Economic Review

2025

Result Assured Services for Growth

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PAKISTAN's ECONOMY – 2025: At A GLANCE

GDP GROWTH RATE

2.68%

INFLATION

4.7%

CURRENT ACCOUNT

Surplus of $1.9 billion USD

FOREX RESERVES

$16.64 B

SBP: $11.50

Commercial bank: $5.14

FOREIGN REMITTENCE

$31.2 billion

DOLLAR PARITY

1$ = 282.17 PKR

STOCK EXCHANGE

100 index = 117,807 points

POLICY RATE

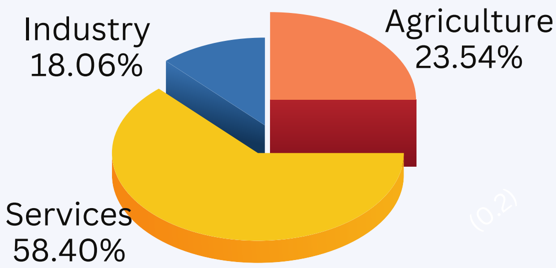
11%

PAKISTAN's ECONOMY – 2025: At A GLANCE

FISCAL DEFICIT

As a % of GDP 2.6%

SECTOR WISE CONTRIBUTION IN GDP



POPULATION

As per population and housing census 2023 = 241.5 million

DEBT

Rs. 76,007 B

External
Rs. 24,489 B

Domestic
Rs. 51,518 B

IMPORT & EXPORT

Imports = $48.6 billion
Exports = $27.3 billion

EXPENDITURE

Rs. 16.34 billion

REVENUE

Rs. 13.37 billion

INCOME PER CAPITA

$1,824

Economic Review:

SUMMARY

After finding its footing in FY 2024, Pakistan's economy stayed on an upward path in FY 2025, posting a 2.68% growth rate—modest, but meaningful progress in a landscape still marked by global and domestic headwinds. This progress wasn't accidental – stemmed from improved economic management, sharply reduced inflation and confidence boost from the $7 Billion IMF extended fund facility (IMFEFF). Consider it a triple shot of fiscal discipline, macroeconomic stimulus and policy credibility.

Inflation - the continual troublemaker - was finally brought under control, plunging from 20.7% in April 2024 to just 0.3% by April 2025. The annual average settled at 4.7%, a drastic decline from the scorching 26% recorded in the previous year. This sharp disinflation reflects the impact of the tight monetary policy, more disciplined fiscal management and a notably stronger exchange rate laying a strong foundation for sustained economic stability.

Investor confidence received a significant boost; reflected by the 27.5% increase in new company registrations. Complementing this positive trend, the government's fiscal performance also showed marked improvement:

- The fiscal deficit narrowed to 2.6% lower than last year as a percentage of GDP
- The primary surplus doubled, reaching 3.0%
- ·Tax revenues surged by 25.8%, totaling Rs 9.14 trillion

Externally, Pakistan flipped the script! Transforming a $1.3 billion CAD into a $1.9 billion surplus. This impressive turnaround was fueled by stronger export performance and record-high remittance inflows, underscoring the resilience and growing competitiveness of the country's external sector.

Global lenders and credit agencies took note. The IMF's support, along with positive nods from Moody's and Fitch, reflect growing confidence in Pakistan's reform path. With macroeconomic indicators stabilizing, the State Bank of Pakistan eased interest rates, opening the door for more business lending and private sector activity.

The IMF Extended Fund Facility (EFF), along with a significant US$1.4 billion disbursement under the Resilience and Sustainability Facility (RSF) and upgraded credit ratings from Moody's and Fitch, highlight growing international confidence in Pakistan's ongoing reform agenda. These strengthened macroeconomic fundamentals have allowed the State Bank of Pakistan to lower the policy rate, fueling increased private sector lending and stimulating economic activity. Meanwhile, steady remittance inflows continue to provide an important support for the external account and sustain household consumption, with promising opportunities ahead through skills development and expanding of overseas labor markets.

But let's be clear - this is no time for victory laps. Long-standing structural issues still loom. To sustain momentum, Pakistan must double down on reforms in education, skills training, and job creation, especially for its vast youth population.

