.

05 **Keep our promises —** institutions and policy consistency — the cheapest structural reform.

Not a pace to be forced — a direction to be held.

The Interim Plan: The Remittance Bridge

The next five years — foreign earnings hold the line while the plan takes hold at home.

Scale with intent

A managed pipeline of skilled labour export — skills matched to demand abroad, not exported despair.

Channel the savings

Roshan Digital, Skill Impact Bonds, diaspora quotas in public-sector listings, housing and pension products.

Run it like a treasury operation

Targets, costs and maturity dates — lower the cost of remittance, formalize every channel.

Write the sunset clause

Scale for five years. Taper thereafter. Retire when domestic hiring outpaces departures.

Bridge financing — not a business model.

The Sequence — From Bridge to Welfare

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Interim, transformation, sustainable — how the three plans fit together.

YEARS ONE TO FIVE

THE INTERIM PLAN

The remittance bridge — foreign earnings steady the external account and finance the time the transformation needs.

→

PURSUED NOW

THE PLAN

The five moves — revenue, capital, competitiveness, institutions — the economic transformation this stage demands.

→

THEREAFTER

THE SUSTAINABLE PLAN

A standing economic plan anchored in Welfare-GDP — growth reported, targeted and managed by the household ledger.

The bridge buys the time; the plan builds the engine; Welfare-GDP keeps it honest.

2

The Question Before Us

Stabilizing an Economy vs Building One

Pakistan does not have a stabilization problem. Pakistan has a wealth creation problem.

STABILIZATION	WEALTH CREATION
Stops the bleeding	Productive capacity
Reserves & the exchange rate	Firms that scale, workers who compound
The art of survival	Institutions that outlive governments

Stability is visible; welfare is not. *And a closing proposal: measure what stabilization never captures — a Welfare GDP.*

Understanding **Structural Reforms**

Pakistan as a **Victim of Lagging Productivity**

Evaluation Parameter for Structural Reforms

Do they expand productive capacity, improve human capability, and raise long-term economic productivity?

Structural reform has become a cliché.
Pakistan's economic challenges are routinely called "structural," yet the meaning of structural reform is rarely defined clearly

Macro-Level Reform
Repairing the Fiscal & Institutional Architecture

- Tax & revenue reform
- Smarter public expenditure
- SOE & pension reform
- Productive credit allocation
- Fiscal transparency & accountability

Micro-Level Reform
Expanding Human & Economic Productivity

- Health, education & skills
- Affordable housing
- Agri & SME productivity
- Climate & energy resilience
- Financial inclusion & digitalization

Vietnam started 1991 at **less than half Pakistan's productivity level** and **overtook Pakistan around 2016–17** —

today the Vietnamese worker produces **about 47% more** than the Pakistani worker, in the same three decades, starting from behind.

Structural reform succeeds when fiscal policy, institutional design, and human development move in the same direction. No country has achieved sustained productivity growth while underinvesting in health, education, skills, housing, and economic inclusion.

The Foundations of Productive Growth

Sustainable growth requires parallel progress in human development and institutional outcomes

Human Development Index
Rank **168** / 193
Score: **0.544**
Source: UNDP 2025

Passport Strength
Rank **96th**
Visa-free: **32** destinations
Source: Henley 2025

Democracy Index
Rank **124** / 165
Authoritarian Regime
Score: **2.84**
Source: EIU 2024

Corruption Perceptions
Rank **135** / 180
Score: **27**/100
Transparency Intl 2024

Press Freedom
Rank **152** / 180
Score: **33.9**
Source: RSF 2024

Global Peace Index
Rank **140** / 163
Score: **2.783**
Source: IEP 2024

Gender Inequality Index
Rank **145** / 172
Score: **0.536**
UNDP 2025

Global Innovation Index
Rank **99** / 139
Note: Declined from 91st
WIPO 2025

GDP Per Capita
Rank **~161st**
Value: **~$1,600**/person
World Bank 2024

SDG Index
Rank **137** / 166
Score: **57.02**
SDR 2024

Military Strength
Rank
12 / 145
Global Firepower 2025

GDP (Nominal)
Rank
~46th globally
IMF/World Bank 2024

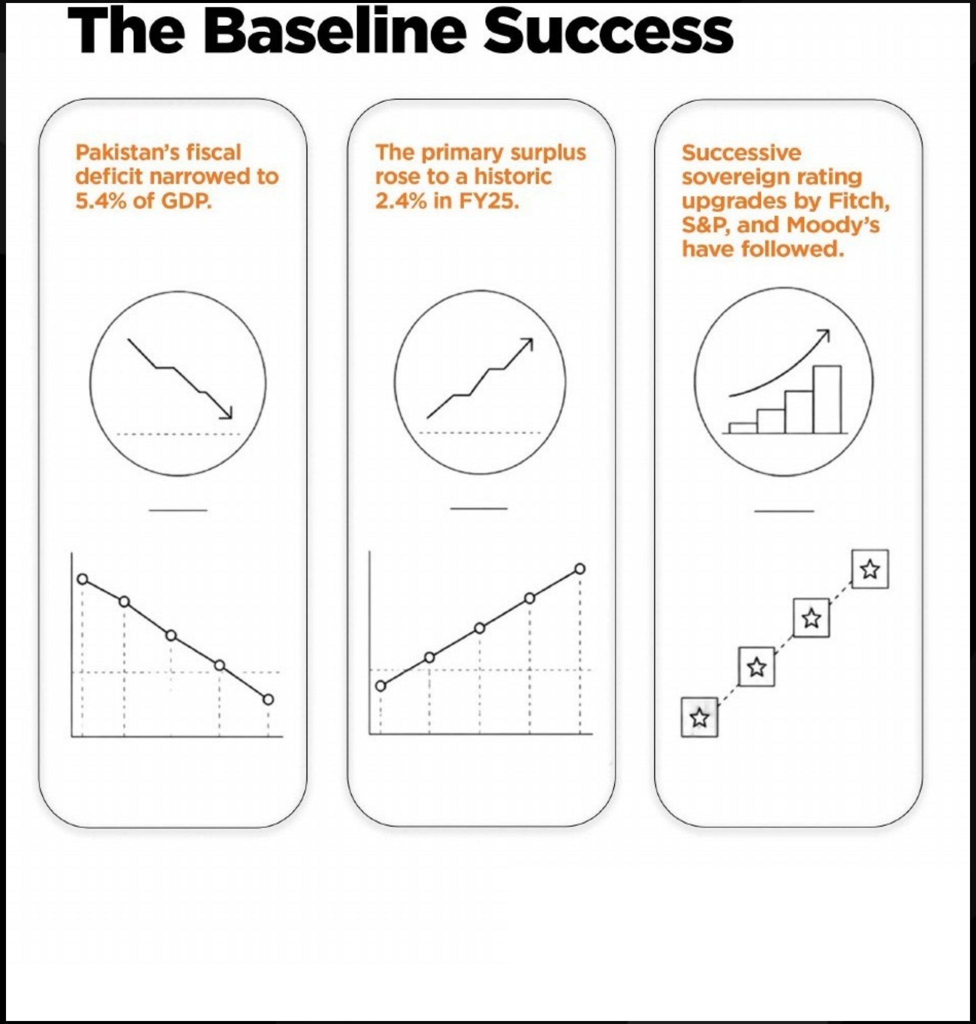
Weak development indicators eventually become economic constraints

3

The Stabilization Trap

Credit Where It Is Due: The Baseline Success

The stabilization has been real — and hard-won.



