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PAKISTAN'S ECONOMY

BIPOLAR

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PREAMBLE:

Asalam-o-alaikum everyone!

Hope this publication finds you in good health. The economy of Pakistan is trying to make a modest recovery after a very precarious situation in the previous Fiscal Years (“FYs”). Moreover, the outgoing Fiscal Year 2024-25 has witnessed decent economic stability. To decipher and analyze the major fundamentals of our economy for this Fiscal Year, we hereby offer our analysis through this document titled "Pakonomics (Special Edition) Economic Survey 2024-25" on the major economic developments that took place during the outgoing Fiscal Year.

Further, this publication analyzes trends in Agricultural and Industrial production, money supply, inflation, foreign exchange reserves, balance of payments, debt profile, savings, investment, and other relevant macroeconomic factors that have a bearing on the budget. This document also provides a glimpse of what to expect in the coming Fiscal Year.

We hope this publication will assist our readers in having a better understanding of the macroeconomic indicators that influence the Pakistani economy.

Towards the end, we would like to reiterate that tough times never last, and that our prayers are with Pakistan for a full recovery from the current economic turmoil it is in.

Kind Regards,

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Home Grown Recipe of Green Pakistan, Low Policy Rate, and True Value of Currency
vs.
IMF's Recipe of High interest rate, devaluation of currency, and Import led growth.

Pakistan's economy is currently bipolar. The policymakers have to choose between a home grown recipe of Green Pakistan, such as, inter alia: ***(a) keeping policy rates closer to inflation rate; (b) reduce debt servicing; (c) maintaining the currency at its true value; (d) stimulating growth; and (e) reducing fiscal deficit,*** *and the policies prescribed by the IMF that primarily focus on* ***monetary tightening; Import led growth, and tariff reduction****, which have consequently led to high inflation and suppressed economic growth.*

In order to pursue our own growth recipe, we present this document on the grand stage of the publication of the Economic Survey 2024–25. To achieve sustainable growth, we must prioritize policies that foster robust economic expansion. These policies include achieving an export surplus by focusing on our key cash crops: rice, wheat, and cotton. This document outlines how efficient production of these crops can enhance our exports by an estimated $2.2 billion. We can reduce our cotton imports by enhancing cotton yields; similarly, we can increase rice exports by increasing rice yield production. Further, Pakistan can also achieve a wheat surplus in production to reduce wheat imports. In FY23, Pakistan had imported wheat worth of $1.03 billion due to poor wheat yield.

Moreover, the FY26 economic strategy must prioritize on introducing targeted policy measures for Industrial development. These include rationalizing interest rates for industrial borrowers, electricity tarriff reduction, abolishment of export financing scheme ("EFS") on semi-finished and finished goods, implementing a balanced tariff structure on raw materials, duty free intermediate goods and fostering export oriented industrial clusters. Encouraging import substitution and offering performance based subsidies, especially in key sectors such as textiles, Leather, and engineering goods is important.

Simultaneously, advancing the ***IT sector*** *must be a strategic focus. It is imperative to address the growing trend of* ***IT businesses*** *operating via digital platforms under foreign identities, which leads to foreign exchange losses. This challenge can be tackled through mutual legal agreements with relevant jurisdictions, enabling the identification and regulation of such entities. By tracking these operations and bringing them into the formal tax net, Pakistan can enhance both tax compliance and foreign exchange retention, while strengthening its digital economy.*

By following the above strategies, we can improve the ***Current Account Balance****, which will ultimately stabilize the rupee. This, in turn, will help bring inflation down to sustainable levels. Consequently, lower inflation will allow for reduced interest rates, positively impacting our fiscal space. With increased fiscal flexibility, we can allocate more resources toward development initiatives, unlike in previous years, where high policy rates consumed most of the available resources without generating meaningful progress.*

On the flip side of the Green Pakistan policy, are IMF's stringent measures such as monetary tightening that undermines ease of doing business; import-led consumption-oriented growth that fuels inflation (as witnessed in FY22), currency undervaluation, and unrealistic fiscal targets (as seen in the ongoing FY24 in which the FBR has been tasked with achieving a PKR 12.3 trillion revenue target, yet is likely to collect only around PKR 11.9 trillion). Such policy frameworks strain economic stability.

THE ECONOMY OF PAKISTAN- A BIRD'S-EYE VIEW:

Economic Indicators	Period	Status	Current Year	Last Year
Real GDP Growth	Jul-June	↑	2.68%	2.51%
Agriculture Sector	Jul-June	↓	0.56%	6.40%
Industrial Sector	Jul-June	↑	4.77%	(1.37)%
Services Sector	Jul-June	↑	2.91%	2.19%
Inflation (General CPI)	Jul-May	↓	4.6%	24.5%
Current Account Deficit	Jul-April	↓	USD 1,880 Million	USD (1,337) Million
Imports of Goods	Jul-May	↑	USD 53.45 Billion	USD 49.82 Billion
Exports of Goods	Jul-May	↑	USD 29.45 Billion	USD 28.12 Billion
Worker's Remittances	Jul-April	↑	USD 31.21 Billion	USD 23.85 Billion
Central Government Debt	Up to March	↑	PKR 73.69 Trillion	PKR 65.38 Trillion
Domestic Debt	Up to March	↑	PKR 51.52 Trillion	PKR 43.44 Trillion
External Debt (PKR)	Up to March	↓	PKR 22.17 Trillion	PKR 21.94 Trillion
External Debt (USD)	Up to March	↓	USD 130,310 Million	USD 131,115 Million
FBR Tax Collection	Jul-May	↑	PKR 10.21 Trillion	PKR 8.01 Trillion
Foreign Exchange Reserves	As of 23rd May	↑	USD 11.52 Billion	USD 9.09 Billion
Exchange Rate (PKR/USD)	As of 5th June	↑	PKR 282.2	PKR 278.3
Investments (% of GDP)	Jul-June	↑	13.80%	13.10%
National Saving (% of GDP)	Jul-June	↑	14.1%	12.6%
Currency in Circulation	Jul-17th May	↑	PKR 1,208 Billion	PKR (212) Billion

OVERVIEW OF THE ECONOMY:

