MONTHLY
ECONOMIC
UPDATE & OUTLOOK
FEBRUARY 2025

GOVERNMENT OF PAKISTAN
FINANCE DIVISION
ECONOMIC ADVISER'S WING

Economic Update

Pakistan's economy continued to demonstrate positive developments during Jul-Jan FY2025, as evidenced by improvements in key economic indicators. Export-oriented industries grew despite the slow recovery in the LSM sector. The steep decline in inflation fostered a stable financial environment, enabling the central bank to steadily reduce the policy rate. Investors' confidence is evident in the convincing performance of the PSX. Higher growth in remittances and FDI further strengthened sentiments of the economic agents. These factors collectively indicate positive prospects for economic growth in coming months.

Agriculture Productivity is expected to benefit by Government Initiatives and Increased Investment in Farm Mechanization

For the Rabi season 2024-25, wheat has been sown on 22.07 million acres, with an expected production of 27.9 million tonnes. The utilization of farm inputs is progressing effectively, supported by government initiatives to enhance agricultural productivity through the provision of improved seeds, agricultural credit, farm machinery, and fertilizers. During Jul-Nov FY2025, agricultural credit disbursement rose to Rs. 925.7 billion, an 8.5 percent increase from Rs. 853.0 billion in the same period last year, supporting the annual target of Rs. 2,572.3 billion. Agricultural machinery & implements imports increased by 42.5 percent to $69.2 million in Jul-Jan FY2025 compared to same period last year demonstrating a growing focus on mechanization. Urea offtake during Rabi 2024-25 (Oct-Jan) recorded at 2,449 thousand tonnes (6% higher than Rabi 2023-24) whereas DAP offtake was 758 thousand tonnes (17.7% higher than Rabi 2023-24).

LSM Shows Signs of Recovery Amid Sectoral Challenges

Large-Scale Manufacturing (LSM) exhibited a strong month-on-month (MoM) recovery, growing by 19.1% in December 2024 compared to November 2024. However, on a year-on-year (YoY) basis, LSM declined by 3.7% compared to 3.1% growth last year. During Jul-Dec FY2025, LSM posted a decline of 1.9%, compared to a contraction of 1.0% in the corresponding period of FY2024. Sectoral trends highlight a mixed performance, 10 out of 22 sectors showed a positive growth including automobiles (50.2%), other transport equipment (25.7%), tobacco (19.2%), wearing apparel (9.5%), and textiles (2.1), among others. During Jul-Jan FY2025, the performance of the automobile sector remained encouraging as overall production increased by 28.9% and sales by 29.1%. The major growth drivers in the production remained Cars (45.8%), Trucks & Buses (122.6%), Jeeps and pick-ups (76.3%) while Tractor production showed a decline of 30.0%. In January 2025, total cement dispatches increased by 14.1 percent to 3.9 million tonnes compared to 3.4 million tonnes last year. Local cement dispatches (3.3 million tonnes) showed an increase of 11.6 percent, while export dispatches rose by 30.2 percent, with volumes increasing to 581,691 tonnes.

CPI Inflation has Maintained its Downward Trajectory

CPI inflation recorded at 2.4 percent on a YoY basis in January 2025 as compared to 4.1 percent in the previous month and 28.3 percent in January 2024. On MoM basis, it slightly increased by 0.2 percent in January 2025 compared to an increase of 0.1 percent in the previous month and an increase of 1.8 percent in January 2024. Major drivers contributing to the YoY increase in CPI include Clothing and Footwear (14.1%), Health (14.1%), Education (10.4%), Restaurants and Hotel (7.6%), Alcoholic Beverage and Tobacco (5.6%), Furnishing and Household equipment maintenance (5.1%), Housing, Water, Electricity, Gas and Fuels (1.5%), Transport (0.7%), and Communication (0.1%). Decline observed in perishable food items (10.3%) and non-perishable food items (1.9%). SPI for the week ended on 20th, February 2025, recorded an increase of 0.27 percent against previous week. This week, prices of 16 items declined, 24 items remained stable and 11 items increased.