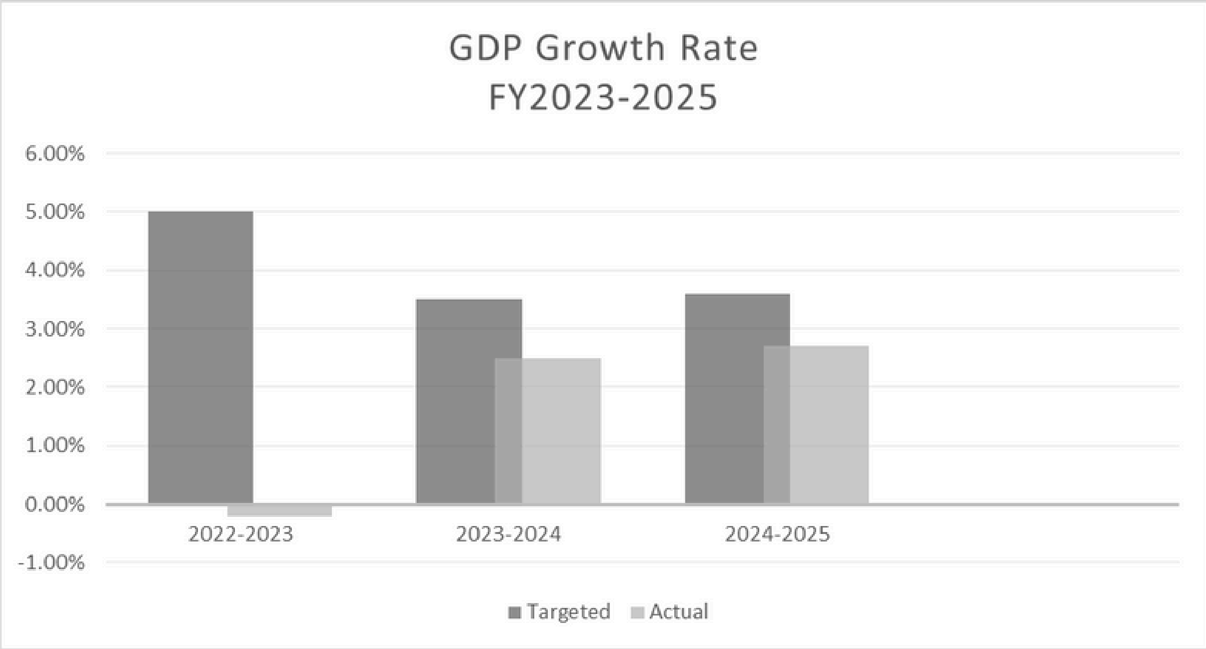
Reducing regional inequalities and supporting small and medium enterprises is critical for inclusive growth. The digital economy offers a game-changing chance, boosted by a skilled, cost-competitive workforce driving IT exports. However, growth, despite being promising, is held back by weak digital infrastructure, unclear regulations, and limited investment in digital skills. Bridging the digital gap, especially for women and rural communities, is essential to unlock this sector's full potential.

GROWTH AND INVESTMENT:

Pakistan's economy entered a phase of cautious recovery in FY2025, with real GDP growing by 2.68%. This moderate but meaningful expansion was driven by steady progress across several critical macroeconomic sectors. The economy has demonstrated encouraging signs of resilience across the real, fiscal, financial, and external sectors, as the implementation of strategic policy reforms and disciplined economic management continues to yield tangible results. This progress underscores the effectiveness of these measures in fostering stability and sustainable growth.

A standout achievement during the year was the dramatic improvement in price stability. Inflation, which had been a major concern in previous years, saw a historic decline. In April 2025, headline CPI inflation fell to just 0.3 percent—its lowest level on record—down sharply from 17.3 percent in April 2024. Over the July–April period, average inflation dropped to 4.7 percent, a significant improvement from 26.0 percent during the same period last year. This disinflation was driven by a combination of tighter monetary policy, improved supply conditions, and exchange rate stability, providing much-needed relief to households and businesses alike.

