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Economic Review

1 Economic Review

1.1 Overview¹

A prudent monetary policy stance and continued fiscal consolidation helped macroeconomic stability to gain traction in FY25. Inflation dropped sharply, while real GDP growth increased moderately compared to the previous year. The current account balance (CAB) posted a record surplus, which induced stability in foreign exchange market and supported build-up of foreign exchange reserves. Fiscal deficit fell to a multi-year low, whereas primary surplus exceeded the budget target for the second consecutive year (**Table 1.1**). The tailwinds from favourable global commodity prices and approval of IMF's Extended Fund Facility (EFF) further supported these desirable outcomes.

Almost a consistent downtrend in inflation from January 2024 and improved external account position allowed the Monetary Policy Committee (MPC) to reduce the policy rate from June 2024 onwards. Meanwhile, fiscal policy continued to remain contractionary with a view to build fiscal buffers and contain the pace of public debt accumulation. In this backdrop, the reduction in the policy rate, together with benign global commodity prices, supported the gradual recovery in economic activity during FY25, with higher growth in H2-FY25 compared to the first half.

The uptick in real GDP growth in FY25 was led by expansion in services sector and industrial activities; the latter was mainly on account of higher value addition by electricity, gas and water supply and construction that more than offset the decline in large-scale manufacturing (LSM). However, the growth in agriculture sector slowed to multi-year low, primarily due to decline in production of important crops (**Figure 1.1**), with a

Selected Economic Indicators

Table 1.1

	FY23	FY24	FY25
<i>Growth rate* (percent)</i>			
Real GDP ^a	-0.2	2.6	3.0
Agriculture	2.2	6.4	1.5
Industry	-3.9	-1.2	5.3
o/w LSM	-9.8	0.9	-0.7
Services	0.04	2.3	3.0
National CPI (period average) ^a	29.2	23.4	4.5
National CPI (yoy, June)	29.4	12.6	3.2
Private sector credit ^b	0.6	6.1	12.2
Money supply (M2) ^b	15.6	16.0	13.7
Exports ^{b#}	-14.2	11.1	4.3
Imports ^{b#}	-26.3	0.9	11.2
Tax revenue – FBR ^c	16.7	29.9	26.1
Exchange rate (end-period) app (+)/dep (-) ^{b,*}	-28.4	2.7	-1.9
Policy rate (end-period) ^b	22.0	20.5	11.0
<i>million US\$</i>			
SBP's reserves (end-period) ^b	4,445	9,390	14,506
Workers' remittances ^b	27,333	30,251	38,300
Current account balance ^b	-3,275	-2,072	2,113
<i>percent of GDP</i>			
Fiscal balance ^c	-7.8	-6.9	-5.4
Primary balance	-1.0	0.9	2.4
Gross public debt	74.9	67.7	70.8
Current account balance	-1.0	-0.6	0.5
Investment ^a	14.0	13.2	14.3

* The numbers relating to real GDP for FY23, FY24 and FY25 are on constant basic prices of 2015-16 and represent final, revised, and provisional estimates, respectively.

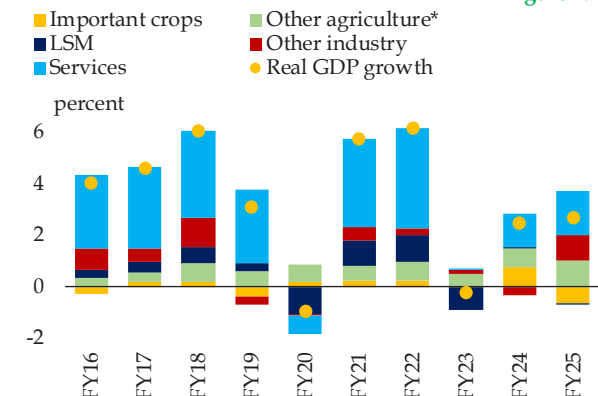
Sources: ^a PBS; ^b SBP; ^c MoF; *mark-to-market; #goods only.

broad-based fall in yields and lower area under cultivation, except for sugarcane and rice.

The decline in yields reflected the impact of several unfavourable factors. First, subdued crop prices in FY24 and rising input costs during FY25 squeezed farmers' income, leading to lower input usage, especially fertilizer. Second, unfavourable climatic conditions – erratic rainfall during *Kharif* season, prolonged dry spell during *Rabi* season, canal water shortages and above average temperatures – prevented timely sowing of

¹ The analysis and projections presented in this report were prepared on data outturns for FY25 and finalized in the second week of October 2025, using data and information as of then.

Contribution to Real GDP Growth



*including livestock

Source: PBS

important crops, particularly wheat, cotton and rice. Third, continued shortages of certified seeds of important crops (except rice) led the farmers to use low quality seeds that also impacted crop yields. Moreover, farmers shifted from sowing cotton and wheat towards other (competing) crops including oilseeds, pulses and fresh vegetables due to uncertainty surrounding the minimum support price (MSP). The resultant increase in output of other crops, nevertheless, partly neutralized the impact of decline in output of important crops. Further support came from increase in livestock in FY25.

Industrial activities recovered in FY25 after a consistent decline during the previous two years. Within the industry, the growth in electricity, gas and water supply mainly reflected the impact of

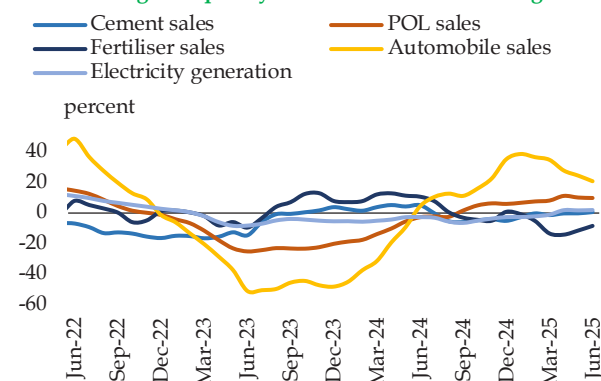
higher subsidies, while a sizeable increase in development spending shored up construction activity during FY25. However, private construction activity remained subdued amid elevated input costs and increase in property taxes.

The LSM output contracted by 0.7 percent in FY25, compared to a slight increase in the previous year. Although the output of twelve out of twenty-two LSM sub-sectors increased, sharp decline in the output of other sub-sectors pulled down the overall LSM growth. Specifically, the decline in furniture alone dragged the LSM growth by 1.6 percentage points. The overall contraction in LSM, nevertheless, reflected the impact of moderate domestic demand (Figure 1.2) and higher input costs. The fiscal consolidation, lagged impact of tight monetary policy stance and prudential measures continued to keep the domestic demand contained in FY25. In addition, depressed farm incomes also weighed on domestic demand.

Meanwhile, a moderate recovery in global demand, fall in energy prices, stability in exchange rate and lower interest rates supported expansion in output of major industries including textiles, pharmaceuticals, petroleum products and automobiles during FY25. Notwithstanding the improvement in selected industries, a closer look at the past few years' performance shows that production in around half of the LSM sub-sectors

Trends in High Frequency Indicators*

Figure 1.2

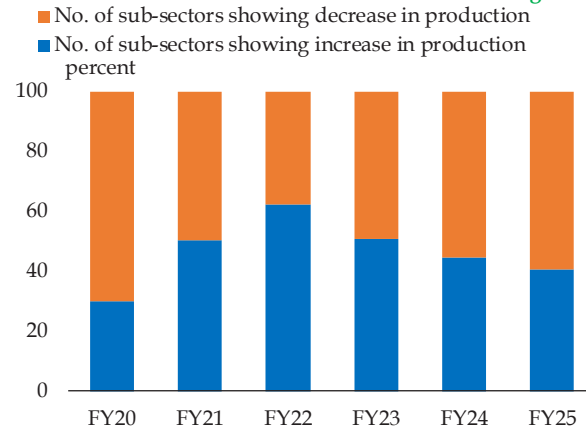


* 12-month moving averages

Sources: APCMA, OCAC, NFDC, PAMA, and NEPRA

LSM Performance Relative to FY19

Figure 1.3



Sources: PBS and SBP staff calculations

has not reached the pre-pandemic levels of FY19 (Figure 1.3).

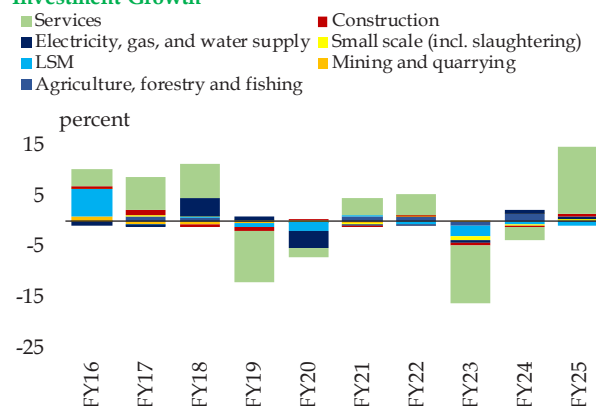
From the expenditure-side, while household consumption remained dominant contributor to real GDP, gross fixed capital formation saw an uptick in FY25. Particularly, general government accounted for over half of the expansion in investment in FY25. Moreover, private investment also moderately increased, which mainly remained concentrated in services sector. The private investment in manufacturing sector, on the other hand, declined for the fourth consecutive year in FY25, which partly explains the lacklustre performance of the LSM during the past few years (Figure 1.4).

The moderate expansion in economic activity led to a concomitant increase in imports, primarily driven by higher volumes amid benign global commodity prices. The decline in output of important crops also added to import requirements, with raw cotton alone accounting for around one-third of the increase in import bill during FY25.

On the other hand, the combined effect of softening global food prices, uncertain global trade environment amid hikes in trade tariffs, and rising geopolitical tensions restrained export growth in FY25. Moreover, increased competition in the international rice trade adversely affected export unit values and hence Pakistan's rice exports. Nonetheless, driven by an uptick in global demand, export of textiles recovered in FY25. Encouragingly, textile exports benefited from increase in both volumes and unit prices, reflecting better pricing power of textile firms.

This also reflects improved competitiveness, as some of the large players in the textile industry have recently started investing in retrofitting of their production infrastructure to ensure greater compliance with global sustainability standards and achieve increased cost efficiency (Box 5.2). Beyond textiles, exports of other manufactures including pharmaceuticals, plastic and engineering goods also saw a notable increase

Sectoral Breakdown of Real Public and Private Investment Growth **Figure 1.4**



Source: PBS

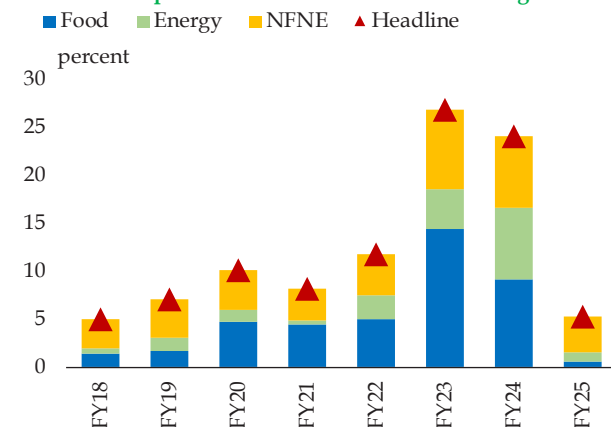
during FY25. Similarly, export of services, led by surge in ICT exports, maintained strong uptrend.

On balance, the trade deficit in goods & services, widened during FY25. The deficit in the primary income account remained almost unchanged at the previous year's level as repatriation of profits and dividends maintained the trend, while interest payments on external loans declined marginally. Nevertheless, a strong growth in workers' remittances more than compensated for the widening in trade deficit, turning the current account into a notable surplus in FY25, first in fourteen years and the highest in twenty-two years.

A mix of supportive domestic and global factors propelled workers' remittances in FY25. On the domestic front, various incentives introduced by the government and SBP aimed at reducing transaction cost, together with exchange rate stability, encouraged inflows through formal channels. Moreover, robust growth in host countries, particularly in Gulf region, bolstered labour demand. At the same time, falling cost of living in the host countries strengthened workers' real income, providing further impetus to remittances during FY25.

The sizeable current account surplus induced stability in the foreign exchange market and facilitated SBP to make substantial FX purchases. Although portfolio investment saw net outflows,

Inflation Composition

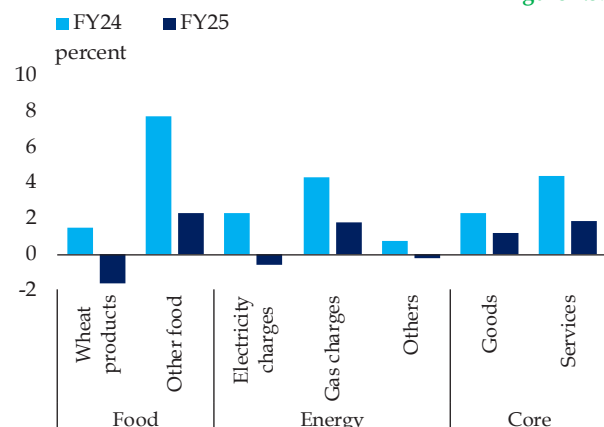


Source: PBS

foreign direct investment (FDI) also ticked up during FY25. Additionally, the approval of IMF's EFF in July 2024 unlocked external inflows from other multilateral and bilateral creditors. These together boosted SBP's FX reserves to US\$ 14.5 billion at end-June 2025, up from US\$ 9.4 billion in FY24.

The contained domestic demand amid continued tight monetary policy stance and fiscal consolidation, alongside ample supply of key food commodities, a stable exchange rate, benign global commodity prices, and positive outcome of ongoing energy sector reforms contributed to a sharp disinflation during FY25. The average national CPI (NCPI) inflation dropped from 23.4 percent in FY24 to an eight-year low of 4.5 percent in FY25, below the medium-term target range of

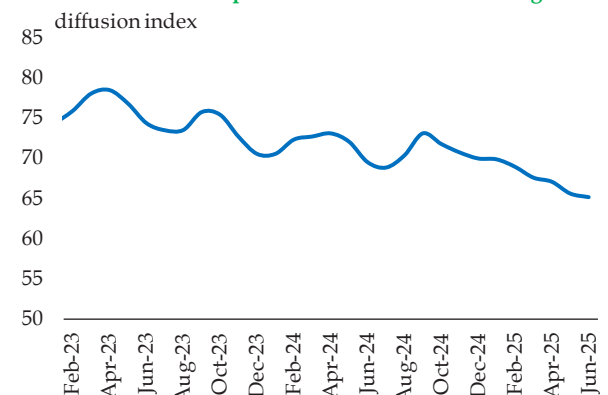
Drivers of Lower Inflation in FY25



5.0 – 7.0 percent. The decline was broad-based, with major contribution from a sharp fall in food prices.

More specifically, the collapse in prices of wheat and its products alone accounted for about one-fifth of the decline in urban inflation during FY25 (Figure 1.5a and 1.5b). Higher import volumes and bumper wheat harvest in FY24, along with the government's decision to discontinue support price and procurement regime in FY25 pulled down prices of wheat & wheat products to a three-year low. Moreover, delay in energy price adjustments, the efforts to improve operational performance of the power sector transmission & distribution, in addition to softening global oil prices, steepened the downtrend in energy inflation during FY25.

Consumer Inflation Expectations*



* 3-month moving average

Source: SBP

Core inflation nearly halved in FY25 compared to FY24, reflecting fading second-round effects of the previous shocks to food and energy prices, subdued domestic demand, stable exchange rate and anchored inflation expectations. Importantly, inflation expectations of households, which remained stubbornly elevated during the past few years, considerably eased during FY25 (Figure 1.6). However, the pace of decrease in core inflation somewhat moderated in H2-FY25, indicating sticky nature of underlying inflationary pressures. In this context, Box 3.2 highlights the need to address the structural factors that entrench persistence in core inflation.

The greater-than-expected decline in inflation, its improved outlook and strengthened external account position, allowed the MPC to reduce the policy rate in all its six meetings held between June 2024 and January FY25, with a cumulative reduction of 1,000 basis points (bps). However, the concerns over rigidity of core inflation, escalating uncertainty surrounding global trade tariffs, and heightened geopolitical tensions, led the MPC to adopt a cautious approach during March to June 2025, reducing the policy rate by only 100 bps in the meeting held in May 2025.

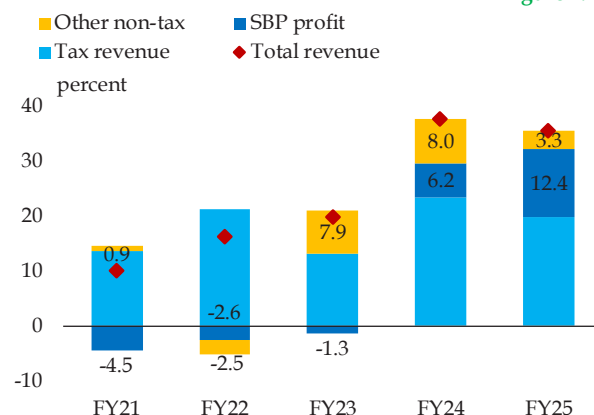
The government's fiscal consolidation efforts, moderation in interest payments, and a sizeable increase in SBP profit improved fiscal balance during FY25. Fiscal deficit fell to a nine-year low of 5.4 percent of GDP, lower than the budget target, while the primary surplus rose to 2.4 percent of GDP from 0.9 percent in the previous year. A sharp increase in revenues mainly underpinned this improvement.

Total revenue rose to 15.8 percent of GDP in FY25 from 12.6 percent in the previous year. Tax and non-tax revenues equally contributed to the increase in revenue (**Figure 1.7**). Federal tax collection reached a multi-year high during FY25, with almost equal contribution from direct and indirect taxes in terms of GDP. Tax reform efforts including rationalizing of tax exemptions, withdrawal of preferential treatment and increase in rates/duties helped a strong growth in tax collection, despite a steep reduction in inflation and lacklustre performance of LSM. Moreover, provincial tax revenue also inched up, mainly helped by increase in collection of GST from services.

The strong growth in revenue, coupled with moderation in interest payments, provided fiscal space for increasing development spending during FY25, after exhibiting restraint in the previous year. Specifically, provincial development spending increased markedly, mainly directed towards construction, transport and agriculture projects. Although non-interest current expenditures also increased, the pace of overall increase in spending slowed due to

Contribution to Revenue Growth

Figure 1.7



Source: MoF

government's policy efforts. These included introduction of austerity measures to contain expenses for running of the civil government, and abolition of gas subsidies for consumers and fertilizer plants in continuation of policy shift towards rationalization of untargeted subsidies.

Notwithstanding the reduction in fiscal deficit, public debt-to-GDP ratio increased to 70.8 percent in FY25, from 67.7 percent in the previous year. This increase largely reflected slower growth in nominal GDP. Similar to the previous year, the government mobilized most of its funding requirements from domestic sources, notwithstanding increased availability of external inflows towards the end of FY25. The government mostly mobilised domestic financing through long-term securities (PIBs and Sukuk) and made retirement in short-term papers (T-bills). In a declining interest rate environment, the market also preferred to lock-in funds in the long-term government securities. This helped lengthen the maturity profile of public debt, besides lowering the rollover risk. Moreover, the increase in tax revenue and foreign exchange earnings, together with lower interest rates, strengthened the country's debt repayment capacity in FY25.

Lower fiscal deficit and greater availability of non-bank and external financing, reduced the government's borrowing requirements from the scheduled banks. This, together with continued retirement of commodity operations financing and credit to public sector enterprises (PSEs), slowed

the pace of expansion in net domestic assets (NDA) of the banking system during FY25, despite doubling of private sector credit (PSC). The increase in both working capital and fixed investment loans contributed to the expansion in PSC. In addition to the lower cost of borrowing, slight uptick in economic activity, elevated input costs, rising cash flow constraints in some sectors, along with banks' efforts to keep their advance-to-deposit ratio (ADR) above 50 percent at end-December 2024 to avoid ADR-based taxation, also contributed to the surge in PSC during FY25.

The deceleration in NDA more than offset a substantial expansion in net foreign assets (NFA) amid improvement in external accounts, slowing the broad money growth to 13.7 percent in FY25 from 16.0 percent in the previous year. On the liabilities side, lower deposit mobilisation in line with the steep reduction in interest rates, explains the deceleration in M2 growth, while currency-in-circulation (CiC) expanded sharply.

While the overall macroeconomic conditions have stabilized, a sustained increase in economic growth requires concerted policy efforts and reforms to address the structural issues that have undermined the growth potential of the country. The trend growth in Pakistan has been on a decline, indicating the country's weakening growth potential (Figure 1.8). This is mainly explained by the declining trend in industry and services, while the value addition by agriculture

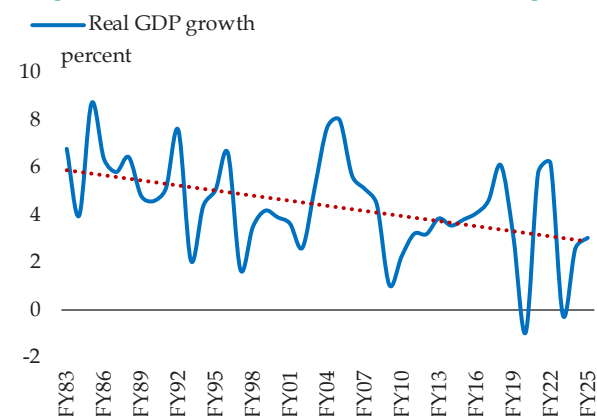
has seen a modest increase over the years (Figure 1.9).

A range of factors has led to this undesirable outcome. Among these, low domestic savings is one of the weakest links in Pakistan's growth paradigm. In this regard, Chapter 6 of the report presents a detailed review of factors responsible for low savings in the country. The analysis shows that low per capita income, high inflation rates, large fiscal imbalances, a large informal economy, weak financial intermediation, and high youth dependency have restrained savings in Pakistan. Low public and private savings both contributed to this lacklustre performance, which has in turn, led to low investment in the country.

In effect, persistently large fiscal deficit in past years has undermined the required expansion in both public and private savings and thus investment (Figure 1.10a and 1.10b). The situation is akin to debt spiral, where total revenues barely meet interest and non-interest current spending needs, squeezing fiscal space for development spending, which in turn constricts the country's debt repayment capacity. To put things into perspective, interest payments remained higher than development spending in terms of GDP over the past two decades (Figure 1.11). On the other hand, chronic inefficiencies in PSEs added further drag on scarce fiscal resources. This explains the anaemic level of public savings and hence declining public investment-to-GDP ratio, which

Long-Term Trend in Real GDP Growth

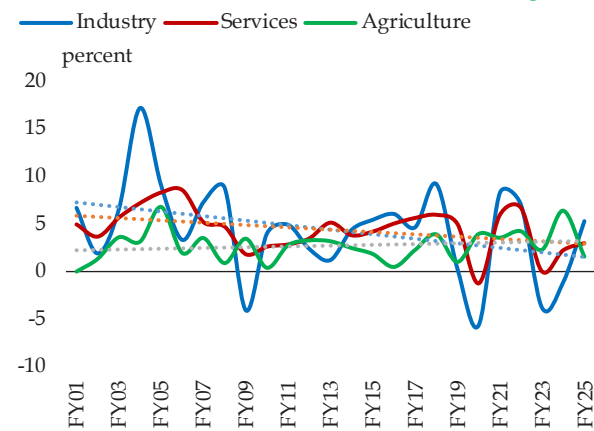
Figure 1.8



Source: PBS

Sectoral Growth Trends

Figure 1.9



Source: PBS

Trends in Savings

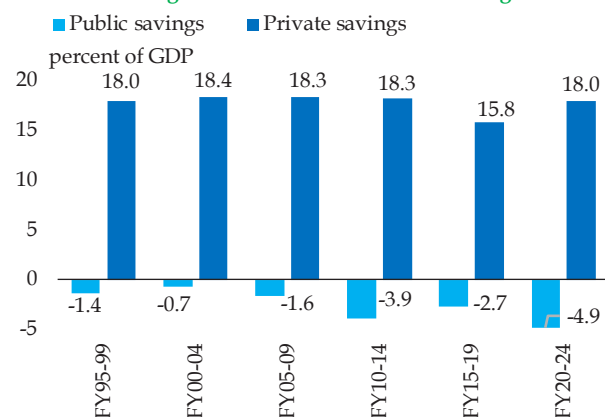


Figure 1.10a

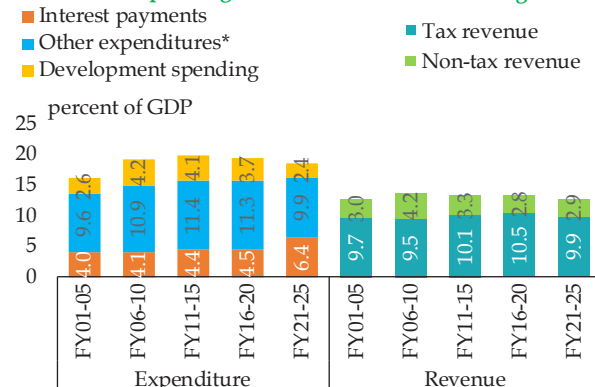
Sources: MoF, WDI, IMF and SBP staff calculations

has undermined the quality of human and physical capital in the country.

The financing of perpetually large fiscal deficit also remained a source of concern. The inadequate availability of external inflows and non-bank financing has given rise to a strong sovereign-bank nexus in Pakistan, which often crowds out private sector credit. The persistently elevated financing requirements of the government have made banks complacent, where banking system enjoys high stream of profits by investing in government securities, rather than lending to private sector (Figure 1.12). The crowding out of private sector is one of the leading factors underlying the Pakistan's lowest credit-to-GDP ratio among peer economies (Figure 1.13). Hence, the low financial development further discourages savings and investment.

Government Spending and Revenue Trends

Figure 1.11



*This includes statistical discrepancy

Source: MoF

Trends in Investment

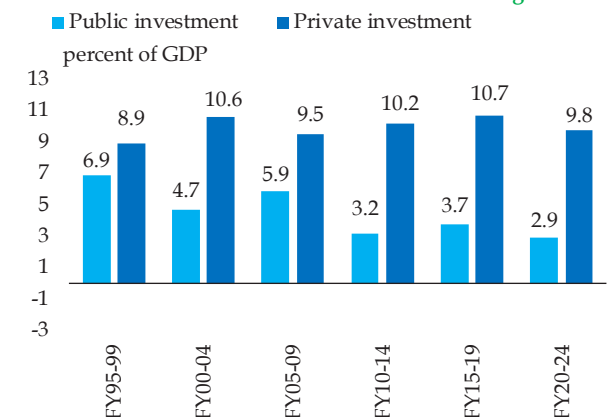


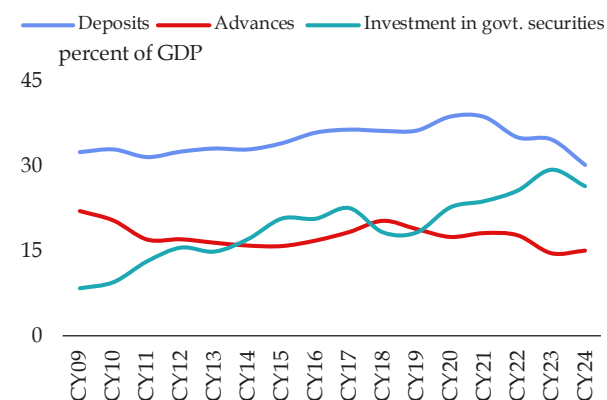
Figure 1.10b

In addition to these deep-rooted challenges, rising frequency of climate events have further constrained growth potential and increased stress on fiscal and external accounts, besides amplifying dependence on food imports in the context of food security. Similarly, unfriendly business environment marked with frequent episodes of political and economic instability, high tax rates, complicated tax rules and regulations, logistic bottlenecks, cumbersome regulations and challenging law and order situation have affected investment climate in the country, particularly for manufacturing sector.

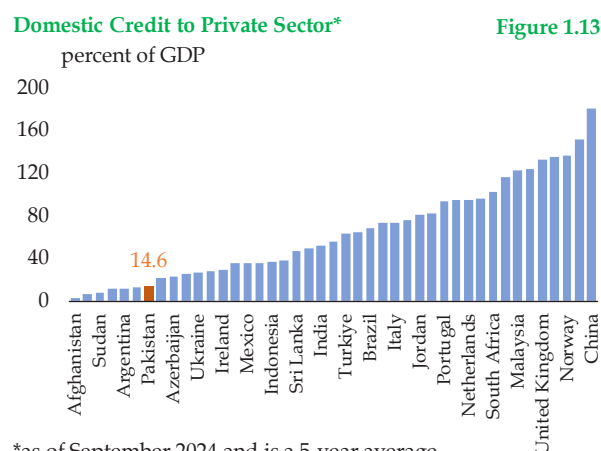
The resulting low technological upgradation in manufacturing and narrow product base have not only hampered the country's ability to achieve a sustained increase in export earnings, it has also increased dependence on imports. Although

Scheduled Banks' Deposits, Advances and Investment in Government Securities

Figure 1.12



Sources: SBP and PBS



workers' remittances often help in financing imports, increasing foreign exchange earnings through exports can indeed reduce country's dependence on external borrowing as well as vulnerabilities to external shocks.

This situation warrants a holistic approach to further strengthen economic resilience for putting the economy on a high growth trajectory on a sustainable basis. This involves multi-pronged reform agenda to encourage savings and investment, and ensure efficient allocation of resources, through coordinated policy reforms, as well as initiation of governance reforms to strengthen institutions, simplification of regulatory framework, and improving market structure to promote competition in goods and services sectors.

In this context, fiscal policy reforms assume centre stage. This entails continuation of fiscal consolidation, through both revenue and spending reforms and creating fiscal space for building infrastructure to support sustainable growth. On the revenue side, policy efforts should focus on widening the tax base through rationalizing exemptions, eliminating any disparities in tax regime that discourage investment in manufacturing sector, improving tax administration by simplification of tax laws and procedures, and increasing the documentation of the economy.

As regards expenditures, enhancing coordination between various tiers of the government – federal, provincial and local – may help in enhancing spending efficiency for better allocation of scarce resources. Moreover, there is a need to minimize PSE losses by improving operational performance of these entities, introducing governance reforms and expediting privatization. Similarly, introducing targeted subsidies in the power sector will not only lower fiscal spending needs but will also help reduce accumulation of circular debt.

The government has already initiated reforms to contain circular debt. Some of the important policy interventions include timely adjustment of energy tariffs to ensure cost recovery, early termination of inefficient plants to contain capacity payments, and stimulating grid demand. In this regard, **Box 3.1** suggests various policy options based on country experiences to revive electricity demand for national grid and help further lower the burden of capacity payments.

These reforms would enable the government to achieve fiscal and debt sustainability (**Box 4.1**), reduce budgetary borrowing requirements, improve public debt profile (**Box 4.2**), help build fiscal buffers to withstand economic shocks and weaken the sovereign-bank nexus. The resultant increase in public savings will crowd-in private savings as well.

Similarly, the reforms in agriculture commodity market, the discontinuation of MSP and commodity procurement, need to be supplemented with the establishment of wholesale markets to eliminate farmers' exploitation at the hands of middle-men, and ensure efficient market-based commodity trading. Further, both import and export of agriculture commodities should also be de-regulated for creating competitive market and better price discovery. This will also help attract much needed investment, particularly for developing climate-resistant high-yielding crop varieties, required to unlock the growth potential of agriculture sector.

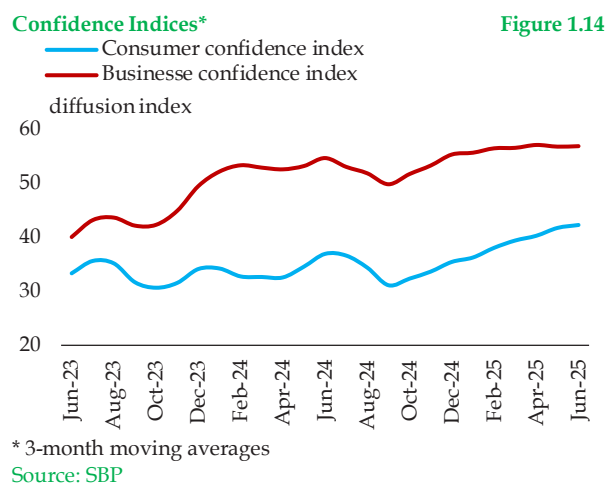
Additionally, efficient management of irrigation water can help mitigate repercussions of climate-change for agriculture productivity (**Box 2.1**). Similarly, the country need to leverage its large proven mineral reserves to accelerate growth (**Box 2.2**). Moreover, tourism sector of the country also offers significant potential to spur economic growth and employment (**Box 2.3**).

In external sector, while government's recent policy initiative to remove anti-export bias will help improve export competitiveness, the scope of these efforts need to be broadened to include non-tariffs barriers (NTBs) and para-tariffs (**Box 5.1**). Furthermore, expanding production capacity of critical industrial inputs – for instance, petrochemicals, will not only enhance export competitiveness but will also reduce import dependence (**Box 5.3**).

1.2 Economic Outlook

Pakistan's macroeconomic conditions were broadly stable at the start of FY26. The macroeconomic stability, alongside a cautious monetary policy stance revived confidence of businesses and households (**Figure 1.14**). Meanwhile, stable external account position, continued fiscal consolidation and implementation of reforms under the IMF's EFF program led the three major international credit rating agencies to upgrade Pakistan's credit rating during April to August 2025.² However, the flood-induced damages to agriculture and infrastructure pose risks to overall macroeconomic outlook.

The floods submerged large swathes of land in two provinces of Pakistan – KPK and Punjab, causing widespread losses to human lives, agriculture produce and infrastructure. The floods specifically inundated extensive area under cultivation of major *kharif* crops – rice, cotton, maize and sugarcane. While the post-flood soil enrichment may partly offset these losses by improving yields of *Rabi* crops, the overall



agriculture output may be significantly affected. Moreover, the floods may also disrupt supply chains, weaken domestic demand and reduce availability of agriculture raw materials for agro-based industries.

However, the lagged impact of significant reduction in the policy rate is expected to maintain momentum in economic activity. A visible increase in high-frequency indicators including sales of automobiles, cement, POL products and import volumes in Jul-Aug FY26 lends credence to this view. Moreover, the planned increase in development spending and the post-flood reconstruction efforts are likely to support construction activity during FY26. Incorporating these developments, SBP projects the real GDP growth to remain close to the lower end of the earlier projected range of 3.25 – 4.25 percent during FY26.

The flood-induced losses to infrastructure have increased spending needs for undertaking rehabilitation and reconstruction of the affected areas. However, continued fiscal consolidation measures, including the efforts to contain energy sector circular debt and targeted power subsidies, together with moderation in debt servicing are expected to contain spending growth.

² Fitch Ratings upgraded Pakistan's sovereign credit rating from CCC+ to B- with a Stable outlook in April 2025. S&P Global Ratings followed in July with a similar upgrade from CCC+ to B-. In August 2025, Moody's raised Pakistan's rating from Caa2 to Caa1, citing improved external position under the IMF supported program. Source: Fitch Ratings, Moody's, and S&P Global.

On the revenue side, the ongoing tax reforms and the efforts to increase documentation of the economy are expected to strengthen tax collection. This, together with sizeable transfers of SBP profit in August 2025, are expected to bolster overall revenue growth. In view of these developments, SBP projects fiscal deficit to fall in the range of 3.8 – 4.8 percent of GDP in FY26.

The expansion in economic activity and expected shortages of agricultural commodities may translate into a concomitant increase in imports in FY26. On the other hand, the slowdown in global demand and damages to agriculture produce are expected to weigh on exports. However, lower US tariff on Pakistan's exports relative to the competitors may partly offset the fallout of floods and adverse global developments. Further, the workers' remittances are maintaining the momentum and likely to partly offset the deterioration in trade deficit. Incorporating these trends, SBP projects CAD in the range of 0 – 1.0 percent of GDP in FY26.

The flood-induced shortages of perishable food commodities may also exert upward pressure on food prices. Additionally, food and energy inflation is also likely to move up due to the phasing out of favourable base effect. With the steep increase in gas prices in July 2025 and the expiry of the relief in electricity prices applied in Q4-FY25, energy prices are expected to trend up in FY26. However, the restrained domestic demand,

Macroeconomic Targets and Projections for FY26 **Table 1.2**

	Target	SBP Projections
<i>Growth rate (percent)</i>		
Real GDP ^a	4.2	3.25 – 4.25
CPI (average) ^a	7.5	5.0 – 7.0
<i>billion US\$</i>		
Remittances ^a	39.4	39.0 – 40.0
Exports (fob) ^a	35.3	32.0 – 33.0
Imports (fob) ^a	65.2	63.5 – 64.5
<i>percent of GDP</i>		
Fiscal deficit ^b	3.9	3.8 – 4.8
Current account deficit ^a	0.5	0.0 – 1.0

Sources: ^a MOP&SI, ^b MoF 2025-26

alongside benign global commodity price outlook and stable external outlook, is likely to keep underlying inflationary pressure in check. Accounting for these trends and developments, the headline NCPI inflation may cross the upper bound of the medium term target range of 5.0 – 7.0 percent in the second half of FY26, before reverting to the target range in FY27 (**Table 1.2**).

This outlook is subject to risks emanating from unfolding impact of floods, an uncertain geopolitical environment, and global trade uncertainties. The flood-induced losses to agriculture and infrastructure are likely to have upside risks for the projection of twin deficits and inflation outlook, while downside risks for growth. Similarly, geopolitical and trade uncertainty may impact external outlook through increased volatility in global commodity prices and slower global growth and trade flows.