Quarterly Report on Pakistan's Economy *with* Focus on Uraan Pakistan and PM's Economic Transformation Plan

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Table of Contents

Section I: Critical Assessment of Uraan Pakistan 1
Key Messages: 1
1. Introduction 2
2. Historical Precedents 2
3. Goals and Objectives of Uraan Pakistan 3
i. Exports 3
ii. E-Pakistan 4
iii. Energy and Infrastructure 4
iv. Equity and Empowerment 5
v. Environment, Food, and Water Security 5
4. Alignment with the IMF program? 6
5. Lack of Harmony between Provincial and Federal Governments 6
6. Implementation Challenges 7
7. Conclusion: Go back to basics 7
Evaluation of Prime Minister's Economic Transformation Agenda & Implementation Plan 9
Introduction and Background 9
1. Fiscal Management Plan 10
2. Revenue Generation Plan 10
3. Energy (Power) Sector Plan 11
4. Petroleum Sector Plan 12
5. Commerce Sector Plan 12
6. Plan for Investment 13
7. Special Investment Facilitation Council (SIFC) 14
8. Privatization 14
9. Planning and Development Plan 15
10. Food Security 16
11. Digital Nation Plan 16
12. Industrial Sector Strategic Framework 17

13. Overseas Pakistanis and Human Resource Development (HRD) ... 18
Rightsizing the Government: Rhetoric and the Facts ... 19
Section 2: Macroeconomic Analysis ... 21
Key Takeaways: ... 21
Introduction ... 22
1. Economic Growth ... 22
i. Import and Exports ... 22
ii. Quantum Index of Large-Scale Manufacturing: ... 24
iii. Agriculture Sector ... 24
2. Economic Freedom via Government Size ... 25
i. Credit to the Private Sector ... 25
ii. Government Domestic Debt ... 26
3. Business Environment ... 27
i. Long-Term Financing Facility (LTFF) ... 28
ii. Foreign Direct Investment ... 28
iii. Stock Market Performance ... 29
4. Macroeconomic Stability ... 31
i. Inflation rate ... 31
ii. Exchange rate trends ... 32
iii. Balance of Payments and Fiscal Deficit ... 33
iv. Forex Reserves ... 34
v. Money Growth ... 35
Annexure- 1 ... 37

List of Figures

Figure 1: Imports, Exports & Trade Balance 23
Figure 2: Comparative Analysis of Forex Reserves, Remittances, and Exports 23
Figure 3: Monthly Quantum Index of Manufacturing 24
Figure 4: Credit to Private Sector 26
Figure 5: Government Domestic Debt 27
Figure 6: Long Term Financing Facility 28
Figure 7: Foreign Direct Investment 29
Figure 8: Stock Market Performance 30
Figure 9: Inflation Rate 31
Figure 10: Exchange Rate Trend 32
Figure 11: Current Account Balance 34
Figure 12: Total liquid Forex Reserves 35
Figure 13: Money Growth 36

Section I: Critical Assessment of Uraan Pakistan

Key Messages:

1. Emphasizing an end-to-end value chain approach risks misallocating resources and inefficient outcomes by overlooking the importance of leveraging comparative advantages.

2. The goal of generating $5 billion from the ICT freelancing sector faces challenges such as low internet penetration and brain drain. Addressing the digital divide and ensuring stable connectivity is essential for success.

3. Setting a renewable energy target of 10% is redundant, as Pakistan already surpasses this with a 30% commitment. Reducing circular debt remains crucial, but past inefficiencies and misaligned policies hinder progress.

4. The target to reduce income poverty by 13% and create 1.5 million jobs annually lacks alignment with fiscal constraints, requiring substantial private sector investment, which remains insufficient.

5. The focus on reducing emissions overlooks the urgent need for climate-resilient infrastructure and adaptive strategies to effectively manage Pakistan's exposure to climate risks.

1. Introduction

George Santayana famously said, "Those who cannot remember the past are condemned to repeat it". Pakistan is one example, as we continue to either forget the past or discard the lessons it offers despite repeated failed attempts. Uraan Pakistan is an ambitious initiative designed to transform Pakistan's economic and social landscape over the next 5 years. Uraan Pakistan is overseen by the National Economic Transformation Unit (NETU) and aligned with the 5Es Framework published by the Planning Commission of Pakistan in 2023.

Its key goals include achieving a Compound Annual Growth Rate (CAGR) of 6%, reaching USD 60 billion in exports, reducing inflation to 6%, and generating USD 5 billion from the ICT freelancing sector. Additionally, the program aims to reduce greenhouse gas emissions by 50%, increase the renewable energy share to 10%, and lower income poverty incidence by 13%.

While Uraan Pakistan aims to chart a path towards prosperity, its success hinges on effective implementation, robust monitoring mechanisms, and the formalization of a realistic approach to addressing institutional and political challenges.

2. Historical Precedents

It is not the first time the government has been ambitious enough to launch an economic plan. In 2014, the government introduced the Vision 2025 program, aiming to position the country among the top 25 economies of the world, achieve an 8% GDP growth rate, and raise Foreign Direct Investment (FDI) by $15 billion annually, increasing the tax-to-GDP ratio to 18%.

The repeated failure of Pakistan's development plans stems largely from the absence of growth-oriented policies and a clear, consistent policy direction. Ambitious targets, like those seen in Vision 2025, lack the foundational strategies required to stimulate sustainable growth and investment. Unrealistic goals without actionable roadmaps or robust monitoring mechanisms have resulted in a stagnant tax-to-GDP ratio hovering around 10%, low GDP growth fluctuating between 0% and 5%, and minimal progress in addressing structural issues.

While frequent government changes and a lack of continuity exacerbate these challenges, the root problem lies in the inability to craft and implement policies that prioritize long-term economic transformation over short-term fixes. Until the focus shifts to aligning policy goals with actionable, growth-oriented strategies, Pakistan risks repeating the same cycle of lofty ambitions and dismal outcomes.

3. Goals and Objectives of Uraan Pakistan

The Uraan Pakistan is structured around the 'Five Es' framework: Exports, E-Pakistan, Energy and Infrastructure, Equity and Empowerment, and Environment, Food, and Water Security.

i. Exports

Uraan focuses on boosting exports by $60 billion annually by 2029, requiring a 12% annual growth in exports, which currently stands at around $30 billion. The target seems achievable. However, it requires transforming the current export sector through product diversification and adopting advanced technologies.

While the global economy is shifting towards high-value-adding products, Uraan outlines the importance of an end-to-end value chain to strengthen the economy. Reliance on end-to-end value addition indicates a narrow and inefficient approach to competing globally, particularly when viewed in the context of comparative advantages.

Countries utilize comparative advantage by specializing in products and services that are relatively efficient compared to others. By insisting on producing entire products within the country, the economy risks missing export targets and misallocating resources.

Bangladesh exemplifies the benefits of specializing in specific production stages within the global value chain. Despite cultivating less than 2% of the world's cotton, Bangladesh has become a leading exporter of cotton t-shirts, accounting for approximately 19.6% of global exports in this category. This success is attributed to Bangladesh's focus on the garment assembly stage, leveraging its comparative advantage in labor-intensive manufacturing without engaging in the entire cotton-to-garment production process.

Similarly, India's integration into the global electronics value chain has yielded significant results. In 2024, Apple's iPhone exports from India reached a record $12.8 billion, reflecting a 42% year-on-year increase. This achievement underscores India's role in specific stages of electronics manufacturing, such as assembly and testing, rather than attempting to dominate the entire production process. By concentrating on these segments, India has enhanced its export profile and attracted substantial foreign investment, demonstrating the efficacy of specializing within the global value chain.

Pakistan, however, risks lagging by attempting to independently manage all production processes, especially in industries lacking the necessary technological capacity or cost advantages. This approach undermines the potential for export expansion and hinders Pakistan's integration into the global economy, which thrives on interdependence and specialization.

ii. E-Pakistan

Uraan Pakistan’s ambition is to generate USD 5 billion from the ICT freelancing sector and to achieve at least one unicorn aligns with global digital economy trends. However, several technological challenges could impede these objectives. Pakistan's internet penetration stands at 45.7%, with 111 million users, as of January 2024, indicating that more than half of the population lacks internet access (Datareportal 2024). This digital divide is more pronounced in remote and rural areas, where infrastructure deficits limit connectivity.

Additionally, internet disruptions have been a significant concern because of political instability or lack of access to smooth connectivity. Such instabilities undermine the reliability of the internet, which is essential for ICT freelancers and tech enterprises. Moreover, the cost of internet access remains a barrier. The economic impact of disruptions is notable, with estimates suggesting potential losses of up to $300 million due to internet instability (Reuters 2024). These factors collectively pose substantial obstacles to realizing the program's digital transformation goals.

Similarly, a study by PIDE indicates that around 200,000 professionals left Pakistan in 2024, causing a brain drain in the economy. While some might see this as an opportunity for remittances, loss of skilled IT experts represents a substantial setback for the country's technological advancement. In contrast, countries like China have effectively engaged overseas professionals through initiatives like the Dalian Software Park. Similarly, India's establishment of IT parks and special economic zones has created conducive environments for domestic and international IT professionals, contributing to the country's emergence as a global IT hub.

iii. Energy and Infrastructure

The goal of attaining over 10% renewable energy in Pakistan’s energy mix is redundant, as the country already exceeds this threshold. Moreover, Pakistan has already committed to a more ambitious target of achieving a 30% share of renewable energy by 2030, making this lower benchmark misaligned with existing national commitments. Additionally, addressing the issue of electricity subsidies and reducing circular debt is crucial for the sustainability of Pakistan’s energy sector.

The power sector subsidies have increased by Rs. 1.190 trillion for FY25. These subsidies misallocate resources, leading to inefficiencies and unsustainable fiscal impacts. The system will continue to face challenges without addressing the underlying causes of excessive subsidies, such as inefficiencies in power generation, distribution losses, and outdated infrastructure.

Given that the current circular debt stands at approximately $10 billion as of 2024, the Ministry of Energy submitted the Circular Debt Management Plan for FY2024-25 and subsequently approved it by the ECC. The plan seeks to reduce liabilities in the power sector and enhance financial

sustainability. However, with such a massive debt burden, the plan's effectiveness will depend heavily on its implementation, as past attempts to address circular debt have often failed due to insufficient reforms, inefficiencies in distribution, and misaligned tariff structures.

iv. Equity and Empowerment

The Uraan Pakistan Program’s target is to reduce income poverty by 13%, create 1.5 million jobs annually, and improve literacy by 10%. Given Pakistan's fiscal constraints and structural economic challenges, this ambitious vision for socioeconomic progress seems overly optimistic.

For instance, to reduce poverty to 21.1% by 2029, we would require sustained economic growth, robust social safety nets, and targeted programs to uplift marginalized communities, which in current fiscal space and constrained government spending doesn’t seem quite possible.

Creating 1.5 million jobs annually is daunting in an economy plagued by sluggish growth, with GDP expansion projected at just 2.5% in 2024. According to a World Bank report, this target requires significant private sector investment, which was reported at 10% in FY23.

Similarly, improving literacy by 10% demands comprehensive education reforms and increased public spending in a sector that has been historically underfunded. Only 1.7% of GDP was allocated to education in 2023. Without addressing systemic inefficiencies and ensuring fiscal discipline, these ambitious goals risk becoming unattainable aspirations rather than achievable milestones.

v. Environment, Food, and Water Security

This pillar addresses critical sustainability challenges by aiming for a 50% reduction in projected greenhouse gas emissions and enhancing food and water security. However, the underlying issue with Pakistan’s vulnerability to climate change is not its greenhouse gas emissions, which are relatively low compared to other countries in the region. Instead, Pakistan is highly exposed to climate risks due to its fragile infrastructure and geographical vulnerabilities. This component of Uraan Pakistan seems to overlook these real concerns, focusing on reducing emissions that may not be the most pressing issue, while neglecting the urgent need for building climate-resilient infrastructure and adaptive strategies to address Pakistan’s exposure to climate-related risks.