Stabilization Develops Its Own Political Economy

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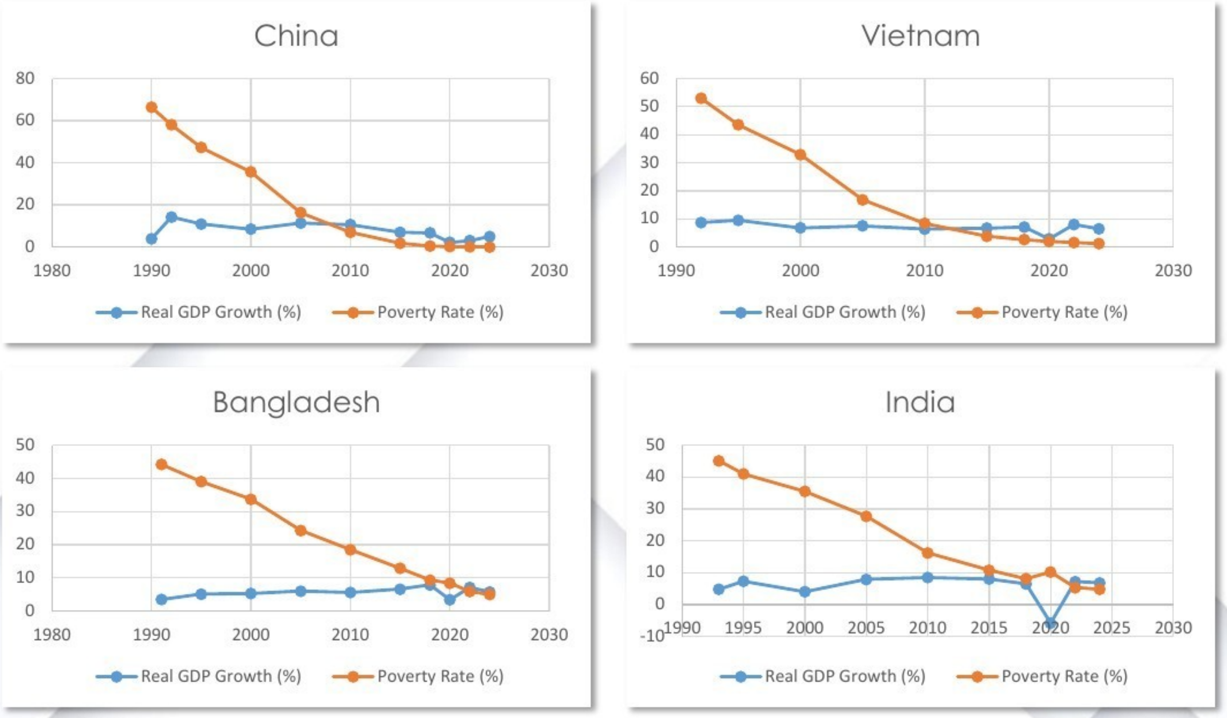
The IMF Program buys stability — **not growth**

And growth is what is needed for poverty reduction



The **Asian experience** demonstrates that **poverty reduction accelerates when growth is:**

- **productivity-enhancing**
- **employment-intensive**
- **financially inclusive**
- **and supported by institutional capacity**

Direct subsidies where they **generate human development impact**.
This keeps IMF compliance intact while creating the conditions for growth from the bottom up

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World Bank Poverty & Inequality Platform (PIP), IMF, World Development Indicators

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اک اور دریا کا سامنا تھا منیرؔ مجھ کو
میں ایک دریا کے پار اترا تو میں نے دیکھا

— Munir Niazi

I had barely crossed one river, a challenge, when another rose before me.

Two dozen stabilization programs — each river crossed reveals the next. The cycle ends only when the engine is built, not when we reach the nearest bank.

Rebuilding Pakistan's Revenue Architecture

Fiscal sustainability requires structural correction on the revenue side

Macro Reforms
Revenue Side

Tax-base broadening

Broaden the pond before raising the depth — widen the filer base, not rates. Digitisation is central to compliance

Tariff Rationalisation

Reduce anti-export bias while protecting strategic sectors.
Lower tariffs on intermediate and raw material imports

Regulatory environment

Where regulators exist, empower them on the model of SBP. Where they don't, create them. Equal playing field attracts FDI

Macro Reforms
Expense Side

Subsidy Reform

- Shift from untargeted subsidies to performance-based support
- Use NSER Data

Pension Reform

- Transition to fully-funded pension structure
- Asset allocation by government & cash from private sector (PPP Model)

PSDP — 100% under PPP

- Government allocates assets; private sector finances execution

SOE reform & Sovereign Wealth Fund

- Dual-track model: privatisation or regulatory restructuring
- PSWF to be developed as a solution

Rais Amrohvi
1914-1988

عہدِ نو میں زندہ رہنے کی مصیبت کم نہیں
ڈیوٹیاں ہر روز بھگتنے کا ہرگز دم نہیں

مجھ کو اِنکم ٹیکس والوں کا زرا بھی غم نہیں
ٹیکس کس کے گھر سے لاؤں گا اگر اِنکم ہی نہیں

Sustainable deficit reduction requires stronger revenue generation and lower systemic leakages

Data & Accounting Principle

Why Pakistan Needs an Accrual-Based Fiscal Framework

Cash-Based Accounting

Focuses on:
- annual receipts & payments
- short-term deficit management
- yearly budget execution

But obscures:
- pension liabilities
- circular debt
- SOE exposure
- deferred obligations
- contingent liabilities

What the government cannot see clearly, it cannot manage sustainably

Accrual-Based Accounting

Recognizes liabilities when obligations arise – enabling:
- balance-sheet visibility
- fiscal transparency
- stronger accountability
- better capital allocation

Fiscal reform begins with credible data gathering & robust architecture:
Outsourced primary research, AI-enabled secondary analytics, and stronger foundations for long-term planning

Why It Matters

Pakistan's largest fiscal pressures are long-duration, structurally deferred, and increasingly off-balance-sheet.