Amid Effective Fiscal Consolidation, Revenue Growth Outpacing the Rise in Expenditures

During Jul-Dec FY2025, total revenues grew by 42.5 percent to Rs.9,763.8 billion against Rs. 6,854.0 billion last year. Both tax and non-tax collection contributed to this rise. Non-tax collection grew significantly by 83.0 percent on the back of higher receipts mainly from Dividends, PTA profit, SBP Profit, Natural Gas Development Surcharge and Petroleum levy. While tax collection increased by 25.5 percent. During Jul-Jan FY2025, FBR tax collection posted a growth of 26.2 percent to reach Rs.6,497.4 billion from Rs.5,149.6 billion last year.

Total expenditure increased by 22.0 percent to Rs. 11,301.7 billion in Jul-Dec FY2025 from Rs. 9261.8 billion last year. Current expenditure witnessed 18.1 percent growth, mainly due to higher markup payments relative to non-markup spending. However, the pace of growth in markup payments moderated compared to Jul-Dec FY2024, due to a continuous decline in the policy rate.

Thus, a substantial increase in revenue compared to expenditures improved the fiscal accounts during Jul-Dec FY2025. The fiscal deficit reduced to 1.2 percent of GDP (Rs.1,537.9 billion) from 2.3 percent of GDP (Rs.2,407.8 billion) last year. Furthermore, the primary surplus improved owing to contained non-markup spending and reached Rs.3,603.7 billion (2.9% of GDP) from Rs.1,812.2 billion (1.7% of GDP) last year.

External Sector's Stability Remained Intact

The external sector position has significantly improved, driven by continued increase in exports and workers' remittances despite an upward trend in imports. During Jul-Jan FY2025, the current account posted a surplus of $682 million compared to a deficit of $1,801 million last year. However, in January 2025, the current account recorded a deficit of $420 million, compared to a deficit of $404 million in January 2024. During Jul-Jan FY2025, exports of goods increased by 7.6 percent, reaching $19.2 billion compared to $17.8 billion last year, while imports of goods recorded at $33.3 billion against $30.0 billion last year (10.9% increase). This has resulted in trade deficit (goods) of $14.1 billion, as compared to $12.2 billion last year.

As per the PBS, the commodities that registered significant export growth during Jul-Jan FY2025 compared to last year include sugar (1,831.3%), tobacco (81.4%), petroleum products (85%), readymade garments (21.9%), knitwear (18.2%), bed wear (14.7%), pharmaceutical products (65.7%), plastic material (39%) and engineering goods (26.6%). The major imports that increased over the period include soybean oil (64.6%), palm oil (16.9%), machinery (16.2%), petroleum crude (5%), liquefied petroleum gas (47.5%) and raw cotton (194.4%). Service exports grew to $4.7 billion (6.2%) and imports to $6.7 billion (9.1%), resulting in a services trade deficit of $1.9 billion against $1.6 billion last year. IT exports grew by 26.5 percent to $2.2 billion ($1.7 billion last year).

Workers' remittances recorded robust inflows of $20.8 billion during Jul-Jan FY2025, marking a 31.7% increase over $15.8 billion last year with largest share from Saudi Arabia (24.7%) followed by UAE (20.2%).

Foreign Direct Investment (FDI) net inflows were recorded at $1,523.6 million, 56.2 percent higher than the previous year. The largest share of net inflows came from China $633.6 million (41.6%), followed by Hong Kong $154.7 million (10.2%), and the UK $148.2 million (9.7%). The power sector received net FDI of $551.2 million (36.2% share), followed by financial business with $414.4 million (27.2%) and oil & gas exploration with $187 million (12.3%). Moreover, private sector foreign portfolio investment (FPI) had a net outflow of $232 million, while public FPI recorded a net inflow of $55 million.

