ECD/M&PRD/PR/01/2025-27 April 28, 2025

SBP Releases Half Year Report FY25 on The State of Pakistan's Economy

Pakistan's macroeconomic conditions improved further in H1-FY25, according to *the State of Pakistan's Economy, Half Year Report* FY25, released today by the State Bank of Pakistan (SBP). The report noted that headline inflation fell sharply, the current account balance turned into a surplus, and the fiscal deficit was contained to the lowest level since FY05. The calibrated monetary policy stance, fiscal consolidation, benign global commodity prices together with approval of IMF's Extended Fund Facility (EFF) program mainly underpinned these favorable outcomes, the report said. The upgrade of the country's credit rating by international agencies was mentioned as recognition of the improving macroeconomic environment.

The report highlighted that inflationary pressures have receded notably, as headline inflation reached a multi-decade low of 0.7 percent by March 2025. This steep disinflation was attributed to a confluence of factors, including tight monetary policy stance and fiscal consolidation that kept the domestic demand in check, improved supply conditions, respite in energy price adjustments, and subdued international commodity prices. As a result of cooling inflationary pressures and improving inflation outlook, the SBP reduced the policy rate by 1000 basis points from June 2024 – February 2025. The report further noted that the consequent ease in financial conditions, coupled with a slight uptick in economic activity and ADR-related lending, contributed to a substantial growth in private sector credit during H1-FY25.

The moderation in real GDP growth was attributed to lower production of important *kharif* crops and contraction in industrial activity during H1-FY25. A broad-based decline in *Kharif* crops was seen to be caused by falling area under cultivation and lower yields. The report pointed to the key role of agriculture policy uncertainty, last year's low crop prices, unfavorable weather conditions, and lower use of certified seeds and other inputs for this lackluster performance. It also mentioned that lower contraction in industry during H1-FY25 compared to the previous year was supported by small scale manufacturing, utilities and slaughtering, whereas mining & quarrying, construction and large scale manufacturing contributed negatively. Moreover, the report observed that the services sector performed relatively better in H1-FY25, compared to the same period last year.

According to the report, a steady increase in exports and workers' remittances during H1-FY25 outweighed a notable increase in imports, leading to a surplus in the current account balance. These developments, together with the disbursement of the first tranche under the IMF's EFF and a slight pick-up in private inflows, were noted to have strengthened SBP's FX reserves.

The report also includes a special chapter titled 'Pakistan's Low Competitiveness: A Case for Investing in Productivity'. The analysis underscores that weak growth in labor productivity and total factor productivity has adversely affected the country's economic competitiveness over time, which has contributed to the frequent boom-bust cycles. The chapter finds that Pakistan's performance over time across most drivers of productivity and underlying structural factors has been notably weak, when compared to peer economies. Therefore, emphasis is placed on addressing the macroeconomic and structural constraints to productivity growth. Different box items in various chapters of the report highlight the structural issues in the economy, with relevant recommendations in the light of cross-country experiences.

The report notes a significant improvement in the outlook for inflation and external sector. In view of steeper-than-anticipated disinflation, combined with an adequately tight monetary policy stance, continued fiscal consolidation and an ease in global commodity prices, the SBP projects average inflation for FY25 to fall in the range of 5.5 – 7.5 percent. Similarly, the current account balance is now projected to be in the range of -0.5 to 0.5 percent of GDP. The report expects the strong momentum in workers' remittances and exports to continue outpacing the increase in imports. This is expected to cushion against lower financial inflows and help strengthen external buffers. The SBP's projection for real GDP growth remains unchanged in the range of 2.5 – 3.5 percent. However, downside risks in the form of additional fiscal consolidation and less than expected wheat harvests were highlighted.

The report also details risks to the medium-term outlook, largely stemming from global trade disruptions and related commodity price volatility in light of the reciprocal tariffs, changing geo-political situation, adjustments in administered energy prices, response of domestic aggregate demand to various fiscal measures, and spillover of movements in international currencies on the local currency.

For details:
https://www.sbp.org.pk/reports/half/arFY25/Half-index-eng-25.htm

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