- The National Accounts Committee ("NAC") has provisionally estimated the GDP growth rate of Fiscal Year 2024-25 ("FY25"), to be 2.68% compared to it's revised growth estimates of 2.51% for FY24.
- The Agriculture sector posted a meagre growth of 0.56% in FY25, with major crops showing negative trends. Wheat dropped by 8.9%, cotton by 30.7%, sugarcane by 3.9%, rice by 1.4%, and maize by 15.4%. Other crops grew by 4.78%, supported by better output in fruits, vegetables, condiments, and oilseeds. Cotton ginning fell 19.03% due to low cotton production. Livestock remained stable, while forestry and fishing continued to grow at normal levels.
- The real GDP growth in FY25 was largely supported by the industrial sector, which rebounded from a negative growth in the previous year to post a positive growth of 4.77% in FY25. However, the growth potential could have been even higher if key challenges such as subdued demand, supply chain disruptions, and elevated policy rates had been effectively addressed.
- Ironically, the Large-Scale Manufacturing ("LSM") sector which accounts for nearly 44% of the industrial sector, contracted by 1.5%. It remains unclear as to how the overall industrial sector showed growth despite there being no growth recorded in LSM. Whereas a closer look at the Jul–March LSM data reveals that major sub-sectors such as food, chemicals, and metals have registered negative growth, while textile has shown only a marginal improvement of 2.15%. Considering the LSM's significant contribution to the manufacturing sector, and the fact that import levels have not increased substantially, the reported 4.77% growth in the industrial sector raises questions about the basis for such industrial growth estimates.
- The Services sector grew by 2.91% in FY25, outpacing the commodity-producing sectors, which recorded a growth of 2.35%. This disparity is attributed to the resilience of service-based activities such as Finance, Public Administration, and IT, which are less affected by supply chain disruptions from the Agriculture and Industry.
- The GDP growth rate for FY25 is much lower than the official target of 3.6% projected by the Ministry of Planning in their annual report last year. However, the GDP growth had been revised down to 2.5% by the World Bank in their report on May 2025 titled "World Economic Outlook".
- The FY25 began under the influence of recovering from unprecedented economic disruptions, following a 0.21% economic contraction in FY23. However, in the current FY25, the Government has not been able to fully capitalize on this recovery momentum.
- The GDP growth of the country for FY26 is targeted at 4.2% out of which the Agriculture, Industry and Services sectors are expected to post a 4.5%, 4.3% and 4.0% growth, respectively.

- Pakistan's economic growth must shift toward an export-led model, unlike the import-driven expansion seen in FY22, which led to severe external and Fiscal imbalances. This misstep triggered high inflation and economic instability by FY23.
- The International Monetary Fund ("IMF") led stabilization policies such as currency devaluation, and high interest rates have intensified inflation and living costs, particularly hurting lower and middle-income groups.
- Striking a Balance between Inflation, Inclusive Growth, and Stability for FY26, one of the critical challenges for the current regime is to manage inflationary pressures while promoting inclusive growth and economic stability through export-led development, avoiding unsustainable import-oriented strategies.
- The path forward must prioritize export competitiveness across three critical vectors: Agriculture, Manufacturing, and the Information Technology sector. These areas possess significant potential to drive productivity, create employment, and earn foreign exchange.
- Strengthening Public Financial Management ("PFM") is also essential to underpin this transition. Effective fiscal discipline through prudent expenditure control and enhanced domestic revenue mobilization will support macroeconomic stability and reduce reliance on external financing. Together, these reforms aim to restore economic resilience and set the foundation for inclusive, stable, export-oriented growth in the coming years.
- According to the estimates of Tola Associates ("TA"), Pakistan can easily achieve a current account ("CA") surplus of 0.1% of GDP by improving the yield of its cash crops. If this surplus is realized, the currency can appreciate by up to PKR 23 in FY26, which would result in a 4.6% reduction in inflation. This, in turn, would create room to lower interest rates, leading to reduced debt servicing costs and providing significant fiscal space.
- Inflation in Pakistan dropped to 4.6% (YoY) in Jul-May FY25, representing the lowest average yearly inflation rate in nearly last 04 Fiscal Years. In response to easing inflationary pressures, the State Bank of Pakistan ("SBP") slashed the policy rate to 11%, marking a sharp reduction from 22% in the last Fiscal Year.
- The reduction of the policy rates by 1,100 basis points is a step in the right direction. However, it falls short of delivering a meaningful boost to business confidence or investment, as the real interest rate exceeds 10%, an excessively high level by any measure.
- The Current Account ("CA") recorded a surplus of $1.880 billion till the Jul-April period of FY25. Further, a record $4.1 billion in remittances in March 2025 pushed the cumulative remittance inflows to $31.21 billion (Jul–April FY25), up by more than 30.0%, helping achieve a rare CA surplus.

- The total gross public debt, comprising of the Government's domestic debt, external debt, and IMF debt, has surged to PKR 73.69 trillion. This accounts for almost 64.3% of the GDP.
- As per the Pakistan Bureau of Statistics ("PBS"), the trade deficit of Goods has increased by 10.6% to $24.0 billion during the period of Jul-May of FY25 vs. $21.7 billion the same period of FY24 amidst a stagnant export and a sharp rise in import bill.
- On the Fiscal front, concerns loom as FBR may miss its target by approximately PKR 1.03 trillion. With PKR 10.21 trillion collected in 11 months, achieving the revised PKR 12.3 trillion target appears increasingly unlikely to be achieved.
- The FBR still needs PKR 2.1tr more in the remaining month to reach the revised tax revenue target of PKR 12.3tr for FY25. Reaching the revised revenue target seems very tough in the remaining one month.
- Looking ahead, meeting the tax collection target dictated by IMF is around PKR 14.3 trillion in FY26 will prove to be a daunting task for Pakistan's revenue authorities, considering the recovery of the ongoing economic slump on various sectors.
- Based on the estimates of TA, considering realistic inflation (10.0%) and GDP growth projections (3.0%), the FBR is likely to collect revenue worth PKR 13.5 trillion in FY26 as against the target of PKR 14.3 trillion agreed with the IMF. If the FBR wants to achieve this target, then they will have to levy additional taxes.
- The size of the Economy of Pakistan in USD terms has increased to USD 411 billion in FY25 from USD 372 billion in FY24, increasing by almost USD 39 billion or almost 1.0%. Similarly, the per capita income, which was USD 1,662 in FY24, surged to USD 1,824 in FY25, reflecting an increase of USD 162 or 9.7% when compared to FY24. Moreover, Pakistan still has the lowest Per capita GDP in the region, and is lagging behind those countries that have the highest inflation rate.

I. RECIPE OF THE GREEN PAKISTAN POLICY.

The recipe for economic growth lies in having a stable currency at its true value, controlling inflation, leaving the policy rate marginally above inflation, and stimulating growth through Agricultural and Agro-based Industries.

Based on TA estimates for FY26, if the current account deficit ("CAD") stands at 0.4% of the GDP, the exchange rate should ideally stabilize around PKR 272/USD (Scenario 3). If adjusted for FY25 as well, it should not exceed PKR 282/USD (Scenario 4). Rest of the case has been explain in the table herein below:

The table *infra* illustrates the various scenarios for CAD and their impact on rupee parity.

						****Adjusted for FY25 valuation*** ****Valuation for only FY26***
CURRENCY VALUATION						
	Scenario 1*	Scenario 2**	Scenario 3*	Scenario 4**	Scenario 5*	Scenario 6**
CAD (% of GDP)	**(1.00)%**		**(0.40)%**		**0.1%**	
Currency (PKR/USD)	276	291	272	282	268	274
Expected Inflation/(Deflation)	(3.00)		(3.80)	(1.80)	(4.60)	(3.40)

Scenario 1: If CAD is restricted to 1% of GDP in FY26 (FY25's adjusted valuation).
Scenario 2: If CAD is restricted to 1% of GDP in FY26.
Scenario 3: If CAD is restricted to 0.4% of GDP in FY26 (FY25's adjusted valuation).
Scenario 4: If CAD is restricted to 0.4% of GDP in FY26.
Scenario 5: If CAS is 0.1% of GDP in FY26 (FY25's adjusted valuation).
Scenario 6: If CAS is 0.1% of GDP in FY26.

As per the table given beside, achieving a CAS is possible by raising the yield of cash crops. It will lead in making Scenario 5 and Scenario 6 achievable, with the currency stabilizing around PKR 268/USD (FY25 valuation added), that will ultimately help inflation come down by 4.6%, given that Government's average est. PKR/USD would be 291 in FY26.

		(USD in Billion)
CURRENT ACCOUNT SURPLUS		
CAD Est for FY26	**A**	**$1.8**
GDP	**B**	**$445**
Est. Crop Surplus*	**D**	**$2.2**
Rice		$1.7
Wheat		$0.4
Cotton		$0.12
CA Surplus in FY26	**E = D - C**	**$0.4****
****For detailed est. Section III.A's Tables*** ***Rice Production; Wheat Production; Cotton Production*** *****$0.4 billion CAS would be 0.1% of GDP***		

By the end of the FY26, the PKR/USD exchange rate is expected to stand at 291 or above, reflecting a difference of (291-268 → 23 rupees) 23 rupees. This difference corresponds to an approximate 4.6% increase in inflation for FY26. If the current exchange rate is adjusted by 23 rupees, inflation is expected to decrease, which may also lead to a reduction in the interest rate.

A 1% reduction in the interest rate will result in a decrease of PKR 515 billion in domestic debt interest repayments. Consequently, a 4.6% reduction will lead to a decline in debt interest servicing

by approximately PKR 2,369 billion. Such fiscal space can be utilized in the Agriculture sector, IT services and the growth-driving manufacturing sector.
This amount can be allocated to various development projects from the savings realized through a reduction in the interest repayments.

Current Policy Rate	Inflation Impact	Re-profiling of Policy rate	Net saving on 1% (PKR in Billion)	Total Saving
A	B	C = A- B	D	E=B x C
11.0%	4.6%	6.5%	515	2,369

Moreover, a 30% of the total adjustment of the PKR/USD parity is 7 rupee. Consequently, the said amount can be compensated to exporters and remittances recipients.

II. PAKISTAN'S MACROECONOMIC PROJECTIONS FOR 2025-26:

GDP Components	Provisional estimates 2024-25 (%)	Target 2025-26 (%)
A. Agriculture	0.56	4.5
Important crops	(13.49)	6.7
Livestock	4.72	4.2
Forestry	3.03	3.5
Fishing	1.42	3.0
B. Industrial sector	4.77	4.3
Mining and Quarrying	(4.02)	3.0
Manufacturing (i+ii+iii)	3.03	4.7
i. Large Scale	0.94	3.5
ii. Small Scale	9.05	8.9
Construction	(1.14)	3.8
C. Services Sector	2.91	4.0
Wholesale & Retail trade	3.30	3.9
Transport, storage & communication	1.51	3.4
Information and Communication	4.32	5.0
Finance and Insurance	(12.74)	5.0
Real Estate Activities	3.74	4.2
Education	9.33	4.5
Health & Social Activities	3.34	4.0
GDP Growth Rate	2.68	4.20

(Source: APCC)

Macro framework (Current Price)	2024-25 P	2025-26 T
GDP (bp)	106,299	119,837
Indirect Taxes (Net)	8,393	9,730
GDP (mp)	114,692	129,567
Net Factor Income from Abroad	7,759	7,895
GNP (mp)	122,451	137,462
External Resources Inflow (net)	(426)	605
Total Resources / Uses	122,026	138,068
Total Consumption	106,250	118,962
Total Investment	15,776	19,105
Inflation (%)	5.0	7.5

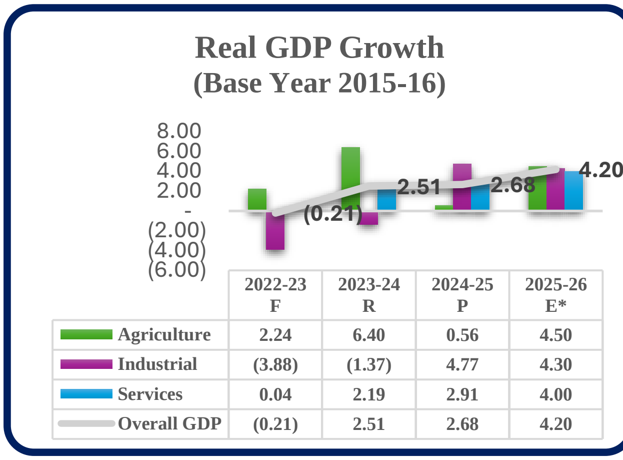
As per the Annual Plan Coordination Committee ("APCC"), the GDP growth of the country for FY26 is targeted at 4.2% out of which, Agriculture, Industry and Services sector are expected to post a 4.5%, 4.3% and 4.0% growth, respectively. The IMF's forecast for Pakistan's growth for 2025-26 is set at 3.6%[1].

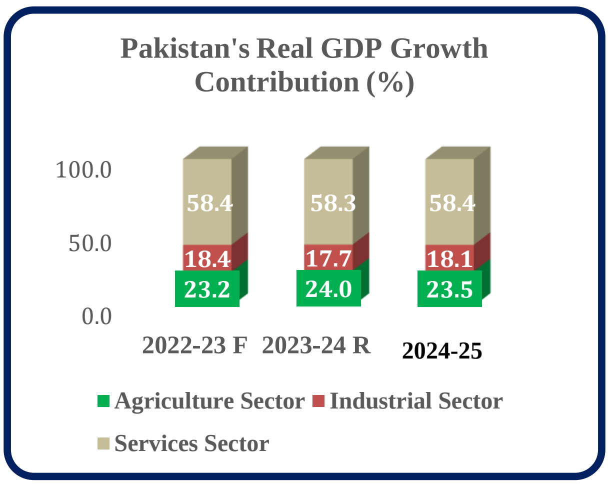
The economic outlook for the next year is optimistic, with a moderate growth target. This positive trajectory hinges on several key factors including exchange rate stability and policy rate reduction.

		(USD in Billion)
	FISCAL YEAR 2025-26	
KEY INDICATORS	**IMF TARGET**	**APCC TARGET**
Exports GoB	33.0	35.0
Imports GoB	59.6	65.0
Remittances	35.8	39.2
CAD (% of GDP)	(0.4)	(0.4)

III. PAKISTAN'S GDP GROWTH AND CONTRIBUTION:

Real GDP growth in FY25 was primarily driven by a rebound in the industrial and services sectors, which posted growth rates of 4.77% and 2.91%, respectively recovering from last year's contraction and modest performance. However, this recovery remained below its potential due to persistent challenges, including weak demand, and high policy rates.