While the Uraan Pakistan emphasizes the importance of infrastructure for connectivity and trade, it fails to fully account for the need to align these developments with climate resilience. Investing in infrastructure that takes into consideration climate risks is essential to mitigate the adverse impacts of climate change. A more comprehensive approach should integrate sustainability and climate adaptation into the planning and development of infrastructure projects to build a more resilient and sustainable infrastructure.

4. Alignment with the IMF program?

While the IMF and Uraan Pakistan aim to address Pakistan's economic challenges, they diverge in their approaches and priorities. Uraan envisions an ambitious annual growth target of 6%, contrasting sharply with the IMF's more conservative growth projection of 3%. This difference reflects a fundamental tension between long-term developmental goals and short-term stabilization priorities.

Furthermore, Uraan emphasizes social protection and increased public spending on education, health, and poverty reduction, recognizing these as essential for inclusive growth. In contrast, the IMF program advocates for austerity measures, urging the government to curtail fiscal spending to ensure economic stability and live within its means. This conflict between expansionary development strategies and fiscal consolidation raises questions about the feasibility of achieving Uraan's ambitious targets under IMF-imposed constraints.

With a revenue shortfall of Rs. 386 billion, Pakistan risks jeopardizing its ongoing IMF program and its ambitious Uraan Program if it fails to meet the conditions set by lenders. Uraan Pakistan emphasizes broadening the tax base, rationalizing expenditures, and enhancing tax collection, aligning with the IMF's directives. However, without careful implementation of these targets, including efficient energy reforms and the rational use of resources, Pakistan may struggle to maintain fiscal discipline, ultimately compromising the success of both economic frameworks.

5. Lack of Harmony between Provincial and Federal Governments

Although Uraan Pakistan emphasizes managing public resources and rationalizing public expenditures through reforms, it lacks a cohesive framework to integrate provincial government initiatives. This gap reveals a significant disconnect between provincial and federal financial strategies, underscoring the absence of coordinated financial management across government tiers.

Provincial governments' recent initiatives, such as Punjab's *Dhee Rani* program, housing projects, and Khyber Pakhtunkhwa's free solar energy distribution for underprivileged communities and free meals for schoolchildren to boost enrollment, deviate from the federal government's austerity measures. These expansive spending patterns directly contradict the fiscal restraint necessary for consolidation and sustainability. This misalignment undermines the Uraan Program's effectiveness and perpetuates inefficiencies and disparities in resource allocation, diminishing the program's overall impact.

Instead of increasing the number of welfare programs, which can increase the operational and administrative burden and cost on provincial governments, rationalizing the Benazir Income Support Program (BISP) and increasing the cash transfer amounts offers a more streamlined and

impactful approach. A centralized system like BISP can ensure equitable resource distribution and reduce administrative overhead.

Furthermore, Uraan does not adequately account for the role of provincial governments in its design and execution. With 57% of revenues constitutionally allocated to provinces, excluding their input risks creating bottlenecks in implementation and weakens the program's practicability. Without coordinated efforts and provincial alignment, achieving the ambitious targets set forth by the Uraan Program may prove elusive, further straining an already fragile economic framework.

6. Implementation Challenges

The implementation plan of Uraan presents an approach towards inclusive governance and economic reform. However, several critical concerns arise regarding its implementation. While it emphasizes coordination among stakeholders, there is a lack of clarity on how accountability will be ensured at every level. Without robust oversight and performance evaluation mechanisms, there is a risk of inefficiency and slow progress. Although NETU aims for inclusive governance, it may face challenges in addressing sectoral and regional disparities.

Similarly, while NETU emphasizes collaboration across academia, the private sector, and the diaspora, Uraan Pakistan lacks effective collaboration between the private sector and think tanks, and this can be difficult in ensuring consistent engagement and maintaining active participation from diverse groups over the long term remains a challenge. This could impact the quality and sustainability of reforms. Similarly, while regular progress reports are expected to foster public confidence, there is a risk of these becoming mere formalities if the government does not actively engage with feedback and implement real-time adjustments based on public concerns.

Also, each ministry will have a dedicated group overseeing and monitoring Uraan. This approach risks duplicating efforts and wasting resources. It does not guarantee the effective and efficient implementation of Uraan Pakistan, as overlapping responsibilities may dilute accountability and hinder decision-making.

7. Conclusion: Go back to basics

As Dr. Ali Salman rightly stated in his article, we must return to the basics by "simplifying tax policy, bringing down tax rates, fixing circular debt, promoting free trade, and developing the energy market." Instead of creating extensive plans that are difficult to monitor, streamline, and require significant resources to manage and implement, we should focus on straightforward, actionable plans to start with. Dreaming of becoming a trillion-dollar economy by 2047 isn't a bad aspiration, but we once aimed to be among the top 25 economies by 2025 and failed at it. We may have had the luxury of trial and error in the past, but we no longer have that time.

With a country full of burgeoning youth who are increasingly impatient and hopeless about Pakistan's state, we need clarity and decisiveness about our direction. We cannot afford to repeat the mistakes of the past, as the lessons would be unbearable and the costs even higher.

The global economy is projected to post positive growth in 2025, supported by easing inflationary pressures and anticipated interest rate cuts by major central banks. Domestically, Pakistan's economy is also expected to recover gradually, with GDP growth projected to reach 3.0%, according to the IMF. While the global and domestic outlooks appear favorable, Pakistan must align the Uraan Program’s objectives with these realities by addressing structural challenges, such as fiscal imbalances and the mounting circular debt, while simultaneously building economic resilience to external shocks. Uraan Pakistan’s focus on fiscal discipline, energy reforms, and revenue generation is crucial, but its ambitious targets must be supported by realistic, phased strategies to ensure sustainable recovery.

Evaluation of Prime Minister's Economic Transformation Agenda & Implementation Plan

Introduction and Background

The PM Economic Transformation Agenda and Implementation Plan was published quietly in the shadow of the Uraan Plan of the Planning Commission of Pakistan. However, the PM's plan is much broader and wide encompassing in its scope. Therefore, it was essential that the plan be reviewed and examined in detail.

The Evaluation of the National Transformation Plan offers a detailed assessment of Pakistan's ambitious economic reform agenda, covering 13 critical areas ranging from fiscal management and energy reforms to digital transformation and human resource development. While the plan outlines bold initiatives to address Pakistan's economic challenges, the evaluation highlights several key takeaways and critiques. It may be noted that the plan is mostly an aggregation of the clutter of reforms or efforts which are already underway at the different Ministries/ Divisions of the Federal Government.

A major strength of the plan is its alignment with market-oriented principles. The focus on privatizing state-owned enterprises (SOEs), rationalizing tariffs, expanding renewable energy, and promoting private sector-led investment reflects a commitment to reducing inefficiencies and empowering market forces. Reforms in taxation and trade, such as digital invoicing and tariff simplification, promise to create a more competitive and transparent economic environment.

However, significant implementation challenges persist. Fiscal reforms like debt management and pension adjustments are critical and the plan lists the resistances expected from entrenched interests. Similarly, the privatization of energy assets and GENCOs, while necessary, raises concerns about transparency and public resistance. Weak coordination between federal and provincial authorities complicates progress in revenue generation and labor market reforms.

The evaluation also highlights gaps in institutional capacity, particularly in the energy and agriculture sectors. For example, while solarization and farm mechanization are promising, they require stronger governance and private sector involvement. Human capital initiatives, such as IT skilling and diaspora engagement, show potential but lack alignment with labor market demands.

Overall, while the plan is a step in the right direction, its success depends on consistent policy enforcement, stakeholder collaboration, and overcoming bureaucratic inertia. By addressing these gaps and ensuring transparent execution, Pakistan can move closer to achieving sustainable growth and economic resilience.

1. Fiscal Management Plan

The Fiscal Management Plan focuses on reducing Pakistan's fiscal deficit and addressing the structural inefficiencies within public spending. Key actions include implementing a comprehensive debt management plan, pension reforms to curtail escalating liabilities, and privatization of state-owned enterprises (SOEs) to reduce fiscal burden. The plan also calls for adopting fiscal discipline frameworks like resource optimization rules and improving the governance of public sector entities.

The evaluation highlights the relevance of these actions in ensuring fiscal sustainability and promoting economic stability. The introduction of a debt management framework is particularly significant, as it enhances transparency in debt servicing while addressing the reliance on expensive short-term borrowing. Pension reform, including the introduction of parametric adjustments such as raising the retirement age and switching to defined-contribution schemes, is identified as a transformative step in reducing long-term liabilities.

However, the effectiveness of these reforms depends on strong political will, stakeholder consensus, and efficient implementation mechanisms. Bureaucratic inertia and potential opposition from vested interests remain significant risks. The evaluation stresses the importance of inter-agency coordination and capacity-building for fiscal institutions to ensure sustained outcomes.

The sustainability of the fiscal reforms hinges on periodic reviews, stringent oversight of SOE performance, and institutionalizing debt management practices. Privatization must be conducted transparently to build investor confidence and optimize returns. Overall, the evaluation concludes that the plan aligns with free-market principles by reducing government intervention in the economy while fostering efficiency and accountability.

2. Revenue Generation Plan

The Revenue Generation Plan aims to broaden Pakistan's tax base, modernize collection systems, and reduce reliance on indirect taxes. Key initiatives include digitizing tax systems, integrating point-of-sale (POS) systems with provincial platforms, implementing real-time digital invoicing in priority sectors, and addressing evasion through tools like bottle serialization and automated audits.

The evaluation emphasizes the relevance of these reforms for addressing Pakistan's tax-to-GDP ratio, which lags behind regional peers. The digitization of tax collection processes is seen as a critical enabler of transparency, compliance, and administrative efficiency. For example, initiatives like RFID systems for monitoring ginning/spinning mills and digital invoicing in FMCG sectors are well-aligned with international best practices.

However, the effectiveness of these actions is constrained by weak enforcement mechanisms and resistance from businesses reluctant to adopt digital platforms. Coordination gaps between federal and provincial tax authorities further undermine efficiency. The evaluation underscores the need for stakeholder engagement and targeted incentives to encourage compliance and adoption of new systems.

The sustainability of these measures requires continuous investment in IT infrastructure, capacity-building for tax authorities, and harmonization of tax policies across provinces. Despite the fact that PIDE-PRIME Tax Reform Commission's report was acknowledged by the report, after evaluation, it is noted, that no change in the fundamental tax structure, nor any indication of change to the fundamental tax policy has been proposed.

It is suggested that providing incentives for voluntary compliance, flattening the tax structure, and improving inter-agency coordination will enhance the plan's long-term effectiveness. Overall, the revenue generation plan is a step toward reducing fiscal imbalances while promoting economic freedom through transparent and streamlined tax administration.

3. Energy (Power) Sector Plan

The Energy (Power) Sector Plan seeks to address inefficiencies, reduce reliance on expensive imports, and transition toward sustainable energy solutions. Key actions include privatization of GENCOs, promoting renewable energy through solarization and net-metering, restructuring NTDC to enhance transmission efficiency, and introducing competitive power markets via wheeling mechanisms.

The evaluation highlights the relevance of these actions, especially in addressing Pakistan's energy crisis. Privatization of GENCOs like Guddu and Nandipur aligns with free-market principles by reducing government inefficiencies and enabling competition. Similarly, solarization initiatives and shifting captive units to the national grid help reduce energy costs and reliance on fossil fuels.

However, the effectiveness of these measures hinges on regulatory support and stakeholder cooperation. Privatization efforts are expected to face resistance from vested interests in political and union circles, while solarization and renewable energy adoption is being resisted from within the power sector bureaucracy. Delays in regulatory approvals and weak enforcement mechanisms further hinder progress.

The sustainability of reforms depends on institutional strengthening, clear policy frameworks, and consistent monitoring of energy market dynamics. Promoting private participation in distribution companies and implementing cost-reflective tariffs are critical for long-term viability. The evaluation stresses transparent privatization processes and robust frameworks to attract private investment and ensure consumer protection.

Overall, the plan aligns with free market ideals by promoting competition, reducing subsidies, and shifting control to market-driven entities. Its success, however, relies on coordinated implementation and strong oversight.

4. Petroleum Sector Plan

The Petroleum Sector Plan focuses on improving Pakistan's energy security by increasing domestic oil and gas production, reducing circular debt in the energy sector, and modernizing infrastructure. Key actions include operationalizing revised petroleum policies, granting new exploration licenses, preparing a plan for LNG availability, and implementing anti-theft measures like the Unaccounted-for-Gas (UFG) campaign.