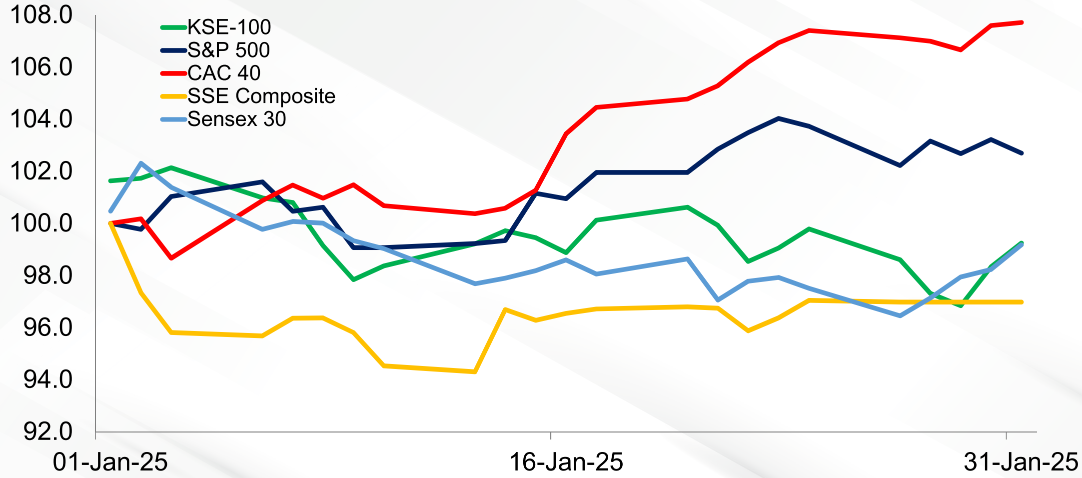
Pakistan's total liquid foreign exchange reserves were recorded at $15.9 billion on February 14, 2025, with the State Bank of Pakistan's reserves at $11.2 billion.

Monetary Indicators Demonstrate Favorable Financial Environment

In January 2025, the MPC decided to further cut the policy rate by 100 bps to 12 percent, effective from January 28, 2025. Cumulative, policy rate has reduced by 1000 bps since June 2024. The decision is based on inflation outcome in line with expectations, supported by moderate domestic demand conditions and supportive supply-side dynamics. During 1st July – 31st January, FY2025 money supply (M2) showed negative growth of 0.5 percent (Rs. -172.5 billion) as compared growth of 2.2 percent (Rs. 689.6 billion) last year. Within M2, NFA increased by Rs 712.8 billion as compared to an increase of Rs410.2 billion last year. Whereas, NDA of the banking sector decreased by Rs. 885.3 billion against an increase of Rs. 279.4 billion last year. Under the borrowing for budgetary support, government has retired Rs. 1074.7 billion against the borrowing of Rs. 2850.2 billion last year. Private Sector borrowing increased to Rs. 958.1 billion against the borrowing of Rs. 239.3 billion last year.

In January2025, the KSE-100 remained upbeat but volatile and closed at 114,256 points as on 31st January 2025. The market capitalization of Pakistan Stock Exchange closed at Rs 14,054 billion at month end. The performance of PSX in comparison with world major indices is given below.

Trend of Major World Stock Market Indices (Standardized)



Source: PSX and Investing.com

Overseas Employment, Poverty Alleviation Loans, and Social Welfare Spending on the Rise

In January 2025, the Bureau of Emigration & Overseas Employment registered 63,559 workers for employment, compared to 60,694 in January 2024. The Pakistan Poverty Alleviation Fund, in collaboration with its 24 partner organizations, distributed 20,573 interest-free loans amounting to Rs 979 million in January 2025. Since the inception of the program in 2019, a total of 2,937,625 interest-free loans amounting to Rs 113.3 billion have been disbursed. During Jul-Dec FY2025, Rs. 232.2 billion has been spent under the Benazir Income Support Programme, against the budgetary allocation of Rs 592.5 billion for FY2025, showing an increase of 26.4 percent against last year.

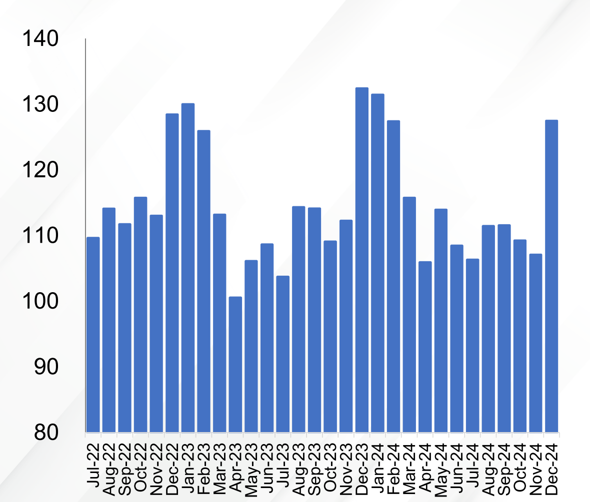
Economic Outlook

Economic outlook is based on baseline performance of QIM, CPI, fiscal and external sector's and economic activities in Pakistan's main trading partners.