On the nominal side, the economy also recorded healthy gains. GDP at current market prices rose to Rs 114,692 billion, marking a 9.1 percent increase over the previous year's Rs 105,143 billion. This expansion translated into improved income levels, with per capita income increasing to US$1,824 from US$1,662—a 9.7 percent year-on-year rise. This growth was supported not only by improved economic activity but also by a relatively stable exchange rate environment that bolstered external confidence and purchasing power.



AGRICULTURE:

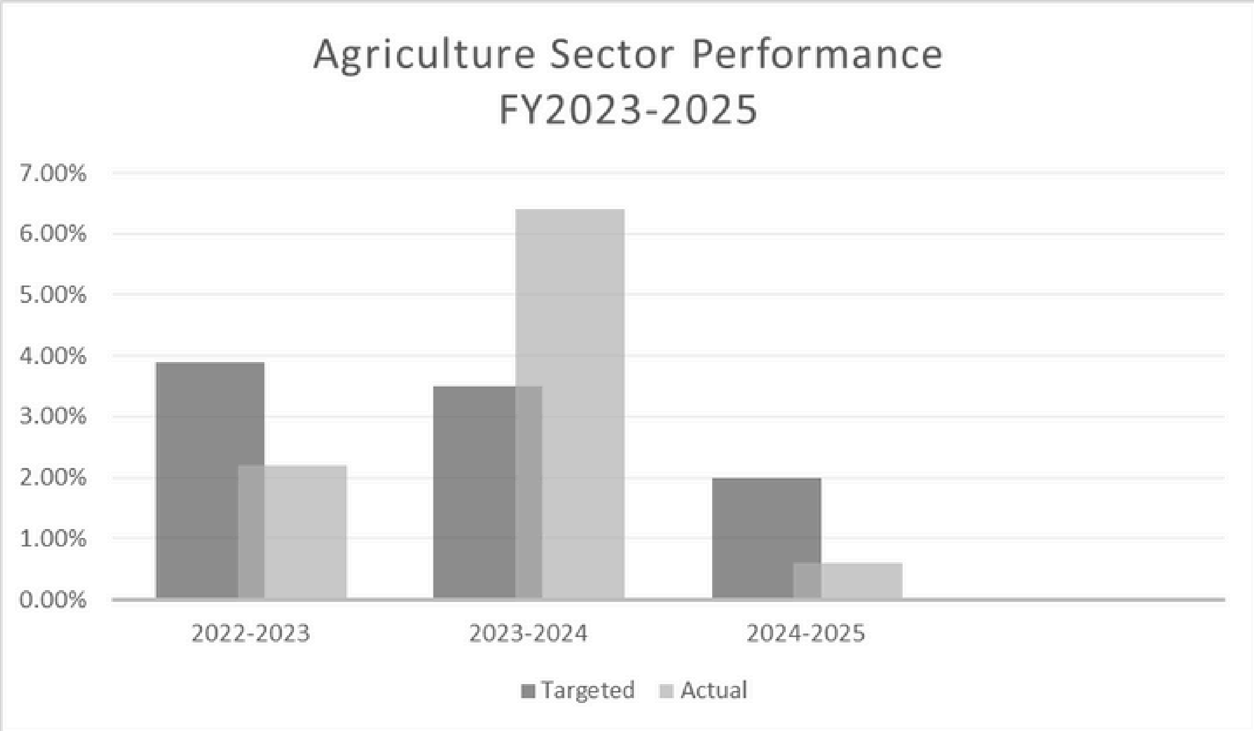
Pakistan's agriculture sector remains a vital pillar of the economy, ensuring food security, supporting rural livelihoods, and contributing to national resilience. In FY 2025, it accounted for 23.54% of GDP and employed over 37% of the labor force, reinforcing its structural significance.

Despite climatic challenges, the sector grew by 0.56%, demonstrating resilience. Livestock led the way with a 4.72% expansion, contributing 14.97% to GDP and 63.6% of agricultural value addition, driven by increased milk and meat production. Fisheries and forestry also showed steady growth at 1.42% and 3.03%, respectively.

However, the crops sub-sector declined by 6.82%, with key crops contracting by 13.49% and cotton ginning falling by 19.03%, largely due to adverse weather and reduced sowing areas. Yet, other crops grew by 4.78%, signaling diversification potential. Wheat production dropped 8.9%, while rice acreage increased but faced a slight output decline of 1.38%. Cotton, sugarcane, and maize struggled, yet onion and potato production surged by 15.9% and 11.5%, respectively.

