Pakistan’s economic freedom score is 51.7, making its economy the 152nd freest in the 2021 Index. Its overall score has decreased by 3.1 points, primarily because of a decline in fiscal health. Pakistan is ranked 34th among 40 countries in the Asia-Pacific region, and its overall score is below the regional and world averages.

Pakistan’s economy, which has been mostly unfree since the inception of the Index in 1995, headed in a bad direction this year. Bottlenecks to expanded economic freedom in Pakistan include an extremely high and unsustainable level of external debt that requires more than 40 percent of the annual budget just to service. Chronic corruption is another obstacle.

**IMPACT OF COVID-19:** As of December 1, 2020, 8,166 deaths had been attributed to the pandemic in Pakistan, and the economy was forecast to contract by 0.4 percent for the year.

**BACKGROUND:** Created during the partition of India in 1947, Pakistan remains a relatively unstable democracy that is threatened by sectarian and terrorist violence. Prime Minister Imran Khan took office after his Pakistan Tehreek-e-Insaf (PTI) party won a plurality in the July 2018 election on promises of job creation, new housing, and economic reforms. Tensions between India and Pakistan remain high. Political and social instability continue to hinder economic development in Pakistan. Textiles and apparel account for most export earnings, but much of the economy is informal, and underemployment remains high. China has pledged over $60 billion in infrastructure and energy investments in China–Pakistan Economic Corridor (CPEC) projects that have suffered significant setbacks and drawn criticism.

**POPULATION:** 216.6 million

**GDP (PPP):** $1.2 trillion  
3.3% growth in 2019  
5-year compound annual growth 4.5%  
$4,885 per capita

**UNEMPLOYMENT:** 4.5%

**INFLATION (CPI):** 6.7%

**FDI INFLOW:** $2.2 billion

**PUBLIC DEBT:** 83.5% of GDP

2019 data unless otherwise noted. Data compiled as of September 2020
Despite good recognition in law, protection for the acquisition and disposition of property rights is weakened by organized crime, corruption, a weak regulatory environment, and subversion of the legal system. The judiciary is politicized and subject to external influence and intimidation by extremist groups and high-ranking political officials. Courts are slow, outdated, and inefficient. Corruption is endemic in politics, government, and law enforcement.

The top individual income and corporate tax rates are 35 percent. The tax system is complex despite reforms to cut tax rates and broaden the tax base. The overall tax burden equals 13.0 percent of total domestic income. Government spending has amounted to 21.6 percent of total output (GDP) over the past three years, and budget deficits have averaged 7.0 percent of GDP. Public debt is equivalent to 83.5 percent of GDP.

Pakistan has improved the service delivery time for obtaining electricity, and an online portal for new electricity connections has been launched. Labor laws are complex; every province is currently developing a labor law regime. The government’s budget for 2020–2021 included steep cuts in subsidies for the power and agricultural sectors.

Pakistan has 10 preferential trade agreements in force. The trade-weighted average tariff rate is 10.2 percent, and 83 nontariff measures are in effect. Excessive state involvement in the economy and restrictions on foreign investment are serious drags on economic dynamism. The financial sector remains underdeveloped, and foreign participation is limited. Fewer than 25 percent of adult Pakistanis have formal bank accounts.