To improve the agriculture sector's productivity, the government remains committed to support the farmers through various initiatives. Favourable weather plays a crucial role in achieving the production targets. According to PMD's weather outlook, the relatively dry conditions may cause water stress for Rabi crops, especially wheat in rain-fed areas. The recent monthly performance of LSM sector suggests a potential recovery in up-coming months. In January, LSM growth is expected to be supported by rising imports of machinery and raw materials, along with increased cement dispatches. Moreover, decline in inflation and the accommodative monetary policy are likely to further boost business confidence to support the LSM recovery. Inflation is anticipated to remain within the range of 2.0-3.0 percent for February 2025, however, there are prospects of a slight increase to 3.0-4.0 percent by March 2025. The fiscal performance during H1-FY2025 is reflective of the government's effective consolidation measures, which resulted in better expenditure management and improved resource mobilization. These measures are expected to contain the fiscal deficit at lower level than the previous year while ensuring fiscal discipline. Similarly, with contained non-markup expenditures, the primary surplus is expected to improve further in the coming months. On the external front, exports, imports, and workers' remittances are expected to maintain their upward trend. In the coming months, remittances are likely to increase further due to seasonal factors such as Ramadan, Eid-ul-Fitr & Eid-ul-Adha. Similarly, exports and imports are projected to improve due to the expansion in economic activity. All these factors will help to keep the CAD within manageable limits.

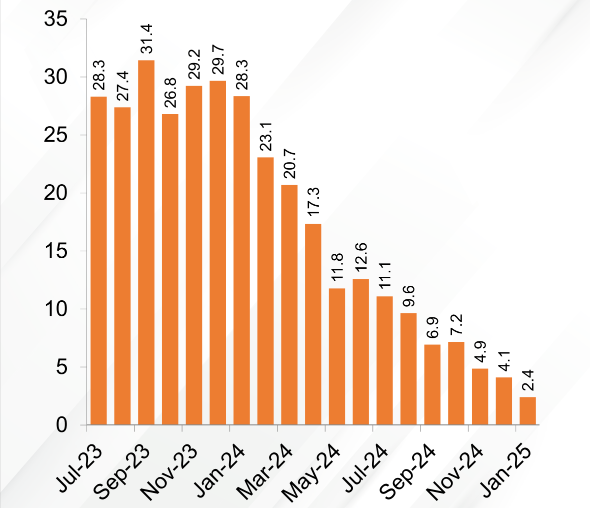
The performance of LSM remains subdued while inflation continues to decline steadily

Quantum Index of Manufacturing



Source: PBS

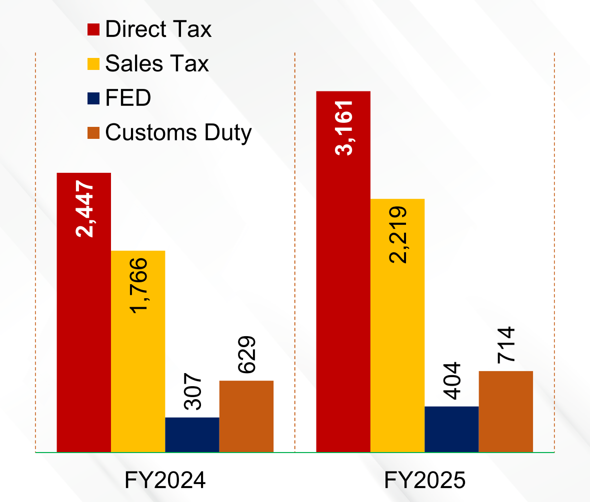
CPI Inflation (%)



Source: PBS

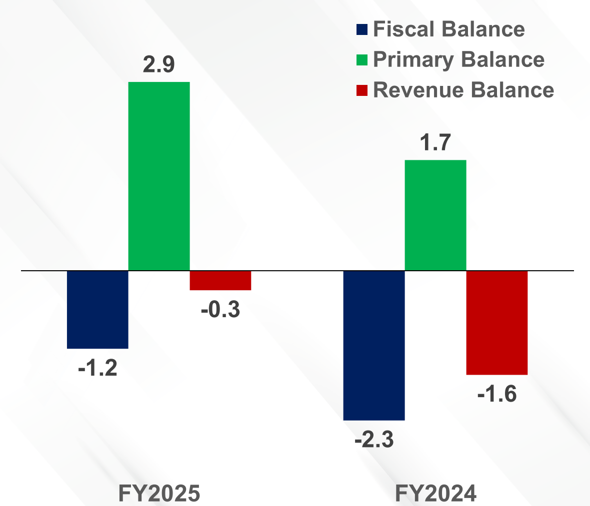
The economic recovery contributed to an increase in tax collection.