The poultry sector showed strong growth, with meat production rising by 9.4% and egg output reaching 26.7 billion, emphasizing its role in food security. Farm modernization progressed, with stable fertilizer supplies and mechanization initiatives, although tractor production declined due to macroeconomic factors. Investments in water management, including major dam projects, continue under the National Water Policy.

Agricultural credit rose by 15% to Rs 1,880.4 billion, demonstrating institutional support. The government, through the Special Investment Facilitation Council (SIFC), has emphasized value-added production, modernization, and climate resilience. Addressing structural challenges and investing in climate-smart technologies will be critical for unlocking the sector's full potential.



MANUFACTURING AND MINING:

During July-March FY 2025, Large-Scale Manufacturing (LSM) faced a 1.5% contraction, extending its three-year decline due to structural hurdles, soaring input costs and downturns in key sectors like Food, Chemicals, Iron and Steel, and Electrical Equipment. Despite these challenges nearly half of LSM industries defied the trend with Wearing Apparel, Textiles, Coke and Petroleum Products, Pharmaceuticals, and Automobiles posting notable growth, signalling resilience and sectoral dynamic.

In March 2025, LSM recorded a 1.8% year-on-year increase, slightly surpassing the previous year's 1.7% growth, but on a month-on-month basis, it fell 4.6%, following a 5.6% decline in February.

The Mining and Quarrying sector shrank by 3.4%, improving from a 4.0% decline in FY 2024. Although the rate of decline in this sector witnessed a slight improvement, but it is still facing a downward trend which is alarming for an Economy like Pakistan which is rich in unexplored natural resources.

Extraction of crude oil (-14.8%), natural gas (-6.8%), coal (-5.7%), and iron ore (-20.2%) declined, signaling contractions in energy and metallic minerals. In contrast, the production of Sulphur (341.9%), dolomite (43.3%), limestone (34.1%), marble (20.2%), and ocher (70.3%) surged, highlighting growth in select mineral categories.

Despite ongoing challenges, targeted policy interventions and sectoral diversification could help stabilize manufacturing and mining performance in the coming months.

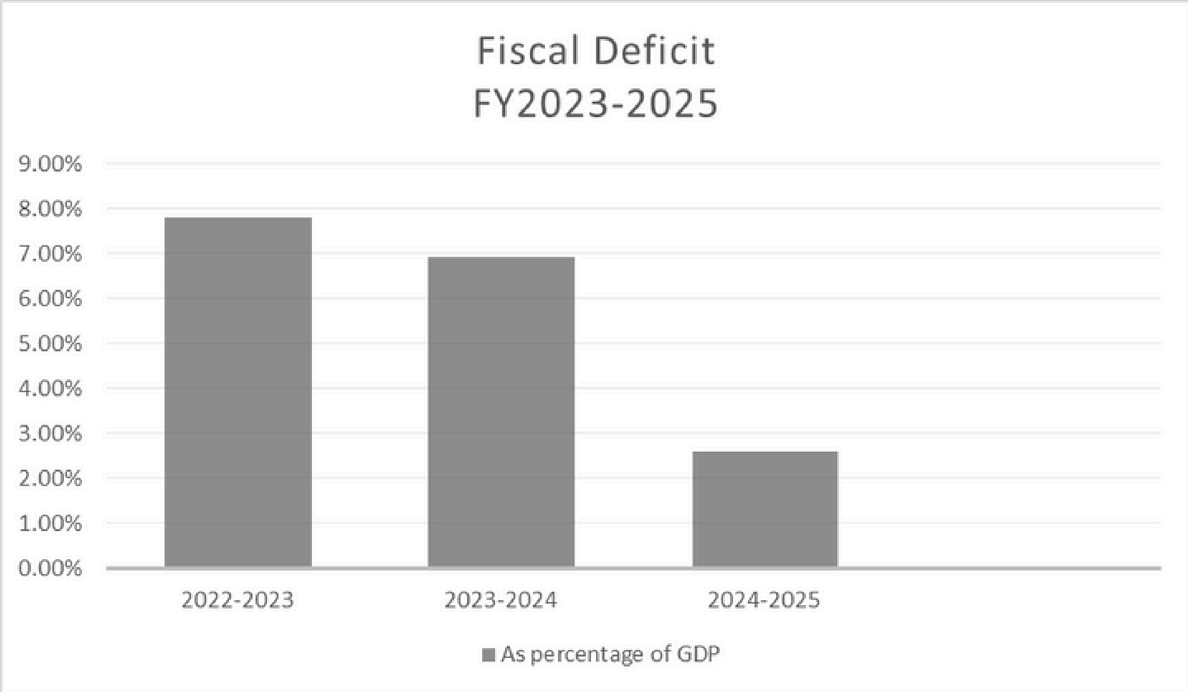
FISCAL DEVELOPMENT:

Pakistan's financial situation has been improving steadily over the past three years, thanks to smart economic policies, higher revenues, and better tax management. The fiscal deficit has dropped to 2.6% of GDP, down from 3.7%, while the primary surplus has surged to Rs 3,468 billion (3.0% of GDP) a sign of controlled spending and disciplined budgeting. Provincial governments have also played a key role, increasing their contributions to Rs 1,053 billion, further strengthening the country's financial stability. With continued focus on smart reforms and efficient spending, Pakistan is building a stronger, more resilient economy.

Total expenditure grew by 19.4% to Rs. 16,337 billion, fuelled by higher development spending, while current expenditures rose moderately by 18.3%. Mark-up payments expanded 16.7%, a slower rate than last year's 54.0% surge, allowing more flexibility for development investments. The Public Sector Development Program (PSDP) increased by 28.6%, reinforcing economic growth initiatives.

Revenue collection saw strong growth of 36.7%, reaching Rs 13,367.0 billion, with non-tax revenues soaring by 68%, driven by SBP profits, petroleum levies, and royalties on oil and gas. Total tax collections rose 25.8% to Rs. 9,137.3 billion, reflecting robust fiscal performance. The Federal Board of Revenue (FBR) posted a 26.3% increase, backed by domestic tax gains and tax measures from Budget 2024-25.

To ensure long-term fiscal sustainability, the government is pursuing reforms with provincial stakeholders, with the National Fiscal Pact serving as a key initiative to strengthen intergovernmental fiscal relationships. These measures are expected to drive inclusive, stable, and resilient economic growth.



MONEY CREDIT:

Over the past year global monetary trends have shifted with inflation easing and supply chain improvements enabling a gradual transition from tight policies to measured rate reductions. Leading central banks, including the Federal Reserve and European Central Bank, are signaling a cautious approach to monetary easing, while emerging markets navigate policy adjustments amid stabilizing inflation and exchange rates. Despite these shifts, structural challenges, high debt, restrictive financing, and geopolitical uncertainties, continue to pose risks to the global economic outlook.

Domestically, Pakistan's economy has demonstrated resilience, with stable foreign exchange reserves, a controlled exchange rate, and declining inflation. In response, the State Bank of Pakistan (SBP) initiated monetary easing in June 2024, cutting the policy rate by 1,100 basis points by May 2025 to support economic recovery.

Looking ahead, inflation is expected to remain within the SBP’s target range of 5-7%, setting the stage for continued policy normalization and sustained growth in FY 2026. Ensuring long-term momentum will depend on macroeconomic stability, coordinated policy actions, and a conducive investment environment, driving job creation, financial inflows, and broader economic resilience.

PUBLIC DEBT:

By the end of March 2025, the government’s interest expense on public debt reached Rs. 6,439 billion. The majority of this was attributed to domestic debt amounting to Rs. 5,783 and external debt accounting for Rs. 656 billion.

To manage fiscal financing during this period, the fiscal deficit was entirely funded through the domestic market, primarily via issuing long-term domestic debt securities.

A strategic move to avoid short term maturities was played by the government by retiring Rs 2.4 trillion in Treasury Bills but also, for addressing the short-term liquidity needs confined to specific investors, a one-month Treasury Bill was introduced.

The increasing debt is further contributing to the fiscal deficit of the Country as a significant amount of revenue is spent on debt servicing and interest payments.

While Pakistan is burdened by a significant chunk of public debt amounting to a total of Rs. 76,007 billion, there seems to be no concrete measures on how the Government aims to rid the Country of its ever-growing debt.

CAPITAL MARKETS AND CORPORATE SECTOR:

The period of July-March FY 2025 witnessed a generally positive trend across major global stock markets, with US, France and China all demonstrating upward momentum. However, a notable outlier was India's Bombay Sensex 30 index, which registered a decline during this period.

The Pakistan's stock market delivered an outstanding performance with the KSE-100 index recording a remarkable surge of 50.2% climbing from 78,445 to 117,807 points. This substantial growth was fuelled with many positive factors including a stable macroeconomic environment, strong corporate earnings, declining policy rates and the successful completion of the first review of the IMF Extended Fund Facility (EFF) program, all of which significantly boosted investor confidence.

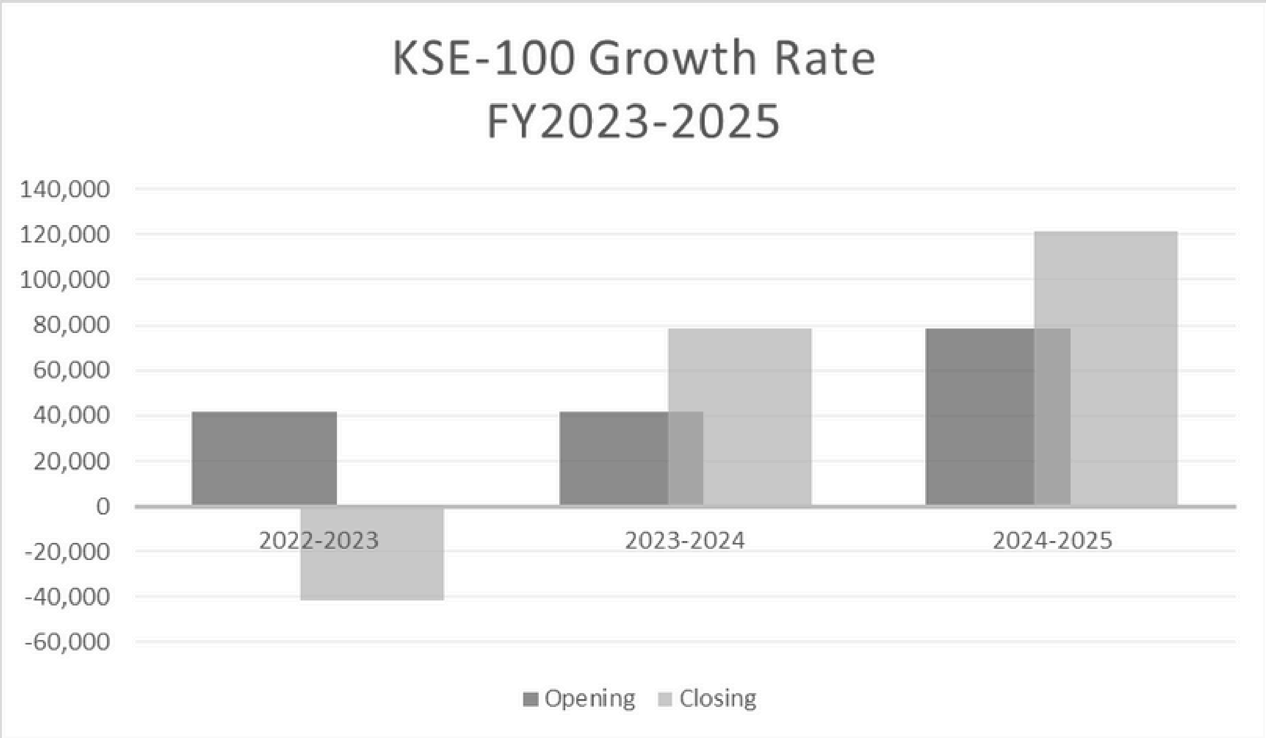
As of March 31, 2025, the Pakistan Stock Exchange (PSX) continued to expand its reach standing at 527 listed companies with six new companies coming onboard. This would further contribute to the Pakistan Stock Exchange being an attractive market for foreign investors.

During the period of July-March, the Securities and Exchange Commission of Pakistan (SECP)
oversaw the incorporation of 26,104 new companies, injecting 66.6 billion into the economy. The Information Technology (4,014), Trading (3,457), and Services (3,137) sectors led this surge in new registrations.

The PSX also experienced substantial growth in its market capitalization, rising from Rs. 10,375 billion on June 30, 2024, to Rs. 14,374 billion on March 31, 2025. This represents a notable 38.5% increase, or approximately PKR 4,000 billion, over the period, marking a period of extraordinary growth and investor confidence.

The National Savings Schemes, encompassing the Defence Savings Certificates, Special Savings Certificate, Special Savings Accounts, Regular Income Certificates and prize bonds recorded a substantial inflow of Rs. 171.3 billion. This makes a monumental turnaround from the Rs. 110.1 billion outflow observed in the previous years. This isn't just growth, it's a profound shift signaling renewed confidence and a powerful surge in investment.

The Pakistan Mercantile Exchange (PMEX) witnessed remarkable activity between July 2024 and March 2025, with 5.88 million commodity futures contracts traded. These contracts, which included gold, crude oil, and US equity indices, were valued at an impressive PKR 6.54 trillion. This represents a substantial 60% increase in value compared to the previous year, highlighting robust growth in the commodity futures market. The PMEX is not just growing; it's roaring to new heights!



TRADE AND PAYMENT:

Pakistan's current account has undergone remarkable transformation, moving from a deficit of $1.3 billion in the last fiscal year to a $1.9 billion surplus during the same period this year. The positive shift was achieved despite a widening trade deficit and a notable reversal in financial account.

The Trade deficit in goods expanded to $21.3 billion. This was primarily due to an 11.8% rise in imports and outpaced a 6.8% growth in exports. Similarly, the services accounts deficit also widened slightly to $2.5 billion as service imports increased by 9.3% exceeding the 7.9% growth in service exports.

Pakistan’s external account has received a significant boost from a surge in the remittances which reached a historic monthly high of $4.1 billion in March 2025. This exceptional performance contributed to a substantial 31% increase in remittances during the period amounting to $31.2 billion compared to the $ 23.9 billion in the corresponding period last year. This growth is attributed to the government and SBP-led structural reforms.

Compounding these trends, the financial account experiences a net outflow of $1.6 billion in July-April FY 2025, a stark contrast to $4.2 billion net inflow recorded in the previous year. This reversal was largely driven by increased government debt repayments and a significant reduction in net liability incurrence, which plummeted to a negative $3.2 million from $2.6 billion. This indicates a substantial slowdown in external borrowing power.

Meanwhile, net foreign direct investment (FDI) saw a slight decline totalling $1,785 million during the July-April FY 2025 compared to the $1,835 million in the corresponding period last year.

CHALLENGES:

Despite the slight improving trajectory, the Economy of Pakistan still has several challenges awaiting in the years to come. Some of these have been summarized as under:

- **Debt:** Total public debt increased to **Rs 76,007 billion**, with external debt reaching $87.4 billion.
- **Poverty:** Approximately 45% of the population is living in poverty, with 16.5% in extreme poverty.
- **Energy Sector:** Faces challenges like underutilization of generation capacity and inefficiencies in distribution.
- **Population Growth:** Rapid population growth continues to exert pressure on resources, infrastructure, and job creation, making the challenge of poverty reduction and improving living standards more complex.
- **Low Investment and Savings Rates:** Despite some recent improvements, the investment-to-GDP ratio remains below target, and the overall saving rate is also a concern. This limits the capital available for productive ventures and long-term economic expansion.
- **Government Debt:** By March 2025, Pakistan's public debt stood at **Rs. 67.8 trillion (74.1% of GDP)**, a slight reduction from 76.4% last year. However, debt servicing remains the single largest expense item for the government, consuming a significant portion of revenues.

- **Defense Spending Amid Economic Constraints:** In response to recent regional tensions, Pakistan has increased its defense budget by 20%, allocating 2.55 trillion rupees ($9 billion). This decision comes at the expense of other sectors, raising concerns about the prioritization of military expenditure over economic development.
- **Taxation System Inefficiencies:** Pakistan's tax-to-GDP ratio remains low at approximately 9.5%, significantly below regional averages

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