Global Reform Trend

Accrual-based frameworks adopted — fully or partially — **across 55 jurisdictions**

Accrual accounting changes not only how governments report finances but how governments make decisions

4

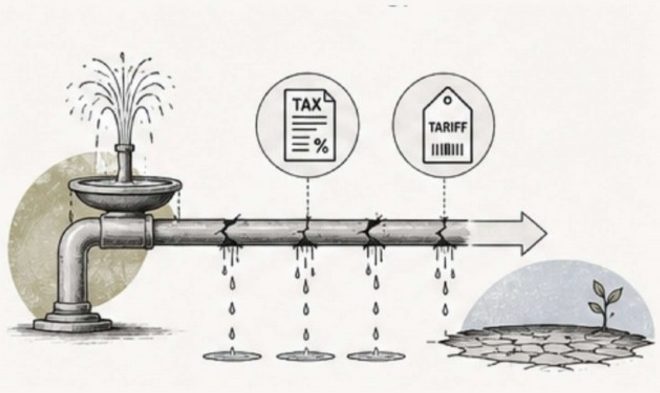
Capital Allocation
Where the Money Actually Goes

A Fountainhead That Leaks Into a Dry Pond

An advances-to-deposit ratio near 40% — the region's lowest at the headline, near the norm once adjusted for currency in circulation, undocumentation and the dominant sovereign borrower. The Achilles' heel: the undocumented economy.

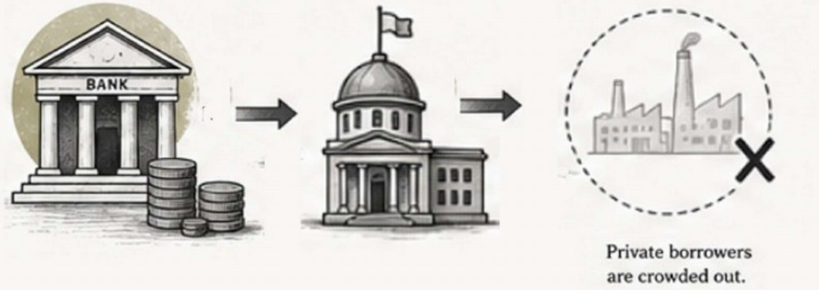
The Fountain Analogy

- Think of banking funds as an upstream fountainhead that flows to nourish businesses (the pond).
- If the system leaks upstream, the fountain runs, but the productive pond stays dry.
- Two main structural leaks stop this flow: **narrow taxation** and **distortive tariffs.**



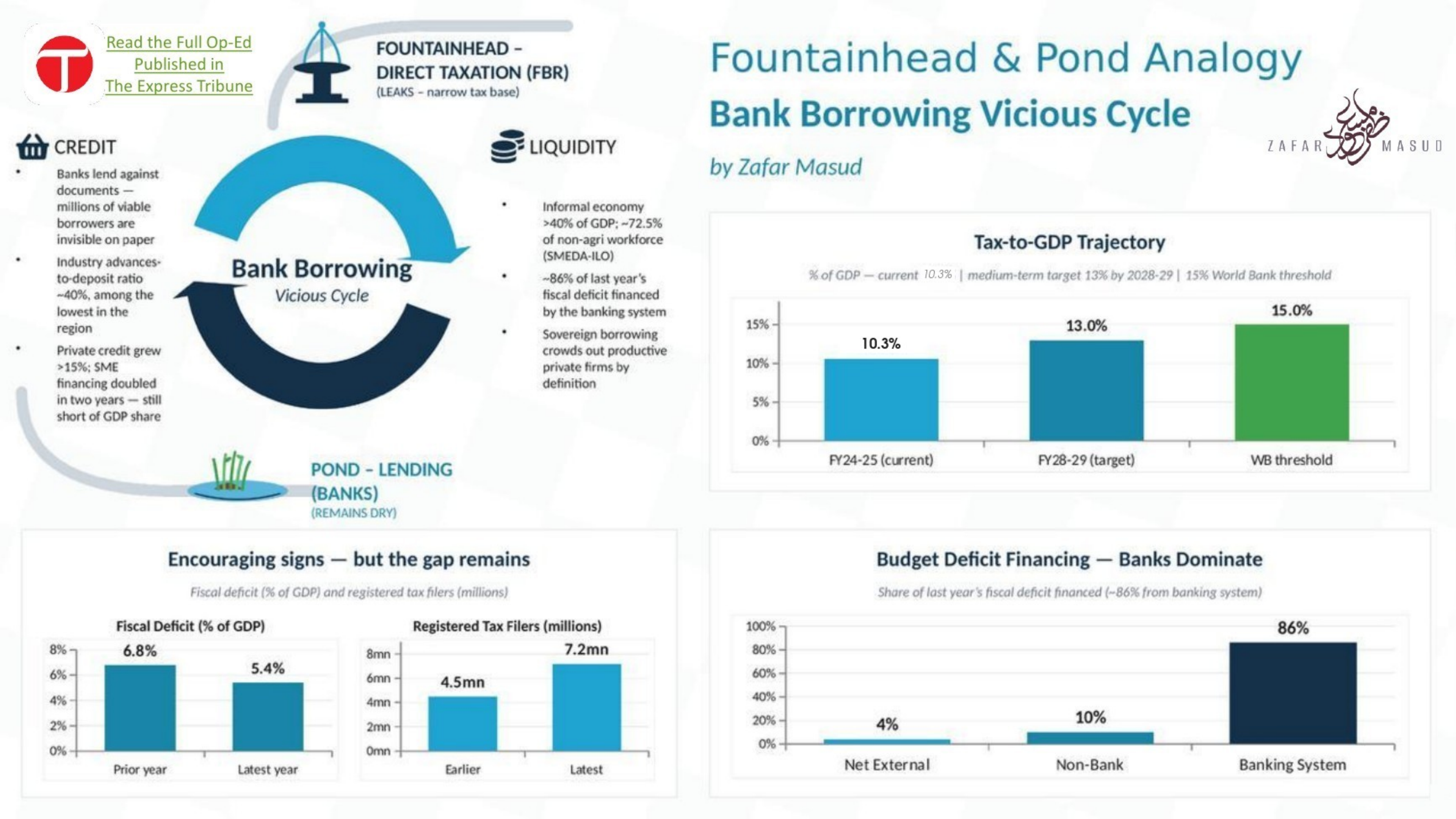
The Crowding Out Effect

- Because a taxation gap persists, the government must heavily finance its fiscal deficit through banks.
- Roughly **86%** of last year's fiscal deficit was sourced directly from the banking system.
- When the state is the largest borrower, productive private borrowers are crowded out.