FBR Tax Collection (Rs. Billion) Jul-Jan



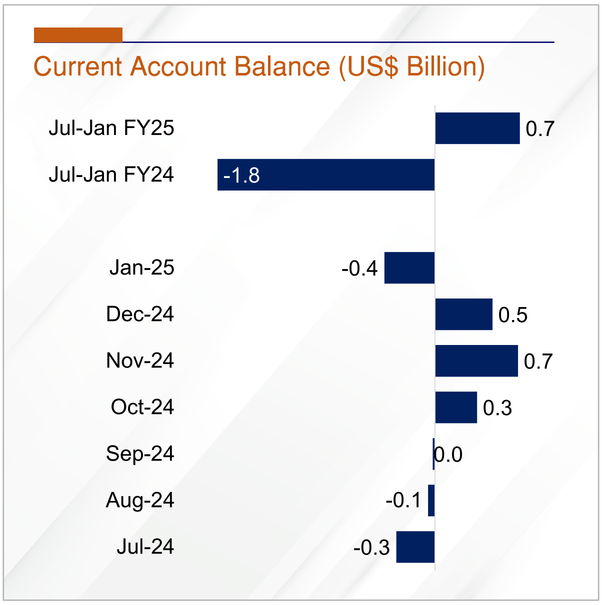
Source: FBR

Fiscal Indicators % of GDP - Jul-Dec

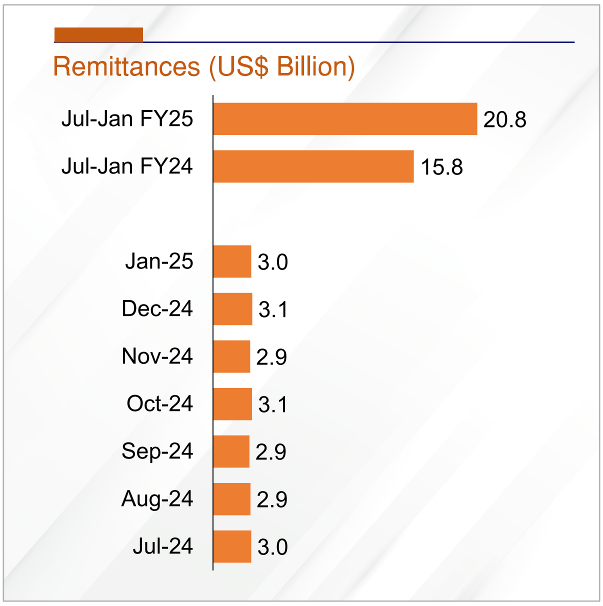


Source: Budget Wing, Finance Division

High imports amid economic recovery turn Current Account to Deficit in January after three consecutive months of surplus.



Source: SBP



Source: SBP

Global Economic Update and Outlook

According to World Economic Situation and Prospects – UN Report, the world economy is projected to grow at 2.8 percent in 2025, the same as in 2024, and 2.9 percent in 2026. This stability has been underpinned by continued disinflation, softening commodity prices, and monetary easing in many countries. Resilient global economy also reflected through Composite Leading Indicator (CLI) position of Pakistan's main exports market included US, UK, Euro Area and China – all are moving around potential level of 100, impacting Pakistan's exports posted growth of 7.6 percent during Jul-Jan, FY2025. However, ongoing conflicts, geopolitical tensions and potential trade restrictions, as well as climate risks pose significant challenges going forward.