The sectoral share on the constant price (2015-16) has been illustrated in the chart to the left:

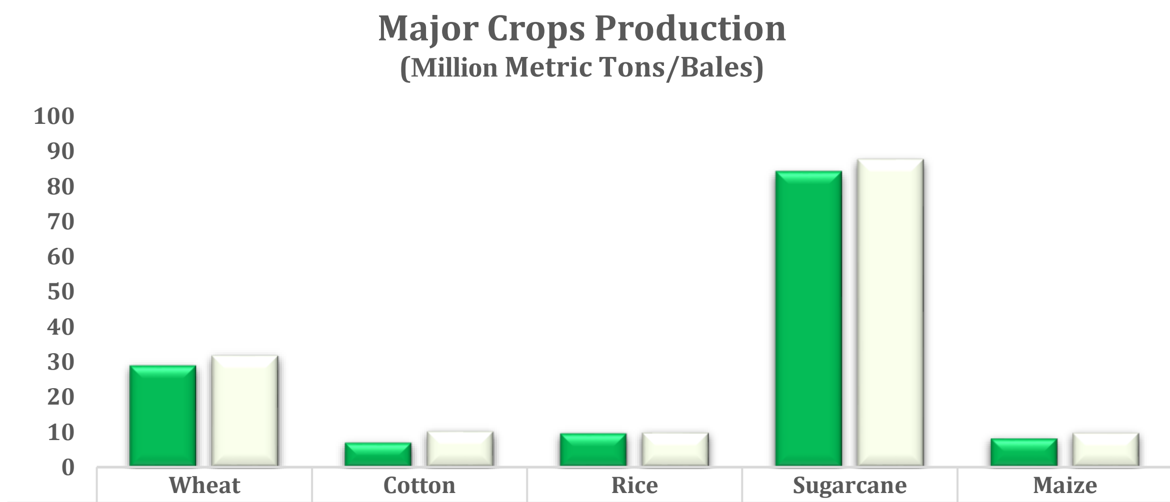
[1] https://www.imf.org/en/Publications/WEO/Issues/2025/04/22/world-economic-outlook-april-2025

A. AGRICULTURE SECTOR:

"Agriculture Stumbles: Major Crop Failures Stall Sector Growth"

As of now, the agriculture sector accounts for 23.54% of the GDP in real terms. This sector comprises of four sub-sectors which include crops, livestock, forestry, and the fisheries sector.

In FY25, the Agriculture sector showed a poor performance with a provisional growth estimated at 0.56%. Furthermore, the Agriculture sector's contribution to the GDP also decreased from last year's 24.03%.



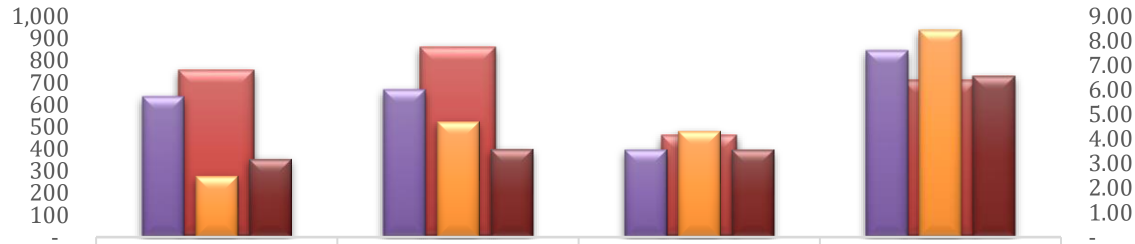
	Wheat	Cotton	Rice	Sugarcane	Maize
FY25	28.98	7.08	9.72	84.23	8.24
FY24	31.81	10.22	9.86	87.64	9.74

****Million Bales for Cotton and Million Tons for rest of the cash crops***

The Agricultural sector's subdued performance in FY25 is largely attributable to a significant decline in the output of major crops. Key staples such as wheat, cotton, rice, sugarcane, and maize all registered negative growth compared to the previous year. Wheat production dropped by 8.9% to 28.98 million tons, while cotton witnessed a sharp contraction of 30.7%, falling to 7.084 million bales. Rice and sugarcane posted declines of 1.4% and 3.9% respectively, and maize output decreased by 15.4%.

The graph *supra* illustrates that Pakistan lags behind the world average in several key agricultural sectors.

Crop Production Comparison 2024-25
(MT per Hectare/ Kg per Hectare*)



	Pakistan	World Avg	India	Egypt
Cotton*	756	862	461	712
Maize	5.73	6	3.57	7.61
Rice	2.49	4.72	4.32	8.44
Wheat	3.18	3.59	3.56	6.57

For wheat, Pakistan's yield is 3.18 MT per hectare, which is below the world average of 3.59 MT per hectare. If Pakistan meets the world's average wheat yield, it could easily produce an additional 3.76 million metric tons ("**MMT**") of wheat. Pakistan imported a total of 127 MT of wheat at a cost of USD 35 thousand dollars during the Jul-April period; given the shortage this amount can surge. Meeting the average yield could save Pakistan the wheat import bill and led to potential **CAD**.

WHEAT PRODUCTION								
Wheat Yield (Diff)	Production Area (000 MT)	Production (000 MT)	Current Production (000 MT)	Total Production (000 MT)	Per Capita Consumption (Kg)	Total population	Total Consumption Demand (000 MT)	Net surplus (000 MT)
A	B	C= A*B	D	E= C + D	F	G	H = F*G	I=H-D
0.41*	9,190	3,768	28,980	32,748	124	260**	32,240	508
**Pakistan's Yield minus World Average Yield (3.59 - 3.18)*								
***Est Total Population of Pakistan in Million (FY26)*								
****Net surplus production for exports could be 508 Thousand MT, at todays rate its worth est at $120 million*								

Similarly, Pakistan's yield for rice stands at 2.49 MTs per hectare, markedly below the world average of 4.72 MTs per hectare. If Pakistan is able to meet a yield of 3.5 MT per hectare, then Pakistan's rice production may approximately enhance by 4.17 MMT, and ultimately Pakistan's export may also increase by USD 1.6 billion in FY26.

RICE PRODUCTION						
Pakistan's Yield	**Assumption**	**Deficiency in Yield**	**Production Area FY25 (MT 000)**	**Production (000 MT)**	**Rice Price/MT**	**Export ($ in Million)**
A	**B**	**C = B - A**	**D**	**E = C*D**	**F**	**G = E*F**
2.49	3.5	1.01	**4,133**	4,174	$403**	$1,682

Projected at an average growth of the previous 5 years growth.
*****Dated 4th June, 2025***

Moreover, Pakistan's cotton production lags significantly behind the world average. If Pakistan can match global average yields, it could save up to $400 million in cotton import costs.