The evaluation underscores the relevance of these measures in addressing Pakistan's energy dependency and fiscal challenges. Granting exploration licenses under improved policies is a critical step toward tapping into domestic reserves and reducing reliance on imports. The plan to extend the debt tenor for energy liabilities and operationalize third-party access to downstream gas markets aligns with global best practices for liberalizing energy sectors.

The effectiveness of these initiatives is constrained by weak governance, bureaucratic inertia, and delays in decision-making. For example, refining policies to ensure fair competition and pricing while unbundling SUIs to create efficiency are vital steps that require robust execution. The evaluation highlights the importance of clear timelines and transparent processes to realize these reforms.

The sustainability of the petroleum sector reforms hinges on strong regulatory frameworks, private sector participation, and periodic reviews of pricing mechanisms. Encouraging market competition and promoting energy efficiency through measures like refining infrastructure upgrades are critical for long-term impact. The evaluation recommends aligning these actions with broader fiscal and trade policies to maximize outcomes.

5. Commerce Sector Plan

The Commerce Sector Plan focuses on enhancing Pakistan's trade competitiveness, diversifying export markets, and reducing import reliance. Key actions include tariff rationalization, exploring integration into the Regional Comprehensive Economic Partnership (RCEP), rebranding Pakistan for international markets, and strengthening compliance with EU GSP+ requirements.

The evaluation underscores the **relevance** of these actions for addressing Pakistan's trade imbalance and limited global market integration. Rationalizing tariffs by eliminating regulatory duties (RDs) and additional customs duties (ACDs) fosters a freer trade environment and aligns with global competitiveness goals. Similarly, the focus on export-oriented policies and integration into global value chains (GVCs) can drive economic growth.

The full implementation of the Tariff lines proposed by the Tariff Policy Board promises to radically shift the trade regime, supplemented by the intention to eliminate sales, withholding and other trade related taxes. The adoption of a lowered simple average tariff as an aggregation of the CD, ACD and RD promises greater transparency and meaningful reduction in costs of the majority of trade items. Most meaningfully, the government has proposed to reduce the customs duty to four slabs from the existing six, and with an upper limit of 35% by three years.

Effectiveness, however, is contingent on robust institutional frameworks and coordinated implementation, since the FBR is sure to resist many of the changes. Challenges include inconsistent tariff structures, weak institutional capacity to monitor compliance, and limited focus on value-added exports. It is noted that while initiatives like market rebranding and participation in international trade fairs are promising, their impact depends on the ability to deliver quality products aligned with global standards.

Sustainability hinges on policy continuity, effective stakeholder engagement, and alignment with regional trade dynamics. It is sugges improving trade policy coherence, focusing on high-potential export sectors like textiles and IT, and ensuring compliance with trade agreements to maintain market access. By reducing protectionism and fostering open markets, the plan aligns with free-market principles.

Most dismally, the plan contains no mention of tourism or an improvement of the visa regime to facilitate an influx of international travels, which can provide impetus to local business, foreign exchange reserves, and in the long run, investment.

6. Plan for Investment

The Plan for Investment prioritizes creating a pro-business environment to attract domestic and foreign investment. Key actions include introducing the Asaan Karobar Act to streamline regulatory processes, developing special economic zones (SEZs), and targeting time-sensitive investments through proactive policymaking.

The evaluation highlights the relevance of these initiatives in addressing barriers to investment. Simplifying regulatory requirements and improving the ease of doing business are fundamental to fostering private sector-led growth. SEZs provide a competitive edge by offering infrastructure and fiscal incentives, attracting foreign investors in key sectors.

However, the effectiveness of these measures is constrained by policy inconsistency and weak dispute resolution mechanisms. The evaluation stresses that SEZs must focus on export-oriented industrial clusters and ensure transparent operations to prevent inefficiencies. Additionally, the success of the Asaan Karobar Act depends on its implementation and reduction of bureaucratic red tape.

Sustainability requires robust governance, consistent enforcement of investment policies, and long-term infrastructure development. The evaluation recommends adopting investor-friendly dispute resolution mechanisms and streamlining inter-agency coordination to enhance investor confidence. By minimizing government intervention and promoting a market-driven investment climate, the plan aligns well with trade liberalization ideals.

7. Special Investment Facilitation Council (SIFC)

The Special Investment Facilitation Council (SIFC) is a key institutional reform aimed at centralizing investment promotion efforts, streamlining procedures, and addressing bottlenecks in project realization. Key actions include creating an enabling policy framework, developing a robust project pipeline, ensuring investment retention and expansion, and promoting B2B engagements.

The evaluation emphasizes the relevance of the SIFC in addressing Pakistan's fragmented investment landscape. By consolidating decision-making and simplifying procedures, the SIFC does align with free-market principles of reducing bureaucratic inefficiencies and creating a business-friendly environment. However it is evidence of a dual regime, different for foreign and local investors, different for G2G and B2B investments. Additionally, the establishment of an investment ombudsman and a dispute resolution mechanism is critical for addressing investor grievances.

Sustainability hinges on maintaining transparency, fostering collaboration with the private sector, and consistently reviewing policies to adapt to market dynamics. The evaluation recommends capacity-building for SIFC staff, reducing procedural delays, improving homogeneity in investment policy, removing discrimination, adhocism, and institutionalizing investment framework. By fostering a transparent and competitive investment ecosystem, the SIFC has the potential to attract significant foreign direct investment and drive economic growth, but only if the fundamental approach is shifted from preferentialism to merit based access.

8. Privatization

The Privatization Plan is central to the government's strategy for reducing fiscal liabilities, improving the efficiency of state-owned enterprises (SOEs), and fostering private sector participation. Key actions include the phased privatization of SOEs under the 2024–29 privatization program, focusing on energy assets such as GENCOs and operational plants, and disinvestment from non-strategic entities.

Our evaluation underscores the relevance of privatization in addressing inefficiencies and fiscal drain caused by underperforming SOEs. Selling off non-productive state assets to private investors aligns with market-oriented principles by promoting competition and reducing government

interference in the economy. The focus on privatizing operational plants like Nandipur and Guddu ensures the efficient allocation of resources in critical sectors like energy.

However, the effectiveness of this plan is constrained by political resistance, weak investor confidence, and concerns over transparency in the privatization process. The evaluation stresses the need for clear criteria for asset valuation, competitive bidding processes, and mechanisms to address public concerns regarding job security.

Sustainability requires robust post-privatization regulatory frameworks, capacity-building for oversight bodies, and consistent monitoring of privatized entities to ensure they deliver on promised efficiencies. The evaluation recommends expediting high-priority transactions, conducting transparent consultations with stakeholders, and leveraging global expertise to ensure best practices. Overall, the plan represents a pivotal opportunity to reduce fiscal burdens and unlock the potential of private enterprise in Pakistan. Unfortunately, the plan does not recognize the vacuum in the way of absence of the Privatisation Policy in the ecosystem/ framework and takes no note of the Privatisation Policy draft developed by PRIME for accelerate the process.

9. Planning and Development Plan

The Planning and Development Plan aims to optimize public investment and align developmental priorities with fiscal constraints. Key actions include portfolio optimization to reduce the throw-forward liability to three times the PSDP allocation, adoption of resource optimization rules, and implementing cost-benefit analyses (CBA) for public projects. The plan also emphasizes finalizing the 13th Five-Year Plan and strengthening the Monitoring and Evaluation (M&E) Wing for better oversight. Overall, the role of the Planning and Development Ministry is obscure and arguably obsolete, and relevance of proposed measures, including the 13th Five-Year plan is weak in terms of overall economic development and progress.

The evaluation underscores the relevance of these measures in enhancing the efficiency and impact of public investments. By focusing on portfolio optimization and adopting CBAs, the plan promotes resource allocation based on economic growth potential, aligning with free-market principles of maximizing returns on investment. Strengthening the M&E Wing can ensure accountability and minimize waste in development projects.

The effectiveness of these initiatives is contingent on the government’s ability to enforce fiscal discipline and overcome institutional inefficiencies. Challenges include resistance to project cancellations, lack of capacity for conducting rigorous CBAs, and delays in implementing reforms at the provincial level. The evaluation highlights the importance of building technical expertise and fostering inter-agency coordination for successful implementation.

Sustainability requires institutionalizing the proposed frameworks, ensuring regular reviews of public projects, and maintaining fiscal discipline. The evaluation recommends prioritizing projects

with high economic multipliers, training staff in cost-benefit methodologies, and leveraging public-private partnerships (PPPs) to optimize public investment. Overall, the plan reflects a shift toward evidence-based policymaking, critical for enhancing development outcomes in Pakistan.

10. Food Security

The Food Security Plan seeks to modernize Pakistan's agricultural sector, enhance productivity, and ensure sustainable food supplies. Key actions include promoting farm credit, encouraging corporate and contract farming, supporting mechanization, and investing in R&D for innovation. Additional measures include incentivizing value-added agriculture, expanding aquaculture, and improving food processing infrastructure.

The evaluation emphasizes the relevance of these measures in addressing structural inefficiencies in agriculture and ensuring food security. Promoting corporate and contract farming aligns with free-market principles by fostering economies of scale and integrating smallholders into value chains. Mechanization and farm credit support productivity growth while reducing manual labor reliance.

However, the effectiveness of these actions depends on addressing fragmented landholding patterns, bureaucratic hurdles, and limited access to financial services for small farmers. Challenges also include resistance to corporate farming reforms and lack of capacity for R&D. The evaluation highlights the importance of ensuring equitable access to resources and fostering private sector participation to drive innovation and efficiency. The sanctity of privately owned property must be upheld. Ensuring adequate availability of credit and providing formal mechanisms for consolidating land holdings is critical to the development of efficient and sustainable agriculture in the country.

Sustainability requires consistent funding for private sector R&D, robust regulatory frameworks for contract farming, and incentives for private investment in agricultural infrastructure. The evaluation recommends removing restrictions on food imports and exports, introduction of an agriculture insurance to balance volatility of returns, improving extension services for farmers and leveraging international partnerships to introduce modern farming techniques.

11. Digital Nation Plan

The Digital Nation Plan focuses on advancing Pakistan's digital infrastructure and skills to foster an inclusive digital economy. Key actions include skilling the youth for IT and the digital economy, increasing spectrum allocation for mobile and broadband services, promoting fiberization through a unified policy, and expanding internet access to underserved areas.

The evaluation highlights the relevance of these initiatives in addressing Pakistan's digital divide and leveraging technology for economic growth. Expanding broadband and mobile penetration aligns with free-market principles by empowering individuals and businesses through access to

digital resources. Initiatives like the DigiSkills expansion program and the introduction of internationally certified IT training courses ensure that the workforce is prepared for global opportunities in the digital economy.

However, the effectiveness of these actions is constrained by weak regulatory frameworks, limited private sector engagement, and inadequate infrastructure in rural areas. The evaluation notes the need for stronger coordination between federal and provincial governments to ensure equitable access to digital infrastructure and services.

Sustainability hinges on public-private partnerships, regular policy updates, and ensuring affordability of digital services and smart devices. The evaluation recommends creating a competitive spectrum auction framework to attract private investment, promoting cybersecurity standards to safeguard digital systems, and prioritizing underserved areas for infrastructure development. Overall, the plan effectively addresses the foundational gaps in Pakistan's digital ecosystem, aligning with ideals of fostering innovation and individual empowerment.

12. Industrial Sector Strategic Framework

The Industrial Sector Strategic Framework seeks to transform Pakistan's industrial landscape by promoting value addition, fostering innovation, and ensuring sustainable growth. Key actions include implementing the National Industrial Policy, aligning vertical policies with export priorities, operationalizing special economic zones (SEZs), ensuring electricity supply to SEZ's and encouraging investments in circular economy projects.

The evaluation underscores the relevance of these initiatives in addressing industrial inefficiencies and creating a globally competitive manufacturing sector. By incentivizing value addition and focusing on high-growth sectors, such as textiles and IT, the framework aligns with free-market principles of encouraging efficiency and innovation. Additionally, SEZs provide an institutional framework to attract foreign and domestic investment through fiscal and infrastructural incentives.

Effectiveness, however, depends on resolving issues such as bureaucratic red tape, inconsistent policy enforcement, and inadequate infrastructure. The evaluation highlights the importance of transparent SEZ operations and aligning industrial policies with broader trade and export strategies.

Sustainability requires robust governance, regular review of incentive frameworks, and fostering industry-academia collaboration for R&D. The evaluation recommends prioritizing export-driven industries, promoting environmentally sustainable practices through circular economy projects, and leveraging private sector expertise for skill development and innovation. With a clear focus on market-driven growth, the plan positions Pakistan's industrial sector as a key engine of economic progress.

13. Overseas Pakistanis and Human Resource Development (HRD)

The Overseas Pakistanis and HRD Plan focuses on leveraging the diaspora's potential, enhancing the labor market's competitiveness, and addressing skill gaps to maximize remittances and labor mobility. Key actions include maintaining a comprehensive diaspora database, conducting labor force surveys and skill censuses, promoting internationally recognized training certifications, and redefining the role of community welfare attachés (CWAs) for better engagement with overseas Pakistanis.

The evaluation highlights the relevance of these initiatives in addressing Pakistan's economic reliance on remittances and ensuring better integration into global labor markets. Establishing a centralized database to segment the diaspora by geography, skill set, and net worth is particularly valuable for targeting diaspora investments and contributions. Promoting internationally certified training courses aligns with global labor demands and ensures Pakistan's workforce remains competitive.

However, the effectiveness of these measures is constrained by weak coordination among stakeholders, including federal agencies, the private sector, and international partners. The evaluation notes inefficiencies in the current labor export processes and emphasizes the importance of aligning training programs with market demands in target countries.

Sustainability depends on institutional capacity-building, regular market analysis, and fostering private sector participation in skilling programs. The evaluation recommends enhancing collaboration with think tanks for labor market research, creating a framework for diaspora engagement through advisory councils, and incentivizing private-sector investments in training programs. By reducing government overreach and empowering individual talent, the plan aligns with ideals of leveraging market forces to enhance economic outcomes.

Rightsizing the Government: Rhetoric and the Facts

By Dr Khalil Ahmad

The rhetoric of rightsizing/downsizing the government continues. But the facts belie it and tell another story: too little is being accomplished.

After a dramatic countdown for the sale of the PIACL (one of the three giant SOEs), what came out was the stalling of its privatization since the only bidder's offer stood way less (Rs. 10 billion) than the sale price set at Rs. 85 billion. The PIA has become a liability gathering dust from decades. Dr Nadeem Ul Haque argues it needs to be declared bankrupt; no way it can be privatized.

The other, especially commercial SOEs, witness a dillydallying regarding their status: to privatize or not to privatize. Working behind are a plethora of factors ranging from emotional sloganeering to hardcore financial interests. As far as the physical size of the government is concerned, the sword is falling mainly on the low-grade (from 1 to 14) employees; grades 16 to 22 are safer. And, vacancies lying unstaffed for over three years are being abolished.

How that's going to translate into financial terms would be important to see. Wouldn't it be hard for the government to prove that "penny wise, pound foolish" is not the case? No doubt, now and then, second thoughts on the part of this or that government representative find their way into the press: why should profit-and-tax-earning SOEs be privatized?

Regarding the privatization of the DISCOs and GENCOs, no concrete steps are being taken. Instead, another move is in the offing: work has been started on creating an electricity market in the next few years. In the past, too, there have been attempts at creating an electricity market. Not pursued consistently and for long, or were abandoned halfway.

In the case of non-development spending, the government is at least thinking about rationalizing its spending. Surprising it would be how that rationalization materializes. One good thing that needs commendation is: Pension reforms are finally here. But not in the case of military personnel.

In some cases, if an entity is set to abolish, another entity is created to replace it. Or, generally speaking, new entities are being set up. For instance, the government is planning to set up a tax policy cell; NA passes legal aid and justice authority bill; new food safety authority planned.

In the previous commentary, the government's focus, in addition to rightsizing/downsizing, on austerity was mentioned. Since October 2024, that focus has lost its steam.

If you are interested in having a look at this "bumpy and one-step-forward-two-steps-back ride" of the government, go to **Annexure**. Whatever relevant was reported in various newspapers

regarding the incumbent government's efforts to limit its footprint in the economy from October 4, 2024, to January 14, 2025, has briefly been arranged in chronological order.

Section 2: Macroeconomic Analysis

Key Takeaways:

In the second quarter (October – December) of FY 2024-25;

1. Exports grew by 7.19%, but higher imports widened the trade deficit. Despite improvements in textiles and agriculture, remittances of $17.8 billion surpassed export earnings of $16.5 billion in December 2024 and the first half of FY25, emphasizing their growing role in supporting Pakistan's foreign exchange reserves.

2. Private sector credit rose by 6.25% (Sept–Nov) due to eased monetary policy and better business confidence. Government domestic debt increased 17.7% year-on-year to PKR 47.9 trillion, raising fiscal sustainability concerns.

3. Business confidence increased by 9% to -5 % due to a stable exchange rate and lower inflation, though challenges persist. LTFF declined by 4%, FDI rebounded to US $219 million in November, and the stock market surged 76%, driven by IMF reforms and improved investor sentiment.

4. Inflation fell sharply to 5.4% from 28.6% last year. The exchange rate averaged PKR 278 per USD, reflecting robust remittances and a current account surplus of US $944 million (July–Nov). Forex reserves increased 34% to US $16.19 billion, while the money supply grew 11.2% due to increased government borrowing, private sector credit, and monetary easing.

In short, for the second quarter of FY 2024-25, Pakistan saw a prominent decline in the inflation rate while exchange rates remained somewhat stable. This was combined with a current account surplus and increased foreign exchange reserves. Government borrowing, easing monetary policy, and a growing money supply contributed to economic stability, while business confidence and private sector credit also increased.

Introduction

This section comprehensively evaluates Pakistan's economic performance, focusing on four key dimensions that shape its macroeconomic landscape. Firstly, the report considers the country's economic growth trends, exploring its Imports, exports, and quantum index of large-scale manufacturing and agriculture sector. Secondly, the analysis inspects the size of the government and its role in economic management. Thirdly, the report focuses on the business environment, highlighting opportunities and challenges for private sector growth. Finally, it delves into macroeconomic stability, assessing fiscal discipline, external weaknesses, and inflationary pressures to offer a holistic view of the current economy.

1. Economic Growth

The first section of the macroeconomic stability report focuses on Pakistan's economic growth. It analyzes trade balance trends through combined export and import data alongside the Quantum Index of Large-Scale Manufacturing (LSM) and agricultural output to evaluate key economic drivers.

i. Import and Exports

Pakistan's exports were increased in the second quarter of FY 2024-25 (October–December). According to the data released by the Pakistan Bureau of Statistics (PBS), the country's exports experienced a 7.19% growth, rising to $8.65 billion from $8.07 billion in the corresponding quarter of the previous year. However, imports increased by 3.13%, climbing from $13.91 billion in the corresponding quarter last year to $14.35 billion.

According to PBS data, the trade deficit widened significantly in December 2024, increasing by 43.5% year-on-year, from $1.70 billion in December 2023 to $2.44 billion. In the same month, exports showed a modest growth of 1.03%, rising slightly from $2.81 billion in December 2023 to $2.84 billion in December 2024. In contrast, imports surged sharply by 17%, climbing from $4.51 billion to $5.28 billion during the same period. In November 2024, exports increased by 10%, rising from $2.57 billion in November 2023 to $2.83 billion, while imports experienced a slight decline of 0.85%, dropping from $4.53 billion to $4.5 billion. Similarly, in October 2024, exports grew by 10% ($2.69 billion to $ 2.98 billion), whereas imports decreased by 6% ($4.86 billion to $4.56 billion).

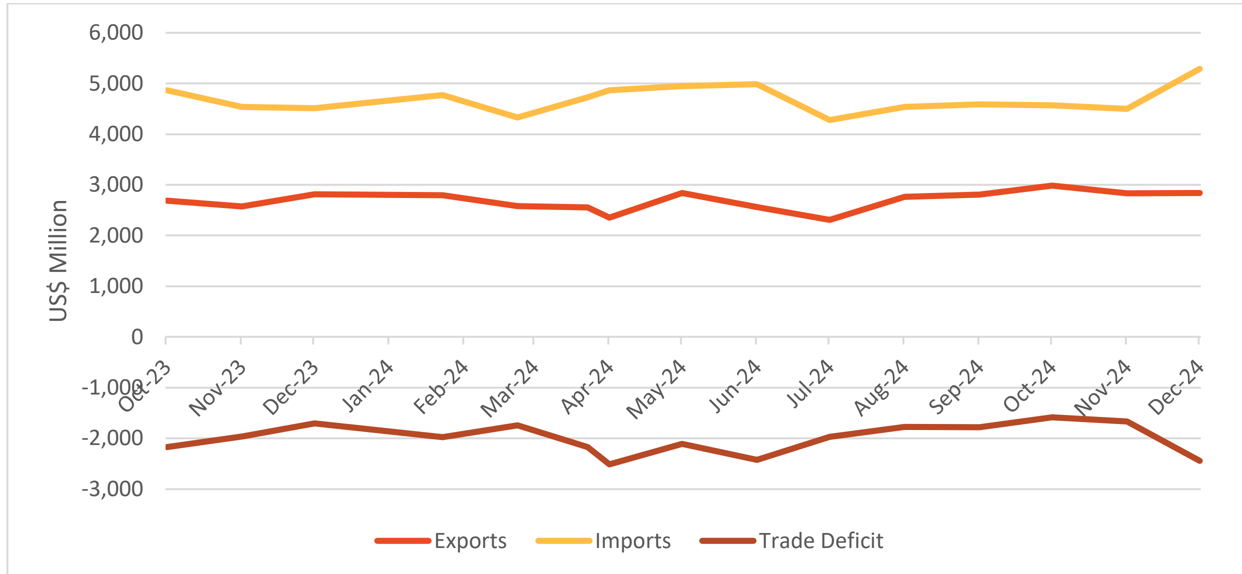
Pakistan's current account showed a surplus of $346 million in October and $729 million in November 2024, compared to a deficit of $287 million in October and $148 million in November in the previous year[1].

However, in the first half of FY25 (July – December), remittances surpassed exports as a key source of foreign exchange, with remittance inflows totaling $17.8 billion compared to export

[1] https://www.sbp.org.pk/ecodata/BOP_arch/index.asp

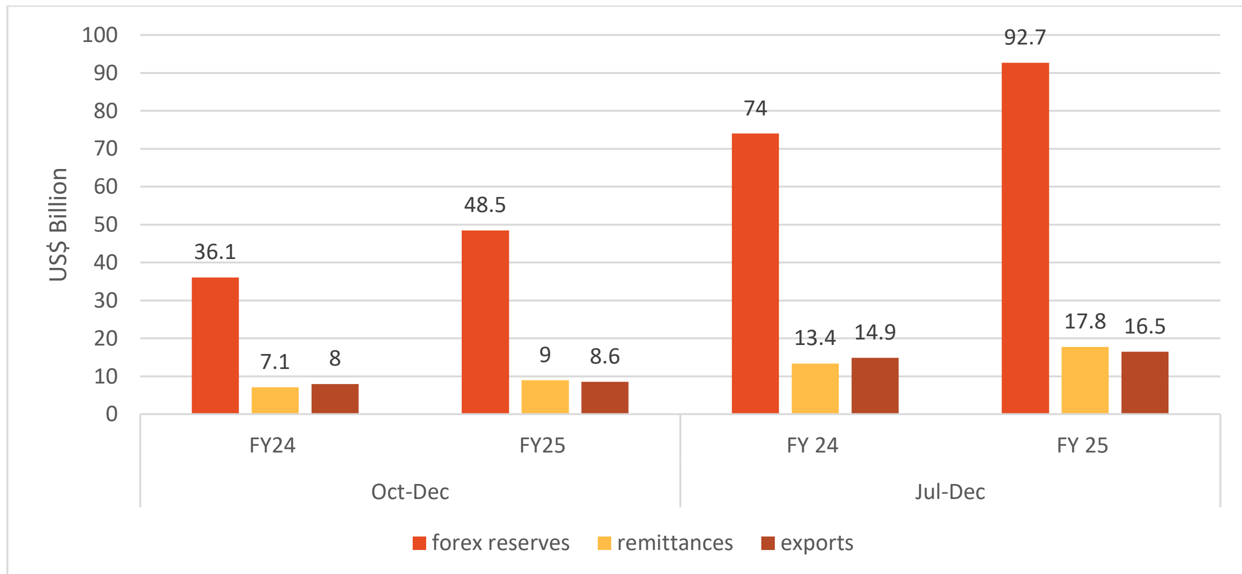
earnings of $16.5 billion. This highlights the growing reliance on remittances to support Pakistan's external account stability amidst persistent challenges in export growth.

Figure 1: Imports, Exports & Trade Balance



Source: Pakistan Bureau of Statistics

Figure 2: Comparative Analysis of Forex Reserves, Remittances, and Exports



Source: State Bank of Pakistan & Pakistan Bureau of Statistics

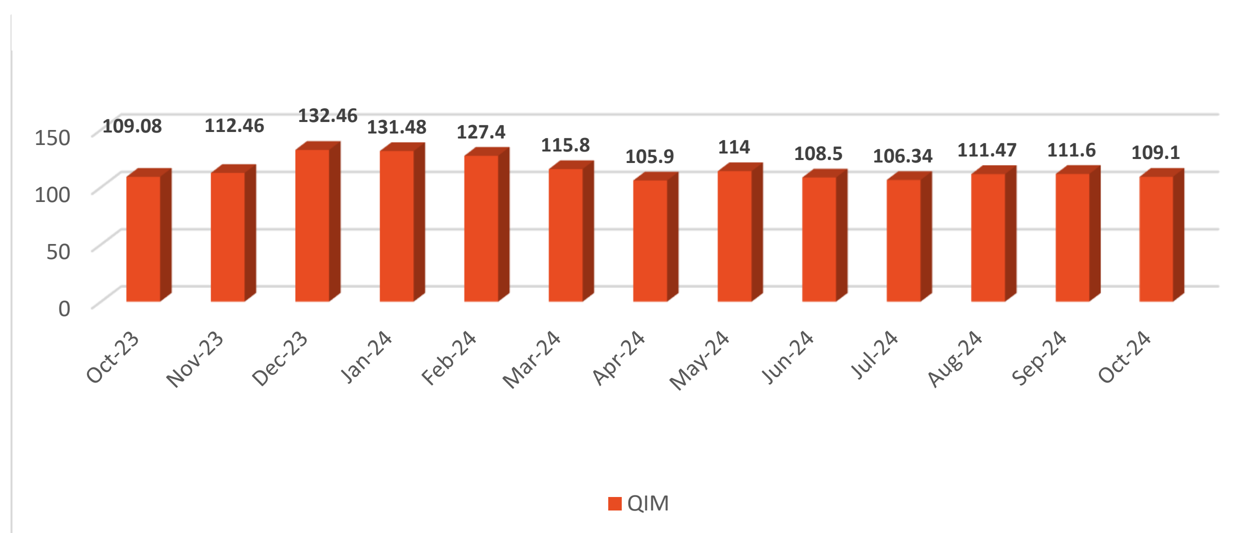
ii. Quantum Index of Large-Scale Manufacturing:

Pakistan's large-scale manufacturing (LSM) sector experienced a modest year-on-year growth of 0.02% in October 2024. However, it saw a month-on-month decrease of 2.29%[2]. The Quantum Index of Manufacturing (QIM) values for the first four months of FY25 indicate a year-on-year contraction of 0.64%.

In August, the LSM sector recorded a decline of 2.62%, dropping from 114.48 in 2023 to 111.47 in 2024. Similarly, a decrease of 2.32% was observed in September, with the value falling from 114.26 in 2023 to 111.6 in 2024. However, the decline was much smaller in October, at just 0.02%.

In the first four months of FY 2024-25, the textile sector experienced a 2.60% year-on-year growth. Cotton yarn production rose by 8.80%, while cotton cloth saw a modest increase of 0.81%. The output growth was primarily driven by a slight rise in export unit value, reflecting higher external textile demand.[3]

Figure 3: Monthly Quantum Index of Manufacturing



Source: Pakistan Bureau of Statistics

iii. Agriculture Sector

According to the recent report by PBS[4], In the first quarter of the current FY 2024-25, the agriculture sector grew by 1.15% compared to the same period last year, despite an 11.19% decline in the production of essential crops due to reduced outputs of cotton (-29.6%), rice (-1.2%), sugarcane (-2.2%), and maize (-15.6%). Wheat was unaffected, as it was neither sown nor

[2] www.finance.gov.pk/economic/economic_update_December_2024.pdf
[3] www.sbp.org.pk/ecodata/Productselect.pdf
[4] www.pbs.gov.pk

harvested this quarter. Other crops recovered, growing by 2.08% in the first quarter, due to reduced input costs like fertilizers and pesticides.

According to the recent Economic Survey Report by the Finance Ministry, agriculture credit disbursement reached PKR 925.7 billion during July-November FY2025, marking an 8.5% increase compared to PKR 853.0 billion in the same period last year. This positive trend is expected to continue, in line with the ambitious agriculture credit target of PKR 2,572.3 billion set for FY2025.

2. Economic Freedom via Government Size

According to the Heritage Foundation, Pakistan's 2024 Index of Economic Freedom score is 49.5, ranking it 147th globally. This score remains unchanged from last year, putting Pakistan 32nd out of 39 Asia-Pacific nations and reflecting a repressed economy below global and regional averages.

The size of the government is a fundamental factor of economic freedom that integrates various components, including government expenditure, transfers and subsidies, government investment, domestic borrowings, and the growth of public debt. Each element shapes economic stability, influences private sector credit, and determines overall economic growth trends, which are assessed below.

i. Credit to the Private Sector

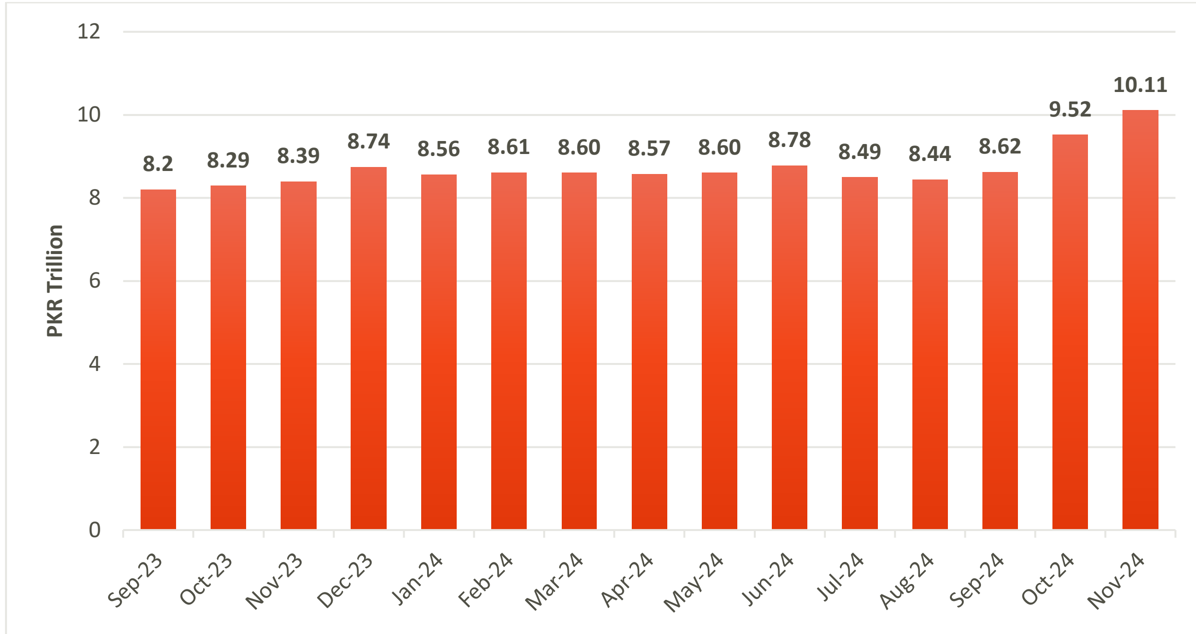
Private sector credit in Pakistan has remained constrained due to high interest rates, tight liquidity conditions, and crowding out by government borrowing.

However, from September to November in FY 2023-24, private sector credit (PSC) grew by 3.5%, averaging PKR 8.29 trillion. In comparison, the same period in FY 2024-25 saw a significant increase of 13.5%, with the average PSC rising to PKR 9.42 trillion.

On a month-on-month basis, private sector credit (PSC) increased by 5.12% in September, rising from PKR 8.2 trillion in 2023 to PKR 8.6 trillion in 2024. Similarly, sharp increases were recorded in October and November, with PSC growing by 14.8% and 20.5%, respectively. In FY 2024-25, from September to November, private sector credit (PSC) increased from PKR 8.62 trillion to PKR 10.1 trillion, reflecting an average growth of 6.25%.

The said increase in credit is mainly due to the State Bank of Pakistan’s (SBP) decision to ease monetary policy by lowering the policy rate by 200 basis points to 13% in December, which reduced borrowing costs and encouraged businesses to take on more credit (Finance Division). Additionally, stronger economic indicators, growing business confidence, and government efforts to boost economic growth helped drive the demand for credit. However, it's important to note that sector-specific challenges and external factors still influence how credit is distributed and used.

Figure 4: Credit to Private Sector



Source: State Bank of Pakistan

ii. Government Domestic Debt

Pakistan's government's domestic debt has surged due to persistent fiscal deficits, reliance on short-term borrowing, and high debt servicing costs, posing significant budgetary sustainability concerns.

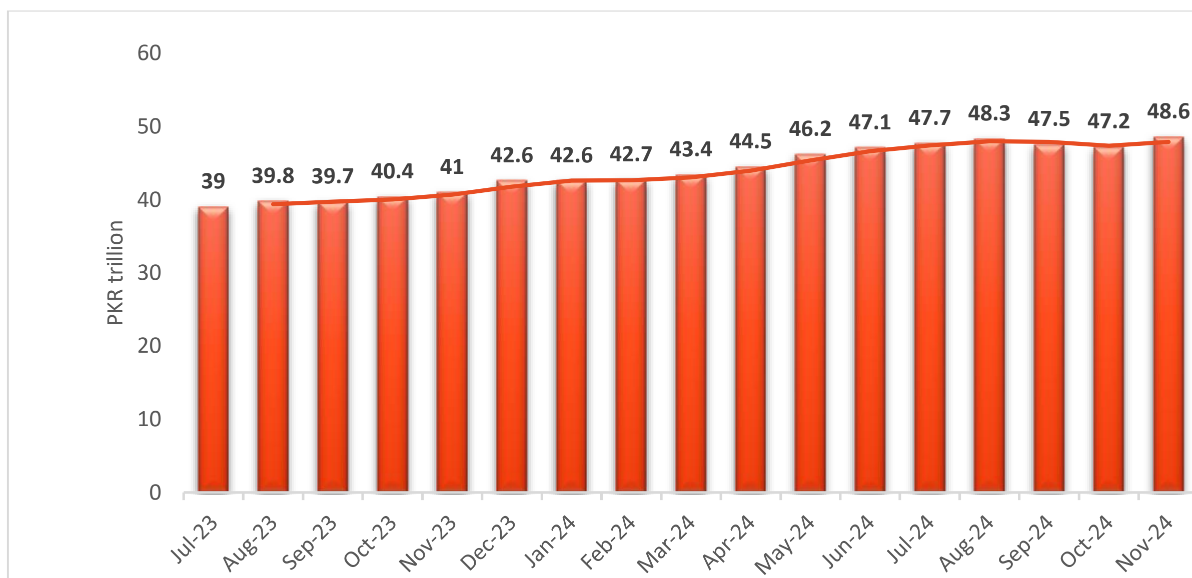
In the first two months of the first quarter (July and August) of FY 2024-25, the government's domestic debt rose by 17.9%. On a year-on-year basis, domestic debt increased by 21%, reaching an average value of PKR 27.8 trillion in the first quarter (July - September) of FY 2024-25, compared to an average of PKR 39.5 trillion in the same quarter of FY 2023-24.

In the first two months of the second quarter of FY 2024-25 (October and November), domestic debt increased to an average of PKR 47.9 trillion, up from PKR 40.7 trillion in the same months of FY 2023-24, reflecting a rise of 17.7%. On a month-on-month basis, from October to November 2024, domestic debt grew from PKR 47.2 trillion to PKR 48.6 trillion, marking an increase of 2.8%, nearly double the rise seen in the same months of the previous fiscal year.

Most of November 2024's debt is classified as permanent debt, totaling PKR 35.64 trillion, representing a 19% increase compared to the previous year. This includes PKR 34.77 trillion in federal government bonds, PKR 475 billion from the SBP's on-lending to the government against

Special Drawing Rights (SDRs), PKR 393 billion in prize bonds, and PKR 3 billion in market loans.

Figure 5: Government Domestic Debt



Source: State Bank of Pakistan

3. Business Environment

The business environment in Pakistan is shaped by several key factors, including the availability of the Long-Term Financing Facility (LTFF), stock market performance, and trends in foreign direct investment (FDI) inflows. These variables collectively impact economic growth, investor confidence, and businesses' ability to access capital for expansion.

According to the recent OICCI Business Confidence Survey—Wave 26 (Oct–Nov 2024), overall business confidence has increased by 9%, reaching -5 % compared to -14 % in March–April 2024.

Sectoral highlights depict that the services sector has increased to +2% from -14%, the manufacturing sector from -15% to -3%, and the retail/wholesale sector slightly recovered from -18% to -15%. Foreign investors' confidence increased to +6% from -4% in Wave 25. However, new investment plans remain challenging, declining to -23% from -12%.

An increase in business confidence can be attributed to a stable exchange rate, declining inflation, compliance with the IMF's EFF program, enhanced country risk ratings, a boost in foreign exchange reserves, and better law-and-order conditions. The statistics of various variables contributing to the country's business environment are elaborated below.

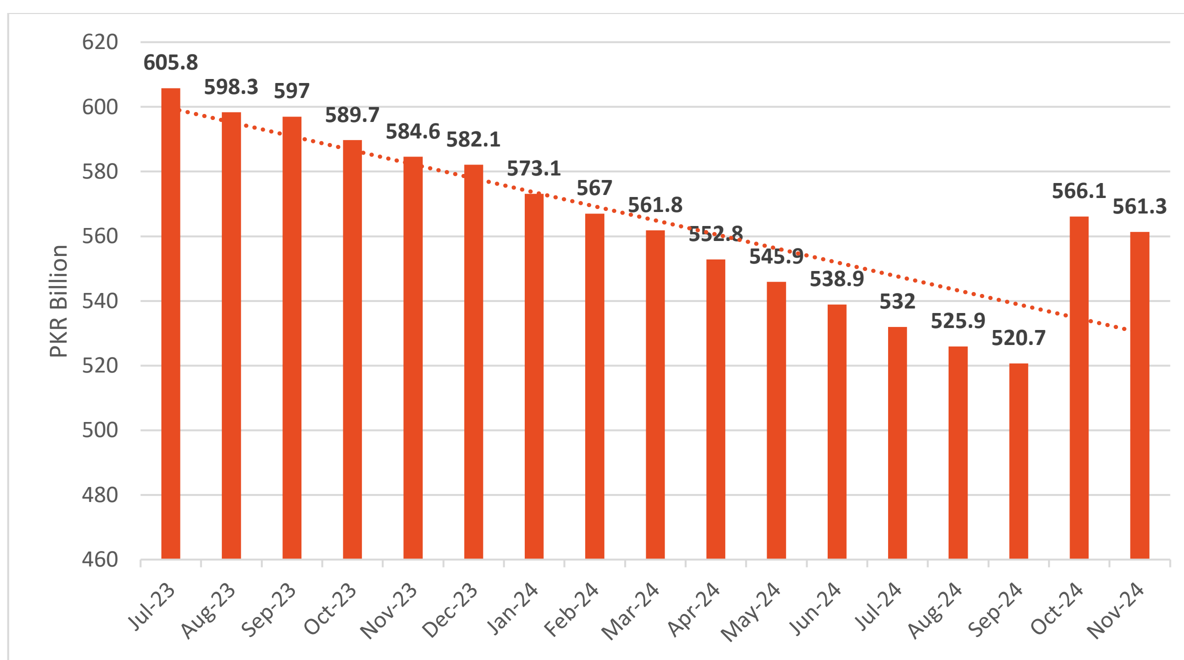
i. Long-Term Financing Facility (LTFF)

The LTFF to promote export-oriented projects has been consistently declining due to fiscal deficits, economic uncertainty, and sector-specific challenges, including reduced industrial output and exports.

In the first quarter of FY 2024-25 (July–September), the LTFF value declined by 12.4%, averaging PKR 526.2 billion compared to PKR 600.3 billion in the same quarter last year. In the second quarter's first two months (October and November), the LTFF further declined to an average of PKR 563.7 billion from PKR 587.1 billion in FY 2023-24, marking a 4% decrease.

However, on a month-on-month basis, for FY 2024-25, the value rose from PKR 520.7 billion in September to PKR 566 billion in October, reflecting an 8.7% increase, before falling again to PKR 561 billion in November.

Figure 6: Long Term Financing Facility



Source: State Bank of Pakistan

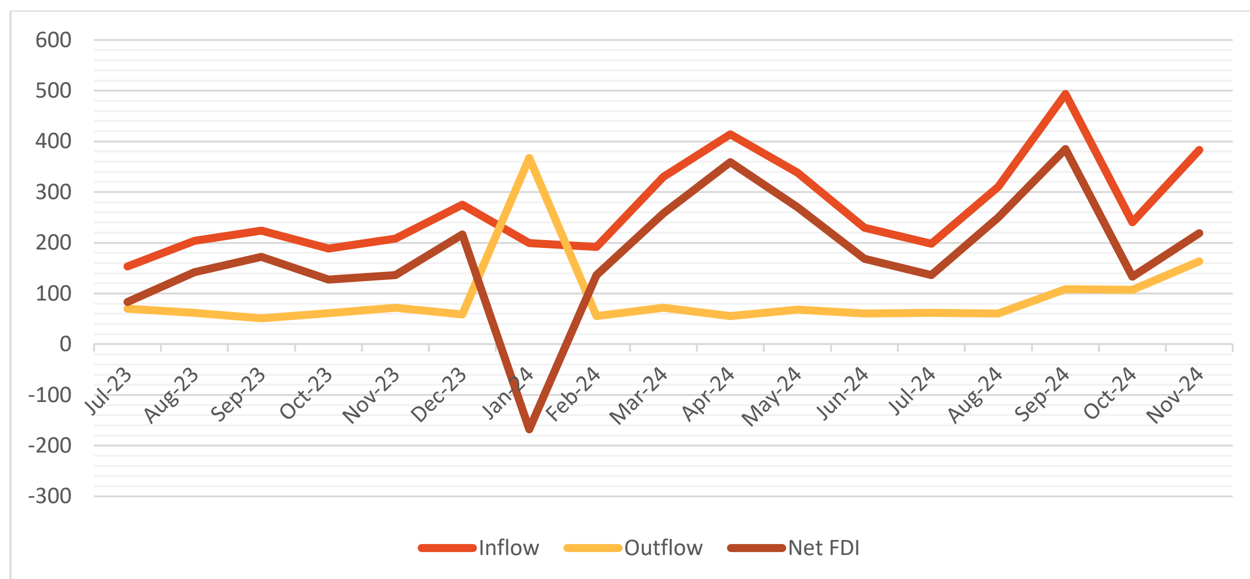
ii. Foreign Direct Investment

Foreign direct investment (FDI) is vital for a developing economy like Pakistan. It drives growth, technological advancement, and job creation while fostering economic stability and global competitiveness.

Pakistan's FDI pattern has been fluctuating. For the first quarter of FY 2024-25 (July - September), FDI increased by 93%, from an average value of US $132.5 million in July – September 2023-24 to US $257 million in the same quarter of FY 2024-25.

In comparing the first two months of FY 2024-25 with the same months of FY 2023-24, the FDI showed a 33% increase, moving from an average of US $132 million to US $175 million. Furthermore, FDI declined to US $133 million in October 2024, down from US $385 million in September, before rising again to US $219 million in November 2024.

Figure 7: Foreign Direct Investment



Source: State Bank of Pakistan

iii. Stock Market Performance

In 2024, the benchmark KSE-100 index experienced a remarkable surge of 76%, closing at 115,126 bps on December 31. This marked a significant increase compared to last year's period when the market closed at 60,863 points.

In December 2024 and the first half of FY25 (July–December), remittance inflows totalling $17.8 billion played a key role in boosting Pakistan's foreign exchange reserves, which rose to $92.7 billion during this time. These inflows outpaced export earnings of $16.5 billion, providing vital support despite a 10.3% growth in exports offset by a widened trade deficit driven by rising imports. Remittances in the first half of FY25 recorded a 32% increase compared to the same quarter in FY 2024. Similarly, a 26% rise in foreign exchange reserves during the first half of FY

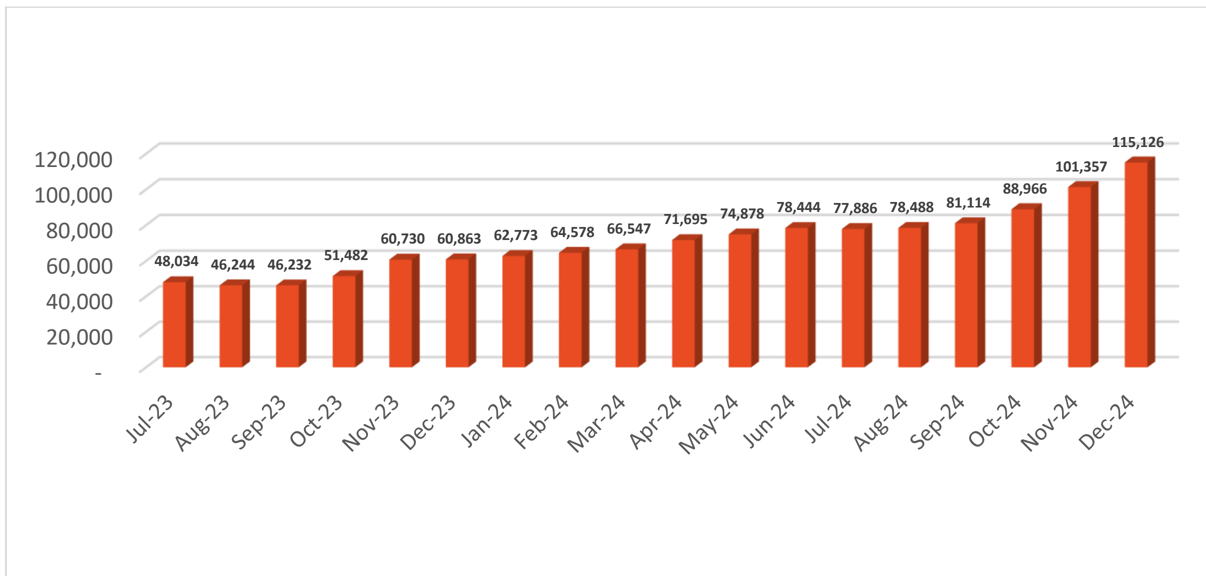
2025 as compared to the same period in FY 2024 has been observed, highlighting their significant contribution to economic stability.

In the second quarter of FY25, remittance inflows of $9 billion contributed significantly to Pakistan's total foreign exchange reserves of $48.5 billion, surpassing export earnings of $8.6 billion. This steady inflow played a crucial role in stabilizing the local currency, reducing exchange rate volatility, and improving macroeconomic stability, factors that directly influence stock market performance.

The increased reserves helped stabilize the currency, positively influencing investor confidence and stock market performance, particularly in sectors like banking and consumer goods that benefit from remittance-driven demand. This highlights the pivotal role of remittances in enhancing economic stability and market resilience.

A key driver behind the bullish sentiment in Pakistan's stock market is the recent staff-level agreement between Pakistan and the IMF, which signals the country's commitment to economic reforms. The agreement, focused on fiscal consolidation, revenue mobilization, and improving the business environment, has reassured investors betting on economic stability. Additionally, Pakistan's gradual GDP growth, increased foreign exchange, and record remittances have bolstered market sentiments. The State Bank's accommodative monetary policy and successful efforts to control inflation have further fueled optimism in the stock market.

Figure 8: Stock Market Performance



Source: Pakistan Stock Exchange

4. Macroeconomic Stability

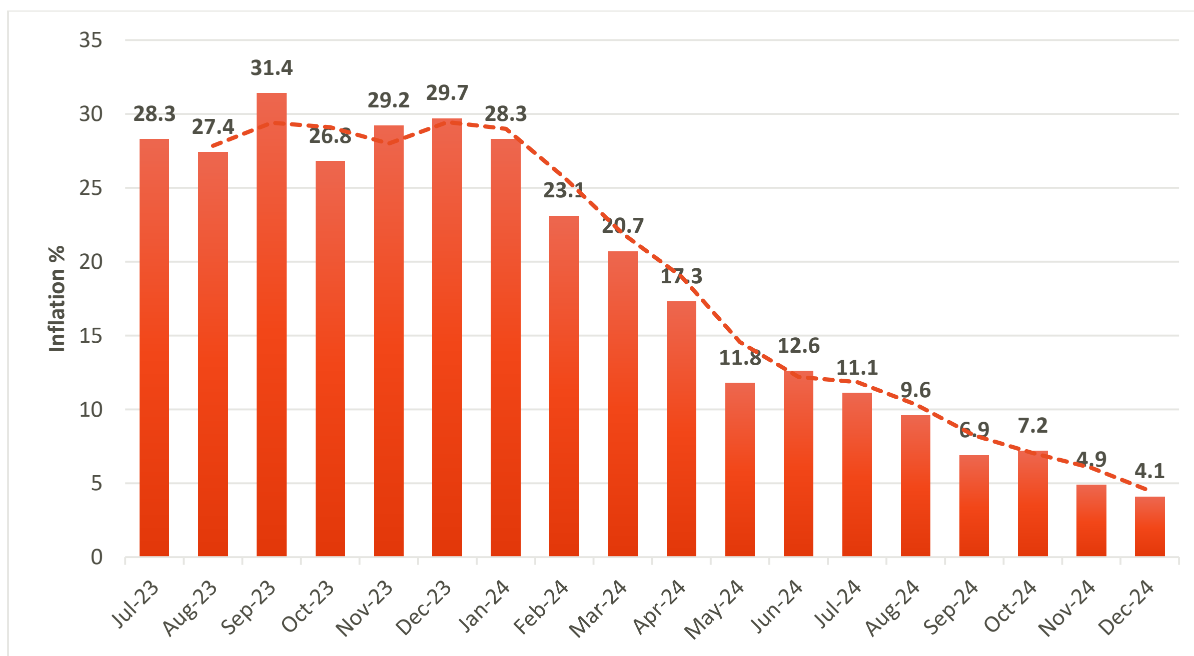
The macroeconomic stability section highlights key indicators shaping Pakistan's economic landscape. It examines inflation and exchange rate trends, balance of payments dynamics, fiscal deficit levels, and insights into money supply growth and foreign exchange reserves. These factors provide a comprehensive view of the country's economic resilience and challenges.

i. Inflation rate

The inflation rate has been steadily decreasing since the start of 2024. An overall decrease of 81% was noticed in the second quarter (October – December) of FY 2024-25, when inflation fell to a single digit with an average value of 5.4, compared to an average value of 28.6 in the same quarter of FY 2023-24.

On a month-on-month basis, the FY 2024-25 inflation rate decreased from 4.9% in November to 4.1% in December and from 7.2% in October to 4.9% in November. Despite this decline in the inflation rate, the situation represents disinflation, which is a slowdown in the pace of inflation, rather than deflation, which is marked by a drop in overall price levels.

Figure 9: Inflation Rate



Source: Pakistan Bureau of Statistics

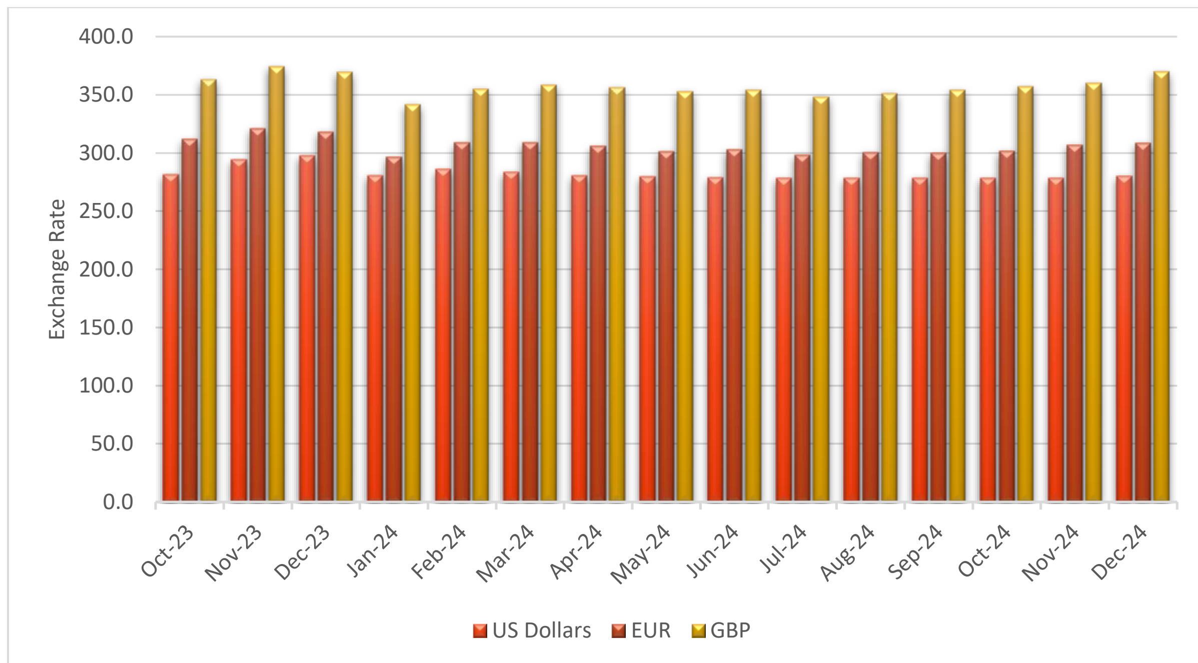
ii. Exchange rate trends

Between October and December 2024, the Pakistani Rupee (PKR) exhibited relative stability against the US Dollar (USD). According to SBP data, the exchange rate averaged around PKR 278 per USD in October. By December, it had slightly depreciated to approximately PKR 278.4 per USD.

This marginal change indicates a period of exchange rate stability during the final quarter of 2024. Similarly, the PKR remained steady against the Euro, averaging 294.50 PKR per EUR in October and experiencing only a slight shift to PKR 296.75 per EUR by December. Against the GBP, the exchange rate moved modestly from PKR 347.80 per GBP in October to PKR 350.25 per GBP by December.

This stability across major currencies reflects better macroeconomic fundamentals, including robust remittances, a narrowing gap between formal and informal exchange rates, and a current account surplus in 2024.

Figure 10: Exchange Rate Trend



Source: State Bank of Pakistan

iii. Balance of Payments and Fiscal Deficit

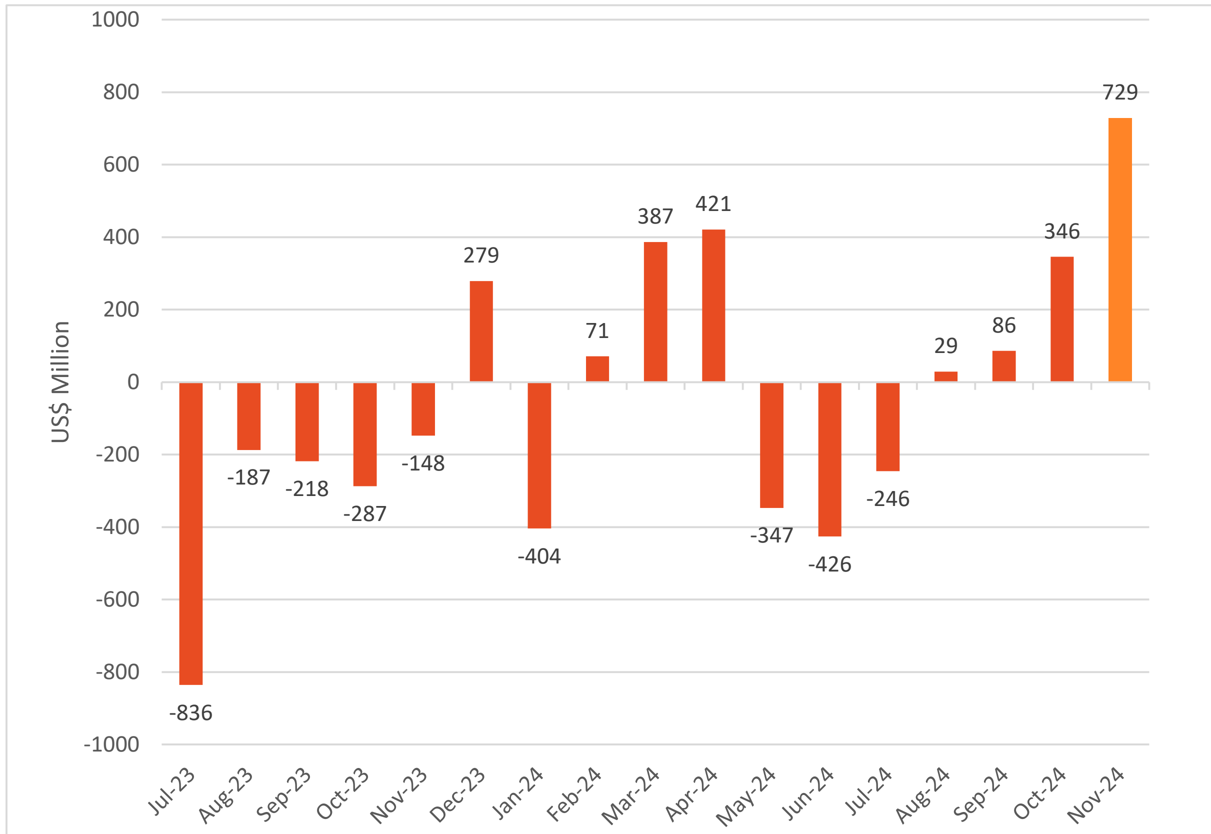
Pakistan has faced persistent challenges with its balance of payments and fiscal deficit. However, according to recent data from the SBP, the country's current account has been in surplus for the past four months, starting August 2024.

During the first quarter of FY 2024-25, the external current account recorded a surplus of US$29 million in August and US$86 million in September, following a deficit of US$246 million in July. In contrast, the same quarter of FY 2023-24 saw consistent deficits across all three months.

On a month-on-month basis in FY 2024-25, the current account balance has increased significantly by 110%, rising from US$ 346 million in October to US$ 729 million in November. Comparatively, in FY 2023-24, these months recorded current account deficits of US$ 287 million in October 2023 and US$ 148 million in November.

Overall, Pakistan's current account reached a balance (surplus) of US$944 million in the first five months of FY 2025, a noticeable increase from the substantial deficit of US$1.67 billion during the same period in FY 2024. The surplus of $944 million in Jul-Nov FY 2024-25 is mainly driven by import restrictions, high interest rates, subdued domestic demand, and rising exports, particularly in rice.

