**Governor's Speech for Pakistan Business Council (PBC) Event;** November 26, 2025

Dr. Zeelaf Munir, Chairperson, Pakistan Business Council

Former Governors, Dr. Ishrat Hussain, Dr. Shamshad Akhtar and Dr. Reza Baqir

Dr. Ali Cheema, Vice Chancellor, LUMS

Distinguished Guests, Ladies & Gentlemen,

**Assalam –o Alaikum and a very good morning to you all**!

I am delighted to be here today to attend the opening session of the "Dialogue on the Economy," organized by the Pakistan Business Council. I am also grateful for the opportunity to have attended the engaging panel discussion just now, where two of my predecessors at the State Bank of Pakistan, along with some of the leading economists in the country, shared their views on the challenges and opportunities facing our economy. I would also like to recognize the efforts of Pakistan Business Council in organizing such events. This event today has provided all of us a platform to participate in insightful discussions that will lead to practical and actionable policy prescriptions.

I think the theme of this session – *Achieving Sustainable Growth beyond Stabilization* – captures quite well where our economy stands today. To put things in context, we have been here before, multiple times, over the past two decades. I don't need to spend much time reminding you that after a few years of high growth, we have repeatedly faced macroeconomic crises. Every time, after a period of painful stabilization policies, we witnessed a short-lived revival in growth, followed by widening twin deficits, rising inflation, and declining FX reserves, leading us back to needing another round of stabilization.

**Ladies and gentlemen,**

Some of you may be wondering whether we are once again at a familiar juncture. To address these concerns, I have divided the rest of my talk into two parts. In the first part, I will discuss how this time is different from our previous episodes of boom and bust cycles. In the second, I will focus on what must be different if we are to break out of these repeated boom-and-bust cycles.

So, **how is this time different from previous periods of stabilization**? I want to highlight a few key points here.

**First**, the stabilization we are witnessing today has been achieved through disciplined and well-coordinated monetary and fiscal policies. More importantly, these policies have remained focused on sustaining macroeconomic stability on a more forward-looking basis, rather than becoming complacent after initial gains or easing prematurely – a mistake we have often made in the past. This time, we remain firmly committed to strengthening our fiscal and external buffers, while supporting a gradual but sustainable recovery in economic growth. I am sure you would agree that we need stronger buffers to protect the economy and our population from the ever-changing set of global and climate challenges as well as frequently occurring adverse shocks.

**Second**, our monetary policy has become more forward-looking over the past few years. Since monetary policy operates with long lags, by adopting a forward-looking approach, we allow transmission to work more effectively. The Monetary Policy Committee now regularly reviews projections for the next eight quarters, rather than focusing on just current data and near term projections. This shift reflects both enhanced analytical capacity and greater confidence in our in-house forecasting models. You may recall that two years ago when we projected inflation to fall back within the target range of 5–7 percent in the period ahead, there was widespread skepticism. Not only has inflation declined as per our projection, but is expected to remain within the target band over the medium term. Similarly, more recently our early assessments of a pickup in economic activity from January 2025 onwards were questioned – yet this momentum is now evident in official LSM and national accounts data. That said, we remain vigilant and are not becoming complacent.

**Third**, the recent buildup of our external buffers has been driven by strategic FX purchases, rather than the debt-heavy or short-term inflows that previously supported our gross FX reserves. Many of you will recall that between June 2015 and June 2022, external public sector debt rose from $55 billion to $100 billion – an average increase of about $6.4 billion per year. Yet despite this additional borrowing, the SBP's FX reserves declined over that period. In contrast, since June 2022, public sector external debt has remained broadly unchanged in absolute terms, resulting in a substantial decline in the external debt to GDP ratio – from 31 percent in June 2022 to 26 percent by June 2025. At the same time, we have rebuilt our FX reserves from a critically low $2.9 billion to around $14.5 billion, a nearly five-fold increase. Moreover, we have also reduced the SBP's forward liabilities to below $2 billion, down from a peak of $5.7 billion in February 2023. In short, this time the buildup in

FX reserves reflects not only a significant quantitative improvement but also a meaningful qualitative strengthening of our external position.

**Fourth**, despite challenges and skepticism, the government has achieved the ambitious – but necessary –fiscal consolidation over the past three consecutive years, even surpassing its primary surplus targets. This is something we have rarely witnessed in the past. As a result, our debt indicators have improved and become more sustainable. After rising by an average of 2.3 percentage points per year from June 2016 to June 2022, the public debt-to-GDP ratio has since declined by an average of 1 percentage point per year.

**Fifth** – there is a growing recognition that sustainable growth will remain elusive until policymaking is reoriented towards a long-term vision of achieving socioeconomic prosperity for our people instead of looking for short-term consumption led growth spurts of the past. This shift is reflected in the long-term reforms initiated by the government and the SBP under our home-grown policy framework. The government is now focusing on increasing tax to GDP ratio through increased documentation of the economy and widening the tax base. Energy sector reforms are also underway to reduce the cost of energy. While some progress has been made, much more remains to be done on the structural reforms front. On our part, the SBP is focused on continuing to address gaps in financial intermediation and increasing financial inclusion across the country. In nearly every meeting that we held with banks recently, we have asked them to increase lending to the private sector and redouble their efforts to mobilize deposits, especially from segments that remain outside the formal financial system.

**Ladies and gentlemen,**

Let me turn to the second part of my talk – about **what must be different this time**, if we are to prevent yet another boom-bust cycle. I acknowledge that continuing with stabilization policies indefinitely is neither desirable nor sustainable. Our economic growth has been on a steadily declining trajectory: from an average of 3.9 percent over the last 30 years, it dropped to 3.5 percent over the last 20 years, and further to 3.4 percent over the last five years. At the same time, our business cycles are shortening. As such, our current growth model simply cannot sustain a country of over 250 million people. In fact, it will not be an overstatement to say that Pakistan's economy stands today at an inflection point, where the focus must shift from short-term stabilization to a sustained and inclusive growth. But for this to happen, we need to re-think our economic model, and policymakers and our businesses need to take a long-term view about policies, regulations and business strategies. I understand that this is easier said than done, as there will be a short-term cost associated with this much-needed transformation. For policymakers, addressing structural issues through long-term reforms is imperative. And for our private sector, I would like to highlight a few points that it must consider.

**First**, our businesses must shift their focus from looking inward to looking outward, and compete on the global stage by producing goods that meet global demand and quality benchmarks. This will only happen if firms integrate into global value chains, modernize their production processes, and stop relying on shortcuts as a substitute for genuine competitiveness. The urgency is clear: rapid digitalization, the green transition, and major supply-chain realignments are transforming global production and trade. Vietnam, Malaysia, and Mexico show how much can be achieved when the private sector adapts to these shifts, instead of depending on state subsidies and the domestic market to drive their earnings.

Our own history shows that subsidies have consistently failed to deliver a sustainable increase in exports. Today, our fiscal constraints have tightened to the point where blanket subsidies are simply no longer feasible, and this dynamic is unlikely to change over the medium term. As a result, businesses that had long relied on these subsidies to serve the domestic market now find themselves in a sub-optimal position, with shrinking government support and weak global demand eroding both their revenues and profitability. But, I want all of you to note that Pakistan today also has a window of opportunity, with stronger engagement from partners like the US, China, and the Middle East. If our businesses can tap into these relationships, explore new markets, and invest in efficiency and innovation, we can position ourselves as a major part of the modern global economy, instead of operating on its margins.

This brings me to my **second** point, that our business community must invest in our most valuable asset – our people. Sustainable growth is impossible without an adaptable and skilled workforce, especially at a time when Pakistan's young population offers a demographic dividend that gives us an edge over many other countries. Our firms must invest in upskilling their employees in digital literacy, technical expertise, and managerial capabilities, aligning them with changing market needs. The private sector should also pursue partnerships and joint ventures abroad to facilitate technology transfer and knowledge sharing, and improving productivity and competitiveness at home. Our business houses, chambers of commerce, and trade associations must also collaborate, instead of competing in silos and attempting to kneecap each other in the power corridors. By co-investing in vocational training, innovation hubs, and supply-chain linkages, our businesses can achieve collective productivity gains.

**Third**, our businesses need to look beyond traditional bank financing and make greater use of domestic and global capital markets to meet their growing financing needs. By tapping equity and debt markets, both at home and abroad, businesses can diversify their funding sources, raise longer-term capital, and reduce their reliance on the domestic banking system. At the same time, our financial services industry must leverage the ongoing wave of digitalization, AI and machine learning to reorient their credit generation and deposit mobilization processes.

**Finally**, I want our large businesses – many of whom are members of the Pakistan Business Council – to take the time and effort to document their supply chains. This will benefit your firms over the long run, by streamlining your business operations; reducing supply bottlenecks; and generating better quality intermediate inputs in a cost-effective manner. For SMEs and other small stakeholders in the supply chain, the potential benefits range from accessing formal credit, to gradually scaling up their operations and pursuing efficiency gains of their own. Some of the large firms present here may also extend credit lines to their supply chain partners, in case lack of documentation is hindering their access to credit from banks and other financial institutions.

**Ladies and gentlemen!**

In conclusion, the path ahead is clear: we cannot just do more of the same and expect different results. We cannot achieve long-term sustainable economic growth, if our private sector cannot look beyond short-term profit margins, at the cost of long-term stagnation and global irrelevance. For our part, SBP and the government will continue to pursue structural reforms, strengthening fiscal and external buffers to improve resilience, and providing stability for our businesses to thrive. For our private sector, the opportunity is there to adapt to the rapidly changing world around us. I encourage you all to seize it: invest in productivity, look outwards, collaborate for efficiency, and anchor your business plans on the hard-earned economic stability we have achieved. Only by moving together can we transform the recent stability into sustainable prosperity for all.

With that, I would like to thank the Pakistan Business Council once again for inviting me to the event and to share my views with you all.

Thank you for your time!