



External Communications Department

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SBP Releases Annual Report on The State of Pakistan's Economy

State Bank of Pakistan (SBP) released the Annual Report on *the State of Pakistan's Economy* for the fiscal year 2024-25 today. According to the Report, a prudent monetary policy stance and continued fiscal consolidation strengthened macroeconomic stability in FY25. Moreover, favourable global commodity prices and IMF's Extended Fund Facility (EFF) further supported improvement in overall macroeconomic conditions.

In FY25, the real GDP growth edged higher, driven by services sector and a recovery in overall industrial activities. This was despite decline in the production of important crops and a contraction in large-scale manufacturing. In tandem with the expansion in economic activity, imports also increased. On the other hand, confluence of softening global food prices, uncertain global trade environment, and rising geopolitical tensions restrained export growth in FY25. Nevertheless, strong growth in workers' remittances more than compensated for the expansion in the trade deficit, leading the current account to post a notable surplus in FY25, the Report added. The large surplus in the current account, together with increased external inflows from multilateral and bilateral creditors, induced stability in the FX market and boosted SBP's FX reserves, the Report added.

The Report notes that the government's continued fiscal consolidation efforts and a sizeable increase in SBP profit reduced the fiscal deficit to a nine-year low in FY25, while the surplus in the primary balances exceeded the budget estimate for the second consecutive year. The Report highlights that a cautious monetary policy stance and fiscal consolidation kept domestic demand in check during FY25. This, alongside ample supply of food commodities, a stable exchange rate, benign global commodity prices, and positive outcome of ongoing energy sector reforms contributed to the steep disinflation during FY25. Inflation declined from 23.4 percent in FY24 to an eight-year low of 4.5 percent in FY25. The sharp fall in inflation, its improved outlook and strengthened external account position, led the Monetary Policy Committee to reduce the policy rate by a cumulative 1,100 bps between June 2024 and June 2025.

The Report also highlights that various structural issues have led to weakening growth potential of the country, including the low savings rate that has impaired the country's growth potential by inhibiting both private and public investment. Against this backdrop, the Report includes a special chapter on 'The Challenge of Low Savings in Pakistan' which highlights a range of factors, including low per capita income, high inflation rate, large fiscal imbalance, a large informal economy, high youth dependency, in addition to cultural and behavioural constraints, have undermined savings in Pakistan. Particularly, the persistently large fiscal deficit in past years has constrained both public and private savings and investment in the country. Moreover, the government's continued reliance on banks for deficit financing has given rise to a strong sovereign-bank nexus in Pakistan, which often crowds out private sector credit.

In addition to these long-standing issues, the rising frequency of climate events has not only disrupted productive activities, but also increased stress on fiscal and external accounts, the Report added. Furthermore, frequent episodes of political and economic instability, high tax rates, complicated tax rules and regulations, logistic bottlenecks, and cumbersome regulations and a challenging law and order situation has affected the investment climate in the country over time. The Report notes that concerted policy efforts and reforms are required to address these structural issues and put the country on a high growth trajectory on a sustainable basis.

The Report highlights that overall stable macroeconomic conditions and a prudent monetary and fiscal policy mix have revived confidence of businesses and households. Amid stable external account position, continued fiscal consolidation and implementation of reforms under the IMFs' EFF program, the three major international credit ratings agencies upgraded Pakistan's credit ratings during April to August 2025. However, the flood-induced damages to agriculture and infrastructure pose some risks to overall macroeconomic outlook. The floods



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inundated an extensive area under cultivation of major *kharif* crops, which may affect agriculture growth. Floods may also disrupt supply chains and reduce availability of agricultural raw material for agro-based industries. However, the lagged impact of significant reduction in the policy rate is expected to support momentum in economic activity. Hence, the real GDP growth is expected to remain close to the lower end of the earlier projected range of 3.25 – 4.25 percent during FY26.

The moderate expansion in economic activity and flood-related shortages of agricultural commodities may lead to an expansion in imports. On the other hand, the slowdown in global demand and damages to agricultural produce are expected to keep exports contained. Nonetheless, the continuing momentum in workers' remittances is likely to keep current account deficit in the range of 0 – 1.0 percent of GDP in FY26. Furthermore, the flood-induced shortages of perishable food commodities may have a transitory impact on food inflation. Additionally, food and energy inflation is also likely to move up due to the phasing out of favourable base effect. These factors may lead inflation exceeding the upper bound of the medium term target range of 5.0 – 7.0 percent in the second half of FY26. However, continued restrained domestic demand, alongside a benign global commodity price outlook, are likely to keep underlying inflation in check and help guide the inflation to medium-term target range in FY27.

For details: <https://www.sbp.org.pk/reports/annual/aarFY25/Annual-index-eng-25.htm>