Figure 11: Current Account Balance



Source: State Bank of Pakistan

iv. Forex Reserves

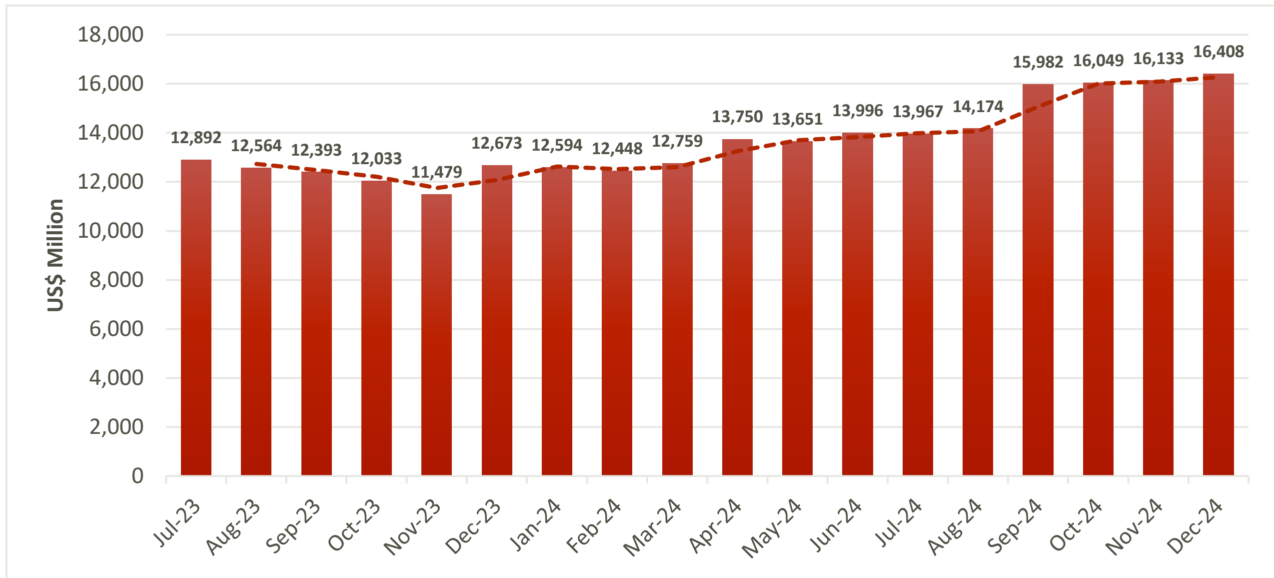
Pakistan's forex reserves have remained critically low due to external debt repayments and a persistent trade deficit, which have undermined economic stability.

In the second quarter of FY 2024-25, Pakistan's net liquid foreign exchange reserves increased significantly, rising from an average of $12.06 billion to $16.19 billion in the same quarter of FY 2023-24, reflecting a 34% growth.

On a month-on-month basis, in FY 2024-25, the total liquid forex reserves increased from US$16.04 billion in October 2024 to US$16.13 billion (0.52%) in November 2024 and reached US$16.4 billion (1.70%) in December 2024. However, for the same months in FY 2023-24, a decrease of 4.6% was seen from October to November, bringing the forex reserves value to US$11.4 billion in November 2023 from US$12 billion in October 2023. The value rose to US$ 12.6 billion in December 2023, an increase of 10%.

A 32% increase in remittances, rising from $13.4 billion in FY24 (July-December) to $17.8 billion in FY25 (July-December), contributed significantly to boosting total foreign exchange reserves from $74 billion to $92.7 billion during the same period, highlighting the vital role of remittances in augmenting reserve levels. Contrary to this, export revenues during the same period were constrained, necessitating reliance on remittances to bridge the current account gap.

Figure 12: Total liquid Forex Reserves



Source: State Bank of Pakistan

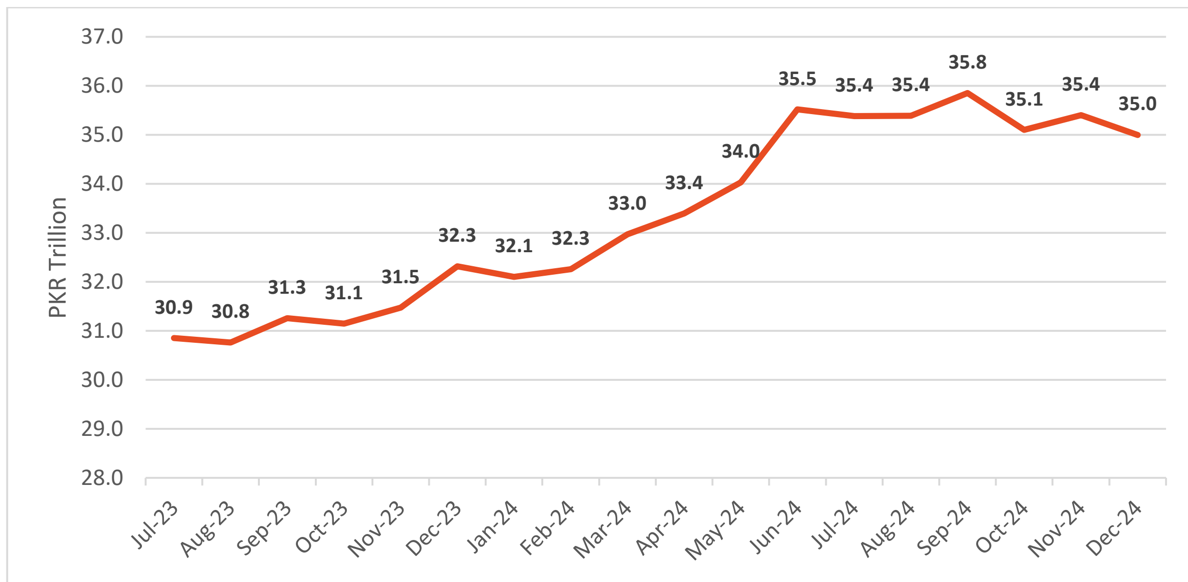
v. Money Growth

In the second quarter of FY 2024-25, the money supply, measured as broad money (M2), surged from an average quarter value of PKR 31.6 trillion in the first quarter of FY 2023-24 to PKR 35.2 trillion in the same quarter of FY 2024-25, depicting an increase of 11.2% year over year.

Additionally, from October to December 2024, Pakistan's M2 money supply steadily increased, with a 0.85% monthly growth in November, reaching PKR 35.4 trillion compared to PKR 35 trillion in October. A minor decrease of 0.01% was seen from November to December 2024.

The overall growth of 11.2% can be attributed to several factors, including increased government borrowing to finance fiscal needs, which contributed to a rise in net domestic assets and an expansion in private sector credit. Additionally, the monetary policy easing, with a 900 basis point reduction in the policy rate since June 2024, has helped stimulate credit growth and liquidity in the economy, driving the expansion of the money supply.

Figure 13: Money Growth



Source: State Bank of Pakistan

Annexure- 1

Annexure-I is compilation of news headlines related to size of government reforms.

1. Physical Size: Government Departments and Employees

- Low-performing entities of science, technology ministry face closure
- Govt plans separate tax policy cell
- PM's Office (Public): appointments on contract basis made
- NA passes legal aid and justice authority bill

Authority's mandate includes establishing a mechanism for provision, monitoring and evaluation of legal aid

- Pakistan Post abolishes 1,511 more posts

A total of 3,616 posts have been eliminated from Pakistan Post, says a circular

- Iqbal sets deadline for transfer of Pak-PWD projects to provinces

Pak-PWD projects in Punjab handed over; Sindh transfer to complete within days, says Ahsan Iqbal

- Right-sizing: 1,004 slots in Pakistan Post abolished

Abolished posts from Grade-1 to Grade-14 include postman, assistant postmaster, assistant chief postmaster etc

- Rightsizing 140 petty posts declared 'dying cadre'

Cabinet had ordered outsourcing general and non-core services such as cleaning, plumbing, gardening, etc

- 16 govt entities to be closed or privatised

Underperforming institutions will face closure within six months, says Rana Tanveer Hussain

- 16 of 29 MoI&P entities being examined for closure, Senate panel told
- Future of cosmetics authority in jeopardy

According to sources, recent rightsizing committee decided to abolish this authority before it becomes functional

- Proposal to dissolve CPEC authority under consideration, Senate panel told
- Rightsizing policy: 238 NAB posts abolished

NAB chairman approves abolition of posts from Grade-1 to Grade-19

- Cabinet takes up rightsizing of more ministries today

Forum will also consider finance minister's report regarding abolishing of several attached departments of more ministries

- Govt likely to privatise entire Hajj programme from 2026
- Ministries, allied depts: rightsizing finally in sight
- To reduce expenditure on IMF demand: Govt abolishes 150,000 vacant posts

"We have so far reviewed 15 ministries and PM has so far approved recommendations of 10 ministries," says FinMin

- Rightsizing is an IMF structural benchmark, says finance minister

Aurangzeb says cost-cutting process for 42 ministries to be completed before June 30

Uncertain about financial impact of abolishing 150,000 posts, public funds in banks

Claims 95pc of committee's recommendations okayed by cabinet

- Finance ministry moves to get all posts vacant for over three years abolished

No new post shall be created in the divisions, departments, subordinate offices, organisations and entities

- Govt to 'rightsize' 16 food entities

Aims for leaner, more efficient structure by cutting staff, transferring functions

- New food safety authority planned

Govt okays draft bill for regulatory body after interception of rice exports by EU

2. Non-Development Spending

- Aurangzeb hints at rationalisation of govt spending

Foundation of macroeconomic stability would be moved towards growth trajectory, says minister

- Govt notifies pension reforms to cut expenses

3. Power Sector: Privatization of GENCOs and DISCOs

- CCP for sell-off of Discos or exploring PPPs
- Competition Commission of Pakistan report says DISCOs facing high distribution losses, revenue leakages, low bill recovery rates, widespread electricity theft, and supply constraints
- Minister Aleem Khan directs speedy privatisation of Discos
- 3 Discos being readied for privatisation

4. The SOEs: Privatization of PIA, Pakistan Steel Mills, Etc.

- Bidders demand full ownership as PIA privatisation nears

Concerns over fleet age, financial liabilities, and operational hurdles have put the future of the sale—and the airline itself—in doubt

- SOE reforms fail to deliver desired outcomes: SBP
- Why citizens must engage in SOE reforms

Public awareness and support will be key to making the reforms stick

- Between FY16 and FY23: fiscal support to SOEs escalates to Rs5.7trn, says SBP
- MNA for collecting maximum taxes to save state-owned assets from privatisation
- PIA privatisation due next month: minister

Finance Minister Muhammad Aurangzeb has said that the government would privatise PIA and the Islamabad airport in the first phase and will then consider privatising the Karachi and Lahore airports.

- Only one bidder left in PIA sale

Privatization Commission prepares for auction, set for Oct. 31, advising PIA officials to remain on standby

- PIA sale stalls as lone bid 'too low to consider'
- Sole bidder offers Rs10b for 60% PIA shares

Govt has set minimum sale price of Rs85.03b Five parties opt out of privatisation process.

Sole PIA bid formally rejected, case sent back to cabinet

- Minister hints at PIA privatisation with zero liability
- PIA to be privatised in a better way: Aleem

PIA could be made profitable even today with better policies and proper investment: Aleem

- Pakistan eyes G2G sale of PIA after privatisation bid failed

Official says govt is evaluating direct G2G arrangements with countries like Qatar, other Gulf nations and China

- Fresh approach required to sell off PIA, says minister Aleem Khan
- Loss-making PSEs: barrier to economic growth
- SOEs earn Rs102b in profits

Power companies, PIA remain loss leaders; finance ministry report questions privatisation's efficacy

- Earlier order recalled: Prior approval a must for PIA sell-off, SC tells govt

- PIA sale hurdles to be cleared soon

IMF agrees on waiving 18% sales tax, parking more liabilities in holding company

- PIA to be privatised debt-free with IMF-backed relief on aircraft purchases

Among key developments, minister revealed, IMF had agreed to two significant conditions to facilitate airline's privatisation

- Strategy to privatise PIA revised

Aleem Khan instructs board to finalise issues with Ministry of Energy within week

- PIA to add eight more aircraft by next year, says CEO
- Privatisation: CCoSOEs removes SRBC from strategic entities' list
- SOEs' boards: Clearance by ISI, IB mandatory for nominees
- Privatisation of PIA back on track, NA panel told

Secretary says that joint venture approach would delay privatisation process, whereas direct sale could expedite proceedings

- IMF agrees to end 18pc GST on new aircraft, NA panel told