COTTON PRODUCTION						
Pakistan's Yield (Kg/Hect.)	World Avg. Yield (Kg/Hect.)	Deficiency in Yield (Kg/Hect.)	Production Area FY25 (000 Hect.)	Production (000 MT)	Import Est FY25 (000 MT)	% Saving in Cotton Import
A	B	C = B - A	D	E = B*D	F	G = E/F
756	862	106	2,043	216,352	678,792	32%

The Cash crop export surplus amount as evidenced in the table/chart alongside

(USD in Millions)	
EXPORT SURPLUS	
CROP	**AMOUNT**
Rice	$1,682
Wheat	$400
Cotton	$120
TOTAL	**$2,202**

In contrast, minor crops demonstrated a positive trend, recording a 4.78% growth versus just 0.07% last year. The table below illustrates the crop production details.

Overall, Pakistan's agricultural productivity has vast room for improvement, particularly in wheat and rice, to meet global standards.

MINOR CROPS			
Groups	**2023-24**	**2024-25**	**Percent Change (%)**
Pulses	34,560	29,658	(14.2)
Vegetables	295,498	318,563	7.8
Fruits	375,249	390,515	4.1
Oil seeds	83,842	91,488	29.8
Condiments	48,030	52,725	9.7
Green Fodder	617,054	605,805	(1.8)

The adjacent table describes the flow of the agriculture sector and the shares of the sub-sectors of the agriculture sector in the GDP:

Sub Sectors	Provisional Growth/(Contraction) 2024-25 (%)	Share in GDP (%) for FY25
1. Crops (I + ii +iii)	(6.82)	7.72
i. Important Crops	(13.49)	4.19
ii. Other Crops	4.78	3.27
iii. Cotton Ginning	(19.03)	0.25
2. Livestock	4.72	14.97
3. Forestry	3.03	0.54
4. Fishing	1.42	0.31
Overall Growth	**0.56**	**23.54**
		(Source: PBS)

B. INDUSTRIAL SECTOR:

Industrial Sector: A declining share and moderate growth

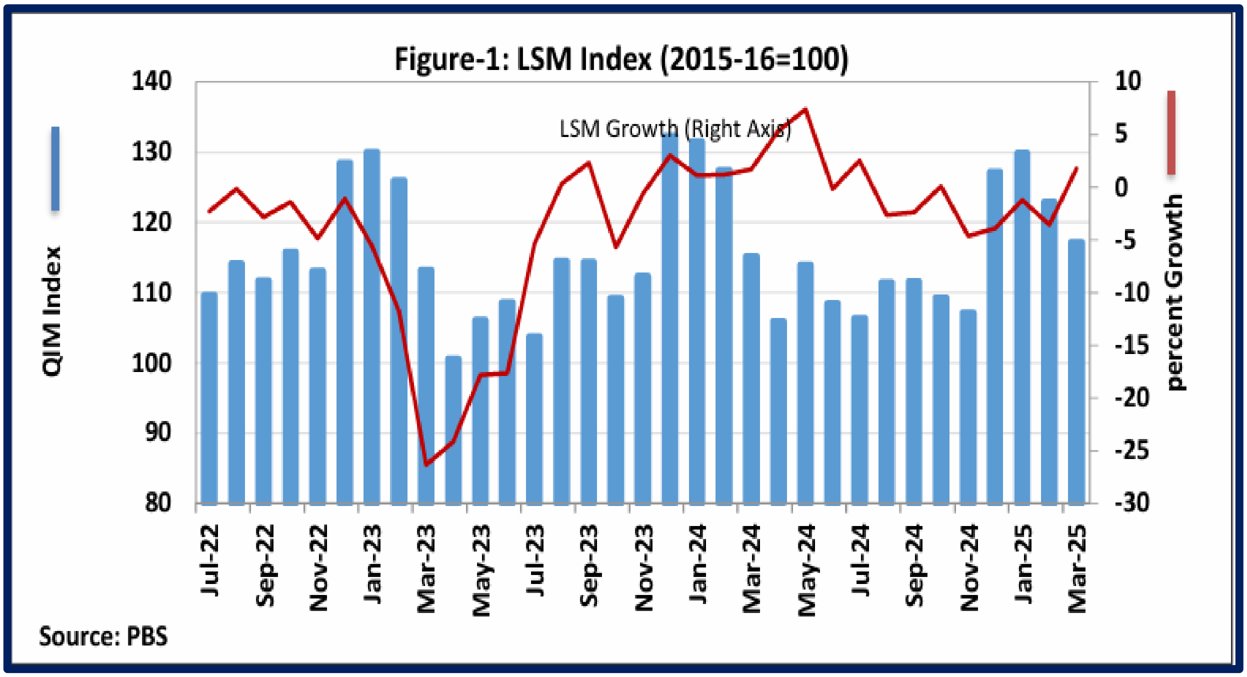
The industrial sector's contribution to GDP increased to 18.07% in FY25, up from the revised share of 17.71% in FY24. However, the overall performance of the sector remains below expectations. Since FY18, its share has declined from 20.04%, largely due to persistently high interest rates, rising energy and raw material costs, and weak domestic demand. This downward trend is concerning, as the industrial sector is vital for economic development, employment generation, and sustaining external account stability.

In FY25, the sector posted a modest growth of 4.77%, primarily driven by improvements in Small-Scale Manufacturing, Slaughtering, Electricity, Gas and Water Supply, and the Construction sub-sectors. Notably, LSM the most significant component, did not contribute meaningfully to this growth. Ironically, the Large-Scale Manufacturing ("LSM") sector—which accounts for nearly half of the industrial sector contracted by 1.5%. It remains unclear how the overall industrial sector showed a growth despite no recorded growth in LSM.

The mining and quarrying subsector is far below expectations, as it contracted by 3.38%. This decline is significantly far below its target of 5.0% growth and can be attributed to several factors such as low coal production, small crude oil extraction, and mineral output contraction.

Furthermore, the LSM, guided by the Quantum Index of LSM ("**QIM**"), registered even lower numbers compared to the target of 3.5%, LSM posted contraction of 1.53% in FY25. LSM segments such as food production, chemicals, non-metallic mineral products, iron and steel, electrical equipment, machinery, and furniture experienced a decline. This downturn offset the gains seen in tobacco, textiles, wearing apparel, coke and petroleum products, automobiles, and other transport equipment reflecting continued resilience in consumer-focused and energy-related industries.

Additionally, the table below shows the provisional growth of the Industrial sector in FY25 and the share of the sub-sectors of the Industrial sector in the GDP.



Sub Sectors	Provisional Growth /(Contraction) 2024-25 (%)	Share in GDP (%)
1. Mining and Quarrying	(3.38)	1.43
2. Manufacturing (i + ii + iii)	1.34	11.79
i. Large Scale	(1.53)	7.97
ii. Small Scale	8.81	2.44
iii. Slaughtering	6.34	1.39
3. Electricity Generation & Distribution & Gas	28.88	2.57
4. Construction	6.61	2.27
Overall Growth/(Contraction)	**4.77**	**18.07**
		(Source: PBS)

C. SERVICE SECTOR:

"Restoring the Service Sector's Pivotal Role in the Economy"

The share of services sector in the GDP stood at 58.39% in FY25 as per the new base year 2015-16, showing a minor increase from 58.26% in FY24, supported by close backward and forward linkages with economic value added and output of commodity producing sectors (agriculture and industrial sectors). Whilst the commodity-producing sectors achieved a moderate growth of 2.35% in FY25. However, the positive momentum wasn't fully transmitted to the dependent services sector. Yet, the service sector growth of 2.91% is attributed to the resilience of service based activities such as Finance, Public administration, and IT, which are less affected by supply chain disruptions from the Agriculture and Industry.

The table hereinbelow indicates the provisional growth of the services sector, and the share of the sub-sectors of the services sector in the GDP.

Sub Sectors	Provisional Growth/(Contraction) 2024-25 (%)	Share in GDP (%)
1. Wholesale and Retail trade	3.30	17.84
2. Transport, storage, and communication	1.51	10.51
3. Accommodation and Food Services Activities	4.10	1.50
4. Information and Communication	4.32	3.04
5. Financial and Insurance Activities	(12.74)	1.45
6. Real Estate Activities (OD)	3.74	5.90
7. Public Administration and Social Security	(7.01)	4.32
8. Education	9.33	3.17
9. Human Health and Social Work Activities	3.34	1.73
10. Other Private services	3.63	8.94
Overall Growth	**2.91**	**58.39**
		(Source: PBS)

IV. CURRENT ACCOUNT BALANCE:

According to the SBP, the Current Account ("CA") stood at a $12 million surplus in month of April 2025, a decrease of 96% compared to the previous month of March 2025. On a cumulative basis, the CAD has declined to a current account surplus of $1,880 million which is a 240 times reduction compared to a CAD of $1,337 million during the Jul-April period of the previous FY24. The current level of CA is feasible and represents a positive development for the country's economic outlook. Looking ahead to FY26, both the IMF and APCC have envisioned a CAD of 0.4% of the GDP.

As seen in the chart, as a result of planning faults and mismanagement in addressing the CAD, as seen in the weighted average of the Planning Ministry's 10-month planning, Pakistan has been compelled to adopt contractionary policies, creating barriers to economic growth.

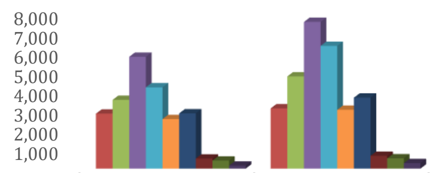
CAD	Jul-April		Jul-June
	FY25 P	FY24 P	FY25 T
i. BOT in Goods	(21,343)	(17,975)	**(24,941)**
Exports of Goods	27,276	25,530	**32,341**
Imports of Goods	48,619	43,505	**57,283**
ii. BOT in Services	(2,497)	(2,402)	**(2,738)**
Exports of Services	6,933	6,341	**8,169**
Imports of Services	9,430	8,743	**10,907**
iii. Balance on Primary Income	(7,127)	(6,324)	**(7,648)**
iv. Balance on Secondary Income	32,847	25,364	**31,620**
CAD (i + ii + iii + iv)	1,880	(1,337)	**(3,707)**

V. WORKER'S REMITTANCES:

On a cumulative basis, worker's remittances have a record increase this FY25 compared to FY24. At USD 31.21 billion in Jul-April FY24, the worker's remittances hiked by 31.0% over the same period last year. Economic stability is encouraging overseas Pakistanis to send more money back to their families, which is contributing positively to the stability of the rupee-dollar exchange rate.

The chart and table below show the significant flows from key economic regions for the outgoing Fiscal Year.

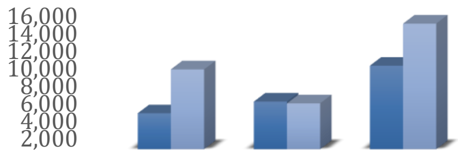
Country-wise Worker's Remittances
(PKR in Million)



	FY24 (Jul-April)	FY25 (Jul-April)
USA	2,850	3,125
U.K.	3,561	4,779
Saudi Arabia	5,797	7,608
U.A.E.	4,212	6,362
Other GCC Countries	2,565	3,046
EU Countries	2,861	3,679
Australia	521	662
Canada	412	529
South Africa*	152	284

VI. FOREIGN EXCHANGE RESERVES:

Foreign Exchange Reserves
(USD in Millions)

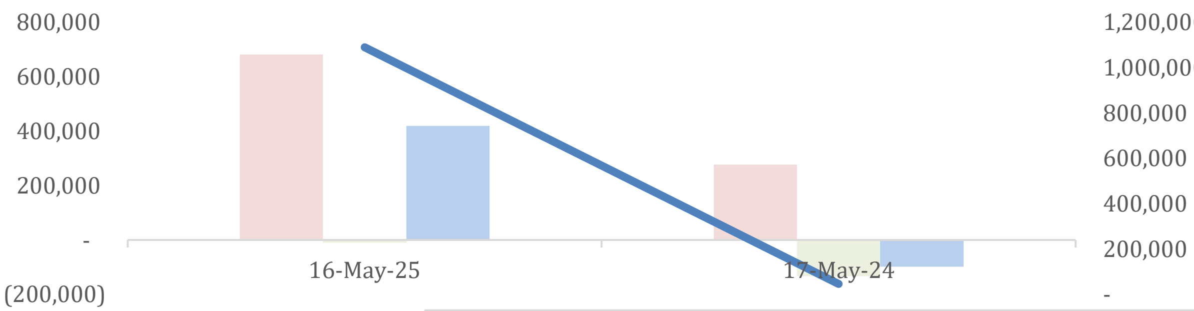


	NET RESERVES WITH SBP	NET RESERVES WITH BANKS	TOTAL LIQUID FX RESERVES
26-May-23	4,091	5,422	9,513
24-May-24	9,094	5,222	14,315

The reserves held by the SBP stood at $11.52 billion as of May 23rd, 2025, representing a increase of 26.6%, or $2.4 billion, compared to reserves of $9.09 billion recorded on May 24th, 2024. The boost in foreign reserves is mainly credited to the IMF's total disbursement of $2.1 billion under Pakistan's 37-month Economic Reform Programme, supported by the Extended Fund Facility ("EFF") arrangement.