Source: 'Leaking Fountainhead, Dry Pond' — The Express Tribune, May 2026

Rational Behaviour Inside an Irrational Structure



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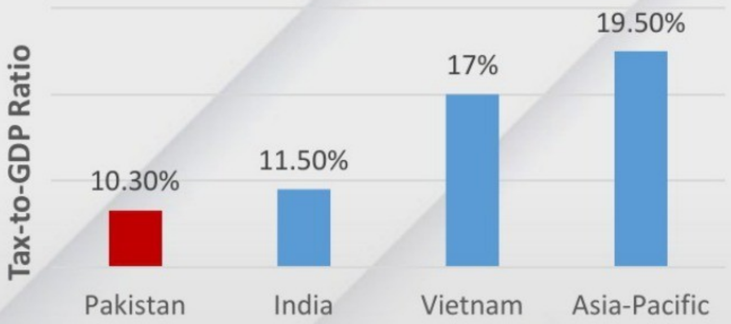
It is 'all in' fiscal account

The FY2027 budget is an opportunity to break a recurring low-growth, high-debt equilibrium

Tax Revenue Gap

- Tax-to-GDP ratio remains structurally low despite among the region's highest tax rates:



- **63% of total tax revenue** remains indirect and regressive
- **Only 5–6 million tax filers** within an 80+ million working-age population
- Informal economy estimated at 30–70% of GDP

Circular Debt & Fiscal Drain

Energy sector circular debt: Rs. 2.6 trillion

Annual capacity payments: Rs. 2.1 trillion

Debt-to-GDP ratio: **70%**

FY2025 SOE losses: Rs. 833 billion

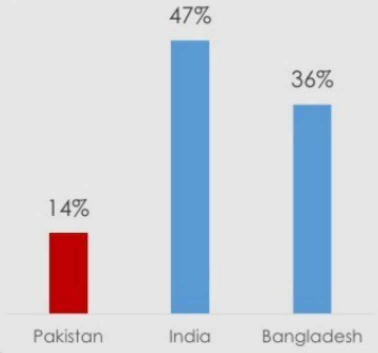
Accumulated SOE losses: Rs. 6.6 trillion

External repayment obligations exceed SBP reserves by ~$13 billion

Sovereign Crowding-Out

- ~75% of total bank credit linked to government financing
- Debt servicing consuming nearly 80% of FBR revenues
- Investment-to-GDP ratio remains critically low at ~14%
- Gross national savings 6.4% of GDP, one of the lowest

Investment-to-GDP ratio



Read the Full two-part Article
It is all in fiscal account

INTERNATIONAL THE NEWS

Part 1 | Part 2

Pakistan's recurring balance-of-payments crises are downstream symptoms of unresolved fiscal distortions.

The aim: cull debt servicing to 50% of FBR revenues — the headway for social and economic multipliers.

Islamabad Policy Research Institute
Research | Innovation | Dialogue | Policy

رگوں میں دوڑتے پھرنے کے ہم نہیں قائل
جب آنکھ ہی سے نہ ٹپکا تو پھر لہو کیا ہے

— Mirza Ghalib

Liquidity circulating in the veins of the system is not the point.

Capital counts only when it shows — in factories financed, enterprises scaled, exports shipped.

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No Rupee in Pakistan Truly Compounds

We accumulate without amplifying — where a rupee lands determines whether it multiplies.

0.71x

output produced by one rupee of government spending

1.2–1.3x

from one rupee of private investment — it works nearly twice as hard

13–15%

private credit to GDP — vs ~50% in India and over 100% in Vietnam

Vietnam and Malaysia channelled national savings into export manufacturing. Pakistan's savings pool into real estate and undocumented commerce — assets that absorb capital without compounding it.

"The real reform is to make every rupee carry more technology, skill, discipline and export capability."

Source: 'Making Every Rupee Compound' — Dawn, July 2026

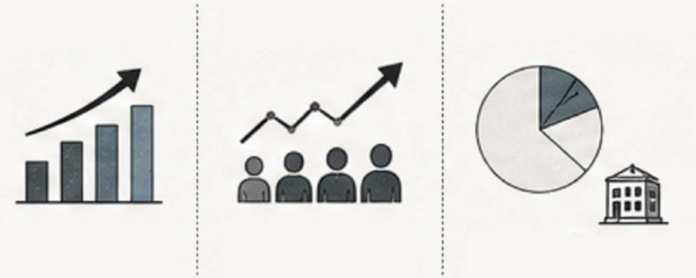
Beyond the Banks: Deepening the Capital Market

IPRI Islamabad Policy Research Institute
Research | Innovation | Dialogue | Policy

Bank balance sheets are built for short tenors. Wealth creation needs long-horizon money.

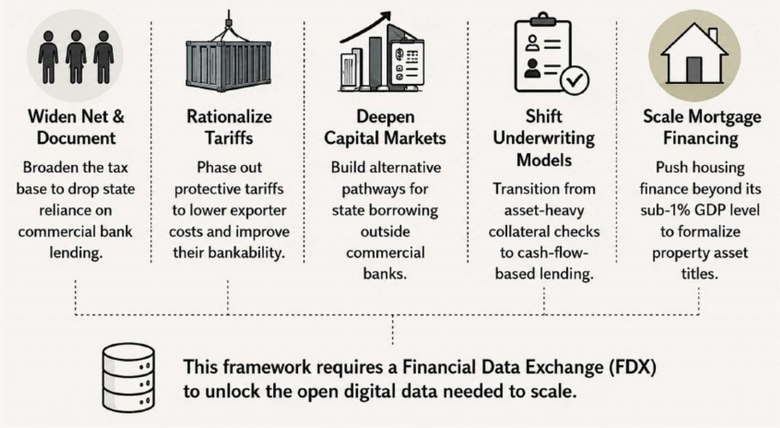
Signs of Positive Trajectory

- With concerted efforts in the last few years, private sector credit has recently grown by over **15%.**
- However, credit to the productive economy still falls well short of its total contribution to GDP.



Five Pillars to Fix the System

Moving beyond short-term fixes to long-term structural plumbing.



All of it rests on one enabler — a Financial Data Exchange to unlock open digital data. The ultimate solution is technology: digital and AI adoption, for reach and for productivity.

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The Plan: Leverage at the Macro, Impact at the Micro

MACRO — leverage

fiscal space

bank balance sheet

digital rails

→

MICRO — impact

farmers banked

women & rural

jobs & repayment

Macro resources leveraged as one architecture — social and economic impact delivered at the last mile.

Redirecting Subsidies: The Six Multipliers

Government leverages private capital, not replaces it — loss-backstop structures, not direct spending.

HEALTH & CLIMATE

$46bn/yr

climate funding gap

Climate declared into fiscal policy; PSIB-style pay-for-success replicated

EDUCATION & SKILLS

$9.5bn/yr

education funding gap

PSIB — Rs 1bn, federally guaranteed, released only on verified outcomes

AFFORDABLE HOUSING

10mn units

housing deficit — an $89bn shortfall

ACAG — first-loss mortgage guarantees through commercial banks

AGRICULTURE

Rs 2.5tr

estimated funding gap

Kissan Card — nearly 1 million loans, Rs 400bn approved, 99%+ recovery

SME FINANCING

Rs 3.2tr

assessed funding gap

AKF — Rs 50bn guarantee pool unlocking Rs 400–500bn in bank lending

VENTURE CAPITAL

$8–12bn

potential annual activity

US SBIR-style grants; capped VC allocations from pension & provident funds

Cash transfers must be technology-enabled — and complemented by parallel allocation that builds earning capacity.

Source: zafarmasud.com

The Capital Is There — The Structure Is Not

Government cannot fund these sectors directly at scale. It does not need to — it needs the architecture that makes private capital move.

FEDERAL GOVERNMENT

Credit-loss guarantees, not cash subsidies

Unlocks 6–8x private capital per rupee committed

A contingent liability — not upfront expenditure

PROVINCIAL GOVERNMENTS

Direct cash support to beneficiaries

NFC composition unchanged — the provincial role becomes primary

Stronger federal–provincial coordination essential

PRIVATE SECTOR + BANKS

Leverage the guarantees to draw bank financing

Access multilateral and international climate & development funders

Deploy through bank balance sheets and digital rails at the last mile

Mechanisms ready to replicate: PSIB (education · health) · ACAG (housing) · Kissan Card (agriculture) · AKF (SME) · PVF (venture capital)

The Real Economy, Unbanked: Agriculture & SMEs

Half the productive economy sits outside the banking system.

AGRICULTURE

46.3%	of GDP, direct and indirect
37.4%	of the national workforce
<7%	of bank credit reaches it — vs 12–14% in India, 8–10% in Bangladesh
Rs 2.5tr	unmet formal financing demand

SMEs

~40%	of GDP, across 5–7mn enterprises
78%	of non-agricultural employment
~2%	formally banked — ~325,000 firms — vs over 31% in South Asia
30–60%/yr	the informal rates they borrow at instead

Pakistan's two largest employers are its two least banked sectors.

The Evidence: The Invisible Become Bankable

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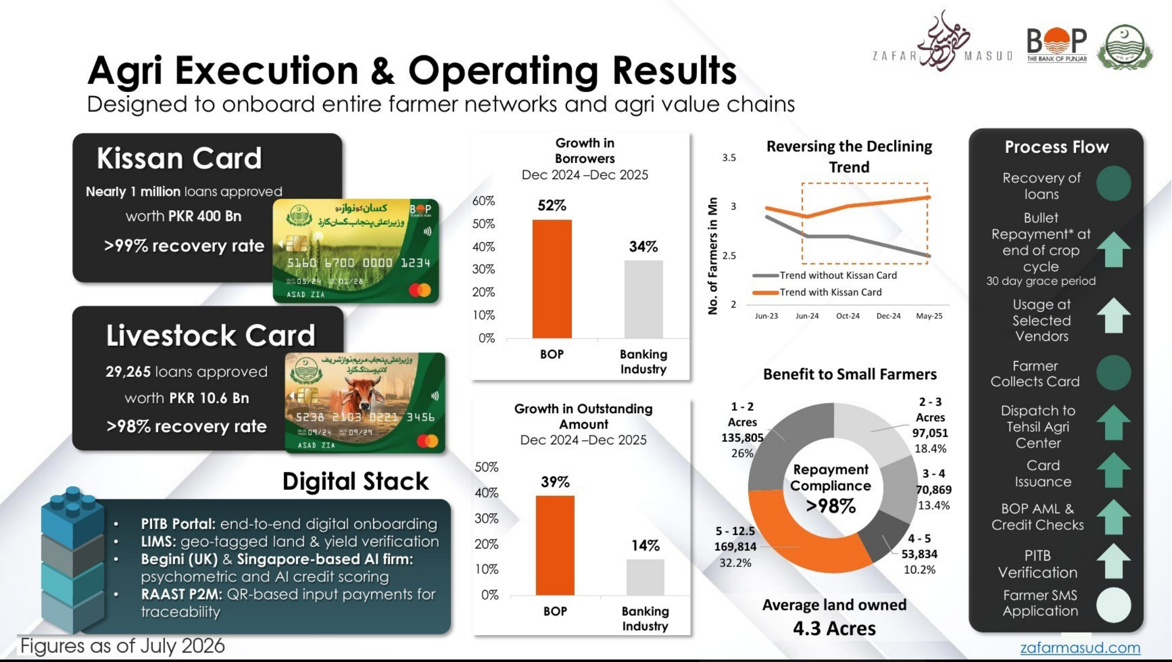

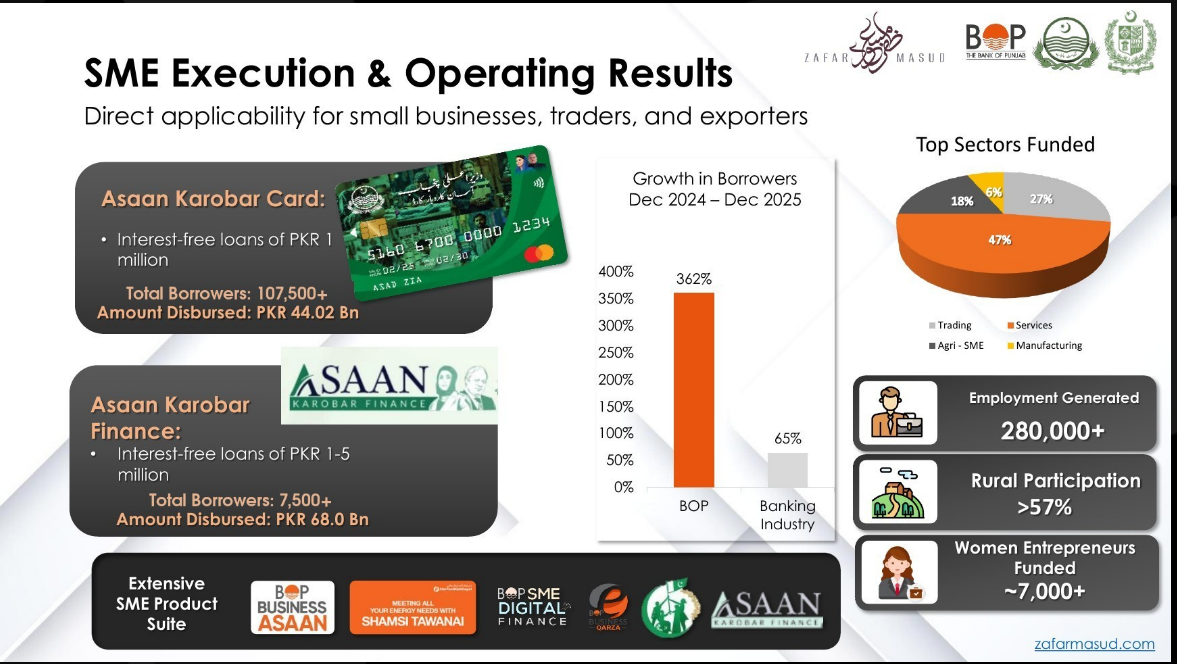

What changed is not the borrower — it is the infrastructure: NADRA identity, digitised land records, transaction data and AI-based scoring make low-cost, low-ticket lending viable at scale.

The sectors banks traditionally called unbankable are repaying at 99%+.

Figures as of July 2026 — Asaan Karobar now 115,000+ small businesses, almost half the industry.

Source: zafarmasud.com

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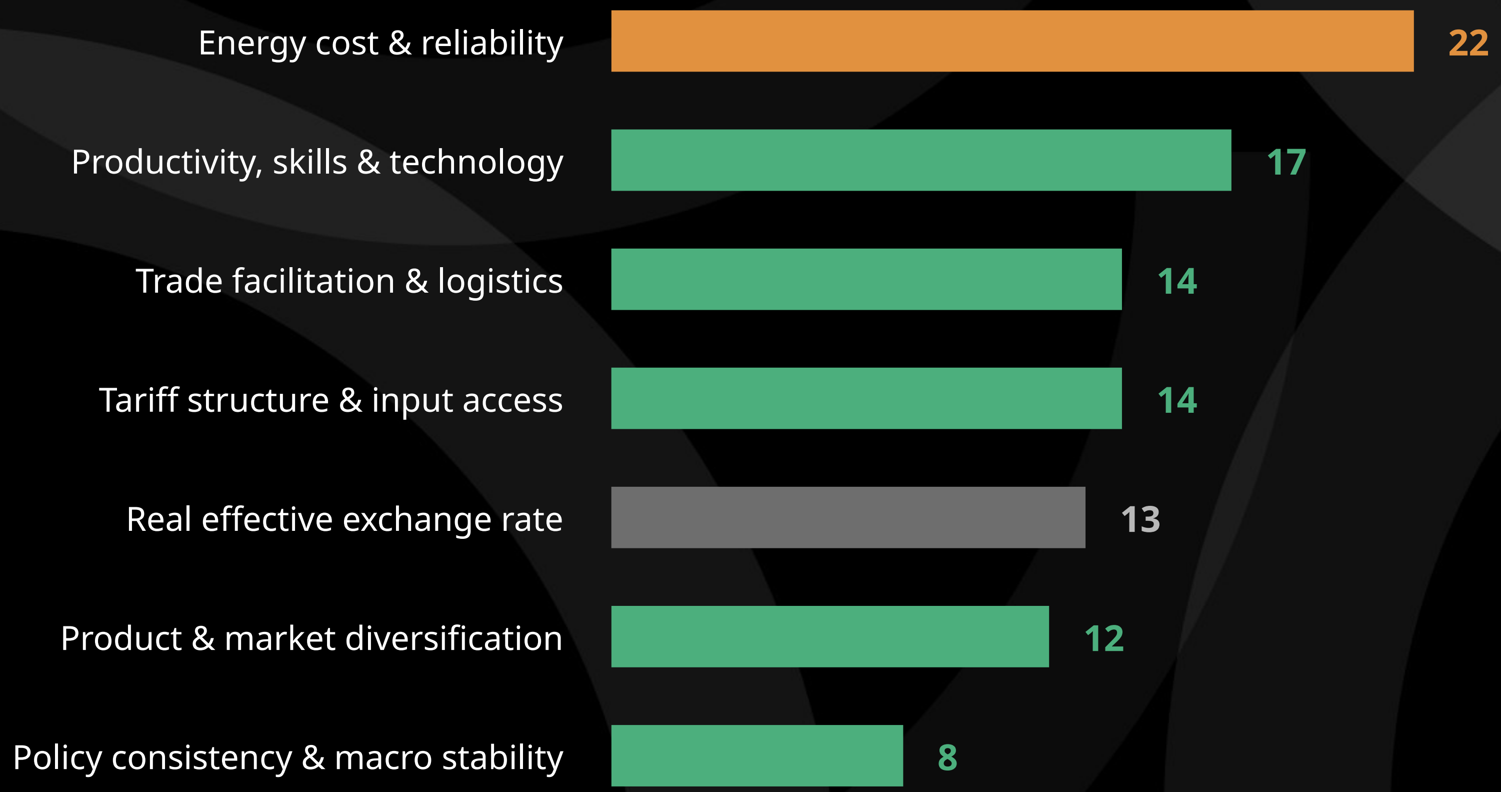
5

Export Competitiveness
Productivity, Not Price

What Actually Drives Export Competitiveness

A weighted framework — calibrated against SBP evidence.



13%

currency's true weight

Nearly nine-tenths is structural.

Source: 'Vietnam Moment' — Dawn, April 2026 · SBP

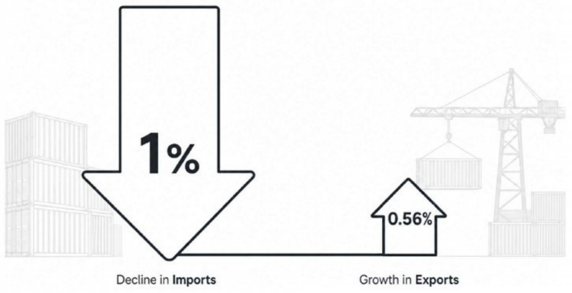
The Currency Myth, in Three Numbers

The Currency Myth

Currency devaluation is frequently overstated as a standalone fix for **boosting exports.**

State Bank of Pakistan research reveals that export responsiveness to the exchange rate is modest.

A 1% nominal effective exchange rate depreciation only increases export demand by roughly **0.56%.**



The 37% Import Leak

Why does a weaker currency carry less weight? Pakistan's exports are **deeply import-dependent.**

Roughly **37%** of total export value is derived mechanically from imported inputs.

This includes **24%** from raw materials (like yarn and fiber) and **16%** from essential capital goods.

The rate should be flexible — and boring. Competitiveness must be earned upstream, in productivity.

The 30-Year Verdict: Priced Out Before Leaving Port

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Average real effective exchange rate, 1994–2020 (BIS) — above 100 means your goods are expensive abroad.

22–33 points more expensive than every competitor, for thirty years. Vietnam grew exports from $4bn to $282bn holding its REER near 91; Bangladesh built a $33bn garment sector employing four million women at 87.

"Vietnam earns its dollars by making and selling things. Pakistan earns a large share of its dollars by exporting its people. One is a development model. The other is a symptom of development failure."

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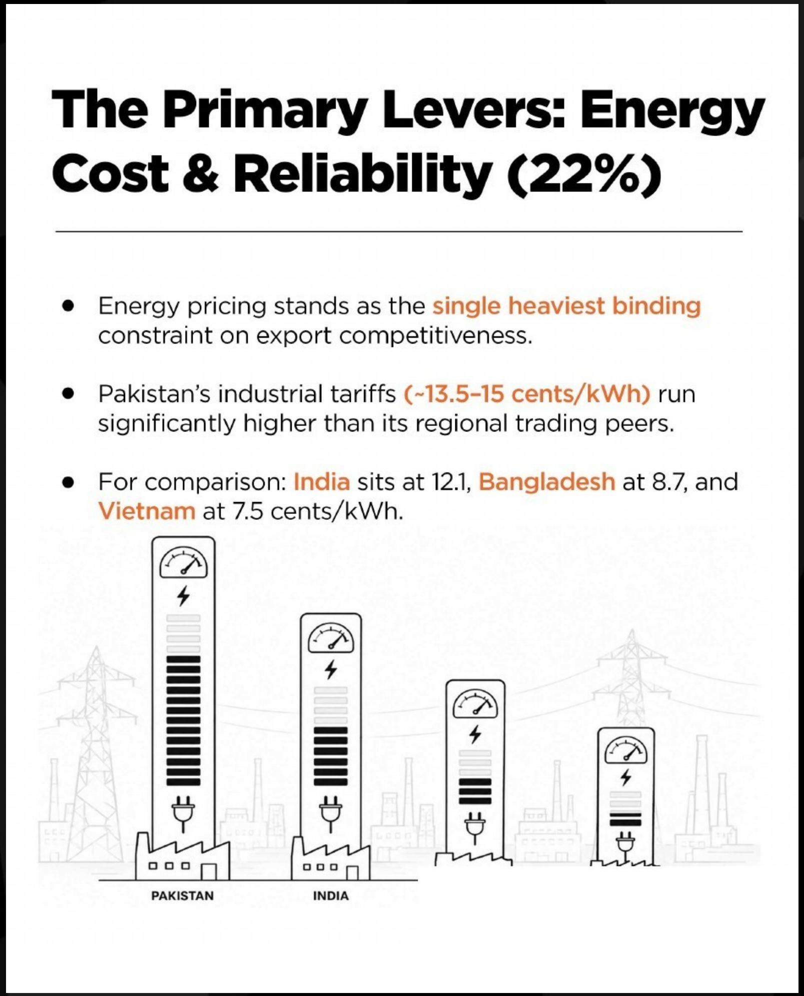
Source: 'REER Challenges and Frozen Exports' — Dawn, May 2026

The Heaviest Binding Constraint: Energy

Industrial power tariffs, cents per kWh — Pakistan against the peers it competes with.



The Productivity Problem Shows Up at the Border

Moving Up the Ladder: Productivity & Technology (17%)

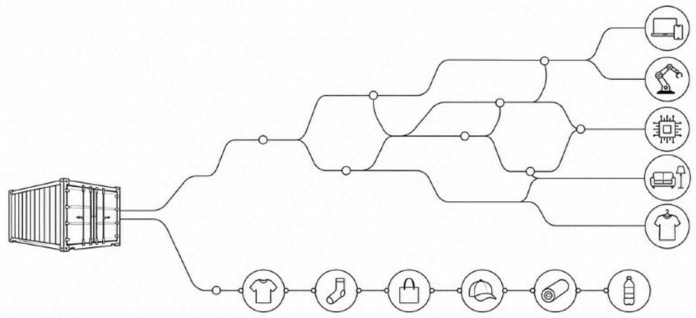
Long-term export success relies heavily on workforce skills, automation, and industrial technology.

Enhancing capability allows exporters to shift away from low-margin, basic commodities.

Value addition helps capture higher-margin segments in competitive global markets.

Global Evidence: Vietnam vs. Bangladesh

- Vietnam overtook Bangladesh as the world's second-largest apparel exporter ($44Bn vs. ~$28Bn).
- This was achieved through a diversified product basket, rapid input access, and high productivity—not a cheaper currency.
- Relying purely on currency adjustment leaves a country exposed to basic, low-end goods.



The Vietnam Moment: What Conviction Compounds Into

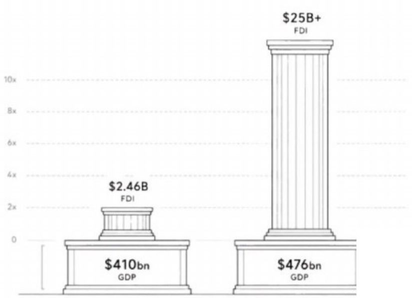
In 1990, Vietnam was poorer than Pakistan. Today its per-capita income is more than double ours.

The Comparative Reality (FDI Gap)

Pakistan vs Vietnam (FY25 Comparison)

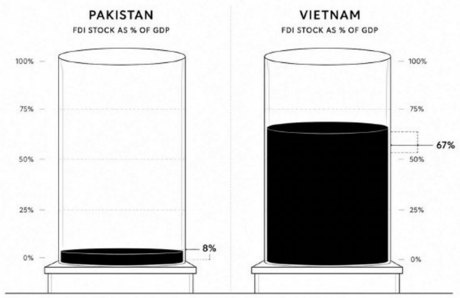
Indicator	Pakistan	Vietnam
FDI (FY25)	$2.46bn	$25bn+
GDP	$410bn	$476bn

Vietnam attracted over 10x more FDI despite having a GDP only modestly **larger than Pakistan's**.



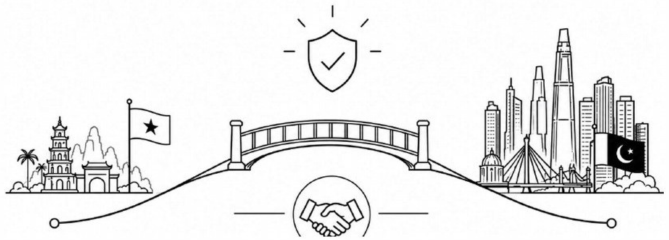
Cumulative Investment Disparity

- Vietnam's cumulative FDI stock exceeds **$322 billion,** equivalent to **two-thirds** of its GDP.
- Pakistan's cumulative FDI stock hovers at just around **8%** of its GDP.
- Pakistan's investment-to-GDP ratio sits at roughly **13%,** compared to a regional average closer to **30%.**



The Ultimate Catalyst: Conviction

- In 1990, Vietnam was **poorer than Pakistan**; today, its per capita income is more than **double Pakistan's.**
- The fundamental differentiator is not capital, but conviction sustained over time.
- Building credibility requires completely narrowing the gap between what is announced and what is delivered.



Pakistan does not need to replicate Vietnam's economy — it needs to replicate the policy discipline behind it.