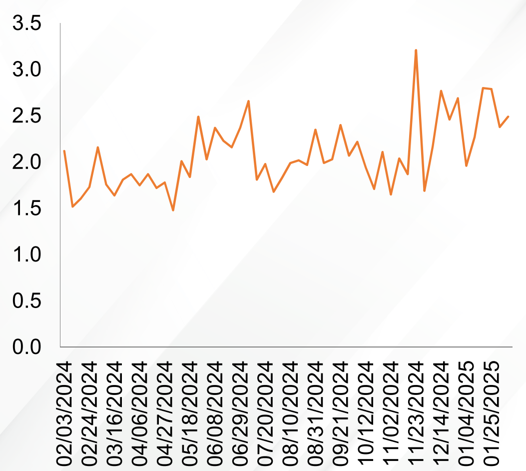
In US economy, resilient consumer spending momentum supports economic growth, however, growth will decelerate in 2025 due to the effects of higher U.S. import tariffs and slower investment and government spending growth. The risk environment continues to evolve with shifts in key federal policy. Credit ratings with negative outlooks exceed those with positive outlooks, largely driven by sub-investment-grade ratings on Negative Outlook.

Higher tariffs, federal program reforms, deregulation, tax cuts, immigration restrictions and trade protectionism are potentially the most impactful initiatives so far by the U.S. economy. The Federal Open Market Committee (FOMC) cut rates by 100 bps between September to December 2024, but it refrained from easing further in its most recent meeting in January due to "solid" growth in economic activity and an inflation rate that "remains somewhat elevated." It is expected that FOMC will remain on hold for the next few months, as tariffs cause economic growth to downshift and the unemployment rate to tick up. The situation also reflected through growth in WEI which is moving around 2.5% in recent months.

Global inflation has eased, with headline inflation falling from 5.6 percent in 2023 to an estimated 4.0 percent in 2024. However, the pace of disinflation has slowed due to sticky prices in housing and other services sectors as well as tight labour markets in developed economies. Inflation is projected to decline further to 3.4 percent in 2025, although this outcome will depend on how trade restrictions evolve in the future. In developed countries, inflation is expected to stabilize around central bank targets, creating room for a further gradual easing of monetary policy.

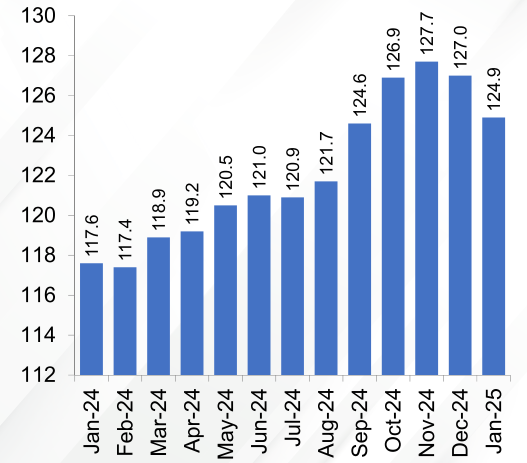
Global commodity prices in January showed mixed picture, energy price index surged in January, led by natural gas and crude oil. Non-energy prices saw little change. Food prices and raw material dipped, while beverages, fertilizers and precious metal prices have increased. The FAO Food Price Index (FFPI) averaged 124.9 points in January 2025, down 2.1 points (1.6 percent) from its revised December level. Decrease in the price indices for sugar, vegetable oils and meat outweighed the increase for dairy products and cereals. The overall index was 7.3 points (6.2 percent) higher on YoY basis in January 2025.