VII. CREDIT TO THE NON-GOVERNMENT SECTOR:

CREDIT TO NON-GOVERNMENT SECTOR

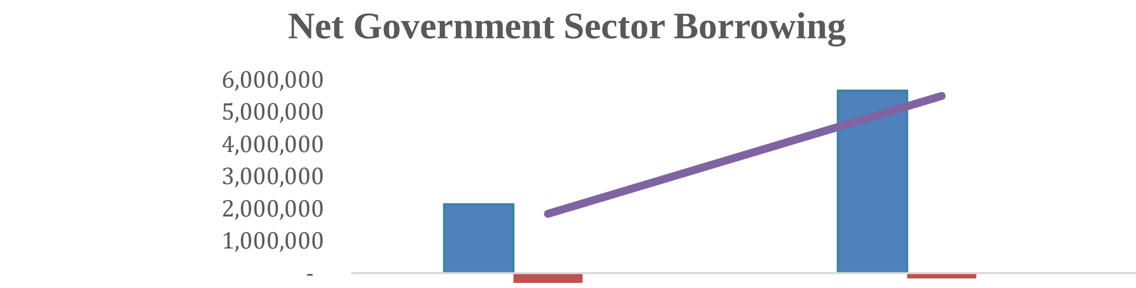


	16-May-25	17-May-24
Credit to Private Sector	681,684	277,282
Credit to Public Sectors Enterprises	(10,534)	(133,523)
Credit to NBFIs	418,889	(97,691)
Credit to Non-Government Sector	1,090,040	46,068

The credit to the non-Government sector, credit to public sector entities ("**PSE**"), and the Credit to Non-Banking Financial Institutions ("**NBFIs**") have surged. This indicates a substantial increment in lending or investment to both the PSE and NBFIs, which could be due to various factors such as monetary easing in FY25, decreased risk aversion among lenders, or increase demand for credit within the NBFI sector.

VIII. NET GOVERNMENT SECTOR BORROWING:

According to the SBP, the net Government sector borrowing has declined to PKR 1,838 billion in the current Fiscal Year, compared to PKR 5,492 billion during the same period last year (from July 1 to May 16th, FY25, and May 17th, FY24, respectively).



	16-May-25	17-May-24
Borrowings for Budgetary Support	2,137,573	5,657,365
Commodity Operations	(298,471)	(162,534)
Others	(1,100)	(3,293)
Net Government Sector Borrowings	1,838,002	5,491,538

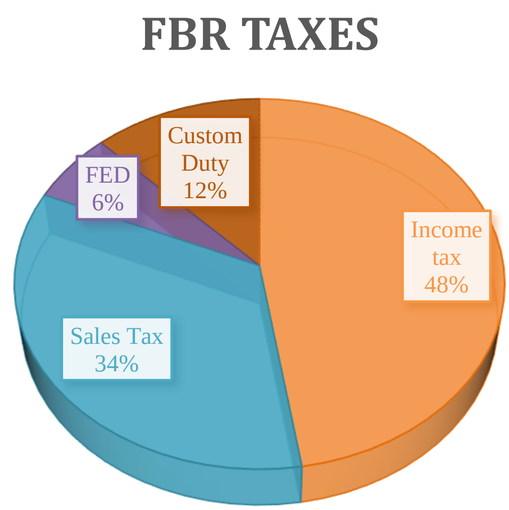
This significant decrease in borrowing is primarily attributed to the decline of the policy rate during FY25. The relatively low policy rate has led to decreased interest repayments, necessitating decreasing borrowing to manage fiscal obligations and fund Government expenditures.

IX. FISCAL OPERATIONS:

In terms of Pakistan's fiscal operations, the country has struggled to collect the ongoing FY25's target set by IMF at PKR 12.33tr. Official figures show that from July to May of FY25, FBR's tax revenue stood at PKR 10.2tr; 28% or PKR 2.2tr higher than last year's collection of PKR 8.0tr. The FBR still needs PKR 2.1tr more to reach the revised tax revenue target for FY25.

(PKR. In Billion)	July-May 2024-25	July-May 2023-24	Percentage change Y/Y
FBR's Tax collection	10.21	8.01	28%
			(Source: FBR Press Release)

Further, the breakdown of the tax revenue share is given in the pie chart to the right. Additionally, in May 2025, the IMF and Pakistan completed first review under the stand-by arrangement. The plan envisages FBR's tax collection target of PKR 14.2tr for FY26 which would be 15.5% higher than the revised tax revenue target for FY24 of PKR 12.33tr. If inflation is projected at 7.5% and GDP growth at 4.2% in the upcoming Fiscal Year, then the FBR might easily collect PKR 13.3tr worth of tax revenue. Moreover, Pakistan has to implement additional taxes amounting to approximately PKR 1tr in the upcoming budget.



X. PAKISTAN'S DEBT PROFILE:

The total central Government debt, comprising of the Government's domestic debt and external debt, has surged to PKR 73.69 trillion in March 2025, marking a substantial increase of 18.6% compared to the same month of the previous Fiscal Year. These figures underscore the significant escalation in the country's debt burden, signaling challenges in debt management and fiscal sustainability.

Pakistan's Total Debt & Liabilities			
(PKR in billion)	**March-25**	**March-24**	**% change**
Domestic Debt	51,518	43,437	18.6
% of GDP	**44.92**	**41.31**	
External Debt	22,170	21,942	1.0
% of GDP	**19.33**	**20.87**	
Gross Public Debt	73,688	65,378	12.7
% of GDP	**64.25**	**62.18**	
Nominal GDP	114,694	105,143	9.08

XI. SAVINGS AND INVESTMENT GAP:

The investment-to-GDP ratio has increased from 13.1% of GDP in FY24 to 13.8% in FY25 as per the report of the APCC, mainly because of a increase in Public investment which inched up from 2.4% to 2.9% of GDP in FY25. Likewise, private investment has gone up to 9.1% of the GDP from 9.0% of the GDP.

Further, the National savings have increased to 14.1% of GDP in FY25, up from 12.6% in the previous year, primarily due to a increased availability of foreign savings.

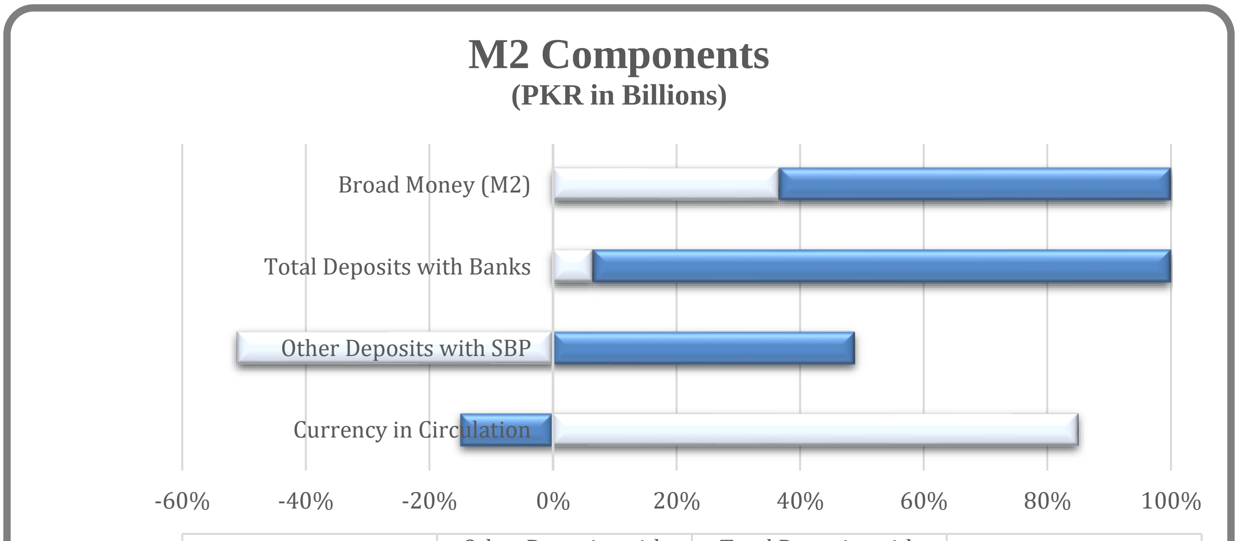
The table below shows the target investment and savings for FY26:

% of GDP (mp)	Fiscal Year 2025-26	Fiscal Year 2024-25	
	Target	Provisional	Target
Total Investment	14.7	13.8	14.2
A. Fixed Investment	13.0	12.0	12.5
i. Public	3.2	2.9	2.8
ii. Private	9.8	9.1	9.7
National savings	**14.3**	**14.1**	**13.3**
External resource Inflow	0.5	(0.5)	0.9

(Source: APCC)

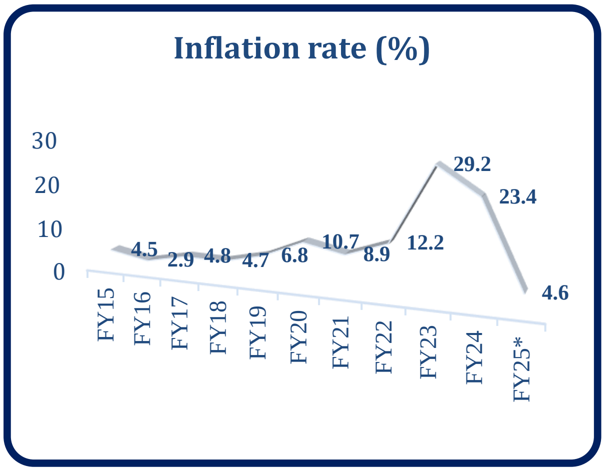
XII. MONETARY DEVELOPMENTS:

In FY25, the SBP gradually reduced the policy rate from 21% in July 2024 to 11.0% by June 2025, as decided in the Monetary Policy Committee ("MPC") meeting held on May 5, 2025. The SBP's primary objective was to curb escalating inflation. For most of FY25, the SBP maintained a tight monetary policy stance given that inflation reducing rapidly.



	Currency in Circulation	Other Deposits with SBP	Total Deposits with Banks	Broad Money (M2)
16-May-25	1,207,775	(12,032)	181,400	1,377,143
17-May-24	(211,816)	11,513	2,574,437	2,374,134

XIII. INFLATION:



	YoY	MoM	Jul-May FY25
CPI National	3.5	(0.2)	4.6
Food Inflation (Urban)	5.3	0.6	1.5
Food Inflation (Rural)	2.1	(0.1)	(1.1)
WPI	0.4	0.0	2.1
Core Inflation (Urban)	7.3	0.4	8.7
Core Inflation (Rural)	8.8	0.4	11.4
			(Source: PBS)

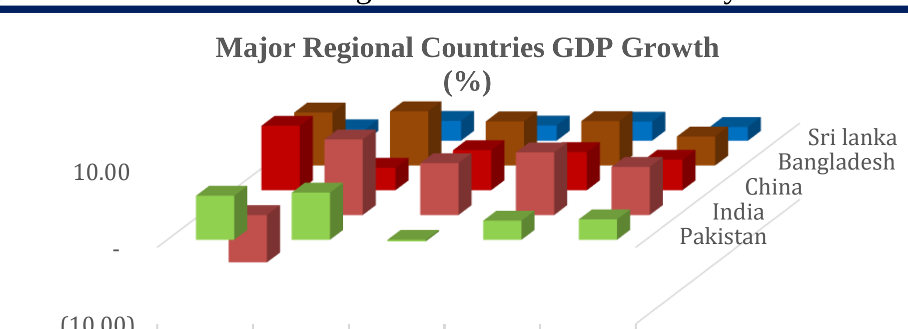
***Jul-May Period of FY25**

In a recent report, the PBS reported that the monthly rate of inflation has eased to 3.5% in May 2025 on a Y-o-Y basis in Pakistan, marking first M-o-M inflation rate hike in nearly 07 months.

Moreover, it was for the first time in last four Fiscal Years that the inflation rate plunged to a single digit. Such a decline can be attributed to the decrease in food inflation to a single digit in both the urban and rural areas of Pakistan in FY25.

XIV. GDP – GEOGRAPHICAL COMPARISON:

Pakistan's GDP growth has barely kept pace with its regional peers, trailing behind most neighboring economies and placing it only slightly ahead of Sri Lanka, which itself is recovering from a significant political and economic crisis. In contrast, countries like India have maintained robust growth, reaching 6.3% in 2025. China's growth has slowed due to weak aggregate demand, while Bangladesh recorded its lowest growth rate in the last five years. The disparity in GDP



	2021	2022	2023	2024	2025
Pakistan	5.77	6.18	(0.21)	2.51	2.68
India	(6.20)	9.90	6.80	8.20	6.30
China	8.45	2.95	5.25	5.00	4.00
Bangladesh	6.94	7.10	5.78	5.82	3.80
Sri lanka	1.50	2.60	2.00	2.50	1.80

performance highlights the urgent need for Pakistan to address the structural issues hindering its economic stability and robust growth.

XV. WAY FORWARD:

- Adopt a Green Pakistan Policy Framework – Focus on low interest rates, reduced debt servicing, and maintaining a market aligned exchange rate to stimulate domestic growth.
- Achieve Agricultural Export Surplus – Prioritize efficient production of key cash crops (rice, wheat, cotton) to boost exports and reduce reliance on imports.
- Keep policy rate marginally above inflation rates. As per the estimates of TA, a 4.6% interest rate cut would have been sustainable for the Pakistan's Economy.
- Rationalize Industrial Lending Rates – Offer competitive interest rates to industrial borrowers to encourage investment and expansion in the Manufacturing sector.
- Balanced Tariff Policy for Raw Materials - Low tariffs on raw material imports; high tariff on finished and semi-finished goods
- Results-Based Industrial Subsidies - Government subsidies for exports and industrial growth should be tied to quantifiable performance metrics. Regular third-party audits can ensure efficient allocation and discourage misuse.
- Ensure that the Pakistani rupee reflects its real market value based on fundamentals such as CAB, trade balance, and capital flows— instead of being artificially supported or suppressed through administrative controls.
- Formalize and Regulate the IT Sector – Enter mutual legal agreements to track foreign-registered IT businesses operating locally and bring them into the tax net to retain foreign exchange.
- Ensure Tax Compliance in Digital Platforms – Implement policy measures to identify IT businesses operating under foreign identities through digital banks and bring them into the formal tax net, thereby expanding the tax base and promoting fairness.
- Strengthen Fiscal Space through Stability – Improve the current account balance to stabilize the rupee, reduce inflation, lower interest rates, and reallocate public finances toward development.

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