Corridors Move Goods; They Do Not Create Them

A transit economy	A trading economy	Only a producing economy
earns tolls	earns margins	earns wealth

The corridor is the artery — we must still build the muscle.

6

Institutions & Policy Consistency

کون اس گھر کی دیکھ بھال کرے

روز اک چیز ٹوٹ جاتی ہے

— Jaun Elia

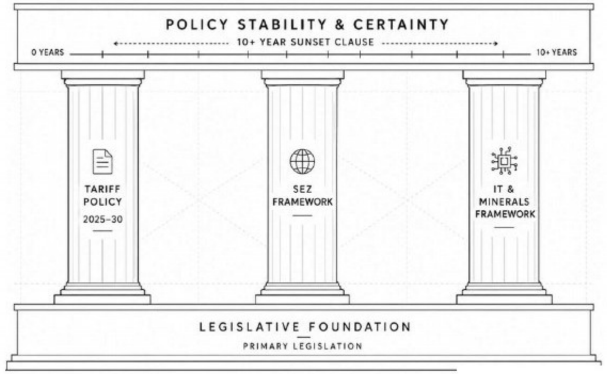
Who will keep this house? Every day, something breaks.

Institutions are that keeping — the unglamorous, daily maintenance of a nation's promises.

The Cheapest Structural Reform: Predictability

Step 1 – Embedding Commitments

- To bridge this gap, Pakistan must use the newly established **Tax Policy Office** to embed core economic commitments into primary legislation.
- Policies requiring this stability include the **National Tariff Policy 2025-30**, the **SEZ framework**, and the **IT/minerals frameworks**.
- These policies must carry clear sunset clauses of no less than **10 years** to offer long-term predictability.



Step 2 – Strengthening Regulators

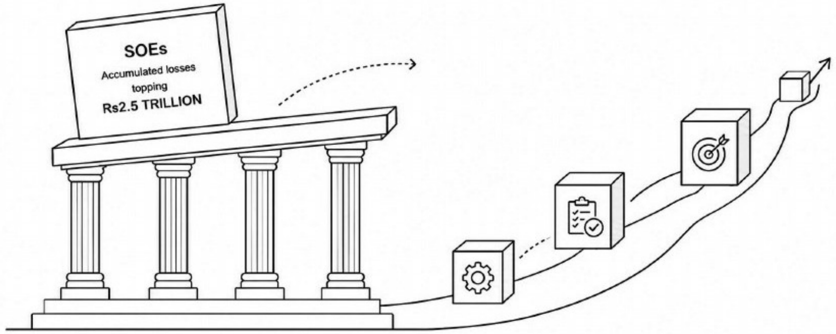
- True permanent investment climates are built by protecting and expanding regulatory autonomy.
- Operational independence must extend to **SECP**, **Nepra**, **Ogra**, and the **Competition Commission.**
- This is achieved through fixed tenures, transparent appointments, and clear performance mandates.

Investors Finance Structure, Not Rhetoric

Investors do not ask whether we are enthusiastic; they ask whether our rules will survive our elections.

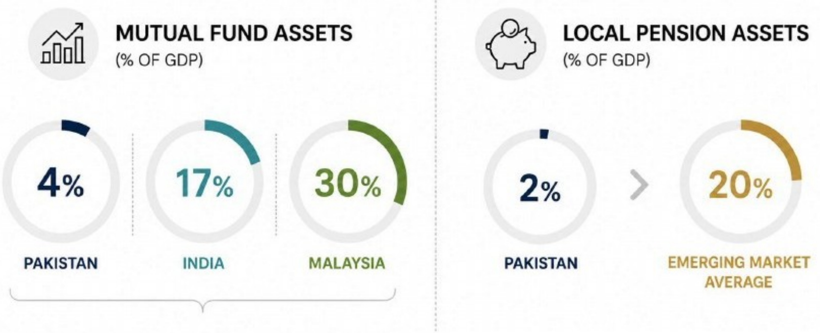
Step 3 – Privatisation & SOE Reforms

- **State-Owned Enterprises (SOEs)** absorbed accumulated losses topping **Rs2.5 trillion.**
- The solution lies in executing the privatisation and State-Owned Enterprise agenda decisively.
- Key priorities include the PIA privatisation closure, the airport outsourcing process, and a prioritized list of **27 SOEs.**



Step 4 – Building Domestic Investors

- Foreign investors take cues from local ones, making a robust domestic financial backbone essential.
- Pakistan's mutual fund industry manages assets equivalent to only 4% of GDP, compared to 17% in India and 30% in Malaysia.
- Local pension assets remain below 2% of GDP, far below the emerging market average of 20%.



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Institutions are how a nation keeps its promises to people it has not met yet.

The investor who has not yet come. The graduate who has not yet founded her firm.

Resilient institutions are not a garnish on economic policy — they are the policy.

شکوۂ ظلمتِ شب سے تو کہیں بہتر تھا
اپنے حصے کی کوئی شمع جلاتے جاتے

— **Ahmed Faraz**

Far better than lamenting the darkness of the night is to light the candle that is yours to light.

Five commitments follow. Each one is a candle within our means.

Five Commitments

1

Release & leverage the capital

private funding expands budgetary impact

2

Information infrastructure

digital railroads & AI solutions

3

Capability, not currency

every reform tested against productivity

4

Legislate predictability

rules that outlast regime cycles

5

Measure what matters

welfare-adjusted growth

Recap — The Argument in Six Steps

Islamabad Policy Research Institute (IPRI) — Research | Innovation | Dialogue | Policy

It began with measurement: GDP tells us the economy grew; it does not tell us for whom.

1. **Stabilization is not wealth creation.** We have stabilized four times in recent decades — the question is why we keep having to go back.

2. **Wealth creation is what sustains broad-based welfare.** Take the eye off that ball, and stability must be bought all over again.

3. **Continuity is the reform itself.** Durable stability comes only from consistency beyond the short — even the medium — term; predictability is the cheapest stimulus, costing no fiscal space.

4. **Continuity needs plans on every horizon.** The bridge that buys time, the engine that builds growth — with inclusion at the centre, for inclusion is not charity; it is the resilience strategy.

5. **Resilience is built bottom-up.** Inclusive engagement — state, market and citizen writing the rules together — is the Charter of Society.

6. **Inclusion is why measurement matters.** Welfare-GDP keeps reform honest at every step — and makes it durable politically, socially and economically.

Stability is visible; welfare is not — until we choose to measure it.

خدا نے آج تک اس قوم کی حالت نہیں بدلی

نہ ہو جس کو خیال آپ اپنی حالت کے بدلنے کا

— Allama Iqbal

God has never changed the condition of a nation who felt no urge to change it themselves.

Stabilization can be negotiated with creditors; wealth creation can only be willed by a nation.

ZAFAR MASUD

Thank you

Questions & Discussion