Growth in WEI



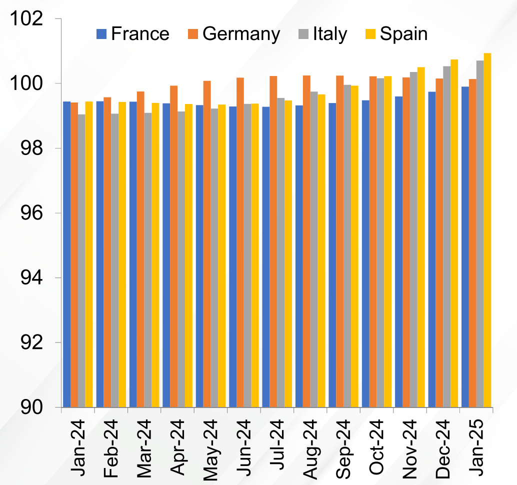
Source: Federal Reserve Bank of Dallas

FAO Food Price Index



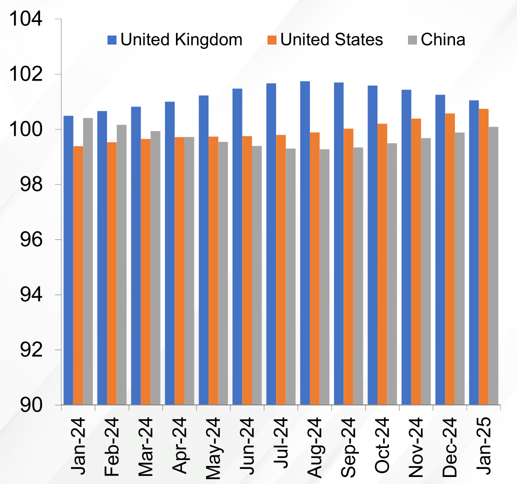
Source: FAO

(a) Composite Leading Indicator



Source: OCED

(b) Composite Leading Indicator



Source: OCED

ECONOMIC INDICATORS

26th Feb 2025

External Sector		FY2024	FY2024 (Jul-Jan)	FY2025 (Jul-Jan)	% Change	FY2024 (Jan)	FY2025 (Jan)	% Change
Remittances ($ billion)		30.3	15.834	20.849	▲ 31.7%	2.398	3.002	▲ 25.2%
Exports FOB ($ billion)		31.0	17.826	19.175	▲ 7.6%	2.680	2.940	▲ 9.7%
Imports FOB ($ billion)		53.1	30.044	33.314	▲ 10.9%	4.669	5.455	▲ 16.8%
Current Account Balance ($ million)		-1,695	-1,801	682	▲	-404	-420	▼
FDI ($ million)		2,346	975.6	1523.6	▲ 56.2%	-132	194	▲
Portfolion Investment ($ million)		-383.8	96.5	-177	▼	25.5	-95.2	▼
Total Foreign Investment ($ million)		1,962.3	1072.1	1346.6	▲ 25.6%	-106.9	99.2	▲
Forex Reserves ($ Billion)	Total	14.6	13.126	15.948				
	SBP	9.4	8.058	11.202				
	Banks	4.2	5.068	4.746				
		(End June)	14-Feb-24	14-Feb-25				
Exchange Rate (PKR/US$)		278.30	279.32	279.21				
		(End June)	14-Feb-24	14-Feb-25				

Source: SBP

Fiscal Sector (Rs. Billion)	FY2024	FY2024 (Jul-Dec)	FY2025 (Jul-Dec)	% Change	FY2024 (Jan)	FY2025 (Jan)	% Change
FBR Revenue (Jul-Jan)	9,311	5,149.6	6,497.4	▲ 26.2%	680.3	872.6	▲ 28.3%
Non-Tax Revenue	3,183.8	1979.1	3,602.0	▲ 82.0%			
Fiscal Deficit	7,207	2407.8	1,537.9	▼ 36.1%			
Primary Balance	953	1812.2	3,603.7	▲ 98.9%			

Source: FBR & Budget Wing

Monetary Sector	FY2024	FY2024	FY2025
Credit to Private Sector (Flows)	512.9	246.8	742.1
		1-Jul to 16-Feb	1-Jul to 14-Feb
Growth in M2 (percent)	16.0	2.5	-1.7
		1-Jul to 16-Feb	1-Jul to 14-Feb
Policy Rate (percent)	20.5	22.0	12.0
	(End June)	29-Jan-24	7-Jan-25

Source: SBP

Real Sector	FY2024	FY2024	FY2025
CPI (National) %	23.4	28.3	2.4
		(Jan)	(Jan)
		28.7	6.5
		(Jul-Jan)	(Jul-Jan)
Large Scale Manufacturing (LSM) %	0.90	3.1	-3.73
		(Dec)	(Dec)
		-0.98	-1.87
		(Jul-Dec)	(Jul-Dec)

Source: PBS

Financial Sector	FY2024	FY2024	FY2025	% Change
PSX Index *	78445	63306	114528	▲ 80.9%
	30-Jun-24	26-Feb-24	25-Feb-25	
Market Capitalization (Rs trillion)	10.38	9.13	14.13	▲ 54.8%
	30-Jun-24	26-Feb-24	25-Feb-25	
Market Capitalization ($ billion)	37.28	32.7	50.5	▲ 54.4%
	30-Jun-24	26-Feb-24	25-Feb-25	
Incorporation of Companies	26,939	16,693	19,452	▲ 16.5%

* : Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP